

Single Rulebook Q&A

Question ID	2020_5592
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	178
Paragraph	1
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	EBA/GL/2016/07 - Guidelines on the application of the definition of default under Article 178 CRR
Article/Paragraph	93
Date of submission	02/11/2020
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Disclose name of institution / entity	No
Type of submitter	Competent authority
Subject matter	Use of UTP triggers when default definition is on facility level
Question	<p>If an obligor has a mortgage loan and other loans (like credit card, private loan, business loans etc.) where definition of default is on the facility level, and the institution has certain obligor level triggers (bankruptcy, death, divorce etc.) and the obligor defaults on his mortgage (due to an obligor level trigger), should there be an automatic cross default on the other loans as well. If the opposite happens, i.e. the obligor defaults on one of the other loans (also due to an obligor level trigger) should the mortgage be defaulted as well?</p>
Background on the question	<p>An institution claims to have complied with the EBA guidelines on new definition of default. In the course of an investigation on the mortgage portfolio of the institution, the institution mentioned that there are no automatic cross default provisions since default is recognized on the facility level. Additionally the institution cannot aggregate all exposures to a particular obligor (i.e. all exposures to different loan products) due to IT limitations. However the institution does have obligor specific UTP triggers like bankruptcy, fraud, death etc. From an earlier QA on article 178 (QA ID: 2016_2968), we know that "institutions may in particular consider default events on other individual credit facilities for the same obligor as relevant</p>

	<p>information if this provides for a meaningful assessment of obligor and transaction characteristics". However paragraph 93 of the EBA Guidelines on the definition of default mentions that all exposures to an obligor should be defaulted if an obligor level UTP trigger is hit. We are interested to understand whether in case of retail exposures (DoD on facility level) it is necessary for institutions to recognise cross defaults for all exposures to an obligor, when the mortgage exposure is defaulted (and vice versa - i.e. the mortgage loan is defaulted when another loan defaults due to obligor level UTP trigger), or is this still a choice that the institution can make but not a legal requirement.</p>
Final answer	<p>It follows from Article 178 of Regulation (EU) No.575/2013 (CRR), in connection with paragraph 92 of the EBA/GL/2016/07, that in the case of retail exposures, where institutions apply the definition of default at the level of an individual credit facility they should not consider automatically the different exposures to the same obligor defaulted at the same time. Nevertheless, the unlikelihood to pay (UTP) triggers relating to the condition of the obligor as criteria in the definition of default are expected, by definition, to be applied consistently to all exposures of the obligor, including when the definition of default is applied at the level of individual credit facility. Consequently, it is expected that any UTP-trigger relating to the condition of the obligor would directly cause each exposure of the same obligor to simultaneously be reclassified into default according to paragraphs 92-93 of the EBA/GL/2016/07.</p> <p>In this context, paragraph 92 of the EBA/GL/2016/07 also clarifies that, when a UTP trigger is "related with the condition of the obligor rather than the status of a particular exposure", including the conditions mentioned in points (e) and (f) of Article 178(3) of Regulation (EU) No 575/2013, "institutions should treat all exposures to the same obligor as defaulted regardless of the level of application of the definition of default."</p> <p>Also, where the amount of exposures in default is deemed to represent a significant part of the exposures to the obligor, all the exposures to this obligor may be considered defaulted in accordance with paragraph 94 of the EBA/GL/2016/07.</p>
Link	<p>https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5592</p>

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