

## Notification template for measures to be taken under Article 458 of the Capital Requirements Regulation (CRR)

Template for notifying the European Central Bank (ECB), the European Systemic Risk Board (ESRB) and the European Commission of stricter national measures pursuant to Article 458(2) CRR and for requesting the ESRB to issue a recommendation to other Member States to reciprocate the measures pursuant to Article 458(8) CRR

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The ESRB will forward this notification to the European Parliament, the European Council and the European Banking Authority (EBA) without delay. This notification will be made public by the ESRB after the relevant authorities have adopted and published the notified macroprudential measure<sup>2</sup>.

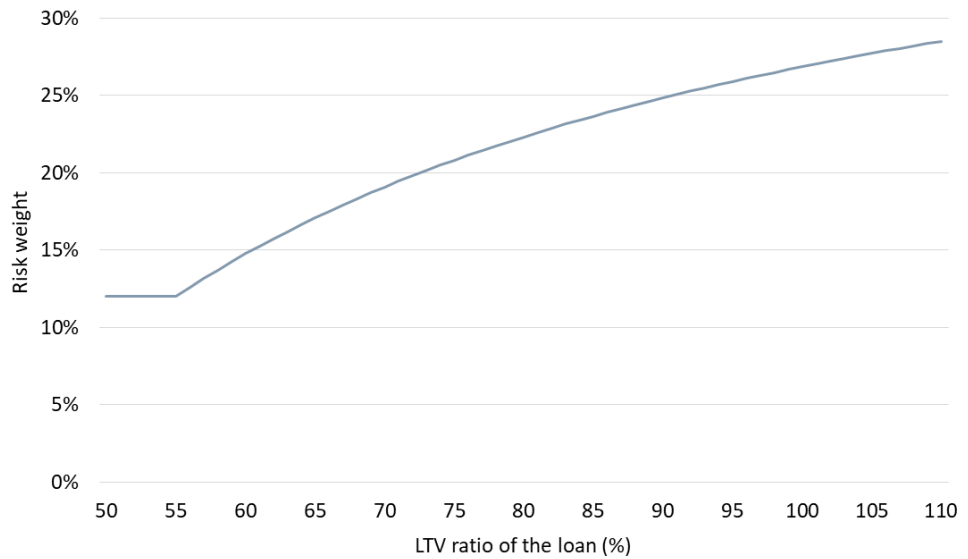
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1. Notifying national authority and scope of the notification	
<b>1.1 Name of the notifying authority</b>	De Nederlandsche Bank (DNB)
<b>1.2 Country of the notifying authority</b>	The Netherlands
<b>1.3 Categorisation of the measure</b>	(iv) Risk weights for targeting asset bubbles in the residential property sector.  The measure was initially activated by DNB on 1 January 2022. With the measure, DNB has introduced 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)(iv) of the CRR. The stricter requirement is applicable to credit institutions that use the Internal Ratings Based (IRB) approach for calculating regulatory capital requirements.

<sup>1</sup> Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

<sup>2</sup> 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authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

	<p>The measure is currently in place until 30 November 2022. With the extension, the measure would run for two additional years, from 1 December 2022 until 30 November 2024.</p>
<p><b>1.4 Request to extend the period of application of an existing measure for up to two additional years</b> <b>(Article 458(9) CRR)</b></p>	<p><b>DNB requests to extend the period of application of the current measure with two years.</b> DNB initially introduced the measure on 1 January 2022 and the measure is set to expire on 1 December 2022. After the extension is approved and implemented, the measure will be in force until 30 November 2024. DNB does not intend to alter the design of the measure with the extension.</p> <p>Systemic risk inherent in the Dutch housing market has increased over the past few years and some risk indicators have deteriorated further since the initial introduction of the measure on 1 January 2022. Find a more detailed assessment of risk developments in section 4.1.</p> <p>As was also mentioned in the initial application, IRB-models do not take sufficient account of increasing vulnerabilities in the housing market. While the systemic risk posed by the housing market has increased over the past years, the risk weights of IRB-banks' mortgage portfolios have further decreased since 2019. The risk weight floor implemented by the measure ensures that banks maintain a certain minimum capital amount for their mortgage portfolios and prevents ever-increasing house prices from leading to ever-decreasing risk weights, as rising house prices cause LTV ratios to decline. The measure differentiates the average minimum risk weight based on the LTV of the underlying mortgage loans, making the measure therefore to a certain extent risk-sensitive.</p>
<p><b>1.5 Notification of a measure to which Article 458(10) CRR applies</b> <b>(‘notification only procedure’)</b></p>	<p>Article 458(10) does not apply for this measure. The measure is expected to increase the risk weights of the IRB-banks concerned, on average, by more than 25%</p>
<p><b>2. Description of the measure</b></p>	
<p><b>2.1 Draft national measure</b> <b>(Article 458(2)(d) CRR)</b></p>	<p><b>The design of the current (initial) measure will not be altered with the extension.</b></p> <p>The current measure imposes 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 are exempted from the measure.</p> <p>The minimum average risk weighting is calculated as follows:</p> <p>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.</p>



