

A response by OneSavings Bank plc to the Basel Committee on Banking Supervision's second consultative document on:

Revisions to the Standardised Approach for credit risk

Introduction

OneSavings Bank plc ("OSB") is grateful for the opportunity to respond to the Basel Committee's second consultation paper D347¹ on Revisions to the Standardised Approach for credit risk.

OSB is a specialist lender predominantly funded by retail savings. OSB focuses on selected sub-sectors of the lending market in which it has established expertise, platforms and capabilities, and where opportunities have been identified for both high returns on a risk adjusted basis and strong growth. These include Buy-to-Let/SME, Residential Mortgages and Personal Loans. OSB originates secured mortgages organically through specialist brokers and independent financial advisors in the UK and Channel Islands and also has a proven track record of acquiring loan assets inorganically through portfolio and platform purchases. OSB is predominantly funded by retail savings through a network of branches in the South East of England, as well as online and postal channels. Diversification of funding is currently provided by a securitisation programme, and the bank also participates in the Bank of England's Funding for Lending Scheme.

OSB was actively involved in supporting the British Bankers Association's ("BBA's") and the Council of Mortgage Lenders' ("CML's") responses to the Committee's consultation paper. OSB agrees with the position taken by both the CML and BBA in their formal responses.

Lending secured on residential property

We would like to emphasise the concerns raised by the BBA and CML that the Committee's proposed calibration for risk weights for lending secured on residential property, both prime owner-occupied and Buy-to-Let (BTL), are inconsistent with the historic loss experience in the UK markets as evidenced by the risk weights adopted by IRB lenders, which are significantly lower than current standardised risk weights. In particular, this loss experience does not justify the significant increase in risk weights proposed for BTL.

We do not believe that BTL lending is substantially more risky than owner-occupied residential lending in the UK. The ability of an owner occupier to service their mortgage or a BTL occupier to continue paying the rent that allows the landlord to service their mortgage are both based on their continuing employment, which is linked to the wider macro-economic state of the economy. In general, a well-managed BTL portfolio has a comparable risk profile to owner-occupied residential real estate, particularly for low Loan to Value exposures and we would urge the Committee to consider a more granular model for calculating risk weights for BTL similar to that employed for prime owner-occupied. However, whilst the revised methodology proposed for owner-occupied residential lending does offer a more granular and risk sensitive approach, we believe that this methodology over-estimates the risk and as such further work, in conjunction with the industry, is required.

OSB agrees with the PRA's Supervisory Statement 10/13², where it is noted that the UK's experience in terms of write-off rates in the BTL sector is reflective of a mature and established residential property market. UK's experience of low write-off rates across the residential property market has justified the risk weights assigned to BTL exposures on the same basis as exposures where repayment is not materially dependent on cash flows generated by the property.

We urge the Basel Committee to consider the importance of allowing National discretion in markets that are expected to perform very differently from those used to derive internationally calibrated risk weights.

Development property

We feel strongly that the proposed risk weight of 150% for residential development finance is not reflective of the underlying risk in the UK market. We would encourage the Basel Committee to reconsider its approach to

¹ <http://www.bis.org/bcbs/publ/d347.pdf>

² <http://www.bankofengland.co.uk/pras/Documents/publications/ss/2013/ss1013.pdf>

calibration of the risk weights as assigning 150% to secured versus 100% for unsecured commercial lending is not reflective of the underlying risks.

The proposed treatment of development property will have a severe and detrimental impact on the supply of new and refurbished housing property in the UK, where there is a sizable supply and demand imbalance. This would also put at risk the UK government's housing policy "to plan and build better places to live for everyone, through building affordable housing, improving the quality of rented housing, helping more people to buy a home, and providing housing support for vulnerable people".

Credit conversion factors

OSB supports the comments made by the BBA regarding credit conversion factors.

Defaulted exposures

OSB supports the comments made by the BBA regarding defaulted exposures.

Implementation timelines

We support the BBA's proposal for a minimum 3 year implementation period post the adoption of the proposals into national law. This would be an appropriate timeframe within which to allow for transitioning to advanced methodologies and updating processes and controls.

We are happy for our response to be shared between regulators and for it to be made public.

Please contact Andy Golding, Chief Executive Officer: andy.golding@osb.co.uk phone +44 1634 821 287 if you have any comments or queries on this response.