BanqueNationaleBank DE BELGIQUE VAN BELGIË
Eurosystem

EXTENSION OF THE NBB MACROPRUDENTIAL MEASURE FOR RESIDENTIAL REAL ESTATE EXPOSURES ON THE BASIS OF ART 458 CRR: ADDITIONAL EXPLANATION

This brief note gives some additional guidance on the implementation of the macroprudential measure for retail exposures of IRB banks on Belgian residential real estate. It complements the Royal Decree of 4 May 2018, forming the legal basis for the introduction of this macroprudential measure, the Royal Decree of 29 January 2020, extending the measure for one year in 2020, as well as the Royal Decree of 28 February 2021, extending the measure again for one additional year in 2021.

The macroprudential measure is in force since 30 April 2018 and has remained in place for two years (till 30 April 2020). It was extended for a first time for one year in 2020 and for a second time in 2021 for one additional year. It will remain active until 30 April 2022 or until the moment the NBB as macroprudential authority decides to deactivate the measure.

The macroprudential measure imposes higher risk weights for Belgian residential real estate exposures on banks that use internal models for the computation of risk-weighted exposures (IRB banks). The relevant real estate exposures targeted by the measure are retail exposures secured by Belgian residential real estate. In the remainder of this note we use the term “exposures” as shorthand for these exposures.

The measure consists of two components, each increasing the computed microprudential risk weights:

- Component 1 consists of a general increase of the risk weight of the exposures by five percentage points to the extent that these risk weights are computed on the basis of internal models

- Component 2 imposes an additional increase in the risk weight of the portfolio of relevant exposures, equal to the 33% of the microprudential risk weight of the portfolio. The risk weight of the portfolio is obtained as the exposure value-weighted average of the risk weights of the individual exposures. The increase of 33% of the microprudential risk weight does *not* apply to the 5 pp increase in risk weight imposed in the first component of the measure.

After application of the macroprudential measure the total level of RWAs is given by:

$$RWA_i^F = \left(1.33RW_i^{micro} + 0.05\right)EAD_i$$

Where RWA_i^F refers to the final (increased) level of the risk-weighted exposure amounts of bank *i*, EAD_i represents the total exposure value of the relevant loan portfolio and RW_i^{micro} denotes the (exposure-weighted) average microprudential risk weight of the relevant portfolio.

In this computation of these RWAs banks should take into account the following considerations:

- In the computation of exposures EAD_i the following should be included: *all* retail exposures secured by Belgian residential real estate (including those secured by mandates) for which risk weights have been computed on the basis of internal models. Both defaulted and non-defaulted loans are to be included in the portfolio.

- The portfolio risk weight for the (relevant) portfolio, RW_i^{micro}, is defined as the exposure-weighted average of the microprudential risk weights of the specific exposures. Microprudential risk weights are to be determined in line with the requirements stipulated in Chapter 3 of CRR and exposures should be in line with the stipulations in the point above. More formally, let $RW_{i,k}^{micro}$ denote the microprudential risk weight for (relevant) loan *k* by bank *i* and $EAD_{i,k}$ the exposure value of loan *k* then:

$$RW_i^{micro} = \sum_k \frac{EAD_{i,k}}{EAD_i} RW_{i,k}^{micro}, \qquad EAD_i = \sum_k EAD_{i,k}$$

The application of the macroprudential measure results thus in an increase of the risk-weighted assets (RWAs) for the considered exposures. These increased RWAs, like all RWAs, are to be used in the determination of the relevant microprudential and macroprudential capital requirements.

<u>In summary while applying this macroprudential measure the banks should make sure that</u>:

- Only retail exposures secured by Belgian residential real estate for which risk weights are determined on the basis of internal models should be considered;

- Loans secured by mandates are also to be included.

- Both defaulted and non-defaulted loans should be considered.

Reporting

Banks are required to take the increase in RWAs into account in the determination of the total regulatory capital required, including the capital due to potential macroprudential capital buffers.

The increase in the risk weighted assets due to the macroprudential measure needs to be reported separately (COREP Table C02.00, row 730), starting with the reporting cycle of June 2018.

NBB contact persons

Further information regarding specific queries on the application and reporting of this macroprudential measure can be obtained from Alexandre Reginster, Alexandre Francart or Thomas Schepens.