Template for notifying intended measures to be taken under Article 458 of the Capital Requirements Regulation (CRR)

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

<table>
<thead>
<tr>
<th>1.1 Name of the notifying authority</th>
<th>De Nederlandsche Bank (DNB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2 Categorisation of measures</td>
<td>DNB intends to impose 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)(vi) of the CRR. The stricter requirement will be applicable to credit institutions that use the Internal Ratings Based (IRB) approach for calculating regulatory capital requirements.</td>
</tr>
<tr>
<td>1.3 Request to extend the period of application of existing measures for one additional year (Article 458(9) of the CRR)</td>
<td>No extension is requested. The intended measure is a new measure.</td>
</tr>
<tr>
<td>1.4 Notification of measures to which Article 458(10) of the CRR applies (‘notification only procedure’)</td>
<td>Art. 458 (10) does not apply for this measure. The intended measure is expected to increase the risk weights of the IRB banks concerned, on average, by more than 25%.</td>
</tr>
</tbody>
</table>

2. Description of the measure
2.1 Draft national measures (Article 458(2)(d) of the CRR)

DNB intends to impose 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 covered by the National Mortgage Guarantee scheme will be exempt from the measure.

The minimum average risk weighting is to be 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 LTV ratio to be used in this calculation should be determined in accordance with the applicable provisions of the CRR.

![Risk Weight vs. LTV Ratio](image)

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 exempt 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 proposed measure would assign a minimum average risk weight of 19.7% to the loans within its scope.

<table>
<thead>
<tr>
<th>Fictitious portfolio</th>
<th>Loan amount (L)</th>
<th>National Mortgage Guarantee</th>
<th>Collateral value (Y)</th>
<th>LTV ratio (L/Y)</th>
<th>Risk weight based on Section 2.3(c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>loan 1</td>
<td>150</td>
<td>no</td>
<td>250</td>
<td>60%</td>
<td>(55/60)*12%+(5/60)*45% = 14.8%</td>
</tr>
<tr>
<td>loan 2</td>
<td>130</td>
<td>no</td>
<td>173</td>
<td>75%</td>
<td>(55/75)*12%+(20/75)*45% = 20.8%</td>
</tr>
<tr>
<td>loan 3</td>
<td>120</td>
<td>no</td>
<td>133</td>
<td>90%</td>
<td>(55/90)*12%+(35/90)*45% = 24.8%</td>
</tr>
<tr>
<td>loan 4</td>
<td>110</td>
<td>yes</td>
<td>130</td>
<td>80%</td>
<td>exempt</td>
</tr>
</tbody>
</table>

Risk weight = \( \frac{150 + 130 + 120 + 110}{4} \) = 120

Minimum average risk weight = \( \frac{14.8 + 20.8 + 24.8}{3} \) = 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.

<table>
<thead>
<tr>
<th>2.2 Scope of the measure (Article 458(2)(d) of the CRR)</th>
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</thead>
</table>
| The draft measure applies to exposures to natural persons secured by mortgages on residential property located in the Netherlands, for which the Internal Ratings Based (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).

The measure focuses on banks which use the Internal Ratings Based (IRB) Approach. These banks account for 96% of all mortgage lending by banks in the Netherlands. Moreover, risk weights under the standardized approach are higher than the average risk weight resulting from the intended risk weight floor. The floor would therefore not affect portfolios under the standardized approach.

Mortgage loans wholly or partly covered by the National Mortgage Guarantee scheme (NHG) will be exempt 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.

<table>
<thead>
<tr>
<th>2.3 Calibration of the measure</th>
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</table>
| The proposed measure primarily aims at enhancing 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. 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 increasing systemic risk in the housing market. The ESRB in its recommendation to the Netherlands in September 2019 also notes that risk weights currently do not reflect risks to financial stability (see also Section 4.1).

