

Notification template for borrower-based measures

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This notification will be made public by the ESRB once the relevant authorities have adopted and published the notified macroprudential measure¹.

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority	Magyar Nemzeti Bank
1.2	Country of the notifying authority	Hungary
1.3	Type of borrower-based measure	Please select one of the measures listed below: <ul style="list-style-type: none"> <input type="checkbox"/> Debt-service-to-income (DSTI) <input type="checkbox"/> Loan-to-income (LTI) <input checked="" type="checkbox"/> Loan-to-value (LTV) <input type="checkbox"/> Debt-to-income (DTI) <input type="checkbox"/> Loan maturity <input type="checkbox"/> Other (please provide a short, name-like description here and provide more details in Section 2)
1.4	Type of notification	What do you intend to notify? <ul style="list-style-type: none"> <input type="checkbox"/> Activation of a new measure <input checked="" type="checkbox"/> Change to an existing measure <input type="checkbox"/> Extension of an existing measure <input type="checkbox"/> Termination of an existing measure

¹ On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

2. Description of the measure		
2.1	Description of the measure	The MNB Decree on the amendment of MNB Decree No. 32/2014. (IX. 10.) on the regulation of the debt-service-to-income ratio and the loan-to-value ratio (hereinafter: BBM Regulation) introduces higher, 90 percent LTV limits for First-time buyer (FTB) borrowers for HUF loans secured by a mortgage on real estate as collateral and for financial leases.
2.2	Definition of the measure	The amendment of the BBM Regulation does not affect the applicable definitions. The legislation is available here: Borrower-based Measures Regulation (available in Hungarian)
2.3	Legal basis and process of implementation of the measure	<p>As macroprudential authority in Hungary, the MNB in the event of any disturbance in the credit market shall adopt measures to control excessive credit growth to ensure that the financial intermediary system functions in a balanced way in financing the economy, as stipulated in Law CXXXIX of 2013 on the Magyar Nemzeti Bank (the MNB Act). In line with this, Section 171 (1) k ka) of the MNB Act empowers the Governor of the MNB to decree measures for the reduction of risks stemming from excessive credit growth if these measures are required to prevent the build-up of systemic risks and to mitigate systemic risks, and to increase the resilience of the financial intermediary system within the strategic framework defined by the Monetary Council, based on the decision of the Financial Stability Board.</p> <p>The measures are applied via amendment of the BBM Regulation.</p> <p>The legislation is available here: Borrower-based Measures Regulation (available in Hungarian)</p>

2.4	Coverage	<p>The amendment does not affect the institutional coverage of the BBM Regulation.</p>
		<p>According to Section 3 (1a) of the Decree, eligible (FTB) borrowers are those clients who until the day of submitting the loan application have not yet reached the age of 41, and have had an ownership share of less than 50 percent in any residential unit, or they have only had ownership in a residential unit that – regardless of the amount of the ownership share – was burdened with usufructuary rights based on legislation. The creditor shall ascertain the circumstances defined in Section 3 (1a) on the basis of a written declaration issued by the client and from the data of the real estate register as specified in Section 3 (1b) point of the Decree.</p>
		<p>The amendment does not affect the types of lending covered by the BBM Regulation.</p>
2.5	Calibration	<p>The calibration of the preferential 90 percent LTV limit for FTB borrowers was based on several considerations.</p> <ul style="list-style-type: none"> • The LTV distribution of new housing loans indicated a disproportionately high restricting effect in case of FTB borrowers in comparison to other borrowers as an increased clustering of FTBs was seen close to the LTV regulatory limit. • According to empirical findings, the credit risk of FTBs might be lower than that of other, non-FTB borrowers. The potentially lower credit risk of FTB-s might be explained by a stronger

		<p>commitment of debtors to their place of residence. Furthermore, the higher-than-average income growth potential of young borrowers could also result in lower probability of default.</p> <ul style="list-style-type: none"> • Sensitivity and affordability analyses were also carried out along with agent-based modelling to assess the possible impact of the FTB limits. <p>Besides the potentially lower credit risk of borrowers, during the introduction of the beneficial FTB LTV limits the currently decreasing cyclical systemic risks, the legally binding and unchanged DSTI limits in effect, the currently applicable relatively conservative LTV limits and the low mortgage credit penetration were also considered.</p> <p>Due to the above-mentioned reasons, the introduction of the FTB limits is expected to mitigate the unintended restrictive effect of the currently applied LTV regulation without eroding the resilience of banks or borrowers.</p> <p>See further details on the assessment of the FTB-specific BBMs here: https://en-hitelintezetiszemle.mnb.hu/letoltes/fer-22-2-st1-grosz-izsak-palicz-szasz.pdf</p>
3. Timing for the measure		
3.1	Timing for the decision	<p>What is the date of the official decision of the notified measure?</p> <p>14/11/2023</p>
3.2	Timing for publication	<p>What is the date of publication of the notified measure?</p> <p>15/12/2023</p>
3.3	Disclosure	<p>Press release, available in English:</p> <p>https://www.mnb.hu/en/pressroom/press-releases/press-releases-2023/mnb-supports-housing-loan-opportunities-of-young-first-time-home-buyers-with-lower-down-payment-requirements</p>

