



MINISTRY OF ECONOMY AND FINANCE
ROMANIA



Regulatory Impact Assessment Main Findings and Policy Recommendations

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

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Working Group Composition

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1. Problem identification

- The 2005 NBR Norm nr. 10 needed to be repealed because of increased competition from EU banks
 - Standard indebtedness levels - monthly reimbursements lower than 30 % of family net incomes for personal loans and 35% for real estate loans
 - Compulsory down payment for real estate loans (25%)

Problem identification (2)

Banks were not able to establish categories of customers

- Authorities were considering if and how to replace this norm
- We have prepared analysis and recommendations for a policy initiative

Problem identification (3)

Due to the fact that the maximum uniform indebtedness levels did not allow lenders to set their **own risk management system** based on their risk profile in order to provide a **higher level of competitiveness** and that they **restrained some categories of consumers** to obtain bigger credits, it was necessary to eliminate them.

It was a **regulatory failure**.

Problem Identification (4)

- The consulted stakeholders agreed that the problem was the above mentioned one.
- Issues:
 - the new regulation does not create a sound competitive market for credit institutions;
 - consumers' interests seemed not to be taken into consideration.

2. Policy objectives

The working group identified the following objectives for a new policy initiative:

- *General objectives:*
 - the financial stability;
 - the proper functioning of the credit sector.

- *Specific objectives:*
 - developing responsible lending practices;
 - provide enhanced access to credits to specific categories of clients.

Policy objectives (2)

- *Operational objectives:*
 - banks' internal norms shall provide: 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.

3. Policy options

Do Nothing Option	Option 1	Option 2	Option 3
<p>- Maintaining the provisions of Norms no. 10/2005 .</p> <p>-There would have been maintained restrictions imposed by NBR, the banks could not develop their own policies in this field.</p>	<p>-The new Regulation no. 3/2007.</p> <ul style="list-style-type: none">- responsible lending principles based on consumers' risk profile and risk management- no specified levels for indebtedness- lenders shall provide their own levels within their internal norms for each category of clients- the internal norms are subject to NBR's validation	<p>- Self Regulation (e.g. A Voluntary Code elaborated by Lenders Professional Association).</p>	<p>- Bring amendments to Norms no. 10/2005 in order to keep uniform limits at the level of all financial institutions, but adjusted to different categories of consumers (incomes).</p>

3.4 Cost/Benefit Analysis - Consumers

Costs	Benefits	Net Benefits
DNO: increased fees and commissions, lending on longer terms	Protection to overindebtedness	Difficult to estimate
O1: more time spent on comparing options; higher fees; living expenses deducted from the available resources	Increased variety of products; more opportunities for certain categories	Difficult to estimate
O2: fees and commissions even higher than in the other 2 previous options	Diversity of products; customer oriented approach; better credit risk management	Difficult to estimate
O3: limited access for some consumers; no ticket meals	Increased access to lending for some consumers	Difficult to estimate

Cost/Benefit Analysis – Credit Institutions

Costs	Benefits	Net Benefits
DNO: asymmetric impact; limited offer;	Higher fees and commissions; low competition	Difficult to estimate
O1: banks: 21.800 Euro NBFIs: 42.000 Euro	More responsible lending; risk management improved	Difficult to estimate
O2: compliance costs to regulated banks	Lower costs than implementing mandatory legal provisions	Difficult to estimate
O3: same as Option 1	No estimation provided	Difficult to estimate

5. Comparison of the options

- **The recommended policy option is Option 1.**
- **The reasons that stand behind this decision are:**
 - ❖ **In terms of costs incurred by regulated firms:**
 - **Option 1** seems to be more expensive than the other options but this is due also to the fact that the main stakeholders did not provide the relevant information needed to assess the costs for Option 2 and Option 3.
 - ❖ In terms of benefits to regulated firms:
 - **Option 1** offers more responsible lending and improved risk management than the other options;

Comparison of the options (2)

❖ In terms of market impact:

- **Option 1** generates a low variety of products, the efficiency and the quality of products offered is low as well;
- **Option 2** seems to be offering an improved quality and variety of products, and a more efficient competition. However, Option 2 seems unlikely to be favored at this moment due to a different mentality necessary to implement “voluntary regulations”;

❖ In terms of costs supported by the consumers:

- **Option 1** may lead to increased credit costs (due to implementation and compliance costs). However, the increased competition between regulated credit institutions may reduce these costs in long term;

Comparison of the options (3)

- ❖ In terms of benefits to consumers:
 - Option 1 provides improved access to lending for certain categories of consumers and a wider range of products than the other options;
- ❖ In terms of impact on competition:
 - Option 1 increases the competition on the credit market, and in the end the consumers are the main beneficiaries.

6. Policy Recommendations

- There is no doubt that the NBR's Regulation nr. 3/2007 has brought an improvement in terms of access to credit, risk management, development of the credit market.
- However, there are still some aspects that need to be corrected like creating the conditions for a sound competitive market for credit institutions, and an enhanced emphasis on consumers' needs and protection.

Policy Recommendations (2)

- Taking into consideration the objective of maintaining **financial stability**, the problems related to the distortion of competition can not be corrected at the moment. Regarding the consumers' needs and protection, this issue can be corrected if the internal norms calculate the amount of living expenses according to the different categories of consumers.

Annexes - Stakeholders consulted

- Banks ;
- Non-banking financial institutions ;
- The National Authority for Consumer Protection - representing the consumers.

Consultation process – credit institutions

- **Problem identification**
- **Assessments** – quality and variety of products
 - efficiency of competition
- **Estimation of** – compliance costs
 - impact on competition
 - social impact
 - benefits

Consultation process - consumers

- Consumers' access to lending
- Do you think that lending costs will increase? (each option)
- Do you think that lower income consumers will be disadvantaged because of taking in consideration the deductible expenses (living)? (option 1)