Notification template for borrower-based measures

Please send/upload this template to:

- macropru.notifications@ecb.europa.eu when notifying the European Central Bank (ECB);
- DARWIN/ASTRA when notifying the European Systemic Risk Board (ESRB).

This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure[1].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority	Bank of Lithuania
1.2	Country of the notifying authority	Lithuania
1.3	Type of borrower-based measure	Please select one of the measures listed below: ☐ Debt-service-to-income (DSTI) ☐ Loan-to-income (LTI) ☒ Loan-to-value (LTV) ☐ Debt-to-income (DTI) ☐ Loan maturity ☐ Other (please provide a short, name-like description here and provide more details in Section 2)
1.4	Type of notification	What do you intend to notify? ☐ Activation of a new measure ☒ Change to an existing measure ☐ Extension of an existing measure ☐ Termination of an existing measure

[1] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

2. Description of the measure		
2.1	Description of the measure	Provide a detailed description of the measure, including: - The nature and value(s) of the restrictions imposed by the measure, as applicable. If the measure varies depending on certain characteristics of the loan or borrower, please specify all such cases. - Whether exceptions from the measure are allowed. If so, please specify the nature and size(s) of the exceptions, as applicable. *On 11 November 2021, the Board of the Bank of Lithuania approved Resolution No 03-191 amending Resolution No 03-144 of the Board of the Bank of Lithuania of 1 September 2011 on the Responsible Lending Regulations and made changes to the application of the LTV limit for acquirers of housing loans with outstanding other housing loans with high current LTV. Previously there was a requirement included in the Responsible Lending Regulations, that stricter LTV requirement than 85% (current baseline LTV limit) should be applied to those acquiring second and subsequent mortgage loans, however, the exact limit was determined at the discretion of the lender. Subsequently,* ***the Bank of Lithuania introduced a concrete LTV requirement to those acquiring the second and subsequent housing loans and set it at 70%.*** *A new housing loan agreement shall be understood as newly concluded housing loan agreement or amendments to the terms and conditions of an existing housing loan agreement increasing the total amount of the credit.* *Exempt from the requirement are the borrowers who:* *a) are acquiring the second or subsequent housing loan when the current LTV of each of her/his previous loans is lower than 50%. In such cases the LTV must be lower than 85%, the exact rate to be determined by the lender, provided it is below 85%.* *b) have only one housing loan and seek to increase its amount without providing additional collateral*

		or providing their own real estate as a collateral. In these cases, the LTV limit of 85% applies. *The amended requirements will come into force on 1 February 2022 and will be applicable to new housing loans. To consider the legitimate expectations of those borrowers who are in the process of housing purchase, the exceptions will also be given to those who:* • *have received a binding offer from the credit provider to issue a housing loan before the effective date of the amendments (1 February 2022)* *have signed a preliminary sale and purchase agreement for the purchase of the real estate which will be used as a collateral for the loan before the date of the decision to apply these changes (11 November 2021).*
2.2	Definition of the measure	Please provide a detailed definition of each variable used in the construction of the indicator which is subject to the restrictions, as applicable (e.g. define what constitutes the value of the loan (L) and what counts towards valuation of the collateral (V) for an LTV indicator). Please include: a) Value of the loan/debt (for loan/debt-to-income), or value of the loan/debt instalments (for loan/debt service-to-income indicators) - What types of loans are included? b) Value of the collateral - What type of collateral can be included? c) Income - Is it gross or net income? What types of incomes are considered? If average income is considered, how long is the period considered? *L – the credit amount which may be used under a credit agreement.* *V – the market value or price of mortgaged real estate, whichever of the two is lower, where:* *a) the market value of mortgaged real estate – the market value of mortgaged real estate, estimated in accordance with the provisions of Article 14 of the Law on Real Estate Related Credit of the*

