9 February 2026

# Article 465(5) CRR – Making the Transitional Arrangements for Low-Risk Mortgages Permanent

*A necessary pillar of Housing Affordability, Social Cohesion and European Financial Competitiveness*

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## 1. Context

During the legislative negotiations on the revised Capital Requirements Regulation (CRR), the EMF-ECBC and other banking industry stakeholders highlighted the disproportionate impact of the Output Floor (OF) on EU mortgage lending and expressed concerns about its potential effect on the affordability of mortgages for EU citizens and the competitiveness of EU banks vis-à-vis their non-EU counterparts, largely given the EU practice of holding mortgages on balance sheet (see below for more details). In particular, stakeholders argued that the OF, due to EU specificities, would become the binding requirement for a typical European IRB bank, rather than a backstop requirement for outlier banks as intended. It was against this background that Industry stakeholders questioned the appropriateness of the OF and called for, at a minimum, a more proportionate treatment for low-risk residential mortgage exposures on a permanent basis under Article 465(5) CRR. While transitional arrangements were ultimately adopted, permanence was not secured.

Today, the policy context has evolved. The Draghi Report on the Future of European Competitiveness highlights, among other issues, the importance of a regulatory and financial framework that supports long-term investment, competitive and integrated banking and financial markets and ensures a level playing field, all of which are essential for sustaining Europe's growth and global competitiveness. More recently, the EU Affordable Housing Plan has placed housing affordability at the centre of EU priorities, with a strong emphasis on, among others, boosting housing supply, mobilising additional private (and public) investment and protecting vulnerable groups.

This new context underscores the importance of securing an appropriate treatment of low-risk mortgages. Fixing the output floor at its current level would enhance the overall competitiveness of the EU banking industry internationally, securing a strategic level-playing field with other global jurisdictions that employ an off balance sheet approach to mortgages, and reinforce banks' ability to support affordable and sustainable housing across the EU. Moreover, it would be entirely consistent with the broader EU agenda of regulatory simplification currently being pursued by the EU Institutions.

## 2. Importance of Permanence of the Art. 465(5) Arrangements for Competitiveness & Housing Affordability

Mortgage lending represents nearly €9 trillion in outstanding loans[1], close to 50% of EU GDP, and remains the primary source of financing for homeownership in Europe. However:

- Research commissioned by the EMF-ECBC[2] provides evidence that around two-thirds of IRB exposures in the EU mortgage market (= 28% of the total EU credit assets) are bound by the output floor.
- Without the transitional arrangements, EU mortgage lenders would be faced with average capital increases of their mortgage portfolios of 18%, i.e. well beyond the G-20's initial target of 10%.

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[1] https://hypo.org/hypostat

[2] https://hypo.org/app/uploads/sites/3/2022/05/Impact-of-Final-Basel-III-Final-Report-Copenhagen-Economics-May-2022.pdf

- As regards IRB banks, they would face even higher capital increases of 24% which can be broken down into 17% for household mortgages, 26% for SME mortgages and 44% for corporate or commercial mortgages.
- The size of this increase is remarkable as mortgage lending in the EU is classified as low risk business correlated with some of the lowest loss rates across the EU. Indeed, mortgage lending in the EU is underpinned by a long-term, on balance-sheet-based business model, aligning lender and borrower interests over a decades long relationship, and strong structural risk mitigants, including double recourse mechanisms and prudent underwriting standards. This points to a substantial misalignment between the risk profile of the underlying exposures and the design and calibration of the OF.

If and when the transitional arrangements come to an end, the concerns previously expressed during the legislative negotiations and described earlier regarding the impact of the OF on the competitiveness of European banks would crystallise. In particular, the OF would result in:

- **A loss of risk sensitivity** by constraining internal models that accurately reflect the low risk of residential mortgage lending;
- **A decrease in banks' ability to provide mortgage financing and/or increased capital costs**[3] with a subsequent potential decrease in mortgage financing available and/or a potential increase in the cost of credit for households and businesses (see link to EU Affordable Housing Plan below);
- **An unlevel playing field across jurisdictions and business models** both within the EU and, notably, vis-à-vis non-EU banks and housing finance systems based on the originate to distribute model, as the OF binds a considerably larger number of banks in EU mortgage markets, which are based on the originate to hold model, as noted earlier, and are typically larger, lower-risk, and more reliant on IRB models.
- **An undermining of long-term funding mechanisms** including covered bonds[4] and securitisations that are central to the EU mortgage finance ecosystem.
- **Lasting regulatory uncertainty** especially for long-term mortgage products.

