Notification template for borrower-based measures

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- 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	Národná banka Slovenska
1.2	Country of the notifying authority	Slovakia
1.3	Type of borrower-based measure	Please select one of the measures listed below: ☒ Debt-service-to-income (DSTI) ☐ Loan-to-income (LTI) ☐ Loan-to-value (LTV) ☒ Debt-to-income (DTI) ☒ Loan maturity ☐ Other (please provide a short, name-like description here and provide more details in Section 2)
1.4	Type of notification	What do you intend to notify? ☐ Activation of a new measure ☒ Change to an existing measure ☐ Extension of an existing measure ☐ Termination of an existing measure

[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authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.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	**DTI:** The DTI limit is gradually tightened for borrowers above 40 years, if loan maturity exceeds to retirement age (65 years) - Original DTI limit of 8 remains unchanged for borrowers up to 40 years - The limit is tightened by 0.25 for every year above 40 (age 41: 7.75, age 42: 7.5, etc) - The limit is lowered until the age of 60, when it reaches the floor of 3. For borrowers above 60 years, DTI limit remains flat at the value of 3 - 5 % of new loans can be granted with DTI above the limit irrespective of the age of the borrower In case of more borrowers, the DTI limit is used to determine maximum debt of each borrower separately, expressed in EUR. Then, these amounts are added-up. **DSTI/maturity:** The DSTI limit and maturity limit are eased for “green consumer loans” (loans co-financing the house renovations from EU Recovery and Resilience Facility) - Maximum instalment implied by actual DSTI limit (60%) may be increased by 50 € - Maximum maturity of the “green consumer loans” is extended from 8 to 10 years
2.2	Definition of the measure	**DTI:** a) **Value of the debt:** new loan + outstanding value of existing housing loans and consumer loans + 20 % of undrawn credit card and overdraft facilities b) **Income:** Annual net income, i.e. after contributions and taxes. The income is documented and independently verified **DSTI:** a) **Repayments**: repayment of new loan + Repayments on existing loans (including 3% of credit card and overdraft loans) + other financial liabilities

		b) **Income**: Monthly net income, i.e. after contributions and taxes, decreased by subsistence minimum. The income is documented and independently verified

2.3	Legal basis and process of implementation of the measure	**DTI:**
		The DTI recalibration is adopted in the form of binding decrees
		1. NBS Decree No 5/2022 amending Decree No 10/2016, laying down detailed provisions on the assessment of borrowers' ability to repay housing loans, as amended by Decree No 7/2018 and Decree No 10/2019
		  ○ The decree has been adopted in accordance with Article 8 (16) of the Act No 90/2016 Coll. on housing loans as amended
		2. NBS Decree No 4/2022 amending Decree No 10/2017, laying down the details of its assessment of the consumer's ability to repay a consumer loan as amended by the Decree No 6/2018 and Decree No 9/2019
		  ○ The decree has been adopted in accordance with Article 7 (41) of the Act No 129/2010 Coll. on consumer credits and other credits and loans for consumers and on amendments and supplements to certain laws as amended.
		DSTI/maturity:
		The DSTI and maturity easing are included in the amendment to the second decree listed above (NBS Decree No 4/2022).

2.4	Coverage	**Providers:** All institutions providing housing loans or consumer loans (banks as well as non-banks)
		Borrowers: Natural persons
		DTI: Types of lending: All new housing loans in accordance with Act on housing loans and all new consumer loans in accordance with Act on consumer loans, except refinancing loans without a significant top-up (i.e. top-up less than both 5 % and 2000 €). The latest change in the DTI limit is only applicable to clients with age more than 40 years and only if their at maturity of the loans exceeds 65 years. **DSTI/maturity:** Types of lending: "green consumer loans" (loans co-financing the house renovations from EU Recovery and Resilience Facility based on the existing contract with the Slovak Environment Agency) up to value of 28 000 €
2.5	Calibration	**DTI:** The DTI limit is recalibrated to prevent further easing of banks´ credit standards. The trend of easing has been observed in the recent years, driven by intense market competition. Purpose of the regulation is not to change current market practice, but to avoid excessive competition in the future. The value of the DTI limit is calibrated to respect current market practice. Vast majority of loans is provided in

