ESRB
European Systemic Risk Board
European System of Financial Supervision

EUROPEAN CENTRAL BANK
EUROSYSTEM

Notification template for borrower-based measures

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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	Haut Conseil de stabilité financière (HCSF).
1.2	Country of the notifying authority	France.
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authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.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	Decision D-HCSF-2023-2 of June 29, 2023 on housing lending standards modifies Decision D-HCSF-2021-7 of September 29, 2021 on housing lending standards, which made DSTI and maturity limits for new housing loans legally binding. Noting certain operational difficulties encountered by banks in implementing Decision D-HCSF-2021-7, the HCSF decided to make two technical adjustments that do not alter the overall balance or scope of the measure: (a) In view of the seasonality of certain transactions and in order to facilitate the operational management of the measure by the banking networks, the HCSF indicated that, following a limited breach in a given quarter of any of the allocation limits within the flexibility margin of 20 % provided for in Article 2 of Decision D-HCSF-2021-7 of 29 September 2021, the ACPR may consider that compliance with these allocation limits on the overall production of that quarter and the following two quarters constitutes an appropriate and sufficient corrective action. (b) The HCSF decided to make a second technical adjustment, within the total flexibility margin of 20%. It increases from 20% to 30% the share of the flexibility margin that is free of use, thus giving additional flexibility to buy-to-let investment. This does not affect first-time buyers, whose 30% share of the flexibility margin remains unchanged, or other buyers whose part was not fully used. Accordingly, the High Council adopted a decision amending the second paragraph of Article 2 of Decision D-HCSF-2021-7 of 29 September 2021, which was published on June 29 in the Official Journal of the French Republic and on the HCSF website. Reminder: according to Decision D-HCSF-2021-7 of September 29, 2021, for new housing loans (excluding renegotiations, refinancing of outstanding housing loans and credit consolidation), credit institutions and financing companies must respect the following legally binding standards: - A DSTI limit of 35%

		- A maturity limit of 25 years. The assessment of the maximum maturity may take into account the grace period when the date on which the property comes into possession is later than the date on which the loan was granted (due to construction of significant renovation works). In these cases, the limit for the amortization period (without the grace period) is 25 years and the limit for the total maturity of the loan (the sum of the amortization and grace periods) is 27 years. The decision provides a flexibility margin of up to 20% of the amount of new quarterly issued housing loans (excluding renegotiations, refinancing of outstanding housing loans and credit consolidation) that can depart from the aforementioned criteria. Within this flexibility margin, according to Decision D-HCSF-2021-7 of September 29, at least 30% of the flexibility margin reserved for first-time buyers, and at least 80% to primary residences. With the new HCSF Decision of June 29 2023, the minimum share of the flexibility margin reserved for primary residences becomes 70%, while the share for first-time buyers (30%) remains unchanged.
2.2	Definition of the measure	No changes to the main definitions : - Debt service: annual borrowing expenses linked to the total debt of the borrower (or co-borrowers if relevant) including the housing loan considered and all other existing loans, whatever their nature - Income: income of the borrower (or co-borrowers if relevant) i) after payment of social security contributions and ii) before payment of income taxes. Only stable and recurring income that can be mobilised for debt servicing payments must be accounted for. Regarding property income, including potential future rents from the real estate asset purchased through the loan, the income to be considered is the gross income before deduction of any tax allowances and charges, including interest on loans and borrower insurance, to which haircuts must be applied by credit institutions in order to reflect the rental risk. Banks are free to apply a more stringent income definition in line with their risk management strategy. The debt service-to-income ratio must be assessed using the maximal amount of annual borrowing expenses anticipated over the complete duration of the loan. Article 4 of Decision D-HCSF-2021-7 provides the French legal references for the definitions of debt service and income.
2.3	Legal basis and process of implementation of the measure	The HCSF adopted the aforementioned decisions based on Article L. 631-2-1 (5) of the Monetary and Financial Code, which can be found at: https://www.legifrance.gouv.fr/codes/article_lc/LEGIARTI000034386882/