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 exempted 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 measure assigns a minimum average risk weight of 19.7% to the loans within its scope.

Fictitious portfolio	Loan amount (L)	National Mortgage Guarantee	Collateral value (V)	LTV ratio (L/V)	Risk weight based on Section 2.2(2)
loan 1	150	no	250	60%	$(55/60)*12\%+(5/60)*45\% = 14.8\%$
loan 2	130	no	173	75%	$(55/75)*12\%+(20/75)*45\% = 20.8\%$
loan 3	120	no	133	90%	$(55/90)*12\%+(35/90)*45\% = 24.8\%$
loan 4	110	yes	138	80%	exempted
<b>Loan amount in scope of the measure:</b>				$150 + 130 + 120 = 400$	
<b>Minimum average riskweight:</b>				$(150/400)*14.8\%+(130/400)*20.8\%+(120/400)*24.8\% =$	<b>19.7%</b>

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

**2.2 Scope of the measure (Article 458(2)(d) CRR)**

**The scope of the current (initial) measure will not be altered with the extension.**

The measure applies to banks using an Internal Risk Based Approach for calculating their regulatory capital requirements, which are currently the following: ING Bank, Rabobank, ABN Amro, Volksbank, NIBC and Van Lanschot Kempen. In addition, the measure will also apply to foreign banks that make use of IRB-models and have exposures via their branch(es) to natural persons secured by mortgages

	<p>on residential property in the Netherlands, if the foreign authority reciprocates the measure.</p> <p>The 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).</p> <p>Mortgage loans wholly or partly covered by the National Mortgage Guarantee scheme (NHG) are exempted from the measure. The NHG scheme is a guarantee provided by a government-backed foundation, the Homeownership Guarantee Fund (<i>Waarborgfonds Eigen Woningen</i>, 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.</p>
<p><b>2.3 Calibration of the measure</b></p>	<p>The measure primarily aims to enhance 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, and the increasingly risky borrowing behaviour of households. 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). Furthermore, the ESRB pointed out in its latest (February 2022) assessment report that vulnerabilities have remained elevated in the Netherlands.</p> <p><b>Analyses which have been carried out for the initial introduction</b></p> <p>As described in our initial notification template, DNB performed several analyses to assess the potential impact of a severe housing market correction on banks before the initial introduction of the measure.</p> <p>For instance, DNB ran a top-down stress test, which used the adverse scenario that was also used in the EU-wide stress test conducted by the European Banking Authority (EBA). Whereas the EBA-stress test results were based on constrained bottom-up calculations from banks' own models, the top-down model was designed to provide conservative estimates by using a uniform approach to calculate expected losses for all banks. This approach was more macroprudential in nature. The top-down stress test found that the average risk weight for mortgage loans could increase by more than what was estimated based on constrained bottom-up calculations. This suggests that part of the potential increase in the average risk weight found in the top-down analyses was not reflected in the current capital requirements of banks. In another analysis, we projected potential credit losses in a stress scenario for the housing market. 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.</p> <p>Based on these analyses, banks needed to hold more capital for their mortgage exposures to ensure that they were sufficiently resilient in case of a materialization</p>

