Notification template for borrower-based measures

Please send/upload this template to:

- macropru.notifications@ecb.europa.eu when notifying the European Central Bank (ECB);
- DARWIN/ASTRA 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	Bulgarian National Bank
1.2	Country of the notifying authority	Bulgaria
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authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

<table>
<tr><th colspan="3">2. Description of the measure</th></tr>
<tr><td>2.1</td><td>Description of the measure</td><td>On 11 September 2024 the Governing Council (GC) of the Bulgarian National Bank (BNB) introduced the following restrictions to lending standards' indicators of loans to the household sector, secured by residential real estate (RRE):
- Restriction of up to 85% on the loan-to-value ratio at origination (LTV-O);
- Restriction of up to 50% on the debt-service-to-income ratio at origination (DSTI-O);
- Restriction of up to 30 years on the maturity of the loan at origination.
The limits listed above apply to all new and renegotiated loans, collateralized by residential immovable properties located in Bulgaria, irrespective of the purpose of the loan. From 1 October 2024 all credit institutions, including branches of foreign banks, must abide by the new rules on both individual and consolidated basis.
Banks could originate or renegotiate RRE loans with parameters that deviate from the introduced requirements with a total approved or renegotiated volume during the current quarter of up to 5% of the total gross amount of the new or renegotiated RRE loans during the preceding quarter.</td></tr>
<tr><td>2.2</td><td>Definition of the measure</td><td>- The DSTI-O ratio is defined as the current debt service costs relative to the monthly disposable income of the borrower.
The numerator "DS" represents the average monthly debt service costs of the total debt of the borrower, whether or not it is secured by RRE, including all outstanding loans, at the moment of origination/renegotiation of the RRE loan.
The denominator "I" represents the average monthly disposable income of the borrower, which includes all sources of income less taxes, payments for social security and health care.</td></tr>
</table>

		- The **LTV-O** ratio is defined as the total approved (or renegotiated) amount of the loan relative to the value of the residential property that serves as collateral to the loan. The **numerator "L"** includes all loans secured by the same residential property as well as other unsecured loans that the reporting credit provider considers part of the housing loan financing transaction. The numerator is not adjusted for the presence of other credit risk mitigants. The **denominator "V"** represents the value of the RRE as assessed by an independent external or internal valuer at origination or renegotiation of the loan contract. In the case of a property still being constructed, "V" accounts for the expected value upon completion of the residential property that is under construction. The denominator is not adjusted for the presence of other credit risk mitigants. - The **maturity** at origination is the term of the loan contract. The maturity of renegotiated loans represents the remaining term of the contract starting from the renegotiation date.
2.3	Legal basis and process of implementation of the measure	The **decision of the BNB Governing Council** for the introduction of the above requirements is pursuant to Article 79, paragraph 2 and 3, (1) and (4) and Article 80, paragraph 1, of the ***Law on Credit Institutions***. The measure is legally binding and applies from 1 October 2024. **Article 79, paragraph 2 from the LCI:** "The Bulgarian National Bank shall exercise also macro-prudential supervision of banks in order to maintain the stability of the banking system and in relation to the prevention or reduction of both systemic risks resulting from the activity of credit institutions and the identification and limitation of the incidence of macroeconomic factors threatening the stability of the banking system."

		Article 79, paragraph 3 from the LCI (excerpt)**:** “In exercising the macroprudential supervision under paragraph 2, the Bulgarian National Bank shall: 1. collect information for the purposes of its macroprudential mandate; … 4. develop and implement measures to limit systemic risks stemming from the accumulation of excessive credit growth; the measures concern banks’ credit activity and shall include: a) the loan amount to collateral value (loan-to-value or LTV) ratio requirements; … c) the debt service payments to borrower’s monthly income (debt service-to-income or DSTI) ratio requirements; d) requirements in respect of the maximum duration of the loan agreement. …”
2.4	Coverage	a. The measure applies to all credit institutions including branches of foreign banks.
		b. The measure covers the household sector.

		c. The requirements cover new and renegotiated loans, secured by residential real estate located in Bulgaria, irrespective of the purpose of the loans.
2.5	Calibration	The calibration of the measure follows the conservative supervisory approach of the BNB and the preventive goal of the measure. The regular analysis of risks stemming from the RRE lending activity signals potential build-up of medium-term risks for the banking system against the backdrop of persistent elevated lending growth, which accelerated further in the second quarter of 2024. While no worsening of the weighted-average lending standards is observed, the identified areas of potential vulnerabilities, related to the presence of loans within the higher intervals of the lending standards' indicators are still present. Thus, the activated restrictions have preventive nature and aim to preserve the stability of the banking system in the context of increasing medium-term cyclical risks.
3. Timing for the measure		
3.1	Timing for the decision	11/09/2024
3.2	Timing for publication	11/09/2024
3.3	Disclosure	Communication of the measure follows the standard BNB practice via a press release and a dedicated section on the BNB website. The press release can be accessed via the following link. The dedicated section can be accessed via the following link.

