

## Notification template for borrower-based measures

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- [macropru.notifications@ecb.europa.eu](mailto:macropru.notifications@ecb.europa.eu) when notifying the European Central Bank (ECB);
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This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure<sup>1</sup>.

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	Magyar Nemzeti Bank
1.2	Country of the notifying authority	Hungary
1.3	Type of borrower-based measure	<p>Please select one of the measures listed below:</p> <p><input checked="" type="checkbox"/> Debt-service-to-income (DSTI)</p> <p><input type="checkbox"/> Loan-to-income (LTI)</p> <p><input checked="" type="checkbox"/> Loan-to-value (LTV)</p> <p><input type="checkbox"/> Debt-to-income (DTI)</p> <p><input type="checkbox"/> Loan maturity</p> <p><input type="checkbox"/> Other (please provide a short, name-like description here and provide more details in Section 2)</p>
1.4	Type of notification	<p>What do you intend to notify?</p> <p><input type="checkbox"/> Activation of a new measure</p> <p><input checked="" type="checkbox"/> Change to an existing measure</p> <p><input type="checkbox"/> Extension of an existing measure</p> <p><input type="checkbox"/> Termination of an existing measure</p>

<sup>1</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authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

2. Description of the measure		
2.1	Description of the measure	<p>From January 1, 2025, the MNB has increased the debt-service-to-income ratio (DSTI) and loan-to-value ratio (LTV) limits in the case of “green” real estate purchases and renovation loans. In the case of HUF mortgage loans the interest rate of which is fixed for at least 10 years and that meet the conditions for green collateral and loan purposes (purchase and construction of energy-efficient apartments, as well as efficiency-enhancing renovations):</p> <ul style="list-style-type: none"> <li>- the LTV limit increases to 90 percent (regardless of whether the debtor is a first-time buyer);</li> <li>- the DSTI limit rises to 60 percent regardless of the customer's income.</li> </ul>
2.2	Definition of the measure	<ul style="list-style-type: none"> <li>- The amendment of MNB Decree 32/2014 (IX.10.) (hereinafter: BBM Regulation) does not affect the applicable definitions besides defining green loan purposes, only the applicable regulatory limits. The legislation is available here: <a href="#">MNB Decree 49/2024 (XI.11) on the amendment of the 32/2014. (IX. 10.) MNB Decree on the regulation of income-based repayment and loan-to-value ratios (available in Hungarian)</a></li> </ul>
2.3	Legal basis and process of implementation of the measure	<p>According to the Section 1 (2) of Law CXXXIX of 2013 on the Magyar Nemzeti Bank (the MNB Act), the MNB without prejudice to its primary objective supports the policy of the Government pertaining to environmental sustainability.</p> <p>Furthermore, as macroprudential authority in Hungary, the MNB in the event of any disturbance in the credit market shall adopt measures to control excessive credit growth to ensure that the financial intermediary system functions in a balanced way in financing the economy, as stipulated in the MNB Act. In line with this, Section 171 (1) k) ka) of the MNB Act empowers the Governor of the MNB to decree measures for the reduction of risks stemming from excessive credit growth if these measures are required to prevent the build-up of systemic risks and to mitigate systemic risks, and to increase the resilience of the financial intermediary system within the strategic framework defined by the Monetary</p>

		<p>Council, based on the decision of the Financial Stability Board.</p> <p>The measures are applied via amendment of the BBM Regulation.</p>
2.4	Coverage	<p>The amendment does not affect the institutional coverage of the BBM Regulation.</p> <p>a. The amendment does not affect the personal scope of the measure.</p> <p>b. Which types of lending will be covered by the measure? Higher DSTI and LTV limits will be applicable in the case of real estate purchases and loans for renovation purposes that finance the purchase and construction of energy-efficient apartments and efficiency-enhancing renovations.</p> <p>Definitions outlined in the decree are the following:</p> <ul style="list-style-type: none"> <li>• <b>Energy-efficient real estate:</b> residential real estate where the calculated value of its total energy characteristic is no more than 68 kWh/m<sup>2</sup>/year defined in accordance with EKM decree 9/2023 (V. 25.) on the determination of the energy characteristics of buildings and which has an "A+" or higher energy quality classification in accordance with Government Decree 176/2008. (VI. 30.) on the certification of the energy characteristics of buildings.</li> <li>• <b>Renovation of residential real estate for energy efficiency purposes:</b> renovation that <ul style="list-style-type: none"> <li>a) at the time of submitting the loan application affects an apartment classified lower than "A"</li> </ul> </li> </ul>