	<p>of systemic risks in the housing market. When the risk weight floor measure was first announced in 2019, it was expected to result in an increase in the total amount of capital IRB banks need to hold to meet the capital requirements by around EUR 3 billion, of which more than EUR 2 billion is CET1-capital. The measure would then increase the average risk weight of IRB banks' mortgage portfolios from 11% to 14-15%, an increase of around 30%.</p> <p><b>Since then, the systemic risk in the Dutch housing market has further increased and some risk indicators have further deteriorated.</b> Meaning that the impact of the risk weight floor should still be at least EUR 3 bln in order to adequately address the systemic risk. Based on 2021 Q4, the measure is expected to result in an aggregate increase of the total capital requirement for the IRB banks of EUR 4.5 bln, of which more than EUR 3 bln is CET1-capital. While this increase in the total capital requirement is lower than the one we estimated in our Financial Stability Review 2021 Autumn edition based on the latest available data (EUR 5 bln), it is still above the increase needed to ensure a minimum level of resilience against the systemic risk stemming from the housing market. In addition, the lower current impact of the measure also reflects the decrease in LTV ratio's and the resulting decrease in systemic risk levels. The measure is currently expected to increase the average risk weight of IRB banks' mortgage portfolios to around 14%.</p> <p>Finally, 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.</p>
<p><b>2.4 Suitability, effectiveness and proportionality of the measure</b> <b>(Article 458(2)(e) CRR)</b></p>	<p><b>DNB still considers the measure as suitable, effective and proportionate on the basis of the following considerations.</b></p> <p>The main objective of the 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 is described in 2.3. The additional amount of capital based on 2021 Q4 data was estimated at EUR 4.5 billion and helps to secure the resilience of the banking sector in a severe downturn scenario.</p> <p>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 about 5%-points (from around 8% to 13-14%).</p> <p>By differentiating the average minimum risk weight based on the LTV of a mortgage, the 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,</p>

	<p>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 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 higher LTV loans, it gives individual banks a disincentive to grant new high-LTV loans.</p> <p>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.</p> <p>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 21% 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.</p> <p>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.</p> <p>In addition, the measure only affects banks which use the Internal Ratings Based (IRB) Approach. After all, risk weights under the standardized approach are higher than the average risk weight resulting from the intended risk weight floor. The floor does therefore not affect portfolios under the standardized approach. IRB banks account for 92% of all mortgage lending by banks in the Netherlands.</p> <p>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.</p>
<b>2.5 Other relevant information</b>	<p>-</p>
<b>3. Timing for the measure</b>	
<b>3.1 Timing for the decision on the measure</b>	<p>The decision will be taken on 1 August 2022. The final decision is expected to be adopted in October 2022.</p>

<b>3.2 Timing for publication</b>	<p>The final decision to extend will be communicated in the Autumn edition of the Financial Stability Report (FSR), which is scheduled for publication on 10 October 2022. The definite regulation for the extension will also be published in the first half of October 2022, closely after the FSR publication.</p>
<b>3.3 Disclosure</b>	<p>DNB published its intention to extend the measure on 8 July for public consultation. Such a consultation is obligatory under national law. Alongside the publication of the legal text of the extension, DNB will announce the extension in its Financial Stability Report, in which DNB reiterates the underpinning of its decision to extend for two years.</p>
<b>3.4 Timing for application (Article 458(4) CRR)</b>	<p>The measure has initially been activated on 1 January 2022 and the initial application period will end on 1 December 2022. The extension will come in force on this date.</p>
<b>3.5 Duration of the measure (Article 458(4) CRR)</b>	<p>The intended extension is for a period of two years after the initial period comes to an end. The measure has been initially introduced on 1 January 2022 and will come to an end on 1 December 2022. With the two-year extension on 1 December 2022, DNB intends to have the measure in place until 30 November 2024.</p>
<b>3.6 Review (Article 458(9) CRR)</b>	<p>DNB reviews the appropriateness of the measure on a yearly basis, and evaluates the need for revisions of the implemented measure at renewal.</p> <p>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.</p>
<b>4. Reason for the activation of the stricter national measure</b>	
<b>4.1 Description of the macroprudential or systemic risk in the financial system (Article 458(2)(a) CRR)</b>	<p>Systemic risk inherent in the Dutch housing market has increased over the past few years and some risk indicators have deteriorated further since the initial introduction of the measure on 1 January 2022.</p> <p>House prices have gone up sharply over several years in a row and growth rates have been above 15 percent (y-y) since July 2021. The growth rate peaked at 21.1 percent in January 2022 (highest growth rate recorded by Statistics Netherlands since they started their house price index in 1995) and was 18.8 percent in May 2022, the <a href="#">latest available</a> growth rate of Statistics Netherlands. The sharp price growth was initially a trend of just the big cities, but is currently characterizing the market in the entire country: growth rates have been well above 20 percent in more rural areas, including the provinces Flevoland, Drenthe and Gelderland. The national average transaction price has more than doubled since mid-2013 to around EUR 430,000 in 2021Q2. 80 percent of houses are being sold above the asking price and the average transaction period is 23 days nationally. While sluggish supply and previously declining interest rates partly account for the price increases, there are also signs of overvaluation. Price levels are above the previous peak and price growth rates significantly outpace income growth in recent years. As a result,</p>

