At its 561st meeting held on 30 August 2016, the Governing Board of the Bank of Slovenia adopted the following

MACROPRUDENTIAL RECOMMENDATION

for housing loans

I. Content and purpose of the recommendation

(1) The Bank of Slovenia is issuing the macroprudential recommendation pursuant to Article 19 of the Macroprudential Supervision of the Financial System Act.[1]

(2) This recommendation is addressed to banks, savings banks, branches of Member State banks and branches of third-country banks in Slovenia (hereinafter: banks).

(3) With the Guidelines for the macroprudential policy of 6 January 2016[2] (hereinafter: the Guidelines) and based on Recommendation ESRB/2013/1,[3] the Bank of Slovenia has put into place an operational framework for macroprudential policy and the macroprudential supervision of the banking system. In response to systemic risks identified at a given moment, the Bank of Slovenia may select the appropriate instrument from a range of possible measures and instruments aimed at limiting or preventing the further build-up of systemic risk. The range of (potential) instruments is adjusted to the selected intermediate objectives that the Bank of Slovenia pursues in the implementation of macroprudential policy. In order to pursue the intermediate objective of macroprudential policy of "mitigating and preventing excessive credit growth and excessive leverage", the Bank of Slovenia may introduce instruments for the real estate sector.

(4) Macroprudential instruments used to achieve the intermediate objective of mitigating and preventing excessive credit growth and excessive leverage in the real estate sector, as set out in the ESRB recommendation and the Guidelines, include the LTV (loan-to-value) ratio, the LTI (loan-to-income) ratio and the DSTI (debt service-to-income) ratio. The purpose of limiting the LTV and LTI/DSTI ratios is to ease the effects of the credit cycle and to increase the resilience of financial institutions. A stricter LTV ratio reduces the amplitude of the credit cycle and improves the resilience of the banking system, as potential loss given default is lower. Lower LTI and DSTI ratios reduce the probability of default. Other macroprudential instruments may be used, taking into account their effectiveness in the achievement of intermediate objectives.

(5) This recommendation shall apply to new housing loans, and set the maximum acceptable level of:
(a) the loan-to-value ratio when a loan agreement is concluded (hereinafter: the LTV ratio), and
(b) the debt service-to-income ratio when a loan agreement is concluded (hereinafter: the DSTI ratio).

(6) The credit standards of banks for new housing loans and the situation on the real estate market do not currently present any direct systemic risk to financial stability. This could change rapidly due to the sustained period of low interest rates and the relatively low level of household indebtedness. Housing loans represent a segment of lending activity that could face relatively high exposure to systemic risks at the start of a new financial cycle. The purpose of the recommendation is to ensure that existing credit standards do not become excessively loose, to improve existing risk

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[1] Official Gazette of the Republic of Slovenia, No. 100/13.
[2] http://www.bsi.si/financna-stabilnost.asp?MapaId=1739.
[3] Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macroprudential policy (ESRB/2013/1), Official Journal of the EU 2013/C 170/01.

management systems at banks and to harmonise the monitoring of credit standards amongst bank with regard to the LTV and DSTI ratios.

(7) This recommendation is issued as a preventive measure. The range of instruments and the parameters thereof are defined so that they do not encroach significantly on the current housing lending activity at the level of the banking system. This recommendation is not meant to prevent banks from granting loans with a higher LTV or DSTI ratio in justified cases, i.e. when other relevant indicators suggest loan repayment.

(8) This recommendation does not encroach on rules governing the responsibilities of banks in the assessment and taking up of risks. Banks shall continue to define their own internal business policies in the assessment and taking up of risks with respect to the value of real estate collateral and the creditworthiness of borrowers.

(9) In the context of changing circumstances and increasing systemic risks to financial stability, the Bank of Slovenia may tighten the parameters of instruments or issue a binding macroprudential supervisory measure or instrument.

II. Definition of terms

(1) The following definitions shall apply for the purposes of this recommendation:

(a) **'borrower'** means the signatory or co-signatory of a loan agreement for the purchase of residential real estate (without guarantors or lienees who establish a lien as collateral for the debt of another party, or persons acceding to debt);
(b) **'lender'** means a bank, savings bank, branch of a Member State bank or a branch of a third-country bank in Slovenia;
(c) **'loan agreement'** means an agreement between a borrower and lender under which the lender grants or promises to grant the borrower a loan in the form of a deferred payment, or a loan or similar financial agreement, the repayment of which is secured by a mortgage or other comparable right in rem on real estate, or the purpose of which is to acquire or maintain ownership rights over existing or planned real estate;
(d) **'housing loan'** means a loan granted for the purchase, construction or renovation of residential real estate;
(e) **'housing loan secured by real estate'** means a loan granted for the purchase, construction or renovation of residential real estate, where that real estate is pledged as collateral;
(f) **'residential real estate'** means immovable property intended for residential use that is located in the territory of Slovenia and is the subject of purchase, construction or renovation by a consumer;
(g) **'consumer'** means a natural person who acts for purposes outside their profession or gainful activity;
(h) **'LTV (loan-to-value)'** ratio means the ratio of the amount of a housing loan to the value of the real estate pledged as loan collateral;
(i) **'housing loan amount'** includes all housing loans or tranches (instalments) of a housing loan secured by the borrower's real estate when a loan agreement is concluded. The aforementioned amount is based on previously paid-out loans and does not include undrawn loans. In the event of real estate under construction, the 'housing loan amount' is the sum of all paid-out loan tranches (instalments). It does not include loans secured by real estate, unless the lender believes that an unsecured loan is intended for the purchase of the same residential real estate, as is a secured loan. In this case, the unsecured loan in included in the 'housing loan amount';
(j) **'value of real estate'** means the lower of the transaction value of the real estate in question (i.e. as stated in a notarial record) and the market value of the real estate as appraised by independent external or internal real estate appraisers when a loan agreement is concluded. That value does not include the value of planned renovations or construction works. In the

