



European Banking Authority

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## **EBA – Draft Guidelines on loan origination and monitoring**

### Question 11

What are the respondents' view on the requirements for valuation of immovable and movable property collateral?

#### *About Finance Norway*

Finance Norway is the leading organization for the financial sector in Norway. We represent about 240 financial institutions. Our mission is to advocate the sector's views towards various national and international institutions such as state administration, political parties, consumer organizations and international partners and decision makers.

#### *General remarks*

The draft proposes that advanced statistical methods can only be used for valuation of property for the purpose of monitoring, but not at loan origination. This is discussed in the draft on page 52-57 and particularly page 79-82. If the draft guidelines are implemented as proposed, this could have a severe negative effect on the lending process, because banks no longer will be able to use statistical value assessments when granting loans. The effect will be detrimental in Norway where digital mortgage loan solutions are developed on a large scale. It is particularly worrying that countries that already have reliable models in place will no longer be able to use these at origination. The EBA's proposal will hence decrease the incentives for other jurisdictions to develop advanced statistical models and thus hamper the digitalisation process in the EEA's banking industry.

Furthermore, given the description above our members have indicated that implementing the guidelines as proposed by the EBA will be very challenging. If one should conclude on limiting the use of advanced statistical models it is therefore necessary to extend the implementation phase well beyond 30 June 2020.

### *The benefits of using advanced statistical models*

The EBA proposes not to allow for the use of advanced statistical models for valuation purposes at origination, even in cases where these models produce accurate and reliable results. As pointed out in the consultation paper, advanced statistical models are already in place in several countries and are used as a good and credible source of information. When advanced statistical models provide valuation proven to be of the same quality as physical valuations, they have the benefit of capturing changes in the market prices and present them in an objective manner for the credit institutions. This is achieved in Norway based on sufficient high-quality data, large databases of property transactions and public registries. Disallowing the use of established advanced valuation models at origination where these have proven to be reliable will result in a setback for technological development in the banking industry and negatively impact competition in the market. If banks are required to perform physical valuations in a situation where the customer would like to refinance his or her mortgage loan, it can lead to a disadvantageous “lock in” effect due to extra costs involved for the customer. In addition, such a solution will be significantly less effective and cost efficient for the financial institutions. Not allowing for the use of advanced statistical models that have been proven to provide robust, accurate and transparent valuations will, in our view, not contribute to improving banks` risk management. Instead, it would result in additional costs, without direct benefits to the client and the bank.

### *Link to the Mortgage Credit Directive 2014/17/EU – MCD*

The required valuation of the collateral as defined in paragraphs 191 to 200 is in our opinion not compliant with article 19 of the Mortgage Credit Directive (MCD). MCD article 19 (2) provides that the Member State must ensure that internal and external appraisers conducting property valuations are professionally competent and sufficiently independent from the credit underwriting process so that they can provide an impartial and objective valuation, which shall be documented in a durable medium and of which a record shall be kept by the creditor.

The Norwegian Financial Supervisory Authority (NFSA) has in its proposal for the implementation of MCD in Norway stated that there is no need to regulate in law rules for property valuation standards, but rather suggests that this is up to the financial institutions to self-regulate through market standards. NFSA proposes to impose regulation stating that financial institutions are to have internal guidelines to determine value of immovable property collateral. The assessment by the NFSA in our opinion indicates that the Norwegian authorities have confidence in today's advanced statistical methods. The EBA guidelines should therefore, in our view, not exceed MCD's intention of national freedom of action. A limitation would seemingly be in conflict with the NFSA point of view and acknowledgment of advanced statistical models in Norway.

*Allow use of advanced models at origination*

We acknowledge that the EBA has some concerns regarding transparency, governance etc. We believe, however, that the intended and desired future developments as pointed out in the assessment (on page 81) are already in place in certain jurisdictions such as Norway. A high-standard model ensures a digital loan solution for the benefit of customers and credit institutions without creating shortcomings in risk management.

Finans Norway proposes that for asset classes in jurisdictions where advanced statistical models have proven to be reliable, the EBA should allow a continuation of its use also at origination, i.e. choose option 3c for valuation of immovable property collateral. In our opinion disallowing advanced statistical models at origination in countries such as Norway will send a worrying signal that will hinder digital development. It is our opinion that the valuation method proposed in the Consultation Paper should only be required in cases where the property is atypical or have a value above a specified threshold.

Yours sincerely

**Finance Norway**

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