



LUXEMBOURG GETS ITS NPL (NON-PERFORMING LOAN) LAW

On July 12, 2024, the Luxembourg parliament moved forward with the approval of the law related to the transfer of non-performing loans (i.e. such loans payments in respect of which are at least 90 days overdue or where repayment is considered unlikely - NPLs) transposing the EU Directive (EU) 2021/2167 on credit servicers and credit purchasers (known as the NPL Directive) into Luxembourg legal framework. Both the NPL Directive and the Luxembourg implementation law aspire to put in place effective NPL management tools with the ultimate objective to reduce the high number of outstanding NPLs and prevent their future accumulation. The new legal regime for NPLs is hence expected to have an important impact on the trading and management of NPLs (but not of performing loans) on the secondary markets.

In the first place, the new law puts in place a robust regulatory framework for NPL trading, and notably, creates a new special category of professional of the financial sector (professionnel du secteur financier) – a credit servicer – an entity that, on a professional basis, manages and enforces the rights and obligations related to NPLs on behalf of credit purchasers. The new entity type will be subject to the approval and ongoing supervision of the Luxembourg Commission for the Supervision of the Financial Sector (Commission de Surveillance du Secteur Financier) and will require to comply with strict organizational and operational requirements.

Another positive development under the new law is the availability of an EU credit servicing passport, whereby a credit servicer established in Luxembourg will be able to carry out its credit servicing activities in other EU member states (notably, through establishment of a branch or on the basis of the freedom to provide services).

Furthermore, the new law spells certain requirements for lenders in respect of provision of information to NPL purchasers.



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