POLISH BANK ASSOCIATION

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Warsaw, 26.09.2019

European Banking Authority

Dear Sirs,

Subject: **EBA CONSULTATION ON DRAFT GUIDELINES ON LOAN ORIGINATION AND MONITORING**

The Polish Bank Association welcomes the possibility to express its views on the EBA Draft Guidelines on loan origination and monitoring, to which we present our comments below. We understand that to ensure a stable credit market we need a consistent and functioning framework for loan origination and monitoring.

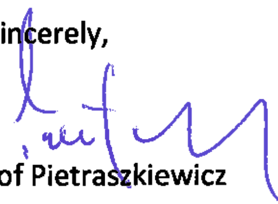
In our opinion the guidelines are of particular importance for the entire credit process in banks, therefore it is crucial to take into account the specific of large international and small local banks, taking into account to reiterate the principle of proportionality in every section of Guidelines.

For Polish banks the possibility of using simplified methods in consumer finance when granting credits for low-value loans to individuals is also an important issue and does not increase credit risk for banks. The proposed conservative regulatory approach in this area and, as the consequence the limitation of the availability of low volume consumer loans in banks, may result in the outflow of a significant number of customers to the institutions belonging to non-banking financial sector. This situation can be dangerous for potential creditors. Therefore it is important to introduce in Guidelines simplified methods for retail clients.

Also taking into account the scope of the requirements described into the guidelines the *vacation legis* should be expanded for at least 12 months. The deadline for implementing the Guidelines is too short due to the need to introduce many system changes, and partly also to implement new systems.

Please find enclosed detailed answers to questions and comments to individual guidelines. They concern specific provisions and remarks focused on the issue of proceedings after the implementation of these guidelines.

Yours sincerely,



Krzysztof Pietraszkiewicz

President

PBA RESPONSE TO EBA CONSULTATION ON DRAFT GUIDELINES ON LOAN ORIGINATION AND MONITORING

Paragraph of Guidelines	Scope	Position
What are the respondents' views on the scope of application of the draft guidelines?		
Background and rationale Structure of the guidelines		Following the entry into force, the EBA guidelines will apply to all newly granted loans and annexed loans. The requirements of sections 5 and 7 should apply to newly granted, renewed or increased financing. Compliance with most of the requirements in these sections is not possible without obtaining additional, often very detailed information from the client, or incurring additional costs (e.g. valuations) which will be very difficult to enforce in a situation where the client does not apply for granting / renewing / increasing financing. The requirements of section 6 should apply only to newly granted, revolving or increased funding - most often only in such cases it is possible to change the price conditions. The objective of the guidelines is defined as to ensure that newly originated loans are of high credit quality. However, the credit quality is the consequence of the risk appetite and the guidelines shall not restrict loan portfolio diversity and the assess to the credit for large group of clients. Prescriptive guidelines can lead to standardized loan granting which will hamper competition and have other negative consequences. One of them is the credit exclusion for higher risk borrowers, for example implementing innovation. Other is the possible increase of procyclicality by preventing risk diversification. New guidelines shall not be applicable to annexed loans where the amount of financing remains the same and other critical elements of credit contract remain unchanged. We can give the example from the Polish market. There are the entities on this market with a specific business profile limited solely to servicing the existing mortgage loan portfolio. These entities do not grant new loans, and in addition, bank does not allow such changes as joining a debt, assuming a debt or switching borrowers. As the Polish market specific the catalog of possible annexed changes to loan agreements is limited, we would like to ask EBA for the possible exclusion of certain Guidelines for such banks.
		If, in accordance with the Guidelines, the credit risk culture should be included in the procedures and regularly monitored and evaluated, then we need to request examples regarding, e.g. measures and

		indicators, methodologies and frequencies. This is rather a new topic, we want to understand it well.
		We recommend to exclude individuals conducting economic activities to limited extend and applying the simplified accounting methods from the scope of definition professional clients in the EBA Guidelines. The assessment of creditworthiness for such individuals should be more close to assessment prepared for consumers than for professional clients. These clients do not have the knowledge and data to prepare documentation for assessment of creditworthiness which bank should demand for professional clients.
Background and rationale Structure of the guidelines	Proportionality principle	**Although there are inclusion of the proportionality principle in the text of the EBA Guidelines, it is very difficult to find the practical areas where this principle is applied.** The introduction of standardized loan origination practices regardless of the type, characteristics and amount of credit is big impediment to the practical use of proportionality principle and materiality. This issue is particularly relevant in countries where the SMEs is dominant form of business activity. We also belief that guidelines should indicate how proportionality principle should be applied to individual sections or requirements stated in the document. It is not enough to include a general statement regarding the proportionality at the beginning of the guidelines. Such general statements are to generic to be of practical value to banks. We would like to ask EBA to provide specific examples on how specific requirements could be implemented proportionally. Otherwise, Guidelines are likely to be understood and implemented differently by CAs and banks which would contradict the goal of harmonization of national practices.
Background and rationale Structure of the guidelines	Notes on retail lending (MTG and CLN):	General remark – the document should clearly separate the areas associated with lending to professionals and to individuals. Furthermore, the definitions such as of a professional customer – non-retail customer should be more precise; for instance interpretation of a sole trader taking out a mortgage or consumer loan is unclear (single client could fulfill professional and retail client definition at the same time depending on a purpose of a loan and it is not clear how such a case should be approached) .
2. Do you see any significant obstacles to the implementation of the guidelines by the application date and if so, what are they?		
Background and rationale paragraph 16	Implementation – implementation day	Taking into account the scope of the requirements describe into the guidelines the vacation legis should be expanded for at least 12 months. The deadline for implementing the Guidelines is too short due to the need to introduce many system changes, and partly also to implement new systems, particularly IT infrastructure, staff training. In our opinion the proposed guidelines are not consistent with the other rules,

		local law and supervisory guidelines and there is the time needed to prepare right amendments and implement them in the banking sector. Proposed time 30 June 2020 for applying Guidelines implicates significant gap risk in compliance. Some of the requirements e.g.: a) sensitivity analysis in creditworthiness assessment – require not only implementation new principles in appropriate regulations but also will require some changes in credit risk tools which need to be tested and then implemented into the process, b) environmental factors and green lending – Guidelines formalise the practice which is already applied mainly for large exposure like project finance and which is based on verification of the local requirement associated with environmental protection. Requirements described in the guidelines are more complex and far reaching arrangements in the banking sector will be required.
		Time for implementation would not be sufficient as long as the requirements for sensitivity analyzes in paragraphs 143, 144, 145, 146 and 163 are maintained. The justification for this request have been described in detail in the answer to the question concerning section 5.2. In this area, banks will be forced to expand their analyzes significantly and the additional time is necessary in order to develop analytical teams and tools for these teams. Similarly, time necessary for implementation of the requirements included in paragraphs 166 a), 166 c (), 173 b), 173 c), 177 b), 177 c), 197, 198, 199, 203, 214 and section 7.3 (paragraphs 222 - 225) as regards appraisers / similar experts would not be also sufficient. The justification for this approach have been described in detail in the answer to the question in section 5.2 and section 7. The changes in bank practices will also mean a huge increase in costs for banks, particularly in area of ordering the appraisal reports and other analyzes for preparation by experts related to the project financed by banks. Time for implementation would not be sufficient as long as the requirements of section 7 are maintained for all real estate and movable property and not only for recognized collateral reducing capital requirements in accordance with the CRR - for reasons described in the answer to the question regarding section 7. In such a case, banks will be forced to bear the significant costs needed to handle the additional requirements.

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<tr><td></td><td></td><td>Time for implementation would not be sufficient as long as the requirements of paragraph 196, paragraph 207 b), paragraph208 b) and paragraph 208 c) are maintained. The justification for postponing the deadline for implementation have been described in the answers to the question on section 7.

