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**European Banking Authority draft guidelines on loan origination and monitoring**

**Response by the Intermediary Mortgage Lenders Association**

**September 2019**

**IMLA**

IMLA is the representative trade body for mortgage lenders who lend wholly or predominantly through intermediaries. Our 42 members are banks, building societies and specialist lenders, and include 16 of the 20 largest UK mortgage lenders (measured by gross lending) and account for about 90% of mortgage lending (89.4% of balances and 90.6% of gross lending). IMLA provides a unique, democratic forum where intermediary lenders can work together with industry, regulators and government on initiatives to support a stable and inclusive mortgage market. We welcome this opportunity to comment on the proposals set out in EBA/CP/2019/04.

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There are four main areas on which we wish to comment.

**Definition of “residential real estate”**

The definition of “residential real estate” (p17) clearly includes buy-to-let, which is currently not regulated in the UK in the same way as mainstream residential lending. Buy-to-let lenders are authorised and regulated and are subject to rules and guidance published by The Prudential Regulation – in particular the Supervisory Statement (SS13/16) on *Underwriting standards for buy-to-let mortgage contracts* which was published in September 2016. We will therefore look to liaise with the UK regulatory authorities to ensure that the implementation of the EBA guidance in June 2020 aligns with the existing requirements on buy-to-let lending in the UK.

**Valuations**

Section 7 (page 52), referring to valuations, proposes that **all** valuations should be “*assessed by an independent qualified internal or external valuer*”. It is not clear whether this requirement would extend to automated valuation models (AVMs) which are commonly used in connection with re-mortgaging activity where the borrower is not purchasing a new property. Lenders’ internal practices vary but the AVM process, whilst it will not necessarily be carried out on each occasion by a qualified valuer, will be subject to oversight and approval by a qualified valuer: it would be helpful if the EBA guidance could clarify its expectations in cases where no physical inspection of the property is carried out.

**Monitoring the value of the collateral**

Para 208 (page 54) provides that “*Institutions should set out appropriate frequencies for monitoring the value of the collateral”* and then sets out some detail which is potentially quite onerous: it provides that monitoring should be more frequent where (a) a building is unfinished; (b) the LTV is “higher than that of similar properties” and (c) where the credit quality is low.

Lenders will currently routinely monitor the value of their books in order to assess their potential liabilities in the event that a loan goes into default. Whilst the circumstances outlined in the draft guidelines may be helpful to firms in deciding what may be appropriate for their mortgage books and styles of lending, it would be unnecessarily prescriptive to expect all firms to carry out detailed monitoring to this extent. We shall look to the UK’s regulators to adopt a proportionate response to this element of the guidelines.

Similarly, the provisions in para 239 (page 60) are potentially disproportionate and onerous: the draft provides that “*Institutions should* ***continuously*** *monitor and assess the quality of credit exposures* ***and financial situation of borrowers*** *to ensure that subsequent changes in credit risk, in respect of the initial recognition of the lending exposures, can be identified and quantified*.” Lenders do of course continuously monitor the performance of their loan books – and any shortfall in regular payments will be immediately responded to. Continuous monitoring and assessment of borrowers’ financial situation is less realistic, however. If the loan is performing, the lender will have no reason to enquire into the borrower’s financial situation and many borrowers might well resent any such intrusion. It is a difference matter if the borrower’s circumstances change such that they experience financial difficulties – lenders encourage borrowers in such circumstance to contact them as soon as possible to discuss what options may be available to help them through what may be a relatively short period of difficulty. There are high expectations on UK lenders to exercise forbearance in cases of financial difficulty – as evidenced by the very low arrears and possession rates.