

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 Statute 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 borrowers, minimising default risk.

The COVID-19 pandemic has changed the national and international economic and financial conditions in an abrupt and significant manner. In this context, for the pursuit of its financial stability objective, Banco de Portugal, as the national Macroprudential Authority, has deemed it necessary to assess whether the macroprudential Recommendation within the legal framework of new credit agreements for consumers currently in force remains appropriate given the present exceptional time of the COVID-19 pandemic. One concern focused specifically on the need to change the design or calibration of the Recommendation's current text, and how it may collide with other measures taken at national level in the present environment.

The novel coronavirus pandemic will represent a very severe, although temporary, shock, and thus it is essential to ensure in the very short term that households and firms have liquidity, while also continuing to anchor credit standards in the medium to long term.

The design of the macroprudential Recommendation within the legal framework of new credit agreements for consumers has already incorporated flexibility elements that can now be used in a stress scenario. Firstly, a part of new credit to consumers that is excluded from the Recommendation may be particularly important in the current environment, namely credit intended to prevent or address arrears situations, credit agreements in the form of an overdraft facility and other credit with no defined repayment schedule (including credit cards and credit lines). These can be very important in a context of temporary liquidity shortage. In addition, credit agreements for a total amount equal to or lower than the equivalent to tenfold the guaranteed monthly minimum wage (currently around €6,400) have also been excluded from the Recommendation, and can also be used for meeting immediate liquidity needs of households.

These exclusions are also added the exceptions expressly attached to compliance with the DSTI ratio (debt service-to-income ratio, i.e. the ratio of the total amount of monthly instalments of a borrower's total debt to his/her net monthly income), which allow for 5% of new credit to be granted to borrowers with no or very low income, since the DSTI ratio limit will not apply under these circumstances.

Banco de Portugal has clarified that the Recommendation is not an impediment to the application of public moratoria, as well as moratoria that banks have been granting voluntarily.

Notwithstanding these flexibility mechanisms already incorporated into the Recommendation, considering the current exceptional environment, Banco de Portugal has deemed it appropriate to introduce an



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additional flexibility measure. It will be exceptional and temporary and will allow for personal credit with maturities of up to two years and duly identified as intended to mitigate duly evidenced households' temporary liquidity shortage situations to no longer comply with a DSTI ratio limits. Such credit will also be exempted from observing the recommendation of regular principal and interest payments.

This complementary measure will apply immediately to new personal credit agreements and be in force until 30 September 2020, whereupon its continuation will be reassessed.

In view of the above, pursuant to Article 16 of its Statute, Banco de Portugal, as the national Macroprudential Authority, hereby adopts the following addition to the Recommendation:

Article 1

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

Article 10-A is inserted to the Recommendation of Banco de Portugal within the legal framework of new credit agreements for consumers, as follows:

"Article 10-A

Temporary exceptions to the regular payments requirements and DSTI in the context of the COVID-19 pandemic

1. Personal credit with maturities of up to two years and duly identified as intended to mitigate duly evidenced households' temporary liquidity shortage situations shall not be subject to the DSTI ratio limits provided for in Article 6.
2. Personal credit under the conditions described in paragraph 1 of this Article is also exempted from observing the recommendation of regular principal and interest payments provided for in Article 8.
3. The exceptions set forth in this Article are applicable to new credit agreements for consumers and shall remain applicable until 30 September 2020, whereupon its continuation will be reassessed."

Article 2

Date of application

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