Brussels, March 2018

EACB RESPONSE TO EBA CONSULTATION ON THE HOMOGENEITY OF UNDERLYING EXPOSURES IN SECURITISATION (EBA/CP/2017/21)

Introduction:

The members of the European Association of Co-operative Banks (EACB) have followed with interest the Securitisation file as its members consider that a functioning securitisation market – supplementing bank loans as a main financing instrument – is essential to support growth, and for providing sufficient credit to companies, particularly to small and medium-sized enterprises (SMEs).

Securitisation is indeed a very important element, also from our perspective as cooperative banks, as it fills a "middle ground" between direct bank lending and pure capital markets funding. That is, allowing smaller banks (for instance within cooperative networks) to finance their lending to SMEs and individuals through an access to the capital markets that makes it possible to generate high-rated securities backed by such kind of retail lending. It also allows to better diversify risks and unlock capital in order to improve local lenders' ability to continue financing and boosting economic growth in their regions.

In this context the members of EACB welcomes the Commission's proposal to create a comprehensive securitisation framework as an important step in the context of the Capital Markets Union project (CMU). However, we fear that the final outcome might not be appropriate to establish a strong European Securitisation Market.

When it comes to the homogeneity criteria, we would like to share the following targeted considerations:

The EACB members agree with the basic approach of the draft RTS regarding homogeneity. Having said that, we suggest that - with respect to Article 1 (d) / Article 3 - banks should have more flexibility to select risk factors to be considered for each asset category or to define homogeneous sub-portfolios within single transactions.

Detailed Comments:

In more detail:

- Our main concerns have to do with the implementation of the risk factor approach introduced in Article 1 (d). This approach has been introduced by EBA mainly to achieve "similar risk profiles and cash flow characteristics" of the underlying exposures of a securitisation transaction. We consider this

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approach as appropriate in principle, but its current version is too restrictive (especially if interpreted even more strictly by national competent authorities) for the following reasons:

1. If all risk factors mentioned in Article 3 (d) have to be considered it will be hard for any European institution to arrange SME portfolios that are "sufficiently homogeneous" and large enough to be marketed at reasonable cost. This is a general concern for most asset categories, but it is very relevant for SME portfolios. Recital 43 (Securitisation Regulation 2017/2402) explicitly demands homogeneity criteria that do not negatively affect securitisation of SME loans.

2. In those rare cases, where - with respect to risk factors included in the RTS - a sufficient homogeneous (SME) portfolio may have been found, it will - according to its construction - show a high degree of risk concentration with respect to the risk factors. This concentration may lead to lower ratings by rating agencies, higher credit enhancements and higher costs for originators. While being "homogeneous" (and simple) the portfolios will show higher risk levels.

3. Article 6 (2) (Securitisation Regulation 2017/2402) expects securitised portfolios to be something like a "random sample" of the total portfolio of (comparable) assets held on the balance sheet of the originator. The selection of assets complying to the risk factor approach might lead to systematic deviations of the risk profile of the securitised portfolio and the assets held on the balance sheets.

- As securitisation investments are only taken up by professional investors we regard transparency more important than homogeneity. Professional investors have available methods and processes to analyse portfolios and they need to have access to all relevant information and data to be able to carry out their due-diligence. With respect to homogeneity it is helpful for investors if assets belong to the same asset category. But there is no material value added in requiring assets to be almost identical with respect to all the risk factors mentioned by EBA.

Proposal:

On the proposed way forward:

We would prefer the “Main proposal” vs “Alternative proposal”. In order to make the regulation more workable we would propose that the 4 requirements for definition of homogeneity in Art 1 are applied as follows:

We understand that the RTS in step 1 and 2 refer to general underwriting and servicing standards across a bank / banking group independently from special obligor / product categories. We agree with this approach. However, It should be clarified that portfolios acquired by merger, portfolio purchases, etc. may not qualify due to the fact that they have not been originated / serviced under the general underwriting / servicing standards of the same bank / banking group.

In step 3 we propose not to use too granular or specific asset categories. The distinction at this level should be only between (i) retail and (ii) commercial loans / exposures. All of the proposed other asset categories are eventually subcategories of these two main categories. However, for specific product types like auto loans and leases, an exception to combine commercial and retail loans / exposures would be necessary.

The application of risk factors in step 4 will finally determine the homogeneity of assets pools.

a) The originator is free to choose, which risk factors should be applicable out of the list of risk factors to be considered The "other" risk factors applicable for that asset category should not be considered for the determination of homogeneity to allow banks to generate pools of sufficient granularity and volume and to avoid uncertainty in structuring process and minimize legal risks.
b) Additionally, a majority concept should be introduced for the applicable risk factors to ensure that a respective pool of asset is homogenous and of sufficient volume. We cosnider a threshold of 70% as the appropriate level for this majority concept (this threshold is also in line with CRR Regulation (2017/2401)).

Example:

A portfolio of SME / Corporate and Project Finance loans originated and serviced within the same banking group under the same general standards (step 1&2) would be considered under the asset category "commercial" loans / exposures (step 3). The originator is free to choose, which risk factors should be applicable out of the list of risk factors to be considered. All other risk factors do not need to be considered (step 4).

Contact:

The EACB trusts that its comments will be taken into account. For further information or questions on this paper, please contact:

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