Notification template for borrower-based measures

Please send/upload this template to:

- macropru.notifications@ecb.europa.eu when notifying the European Central Bank (ECB);
- notifications@esrb.europa.eu when notifying the European Systemic Risk Board (ESRB).

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	Austrian Financial Market Authority (FMA)
1.2	Country of the notifying authority	Austria
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) (i.e. LTC*) ☐ Debt-to-income (DTI) ☒ Loan maturity ☐ Other (please provide a short, name-like description here and provide more details in Section 2) * Our LTV measure indicates the ratio of the loan volume to collateralisation. We have therefore agreed, in dialogue with the ECB's country expert, that we will call this ratio LTC in future.

[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authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

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
2. Description of the measure		
2.1	Description of the measure	In **2022** the Austrian FMA introduced legally binding **borrower-based-measures (BBMs)** to mitigate the increasing systemic risks in the residential real estate market due to the real estate price boom, the interest rate turnaround, the fragile economic environment, and the lending practices at the time. **The following upper limits have therefore applied since 2022:** • A maximum loan-to-value (loan-to-collateral) ratio of 90%, with a 20% exception quota being granted to credit institutions. • A debt service-to-income ratio of a maximum of 40% (10% exception quota). • A maximum term of 35 years (5% exception quota). • However, a maximum of 20% of all loans in total shall be allowed to exceed these limits. • In order to simplify renovations and redevelopments – in particular the transitioning from fossil energy sources towards renewable energy – financing below a € 50,000 de minimis threshold is excluded from these rules. In April 2023 the following amendments became effective: • Bridging loans and non-repayable government grants have been excluded from the scope of the regulation. • For couples as joint borrowers the de minimis threshold was raised to EUR 100,000. **The following amendment is effective from 1 July:** • **The four separate exemption buckets that were based on specific ratios have been merged into a**

		single institution-specific exemption bucket for 20% of new lending volume. • In doing so, the FMA follows a recommendation passed by the Austrian Financial Market Stability Board (FMSB), at its meeting on 12 March 2024 for “simplifying the administration of the exemption buckets” that advises it to simplify the standards that it had set. In its recommendation, the FMSG states that “Sustainable lending in accordance with the KIM-V criteria remains the norm”. • The new rule applies from 1 July 2024 to newly concluded private residential real estate financing arrangements.
2.2	Definition of the measure	The **LTV** (LTC) ratio means the total level of debt in relation to mortgage collateral or other financial collateral securing the repayment of debt. • Numerator: Sum of consumer’s total level of debt for RRE financing, including outstanding loans if they are from the same credit institution • Denominator: min (Property market value – prior liens; Mortgage collateral) + other financial collateral according to CRR. The **DSTI** ratio means the total level of debt service in relation to the borrower’s annual income. • Numerator: Sum of interest and principal payments from servicing all of the borrower's loan liabilities, calculated over the period of one year. Interest and principal payments made by the borrower to third-party lenders must also be taken into account. Constant annuities are to be assumed over the entire term. • Denominator: Sum of annual income after deduction of taxes and social security tax plus transfer payments. Income components may only be taken into account if they are verified, regular and sustainable. **Maturity Limit**: The maturity period starts with the disbursement of the loan, in the case of disbursements in several parts with the disbursement of the first part, in the

		case of framework loans with the first possibility of drawdown by the borrower. **Exemption Bucket:** Up to 20% (but at least EUR 1,000,000) of new financing may exceed the upper limits. As bridging loans and, up to a certain amount, loans under the de minimis threshold are exempt from the regulation, the amount of the 20% exemption quota available is calculated as follows. • (Sum of new financing per period without de-minimis loans + sum of de minimis loans per period that exceed the 2% limit) * 0,2
2.3	Legal basis and process of implementation of the measure	**Legal basis**: Article 23h of the Austrian Banking Act para 2 item 1, 3, 4 established LTV, DSTI and maturity limits as legally binding macroprudential measures. Applicable to the scope listed under Article 6a para.1 of the FMA Regulation on Asset, Income and Risk Statements – VERA-V Federal Law Gazette II No. 471/2006, as amended. **Process of implementation**: The amendment of the measure comes into force on July 1, 2024, until June 30, 2025, and is to be applied to all new residential mortgage financing for private individuals. The FMA is obliged to review the measures before they expire. The effectiveness of the measures taken will be evaluated on the basis of the relevant reporting in the data reporting system, management or supervisory discussions and on-site inspections by the OeNB. If the legal requirements continue to be met, the measure will be extended.
2.4	Coverage	**Credit Institutions**: The measure applies to CRR credit institutions pursuant to Article 1a para. 1 no. 1 Banking Act with their registered office in Austria, CRR credit institutions licensed pursuant to Article 4 para. 4 Banking Act and CRR credit institutions from Member States operating in Austria through a branch pursuant to Article 9 para. 1 Banking Act.