		accordance with the new limit. Moreover, given the existence of the general exemption (5% of new loans), the immediate impact on the market will be marginal. **DSTI/maturity:** The DSTI calculation was adjusted strictly following a principle of risk neutrality. Hence, the increase in the maximum instalment is equal to the expected monthly savings stemming from the house renovation. The expected savings amount of 50 € is based on the minimal requirements set by Slovak Environment Agency and by energy consumption data collected by Statistical Office of the Slovak Republic. To qualify for a "green consumer loan", the borrower must document their involvement in the programme. The maturity extension reflects the purpose of the loan (housing, not consumption) and the desired increase in the nominal value of the loan. Together with the DSTI calculation adjustment, the loan amount may be increased by 5 000 € to 10 000 €. This "extra" debt is sufficient to help lower-income households in financing the house renovation (together with ordinary loans and the programme subsidy).
3.	**Timing for the measure**	
3.1	Timing for the decision	23/08/2022
3.2	Timing for publication	23/08/2022
3.3	Disclosure	**DTI:** The first assessments of the risks related to the maturity extension beyond retirement age was published in the Financial Stability Report – May 2021 and Financial Stability Report – November 2021. In the reports, NBS

		also indicated the rising need for macroprudential policy recalibration. The legal proposal for public consultation was published on 30 May 2022. On the same day, NBS published Financial Stability Report – May 2022. A whole chapter of the report was dedicated to the assessment of the actual proposal, including risk quantification and cost-benefit analysis. In the same week, NBS published the FAQ website. The formal public communication was further supported by press conference and medial interviews. Apart from public communication, the proposal was informally consulted with the banking sector, ECB, ESRB and IMF during the Spring 2022 and was presented on the joint IWG/MPPG meeting on 12 July 2022. **DSTI/maturity:** The legal proposal for public consultation was published on 30 May 2022 and developed in the Financial Stability Report – May 2022. Other public communication will be managed mostly by Slovak Environment Agency.
3.4	Timing for the application	**DTI:** 01/01/2023 The loans where creditor assesses the consumer's creditworthiness before 31/12/2022 are exempt from the new regulation. **DSTI/maturity:** 01/10/2022
3.5	End date (if applicable)	**DTI:** The measure has a permanent nature. **DSTI/maturity:** The involvement in the programme of house renovations from EU Recovery and Resilience Facility is required. Once the programme will expire (expected in 2026), the measure will become ineffective.
4. Reason for activation of the measure		

4.1	Description of the macroprudential risk	**DTI**: With approaching high debt saturation of younger customers, risky trends are shifting to middle age groups. The DTI recalibration reacts to the gradual extension of loans maturity further into the retirement age. In Q4 2021, over 40% of new housing loans was provided with maturity beyond the retirement age of all borrowers. It is no longer exceptional for loans to extend into the borrower's seventies. The share of the loans with maturity beyond retirement age in Slovakia is even higher than in some EU countries that have higher household indebtedness. The trend relates predominantly to the borrowers in the age between 40 and 50. The DTI of middle-aged borrowers is growing stronger than their income and due to repeated topping-up the pace of amortization is slow. Though the DSTI remains broadly flat, it is only due to the maturity extension. There are three main associated risks: 1. Competition-driven 'race to bottom' (current age limits up to 75-78 years) 2. Decline of income at retirement – the risk of negative cash flow is currently low but deepening with high level of uncertainty 3. Very low cumulation of financial assets compared to other countries There are also risks related to the consumer protection (pensioners losing their houses, inability to cover higher healthcare expenses) and macroeconomy (lower future consumption). The DTI tightening is also adopted in a response to the recent ESRB warning on medium-term vulnerabilities in SK (ESRB/2021/16), which also describes many of the above mentioned risks and mentions that a fine-tuning of the existing BBMs would be appropriate. **DSTI/maturity**: The minor easing does not address a financial stability risk and has no material impact on the financial stability. It is however an example of using macroprudential tools to support the green economy and mitigate climate risks.

4.2	Indicators used for activation of the measure	The main indicators are the following: • Growth of mortgages • Share of mortgages exceeding retirement age • Housing loans with a 30-year maturity as a share of total new housing loans granted to borrowers aged 40–45 in the respective quarter • Comparison of the DTI calibration with the current DTI values. The FSR 05/2022 provides many other important indicators in charts and tables.

4.3	Effects of the measure	**DTI:**
		A thorough cost-benefit analysis proves that benefits of the measures clearly outperforms their costs. Adjustments made during the public consultation further contributed to limiting any unnecessary costs.
		Costs of DTI recalibration:
		- Marginal reduction in new production and marginal impact on borrowers (up to 1 %)
		- Low impact on current loans
		- Slight decrease in loan growth, that is nevertheless considered to be partly excessive
		Benefits of DTI recalibration:
		- Significant reduction in accumulation of risks in the future – share of new loans at risk of a negative cash flow after retirement will be reduced by almost two thirds
		- Early adoption does not require significant market intervention
		- The measures are proportionate to the risks
		    ○ Impact almost exclusively on housing loans
		    ○ Impact on medium-aged customers only, no impact on younger borrowers
		    ○ The exemptions allow for flexibility
		More details about cost-benefit analysis is published within the Financial Stability Report – May 2022.

