



ABBL additional comments to EBA CP 2024/11 on the requirement for the completion guarantee provider to be independent from the institution financing the obligor (point d) iv of the alternative approach)

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We understand from the requirement set out in point d) iv of the proposed alternative approach that a bank financing the mortgage loan granted to the buyer of a housing in a real estate project must be different from that providing the completion guarantee to the real estate developer. We believe that the rationale underpinning the EBA proposal is questionable in terms of risk management for the following reasons.

- From a bank's perspective, providing a completion guarantee to the real estate developer and financing a mortgage loan are two different risks by nature, which follow specific risk assessments and prudential treatments in the CRR3. Each risk is therefore properly managed by the bank, adequately priced and it is covered by dedicated own funds requirements.
- According to the market practice in Luxembourg, a sufficient level of pre-sales needs to be achieved to finance the construction through the payments to be made by buyers under the VEFA (sale in state of future achievement) regulation. When this level is reached (70% - 80%), banks issue a completion guarantee which is mandatory by law to protect the buyers. On the other hand, the same bank may finance buyers' mortgage loans. Contrary to what the EBA suggests, we believe that combining the roles of guarantor and lender gives banks a comprehensive control of the risk borne by the different phases of the real estate project. Such a pattern notably provides banks the right incentives to achieve the real estate building in case of failure of the real estate developer, to the mutual benefits of the bank and of buyers. It is worth noting that buyers generally prefer having one single bank responsible for both roles.
- Finally, separating the completion guarantee from clients' financing would unduly disrupt the Luxembourg market, where only a few banks are active in the real estate sector, and where it frequently happens that banks complete both tasks.