	<p>price/income ratios are now higher than at the peak of the previous housing market boom (reaching factor 7.8 at the end of 2021, a new record).</p> <p>Furthermore, households have shown increasingly risky borrowing behaviour.</p> <ul style="list-style-type: none"> <li>• Firstly, LTI ratios of new loans to both first-time buyers and home-movers gradually increased and the share of new loans with an LTI-ratio close to the regulatory limit has increased over the past few years: more than half of the first-time buyers and 40 percent of home-movers at the end of 2021. Although the average LTV-ratio for newly issued mortgages has been declining for some time (largely due to the home equity of home-movers materializing from the sale of their previous home), LTV ratios of new loans remain high: 47 percent of new loans to first-time buyers have an LTV ratio at or above 90 percent.</li> <li>• Secondly, interest-only mortgages have regained popularity with households of all age groups while these mortgages carry larger refinancing risks. Moreover, the previously observed decline in the use of interest-only mortgage has come to a stop, and of the new mortgage debt currently still 44 percent is interest-only.</li> <li>• Thirdly, the share of new mortgages with NHG-coverage (Dutch National Mortgage Guarantee Scheme) has decreased due to the higher price level: the limit on the transaction price for NHG-eligibility has been EUR 355,000 since 1 January 2022 while the average transaction price has risen to EUR 430,000. Therefore, household are exposed to more risk, increasing the credit risk of financial institutions.</li> <li>• Fourthly, refinancing risks have also increased due to rising mortgage interest rates. On the one hand, the large share of interest-only mortgages (around 44 percent of the outstanding stock) makes Dutch household relatively vulnerable for rising interest rates. On the other hand, Dutch households tend to fix their interest rates for a relatively long period, which makes them less vulnerable to interest risk compared to many other advanced economies: 60 percent of the newly issued mortgages have a fixed interest rate period of longer than 10 years and the average fixed period is currently more than 15 years.</li> <li>• Finally, households are facing increased financial pressures due to the current high inflation and higher energy costs. In combination with the high household debt level in the Netherlands, with over 100 percent of GDP (of which 95 percent mortgage debt) among the highest in Europe, these developments pose a financial risk to households and a systemic risk to the Dutch financial sector.</li> </ul> <p>It was also noted by the ESRB in its latest (February 2022) assessment report that vulnerabilities have remained elevated in the Netherlands.</p>
<p><b>4.2 Analysis of the serious negative consequences or threat to financial stability (Article 458(2)(b) CRR)</b></p>	<p>Banks and households in The Netherlands are especially vulnerable to a downward correction in the housing market.</p> <p>Banks can be hit by a house price correction both directly and indirectly. Although banks' mortgage loan losses were muted during the Global Financial Crisis and 2008-2013 housing 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. As in the Global Financial Crisis, market participants could be less keen on funding Dutch banks. Moreover, while reliance on market funding has reduced for Dutch banks, it</p>



