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Annex 1 to circular NBB_2019_27

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

Structure

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1. Overview of the expectations

	Type of loan	Threshold	Tolerance margin (production allowed above threshold)
LTV limits*	Buy-to-let loan	80%	10% (with 0% > 90%)
	Owner-occupied loan	90%	First time buyers : 35% (of which max. 5% > 100%)
			Other: 20% (with 0% > 100%)
Limits for pockets of risk*	All loans	LTV > 90% and DSTI> 50%	5%
	All loans	LTV > 90% and DTI > 9	5%

* The limits apply to the yearly new production, excluding renegotiations without new drawing of credit. Renegotiations with new drawing of credit have to be included.

2. Application of the expectations

- Expectations apply to mortgage loans as defined in the Law of 22 April 2016 amending and inserting provisions on consumer credit and mortgage credit in several books of the Code of Economic Law, Article 2(8).
- The expectations shall apply as from 1 January 2020
- For the institutions concerned, a compliance report will first need to be submitted for the production of the second half of 2020 (loans effectively disbursed between 1 July 2020 and 31 December 2020), and for subsequent years for annual production. The template for this report will be available on the NBB website and will also be sent by post to the institutions concerned.

3. Additional specifications:

- Tolerance margins are expressed as percentages of the total amount granted over a defined period of time per type of loan, as specified in the table above.
- A 2% error margin applies for all defined tolerance margins when assessing (non-)compliance with the expectations.
- Loans for which no real estate is provided as collateral are excluded from the scope of the supervisory expectations. These loans with "unknown LTV" are documented and justified in detail in the “comply or explain” report (volume, number of loans, average amount, type of collateral, ratio of the loan value to the non-real estate collateral, customer segment, pricing, PD/LGD, etc.).
- Renegotiated loans without new drawing of credit are excluded from the scope, even where a new contract is signed.

4. Definitions of loan segments:

- Owner-occupied
    - ‘Owner-occupied loan’ means the sum of all RRE loans or loan tranches used by the borrower for the acquisition, renovation etc. of an owner-occupied RRE property at the moment of loan origination (incl. second residence and student accommodation for own use for example).

- Buy-to-let:
    - 'Buy-to-let housing or property' means any RRE directly owned by a private household primarily for letting to tenants. Any property or real estate intended for sale shall also be included in this category.
    - 'Buy-to-let loan' means the sum of all loans or loan tranches used by the borrower for the acquisition, renovation etc. of a buy-to-let property at the moment of loan origination.
    - All non-owner-occupied loans (see above) should be considered as buy-to-let loans.

- First time buyer:
    - 'First time buyer' is to be understood as "first time mortgage borrower" and means a borrower to whom no RRE loan has been advanced before; in case there is more than one borrower (the case of RRE loan cosignatories) and one or more of these borrowers has previously been advanced an RRE loan, none of these borrowers is considered to be a first-time buyer. The status remains "first time buyer" for loans financing the renovation of the same property or the construction of a property on a previously purchased ground as first-time buyer within a period of 5 years following the origination of the first loan. This definition of "first-time buyer" can also be used by banks and insurance undertakings for PHL reporting purposes.
    - If no other reliable information is available, the NBB agrees that CKP is used as the source for identifying first time mortgage borrowers.

5. Definitions of indicators

5.1. <u>LTV at origination (LTV-O)</u>

LTV-O is defined as follows:

$$\boldsymbol{LTV\text{-}O = \frac{L}{V}}$$

For the purpose of the calculation, "L":

(a) includes all loans or loan tranches falling under such definition of mortgage loan as specified above (see point 2), following an aggregation of loans "by borrower";

(b) is measured based on disbursed amounts and therefore does not include any undrawn amounts on credit lines. In the case of property under construction, "L" is the sum of all loan tranches disbursed up to the reporting date, and LTV-O is computed on the date of disbursement of any new loan tranche[1]. <u>Alternatively</u>, one can also include undrawn amounts of loans granted for the construction of a new property or for renovation in the "L" value, together with an adjusted value for "V" (see below).

[1] In the case of property under construction, the methodology for computing LTV-O at a given point in time *n* can be summarised as follows:

$$LTV\text{-}O_n = \frac{\sum_{i=1}^{n} L_i}{V_0 + \sum_{i=1}^{n} \Delta V_{i,i-1}}$$

Where $i = 1, \ldots, n$ is the number of loan tranches disbursed until time *n*, V_0 is the initial value of the real estate collateral (e.g. land) and $\Delta V_{i,i-1}$ represents the change in the property's value during the period up to the disbursements of the *n*-th loan tranche.

(c) includes all loans that the reporting credit provider considers as part and parcel of the housing loan financing transaction. For instance, bridge loans, even where not directly covered through a mortgage or a mandate, have to be considered as part of the financing transaction and must be taken into account in the computation of the LTV-O;

(d) is not adjusted for the presence of other credit risk mitigants;

(e) does not include costs and fees related to the mortgage loan;

(f) does not include loan subsidies.

(g) Loans (partly) covered by mandates fall under such definition as specified above (see point 2).

