

**BORROWER-BASED  
MEASURES IN TIMES  
OF GLOBAL PANDEMIC  
AND BEYOND**

**LUÍS LAGINHA DE SOUSA**

MACROPRUDENTIAL POLICY  
CONFERENCE

SESSION 3 - ENHANCING THE  
FRAMEWORK OF BORROWER BASED  
MEASURES

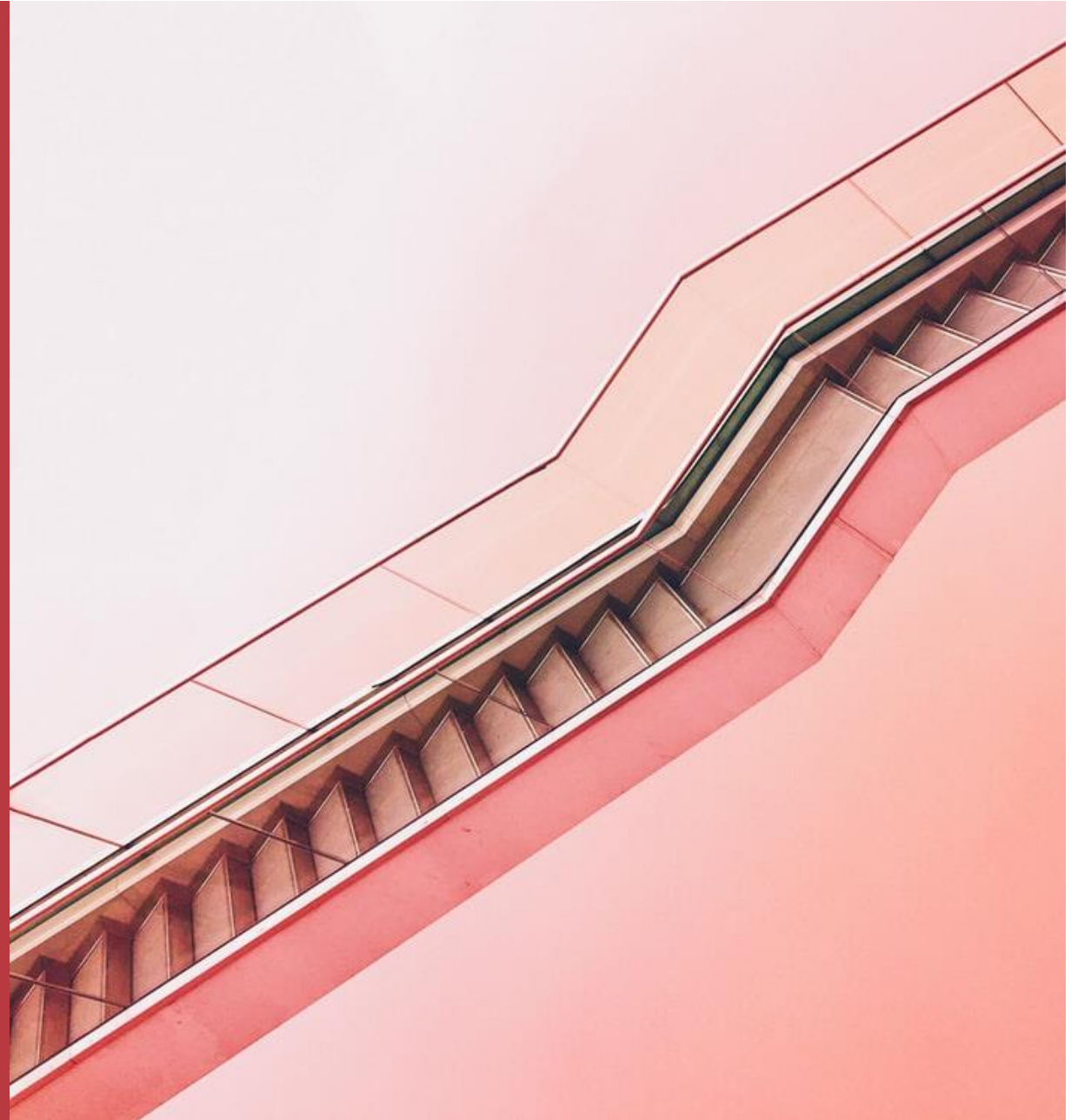
5 OCT. 2021



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Test of the global pandemic – what strengths and limitations of borrower-based measures were revealed?

