



**ESRB**

European Systemic Risk Board

European System of Financial Supervision

**ECB- Restricted**

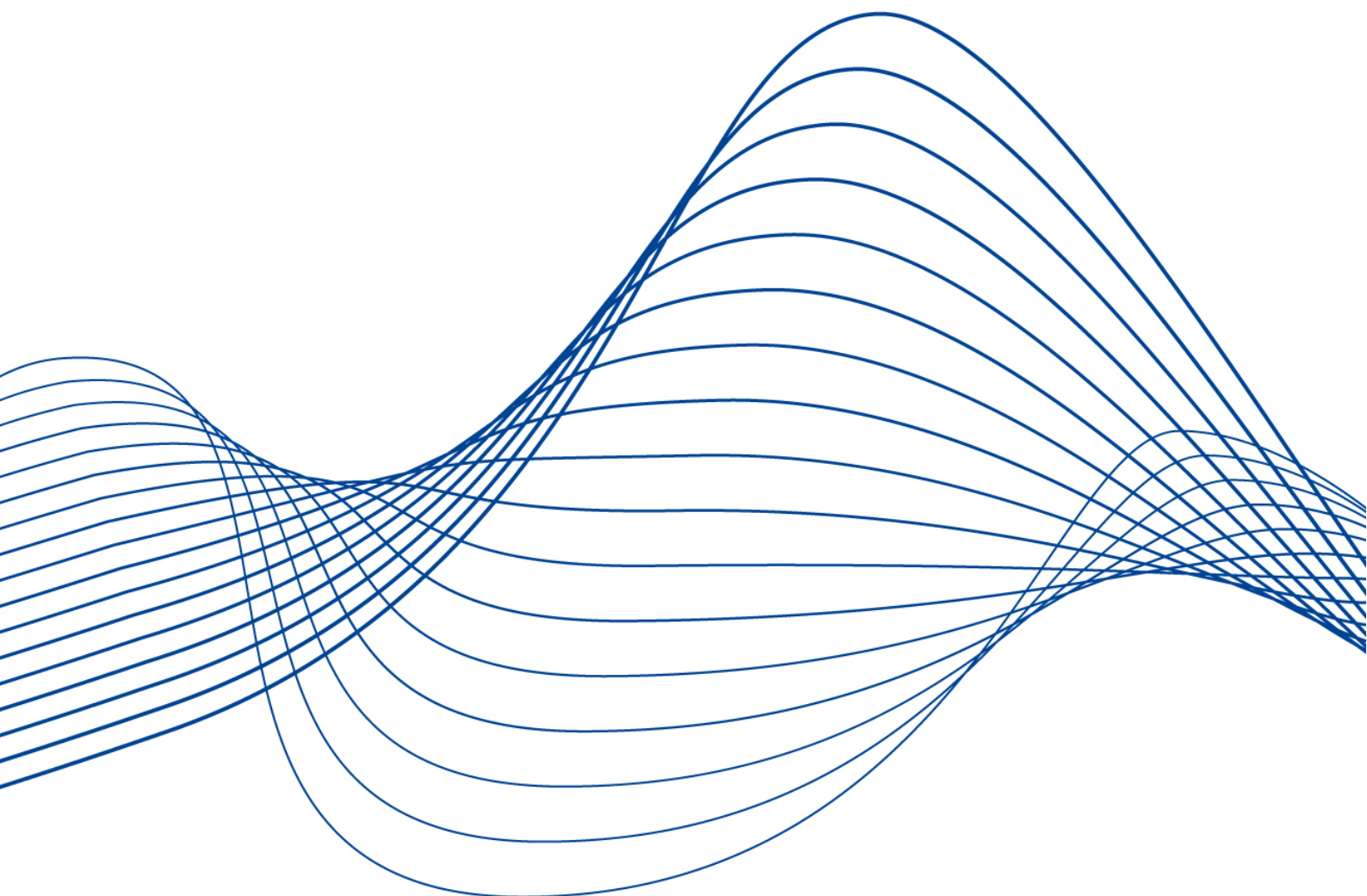
**Follow-up to the Recommendation ESRB/2019/7 on  
medium-term vulnerabilities in the residential real estate sector  
in the Netherlands  
Sub-recommendation B(1) and Recommendation C**

Reporting deadline: **31 October 2020**

Addressees:

**The Netherlands**

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



## Introduction

<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>	30 October 2020
<b>Confidentiality regime*</b>	ECB-public
<b>Name and contact details of the respondent</b>	Remco van der Molen (DNB); <a href="mailto:r.m.van.der.molen@dnb.nl">r.m.van.der.molen@dnb.nl</a> Ties Busschers (DNB); <a href="mailto:T.G.Busschers@dnb.nl">T.G.Busschers@dnb.nl</a>

\* 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<sup>1</sup>.