		See further details on the Hungarian BBM framework here: https://www.mnb.hu/en/financial-stability/macroprudential-policy/the-macroprudential-toolkit/borrower-based-measures-ltv-dsti
3.4	Timing for the application	What is the intended date for application of the measure? What is the intended timeline for phase-in of the measure, if relevant? 01/01/2024
3.5	End date (if applicable)	Not applicable.
4. Reason for activation of the measure		
4.1	Description of the macroprudential risk	<p>The rapid increase in house prices in Hungary in recent years and the commensurate increase in the down payment requirements have affected the housing possibilities of young first-time home buyers more severely than the average household. Due to their young age, first-time homebuyers typically do not yet have enough savings and thus sufficient down payment to take out a mortgage. This is further exacerbated by the high increase in rental fees in Hungarian municipalities, which further limits the saving possibilities of FTBs and prolongs the period required to set aside the required down payment. The limited access of young FTBs to the credit market might lead to unintended negative social and demographic second-round effects.</p> <p>In Hungary, an increased restricting effect of the LTV limits – measured as the share of new lending volume clustering around the regulatory limits – could be seen in the recent years. In new lending, the clustering of loans around the regulatory limits was the highest among single, young borrowers, below 40 years of age, buying used apartments in comparison to elder borrowers. The restricting effect of the LTV regulation was expected to further increase due to the revision of state subsidies</p>

		<p>from 2024, which aims to a more targeted allocation of funds. In case of the DSTI regulation however, a similar clustering of new loans as in the case of the LTV regulation for FTBs cannot be identified.</p> <p>The empirical findings point to the potentially lower credit risk of FTBs. This might be explained with the home purchase purpose of the young FTB borrowers and their potentially higher-than-average income growth due to the accumulating work experience.</p> <p>Besides the risk-mitigating factors above, the currently decreasing cyclical risks of the financial system in Hungary also support the introduction of preferential limits without disproportionately increasing systemic risks. In recent years, the high house price growth in Hungary has led to an increased risk of potential residential real estate (RRE) overheatedness. However, since the end of 2022, in parallel with the rising inflation and the strict monetary policy conditions aiming to decrease it, a pronounced slowdown and turning point can be seen on the credit and RRE markets, which resulted in decreasing cyclical systemic risks, as well. Furthermore, the outstanding residential real estate mortgage stock's volume compared to GDP is among the lowest in Hungary within the EU, which further limits the potential of systemic risk increases.</p>
4.2	Indicators used for activation of the measure	<p>We assessed the distribution of the LTV and DSTI ratios by various dimensions and detected a significant clustering of loans around the LTV limits in case of FTB borrowers. We also made affordability analysis for FTB and various typical borrower segments.</p> <p>See further details on the assessment of the beneficial FTB BBM rules here: https://en-hitelintezetiszemle.mnb.hu/letoltes/fer-22-2-st1-grosz-izsak-palicz-szasz.pdf</p>

4.3	Effects of the measure	<p>The credit and housing market effects of the amendment can only be estimated with high uncertainty. The potential demand for high-LTV loans can be materially affected by the actual high inflationary environment and the tight monetary conditions aiming to curb it. Furthermore, the lack of data on the proportion of the potentially eligible borrowers further hinders impact assessment.</p> <p>The impact will also depend on the additional volume of borrowers who would not appear on the credit market due to their insufficient savings.</p> <p>The exact effects can be significantly influenced by the housing market, the macro and the interest rate environment, since currently only a small part of debtors could take advantage of the higher loan amount due to the high instalments and the elevated restricting effect of the DSTI regulation. For this reason, the beneficial FTB LTV limits will only take effect more widely if interest rates are normalized.</p>
5. Sufficiency, consistency and non-overlap of the policy response		
5.1	Sufficiency of the policy response	<p>The amendment counterweights the restricting effect of the LTV regulation on FTB borrowers that might be disproportionately high compared to other borrowers due to the potentially lower credit risk of this consumer segment stemming from their higher-than-average income growth potential and their home buying loan purpose, thus preserves the effectivity of the measures.</p> <p>Furthermore, the DSTI limits are applied with no changes, limiting the excessive income-stretch of borrowers.</p> <p>Therefore, no significant change occurs to the macroprudential stance.</p>

5.2	Consistency of application of the policy response	<p>The amendment counterweights the restricting effect of the LTV regulation on FTB borrowers that might be disproportionately high compared to other borrowers due to the potentially lower credit risk of this consumer segment stemming from their higher-than-average income growth potential and their home buying loan purpose.</p> <p>Furthermore, the DSTI limits are applied with no changes, limiting the excessive income-stretch of borrowers.</p> <p>In view of this the resilience of borrowers and lenders is preserved as well.</p>
5.3	Non-overlap of the policy response	<p>The amendment counterweights the restricting effect of the LTV regulation on FTB borrowers; therefore, the amendment could not be substituted by other measures.</p> <p>The main objective of the BBM framework is to ensure the shock resilience of borrowers and to avoid excessive lending.</p>
6. Cross-border and cross-sector impact of the measure		
6.1	Assessment of cross-border effects and the likely impact on the Internal Market	<p>The amendment does not have significant cross-border effects and does not affect the Internal Market.</p>

	(Recommendation ESRB/2015/2 ²)	
6.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	The BBM regulation covers all loans and leases lent in the territory of Hungary, thus the potential regulatory leakages are assessed to be negligible.
6.3	Request for reciprocation	No, cross-border household lending is negligible in Hungary.

² Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).

6.4	Justification for the request for reciprocation	Not applicable.
7. Miscellaneous		
7.1	Contact person(s)/mailbox at notifying authority	szakacsj@mnb.hu János Szakács Head of Macroprudential Policy Department
7.2	Any other relevant information	-
7.3	Date of the notification	08/02/2024