Template for notifying national macroprudential measures not covered by CRR/CRD

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- notifications@esrb.europa.eu when notifying the ESRB;
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1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority.	Central Bank of Malta
1.2	Name of the macroprudential measure that is notified.	Directive No. 16 - Regulation on Borrower-Based Measures
2. Description of the measure		
2.1	Description of the measure.	The macroprudential measure will differentiate between two categories of borrowers – Category I and Category II Borrowers. The first category comprises first-time buyers (FTBs) and non-FTBs purchasing their primary residence as defined in Paragraph 6(x) of the Directive, not having outstanding residential real-estate (RRE) loans upon the signing of the deed. It includes borrowers who already own or have owned a primary residence and at the origination of the mortgage loan the pre-exisitng primary residence has either been sold or a promise of sale agreement ("*konvenju*") has been entered into; or there are pending proceedings before the Civil Court (Family Section) which hinder the sale of the primary residence. The second category of borrowers includes any other loan to purchase an RRE excluding Category I Borrowers. Loans to Category I Borrowers with a collateral market value below EUR175,000 (excluding haircuts) are *exempted* from the loan-to-value-at-origination (LTV-O) and debt-service-at-origination (DSTI-O) limits specified in the Directive. Loans falling below this threshold are still

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		subject to prudent lending policies in terms of the MFSA Notice on the Management of Credit Risk by Credit Institutions authorised under the Banking Act 1994 (BN/01/2002). The maturity limits apply for all new RRE loans. Lenders may implement tighter credit standards than those established in CBM Directive No.16. For Category I Borrowers (*for loans with a collateral market value exceeding EUR175,000*), the following caps shall apply: • 90% LTV-O with a '*speed limit*' of 10% on the volume of loans; • 40% Stressed DSTI-O with a shock to interest rates of 150 bps; • 40 years maturity cap or the official retirement age – whichever occurs first. For Category II borrowers, the following limits shall apply: • Gradual LTV-O phase-in: ▪ 1st year: 85% LTV-O cap with a '*speed limit'* of 20% on the volume of loans; ▪ 2nd year: 75% LTV-O cap with a '*speed limit*' of 20% on the volume of loans; • 40% Stressed DSTI-O with a shock to interest rates of 150 bps; • 25 years maturity cap or the official retirement age – whichever occurs first. The stressed DSTI-O shall be calculated as follows: $DSTI\text{-}O_{stressed} = \frac{(\text{Annual Repayment} \mid \Delta r_{stressed})}{\text{Gross Income}}$ $\Delta r_{stressed} = +150\text{ bp}$
2.2	Legal basis and process of implementation of the measure.	The Central Bank of Malta, as the macro-prudential authority, is responsible for formulating and implementing macroprudential policy through a number of tools, aimed at mitigating systemic or system-wide financial risk, in line with its macroprudential policy strategy. In terms of Article 17A of the Central Bank of Malta Act (Cap. 204), the Central Bank of Malta is empowered to issue directives in order to develop macroprudential tools and implement macroprudential policy.

2.3	Coverage	The Directive shall apply to all all lenders granting domestic RRE loans. The Directive is targeted to both resident and non-resident borrowers entering into new RRE loans for property within the Maltese territory secured by RRE.
2.4	Any other relevant information.	The Directive is complementary to the current lenders' credit risk management practices and is not intended to replace lenders' existing internal credit risk assessment policies. The limits imposed in the Directive shall act as a minimum standard. Apart from the notified measure, Maltese authorities have retained the more stringent measures than those applied in the CRR, whereby for mortgages secured by residential property, a 35% risk weight applies to the part of the loan that does not exceed 70% (rather than the CRR 80%) of the market value of the property. The rest of the loan is assigned a risk weight of 100%.
3. Timing		
3.1	Timing of the decision	On 22 March 2019 the JFSB as per Article 17B of the Central Bank of Malta Act recommended to the Central Bank of Malta to adopt the proposed Borrower-Based Measures for lenders. On 27 March 2019, the Governor, as per Article 8 of the Central Bank of Malta Act, adopted the Regulation on Borrower-Based Measures .
3.2	Timing of the publication	29 March 2019
3.3	Disclosure	The Central Bank of Malta announced the implementation of Borrower-Based Measures on the Central Bank website on 29 March 2019. A consultation process was launched on 1 October 2018, where interested parties were invited to submit any written feedback on the proposed Directive until 24 October 2019.

3.4	Timing of the application	1 July 2019
3.5	End date (if applicable)	N/A
4. Reason for the activation of the measure		
4.1	Description of the macroprudential risk to be addressed.	The objective of the Directive is to strengthen the resilience of lenders and borrowers against the potential build-up of vulnerabilities which could result in financial losses both to lenders and borrowers stemming from potential unfavourable economic developments.This objective is achieved by setting limits on LTV-O, DSTI-O and maturities – thereby preserving sound and prudent lending standards.
4.2	Description of the indicators on the basis of which the measure is activated.	• Distributions of LTV-O ratio, DSTI-O ratio and maturity term, segmented by the category of the borrower; • The Central Bank's macroeconometric model – STREAM - to measure the effect of the Borrower-Based Measures on the GDP and the indirect effect on house prices; The LTV-O ratios, DSTI-O ratios and the maturity term were extracted from the quarterly Survey on Mortgage and Commercial Lending Practices.
4.3	Effects of the measure.	The adoption of Borrower-Based Measures is expected to continue strengthening the resilience of both lenders and borrowers to any potential shocks and preserve sound lending standards. Following the introduction of this measure, the Central Bank of Malta will be in a position to address more effectively any future unfavourable developments. The Central Bank of Malta will continue monitoring any developments in the real-estate market. Lenders will be required to assess their compliance with the regulation annually by the internal auditor of the reporting lender and by an external auditor at the end of the financial year of the third year of application of the Directive and every third year thereafter. This without prejudice to on-site and

		off-site inspection by the MFSA and that the Bank may request a report by the external auditor subject to its discretion to carry out its functions under the Act and under any other applicable legislation. The external and internal audit assessment is to be forwarded to the Bank and the MFSA. In case of breaches of this Directive, the Bank has the right to impose sanctions in accordance with Article 56 of the Act and the provisions of Directive No 12 on Administrative Measures and Penalties for Infringement under the Central Bank of Malta Act.
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)	The regulation is applicable to new RRE loans granted by domestic lenders for property within the domestic territory. The volume of cross-border mortgage lending is very limited. At this juncture, no cross-border effects are expected.
5.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	Although the potential for any regulatory arbitrage and leakages in very minimal, the Borrower-Based Measures will apply to all domestic lenders involved in RRE lending. Therfore, non-banks involved in RRE lending will also be subject to the conditions stipulated in the Directive.
5.3	Request for reciprocation	The Central Bank of Malta is not requesting reciprocity given the non-identification of any cross-border leakages upon introduction of the Borrower-Based Measures.
6.	**Miscellaneous**	
6.1	Contact person(s) at notifying authority.	Mr. Stephen Attard attards@centralbankmalta.org; Mr. Raniero Polidano polidanor@centralbankmalta.org; Ms. Svetlana Privitelli privitellis@centralbankmalta.org.
6.2	Any other relevant information.	N/A