**- The Portuguese experience -**





- I. The Portuguese BBM in a nutshell
- II. BBM's strengths and limits
- III. Is there a case for harmonizing BBM across EU?



## CONTEXT

- Easing of credit standards
- Households high level of indebtedness and low savings rate
- Vivid memory of the previous financial crisis

## GOALS

- Prevent excessive risk taking by the financial sector
- Enhance the resilience of the financial sector and the sustainability of households financing

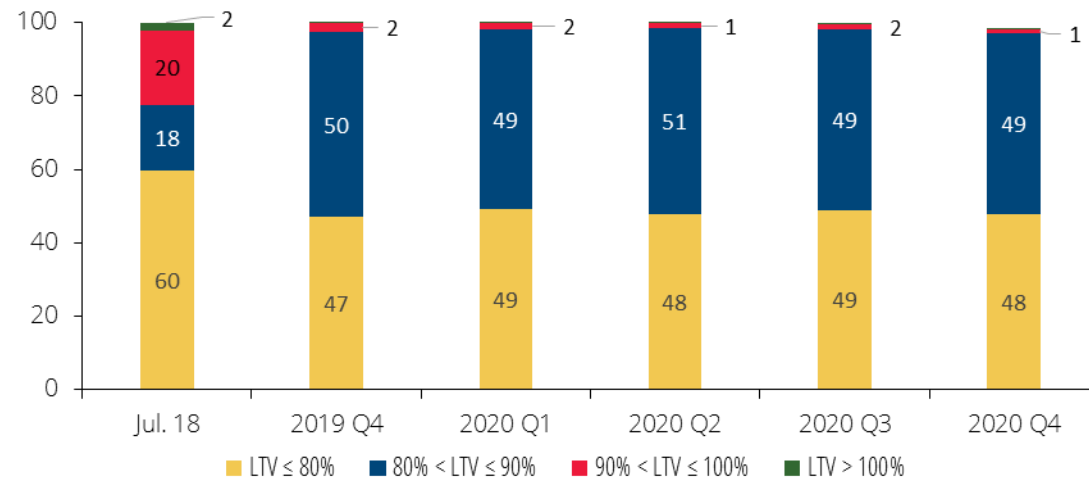
## KEY FEATURES

- Simultaneous limits to LTV, DSTI and Loan Maturity combined with regular payments (principal and interest)
- Recommendation following “comply or explain” principle
- Applicable to new mortgage and consumer loans and to all credit institutions
- Inclusion of flexibility elements
- Close and intense monitoring



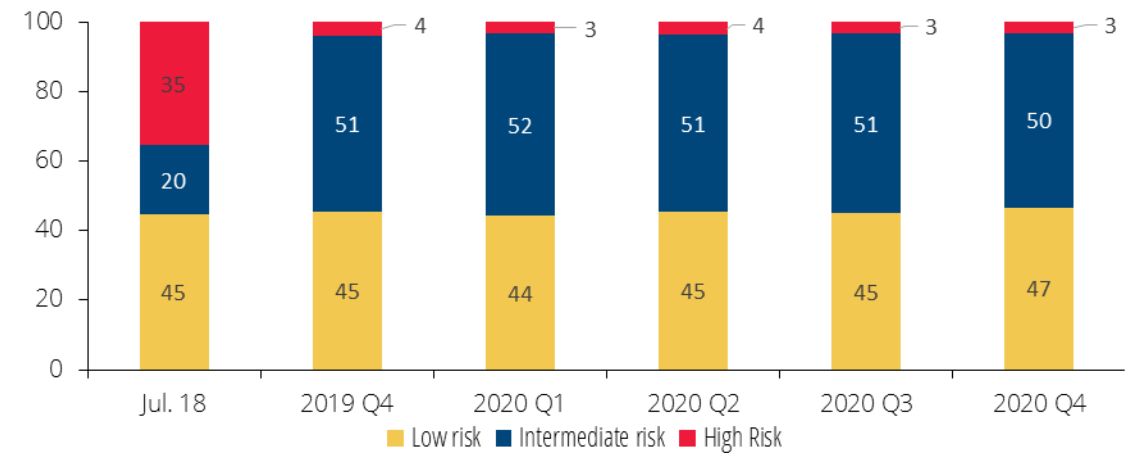
## DISTRIBUTION OF NEW LOANS FOR HOUSE PURCHASE

