EBA Consultation Paper: Draft Guidelines on loan origination and monitoring

To:	EBA
From:	NHG
Date:	September 30, 2019

Question 8: What are the respondents' views on the requirements for assessment of borrower's Creditworthiness (Section 5.2)?

"107. If the loan term extends past the borrower's expected retirement age, the institutions and creditors should take appropriate account of the adequacy of the borrower's likely income and ability to continue to meet obligations under the loan agreement in retirement."

Our interpretation of nr. 107 is that if the borrower reaches the retirement age during the duration of the loan, the pension income of the borrower will be vital to establishing if the loan is payable during the entire term of the loan.

This causes an undesirable situation for the borrower. When applying for the loan the borrower has to provide all potential income documents. The regular term of a loan is 30 years. In extreme cases a person has to provide a pension income 30 years before retirement. The level of pension income to be reached is highly uncertain, caused by different factors. The horizon for pension income is long term and there is no certainty that this income will actually be reached. Other factors like higher/ lower income, change of employment, change of pension type, inflation, stock markets, changes in interest rate (periods), politics and other social-cultural, change all impact the probability of reaching a certain pension income and the affordability. The long term view doesn't provide any certainty of affordability to either the borrower or the credit establishment.

In our opinion, there should be a balance between the term of the loan and the retirements age and all the uncertainties which surround a long term build-up of pension income.
Our proposition is to establish the affordability of a possible loss of income due to retirement during the term of the loan, if the retirement is within 10 years of the date of the binding offer. The expected pension income gives a better view of the actual circumstances with a shorter horizon and less risky bonds for the remaining term. Furthermore an extra provision could be added to ensure that the credit establishment should recheck the affordability during the term of the loan if there are indications that the borrowers income after retirement is not sufficient and make sure that the borrower is fully aware of the potential problems that could arise in the future in order to find a solution.

"109. When assessing the borrower's ability to meet obligations under the loan agreement, the institutions and creditors should account for committed and other non-discretionary expenditures, such as the borrower's actual obligations, including appropriate substantiation and consideration of the living expenses."

Should appropriate substantiation be provided of the borrowers actual obligations, such as consumptive credits? Or should appropriate substantiation also be provided of current living expenses? In our opinion, a standard table (model) with average person's living expenses provide sufficient consideration of living expenses during the term of the loan.

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

NHG welcomes the fact that the Draft Guidelines by the EBA introduce a distinction in terminology and thus in quality between "advanced statistical models" on the one hand and "other statistical models including indexation" on the other. However in our opinion, the distinction between advanced and other statistical models is not applied consistently in the guidelines. The guidelines exclude the use of advanced statistical models at origination, which would have negative effects on lenders and borrowers in those jurisdictions, where advanced statistical models adhering to the highest standards are currently used at origination with great success.

Advanced statistical models are successfully used in a number of EU and EEA jurisdictions for the valuation of immovable property at origination. These usages are in full accordance with national legislation and allowed by the national supervisory authorities. In fact they contribute to, rather than create shortcomings in risk management of lending institutions. In our opinion, advanced adequate statistical models are more objective and independent, than physical valuators of residential real estates.

Technology is developing rapidly and the current techniques offer a high quality of valuation of immovable and movable property collateral already. NHG regrets the fact that the draft guidelines on loan origination and monitoring will be hindering innovative techniques, by setting requirements for the statistical method. Because we believe that traditional or machine learning methods could be equally adequate.

To protect consumers we suggest to meet national, European or international quality standards to guarantee the quality of a valuation (instead of setting requirements for the statistical methods). Just like NHG recently has developed quality marks for Dutch AVM's, with ministries and supervising authorities. These quality marks set high standards for the quality and reliability on individual house level.

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