		<p>according to Government Decree 176/2008 (VI. 30.), and as a result of the renovation the apartment reaches the energy classification of minimum "A" defined in Government Decree 176/2008. (VI. 30.) and the calculated value of its total energy characteristic determined according to EKM decree 9/2023. (V. 25.) does not exceed the level of 76 kWh/m<sup>2</sup>/year, or</p> <p>b) affects residential real estate where the renovation results in a reduction of primary energy usage of at least 30%, compared to the aggregated energy characteristics included in the authentic energy efficiency certificate issued according to Government Decree 176/2008 (VI. 30.) and valid at the time of submitting the loan application.</p>
2.5	Calibration	<p>The calibration was based on several considerations:</p> <ul style="list-style-type: none"> <li>• According to empirical findings (the so-called green hypothesis), the financing of energy-efficient properties may have a lower credit risk. Due to lower maintenance costs, the borrowers can spend a larger proportion of their income on loan repayment, therefore their probability of default can be lower. In addition, the demand for green real estate collateral can be more resilient compared to less efficient real estates, i.e. the value of these real estates can be more stable during a crisis. This provides an opportunity for the differentiation of the BBM limits by the energy efficiency of the financed real estate or loan purpose.</li> <li>• The LTV distribution of new housing loans indicated a lower collateral stretch in case of energy-efficient residential real estates and a higher stretch in case of less efficient collateral. This suggests that borrowers with lower savings are unable to access the market of energy-efficient real estate.</li> <li>• The DSTI distribution of new housing loans indicated an elevated restricting effect of the DSTI regulation in case of energy-efficient residential real estates in comparison to less energy-efficient ones.</li> </ul> <p>Furthermore, the currently low share of potentially eligible energy-efficient residential real estates in new lending and in</p>

		<p>total RRE transactions could effectively limit the risk of potential excessive over-indebtedness. Nevertheless, the MNB closely monitors the usage of the higher BBM limits.</p> <p>See further details on the assessment of the energy-efficient DSTI and LTV limits on the BBM subpage of the MNB:  <a href="https://www.mnb.hu/en/financial-stability/macroprudential-policy/the-macroprudential-toolkit/borrower-based-measures-ltv-dsti">https://www.mnb.hu/en/financial-stability/macroprudential-policy/the-macroprudential-toolkit/borrower-based-measures-ltv-dsti</a></p> <p>Also see the 2024 Macroprudential report of the MNB (English version forthcoming)  <a href="https://www.mnb.hu/kiadvanyok/jelentesek/makroprudencialis-jelentes/makroprudencialis-jelentes-2024#466884">https://www.mnb.hu/kiadvanyok/jelentesek/makroprudencialis-jelentes/makroprudencialis-jelentes-2024#466884</a></p>
<b>3. Timing for the measure</b>		
3.1	Timing for the decision	<p>What is the date of the official decision of the notified measure?</p> <p>15/10/2024</p>
3.2	Timing for publication	<p>What is the date of publication of the notified measure?</p> <p>28/10/2024</p>
3.3	Disclosure	<p>Press release, available in English:  <a href="https://www.mnb.hu/en/pressroom/press-releases/press-releases-2024/mnb-strengthens-green-lending-by-amending-borrower-based-measures-and-certified-consumer-friendly-framework">https://www.mnb.hu/en/pressroom/press-releases/press-releases-2024/mnb-strengthens-green-lending-by-amending-borrower-based-measures-and-certified-consumer-friendly-framework</a></p> <p>See further details on the Hungarian BBM framework here:  <a href="https://www.mnb.hu/en/financial-stability/macroprudential-policy/the-macroprudential-toolkit/borrower-based-measures-ltv-dsti">https://www.mnb.hu/en/financial-stability/macroprudential-policy/the-macroprudential-toolkit/borrower-based-measures-ltv-dsti</a></p> <p>Also see the 2024 Macroprudential report of the MNB (English version forthcoming)  <a href="https://www.mnb.hu/kiadvanyok/jelentesek/makroprudencialis-jelentes/makroprudencialis-jelentes-2024#466884">https://www.mnb.hu/kiadvanyok/jelentesek/makroprudencialis-jelentes/makroprudencialis-jelentes-2024#466884</a></p>

3.4	Timing for the application	<p>What is the intended date for application of the measure?  What is the intended timeline for phase-in of the measure, if relevant?</p> <p>01/01/2025</p>
3.5	End date (if applicable)	Not applicable
<b>4. Reason for activation of the measure</b>		
4.1	Description of the macroprudential risk	<p>Since 2021, there has been no significant improvement in the energy efficiency of residential real estate mortgages, with the exception of properties financed within the framework of the Green Home Program (ZOP) of the Magyar Nemzeti Bank in 2022. Therefore, there is considerable room for strengthening the contribution of mortgage lending to energy efficiency improvement.</p> <p>Energy-efficient real estates are concentrated in borrower groups of above-average income and low risk. Energetically modern properties have a significant price premium compared to less modern properties; therefore, these properties are less achievable for average-income borrowers.</p> <p>Properties with higher energy efficiency are obtained by borrowers with a more stretched income. Loans financing properties with unfavourable energy characteristics show an increased stretch according to LTV, which may indicate that debtors with lower savings have less access to modern properties compared to borrowers with larger savings.</p> <p>According to a growing number of empirical research, the financing of energetically efficient properties may have a lower credit risk. Due to the lower maintenance costs, borrowers can use a larger proportion of their income for loan repayment, which means that their probability of default (PD) can be lower. In addition, the housing market demand for green real estate collateral can be more shock-resistant compared to less efficient real estate, meaning that these can potentially hold their value in a more stable manner, which means a smaller loss given default (LGD) for lenders.</p>