		Republic of Lithuania (hereinafter referred to as the Law); *b) the price of mortgaged real estate – the price of real estate specified in the real estate purchase and sale contract concluded no earlier than one year prior to filing the application;* *c) where the price of real estate is unknown (the real estate has been inherited, donated, etc.) or the borrower can provide reasonable evidence (a real estate valuation report, etc.) that the market value of the real estate, as a result of investments made in that real estate, is higher than that at the time of the conclusion of the real estate purchase and sale contract, the value of the mortgaged real estate shall be established on the basis of the market value of the mortgaged real estate.* *When meeting of the obligations under a credit agreement is secured by mortgage of additional or other real estate, the loan-to-value ratio of credit amount and the real estate to be acquired or constructed should be assessed;*
2.3	Legal basis and process of implementation of the measure	Specify the legal basis and process of implementation of the measure. Please include: - how the notified measure is implemented; - whether or not the notified measure is legally binding (e.g. a recommendation); ○ if the measure is non-legally binding, please provide the reasons why this choice was made and provide details of the means by which compliance with this measure can be fostered. *The changes to the measure were made by amending Resolution No 03-144 of the Board of the Bank of Lithuania of 1 September 2011 on the Responsible Lending Regulations.* *The measure is legally binding.*

2.4	Coverage	a. Which types of credit providers will be covered by the measure? e.g. credit institutions (including local branches of foreign credit providers), certain other financial institutions (e.g. pension funds, insurance companies, investment funds), etc. Please specify whether coverage of the measure is limited based on the type of activity of the credit provider, e.g. to mortgage credit providers. *The measure is applicable to all lenders issuing housing loans under the scope of Responsible Lending Regulations, meaning:* *a) credit agreements specified in Article 2(1) of the Law;* *b) credit agreements concluded by natural persons seeking to engage in the activities of leasing and maintaining real estate, residential and non-residential construction, which may be carried out by obtaining a business certificate or an individual activity certificate in accordance with the procedure set forth by legal acts of the Republic of Lithuania.*
		b. Which types of borrowers will be covered by the measure? e.g. only natural persons, only legal entities, both natural persons and legal entities, etc. *The amended measure will apply to natural persons only.*
		c. Which types of lending will be covered by the measure? e.g. mortgage loans, consumer loans that are provided to consumers with a mortgage, consumer loans, debt securities issued and overall debt of non-financial companies, etc. *The amended measure will apply to mortgage loans.*
2.5	Calibration	Provide information on how the measure was calibrated, including the main assumptions used therefor. *The calibration of the amended measure is based on the results provided by the in-house micro-level credit risk assessment models. The models suggest that in view of an adverse economic scenario, households with other*

		recent housing loans with high current LTV ratio (higher than 70%) would need a higher down-payment, i.e., of at least 16-24% for the second housing loan. Such a requirement would ensure that the total credit risk of a household with two home loans would not exceed the credit risk of the same household with a single housing loan. However, in view of increased macro-prudential risks to financial stability, where investment in housing while obtaining a second loan contributes to the imbalances in the housing market, the decision was made to impose a stricter down-payment requirement of at least 30% for applicants of second and subsequent housing loans. Also, given the rapid growth of housing prices in Lithuania, the threshold for adequate amortization of the existing loans was lowered to current LTV of less than 50%, meaning that only households whose current LTV limits of all the previous unpaid housing loans are below 50% can be exempted from the stricter LTV requirement.
3. Timing for the measure		
3.1	Timing for the decision	What is the date of the official decision of the notified measure? 11/11/2021
3.2	Timing for publication	What is the date of publication of the notified measure? 11/11/2021
3.3	Disclosure	Provide information about the strategy for communicating the notified measure to the market. Please provide a link to the public announcement, if any. *The market participants were informed about the intended measure in a press release by the Bank of Lithuania on 28 September 2021 (https://www.lb.lt/en/news/bank-of-lithuania-takes-measures-to-prevent-the-heating-up-of-the-real-estate-market). Following that, the public consultation was launched inviting market participants and other interested parties to provide comments on the proposed measure*

