Template for notifying national macroprudential measures not covered by CRR/CRD

Please send this template to

- notifications@esrb.europa.eu when notifying the ESRB;
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1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority.	Magyar Nemzeti Bank (MNB)
1.2	Name of the macroprudential measure that is notified.	Amendment of the Mortgage Funding Adequacy Ratio (MFAR) regulation
2. Description of the measure		
2.1	Description of the measure.	In response to the systemic risk arising due to the long maturities of household loans converted from FX into HUF and the resulting increase in banks' HUF maturity mismatch, the Magyar Nemzeti Bank (MNB) introduced the MFAR regulation. The current regulation in force (as modified on 1 October 2018) requires that at least 20 percent of residential mortgage loans at net value with a maturity of more than 1 year shall be financed through eligible mortgage-backed funds, including mortgage bonds and refinancing mortgage loans that have a maturity of at least 2 years. The proposed amendments to the regulation would take effect in two steps. One of the modifications, the increase of the "de minimis" threshold for smaller institutions would come into force on 1 February 2019, and the remaining changes would be effective from 1 October 2019. The planned amendments cover the following areas: **1. The increase of the "de minimis" threshold from HUF 3 billion to HUF 10 billion** is in line with the rising real estate prices, increasing loan amounts and the

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		growing credit portfolio of the banking sector. This amendment would allow smaller institutions that have growing portfolios but do not pose a systemic risk to remain exempted from the regulation. **2. The required minimum maturity of accepted funds shall be increased to 3 years from the current requirement of 2 years.** In order to reduce the maturity gap, MNB further encourages market participants towards mortgage bond issuances with longer original maturities. The new requirement is in line with the current market practice, as most banks issue bonds close to or above 3-years maturity. **3. The required minimum level of long-term funds in proportion to residential mortgage loans shall be increased from 20 to 25 percent.** The amendment aims at further reducing the HUF maturity mismatch and enhancing the development of the mortgage bond market through raising the minimum required level of accepted funds. **4. Mortgage bonds that are accepted as long-term funds, or their issuer or guarantor shall be rated by an external credit rating agency.** This measure is based on the MNB's commitment to create a more transparent and investor-friendly environment in the mortgage bond market, which could attract a more diversified investor base for these types of securities. **5. Mortgage bonds held by banks for the purpose of market making shall be exempted from the restriction of cross-ownership of mortgage bonds within the banking sector up to the lower of 10 percent of the outstanding amount of the given mortgage bonds and HUF 3 billion.** This step incentivizes deeper and more liquid trading; market making ensures better bond price formation, thereby supports activity in the secondary market and increases the share of non-bank investors.

2.2	Legal basis and process of implementation of the measure.	As macroprudential authority in Hungary, the MNB has the power to issue legally binding regulations in order to reduce systemic risks, as stipulated in Law CXXXIX of 2013 on the Magyar Nemzeti Bank (the MNB Act). Article 171 (1) k) kc) of the MNB Act authorises the Governor of the MNB to decree the measures required to prevent the build-up of systemic risks and to reduce systemic risks, and to increase the resilience of the financial intermediary system, within the strategic framework defined by the Monetary Council, based on the decision of the Financial Stability Board, including requirements for the reduction of systemic liquidity risks. Furthermore, Article 4 (7) of the MNB Act states that the MNB shall explore risks threatening the financial intermediary system as a whole, it shall help to prevent the build-up of systemic risks, and shall help to mitigate or eliminate the systemic risks that may already exist.
2.3	Coverage	The measure applies to credit institutions operating as companies limited by shares and the Hungarian branches of third country credit institutions, as well as the institutions of groups including credit institutions under consolidated supervision. The scope of the measure does not cover the Magyar Fejlesztési Bank Zrt., the Magyar Export-Import Bank Zrt., the Központi Elszámolóház és Értéktár (Budapest) Zrt. and building societies not subject to consolidated supervision.
2.4	Any other relevant information.	-
3. Timing		
3.1	Timing of the decision	The Financial Stability Board (FSB) of the MNB reached a decision regarding the amendments on 20 December 2018.

