



Homogeneity of underlying exposures in securitisation

Consultation on regulatory technical standards

Public hearing, 19 February 2018

Mandate

Legal mandate:

Art. 20(14) of Sec Reg for non-ABCP,

Art. 24(21) for ABCP of Sec Reg:

“The EBA, in close cooperation with ESMA and EIOPA, shall develop the RTS further specifying which underlying exposures referred to in paragraph 8 are deemed to be homogeneous.”

Paragraph 8:

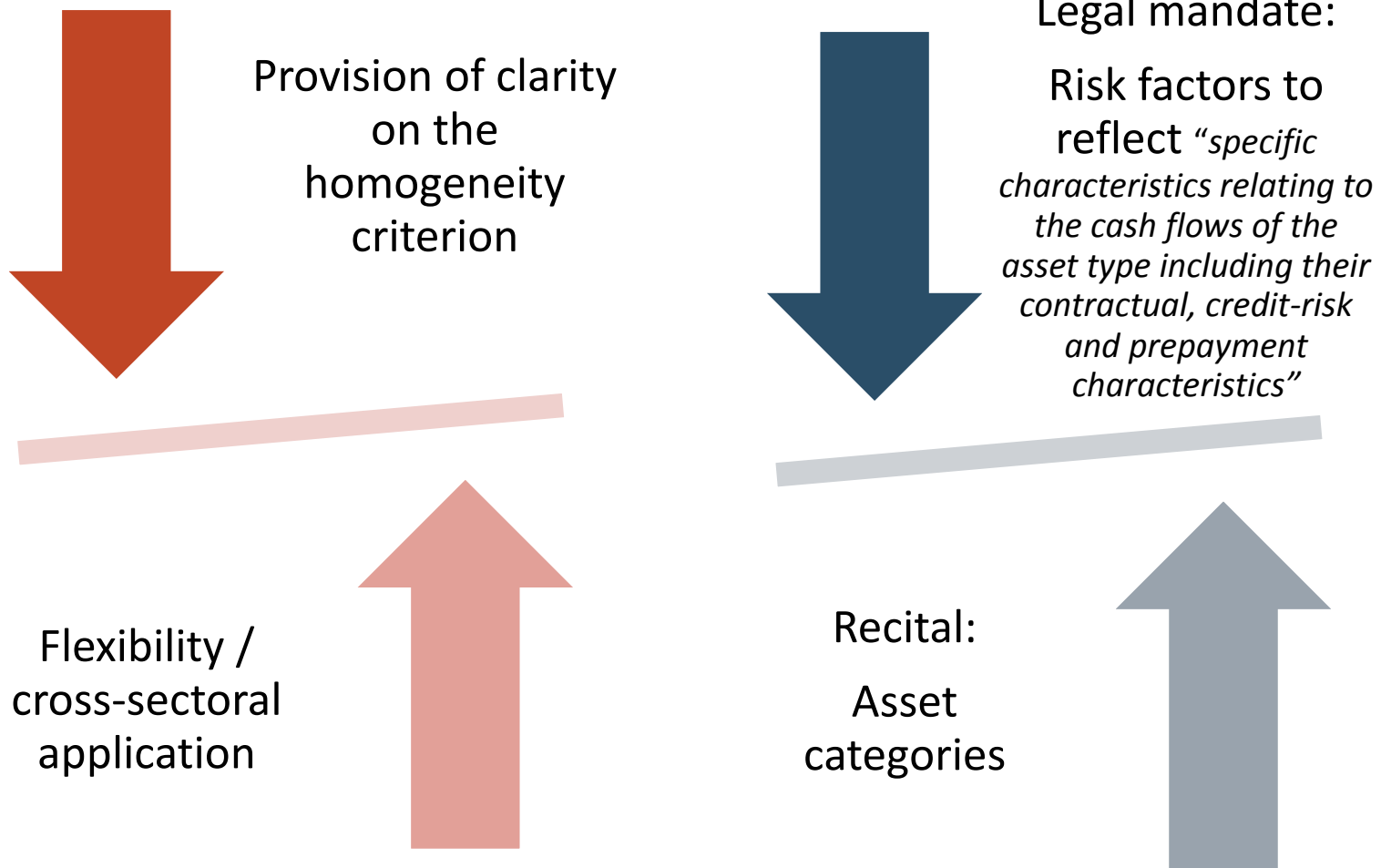
“The securitisation/ABCP transactions shall be backed by a pool of underlying exposures that are homogeneous in terms of asset type, taking into account the specific characteristics relating to the cash flows of the asset type including their contractual, credit-risk and prepayment characteristics. A pool of underlying exposures shall comprise only one asset type.”