		and the exact legal text of its implementation. Comments and suggestions received were thoroughly evaluated and considered when preparing the final version of the design of the measure. The implementation of the measure was announced straight after its adoption by the Board of the Bank of Lithuania in a form of a press release (https://www.lb.lt/en/news/second-and-subsequent-housing-loans-will-require-a-larger-down-payment-from-1-february). The information about the changes in the Responsible Lending Regulations was also publicised on the public legislation platform (information only available in Lithuanian).
3.4	Timing for the application	What is the intended date for application of the measure? What is the intended timeline for phase-in of the measure, if relevant? 02/01/2022
3.5	End date (if applicable)	Until when is it presumed that the measure will be in place? If applicable, please give an end date. Not applicable.
4. Reason for activation of the measure		
4.1	Description of the macroprudential risk	Describe the macroprudential risk to be addressed by the proposed macroprudential measure. *The intended measure addresses macroprudential risk stemming from the household sector, by equalizing the risk of borrowers acquiring first and subsequent loans, reducing investment incentives and expectations and limiting credit flows, in the light of continued rapid growth of housing loan portfolio, accelerated growth of housing prices and their potential overvaluation.* *The ratio of annual flow of new mortgages to GDP began to outpace the economy at the end of 2020 and increased to 3.9% in Q2 2021, the highest since Q4 2009. As the flow of new mortgage loans remains elevated, and GDP growth will likely continue to be outpaced by mortgage lending growth.*

		The annual growth of the mortgage portfolio has been strong since 2016, with the average of 8.4% between 2016 and 2021. With an increased amount of new loans for housing purchase (e.g. in the first eight months of 2021, the total of pure new loans was respectively 56% and 50% higher than in the corresponding periods in 2020 and 2019), the mortgage loan portfolio accelerated to the fastest rate since the 2008–2009 financial crisis and one of the fastest among the EU countries (annual growth of 11.1% as of August 2021). *The annual housing price growth has picked up since the end of 2020 reaching 13.3 % in Q2 2021, and initial data suggests that price growth continued to accelerate in Q3. At the same time, the housing sales are at historical heights. Signs of overvaluation of housing prices have appeared for the first time after the global financial crisis as the median of a set of 6 relative and model-based indicators used by the Bank of Lithuania in the assessment of housing price overvaluation suggest slight overvaluation of around 7%. Rapid price growth, excessive expectations of further price growth and speculative investments in the RRE increase the risk of housing becoming significantly overvalued.* *The exposure of the Lithuanian banking sector to the RRE risks is significant and continues to grow. Mortgage loans accounted for about a third of the total portfolio of loans to the private non-financial sector in 2011–2018, however, with the onset of the COVID pandemic, strong growth of mortgage loan portfolio, and the contraction of non-financial corporations' (NFCs') loan portfolio, it reached 44% in August 2021. Thus, formation and materialisation of imbalances in the RRE sector could adversely affect the entire financial system.* *Despite the increased activity in the housing market, bank lending standards remain robust (for new loans, average LTV deviates around 77–78% and DSTI – 28%), and the share of housing purchases with a mortgage has remained rather stable (42% by number and 58% by transaction value).*

		However, the volumes of issuing second mortgages that typically carry more risks have been increasing. During the pandemic the share of the second and subsequent housing loans increased from 10% to 12% of the flow of new loans for housing purchase. The growth in the share of such loans has been observable in all regions of the country, and particularly noticeably in the seaside region. *The micro data analysis based on the Household Financial Monitoring Information System (HFMIS) containing household level data, shows that second and subsequent mortgages are on average riskier than the first mortgages, in the sense that they default more frequently.* *It is expected that stricter LTV requirement for second and subsequent mortgages would reduce the demand for secondary mortgages for investment purposes and increase the sustainability of the housing loan market.*
4.2	Indicators used for activation of the measure	Provide the indicators triggering activation of the measure. Provide the data on which the decision is based if possible (preferably in an Excel file). *The combination of indicators triggering the activation of the intended measure are as follows:* • *annual growth in mortgage loan portfolio by MFIs,* • *ratio of mortgage loan portfolio by MFIs and the GDP and its annual change,* • *annual growth of pure new loans for house purchase (12-month sum),* • *ratio of pure new loans for house purchase to the GDP and its annual change,* • *annual growth in housing price index,* • *a measure of the potential overvaluation of housing prices (median of a set of 6 relative and model-based indicators),* • *share of loans for house purchase in MFI loan portfolio,* • *internal forecasts of annual growth in loan to household's portfolio and housing prices,*

