

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	Bank of Slovenia
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)? Yes (the stricter criteria are already applied). d) If the answer to question c) is yes, which additional or stricter criteria would you set? For the purpose of Article 125(2d), the LTV ratio is set at 60%
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? No 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%).
	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	<ul style="list-style-type: none"> - What was the risk weight applied to exposures secured by mortgages on residential property and commercial immovable property before January 2014? 35% for residential properties and 50% for commercial properties, if certain conditions were met. - 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 residential properties. - Do you apply a similar measure in the context of real estate exposures under Article 164 CRR? No

<p>3.2. Risk weights versus actual risks</p>	<ul style="list-style-type: none"> - 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? - Currently Bank of Slovenia is in the process of re-evaluating the LTV ratio of 60% and consequently also the risk weight for residential property. - 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.
<p>3.3. Motivation</p>	<p><u>a) Loss experience</u></p> <ul style="list-style-type: none"> - 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. <p>The data reported by banks within the Article 101 CRR were not reliable. Banks did not report losses in the Corep form C15.00 according to specified rules in the ITS on reporting. Bank of Slovenia send clarifications and further instructions to banks regarding the correct data on losses that should be reported in aforementioned Corep form. The last data on loss rates as of 31.12.2015 seemed to be more reliable. The average loss rate for exposures fully and completely secured with residential real estate was 0,35%.</p> <ul style="list-style-type: none"> - Which of the data mentioned in Article 101 CRR did you use? - n.a. - Which other indicators have been taken into account? - n.a. <p><u>b) Forward-looking real estate market developments</u></p> <p>Motivate the forward-looking real estate market developments which justify the setting of higher risk weights or application of stricter criteria.</p> <ul style="list-style-type: none"> - n.a. <p><u>c) Financial stability considerations</u></p> <p>Which are the financial stability considerations that were taken into account?</p> <p>The choice of LTV = 60% for exposures secured by residential mortgages stems from the regulatory decisions made by Bank of Slovenia before the CRR came into effect (that is from November 2007 when national legislation transposing former CRD Directive started to apply). The decision for utilization of more conservative LTV was taken due to features of Slovenian real estate market as well as banks' experience in this regard - volatile real estate market, long enforcement procedures and lack of data on loss rates for exposures secured by mortgages. That was also in line with an answer provided by the CRDTG group, established at the European Commission level for providing interpretations and answers regarding the CRD Directive. The relevant answer stated that the LTV ratio could vary from 60% to 80%, whereby the competent authority should choose the more conservative ratio if the real estate enforcement procedures were too long, there was no data on loss rates for such exposures and there was a high volatility on residential real estate market.</p> <p>Bank of Slovenia is currently reviewing these stricter criteria.</p>

	<p>Namely the Financial Stability and Macroprudential policy Department is considering the introduction of a macroprudential measure to address the LTV and LTI indicators set by banks in their residential mortgage lending standards. In this context also the decision on LTV for the capital calculation purposes for exposures secured with residential real estate will be reviewed.</p>
3.4. Frequency	<ul style="list-style-type: none"> - 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 CRD 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? 2007 – 50% risk weight, according to CRD provisions
4. Miscellaneous	
4.1. Contact person(s) at <u>consulting</u> authority	<p>Tanja Marković Systemic supervision and regulation Bank of Slovenia Phone: +386 1 47 19 434 E-mail: tanja.markovic@bsi.si</p>
4.2. Any other relevant information	