



**ESRB**

European Systemic Risk Board

European System of Financial Supervision

**ECB- CONFIDENTIAL**

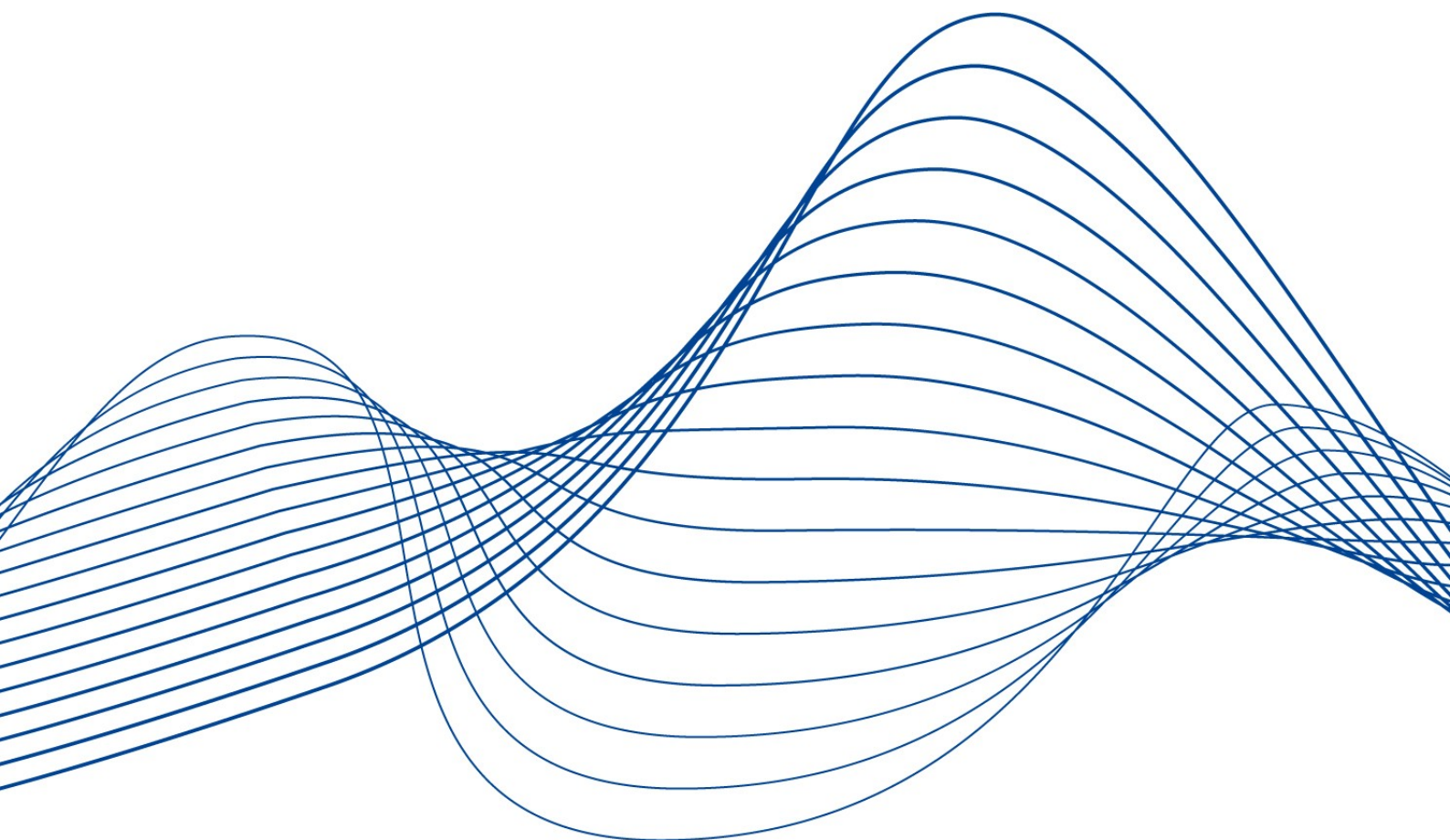
**Follow-up to the Recommendation ESRB/2019/7 on  
medium-term vulnerabilities in the residential real estate  
sector in the Netherlands  
Sub-recommendation B(1) and Recommendation C**