		• *projected growth in mortgage loan portfolio by banks (reported in line with the ESRB Recommendation of 20 December 2012 on funding of credit institutions (ESRB/2012/2)).* *share of second and subsequent housing loans in the flow of new housing loans.*
4.3	Effects of the measure	Provide your assessment of the effects of the measure on your domestic banking system, other parts of the financial system, the real economy and financial stability in your country. *The Bank of Lithuania considers this measure to have an insignificant impact on the domestic banking system and real economy in general but is expected to have a positive effect on financial stability through an increased resilience of the borrowers. It is expected that the amendment will affect approximately 4.5% of new borrowers, in the sense that they would not be able to borrow on the same conditions as before the amendment of the measure. Based on our calculations, it would result in a potential 1.9% decrease in credit flow, as some of the borrowers are expected to choose to take out smaller loans with higher down payment share, and only part of the borrowers would opt out of taking out second loans altogether.*
5.	**Sufficiency, consistency and non-overlap of the policy response**	
5.1	Sufficiency of the policy response	For a macroprudential policy to be 'sufficient', the policy responses must be deemed to significantly mitigate, or reduce the build-up of, risks over an appropriate time horizon with a limited unintended impact on the general economy. Note that the ESRB will use this assessment of the macroprudential stance as relevant input in assessing the sufficiency of the macroprudential policy in the Member State.

		Please provide any additional information that the ESRB should consider in assessing the sufficiency of the policy response. *The Bank of Lithuania considers the intended measure sufficient and appropriate for the observed level of the systemic RRE risk. The intended measure will complement other existing borrower-based measures in addressing the RRE sector risks by increasing borrowers and financial sector's resilience.* *The intended measure is targeted, applied only to those acquiring second and subsequent mortgages, and should not negatively affect other financial products. The expected impact on main variables is described in detail in Section 4.4.*
5.2	Consistency of application of the policy response	For a macroprudential policy to be 'consistent', the policy instruments must be deemed to meet their respective objectives, as outlined in ESRB/2013/1[2], and they must be implemented in accordance with the common principles set out in the relevant legal texts. Note that the ESRB assessment of consistency will consider whether the same systemic risks are addressed in a similar way across and within the Member States over time. Please provide any additional information that the ESRB should consider in assessing the consistency of the policy response. *The Bank of Lithuania considers its amended LTV measure as consistent with the intermediate objectives recommended by the ESRB (namely, mitigating and preventing excessive credit growth and leverage).*
5.3	Non-overlap of the policy response	For a policy instrument to be 'non-overlapping', it should aim to address a systemic risk that either differs from the risk addressed by other active tools in the same Member State, or to be complementary to another tool in that Member State which addresses the same systemic risk.

[2] Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) (OJ C 170, 15.6.2013, p. 1).

