The Governing Board of the Bank of Slovenia adopted at its 561st meeting of 30 August 2016, amended at its 603rd meeting of 19 June 2018, and extended at its 610th meeting of 22 October 2018 the following

MACROPRUDENTIAL RECOMMENDATION

for household lending

I. Objectives of the recommendation

(1) The Bank of Slovenia is introducing a macroprudential recommendation for household lending, with the intermediate macroprudential policy objective of "mitigating and preventing excessive credit growth and leverage".

(2) The recommendation does not encroach on the rules regarding the responsibility of banks in assessing and taking up risks. Banks need to set their own business policies in connection with the assessment and take-up of risk.

II. Definition of terms

(1) The following definitions shall apply for the purposes of this recommendation:

(a) **'borrower'** means the signatory or co-signatory of a credit agreement (without guarantors or lienees who establish a lien as collateral for the debt of another party, or persons acceding to debt);
(b) **'lender'** means a bank, savings bank, branch of a Member State bank or a branch of a third-country bank in Slovenia;
(c) **'consumer'** means a natural person who is acting for purposes outside his/her profession or gainful activity;[1]
(d) **'credit agreement'** means an agreement between a borrower and lender under which the lender grants or promises to grant the borrower credit in the form of a deferred payment, or a loan or similar financial agreement;
(e) **'residential real estate'** means immovable property intended for residential use that is the subject of purchase, construction or renovation by the borrower;
(f) **'loan secured by residential real estate'** is a loan for which residential real estate has been pledged as collateral;
(g) **'housing loan'** means a loan granted for the purchase, construction or renovation of residential real estate, or a loan secured by residential real estate;
(h) **'consumer loan'** is any loan to a consumer that is not a housing loan;
(i) **'loan amount'** includes the total amount of the loan approved when the credit agreement is concluded. For loans paid out in tranches (e.g. a loan for real estate under construction), the total amount of the approved loan is taken into account, irrespective of the execution of payment;
(j) **'real estate value'** is the value of residential real estate as defined by the bank in accordance with Article 45 of the Consumer Credit Act (the ZPotK-2).[2] In the case of real estate under construction or renovation, the bank uses the projected value of the real estate after construction or renovation. When there are several more senior liens, the entire amount of debt already secured by a mortgage on that real estate is deducted from the real estate value. When liens are of the same seniority, the real estate value is allocated across the debts on a *pro rata* basis. For the purpose of this recommendation,

[1] Self-employed persons are excluded from the definition within the limits of pursuing their profession or gainful activity.
[2] Official Gazette of the Republic of Slovenia, No. 77/16.

the real estate value does not take account of internal adjustments or the methods for calculating the real estate value used by banks for risk management purposes. Haircuts are therefore not applied to the real estate value;

(k) **'LTV (loan-to-value) ratio'** means the ratio of the amount of a housing loan to the value of the real estate pledged as collateral when the credit agreement is concluded;

(l) **'borrower's total debt'** refers to the borrower's total debt (with all lenders) when the credit agreement is concluded. This includes the amount of the loan that is the subject of treatment, and all other loans (housing loans, consumer loans, etc.) with all lenders;

(m) **'debt servicing costs'** include interest and the repayment of the principal of the borrower's approved loan when the credit agreement is concluded. When the payments are not fully-amortising, the debt servicing costs are calculated under the assumption of straight-line amortisation. When the instalments vary over the lifetime of a loan (e.g. a promotional interest rate in the first few months), the debt servicing costs are calculated by applying an effective interest rate;

(n) **'total debt servicing costs'** are the sum of servicing costs of all the loans included in the borrower's total debt;

(o) **'borrower's income'** means the annual income of the borrower when the credit agreement is concluded. A bank may take into account the following types of income when defining the borrower's income: annual earnings from all income sources (employment income, income from self-employment, pensions, earnings from unemployment and social transfers, private transfers such as maintenance payments, earnings from the letting of real estate, financial investments and other sources), minus taxes and contributions (e.g. contributions for health insurance, pension insurance and social security), but before the deduction of expenses;

(p) **'DSTI (debt service-to-income) ratio'** means the ratio of the annual total debt servicing costs to the borrower's annual income when the credit agreement is concluded.

III. Recommendation

A:
Limitations on the LTV ratio when the credit agreement is concluded for new housing loans

It is recommended that the LTV (loan-to-value) ratio does not exceed 80% when the credit agreement is concluded for new housing loans secured by residential real estate.

B:
Limitations on the DSTI ratio when the credit agreement is concluded for new consumer and housing loans

1) It is recommended that, for new consumer and housing loans, the DSTI (debt service-to-income) ratio does not exceed the following values when the credit agreement is concluded:
   a) for borrowers with monthly income of EUR 1,700 or less: 50%; and
   b) for borrowers with monthly income of more than EUR 1,700: 50% for the portion of income up to EUR 1,700 inclusive, and 67% for the portion of income exceeding EUR 1,700.

In the case of multiple borrowers, this provision applies to each borrower separately.

2) In the loan approval process (when assessing creditworthiness) it is recommended that banks apply, *mutatis mutandis*, the limitations on the attachment of a debtor's financial assets set out in the Enforcement and Securing of Claims Act (ZIZ)[3] and the Tax Procedure Act (ZDavP-2),[4] i.e. earnings that are exempt from attachment and limitations on the attachment of a debtor's financial earnings.

C:

[3] Official Gazette of the Republic of Slovenia, Nos. 3/07 (official consolidated version), 93/07, 37/08 (ZST-1), 45/08 (ZArbit), 28/09, 51/10, 26/11, 17/13 (constitutional court ruling), 45/14 (constitutional court ruling), 53/14, 58/14 (constitutional court ruling), 54/15 and 76/15 (constitutional court ruling).

[4] Official Gazette of the Republic of Slovenia, Nos. 13/11 (official consolidated version), 32/12, 94/12, 101/13 (ZDavNepr), 25/14 (ZFU), 40/14 (ZIN-B), 90/14 and 91/15.

Maturity limits for new consumer loans

It is recommended that the repayment period or maturity for new consumer loans does not exceed 120 months when the credit agreement is concluded.

IV. Assessment of compliance with the recommendation

The Bank of Slovenia will regularly assess compliance with the recommendation via annual surveys on the structure of new household lending, via regular bank reporting or during regular supervisory activities.

If the circumstances on the market change and systemic risk increases, the Bank of Slovenia may tighten the parameters of the recommendation, modify its content, or issue a binding macroprudential measure.

V. Final provision

This recommendation enters into force upon its publication on the Bank of Slovenia website.

Ljubljana, 22 October 2018

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