

## Circular

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### **Expectations of the Belgian macroprudential authority on internal management of Belgian mortgage credit standards as applied by banks and insurance undertakings operating on the Belgian residential property market**

#### Scope

- *Credit institutions governed by Belgian law*
- *Branches established in Belgium of credit institutions governed by the law of EEA Member States*
- *Branches established in Belgium of credit institutions governed by the law of states that are not members of the EEA*
- *Insurance or reinsurance undertakings governed by Belgian law*
- *Branches established in Belgium of insurance or reinsurance undertakings governed by the law of EEA Member States*

#### Summary/Objectives

*This Circular details the explicit expectations of the National Bank of Belgium (NBB), acting as macroprudential authority, on internal management of Belgian mortgage credit standards as applied by banks and insurance undertakings operating on the Belgian residential property market.*

#### Structure

1. *Motivation of the expectations*
2. *Overview of the expectations*
3. *Implementation and monitoring procedures*

Dear Sir or Madam,

This Circular details the explicit expectations formulated by the NBB, acting as macroprudential authority, on internal management of Belgian mortgage credit standards as applied by banks and insurance undertakings operating on the Belgian residential property market. A detailed presentation of these expectations is attached to this Circular (Annex 1).

### **Motivation of the expectations**

Having found that the conditions for granting Belgian mortgage loans have further deteriorated in recent years, the NBB has decided to publish explicit expectations on internal management of mortgage credit standards as applied by banks and insurance undertakings operating on the Belgian residential property market. The NBB does not express any view on any specific arrangements which banks and insurance undertakings can or will resort to in integrating these expectations into the internal management of their credit policy (i.e. through pricing, segmentation, internal thresholds, tolerance margins, etc.). Implementation of the expectations at the level of individual credit applications remains a competence of the lender. Banks and insurance undertakings have some flexibility as to how the NBB's expectations should, where necessary, be translated into higher quality credit granting than is currently the case. Through these expectations, the NBB is aiming for a clear reversal of such easing in credit standards as has generally been observed in recent years.

The European Systemic Risk Board (ESRB) has come to the same finding as the NBB and also notes that vulnerabilities in our country's property market have further increased in recent years. The ESRB has therefore issued a recommendation<sup>1</sup> to the Belgian authorities on 23 September 2019 (Recommendation ESRB/2019/4) to introduce measures directly targeting new mortgage loan production.

The expectations published by the NBB provide a tool that comes as a complement to the measure previously activated by the NBB (on the basis of Article 458 of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013) which aims for banks using an internal model in determining capital requirements to constitute additional capital buffers to cover possible mortgage lending losses.

Through this new initiative, the NBB strives to limit the accumulation of new vulnerabilities in Belgian mortgage portfolios. The NBB is still pursuing, and will continue to pursue, the objective of preserving financial stability and protecting our country's financial system from potential risks or shocks, thus enabling it to play its role in financial intermediation.

The NBB aims to maintain access to the mortgage market for solvent borrowers, while further improving the quality of credit granted by curbing the share of high-risk loans in the new production of Belgian mortgage loans. Because creditworthy borrowers should be able to take out a loan, sufficient flexibility is built into the expectations for institutions to be able to take into account borrowers' full profile as well as any mitigating factors in deciding whether to grant credit. Such flexibility lies inter alia in the introduction of tolerance margins (shares of production tolerated above the applicable thresholds), and in the application of the "comply or explain" principle (see below).

### **Overview of the expectations**

The expectations relate first of all to the proportion of loans with a loan-to-value ratio above a determined threshold. Different thresholds are defined for different sub-segments (buy-to-let loans, owner-occupied loans). The NBB considers that, all other things being equal, loans with ratios above these thresholds represent a higher risk. However, because the NBB is also of the opinion that part of the production can be accepted above the proposed thresholds, it has established a number of tolerance margins (see above for the underlying motivation) for the various sub-segments (with a distinction, for owner-occupied loans, between first-time buyers and other borrowers). Additionally, a margin of error will be used to cover any such discrepancies as may result from purely technical considerations.

<sup>1</sup> See [https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation190923\\_be\\_recommandation~2cb5134896.en.pdf](https://www.esrb.europa.eu/pub/pdf/recommendations/esrb.recommendation190923_be_recommandation~2cb5134896.en.pdf).

A number of expectations are also expressed as regards the presence of pockets of risk in new production, namely loans combining a high loan-to-value ratio (above 90%) and another risk indicator (ratios comparing debt service and total debt to the borrower's disposable income) exceeding a certain threshold. In this case too, tolerance margins are provided.

### **Implementation and monitoring procedures**

The NBB's expectations shall apply as from 1 January 2020 to all banks and insurance undertakings (governed by Belgian law or established as branches) operating on the Belgian mortgage market.

Close monitoring of compliance with the expectations will be organised for a number of institutions<sup>2</sup> selected on the basis of their annual production or outstanding amount of mortgage loans in Belgium. As part of such monitoring, those institutions will submit on an annual basis a report certifying compliance with the NBB's expectations, to be approved by their Executive Board / Committee and Board of Directors. The template for this report will be available on the NBB website and will be sent by post to the institutions concerned. Institutions will have to explain the reasons for any non-compliance with the expectations, according to the "comply or explain" principle. They will have to submit to the NBB by 30 April 2021 at the latest a first report covering their production for the second half of 2020 (loans effectively granted between 1 July 2020 and 31 December 2020, based on the day the authentic instrument was signed). From 2021 onwards, the report will cover production for the entire calendar year.

The definitions of the various concepts included in the NBB's expectations are specified in Annex 1 to this Circular. The NBB will monitor developments in the production of mortgage credit using these macroprudential concepts.

A copy of this Circular is addressed to your undertaking's accredited statutory auditor(s).

Yours faithfully,

Pierre Wunsch  
Governor

Annex 1 - available only on [www.nbb.be](http://www.nbb.be) : Expectations of the Belgian macroprudential authority on internal management of Belgian mortgage credit standards as applied by banks and insurance undertakings operating on the Belgian residential property market.

<sup>2</sup> These will be the institutions that show an outstanding amount of Belgian mortgage loans in excess of 1 billion euro and are therefore subject to PHL macroprudential reporting.