	<p>is still above the Eurozone average. This also contributes to their vulnerability to a house price correction.</p> <p>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 housing crisis between 2008 and 2013. 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.</p> <p>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 (21%).</p>
<p><b>4.3 Indicators prompting the use of the measure</b></p>	<p>The main indicators are:</p> <ul style="list-style-type: none"> <li>• Developments in house prices and price/income levels</li> <li>• Developments in LTI of new mortgage loans</li> <li>• LTV ratios of new mortgage loans</li> <li>• Banks' exposures to mortgage loans</li> <li>• Level of risk weights that IRB banks apply to their mortgage portfolio</li> </ul>
<p><b>4.4 Justification for the stricter national measure (Article 458(2)(c) CRR)</b></p>	<p>The main objective (for the extension) of the measure is (still) to enhance the resilience of banks against a potential severe downturn in the housing market by ensuring that banks (continue to) hold sufficient capital for residential real estate exposures. The need for this arises from the 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.</p> <p>Given the current risk environment, DNB considers the extension of the measure based on Article 458 necessary. Alternative measures are still not considered as adequate to address the risk:</p> <p><b><u>Article 124 of CRR</u></b></p> <p>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.</p> <p>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 percent) 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</p>

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 still as less efficient and effective than the currently active 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.
- Finally, Article 164 would add to the complexity of the determination of capital requirements and would reduce the transparency of IRB risk weights for market participants.

#### **Article 133 CRD IV**

Article 133 CRD V concerns the setting of the systemic risk buffer (SRB). Each member state may introduce a SRB in order to prevent and mitigate macroprudential or systemic risk with the potential to have serious negative consequences to the financial system and the real economy, and which is not covered by Regulation (EU) No 575/2013 and by Article 130 and 131 of the CRD. One notable amendment in the CRD V was that the SRB could henceforth be applied on a sectoral level (such as retail exposures to natural persons which are secured by residential property).

DNB considers the sectoral SRB a welcome addition to the macroprudential toolkit. However, for the observed systemic risk, DNB sees the SRB as less efficient and effective than the currently active measure. The reason is that the risk weight floor is more risk-sensitive as it better prices the negative externality of high-LTV loans and thus better enhances the resilience of the banking sector. After all, the current measure results in a different risk weight for each loan depending on their LTV. This allows for a better targeting of risk than what can be achieved with the sectoral SRB.

	<p>In addition, the measure ensures that each bank maintains a minimum level of capital for their mortgage portfolios, regardless of the risk weights that the bank currently apply. The (sectoral) SRB, however, can only be implied as an add-on on the current risk weight and is in that regard deemed to be less effective and efficient. This is especially true since the risk weights on the relevant exposures have further decreased since introduction of the measure, which would result in a lower capital requirement for the affected IRB banks, whereas the risks on a macro level have actually increased. This shows that the way in which banks are affected by the proposed risk-sensitive floor differs from the sectoral SRB, and as such the floor measure seems to be better able in addressing the risks.</p> <p><b><u>Article 136 CRD IV</u></b></p> <p>Article 136 concerns the setting of the countercyclical capital buffer (CCyB).</p> <p>DNB's current analytical framework for setting the CCyB aims for a 2% CCyB in a standard risk environment (i.e. a situation in which cyclical systemic risks are neither particularly high nor particularly low). This way, we want to take greater account of the inherent uncertainty in the measurement of cyclical systemic risks. It also ensures that banks have releasable capital in a timely manner. As described in our Spring FSR 2022, the current risk profile resembles a standard risk environment and DNB thus announced on 25 May 2022 that it increased the CCyB from 0% to 1%. While the CCyB promotes resilience of the banking sector, it does not aim to specifically address the clearly elevated systemic risk levels now present in the housing market. According to our CCyB framework this would also require that the CCyB was set at a rate that already reflected an elevated level of systemic risk (i.e. above 2%).</p> <p>This is, however, deemed as less efficient and effective than the current proposed measure. The reason is that 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. In addition, 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.</p>
<p><b>5. Sufficiency, consistency and non-overlap of the policy response</b></p>	
<p><b>5.1 Sufficiency of the policy response</b></p>	<p>DNB is of the view that the RWA increase, and the subsequent impact on capital requirements, caused by the risk weight floor is sufficient to mitigate the risk for IRB banks related to exposures to Dutch mortgages, see sections 2.3, 2.4 and 4.1.</p>
	<p>In line with ESRB Recommendation 2013/1, the ultimate objective of macroprudential policy is to contribute to the safeguard of the financial system as a whole, including by strengthening the resilience of the financial system and decreasing the build-up of systemic risks, thereby ensuring a sustainable contribution of the financial sector to economic growth. As set out in this notification</p>