		This legal framework allows the HCSF to adopt borrower-based measures of any kind to prevent excessive increases in asset prices or excessive indebtedness of economic agents. The compliance will be monitored based on the existing monthly ACPR reporting on housing lending conditions, specifically designed to assess the volumes of new housing loans not compliant with the decision's criteria.
2.4	Coverage	a. Which types of credit providers will be covered by the measure? e.g. credit institutions (including local branches of foreign credit providers), certain other financial institutions (e.g. pension funds, insurance companies, investment funds), etc. No change: all credit institutions and financing companies under French law providing housing loans are covered by the measure. Local branches of foreign credit providers are not covered.
		b. Which types of borrowers will be covered by the measure? No change: In accordance with the definitions of the mortgage credit directive, the measure covers both households and the population of borrowers beyond natural persons by including "sociétés civiles immobilières" which are a flexible and common legal form of companies set for real-estate purchase purposes by a private association of natural persons.
		c. Which types of lending will be covered by the measure? e.g. mortgage loans, consumer loans that are provided to consumers with a mortgage, consumer loans, debt securities issued and overall debt of non-financial companies, etc. No change: The measure applies to i) housing loans granted to economic agents located in France or ii) loans granted to finance dwellings located in France. Article 3 of the Decision D-HCSF-2021-7 provides legal references regarding the scope of loans covered by the measure.

2.5	Calibration	No change in the overall calibration of the measure. Institutional considerations and ex-ante simulations informed the calibration of the first recommendation implemented in December 2019. The French jurisprudence had recommended in the past that the DSTI should not exceed 33%, thus setting a best practice among banks based on this limit. An ex-ante assessment model, based on data from the Household Finance and Consumption Survey, then helped to fine-tune the design of the measure and especially to calibrate the limits for the DSTI ratio and loan maturity. The changes in calibration operated in January 2021 (revised recommendation implementing a DSTI limit of 35%) and June 2023 (technical adjustment to the 2021 Decision focusing on the breakdown of the flexibility margin) were based on ex-post assessments of the effects of the limits and were implemented to increase the overall efficiency of the measure.
3.	**Timing for the measure**	
3.1	Timing for the decision	What is the date of the official decision of the notified measure? 29/06/2023
3.2	Timing for publication	What is the date of publication of the notified measure? 29/06/2023
3.3	Disclosure	The changes were announced in a press release, available here: [HCSF_20230613_CP.pdf (economie.gouv.fr)]
3.4	Timing for the application	What is the intended date for application of the measure? What is the intended timeline for phase-in of the measure, if relevant? 01/07/2023
3.5	End date (if applicable)	Not applicable

4. Reason for activation of the measure		
4.1	Description of the macroprudential risk	The adjustment made to the measure is a technical one and is not the result of a change in the assessment of risks. The French model of housing financing rests on three main pillars: - The quasi totality of loans have fixed interest rates over the complete duration of the loan (97.7% of outstanding loans in 2022) - A majority of loans are not standard mortgages but loans secured by a third-party guarantee (63.8% of total outstanding loans in 2022) - Banks' lending policy is based on the assessment of the borrower solvency, usually measured by the debt service-to-income (DSTI) ratio, rather than on the market value of the financed property, which provides protection against the risk of a feedback loop between house prices and home lending In 2019, the High Council for Financial Stability (HCSF) alerted on two trends at play since 2015 on the residential real estate market that were threatening this model of housing financing: a deterioration in lending standards and a rise in household indebtedness (public assessment available here). The deterioration in lending standards (increased share of DSTIs above 35%, increased share of high-LTV loans and lengthening of loan maturities) fuelled the risks of delinquency and increased potential losses for banks in case of default. Additionally, household indebtedness, mainly driven by housing loans, had been on the rise since 2002, increasing household exposures to negative shocks. To mitigate those risks and increase both borrowers' and banks' resilience, the HCSF introduced gradually from 2019 onwards a borrower-based measure comprising both a DSTI and a maturity limit that has been effective and that is now considered as a structural measure.