		Loan applicants: The measure applies to natural persons.
		Type of lending: The measure covers loans for residential property finance.
2.5	Calibration	There were no changes to the established measures. Only the different exception buckets were standardised.
3.	**Timing for the measure**	
3.1	Timing for the decision	12/03/2024
3.2	Timing for publication	13/06/2024
3.3	Disclosure	Publication of the measure in the Federal Law Gazette on June 13, 2024 (LINK) Publication on the FMSB Website (LINK)
3.4	Timing for the application	01/07/2024

3.5	End date (if applicable)	30/06/2025
4. Reason for activation of the measure		
4.1	Description of the macroprudential risk	Between end-2010 and end-2021, real estate prices doubled in Austria whereas they only increased by slightly more than one-third in the euro area. In the period since end-2010, annual mortgage lending growth averaged 4.2% in Austria, compared with 2.6% in the euro area. From end-2019, annual mortgage lending growth accelerated to an average 6.1% in Austria, compared with 4.7% in the euro area. The share of variable rate loans in Austrian banks' new business has gone down sharply in recent years. Yet, even a ratio of 40%, as measured for the third quarter of 2021, remains high when compared to euro area averages. In the mid-2010s, this share was still above 80%. In the new lending portfolio, loans with debt service-to-net income ratios exceeding 40% accounted for a share of 18% of the outstanding balances in the first half of 2021. At the same time, markedly more than half of these outstanding balances were subject to loan-to-value ratios exceeding 90% or were not collateralized by any assets. Although there are a number of mitigating factors, like an adequately capitalized banking sector, in the event of crisis, parts of the financial system might have to absorb heightened losses that could trigger negative repercussions for the real economy.
4.2	Indicators used for activation of the measure	Besides general indicators on real estate price growth, its overvaluation, household indebtedness and credit growth, the main source of information is the semi-annual data reporting on private residential real estate lending by banks. It provides information about the stock and flow of loans and their lending standards.

4.3	Effects of the measure	The objective of the measure is to mitigate increasing systemic risks in residential real estate financing in light of the real estate price boom, interest rate turnaround, fragile economic environment, and current lending practices.
5.	**Sufficiency, consistency and non-overlap of the policy response**	
5.1	Sufficiency of the policy response	According to the OeNB's expert opinion, there are no significant indications at this point in the credit cycle that the harmonisation of the exception buckets will reduce the effectiveness of the KIM-V compared to the current structure.
5.2	Consistency of application of the policy response	There were no changes to the established measures. Only the different exception buckets were standardised.
5.3	Non-overlap of the policy response	There are no other policy instruments in place to address the same systemic risk.

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[2])	Cross-border effects are not expected since the measure only concerns debt financing of private residential real estate that is secured by property located in Austria or if the borrower has a primary residence in Austria. Inward spillovers (i.e. cross-border lending by non-domestic lenders to domestic borrowers) will be closely monitored and addressed in bilateral supervisory cooperation if necessary.
6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	The introduction of a legally binding DSTI and LTV is expected to mitigate the potential for regulatory arbitrage and leakages and will closely be monitored.
6.3	Request for reciprocation	No

[2] 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	-
7. Miscellaneous		
7.1	Contact person(s)/mailbox at notifying authority	**Hauser-Rethaller Ursula**, +43 676 88 249 131, ursula.hauser-rethaller@fma.gv.at **Nenning Nina**, +43 676 88 249 610, nina.nenning@fma.gv.at
7.2	Any other relevant information	For more information, please visit the FMSBs Website.
7.3	Date of the notification	14/06/2024