Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Supervisory reporting - FINREP (incl. FB&NPE)
Article	99
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) No 680/2014 - ITS on supervisory reporting of institutions (as amended)
Article/Paragraph	Annex III F18.02 rows 0040-0060 and 0080-0100
Date of submission	20/08/2020
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	LtV calculations in FINREP
Question	Should only ‘commercial immovable property collateral’ be included in the LTV calculations to be reported in Finrep templates F18.02 and F23.03? Additionally, should any collateral value allocation be applied in these same LTV calculations in case a ‘commercial immovable property collateral’ secures both an outstanding loan and at the same time an off-balance sheet item, or can the full commercial immovable property collateral value be allocated to the outstanding loan amount?

Background on the question	EBA framework 2.9 has introduced reporting of LTV ratios in Finrep templates F18.02 and F23.03. For both templates Annex V to Regulation 680/2014 refers to the method defined for the 'current-loan-to-value ratio' (LTV-C) in Section 2, chapter 1, paragraph 1 of the ESRB Recommendation on closing real estate data gaps. Within the ESRB Recommendation for the components of LTV-C, being 'LC' and 'VC' they refer also to the 'L' and 'V' as applicable for the "LTV-O". Specifically for the 'L', the instruction is that it should include all loans or loan tranches secured by the borrower on the immovable property at the moment of origination (irrespective of the purpose of the loan), following an aggregation of loans 'by borrower' and 'by collateral'. This definition shows that it is about loans and advances secured by the (immovable) property. Applied to Finrep, the LTV ratios are requested in template F18.02 for "loans collateralised by commercial immovable property". Within Finrep these are based on Annex V 2.86(a): 'loans collateralised by immovable property' shall include loans and advances formally secured by residential or commercial immovable property collateral, independently of their loan/collateral ratio and the legal form of the collateral. And based on Annex V 2.87: The carrying amount of loans and advances secured by more than one type of collateral shall be classified and reported as collateralised by immovable property where they are secured by immovable property regardless of whether they are also secured by other types of collateral. For the split between commercial and residential within 'loans collateralised by immovable property', 'Residential shall include loans secured by residential immovable property and 'Commercial' loans secured by pledges of immovable property other than residential including offices and commercial premises and other types of commercial immovable property. The 'loans and advances collateralised by commercial immovable property' reported in F18.02 in our opinion are therefore loans and advances secured by any amount of commercial immovable property. Because of the applicable LTV instructions we believe we should not include other collateral than 'commercial immovable property collateral' in the calculations. As a result of these definitions we believe it is possible that larger amounts will be reported in worst LTV buckets, suggesting potentially a different risk profile than if other collateral for these loans and advances should also be included in the LTV calculation. Because the LTV-C definition in the ESRB Recommendation is based on loans or loan tranches secured by a property, the ESRB does not provide an allocation mechanism for how a collateral value should be allocated over different loans or off-balance sheet items. The institution has its own policies how collateral value allocation should occur as well as how any collateral surplus should be allocated between on- and off-balance sheet items. Should such internal allocation mechanisms be applied in these LTV calculations for Finrep purposes or can the full commercial immovable property collateral be used for the calculation?
EBA answer	Templates 18.2 and 23.03 of Annex III to Regulation (EU) No 680/2014 (ITS on supervisory reporting) require information on loans collateralised by

	commercial or residential immovable property broken down by loan to value ratio (LTV ratio). Under paragraph 239x the LTV ratio shall be calculated in accordance with the method for the calculation of the ‘current loan-to-value ratio’ (LTV-C) laid down in Recommendation ESRB/2016/14 as amended by ESRB/2019/3 on closing real estate data gaps. According to ESRB Recommendation for the calculation of the LTV-C it is necessary to consider the current value of the property (ratio's denominator), as defined in Section 2(3), without distinction between commercial or residential immovable property. Furthermore, the guidelines in the ESRB Recommendation do not include any allocation mechanism and do not include any off-balance sheet items in the calculation of the LTV-C. Therefore, full ‘commercial immovable property collateral’ values shall be used in the LTV calculations in Finrep templates F18.02 and F23.03.
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5457