

EBA GUIDELINES

How will the EBA guidelines on loan origination and monitoring support the bank during the crisis?

Banks are currently busy with helping their clients in implementing all kind of measures to ease the pain of the current crisis. Also, our government provides subsidy and/or guarantees on bank loans to companies who are affected by the lockdown. To cut things short, all the departments within the banks are pretty much occupied with controlling the current crisis.

On top of this, the EBA released on 29 May their final report; guidelines on Loans Origination and Monitoring. It is expected that it will be a challenge to implement new guidelines since the due date of 30 June 2021 is not far in the future. Fortunately, there are some transitional arrangements:

- The application of the guidelines to existing loans and advances that require renegotiation or contractual changes with borrowers will apply from 30 June 2022; and
- Banks will be allowed to address possible data gaps and adjust their monitoring frameworks and infrastructure until 30 June 2024.

The objective of the guidelines is twofold:

1. Improve institutions' practices and associated governance arrangements, processes and mechanisms concerning credit granting, to

ensure that institutions have robust and prudent standards for credit risk-taking, management and monitoring and that newly originated loans are of high credit quality; and

2. Ensure that the institutions' practices are aligned with consumer protection rules and respect the fair treatment of consumers.

But how to deal with the implementation during a crisis when everyone is already occupied? In this time, the words of Winston Churchill are often quoted; Never let a good crisis go to waste! The same goes for the implementation of these new guidelines, which covers all aspects of the loan origination process. This creates an excellent opportunity to assess potential improvements. Especially during a crisis where all the elements in the credit granting process are tested to the maximum. Similar when you make an emergency stop with the car, then you notice how all the safety measures will respond.

Since the guidelines cover both new and existing processes, an initial gap analysis is recommended. This provides insight into which aspects compliance would not be reached. Typically, the gaps will be prioritised based on impact after which processes are changed accordingly. Thus far not that different from implementing other guidelines.



But what we noticed over time is that each set of guidelines results in a patch of the current process. This results in a complex system of layers and departments rather than an integral change of the process. For example, we see in practice, departments work in silo's and execute their task without worrying about the impact further down the line. New departments are installed just to do data cleaning and preparation. This starts slowing down the process as a whole, losing grip on quality and running the risk of making decisions based on invalid data.

In this period of crisis, we see how this hampers quick response to the fast-changing environment. Models start to behave badly (see also our article Models Behaving Badly), and model risk indicators begin to run out of their boundaries.

Now is the time to assess the whole process and determine whether efficiency can be sought in an integral manner. Over the years with our wide experience in the field of managing risks within the process of loan origination and monitoring we advised banks on how to optimise their processes; from data to model and from models to monitoring and reporting. We build decision models for granting loans and applied new technology so that our clients can work more efficiently and get better in control.

With this integrated view, you are not only able to implement the new guidelines but also improve the process and monitoring. As a result, you will be better in control, flexible, efficient, and you will be able to deliver high quality to your clients.

Interested how we can help you? Please contact: Frans Boshuizen or Govert van Koningsveld.



Govert van Koningsveld

DIRECTOR

gvankoningsveld@amsterdamdatacollective.com

+31 6 53 83 33 23



Frans Boshuizen

SECTOR LEAD FINANCIAL SERVICES

fboshuizen@amsterdamdatacollective.com

+31 6 20 49 98 54