<u>In the scope of retail banking:</u>

It is very likely there will be a need to amend national regulations in connection with the publication of the guidelines – e.g. Polish Banking Law (act of 29 August 1997), recommendations of Polish Financial Supervision Authority (PFSA). If so, the indicated date may be at risk, given the laboriousness of law amendment process and subsequent adjustments of banks to the guidelines. There is also a risk of a difference in interpretation of the guidelines details between the EBA, the PFSA and banks. Due to the short deadline all the institutions involved will probably start to work on the implementation simultaneously (before we know how the local standards will be adjusted) what may cause discrepancies and additional costs for banks.</td></tr>
<tr><td></td><td></td><td>The scope of guidelines is wide, but most issues are obvious and present in banks' credit process and credit risk management. However, our experience in giving opinions on the draft regulations implies the need to analyze each word in the proposed draft.

The proposed Guidelines will probably cause the necessity to change the current Recommendations of the Polish FSA. This will be a long-term and multi-group process. It is enough to compare few definitions in the S Recommendation and these entries by definition:

<u>Below entries of Polish S Recommendation:</u>

Mortgage-secured credit exposure – means related credit exposure with the financing of real estate for which collateral has been established in the form of a mortgage, or the mortgage constitutes the target (future) collateral. In the case of mortgage-secured credit exposures on real estate unrelated to real estate financing, credit exposures are considered as mortgage-secured credit exposures where:</td></tr>
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1. the original maturity is longer than three years, and
2. the mortgage is or will be the dominant collateral

Mortgage-secured credit exposure bearing a variable interest rate – means a mortgage-secured credit exposure for which the interest rate is periodically variable and depends on the change mechanism established at the time of signing the contract, in particular on the reference indicators used in the given market.

Mortgage-secured credit exposure bearing a fixed interest rate – means a mortgage-secured credit exposure where the interest rate has a fixed percentage figured out in the loan agreement and remains constant until the end of the contract.

A mortgage-secured credit exposure with a periodically fixed interest rate – means a mortgage-secured credit exposure at which the interest rate has a constant level during a certain loan period, after which it is determined for the next period in a new amount or is replaced by a variable rate. The period for which the interest rate is fixed should be a minimum of 5 years.

Commercial real estate – means a property that is not a residential property.

Commercial real estate stands out:

1. **income properties** - commercial real estate generating income generated by rent or profits from their sale, both existing and under development,
2. **other commercial real estate** - commercial real estate used directly to generate the borrower's production and service capacities, which are Section of its fixed assets, in Particular for economic purposes, i.e. industrial, production and storage, including in agriculture and forestry as well as public (in Particular : for the purposes of transport, communication, energy, health protection, social care, education, science, culture and religious worship, public administration, environmental protection, defense and security of the state, water supply).

Residential real estate – means real estate intended for residential purposes, which is or will be inhabited or intended for rent by the owner (excluding business operations), i.e. a house or a dwelling, constituting a

		separate real estate together with ancillary rooms to meet residential needs or used in accordance with their intended use for other purposes than residential (constituent Sections of the premises, i.e. rooms, even if they did not adhere to it directly or were located within the land property outside the building in which the premises were separated, in Particular: basement, attic, cell, garage), a construction plot or Section thereof, intended for the construction of a single-family house or a residential building. **Assessment of the value of collateral on real estate** – means the estimation by the bank of the amount obtainable from the sale on the market conditions of the real estate securing the given credit exposure, valid at the moment of granting the loan or at the moment of making the next valuation, based on statistical methods or on the basis of market property analysis. The assessment of the value of collateral on the real estate by the bank should not be equated with the real estate appraisal prepared by the property appraiser, due to the different purpose of these appraisal and - as a consequence - the manner (principles and procedure) of carrying them out. Real estate appraisal – means proceedings as a result of which real estate value is determined, in accordance with the Act of 21 August 1997 on real estate management And below you will find definitions from the EBA Guidelines: **Commercial Real Estate [CRE]** means any income-producing real estate, either existing or under development, including rental housing; or real estate used by the owners of the property for conducting their business, purpose or activity, either existing or under construction; that is not classified as residential real estate (RRE); and includes social housing. If a property has a mixed CRE and RRE use, it should be considered as different properties (based for example on the surface areas dedicated to each use) whenever it is feasible to make such breakdown; otherwise, the property can be classified according to its dominant use **Commercial Real Estate [CRE] loan** means a loan extended to a legal entity aimed at acquiring income-producing real estate (or set of properties defined as income-producing real estate), either existing or under development, or real estate used by the owners of the property for conducting their business, purpose or activity (or set of such properties), either existing or under construction, or secured by a CRE

		property (or set of CRE properties) **Green lending** means lending dependent on climate and/or environmental criteria for the planned use of funds. It is Section of the wider concept "Green finance", meaning any financial instrument or investment – including equity, debt, guarantee, or a risk management tool issued in exchange for the delivery of positive climate-and/or environmental effects **Income producing real estate** means all immovable properties with income generated by their rents or profits from their sale **Income producing property under development** means all property still being constructed and intended to provide, upon completion, an income to its owner in the form of rents or profits from its sale; it does not include demolition of buildings or sites being cleared for possible development in the future **Residential real estate [RRE]** means any immovable property available for dwelling purposes, either existing or under construction, acquired, built or renovated by a natural person, including buy-to-let housing. If a property has a mixed use, it should be considered as different properties (based for example on the surface areas dedicated to each use) whenever it is feasible to make such breakdown; otherwise, the property can be classified according to its dominant use **Residential real estate [RRE] loan** means a loan to a natural person secured by a residential real estate property, independent of the purpose of the loan **Shipping finance** means financing of all activities involved in building, acquisition and operation of ships and offshore installations, where the financial servicing of credit facilities is dependent on the cash flow from operating or sales of such ships or offshore installations, or where the collaterals are structured around ships or the offshore installations, shipbuilding or various charter arrangements The subject of both sets of definitions is identical but records of both documents are not comparable at all - despite the fact that they concern the same matters. Such a comparison leads to the conclusion that the provisions of the current S recommendation must be completely changed. On page 6 there is a provision that suggests that the Polish FSA will have 2 months to adapt polish system

		(the set of recommendations) to these Guidelines: ***The guidelines will be finalised following the completion of the public consultation. The guidelines will be translated into the official EU languages and published on the EBA website. The deadline for competent authorities to report whether they comply with the guidelines will be two months after the publication of the translations. The guidelines will apply from 30 June 2020.*** We believe it will not be feasible to amend local guidelines in time which will result in different guidelines regulating the same area to apply to banks at the time. It is unnecessary regulatory burden. Local CAs should be given enough time to amend their local regulatory and supervisory practices so that banks could have clarity regarding the regulatory framework. Credit risk process if of fundamental nature and it not feasible to expect bank to adjust its core business in a few months to new EBA guidelines. That is why, in response to the above question, we suggest to extend the consultation period by at least **6 months**. For this to be effective, it is necessary to establish teams under the aegis of the Polish FSA that will give opinions on individual Sections of the guidelines.
Section 4.2 Credit risk appetite, strategy and credit risk limits		
Section 4.2 paragraph 28	Backward and forward looking indicators	The approach for backward and forward looking indicators should be more specified. Description in the paragraph 28 is insufficient and it is unclear what are the EBA's expectation.
Section 4.3 paragraph 35, subparagraph h	Exception to credit policies required different approval authorities	The financial institution should have a freedom in designing of exception process (exceptions to credit policies and procedures). Alternatively, the design shall be accepted by the local supervisor. The level of authorization of the exceptions in bank should depend on the credit risk factor of particular exception or other indicators, which means that not every exception must be authorized by different approval authorities (current wording suggests that every exceptions should be subject to escalation procedures).
3. What are the respondents' views on whether the requirements set in the draft guidelines are future proof, in Particular in relation to technology enabled innovation (Section 4.3.3) and environmental factors and green lending (Section 4.3.4)?		
Section 4.3.4	Environmental	We consider the guidelines to be futureproof, but we have concerns about the deadline for implementing

