

Recalibrating LTVs in Slovakia

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Background and objectives

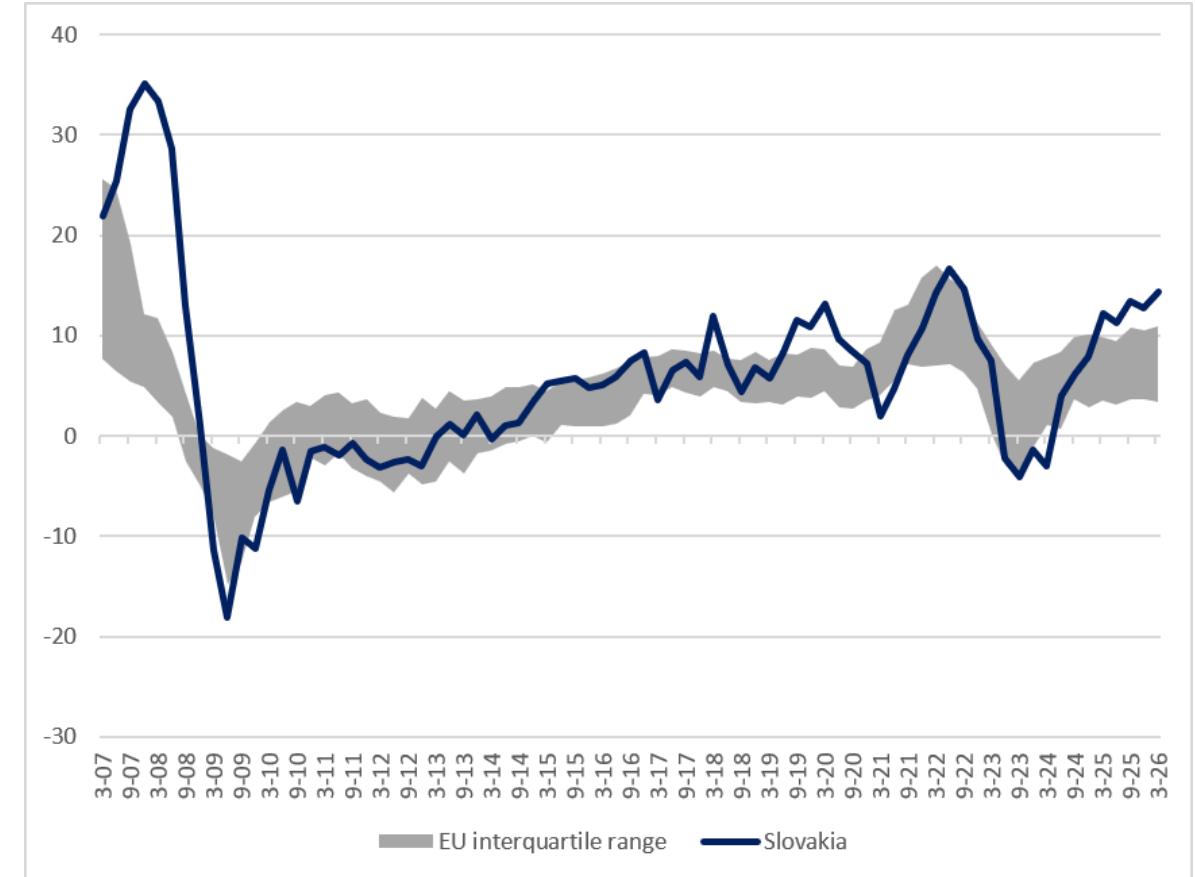
Main objective:

- ✓ We observe a growing share of investment mortgages in Slovak banks' portfolios
- ✓ Credit and real estate market segment with heightened procyclicality

Secondary objective:

- ✓ Long-standing increase in Slovak RRE prices, recently above the EU interquartile range.
- ✓ Price developments create barriers for younger clients to finance first-time home purchases

RRE developments in Slovakia and the EU



Source: NBS and Eurostat.

