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Consumers concerns about the rise of interest rates

Patricia Suárez & Vinay Pranjivan

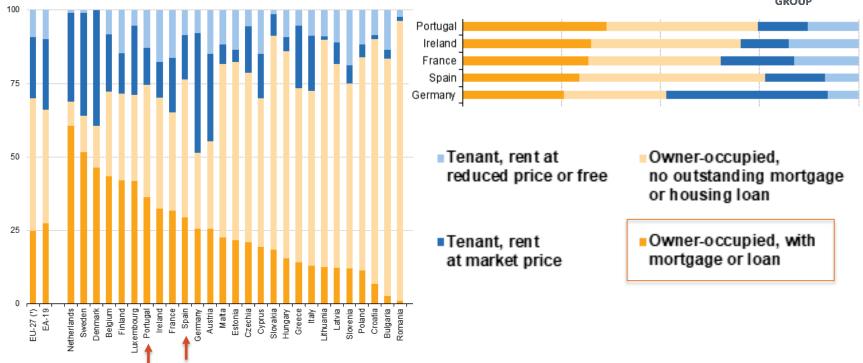
BSG meeting – November 20th 2022

EUROPE





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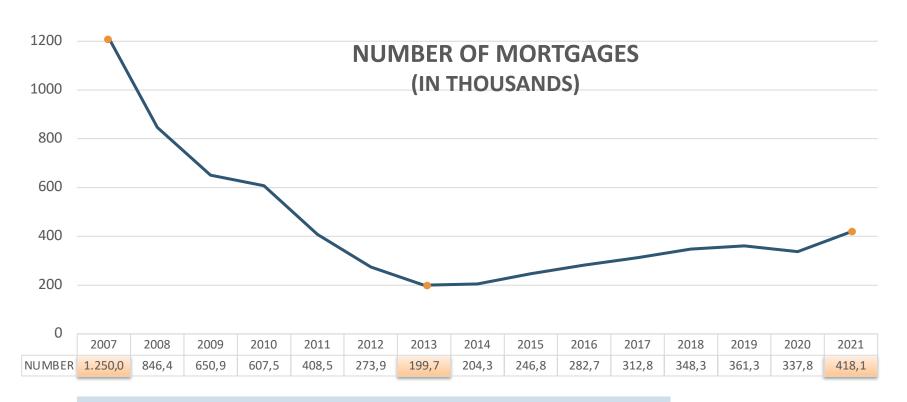


 $EUROSTAT-https://ec.europa.eu/eurostat/statistics-explained/images/c/c6/Distribution_of_population_by_tenure_status% 2C_2018_\%28\%25\%29_SILC20.png$



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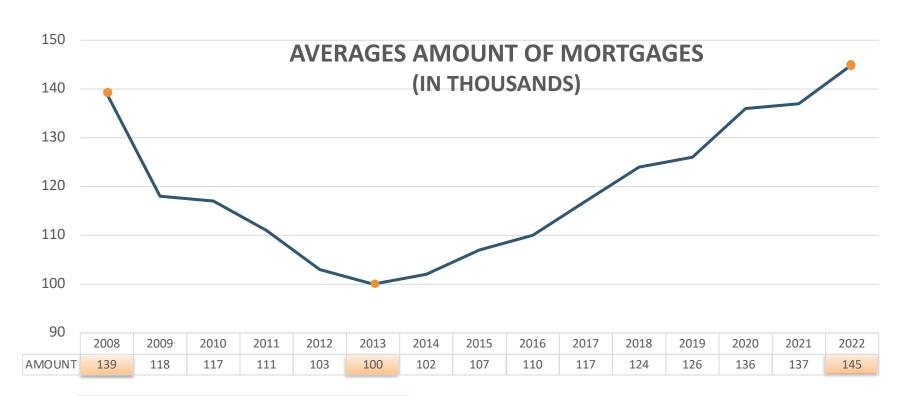
Evolution of the mortgage market





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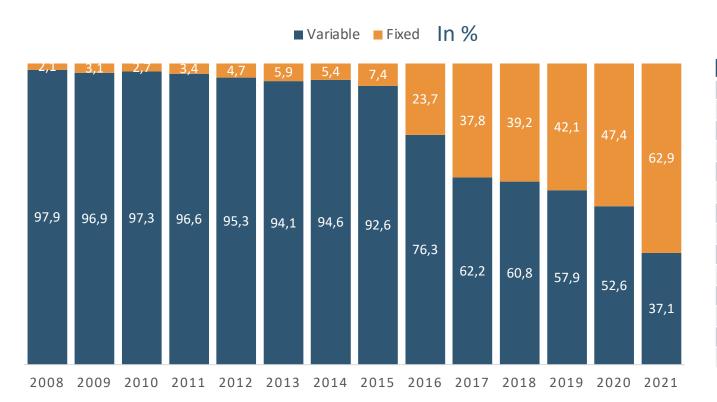
Evolution of the mortgage market





