



BANK ĊENTRALI TA' MALTA
EUROSISTEMA
CENTRAL BANK OF MALTA

CENTRAL BANK OF MALTA

DIRECTIVE NO 16

in terms of the

**CENTRAL BANK OF MALTA ACT
(CAP. 204)**

REGULATION ON BORROWER-BASED MEASURES

Ref: CBM/16

DIRECTIVE NO 16

REGULATION ON BORROWER-BASED MEASURES

Issued on: 29 March 2019
Amended on 29 November 2021

INTRODUCTION

1. In terms of Article 17A of the [Central Bank of Malta Act](#) (*Cap. 204 of the Laws of Malta*) (hereinafter referred to as ‘the Act’), the Central Bank of Malta (hereinafter referred to as ‘the Bank’) is empowered to issue directives in order to develop macroprudential tools and implement macroprudential policy.

OBJECTIVE OF THE DIRECTIVE

2. In accordance with Directive No 11, the objective of macroprudential policy shall be to contribute to the safeguard of the stability of the financial system as a whole, primarily by strengthening the resilience of the financial system and decreasing the build-up of systemic risk, thereby ensuring a sustainable contribution of the financial sector to economic growth.
3. The objective of the Directive is to strengthen the resilience of lenders and borrowers against the potential build-up of vulnerabilities which could result in financial losses both to lenders and borrowers stemming from potential unfavourable economic developments.
- 3a. The limits imposed in this Directive shall act as a minimum standard. Lenders may adopt their existing internal credit risk assessment policies provided that these are not in breach of the Directive.

SCOPE AND APPLICATION

4. The Directive shall apply to all lenders granting domestic residential real estate (RRE) loans.
5. The Directive shall apply to both resident and non-resident borrowers entering into new RRE loans secured by RRE.

DEFINITIONS

6. The following definitions shall apply for the purposes of this Directive:
 - a) ‘**Annual Total Debt Service**’ means the combined interest and principal repayments on the total debt of the borrower/s over one year;
 - b) ‘**Bank**’ means the Central Bank of Malta as established by Article 3 of the Act;

- c) **‘Borrower’** means a natural and/or a legal person/s, who ~~is~~ **may be** granted an RRE loan and, ~~if eligible, is shall~~ **receiving** financing from the lender;
- d) **‘Buy-to-Let (BTL) Housing’** means any RRE directly owned by a natural and/or a legal person/s primarily for letting to tenants;
- e) **‘Buy-to-Let (BTL) Loan’** means the sum of all loans or loan tranches secured by the borrower/s on the BTL housing at the moment of loan origination;
- f) **‘Category I Borrowers’** means first-time buyers (FTBs) and non-FTBs purchasing, **constructing, restoring, improving and/or finishing** their ~~P~~**primary** ~~R~~**residence** as defined in Paragraph 6(~~xy~~), not having outstanding RRE loans upon the signing of the deed, and includes borrowers who already own or have owned a ~~P~~**primary** ~~R~~**residence**, and at the origination of the mortgage loan such ~~P~~**primary** ~~R~~**residence** has either already been sold or a promise of sale agreement (“*konvenju*”) has been entered into or there are pending proceedings before the Civil Court (Family Section) which hinder the sale of the ~~P~~**primary** ~~R~~**residence**;

Provided that, any other additional RRE loans on the same Primary Residence with an outstanding RRE loan, solely for the purpose of constructing, restoring, improving and/or finishing the Primary Residence and save for additional Independent Units, would also fall under the definition of Category I Borrowers of this Directive, on condition that there are no outstanding loans which fall under the definition of Category II Borrowers;

Provided further that the conditions stipulated under this paragraph shall also apply to a Remortgage Loan as defined in Paragraph 6(z);

- g) **‘Category II Borrowers’** means any other loan ~~to~~ **for the purchase, construction, restoration, improvement and/or finishing** of an RRE excluding Category I Borrowers;
- h) **‘Commercial Real Estate (CRE)’** means any income-producing real estate located in the domestic territory, either existing or under development, and excludes (i) social housing; (ii) residential property owned by end-users; and (iii) BTL housing;
- i) **‘Debt’** means the total committed secured and unsecured borrowing by a natural and/or legal person/s;
- j) **‘Debt Service to Income Ratio at Origination (DSTI-O)’** means the annual total debt service relative to the total annual gross income of the borrower/s at the moment of loan origination;
- k) **‘Directive No 11’** means the Central Bank of Malta Directive No 11 on [‘Macro-prudential Policy’](#);
- l) **‘End-users’** means a natural and/or legal person/s owning and occupying an RRE property;
- m) **‘First-time Buyer’** means a borrower/s who acquired his/her first immovable RRE property;
- n) **‘Gross Income’** means the total annual monetary income received by the borrower/s, which is stable and recurrent, including actual rental income before deduction of income tax, regular taxes on wealth, social security contribution, including the gross income for joint loan accounts,

the gross income for BTL loans and the gross income for corporates;

