# OFFICIAL INFORMATION OF THE CZECH NATIONAL BANK

of 10 December 2021

**Recommendation**
**on the management of risks associated with the provision of consumer credit secured by residential property**

## I.
## Purpose of the Official Information

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

Where it identifies rising and increased 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 developments in the economic environment and conditions on the property market with negative impacts on financial stability in the Czech Republic.

In order to strengthen the effectiveness of the above regulation, to limit the circumventing of the regulation and to define the parameters of some lending conditions and credit standards that it considers prudential and material from the financial stability point of view, the CNB is issuing a set of quantitative and qualitative recommendations for entities authorised to provide consumer credit in the form of official information (hereinafter referred to as the "Recommendation").

## II.
## Scope of application

1. This recommendation applies to entities authorised to provide consumer credit under Act No. 257/2016 Coll., on Consumer Credit (hereinafter referred to as the "provider"). It applies to consumer credit secured by residential property provided to consumers and to consumer credit provided to consumers who have consumer credit secured by residential property.

## III.
## Definition of terms

For the purposes of this Recommendation:

1. the terms:
   a. the consumer,
   b. the consumer's debt arising from consumer credit secured by the same residential property,
   c. the total principal of new consumer credit secured by residential property,
   d. the consumer's total debt,
   e. the value of residential property securing new consumer credit,
   f. the consumer's outgoings arising from the consumer's total debt,
   g. the consumer's income,
   h. LTI, DTI and DSTI credit ratios;

   have the same meaning as in Act No. 6/1993 Coll., on the Czech National Bank, and in Decree No. 399/2021 Coll., on credit ratios;

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

2. the Act means the Act on the CNB No. 6/1993 Coll., as amended;
3. 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 consumer credit provided in the current calendar quarter and representing a maximum of 5% of total consumer credit secured by residential property provided by this provider in the previous calendar quarter;
4. a client's ability to service the loan from his own resources means the indicator of the financial reserves of the consumer's household taking into account the household's income, common living expenses typical of the consumer's household and the household's expenses arising from all its financial liabilities, including the newly provided loan;
5. 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;
6. a loan to purchase buy-to-let residential property means consumer credit secured by residential property to finance the purchase of residential property where the expected income from renting out this property is included in net income for the assessment of compliance with DTI and DSTI credit ratios;
7. a loan to purchase additional residential property means consumer credit secured by residential property to finance a purchase of residential property where the expected income from renting out this property is not included in net income, provided to consumers who already have one consumer credit secured by residential property to finance the purchase of another residential property when submitting the application. If multiple consumers apply together for consumer credit secured by residential property, it is recommended that providers take into account all existing consumer credit to purchase residential property already taken out by at least one of these consumers.

## IV.
## Recommendation A: Prudential procedures associated with the LTV credit ratio

1. Providers should highly prudently assess the consumer credit applications of consumers whose LTV ratio would exceed 80%.
2. Providers should particularly prudently assess the consumer credit applications of consumers whose LTV ratio exceeds the upper limit set in the currently applicable provision of a general nature and would be provided under a statutory exemption.
3. Providers are recommended to ensure that the LTV ratio of no consumer credit secured by residential property provided under a statutory exemption exceeds 100%.
4. Providers should not circumvent the upper limits on the LTV credit ratio through the concurrent provision of consumer credit relating to the residential property concerned above and beyond consumer credit secured by property.[2]

[2] The provision of any consumer credit, secured or unsecured, the purpose of which is to ensure compliance with the recommended LTV limit for new consumer credit secured by residential property from other than a client's own resources, is considered circumvention of the LTV limits. In this context, providers should identify the amount of the consumer's debt using all available information when providing consumer credit secured by residential property and other related loans.

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

1. Providers should assess consumers' ability to service consumer credit 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. Providers should also take into account the impacts of a sizeable fall in income or a change in the conditions of consumers who apply together for consumer credit secured by residential property (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 the consumer credit applications of consumers whose DTI ratio would exceed 8.
3. Providers should highly prudently assess the consumer credit applications of consumers whose DSTI ratio would exceed 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.
4. Providers should particularly prudently assess the consumer credit applications of consumers whose DSTI or DTI ratios exceed the upper limits set in the currently applicable provision of a general nature and would be provided under a statutory exemption.

## VI.
## Recommendation C: Preventing an easing of credit standards by setting excessive loan terms or non-standard repayment schedules

1. The term of consumer credit secured by residential property should not exceed the horizon of economic activity of the client or the lifetime of the property. As a rule, it should not exceed 30 years.
2. When refinancing consumer credit secured by residential property whose compliance with credit ratio levels[3] they are not required to assess, lenders should not extend the final maturity of the loan beyond that agreed with the original provider.
3. The term of consumer credit not secured by residential property provided to consumers that have consumer credit secured by residential property should not exceed 8 years. This provision shall not apply to loans provided under the Building Savings Schemes Act.
4. Providers should not provide consumer credit secured by residential property with a non-standard repayment schedule leading to a shift of the consumer's credit commitments to a later period.

## VII.
## Recommendation D: The provision of consumer credit to purchase additional residential property and credit 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 portfolios of consumer credit secured by residential property to finance owner-occupied housing, consumer credit to purchase additional residential property and consumer credit to purchase buy-to-let residential property.

[3] Pursuant to Article 45a(3) of Act No. 6/1993 Coll., on the Czech National Bank, as amended by Act No. 219/2021 Coll.

3. Providers are recommended to ensure that the LTV, DTI and DSTI ratios for no new consumer credit for the purchase of buy-to-let residential property and the purchase of additional residential property exceed the upper limits 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. To this end, it will conduct half-yearly surveys of the structure of newly provided loans. 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 31 August 2021. If major changes in risks to financial stability are identified, the CNB will be ready to adjust the individual recommendations.

**X.**
**Effect**

1. This Official Information shall replace Official Information of the Czech National Bank of 8 July 2020.

2. Providers are recommended to proceed in accordance with this Recommendation no later than four months after its publication.

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