BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

**Notice - Directive No.16 'Regulation on Borrower-Based Measures' – COVID-19 Related Measures**

Directive no. 16 ('the Directive') which entered into force on 1 July 2019, sets limits on the Loan-to-Value at origination (LTV-O), Debt-Service-to-Income at origination (DSTI-O) and term to maturity for Residential Real Estate (RRE) loans. This Directive strengthens the resilience of both lenders and borrowers against the potential build-up of vulnerabilities stemming from the real estate market.

The Central Bank of Malta (CBM) recognizes that the outbreak of COVID-19 has caused serious disruptions in economic activity, including in the real estate market. Amongst other containment measures, such disruptions arose from the negative effects of social distancing restrictions on the search and negotiation processes between sellers and buyers, disruptions in banking and notarial services, as well as more demands on the cash buffers in such extraordinary times. The CBM also acknowledges the temporary distortions in the borrower's ability to adhere to the limits sets in the Directive, especially in cases where it could be established that the loss of income is temporary.

Against this background the CBM is hereby taking the following measures:

1. **Extension of the phasing-in period for the LTV-O ratio to go down to 75% for Category II borrowers**

   Paragraph 9 of the Directive, stipulates that the LTV-O ratio for Category II borrowers shall not exceed 85 per cent in the first year of the entry into force of the Directive and 75 per cent in the years thereafter.

   The CBM is hereby granting an extension of one year in the applicable LTV-O ratio which currently stands at 85 per cent, up until 30 June 2021; and 75 per cent as from 1 July 2021. This means that the date for implementation of LTV-O ratio as stipulated in paragraph 9 is hereby being extended by one year to provide the necessary relief to prospective borrowers who are granted an RRE loan.

2. **Guidance to lender on the treatment of the Stressed DSTI-O for both Category I and Category II borrowers.**

   If a lender as defined in paragraph 6(r) of the Directive, could ascertain on the basis of concrete proof that the failure to adhere to the stressed DSTI-O test is temporary, the 40% limit set in the said Directive could be exceeded. This concession should be set on a forward looking basis over the whole life cycle of the loan and it is totally at the discretion of the lender.

   Provided that all lenders apply the following conditions:

- It must be established that the borrower was able to pass this test prior to the COVID-19 outbreak.

- That in the case of an employee, a written commitment from his/her employer exists confirming that the borrower's level of income would be restored within a period not exceeding 1 year from the publication of this notice.

- That in the case of other borrowers, both natural (self-employed) and legal persons, concrete evidence of pre-contracted revenue sources, such as future dated contracts for work or services to be rendered, exist.

- The amount of Cash or quasi-cash buffers held by the borrower from past savings able to support the repayment commitments should also be considered by the lenders.

The relaxation of the stressed DTSI-O test is a temporary measure related to the COVID-19 pandemic and will be for a period of six months.

These measures are to come into effect as from the date of publication of this Notice and may be extended if the CBM assesses that it is appropriate to do so. The CBM will be effecting the necessary changes to the Directive to reflect this extension, in line with paragraph 21.

**1/06/2020**