

Two values, not one.

A US appraisal reports one number: market value on a single date. German lenders have reported a second number for over a century, the value a property can be expected to fetch at any point over the life of the loan. Since January 2025, EU bank capital rules ask for a value built on the same idea. This issue sets out what they report and asks whether US lenders should see a second number too.

01 Germany: the mortgage lending value

The Beleihungswert dates to the Mortgage Banking Act of 1900. Today the Pfandbrief Act and the Mortgage Lending Value Regulation (BelWertV) set the method. It strips out temporary market swings and speculative elements. The rules are mechanical on purpose.

RULE	WHAT THE BELWERTV REQUIRES
Income governs	The income value is decisive and, as a rule, may not be exceeded.
Cap rate floor	Commercial: at least 4 points over the 30-year German federal bond yield. Residential: at least 3 points.
Expense floor	Deductions of at least 15% of gross income. Commercial vacancy allowance at least 4%.
Safety margins	At least 10% off the comparison and cost indications.
Lending limit	Only the part of a loan up to 60% of this value can back a mortgage Pfandbrief.

02 The EU: a prudent property value

Since 1 January 2025, Article 229 of the EU Capital Requirements Regulation sets the value banks use for real estate collateral.

NO PRICE GROWTH

The value excludes expectations of price increases.

SUSTAINABLE

It is adjusted when market value runs well above what is sustainable over the loan.

CAPPED

Never above market value. Upward revisions are held to an eight-year average for commercial property.

Both systems answer a question US appraisals do not: what is this collateral worth across the life of the loan, not on one day?

03 Does it make lending healthier? Mostly.

THE RECORD

No Pfandbrief has defaulted under the Pfandbrief Act or its predecessor. Germany had no 2008 housing bust. Its biggest property-bank rescue, Hypo Real Estate, failed on short-term funding, not mortgages.

THE LIMITS

The rules protect bondholders more than banks. German lenders took heavy US office losses in 2023–24; at Aareal, about €1 billion of a €4 billion book was non-performing at end-2023.

THE COST

Lower values mean smaller loans and more equity, most of all in a boom. That is the design. Housing supply also explains much of German price stability.

04 One US value, and what a second would show

US rules define market value "as of a specified date." A lender also asks whether the income will carry the loan at refinance. A debt-supported value answers that at stated loan terms and a coverage test. Unlike the German figure, it moves with rates.

\$10 MILLION APPRAISAL, 6.6% CAP RATE

VALUE

Market value, as reported	\$10,000,000
Net operating income	\$660,000
Maximum loan, 1.25× at 6.85%, 25 years	\$6,310,603
Debt-supported value, 75% loan to value	\$8,414,138
Gap	\$1,585,862 (15.9%)

The gap is typical: in ARC's ongoing study of 330 reviewed appraisals, more than half concluded above debt-supported value, by a median 15%. A 75% loan here covers debt service 1.05 times.

05 A proposal for discussion

- 01 **Keep market value.** It stays the basis for loan to value limits.
- 02 **Add a second number beside it.** Debt-supported value on commercial appraisals, terms shown.
- 03 **Define it once.** One standard definition, so figures compare.
- 04 **Let regulators recognize it.** Name it in the Interagency Guidelines as supplemental.

Sources. German Pfandbrief Act; Mortgage Lending Value Regulation (BelWertV) of 12 May 2006 as amended 4 October 2022, English translation published by the Association of German Pfandbrief Banks (vdp); EU Regulation 575/2013, Article 229, as amended, applicable from 1 January 2025; 12 CFR 34.42(h); vdp, Pfandbrief security; Aareal Bank 2023 results as reported by REFIRE, 7 March 2024; Business Standard, 6 October 2008, on Hypo Real Estate. **Limits.** A summary for discussion, not legal advice; check the governing texts before relying on any rule. The illustration is hypothetical. ARC's study figures are machine-read and spot-checked. Debt analysis falls outside the scope of ARC's appraisal reviews.