4.2	Indicators used for activation of the measure	No change to the indicators used for activating the measure: The HCSF chose to implement a borrower-based measure since the main source of risk which had to be mitigated was the increasing leverage of households. Capital-based measures were not considered as a suited tool since risks were associated with new loans rather than with the stock of existing loans. A DSTI limit was preferred over a LTV limit given that the DSTI ratio was already commonly used by French banks to assess the solvency of borrowers. Several documents are regularly published by the Banque de France to monitor housing financing: - Monthly data on lending standards of housing loans (available here) - Monthly data on loans to households (available here) - An annual overview of housing financing (available here)
4.3	Effects of the measure	The targeted changes in the calibration of the flexibility margin in June 2023 are technical and designed to facilitate banks' practical implementation of the measure. They do not affect first-time buyers, whose 30% share of the flexibility margin remains unchanged. They do not alter the overall balance or scope of the measure.
5.	**Sufficiency, consistency and non-overlap of the policy response**	
5.1	Sufficiency of the policy response	For a macroprudential policy to be 'sufficient', the policy responses must be deemed to significantly mitigate, or reduce the build-up of, risks over an appropriate time horizon with a limited unintended impact on the general economy.Note that the ESRB will use this assessment of the macroprudential stance as relevant input in assessing the sufficiency of the macroprudential policy in the Member State. Please provide any additional information that the ESRB should consider in assessing the sufficiency of the policy response. The measure is deemed sufficient as it met its objective to put a stop to the deterioration in lending standards of housing loans without impairing

		access to credit. The technical adjustments adopted in June 2023 are not expected to affect sufficiency.
5.2	Consistency of application of the policy response	For a macroprudential policy to be 'consistent', the policy instruments must be deemed to meet their respective objectives, as outlined in ESRB/2013/1[2], and they must be implemented in accordance with the common principles set out in the relevant legal texts. Note that the ESRB assessment of consistency will consider whether the same systemic risks are addressed in a similar way across and within the Member States over time. Please provide any additional information that the ESRB should consider in assessing the consistency of the policy response. The borrower-based measure implemented in France is consistent with Recommendation ESRB/2013/1
5.3	Non-overlap of the policy response	For a policy instrument to be 'non-overlapping', it should aim to address a systemic risk that either differs from the risk addressed by other active tools in the same Member State, or to be complementary to another tool in that Member State which addresses the same systemic risk. - Are other policy instruments used to address the <u>same</u> systemic risk? - If yes, please explain the need for more than one instrument to address the same systemic risk and how the different instruments interact with each other. The measure targets systemic risks related to housing financing, which are not directly addressed by other tools. It is complementary to the

[2] Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1) (OJ C 170, 15.6.2013, p. 1).

		countercyclical capital buffer that targets broader cyclical risks (0.5% in France since April 2023 and which will be increased to 1% from January 2024 onwards).
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[3])	No cross-border effects have been observed at this stage since the implementation of the first recommendation in 2019. The share of housing loans to French households by foreign institutions is limited and has decreased over time (from 0.9% of total credit in December 2018 to 0.3% in June 2022 according to data from the EBA transparency exercise). These dynamics are not expected to change with the technical adjustments adopted in June 2023. The HCSF will keep monitoring these exposures: if cross border activity were to rise and raise level playing field concerns, the issue of reciprocation would be re-examined.
6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	The HCSF monitors loans, borrowers and lenders outside the policy scope and has not observed any material leakages or regulatory arbitrage so far. The technical adjustments implemented in 2023 are not expected to create any new possibility of leakages or regulatory arbitrage.
6.3	Request for reciprocation	No reciprocation requested but close monitoring. The HCSF stands ready to request for reciprocation should cross-border leakages be identified.

[3] 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).

6.4	Justification for the request for reciprocation	Not applicable
7. Miscellaneous		
7.1	Contact person(s)/mailbox at notifying authority	Jean Boissinot jean.boissinot@banque-france.fr Marine Dujardin marine.dujardin@banque-france.fr Banque de France: secretariat.hcsf@banque-france.fr
7.2	Any other relevant information	
7.3	Date of the notification	Please provide the date on which this notification was uploaded/sent. 10/07/2023