ESRB
European Systemic Risk Board
European System of Financial Supervision

EUROPEAN CENTRAL BANK
EUROSYSTEM

Notification template for measures to be taken under Article 458 of the Capital Requirements Regulation (CRR)

Template for notifying the European Central Bank (ECB), the European Systemic Risk Board (ESRB) and the European Commission of stricter national measures pursuant to Article 458(2) CRR and for requesting the ESRB to issue a recommendation to other Member States to reciprocate the measures pursuant to Article 458(8) CRR

Please send/upload this template to:

- macropru.notifications@ecb.europa.eu when notifying the ECB (under Article 5 of the Single Supervisory Mechanism Regulation (SSMR)[1]);
- notifications@esrb.europa.eu when notifying the ESRB;
- FISMA-E-3-NOTIFICATIONS@ec.europa.eu when notifying the European Commission.

The ESRB will forward this notification to the European Parliament, the European Council and the European Banking Authority (EBA) without delay. This notification will be made public by the ESRB after the relevant authorities have adopted and published the notified macroprudential measure[2].

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please submit the notification template in a format that allows the information to be read electronically.

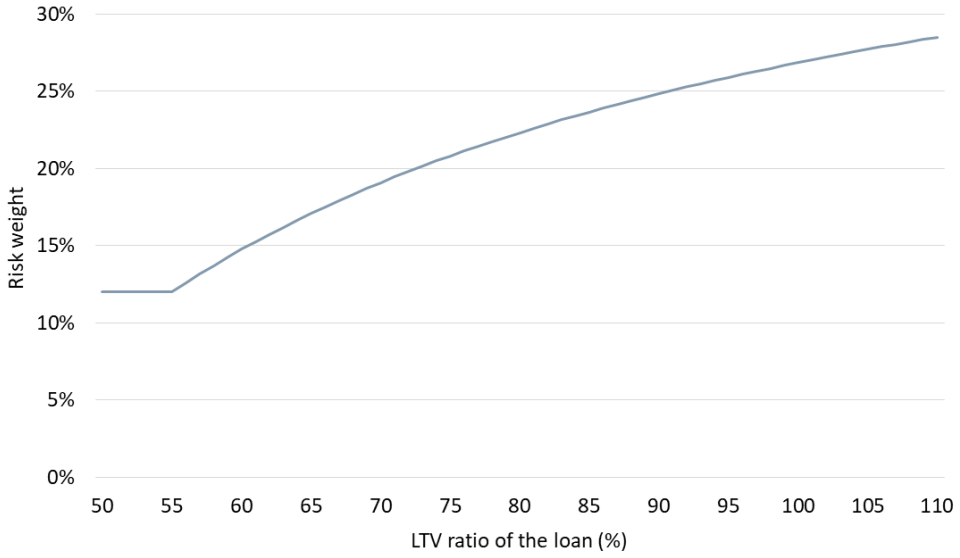
1. Notifying national authority and scope of the notification	
1.1 Name of the notifying authority	De Nederlandsche Bank (DNB).
1.2 Country of the notifying authority	The Netherlands.
1.3 Categorisation of the measure	(iv) Risk weights for targeting asset bubbles in the residential property sector. The measure was initially activated by DNB on 1 January 2022. With the measure, DNB has introduced a minimum average risk weight for the calculation of regulatory capital requirements applicable to exposures to natural persons secured by mortgages on residential property located in the Netherlands, based on art 458(2)(d)(iv) of the CRR. The stricter requirement is applicable to credit institutions that use the Internal Ratings Based (IRB) approach for calculating regulatory capital requirements.

[1] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).
[2] 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.

Date of template version: 06-08-2021

	In 2022 the measure was extended for a period of two years, until 30 November 2024. With this extension the measure would run for two additional years, from 1 December 2024 until 30 November 2026..
1.4 Request to extend the period of application of an existing measure for up to two additional years **(Article 458(9) CRR)**	**DNB requests to extend the period of application of the current measure with two years.** DNB initially introduced the measure on 1 January 2022 and, after the first extension, the measure is set to expire after 30 November 2024. After this extension is approved and implemented, the measure will be in force until 30 November 2026. DNB does not alter the design of the measure with the extension. As was also mentioned in the initial application, IRB-models do not take sufficient account of increasing systemic risk in the Dutch housing market. DNB still identifies a gap between the observed systemic risk in the housing market and the losses that could arise on the one hand (see section 4.1 for a more detailed assessment), and the average risk weights on mortgage portfolios on the other hand. Our stress test still indicate a possibility for substantial losses, while the average risk weights of IRB-banks' mortgage portfolios are still at the low level observed during the first notification of the measure. Moreover, the dispersion in IRB risk weights between banks has increased since the introduction. The risk weight floor implemented by the measure ensures that banks maintain a certain minimum capital amount for their mortgage portfolios and helps to prevent that increasing house prices result in a substantial decrease of risk weights (i.e. rising house prices cause LTV ratios to decline). The measure differentiates the average minimum risk weight of the portfolio based on the LTV of the underlying mortgage loans, making the measure risk-sensitive.
1.5 Notification of a measure to which Article 458(10) CRR applies ('notification only procedure')	Article 458(10) does not apply for this measure. The measure is expected to increase the risk weights of the IRB-banks concerned by more than 25%.
2. Description of the measure	
2.1 Draft national measure **(Article 458(2)(d) CRR)**	**The design of the current (initial) measure will not be altered with the extension.** The current measure imposes a minimum average risk weight for IRB banks' portfolio of exposures to natural persons secured by mortgages on residential property located in the Netherlands. Loans partly or wholly covered by the National Mortgage Guarantee scheme are exempted from the measure. The minimum average risk weighting is calculated as follows: 1) For each individual exposure item in scope of the measure, a 12% risk weight is assigned to the portion of the loan not exceeding 55% of the market value of the property that serves to secure the loan, and a 45% risk weight is assigned to the remaining portion of the loan. This means the risk weights of the individual loans to be used for this calculation increase with the LTV ratio of the loans: from 12% for loans with an LTV ratio up to 55% to 26.85% for loans with an LTV ratio of 100%

