EUROPEAN CENTRAL BANK
EUROSYSTEM

Explanatory note regarding the method for adjusting loans for sales and securitisation

- The ECB has released new statistics on loans adjusted for sales and securitisation, with more comprehensive information on loans that were granted by euro area monetary financial institutions (MFIs) but are no longer recorded on their balance sheets.
- New data on the outstanding amounts and repayments of loans that have been derecognised from MFI balance sheets are used to enhance the method for adjusting loans for sales and securitisation. This provides a more comprehensive view on loans to the real economy originated by euro area banks and improves the comparability of country-level data, regardless of the accounting practices applicable to loan transfers.
- The flows and growth rates of bank loans to the euro area private sector, households and non-financial corporations are somewhat lower under this new method of adjustment than they were under the former method.

On 21 September 2015 the ECB released new statistics on loans adjusted for sales and securitisations, incorporating more comprehensive information on loans originated by euro area MFIs but which are no longer recorded on their balance sheets (i.e. they have been “derecognised” from the balance sheet). These new data on outstanding amounts and repayments of derecognised loans have been made available under Regulation ECB/2013/33 concerning the balance sheet of the MFI sector. This allows for a refinement of the former method for deriving statistics concerning loans adjusted for sales and securitisation.

Specifically, the former method of adjusting for loan sales and securitisation consisted of a one-off adjustment to the loan transactions to take into account the impact on MFI balance sheets of (net) transfers of loans off-balance sheet in the period in which the transfer took place[1]. While this approach corrected for the impact arising from derecognition of loans in the period of the transfer, no further information relating to the derecognised loans was taken into account in the subsequent periods (e.g. loan repayments). Similarly, the outstanding amounts of loans derecognised in a securitisation or other transfer were not taken into account when deriving growth rates.

In contrast, the new method takes into account not only the (net) impact of loan transfers, but also the ongoing developments in derecognised loans (i.e. repayments

[1] Net transfers of loans are defined in terms of disposals minus acquisitions of loans with impact on the loan stocks reported on MFI balance sheets, covering both securitisations and other loan transfers. From December 2014 cross-border transfers between euro area MFIs are included in the net flows and are used in the calculation of national adjusted data, e.g. to take into account the possible impact of restructurings of cross-border banking groups. (Prior to December 2014, transfers between MFIs resident in the euro area were not covered in the data on transfers.)

of principal by borrowers), insofar as data are available[2]. It also considers the outstanding amounts of loans derecognised in a securitisation or other transfer in the calculation of the adjusted growth rates. Besides providing a more complete picture of lending to the real economy originated by euro area banks, the new method also enhances the comparability of the statistics between countries which have differing practices with regards to loan derecognition.

A comparison of the new and previous adjustment methods is provided in Table 1 below. The difference in adjusted growth rates between the former and new methods is the result of two effects:

1. A numerator effect – linking the financial transactions to the derecognised loans (TX^{DR}) occurring after the loan transfer (these transactions are basically loan repayments) reduces the size of the numerator compared with the former method of adjustment.

2. A denominator effect – the denominator of the growth rate includes the outstanding amounts of derecognised loans (L^{DR}). A larger denominator results in growth rates with a lower absolute value, i.e. this effect contributes to making positive growth rates lower under the new method than under the former method, and negative growth rates less negative under the new method.

Table 1

Overview of adjustment methods

	Outstanding amounts	Transactions	Growth rate (in period t)
Unadjusted	L_t^{MFI}	T_t^{MFI}	$\frac{T^{MFI}}{L_{t-1}^{MFI}}$
Former method	L_t^{MFI}	$T_t^{MFI} + N_t^{MFI}$	$\frac{T_t^{MFI} + N_t^{MFI}}{L_{t-1}^{MFI}}$
New method	$L_t^{MFI} + L_t^{DR}$	$T_t^{MFI} + N_t^{MFI} + TX_t^{DR}$	$\frac{T_t^{MFI} + N_t^{MFI} + TX_t^{DR}}{L_{t-1}^{MFI} + L_{t-1}^{DR}}$

L_t^{MFI} = Outstanding amounts of loans on MFI balance sheets at the end of period *t*
T_t^{MFI} = Transactions in loans on MFI balance sheets in period *t*, not adjusted for sales and securitisation
N_t^{MFI} = Net transfers of loans off MFI balance sheets with derecognition (disposals minus acquisitions) in period *t*
L_t^{DR} = Outstanding amounts of derecognised loans at the end of period *t*
TX_t^{DR} = Transactions in derecognised loans excluding transfers during period *t*, i.e. the repayments of derecognised loans

The difference between the former and new methods of calculating adjusted growth rates depends on the relative scale of derecognised loans compared to on-balance-sheet loans, and the characteristics of the derecognised loans – e.g. the shorter the average residual maturity of the derecognised loans, the lower the growth rates delivered by the new method relative to the former one, as the rate of principal repayments in comparison to outstanding amounts is generally higher.

[2] Data on securitised loans which have been derecognised are collected from euro area MFIs under the above-mentioned Regulation where the loans are still serviced by the MFIs. Some national central banks also provide available data on loans not serviced by MFIs (e.g. where the servicing of loans is performed by another part of the banking group) or for loans that have been transferred to non-MFIs in transactions other than securitisations. Overall, this enables an almost complete coverage of securitised loans that are derecognised, along with coverage of some (relatively small) volumes of non-securitised derecognised loans. The data on net transfers are used to adjust transactions for all loans derecognised during the period, whether or not the stocks and repayments of those loans that are transferred are captured on an ongoing basis.

While Regulation ECB/2013/33 has been implemented with respect to the December 2014 reference period, national central banks and the ECB have compiled data on a comparable basis in order to provide consistent statistical series from the beginning of 2010. A comparison of seasonally adjusted annual growth rates adjusted for loan sales and securitisation under the former and new adjustment methods with respect to data up to July 2015 is provided in the companion press release.

Euro area and national data on loans to the euro area private sector, household and non-financial corporations adjusted for sales and securitisation are available from the ECB's Statistical Data Warehouse[3]. Links to series are provided in Table 2 below.

Table 2

Links to series on the ECB's Statistical Data Warehouse

Reference area	Description	Links
Euro area	Loans adjusted for sales and securitisation	Seasonally adjusted: Outstanding amounts; transactions; growth rates Non-seasonally adjusted: Outstanding amounts; transactions; growth rates
	Loans derecognised from MFI balance sheets	Outstanding amounts; transactions
	Net transfers (disposals minus acquisitions) of loans from MFI balance sheets with derecognition	Net loan transfers
National data	Loans adjusted for securitisation: euro area private sector	Outstanding amounts; transactions; growth rates
	Loans adjusted for securitisation: euro area non-financial corporations	Outstanding amounts; transactions; growth rates
	Loans adjusted for securitisation: euro area households	Outstanding amounts; transactions; growth rates

3 With this release, the series codes relating to loans adjusted for sales and securitisation have changed and the former series codes have been discontinued. For example, the series for the (not seasonally adjusted) annual growth rate of loans to euro area households adjusted for sales and securitisation is denoted by code BSI.M.U2.N.U.A20T.A.I.U2.2250.Z01.A, rather than BSI.M.U2.N.U.A26.A.I.U2.2250.Z01.A as was the case previously.