		- Are other policy instruments used to address the <u>same</u> systemic risk? - If yes, please explain the need for more than one instrument to address the same systemic risk and how the different instruments interact with each other. *The amendment of the LTV limit for second and subsequent mortgage loans complements the existing borrower-based measures (LTV, DSTI, stressed-DSTI and maturity limits) by increasing borrowers and financial sector's resilience.* *The changes to the LTV measure complement the previously existing regulation by setting the specific LTV limit for the second and subsequent mortgage loans. Previously, there was a requirement in place to apply stricter LTV limit to such loans, but no exact limit was set.*
6. Cross-border and cross-sector impact of the measure		
6.1	Assessment of cross-border effects and the likely impact on the Internal Market (Recommendation ESRB/2015/2[3])	Assessment of the cross-border effects of implementation of the measure. a. Assessment of the spillover channels operating via risk adjustment and regulatory arbitrage. The relevant indicators provided in Chapter 11 of the ESRB Handbook on Operationalising Macroprudential Policy in the Banking Sector[4] and the Framework to assess cross-border spillover effects of macroprudential policies of the ECB Task Force on cross-border spillover effects of macroprudential measures can be used. b. Assessment of the: ○ cross-border effects of implementation of the measure in your own jurisdiction (inward spillovers); ○ cross-border effects on other Member States and on the Single Market of the measure (outward spillovers); ○ overall impact on the Single Market of implementation of the measure.

[3] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).
[4] Available on the ESRB's website at www.esrb.europa.eu.

		Based on the available information, the Bank of Lithuania does not foresee any significant impact on the internal market. *Inward effects through cross-border risk adjustment are unlikely as amended measure (as well as all the other measures defined in the Responsible Lending Regulations) is activity-based and applied to all lenders issuing loans falling within the scope of the Responsible Lending Regulations. This means that the amended measure will be applicable to credit institutions (including local branches of foreign credit institutions) and other financial institutions, peer-to-peer lending platforms or other credit providers that are included in the public creditor list which is a prerequisite for providing such services in Lithuania. Also, direct cross-border mortgage lending to Lithuania is likely to be minimal: Financial Account Statistics suggest that the outstanding amount of household long-term loans vis-à-vis the rest of the world is around EUR 0.1 million (as of Q2 2021).* *Outward effects through cross-border risk adjustment are likely to be negligible. Lithuanian banks are universal banks focused on domestic lending, do not have foreign branches or subsidiaries, and do not engage in cross-border activity. Based on the readily available data, only 1% of the banks' mortgage exposure is cross-border (0.5% to EEA and 0.5% to third countries as of Q2 2021).*
6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	Referring to your Member State's specific characteristics, what is the scope for "leakages and regulatory arbitrage" in your own jurisdiction (i.e. circumvention of the measure/leakages to other parts of the financial sector)? Is there scope for "leakages and regulatory arbitrage" in other jurisdictions? *In our assessment, the risk of circumvention of the measure in our jurisdiction is minimal, as the measure is activity-based and applied to all lenders issuing loans under the scope of the Responsible Lending Regulations.*

6.3	Request for reciprocation	Do you intend to ask the ESRB to issue a recommendation to other Member States to reciprocate the measure? Choose an item. - If yes, please provide in Section 6.4 the justification for that reciprocity. - If no, what are the reasons for not requesting reciprocation? *We do not intend to request reciprocation of this measure as we assess the potential for leakages and regulatory arbitrage as negligible.*
6.4	Justification for the request for reciprocation	To request reciprocation, please provide the following: a. a concise description of the measure to be reciprocated; b. the financial stability considerations underlying the reciprocity request, including the reasons why the reciprocity of the activated measure is deemed necessary for its effectiveness; c. the proposed materiality threshold and justification for that level. If the ESRB deems the request for reciprocation to be justified, the description provided will form the basis for translation into all EU official languages for the purposes of an update of ESRB Recommendation 2015/2. *N/A*
7. Miscellaneous		
7.1	Contact person(s)/mailbox at notifying authority	Contact person(s) (name, phone number and e-mail address) and mailbox for further inquiries. *Nijolė Valinskytė, Head of the Macroprudential Policy Division, +370 650 40 605 (nvalinskyte@lb.lt)* *Milda Stankuvienė, Principal Economist, Macroprudential Policy Division, +370 659 36 954 (mstankuviene@lb.lt)*
7.2	Any other relevant information	N/A

7.3	Date of the notification	Please provide the date on which this notification was uploaded/sent. 26/11/2021