

AECM Position on the Draft EBA Guidelines on loan origination and monitoring

AECM would like to express its views on the current EBA draft guidelines on loan origination and monitoring. Our members are granting guarantees to small and medium-sized enterprises that have an economically viable project but lack the necessary collateral to receive a loan. That is why they will be either directly or indirectly affected by the aforementioned guidelines.

Scope

European guarantee banks and institutions, organised within AECM, do not operate in classical bank lending within the meaning of the directive 2008/48/EC. Furthermore, the vast majority of our members are not credit institutions according to article 4 paragraph 1 CRR. Their business activities consist of the granting of guarantees in favour of small and medium-sized enterprises as part of a promotional mission.

The draft guidelines include detailed rules on movable and immovable collateral that are inappropriate for the valuation of financial guarantees. As we understand, the latter are not concerned by the guidelines.

We kindly request you to state expressively that financial guarantees are not in the scope of these guidelines.

If the guidelines were also to be applied to guarantees, this would have – due to the complexity of the provisions set out in the guidelines - a very restrictive effect on lending and in particular on promotional SME loans, which are often depending on the involvement of guarantee institutions.

Principle of proportionality

The draft guidelines are in our opinion not appropriate for small institutions, as the principle of proportionality has not sufficiently been taken into account. The principle is expressively mentioned in paragraph 12 of the draft. However, it is insufficiently applied throughout the guidelines.

The criteria of systemic relevance, the size of the institution, the risk content of transactions and the complexity of the banking business are not taken into account in the

draft guidelines. This, however, would be necessary in order to ensure a proportional implementation of the latter.

One concrete example for the clear lack of proportionality is found in the provisions for the **creditworthiness assessment** laid out in paragraph 126. The use of the phrase "at least" barely allows for a proportional analysis. We strongly advocate clarifying the wording and adapting it to the existing specific types of European credit institutions. It should allow for a simplified analysis to be carried out by small non-complex institutions.

Moreover, the **sensitivity analyses** of potential borrowers and market related events as required in paragraphs 145 and 146 of the draft guidelines are inappropriate for lending to small and medium-sized enterprises.

If the requirements of the draft guidelines (inter alia in sections 5.1.3 and 5.2.5 in conjunction with Annex 2) were to be implemented by lenders, this would have a significant impact on the credit financing of the real economy. Since the term "professionals" covers all non-consumers, the corresponding requirements would also apply to loans for small traders, freelancers and self-employed craftsmen and others.

The implementation of these EBA guidelines on corporate clients would lead to more extensive information and / or documentation requirements, bureaucratic consultations and longer processing times for loan applications. In addition, it would result in a price increase, since the banks would have to hand the increased analysis and processing costs on to the customers. This would affect mainly SMEs' access to finance and widen the existing SME finance gap, i.e. the insufficient supply of external financing to SMEs due to market failure¹.

That is why AECM advocates a comprehensive and clear proportional approach, especially to the creditworthiness assessment as well as the sensitivity analysis, allowing for simplified provisions for SME lending.

Special conditions for promotional loans

According to point 9 et seq., promotional loans granted to SMEs by credit institutions are not in the scope of the draft guidelines. Particularly in the case of promotional loans, there are specific characteristics about the collateral that are not taken into account by the draft guidelines. These supporting collaterals imply specific requirements, concerning the constitution of securities as well as the pricing. Since the guidelines do not adequately cover this issue, we suggest that promotional loans – especially those granted to SMEs² – are explicitly excluded from the scope of the guidelines.

¹ OECD (2006). The SME finance gap. Vol. 1. Theory and evidence.

For an overview of market failures in SME lending and mitigation techniques: OECD (2018). Financing SMEs and entrepreneurs 2018. An OECD Scoreboard, OECD Publishing, Paris.

² A possible threshold could be the one used under CRR/CRD for the SME correction factor, i.e. EUR 1.5 million.

Final remarks

The draft EBA Guidelines do, in our view, not adequately allow for a proportional treatment of institutions active in supporting SMEs in getting their access to finance. Furthermore, they do not take into account the specificities of promotional loans. That is why we are of the opinion that an implementation of the current draft version would jeopardise the business model of small and non-complex institutions and thereby undermine SMEs' access to finance.

The regulatory costs resulting from this guidance will have a negative impact on overall lending in Europe. That is why we strongly emphasise the need to **respect the principle of proportionality**.

Furthermore, the formulation of the guidelines should be adapted to make them seem less prescriptive. It should be clearly stated that they are meant to be a collection of best-practice standards, rather than mandatory instructions. This is to avoid any misinterpretations and gold plating by national authorities.

About AECM:

The 48 members of the **European Association of Guarantee Institutions (AECM)** are operating in 29 countries in Europe. They are either private sector guarantee schemes or public promotional institutions or banks. Their mission is to support SMEs in getting access to finance. They provide guarantees to SMEs that have an economically sound project but do not dispose of sufficient bankable collateral. AECM's members operate with counter guarantees from regional, national and European level. At the end of 2017 AECM's members had over EUR 125 billion of guarantee volume in portfolio, thereby granting guarantees to around EUR 3.1 million SMEs. AECM's members are by far the most important counterparts of the EIF concerning EU counterguarantees, handling EU guarantees from the very beginning in 1998.

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