DNB has performed several analyses to assess the potential impact of a severe housing market correction on banks. First, DNB ran a top-down stress test, which uses the adverse scenario that was also used in the EU-wide stress test conducted by the European Banking Authority (EBA) in 2018. In this scenario, Dutch house prices were around 25% lower after three years compared with the baseline scenario. Whereas the EBA-stress test results are based on constrained bottom-up calculations from banks’ own models, the top-down model is designed to provide conservative estimates by using a uniform approach to calculate expected losses for all banks. This approach is more macroprudential in nature, in that it explicitly takes into account observed losses at the national level, and ensures that the results for individual banks are consistent at the macro level. The top-down stress test finds that the average risk weight for mortgage loans could increase by as much as 8-11%-points in an adverse scenario. This effect is larger than the increase in average risk weights found in the 2018 EBA stress test based on constrained bottom-up calculations. [NB: Because the EBA stress test impact has not been published at the level of individual asset classes, we do not report this impact in the notification.] As the results of the EBA stress test in 2018 have been...
used as input to the SREP, this suggests that part of the potential increase in the average risk weight found in the top-down analyses is not reflected in the current capital requirements of banks.

In a second type of analysis, we projected potential credit losses in a stress scenario for the housing market. We performed a sensitivity analysis where PDs and LGDs increase over a three year period in line with the maximum increases that were observed during the previous housing market correction. We found that banks would incur sizeable losses on their mortgage portfolios in such a scenario. Based on these estimates, banks would need to increase their capital by around EUR 3 bln over a three year period to maintain their current capital levels.

Based on these analyses, banks need to hold more capital for their mortgage exposures to ensure that they are sufficiently resilient in case of a materialization of systemic risks in the housing market.

The proposed measure is expected to increase the average risk weight of IRB banks’ mortgage portfolios from 11% to 14-15%, an increase of around 30%. As a result of the increase in risk weighted assets, the total amount of capital IRB banks need to hold to meet the capital requirements is estimated to increase by around EUR 3 billion, of which more than EUR 2 billion is CET1-capital.

Moreover, 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.

2.4 Suitability, effectiveness and proportionality of the measure (Article 458(2)(e) of the CRR)

DNB considers the measure suitable, effective and proportionate on the basis of the following considerations.

The main objective of the proposed 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 mentioned before, the total amount of capital banks need to hold against their mortgage loan portfolios is estimated to increase by around EUR 3 billion. This helps to secure the resilience of the banking sector in a severe downturn scenario.

The need for higher capital arises because the risk weights which IRB banks apply to real estate exposures are deemed low in light of growing vulnerabilities at the macro level. The measure is expected to increase the average risk weights of IRB banks by 3-4%-points (from 11% to 14-15%). This is in line with the results from the top-down stress-tests, after taking into account any capital measures based on the outcomes of the EBA stress test.

By differentiating the average minimum risk weight based on the LTV of a mortgage, the proposed 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 proposed 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 more high-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 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.

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 23% of their assets, on average, 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.

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

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### 3. Timing of the measure