Reporting deadline: **31 October 2021**

Addressees:

**The Netherlands**

**The macroprudential authority, the designated authority or the  
competent authority in the Netherlands, as applicable**



## Introduction

<b>Legal instrument</b>	Recommendation ESRB/2019/7 on medium-term vulnerabilities in the residential real estate sector in the Netherlands
<b>Reporting institution</b>	De Nederlandsche Bank
<b>Date of reporting</b>	31 October 2021
<b>Confidentiality regime*</b>	
<b>Name and contact details of the respondent</b>	<b>Name:</b> Francesco Caloia <b>Email:</b> f.g.caloia@dnb.nl <b>Tel:</b> +31 631028530

\* Please indicate the level of confidentiality you wish to apply to the responses provided herein.

## Timeline for completing the template and submitting the follow-up report

The purpose of this template is to assist the addressees to provide the ESRB with a follow-up report on the assessment of implementation of sub-recommendation B(1) and Recommendation C of the Recommendation ESRB/2019/7 (hereinafter the 'Recommendation'), due by **31 October 2021**.

Addressees are kindly invited to complete this template, summarising the actions taken to comply with the Recommendation or providing adequate justification for inaction **until 31 October 2021**. Addressees are expected to provide relevant information and documentation related to the implementation of Recommendation including information on the substance (such as on the legal form of the measure) and timing of the actions taken. If an addressee only partially complies, it should provide a full explanation of the extent of non-compliance, as well as other details of partial compliance. The explanation should clearly specify the relevant parts of the recommendation which the addressees do not comply with.

## Instructions to addressees

Each addressee should submit the completed template to the ESRB via the ESRB Secretariat. Subsequently, the ESRB Secretariat will arrange for the transmission of the reports to the Commission, the Council and the European Parliament in accordance with Article 17(1) of Regulation No 1092/2010<sup>1</sup>.

For the purposes of reporting to the ESRB, the completed template should be sent to the ESRB Secretariat electronically via DARWIN or ASTRA in the dedicated folder or by email to [ESRBlegal@ecb.europa.eu](mailto:ESRBlegal@ecb.europa.eu) by **31 October 2021**:

<https://darwin.escb.eu/livelink/livelink/app/nodes/346348883>

ASTRA:

<https://astra.ecb.europa.eu/app/#/files?1887614256380123477>

<sup>1</sup> OJ L 331, 15.12.2010, p. 1

<b>Content of sub-recommendation</b>	<b>Sub-recommendation B(1)</b>
	<p><b>Tightening of borrower-based measures and approach to calibration</b></p> <p>It is recommended that the Netherlands lower the current legally binding limit that applies to the LTV ratio, thus ensuring that collateral for new mortgage loans is sufficient to cover credit losses corresponding to the potential decrease in house prices under adverse economic or financial conditions.</p>
<b>Addressee</b>	<b>The Netherlands</b>
<b>Reporting deadline</b>	<b>31 October 2021</b>
	<b>Sub-recommendation B(1)</b>
<p><b>1. Actions taken</b></p> <p>Please describe the essence of the actions taken to comply with the relevant sub-recommendation, including how it ensures that collateral for new mortgage loans is sufficient to cover credit losses corresponding to the potential</p>	

decrease in house prices under adverse economic or financial conditions.	
<b>2. Timeline</b>  Please indicate the time period when the actions required under the relevant sub-recommendation were taken.	
Compliance Criteria	Sub-recommendation B(1)
<b>1. Compliance criterion</b>  Please describe how you applied the principle of proportionality, taking into account the objective and content of this recommendation.  <i>[Article 1(a) of Section 2.2 of the Recommendation]</i>	
<b>2. Compliance criterion</b>  Please provide evidence on the assessment you made of the position of the Netherlands in the economic and financial cycles prior to further lowering the existing limits that apply to the LTV ratio.	

