Consultation template for Article 124 CRR

Template for consulting the EBA on setting higher risk weights for immovable property or applying stricter criteria than those set out in Article 125(2) and Article 126(2) CRR

1. Consulting national authority (If several designated authorities, please mention all of them)	
1.1 Name of the consulting authority	**National Bank of Romania**
2. Application of higher risk weights or stricter criteria than those set out in Article 125(2) and Article 126(2) CRR	
2.1. Exposures secured by mortgages on residential property	a) Do you intend to set higher risk weights for exposures secured by mortgages on residential property? **No** b) If the answer to question a) is yes, which risk weight would you set? Please specify the new risk weight (between 35% and 150%).
	c) Do you intend to apply stricter criteria than those set out in Article 125(2) CRR (exposures fully and completely secured by mortgages on residential property)? **No** d) If the answer to question c) is yes, which additional or stricter criteria would you set?
2.2. Exposures secured by mortgages on commercial immovable property	e) Do you intend to set higher risk weights for exposures secured by mortgages on commercial immovable property? **Yes** f) If the answer to question e) is yes, which risk weight would you set? Please specify the new risk weight (between 50% and 150%). **100%**
	g) Do you intend to apply stricter criteria than those set out in Article 126(2) CRR (exposures fully and completely secured by mortgages on commercial immovable property)? **No** h) If the answer to question g) is yes, which additional or stricter criteria would you set?
3. Motivation for setting higher risk weights or stricter criteria than those set out in Article 125(2) or Article 126(2) CRR	
3.1. Regulatory context	- What was the risk weight applied to exposures secured by mortgages on residential property and commercial immovable property before January 2014? **35% - residential properties; 100% - commercial properties** - Is the objective of setting of higher risk weights or stricter criteria under Article 124 CRR a continuation of the previous regulatory treatment of residential and commercial property exposures? **Yes - for commercial properties** - Do you apply a similar measure in the context of real estate exposures under Article 164 CRR? **No**

3.2. Risk weights versus actual risks	- Does the risk weight of all residential or commercial property segments reflect the actual risks related to these exposures, fully and completely secured by mortgages on residential property or commercial immovable property? - **The risks associated with residential and commercial property segments are well reflected by the risk weights. The NPL ratio for mortgage backed residential loans was 9% as compared with 25.4% for mortgage backed commercial loans[1] in June 2014.** - If not, specify the reasons and the property segments to which this applies, and put your answers in perspective to the real estate markets of other European countries.
3.3. Motivation	<u>a) Loss experience</u> - Give details about the loss experience in the real estate market of the Member State that justify the setting of higher risk weights or the application of stricter criteria than those in Article 125(2) and Article 126(3) CRR. - **the credit risk stemming from the portfolio of mortgage backed commercial loans is significant and still growing. The ratio of non-performing loans for these exposures was 25.4% in June 2014, increasing by 1.2 percentage points compared to the level in June 2013. Moreover, exposures that are fully secured by mortgages on commercial immovable property[2] have a non-performing loan ratio of 46% in June 2014;** - **the loss given default for real estate sector remains elevated, credit institutions estimating a value of 60% for the this sector in March 2014 (according to the NBR Bank Lending Survey);** - **the amplification of balance-sheet cleaning procedures (by transferring non-performing exposures off balance sheet or by selling them) may contribute to a rise in losses** - Which of the data mentioned in Article 101 CRR did you use? - **data mentioned in Article 101 CRR e) and f) taking the full exposure even if only a part of the exposure is fully secured by immovable commercial property and not taking into account the LTV level, due to data availability limitation** - Which other indicators have been taken into account? - **Besides the risk indicators, NBR also evaluates the developments in the LTV ratio. Our analysis reveals that: the correction of commercial real estate prices leads to a decrease in the collateral coverage ratio, with the average value of LTV (loan-to-value) posting an increase from 66% (at origination) to 85% (in May 2013. Additionally, for the loans with more than 90 days past due, the difference between the two values is significant (24 percentage points, from 75% LTV at origination to 99% LTV value based on market value at 31 May 2013), while for the loans with less than 90 days past due was registered an increase in LTV by 7 percentage points (according to the Questionnaire on Loan Portfolio Management Techniques, May 2013)**

[1] Includes all the loans granted to non-financial companies and collateralized by, inter alia, a mortgage
[2] Includes all the loans granted to non-financial companies and collateralizes only by mortgage

	b) Forward-looking real estate market developments Motivate the forward-looking real estate market developments which justify the setting of higher risk weights or application of stricter criteria. **- the commercial real estate market is affected to some extent by developments in construction and real estate sectors, currently characterized by low activity and high level of probability of default (although the probability of default is on a downward path, according to NBR estimations for December 2014).** **- the systemic risk stemming from negative developments of commercial real estate prices and/or from the illiquidity of real estate market is moderate but the banks consider it difficult to handle, according to the Survey on systemic risks, June 2014** **- real estate sector continues to be the riskier sector from the point of view of quality of credit portfolio according to Bank Lending Survey**
	c) Financial stability considerations Which are the financial stability considerations that were taken into account? **- Based on the above mentioned evidences and due to the high share of exposures secured by mortgages on commercial immovable property in banks' balance sheets (about 72% of loans granted by banks to non-financial corporations) we conclude that the risks stemming from this portfolio are important and could generate unfavourable effects on the banking sector. In this context, it's necessary to maintain a prudent stance of the capital buffers to ensure an adequate resilience of the banking sector.**
3.4. Frequency	- When did the Member State last change the risk weights for exposures secured by mortgages on residential property? Which change has been applied? **2007 – 35% risk weight, according to Basel II provisions (compared to 50% risk weight, according to Basel I provisions)** - When did the Member State last change the risk weights for exposures secured by mortgages on commercial immovable property? Which change has been applied?
4. Miscellaneous	
4.1. Contact person(s) at consulting authority	Contact person(s) for further inquiries (name, phone number and e-mail address **Marian Caşcaval** **Expert** **Licensing and Regulation Department** **National Bank of Romania** **Phone no.: +40213130410 (ext. 1224)** **E-mail: marian.cascaval@bnro.ro**
4.2. Any other relevant information	