- o) **‘Gross Income for Joint Loan Accounts’** means income which includes the joint gross income, unless the lender decides otherwise at the loan evaluation stage;
- p) **‘Gross Income for BTL loans’** means the prospective rental income to be derived from the mortgage-backed property supported by adequate and sufficient supporting documentation, provided that such rental income shall be subject to haircuts in accordance with the internal policy of the lender;
- q) **‘Gross Income for Corporates’** means income that is calculated on the basis of Earnings before Interest, Taxes, Depreciation and Amortisation (EBITDA);
- r) **‘Independent Units’** means any immovable property constructed on and overlying or adjoining the Primary Residence, thereby forming a separate tenement in a building with its own entrance;
- s) **‘Lender’** means a regulated financial service provider licenced by the Malta Financial Services Authority that provides an RRE loan to a borrower/s;
- t) **‘Loan’** means the total amount made available to the borrower/s by means of a contract for the purchase, construction, restoration, improvement and/or finishing of an RRE which is secured by ~~the~~ RRE;
- u) **‘Loan-to-Value Ratio at Origination (LTV-O)’** means the sum of all loans or loan tranches secured by the borrower/s on the immovable property at the moment of loan origination relative to the market value of the property at the moment of loan origination;
- v) **‘Market Value of the Property’** means, for the purposes of immovable property, the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without being under compulsion;
- w) **‘Maturity at Origination’** means the duration of the RRE loan contract expressed in years at the moment of loan origination;
- x) **‘MFSA’** means the Malta Financial Services Authority as established by Article 3 of [Malta Financial Services Authority Act](#) (Cap. 330 of the Laws of Malta);
- y) **‘Primary Residence’** means the RRE in which an individual habitually resides in or intends to habitually reside in as his/her principle place of abode;
- z) **‘Remortgage Loan’** means a loan acquired to close off an RRE loan with the proceeds derived from a new RRE loan;
- aa) **‘Residential Real Estate Loan’** means a loan to a natural and/or legal person/s secured by RRE collateral;
- bb) **‘Residential Real Estate’** means any immovable property located in the domestic territory,

available for RRE purposes, ~~acquired, built, or renovated~~ purchased, constructed, restored, improved and/or finished by a natural and/or legal person/s and that ~~is not qualified~~ it does not qualify as a CRE property;

- cc) ‘**Speed Limit**’ means the restriction of the volume (in terms of number of loans) of new RRE lending at LTV-O over the thresholds stipulated in this Directive;

Unless otherwise defined in this Directive, terms used in this Directive shall have the same meaning as are assigned to them under the Act.

EXEMPTIONS

7. Loans of Category I Borrowers with a collateral market value below EUR175,000 (*excluding haircuts*) are exempted from the LTV-O and DSTI-O limits specified in this Directive.

Provided that, lenders shall still apply prudent lending policies in terms of the [MFSA Banking Notice on the Management of Credit Risk by Credit Institutions](#) authorised under the Banking Act 1994 (BN/01/2002).

BORROWER-BASED MEASURES

Compliance with LTV-O Limits for New Residential Real Estate Loans

8. A lender shall ensure that the LTV-O ratio of an RRE for Category I Borrowers shall not exceed the 90 per cent LTV-O.

Provided that, the total volume of RRE loans granted to Category I Borrowers with an LTV-O beyond the 90 per cent threshold, does not exceed 10 per cent of the total volume of RRE loans granted to Category I Borrowers on a semi-annual basis.

9. A lender shall ensure that the LTV-O ratio of an RRE loan for Category II Borrowers shall not exceed ~~85 per cent in the first two years of the coming into force of this Directive and~~ 75 per cent. ~~in the years thereafter.~~

Provided that, the total volume of RRE loans granted to Category II Borrowers with an LTV-O beyond that set in this paragraph shall not exceed 20 per cent of the total volume of RRE loans provided on a semi-annual basis.

10. Lenders shall follow established prudent credit risk management practices when exercising the speed limits.
11. For the purposes of calculating the LTV-O, lenders shall determine the collateral value in a prudent and conservative manner in accordance with paragraphs 11, 12, 13 and 14 of the [MFSA Banking Rule on the Measures addressing credit risks arising from the assessment of the quality of asset portfolios of credit institutions authorised under the Banking Act 1994 \(BR/09/2016\)](#).
12. In calculating the LTV-O, only the RRE backing the loan should be considered.