By LTV ratio | Percentage



**Source:** Banco de Portugal. | Notes: based on information reported by a sample of 13 institutions.

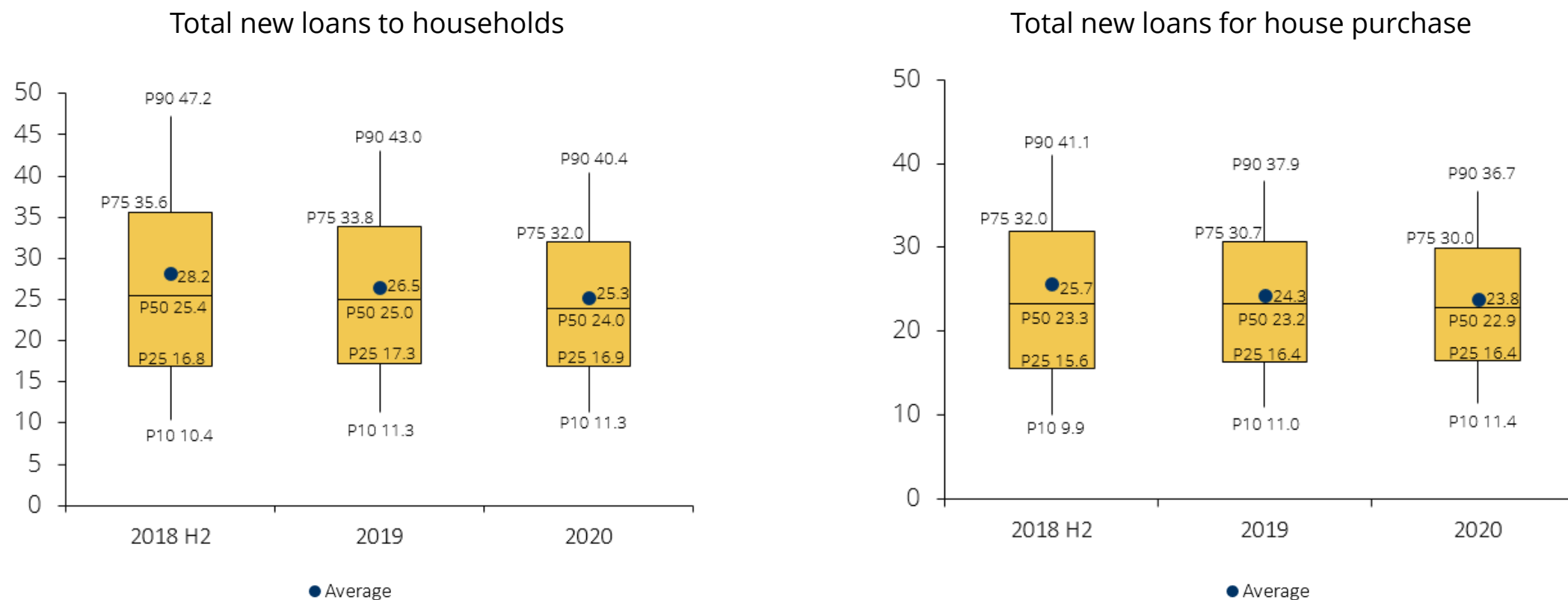
By borrowers' risk profile | Percentage



**Source:** Banco de Portugal. | Notes: based on information reported by a sample of 13 institutions. Low risk: DSTI ≤ 50% and LTV ≤ 80%; High risk: DSTI > 60% or LTV > 90%; Intermediate risk: other cases.