From the perspective of the EU Affordable Housing Plan, the increase in risk-weighted assets for banks bound by the OF post-transitional regime would undermine:

- **Housing affordability** through potentially higher interest rates and/or reduced lending capacity, impacting on households' and businesses' borrowing costs.
- **Investment in long-term construction projects**, including the decarbonisation of the EU building stock.
  **Long-term funding models**, such as covered bonds and securitisations, that are complementary funding tools which are essential for stable and affordable mortgage finance, as indicated above. In this respect, we would like to take this opportunity to express our support for the current initiative to revitalise the securitisation market through, among other actions, a recalibration of capital requirements for high-quality securitisations, as well as for the efforts in the European Parliament to ensure a correspondingly appropriate adjustment to the risk weights for covered bonds, in order to ensure coherence in the prudential framework, and avoid unintended market distortions.

Making the transitional arrangements for low-risk residential mortgage exposures in Art. 465(5) permanent at the current level would restore proportionality and risk sensitivity, safeguard the long-term, on-balance and low risk nature of the EU mortgage model, and ensure that prudential regulation is aligned with Europe's competitiveness, housing affordability and long-term investment objectives.

[3] In cases where the output floor is a constraining factor, banks will be required to hold more capital against their mortgage book. From a theoretical perspective, a bank can i) keep its current capital position, which decreases its ability to lend by 10 to 15 times of the amount of additional capital required, or ii) increases its capital position, which increases the amount of capital held including the costs associated with holding that capital.
[4] Covered bonds worth over €3.3 trillion globally (of which €2.9 trillion in the EU27, UK, Switzerland, Norway, and Iceland) at the end of 2024. (see https://hypo.org/factbook

### 3. Policy Recommendations

In light of the EU's Competitiveness Agenda and the EU Affordable Housing Plan, we believe that it is vital to:

1. **Uniformly apply the arrangements across all Member States by removing national discretion**, in order to secure a European level-playing field.

2. **Make the transitional arrangements under Article 465(5) CRR permanent <u>at the current level</u> for residential mortgage exposures** that meet the low-risk criteria. There is no more robust and objective a tool for the measurement of the 'real' risk profile of exposures than loss rates ('hard test' requirement in Art. 465).

3. **Align the Standardised Approach (SA-CR) to the Article 465(5) arrangements**, i.e. a 10% risk weight for low LTV residential mortgages combined with the hard test requirements. It would also be justified to provide for an additional bucket with a 45% risk weight for loans with an LTV above 55% and up to 80%. The 'dual claim' arrangement referred to in Art.465(5)(c)) is actually a risk mitigant for all secured mortgage loans, not just those in the mortgage portfolios of IRB banks, while the 'hard test' would provide for the appropriate conservatism. Alongside permanence of the Art. 465(5) arrangements for IRB banks at the current level, the parallel alignment of the SA-CR would represent another powerful lever to secure affordable housing finance.

4. **Consider extending, where justified by loss data, the permanent treatment in Article 465(5) to commercial mortgage exposures** that support affordable and sustainable housing. In line with the logic under point 2 regarding the effectiveness of a 'hard test' in measuring the real risk profile of exposures, it would be consistent from a supervisory perspective and justified to apply a 'hard test' approach as in Art. 465(5) to these exposures also. In case of compliance with the 'hard test' requirements (0.25%), risk weights for corporate/commercial mortgages should be subject to a similar rationale, i.e. be calibrated in a consistent way compared to those for residential mortgages. In this respect, we strongly support the mandate to the European Banking Authority (EBA) to assess, by December 2027, the appropriateness of adjusting the treatment of commercial real estate exposures, which would be crucial in the context of addressing housing affordability challenges.

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