Panel IV
Property Value

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vdp Die deutschen Pfandbriefbanken

Panelists

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Property Value

Initial Statement

Content

I. Regulatory Background

OLD

Article 4 CRR „Definitions“

- Art. 4 par. 74: **‘mortgage lending value’** means the value of the immovable property as determined by a prudent assessment of the future marketability of the property taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of the property.

- Art. 4 par. 76: **‘market value’** means for the purposes of immovable property the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

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I. Regulatory Background

NEW

Article 4 CRR

- (74) **mortgage lending value** means the value of immovable property as determined by a prudent assessment of the future marketability of the property taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of the property;

- **(74a) ‘property value’ means the value of an immovable property determined in accordance with Article 229(1);**

- 76) **market value** means, for the purposes of immovable property, the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion;

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I. Regulatory Background

OLD

Article 229 (1) CRR

Valuation principles for other eligible collateral under the IRB Approach

“(1) For immovable property collateral, the collateral shall be valued by an ***independent valuer at or at less than the market value****. An institution shall require the independent valuer to document the market value in a transparent and clear manner.*

In those Member States that have ***laid down rigorous criteria for the assessment of the mortgage lending value*** *in statutory or regulatory provisions the* ***property may instead be valued by an independent valuer at or at less than the mortgage lending value****. Institutions shall require the independent valuer not to take into account speculative elements in the assessment of the mortgage lending value and to document that value in a transparent and clear manner.”*

I. Regulatory Background

NEW

Article 229 (1) CRR

“1. The valuation of immovable property shall meet all of the following requirements:

a) *the value is appraised independently from an institution’s mortgage acquisition, loan processing and loan decision process by an independent valuer who possesses the necessary qualifications, ability and experience to execute a valuation;*

b) *the value is appraised using prudently conservative valuation criteria which meet all of the following requirements:*
(i) the value excludes expectations on price increases;
(ii) the value is adjusted to take into account the potential for the current market value to be significantly above the value that would be sustainable over the life of the loan;

c) *the value is documented in a transparent and clear manner;*

d) *the value is not higher than a market value for the immovable property where such market value can be determined…”*

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I. Regulatory Background

Basel III value definition

"The valuation must be appraised independently using prudently conservative valuation criteria. To ensure that the value of the property is appraised in a prudently conservative manner, the valuation must exclude expectations on price increases and must be adjusted to take into account the potential for the current market price to be significantly above the value that would be sustainable over the life of the loan. National supervisors should provide guidance setting out prudent valuation criteria where such guidance does not already exist under national law. If a market value can be determined, the valuation should not be higher than the market value."

I. Regulatory Background

NEW

Market Value

'market value' means, for the purposes of immovable property, the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion

Property Value

(b) the value is appraised using prudently conservative valuation criteria which meet all of the following requirements:
(i) the value excludes expectations on price increases;
(ii) the value is adjusted to take into account the potential for the current market price to be significantly above the value that would be sustainable over the life of the loan;
(c) the value is documented in a transparent and clear manner;
(d) the value is not higher than a market value for the immovable property where such market value can be determined;…"

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Mortgage Lending Value

'mortgage lending value' means the value of immovable property as determined by a prudent assessment of the future marketability of the property taking into account long-term sustainable aspects of the property, the normal and local market conditions, the current use and alternative appropriate uses of the property

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Content

I. Regulatory Background

II. Operationalisation of „Property Value“

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Joint positioning of European Mortgage Federation/ RICS

- Published on 20 October 2023
- Operationalisation of the property value based on the established market value in line with the EBA statements from 2019
- Market value requires adjustment based on statistical methods
- Application of country-specific methods that fulfil Art. 229 (1) CRR (e.g. mortgage lending value)

II. Operationalisation of „Property Value“

Market Value
Individual property level

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Adjustment

- Based on research undertaken within the industry
- **geographical and market segment level**, as appropriate
- using relevant market data to identify whether current property prices/market values are above long-term trends

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Property Value
Individual property level

