



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

AGREEMENTS FOR CONSUMERS

Preamble

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

The Banco de Portugal has been monitoring developments in credit granting activity, to ensure the effectiveness of the Recommendation. The assessment carried out shows that credit institutions have broadly complied with the guidelines set out in the Recommendation. However, the average maturity of new loans for house purchase has not undergone linear and gradual convergence towards 30 years, as foreseen in the Recommendation.

The adoption of limits to the original maturity of loans is aimed at: avoiding that limits to the debt service-to-income (DSTI) ratio are circumvented by the extension of the loan maturity, easing the extension of the maturity and the restructuring of loans in the event of borrowers' arrears, potentially reducing default and finally, reducing the divergence from the average maturity of new credit agreements for house purchase in other European Union countries.

Given the strong concentration of new credit for house purchase in longer maturities, the Banco de Portugal considers that the maximum maturity of new business should be reduced to contribute to the gradual and linear convergence of the average maturity of new credit agreements for house purchase towards 30 years by the end of 2022, in line with the Recommendation.

Hence, taking into account the purposes of the Recommendation, in particular the convergence of the average maturity of new credit agreements for house purchase, credit secured by a mortgage or equivalent guarantee towards 30 years by the end of 2022, the Banco de Portugal, as the national macroprudential authority, recommends the following limits to the original maturity of new credit for house purchase: 40 years for borrowers aged 30 or under; 37 years for borrowers aged over 30 and up to and including 35; and 35 years for borrowers aged over 35.

This amendment to the Recommendation applies to agreements concluded from 1 April 2022 onwards.

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

Article 1



Amendment to Article 7 of the Recommendation of the Banco de Portugal within the legal framework of new credit agreements for consumers

Article 7 of the Recommendation of the Banco de Portugal within the legal framework of new credit agreements for consumers is amended as follows:

«Article 7

Recommendation C: Limits to maturity

1. It is recommended that the maturity of the new credit agreements for house purchase, credit secured by a mortgage or equivalent guarantee does not exceed:

- (a) 40 years for borrowers aged 30 or under;
- (b) 37 years for borrowers aged over 30 and up to and including 35;
- (c) 35 years for borrowers aged over 35;

2. For the purposes of the foregoing paragraph, as regards agreements with more than one borrower, the age of the borrower with the earliest date of birth is considered.

3. [former paragraph 2]

4. [former paragraph 3]

5. [former paragraph 4]

6. [former paragraph 5]»

Article 2

Date of application

This amendment to the Recommendation of the Banco de Portugal within the legal framework of new credit agreements for consumers applies to agreements concluded from 1 April 2022 onwards.