

Pursuant to the first paragraph of Article 31 of the Bank of Slovenia Act (Official Gazette of the Republic of Slovenia, Nos. 72/06 [official consolidated version], 59/11, 55/17 and 5/18), and Articles 4, 17 and 19 of the Macroeprudential Supervision of the Financial System Act (Official Gazette of the Republic of Slovenia, No. 100/13), the Governing Board of the Bank of Slovenia hereby issues the following

REGULATION
on macroprudential restrictions on household lending

1. GENERAL PROVISIONS

Article 1
(content and purpose of regulation)

(1) With the aim of “mitigating and preventing excessive credit growth and excessive leverage”, the Bank of Slovenia is introducing macroprudential restrictions on household lending.

(2) The regulation sets out three macroprudential instruments:

- (a) a maximum allowed repayment/maturity period, and a level of allowed deviations (exemptions) from the maximum allowed repayment/maturity period in credit agreements for consumer purposes when the credit agreement is concluded;
- (b) a cap on the ratio of the annual total debt servicing costs to the consumer’s annual income when the credit agreement is concluded, and a level of allowed deviations (exemptions) from the cap;
- (c) a cap on the ratio of the amount of a credit agreement for residential real estate to the value of the real estate pledged as collateral when the credit agreement is concluded.

(3) The provisions of this regulation shall apply to banks, savings banks, branches of Member State banks and branches of third-country banks in the Republic of Slovenia (hereinafter: banks).

(4) The regulation does not encroach on the rules regarding the responsibilities of banks in taking up and managing risks. Banks shall continue to determine their own internal policy for taking up and managing risks, in accordance with the Regulation on internal governance arrangements, the management body and the internal capital adequacy assessment process for banks and savings banks (Official Gazette of the Republic of Slovenia, Nos. 73/15, 49/16, 68/17, 33/18, 81/18 and 45/19).

(5) Whenever this regulation makes reference to the provisions of other regulations, these provisions shall apply in their valid wording at the time in question.

Article 2
(definition of terms)

The following definitions shall apply for the purposes of this regulation:

- (a) **‘consumer’** means a natural person who is acting for purposes outside his/her profession or gainful activity;
- (b) **‘credit agreement’** means an agreement whereby a creditor grants or promises to grant to a consumer credit in the form of a deferred payment, loan or other similar financial arrangement;
- (c) **‘residential real estate’** means immovable property intended or designed for residential use;
- (d) **‘credit agreement for residential real estate’** (**“housing loan”**) is a credit agreement:

- where the claim is secured by a lien on residential real estate in accordance with the law governing property law relations (“credit agreement secured by residential real estate”), or
 - whose purpose is acquiring or retaining title to existing or planned residential real estate (including renovation);
- (e) **‘credit agreement for consumer purposes’** (“**consumer loan**”) is any credit agreement that is not a credit agreement for residential real estate;
- (f) **‘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 when the payout is made;
- (g) **‘residential real estate value’** is the value of residential real estate estimated in accordance with the law governing consumer credit. In the case of real estate under construction or renovation, the projected value of the real estate after construction or renovation is used. In the case of pre-existing mortgage charges on the same real estate, 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 on a *pro rata* basis across the debts secured by the mortgage on that real estate. For the purposes of this regulation, 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 not applied to the real estate value;
- (h) **‘LTV or loan-to-value’** is the ratio of the amount of a credit agreement for residential real estate to the value of the real estate pledged as collateral when the credit agreement is concluded;
- (i) **‘consumer’s total debt’** refers to the consumer’s total debt when the loan agreement is concluded. This debt includes the amount of the loan that is the subject of the credit agreement in question, and the amounts of all other outstanding credit agreements other than debts related to credit cards and credit limits;
- (j) **‘debt servicing costs’** consist of the annuity payments when the credit agreement is concluded, including interest and repayment of principal. An assumption of annuity-style repayment is applied to all loans, irrespective of the actual method of repayment on the loan. For loans where the interest rate changes during the lifetime of the loan (e.g. a promotional interest rate during the first few months of repayment), the annuity is calculated on the basis of the average contractual interest rate computed by taking account of the total lifetime of the loan. For loans with a variable interest rate, in the calculation of the average contractual interest rate it is assumed that the benchmark interest rate remains unchanged over the lifetime of the loan;
- (k) **‘total debt servicing costs’** are the sum of the servicing costs of all the loans included in the borrower’s total debt;
- (l) **‘annual total debt servicing costs’** are the sum of the servicing costs of the total debt in a period of one year from the conclusion of a new credit agreement;
- (m) **‘consumer’s annual income’** is the consumer’s income over a period of one year before the conclusion of a new credit agreement. The bank takes account of the following types of income: earnings from all income sources defined in the law governing personal income tax (employment income, income from gainful activities, pensions, rental income, income from financial investments and other sources), other than earnings of a one-off or occasional nature (e.g. jubilee benefits and extraordinary bonuses) and earnings that in accordance with the law governing enforcement and collateral are exempt from attachment. Taxes and contributions (e.g. contributions for health insurance, pension insurance and social security insurance) are deducted from income, which is taken into account before any deduction of costs. In exceptional cases the bank may take account of income over the last three months, annualised, if the borrower was not employed before, whereby income that is typically quarter-specific (e.g. Christmas bonus, leave allowance) is taken into account only once;
- (n) **‘DSTI (debt-service-to-income)’** is the ratio of the annual debt servicing costs to the consumer’s annual income when the loan agreement is concluded;

