

European Mortgage Federation-European Covered Bond Council (EMF-ECBC)

Response to European Banking Authority's Consultation Paper on Draft Guidelines on Management of Non-Performing and Forborne Exposures June 2018

Question 9: Do you have any significant objection against the proposed threshold for property-specific valuation (EUR 300,000)?"

- The EMF-ECBC is of the view that a one size fits all threshold of EUR 300,000 would not appropriately reflect the diversity of the European property markets where property-specific valuations differ depending on the property market where the individual property is located. The proposed threshold of EUR 300,000 may represent a high threshold in some Member States (representing high-end and complex real estate that is less or not suitable for indexed valuations) while in others it will not even cover average and standardised properties. Thresholds in general, and the proposed threshold in particular, are therefore not a suitable approach to specify property valuations subject to indexation as it translates into an arbitrary figure, i.e. in loan amounts, which is not representative across Europe. Instead, the EMF-ECBC recommends building indexed valuations based on property specific criteria such as property type (e.g. residential properties), standardisation (e.g. apartments, 1 and 2 family houses), comparability and liquidity of the respective market.

Question 10: Do the requirements for valuation of movable property collateral capture all relevant aspects?

- **General:** The EMF-ECBC understands that Chapter 9 'Collateral Valuation for Immovable and Movable Property' is fully dedicated to non-performing and forborne exposures. Nevertheless, with respect to immovable properties the chapter's proposed wording leaves room for interpretation as to whether or not the proposed requirements will impact all exposures (both in collateralised and non-collateralised formats), not just non-performing and forborne exposures. Therefore, the EMF-ECBC believes that further clarification within the chapter is necessary. As part of this further clarification, it is likewise important to make clear that the proposed threshold (Question 9) only applies to non-performing and forborne exposures.
- **(Paragraph 224):** The EMF-ECBC does not understand the reason for the prohibition of the use of the discounted replacement cost method for the valuation of collateral pledged for non-performing exposures. This method is used across a series of EU Member States as a standard for calculating both market and mortgage lending values, and has a key, tried and tested status. Though it is theoretically possible to use other methods (i.e. the comparison approach in the case of semi-detached properties), this would require an analysis of corresponding data availability at regional level and, for this reason, may conflict with national valuation standards if data availability requirements are not met. Therefore, the EMF-ECBC believes that European guidance should take adequate account of the specificities of regional property markets by permitting the use of the locally applicable valuation methods which best reflect the market. A ban on tried and tested national valuation methods goes against this approach.