Romania RIA Knowledge Transfer and Capacity Building Program

Annex 1

Phase II

- Applying RIA to an existing regulation(*) -

Proposed Existing Regulation

NBR Regulation no. 3/2007 on restrictions of the credit risk on credits granted to individuals

Proposing Authority

National Bank of Romania

(*)= Template for RIA execution based on Draft Impact Assessment Guidelines prepared by CESR, CEBS, CEIOPS

Authority: National Bank of Romania

Proposed Regulation:

Regulation no.3/2007 on restriction of the credit risk on credits granted to individuals

Table Of Content

Step 1 – Identification of the problem (1)

i) Was there a significant market failure and/or regulatory failure and what was its nature?

There was a regulatory failure:
-The maximum indebtedness levels established by NBR didn't allow lenders to set up their own risk management system based on their risk profile.
-It was necessary to eliminate the maximum indebtedness levels in order to provide a higher level of competitiveness (Domestic Lenders vs European Passport Lenders).
-Strict limitations of indebtedness level restraining some categories of consumers to obtain a bigger credit.

ii) If no intervention or further intervention would have taken place, would the market have corrected the failure by itself in the short term?

The market could not have corrected the failure by itself.

Step 1 – Identification of the problem (2)

iii) Has regulatory intervention improved the situation in a way such that the benefits obtained are larger than the costs generated?

Taking into account the flexible regime the new regulation brought and that some
consumers, with certain incomes, could obtain higher credits than before, benefits should be
larger than the costs generated.

Regarding the lenders, in short term costs could exceed benefits, but in long term net benefits could be expected.

Concepts of step 1 are explained further in *Impact Assessment Guidelines*, at pp. 20-25, Appendix 2 p. 48

Step 2 – Development of main policy options (1)

i) Please illustrate how the option to "do nothing" would have looked like?

The repealed Norm No. 10:

There would have been maintained restrictions imposed by NBR, the banks could not develop their own policies in this field. Some categories of consumers would still not have access to bigger credits.
The development of credit market would have been restricted.

Step 2 – Development of main policy options (2)

ii) Please illustrate the option that has been implemented in the Regulation

- Responsible lending principle based on lenders risk profile and risk management strategy;
- No specified levels for indebtedness (lenders shall provide their own levels within their internal norms for each category of clients);
- The maximum indebtedness level is differentiated among eligible categories of clients;
- Eligible category shall be assigned for each client based on default risk;
- Categories of deductible expenses : at least living expenses and payment obligations other than credit agreements.

Step 2 – Development of main policy options (3)

iii) In case that option(s) additional to that one implemented in the Regulation were considered, please illustrate the alternative policy option(s)

- Self regulation (Voluntary Code), but this would be rather new for Romania and after a controlled regime, the switch to a full liberalized regime would have been rather radical;
- Bring amendments to Norm 10/2005, in order to keep uniform limits at the level of all financial institutions, but, at the same time, adjusted to different categories of consumers (incomes);
- Standards with no discriminatory measures for consumers;
- Temporary regulations.

Step 3 – Definition of policy objectives (1)

i) **General objectives** (*examples include a- financial stability, b- the proper functioning of markets, and c- consumer protection)*

-Financial stability;

-The proper functioning of markets.

ii) **Specific objectives** [*examples (which link respectively to the general objective examples above) include a- capital adequacy provisions that align the economic and regulatory capital of banks and investment firms, b- disclosure regimes, and c- conduct of business rules*]

- Developing responsible lending practices;
- Liberalize credits to specific categories of clients.

Step 3 – Definition of policy objectives (2)

iii) **Operational objectives** [*examples (which link respectively to the specific objective examples above) include a- specific rules relating to the use of credit evaluation models, b- rules on the publication of prospectuses, and c- rules setting out specific terms of business requirements*]

- Specific rules regarding the risk profile of the clients (the eligible categories of clients);
- Rules setting out the eligible incomes and the deductible expenses;
- The main criteria the internal norms should be based on;
- The NBR's validation process of the lenders' internal norms.

Concepts of step 3 are explained further in *Impact Assessment Guidelines*, at p. 27

Step 4 – Analysis of impacts (Consumers - 1)

i) **Costs to consumers** (Please think about the incremental costs incurred by customers after the regulation was enacted in comparison with the baseline before the enactment)

• **Direct/compliance/indirect costs:**

Compliance costs resulting from:
- Consumers have to gather and assimilate more information, therefore more time needed;
- Financial education;
- Consumers are asked to bring more data/documents.

Indirect costs:
-Financing costs (increased interest rates deriving from the costs incurred by the lenders);
-If no advance payments are made the interest rates could also increase.
- Due to the variety of products (producers can establish a higher price than in the case when comparison was possible) consumers cannot compare them.

Concepts of cost assessment are explained further in *Impact Assessment Guidelines*, at pp. 31-32 and in Appendix 3

Step 4 – Analysis of impacts (Consumers - 2)

i) **Costs to consumers** (Please think about the incremental costs incurred by customers after the regulation was enacted in comparison with the baseline before the enactment)

• **Fixed/variable costs:**

• **One-off/on-going costs:**

On-going costs due to the possible growth of credit:

- increases in property prices.

Concepts of cost assessment are explained further in *Impact Assessment Guidelines*, at pp. 31-32 and in Appendix 3

Step 4 – Analysis of impacts (Consumers - 3)

ii) **Benefits to consumers** (Please think about the incremental benefits obtained by consumers after the regulation was enacted in comparison with the baseline before the enactment)

- Avoiding the over indebtedness of the consumers (as a consequence of the better risk management);
- For consumers with bigger incomes:
  - higher amounts of loans
  - no or less advanced payments for mortgage loans.
- Wider range of products.

Concepts of benefit assessment are explained further in *Impact Assessment Guidelines*, at pp. 33-34 and in Appendix 4

Step 4 – Analysis of impacts (Regulated firms - 1)

i) **Costs to regulated firms** (Please think about the incremental costs incurred by regulated firms after the regulation was enacted in comparison with the baseline before the enactment)

• Direct/compliance/indirect costs:

Compliance costs:
-establishing their own norms in accordance with the regulation requirements;
- implementing and IT costs;
- personnel;
- validation of the internal norms
Indirect:
Competitive costs:
- because of the time gap of the validation process of internal norms by NBR;
- Romanian lenders would be disadvantaged in relation with lenders which do not have to comply with the regulation (European Passport Lenders)

Concepts of cost assessment are explained further in *Impact Assessment Guidelines*, at pp. 31-32 and in Appendix 3

Step 4 – Analysis of impacts (Regulated firms - 2)

i) **Costs to regulated firms** (Please think about the incremental costs incurred by regulated firms after the regulation was enacted in comparison with the baseline before the enactment)

• **Fixed**: IT implementation, salary costs of the team engaged in editing the internal norms and training costs

• **Variable costs**: salary costs of the direct-sales teams (sales bonus payments)

• **One-off**: IT, personnel

• **On-going costs**:

Concepts of cost assessment are explained further in *Impact Assessment Guidelines*, at pp. 31-32 and in Appendix 3

Step 4 – Analysis of impacts (Regulated firms - 3)

ii) **Benefits to regulated firms** (Please think about the incremental benefits obtained by regulated firms after the regulation was enacted in comparison with the baseline before the enactment)

-Increasing of lending activities → bigger profits;

-Better risk management;

-Better reputation.

Concepts of benefit assessment are explained further in *Impact Assessment Guidelines*, at pp. 33-34 and in Appendix 4