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

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1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority.	Haut Conseil de stabilité financière (HCSF)
1.2	Name of the macroprudential measure that is notified.	Legally binding requirements for new housing loans: debt-service-to-income (DSTI) and maturity limits
2. Description of the measure		
2.1	Description of the measure.	On 24rd September 2021 via written procedure, the HCSF adopted legally binding DSTI and maturity limits for new housing loans, after announcing its intention after the meeting on 14th September. This decision follows the adoption of a recommendation on 20th December 2019 (recommendation R-HCSF-2019-1), adjusted on 27th January 2021 (recommendation R-HCSF-2021-1). The decision incorporates the criteria of the adjusted recommendation. Hence, for new housing loans (excluding renegotiations, refinancing of outstanding housing loans and credit consolidation), credit institutions and financing companies must respect the following standards: - A DSTI limit of 35% - A maturity limit of 25 years. The assessment of the maximum maturity may take into account the grace period when the date on which the property comes into possession is later than the date on which the loan was granted (due to construction of significant renovation works). In these cases, the limit for the amortization period (without the grace period) is 25 years and the limit for the total maturity of the loan (the sum of the amortization and grace periods) is 27 years.

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		The decision provides a flexibility margin of up to 20% of the amount of new quarterly issued housing loans (excluding renegotiations, refinancing of outstanding housing loans and credit consolidation) that can depart from to the aforementioned criteria. At least 80% of the maximal flexibility is reserved to loans for primary residences and at least 30% is specifically reserved to first-time buyers of their primary residence. The remaining 20% of the maximal flexibility can be used freely.
2.2	Legal basis and process of implementation of the measure.	The HCSF adopted the aforementioned decision based on Article L. 631-2-1 (5) of the Monetary and Financial Code, which can be found at: https://www.legifrance.gouv.fr/codes/article_lc/LEGIARTI000034386882/ This legal framework allows the HCSF to adopt borrower-based measures of any kind to prevent excessive increases in asset prices or excessive indebtedness of economic agents. The compliance will be monitored with the monthly ACPR reporting on housing lending conditions, specifically designed to assess the volumes of new housing loans not compliant with the decision's criteria.
2.3	Coverage	The measure applies to i) housing loans granted to economic agents located in France or ii) loans granted to finance dwellings located in France. As regards to institutions covered, they include all credit institutions and financing companies under French law providing housing loans. In accordance with the definitions of the mortgage credit directive, the measure covers both households and the population of borrowers beyond natural persons by including "sociétés civiles immobilières" which are a flexible and common legal form of companies set for real-estate purchase purposes by a private association of natural persons.
2.4	Any other relevant information.	The decision is available here: https://www.economie.gouv.fr/files/files/directions_services/hcsf/D-HCSF-2021-7 sign%C3%A9e.pdf
3. Timing		
3.1	Timing of the decision	29th September 2021

3.2	Timing of the publication	29th September 2021
3.3	Disclosure	The intention of the HCSF to transform its recommendation into a legally binding by summer 2021 was announced following its 27th meeting in December 2020 (see here https://www.economie.gouv.fr/files/2020-12/HCSF 20201217 Communiqu%C3%A9 de presse_EN.pdf) The objective was then specified in the amended HCSF recommendation, adopted on 27th January 2021 (see here https://www.economie.gouv.fr/files/2021-01/Recommandation_R-HCSF-2021-1.pdf, and in the accompanying press release (see here https://www.economie.gouv.fr/files/files/directions_services/hcsf/HCSF_20210128_CP_eng.pdf
3.4	Timing of the application	1st January 2022 (no phase-in)
3.5	End date (if applicable)	No end date is planned
4. Reason for the activation of the measure		
4.1	Description of the macroprudential risk to be addressed.	In October 2019, the HCSF published an assessment of risks in the residential real estate sector, which underlined that lending standards for housing loans had gradually deteriorated since 2015 (see here https://www.economie.gouv.fr/files/files/directions_services/hcsf/2019-Diagnostic-immobilier-en.pdf). The report notably highlighted an increase in debt service-to-income (DSTI) ratios and in loan maturities, especially for the highest DSTI ratios and longest maturities. This easing of lending standards came at a time when the supply of housing credit was rising rapidly, interest rates were historically low, and households' debt-to-income ratio was already high, making them increasingly vulnerable to future crises. The sharp rise in the supply of housing credit also coincided with a rapid acceleration in real estate prices. While prices did not on the whole appear to be stretched, the trends in lending raised fears of speculative behaviour, at least at a local level. To limit the associated risks to financial stability, the HCSF adopted a recommendation in December 2019 calling on credit institutions to impose tighter controls on their lending practices in the French residential real estate market. This recommendation was adjusted in January 2021 based on an initial review of its impact and in light of the