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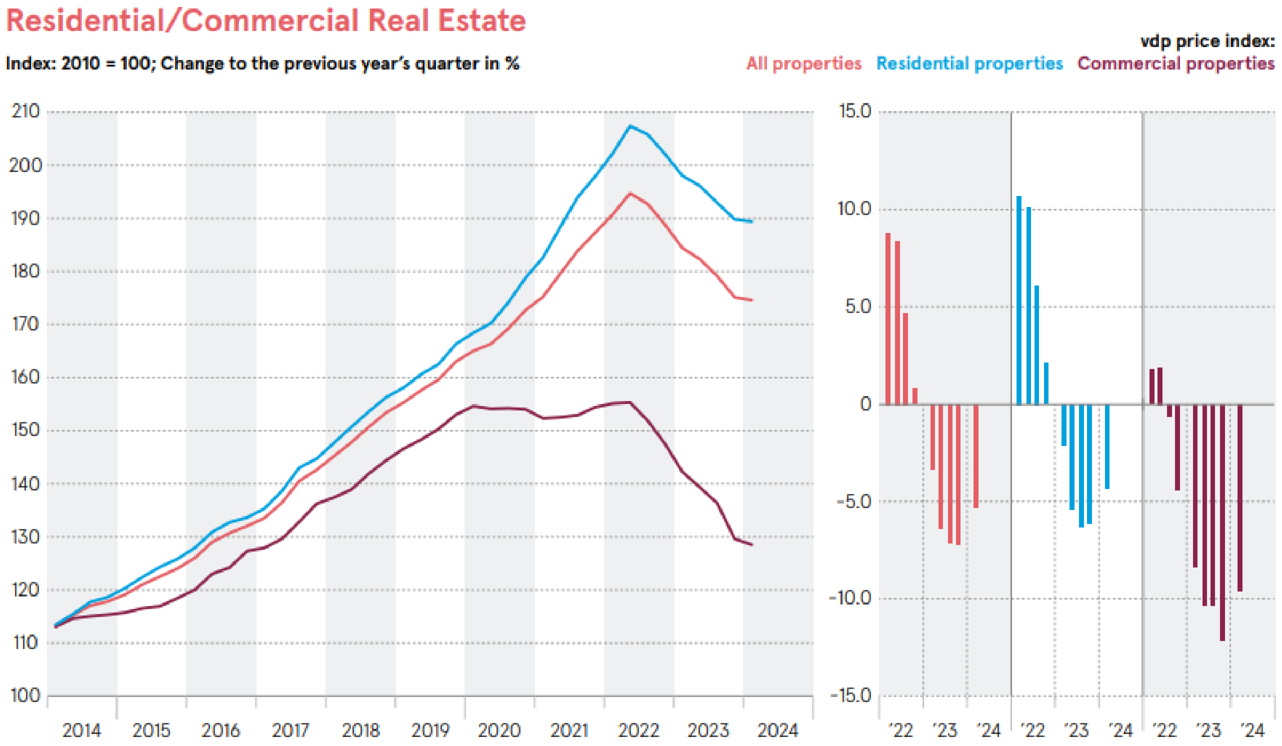
Property Value

Operationalisation of „Property Value“
– Example Germany

Operationalisation of „Property Value“ – Example Germany



Operationalisation of „Property Value“ – Example Germany

$$y_t = g_t + c_t$$

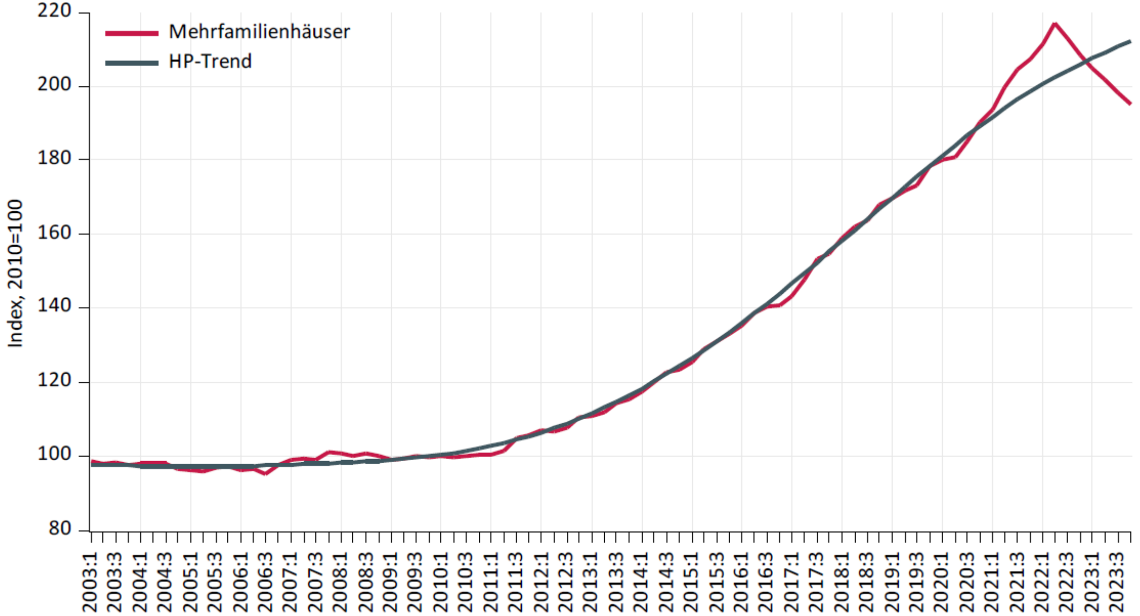
Real estate price time series

Trend component

Cycle component

Operationalisation of „Property Value“ – Example Germany

Hodrick-Prescott Filter (H-P-Filter)

