Single Rulebook Q&A

Question ID	2019_4934
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	124
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	Not applicable
Date of submission	04/10/2019
Published as Final Q&A	11/02/2022
Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	Residential Reverse mortgages RWA
Question	Could you clarify the regulatory RWA treatment for residential reverse mortgages exposure? Are those exposures subject to the standardised approach for RWA calculation? Is the regulatory treatment linked to the level of loan to value (LTV) the same as residential mortgages?
Background on the question	Reverse mortgages are a product offered to retired people to supplement their retirement pensions through the monetisation of their properties.They are recourse loans secured by real estate properties that have no defined term and no monthly repayment of principal and interest.The amount owed on a reverse mortgage grows with time as interest is accrued and deferred until the time when the property is vacated by the borrower.At that time the loan is generally – but not necessarily - repaid from the net proceeds of the sale net of disposition costs (i.e., the lesser of the fair market value of the home - less disposition costs) at the time it is sold and the amount of the loan) after the borrower has vacated the property.Also, even assuming there is no event of default (for example, failure to pay property taxes and insurance, or failure to keep the home in a good state of repair), reverse

	mortgage lenders have anyway recourse to the borrower if the amount realised on the sale of the home is less than the amount owed on the reverse mortgage.More precisely, the reverse mortgage is a loan secured by a mortgage on the primary residence of a person over 75 years old (and retired), granted through periodical payments.The maximum amount that the institution will give to the retired person is set upfront and it depends on the age of the borrower and on the market value of the immovable property. This amount is calculate based on a certain percentage of the appraisal value of the immovable property at origination.When the borrower vacates the property, 3 situations can arise, depending on his/her (or following his/her death, his/her heirs´) decision:(a) They can decide keeping the immovable property. In this case, they will repay the loan, or they will sign another credit facility with the institution.(b) They can decide selling the immovable property. In this case, they will settle the debt with the institution, and keep the remaining amount from the sale after the amount due is paid.(c) They can decide not keeping the immovable property and not paying the debt.In any case, the institution has the right to execute the guarantee and to take action against the rest of the assets of the estate, in case the guarantee does not cover the amount due.There are no clear indications in CRR about the RW which institutions have to apply to this kind of exposures.
Final answer	In order for an exposure or any part of an exposure to be considered as an “exposure fully and completely secured by mortgages on residential immovable property” under the SA approach, the conditions stipulated in Article 125(2) of Regulation (EU) No 575/2013 (CRR) shall be met. A reverse mortgage loan, with the characteristics described in the background, is a loan secured by mortgage on immovable property, with the peculiarity that the repayment is usually not done by the borrower, who may or may not have the capacity to repay the debt from other sources than selling the underlying property serving as collateral. It follows that, to the extent that the repayment of a residential reverse mortgage loan materially depends on cash flows generated by the underlying property serving as collateral, the risk of the borrower materially depends upon the performance of the underlying property. As a consequence, under the Standardised Approach for credit risk, a residential reverse mortgage loan with the characteristics described in the background does generally not fulfill the conditions stipulated in Article 125(2)(b) CRR and hence does generally not qualify as an “exposure fully and completely secured by mortgages on immovable property”, unless a derogation is granted on the basis of Article 125(3) CRR and all other conditions stipulated in Article 125(2) CRR are met. However, in case the borrower has the capacity to repay the debt from other sources than selling the underlying property serving as collateral, a residential reverse mortgage loan could fulfill the conditions stipulated in

	Article 125(2)(b) CRR and hence it could qualify as an “exposure fully and completely secured by mortgages on immovable property”, if all other conditions stipulated in Article 125(2) CRR are met. If the conditions in Articles 125 are not met, a residential reverse mortgage loan could still meet the description under Article 124 CRR and therefore a 100% risk weight would be applied up to the mortgage value of the immovable property according to Article 124(1) CRR, except for any part of the exposure which is assigned to another exposure class.
Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2019_4934

European Banking Authority, 03/07/2022
www.eba.europa.eu