An alternative to the banking universe: The game-changing impact of L. 5072/2023 on credit companies

In a significant move, Greece has introduced a new era for the credit companies with the introduction of L. 5072/2023. This change reshapes the financial landscape and creates opportunities for individuals and businesses. Exploring the impact of L. 5072/2023 reveals key points highlighting the important role of credit companies in cultivating an alternative financial landscape and promoting economic growth.

The legal framework before L. 5072/2023

From their inception under L. 2076/1992, credit companies have undergone nearly three decades of regulatory evolution with amendments introduced by L. 3601/2007 and L. 4261/2014 reflecting the economic landscape of their time. Despite operating within a limited scope of financial services at the beginning, the potential for credit companies to have a dynamic presence in the realm in private finance has emerged.

The key changes brought by the L. 5072/2023

At the core of Greece's financial market evolution, recent L. 5072/2023 is a significant shift. The most notable change lies in the wider scope of financial services that **credit companies** can now provide. Under the previous legislation, these companies were limited to offering consumer credit products, whereas as from L. 5072/2023, the credit companies are entitled to **grant also residential loans to individuals and credit solutions to indebted persons** (both individuals **and companies**) for the purpose of refinancing or restructuring their non-performing exposures, either settled or not.

Additionally, under the new legislation, credit companies may **expand their credit portfolio by purchasing loan receivables** (without the need to appoint a servicer) or enhance their liquidity by selling their loan receivables. Hence the secondary market for loan portfolios becomes more dynamic and interconnected.

Moreover, under L. 5072/2023 the **servicers** of loan receivables are also entitled to enter this alternative financial market and **grant credit products to debtors**, whose non-performing loans are already under management by a servicer of loan receivables, subject to a corresponding license. The exclusive purpose of such credit is **to refinance or restructure debtors' exposures**, while such credit is still deemed to be a bank loan. Hence the client and service perimeter of the servicers is expanded, while debtors with loan exposures owned by several creditors and/or managed by several servicers are given the opportunity to consolidate all such exposure with a single servicer, aiming to a holistic restructuring plan.

Regulatory framework

The Bank of Greece is the regulator responsible for granting licenses to all non-banking companies operating in this new financial market. The Bank of Greece is also responsible for supervising these companies. These requirements protect the rights of debtors and encourage transparent lending practices and the growth of a new, competitive, and sustainable secondary market.

The significance of L. 5072/2023 in the Greek financial market

The flexibility accomplished by the expansion of credit companies' credit portfolio and the entry of servicers in the respective market positions them as pioneers in the alternative financing industry. With the wider scope of financial services that credit companies and servicers can now provide, they unlock significant opportunities once limited by increased regulatory limitations. This shift is not just legislative; it's a redefinition of the financial ecosystem, paving new paths for investment and economic growth.

Credit companies, servicers of loan receivables and microfinance companies, which were established under N.4701/2020, altogether form a new alternative finance market operating alongside banking institutions. These entities would be able to offer credit instruments to debtors that currently lack access to credit products offered by traditional banking institutions due to their existing non-performing loans. This legislative initiative opens a new opportunity for those who are underserved in the financial sector, provides an important tool for reducing the current NPL ratio, and opens a significant investment field in today's financial market, while strengthening competition and contributing to a significant diversification and overall growth of the market.

If you have questions or would like additional information, please contact the authors:

Fotini Mavrikaki, Junior Partner

fotini.mavrikaki@yourlegalpartners.gr

Michalis Kotzakolis, Associate

michael.kotzakolis@yourlegalpartners.gr