FIN-FSA
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APPENDIX: REVISED RECOMMENDATION OF THE FINANCIAL SUPERVISORY AUTHORITY ON A MAXIMUM DEBT-SERVICING BURDEN FOR HOUSING LOAN APPLICANTS’ LOANS AND HOUSING COMPANY-RELATED CHARGES FOR FINANCIAL COSTS

The Financial Supervisory Authority (FIN-FSA) recommends that supervised entities conduct a stressed calculation of housing affordability for all housing loan applicants and take these calculations into account in their credit decisions. As a rule, lenders should tailor the size of a housing loan to be granted so that borrowers can also service the interest and capital of the loan, those of their other debts, and their housing company-related charges for financial costs, in a stress scenario under the stressed calculation of housing affordability.

The stressed interest rates on housing loans, on charges for financial costs and on other debts are set in the calculation to no less than 6%, and the maturity to no more than 25 years. The stressed interest rates and maturities are the same as those in the FIN-FSA Regulations and guidelines 4/2018 on the management of credit risk and assessment of creditworthiness by supervised entities in the financial sector.

If the loan applied for or charges for financial costs or other debts are linked to an interest rate cap of below 6%, the term of which is at least 10 years at the moment of loan origination and the repayment schedule for the loan, for charges for financial costs or for other debts requires regular repayment during the term of the interest rate cap, the interest rate applied to any of these is that specific interest rate cap. If the loan applied for is a fixed-rate loan in which the interest is fixed for at least 10 years and the repayment schedule for the loan requires regular repayment during the term of the fixed rate, the stressed interest rate applied to the loan is the fixed rate set in the agreement. If a housing loan applicant has other fixed-rate debts or charges for financial costs, the interest of which, at the origination of the loan applied for, is fixed for at least 10 years and the repayment schedule for the debts or charges for financial costs requires regular repayment during the term of the fixed rate, the stressed interest rate applied to such debts and charges for financial costs is the fixed rate set in the agreement.

The FIN-FSA recommends that, as a rule, the total amount (stressed DSTI ratio) of the stressed monthly servicing costs of a housing loan granted to an applicant and of the applicant’s other housing loans, the applicant’s stressed charges for financial costs, and the stressed monthly servicing costs of the applicant’s other debts, is no more than 60% of the applicant’s monthly net income.

If an applicant’s stressed DSTI ratio is greater than 60% in terms of the applicant’s net income, the credit decision should be preceded by a particularly thorough assessment of the customer’s repayment capacity with the customer. The FIN-FSA recommends that in such cases lenders make the credit decision on a higher management level. The FIN-FSA expects that, as a benchmark, new housing loans with a stressed DSTI ratio of over 60% should account for no more than 15% of the euro volume of new housing loans granted by the lender in a calendar year.

The purpose of the recommendation is to contain excessive household indebtedness and to contribute to preventing imbalances in the residential property and mortgage market without limiting overall access to housing loans. The recommendation also *strengthens the resilience of households to interest rate increases and to shocks affecting personal finances and the macroeconomy, thereby improving the risk resilience of the economy as a whole. Although the stressed calculation of housing affordability technically tests loan applicants' resilience to interest rate increases, the broader objective of the recommendation is to ensure that borrowers and the national economy are better prepared for various unexpected shocks.*

The FIN-FSA will supervise compliance with the recommendation and will monitor the share of new housing loans with a stressed DSTI ratio of over 60% in new housing loans granted by the lender and the reasons why such loans have been granted. In its impact assessments concerning compliance with the recommendation, the FIN-FSA will use for all a loan applicant's loans (excl. loans with interest rate hedges and fixed-term loans) and charges for financial costs a stressed interest rate of 6% and a maturity of 25 years. However, lenders can, at their own discretion, use higher interest rates and shorter maturities in their stressed calculations of housing affordability for applicants of housing loans.

The FIN-FSA will clarify the recommendation and the related definitions, as necessary.

For the purposes of this recommendation:

- **Housing loan** means a credit granted for the acquisition of a residential asset or for retaining the title to it as referred to in the Consumer Protection Act. If a borrower applies for several loans to acquire a dwelling, the recommendation pertains to all of these. The recommendation does not apply to:
    - situations where a loan applicant transitions from one dwelling to another and the new dwelling is purchased mainly or entirely with short-term bridge funding;
    - short-term bridge funding taken out for building or carrying out a basic renovation of a dwelling; and
    - situations where additional financing is used to prevent or rectify a material decline in the value of collateral.
- **Housing loan applicant** means a person applying for a housing loan or persons applying for a joint housing loan. Also referred to as 'borrower'.
- **Debt-servicing burden** means the aggregate amount of the monthly servicing costs of the following items for which the applicant is liable: the housing loan to be granted, any other housing loan, charges for financial costs and other debts.
- **Stressed debt-service-to-income (DSTI) ratio** means a housing loan applicant's debt-servicing burden which is calculated by applying the stressed interest rate of each of the

applicant's individual loans and the maturity used in the stressed calculation of housing affordability.

- **Stressed interest rate of a loan** means an interest rate that is, as a rule, distinctively higher than the prevailing level of average interest rates and to which interest rates could rise in exceptional but potentially possible economic conditions. In the calculation of housing affordability provided for in this recommendation, the stressed interest rate is 6% (excl. loans with an interest rate hedge and fixed-rate loans addressed earlier in this recommendation) or any higher rate that the lender applies in its own risk management calculations as the stressed interest rate.
- **Stressed maturity of a loan** means the maximum loan maturity applied in the stressed calculation of housing affordability provided for in this recommendation. The maximum maturity may differ from the agreed or remaining maturity of a loan. In the stressed calculation of housing affordability, the stressed maturity of a loan is 25 years or any shorter maturity that the lender uses in its own risk management calculations as a typical average maturity for similar loans.
- **Charges for financial costs** means the share of the loans of a housing company which is allocated to the loan applicant's apartment, the capital and interest of which the applicant is obliged to repay to the housing company as a monthly fee.
- **Servicing costs of a housing loan** means monthly instalments of a housing loan consisting of repayments of capital and interest.
- **Net income** means a loan applicant's disposable monthly monetary income.
- **Other debts** means debts of the applicant other than housing loans and charges for financial costs the applicant is liable for.