		Therefore, the current borrower-based measure calibration can hinder access to energy-efficient real estate by certain borrower groups in a disproportionate manner considering the potentially lower credit risks.
4.2	Indicators used for activation of the measure	<p>We assessed the distribution of the LTV and DSTI ratios by various dimensions and detected a significant clustering of loans around the LTV and DSTI limits if segmented by energy-efficiency. We also made hypothetical scenarios and affordability analysis for energy-efficiency loans and various typical borrower segments.</p> <p>See further details on the assessment of the higher BBM limits in the 2024 Macroprudential report of the MNB (English version forthcoming)</p> <p><a href="https://www.mnb.hu/kiadvanyok/jelentesek/makroprudencialis-jelentes/makroprudencialis-jelentes-2024#466884">https://www.mnb.hu/kiadvanyok/jelentesek/makroprudencialis-jelentes/makroprudencialis-jelentes-2024#466884</a></p>
4.3	Effects of the measure	<p>The introduction of the energy-efficient differentiation of the LTV and DSTI limits can support the energetic renewal of the domestic real estate stock through several channels:</p> <ul style="list-style-type: none"> <li>• Demand for green real estate can be raised by improving the availability of green mortgages. On the banks' side, the development of dedicated green home loan products can be supported.</li> <li>• It can have a significant impact particularly in the case of home purchase and construction loan purposes that are potentially more affected by the LTV and DSTI limitations. In the case of home renovation and modernization loan projects, given the low loan amount and the resulting small instalments, as well as the low DSTI and LTV stretch, borrowers who are already stretched in terms of income, as well as already encumbered properties purchased previously could be supported by the higher limits.</li> <li>• It can also promote the spread of the banks' offer of renovation loans combined with home purchases, which are currently less common.</li> <li>• It can help the consideration of green aspects in banks' business decisions, therefore enhancing the development of monitoring systems, improving data availability and data</li> </ul>

		<p>quality, the development of dedicated green financial products, and the development of green awareness on the part of borrowers.</p> <p>The growth of energy efficient loan demand may remain limited due to the low proportion of eligible properties in the entire housing and loan market. Green real estate loans currently account for 10-20 percent of loans. An increase in the LTV limit can result in a 12.5 percent increase in the loan amount if the discount is fully utilized, and a 20 percent increase in the DSTI limit in the case of full use of the higher loan amount leeway. Overall, due to the still limited scope of coverage and the limited additional loan issuance, the increase in demand for green real estate would not cause a significant increase in housing and credit risk at the sector level.</p>
<b>5. Sufficiency, consistency and non-overlap of the policy response</b>		
5.1	Sufficiency of the policy response	<p>The amendment counterweights the restricting effect of the LTV and DSTI limits which might be excessive in case of energy-efficient loan borrowers compared to other borrowers due to the potentially lower credit risk of these energy-efficient loans.</p> <p>Also, the low share of potentially eligible real estate collaterals effectively limits the scope for any unintended increase of credit or cyclical risks.</p> <p>Therefore, we believe no significant change occurs to the macroprudential stance.</p>



5.2	Consistency of application of the policy response	The BBM Regulation currently takes into account numerous risk dimensions by applying differing limits to loans with different types of risks, including denomination, interest rate fixation and the first-time home buyer nature of the borrowers. Therefore, the modification fits into the current framework by introducing a further differentiation according to a new risk dimension.
5.3	Non-overlap of the policy response	The amendment counterweights the restricting effect of the LTV and DSTI regulation for energy efficient loans; therefore, the amendment could not be substituted by other measures.
<b>6. Cross-border and cross-sector impact of the measure</b>		
6.1	Assessment of cross-border effects and the likely impact on the Internal Market  (Recommendation ESRB/2015/2 <sup>2</sup> )	The amendment does not have significant cross-border effects and does not affect the Internal Market.

<sup>2</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).

6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	<p>The BBM regulation covers all loans and leases lent in the territory of Hungary, thus the potential regulatory leakages are assessed to be negligible.</p> <p>Potential regulatory evasion can arise in the case of renovation loans if the energy efficiency enhancing measures that had been accepted in the loan agreement are not fulfilled after the renovation is completed. However, renovation loans are expected to be affected to a smaller extent by the modification, they represent a small share of new lending and the MNB will closely monitor the green purposes besides usual credit risk metrics.</p>
6.3	Request for reciprocation	No, cross-border household lending is negligible in Hungary.
6.4	Justification for the request for reciprocation	Not applicable.
<b>7. Miscellaneous</b>		
7.1	Contact person(s)/mailbox at notifying authority	<p><a href="mailto:szakacsj@mnbb.hu">szakacsj@mnbb.hu</a></p> <p>János Szakács</p> <p>Head of Macprudential Policy Department</p>
7.2	Any other relevant information	-

7.3	Date of the notification	Please provide the date on which this notification was uploaded/sent. 15/11/2024
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