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Evolution of the mortgage market



VARIABLE	FIXED
828,6	17,4
630,7	19,6
591,1	16,0
394,6	13,4
261,0	12,3
187,9	11,1
193,3	10,4
228,5	16,9
215,7	51,1
194,6	73,6
211,8	83,0
209,2	88,1
177,7	84,2
155,1	97,6
	630,7 591,1 394,6 261,0 187,9 193,3 228,5 215,7 194,6 211,8 209,2 177,7

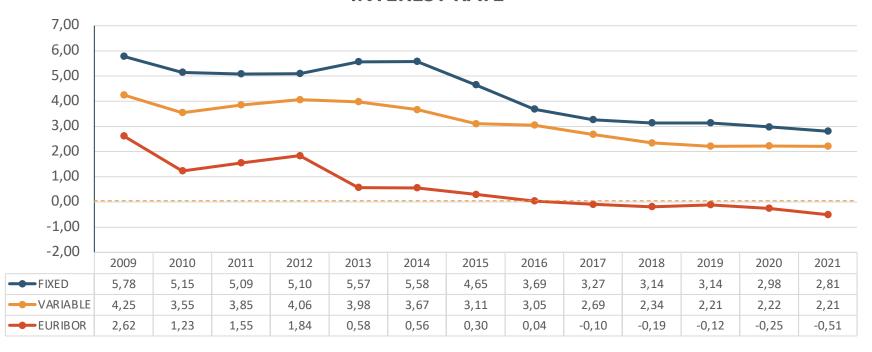
In Thousands



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Evolution of the mortgage market

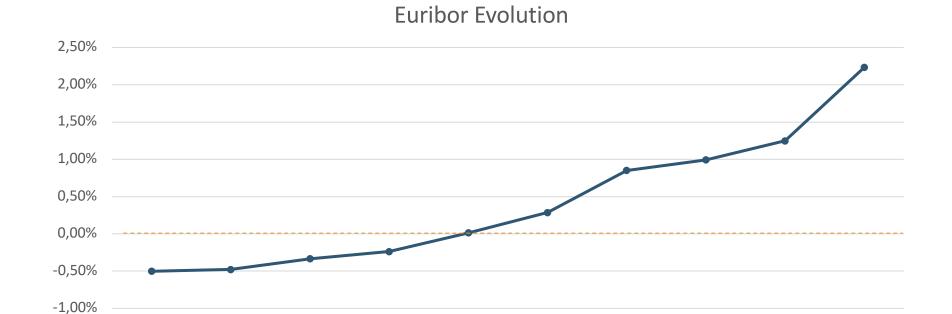
INTEREST RATE





Evolution of the mortgage market

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abr-22

may-22

jun-22

jul-22

ene-22

feb-22

mar-22

dic-21

sep-22

ago-22



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MONTH	EURIBOR	MONTHLY INSTALLMENT	MONTHLY DIFFERENCE	ANNUAL DIFFERENCE
dic-20	-0,50%	355,00€		
dic-21	-0,50%	355,00€		
mar-22	-0,23%	366,55 €		
abr-22	0,01%	377,33€	22,66€	271,92 €
may-22	0,29%	390,14 €	35,47 €	425,64 €
jun-22	0,85%	416,69€	62,02€	744,24 €
jul-22	0,99%	423,37 €	68,70€	824,40€
ago-22	1,25%	436,13€	81,46 €	977,52€
sept-22	2,23%	486,42 €	131,75 €	1.581,00€
dic-22	3,00%	527,84 €	173,17€	2.078,04 €

Monthly Installment Evolution Example

- 100,000 EUR
- 25 YEARS
- EUR + 1%

Elaboration: ASUFIN



Current legal framework

- 1. Royal Decree-Law 6/2012, of March 9, on urgent protection measures for mortgage debtors without resources. // Real Decreto-ley 6/2012, de 9 de marzo, de medidas urgentes de protección de deudores hipotecarios sin recursos.
 - → Code of Good Practices (Código de buenas prácticas)
- 2. Royal Decree-Law 1/2015, of February 27, on the second chance mechanism, financial burden reduction and other social measures // Real Decreto-ley 1/2015, de 27 de febrero, de mecanismo de segunda oportunidad, reducción de carga financiera y otras medidas de orden social.)
 - → Second chance mechanism (Ley de Segunda Oportunidad)
- Law 5/2019, of March 15, regulating real estate credit contracts (<u>Directive</u>
 2014/17/EU) // Ley 5/2019, de 15 de marzo, reguladora de los contratos de crédito inmobiliario)
 - → Mortgage Law (Ley Hipotecaria)