## DISTRIBUTION OF EFFECTIVE DSTI RATIO FOR NEW LOANS TO HOUSEHOLDS

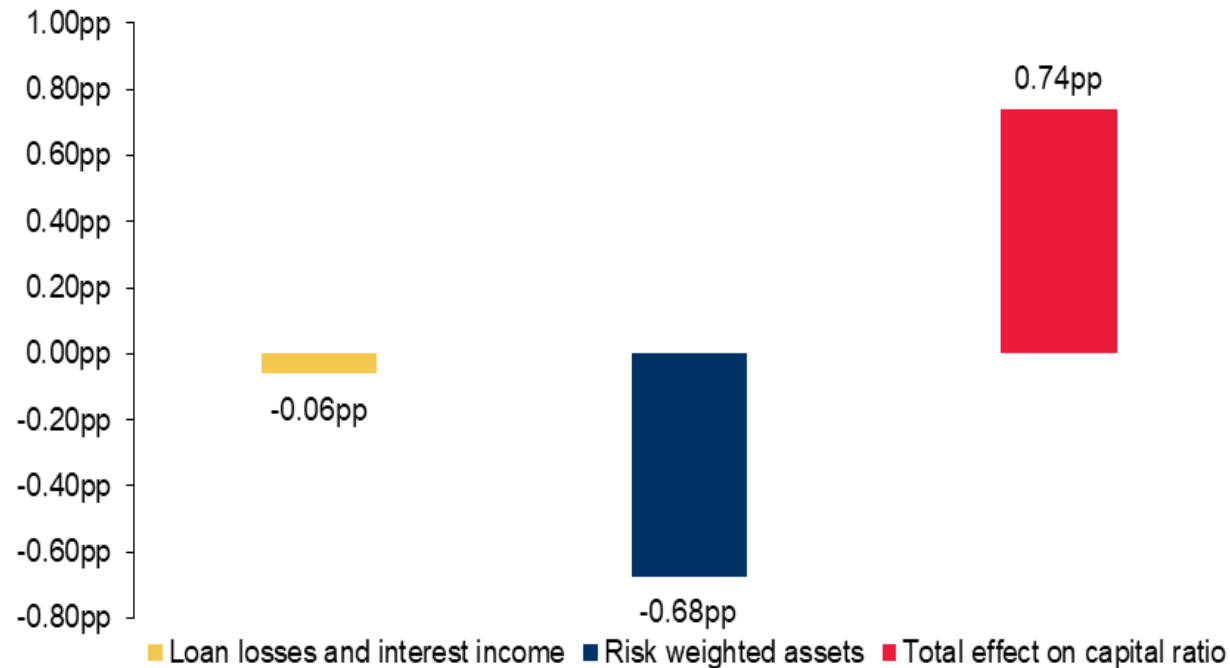



**Source:** Banco de Portugal.

**Notes:** Based on Central Credit Register data. Effective DSTI ratio (excluding shocks on the interest rate and income). The chart represents the distribution of quartiles of the actual DSTI ratio, where the lower and upper ends correspond to the 10th percentile and to the 90th percentile respectively.




## IMPACT OF THE MACROPRUDENTIAL MEASURE ON THE CAPITAL RATIO OF THE BANKING SYSTEM



**PD**  0.15 pp  


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**LGD**  19.5 pp  


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## BBM'S CAPABILITY TO MITIGATE RISKS FROM THE LOW INTEREST RATE ENVIRONMENT

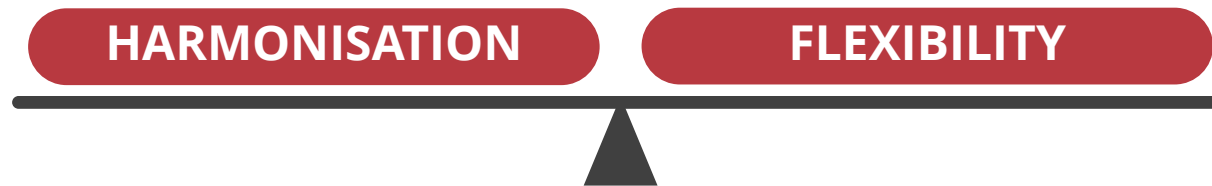
Interest rate scheme	Maturity of the contract and increase in the index		
	<b>&lt; 5</b> [up to and including 5 years]	<b>5 - 10</b> [more than 5 and up to and including 10 years]	<b>&gt; 10</b> [over 10 years]
<b>Variable and mixed</b>	+1 p.p.	+2 p.p.	+3 p.p.