(see the figure below). The measure continues to be calculated based on the market value of the collateral.



2) The minimum average risk weight of the portfolio is the exposure weighted average of the risk weights of the individual loans, calculated as explained above. Individual loans that are exempted from the measure are disregarded in calculating the minimum average risk weight.

The table below illustrates 1) the calculation of the risk weights that have to be assigned to the individual loans in order to calculate the minimum average risk weight of the portfolio and 2) the calculation of the minimum average risk weight for a fictitious portfolio. In this example, the measure assigns a minimum average risk weight of 19.7% to the loans within its scope.

Fictitious portfolio	Loan amount (L)	National Mortgage Guarantee	Collateral value (V)	LTV ratio (L/V)	Risk weight based on Section 2.2(2)	
loan 1	150	no	250	60%	(55/60)*12%+(5/60)*45% =	14.8%
loan 2	130	no	173	75%	(55/75)*12%+(20/75)*45% =	20.8%
loan 3	120	no	133	90%	(55/90)*12%+(35/90)*45% =	24.8%
loan 4	110	yes	138	80%		exempted
	Loan amount in scope of the measure:				150 + 130 + 120 = 400	
	Minimum average riskweight:				(150/400)*14.8%+(130/400)*20.8%+(120/400)*24.8% =	**19.7%**

This measure does not replace the existing capital requirements set out in and arising from the CRR. Banks to which the measure applies must calculate the average risk weight of the part of the mortgage portfolio that is in scope for this measure on the basis of both the regular applicable CRR provisions and the method as set out in the measure. In calculating their capital requirements, they must subsequently apply the higher of the two average risk weights.

2.2 Scope of the measure

(Article 458(2)(d) CRR)

The scope of the current (initial) measure will not be altered with the extension.

The measure applies to banks using an Internal Risk Based Approach for calculating their regulatory capital requirements, which are currently the following:

	ING Bank, Rabobank, ABN Amro, Volksbank, NIBC, Van Lanschot Kempen and Achmea Bank. The measure applies to retail exposures to natural persons secured by mortgages on residential property located in the Netherlands, for which the IRB Approach is used for calculating regulatory capital requirements, and which are not wholly or partly covered by the Dutch National Mortgage Guarantee scheme (NHG). Mortgage loans wholly or partly covered by the National Mortgage Guarantee scheme (NHG) are exempted from the measure. The NHG scheme is a guarantee provided by a government-backed foundation, the Homeownership Guarantee Fund (*Waarborgfonds Eigen Woningen*, WEW), which covers 90% of the residual debt if a forced sale of the house is inevitable due to circumstances beyond the control of the borrower (job loss, becoming disabled, divorce). Moreover, the guaranteed amount under NHG decreases over time based on an annuity scheme. Given the additional security of the NHG, these mortgages will be safer when systemic risks materialise. NHG mortgages account for 20-25% of the banks' mortgage portfolios. Excluding NHG mortgages, loans with LTV ratios above 55% account for roughly half of the banks' mortgage portfolios.
2.3 Calibration of the measure	**Analyses which have been carried out for the initial introduction and for this extension** As described in our initial notification template, DNB performed several analyses to assess the potential impact of a severe housing market correction on banks before the initial introduction of the measure. For instance, DNB ran a top-down stress test which used the adverse scenario for the Dutch economy also used in the EU-wide stress test conducted by the European Banking Authority (EBA). This scenario features a severe downturn in the housing market which includes, among others, a cumulative decline in RRE prices above 30% and a strong increase in interest rates challenging the debt-servicing capacity of households. Whereas the EBA-stress test results were based on constrained bottom-up calculations from banks' own models, the top-down model was designed to provide conservative estimates by using a uniform approach to calculate potential losses for banks. In a sensitivity analysis, DNB projected the potential credit losses for mortgages in line with the highest three-year cumulative increase in credit losses observed on historical data. Both analyses find that banks would incur sizeable losses on their mortgage portfolios and suggest that banks would need to hold additional capital to ensure they would be sufficiently resilient in case of a materialization of systemic risks in the housing market. When the risk weight floor measure was first announced in 2019, it was expected to increase the average risk weight of IRB banks' mortgage portfolios from 11% before applying the measure to 14-15%, an increase of around 30%. Since the initial activation, the systemic risk in the Dutch housing market has further increased and, while some risk indicators decreased recently, the overall systemic risk is at an elevated level. Updated (top-down) stress test results, where we make use of the EBA 2023 stress test scenario, still show the need for similar additional capital to account for unexpected losses on residential real estate portfolios. In the current review, DNB has again run the stress test to assess potential credit losses for banks in the event of a severe downturn of the housing market and the economy. This was designed to provide conservative estimates by using a uniform approach to calculate expected losses for all banks. The stress test has now been performed on the domestic mortgage portfolio of six banks subject to the art. 458

