



UEPC Draft Response to BCBS Consultation

March 2016

1. Introduction

The European Union of Developers and House Builders (UEPC) would like to share its views on the Basel Committee on Banking Supervision's second consultative document on *Revisions to the Standardised Approach for credit risk*. This document forms part of the Committee's broader review of the capital framework to balance simplicity and risk sensitivity, and to promote comparability by reducing variability in risk-weighted assets across banks and jurisdictions.

2. UEPC's response to BCBS' last year's consultation

In last year's consultation on the *Revisions to the standardised approach for credit risk*, UEPC underlined that the changes in the risk weights suggested in the paper would probably require lenders to raise even more capital which would have a number of implications for lenders in particular and the house-building industry in general.

3. UEPC's findings on the second consultation

With regards to the residential sector, the BCBS's proposals are twofold: on the supply side the BCBS proposes a 150% risk weight for ADC loans, on the demand side it uses the loan-to-value ratio as a principle combined with the debt-service-to-income ratio (DSTI), also known as the "borrower's test". Such proposals would have a detrimental impact on developers. In fact, lending to developers (supply side) is already governed by strict legal and prudential regulations at national level (e.g. "*Vente en l'Etat Futur d'Achèvement*" in France).

In view of **securing affordable housing** throughout the EU, home builders and developers are very much concerned about macro-prudential tools which could hamper the supply of affordable housing. Therefore UEPC calls on the BCBS to no longer uphold a one-size-fits-all approach but rather to take into account the **differentiation of risk weights and housing markets across Europe**.

- The BCBS must envisage macro-prudential tools to have a wider scope, as not only the interest policy of the European Central Bank is playing a role in their calculation but also the **different national housing systems**. There is no EU housing market. Housing markets in Europe and across Member States differ according to taxation and fiscal regimes, environmental requirements and zoning / planning regulations. Macro-prudential tools should therefore form part of an integrated approach to screen which risk weights can be implemented in which housing market, Member State per Member State.
- Free markets and a level playing field for both private and public operators on the housing market is crucial to ensure affordable housing. Some Member States have **closed systems**: private developers are legally restricted from entering the market of constructing, selling or renting social housing. UEPC is aware of the impact of closed systems on both the demand and supply side and calls for higher risk weights in closed systems, as the potential outcome

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of a Commission investigation into unfair competition practices might lead to reimbursing serious amounts of cash to the state.

- Risk weights should also be differentiated according to the **number of pre-sales**. If a developer manages to reach high pre-sales targets prior to obtaining credit, the risk weight should be lowered.
- In some Member States the government foresees a number of programmes, funding, state **guarantees** in order to facilitate access to housing (e.g. “*Help to buy scheme*” in the UK). UEPC believes that these demand side incentives should be taken into account to calculate a (lower) risk weight.
- Attention needs to be paid to the **different purposes of real estate**, which vary in time and during the mortgage (e.g. a buyer can first reside in the property and rent it to a third party at a later stage.). UEPC believes this differentiation in purposes on the demand side has an impact on the calculation of the risk weight.

The European Union of Developers and House Builders (UEPC) is the umbrella organisation for national federations of Developers and House Builders. UEPC is a European association representing more than 30,000 developers and house builders affiliated to the federations of 10 states (Germany, Belgium, Spain, France, Malta, Norway, The Netherlands, Poland, Romania and United Kingdom). The main aim of UEPC is to support and defend the interests of developers and house builders in Europe.