		DSTI/maturity: Costs of DSTI/maturity easing: - Basically, no impact on financial stability or the loan credit quality (due to a strict risk neutrality principle) Benefits of DSTI/maturity easing: - Support for low-income households in the house renovation projects. Thanks to savings on energy costs, the overall economic outcome for the households will be positive in the mid to longer-term - Support of banks´ "green" activities, transformation of the economy towards less energy-intensive and mitigation of climate risks
5. Sufficiency, consistency and non-overlap of the policy response		
5.1	Sufficiency of the policy response	**DTI:** **The measure is considered to be sufficient. A tightening of the basic limit is currently not needed to a complex set of measures already applied and even tightened in the past. The DTI tightening nevertheless address some existing pockets of vulnerabilities as described above and they are addressed sufficiently by the measure.** NBS has tightened several macroprudential limits in past years. Some of them were repeatedly recalibrated to reflect the market development. According to the NBS assessment, the actual limits are set adequately and sufficiently. The coronacrisis has confirmed that PDs has increased mainly for loans which were granted above the current regulatory limits on DTI, DSTI and LTV (loans granted in the past or under regulatory exemptions). Nevertheless, the risk may arise in specific market segments, as in the case of loans exceeding to retirement age. This risk is currently low and there is no need for strong macroprudential reaction. A largely precautionary measure which prevents further easing of the market credit standards is therefore considered to be sufficient.

		DSTI/maturity: The minor easing does not address a financial stability risk and has no material impact on the financial stability.
5.2	Consistency of application of the policy response	**DTI:** **The DTI tightening was considered as the most appropriate and consistent policy option among several alternatives that were thoroughly discussed and analyses.** 1) The changes in DSTI, i.e., haircuts on income after expected retirement age, can be easily circumvented by extending the maturity even further. This approach would aggravate the risk instead of mitigating is. It would therefore be necessary to set appropriate maturity limits for these loans. Such regulation would be complex and difficult to implement. 2) The combination of DSTI and maturity can be easily replaced by a simpler tool, DTI. Moreover, Slovak implementation of DSTI deducts living cost minimum for each household member, including children. It is most probable that children will not form part of the household once the retirement age of the borrower is reached. On the other hand, DTI is not distorted by the costs on household members into account. 3) The option of hard age limit for loan-taking was refused as not appropriate – it does not effectively target the risk the most relevant age group (40 – 50 years). Instead, the retired borrowers that are

		not the primary target group would be inadequately constrained. Moreover, such approach bears traces of potential discrimination. The direct comparison to measures adopted in other countries is nevertheless challenging due to a very limited experience across EU with application of macroprudential limits in relation to the retirement age (e.g., PT and MT). **DSTI/maturity:** The minor easing does not address a financial stability risk and has no material impact on the financial stability.
5.3	Non-overlap of the policy response	**DTI**: **There is no other tool addressing the same issue.** Nevertheless, other tools are complementary and needed for the framework to be effective and to avoid circumvention. The key elements are DSTI and maturity limits together with the requirement for the loans to be repaid in equal monthly instalments (or faster). However, these tools were so far not fully sufficient to address the risks mentioned above, due to the possible leakages in terms of maturity prolongation related to the significant top-ups of refinancing loans. **DSTI/maturity**: The minor easing does not address a financial stability risk and **does not overlap with other tools**.
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])	**DTI**: No major spill-overs are expected. The regulation is product-based and applies to all housing and consumer loans. All lenders providing loans in Slovakia are required to follow the new rules. Loans in Slovakia are almost fully granted by institutions located in Slovakia. Loans granted abroad are not affect. **DSTI/maturity:** No major spill-overs are expected. The regulation is limited to a small market segment with no relevance for financial stability.
6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	**DTI**: The DTI limits (both original and new) do not apply on refinancing loans without material top-up. If a maturity of such a loan is extended beyond retirement age, respective DTI may therefore reach value above the new limit. The relevance of this issue is currently only marginal, but it is expected to be addressed by future amendments to the Housing Loans Act and Consumer Loans Act soon. **DSTI/maturity**: No leakage or regulatory arbitrage was identified.
6.3	Request for reciprocation	No As the regulation is product based, it automatically applies to all lenders active on the market. There is no need for active reciprocation in the other member states.

[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	Not applicable
7. Miscellaneous		
7.1	Contact person(s)/mailbox at notifying authority	Marek Ličák Director of the Financial Stability Department +421 2 5787 2863 marek.licak@nbs.sk
7.2	Any other relevant information	
7.3	Date of the notification	6 September 2022