	measure as opposed to the whole portfolio of four banks before. In detail, banks' resilience was tested against an historical scenario featuring the most severe cumulative increase in the loss rate of the mortgage portfolio observed over a three-years horizon in historical data. The stress test is based on a framework similar to the approach used by the ECB to produce the Credit Risk benchmarks, which relies on internal estimates of the elasticities (long-run multipliers) to obtain the multiples for the credit risk benchmarks (PD and LGD multipliers). The results suggest that overall systemic risk is at an elevated level, as the total amount of credit losses (provisions) in line with those estimated ahead of the initial activation of the measure. Section 2.4 explains in more detail why the current measure is still deemed suitable and effective. The measure is calibrated such that the floor increases with the LTV ratio of the underlying mortgage loans. This implies that more capital must be maintained for riskier mortgage loan portfolios. The mapping between LTV and risk weights is motivated by several considerations. It leads to a substantial difference between risk weights of high and low LTV loans, which strengthens the risk sensitivity of the measure. At the same time, risk weights increase gradually with the LTV, preventing potential distortions through cliff effects. By using a constant risk weight for the part of the loan up to 55% LTV, the mapping also ensures that risk weights for low-LTV loans are not too low from a macroprudential perspective. Taking into account these considerations, the minimum percentages (12% and 45%) are chosen so as to ensure that the measure has the desired impact on bank capital. The desired impact is still in line with the elevated systemic risks and updated stress test results. All in all, given the increase in intensity of the systemic risk in the Dutch residential real estate market compared to the initial activation, the risk stabilizing at elevated levels (with upward pressure) compared to the first extension, and the appropriate impact of the measure towards these risks, there is no need to change the calibration.
2.4 Suitability, effectiveness and proportionality of the measure **(Article 458(2)(e) CRR)**	**DNB still considers the measure as suitable, effective and proportionate on the basis of the following considerations.** The main objective of the measure is to ensure that all banks which play an important role in mortgage lending are resilient against a potential severe downturn in the housing market. This is achieved by imposing an average minimum risk weight for IRB banks, which creates a sufficiently strong and stable amount of capital for residential real estate exposures, as is described in 2.3. The additional amount of CET1 capital following from the Art 458 measure based on 2023 Q4 data is estimated at EUR 2.4 billion and helps to secure the resilience of the banking sector in a severe downturn scenario. This impact is slightly lower than in 2022 as the difference between the IRB risk weights and the Art. 458 risk weights for certain banks decreased, but the impact is still proportionate considering the elevated risks and stress test impact. The need for higher capital arises because the risk weights that IRB banks apply to real estate exposures are too low to account for the high vulnerabilities at the macro level. The measure is expected to increase the average risk weights of IRB banks by about 4%-points (from currently around 12% before applying the measure to 16%). By differentiating the average minimum risk weight based on the LTV of a mortgage, the measure is especially targeted at an important source of systemic risk in The Netherlands. From an international perspective, Dutch banks are highly