<p><i>[Par. 1 and 2 of Recommendation B, Annex I]</i></p>	
<p><b>3. Compliance criterion</b></p> <p>Please describe how the calibration and phasing-in of the measure lowering the existing limit that applies to the LTV ratio took into account the position of the Netherlands in the economic and financial cycles.</p> <p><i>[Article 1(b) of Section 2(2) of the Recommendation]</i></p>	
<p><b>4. Compliance criterion</b></p> <p>Please include the assessment of the vulnerabilities related to pockets of overvaluation of house prices and the collateralisation of new and existing mortgage loans, including the distribution of new mortgage loans according to their LTV ratios, with the relevant ratios being calculated in accordance with Annex IV to Recommendation ESRB/2016/14 of the European Systemic Risk Board<sup>2</sup>, together with the functioning of the actions undertaken, having regard to the</p>	

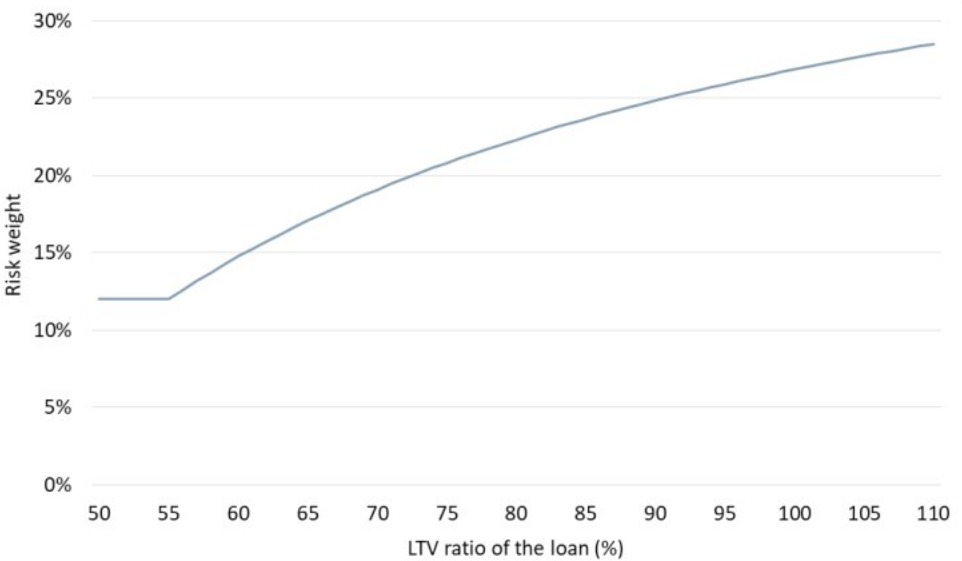
<sup>2</sup> Recommendation ESRB/2016/14 of the European Systemic Risk Board of 31 October 2016 on closing real estate data gaps (OJ C 31, 31.1.2017, p. 1).

<p>objectives of this Recommendation.</p> <p><i>[Article 2(b), Section 2(2) of the Recommendation]</i></p>	
<p><b>Self-assessment</b></p> <p>In case of action, please provide a self-assessment on whether the actions undertaken are fully compliant, largely compliant, partially compliant, materially non-compliant or non-compliant with the above sub-recommendation.</p>	
<p><b>Justifications</b></p> <p>Please provide, as appropriate, justifications for (i) inaction, (ii) delays in action and (iii) departure from the sub-recommendation, as may be relevant. Please provide a self-assessment on whether the inaction is sufficiently or insufficiently explained.</p>	
<p><b>Additional information</b></p> <p>Please provide other information that is not otherwise covered in the present document and that is relevant for the purposes of the follow-up assessment.</p>	