III. IS THERE A CASE FOR HARMONIZING BBM ACROSS EU?



**RETAIL IS DETAIL**





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## ANNEX: PORTUGUESE BORROWER-BASED MEASURE



### LTV limits\*

- Up to 90% for new loans for own and permanent residence;
- Up to 80% for other purposes;
- Up to 100% for property held by the credit institutions.

### DSTI limits\*\*

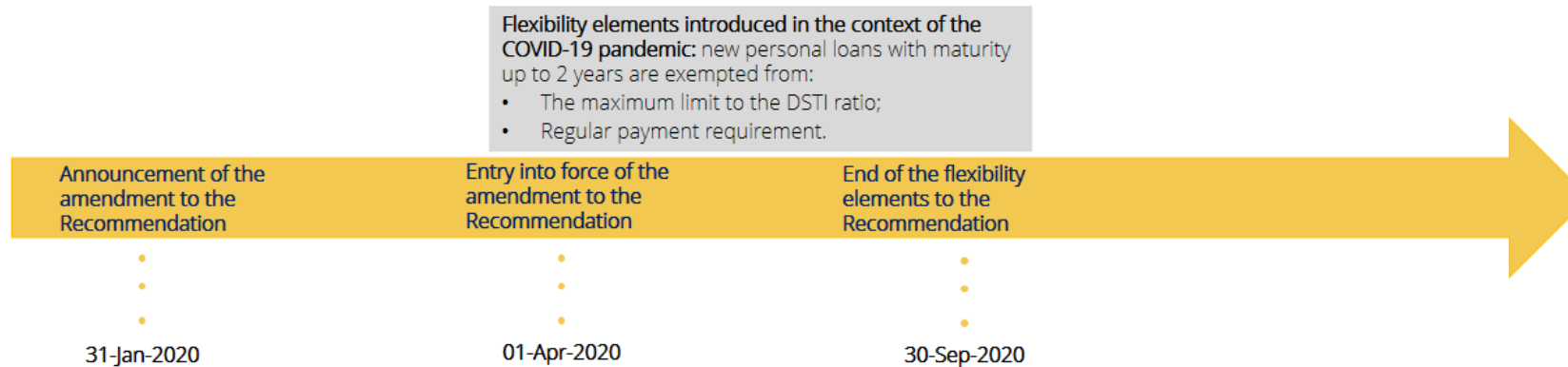
- 50% or less, with the following exceptions:
  - up to 10% of the total amount of new loans may have a DSTI ratio of up to 60%;
  - up to 5% of the total amount of new loans may exceed the limits to the DSTI.

### Regular payment requirement

- New credit agreements should have regular principal and interest payments.

### Limits to maturity

- Maximum maturity of 40 years for new loans for house purchase and convergence towards an average maturity of 30 years by 2022;
- Maximum maturity of 7 years for new personal loans;
- Maximum maturity of 10 years for new car loans and personal loans for healthcare, education or renewable energy.



**Notes:** \*The LTV (loan-to-value) ratio is the ratio of the total amount of credit agreements secured by immovable property to the minimum between the purchase value and the appraisal value of the immovable property pledged as collateral. \*\* The DSTI (debt service-to-income) ratio is the ratio of the total amount of monthly instalments of a borrower's total debt to his/her monthly income less taxes and compulsory social security contributions. The calculation of the DSTI ratio should assume that the instalments of the new credit agreement are constant and consider the impact of an interest rate rise according to maturity in the case of variable and mixed interest rate agreements and a reduction of the income in the case of a borrower aged 70 and over at the planned expiry of the agreement, except if at the time of the creditworthiness assessment the borrower is already retired.