	factors and green lending	the guidelines in section 4.3.4. This applies in particular to paragraph 51 and 52 of the guidelines. Guidelines are so detailed and comprehensive that they will keep their relevance for a long time, all the more so because many requirements (including those indicated in sections 4.3.2 and 4.3.3) go far beyond the current market standards and - if maintained - will constitute a huge implementation challenge for banks and bank customers.
		Institution should define the terms, when and to what extent, the assessment of the environmental factors as well as the risks and opportunities related to ESG are obligatory. The green lending policies and procedures covering granting and monitoring facilities should be set up only when institution originates or plans to originate green lending facilities (current wording suggests that ESG part of the guidelines are fully mandatory for all the banks).
4. What are the respondents' views on the requirements for credit risk policies and procedures (Section 4.3)?		
Section 4.3		In every paragraph from 31 to 35 are mentioned both policies and procedures. Please confirm that the policies set the framework, directions and main objectives while the procedures specify the details and manner of operation. We suggest separating expectations from policies and procedures. Regarding section 4.3.2, please confirm that the bank can define leveraged transactions on their own (there is no definition provided in the Guidelines). There are very detailed criteria for the origination of products (Annex No. 1) and also specific criteria for CRE and ship financing. What is the justification for setting such detailed criteria for these types of financing only? These are very specific exposures classes and it seems strange to go into such details only with regards to these exposures. In addition, in the case of small financing and / or small entities and / or entities operating in industries free of risks related to ESG factors, banks will not be able to obtain input information from clients to analyze these risks. In the case of a small amount of funding, the entity will not be willing to provide such detailed information. And in the case of small entities and / or those not affected by ESG factors (e.g. hairdresser, speech therapy clinic, dental office), it will not be possible to obtain batch information because such entities will not have carried out ESG factor analyzes in their activities, assessed opportunities and threats in this respect, or prepared strategies for limiting these risks.

		The introduction of the above mentioned limitations in the application of these requirements is particularly necessary due to the fact that banks will not be able to apply the principle of proportionality due to the size, nature and complexity of financing. In accordance with paragraph 14 for this section, the principle of proportionality can only be applied to the characteristics of the institution (its size and internal organization, as well as the nature, scale and complexity of its activities).
Section 4.3 Paragraph 35.b	Credit risk policies and procedures	The financial institutions should have an autonomy in defining credit risk policies and procedures depending on the credit risk and other clients' characteristics. Specifically they should have the possibility to indicate varied set of information for the credit risk assessment. It's counterproductive to indicate business plan and financial projections as obligatory elements in all credit processes (Annex 1 Credit granting criteria). Such extensive requirements would significantly limit bank financing to SME as these entities (smaller ones) could often be unable to provide such information.
Independence in credit decision making paragraph 63, subparagraph b	Professional relationship with the borrower	The scope included in the subparagraph should be explained and clarified: a) how is the 'personal' or 'professional relationship' defined? Does it mean that all front office employees cannot be involved in a credit decisions (they would have a professional relationship with a client by a virtue of being bank employees)? It could be interpreted as a requirement to implement 1.5 line of defense (employees on the first line that do not deal with clients). b) how should 'political interest' be assessed? Is a declaration of a employee that there is no conflict of interests enough to fulfill this requirement?
5. What are the respondents' views on the requirements for governance for credit granting and monitoring (Section 4)?		
Paragraph 59		Detailed determination of the scope and validity of decision-making competences will introduce excessive bureaucratization in the granting and extension of decision-making powers and would limit access to funding, in particular for the SME. It is the delegating authority that should decide on the scope, detail and possible term of validity of the powers in order to do so in the most optimal way for the institution concerned (paragraph 59). Regarding section 4.4 - in our opinion these are too detailed rules for granting authorizations to decision-making bodies for making credit decisions, e.g. by geographical regions, economic sector, as well as rules defining the limit of the number of decisions. These rules may work for few global banks but not for smaller entities. We suggest the following rewording of paragraph 59: ***"59. The credit-decision making framework should clearly articulate decision-making powers and limitations of each committee or delegated credit decision-making bodies. These powers and limitations***

		should account for the asset class, product type, type and quality of the borrower, ~~geographic location of the borrower, economic sector and industry,~~ and credit limits/maximum exposures. ~~For the purposes of delegated credit decision-making bodies, institutions should set limits on the time period for the delegated powers and the number of delegated approvals"~~ Such details should not be included in the Guidelines, because it narrows banks independency down. Reference to credit limit/ total exposure should be enough as minimum requirement. Other conditions might be added by banks in accordance of the internal credit policy and credit competence.
Section 4.4.2 Paragraph 65 – 66	Exceptions and escalation procedures	There is no necessity to upgrade the exceptions' policy in the CF credit process, which is automatic in its main part (95% of decision making process is run automatically). Escalation to the higher decision level every single exception makes the procedure unnecessarily advanced and too complicated. Bank should have space in defining escalation policy, depending from value of the exception as well as quality of credit portfolio, securing at the same time the proportionality and proper diligence. The financial institutions should have autonomy in defining the approval processes and procedures related to exceptions handling. The circumstances and conditions under which the given credit decision needs to be transferred to the higher decision-making level can (and should) differ among institutions.
6. What are the respondent's views on how the guidelines capture the role of the risk management function in credit granting process?		
Credit risk management and internal control frameworks paragraph 75	The lines of defense	The three lines of defense model is very extensive, especially as a result of internal control being an independent line. In our opinion, for small banks it may be inefficient to use independent "three lines of defense" model. Maybe in such cases it would be possible to combine 2 and 3 lines (paragraph 75). If so, it should be indicated in the Guidelines.
Credit risk management and internal control frameworks	Independent/second opinion to credithworthiness assesment and credit risk analysis	Please explain how should we understand the phrase "Independent/second opinion". If it means that every credit risk analysis requires second and independent opinion then in that case we would like to paragraph out that there is no rationale to implement one more opinion to the credit application process, especially for the low-risk, low-volume cases. There are low risk processes where the manual credit analyst is not required (automated decision is made) or the role of the analyst in a credit

paragraph 76, subparagraph g		process is limited because of algorithms for creditworthiness assessment (developed by credit risk division) implemented into process.
Credit risk management and internal control frameworks paragraph 76, subparagraph k	Stress test	Please define what kind of indicators should be taken into account performing stress test and what should be the frequency of such analysis. The Guidelines do not give complete answer to the question if all credit portfolio or cross-section should be under analysis?
7. What are the respondents' views on the requirements for collection of information and documentation for the purposes of creditworthiness assessment (Section 5.1)?		
		Requirement for collecting information and documentation for the purposes of assessing creditworthiness should be part of credit risk policy and depend on the complexity, size, and credit risk connected with potential exposure. The requirements for collecting information and documentation for the purposes of assessing creditworthiness should depend on the type of credit product and credit amount. In the case of small exposures, e.g. credit cards, there is no justification for collecting such information as business plans, financial projections. In similar way, in the case of short-term working capital loans it should also not be necessary to obtain financial projections from customers (paragraph 93). The application of the proportionality principle should be indicated in this section as described in the paragraph referring to Proportionality Principle above in this document.
		In paragraph 89 the guidelines require to collect the necessary information on the related connected clients. We recommend to replace the term "on all related connected clients" with the term "on all relevant connected clients". Information to be gathered for all connected clients is considered not to be feasible due to information overload and time-consuming process. This process should be done for the most important