(h) In the case of a new loan to a client showing a positive outstanding amount on another mortgage loan at the same bank secured by the same property, the sum of the amounts of the new loans and the outstanding amount of the initial loan has to be considered as "L" in the calculation of LTV-O.

For the purpose of the calculation, *"V":*

(a) is computed on the basis of the property's "market value", measured as the lower of:

   1. the transaction value, as registered in a notary deed or in the sale agreement or "compromis", taking into account architects' estimates and invoices in the case of new property or renovation, and

   2. the value as assessed by an independent external or internal appraiser.

   If only one value is available, this value should be used.
   In cases of renovation, the current (indexed) value of the property can be used

(b) In the case of property under construction, "V" accounts for the total value of the property up to the reporting date (accounting for the increase in value due to the progress of the construction works)."V" is assessed upon disbursement of any new loan tranche, allowing for the computation of LTV-O. If one uses the option of including undrawn amounts of loans granted for the construction of a new property or for renovation in "L", then V can also include the full value of planned renovation or construction works.

(c) Is adjusted by the total amount of the debt, disbursed or not, that is secured under a mortgage through 'prior' liens on the property. In the case of liens with higher seniority on the property, the full outstanding amount of the debt secured by these higher-seniority liens needs to be deducted. In the case of liens of equal ranking, an appropriate proportional adjustment should be made. If the outstanding amount of existing debts is not known, the amount of the mortgage inscription can be used.

(d) Does not include costs and fees related to the mortgage loan

(e) Loans (partly) covered by mandates fall under such definition as specified above (see point 2).

(f) While costs related to the loan shall not be included in "V" (e.g. handling fees to be paid to the bank), VAT on renovation and construction works or VAT paid as part of the purchase of a new property can be included in "V". On the other hand, registration rights and notary fees must not be included in "V".

(g) Regarding the ranking of liens, mortgages are always to be considered as providing a higher seniority than mandates.

(h)

(i) Loans without real estate guarantee do not fall within the scope of the NBB's expectations but must be documented and justified in detail, as specified above (see point 3).

(j) In the case of a new loan to a client showing a positive outstanding amount on another loan at the same bank secured by the same property, the several values at the moment of loan origination (e.g. in the case of renovation, the sum of the current value of the property and of the planned works) have to be taken into account.

5.2. Debt to income at origination (DTI-O)

'Debt-to-income ratio at origination' (DTI-O) means the total debt of the borrower at the moment of loan origination relative to the borrower's total annual disposable income at the moment of loan origination.

DTI-O is defined as follows:

$$\boldsymbol{DTI\text{-}O = \frac{D}{I}}$$

For the purpose of the calculation, 'D' includes the total debt of the borrower, whether or not it is secured by real estate, including all outstanding financial loans (incl. consumer loans), i.e. granted by the RRE loan provider and by other lenders, at the moment of the RRE loan origination.

For the purpose of the calculation, 'I' is defined as the disposable income.

The computation of disposable income should be done in a conservative way (e.g. by only taking recurrent sources of income into account), in line with institutions' credit policies. Net after-tax disposable recurrent income is defined as[2]: employee income + self-employment income (e.g. profits) + income from public pensions + income from private and occupational pensions + income from unemployment benefits + income from social transfers other than unemployment benefits + regular private transfers (such as alimonies) + rental income from real estate property + income from financial investments + income from private business or partnership + regular income from other sources – taxes – health care/social security/medical insurance premiums + tax rebates.

Some of the income components can be estimated through a bulk assessment (*estimation forfaitaire*).

All debts should be identified based on the customer's declaration at the time of the new loan origination. When needed, this declaration should be completed by consulting the Central Individual Credit Register.

[2] For the purpose of this definition:
(a) 'rental income from real estate property' includes both rental income from owned property on which no RRE loan is currently outstanding and buy-to-let property. The rental income should be determined from the information that is available to banks or otherwise imputed. If precise information is not available, a best estimate of rental income should be provided by the reporting institution, and the methodology used to obtain it should be described;
(b) 'taxes' should include, in order of importance, payroll taxes, tax credits, pension or insurance premiums, if charged on gross income, specific taxes, e.g. property taxes, and other non-consumption taxes;
(c) 'health care/social security/medical insurance premiums' should include the fixed and compulsory expenditures;
(d) 'tax rebates' should include restitutions from the tax authority that are linked to the RRE loan interest deduction.

5.3. Debt service to income at origination (DSTI-O)

'debt service' means the combined interest and principal repayment on a borrower's total debt over a given period (one year or one month);

'debt-service-to-income ratio at origination' (DSTI-O) means the annual or monthly total debt service relative to the borrower's total annual or monthly disposable income at the moment of loan origination;

DSTI-O is defined as follows:

$$\boldsymbol{DSTI\text{-}O = \frac{DS}{I}}$$

For the purpose of the calculation, 'DS' is the annual or monthly debt servicing cost of the total debt of the borrower, defined as 'D' above.

For the purposes of the calculation, 'I' has the same meaning as stated above.

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