

OFFICIAL INFORMATION OF THE CZECH NATIONAL BANK

of 6 June 2024

Recommendation on the management of risks associated with the provision of consumer credit for housing

I.

Purpose of the Official Information

Pursuant to Article 45b(4) of Act No. 6/1993 Coll.,¹ on the Czech National Bank, the CNB regularly analyses and reviews the factors pursuant to Article 45b(2) of the Act on the Czech National Bank underlying systemic risks associated with the provision of consumer credit secured by residential property at least once every six months.

Where it identifies systemic risks, the CNB is entitled pursuant to Article 45b(1) to set an upper limit on one or more credit ratios (LTV, DSTI, DTI) by means of a provision of a general nature in order to reduce the financial sector's vulnerability to potentially adverse economic developments and conditions on the market for consumer credit secured by residential property with negative impacts on financial stability in the Czech Republic.

The CNB is also issuing a set of quantitative and qualitative recommendations regarding credit conditions and standards in the form of official information in order to strengthen the resilience of the financial system and the financial stability of households pursuant to Article 86 of Act No. 257/2016 Coll., on Consumer Credit.

II.

Scope of application

1. This Official Information applies to entities authorised to provide consumer credit under Act No. 257/2016 Coll., on Consumer Credit (hereinafter referred to as the "provider") and concerns consumer credit for housing under Act No. 257/2016 Coll., on Consumer Credit, and consumer credit provided to consumers who have consumer credit for housing.

III.

Definition of terms

For the purposes of this Recommendation:

1. the terms:
 - a. the consumer,
 - b. consumer credit secured by residential property,

¹ As amended by Act No. 219/2021 Coll. effective 1 August 2021.

- c. the consumer's total debt,
 - d. the consumer's expenditure arising from the consumer's total debt,
 - e. the consumer's income,
 - f. the LTV, DTI and DSTI credit ratios;
- have the same meaning as in the Act and in Decree No. 399/2021 Coll., on credit ratios;
2. the Act means the Act on the CNB No. 6/1993 Coll., as amended;
 3. an upper limit means an upper limit on one or more credit ratios set by the Czech National Bank in a provision of a general nature under the Act;
 4. a statutory exemption means the option pursuant to Article 45a(1) to exceed the upper limit on a credit ratio set by the CNB for no more than 5% of the consumer credit secured by residential property provided in the current calendar quarter relative to the total consumer credit secured by residential property provided by this provider in the previous calendar quarter;
 5. a consumer's ability to service the loan from his own resources means the positive indicator of the financial reserves of the consumer taking into account the consumer's income, common living expenses typical of the consumer and the consumer's expenditure arising from the consumer's total debt;
 6. the lending interest rate means the interest rate expressed as a fixed or variable percentage rate applied annually to the loan size;
 7. a loan with a non-standard repayment schedule means a loan negotiated with partial or full deferral of interest or principal payments, with gradually rising payments, with a temporarily reduced interest rate, or with a less frequent than monthly repayment schedule. For example, loans with decreasing payments, loans for construction where the loan was not drawn, restructured loans and loans where the postponement of repayment provably leads to a lower risk of non-repayment are not regarded as loans with a non-standard repayment schedule;
 8. owner-occupied residential property means residential property pursuant to Article 4(1)(75) of Regulation (EU) No. 575/2013 where the residence is occupied by the owner of the residence;
 9. buy-to-let residential property means residential property pursuant to Article 4(1)(75) of Regulation (EU) No. 575/2013 other than owner-occupied property;
 10. consumer credit means consumer credit pursuant to Article 2(1) of Act No. 257/2016 Coll., on Consumer Credit;
 11. consumer credit for housing means consumer credit pursuant to Article 2(2) of Act No. 257/2016 Coll., on Consumer Credit.

IV.

Recommendation A: Prudential procedures associated with the LTV credit ratio

1. Providers should very prudently assess applications for consumer credit secured by residential property whose LTV ratio exceeds the upper limit set in the currently applicable provision of a general nature and the credit would be provided under a statutory exemption.
2. Providers are recommended to ensure that the LTV ratio of no consumer credit secured by residential property provided under a statutory exemption exceeds 100%.
3. Providers should not circumvent Article IV(2) of this Official Information through the concurrent provision of unsecured consumer credit beyond consumer credit secured by residential property.

V.

Recommendation B: Prudential procedures associated with the DSTI and DTI credit ratios

1. Providers should assess consumers' ability to service consumer credit for housing from their own resources under adverse conditions (i.e. stress-testing of consumers' ability to service the loan), especially in the event of a rise in lending rates, a sizeable fall in income and growth in the cost of living. Providers should also take into account the impacts of a change in the conditions of consumers who apply together for consumer credit for housing (e.g. a divorce between spouses or a loss of income of one of the spouses or partners) on the ability to service the consumer credit.
2. Providers should highly prudently assess applications for consumer credit for housing whose DTI ratio exceeds 8.
3. Providers should highly prudently assess applications for consumer credit for housing whose DSTI ratio exceeds 40%. To calculate this ratio, they should use both the planned interest rate and the planned contractual interest rate plus a minimum of 2 percentage points.

VI.

Recommendation C: Preventing an easing of credit standards by setting excessive loan maturity or non-standard repayment schedules

1. The maturity of consumer credit for housing should not exceed the horizon of economic activity of the consumer or the lifetime of the property. As a rule, it should not exceed 30 years.
2. When refinancing consumer credit for housing, lenders should not extend the final maturity of the loan beyond that agreed with the original provider.
3. The maturity of consumer credit other than for housing provided to consumers that have consumer credit for housing should not exceed 8 years.
4. Providers should not provide consumer credit for housing with a non-standard repayment schedule leading to a shift of the consumer's credit commitments to a later period. This provision shall not apply to loans provided under the Building Savings Schemes Act.

VII.

Recommendation D: The provision of consumer credit secured by residential property to purchase additional owner-occupied residential property and to purchase buy-to-let residential property

1. Providers are recommended to identify the purpose of consumer credit secured by residential property using all available information.
2. For credit risk management purposes, providers are recommended to identify and separately monitor the different characteristics of the portfolio of consumer credit secured by residential property to purchase buy-to-let residential property and the portfolio of consumer credit secured by residential property to purchase multiple owner-occupied residential properties.
3. Providers are recommended to ensure that the LTV ratio for no new consumer credit secured by residential property for the purchase of buy-to-let residential property and the purchase of additional owner-occupied residential property exceeds the upper limit set in the provision of a general nature effective when this credit is provided.

4. When providing consumer credit secured by residential property to finance the purchase of residential property to consumers who already have consumer credit secured by residential property to finance the purchase of another residential property, providers should particularly prudently assess the asset and income situation of these consumers.

VIII.

Monitoring providers' procedures

1. The CNB will regularly monitor providers' procedures in relation to Recommendations A to D. The results will be published in the Financial Stability Report and taken into account when supervising providers of consumer credit.

IX.

Final provisions

1. This Official Information is based on an assessment of risks to financial stability in the period up to 29 February 2024. If major changes in risks to financial stability are identified, the CNB may adjust the individual recommendations.
2. This Official Information was published on 24 June 2024.

X.

Effect

1. This Official Information shall replace Official Information of the Czech National Bank on the management of risks associated with the provision of consumer credit secured by residential property of 7 March 2024.
2. Providers are recommended to proceed in accordance with this Official Information no later than 1 October 2024.

Bank Board member:
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