- (o) **'bridging loan'** is a credit agreement for residential real estate that is not concluded for a fixed period or where the loan needs to be repaid in 12 months and that serves the consumer as a temporary solution with regard to financing credit for real estate before another financial agreement is concluded for the real estate. A credit agreement that is concluded for a maximum period up to the date until which a fixed-term deposit at the creditor bank is fixed and where the liabilities can be settled in full from the funds in the fixed-term deposit by no later than the expiry of the credit agreement is also considered to be a bridging loan.

Article 3
(exemptions from application of regulation)

This regulation shall not apply to:

- (a) finance leasing agreements (lease, rent);
- (b) contracts regarding which forbearance measures as defined in Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176 of 27 June 2013, p 1), last amended by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (OJ L 150 of 7 June 2019, p 1) have been implemented.

2. MAXIMUM MATURITY FOR CONSUMER LOANS

Article 4
(limits on maturity)

- (1) When a new credit agreement is concluded, the duration of the credit agreement or the maturity may not exceed 84 months.
- (2) This article shall not apply to credit agreements for residential real estate.

Article 5
(allowed deviations)

- (1) The previous article notwithstanding, the maximum maturity may be exceeded by a maximum of 15% of new credit agreements, provided that their maturity does not exceed 120 months.
- (2) The allowed deviations shall be determined at the quarterly level, and shall be calculated with regard to the total amount of new credit agreements that comply with Articles 4 and 6 of this regulation.
- (3) Credit agreements that exceed the limits on maturity set out in Article 4 of this regulation may not be approved with a DSTI higher than the cap set out in Article 6 of this regulation.

3. CAP ON DSTI

Article 6
(cap on DSTI)

- (1) When a new credit agreement is concluded, the DSTI ratio may not exceed:

- a) for consumers whose monthly income is no more than twice the minimum gross wage as set out by the law defining the minimum wage: 50%; and
 - b) for consumers whose monthly income is higher than the income level defined in point a): 50% for the portion of income up to and including the income level defined in point a), and 67% for the portion of income that exceeds the income level defined in point a).
- (2) Notwithstanding the income level, no less than the amount of 76% of the minimum gross wage as set out by the law defining the minimum wage may remain for the consumer each month after the payment of all instalments under credit agreements. If the consumer is supporting a family member or another person that he/she is required to support by law, the amount of income stipulated for the person that he/she is supporting according to the criteria for allocating cash social assistance set out by the law governing social security benefits shall also remain for the consumer.
- (3) When a credit agreement has been concluded by several consumers, the provisions of the first and second paragraphs of this article shall apply to each consumer separately.
- (4) This article shall not apply to bridging loans.

Article 7
(allowed deviations)

- (1) The first paragraph of the previous article notwithstanding, the cap on DSTI may be exceeded by a maximum of 10% of new credit agreements for residential real estate and a maximum of 10% of credit agreements for consumer purposes, provided that these credit agreements comply with the second paragraph of the previous article and that the DSTI ratio under the credit agreements does not exceed 67%. Credit agreements for consumer purposes where the cap on DSTI prescribed in the first paragraph of Article 6 of this regulation is exceeded shall be required to comply with Article 4 of this regulation.
- (2) The allowed deviations shall be determined at the quarterly level, and shall be calculated with regard to the total amount of new credit agreements that comply with Articles 4 and 6 of this regulation.
- (3) When a credit agreement has been concluded by several consumers, one of whom fails to meet the cap set out in Article 6 of this regulation, the total amount of the credit agreement shall count towards the proportion of allowed deviations.

4. RECOMMENDED CAP ON LTV FOR HOUSING LOANS

Article 8
(recommended cap on LTV)

When a new credit agreement secured by residential real estate is concluded, it is recommended that the LTV does not exceed 80%.

5. FINAL PROVISIONS

Article 9
(validity of regulation)

The macroprudential measures set out by this regulation shall apply until cancelled.

Article 10
(cessation of validity of macroprudential recommendation)

Upon the entry into force of this regulation, the Macroprudential recommendation for household lending shall cease to be in force.

Article 11
(entry into force)

This regulation shall enter into force on 1 November 2019.

Ljubljana, 21 October 2019

Boštjan Vasle
President,
Governing Board of the Bank
of Slovenia