ESRB
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EUROPEAN CENTRAL BANK
EUROSYSTEM

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.	Bank of Slovenia
1.2	Name of the macroprudential measure that is notified.	Recommendation on limitations on the LTV (loan-to-value) ratio when entering into new housing loan agreements and recommendation on limitations on the DSTI (debt service-to-income) ratio when entering into new housing loan agreements.
2. Description of the measure		
2.1	Description of the measure.	The recommended maximum level of the LTV ratio is 80%. The recommended maximum level of the DSTI ratio is: (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. 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. earnings that are exempt from attachment and limitations on the attachment of a debtor’s financial earnings.

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2.2	Legal basis and process of implementation of the measure.	The Bank of Slovenia issued the macroprudential recommendation pursuant to Article 19 of the Macroprudential Supervision of the Financial System Act (Official Gazette of the Republic of Slovenia, No. 100/13).
2.3	Coverage	This recommendation is addressed to banks, savings banks, branches of Member State banks and branches of Member state and third-country banks in Slovenia. This recommendation shall apply to new housing loans. 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.
2.4	Any other relevant information.	The macroprudential measures are being introduced as a non-binding recommendation. The introduction of the measures will facilitate the systematic monitoring of changes in housing loans in terms of the LTV and DSTI ratios, while harmonising the monitoring of credit standards amongst banks with regard to the aforementioned ratios. In the event of increased risks to financial stability as the result of failure to comply with the recommendation, the Bank of Slovenia will introduce a binding macroprudential measure, while the parameters of the instruments will be tightened in the event of rising systemic risks despite compliance with the recommended maximum values.
3. Timing		
3.1	Timing of the decision	The Governing Board of the Bank of Slovenia approved the introduction of two macroprudential instruments for the real estate market in the form of recommendations for banks at its 561st meeting held on 30 August 2016.

3.2	Timing of the publication	The recommendations were published on the Bank of Slovenia's website on 6th September 2016.
3.3	Disclosure	Banks were informed about the implementation of the measures by letters and by e-mail. The information has been communicated to the market by publishing press release and detailed information on the implementation of the recommendations on the Bank of Slovenia website.
3.4	Timing of the application	The recommendations entered into force with the publication on the Bank of Slovenia website - on 6th September 2016. Banks are expected to comply immediately, although the Bank of Slovenia will take into account the time required by individual banks to adapt their information and risk management systems to the new recommendations. The Bank of Slovenia will carry out the systematic monitoring of developments in the housing loans segment.
3.5	End date (if applicable)	/
4. Reason for the activation of the measure		
4.1	Description of the macroprudential risk to be addressed.	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 banks' existing risk management systems and to harmonise the monitoring of credit standards amongst bank with regard to the LTV and DSTI ratios.

4.2	Description of the indicators on the basis of which the measure is activated.	The residential real estate market is now in the process of stabilization and does not entail systemic risk for the financial stability. However the situation can quickly change due to a long period of low interest rates and low household indebtedness. Instruments should be implemented before the next financial cycle. The instruments will be tightened and/or a recommendation will be converted into a legally binding form, to be approved by SBS if systemic risk increases along excessive credit growth.
4.3	Effects of the measure.	The purpose of limiting the LTV and 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 DSTI ratio reduces the probability of default.
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)	Cross-border effects are not expected.
5.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	Potential for regulatory arbitrage and leakages is rather small, since banks are the main providers of the household credit; anyhow, the Bank of Slovenia will monitor the developments closely.
5.3	Request for reciprocation	No.
6.	**Miscellaneous**	

6.1	Contact person(s) at notifying authority.	Meta Ahtik, Head of Section tel: +386 1 47 19 350 e-mail: meta.ahtik@bsi.si
6.2	Any other relevant information.	Attachment: Macroprudential recommendation for housing loans