Notification template for borrower-based measures

Please send/upload this template to:

- macropru.notifications@ecb.europa.eu when notifying the European Central Bank (ECB);
- DARWIN/ASTRA when notifying the European Systemic Risk Board (ESRB).

This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure[1].

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

1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority	Austrian Financial Market Authority (FMA)
1.2	Country of the notifying authority	Austria
1.3	Type of borrower-based measure	☒ Debt-service-to-income (DSTI) ☒ Loan-to-value (LTV) ☒ Loan maturity
1.4	Type of notification	☒ Activation of a new measure (legally binding DSTI, LTV and loan maturity)

[1] On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

2. Description of the measure		
2.1	Description of the measure	To address systemic risks arising from real estate exposure for the segment of residential real estate (RRE) loans granted to households, the following measures are taken: - An upper limit of 90% for **loan-to-value ratios** (LTV) with an **exemption bucket of 20%**. Thereby, the loan-to-value ratio measures the total level of debt in relation to mortgage collateral or other financial assets securing the repayment of debt. - An upper limit of 40% for **debt service-to-income ratios** with an **exemption bucket of 10%**. - An upper limit of **35 years for the maturity of loans**, with **an exemption bucket of 5%**. The exemption buckets balance the need to reduce the buildup of systemic risks with the need to offer banks adequate operational flexibility. Over a period of six months, the sum total of all newly extended loans falling into one of the exemption buckets listed above should account for no more than 20% of the new funds provided during that period. Furthermore, individual borrowers should be eligible for an exemption amount of EUR 50,000 (based on the sum total of their housing loans). Until these measures take effect, credit institutions are expected to comply with the guidance issued by the Financial Market Stability Board (FMSB) in 2018.
2.2	Definition of the measure	The **LTV** ratio means the total level of debt in relation to mortgage collateral or other financial collateral securing the repayment of debt. - Numerator: Sum of consumer's total level of debt for RRE financing, including outstanding loans if they are from the same credit institution - Denominator: min (Property market value – prior liens; Mortgage collateral) + other financial collateral according to CRR. The **DSTI** ratio means the total level of debt service in relation to the borrower's annual income. - Numerator: Sum of interest and principal payments from servicing all of the borrower's loan liabilities,

		calculated over the period of one year. Interest and principal payments made by the borrower to third-party lenders must also be taken into account. Constant annuities are to be assumed over the entire term. - Denominator: Sum of annual income after deduction of taxes and social security tax plus transfer payments. Income components may only be taken into account if they are verified, regular and sustainable. **Maturity Limit**: The maturity period starts with the disbursement of the loan, in the case of disbursements in several parts with the disbursement of the first part, in the case of framework loans with the first possibility of drawdown by the borrower.
2.3	Legal basis and process of implementation of the measure	**Legal basis**: Article 23h of the Austrian Banking Act para 2 item 1, 3, 4 established LTV, DSTI and maturity limits as legally binding macroprudential measures. Applicable to the scope listed under Article 6a para.1 of the FMA Regulation on Asset, Income and Risk Statements – VERA-V Federal Law Gazette II No. 471/2006, as amended **Process of implementation**: The measure comes into force on August 1, 2022, until June 30, 2025, and is to be applied to all new agreements for residential real estate financing of private individuals. The FMA is required to review the measures set before they expire. The effectiveness of the measures set will be evaluated on the basis of the relevant reporting in the data reporting system, management or supervisory discussions and on-site inspections by the OeNB. The OeNB will report the results of this evaluation to the FMSB.

2.4	Coverage	**Credit Institutions**: The measure applies to CRR credit institutions pursuant to Article 1a para. 1 no. 1 Banking Act with their registered office in Austria, CRR credit institutions licensed pursuant to Article 4 para. 4 Banking Act and CRR credit institutions from Member States operating in Austria through a branch pursuant to Article 9 para. 1 Banking Act.
		Loan applicants: The measure applies to natural persons.
		Type of lending: The measure covers loans for residential property finance.
2.5	Calibration	In 2020 and 2021, the buildup of systemic risks in Austria accelerated visibly: growth of real estate prices and mortgage lending went up further – at a pace that also stands out in euro area comparisons. Market conditions continue to be driven by fierce competition. The share of variable rate loans remains high, which makes many borrowers vulnerable to increases in interest rates. Furthermore, a considerable share of new mortgage loans continues to be offered at elevated debt service-to-income and loan-to-value ratios. In times of crisis, systemic risks in this segment may prove critical to Austria's financial stability – notwithstanding a number of mitigating factors. Austria has a well-developed rental market with a high share of nonprofit providers, renting out debt-financed private property plays but a minor role, Austrian borrowers tend to have high incomes and wealth by international standards, and the Austrian banking sector is adequately capitalized. Still, in the event of crisis, parts of the financial

		system might have to absorb heightened losses that could trigger negative repercussions for the real economy. For the above reasons, the FMSB advises the FMA to adopt measures for containing systemic risks arising from real estate for the segment of residential real estate (RRE) loans granted to households. Having evaluated also other property-related measures and in view of the systemic risks outlined above, the FMSB has identified measures under Article 23h Austrian Banking Act as the most effective way of reducing the further buildup of systemic risks related to RRE loans. The use of such measures has been advised also by the European Systemic Risk Board (ESRB), the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF).
3. Timing for the measure		
3.1	Timing for the decision	17/06/2022
3.2	Timing for publication	17/06/2022
3.3	Disclosure	Publication of the measure in the Federal Law Gazette on June 17, 2022 (link). Publication of the measure on the FMA Website (link). The FMSB has frequently communicated on the rise of systemic risks from RRE lending in the past years. Its recommendation of March 2022 was published on its website and has also been dispensed via the nation-wide press agency (Austria Press Agency APA). The FMSB has also pre-announced its recommendation in the press releases to the preceding FMSB meetings. (link)

