ESRB
European Systemic Risk Board
European System of Financial Supervision

ECB- Restricted

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 2020**

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

Introduction

Legal instrument	Recommendation ESRB/2019/7 on medium-term vulnerabilities in the residential real estate sector in the Netherlands
Reporting institution	The Ministry of Finance
Date of reporting	31 October 2020
Confidentiality regime*	Public
Name and contact details of the respondent	**Name**: Cor Jan Russcher **Email**: c.j.russcher@minfin.nl **Tel**: +31 6 1114 9926

* 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 request the Netherlands and the macroprudential authority, the designated authority or the competent authority, as applicable, in the Netherlands, 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 2020**.

Addressees are kindly invited to complete this template, summarising the actions taken to comply with the sub-recommendation B(1) and Recommendation C or providing adequate justification for inaction. Addressees are expected to provide relevant information and documentation related to the implementation of sub-recommendation B(1) and Recommendation C, including information on the substance and timing of the actions taken.

Instructions to addressees

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

For the purposes of reporting to the ESRB, the completed template should be sent to the ESRB Secretariat electronically via DARWIN in the dedicated folder or by email to notifications@esrb.europa.eu by **31 October 2020**:

https://darwin.escb.eu/livelink/livelink?func=ll&objId=299227466&objAction=browse&viewType=1

The required follow-up reports by the addressees should contain a reference to all the details referred to in sub-recommendation B(1) and Recommendation C.