Please also attach any relevant documents (if applicable).	
<b>Content of recommendation</b>	<b>Recommendation C</b>
	<p><b>Activation of capital-based measures</b></p> <p>It is recommended that the macroprudential authority, the designated authority or the competent authority in the Netherlands, as applicable, ensure, by activating capital-based measures, the resilience of credit institutions authorised in the Netherlands in the face of the potential materialisation of systemic risk related to residential real estate which could lead to direct and indirect credit losses stemming from mortgage loans or arising as a consequence of the decrease in consumption by households with housing loans.</p>
<b>Addressees</b>	<b>The macroprudential authority, the designated authority or the competent authority in the Netherlands, as applicable.</b>
<b>Reporting deadline</b>	<b>31 October 2021</b>
	<b>Recommendation C</b>
<p><b>1. Actions taken</b></p> <p>Please describe the essence of the actions taken to comply with the relevant recommendation, including how the measure taken ensures the resilience in the face of the potential materialisation of systemic risk.</p>	<p>On 21 June 2021, <a href="#">DNB announced</a> the intention not to further postpone the introduction of a risk-weighting floor for residential mortgages (starting from January 2022). On October 21 2021, the introduction of the measure was published in the <a href="#">Staatscourant</a> (Government gazette). In line with the announcement, the regulation will effectively come into force as of January 1 2022.</p> <p>By increasing the loss-absorbing capacity of banks (via a higher capital requirements on residential mortgage exposures) the measure taken ensures that banks increase their resilience in face of a potential materialization of systemic risks stemming from the housing sector.</p>
<p><b>2. Timeline</b></p> <p>Please indicate the time period when the actions required under the relevant</p>	<p>On 15 October 2019, DNB announced its intention to impose a floor for the risk weights of IRB banks' mortgage portfolios, based on art 458 of the CRR. Following a public consultation and the notification of the relevant European institutions, DNB intended to take a final decision in March 2020, and the measure was due to take effect in Fall 2020. On 6 March</p>

recommendation were taken.	<p>2020, DNB received notification from the European Commission of its decision not to object to the proposed measure.</p> <p>On 17 March 2020, DNB decided to postpone the introduction of the measure in light of the coronavirus outbreak and its potential impact on the Dutch economy and the financial sector. In October 2020, DNB has announced that the measure will not come into force before the end of 2021.</p> <p>On 21 June 2021, DNB decided not to further postpone its introduction, and announced that the measure will come into force as of January 2022. On October 21 2021, the introduction of the measure was published in the <a href="#">Staatscourant</a> (Government gazette). The regulation will effectively come into force as of January 1 2022.</p>
Compliance Criteria	Recommendation C
<p><b>1. Compliance criterion</b></p> <p>Please describe how you applied the principle of proportionality, taking into account the objective and content of this recommendation.</p> <p><i>[Article 1(a) of Section 2.2 of the Recommendation]</i></p>	<p>DNB considers the measure to be proportionate: the objective to increase banks' resilience against a potential downturn in the housing market is achieved by imposing an average minimum risk weight for IRB banks, which increases and stabilizes the amount of capital held against residential mortgage exposures. The total amount of capital banks need to hold is estimated to increase by around EUR 5 billion.</p>
<p><b>2. Compliance criterion</b></p> <p>Please provide evidence of the assessment you took prior to activating capital-based measures about the position of the Netherlands in the economic and financial cycles.</p> <p><i>[Par. 1 of the Recommendation C, Annex I]</i></p>	<p>The decision to postpone the introduction of Article 458 measure (taken in March 2020) reflected the possible materialization of systemic risks after the coronavirus outbreak and its potential impact on the Dutch economy and financial sector. The subsequent decision not to further postpone the introduction of Article 458 measure (taken in June 2021) reflected the strongly positive economic outlook projected for Dutch economy in the period 2021q2-2023, as evident from <a href="#">DNB's economic projections</a> published shortly later.</p>
<p><b>3. Compliance criterion</b></p> <p>Please describe how the calibration and phasing-in of the capital-based</p>	<p>The calibration of the measure assigns a 12% risk weight to the portion of the loan not exceeding 55% of the market value of the immovable property collateral, and a 45% risk weight is assigned to the remaining portion of the loan. The risk weight floor for the mortgage portfolio is then calculated as the exposure-weighted average of the assigned risk weights for the individual loans. This means that the risk weights of the individual loans to be used for this calculation increase with the</p>



