

**BOARD OF THE BANK OF LITHUANIA**

**RESOLUTION No 03-144**

**of 1 September 2011**

**ON RESPONSIBLE LENDING REGULATIONS**

Vilnius

(*Valstybės žinios* (Official Gazette) No 111-5262, 2011)

27 October 2011, No 03-175 (*Valstybės žinios* (Official Gazette) No 136-6482)

Acting in observance of Articles 9 and 11 of the Law of the Republic of Lithuania on the Bank of Lithuania (*Valstybės žinios* (Official Gazette) No 99-1957, 1994; No 28-890, 2001), Article 50 of the Law on Financial Institutions (*Valstybės žinios* (Official Gazette) No 91-3891; 2002; No 52-2514, 2011) and having regard to item 3.3 of the Protocol (No 4) on the Statute of the European System of Central Banks and of the European Central Bank to the Treaty on the Functioning of the European Union (OJ C 115, 9 5 2008, p. 230—250), the Board of the Bank of Lithuania

has r e s o l v e d:

1. To approve the Responsible Lending Regulations (appended).
2. To establish that:
  - 2.1. this Resolution, except for Section VII of the Responsible Lending Regulations approved by this Resolution shall come into force from 1 November 2011;
  - 2.2. provisions of Section VII of the Responsible Lending Regulations approved by this Resolution shall come into force from 1 March 2012.
  - 2.3. the Responsible Lending Regulations approved by this Resolution shall not apply to credits decisions the granting decisions whereof are adopted before their entry into force.

Chairman of the Board

Vitas Vasiliauskas

APPROVED by  
Resolution No 03-144 of the Board of the Bank  
of Lithuania of 1 September 2011

## RESPONSIBLE LENDING REGULATIONS

(*Valstybės žinios* (Official Gazette) No 111-5262, 2011)

27 October 2011, No 03-175 (*Valstybės žinios* (Official Gazette) No 136-6482)

### I. GENERAL PROVISIONS

1. The Responsible Lending Regulations (hereinafter the Regulations) are aimed at promoting responsible lending by credit institutions, enforcing market discipline and transparency of credit institutions' activities with a view to reducing systemic risk within the sector of credit institutions, misbalanced real estate price developments, risk of too rapid growth of credit portfolio and excessive risk concentration and seeking to protect consumers from disproportionately heavy burden of financial obligations and to develop responsible borrowing conduct contributing thereby to the overall stability of the financial system.

**2. *The Regulations shall apply to banks of the Republic of Lithuania, branches of foreign banks, the Central Credit Union and credit unions (hereinafter credit institutions). Other entities providing financial services specified in items 2 and 3 of Article 3(1) of the Law of the Republic of Lithuania on Financial Institutions shall be recommended to observe the Regulations.***

3. The Regulations shall apply to credits (including financial leasing arrangements) (hereinafter the credit) granted to natural persons (households). Consumer credits shall be subject to the provisions of Section IV of the Regulations.

4. The Regulations shall not apply to:

4.1. credits granted to farmers for the development of farmer activities provided for in the Law of the Republic of Lithuania on the Farmer's Farm;

4.2. credits granted for renovation (modernisation) of the blocks of flats in the manner established by the Law of the Republic of Lithuania on the State Support for Dwelling Acquisition or Rent and Renovation (Modernisation) of Blocks of Flats;

4.3. credits being restructured;

4.4. credits granted to students in the manner established by Law of the Republic of Lithuania on Higher Education and Research.

**5. *The Bank of Lithuania may change the ratios established in the Regulations of the credit amount and mortgaged (leased) (hereinafter mortgaged) property value and (or) the average amount of total liabilities to financial institutions under credit and other agreements and income in consideration of the rates of development of real estate market related risks and portfolio of credits secured by mortgage of real estate as well as of other macroeconomic indicators if they might further misbalance economic development and endanger the stability of the financial system.***

### II. RESPONSIBLE LENDING

6. The responsible lending shall be understood as the development of lending activities by credit institutions granting credits in observance of certain provisions creating preconditions for the proper assessment of the borrower's solvency and precluding the excessive credit risk taking.