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1. Code of Good Practices (RDL 6/2012)

- Debt restructuring
 - Capital deficiency of 5 years at EURIBOR + 0.25%
 - Extension of the amortization period up to 40 years from the date of the concession.
 - No compensation for early amortization in the 10 years after plan approval.
 - Maximum default interest: agreed interest + 2%.
 - Additionally, the set of debts can be reunited
- Remove outstanding capital
- Datio in solutio (Dación en pago)
- Right to rent in case of execution of the habitual residence
- Fiscal and notarial advantages

APPLY ONLY FOR PEOPLE IN VULNERABLE SITUATION

- Household members income is less than 3 times IPREM index (2022 = 20844,72€)
- Mortgage installment is higher than 50% of the net income
- Other family circumstances of special vulnerability



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2. Second Chance Mechanism (RDL 1/2015)

- Allows the cancellation of debts to natural persons in a situation of insolvency.
- Designed for individuals and freelancers who cannot meet their payment commitments totally or partially eliminate their debts and can start from scratch

REQUIREMENTS

- Be a debtor in good faith.
- Debts do not exceed five million euros.
- Not enough equity to meet the debts.
- Not be the subject of a guilty contest.
- Having tried to reach an out-of-court settlement with creditors.
- Not have been convicted of economic crimes, against the rights of workers, against assets, against the Public Treasury or against Social Security.
- Not having taken advantage of this law in the last 10 years.



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3. Mortgage Law (Law 5/2019)

- Early maturity of the mortgage. Stricter requirements are established so that the lender can claim the entire loan in case of non-payment:
 - If half of the term of the loan has not elapsed, the non-payment must be equivalent to 3% of the granted capital or, in any case, to 12 monthly installments.
 - If half of the term of the loan has elapsed, the default must be equivalent to 7% of the granted capital or, in any case, **15 monthly installments.**
 - In addition, the lender must give the borrower at least one month to pay before giving up the loan early.



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Political proposals

 PODEMOS (left party) proposes a temporary cap on mortgages for vulnerable families. Podemos propone un tope temporal a la subida de hipotecas variables para las familias vulnerables

Economía

El sector financiero rechaza el tope a las hipotecas variables que pide Podemos

La formación política presentó este martes una Proposición de Ley en Congreso

n. Negocios TV

Asufin duda de la efectividad de la propuesta de Podemos para limitar la subida de las hipotecas

Pide a la banca agilizar los cambios de hipotecas variables a ... para establecer un tope temporal a la subida de las hipotecas de tipo...





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Political proposals

- Calviño does not rule out support measures for those mortgaged with variable rates
- The First Vice President of the Government and Minister of Economic Affairs points out that, despite the recent rise in the Euribor, she "is still below her historical average"

FINANCIACIÓN

Calviño no descarta medidas de apoyo a los hipotecados con tipos variables





Concluding Remarks

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SPAIN

- Contracting of mortgages decreased during the years of the crisis (from 1,25M in 2008 to less than 200K in 2013) but after the pandemic, the market is recovering
- The average mortgage amount went from 139K (2008) to 100K (2013) increasing to 145K (2022)
- Fixed-rate mortgages are now the preferred option, from 2% in 2008 to 70% in 2021
- Euribor rise represents an increase of 131€ per month, 1.581€ per year in a variable mortgage of 100.000€ to 25 years, Euribor + 1%
- Current legal framework for for mortgage debtors without resources are high
 developt but there are not measures for people in an intermediate situation, such
 as the current one, to facilitate restructuring measures (such as a grace period or a
 payment deferral as it was developed in COVID-19 context)



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Evolution of the mortgage market

Home loans - Average contracts per year

Home loans - Average amounts per year (in €)