		connected clients only. This approach is a good balance between costs and effectiveness.
		Non-retail: The scope of data for the assessment of creditworthiness presented in guidelines differs from actual banking practice. In Annex No. 2 there is the financing of CRE and ships as two types of financing which are specified. What is the justification for distinguishing in such a details these two types of financing option only? Retail: In the scope of consumer lending: Our doubts are raised by: a. Not mentioning the possibility to grant low volume credits based only on customer's income statement (without verification through documents). b. Not covering possibility of statistical verification of income in the guidelines. c. Lack of notice of the importance of credibility verification (statistical models) in assessing the customer's creditworthiness. The EBA Guidelines require verification and confirmation of income (mainly through gaining access to financial documents) regardless of the loan amount and the length of the applicant's relationship with the bank. Using the current level of analytical capabilities, banks are able to assess, without a threat to their stability, the credit risk of customers based on the history of cooperation including other data, not verified income. In our opinion, a proposed conservative regulatory approach in this area and as the consequence the limitation of the availability of low volume consumer loans in banks, may result in the outflow of a significant number of customers to the institutions belonging to non-banking financial sector. This situation

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<td>can be dangerous for potential creditors.

The categories of data listed in paragraphs 91 and 92 and annex 2 that should be taken into account in assessing creditworthiness are quite detailed. In our opinion, it is worth leaving banks more freedom in shaping their information requirements. A large Section of the data mentioned in Guidelines is impossible or very difficult to obtain / verify automatically (e.g. "evidence from life insurance"). As a consequence, this can give an opportunity for customers to manipulate the assessment of creditworthiness. Many registers allowing verification of this data are not digitilized or due to the protection of personal data, it is difficult to automatically verify customer declarations in them, which may lead to excessive complexity and duration of the credit granting process.

Instead of traditional financial information, banks and fintechs are increasingly using data on customer behavior, the device used for online banking or relationships with other clients (financial, personal, and even geographic).

Focusing banks' attention on traditional data may be the reason for regulatory arbitrage - fintech not covered by this regulation will intercept customers from the banking sector thanks to simpler processes and automated data collection.

<u>In the scope of non-consumer lending:</u>

In our opinion, the authors of the regulations focused on large corporations (annex no. 3) and adjusted the guidelines to them. It should be noted that the vast majority of entities on the Polish market are the enterprises from SME segment and so-called "self-employment" segment. In those cases, both the scale of operations and the scope of maintained documentation are much more limited than in corporations. We are also surprised why the guidelines describe some crediting subsegments (e.g. shipping finance) so precisely and in detail, whereas referring to other (more common) methods of financing in a more general way.

The catalog of indicators described in the guidelines is very broad and the content of the document indicates that they should all be used regardless of the purpose of financing or the size and scale of operations. Therefore, we suggest limiting their number and indicating that they are not mandatory in all</td>
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		cases. In the segment of microenterprises, creditworthiness assessment largely depends on the form of settlements with the tax office. The vast majority of entrepreneurs use simplified forms of accounting records, such as a tax card, a recorded lump sum or a used simplified accounts sheet including main categories of revenues and expenses. Moreover, there is a large share of self-employed individuals on the Polish market which have the form of business activity very similar to an employment contract. Such companies have one contractor, to whom it provides 100% of its services. For them, the basic documents are revenue and cost records or tax declarations. They do not submit documents such as the balance sheet or profit and loss statement. The scope of verified documents suggested in guidelines should be adjusted to scale of company's activity, documents which the entrepreneurs are able to provide and type of financing it applies for. The category "professionals" is therefore, in our opinion, too extensive (defined as non-consumer) and should be more specific for different types of clients. There is no information in Guideline concerning the possibility of granting financing to entrepreneurs after the assessment of their credibility, which does not rely on financial documents or documents related to business operations (e.g. evidence of tax status). On the Polish market, there is the possibility to grant working capital loans for companies that are very well known customers of the bank (and creditworthiness assessment is based on a good bank-customer relationship). In similar way as in the case of consumer lending, banks should also be able to have more freedom in creation of information requirements for their potential clients. The implementation of new requirements including presentation of complete financial documentation will make the credit process longer and makes it more complex which may adversely affect the banking sector and drive down the long term profitability. We scare the outflow of good customers to the non-banking sector, which will not be covered by this regulation and will use simple automated customer assessment rules.
Section 5.1 Paragraph 83 Paragraph 88	Data verification - retail lending	New guidelines, specifying data verification, make the credit process more complicated. This will materially reduce sale in on-line channels as well. This will also affect digitalization process badly, which is not in the line with customers' expectation - not only in the banking sector, but also in other types of businesses. Another painful and very likely result may materialize within customers who will grow the cooperation with the loan companies, which stay out from the banking supervision (like: consumer finance company, fin-

Paragraph 91 and Annex 2		tech). Additionally new recommendations significantly challenge nowadays rules of simplified credit process (where customer income is a statement data in low value loans). This simplified method (creditworthiness assessment based on scoring and declaration of income) should be available for low credit loans for individuals or this part of the market would be taken over by non-bank, unregulated, entities.
		In paragraph 83-88 it is stated that information gathered should be verified. However, it is not clear how this shall be performed given the concern on verification of information, including the verdict of the Court of Justice.
Section 5.1.1 Paragraph 89	Collection of information in Customer Finance credit process	The scope of data which are defined for creditworthiness assessment is not in the line with Customer Finance credit process, which should be short and simple. Following the recommendations, which paragraph specified analysis of all associated customer's unit as a Section of the process, does not provide risk mitigation. A detailed analysis of related entities to the borrower (e.g. within one company) is not justified in consumer finance process (due to level of complication and costs). Bank should be able to use an attitude relevant to credit risk profile chosen by the bank.
Section 5.1.2 Paragraphs 93-95	Collection of information and documentation	The financial institutions should have autonomy in defining credit risk policies and procedures depending on the credit risk and clients' characteristics. Specifically, banks should have the possibility to indicate varied set of information for the credit risk assessment. In our opinion it's counterproductive to indicate business plan and financial projections as obligatory in all credit processes (Annex 1 Credit granting criteria) as many entities (SMEs in particular) will not be able to provide such information.
Paragraph 93		In the case of provisions in paragraph 93 regarding financial projections and business plans should be relaxed. In the event that the client's ability to pay back financing is assessed on the basis of the current financial situation (and this is the majority of transactions), no financial projections or business plans are required by the banks. Banks require financial projections or business plans mainly for investment financing and for long-term financing. That is why in paragraph 93 e) and in paragraph 93 f) "where applicable" should be added. This relaxation is particularly important because in the Guidelines several times (paragraphs 125, 127, 132a) there is a reference to the examination of future flows. Despite the principle of proportionality, it may be difficult for banks to defend compliance with these requirements only in certain types of transactions against regulatory scrutiny.

8. What are the respondents' views on the requirements for assessment of borrower's creditworthiness (Section 5.2)?		
		The requirements in this section are very reasonable, e.g. in relation to significant exposures, investment loans. However, in the case of small exposures with a short time horizon, they should not be obligatory. We propose to change the requirement from presented to recommend below text: We propose to remove the "should"at least" catch and apply the principle of proportionality, depending on the type of credit product and its amount. (e.g. in paragraph 127): **"For the purpose of the analysis of the financial position within the creditworthiness assessment as specified above, institutions may ~~should~~ consider ~~at least~~ the following"**
		<u>Lending to Professionals:</u> 1) In paragraph 125 has been indicated that it is necessary to analyze future revenues and future flows. However, in practice, in most cases, the client's ability to pay back financing is estimated based on current results as described in the answer to the question in section 5.1. Because the main idea presented in paragraph 125 is not to assess ability to pay based on collateral, we suggest deleting two words "future" appearing at this paragraph ("future income" and "future cash flow") and leaving the requirement to examine the ability based on income and cash flow, with restriction that analysis is based on cash flow, when cash flow is applicable. According to the Polish legal surrounding (e.g. accountancy act) not every entity is obligate to prepare cash-flow statement. 2) In paragraph 125 was indicated that collateral can not be a justification for financing under no circumstances. In practice, Polish banks use an exception to this general rule, because funding can be granted under the so-called liquid or guaranteed collateral. An example of such collateral is a deposit, the ownership of which is temporarily transferred by the client to the bank in the amount ensuring repayment of whole financing together with a mark-up on interest lasting several months. An exception in this regard should be included in the Guidelines.

