

Final European Mortgage Federation-European Covered Bond Council (EMF-ECBC) Response to European Commission 'Have Your Say' Consultation on its Proposal for an amended CRR implementing Basel III

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EU mortgage markets are fundamental to the economy. They provide access to finance for citizens to buy homes and for SMEs, stimulating investment and job creation. They will be vital to the post-pandemic recovery in many countries and the climate transition. Implementation of Basel III without considering the knock-on effects on the housing and energy sectors would severely impact families, especially the most fragile, potentially leading to increased mortgage costs of several hundreds of euros p.a., in addition to other already increasing housing costs e.g. energy bills. The impacts on building and construction would also hinder housing supply as well as investments supporting the Next Generation EU and the EU Green Deal. These are the key issues at stake, short and long term, in the implementation of Basel.

Our priority is to mitigate unintended and penalising impacts on residential and commercial mortgages and maintain a level-playing field. We have long advocated for the 'Parallel Stacks Approach' as the most proportionate way of implementing the Output Floor in Europe. We are concerned that the Commission's projections for capital increases underestimate the real impact of the proposals and are commissioning own our impact assessment to better understand the implications.

We acknowledge efforts to mitigate impacts through the 'hard test' (Art. 465(5)(a-b)) and 'dual claim' (Art. 465(5)(c)) arrangement in Art. 465. However, we regret that the two concepts have only been taken into account for the beneficial treatment of 'low risk' mortgage portfolios for IRB banks. This is not consistent with the fact that the 'dual claim' mechanism is a risk mitigant for all secured mortgage loans. A 'hard test' brings conservatism into the framework, and it would be inconsistent for it to be only applied to IRB risk-weighted mortgages.

To avoid cliff effects, these conditions should be permanent and, irrespective of the risk weighting approach, the following more granular framework should be applied to the Standardised Approach:

LTV	Meets Hard Test & Dual Claim	2025	2026	2027	2028	2029	2030 onwards
≤ 55%	Yes	10%	10%	10%	10%	10%	10%
>55%	Yes	45%	45%	45%	45%	45%	45%
≤ 55%	No	20%	20%	20%	20%	20%	20%
> 55%	No	75%	75%	75%	75%	75%	75%

Additionally, there is evidence that default rates of commercial mortgages evolve in a similar low range to residential mortgages, and it would therefore be justified to similarly apply a 'hard test' approach as in Art.465 to these exposures also.

With a view to ensuring the integrity of the EU financial market and a level-playing field, the national discretion in Art. 465(5) should be deleted so that the same rules apply across the EU.

We are currently assessing other concerns e.g. the cliff effect for RWs beyond 55% LTV and the reference to 'primary residence' in Art. 124 as an eligibility criterion for the treatment of real estate exposures and will come back with more analysis on these points.

Regarding Acquisition, Development & Construction (ADC) exposures, the possibility of applying a 100% RW for residential real estate should be extended to ADC commercial real estate. Indeed, these typically finance transactions to construction firms or cooperatives that have already signed contracts with purchasers of the future finished property. The risk of the transaction is minimised by the fact that a substantial part of the property has already been sold.

We welcome the revisions to Art. 208 around energy efficiency and value. This is important recognition of the Energy Efficient Mortgages Initiative (EEMI) and Label. The Basel implementation is a timely opportunity to consider the CRR's role in accelerating the 'greening' of banks' balance sheets and to increase sustainable investment under the CMU. Research under the EEMI and other Initiatives is pointing to the credit risk mitigation impact of energy efficiency and is making a strong risk-based case in a number of markets to consider a realignment of capital requirements for EEM.

Finally, we highlight the importance of maintaining the status quo in Art. 229(1) with regard to collateral valuation i.e. the choice between Market Value and Mortgage Lending Value.
