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

Please send this template to

- notifications@esrb.europa.eu when notifying the ESRB;
- macropru.notifications@ecb.europa.eu when notifying the ECB.

Emailing this template to the above-mentioned addresses constitutes an 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 electronically copying the information.

1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority.	Banco de Portugal
1.2	Name of the macroprudential measure that is notified.	LTV, DSTI and maturity limits
2. Description of the measure		
2.1	Description of the measure.	This macroprudential measure introduces limits on new credit relating to residential immovable property, credit secured by a mortgage or equivalent guarantee, and consumer credit agreements concluded as of 1 July 2018 and covers all credit institutions and financial companies that have their head office or a branch in Portuguese territory and are authorised to grant this type of credit in Portugal. Three types of limits are established: 1. to the ratio between the loan amount and the value of the property pledged as collateral (LTV – loan-to-value): • of 90% for credit for own and permanent residence; • of 80% for credit for purposes other than own and permanent residence; • of 100% for credit for purchasing immovable property held by the credit institutions and for property financial

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		leasing agreements. In order to calculate the LTV, the value of the property pledged as collateral is given by the minimum between the purchasing price and appraisal value, following the ESRB recommendation. 2. of 50% to the ratio between the monthly instalment amount calculated with all the borrower's loans and his/her net income (DSTI – debt service-to-income), with the following exceptions: • up to 20% of the total amount of credit granted under this measure by each institution in each year may be granted to borrowers with a DSTI of up to 60%; • up to 5% of the total amount of credit granted under this measure by each institution in each year may exceed the limits laid down regarding the DSTI; To calculate the DSTI, new credit agreement's monthly instalments should be assumed to be constant throughout the agreement's lifetime. In the case of variable and mixed interest rate agreements, the impact of an interest rate rise must be considered. Furthermore, the DSTI should be calculated taking into account a reduction of the borrower's net income where, at the planned expiry of the agreement, the borrower will be aged 70 or over, except where at the time of the creditworthiness assessment the borrower is already retired, according to the formula: DSTI = Total monthly instalments/Monthly income_DSTI $Income\_DSTI = x_1 * Income + x_2 * Income * (1-\alpha)$ Income = Monthly net income of the borrower; x1= number of years of the agreement in which a borrower is aged below 70 to the total

maturity of the agreement divided by total maturity;

x_2= number of years of the agreement in which a borrower is aged 70 and over to the total maturity of the agreement divided by total maturity.

α ≥ 0,2.

Table 1 – Index increase for DSTI calculations

Interest rate regime	Loan maturity and increase in index		
	≤ 5 years	> 5 years e ≤ 10 years	> 10 years
Variable and mixed	+1 p.p.	+2 p.p.	+3 p.p.

3. to the original maturity of the loans:
    - of 40 years for new agreements for credit relating to residential immovable property or credit secured by a mortgage or equivalent guarantee;
    - average maturity of new credit agreements should gradually converge to 30 years until the end of 2022;
    - of 10 years for new consumer credit agreements.

The macroprudential measure also establishes that the credit agreements must have regular principal and interest payments. Some credits are excluded from the scope of the Recommendation.

The limits applying to the LTV and DSTI ratios and to the maturity must be observed simultaneously.

The limits now introduced correspond to caps and as such do not replace the institutions' mandatory assessment of the adequacy of the levels of the different indicators and other criteria used in the assessment of each borrowers' creditworthiness.

