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	Banco de Portugal
1.2	Country of the notifying authority	Portugal
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authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

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2. Description of the measure		
2.1	Description of the measure	Amendment to the macroprudential Recommendation on new credit agreements for consumers, regarding: i. Debt-service-to-income: considering the recent increase in reference interest rates, the Banco de Portugal revised the interest rate rise considered in the numerator of the DSTI ratio to 0.5 p.p. for new business with a maturity of up to and including 5 years, 1 p.p. for agreements with a maturity of 5 to 10 years, and 1.5 p.p. for agreements with a maturity of over 10 years; ii) Loan Maturity: the Recommendation established that the average maturity of the set of new credit agreements relating to residential immovable property and credit secured by a mortgage or equivalent guarantee granted during each year by each institution gradually converges toward 30 years, until the end of 2022. Since the end of 2022, the Banco de Portugal clarified that the average maturity of all new credit agreements for house purchase, credit secured by a mortgage or equivalent granted by each institution shall not exceed 30 years.
2.2	Definition of the measure	Debt-service-to-income: the measure concerns the revision of the impact of an interest rate rise in the numerator of the stressed DSTI ratio. Loan Maturity: the measure concerns the average maturity of the new agreements for credit relating to residential immovable property or credit secured by a mortgage or equivalent guarantee.
2.3	Legal basis and process of implementation of the measure	The Banco de Portugal is the macroprudential authority in Portugal, according to article 16-A of its Organic Law (law n.º 5/98, 31 January 1998, as amended by Decree-Law No. 118/2001 of 17 April 2001). The mandate for financial stability, which is enshrined in its Statutes, allows the Banco de Portugal to implement Recommendations to the financial sector. The measures are adopted by the Banco de Portugal as a Recommendation, based on the "comply or explain" principle. The credit institutions targeted should respect the limits applied; otherwise, they must justify their non-compliance. The Banco de Portugal will assess the adequacy of the justifications presented by the credit institutions.

2.4	Coverage	The Recommendation applies to all credit institutions and financial companies that have head offices or branches in the Portuguese territory.
		Only natural persons.
		Debt-service-to-income: loans to consumers Loan Maturity: only mortgage loans.
2.5	Calibration	Not applicable.
3. Timing for the measure		
3.1	Timing for the decision	Loan Maturity: 01/08/2023 Debt-service-to-income: 03/10/2023
3.2	Timing for publication	Loan Maturity: 09/10/2023 Debt-service-to-income: 09/10/2023

3.3	Disclosure	The National Council of Financial Supervisors, under Article 2 (3) (c) of Decree-Law No 143/2013 of 18 October 2013 was consulted about the amendments to the Recommendation and to the Instruction 3/2018. Additionally, in August 2023, Banco de Portugal launched a public Consultation No 6/2023, proposing changes on the increase in the index of variable or mixed interest rate credit agreements considered in the moment that a credit is granted. The amended Recommendation will be published on a dedicated webpage in the Banco de Portugal website and in the Official Journal.
3.4	Timing for the application	Loan Maturity: 16/10/2023 Debt-service-to-income: 16/10/2023
3.5	End date (if applicable)	Not applicable.
4. Reason for activation of the measure		
4.1	Description of the macroprudential risk	Debt-service-to-income: The design of the DSTI ratio, took into account the high maturities of new credit for house purchase, by considering in its calculation an interest rate shock in the case of variable or mixed rate mortgage loans. So, when deciding on the use of variable or mixed rate loans, it is important to consider the impact of potential increases in key interest rates over the duration of the loan. Given the recent increase in reference interest rates, the Banco de Portugal revised downwards the interest rate rise considered in the numerator of the DSTI ratio. Given that new loans for house purchase are characterized by long maturities, considering a positive interest rate shock to when the loan is granted allows for the possibility of new interest rate increases, that may happen throughout the contract. Loan maturity: the average maturity of credit for house purchase and credit secured by a mortgage or equivalent guarantee in Portugal remains somewhat high compared to other European

		Union countries. Since its inception in 2018, the Recommendation established that the average maturity of loans for house purchase should converge to 30 years in 2022. The Banco de Portugal reiterated that the average maturity of all new credit agreements for house purchase, credit secured by a mortgage or equivalent granted by each institution should not exceed 30 years.
4.2	Indicators used for activation of the measure	Maturity of new housing loans were drawn from two different sources: • The Portuguese Central Credit Register; • Data reported directly by credit institutions.
4.3	Effects of the measure	The reduction in the interest rate rise considered in the numerator of the DSTI ratio partially translates the already observed interest rate increase, signalling that there is not the expectation that reference rates will be increasing again by 300 bp in the near future.
5. Sufficiency, consistency and non-overlap of the policy response		
5.1	Sufficiency of the policy response	The stressed DSTI considers the impact of an interest rate rise. The interest rate shock intended to test if borrowers would be able to keep servicing their debt in the case of interest rate increases. The Banco de Portugal believes the amendment to the Recommendation is sufficient to control the risks stemming from the current environment in Portugal. Nevertheless, the Banco de Portugal, as the macroprudential authority will continue to monitor the compliance with the Recommendation, to prevent potential distortions of competition or actions that may jeopardise the Recommendation's effectiveness.

5.2	Consistency of application of the policy response	The amendment to the macroprudential Recommendation aims to guarantee that the measures are consistent with the initial objectives of the macroprudential Recommendation.
5.3	Non-overlap of the policy response	There are no other policy instruments targeted to this source of systemic risk, thus there is no overlapping.
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[2])	Cross-border effects are not expected. The measures are directly applicable to new loans granted within the Portuguese jurisdiction, irrespective of whether the lender is domestic or foreigner. In addition, loans to resident households granted directly from abroad or loans to non-resident households granted by domestic institutions are residual, limiting the scope for both inward and outward spillovers.

[2] 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).

6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	The scope for leakages and regulatory arbitrage should be minimal given that: • The recommendation currently in force covers all providers of new loans within the Portuguese jurisdiction; • The recommendation is applicable to both consumer and mortgage loans, minimising the possibility of circumventing the limits applied to mortgages with consumer loans.
6.3	Request for reciprocation	The Banco de Portugal do not intend to request for reciprocation, given the above-mentioned information in 6.1 and 6.2.
6.4	Justification for the request for reciprocation	Not applicable.
7. Miscellaneous		
7.1	Contact person(s)/mailbox at notifying authority	Ana Cristina Leal Head of Financial Stability Department + 351 21 1597083 aleal@bportugal.pt Fátima Silva Head of macroprudential policy division +351 211597024 mfsilva@bportugal.pt
7.2	Any other relevant information	https://www.bportugal.pt/sites/default/files/2022_doclimites_en.pdf https://www.bportugal.pt/en/page/ltv-dsti-and-maturity-limits

7.3	Date of the notification	01/02/2022