<p>measures took into account the position of the Netherlands in the economic and financial cycles.</p> <p><i>[Article 1(c) of Section 2(2) of the Recommendation]</i></p>	<p>LTV ratio: risk weights range from 12% for loans with an LTV ratio below or equal to 55%, to 26.85% for loans with an LTV ratio of 100%, and above for loans with LTV ratios above 100. (see the figure below).</p> <p>The phase-in and calibration of the measure considered the position of the Netherlands in the business and credit cycle (see previous response to compliance criteria 2).</p>  <table border="1"> <caption>Data points for LTV Risk Weight</caption> <thead> <tr> <th>LTV ratio of the loan (%)</th> <th>Risk weight (%)</th> </tr> </thead> <tbody> <tr> <td>50</td> <td>12.00</td> </tr> <tr> <td>55</td> <td>12.00</td> </tr> <tr> <td>60</td> <td>14.50</td> </tr> <tr> <td>65</td> <td>17.00</td> </tr> <tr> <td>70</td> <td>19.50</td> </tr> <tr> <td>75</td> <td>21.50</td> </tr> <tr> <td>80</td> <td>23.00</td> </tr> <tr> <td>85</td> <td>24.50</td> </tr> <tr> <td>90</td> <td>25.50</td> </tr> <tr> <td>95</td> <td>26.50</td> </tr> <tr> <td>100</td> <td>26.85</td> </tr> <tr> <td>105</td> <td>27.50</td> </tr> <tr> <td>110</td> <td>28.50</td> </tr> </tbody> </table>	LTV ratio of the loan (%)	Risk weight (%)	50	12.00	55	12.00	60	14.50	65	17.00	70	19.50	75	21.50	80	23.00	85	24.50	90	25.50	95	26.50	100	26.85	105	27.50	110	28.50
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<p><b>4. Compliance criterion</b></p> <p>In case the adopted capital-based measures were further tightened or additional macroprudential measures were needed to address the vulnerabilities identified in the Netherlands, please provide a description on how the relevant decision took into account the characteristics of the capital-based measures already activated, the initial calibration of those</p>	<p>Not applicable</p>																												