#### 3.1 Timing of the Decision

The official decision has been taken on 17 December 2019
<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>3.2 Timing of the Publication</strong></td>
<td>The intended measure was published for public consultation on October 15, 2019. The official decision has been taken in December 2019, taking into account the reactions to the public consultation. Once the notification procedure has been finalized, the final legal text will be published. We currently expect to publish it in the spring of 2020.</td>
</tr>
<tr>
<td><strong>3.3 Disclosure</strong></td>
<td>DNB published the intended measure on 15 October 2019 for public consultation. Such a consultation is obligatory under national law. Alongside the publication of the intended measure, DNB published its Financial Stability Report, in which DNB describes the underpinning of the proposed measure.</td>
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<tr>
<td><strong>3.4 Timing of Application (Article 458(4) of the CRR)</strong></td>
<td>Once the notification procedure has been finalized, the final legal text will be published in the Government Gazette. We currently expect to publish it in the spring of 2020. The measure will enter into force six months after publication in the Government Gazette, to give financial institutions the opportunity to make preparations accordingly.</td>
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<tr>
<td><strong>3.5 Phasing in</strong></td>
<td>No phasing in is planned.</td>
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<tr>
<td><strong>3.6 Term of the measure (Article 458(4) of the CRR)</strong></td>
<td>The measure is intended to be implemented for a period of two years and possibly renewed afterwards. 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.</td>
</tr>
<tr>
<td><strong>3.7 Review (Article 458(9) of the CRR)</strong></td>
<td>DNB reviews the appropriateness of the measure on a yearly basis. DNB also evaluates the need for revisions of the implemented measure at renewal, based on the assessment described in 3.6.</td>
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<tr>
<td><strong>4. Reason for the activation of the stricter national measure</strong></td>
<td>Systemic risk inherent in the Dutch housing market has increased over the past few years. House prices have gone up sharply for several years in a row – by almost 8% annually on average in the past three years. While sluggish supply and declining interest rates partly account for the price increases, there are also signs of overvaluation. In the Netherlands’ major cities, real prices are now more than 17% above the previous peak level in 2008, before prices started to decrease until 2013. In the provinces of Noord-Holland, Zuid-Holland, Utrecht and Flevoland - which together account for 44% of all Dutch owner-occupied residential properties - real prices hover around the previous peak. Price increases have significantly outpaced income growth in recent years. As a result, price/income ratios in the major cities are now higher than at the peak of the previous housing market boom.</td>
</tr>
</tbody>
</table>
Notwithstanding low interest rates, financing charges (principal repayments and interest payments net of tax relief) have gone up. Charges for a fully annuity-based mortgage loan have returned to near-pre-crisis levels. Likewise, riskier behaviour on the part of buyers, such as overbidding, would appear to be a relevant factor in price increases. The share of transactions in which the purchase price exceeds the asking price increased further to upwards of 60% in the four major cities, and nearly 40% in the Netherlands overall.

While mortgage credit growth has been moderate, new lending has substantially increased over the past years. LTV ratios of new loans remain very high: roughly two-thirds of the new loans to first-time buyers have an LTV ratio at or above 90%, and almost 40% has an LTV of 100% or more. Moreover, LTI ratios of new loans gradually increased over the past three years, and the share of new loans with an LTI-ratio close to the regulatory limit has increased over the past few years. This holds for loans both to first-time buyers and to homemovers. The share of new loans with an LTI close to their LTI limit has risen steadily over the past few years. In the second quarter of 2019, almost 50% of all loans to first-time buyers were at or above 90% of the limit, while in 2014 this was the case for about 40% of these loans. For homemovers, a similar situation has been observed with nearly 40% of the loans at or above 90% of the limit in the second quarter of 2019, against some 25% in 2014.

Banks also reported a loosening of mortgage lending standards in the past few years. These developments in new loans come on top of persistently high household indebtedness, with mortgage debt of households currently at 91% of GDP and households' total indebtedness at almost 102% of GDP. To put this into perspective, the euro area average mortgage loan indebtedness is 55% of GDP.

The European Systemic Risk Board (ESRB) in its recent recommendation also points out the risks inherent in the Dutch housing market. On 23 September, the ESRB published a recommendation to the Dutch authorities to take measures aimed at mitigating risks in the housing market. Two years ago, the ESRB issued a warning to the Netherlands, which mainly concerned high mortgage loan indebtedness, very high LTV ratios and the many underwater mortgages. While acknowledging that measures have been taken to address the risks since, the ESRB believes further action is warranted. In addition, it points out that risks have increased due to sharp house price rises in recent years. For this reason, it has issued several recommendations to the Dutch government and DNB.