		practices observed among institutions. When announcing this adjustment, the HCSF also indicated that it would transform its recommendation into a legally binding decision to ensure that credit institutions comply with the recommendation's criteria.
4.2	Description of the indicators on the basis of which the measure is activated.	The measure was activated to anchor the best practices stipulated in the adjusted recommendation, which proved successful in reversing the trends towards looser lending standards, without diminishing access to credit. In particular, the assessment carried out by the HCSF in September 2021 shows that the share of loans with a DSTI ratio of over 35% reached 18% of all new lending in July 2021, down 14 percentage points compared with January 2020. Similarly, the share of new loans with a maturity of over 25 years fell from 12.8% in January 2020 to 6% in July 2021. This normalisation of lending standards did not negatively impact new housing lending, which remained dynamic in 2020. In addition, the recommendation has not penalised borrowers on modest incomes: the breakdown of new housing loans (excluding transfers and renegotiations) by income bracket has remained stable. The complete assessment is available here: https://www.economie.gouv.fr/files/files/directions_services/hcsf/HCSF 20210914 CP_annexe_ENG.pdf)
4.3	Effects of the measure.	The objective of the measure is to ensure the lasting resilience of the French residential lending model, where nearly all housing loans carry a fixed interest rate (99.4% of new lending in 2020) and a majority of them are backed by a guarantee scheme (63.8%). By limiting DSTI ratios on housing loans and keeping loan maturities at reasonable levels, the decision ensures that banks can continue to guarantee loans and manage the associated interest rate risk. It is expected that the decision will increase the resilience of both borrowers and lenders, and therefore ensure a broadspread and sustainable access to housing credit in the long run.
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)	Cross-border effects are not foreseen as housing lending to French households by foreign institutions represents a limited share of total housing lending in France. The latest EBA transparency exercise (June 2020) allows the assessment of retail exposures secured by real estate property of 129 banks across 26 countries at the highest level of consolidation in the European Union (EU-27) and the European Economic Area (EEA). These data indicate that the largest exposure in this sample is 890 million €, which represents only 0.08% of the total outstanding amount of housing loans in France (1100 billion € as of June 2020). The HCSF will keep monitoring these exposures: if cross border activity were to rise and raise level playing field concerns, the issue of reciprocation would be re-examined.
5.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	As indicated in 5.1, the HCSF will monitor closely any cross-border leakages, but so far the issue is not deemed material. As regards cross sectorial leakage, the decision applies to banks that provides the total amount of housing loans in France so far. Leakages or regulatory arbitrage will be closely monitored but are so far not material
5.3	Request for reciprocation	No reciprocation requested but close monitoring. The HCSF stands ready to request for reciprocation should cross-border leakages be identified.
6. Miscellaneous		
6.1	Contact person(s) at notifying authority.	HCSF secretariat: Jean Boissinot jean.boissinot@banque-france.fr Julien Idier julien.idier@banque-france.fr Banque de France: secretariat.hcsf@banque-france.fr French Treasury: secretariat.hcsf@dgtresor.gouv.fr
6.2	Any other relevant information.	