3.4	Timing for the application	01/10/2024
3.5	End date (if applicable)	N/A
4. Reason for activation of the measure		
4.1	Description of the macroprudential risk	The measure is intended as an enhancement of the macroprudential toolkit. Borrower-based measures are introduced along the current framework of high capital buffer requirements as a preventive tool with capacity to further mitigate risks stemming from elevated credit growth, sustain asset quality and prevent the development of pockets of vulnerability that could create risks in the medium term. Lending activity continued to accelerate in 2024. Newly originated loans, secured by RRE, reached BGN 2.1 bn. in the second quarter of 2024, compared to BGN 1.7 bn. in the first quarter of 2024 and BGN 1.4 bn. in the second quarter of 2023. In the end of June 2024, the stock of RRE loans reached BGN 24.4 bn., which represents quarterly increase in the amount of BGN 1.3 bn. Annual growth of loans, secured by RRE further accelerated by 1.7 p.p. to 22.8% and remains elevated mainly due to continuous low interest rate levels and increasing household incomes both in nominal and real terms. The share of loans, secured by RRE, in the total loans and assets is on an increasing trend and reached 23.5% and 13.7%, respectively. Macroeconomic indicators are characterised by an increase of housing prices and initial signals of growing household indebtedness. As of the end of March 2024 the annual growth rate of house prices accelerated to 16.0%, which significantly deviates from the growth rates in previous quarters of around 10%. In addition, overvaluation of house prices heightened to above 10%.

		Consolidated debt of households and NPISH as % of GDP increased to 24.4% (23.7% in December 2023). The share of newly originated loans, secured by RRE, in the total house sales is on a rising trend. In the context of the above-mentioned trends, the heatmap assessment of risks stemming from RRE lending points that a number of indicators (credit growth, indebtedness, house price growth and overvaluation, average loan size) shift to a higher risk category.
4.2	Indicators used for activation of the measure	With a decision from 20 May 2024 the BNB GC ordered banks operating in the country to apply a minimum set of indicators for monitoring lending standards when originating and renegotiating loans, secured by residential real estate, endorsed the definitions and the calculation method of these indicators, and introduced quarterly reporting on an individual and consolidated basis. Subsequently, the BNB GC endorsed a formalized methodology for analysis and assessment of systemic and cyclical risks resulting from banks' lending activities in the RRE market. The methodology rests on a set of indicators, arranged in three main groups: - *macroeconomic indicators*, incl. indicators on the household sector and the labor market, RRE market activity, RRE prices; - *indicators on RRE lending*, incl. credit quality, interest rates, lending activity, credit dynamics; - *lending standards indicators*, incl. level of collateralization, indebtedness, debt service ability, maturity. These indicators are standardized and arranged in a heatmap. An additional quantitative approach is applied for determining the direction of risk based on indicators' historical behavior.

4.3	Effects of the measure	The introduced restrictions on LTV-O, DSTI-O and maturity of new and renegotiated loans, secured by RRE, aim to ensure the stability of the banking system by complementing existing capital buffer requirements, which are among the highest within the EEA countries. The requirements are not intended to restrict lending, but follow the BNB highly-conservative supervisory approach to preventively ensure resilience of the banking sector to the increasing trends in the materialization of cyclical risks in medium term. Effects of lending contraction or deleveraging in the banking system are not expected.
5.	**Sufficiency, consistency and non-overlap of the policy response**	
5.1	Sufficiency of the policy response	The introduced restrictions on LTV-O ensure that banks maintain sufficient levels of collateral to cover potential losses in case of a downturn in the RRE market. The maturity limit of 30 years and the DSTI limit of 50% reduce the likelihood of materialization of interest rate risk and credit losses. In combination, the restrictions cut out the riskiest part of lending, thereby reducing the build-up of medium-term risks related to the banking system's exposure to the RRE market.
5.2	Consistency of application of the policy response	The implementation of the notified measure is consistent with the objective "Mitigate and prevent excessive credit growth and leverage" outlined in the ESRB recommendation on intermediate objectives and instruments of macro-prudential policy (ESRB/2013/1).

5.3	Non-overlap of the policy response	The notified measure does not overlap, but rather complements the existing CCyB and SRB, which address a wider range of cyclical and structural risks, including risk stemming from banks' exposures to the RRE market.
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 as the measures target lending, secured by RRE, located in Bulgaria, and Bulgarian banks have insignificant non-resident exposures.
6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	Lending to households, secured by residential real estate, located in Bulgaria, and financial intermediation in general, has traditionally been concentrated in credit institutions, operating within the country. Credit institutions' share in the total financial system assets is close to 73%. In addition, the measures are applied to new and renegotiated loans, provided by credit institutions and branches of foreign banks, on both individual and consolidated basis. Outside of the banking system, other financial institutions specialize in distinct types of activities e.g. leasing, factoring and consumer lending (though consumer lending is characterized by very small loan sizes and relatively unfavorable loan terms compared to banks). Lending secured by RRE represents only 0.6% of the

[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).

		household loan portfolio of these institutions (BGN 4.1 bn. as of Q2 2024). Last, but not least, as mentioned in 4.3 above, the requirements are not expected to lead to lending contraction or deleveraging. Thus, regulatory arbitrage or leakages are not generally expected.
6.3	Request for reciprocation	Do you intend to ask the ESRB to issue a recommendation to other Member States to reciprocate the measure? No - If yes, please provide in Section 6.4 the justification for that reciprocity. Please refer to the justification in 6.1 and 6.2.
6.4	Justification for the request for reciprocation	N/A
	7. Miscellaneous	
7.1	Contact person(s)/mailbox at notifying authority	Stoyan Manolov, Director General, Banking Supervision Department, Bulgarian National Bank, e-mail: Manolov@bnbank.org Elisaveta Pravova, Director, Macroprudential Supervision and Financial Stability Directorate, Banking Supervision Department, Bulgarian National Bank, e-mail: Pravova.E@bnbank.org Silvia Prokopieva, CFA - Head of division, Macroprudential Supervision and Financial Stability Directorate, Banking Supervision Department, Bulgarian National Bank, e-mail: Prokopieva.S@bnbank.org

7.2	Any other relevant information	N/A
7.3	Date of the notification	12/09/2024