		3) In paragraph 127 was indicated that the assessment should be based on financial projections. However, in practice, in most cases, the client's ability to pay back financing is estimated based on current results as described in the answer to the question about section 5.1. Therefore, we suggest adding "and projected where applicable". 4) In paragraph 129 it should be clarified that in the case of financing a cross-border operation (e.g. when crediting the acquisition of an entity abroad), financing should be excluded from these guidelines, provided that there is recourse and the assessment of the creditworthiness (of the Polish borrower) was made without taking into account inflows from foreign funds. In addition, the assessment should apply to large unit financing / projects from the paragraph of view of the client's scale and not to imports / exports under normal trade exchange. Trade in small, repeatable commercial transactions should be excluded. 5) Requirements from paragraph 130 should be limited to large customers and significant size transactions as well as to activities with significant risks arising from ESG factors, as described in detail in the reply to the question on section 4.3. Therefore, we suggest adding the sentence "Where applicable, institutions ..." at the beginning. 6) Requirements described in paragraph 131 should be changed. Banks generally do not prepare their own financial forecasts concerning the client financial situation, but rather verify the reality and correctness of assumptions for the forecasts prepared by the client. That is why we propose a different provision of the second sentence in paragraph 131: "Institutions should verify the projections provided by the borrowers." Or alternatively "Institutions should challenge the projections provided by the borrowers." However, the provision indicating the need to verify the forecasts provided by the customer is already in paragraph 142, so we also propose to consider completely resigning from the second sentence in paragraph 131. 7) In paragraph 132 a) it was indicated that the assessment should be based on financial projections. However, in practice, in most cases, the client's ability to pay back financing is estimated based on current results as described in the answer to the question about section 5.1. Therefore, we suggest adding "and projected financial position where applicable".

		8) Regarding the section "Specificities for assessment of the financial position of SMEs" including paragraph 138 - 141: Does this section impose additional requirements to the "Analysis of the borrower's financial position" section or replace those requirements? This part is not clear, so it should be clarified. 9) Paragraph 140 should be deleted or limited to the first sentence only. Conducting such extensive analysis of transactions on accounts and comparing them with financial documents as indicated would be very expensive for banks. Additionally, in many cases it would not give reliable results, because the client may have current accounts in several banks. Some elements indicated in this paragraph cannot be monitored in this way, e.g. from information on bills we are not able to read information concerning arrears. It is true that in paragraph 140 there is a provision that these activities should be carried out as far as possible and significant, nevertheless, the obligations in this respect have been mentioned in this paragraph and banks will have to explain in every situation why they do not perform them. In practice, banks usually use the so-called turnover covenants, obliging the client to carry out a certain level of turnover through the bank's current account and monitor the fulfillment of the turnover covenant. However, this is not always a commitment to monitor 100% turnover. In respect of other information, banks rely on financial documents provided by the client and their statements. 10) Paragraph 141 should be deleted. Due to maintaining adequate data reliability, banks should rely on financial documentation which the client maintains for the purposes of tax settlements (even if it is simplified) and not on financial documentation prepared solely for the needs of the bank. The bank does not prepare pro forma reports for the client nor does it ask for such reports. If the simplified tax documentation does not allow to assess certain key elements used for risk assessment purpose, the bank asks the client to prepare representations regarding these elements, e.g. information regarding the structure of receivables and liabilities. 11) In practice, in most cases, the client's ability to pay back financing is estimated based on current results as described in the answer to the question in section 5.1. In this case, banks do not perform sensitivity analyzes on current results. Banks analyze risk factors related to a given client and financing and take them into account when granting financing.

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<td>Therefore:
a) Paragraph 143 should be read as follows: "Institutions should assess the sustainability and feasibility of the borrower's financial position and repayment capacity. Institutions should consider the risks that may negatively affect borrower's financial position and repayment capacity. "

b) Paragraph 144 should be read as follows: "Institution should consider all general and asset class and product type -specific aspects that may have an impact on the creditworthiness of the borrower. Analysis should be proportionate given the purposes, size, complexity, term and potential risk associated with the loan. "
c) Paragraphs 145 and 146 should be deleted.

12) Paragraph 150 should be also deleted. The bank is not able to identify such dependencies or limit the risk associated with them through contractual provisions.

13) In the case of paragraph 153 we would like to stress that it is usually not possible to assess covenants, the negative pledge clause or the debt service agreement in other banks because the bank has no knowledge on this subject. There is no banking practice in obtaining such detailed information about contractual provisions that the client has entered into with other banks, excluding the most complex structured transactions. In our opinion, obtaining such information from customers is not realistic.

14) In banking practice, the syndicate's agents are mainly recognized banks. Due to the fact that they are publicly traded entities, audited and supervised by the FSA(CA), there is no justification for requiring due diligence in their case. That is why we suggest that paragraph 156 should have the following content: "Where in the syndicated lending or project finance transactions, the payment streams pass through the agent or another designated entity, institutions should perform a due diligence of the agent or the designated entity (excluding banks). For cross-border lending and project finance transactions, the agent or the designated entity should be the sole issuer of any guarantees, letters of credit or similar documents issued on behalf of the supplier in the transaction. "

15) In the scope of section 5.2.6 "Commercial real estate lending": It should be clarified that this section</td>
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applies only to financing income generating commercial real estate and not to the commercial real estate when it is only securing a transaction, e.g. a revolving one. The definition of "CRE loan" in the Guidelines also includes working capital financing secured by CRE property and is not limited to financing commercial income properties. On the other hand, the provisions in this section should apply only to financing commercial income properties (e.g. it is not possible to examine the cash flow generated by the property constituting only collateral for the loan when the ability to repay the financing is examined based on the client's business activity not related to obtaining income from this property).

16) Paragraph 163 should be deleted. Sensitivity analyzes made on financial forecasts for investment financing are based on the application of an assumed decrease in revenues and / or an increase in costs, including financing costs. Assumed decreases / increases are determined under certain assumptions as to interest rates, exchange rates, prices, but are usually not directly related to the events listed in paragraphs 145, 146 and 163.

17) It is not possible to assess persons listed in paragraph 166 b) due to the fact that the bank does not have their detailed data. All persons named there must be authorized to perform their profession. We would also like to draw your attention to the fact that introducing the requirement to collect such data would expose banks to the need to comply with personal data protection requirements(GPSR). And even if the bank had such data, collecting information about the qualifications / reputation of these people would usually be impossible - after all, they would not normally be publicly known enough to be verified on the basis of publicly available information. Therefore, the provisions of paragraph 166 b) should be limited to contractors only.