3.4	Timing for the application	01/08/2022
3.5	End date (if applicable)	31/07/2025
4. Reason for activation of the measure		
4.1	Description of the macroprudential risk	Between end-2010 and end-2021, real estate prices doubled in Austria whereas they only increased by slightly more than one-third in the euro area. In the period since end-2010, annual mortgage lending growth averaged 4.2% in Austria, compared with 2.6% in the euro area. From end-2019, annual mortgage lending growth accelerated to an average 6.1% in Austria, compared with 4.7% in the euro area. The share of variable rate loans in Austrian banks' new business has gone down sharply in recent years. Yet, even a ratio of 40%, as measured for the third quarter of 2021, remains high when compared to euro area averages. In the mid-2010s, this share was still above 80%. In the new lending portfolio, loans with debt service-to-net income ratios exceeding 40% accounted for a share of 18% of the outstanding balances in the first half of 2021. At the same time, markedly more than half of these outstanding balances were subject to loan-to-value ratios exceeding 90% or were not collateralized by any assets. Although there are a number of mitigating factors, like an adequately capitalized banking sector, in the event of crisis, parts of the financial system might have to absorb heightened losses that could trigger negative repercussions for the real economy.

4.2	Indicators used for activation of the measure	Besides general indicators on real estate price growth, its overvaluation, household indebtedness and credit growth, the main source of information is the semi-annual data reporting on private residential real estate lending by banks. It provides information about the stock and flow of loans and their lending standards.
4.3	Effects of the measure	The objective of the measure is to mitigate increasing systemic risks in residential real estate financing in light of the real estate price boom, interest rate turnaround, fragile economic environment, and current lending practices.
5. Sufficiency, consistency and non-overlap of the policy response		
5.1	Sufficiency of the policy response	According to the OeNB's systemic risk analysis, borrower-based measures are appropriate for reducing systemic risks in real estate debt financing. Both individually and in combination, they are suitable for reducing risk, although a combination of multiple instruments is considered to be particularly suitable and effective. Addressing the increased risks in new lending may also prevent a buildup of risk in the loan portfolio indirectly and in the medium term. Borrower-based instruments have a direct impact on lending standards and can restrict the provision of higher-risk loans, mitigate excessive credit growth and prevent rising household indebtedness. As such, they are the only available instrument that is targeted and effective in addressing the identified rising systemic risks from persistently dynamic new lending with unsustainable lending standards. More lenient borrower-based measures, such as measures with increased exception quotas, or measures with other metrics, would not be better or even less effective in reducing risk.

5.2	Consistency of application of the policy response	The FMSB has intensively discussed systemic risks arising from the residential real estate (RRE) segment in recent years and regularly voiced concerns about the buildup of risks related to RRE loans in press information released since 2015. Following initial qualitative guidance in the press release informing about the FMSB's 9th meeting in September 2016, the FMSB offered quantitative guidance in the press release about the FMSB's 17th meeting in September 2018: Accordingly, sustainability in lending can best be achieved, by requiring borrowers to provide an adequate down payment when taking out a loan. A down payment lower than a benchmark of 20% of total financing needs is considered to be a cause for concern. Loan terms should not be excessively long and should take into account the income situation over the course of the borrower's life. Loans with maturities of more than 35 years should be granted only in exceptional cases. Lenders should be conservative in calculating borrowers' household income and expenditure when making lending decisions to ensure that debt servicing remains within reasonable limits (benchmark of no more than 30% to 40% of household net income). Only verified, regular and sustainable income should be included in this calculation. The FMA and the OeNB have likewise stepped up their supervisory communication about the risks arising from housing mortgages. However, in 2020 and 2021, the buildup of systemic risks accelerated visibly: growth of real estate prices and mortgage lending went up further – at a pace that also stands out in euro area comparisons. Accordingly, the measures taken are not only in line with the current risks arising from the prevailing lending standards, but are also consistent with the previous recommendations on lending.
5.3	Non-overlap of the policy response	There are no other policy instruments in place to address the same systemic risk.
6. Cross-border and cross-sector impact of the measure		

6.1	Assessment of cross-border effects and the likely impact on the Internal Market (Recommendation ESRB/2015/2[2])	Cross-border effects are not expected since the measure only concerns debt financing of private residential real estate that is secured by property located in Austria or if the borrower has a primary residence in Austria. Inward spillovers (i.e. cross-border lending by non-domestic lenders to domestic borrowers) will be closely monitored and addressed in bilateral supervisory cooperation if necessary.
6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	The introduction of a legally binding DSTI and LTV is expected to mitigate the potential for regulatory arbitrage and leakages and will closely be monitored.
6.3	Request for reciprocation	No

[2] Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).

6.4	Justification for the request for reciprocation	-
7. Miscellaneous		
7.1	Contact person(s)/mailbox at notifying authority	**Hauser-Rethaller Ursula**, +43 676 88 249 131, ursula.hauser-rethaller@fma.gv.at **Nenning Nina**, +43 676 88 249 610, nina.nenning@fma.gv.at
7.2	Any other relevant information	For more information, please visit the FMSBs Website.
7.3	Date of the notification	29/06/2022