	exposed to high-LTV loans (see also Section 4.1). These loans are more risky not only in terms of higher credit risk, but also from a systemic perspective. High-LTV loans are more likely to have negative equity following a bust in the housing market, which in the past has induced households to reduce consumption and has prolonged the housing market bust. As a result, the impact of a housing market correction is expected to be larger when the share of high-LTV loans is larger. The measure reflects this negative externality, as the additional capital to be held for mortgage exposures will increase with the share of high LTV loans. In addition, as the measure will impose a higher floor on banks with higher LTV loans, it gives individual banks a disincentive to grant new high-LTV loans. The measure is designed to avoid adverse incentive effects with respect to mortgage lending. In general, the imposition of a fixed risk weight floor could make risky mortgages relatively more attractive for banks than safe mortgages. We avoid this by making the average minimum risk weight risk-sensitive. By imposing a risk-sensitive floor rather than an add-on (fixed or through a multiplier), we avoid potential distorting effects that could arise from reducing the incentive to estimate conservative risk parameters. Recent internal research shows no evidence that the measure has led to more risky mortgage lending over the period of 2022 and 2023. The main objective of the measure – strengthening resilience against a potential severe downturn in the housing market – is especially relevant for banks. As banks are systemically relevant, their resilience is especially important from a macroprudential perspective. Moreover, banks are highly exposed to the Dutch mortgage market, as 21% of their assets are Dutch mortgage loans. They are more exposed to the systemic risk in the housing market than other mortgage lenders, such as insurers and pension funds. The targeted nature and risk-sensitivity of the measure also contribute to its proportionality. Because residential real estate is one of the main (domestic) sources of systemic risk in The Netherlands, the measure targets exposures secured by residential real estate. As a result, spill-overs to overall credit extension and, indirectly, to the real economy are expected to be limited. The measure affects banks only, for which resilience to the indirect effect of a housing bust is likely to be more of a concern than for insurers and pension funds. In addition, the measure only affects banks which use the IRB Approach. After all, risk weights under the standardized approach are higher than the average risk weight resulting from the intended risk weight floor. The floor does therefore not affect portfolios under the standardized approach. IRB banks account for 96% of all mortgage lending by banks in the Netherlands, underlining the effectiveness of the measure. Also, given the additional security of the (guaranteed) NHG mortgages, these mortgages will be safer when systemic risks materialise. Therefore, it is proportionate to exempt these mortgages from the measure. Finally, in this current review DNB has found no signs of procyclicality from the measure, which would disturb its effectiveness. Given the use of market value the ESRB voiced a concern that the measure would become less stringent in situation where housing price are rising, and more stringent when they are falling. This pattern is not observed in the data. Since its activation, the average risk weight after applying the Art 458 measure has remained at 15 – 16%, and even slightly increased while the house price index declined. The declining impact of the Art 458 measure is the result of the larger elasticity of the average IRB risk weights. In other

	words: for most banks IRB risk weights respond stronger to housing price changes than the Art 458 measure. In the absence of procyclicality signs, the use of market prices to calculate the LTV ratio in the measure continues to be best aligned with the objective of the measure to strengthen the resilience of banks against the impact of a decline in current market prices. DNB will continue to monitor for unintended procyclical effects. Also, DNB will monitor the impact of the measure in relation to the observed build-up of systemic risks in residential real estate. In line with Art 458 (4), DNB will reconsider the calibration of the measure if a sustained reversal in the build-up of these risks is observed. Materialization of the risk would be a reason for withdrawal of the measure, so that the capital can be used to absorb any losses.
2.5 Other relevant information	-
3. Timing for the measure	
3.1 Timing for the decision on the measure	The decision will be taken on 11 July 2024. The final decision is expected to be adopted in October 2024.
3.2 Timing for publication	The final decision to extend will be communicated in the Autumn edition of the Financial Stability Report (FSR), which is scheduled for publication on 21 October 2024. The definite regulation for the extension will also be published in the second half of October 2024, closely after the FSR publication.
3.3 Disclosure	DNB has published its intension to extend the measure on May 14th 2024 for public consultation. The consultation closed on June 25th 2024. Such a consultation is obligatory under national law. Alongside the publication of the legal text of the extension, DNB will announce the extension in its Autumn Financial Stability Report, in which DNB reiterates the underpinning of its decision to extend for two years.
3.4 Timing for application (Article 458(4) CRR)	The measure has been notified for the first time end of 2019, was initially activated on 1 January 2022 and then extended on 1 December 2022 for two years. The extended application period will end on 1 December 2024. This extension will come in force on this date.
3.5 Duration of the measure (Article 458(4) CRR)	The intended extension is for a period of two years after the first extension comes to an end. The measure has been initially introduced on 1 January 2022 and, after the first extension, will come to an end on 30 November 2024. With the two-year extension on 1 December 2024, DNB intends to have the measure in place until 30 November 2026.
3.6 Review (Article 458(9) CRR)	DNB evaluates the need for extension or revisions of the implemented measure prior to the expiration date . At the same time, DNB will monitor the build-up of systemic risks in the Dutch mortgage and residential real estate markets. In line with Article 458(4) of the CRR, DNB will consider the withdrawal of the measure if risks were to materialise. Such an assessment will take account of the overall developments in the residential real estate market (e.g. house prices), developments in household indebtedness and mortgage-linked indicators like the LTV, LTI, mortgage credit growth, mortgage