event of real estate under construction, that amount refers to the value of real estate until the payment of loan tranches (including increases in value due to completed construction works). It is adjusted for the value of unpaid housing loans, drawn or undrawn, that are secured by a lien on the real estate in question. In the event of several older liens, the entire amount of debt secured by a mortgage on that real estate must be deducted. A proportional adjustment must be made if the liens in question are of the same priority. It is not defined as the "long-term value" but as the value of the real estate when the associated loan agreement was concluded. For the purpose of this recommendation, the value of real estate does not take into account internal adjustments or the methods for calculating the value of real estate used by banks for risk management purposes;

(k) **'DSTI (debt service-to-income) ratio'** means the ratio of the annual costs of debt servicing to a borrower's annual income when a loan agreement is concluded;

(l) **'debt servicing costs'** include interest and the repayment of the principal on a borrower's total debt in a given period;

(m) **'borrower's debt'** refers to a borrower's entire debt when a loan agreement is concluded, regardless of whether or not it is secured by real estate collateral, including all other unpaid loans granted to the borrower by the lender who will grant a housing loan or by other lenders; and

(n) **'borrower's income'** means the annual income of a borrower when a loan agreement is concluded. A bank may take into account the following types of income when defining a 'borrower's income': annual earnings from all income sources (employment income, income earned through self-employment, pensions, earnings from unemployment and social transfers, private transfers such as maintenance payments, and earnings from the leasing of real estate, financial investments and other sources). The above-listed earnings are reduced by taxes and contributions (e.g. contributions for health and pension insurance, social security), and exclude expenses.

III. Recommendations

Recommendation A:
Limitations on the LTV ratio when entering into new housing loan agreements

1) It is recommended that the LTV (loan-to-value) ratio does not exceed 80% when entering into new housing loan agreements secured by real estate collateral.

Recommendation B:
Limitations on the DSTI ratio when entering into new housing loan agreements

1) It is recommended that the DSTI (debt service-to-income) ratio does not exceed the following values when entering into new housing loan agreements:
   a) for borrowers with monthly income less than or equal to EUR 1,700: 50%; and
   b) for borrowers with monthly income exceeding EUR 1,700: 50% for that portion of income up to EUR 1,700 inclusive, and 67% for that portion of income exceeding EUR 1,700.

   In the event of several borrowers, this provision applies to each borrower separately.

2) In the loan approval process (when assessing creditworthiness) it is recommended that banks apply, *mutatis mutandis*, the limitations on the attachment of a debtor's financial assets set out in the Enforcement and Securing of Claims Act (ZIZ)[4] and the Tax Procedure Act (ZDavP-2),[5] i.e.

[4] Official Gazette of the Republic of Slovenia, Nos. 3/07 (official consolidated version), 93/07, 37/08 (ZST-1), 45/08 (ZArbit), 28/09, 51/10, 26/11, 17/13 (Constitutional Court decision), 45/14 (Constitutional Court decision), 53/14, 58/14 (Constitutional Court decision), 54/15 and 76/15 (Constitutional Court decision).

[5] Official Gazette of the Republic of Slovenia, Nos. 13/11 (official consolidated version), 32/12, 94/12, 101/13 (ZDavNepr), 25/14 (ZFU), 40/14 (ZIN-B), 90/14 and 91/15.

earnings that are exempt from attachment and limitations on the attachment of a debtor's financial earnings.

IV. Assessment of compliance with the recommendation

(1) The Bank of Slovenia will regularly assess compliance with recommendations A and B via annual questionnaires on the structure of new housing loans or in the scope of regular examinations of banking operations.

(2) Compliance with the recommendation will be assessed for the first time in 2017. When assessing compliance with recommendations A and B, the Bank of Slovenia will take into account the time required by individual banks to adapt their information and risk management systems.

V. Final provision

(1) This recommendation has been formulated on the basis of an assessment of systemic risks to financial stability up to 30 August 2016.

(2) This recommendation shall enter into force when published on the Bank of Slovenia's website.

Ljubljana, 30 August 2016

Boštjan Jazbec
President,
Governing Board of
the Bank of Slovenia