NEW ECB MEASURES ON COLLATERAL

IMPACT FOR FRENCH BANKS

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“On the amount: if I’m not mistaken (but here you have to take my figures with a grain of salt), we have from about 600 to 700 billion euro as the estimated amount of credit claims, of which only about 200-billion euro plus would become acceptable, because of the strong over-collateralisation that we asked for. So you can see how hard and stringent the selection of these claims is.”

Haircut around 2/3

“On the other point, we have the amount used as collateral in the second operation: 53 billion euros of additional collateral from credit claims. And of this, I would say, roughly 40 billion euros was pledged by French banks that were basically already over-collateralised. The interesting thing about this is that, of the banks that actually used these credit claims – this new option of additional credit claims – most of them used it only to increase their collateral against their borrowing, so one cannot say that they actually borrowed more because of this new option. They simply increased their collateral for the future as a precaution. But they were already over-collateralised. So, this is interesting. The remaining 13 billion euros was spread across various countries. Here, again, there was one newspaper that wrote that Italy had taken 70 billion euros against these additional credit claims, when the figure was about 3 billion euros”.
ELIGIBILITY CRITERIA REGARDING ADDITIONAL CREDIT CLAIMS

The ECB Governing Council has decided on December 8th 2011 to allow national central banks, as a temporary solution, to accept additional performing credit claims that satisfy specific eligibility criteria as collateral for the Eurosystem credit operations. The Governing Council has approved on February 9th 2012 the following temporary eligibility criteria set by Banque de France:

- **Measures applicable to currently eligible credit claims**
  - Minimum accepted credit standard is lowered from credit quality step 3 to credit quality step 4 in the Eurosystem’s harmonized rating scale[1], which corresponds to a maximum probability of default of 1% at one year.
  - The following credit claims are also accepted insofar as all other eligibility criteria are satisfied:
    - Credit claims denominated in USD
    - Export credit guaranteed by Coface

- **Measures applicable to new categories of credit claims**
  - Real-estate residential loans are eligible if they benefit from:
    - a mortgage or a first-rank privilege, or
    - a guarantee (including French “cautionnement”) from a credit institution or an insurance company
    - and if they satisfy additional criteria, among which: debtor located in France, loan agreement governed by French law, and residual maturity of 1 month at least.
  
  These additional credit claims are subject to increased haircuts which are set according their individual features

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ADDITIONAL CREDIT CLAIMS

Widening on credit claims currently eligible

- Kind of loans involved: loans to companies (entities from public sector excluded)
  - Before the widening, these loans are eligible if they were denominated euros and if the credit quality of the debtor meet:
    - With a minimum rating of 4+ (BDF rating)
    - One rating agency ≥ BBB-
    - Or an internal rating IRB equivalent to a probability of default at 1 year of 0.4% maximum

Widening of the criterias:

- Softening of the rating criterias to allow healthy credit claims denominated in EUR and in USD up to a probability of default at 1 year ≤ 1%:
  - BB- or rating FIBEN 4 or rating IRB permitted by the ACP.
    - Export Credit garanteed by COFACE
    - A criteria for the residual maturity is add: minimum 1 month, and, for the debtor with a P. of Default at 1 year at 0.4%, a max. of 5 years.

These loans should satisfy the others current criterias of Eligibility notably:

- Debtor located in France and in Germany (and in euro zone subject to legal notice)
- Exclusion of financial institution
- No Closed Link
The ACP liquidity Ratio must be above 100%, and is calculated as a ratio between expected Inflows and expected Outflows of Treasury in the following month.

Inflows and Outflows are calculated with some standard weighting factors for the whole balance and off-balance sheets items.

Released in 1988, and updated in 2009. Horizon = 1 Month.

The Assets are analysed accordingly to their features (rating / duration / market price / …)

The contribution for the eligible credit claims is 50 % (after haircut) if the loans are not pledged, and 100 % (after haircut) if they are in the pool 3G.
Balance Fed action brought a great relief to $ OIS/BOR basis complex
3M Eonia/BOR falling back again
Sovereign spreads narrowing sharply on LTROs
Bank risk falling sharply on LTROs