ESRB
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EUROPEAN CENTRAL BANK
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Template for notifying national macroprudential measures not covered by CRR/CRD

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1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority.	[Národná banka Slovenska]
1.2	Name of the macroprudential measure that is notified.	[1. Limit on debt service to income ratio for housing loans 2. LTV limits for housing loans 3. Maturity limits for housing loans]
2. Description of the measure		
2.1	Description of the measure.	[**1. Limit on debt service to income ratio for housing loans** (tightening of the measure transferred from existing recommendation) **Loan instalments** (for both new and existing loans, subject to assumed interest rate increase by 2 p.p., if interest rate is not fixed) **cannot exceed 80 % of borrower's disposable income. Disposable income is defined as net income less the minimum subsistence amount** (including the minimum subsistence amount for children and spouse, if applicable). **2. LTV limits for housing loans** (all three apply in parallel) a) LTV cannot exceed 100 % (measure transferred from existing recommendation) b) Share of new loans with LTV > 90 % cannot exceed 10 % (measure transferred from existing recommendation) c) Share of new loans with LTV > 80 % cannot exceed 40 % (new measure)

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		3. Maturity limits for housing loans a) loans secured by RRE: 30 years with possible exemption of 10 % of new loans (measure transferred from existing recommendation) b) loans not secured by RRE granted by building societies: i) maximum maturity: 30 years ii) max share of new loans over 25 years: 10 % iii) max share of new loans over 20 years: 20 % (new measure) c) other loans not secured by RRE: 8 years (measure transferred from existing recommendation)
2.2	Legal basis and process of implementation of the measure.	All measures are adopted in the form of binding NBS Decree No 10/2016, laying down the details of its assessment of the consumer's ability to repay a housing loan. The decree has been adopted in accordance with Article 7 (16) of the Act No 90/2016 Coll. on housing loans, as amended.
2.3	Coverage	**Exposures:** All new housing loans in accordance with Act on housing loans, except refinancing loans without a significant top-up (i.e. top-up less than both 5 % and 2000 €). **Institutions:** All institutions providing housing loans (banks as well as non-banks)
2.4	Any other relevant information.	The implementation of the measures is related to transformation of the existing non-binding NBS Recommendation No 1/2014 into binding law. As indicated above, some parts of the measures have already been in place and they are only changing their legal status from non-binding to binding, others are new or tightened (DSTI limit, maximum share of new loans with LTV > 80 %). The measures are further underpinned by additional qualitative requirements included in the Decree, notably in the area of income declaration, income verification and internal RRE appraisal standards. After the Decree has been adopted, redundant parts of the NBS Recommendation will be repealed.
3. Timing		

3.1	Timing of the decision	[13 December 2016]
3.2	Timing of the publication	[Second half of December 2016 (tbc)]
3.3	Disclosure	[**Communication with stakeholders:** Several rounds of intense discussions over the period of 7 months with all relevant stakeholders (most notably, associations of banks as well as non-banking lenders and Ministry of Finance) have taken place and numerous comments were taken into account, including the proper design of phase-in arrangements. **Communication with general public:** The intention to adopt these measures has already been communicated in May 2016 FSR, with more detailed information provided in November 2016 FSR. During summer period, extensive communication with journalist community, including information meetings, has been conducted.]
3.4	Timing of the application	[**1. Debt service to income limit for housing loans** <u>Date of activation:</u> 1 March 2017 <u>Phase in:</u> The limits are set as follows: 1 March 2017 – 30 June 2017: 95 % 1 July 2017 – 31 December 2017: 90 % 1 January 2018 – 30 June 2018: 85 % From 1 July 2018: 80 % **2. LTV limits for housing loans** <u>Date of activation:</u> 1 January 2017 <u>Phase in:</u> No phase-in arrangements are applicable to limits 2a and 2b (see Q 2.1). Limit 2c is phased-in as follows: Share of new loans with LTV > 80 % cannot exceed i) 50 % during first half of 2017, ii) 40 % from 1 July 2017.

		3. Maturity limits for housing loans Date of activation: 1 January 2017, no phase-in
3.5	End date (if applicable)	Not applicable.
	4. Reason for the activation of the measure	
4.1	Description of the macroprudential risk to be addressed.	The main vulnerability in the Slovakian housing market is related to the household stretch, in particular rapid credit growth leading to increasing indebtedness of Slovakian households, although it is still relatively low compared to EU average. In addition, vulnerabilities related to household stretch could be further amplified by high share of refinancing with top-ups (contributing to higher debt concentration), high share of mortgages sensitive to interest rate changes and low financial asset-to-debt ratio. Furthermore, there is some evidence that indebtedness is concentrated in certain age and income cohorts. The existing NBS Recommendation has already been quite effective in stopping a decline in lending standards. However, the low interest rate environment and the recent legislative changes easing refinancing conditions continued to support an increasing demand for housing loans. Hence, the NBS decided to exploit the opportunity to recalibrate some parameters when transforming the recommendation into a binding measure.
4.2	Description of the indicators on the basis of which the measure is activated.	Household loan growth rates have been basically above 10% since the outbreak of the financial crisis for the past two years. Household credit-to-disposable income has risen significantly from 41 % to 61 % between 2011 and 2016. RRE price growth has picked up since late 2014, following an earlier boom/bust cycle. Flat prices growth in the secondary market has continued to accelerate moderately (by 1 percentage point per quarter) to reach 9%, year on year, in the third quarter of 2016. The share of housing loans with an LTV ratio above 90% has continued to decrease, since all banks are providing such loans in compliance with NBS's Recommendation No 1/2014. The share of loans with a loan-to-value (LTV) ratio above 80% remained just below 50% throughout the third quarter. At the same time, however, the concentration of loans with an LTV ratio fluctuating around 90% increased further.

4.3	Effects of the measure.	The main purpose of the Decree is to ensure that credit growth is sound and sustainable. This will reduce risks to both customers and banks and stem the build-up of imbalances in the property market.
5. Cross-border and cross-sector impact of the measure		
5.1	Assessment of cross-border effects and the likely impact on the internal market (Article 133(11)(d) of the CRD IV and Recommendation ESRB/2015/2)	Cross-border effects are not expected. The measures are directly applicable to all new housing loan contracts within Slovak jurisdiction, irrespective of whether the lender is domestic or foreign. In addition, housing loans to Slovak households provided in abroad are virtually non-existing. In addition, we do not expect any shift from domestic lending activities to abroad or vice versa as a result of the measures taken.
5.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	For housing loans, potential leakages should be prevented, given that the Decree is directly applicable and binding to all providers of housing loans. However, temporary leakages might arise due to the fact that consumer loans are still under the existing recommendation regime which has not been applicable to non-bank providers and the DSTI limits for consumer loans is still on the level of 100%. These leakages will be addressed by additional NBS Decree which should be adopted during 2017.
5.3	Request for reciprocation	**Reciprocation:** Not requested (see the explanation described in Q 5.1)
6. Miscellaneous		
6.1	Contact person(s) at notifying authority.	Marek Ličák Director of the Macroprudential Policy Department +421 2 5787 2863 marek.licak@nbs.sk
6.2	Any other relevant information.	This is a formal notification of the measures adopted. Before the adoption, extensive communication with both ECB and ESRB has taken place and the measures are already fed into the latest ECB Macroprudential Report as well as into the ESRB assessment of

		medium-term RRE vulnerabilities. Slovak version of the decree is available at http://www.nbs.sk/_img/Documents/_Legislativa/_Vestnik/OPAT10-2016.pdf English translation of the decree will be available on the NBS's website in due course.]