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Reg. No: 261-01-020/25-02-20/MD
Zagreb, 25 February 2020

TO ALL CREDIT INSTITUTIONS
Attention of: Management Board

Subject: Threshold for the individual valuation and revaluation of the immovable property used as collateral for non-performing exposures by an independent appraiser

Dear Sir/Madam,

The European Banking Authority (hereinafter: the EBA) on 31 October 2018 issued the Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06; hereinafter: the EBA NPL guidelines), applicable from 30 June 2019, of which credit institutions have been informed in the circular of the Croatian National Bank (hereinafter the CNB), Reg. No: 519-01-020/10-06-19/MD of 10 June 2019.

In accordance with Article 4, paragraph (1), item (3) of the Credit Institutions Act (Official Gazette 159/2013, 19/2015, 102/2015, 15/2018 and 70/2019), the CNB shall, among other things, make every effort to comply with those guidelines and recommendations issued by the EBA in accordance with Article 16 of Regulation (EU) No 1093/2010 (OJ L 24.11.2010).

Paragraph 189 of the EBA NPL guidelines specifies that competent authorities should define a common threshold for the individual valuation and revaluation of the immovable property used as collateral for non-performing exposures by an independent appraiser. This threshold should be applicable to all credit institutions in the authority's jurisdiction and should be publicly disclosed. With reference to this, the CNB's questionnaire on the compliance with the EBA NPL guidelines has required credit institutions in the RC to provide information on the threshold internally set by each credit institution for the individual valuation of the immovable property used as collateral for non-performing exposures. An analysis of the received responses has showed that only a few credit institutions have set the threshold.

Credit institutions in the RC that have set the threshold for the individual valuation of the immovable property used as collateral for non-performing exposures mainly decided to apply the threshold of EUR 300,000, as laid down in the ECB Guidance to banks on non-performing loans of March 2017 (hereinafter: the ECB guidance) as these credit institutions have already developed NPL strategies for the purpose of internal reporting and monitoring within their group of credit institutions in the EU in line with the ECB guidance, which is applicable to all significant institutions covered by the Single Supervisory Mechanism (hereinafter: the SSM), including their international subsidiaries.

Taking into account that the threshold of EUR 300,000 has already been defined by the ECB as the threshold applicable to significant institutions covered by the SSM and that this threshold has been applied by credit institutions in the RC that had already defined it, in efforts to achieve greater convergence and simplify the regulatory framework, the CNB expects that, in accordance with paragraph 189 of the EBA NPL guidelines, the individual valuation and revaluation of the immovable property used as collateral by an independent appraiser is carried out for gross non-performing exposures equal to or exceeding the threshold of EUR 300,000. In other words, the CNB expects that credit institutions carry out an independent valuation and revaluation of the immovable property used as collateral for all non-performing exposures with a gross carrying amount equal to or exceeding HRK 2,250,000 (the kuna equivalent of EUR 300,000).

A credit institution may set a lower (stricter) threshold for the individual valuation and revaluation of the immovable property used as collateral for non-performing exposures, taking into account its risk profile, the structure of the immovable property portfolio (a share of residential and commercial properties) and the amount and structure of non-performing exposures.

In accordance with paragraph 186 of the EBA NPL guidelines, for non-performing exposures with a gross carrying amount of less than HRK 2,250,000 (the kuna equivalent of EUR 300,000), credit institutions may use indexation or similar methods to monitor the value of a collateral and identify the collaterals requiring revaluation. This should be in line with the credit institution's policy and provided that the collateral to be assessed is susceptible to accurate assessment by such methods. However, the CNB expects that credit institutions in their valuations and revaluations of immovable property used as collateral will not use statistical methods as the sole means of undertaking the review of the property valuation, as defined in paragraph 188 of the EBA NPL guidelines.

It should be noted that the minimum requirements on monitoring of property values and on property valuation referred to in Article 208, paragraph (3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013) continue to apply regardless of the above threshold for the individual valuation and revaluation of the immovable property used as collateral by an independent appraiser.

Kind regards,

Martina Drvar
Vicegovernor