<b>5.2 Consistency of application of the policy response</b>	<p>template, DNB is of the view that the risk weight floor promotes resilience against both the direct and indirect impact of a house price correction. Moreover, as discussed in section 4.4 and in line with ESRB Recommendation 2013/1, DNB judges the current risk weight floor to be most effective and efficient macroprudential tool for this purpose. Finally, DNB adhered to the common principles set out in the relevant legal texts when imposing the risk weight floor measure.</p>
<b>5.3 Non-overlap of the policy response</b>	<p>As described at question 4.4, DNB currently does not employ other measures that address the macroprudential/systemic risk stemming exposures to natural persons secured by mortgages on residential property located in the Netherlands, for which the IRB Approach is used for calculating regulatory capital requirements.</p>
<b>6. Cross-border and cross-sector impact of the measure</b>	
<b>6.1 Assessment of cross-border effects and the likely impact on the Internal Market</b>  <b>(Article 458(2)(f) CRR and Recommendation ESRB/2015/2<sup>3</sup>)</b>	<p><b>As with the initial application, 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.</b></p> <p>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 reciprocity by other Member States' designated authorities would further reduce the cross-border effects.</p> <p>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.</p> <p>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.</p>
<b>6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</b>	<p>The objective of the 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.</p> <p>The measure is designed to limit the scope for circumvention and unintended side-effects. The possibilities for lowering the impact of the 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.</p> <p>We will continue to closely monitor the impact of the measure on other sectors of the financial system.</p>

<sup>3</sup> 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).

<p><b>6.3 Request for reciprocity by other Member States</b></p> <p><b>(Article 458(8) CRR and Recommendation ESRB/2015/2)</b></p>	<p>When notifying the initial measure, DNB requested the ESRB to recommend that other Member States recognise and reciprocate the measure. In response to this request, the General Board of the ESRB decided, by Recommendation ESRB/2022/1, to add this measure to the list of macroprudential policy measures recommended for reciprocity under Recommendation ESRB/2015/2. This Recommendation remains relevant in the context of this extension, as Member States have either not yet reciprocated or should be requested to continue reciprocity of the notified measure.</p>
<p><b>6.4 Justification for the request for reciprocity by other Member States</b></p> <p><b>(Article 458(8) CRR and Recommendation ESRB/2015/2)</b></p>	<p>DNB requests the ESRB to recommend that other Member States continue to reciprocate 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). Reciprocity will contribute to a level playing field.</p> <p>To avoid any disproportionate implementation costs for reciprocating Member States, and in accordance with the principles in the reciprocity framework as established by the ESRB, an institution-level maximum materiality threshold for reciprocity of EUR 5 billion current applies, which corresponds to almost 1 percent of the total relevant exposures of all institutions reporting in the Netherlands. For the reciprocity after extension, DNB would propose to maintain this maximum materiality threshold.</p>
<p><b>7. Miscellaneous</b></p>	
<p><b>7.1 Contact person(s)/mailbox at notifying authority</b></p>	<p>Menno van der Ven, <a href="mailto:m.j.van.der.ven@dnb.nl">m.j.van.der.ven@dnb.nl</a>, +31657722462</p> <p>Kenny Martens, <a href="mailto:k.d.l.martens@dnb.nl">k.d.l.martens@dnb.nl</a>, +31652829111</p>
<p><b>7.2 Any other relevant information</b></p>	<p>Regulation on risk weighting for mortgage loans <a href="#">Staatscourant 2021, 44119   Overheid.nl &gt; Officiële bekendmakingen (officielebekendmakingen.nl)</a></p> <p>Extension of regulation on risk weighting for mortgage loans – public consultation version: <a href="#">Microsoft Word - Regeling verlenging risicoweging hypothecaire leningen 2022 (dnb.nl)</a></p> <p>Financial Stability Report Autumn 2021, DNB: <a href="#">Financial Stability Report Autumn 2021 (dnb.nl)</a></p> <p>Financial Stability Report Spring 2022, DNB: <a href="#">Financial Stability Report - spring 2022 (dnb.nl)</a></p>
<p><b>7.3 Date of the notification</b></p>	<p>Please provide the date on which this notification was uploaded/sent.</p> <p>08/08/2022</p>