<p>measures and the results of the assessment of vulnerabilities.</p> <p>[Par. 2 of the Recommendation C, Annex I]</p>																																																																																																																																																																																										
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While this is leading to decreasing affordability and pockets of risky lending, as evident from the increasing share of newly grant mortgages with high loan-to-income ratios and the revived uptake of interest only mortgages, the share of newly originated mortgages with high LTV ratios is decreasing (right figure below), despite remaining very high in general, as regards both the new production and the stock of exposures (left figure below).</p> <div><div><p>Current loan to value</p><table border="1"><caption>Current loan to value distribution</caption><thead><tr><th>LTV (%)</th><th>Frequency</th></tr></thead><tbody><tr><td>5</td><td>2</td></tr><tr><td>10</td><td>4</td></tr><tr><td>15</td><td>4</td></tr><tr><td>20</td><td>4</td></tr><tr><td>25</td><td>4</td></tr><tr><td>30</td><td>5</td></tr><tr><td>35</td><td>5</td></tr><tr><td>40</td><td>6</td></tr><tr><td>45</td><td>6</td></tr><tr><td>50</td><td>7</td></tr><tr><td>55</td><td>7</td></tr><tr><td>60</td><td>7</td></tr><tr><td>65</td><td>8</td></tr><tr><td>70</td><td>7</td></tr><tr><td>75</td><td>6</td></tr><tr><td>80</td><td>5</td></tr><tr><td>85</td><td>4</td></tr><tr><td>90</td><td>3</td></tr><tr><td>95</td><td>2</td></tr><tr><td>100</td><td>1</td></tr><tr><td>105</td><td>1</td></tr><tr><td>110</td><td>1</td></tr><tr><td>115</td><td>1</td></tr><tr><td>120</td><td>1</td></tr></tbody></table></div><div><p>Figure 10 The average loan-to-value ratio is continuing to fall in the case of new mortgages, but it remains high</p><p>Percentages</p><table border="1"><caption>Figure 10: LTV Trends (Estimated %)</caption><thead><tr><th>Category</th><th>14-I</th><th>14-II</th><th>14-III</th><th>14-IV</th><th>15-I</th><th>15-II</th><th>15-III</th><th>15-IV</th><th>16-I</th><th>16-II</th><th>16-III</th><th>16-IV</th><th>17-I</th><th>17-II</th><th>17-III</th><th>17-IV</th><th>18-I</th><th>18-II</th><th>18-III</th><th>18-IV</th><th>20-I</th><th>20-II</th><th>20-III</th><th>20-IV</th><th>21-I</th><th>21-II</th></tr></thead><tbody><tr><td>Average LTV - first-time buyers (LLD)</td><td>92</td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td><td>98</td><td>99</td><td>100</td><td>101</td><td>102</td><td>103</td><td>104</td><td>105</td><td>106</td><td>107</td><td>108</td><td>109</td><td>110</td><td>111</td><td>112</td><td>113</td><td>114</td><td>115</td><td>116</td><td>117</td></tr><tr><td>Average LTV - home movers (LLD)</td><td>72</td><td>73</td><td>74</td><td>75</td><td>76</td><td>77</td><td>78</td><td>79</td><td>80</td><td>81</td><td>82</td><td>83</td><td>84</td><td>85</td><td>86</td><td>87</td><td>88</td><td>89</td><td>90</td><td>91</td><td>92</td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td></tr><tr><td>Average LTV - first-time buyers (RRE)</td><td>72</td><td>73</td><td>74</td><td>75</td><td>76</td><td>77</td><td>78</td><td>79</td><td>80</td><td>81</td><td>82</td><td>83</td><td>84</td><td>85</td><td>86</td><td>87</td><td>88</td><td>89</td><td>90</td><td>91</td><td>92</td><td>93</td><td>94</td><td>95</td><td>96</td><td>97</td></tr><tr><td>Average LTV - home movers (RRE)</td><td>35</td><td>36</td><td>37</td><td>38</td><td>39</td><td>40</td><td>41</td><td>42</td><td>43</td><td>44</td><td>45</td><td>46</td><td>47</td><td>48</td><td>49</td><td>50</td><td>51</td><td>52</td><td>53</td><td>54</td><td>55</td><td>56</td><td>57</td><td>58</td><td>59</td><td>60</td></tr></tbody></table><p>Source: DNB loan level data.</p></div></div>	LTV (%)	Frequency	5	2	10	4	15	4	20	4	25	4	30	5	35	5	40	6	45	6	50	7	55	7	60	7	65	8	70	7	75	6	80	5	85	4	90	3	95	2	100	1	105	1	110	1	115	1	120	1	Category	14-I	14-II	14-III	14-IV	15-I	15-II	15-III	15-IV	16-I	16-II	16-III	16-IV	17-I	17-II	17-III	17-IV	18-I	18-II	18-III	18-IV	20-I	20-II	20-III	20-IV	21-I	21-II	Average LTV - first-time buyers (LLD)	92	93	94	95	96	97	98	99	100	101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	Average LTV - home movers (LLD)	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	Average LTV - first-time buyers (RRE)	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	Average LTV - home movers (RRE)	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
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Recommendation C.	
<p><b>Justifications</b></p> <p>Please provide, as appropriate, justifications for (i) inaction, (ii) delays in action, or (iii) departure from Recommendation C, as may be relevant. Please provide a self-assessment on whether the inaction is sufficiently or insufficiently explained.</p>	Not applicable.
<p><b>Additional information</b></p> <p>Please provide other information that is not otherwise covered in the present document and that is relevant for the purposes of the follow-up assessment.</p> <p>Please also attach any relevant documents (if applicable).</p>	<p>Additional information can be found in:</p> <ul style="list-style-type: none"> <li>- <a href="#">Notification by De Nederlandsche Bank on a stricter measure based on Article 458 of the CRR (europa.eu)</a></li> <li>- <a href="#">Overzicht Financiële Stabiliteit - Najaar 2021 ENG (dnb.nl)</a></li> </ul>