Recommendations to the Dutch government are as follows: 1) lower the LTV limit further; 2) amend the methodology for calculating the LTI limit; 3) introduce an act-or-explain mechanism for recommendations made by the Financial Stability Committee that relate to the LTV and LTI limits; and 4) take wider structural action ensuring that households are no longer incited to take out excessive mortgage debts. The ESRB recommends DNB to take capital-related measures to improve the banking sector's resilience against the risks inherent in the Dutch housing market which the ESRB has identified.

4.2 Analysis of the serious negative consequences or threat to financial stability
(Article 458(2)(b))

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 last 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. Top-down stress test analyses from DNB show that risk weights could increase by as much as 8-11%-points in an adverse scenario that was also used in the EU-wide stress test conducted by the European Banking Authority (EBA) in 2018. In this scenario Dutch house prices were around 25% lower after three years compared with the baseline scenario. The increased risk weights would depress the banks’ CET1 capital ratios by 1 to 1.3 percentage points on average, which may erode confidence among market participants, particularly in times of crisis. As in the most recent crisis, market participants could be less keen on funding Dutch banks, also given the latter’s relatively low leverage ratios, which averages 5.0%. Moreover, Dutch banks still depend relatively heavily on market funding. 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 crisis. A recent analysis from CPB Netherlands Bureau for Economic Policy Analysis shows that households whose mortgage loan was underwater or ended up underwater in the crisis, consumed 17% of their average disposable income less in 2014 than in 2007. Had they not moderated their consumption, nation-wide consumption would have been four percentage points higher in 2014. This testifies to the high sensitivity of Dutch consumption to trends in house prices (see also DNB, 2018). 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. At 23%, their share significantly exceeds those of insurance firms (14%) and pension funds (3%).

<table>
<thead>
<tr>
<th>4.3 Indicators prompting use of the measure</th>
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<tbody>
<tr>
<td>The main indicators are:</td>
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<tr>
<td>▪ Developments in house prices and price/income levels</td>
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<tr>
<td>▪ Developments in LTI of new mortgage loans</td>
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<tr>
<td>▪ LTV ratios of new mortgage loans</td>
</tr>
<tr>
<td>▪ Banks’ exposures to mortgage loans</td>
</tr>
<tr>
<td>▪ Level of risk weights that IRB banks apply to their mortgage portfolio</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>4.4 Justification why the stricter national measure is necessary (Article 458(2)(c) of the CRR)</th>
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<tbody>
<tr>
<td>The main objective of the measure is to enhance the resilience of banks against a potential severe downturn in the housing market by ensuring that banks hold sufficient capital for residential real estate exposures. The need for this arises from the increase in 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 is larger for more risky (higher LTV) loan portfolios and therefore could reduce the attractiveness of these loans for banks.</td>
</tr>
<tr>
<td>Given the described risk DNB considers a measure based on Article 458 necessary. Alternative measures do not adequately address the risk:</td>
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</table>
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 5%) 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 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 exposure-weighted average LGD floor applied by IRB banks on their mortgage exposures on the basis of financial stability considerations.

DNB considers this measure as less efficient and effective than the currently proposed 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.

Article 101 CRD IV
Article 101 of the CRD IV states that the competent authority shall review on a regular basis, and at least every 3 years, institutions’ compliance with the requirements regarding approaches that require permission by the competent authorities before using such approaches for the calculation of own fund requirements. For significant institutions this review is performed by the ECB while the review for less significant institutions is performed by DNB.

Article 101 is deemed inadequate to address the identified systemic risk. Earlier this year, the Targeted Review of Internal Models (TRIM), undertaken by the Single Supervisory Mechanism, was finalized. Any deficiencies that were found in the IRB models of Dutch banks have been corrected. After this review, risk weights remain low in light of the increased systemic risk.
In this respect, we would like to stress that the objective of the proposed measure is to mitigate an increase in systemic risk relating to developments in the housing market, rather than to correct any microprudential issues related to potential miscalibration of internal models.

