



EUROPEAN CENTRAL BANK  
BANKING SUPERVISION

## Press release

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# ECB report shows areas for improvement in banks' lending standards before the COVID-19 crisis

- ECB report covers banks' practices in 2016-18
- Report shows several cases where loan pricing did not cover expected losses and costs
- Banks with high NPL levels tended to grant housing loans more conservatively than others
- No evidence banks using internal models applied better risk-based pricing
- ECB working with individual banks to improve credit risk management

The European Central Bank (ECB) has today published a report on banks' credit underwriting standards, which highlights some weaknesses in the way banks have granted and priced new loans in recent years. In times of economic downturn or stress such as the current crisis caused by the coronavirus (COVID-19), adequate lending standards and risk-based pricing become even more important as losses materialise.

The [report](#), which is based on data on new lending by banks from 2016 to 2018, contains a number of **industry-wide findings**, including:

- banks with high levels of non-performing loans (NPLs) tended to grant housing loans more conservatively than other banks;
- not all banks paid sufficient attention to risk-based pricing, particularly to ensure that loan pricing at least covered expected losses and costs;
- no evidence was found that banks using internal models to calculate capital requirements applied better risk-based pricing;
- on average, banks lowered their lending standards for loans to households over the period: they took more risks, while working with tighter margins resulting from narrower pricing spreads (interest rate charged minus funding costs);

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- new loans granted to non-financial corporations showed a mixed picture in terms of banks' risk-taking combined with mostly decreasing pricing spreads.

The analysis also produced bank-specific findings, which supervisors have discussed with the banks in question and have asked them to follow up.

In focusing on loan origination practices, ECB Banking Supervision aims to **strengthen banks' resilience**, which is one of its [supervisory priorities](#). The ECB considers proper credit underwriting essential to the stability of banks.

The report contains the industry-wide findings of a project launched in May 2019 to collect data from 95 significant banks in the euro area on new loans granted during the period 2016-18 for different lending portfolios. This is the first time that harmonised quantitative data including a detailed breakdown of new loans have been available for these banks.

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