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](mailto: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.

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

Content of recommendation	Recommendation C
	<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>
Addressees	<b>The macroprudential authority, the designated authority or the competent authority in the Netherlands, as applicable.</b>
Deadline	<b>31 October 2020</b>
<p><b>1. Timeline:</b></p> <p>Please indicate the time period when the actions required under the relevant recommendation were taken.</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 September 2020. On 6 March 2020, DNB received notification from the European Commission of its decision not to object to the proposed measure. However, 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><b>2. 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>The measure is described in detail in the <a href="#">notification</a> by DNB to the ESRB, in particular in sections 2.1 to 2.3. See also our <a href="#">Autumn 2019 FSR</a> (pp. 20-24).</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>Please see the <a href="#">notification</a> of the measure, in particular section 2.4.</p>
<p><b>2. Compliance criterion:</b></p> <p>Please provide details on the assessment you took prior to activating capital-based measures about the position of the Netherlands in the economic and financial cycles in order to determine whether activating such measures would be appropriate.</p> <p><i>[Article 1(c), Section 2(2) of the Recommendation and par. 1 of the Recommendation C, Annex I]</i></p>	<p>Please see the <a href="#">notification</a> of the measure, in particular section 4.1.</p>
<p><b>3. 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</p>	<p>Not applicable</p>

<p>took into account the characteristics of the capital-based measures already activated, the initial calibration of those measures and the results of the assessment of vulnerabilities.</p> <p><i>[Par. 2 of the Recommendation C, Annex I]</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 objectives of this Recommendation.</p> <p><i>[Article 2(b), Section 2(2) of the Recommendation]</i></p>	<p>Please see the <a href="#">notification</a> of the measure, in particular sections 4.1 and 4.2.</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><b>5. 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 Recommendation C.</p>	<p>As explained in the notification, the measure would have ensured the resilience of banks in case of a materialization of the systemic risk in the Dutch housing market and thus result in full compliance with Recommendation C. Following the outbreak of the coronavirus pandemic and given the uncertainty about its impact on the economy and financial sector, DNB has decided to postpone the implementation of the measure.</p>
<p><b>6. 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>	<p>The decision to postpone the implementation of the measure is part of DNB's response to the corona crisis.</p> <p>To minimise the economic impact of the coronavirus pandemic, it is crucial that the financial sector continues to function properly. Among other things, this means banks must be able to keep extending loans to firms and households. In light of the impact of the coronavirus pandemic and the large uncertainty surrounding its path and economic impact, DNB decided to provide Dutch banks with more leeway in these extraordinary times to avoid undue deleveraging. Given the large uncertainty about the impact of the corona crisis of the economy and the financial sector, this would not be the right time to subject the Dutch banking sector to a combined additional capital requirement of more than EUR 3 billion.</p> <p>Therefore, on 17 March 2020 DNB decided to defer introduction of the measure. In October 2020, we announced that the measure will not be come into effect before the end of 2021.</p> <p>By mid-2021, DNB will reconsider whether there is a need for further postponement of the measure. This will, among other things, depend on a re-assessment of the systemic risks in the Dutch housing market.</p> <p>So far, the impact of the corona crisis on the Dutch housing market has been very limited, as the housing market continues to show signs of overheating. House prices rose by 7.5% in the second quarter (y-o-y) and the number of transactions increased. Time on the market decreased further, and a larger share of houses is sold above the listing price. In the four major cities there are some signs of cooling, even though markets remain very tight. However, we expect that the consequences of the coronavirus crisis will increasingly affect the housing market. Housing demand may decline if unemployment increases further and households' disposable income falls. In this perspective, households' borrowing behaviour remains risky, with the proportion of households borrowing near their maximum loan-to-income continuing to increase.</p>

## 7. 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).

Relevant documents:

- [Notification of the 458 measure to the ESRB](#)
- [Publication on macroprudential measures related to the coronavirus outbreak](#)
- [Financial Stability Review](#), October 2020 (with forward guidance on macropru measures)