	credit standards, and the resilience of the IRB banks in terms of capital ratios, and observed credit losses directly or indirectly linked to Dutch mortgages.
4. Reason for the activation of the stricter national measure	
4.1 Description of the macroprudential or systemic risk in the financial system **(Article 458(2)(a) CRR)**	The extension of the measure primarily aims to maintain the resilience of Dutch banks to a potential (severe) downturn in the housing market against the background of sustained price increases in real estate over the past years. As outlined in Section 4.2 the measure aims to strengthen banks against both direct and indirect losses from the systemic risk in the housing market. In general, systemic risk inherent in the Dutch housing market stabilizes at elevated levels after it has increased over the past few years. Some risk indicators have deteriorated further since the first notification of the measure. Prices are expected to grow further and systemic risks remain present. As paragraph 4.3 outlines, a number of main indicators are used that prompt the activation/extension of the measure. Price dynamics, signs of overvaluation, banks' exposure to mortgage loans, the level of household indebtedness and current IRB risk weights play a key role. First, we still observe sharp house price increases over several years. Year-on-year growth peaked at 21.1 percent in January 2022 (highest growth rate recorded by Statistics Netherlands since they started their house price index in 1995). After a short-lived and modest decline in 2022-2023, the housing price index is growing again as of December 2023. With the latest available yearly growth rates of the Statistics Agency Netherlands standing at +7,5% in April 2024 and +8,6% in May 2024. As a result, in April 2024 the house price index exceeded her previous peak (July 2022) and is expected to grow further (see DNB 2024 spring projections). Moreover, the national average transaction price has more than doubled since mid-2013 to around EUR 432,000 in 2024Q1. More than half of the houses are being sold above the asking price and the average transaction period is 34 days in 2024Q1. These numbers deteriorated compared to when the measure was notified for the first time in 2019. Moreover, a scarcity indicator (houses sold divided by houses for sale) is rising above levels observed during the first notification and activation of the measure. Second, while sluggish supply and previously declining interest rates partly account for the price increases, signs of overvaluation remain present. The price-to-income ratio stands at 125 at 2023-Q4 (index number, 2015=100), which is considerably higher than the euro area average of 107. The ESRB model also points to an overvaluation of approximately 20% (ESRB, 2024), making exposures to Dutch mortgages vulnerable to a downturn and corresponding direct and indirect losses. In addition, housing prices at end 2023 are 18% higher than expected based on historical development of borrowing capacity. This could incentivize borrowers to lend at their maximum capacity, increasing their exposure to a housing market downturn. Most of these indicators significantly increased (and hence worsened) compared to the first notification of the measure. Third, the exposure of Dutch banks towards RRE mortgages remains high and is currently at one of its highest levels, slightly above 21% of total assets. Considering as well that Dutch banks additionally are responsible for around 70% of all mortgage lending, shows that they are most exposed to the systemic risks in the housing market.

	Fourth, Dutch households continue to have high debt levels, with 94 percent of GDP in 2023 (of which the large majority is mortgage debt) among the highest of Europe. On average the household debt level in the euro area stands at around 54 percent in 2023 (ECB) and is considerably below the level observed in the Netherlands. Furthermore, households have shown risky borrowing behaviour (a.o. in terms of LTI levels and choice for interest-only loan parts) during the low interest rate environment. At this juncture we don't have evidence – partially due to a lack of data – on a further increase in risky lending behaviour compared to the initial activation decision. Fifth, while increased systemic vulnerabilities are present in the Dutch RRE market and international institutions underline these, risk weights assigned to Dutch mortgage loans are among the lowest in the EU. From a macroprudential perspective, we find that current risk weights do not accurately reflect the high and persistently elevated systemic risk in the housing market. Also, while we have seen the systemic risks increase since the first activation, IRB risk weights only increased moderately and the higher dispersion in risk weights stipulates that these vulnerabilities are still unaccounted for. And finally, our observations are confirmed by different reports by international institutions that acknowledge the high systemic risks in the Dutch RRE market. The ESRB in its recommendation to the Netherlands in September 2019 notes that risk weights do not reflect risks to financial stability (see also Section 4.1), and these risk weights did not increase over time. Furthermore, the ESRB pointed out in its latest (February 2024) assessment report that vulnerabilities in RRE sectors have remained high in the Netherlands. Moreover, the IMF recognizes the risks of a downward housing market correction for Dutch banks in its recent Article IV and FSAP reports (March 2024). The Article IV consultation assesses the relative likelihood of corrections in the housing market and resulting impact to be elevated (medium). The IMF states that financial sector policies should ensure heightened vigilance and monitoring of financial sector risks, especially those arising from the stretched housing and commercial real estate market and higher interest rates and make use of available macro-prudential buffers to absorb losses and sustain credit provision. Moreover, they state that despite mitigating factors such as low default rates, '*even if direct effects on banks are limited, lower household wealth could negatively affect consumer spending and growth, with possible second-round effects on banks*'. Also, the IMF considers the use of macroprudential tools to improve the resilience of the banking system, among which the floor for risk weights of Dutch residential mortgages, to be appropriate in the FSAP (financial system stability assessment) report.
4.2 Analysis of the serious negative consequences or threat to financial stability **(Article 458(2)(b) CRR)**	Banks and households in The Netherlands are especially vulnerable to a downward correction in the housing market. Banks can be hit by a house price correction both directly and indirectly. Although banks' mortgage loan losses were muted during the Global Financial Crisis and 2008-2013 housing crisis, stress tests show that banks' expected mortgage loan losses could surge in an adverse scenario. This could be the case if the probability of default were to increase, for instance due to a sharp rise in unemployment, while collateral values simultaneously decrease due to the house price correction. As in the Global Financial Crisis, market participants could be less keen on funding Dutch banks. Moreover, while reliance on market funding has reduced for Dutch banks, it

