



19. Central European Covered Bond Conference, Tarragona

Panel 3:

Valuation (mortgage lending value / market value) and LTV issues:

Results of research of the Round Table on Covered Bonds Legislation



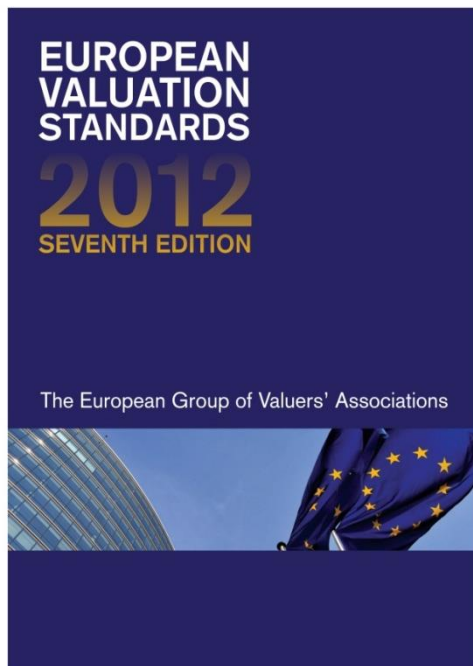
VERBAND DEUTSCHER
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Association of German Pfandbrief Banks

Main regulatory drivers for property valuation in the EU

- The principle: The Treaties do not give the EU direct competence to regulate real estate and/or property valuation. The power is indirect, via regulation of financial markets, the environment and via EU Economic Governance.
- The financial crisis has shifted power to the EU and made the EU regulator nervous about financial and real estate markets
- Areas increasingly subject to valuation law making processes:
 - Capital Requirements Regulation (Basel III)
 - property valuation for capital allocation purposes (preferential risk weights)
 - property valuation for covered bond funding purposes
 - Mortgage Credit Directive
 - Alternative Investment Fund Managers Directive
 - EU Energy Performance of Buildings Directive

The initiatives of the profession: the two pillars of TEGoVA

The Blue Book



TEGoVA
THE EUROPEAN GROUP OF VALUERS' ASSOCIATIONS

REV Status



- Article 208 Capital Requirements Regulation provides a full set of rules for the capital treatment of mortgage collateral:
 - Definition of values
 - Article 4 par. 74: ‘**mortgage lending value**’
 - Article 4 par. 76: ‘**market value**’
 - General valuation principles: monitoring and revaluation
 - institutions **monitor** the value of the property on a frequent basis and at a minimum once every year for commercial property and once every three years for residential real estate. Institutions carry out more frequent monitoring where the market is subject to significant changes in conditions
 - the property valuation is **reviewed**
 - material decline of values relative to general market prices
 - for loans exceeding EUR 3 million or 5% of the own funds of an institution, the property valuation shall be reviewed at least every three years
 - Institutions may use **statistical methods** to monitor the value of the property and to identify property that needs revaluation

Independence of the valuer

➤ **Art. 208 (3b) CRR**

A valuer is supposed to be independent when he possesses the necessary qualifications, ability and experience to execute a valuation and when is independent from the credit decision process.

➤ **European Banking Authority, Single Rulebook Q&A Tool Question ID: 2014_1056 on the independence of the valuer**

- In accordance with Article 208(3)(b) of Regulation (EU) No 575/2013 (CRR), the review of an immovable property collateral has to be carried out by a valuer who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process. As long as an employee of the bank meets all the aforementioned conditions, he/she can be considered as an independent valuer for the purposes of Article 229(1).

Art. 129 par. 1 and 3 CRR: preferential risk weight of covered bonds

- LTV limits:
 - up to the lesser of and 80% of the value of the residential property
 - up to the lesser of and 60% of the value of the commercial property
- Institutions shall for immovable property collateralising covered bonds meet the requirements set out in Article 208 and the valuation rules set out in Article 229(1).

DE property valuation rules for covered bond funding purposes

➤ Art. 14 Pfandbrief Act:

- LTV limit: 60% of the MLV for both residential and commercial properties
- Soft LTV limit: mortgages may be used as cover only up to the first 60% of the MLV of the property

➤ Art. 16 Pfandbrief Act:

- Valuation basis: mortgage lending value (MLV)
- Definition: prudent assessment of the future marketability of the property by taking into account the long term sustainable aspects of the property
- Valuer: may not be involved in the loan decision and must have the requisite professional experience and knowledge to conduct mortgage lending value assessments

DE property valuation rules for covered bond funding purposes

- Regulation on the determination of MLV (Beleihungswertermittlungsverordnung)
 - MLV methodology
 - Qualification and independence of the valuer
 - Content of the valuation report
 - Special treatment of standardised residential mortgages below 400.000.- EUR
 - Review of the MLV: material decline or default of the borrower → assessment of the underlying assumptions → re-valuation → reduction of values, no increase