

Content of question:

A developer is provided financing collateralised by a real estate or real estates under its ownership which is/are under construction or reconstruction and the loan is being repaid from the income from the sale of the real estate or real estates (typically the sale of individual flats, family houses, office premises etc.). How shall such situation be assessed?

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Approved by: Pavel Vacek

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Piece of law	Decree No. 123/2007 Coll.
Provision	Annex 15, A, II, 1, a), 1 Annex 4, 9, A, b), 1
Explanation	<p>A condition for the recognition of a real estate as eligible collateral for regulatory purposes is, pursuant to the provisions of Annex 15, A, II, 1, a), 1 and Annex 4, 9, A, b), 1 to the Decree, that the real estate is or will be occupied or let for housing by its owner.</p> <p>In our opinion, the condition will not be fulfilled in the case of a developer because a developer constructs or reconstructs a real estate primarily for the purpose of its sale. Therefore, the requirements for assignment to the class of exposures secured by real estate under the Standardised Approach would not be met. If the IRB Approach were applied the likely procedure would be to follow the rules for specialised lending exposures within the corporate exposure class.</p> <p>The issue of real estate owned by developers has also been addressed by the Capital Requirements Directive Transposition Group (CRDTG) – its final standpoint is available under No. 321 on the European Commission's website (http://ec.europa.eu/internal_market/bank/regcapital/transposition_en.htm).</p>