

New Framework for Sale and Servicing of Non-Performing Loans in Bulgaria

A new law, the Law on Credit Servicers and Credit Purchasers (“**LCSCP**”) recently came into force in Bulgaria.

The LCSCP transposes the provisions of Directive (EU) 2021/2167 with the main objective of the directive and the LCSCP being to reduce the volume of non-performing loans (“**NPLs**”) by improving the conditions for their sale and encouraging the development of a secondary market for NPLs. This would enable banks to deal with such loans in a smoother way by transferring them to specialized credit servicers or credit purchasers who are willing to assume the risk and have experience managing it. Overall, the new framework is expected to impact the sector positively and help maintain financial stability.

- **General Setup**

The LCSCP sets out a number of requirements for credit institutions, credit purchasers, credit servicers, and external contractors, and for the first time comprehensively regulates the conditions under which activities related to the purchase of claims arising from NPLs may be carried out. It also defines the rights and obligations of credit purchasers, as well as the subsequent relationship between the purchaser and the borrower.

Clear mechanisms for monitoring loan servicing activities are also introduced for the first time. Mandatory licensing is required for entities performing credit servicing. While any natural person or legal entity acting within the scope of their business activities may become a credit purchaser, servicing actions may only be carried out by a licensed entity.

In some cases, credit purchasers may choose to perform servicing activities themselves instead of transferring them to licensed servicers. If they engage in such activities towards consumers, they must also obtain a licence. However, if they perform enforcement actions against legal entities, no licence is required—though they are still bound to comply with all legal obligations set out in the law.

The goal is for debt collection to be carried out by parties possessing the necessary knowledge and skills to perform the activity effectively, diligently, and professionally.

The bodies designated to supervise and enforce the LCSCP are the Bulgarian National Bank (“**BNB**”) and the Consumer Protection Commission (“**CPC**”).

Loans (credits) covered by the regulation are only those granted by credit institutions (i.e., banks). Borrowers may be either individuals, including those qualifying as consumers, or legal entities.

All relationships within the chain of transfer of non-performing loans and the execution of servicing activities must be governed by contracts. Both credit purchasers and credit institutions are required to document (and notify the BNB) of any signed credit sale or servicing agreements, as well as the identity of the party acquiring or servicing the loan.

- ***Relationship with the Borrower***

Among the key regulations introduced by the LCSCP are the provisions aimed at protecting borrowers by the introduction of requirements for fair treatment. Credit purchasers and servicers are obligated to act in good faith and professionally, respecting the rights and interests of borrowers.

Borrowers must be informed of any claim transfer and must be notified before any servicing actions are undertaken. The notification must contain the information specified in the LCSCP, with the main objective being to ensure that the borrower is fully informed of both the new creditor and the entity handling the servicing.

The LCSCP also imposes restrictions on the size of claims and applicable interest rates. Credit purchasers are not permitted to demand anything beyond what is set out in the original agreement with the initial creditor, nor may they apply interest other than the statutory default interest.

- ***Cross-Border Servicing***

To promote and expand the national secondary market, the LCSCP allows for cross-border servicing of loans. A credit servicer licensed in another Member State may provide services within the territory of Bulgaria, and vice versa. Mechanisms are also in place for cross-border cooperation between the competent authorities. For example, when a non-performing loan has been granted within the territory of Bulgaria and the BNB or CPC establish that a credit servicer licensed in another Member State is breaching the obligations set out in this law, the BNB shall cooperate with the competent authority and request that appropriate measures be taken. This ensures high levels of security, traceability, and effective, timely supervision of credit servicing activities.

- ***Sanctions***

To ensure compliance with the new requirements, the LCSCP provides for liability in the form of financial sanctions. The most severe sanction applies to credit servicers that operate without a licence, with financial penalties ranging from BGN 200,000 (approximately EUR 100,000) to the greater of BGN 5,000,000 (approximately EUR 2,500,000) or 5% of the entity's total annual turnover.

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