<u>Non-retail:</u>

Regarding paragraphs 135, 140, 145 and 146 - in our opinion there are too detailed rules for assessment of borrower's creditworthiness. We suggest the following rewording of these paragraphs:

"135. Institutions, where relevant, may consider using the following financial metrics for the purposes of the creditworthiness assessment, and, where relevant, assess them against the metrics and limits as set

		out in their credit risk appetite, credit risk policies, and limits in accordance with Sections 4.2 and 4.3: debt service coverage ratio; EBITDA (earnings before interest, taxes, depreciation, amortisation); interest coverage ratio; loan to value ratio (for secured lending); debt to equity ratio or leverage ratio; loan to cost ratio; return on equity; capitalisation rate (net operating income/market value)." "140. Institutions should assess the turnover of the borrower through the current account, if available. In order to investigate the patterned turnover of the borrower, institutions should, where possible and relevant, for example: a. compare the level of turnover in the current account to the turnover of the financial statements taking into account VAT considerations b. compare the level of relevant cash outgoings in the account compared to the financial documentation provided; c. perform an assessment of the level of unpaid and/or fluctuations into arrears; and d. assess the seasonality of the business activity and verify any other cash activity of the business within the current account performance history" "145 Institutions may consider taking into account, for example, the following peculiar events:

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a. a severe decline in borrower's revenues or profit margins;
b. a severe operational loss event;
c. occurrence of severe management problems;
d. the failures of significant trading partners, customers or suppliers;
e. a significant reputational damage;
f. a severe outflow of liquidity, changes in funding or increase in borrower's balance sheet leverage;
g. adverse movements in the price of assets to which the borrower is predominantly exposed (e.g. as raw material or end product) and FX risk"
"146 Institutions may consider taking into account for example, the following market events:
a. a macroeconomic downturn;
b. a downturn in the economic sectors, where the borrower and its clients are operating;
c. a significant change in political, regulatory and geographical risk;
d. increase in cost of funding, e.g. increase in the interest rate by 200 basis paragraphs on all credit facilities of the borrower.
<u>Retail:</u>
<u>In the scope of consumer lending:</u>

The omission of the element of credibility assessment (scoring models) as a way of assessing the creditworthiness of customers with a well-established history of cooperation with the bank and in the case of low-volume loans is unclear and will be a huge drawback for banks and clients.
The necessity to conduct sensitivity analyzes (paragraphs 101 and 121) is unclear. The scope of such analyzes (factors that should be taken into account) as well as whether they are intended to "raise awareness" of possible risks to the client or limit the available loan amount is not specified.
The need to take into account the reduction of income at retirement when determining creditworthiness for consumer credit is far more strict than the currently existing regulations on the Polish market.

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		<u>In the scope of non-consumer lending:</u> 1. For micro-enterprises, the analysis of "leverage level, dividend distribution, retained earnings" has no economic justification, as these indicators relate to large corporations. Similarly as with the indicators listed in paragraph 135, they do not apply to small companies. 2. The indicators listed in annex 3 apply to large enterprises and should not apply to retail segment customers. 3. The volatility of base rates indicated in paragraph 146 d should be left for the individual assessment of each bank dependent on the customer segment.
Section 5.2.1 Paragraph 99	Metrics for credit granting and monitoring	1. Broadening the number of risk indicators (such as: loan to income, loan service to income ratio) used in credit capability assessment is not supported with material justification. All of these stated indicators are based, more or less, on the same data sources which provide the same information value. Bank should be given more independence in defining risk indicators. Having flexibility allows bank to achieve better adequacy in this area, consistent with portfolio risk characteristics. 2. EBA lists 4 indicators to be defined by a bank. More precise explanation is needed on how they should be calculated and which is their content.
Section 5.2.1 Paragraph 106		Bank is required to monitor income and creditworthiness during the loan term – this would be very difficult and expensive to fulfil this requirement for the retail portfolio, for instance due to the lack of publicly available databases on income. It is not practical to require consumers to provide documentation regarding income during the lifetime of a loan (and consumers are likely to refuse and there is not much the bank could do to force the consumer).
Section 5.2.4 Paragraph 119	Mitigating risk of customers approaching retirement	In the actual strategy banks mitigate the risk generated by customers approaching retirement. The mitigating approach concentrates mostly on shortening loan maturity (in proportion to customer age). The risk level in this field is continuously covered by the through monitoring process. All individual elements of credit policy should, in general, stay in the line with the specific customer risk portfolio. The management in this area should stay under control of the banks.
Section 5.2.4	Sensivity analysis	The process of verification and continuous risk parameters update should result from, at least, following

Paragraph 121	/negative scenarios	factors: type of credit activity, customer portfolio, macroeconomic conditions and political situation in which bank operates. The individual attitude in this field is highly expected. Multiplying negative scenario analysis (that may cause delinquency repayment) for instance: decrease of customer income, tax increase will make the credit capacity calculation far too complicated which, in the same time, does not improve the credit process, in general.
Section 5.2.5 Paragraph 125-129, 132	Credithworthiness assessment	Institutions should have autonomy in defining how the credit assessment is structured. The credit risk policies and procedures should differ depending on the credit risk and other client or transactions' characteristics. It should be noticed that not every professional is required by the accounting or legal law to prepare cash flow statement, what makes impossible to include them always in the creditworthiness assessment (financial institutions do not always require the business plan or financial forecast from professionals). We woul like to ask for explanation how the terms in paragraph 131 should be understood: 'The institution should make its own assessment of the borrower's financial situation and use it to challenge the projection of the finger provided by the borrower', e.g. a) the borrowers prepare and submit to the financial institution their own financial forecast (if required by law to draft cash flow statement) and such forecast is verified by the bank or, b) the bank is obliged to prepare its own projection regardless of clients obligations (client is not required by law to prepare cash flow statement so the bank would draft its own cash flow statement and projections for the client), c) the financial projection must include a statement of financial position along with the income statement and cash flows and changes in equity (when the doc is required by law) but then what numbers should be taken into account in the stress test?
Section 5.2.5 Paragraph 130	Climate-related and environment risk	According to paragraph 130 institution should asses **„the exposure to climate-related and environmental risk and other ESG risk"** – according to banks opinion, this estimatation should not be made for all types of loans to professionals. It will generate only additional costs and will be time consuming without the added value for banks.
Section 5.2.5	Cash conversion	The cash conversion cycle should not be the only one type of approach to assess working capital needs and

Analysis of the borrower's financial position Paragraph 134	cycle	to establish recurring cost and asses the on-going capacity to repay credit facilities over time. It must be noticed that – especially – in the low amount processes or automated processes the average monthly cash revenue can be the indicator of capacity to repay credit facilities, granted to increase liquidity ratios.
Section 5.2.5 Analysis of the borrower's financial position Paragraph 135	LtV ratio	In paragraph 135 paragraph d, the LtV ratio is mentioned (typically understood as ratio of loan value to real estate value). Institutional entities often implement projects in which the value of the property is lower than the value of the technological devices supplied. In this case, the use of standard limits on LtV is irrational due to the fact that the main collateral for the loan is movable property. Therefore, the definition of LtV should be provided and clarified: LtV is the loan value to the loan collateral value (or it should be understood that LtV is a measure for exposures secured exclusively by real estate).
9. What are the respondents' views on the scope of the asset classes and products covered in loan origination procedures (Section 5)?		
		<u>Non-retail:</u> The definition of the CRE should exclude real estate used by the owners for conducting their business (or guidelines should not apply to them), because these real estates are not related to specific risks associated with the business of construction/purchase of real estate for sale or rent. What is the justification for distinguishing shipping finance? <u>Retail:</u> The procedures mentioned in section 5 are not clearly divided between the corporate area and lending to natural persons, hence some rules related to the category of "professionals" cannot be fulfilled in the case of "consumer" customers. The same problem applies to differences between SMEs and large enterprises. The data catalog should be clearly divided between the type of customer, together with clarification how should be understood the meaning of the indicated segment, products and guidelines for verification. The guidelines enforce the need to verify and confirm the borrower's income, without taking into account the possibility of assessing and granting a loan based on customer credibility, turnover on the company account, relation with the bank or on the basis of the currently applicable principles. All these indications