	is still above the Eurozone average. This also contributes to their vulnerability to a house price correction. A housing market correction will also hit Dutch banks indirectly, due to the high sensitivity of the Dutch economy to house price shocks. High indebtedness makes Dutch households vulnerable to a downward correction in the housing market. As prices drop, high-LTV mortgage loans will sooner end up under water. Underwater homeowners consume less, as was observed during the last housing crisis between 2008 and 2013. As a result, banks also suffer from a housing market correction through indirect effects, as the negative economic impact will reduce profitability and increase RWA. The Dutch banks' resilience against a potential house price correction is crucial to financial stability. Generally speaking, banks are the most systemically important financial institutions. Moreover, of all financial institutions, banks are most exposed to risks in the housing market. A large proportion of their assets are Dutch originated mortgage loans (21%).
4.3 Indicators prompting the use of the measure	The main indicators are: • Developments in house prices and price/income levels • Level of household indebtedness • Banks' exposures to mortgage loans • Level of risk weights that IRB banks apply to their mortgage portfolio
4.4 Justification for the stricter national measure **(Article 458(2)(c) CRR)**	The main objective (for the extension) of the measure is to maintain the resilience of banks against a potential severe downturn in the housing market by ensuring that banks (continue to) hold sufficient capital for residential real estate exposures. The need for this arises from the systemic risk related to the housing market against the background of very low risk weights for real estate exposures by IRB banks. Moreover, the capital impact of the measure generally increases for more risky (higher LTV) loan portfolios and therefore could reduce the attractiveness of these loans for banks. Given the current risk environment, DNB considers a two-year extension of the measure based on Article 458 necessary. Alternative measures are still not considered as adequate to address the risk: **Article 124 of CRR** Article 124 enables the competent authority to increase the risk weights of banks that apply the standardised approach to their mortgage exposures on the basis of financial stability considerations. A measure based on art 124 would not adequately address the systemic risk, since banks that apply the standardised approach account for only a small fraction (around 4 percent) of all mortgage lending by banks. Therefore, a measure based on art 124 would not have the desired impact on the resilience of the banking sector. Moreover, the risk weights of the standardised approach are (both in the CRRII and CRRIII) substantially higher than the average risk weight for banks that use the IRB approach, and are considered sufficiently high in relation to the systemic risk **Article 164 of CRR** Article 164 enables the competent authority to increase the LGD floor applied by IRB banks on their mortgage exposures on the basis of financial stability

	considerations. For retail exposures secured by residential property the LGD floor in the CRRII is a 10% exposure-weighted average, and in the CRRIII this LGD floor is fixed at 5% irrespective of the level of collateral provided by the residential property. DNB considers this measure still as less efficient and effective than the currently active Art 458 measure, for the following reasons: - Increasing the minimum average LGD floor would predominantly affect loans with a low LGD. Within a bank's mortgage portfolio, these loans are generally the ones with a lower LTV ratio. The loans with a higher LGD (or a higher LTV ratio) would be less affected. - By increasing the average LGD floor, banks with conservative lending standards (implying a lower LGD) would be penalised relatively more than banks with less prudent lending standards, and could be incentivised to align their risk-taking with the higher (less conservative) LGD floor. - An increase in the average LGD floor would interfere with the micro-prudential internal models of banks. This could potentially have unintended effects going beyond the intended increase in the risk weighted exposure amount. For example, an increase in the average LGD floor would also affect other micro-prudential parameters, such as the calculation of expected loss amounts under Articles 158 and 159 of Regulation (EU) No 575/2013. - Finally, Article 164 would add to the complexity of the determination of capital requirements and would reduce the transparency of IRB risk weights for market participants. **<u>Article 133 CRD</u>** Article 133 CRD concerns the setting of the systemic risk buffer (SRB). Each member state may introduce a SRB in order to prevent and mitigate macroprudential or systemic risk with the potential to have serious negative consequences to the financial system and the real economy, and which is not covered by Regulation (EU) No 575/2013 and by Article 130 and 131 of the CRD. In addition, the SRB could be applied on a sectoral level (such as retail exposures to natural persons which are secured by residential property). DNB considers the sectoral SRB a welcome addition to the macroprudential toolkit. However, for the observed systemic risk, DNB sees the SRB as less efficient and effective than the currently active measure for three main reasons. First, the risk weight floor is more risk-sensitive as it better prices the negative externality of high-LTV loans and thus better enhances the resilience of the banking sector. After all, the current measure results in a different risk weight for each loan depending on their LTV. This allows for a better targeting of risk than what can be achieved with the sectoral SRB. Second, the risk weight floor is better suited to address the heterogeneity in risk weights. It namely ensures that each bank maintains a minimum level of capital for their mortgage portfolios, regardless of the risk weights that the bank currently applies. The (sectoral) SRB, however, can only be implied as an add-on on the current risk weight and is in that regard deemed to be less effective and efficient. Given that the dispersion between banks in the average IRB risk weight has increased and that the sectoral SRB will impact IRB banks with lower risk weights relatively less, the sectoral SRB is a less suitable instrument. Third, the risk floor comes with less pro-cyclical (side) effects. After the first activation of the Art. 458 measure, a period followed of increasing systemic risk,