7. The responsible lending shall be based on the following provisions:

7.1. before making lending decision credit institutions should perform consistent assessment of the borrower's ability to repay the credit and to make all related payments with a view to

avoiding the default on granted credits, their repayment in violation of contractual obligations or their recovery from property mortgaged by the borrower;

7.2. the assessment shall cover all objectively expected material factors in consideration of the information provided by the borrower and available to the credit institution that might affect the borrower's solvency, in particular sustainable income of the borrower, the credit history of the borrower and potential changes (growth and reduction) of income. Property mortgaged to secure the credit shall be assessed in observance of conservative principles with special attention devoted to the possibility of reduction in the property value;

7.3. the lending shall be based on the loan-to-value ratio which is realised through the use of the ratio of maximum acceptable credit amount and mortgage value;

7.4. the lending shall be based (having regard to historic data, cyclic nature of economy) on the provision of the maximum debt-to-income ratio;

7.5. the process of lending and its conditions (including subsequent credit reviews or change of credit conditions) should rely on the ability to rapidly respond to the changing creditability circumstances of the borrower;

7.6. on request of the borrower the possibility of premature credit repayment should be provided. In that case the credit agreements shall explicitly state the procedure and conditions of the calculation and application of the premature credit repayment fees;

7.7. before concluding a credit agreement the credit institution shall having regard to the priorities identified and information provided by the borrower notify the borrower about the terms and conditions of the credit agreement so that the borrower can compare various proposals in order to make an informed decision on concluding the credit agreement.

### III. LOAN-TO-VALUE RATIO

8. Prior to credit granting a credit institution shall make a qualitative and quantitative assessment of the property being mortgaged and (or) seek the property appraisal report conforming to the requirements established by legal acts.

9. Maximum loan-to-value ratio for credits granted for purchase/construction of real property shall account for 85% of the market value or price of mortgage, whichever of the two is smaller.

***10. Maximum loan-to-value ratio referred to in paragraph 9 above may be increased up to (and including) 10%, where:***

***10.1. home credit for purchase or construction of residential property is supported by the State and conforms to the requirements established by the Law of the Republic of Lithuania on the State Support for Dwelling Acquisition or Rent and Renovation (Modernisation) of Blocks of Flats, or***

***10.2. according to home credit agreement the repayment of the credit for purchase or construction of residential property is secured by insurance of the company providing insurance of home credits supported by the State if the amount of granted credit does not exceed: for a single person – LTL 120 000 and for the family of two or more persons – LTL 240 000. The credit insurance must be valid at least until the maximum ratio of the credit amount to the value of mortgaged real property reaches the amount specified in paragraph 9 above.***

11. Credits granted to the same borrower for purchase of more than one residential property should be subject to the limit tighter than the limit established in paragraph 9 above, excluding the credit granted for the property (dwelling) which the borrower considers his the principal place of residence. Credit tranches for purchase (construction) of the same real property shall be treated as one credit.

***12. Maximum loan-to-value ratio for credits granted for purchase of agricultural parcels, excluding agricultural parcels purchased by farmers for the purpose of development of the farmer's activities provided for in the Law of the Republic of Lithuania on the Farmer's Farm, including parcels being purchased the designation of which is planned to be changed may not***

*exceed 40% of acquisition price or market value of the parcel being purchased (whichever of the two is smaller). Appraisal of the parcel shall not take into account changes in value which might be predetermined by the circumstances of change of the purpose of use of the parcel.*

13. Credits granted for purchase of real estate outside EEE should be subject to the limitations stricter by 15% than those established in paragraphs 9, 10 and 11 hereof.

*14. Loan-to-value ratio for credits secured by mortgage of different types of property shall be calculated separately per each property within the limits of maximum amounts established in the Regulations.*

15. The credit institution should satisfy itself that the share of the price of the property being acquired in excess of the ratios set forth in this Section is paid before disbursement of the credit by the bank and seek the borrower's confirmation that the aforementioned share was paid with own (rather than borrowed) funds of the borrower. The credit institution may not grant a credit for the financing of the share of the real estate price exceeding the ratios set forth in this paragraph. The exemption may apply only where the borrower seeking to change the living conditions acquires another dwelling and within the reasonable time limit undertakes to reduce the liability assumed by the required partial amount of own funds.