**Articles 103 & 104 CRD IV**

Articles 103 and 104 provide the competent authority with additional supervisory powers (Pillar 2 requirements). We believe that the measures enabled by these articles are less effective than the proposed measure, for the following reasons:

- While the CRD currently still allows the use of Pillar 2 requirements for macroprudential purposes, a clear distinction between microprudential and macroprudential measures improves transparency and strengthens accountability. In this regard, the use of Pillar 2 requirements is less appropriate than the proposed measure, which can only be used for macroprudential reasons.
- Publication of Pillar 2 measures is not mandatory, whereas the proposed measure has been publicly announced and is subject to a public consultation. Therefore, the proposed measure has clear benefits compared to a Pillar 2 requirements in terms of a beneficial signaling effect, enhancing public transparency and allowing for more effective communication with market participants.
- While the proposed measure would apply to both the outstanding stock of mortgages and the flow of new loans, a Pillar 2 capital requirement would only apply to the outstanding stock. This is because the Pillar 2 capital requirement is set in conjunction with the annual SREP. The proposed measure therefore is likely to provide a stronger disincentive to the provision of new high-LTV loans than a Pillar 2 requirement.

**Article 105 CRD IV**

Article 105 CRD IV regards specific liquidity requirements. The measure is not relevant for the risks at hand, as the systemic risk the proposed measure aims to address is not linked to banks' liquidity risk.

**Article 133 CRD IV**

Article 133 CRD IV concerns the setting of the systemic risk buffer (SRB) to address long term non-cyclical systemic or macroprudential risks not covered by the CRR.

The draft measure aims to strengthen the resilience of the banking sector for a housing market correction, given an increase in systemic risk. The SRB 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. Moreover, the risk-sensitive approach of the proposed measure, which prices the negative externality of high-LTV loans, is not possible using the SRB.

**Article 136 CRD IV**

Article 136 concerns the setting of the countercyclical capital buffer (CCyB). DNB considers the CCyB less appropriate, effective and proportionate than the proposed
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. The CCyB cannot be narrowed down to a subset of institutions, such as banks using the IRB approach. Moreover, 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.

In addition, there are currently no clear signals of overall excessive credit growth in the Netherlands. Credit growth to the nonfinancial private sector is even negative. This makes activation of the CCyB less appropriate at the current juncture.

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 458(2)(f) of the CRR and Recommendation ESRB/2015/2)

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.

5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State

The objective of the draft 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 draft measure is designed to limit the scope for circumvention and unintended side-effects. The possibilities for lowering the impact of the draft 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.

We will closely monitor the impact of the measure on other sectors of the financial system. Over the past few years, banks accounted for roughly two-thirds of new mortgage loans. Insurance firms, pension funds and investment funds have a combined market share of around one-third. Their combined market share has remained broadly constant since 2016, following sharp growth until that year. This can be explained by the fact that banks have returned to the market with increased activity following several years of restraint. A further factor is that insurance firms have less room to increase their mortgage exposure following previous mortgage
### 5.3 Reciprocation by other Member States

(Article 458(8) of the CRR and Recommendation ESRB/2015/2)

DNB will ask the ESRB to recommend that other Member States recognise 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, we will propose an institution-level maximum materiality threshold that is set and calibrated in accordance with the principles in the reciprocity framework as established by the ESRB.

### 6. Miscellaneous

| 6.1 Contact person(s) at notifying authority | Contact person(s) for further inquiries – name, phone number and email address.  
Remco van der Molen, +31619618519, r.m.van.der.molen@dnb.nl  
Melanie Lohuis, +31205243669, m.s.lohuis@dnb.nl |
|-----------------------------------------------|---------------------------------------------------------------------------------------------------|
| 6.2 Any other relevant information | Regulation on risk weighting for mortgage loans – Consultation version  
https://www.toezicht.dnb.nl/en/7/50-237891.jsp  
Financial Stability Report Autumn 2019, De Nederlandsche Bank  