	while risk weights decreased further. The impact of a sectoral SRB would in this case decrease, while the floor remains relevant for banks that already have low risk weights. In other words, a sectoral SRB would have worked in a more pro-cyclical an hence less effective way. This shows that the way in which banks are affected by the proposed risk-sensitive floor differs from the sectoral SRB, and as such the floor measure seems to be better able in addressing the risks. **Article 136 CRD** Article 136 concerns the setting of the countercyclical capital buffer (CCyB). While the CCyB promotes resilience of the banking sector, it considers the overall risk environment rather than the risk in a targeted area. Moreover, the CCyB is imposed on all credit exposures within the Netherlands, and is thus not targeted towards the main source of the increase in systemic risk, the housing market. In addition, the CCyB cannot be narrowed down to a subset of institutions, such as banks using the IRB approach. Finally, the risk-sensitive approach of the proposed measure, which prices the negative externality of high-LTV loans, is not possible using the CCyB, which applies equally to all domestic exposures DNB's current analytical framework for setting the CCyB aims for a 2% CCyB in a standard risk environment (i.e. a situation in which cyclical systemic risks are neither particularly high nor particularly low). This way, we want to take greater account of the inherent uncertainty in the measurement of cyclical systemic risks. It also ensures that banks have releasable capital in a timely manner. As described in our Spring FSR 2023, the current overall risk profile resembles a standard risk environment and DNB thus announced on 31 May 2023 that it increased the CCyB from 1% to 2%. While the CCyB promotes resilience of the banking sector, it does neither fully nor specifically address the clearly elevated systemic risk levels now present in the housing market.
5. Sufficiency, consistency and non-overlap of the policy response	
5.1 Sufficiency of the policy response	DNB is of the view that the RWA increase, and the subsequent impact on capital requirements, caused by the risk weight floor is sufficient to mitigate the risk for IRB banks related to exposures to Dutch mortgages, see sections 2.3, 2.4 and 4.1.
5.2 Consistency of application of the policy response	In line with ESRB Recommendation 2013/1, the ultimate objective of macroprudential policy is to contribute to the safeguard of the financial system as a whole, including by strengthening the resilience of the financial system and decreasing the build-up of systemic risks, thereby ensuring a sustainable contribution of the financial sector to economic growth. As set out in this notification template, DNB is of the view that the risk weight floor promotes resilience against both the direct and indirect impact of a house price correction. Moreover, as discussed in section 4.4 and in line with ESRB Recommendation 2013/1, DNB judges the current risk weight floor to be most effective and efficient macroprudential tool for this purpose. Finally, DNB adhered to the common principles set out in the relevant legal texts when imposing the risk weight floor measure.

5.3 Non-overlap of the policy response	As described at question 4.4, DNB currently does not employ other measures that address the elevated macroprudential/systemic risk stemming exposures to natural persons secured by mortgages on residential property located in the Netherlands, for which the IRB Approach is used for calculating regulatory capital requirements. On January 1, 2025 the CRR III will come into force, which includes the introduction of the output floor (Art 92 and Art 465). Art 465 of the CRR III contains several transitional arrangements, including a five-year phase-in period and a member state discretion related to the calculation. Conceptually there is no overlap between the output floor and this Art 458 measure, as the output floor addresses model risks (not systemic risk in specific asset classes) and is an aggregate measure. Also, the output floor allows for compensation between asset classes and risk categories so it is unclear for which risk categories and to what extent model risks are addressed. However, in practice, depending on specific balance sheet compositions and how banks with internal models apply the output floor in their portfolios, the output floor could potentially indirectly address the model risk concerning residential real estate exposures. In specific cases, this creates a potential overlap between this measure and the application of the output floor. During the requested extension period of this Art. 458 measure (until 1 December 2026), the output floor is not expected to bind for any of the Dutch IRB banks. Hence at this stage there is no overlap between the output floor and Art. 458 measure. A more detailed analysis will be performed as part of the evaluation of the proposed extension. Another relevant change in the CRR III relates to the requirements concerning revaluation of collateral. According to CRR II, banks were required to (re)value the collateral of immovable property at market value. The new CRR III Art 229(1)(e), however, states that '*where the property is revalued, the value of the property does not exceed the average value measured for that property, or for a comparable property over the last six years for residential property or eight years for commercial immovable property or the value at origination, whichever is higher*'. In practice, this might imply that given the surge in housing prices over the last couple of years, banks need to adjust collateral values downwards. Consequently, IRB risk weights might increase. It is difficult to estimate how IRB risk weights are impacted during the extension period as this among others depends on i) how the new revaluation rules are exactly incorporated in IRB-models, ii) the difference between the current valuation and the new valuation in line with CRR III, and iii) what proportion of the mortgage stock is revalued under CRR III during the intended extension period of the Art 458 measure. While the IRB risk weights have to be calculated in line with the CRRIII, the floor in the Art. 458 measure shall be continued to be calculated based on the market value of the collateral (see paragraph 2). The continued calculation of the floor in the Art 458 measure based on market value fits the purpose of the measure to maintain the resilience of Dutch banks to a potential (severe) downturn in the housing market, which is based on current market values. Moreover, this prescription limits the risk of double counting and ensures consistency of the measure. If the CRR III results in higher IRB risk weights for the Dutch mortgage portfolio in scope, the impact of the Art 458 measure will decline. During the next review, it is important to assess whether the CRR III has affected the level of the IRB risk weights and subsequently consider whether the Art 458 measure is still proportionate.