Without prejudice to the above provision, additional collateral (financial and non-financial)

shall be requested by the lender when the Speed Limit is exercised.

Provided that, such additional collateral shall be in accordance with the internal policies of the lender.

Compliance with DSTI-O Limits for New Residential Real Estate Loans

13. A lender shall assess the ability of the borrower/s to service the RRE loan by applying a stressed DSTI-O of 40 per cent limit, subject to an interest rate shock of 150 basis points for both Category I and Category II Borrowers.

The interest rate shock shall be reviewed subject to market conditions.

The stressed DSTI-O shall be calculated as follows:

$$\text{DSTI-O}_{\text{stressed}} = \frac{(\text{Annual total debt service} | \Delta r_{\text{stressed}})}{\text{Gross Income}}$$

$$\Delta r_{\text{stressed}} = +150 \text{ bp}$$

14. A lender shall identify the total amount of the debt servicing of the borrower/s when applying the affordability test as stipulated in paragraph 13.

Compliance with Maturity Limits on All New Residential Real Estate Loans

15. The **Maturity term** at **O**rigination of an RRE loan granted to Category I Borrowers shall not exceed the horizon of 40 years or the official retirement age, whichever occurs first.
16. The **Maturity term** at **O**rigination of an RRE loan granted to Category II Borrowers shall not exceed the horizon of 25 years or the official retirement age, whichever occurs first.
17. The official retirement age referred to in paragraphs 15 and 16 is based on the statutory pension age as follows:
- In the case of a person born on or before the year 1951: the pension age shall be 61 years;
 - In the case of a person born during the years 1952 to 1955: the pension age shall be 62 years;
 - In the case of a person born during the years 1956 to 1958: the pension age shall be 63 years;
 - In the case of a person born during the years 1959 to 1961: the pension age shall be 64 years;
 - In the case of a person born after 1961 the pension age shall be 65 years.
18. **Without prejudice to the Lenders' internal policies, and notwithstanding the maturity limits set out in paragraphs 15 and 16, a Loan may exceptionally mature beyond a Borrower's retirement age, when:**
- The Borrower submits evidence to the Lender of stable income from employment or

- other own sources of income;
- b. The Lender conducts an assessment on whether the aforementioned income is to subsist throughout the duration of the loan; and
 - c. All the other conditions of this Directive are met.

Summary of Borrower-Based Measures as specified in Paragraphs 8 to 1718

	LTV-O	DSTI-O	Maturity
<u>Category I Borrowers</u>	90% LTV-O cap with a ' Speed Limit ' of 10% on the volume of loans, for loans with a market value in excess of EUR175,000	A stressed DSTI-O of 40% for loans with a market value in excess of EUR175,000 with a shock to interest rates of 150 bps	A maturity term of 40 years or the official retirement age – whichever occurs first: Born on/before 1951: 61 years 1952 – 1955: 62 years 1956 – 1958: 63 years 1959 – 1961: 64 years Born after 1961: 65 years A loan may exceptionally mature beyond a borrower's retirement age subject to the conditions outlined in paragraph 18 above.
<u>Category II Borrowers</u>	Gradual Phase in: 1st year: 85% LTV-O cap with a 'speed limit' of 20% on the volume of loans 2nd year: 75% LTV-O cap with a ' Speed Limit ' of 20% on the volume of loans	A stressed DSTI-O of 40% with a shock to interest rates of 150 bps	A maturity term of 25 years or the official retirement age – whichever occurs first: Born on/before 1951: 61 years 1952 – 1955: 62 years 1956 – 1958: 63 years 1959 – 1961: 64 years Born after 1961: 65 years A loan may exceptionally mature beyond a borrower's retirement age subject to the conditions outlined in paragraph 18 above.

ASSESSMENT OF COMPLIANCE WITH THE DIRECTIVE

19. Compliance with this Directive shall be verified annually by the internal auditor of the reporting lender and **only** by an external auditor at the end of the financial year of the third year of application of the Directive and every third year, thereafter. This without prejudice to on-site and off-site inspection by the MFSA and that the Bank may request a report by the external auditor subject to its discretion to carry out its functions under the Act and under any other applicable legislation. The external and internal audit assessment is to be forwarded to the Bank and the MFSA.
20. In case of breaches of this Directive, the Bank shall have the right to impose sanctions in accordance with Article 56 of the Act and the provisions of [Directive No 12 on Administrative Measures and Penalties for Infringement under the Central Bank of Malta Act](#).

FINAL PROVISIONS

21. This Directive shall enter into force on 1 July 2019.
22. The Directive may be amended subject to the prevailing developments in market conditions.