

Single Rulebook Q&A

Question ID	2021_5756
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Large exposures
Article	402
Paragraph	1
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	-
Date of submission	23/02/2021
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Definition of exposures arising from mortgage lending
Question	Which value of the exposure is the amount that can be reduced, when referring to "the pledged amount of the market value or mortgage lending value of the property concerned, but by not more than 50 % of the market value or 60 % of the mortgage lending value"?
Background on the question	Article 402 (1) CRR notes: "...For the calculation of exposure values for the purposes of Article 395, institutions may, except where prohibited by applicable national law, reduce the value of an exposure or any part of an exposure that is fully secured by residential property in accordance with Article 125(1) by the pledged amount of the market value or mortgage lending value of the property concerned, but by not more than 50 % of the market value or 60 % of 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, provided that all the following conditions are met...." There is a slight dispute, as to the phrase "by the pledged amount of the market value or mortgage lending value of the property concerned, but by not more than 50 % of the market value or 60 % of the mortgage lending value". In the following example, which is the amount that can be reduced, and subsequently, which is the Exposure value

	<p>after Credit risk mitigations and other exemptions, according to the above Article? Example: Exposure value: 1.300.000€ Pledged amount: 1.500.000€ Market value: 2.500.000€ Case1: 1st step: Credit risk mitigations = Minimum between i) pledged amount of 1.500.000€ and ii) Market Value of 2.500.000€ after 50% haircut => 1.250.000€ 2nd step: Exposure value after exemptions and CRMs = Original Exposure value of 1.300.000€ - Eligible CRM amount 1.250.000€ = 50.000€ Case2: 1st step: Credit risk mitigations = Minimum between i) pledged amount of 1.500.000€ and ii) Market Value of 2.500.000€ => 1.500.000€ 2nd step: 1.500.000€ * 50% = 750.000€ 3rd step: Exposure value after exemptions and CRMs = Original Exposure value of 1.300.000€ - Eligible CRM amount 750.000€ = 550.000€</p>
<p>Final answer</p>	<p>According to Article 402 (1) CRR, institutions may for the calculation of exposure values for the purposes of Article 395, except where prohibited by applicable national law, reduce the value of an exposure or any part of an exposure that is fully secured by residential property in accordance with Article 125(1) by the pledged amount of the market value or mortgage lending value of the property concerned, but by not more than 50 % of the market value or 60 % of 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, provided that all conditions in Article 402(1) (a)-(c) are met.</p> <p>If the market value is applied, the maximum amount which can be deducted from the exposure or any part of the exposure that is fully secured by residential property in accordance with Article 125(1) CRR is the pledged amount of the market value or 50 % of the market value, whichever amount is smaller. Therefore, the minimum between the pledged amount of the market value and half of market value has to be calculated. The resulting amount may be deducted from the exposure or any part of the exposure that is fully secured by residential property in accordance with Article 125(1) CRR.</p> <p>This corresponds to the calculation referred to as “case 1” by the submitter.</p> <p>Analogously, if the mortgage lending value is applied, the maximum amount which can be deducted from the exposure or any part of the exposure that is fully secured by residential property in accordance with Article 125(1) CRR is the pledged amount of the mortgage lending value or 60 % of the mortgage lending value, whichever amount is smaller. Therefore, the minimum between the pledged amount of the mortgage lending value and 60 % of the mortgage lending value has to be calculated. The resulting amount may be deducted from the exposure or any part of the exposure that is fully secured by residential property in accordance with Article 125(1) CRR.</p>
<p>Link</p>	<p>https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2021_5756</p>