Additional guidance:

Recital 27:

“To ensure that investors perform robust due diligence and to facilitate the assessment of underlying risks, it is important that securitisation transactions are backed by pools of exposures that are homogenous in asset type, such as pools of residential loans, or pools of corporate loans, business property loans, leases and credit facilities to undertakings of the same category, or pools of car loans and leases, or pools of credit facilities to individuals for personal, family or household consumption purposes.”

Underlying assumption: balanced approach to definition of homogeneity



Four requirements for definition of homogeneity

Similar underwriting standards, methods and criteria

- General criterion

Uniform servicing procedures

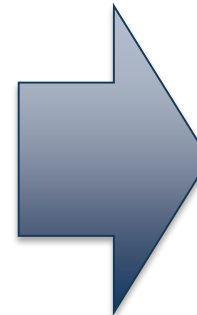
- General criterion

Exposures falling within the same asset category

- (Non-exhaustive) list of asset categories

Exposures reflecting relevant (at least one) risk factors

- (Closed) list of risk factors



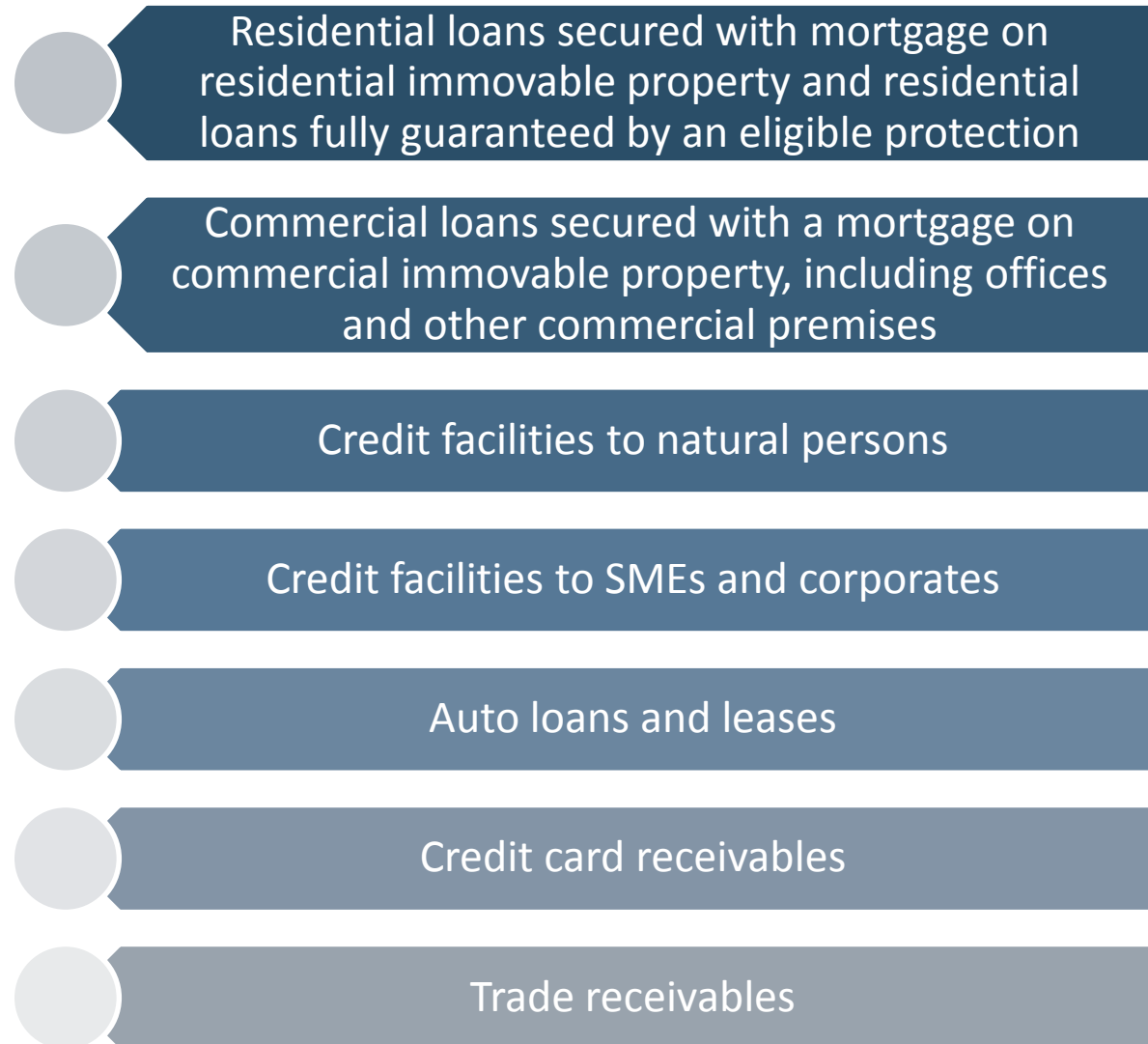
Overarching objective/end result:

Investor perspective:

Exposures with similar risk profiles and cash flow characteristics, enabling investor to assess the underlying risks on the basis of common methodologies and parameters

Asset categories

- Underlying exposures falling under **one asset category**
- **Non-exhaustive list** of categories, reflecting securitisation market practice
- **High-level definitions**, allowing cross-sectoral application



Risk factors: list

Type of obligor	<ul style="list-style-type: none">• natural person, SME borrower, non-SME corporate borrower, financial institution, and public sector entity, regional government and local authority
Collateral	<ul style="list-style-type: none">• collateralised claims and un-collateralised claims
Seniority on liquidation of the property/collateral	<ul style="list-style-type: none">• credit claims with higher ranking liens on the property or collateral, and credit claims with no higher ranking liens on a different property or a different collateral
Type of credit facility	<ul style="list-style-type: none">• loan, lease, purchase, hire and revolving credit
Object of financing	<ul style="list-style-type: none">• automobile vehicles, nautical vehicles, aircraft, railcars, satellites, fleet, equipment, real estate, commodities, financing for general consumption purposes, and financing for business purposes
Type of immovable property	<ul style="list-style-type: none">• income-producing and non-income producing properties
Type of repayment or amortisation	<ul style="list-style-type: none">• fully amortising exposures, exposures with balloon amortisation and exposures with bullet amortisation
Industrial sector of the seller	
Jurisdiction of the immovable property/or residency of the obligor	
Governing law	

Risk factors: mapping

Risk factor / Asset category	Residential loans secured with mortgages	Commercial loans secured with mortgages	Credit facilities to natural persons	Credit facilities to SMEs and corporations	Auto loans and leases	Credit card receivables	Trade receivables	Underlying exposures that all do not fall under the asset categories
Type of obligor	Already reflected	To be considered	Already reflected	Already reflected	To be considered	To be considered	Already reflected	To be considered
Collateral provided	Already reflected	Already reflected	To be considered	To be considered	Already reflected	Irrelevant	Already reflected	To be considered
Seniority on collateral	To be considered	To be considered	To be considered	To be considered	To be considered	Irrelevant	Already reflected	To be considered
Type of credit facility	Already reflected	Already reflected	To be considered	To be considered	To be considered	Already reflected	Already reflected	To be considered
Object of financing	Already reflected	Already reflected	To be considered	To be considered	Already reflected	Irrelevant	Irrelevant	To be considered
Type of immovable property	To be considered	To be considered	Irrelevant	Irrelevant	Irrelevant	Irrelevant	Irrelevant	To be considered
Type of repayment/ amortisation	To be considered	To be considered	To be considered	To be considered	To be considered	Already reflected	Already reflected	To be considered
Industrial sector of the seller	Irrelevant	Irrelevant	Irrelevant	Irrelevant	Irrelevant	Irrelevant	To be considered	To be considered
Jurisdiction of property/ obligor	To be considered	To be considered	To be considered	To be considered	To be considered	To be considered	Irrelevant	To be considered
Governing law	To be considered	To be considered	To be considered	To be considered	To be considered	To be considered	Irrelevant	To be considered

Alternative approach to homogeneity

Main proposal

Alternative proposal

Similar underwriting standards

Similar underwriting standards

Uniform servicing procedures

Uniform servicing procedures

One asset category

One asset category

Application of **relevant (at least one) risk factors / disclosure**

Reflection of all risk factors / disclosure

Questions

Does the approach to definition of homogeneity provides sufficient clarity and certainty, taking into account the basic assumptions?

Should the underwriting criterion be further specified?

Do you agree with the list of asset categories?

Do you agree with the list of risk factors?

Which of the two approaches – main approach and alternative approach – provides more clarity and certainty?



EUROPEAN BANKING AUTHORITY

Floor 46, One Canada Square, London E14 5AA

Tel: +44 207 382 1776

Fax: +44 207 382 1771

E-mail: info@eba.europa.eu

<http://www.eba.europa.eu>