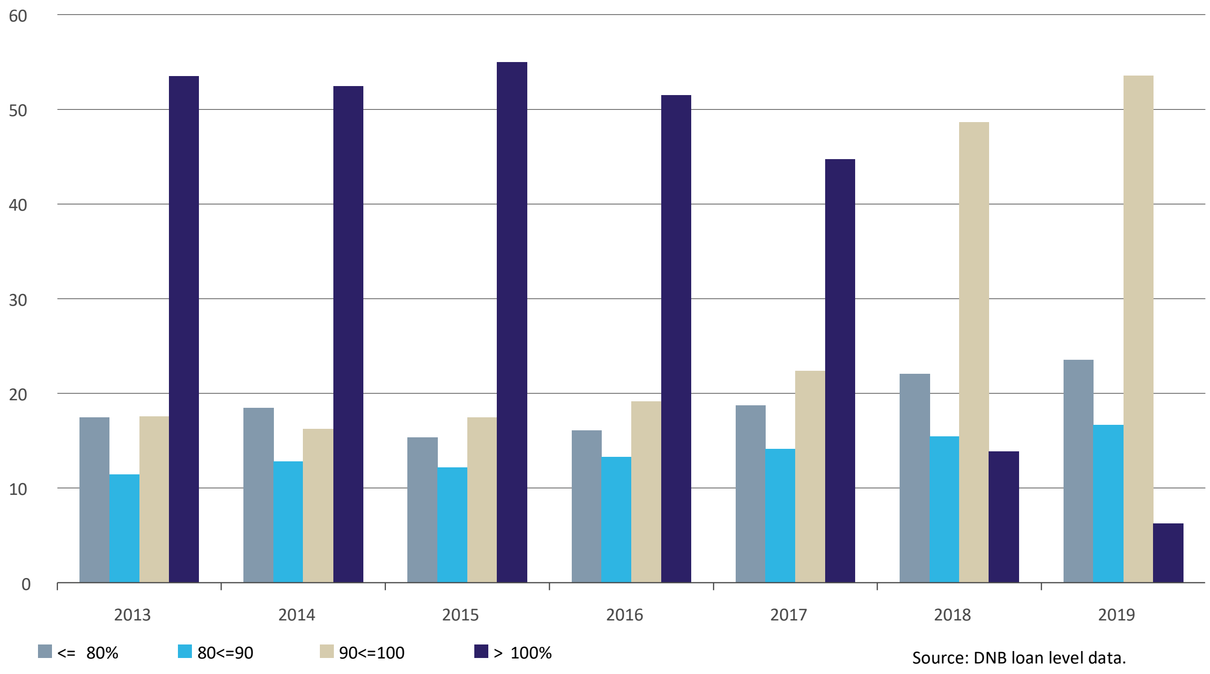
[1] OJ L 331, 15.12.2010, p. 1

	Sub-recommendation B(1)
Content of sub-recommendation	**Tightening of borrower-based measures and approach to calibration** 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.
Addressee	**The Netherlands**
Deadline	**31 October 2020**
1. Timeline: Please indicate the time period when the actions required under the relevant sub-recommendation were taken.	The Dutch government concludes that due to measures taken, the systemic risks on the housing market have significantly reduced. Consequently, the government considers these instituted borrower-based measures to adequately mitigate the systemic risks of the housing market. Therefore, in the interest of ensuring accessibility of the residential real estate market for first time buyers, the Dutch government has no plans of lowering the legally binding loan-to-value (LTV) limit beyond 100%. Please find a more detailed follow-up on recommendation B in the proceeding sections.
2. Actions taken: Please describe the essence of the actions taken to comply with the relevant sub-recommendation, including how it ensures that	Please refer to the preceding section (1) Timeline for elaboration on inaction. In addition, the Dutch government started to periodically monitor the indebtedness of Dutch homeowners. Please refer to section (6) Additional information for access to the monitoring report.

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.	
Compliance Criteria	**Sub-Recommendation B(1)**
1. Compliance criterion: Please describe how you applied the principle of proportionality, taking into account the objective and content of this recommendation. [*Article 1(a) of Section 2.2 of the Recommendation*]	The Dutch government deems the risk-mitigating measures that were introduced in recent years sufficient in reducing the systemic risks. The added risk mitigation derived from further lowering the LTV limit is deemed not proportional to the detrimental effect this would have on the accessibility of the Dutch housing market for first-time buyers.

2. Compliance criterion: 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 in order to determine whether activating such measure would be appropriate. [*Article 1(b) of Section 2(2) of the Recommendation and par. 1 of Recommendation B, Annex I*]	Please refer to section (1): Timeline for description of considerations for appropriate measures.
3. Compliance criterion: 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[i], together with the functioning of the actions undertaken, having regard to the objectives of this Recommendation. [*Article 2(b), Section 2(2) of the Recommendation*]	The Dutch government recognises the systemic risks posed by high LTV ratios and has, therefore, introduced measures to mitigate these risks. Principally, it has incrementally tightened the legally binding LTV limit from 106% in 2013 to 100% in 2018. Loan level data from the Dutch central bank shows the effectiveness of this measure in reducing the overleveraging of new market entrants (figure 1 below).

Figure 1: Annual progression of LTV ratios for new mortgage loans for first-time buyers



Source: DNB loan level data.

Figure 1 shows the effects of the measures on the LTV ratios since 2013. From 2015 onward, the share of new market entrants with a mortgage LTV ratio exceeding 100% has seen a steady decrease. In addition, the share of first-time buyers with a LTV ratio exceeding 90% fell as well. In 2013 this was 70%, which reduced to 63% in 2019. The figure further shows that there still remains a percentage of entrants with a LTV ratio exceeding 100%. Primarily, this is due to regulation that incentivises investment in sustainability by allowing for an LTV limit of 106% if the LTV surplus is put towards energy-saving measures.