		relate to customer verification, his income and ability to handle the product in the future. It should take place on a very wide range of information and documentation - regardless of the product requested. Banks, due to the lack of data digitalization, will not be able to contact the relevant institutions directly. This means obliging the customer to provide them in traditional (paper) form. As a consequence, the verification and decision-making process will be less client friendly and much more extended in duration. The indicated categories of data taken into account in the assessment of creditworthiness are redundant, very detailed and in some cases impossible to collect. Most entrepreneurs use simplified forms of accounting records (as permitted by the law), so not every company will have the full scope of information and documentation specified in the guidelines.
paragraph 156		The decision to carry out due diligence analysis of the agent or designated entity through which the streams of payments under syndicated loans or investment financing transactions pass, should belong to the bank. It happens that the bank already cooperates with the same entity once again, or has a list of reputable entities accepted by the bank and it is not necessary to carry out such an analysis (paragraph 156).
10. What are the respondents' views on the requirements for loan pricing (Section 6)?		
Section 6	Pricing policy	Bank should be independent in creating pricing policy, responding to credit process character. Guidelines in this area are far too detailed and specified, especially for wholesale processes.
11. What are the respondents' views on the requirements for valuation of immovable and movable property collateral (Section 7)?		
		1. The requirements apply to every real estate and movable property, which is in our opinion a too strict approach. The requirements described in section 7 should only be applied to recognized collateral that reduces capital requirements in accordance with the CRR, which should be included in the Guidelines in the whole of section 7. 2. In banks, collateral is often accepted by the so-called Comfort factor and in this case do not serve as recognized collateral reducing the capital requirements in accordance with CRR. CRR requirements do not apply to them. In our opinion, there is no justification for applying the requirements described in section 7 to this type of security. 3. In the process of determining and monitoring the value of real estate, referring to the records: -- Chapter 7 ("Valuation of immovable and movable property"),

		-- and the final part - "Accompanying documents" in the scope of "Valuation of immovable property collateral": We propose the introduction of the possibility for banks to use advanced statistical models (without having to obtain an appraiser's valuation) to determine the value of real estate, also at the moment when the credit is granted: -- for residential real estates for which sufficient information on transaction prices is available for comparable real estate (including location and finishing standard), -- and up to a specific quota threshold. In the banks' opinion, it is justified by level of the development in statistical methods and market information databases. For residential properties in large cities, transaction price data for comparable properties are the most appropriate basis for determining the value of the property. External valuation reports (movables and real estate) should be verified and accepted by the bank.
Section 7.1.	Valuation of collateral	In area of Valuation of collateral we have following questions and it should be clarified: a) whether the above mentioned rules apply only in the moment of granting the loan, or also to the change requested during the term of the loan agreement, e.g. exchange of collateral, b) what should be understood as the independence of an external or internal appraiser (paragraph 194) and how should they be interpreted,
Paragraph 191		We recommend clarifying the phrase "hedge valuation" by specifying whether it is a document prepared by an external appraiser, or is it an assessment of the value of the collateral prepared by an internal appraiser based on available market data, information about real estate, or maybe both.
Section 7.1 Paragraph 194	Real estate evaluation	Guidelines restrict significantly applying statistic models of real estate evaluation. This will affect negatively the mortgage credit process optimization, including essentially its digitalization. Bank should be allowed to use statistic models, as the only manner of real estate evaluation, especially in customer segments, where this kind of tool works effectively and provide representative and reliable outcomes.

		Regarding paragraphs 194 and 222 – we have the following questions: What is the minimum educational level for valuer? How exactly valuers should demonstrate this ability?
Section 7.1 Paragraph. 194	At the paragraph of origination institutions should ensure that the value of all immovable property collateral irrespective whether it is pledged against the loans to consumers or professionals is assessed by an independent qualified internal or external valuer	This requirement does not allow to assess the value of immovable properties from primary market on the basis of agreement concluded by the client with developer/cooperative company or on the basis of banks own appraisal for chosen immovable properties form secondary market. Institutions should have autonomy in defining the source of data and tools used to assess the value of immovable properties.
Paragraph 196		We recommend clarifying how much it is / what means "significant deterioration in the repayment capacity of the borrower" - in the banks' opinion, the record should indicate the need to monitor the value when the loan is transferred to restructuring units.
Sections 7.1 Paragraph 197 , 198, 203, 214 and section 7.3 (paragraphs 222		Paragraphs 197, 198, 203, 214 and section 7.3 (paragraphs 222 - 225) should be deleted for reasons which are described in details below: In Poland, usually the costs of appraisal reports and other analyzes carried out by experts related to the financed project are covered by the clients. This practice is used, among others, because the client wants to have a report / analysis for its own purpose. He/ she usually applies for funding in several banks in order to get the most advantageous financing conditions and it is in his/her interest to have the access to the report.

- 225)		The disadvantage of this approach is that client paying for reports he/she wants to be free to choose the appraiser / expert provided that he / she has the appropriate qualifications (e.g. in the case of property appraisers, the Minister of Investment and Development gives the qualifications). Creating lists of accepted appraisers / experts is negatively perceived by clients, appraisers / experts as well as market supervisors. Such limitations would be considered anticompetitive practices by the authorities and courts (bank cannot reject the valuation brought by the client if the valuation was conducted by the licensed valuer). There were court cases brought by appraisers in the situation when bank refused to accept an appraisal prepared by an appraiser from outside the accepted list due to restrictions on the freedom to conduct business despite having the relevant permissions. That is why the practice has gone in the direction in order not to limit the list of accepted appraisers / experts, whereas appraisal reports are analyzed in banks by specialized employees on the basis of data obtained from the real estate market. The Polish FSA issued Recommendation J, which regulates the requirements for verifying the value of real estate. In the situation that due to the requirements included in the Guidelines it would be necessary to change the practice and the bank will order appraisal reports and other analyzes carried out by experts related to the financed undertaking, this would mean a huge increase in costs for banks. Our experience indicates that in this case it is very difficult to transfer costs of analyzes to the client because the client does not want to pay for the appraisal / analysis which are owned by the client and he/she cannot used them in other banks.
Section 7.1 Paragraphs: 196, 207 b), 208 b) and 208 c)		Paragraph 196, paragraph 207 b), paragraph 208 b) and paragraph 208 c) should be deleted. The CRR sets out requirements for monitoring the value of real estate in the case when recognized collateral reduces the capital requirements. Among these requirements there are no related to the deterioration of the client's situation, LtV level or transaction value. The indicated paragraph imposes additional obligations on banks in this respect, which requires from banks to bear additional costs that these costs will not be possible to carry on to the client.
Section 7.1 Paragraph 198	Institutions should ensure that external experts have adequate and valid professional liability insurance	In Poland this requirement for experts is regulated by local law. Does it imply that banks are required to additionally verify such insurance? It should be added to the Guidelines that, when it is regulated by local law banks don't have to verify insurance. There are doubts as to whether the bank is able to verify the appropriateness and validity of expert

		insurance, in particular when it is a valuation submitted by the client.
Section 7.1 Paragraph 199	Valuation is to be performed by the bank (internal valuation) or commissioned by the institution (external valuation).	In our circumstances it is interesting to know how does this requirement relates to the existing law in Poland and guidelines issued by the local Office of Competition and Consumer Protection, whereby valuations (appraisals) commissioned by the client may also be admitted (banks cannot reject the valuation brought by the client if the valuation was conducted by the licensed valuer – such practice is considered anticompetitive by authorities as banks cannot give preferences to internal valuations)? In the case of a valuation verification carried out by the bank, it should be possible to accept valuations prepared on the client's request. Customers applying for credit in several institutions have already prepared a quote. The implementation of obligation to have individual real estate valuation by each bank to which the customer applies will result in necessity to assess the value of the same property many times, each time in every bank. This will result in an unnecessary increase of costs and a waste of resources, what is in contrary to the idea of sustainable financing. Regarding paragraph 199 we have the concern what is the purpose of paragraphing in the valuation report the entity who ordered the valuation and that the valuation has been requested for purposes of loan application only? We see no added value from this information but it can complicate the process and extend the waiting time for the customer. We suggest the following rewording of this paragraph: ***"199. Institutions should ensure that the valuers provide an impartial, clear, transparent and objective valuation, and each valuation should have a final report providing the necessary information on the valuation process and property.*** ~~***The valuation report should clearly state who ordered the valuation and that the valuation has been requested for purposes of loan application only.***~~ ***Valuation should be carried out (internal valuation) or ordered (external valuation) by the institution, unless it is subject to a request from the borrower under certain circumstances."***
Section 7.1 Paragraph 201	At the paragraph of origination institutions should ensure that the value of all movable property collateral,	This requirement does not allow to assess the value of movable properties on the basis of invoices, investment outlays, book value, etc. Institutions should have autonomy in defining the source of data and tools used to establish the value of movable properties.

