

Prot. 2019/250

DRAFT GUIDELINES ON LOAN ORIGINATION AND MONITORING

Assilea, the Italian Leasing Association, represents the Italian leasing industry. Our members are leasing companies classed into generalist banks, specialist banks, non-banking financial intermediaries, brokers and dealers, long-term rental companies, outsourcers specialised in the leasing market.

The Association's key task is to carry out institutional activities with a view to providing information and assistance to its Members and contributing towards the solution of leasing-related issues at different levels, in different domestic and international venues.

*Assilea is member of **Leaseurope** (the European Leasing Federation) and of **ABI** (the Italian Banking Association) and actively participated to the drafting of the Position Papers released by the above mentioned Federation (joint Eurofinas and Leaseurope Position Paper) and Association (ABI's Position Paper).*

We thank you for the opportunity offered with this consultation. In this paper we reply to some of the main questions of the Consultation Paper (EBA/CP/2019/04) "Draft Guidelines on loan origination and monitoring", 19 June 2019.

1 - What are the respondent views on the scope of application of the draft guidelines?

The scope of application of these Guidelines is very wide and the proportionality principle is not fully applied in the proposed Guidelines. Small amount leases cannot possibly refer to the same GL as those concerning large amount credits in project finance. Exclusions simply based on the amount of each originated credit should be envisaged.

Leasing is mentioned in § 123, but no specific principles are provided as long as leased assets should not be simply considered as collaterals, but as lenders property. A specific reference to leasing should be introduced, including the lease asset valuation in the credit risk assessment.

2 - Do you see any significant obstacles to the implementation of the guidelines by the application date and if so, what are they?

Due to the complexity of the EBA requirements implementation, it is fundamental to modulate over time their entry into force. The schedule proposed (30 June 2020) is too short.

In addition, instead of a unique deadline, it should be advisable to introduce two different terms:

- firstly, a deadline for the competent authorities to implement these guidelines by incorporating them in their supervisory process and procedures;
- secondly, a deadline for institutions to implement the guidelines in their business practices.

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)?

Many of the requirements proposed are not compatible with small lease tickets originated via vendor leasing programmes. Those types of business models rely on automatized and more and more on technology-

based organisations and tools, currently duly supervised in respect of existing and already constraining regulation framework.

New technical standards and regulations should promote the introduction of enabling technologies according to the European Commission strategy on artificial intelligence (AI) adopted in April 2018 and its [coordinated plan presented in December 2018](#) prepared with Member States to foster the development and use of AI in Europe.

For those concerned institutions that have demonstrated an accurate control of risks, a strict application of the proposed GL requirements would represent not only a regression in risk management but also significant investments in HR and information systems disproportionate to any potential benefits in the cost of risk. Changing these models, which have demonstrated their reliability, to strictly respect the proposed GL would represent high costs in terms of IT developments and business / HR organisations.

As far as environmental factors and green lending are concerned, on the one hand, the EBA mandate regarding green finance is mentioned but not very precisely and would deserve to be more clearly explained. On the other hand, the EBA was tasked in the CRR with a mandate to incorporate ESG factors in risk management via revised technical standards. Thus, these considerations will be already embedded into the loan origination process under the new technical standards.

4 - What are the respondents' views on the requirements for credit risk policies and procedures (Section 4.3)?

The EBA draft GL requirements regarding credit risk policies and procedures are too prescriptive, formal and standardised whatever the type of loan (amount, duration, counterparty, complexity, distribution channel...).

In the leasing sector, as an example, a “business to business” approach is often adopted where the leasing company (which may be a bank or a supervised financial intermediary) signs commercial agreements directly with the dealer, after a proper evaluation of the financial and economic situation of the lessee.

6 - What are the respondent's views on how the guidelines capture the role of the risk management function in credit granting process?

The role of the risk management cannot be strictly defined, regardless the size of the organisation nor the nature of the financial activity. In this perspective, the requirements set out in §82 could be perceived as very intrusive as regards the human resource policies of institutions, in requiring precise criteria for variable remuneration policies of the staff in charge of credit granting.

In addition, detailed provisions should be introduced for specific products, as in the case of vendor leasing, where the second level check on the credit risk assessment would be in any case granted according to the principle established by the GL.

As an example, in small ticket leasing, vendor programmes often exist where a “four eyes” principle is applied to grant an independent judgment of credit risk. The risk management function evaluates the risk assessment and the commercial function takes the final decision on the basis on both client creditworthiness and business evaluations.

7. What are the respondents' views on the requirements for collection of information and documentation for the purposes of creditworthiness assessment (Section 5.1)?

The proposed use of the proportionality principle is to be challenged. For instance, small amount leases cannot possibly refer to the same GL as those concerning large amount credits in project finance.

The requirements listed in Annex 1 and Annex 3 would be too strict and hardly adaptable to the internal evaluation procedures.

Also, among the definitions in § 17 of the Guidelines, new credit exposures are introduced which are different from those treated in the CRR and they are not clearly defined. As an example, it is not completely clear at what extent exposures towards consumers and professionals are to be considered different from retail exposures. Further clarifications should be provided regarding the definition of “*professionals*” and “*consumers*” introduced in GL.

11 - What are the respondents’ views on the requirements for valuation of immovable and movable property collateral (Section 7)?

A dedicated section referring specifically to leasing activity would be necessary. In the case of leasing, whereby creditors own the financed assets, all contracts rely on the ability of the lessor to dispose of the asset in case of non-payment of the loan. The property of the asset by the creditor is the main feature of a lease, and a central parameter for credit risk analysis and creditworthiness assessment.

As a general overview, the monitoring requirements on immovable and movable property collateral are already defined in the CRR and more stringent criteria were introduced in the EBA GL for NPE. Further requirements in these GL could result to be burdensome.

Specifically, performing full appraisals for revaluation purposes as set out in paragraph 213 instead of the current desktop (mainly) or drive-by (negligible) ones, would significantly increase the appraisals’ annual cost, as well as delivery time could be delayed.

In addition, these guidelines consider assets used by the owners for conducting their business within the scope of Commercial Real Estate (CRE) and not in Real Estate business. Although criteria for evaluating RE professionals (pure CRE counterparties) are very different from the ones to be used for evaluating the granting of credit lines collateralized by RE assets to companies operating in other businesses. We suggest including only professionals specialized in RE activities in the CRE.