Figure 2: Annual progression of LTV ratios for new mortgage loans for second-time buyers

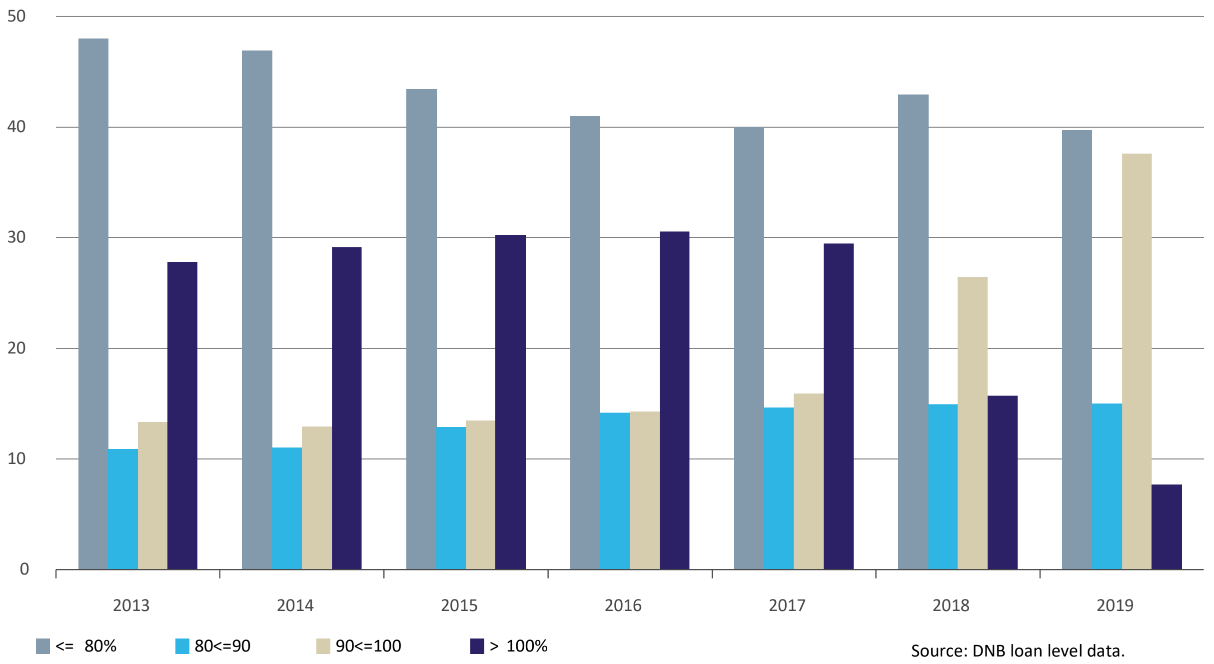
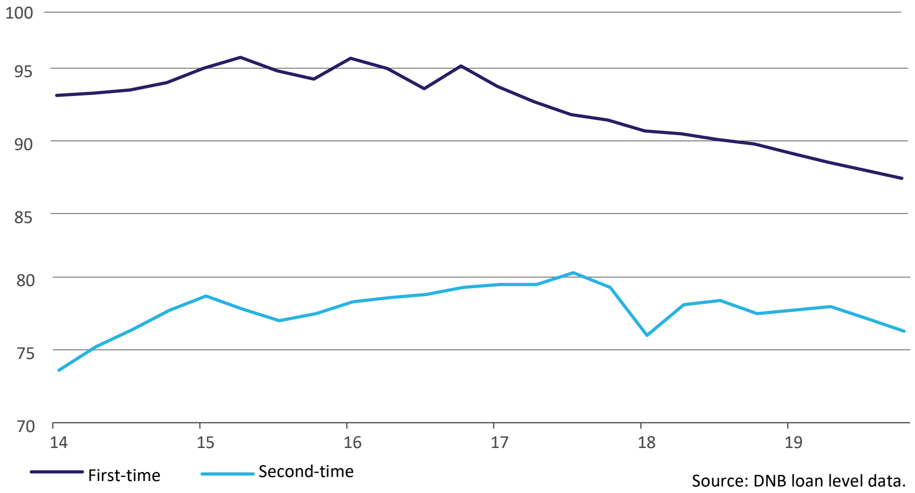


Figure 2 above shows a similar trend for new mortgage loans for existing homeowners who relocate to a new property (referred to as second-time buyers). From 2017 onward, the share of new mortgages with an LTV ratio exceeding 100% has dropped from 29% to 8% in 2019. Similar to entrants depicted in figure 1, there remains a percentage of second-time buyers who exceed 100% LTV. In addition to the discussed sustainability incentives, the financing of residual debt or bridging loans in new mortgage production explain the share of consumers who exceed the general LTV limit.