#### **IV. DEBT-TO-INCOME RATIO**

*16. The average amounts of repayments of the principal and payments of interest for the borrower calculated dividing sum total of all amounts of repayments of the principal and payments of interest by credit maturity according to all liabilities shall not exceed 40% of income of the person (household) recognised by the credit institution as sustainable income, except in case referred to in paragraph 17 below. For credits not repayable in instalments the average relative amounts of repayments of the principal and payments of interest calculated dividing sum total of all amounts of repayments of the principal and payments of interest by credit maturity.*

*The ratio of the borrower's income and payments to the average relative amount of repayment of the principal and payment of interest shall not be calculated if the credit line (credit limit) applied to the borrower's payment account or payment instrument issued to the borrower does not exceed the amount of sustainable income of 4 (four) months or the amount of LTL 20 000, whichever of the two is smaller.*

17. The value exceeding the ratio fixed in paragraph 16 above may apply temporarily (for a reasonable period) when the borrower is granted a credit for the acquisition of another dwelling purchased with a view to improving the living conditions of the borrower. In such case the credit institution must satisfy itself before the beginning of credit repayment that all obligations of the borrower under previously concluded credit agreements are fulfilled.

18. The credit granting decision shall be based on the history of sustainable income of minimum six months and assessment of long-term sustainability of earnings. For the purpose of calculating the repayment amount of the principal the credit institution shall assess the borrower's expenses that are and (or) might be known to credit institution and are related not only with the repayment of the credit, but also with other existing obligations of the borrower (financial leasing, amounts under credit card limit repayment schedule, etc.) and income remaining after repayment of the amount of the principal and payment of interest.

#### **V. CREDIT MATURITY**

19. Maximum credit maturity shall not exceed 40 years.

#### **VI. ASSESSMENT OF THE BORROWER**

20. The credit granting decision of the credit institution shall be based on careful and well-founded assessment of borrower's creditworthiness in the long-term (during credit maturity). The

lending policy of the credit institution should rely on the assumption of repayment of the credit from cash flows (income) generated by the borrower's income rather than as a result of recovery of the credit from mortgaged property or value changes thereof.

21. Prior to concluding a credit agreement the credit institution shall assess the borrower's solvency on the basis of information provided by the borrower and shall perform the check in databases used by the credit institution to assess the solvency and available to it. The assessment shall cover sustainable sources of the borrower's income, their diversity and sustainability as well as potential future changes, main groups of the borrower's expenses related with indebtedness to other credit institutions and persons.

22. Borrowers whose income might change considerably (e.g., income from dividends, members' contributions, real estate, investment activities, real estate sale, etc.) or sustainability of whose income is doubtful shall be subject to more conservative assessment and debt-to-income ratio values stricter than maximum values permitted in the Regulations and (or) to higher credit price.

23. Should after concluding the credit agreement the parties thereto agree to change the total amount of the credit before each more significant increase of the credit amount the credit institution shall update the information available to it about the borrower, mortgaged property and shall make a new assessment of the borrower's solvency and mortgage value.

24. If the credit currency differs from currency of the borrower's income the credit institution should impose stricter limitations than those established in paragraphs 9, 10, 11 and 13 hereof and (or) to apply the ratio smaller than the ratio set forth in paragraph 16 above in consideration of the exchange rate fluctuation risk.

## **VII. INFORMATION PROVIDED TO THE BORROWER**

25. In implementing subparagraph 7.7 of the Regulations the credit institutions shall *mutatis mutandis* act in observance of Commission Recommendation 2001/193/EC of 1 March 2001 on pre-contractual information to be given to consumers by lenders offering home loans (OJ L 69, 10.3.2001, p. 25–29).

26. Prior to granting a credit with variable interest the credit institution shall perform the analysis of the borrower's creditworthiness in the event of adverse shock of interest rates and notify the borrowers about possible credit repayment costs. To this end the credit institutions shall calculate the amounts of repayment of the principal and payment of interest using the interest rate base existing at the moment of granting the credit increased by 4 and 8 percentage points. If necessary, credit institutions may also calculate credit repayment amounts using values other than those established in this paragraph.

27. Before granting a credit in foreign currency the credit institution shall inform the borrower about the risk related with foreign exchange rate fluctuations and possible implications of this risk for the borrower's ability to repay the credit in timely manner.

## **VIII. FINAL PROVISIONS**

28. Credit institutions shall supplement the relevant internal risk management and business policy documents in observance of the Regulations. Documents regulating the implementation of the Regulations shall be drafted by credit institutions having regard to the nature and extent of their activities, assumed risk and performed operations.