

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.

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1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority.	Magyar Nemzeti Bank
1.2	Name of the macroprudential measure that is notified.	Amendment of the regulation on debt-service-to-income (DSTI) ratio and loan-to-value (LTV) ratio limits
2. Description of the measure		
2.1	Description of the measure.	<p>In 2019, the Government announced a wide range of family support measures, one of which was the so-called child support loan applicable from 1 of July. The Magyar Nemzeti Bank (MNB) identified that it had to be clearly declared how these loans should be taken into account during the application of the loan-to-value ratio, so the MNB modified MNB Decree No. 32/2014. (IX. 10.) on the regulation of the debt-service-to-income ratio and the loan-to-value ratio (hereinafter Debt Cap Regulation).</p> <p>The decree regulates technical amendments to the Debt Cap Regulation to make it clear that 25 percent of the child support loans that are used for the purchase of the same house at most 90 days before taking a housing loan shall be taken into account as loan exposure while calculating the loan-to-value ratio for the housing loan, while 75 percent of the child support loan can be considered as down payment.</p>

2.2	Legal basis and process of implementation of the measure.	<p>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 Law CXXXIX of 2013 on the Magyar Nemzeti Bank (the MNB Act).</p> <p>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 Council, based on the decision of the Financial Stability Board.</p>
2.3	Coverage	Newly issued loans secured by a mortgage pledged on real estate (housing loans) are covered if the consumer for the purchase of the same dwelling takes also a child support loan at most 90 days before taking the housing loan.
2.4	Any other relevant information.	-
3. Timing		
3.1	Timing of the decision	The Financial Stability Board of the MNB reached a decision regarding the proposed amendment on 14 June 2019; the amendment is applicable from 1 July 2019.
3.2	Timing of the publication	The amendment was published on 26 June 2019.

3.3	Disclosure	<p>Consultations have been held with market participants before the finalisation of the draft decree.</p> <p>A press release was issued about the changes applied to the Debt Cap Regulation.</p>
3.4	Timing of the application	The amended Decree is applicable from 1 July 2019.
3.5	End date (if applicable)	-
4. Reason for the activation of the measure		
4.1	Description of the macroprudential risk to be addressed.	<p>The MNB identified during the examination of lending practices that the use of unsecured loans for financing the down payment of secured loans is increasing, which in certain cases might indicate overly risky practices on the side of borrowers and lenders alike. The MNB communicated to market participants its expectations related to the management of these risks.</p> <p>The new child support loan available from 1 July 2019 could also be suitable for the replacement of down payment. However, as child support loans are special loan constructions with governmental guarantee, their special treatment during the application of loan-to-value limits needed to be declared.</p> <p>The modification of the Debt Cap Regulation aims at ensuring prudent lending practices and the limitation of household over-indebtedness by limiting the amount of the child support loan that can be taken into account as down payment without unnecessarily hindering the disbursement of governmentally supported loans through taking into account part of the loan as down payment.</p>
4.2	Description of the indicators on the basis of which the measure is activated.	<p>The MNB continuously monitors the potential regulatory arbitrage channels of its applicable debt cap rules. Even though the share of housing loans where the required down payment is financed by unsecured loans is estimated to remain relatively low compared to the total housing loan disbursement since 2017, the MNB will closely monitor related developments in the future.</p>

4.3	Effects of the measure.	The modification of the Debt Cap Regulation is expected to have a negligible effect on lending while it would limit risks arising from unsecured down payment financing.
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)	The amendment is expected to have limited cross-border effects, given the geographical distribution of the child support loans and the possibly connected housing loans.
5.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	<p>Three types of possible regulatory arbitrage channels should be assessed: (1) “cross-jurisdiction” arbitrage, (2) cross-sectoral business activities, (3) exploitation of loopholes within the regulatory framework.</p> <ul style="list-style-type: none"> • Cross jurisdiction arbitrage: as mentioned in point 5.1, no material cross-border effects can be identified. • Cross sectoral arbitrage: as the Hungarian debt cap regulation has a broad institutional scope which applies to all creditor’s contracts concluded with consumers in the context of granting credit and loans on the territory of Hungary (Decree Section 1 (1)), no material cross-sectoral arbitrage effect can be expected. • Exploitation of loopholes within the regulation: given the targeted nature of the amendments, aiming at a specific situation, arbitration channels remain limited.
5.3	Request for reciprocation	-
6. Miscellaneous		

6.1	Contact person(s) at notifying authority.	<p>Mr Gergely Fábián, Executive Director for Financial System Analysis and Lending incentives Phone: +36 (1) 428 2600/1874 Mobile: +36 (30) 789 9891 E-mail: fabiang@mnb.hu</p> <p>Mr Ádám Banai Director, Directorate Financial System Analysis Phone: +36 (1) 428 2600/1864 Mobile: +36 (70) 789 9890 E-mail: banaia@mnb.hu</p>
6.2	Any other relevant information.	-