



GdW Statement

Second consultative document

Revisions to the Standardised Approach
for credit risk

Basel Committee on Banking
Supervision

March 2016

Präambel

As the largest German umbrella organisation for the real estate industry, GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen e.V. (the Federal Association of German Housing and Real Estate Enterprises) represents some 3,000 municipal, cooperative, church, private sector and state and federally-owned real estate companies throughout Germany and at European level. It manages some 6 million rental apartments, inhabited by over 13 million people. GdW thus represents housing companies that manage almost 30 % of all rental apartments in Germany. Furthermore, property development business and project financing activities are also part of our purview, as are additional housing and real estate industry related services.

Within the German residential property market, owner-occupied housing constitutes the smaller portion, around 42 %. The remaining 58 % of all housing units are rental properties. Expressed in absolute numbers, the market consists of about 23 million rental apartments and almost 17 million owner-occupied units. Professional landlords hold around 40 % of the rental housing stock and thus manage more than 9 million rental apartments in Germany. Within this group, cooperatives, housing associations in which municipalities hold a majority interest, and private housing enterprises having the legal form of companies limited by shares occupy a key position as they manage almost 80 % of the professionally held stock.

The rulings of Basel III are of major significance to the housing and real estate industry. On the one hand, real estate industry investments are characterised by very high investment volumes. On the other hand, the share of outside (debt) capital required for financing is particularly high. The average share of equity capital used for real estate investments in Germany is generally just 15 % to 25 %, meaning that a substantial proportion of the investment costs have to be financed in the long-term with outside capital. The German real estate market is one of the most stable markets in the EU and worldwide.

The financing structure for housing development investments in Germany is characterised by long-term loans collateralised by liens on real estate or mortgage-backed loans. This has yielded highly positive experiences in the past, as this long-term culture grants the investors a high degree of planning reliability, while simultaneously providing tenants with a secure basis, as hikes in interest could otherwise lead to rental increases. This system has also proven to be particularly robust in the financial crisis.

Im Detail

The current risk weight for **residential real estate exposure** is 35 %.

"In applying the 35% weight, the supervisory authorities should satisfy themselves, according to their national arrangements for the provision of housing finance, that this concessionary weight is applied restrictively for residential purposes and in accordance with strict prudential criteria, such as the existence of substantial margin of additional security over the amount of the loan based on strict valuation rules. Supervisors should increase the standard risk weight where they judge the criteria are not met."

In respect of 2014, the Federal Banking Supervisory Office has established that the maximum loss rates were not exceeded

- for exposures collateralised by residential property pursuant to Art. 125 (3) and Art. 199 (3) of Regulation (EU) No. 575/2013 (CRR), and
- for exposures collateralised by commercial immovable property pursuant to Art. 126 (3) and Art. 199 (4) of Regulation (EU) No. 575/2013 (CRR).

The actual loss rates for Germany lie well below the stipulated ceilings.

Loss rate in 2014 for residential real estate loans (Arts. 125 and 199 of Regulation (EU) No. 575/2013 (CRR))

Residential Property	CRRCap	2014
Art. 125 (3) a) u. 199 (3) a)	0.30%	0.05%
Art. 125 (3) b) u. 199 (3) b)	0.50%	0.10%

According to the current consultative document of the Basel Committee on Banking Supervision, consideration is no longer to be given to national specificities.

Instead of the blanket risk weight of 35 % that has applied thus far, the risk weights of "exposures collateralised by residential property" are to be determined according to the loan-to-value (LTV) ratio. The LTV ratio is the total amount of the exposure expressed as a percentage of the collateralised property's value.

For risk weighting purposes a distinction is to be made between the categories "Repayment is not materially dependent on cash flows generated by property" (Table 9) and "Repayment is materially dependent on cash flows generated by property" (Table 10).

Risk weight table for residential real estate exposures (Table 9)

(Repayment is **not** materially dependent on cash flows generated by property)

	LTV ≤ 40%	40% < LTV ≤ 60%	60% < LTV ≤ 80%	80% < LTV ≤ 90%	90% < LTV ≤ 100%	LTV > 100%
Risk weight	25%	30%	35%	45%	55%	RW counterparty

Risk weight table for residential real estate exposures (Table 10)

(Repayment is materially dependent on cash flows generated by property)

	LTV ≤ 60%	60% < LTV ≤ 80%	LTV > 80%
Risk weight	70%	90%	120%

Allocation to the category "Repayment is **not** materially dependent on cash flows generated by property" (Table 9) is crucial for the financing of housing and property enterprises in Germany, otherwise they would face the threat of a significant deterioration in lending rates. In this context, moreover, it must be irrelevant whether the housing is occupied by the owner or let.

The allocation of exposures collateralised by residential property to Table 9 can be substantiated by the need to give consideration to the credit rating of the housing enterprise, which is a key factor when the probability of a housing loan default is being assessed. This is also reflected in the low loss rates for exposures collateralised by property.

In addition, consideration must be given to the national specificities of housing enterprises whose letting activities also serve a social purpose.

Footnote 50 of the consultative document addresses only associations and cooperatives that grant their members a right to live in the collateralised residential property.

"Also excluded from this treatment are loans to associations or cooperatives of individuals that are regulated under national law and exist with the only purpose of granting its members the use of a first residence in the property securing the loan."

We therefore urge that Footnote 50 likewise give consideration to housing enterprises established with a different legal form, whose articles of association/shareholders' agreement require that tenants are offered housing long-term. Here again, national specificities (fulfilment of a social purpose) and a well-functioning residential housing market could be invoked.

The disadvantage resulting from the introduction of a higher risk weighting would have a particularly strong impact on financing for housing and real estate companies in Germany. Past experiences, and especially those from the present, have shown that these financing projects are extremely low-risk in nature.

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