Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Model validation
Article	166
Paragraph	8
Subparagraph	d
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	Not applicable
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Estimation of a conversion factor for binding mortgage offers under the IRB Approach
Question	Is the own estimation of conversion factors for undrawn credit lines considered relevant for binding mortgage offers, with a maturity of less than one year?
Background on the question	It is unclear what is the correct treatment, under the IRB Approach, for the conversion factor of off-balance sheet items for binding mortgage proposals with a maturity less than one year, as it can be either of the following: a. falling under the provisions of Article 166(8)(d) CRR “other credit lines”, where a 75% conversion factor should be applied, or own estimates could be used according to Article 166(8) CRR or b. falling under off-balance sheet items other than those mentioned in Article 166(8) CRR and are to be treated according to the requirements of Article 166(10) CRR We ask EBA to clarify whether the final answer provided on Q&A 3376 only applies under the Standardised Approach or also under the IRB Approach. If treatment (a) is correct, institutions applying the IRB Approach will most likely be required to estimate own conversion factors for binding mortgage offers, with a maturity of less than one year. This may be challenging since the product characteristics of a mortgage offer deviate from the characteristics of a

	regular credit facility in the sense that a client cannot draw amounts from a mortgage offer. If treatment (b) is correct, binding mortgage offers with a maturity of less than one year will most likely be considered to meet the criteria of Annex 1(3)(b)(i) for a medium/low risk item: "undrawn credit facilities which comprise agreements to lend, .. with an original maturity of up to and including one year which may not be cancelled unconditionally.." resulting in the application of a conversion factor of 20%. Also treatment (b) is consistent with the final answer already provided on Q&A 3376.
Final answer	For institutions using internal model approaches for credit risk, Article 166(8)(d) provides for the determination of the exposure value of "other credit lines" that are not subsumed under more specific definitions of "credit lines" in letter (a), (b) or (c) of that paragraph. All off-balance sheet items that cannot be subsumed under Article 166(8)(a) to (d) shall in turn be treated under Article 166(10) CRR. Since binding proposals for mortgage offers cannot be considered a "credit line", these items should be treated in accordance with Article 166(10) CRR. With particular regard to the binding proposals pursuant to Article 14(6) of Directive 2014/17/EU, during the period where the consumer can exercise a right of withdrawal ('after the conclusion of the credit agreement' but before funds have been released) or during the reflection period ('before the conclusion of the credit agreement', although the offer is binding on the creditor), binding mortgage proposals qualify for the creditor as agreements to lend, and therefore have to be classified as a medium/low risk item under point (3.)(b)(i) of Annex I CRR, provided that the maturity is less than one year. See also Q&A 2663 on the meaning of credit lines and Q&A 3376 on the binding proposals for mortgage offers.
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2022_6602