



## TOPICS:

Credit risk

## SOURCE

European Banking Authority

## The EBA Publishes its Final Guidelines on Acquisition, Development and Construction Exposures to Residential Property Under the Standardised Approach of Credit Risk

- The EBA has published guidelines specifying **conditions under which Acquisition, Development, and Construction (ADC) exposures to residential property may benefit from a reduced risk weight of 100%**, instead of the standard 150% applied under the Capital Requirements Regulation (CRR). These guidelines operationalize Article 126a(3) CRR, defining key **terms and thresholds to ensure harmonized treatment** across the EU.
- The reduced 100% risk weight can apply if credit risk mitigation measures are present. The **EBA defines two conditions:** 1) **Condition 1** - a significant portion (at least 50%) of total contracts are either: pre-sale contracts with a cash deposit equal to or above 10% of the sale price, or pre-lease contracts with a cash deposit equal to or above three times the monthly lease rate, or sale and lease contracts; 2) **Condition 2** - the obligor has substantial equity at risk, i.e. obligor-contributed equity amounting to at least 25% of the residential property's value upon completion.
- A specific, **optional framework is introduced for public housing and not-for-profit entities**. For these, the equity threshold is reduced to 20%, and committed (not just received) subsidies or grants can count as equity. The "significant portion" criterion can alternatively be met if applicants exceed units available at the project or municipality level.

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