

# Single Rulebook Q&A

<b>Question ID</b>	2021_5685
<b>Status</b>	Final Q&A
<b>Legal act</b>	Regulation (EU) No 575/2013 (CRR)
<b>Topic</b>	Credit risk
<b>Article</b>	125, 126, 230
<b>Paragraph</b>	-
<b>Subparagraph</b>	-
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	Not applicable
<b>Article/Paragraph</b>	Not applicable
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<b>Disclose name of institution / entity</b>	No
<b>Type of submitter</b>	Credit institution
<b>Subject matter</b>	Calculation of the collateral value of immovable property considering minimum level of over-collateralisation ratio
<b>Question</b>	Should the haircut due to minimum level of over-collateralisation be reflected in the calculation of collateral value with or without the deducted prior claims? Besides market value or mortgage lending value is there any other value that could be considered for the calculation purposes?
<b>Background on the question</b>	Standardised approach: According to Article 125 (2)(d) CRR unless otherwise determined under Article 124(2), the part of the loan to which the 35 % risk weight is assigned does not exceed 80 % of the market value of the property in question or 80 % of the mortgage lending value of the property (for commercial immovable property 50% risk weight applies for the part of the loan which does not exceed 50% of the market value of the property or 60 % of the mortgage lending value applies according to Article 126 (2) (d) CRR). F-IRB approach: Pursuant to Article 230 (2) CRR the applicable LGD* and required collateralization levels for the secured parts of exposures are set out in Table 5 of this paragraph (for immovable property it is 140%). This haircut is applied to collateral where a minimum level of over-collateralisation is required. Alternatives of the calculation logic in case of Standardised approach and residential property as an example.

(Overcollateralization requirement is  $100\%/80\%=125\%$ ): 1. alternative Minimum overcollateralization is applied on the market value deducted with prior claims. Collateral allocation: Allocation Value = Market value - prior claims RWA Engine: CRM used effective value = Allocation Value / Minimum Overcollateralization Example: Allocation Value = 100 - 10=90 CRM used effective value =  $90 / 125\% = 72$  2. alternative Minimum overcollateralization is applied on the market value but not applied on the deducted prior claims. Collateral allocation: Allocation Value =  $\min(\text{Market value} - \text{prior claims} \times \text{Minimum Overcollateralization})$  RWA Engine: CRM used effective value = Allocation Value / Minimum Overcollateralization Example: Allocation Value =  $\min(100 - 10 \times 125\%)=87,5$  CRM used effective value =  $87,5 / 125\% = 70$

**Final answer**

For immovable property collateral, no value other than the market value or, in those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions, the mortgage lending value of the immovable property is recognised. For determining the maximum recognised percentage under the standardised approach or the applicable LGD\* and the required collateralisation levels for the secured parts of IRB exposures, the value to be used is either the market value or, in those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions, the mortgage lending value to derive in a first step the maximum amount which may receive the privileged risk weight dedicated to the recognition of immovable property collateral, which may, as applicable, in a second step be reduced to take in particular account of any prior claims on the immovable property.

1. Standardised approach (SA)

Under the SA for credit risk, the conditions in Article 124(1) for considering an exposure or part of an exposure as fully secured by mortgages on immovable property and in Articles 125(2) and 126(2) CRR for considering an exposure or part of an exposure as fully and completely secured by mortgages on residential or commercial immovable properties, respectively, exclusively refer to (i) the market value of the immovable property or (ii) the mortgage lending value in those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions. Consequently, no other value is recognised for this purpose.

For the same purpose, the conditions in Articles 125(2)(c) and 126(2)(c) CRR require that the valuation rules set out in Article 229(1) CRR are met, where the last sub-paragraph requires that the market value or mortgage lending value shall be reduced as appropriate to reflect the results of the monitoring required under Article 208(3) CRR and to take account of any prior claims on the immovable property.

As a consequence, for determining the part of the loan to which the risk weight for the fully and completely secured part is assigned, the maximum recognised percentage of the market value or mortgage lending value in those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions, according to Article 125(2)(d) or 126(2)(d) CRR applies to the market value or mortgage lending value, as applicable, after being reduced, as appropriate, to take account of any prior claims on the immovable property or of the results of the monitoring required under Article 208(3) CRR.

Therefore, only the calculation provided as alternative 2 in the background on the question leads to the correct result.

## 2. IRB Approach

Under the IRB Approach, for the purpose of recognising immovable property collateral in accordance with Article 199(1)(a) CRR, the criteria in Article 230 CRR for determining the applicable LGD\* and the required collateralisation levels for the secured parts of exposures refer to the value of the collateral.

For this purpose, Article 229(1) CRR requires the value of the collateral to be the market value or mortgage lending value, similarly to how this is specified in the SA.

Also in line with the SA, the last sub-paragraph of Article 229(1) CRR requires that the market value or mortgage lending value shall be reduced as appropriate to reflect the results of the monitoring required under Article 208(3) CRR and to take account of any prior claims on the immovable property.

As a consequence, for determining the applicable LGD\* and the required collateralisation levels for the secured parts of exposures, the value of collateral to be used for this purpose is the market value or mortgage lending value, as applicable, after being reduced, as appropriate, to take in particular account of any prior claims on the immovable property.

**Link**

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