Supporting RRE affordability for young people through higher LTV

Reasons for higher LTV for young borrowers:

- Lower accumulated savings
- Better ability to enter housing market
- Lower PD for owner-occupied properties
- Standard practice in many countries

Drawbacks:

- Higher LGD: lower buffer against a possible fall in property prices
- House price inflation: stronger FTHB demand may raise property prices*
- Debt sensitivity: larger loans mean higher instalments and greater vulnerability

*  Irish experience: Borrowers used less own savings, but did not buy more expensive homes.

Newly available data allow differentiation based on number of RREs

First time home buyers

- ✓ Lower probability of default
- ✓ OOH → stronger **payment discipline** and lower strategic default risk



Investment purposes

(Multiple property owners)

- Contribute to **market overheating** and amplify **price volatility**
- Higher **fire-sale** risk – higher LGD for banks
- Tend to have **riskier parameters** (LTV, DTI, DSTI)
- Increasing share, but **missing experience** from a real crisis
- **Crowding-out** effect on young buyers

(higher share of 1- and 2-rooms apartments)

Other mortgages

- Moving to a larger property
- Renovation
- Settling inheritance matters
- ...

LTV recalibration – Moving from one to three LTV Limits

Easing:

80% → 90%

- ✓ Up to 35 years
- ✓ Not owning any RRE yet
(no co-ownership share $\geq 50\%$)
- ✓ The purpose is to purchase owner-occupied RRE

Share of this group
on new loans: **40%**

Tightening:

80% → 70%

- Mortgage on a 3rd or subsequent residential real estate
(debtors own already 2+ RREs)
- Purpose of additional mortgage irrelevant

Share of this group
on new loans: **16%**

No change:

80%

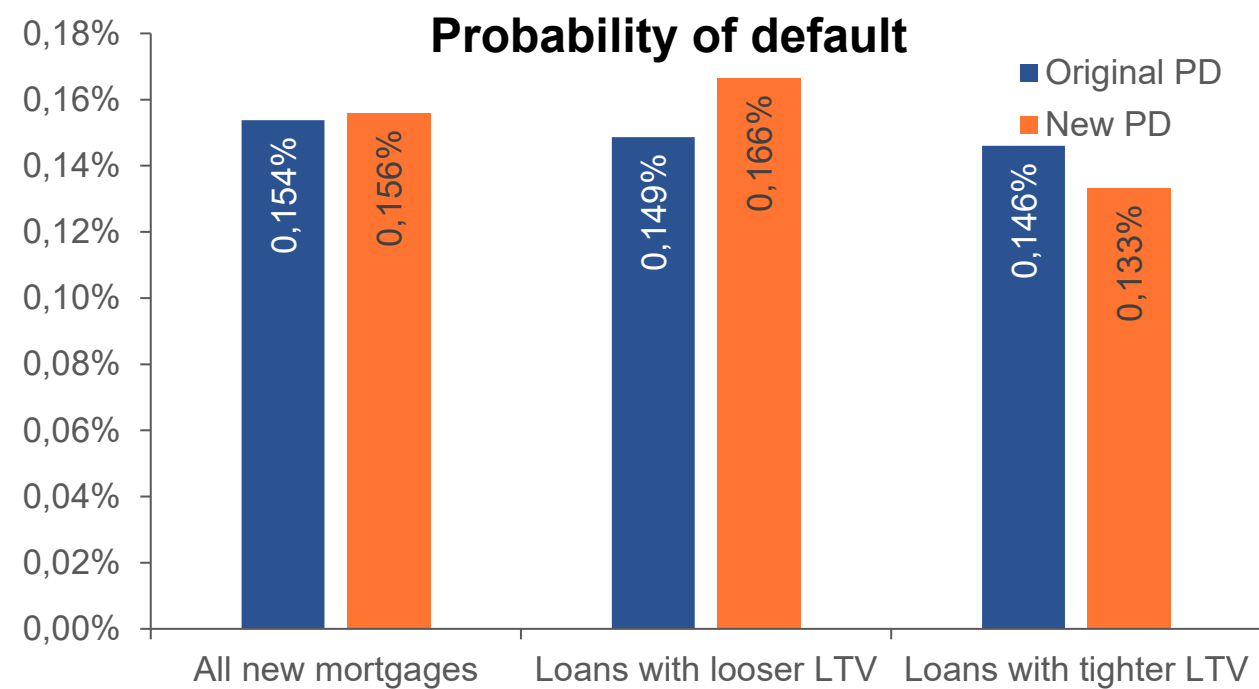
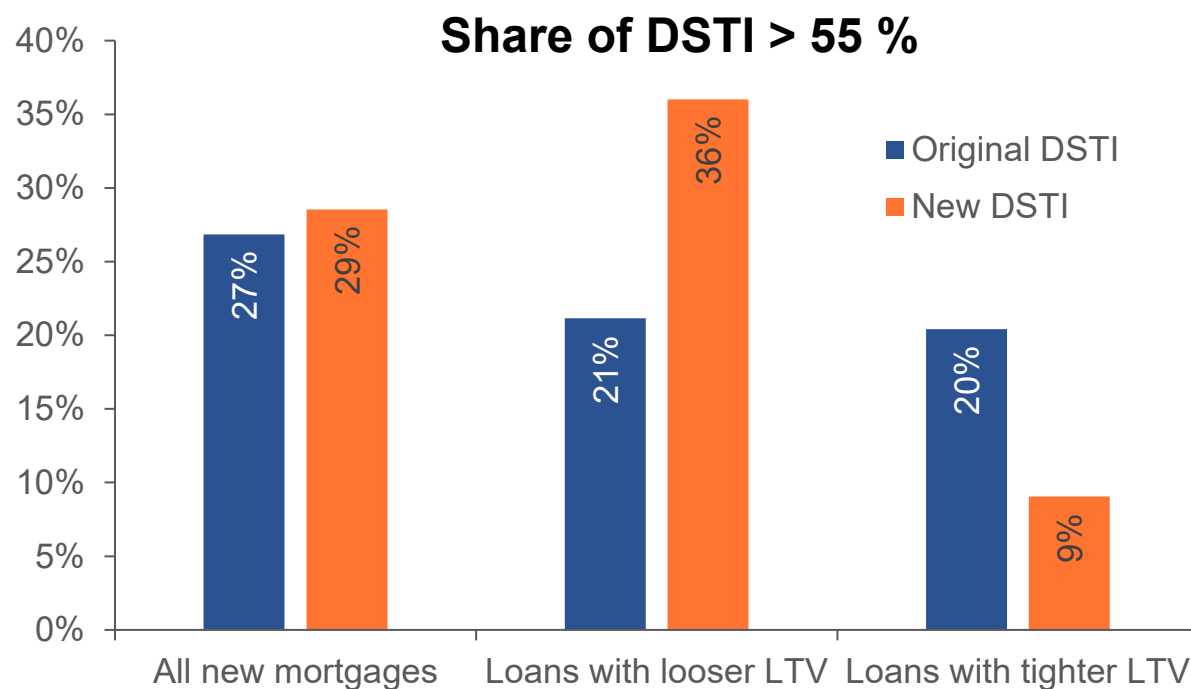
- All other mortgages
- Some regulatory exemption to be maintained

Share of this group
on new loans: **44%**

Impact analysis

- ✓ New approach mitigates potential acceleration in house price growth
- ✓ Risk neutral calibration
- ✓ Consistent with IMF (FSAP) recommendation to adjust limits and ECB statement not to loosen limits
- ✓ Consistent with banks' current LTV policy and allocation of the LTV > 80% exemption

Impact of differentiation on riskiness of newly granted mortgages



Source: NBS. The change in PD was estimated based on the change in DSTI and on the relationship between DSTI and PD.

Thank you very much for your attention!