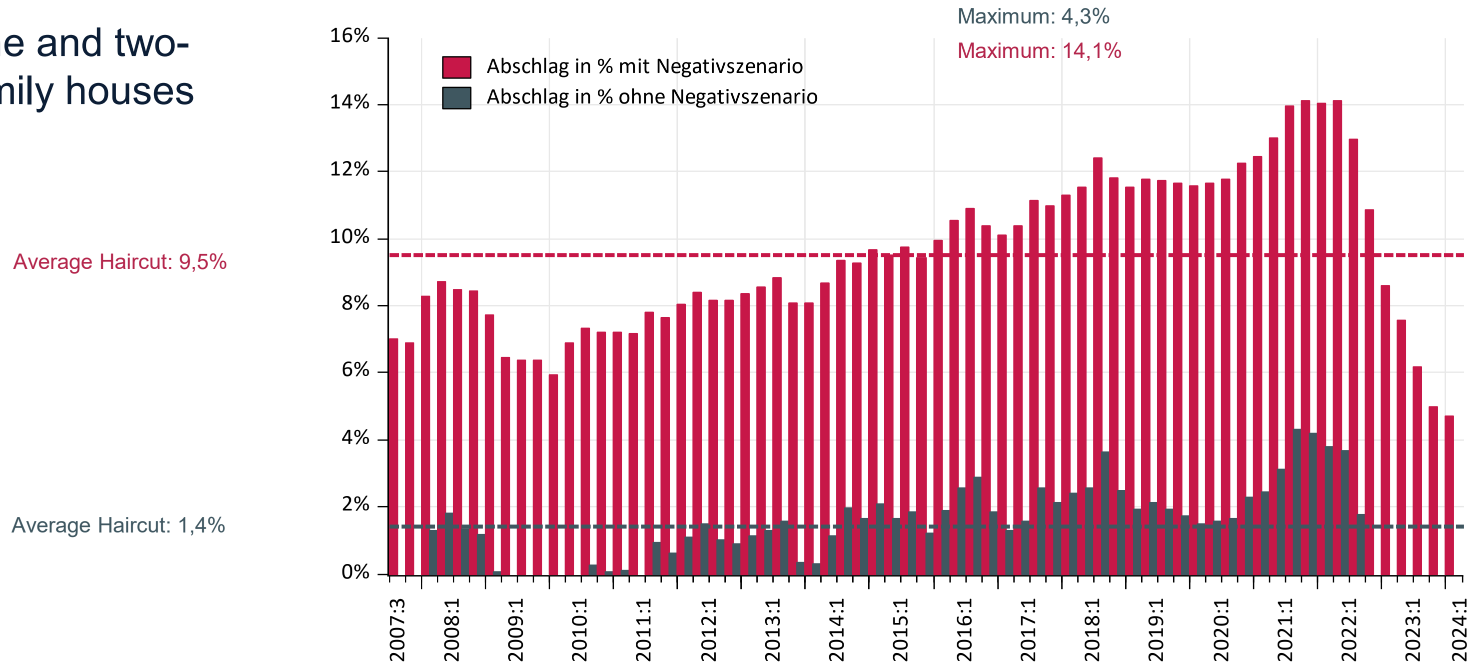


Source: vdpResearch

Source: vdpResearch GmbH

Operationalisation of „Property Value“ – Example Germany

One and two-family houses



Source: vdpResearch

Property Value

Impact on Covered Bonds?

Impact on Covered Bonds?

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Article 129 (3) CRR

“(b) in paragraph 3, the following subparagraph is added:

‘For the purpose of valuing immovable property, the competent authorities designated pursuant to Article 18(2) of Directive (EU) 2019/2162 may allow that property to be valued at or at less than the market value, or in those Member States that have laid down rigorous criteria for the assessment of the mortgage lending value in statutory or regulatory provisions, at the mortgage lending value of that property, without applying the limits set out in Article 229(1), point (e), of this Regulation;’)”

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- apoBank – Bank der Gesundheit
- BayernLB
- BB Bank – Better Banking
- Berlin Hyp
- BKM – Deine Bausparkasse.
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- Deka
- DKB – Deutsche Kreditbank AG
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- DZ HYP
- Evangelische Bank
- Hamburg Commercial Bank
- Haspa – Hamburger Sparkasse
- Helaba
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- HypoVereinsbank – Member of UniCredit
- ING
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