Figure 3: Average LTV of new production



Source: DNB loan level data.

Figure 3 above shows the trends for the average LTV ratio for new residential mortgage loans production. It portrays a trend of reducing LTV ratios for first-time buyers, and relatively stable LTV ratios around 77% for existing-home owners who relocate.

In addition to lowering the LTV limit, the Dutch government has introduced restrictions on non-amortising mortgages in 2013, requiring new mortgage loans to amortise on at least an annuity basis within 30 years to qualify for mortgage interest deductibility (MID). Due to this measure the share of mortgage loans which are amortised on an annuity of linear basis increased from 4% in the beginning of 2013 toward 18% at the end of 2018, whilst the share of non-amortising loans decreased from 65% toward 55% over the same period. Moreover, this legislation further ensures that the LTV of new mortgage loans is reduced from 100% to 90% in approximately 4 years.

These measures taken have resulted in a significant decline in the percentage of consumers within the residential real estate sector with a loan for which the principal exceeds the value of the property (LTV > 100%). Data from the Dutch central bank shows this decline since 2013, starting from 36% of residential real-estate falling under this classification, to almost 4% at the end of 2019. Moreover, the Dutch strict personal bankruptcy legislation and the National Mortgage

	Guarantee (NHG) remain effective safeguards against the systemic risk posed by mortgage defaults, ensuring that the default rates remain low in comparison with other EU-countries and thereby mitigating substantial systemic risk[2]. The ESRB further requested an assessment of the vulnerabilities related to pockets of overvaluation of house prices and the collateralisation of new and existing mortgage loans. Several valuation trends can be distinguished on the Dutch housing market. Principally, the Dutch central bank has reported that the average price level for residential real estate, without correcting for inflation, currently exceeds the previous peak value by 17%. In addition, driven by fundamentals the housing prices have risen significantly faster than incomes, to a degree that house price-to-income ratios of metropolitan areas surpass the previous peak. Due to rising real estate prices, new market entrants are incentivised to take on more debt as compared to their income. The LTI limit curtails the size of a mortgage loan for consumers, as to prevent them from assuming excessive financial risks. The share of entrants that utilise the maximum credit that the loan-to-income limit allows has risen moderately in recent years. Given the difficulty of determining overvaluation, these trends cannot be regarded as a proof of overvaluation. The Dutch government concludes that due to the measures taken, as described above, the systemic risks have significantly reduced. It therefore forbears further tightening of the loan-to-value limit beyond 100% to ensure a level of accessibility of the real estate market.
4. Self-assessment: 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.	This section is inapplicable (please refer to section (1) Timeline).

[2] Gaudêncio, João, Agnieszka Mazany, and Claudia Schwarz. "The Impact of Lending Standards on Default Rates of Residential Real-Estate Loans." *ECB Occasional Paper* 220 (2019).

5. Justifications: 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.	Justification for the actions taken by the Dutch government can be found in section (3) Compliance criterion. The main consideration is that the Dutch government finds that due to the measures taken the systemic risks caused by relatively high LTV ratios have significantly reduced. Because of this it forbears further tightening of the LTV limit beyond 100% to ensure a level of accessibility of the real estate market for first-time buyers.
6. Additional information: 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. Please also attach any relevant documents (if applicable).	Monitoring report Dutch homeowner indebtedness (Dutch): https://www.rijksoverheid.nl/documenten/kamerstukken/2020/06/11/bijlage-hypotheekschuldmonitor-en-update-aanpak-aflossingsvrije-hypotheken