



AMENDMENT TO THE RECOMMENDATION OF BANCO DE PORTUGAL WITHIN THE LEGAL FRAMEWORK OF NEW CREDIT AGREEMENTS FOR CONSUMERS

Preamble

In its capacity as the national macroprudential authority, Banco de Portugal is entrusted with defining and implementing macroprudential policy. The mandate established in its Organic Law entrusts Banco de Portugal with the responsibility for identifying, monitoring and assessing systemic risk sources, as well as proposing and adopting measures to prevent, mitigate or reduce this risk, so as to reinforce financial sector resilience. In accordance with its mandate, in July 2018 Banco de Portugal implemented a macroprudential measure in the form of a Recommendation on new credit agreements for consumers (the 'Recommendation'). The Recommendation introduces limits to some of the criteria that institutions should comply with when assessing the borrower's creditworthiness and thus aims to ensure that credit institutions and financial companies do not take excessive risks when granting new credit, so as to reinforce financial sector resilience to potential adverse shocks and promote access to sustainable funding by households, minimising default risk.

Banco de Portugal has been monitoring recent developments in credit granting activity to ensure the effectiveness of the Recommendation. Within the scope of said monitoring, the average maturity and average amount of new consumer credit and in particular personal credit, followed a noticeable upward trend, which recently became more marked.

These developments occurred amid: a still high household indebtedness level; a protracted very low interest rate environment, which may encourage search-for-yield behaviour by institutions materialised in an easing of credit standards; and high consumer confidence, supported by expectations of continued growth in disposable income that boosts credit demand. However, the current economic environment is characterised by high uncertainty and a slowdown in economic activity. In fact, projections for economic growth published by Banco de Portugal and the main international organisations have been revised downwards, with risks to economic activity mostly on the downside.

In particular, the increase in the maturities of consumer credit may pose an increased risk for the financial system, as it implies that credit exposures, potentially without collateral or linked to less liquid assets and/or shorter depreciation periods than the maturity of loans, will be exposed to fluctuations in the business cycle for longer periods. This hinders the restructuring of loans and the reduction of default, in the event of borrowers' distress. Furthermore, some borrowers are more sensitive to unexpected shocks on their income, namely through the deterioration of labour market conditions.

Hence, in its capacity as macroprudential authority, taking into consideration the purposes of the Recommendation, especially the promotion not only of banking sector resilience, but also access to sustainable funding by households, and given the risks seen in the current environment, Banco de Portugal has decided to reduce the maximum maturity of new personal credit from 10 to 7 years, except in a few specific situations. Hence, with effect from 1 April 2020



onwards the following limits to the original maturity should be observed: 7 years for personal credit agreements and 10 years for personal credit for education, healthcare and renewable energy, provided that these purposes are duly evidenced; and 10 years for car credit agreements.

For that, the definitions of personal credit and its respective purposes and car credit are those provided for in Instruction of Banco de Portugal No 14/2013 of 17 June 2013.

In addition, and to contain potential unwanted effects on the DSTI ratio level resulting from the introduction of an upper limit of 7 years to the personal credit maturity, the exceptions provided for in the Recommendation for granting credit to borrowers with a DSTI ratio above 50% will be reduced to closer to the value currently used by institutions. Thus, up to 10% of the total amount of new credit granted by each institution every half-year may have a DSTI ratio of up to 60%, allowing banks to consider other important aspects for assessing the borrowers' creditworthiness that are risk mitigating factors. The 5% exception to the DSTI ratio limits will be maintained.

This amendment to the Recommendation shall apply to agreements concluded from 1 April 2020 onwards.

In view of the above, pursuant to Article 16-A of its Organic Law, Banco de Portugal, as the national macroprudential authority, hereby adopts the following changes to the Recommendation:

Article 1

Amendment to the Recommendation of Banco de Portugal within the legal framework of new credit agreements for consumers

Articles 2, 6 and 7 of the Recommendation of Banco de Portugal within the legal framework of new credit agreements for consumers are replaced by the following:

«Article 2

Definitions

(a) [...]

(b) [...]

(c) 'consumer credit' means the consumer credit agreements covered by Decree-Law No 133/2009. Consumer credit agreements are classified in the following categories:

(i) personal credit agreements: credit agreements, including their respective subcategories, as set forth in Point 3 (a) ('Credit categories') of Instruction of Banco de Portugal No 14/2013 of 17 June 2013;

(ii) car credit agreements: credit agreements, including their respective subcategories, as set forth in Point 3 (b) ('Credit categories') of Instruction of Banco de Portugal No 14/2013 of 17 June 2013;



Article 6

Recommendation B: Limits to the DSTI

1. [...].
2. Up to 10 % of the total amount of credit granted by each institution every half-year may be granted to borrowers with a DSTI of up to 60%;
3. Up to 5% of the total amount of credit granted by each institution every half-year may exceed the limits to the DSTI provided for in paragraphs 1 and 2 of this Article.

Article 7

Recommendation C: Limits to maturity

1. [...]
2. [...]
3. It is recommended that the maturity of the new consumer credit agreements does not exceed:
 - (a) 7 years for personal credit agreements;
 - (b) 10 years for car credit agreements.
4. Without prejudice to the provisions of subparagraph (a) of the foregoing paragraph, personal credit agreements for education, healthcare and renewable energy may have a maximum maturity of 10 years, provided that the institution gives due evidence of the allocation of credit to these purposes.
5. The limits to maturity provided for in this Article shall count from the date of entry into force of the agreement.

Article 2

Date of application

This amendment to the Recommendation of Banco de Portugal within the legal framework of new credit agreements for consumers shall apply to agreements concluded from 1 April 2020 onwards.