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Trade register 3300 3396

Subject: Recommendation ESRB 2019/7

Date
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Our reference
T046-714354465-352

Dear Mr. Draghi,

The ESRB is publishing a recommendation on the residential real estate sector in the Netherlands. As mentioned in the ESRB assessment, since 2016 – when the ESRB issued a warning on medium-term vulnerabilities in the Dutch residential real estate sector – household indebtedness has decreased slightly and the share of new non-amortising mortgage loans has also decreased, while house prices have continued to increase and LTV ratios have remained high. Meanwhile, risk weights for mortgage loans in the Netherlands are among the lowest in the EEA.

The ESRB therefore recommends: (a) the establishment in Dutch law of an 'act or explain' mechanism in relation to recommendations issued by the macroprudential authority on the activation of legally binding borrower-based measures; (b) the tightening of the existing legally binding limit that applies to the LTV ratio and an amendment to the methodology for determining the maximum limit that applies to the DSTI ratio; (c) the activation of capital-based measures in order to ensure the resilience of the banking sector in relation to the medium-term vulnerabilities identified in the Netherlands; and (d) broader policy action aiming to curb factors which facilitate or promote increasing household indebtedness. Recommendations (a), (b), and (d) are addressed to the Dutch government, while DNB is the addressee of recommendation (c).

DNB welcomes the assessment and the recommendations of the ESRB. We recognize the vulnerabilities highlighted by the ESRB. The developments in the housing market amplify the cyclical fluctuations in the Dutch economy. While the Dutch government has already taken various measures that contribute to more stable house price developments and an increased resilience of households, it is indeed important that more measures are taken. Borrowing criteria in the Netherlands (LTV and DSTI limits) are still generous from an international perspective, and the way in which the DSTI limit is calculated amplifies cyclical house price fluctuations. Further cuts in the mortgage interest relief facility would curb the incentive for households to take up excessive mortgage debt. Finally, pressure on the housing market could be eased by expanding the supply of housing and aligning it more closely with demand.

While the Dutch government is responsible for implementing the above-mentioned borrower-based and broader policy measures that are suitable for preventing the further build-up of systemic risks, DNB is responsible for implementing capital-based measures that are aimed at increasing the resilience of the financial system. If DNB identifies changes in the intensity of macroprudential or systemic risk in the financial system with the potential to have serious negative consequences to the financial system and the real economy, DNB may temporarily implement stricter national measures as referred to in Article 458 of the Capital Requirements Regulation, in consultation with the Dutch Minister of Finance and after being authorized to do so by the Council. As the ESRB states, there are currently no macroprudential capital-based measures – for example higher risk weights for mortgage loans – in place to address the accumulated vulnerabilities related to the collateralisation of existing mortgage loans and the potential second-round effects related to household indebtedness. In fact, since 2015 Dutch banks applying IRB-models have on average reduced the risk weights of their mortgage loans by 20% (from 14 to 11%). Although the reduction in risk weights can be explained on the basis of the risk characteristics of individual loans, it is at odds with the increased systemic risks in the housing market.

DNB is therefore investigating whether the current risk weighting of mortgages is in line with the underlying systemic risks. Furthermore, DNB will comply to the request to submit by 31 October 2020, and yearly thereafter until 31 October 2022, to the ESRB and to the Council a report on any actions taken with regard to implementing capital-based measures.

Yours sincerely,