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THE DIRECTOR GENERAL

Mr José Manuel Campa
Chairperson
European Banking Authority
DEFENSE 4 - EUROPLAZA
20 Avenue André Prothin
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France

24 October 2019

Dear Chair,

Loan Origination and Monitoring

I write to you regarding the forthcoming guidelines on loan origination and monitoring.

BusinessEurope supports strengthening financial institutions' governance and procedures for credit risk taking and its management and monitoring. Financial market stability is fundamental for the economy and European companies. At the same time, banks should be able to meet companies' funding requirements on the necessary scale so any guidelines on loan origination should function effectively, encouraging growth and preventing damage to businesses in the wider economy.

In this context, we believe that it is important that the guidelines are sufficiently flexible with respect to smaller subsidiaries (*i.e.* small subsidiaries of large entities), and/or portfolios, and also non-banks which provide many smaller value loans. They should not impose standardised requirements relating to the assessment of creditworthiness and the collection of information regardless of the nature and amount of the loan concerned.

Small consumer loans with short maturities distributed at points of sale, or online, are not the same as large loans with long maturities in project finance. Nor are small loans to SMEs. The guidelines should reflect this and not impose universal requirements for all types of lending and institutions. There should be a clear reference to proportionality, combined with materiality and flexibility. In addition, there should be exemption thresholds regarding the size of enterprises (excluding SMEs), the amount of exposures, and the typology of loans, below which the requirements of the guidelines may not be applicable.

It is important that the proportionality principle is not misunderstood by using terms like 'at least', 'at a minimum' etc. in order to foster a proportionate and reasonable application of the rules, avoiding a rigid creditworthiness framework with disproportionate costs compared to the benefits in terms of risk reduction, leading in fact to more credit exclusion.

The application of the guidelines should be limited only to new originated loans, not covering existing loans and the regular credit review of such deals. Special care should

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also be given to subsidiaries in countries outside the EU where portfolio characteristics and market practices might be different and specific local regulations are applied.

Lastly, regarding timing, once the guidelines are finalised, entities will have to analyse how to adapt their credit granting and monitoring process. Implementation will be especially demanding for large international groups and many institutions will also be busy implementing other prudential requirements. It is also important that the guidelines do not interfere with on-going evaluations/revisions of existing EU legislation/policy (e.g. Mortgage Credit Directive, Consumer Credit Directive, ESG developments). The entry into force of new requirements should thus not be earlier than 31 December 2021, and, for specific issues where the legislative provisions of related EU rules are not yet enacted, not before such enactment or following a phase-in approach.

We hope that you share these concerns and remain at your disposal should you wish to discuss this further.

Yours sincerely,

Markus J. Beyrer