3.2	Timing of the publication	The date of publication of the measure is expected to be in January 2019.
3.3	Disclosure	In order to evaluate the prospective developments of mortgage financing, consultations have been held about the detailed regulatory concept with the market participants. The consultations have successfully ended; banks' comments and proposals have been considered and all relevant changes are incorporated into the decree. Following the conclusion of the consultation procedure with the ECB according to the Council Decision 98/415/EC, the final decree has been approved by the Financial Stability Board of the MNB, and the decree will be published in the Official Gazette in January 2019.
3.4	Timing of the application	The amendment regarding the change in the “de minimis” threshold will be applicable from 1 February 2019, whereas all other modifications will become binding on 1 October 2019.
3.5	End date (if applicable)	There is no expected end date of the measure as of now.
4. Reason for the activation of the measure		
4.1	Description of the macroprudential risk to be addressed.	Given that most of the residential HUF mortgage loans have remaining maturities of more than 10 years, while banks rely heavily on short term deposits for funding, the HUF maturity mismatch in the banking system poses a considerable risk. In response to this systemic risk, the Magyar Nemzeti Bank (MNB) introduced the Mortgage Funding Adequacy Ratio (MFAR) regulation. Since the implementation of the regulatory requirements banks have become active in the issuance of mortgage bonds providing long-term HUF funding. However, the overall coverage of the outstanding mortgage loan amount has not increased significantly beyond the minimum requirements. There is also substantial heterogeneity among the issuance activity of banks; those few banks having a mortgage bank as a subsidiary

		rely more on this type of funding, while the rest of the banking system complies with the requirements only at the regulatory minimum. This justifies the need for a further general incentive for mortgage bond issuances and for a more active secondary mortgage bond market. To this effect, the Financial Stability Board of the MNB decided to modify the MFAR regulation. Dynamic domestic lending for housing purposes and the subsequent evolvement of maturity mismatch, as well as the need for the further deepening of the mortgage bond market prompted the revision of the regulation in effect. *Concerning the macroprudential rationale for different amendments in details, please see part 2.1. of this template.*
4.2	Description of the indicators on the basis of which the measure is activated.	The Financial Stability Board of the MNB has considered numerous factors while calibrating the measure and its amendments. These include the maturity mismatch between HUF assets and liabilities of credit institutions, the distribution of the maturity of HUF assets and liabilities, the share of long-term HUF funds relative to all HUF liabilities and indicators related to the development of the mortgage financing market (maturities, issuances, secondary market turnover, market making, ratings, ownership structure, type of interest rates, spreads, etc.).
4.3	Effects of the measure.	**The proposed changes further strengthen the banking sector's stability, deepen the mortgage bond market, and may encourage the extension of fixed interest rate housing loans.** The amendment of the MFAR requirement will increase the amount and share of long-term mortgage-backed funding within the banking sector. As the prevalent form of HUF financing is still the collection of short-term deposits, this increase will further improve the maturity mismatch on a sectoral level. The lower level of mismatches will decrease banks' rollover and interest rate risk. Ensuring that banks have the necessary level of long-term funding is especially important given the recent and the expected continuous future rise in the volume of mortgage loans.

		Furthermore, the sounder funding structure of mortgage loans not only reduces the rollover and interest rate risks arising from maturity mismatches, but may also result in lower spreads for mortgage loans with longer interest rate fixation periods compared to other long-term funding, supporting the prevalence of the high share of these loans in new lending. The amendments are also expected to support further reinvigoration of the mortgage bond market by enhancing transparency and increasing liquidity. By amending the requirements, the MNB aims to ensure that the necessary risk management steps are taken in a way consistent with market developments.
5. Cross-border and cross-sector impact of the measure		
5.1	Assessment of cross-border effects and the likely impact on the internal market (Article 133(11)(d) of the CRD IV and Recommendation ESRB/2015/2)	Minimal spillover effects are estimated to arise due to the amendment of the MFAR regulation. The regulation applies to credit institutions within Hungary, and the requirements are related to HUF mortgage loans and HUF mortgage bonds only. Given the geographical distribution of HUF loans, no cross-border effects related to lending are estimated to arise. Given the new mortgage bonds expected to be issued in the period until 1 October 2019, institutions in other Member States are likely to increase their exposures vis-à-vis Hungarian banks through purchasing new mortgage bonds. However, based on the relatively small amount of expected new issuances compared to the size of other debt security markets, no material increase in credit or concentration risk is expected.
5.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	The MFAR requirement is a targeted measure, which requires that specific HUF funds should be available to all credit institutions above a certain de minimis threshold (stock of mortgage loans) to finance their long-term mortgage loans, which minimises the possibility of regulatory arbitrage. What could hinder the effectiveness of the measure to some extent is the purchase of a large amount of mortgage bonds within the banking sector, as this does not lead to extra sector-level longer-term funding. However, the regulation already contains a

		restriction of cross-ownership of mortgage bonds within the banking sector lowering the risks of such behaviour on the part of banks.
5.3	Request for reciprocation	No reciprocation is requested for the current measure or the MFAR requirement overall.
6. Miscellaneous		
6.1	Contact person(s) at notifying authority.	**Ms. Anikó Szombati,** Executive Director for Macroprudential Policy Phone: +36 (1) 428 2662 Mobile: +36 (20) 211 3444 E-mail: szombatia@mnb.hu **Mr. Péter Fáykiss**, Director, Macroprudential Directorate Phone: +36 (1) 428 2239 Mobile: +36 (30) 449 8830 E-mail: faykissp@mnb.hu
6.2	Any other relevant information.	-