OFFICIAL INFORMATION OF THE CZECH NATIONAL BANK

of 19 June 2023

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(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 property market with negative impacts on financial stability in the Czech Republic.

In order to strengthen the effectiveness of the above regulation and to limit the circumventing of the regulation, the CNB is issuing a set of quantitative and qualitative recommendations regarding credit conditions and standards in the form of official information.

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 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,

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

  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 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. 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. 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;
7. 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.

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

1. Providers should highly prudently assess applications for consumer credit secured by residential property whose LTV ratio exceeds 80%.
2. Providers should particularly 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.
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 Article IV(3) of this Official Information through the concurrent provision of unsecured consumer credit beyond consumer credit secured by property.

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, growth in the cost of living 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 applications for consumer credit secured by residential property whose DTI ratio exceeds 8.
3. Providers should highly prudently assess applications for consumer credit secured by residential property 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.
4. Providers should particularly prudently assess applications for consumer credit secured by residential property whose DTI ratio exceeds the upper limits set in the currently applicable provision of a general nature and the credit would be provided under a statutory exemption.

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 secured by residential property 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 secured by residential property, lenders should not extend the final maturity of the loan beyond that agreed with the original provider.
3. The maturity of unsecured consumer credit 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 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 and DTI ratios for no new consumer credit for

the purchase of buy-to-let residential property and the purchase of additional owner-occupied 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. 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 28 February 2023. 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 on the management of risks associated with the provision of consumer credit secured by residential property, Volume 13/2021 of 10 December 2021, CNB Bulletin.
2. Providers are recommended to proceed in accordance with this Official Information no later than from 1 July 2023.

Bank Board member:
Karina Kubelková

Financial Stability Department