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 **(Article 458(2)(f) CRR and Recommendation ESRB/2015/2[3])**	As with the initial application, we do not expect the measure to have a negative impact on the Internal Market that would outweigh the financial stability benefits of this measure. The role of foreign lenders on the Dutch mortgage market is currently small, and domestic financial institutions are likely to remain dominant after this measure has been implemented. Voluntary reciprocation by other Member States' designated authorities would further reduce the cross-border effects. The measure substantially increases the risk weights for mortgage loans of Dutch IRB banks, but even after the measure, the risk weights remain relatively low compared to other Member States. Therefore, we expect cross-border effects (outward spillovers) to be limited. Given the interconnectedness of the Dutch financial sector with the European and global financial system, the measure might reduce the potential contagion channels to other Member States, by strengthening the resilience of the Dutch banking sector.
6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State	The objective of the measure is to strengthen the resilience of IRB banks. As banks have to meet the requirement at all times, the measure will have a direct impact on the required amount of capital. The measure is designed to limit the scope for circumvention and unintended side-effects. The possibilities for lowering the impact of the measure through model optimization are limited, as the calibration does not depend on model outcomes. By calibrating the measure such that the floor increases with the LTV ratio of the underlying mortgage loans, the incentive for risk shifting is limited. Furthermore, borrower-based measures are applicable to both banks and non-banks in the Netherlands. This limits leakages. Internal analysis shows no evidence of risk shifting or price effects from the measure. We will continue to closely monitor the impact of the measure on other sectors of the financial system.
6.3 Request for reciprocation by other Member States **(Article 458(8) CRR and Recommendation ESRB/2015/2)**	When notifying the initial measure, DNB requested the ESRB to recommend that other Member States recognise and reciprocate the measure. In response to this request, the General Board of the ESRB decided, by Recommendation ESRB/2022/1, to add this measure to the list of macroprudential policy measures recommended for reciprocation under Recommendation ESRB/2015/2. This Recommendation remains relevant in the context of this extension, as Member States have either not yet reciprocated or should be requested to continue reciprocation of the notified measure.

[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 by other Member States **(Article 458(8) CRR and Recommendation ESRB/2015/2)**	DNB requests the ESRB to recommend that other Member States continue to reciprocate the measure as their banking sector may be (or become) exposed to the systemic risk in the Dutch housing market directly or indirectly (through their branches). Reciprocation will contribute to a level playing field. To avoid any disproportionate implementation costs for reciprocating Member States, and in accordance with the principles in the reciprocity framework as established by the ESRB, an institution-level maximum materiality threshold for reciprocation of EUR 5 billion currently applies, which corresponds to almost 1 percent of the total relevant exposures of all institutions reporting in the Netherlands. For the reciprocation after extension, DNB would propose to maintain this maximum materiality threshold.
7. Miscellaneous	
7.1 Contact person(s)/mailbox at notifying authority	Malou Dirks, m.m.a.dirks@dnb.nl, +31649371469 Thomas van den Berg, t.s.van.den.berg@dnb.nl, +31629317803
7.2 Any other relevant information	Regulation on risk weighting for mortgage loans Staatscourant 2021, 44119 | Overheid.nl > Officiële bekendmakingen (officielebekendmakingen.nl) Extension of regulation on risk weighting for mortgage loans – public consultation version 2024: Consultatie verlenging regeling risicoweging hypothecaire leningen 2024 (dnb.nl) Financial Stability Report Autumn 2023, DNB Financial Stability Report - Autumn 2023 (dnb.nl) Financial Stability Report Spring 2022, DNB: Financial Stability Report - spring 2022 (dnb.nl) Financial System Stability Assessment (FSAP) March 2024, IMF: Kingdom of the Netherlands–The Netherlands: Financial System Stability Assessment (imf.org) Article IV consultation The Netherlands April 2024, IMF: Kingdom of the Netherlands–The Netherlands: 2024 Article IV Consultation-Press Release; and Staff Report (imf.org)
7.3 Date of the notification	Please provide the date on which this notification was uploaded/sent. 22/07/2024