	irrespective whether it is pledged against the loans to consumers or professionals, is assessed by an independent qualified valuer or appropriate advanced statistical models taking into account Article 229(3) of Regulation (EU) No 575/2013	The requirement of appraiser valuation or building a model for movables accepted for collateral will significantly increase the cost of credit, e.g. in the case of small pro-ecological loans for natural persons for solar collectors or photovoltaic panels secured on these devices. Such requirement will cause the activity of banks which will avoid such collateral due to a disproportionate increase in the cost of credit in relation to the cost of the valuation. We believe that banks should retain the right to determine standardized types of movable property that can be valued based on the selling price or market prices. We recommend clarifying what is meant by "movable property collateral", or are these only specialized machines? We recommend to introduce the minimum value limit for this category, or to change the guidelines so that banks themselves classify valued movables, and for others to allow the submission of a purchase invoice / pro forma invoice.
Paragraph 204		In paragraph 204 there is indicated incorrect reference - instead of 2000 there should be 200.
Section 7.2.1 Paragraphs 207 c and 208 a –	Immovable property collateral	Concerning the requirement to monitor the value of real estate at different stages of construction (progress of works) we would like to express our opinion that for the retail mortgage portfolio these provisions are inconsistent with the rules of granting loans, which are based on the target value of the real estate, which in turn is used in LTV calculation. In paragraph 208 a we recommend changing the provision to include the frequency of monitoring in terms of the progress and progress of construction works and the requirement to provide a new valuation after construction. In the bank's opinion, it is not possible to adapt to the above mentioned current form of guidelines, due to the lack of market data regarding the value of real estate under construction.

Section 7.2.1 Paragraphs 207 c and 208 a – Section 7.2.1 Paragraph 211		The requirement to monitor the value of real estate at different stages of construction (progress of works) – these provisions are inconsistent with the rules of granting loans, which are based on the target value of the real estate (i.e. the market value from the appraiser's valuation of how it will be after construction is completed. In addition, this value is verified by the bank). In the corporate and strategic customer segment, this value is also a starting paragraph for LtV calculation. The text of this paragraph can be read, that during the construction of the real estate, the LtV calculation should not include target market value, only the value of the land plus investments outlays? If so, the entries in this document are not consistent. Other sections of the EBA Guidelines refer to market value from the appraiser's valuation. The value resulting from the advancement of real estate construction is not a market value. We are asking for further clarification of the entries. We also ask for guidance in the document concerning acceptable sources of such investment outlays and whether the value estimated in this way should be only the basis for calculating LTV or whether it can be the basis for estimating capital requirements.
		Banks should be able to update the value of collateral on real estate by indexing them by price change indices for specific types of similar real estate. The introduction of a mandatory appraiser valuation or the use of an advanced statistical model will impose a disproportionate burden on borrowers.
Section 7.2.1 Paragraph 208		Regarding paragraph 208 – we have the question, if according to this paragraph it is sufficient to verify the progress of works or whether the value of real estate should be estimated with each tranche launched?
Section 7.2.1 Paragraph 214		Regarding paragraph 214 – we would like to paragraph out that this requirement would be difficult to implement in practice. Ensuring valuers rotation would require significant modification of banking systems and would result in longer process for the clients.
Section 7.2.2 Paragraph 222		It is doubtful whether the requirements for appraisers indicated in this paragraph of the guidelines apply only to real estate appraisers. These requirements are very high and it seems unreasonable to apply them to movable property appraisers.
Paragraph 224		Doubts are raised by the provision 'As part of such assessments, institutions should also look at the concentration of valuations performed and fees paid to specific valuers'. In the banks' opinion, it is possible to complete the above mentioned guideline only if the payer for the valuation is a bank, otherwise the bank

		cannot comply with this guideline. Annex 2 - gathering information and verification. For the CRE sub-item, it is good to add not only information from the revenue but also the cost side. The essence here is information on NRC (non-recoverable costs) non-transferable costs per tenant on an annual basis, and information on service charge (service charge).
Section 7.2.2 Paragraph 225		Regarding text of paragraph 225 we would like express our opinion, that it will be impossible in practice to analyze compliance concerning the relatives of valuer. We suggest the following rewording of this paragraph: **"225. In order to mitigate any conflict of interest sufficiently, institutions should ensure that any valuers who are going to carry out the actual appraisal of a given property ~~and their first-degree relatives~~ meet the following requirements: ..."**
12. What are the respondents' views on the proposed requirements on monitoring framework (Section 8)?		
Section 8.2 Paragraph 240	Monitoring of credit exposures and borrowers	It will be very difficult to monitor financial situation in area of retail and mortgage loans, having in mind the lack of publicly available databases and operational difficulties.
Section 8.7.	EWS and Watchlist	The financial institution should be free to create – depend on the credit risk appetite in bank – breach paragraph which qualify professional to put into EWS or Watchlist process.
Annex 1		Theinterpretation of provisions regarding consumers is unclear. The requirements in these paragraphs require a broader explanation for consumer finance. • p. 7 – depreciation requirements • p. 13 – policy of compliance with macro-prudential requirements • p 10-12 – indicators (as in p. 99) need further clarification.

Annex 2:		We express our concern in area of requirement to prove the place of residence. The new personal IDs in Poland do not include this type of information, so banks would need to request certificates from the public authorities if it is legally possible. The client statement should be sufficient source of information. Such documents are not readily available to clients.
Annex 2:		Annex indicates a detailed list of required documents that the client is required to submit in the credit process, while the Guidelines do not indicate the possibility of basing credit analysis on the client's statements, which is allowed by Polish FSA Recommendation T,
Annex 3	Metrics for credit granting and monitoring	In our opinion banks should have the possibility to define what kind of financial indicators should be used and calculated in the credit risk assessment. Specifically the range of the financial information should be adjusted to the companies size, type and scale of operations. Additionally, bank should have possibility to take the risk of the customer/ professional and the transaction into account when setting up the required financial information check list i.e. different set of information for the customers applying for the low limit credit card than for the customers applying for high volume investment loan. Current wording suggest using the same broad set of financial measures for each case, which is the unacceptable approach for the low-risk and simple credit processes. This may increase the cost of the process without clear consequence in the improvement of the credit risk of the portfolio. The definition of the financial ratios should be provided.
Annex 3		When analyzing the customer's creditworthiness, bank in accordance with the EBA Guidelines should take into account: a. Loan is an income ratio b. Loan service is an income ratio c. Debt is an income ratio d. Debt service to income ratio e. Loan to value (secured lending)

		The components of the above indicators have not been defined in the Guidelines We request EBA to provide them with more details, and to provide definitions.