

Single Rulebook Q&A

Question ID	2021_6018
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	124, 127
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	Not applicable
Date of submission	26/05/2021
Published as Final Q&A	03/03/2023
Disclose name of institution / entity	No
Type of submitter	Competent authority
Subject matter	Exposures in default secured by mortgages on residential property
Question	How to classify an exposures, that is secured by mortgages on residential property and, according to the Article 124(2) of Regulation (EU) No. 575/2013 (CRR), is assigned a 150% risk weight and, at the same time, qualifies as 'Exposures in default' and meets the criteria listed in Article 127(1)(b) or (3) CRR, to assign it a 100 % risk weight?
Background on the question	In Poland, the exposures secured by mortgages on residential property, where the amount of principal or interest installments depends on changes in the exchange rate of one or more foreign currencies, different from the ones, in which the borrower receives income, secured by mortgages on residential property, have been, according to the Article 124(2) (CRR), assigned a higher 150% risk weight. However, at the same time, some of the above exposures fulfill the criteria listed in Article 127(1)(b) or (3) (CRR), to be classified as "Exposures in default" and be assigned a 100% risk weight. In such a situation, the following question arises - should such exposures be: a) classified to the exposure class "Secured by mortgages on immovable property" or, if these items are also in default, should they be: b) classified as "In default" exposures? What is important, in the discussed situation, the b) approach would result in applying a lower risk weight (100%), than that

assigned to those exposures so far (150%). Such a decrease in the risk weight would have serious consequences, as a new lower risk weight would not adequately reflect the real risks associated with such exposures and would therefore significantly reduce the effectiveness of the application of Art. 124(2) (CRR). On the other hand, the a) approach might be incompatible with the provisions of the Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (as well as the Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to supervisory reporting of institutions and repealing Implementing Regulation (EU) No 680/2014, replacing it from 28 June this year), which states in the “Decision tree on how to assign the original exposure pre conversion factors to the exposure classes of the standardised approach according to CRR”, in the point “3.2.3. Assignment of exposures to exposure classes under the Standardised Approach” of “Part II: Template related instructions” of “Annex II Reporting on own funds and own funds requirements”, that the classification in the “Exposures in default” category takes precedence over the classification in the “Exposures secured by mortgages on immovable property”. We would like to draw your attention to the EBA statement provided in the answer to the Q&A 2013_215: “(...) transferring these into other exposure classes with lower risk weights would undermine applying appropriate risk weights to cover unexpected losses related to these high risk items.”. We are aware, that the above referred directly to the situation slightly different, than described in our case (that is an exposure, which is classified to the “Exposures associated with particular high risk” and - at the same time - “Exposures secured by mortgages on immovable property” categories). However, in our opinion, such an indication should be a general rule and be applied to all situations, where an exposure reclassification would lead to a lower risk weight (which is even more important in the case of exposures, as the ones described herein, i.e. which are generally assigned a higher - than usually applied - risk weight).

Final answer

Given the reference to Article 124(2) of Regulation (EU) No 575/2013 (CRR), it can be inferred that the exposure referred to in the question has been originally assigned to the exposure class “exposure secured by a mortgage on immovable property” as referred to in Article 112(i) CRR. If the exposure subsequently meets the criteria to be assigned to the exposure class “exposures in default” as referred to in Article 112 (j) CRR, this exposure must be assigned to that exposure class and the applicable risk weight must be determined in accordance with Article 127 CRR.

However, if that exposure would meet the conditions laid down in Article 128 CRR to be assigned to the exposure class “exposures associated with

particularly high risk”, then it must be assigned to that exposure class, irrespective of whether it meets or not the criteria to be assigned to the exposure class “exposures in default” (see [Q&A 215](#)).

The answers clarify provisions already contained in the applicable legislation. They do not extend in any way the rights and obligations deriving from such legislation nor do they introduce any additional requirements for the concerned operators and competent authorities. The answers are merely intended to assist natural or legal persons, including competent authorities and Union institutions and bodies in clarifying the application or implementation of the relevant legal provisions. Only the Court of Justice of the European Union is competent to authoritatively interpret Union law. The views expressed in the internal Commission Decision cannot prejudge the position that the European Commission might take before the Union and national courts.

Link

https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2021_6018

European Banking Authority, 02/12/2023
www.eba.europa.eu