Box 2

The Impact of Loan Sales and Securitisation Activity on Recent Developments in MFI Loans to Non-Financial Corporations and Households

In the current macroeconomic environment, an assessment of whether the banking system provides sufficient funding to households and non-financial corporations is of key importance. In the presence of loan sales and securitisation activity (or the reversal of such activities¹), such an assessment requires broad information on all loans granted by MFIs in a particular month, rather than more restrictive information on loans granted by MFIs and kept on their balance sheets. This is made all the more necessary by the fact that accounting practices differ across euro area countries as regards the derecognition of securitised loans from MFIs’ balance sheets, which could have an impact on the comparability of national data on loans.² In order to meet this challenge, the ECB has recently released a comprehensive set of new and enhanced monetary and financial statistics, which include breakdowns of MFI loan sales and securitisation by borrowing sector. These statistics go back as far as December 2009. This allows the annual growth rates of MFI loans to individual borrowing sectors to be adjusted for the derecognition of loans from MFIs’ balance sheets owing to their sale or securitisation, thereby providing a better indication of total loans granted by MFIs. These new data are harmonised across the euro area.

¹ This refers to a situation where previously securitised (or sold) loans are brought back onto an MFI’s balance sheet.
in accordance with a new statistical regulation. They are an improvement on the data available previously, which were published from January 2009 onwards. Those data were not harmonised and were provided on a “best estimate” basis for loans to households and loans to non-financial corporations only. This box describes the impact that securitisation activity has on loans to non-financial corporations and loans to households using these new data.

## Loans to non-financial corporations

It is clear from Chart A that, over the past 12 months, MFIs’ securitisation and loan sales have significantly affected the annual growth rate of loans to non-financial corporations. Indeed, the gap between the annual growth rate of total MFI loans to non-financial corporations and that of loans remaining on MFIs’ balance sheets has been widening since early 2010, standing at around 1 percentage point in May 2011, with securitisation and loan sales particularly strong in the fourth quarter of 2010. The significant divergence in these two growth rates reflects large-scale loan transfers from MFIs resident in Ireland and (to a lesser extent) Germany to “bad banks” located in these Member States – i.e. financial institutions outside the MFI sector. These transfers have had a significant dampening effect on the annual growth rate of loans remaining on MFIs’ balance sheets, causing it to diverge from that of total loans granted by MFIs. Overall, therefore, that broader information on loans granted by MFIs indicates that the annual growth rate of such funding provided to non-financial corporations by MFIs turned positive in October 2010 and is currently twice as strong as that indicated by data on loans granted by MFIs and held on their balance sheets.

## Loans to households

By contrast with the securitisation activity described for loans to non-financial corporations, MFIs have recently been bringing previously securitised loans to households back onto their balance sheets. MFIs may be reversing previous securitisation in order to use the loans that backed these securities to create other funding instruments, such as covered bonds, for which demand remains strong. As a result, the annual growth rate of loans to households remaining on MFIs’ balance sheets has surpassed that of total MFI loans to households in recent months, as shown in Chart B. However, this is a relatively new phenomenon, as differences between the two growth rates in early and late 2010 were due to the annual growth of total MFI loans to households exceeding that of loans on MFIs’ balance sheets. These earlier developments partly reflected “retained securitisation”, which occurs when the MFI keeps the debt securities

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**Chart A** MFI loans to non-financial corporations

(EUR billions; annual percentage changes)

<table>
<thead>
<tr>
<th>Month</th>
<th>Loans on MFIs’ balance sheets</th>
<th>Net loans derecognised from MFIs’ balance sheets 1)</th>
<th>Loans “adjusted for sales and securitisation” 2)</th>
<th>Loans remaining on MFIs’ balance sheets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 2009</td>
<td>-30</td>
<td>-15</td>
<td>0</td>
<td>-15</td>
</tr>
<tr>
<td>Mar. 2010</td>
<td>-15</td>
<td>-10</td>
<td>5</td>
<td>-10</td>
</tr>
<tr>
<td>June 2010</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Sep. 2010</td>
<td>15</td>
<td>10</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Dec. 2010</td>
<td>30</td>
<td>15</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>Mar. 2011</td>
<td>45</td>
<td>30</td>
<td>5</td>
<td>35</td>
</tr>
</tbody>
</table>

Sources: ECB and ECB calculations.

1) Net loans derecognised from MFIs’ balance sheets owing to sales and securitisation activity.
2) All new lending minus redemptions. This is referred to as loans “adjusted for sales and securitisation” in the ECB’s press release on monetary developments.

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created by the securitisation process for use in central bank refinancing operations.

**Conclusion**

Overall, securitisation and loan sales have had significant – and at times contrasting – effects on the annual growth rates of loans to households and non-financial corporations. Correcting for the impact of securitisation and loan sales, the trough in the annual growth rate of loans to non-financial corporations was less severe and the recovery has been slightly stronger than was indicated by the growth rate of loans remaining on MFIs’ balance sheets. By contrast with loans to non-financial corporations, the annual growth rate of loans to households on MFIs’ balance sheets has been boosted slightly in recent months, as MFIs appear to have brought previously securitised loans back onto their balance sheets. These contrasting developments highlight the importance of taking securitisation into account when assessing the amount of funding being provided to the non-financial private sector by MFIs.

**Chart B MFI loans to households**

(EUR billions; annual percentage changes)

- monthly flows – loans on MFIs’ balance sheets (left-hand scale)
- monthly flows – net loans derecognised from MFIs’ balance sheets (left-hand scale)
- annual growth rate – net loans granted by MFIs (right-hand scale)

Sources: ECB and ECB calculations.
1) Net loans derecognised from MFIs’ balance sheets owing to sales and securitisation activity.
2) All new lending minus redemptions. This is referred to as loans “adjusted for sales and securitisation” in the ECB’s press release on monetary developments.