Banco de Portugal will monitor the implementation of the Recommendation and of all exceptions considered, at

		least on an annual basis.
2.2	Legal basis and process of implementation of the measure.	Banco de Portugal is the macroprudential authority in Portugal, according to article 16-A of its Organic Law (law n.º 5/98, 31 January 1998, as amended by Decree-Law No. 118/2001 of 17 April 2001). The mandate for financial stability, which is enshrined in its Statutes, allows Banco de Portugal to implement Recommendations to the financial sector. The measure is adopted by Banco de Portugal as a Recommendation, based on the "comply or explain" principle. The credit institutions targeted must respect the limits applied; otherwise they must justify their non-compliance. Banco de Portugal will assess the adequacy of the justifications presented by the credit institutions.
2.3	Coverage	The Recommendation applies to all credit institutions and financial companies that have head offices or branches in the Portuguese territory.
2.4	Any other relevant information.	The following related legislative measures also were taken: • Transposition of the Directive 2008/48/EU on credit agreements for consumers, by Decree-law 133/2009 of 2 June. • Transposition of the Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property, by Decree-law 74-A/2017 of 23 June. • Issuance of Notice 4, of 22 September, 2017, establishing procedures and criteria to be observed by credit institutions on the assessment of the solvability of consumers, according to EBA guidelines of creditworthiness assessment.

3. Timing		
3.1	Timing of the decision	30 January 2018
3.2	Timing of the publication	1 February 2018
3.3	Disclosure	Banco de Portugal conducted several meetings with relevant stakeholders (mostly credit institutions) in order to gather complementary information to calibrate the measures, discuss implementation issues and the expected impact of the measures. The measure has been submitted for consultation to Associação Portuguesa de Leasing, Factoring e Renting (ALF), Associação Portuguesa de Bancos (APB), Associação de Instituições de Crédito Especializado (ASFAC) and Associação Portuguesa para a Defesa do Consumidor (DECO). In addition, the National Council of Financial Supervisors, under Article 2 (3) (c) of Decree-Law No 143/2013 of 18 October 2013 was consulted. The Recommendation was published on a dedicated webpage in Banco de Portugal website and will be published in the Official Journal.
3.4	Timing of the application	1 July, 2018
3.5	End date (if applicable)	Not applicable
4. Reason for the activation of the measure		

4.1	Description of the macroprudential risk to be addressed.	In a context where a further easing of credit standards can be expected, given interest rates at record lows, the economy recovering and residential real estate prices rising, Banco de Portugal aims to ensure that the credit institutions and financial corporations do not take on excessive risks when granting new loans and that borrowers have access to sustainable financing.
4.2	Description of the indicators on the basis of which the measure is activated.	LTV, LTI and DSTI ratios and maturity of mortgage loans, computed from a database on the characteristics of individual mortgage loans collected from the 7 largest banking groups operating in Portugal. Additional indicators considered: • Consumer credit, from MFI Statistics • Mortgage loans interest rate spreads, from MFI Statistics • House price index, disclosed by Statistics Portugal
4.3	Effects of the measure.	We expect the measure to contribute to the adoption of sound lending standards by credit institutions, thereby enhancing the resilience of the financial sector. Given the preventive nature of the measure, the limits were calibrated in order to prevent significant market disturbances (the use of exceptions takes into account this concern). As such, no major changes in credit flows or asset prices are expected, in the short term. Banco de Portugal will monitor market developments, at least on an annual basis, in order to assess the impact of the measure
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 expected. The measure is directly applicable to new loans granted within the Portuguese jurisdiction, irrespective of whether the lender is domestic or foreigner. In addition, loans to Portuguese households granted abroad or loans to households abroad provided by domestic institutions are residual, limiting the scope for both inward and outward spillovers.

5.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	The scope for leakages and regulatory arbitrage should be minimal given that: • The coverage of creditors includes all providers of new loans within the Portuguese jurisdiction, • The measure is applicable to both consumer and mortgage loans, minimising the possibility of circumventing the limits applied to mortgages with consumer loans.
5.3	Request for reciprocation	No, given the above-mentioned information in 5.1 and 5.2.
6. Miscellaneous		
6.1	Contact person(s) at notifying authority.	Ana Cristina Leal Head of Financial Stability Department + 351 21 1597083 aleal@bportugal.pt
6.2	Any other relevant information.	https://www.bportugal.pt/en/page/ltv-dsti-and-maturity-limits