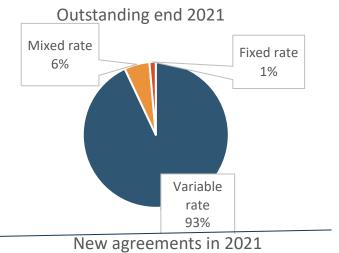


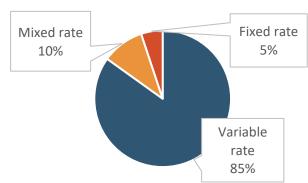
Source: Banco de Portugal



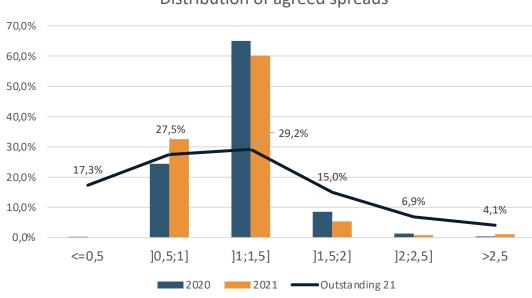
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Evolution of the mortgage market









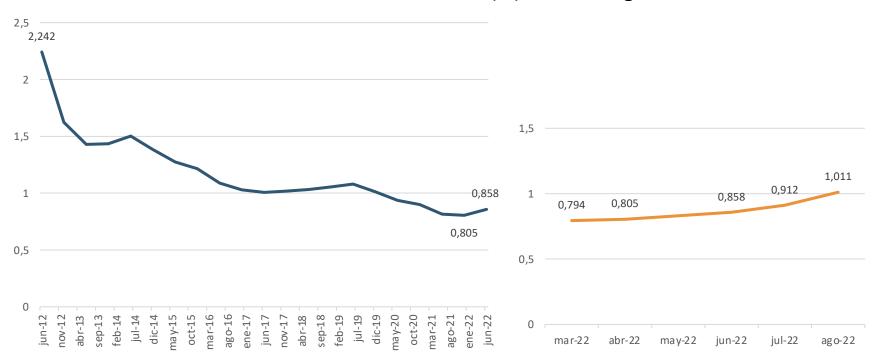
Source: Banco de Portugal



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Evolution of the mortgage market

Interest rate (%) on housing loans



Source: Instituto Nacional de Estatística



Evolution of the mortgage market

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Home loan agreements

New contracts in 2021	2021	Δ2020
Agreements	116 640	+28,7%
Amounts MEUR	14 800	+36,5%
Avg amount MEUR	126 580	+6%
Loans > 150 000 EUR/total	26,10%	+3,8 p.p.
Loans < 90 000 EUR/total	38%	-2,6 p.p.
Avg maturity (yrs)	32,9	-0,6%
Maturity 35 <x<40 th="" total<=""><th>45,90%</th><th>-0,8 p.p.</th></x<40>	45,90%	-0,8 p.p.

Outstanding – end 2021	2021	Δ2020
Agreements	1 430 000	-0,9%
Amounts MEUR	101 300	12,4%
Avg maturity (yrs)	33,5	+0,6%
Initial maturity 35 <x<40 th="" total<=""><th>27%</th><th>n.a.</th></x<40>	27%	n.a.
Outstanding maturity (yrs)	21,5	+0,4p.p.

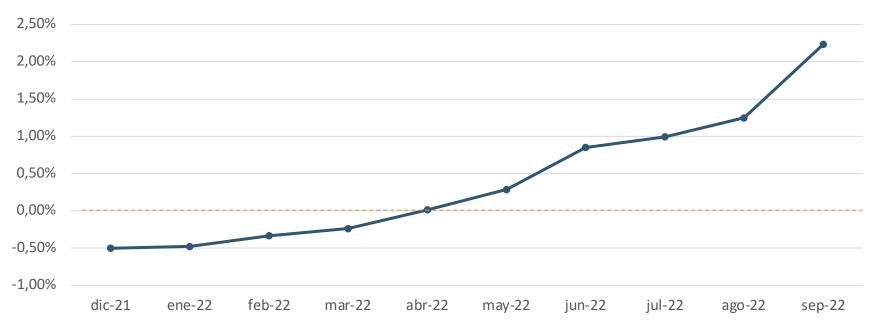
Average APR – new loans 2021		
Variable rate	2,7%	
Mixed rate	3,4%	
Fixed rate	3,5%	



Evolution of the mortgage market

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Evolution of the mortgage market

Capital	Euribor	Monthly instalment	Δ amount	Δ percentage
	1%	369,62		
100 000	2%	421,60	51,98	14%
	3%	477,42	107,80	29%
	1%	554,43		
150 000	2%	632,41	77,98	14%
	3%	716,12	161,69	29%
	1%	739,24		
200 000	2%	843,21	103,97	14%
	3%	954,83	215,59	29%

Monthly Installment Evolution Example

- 30 YEARS
- EUR + 1%

Elaboration: DECO



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Current legal framework

- 1. Decree Law No. 103/2009, of May 12, on urgent protection measures for unemployed mortgage debtors
 - → Moratoria for home loan (mortgage)
- Decree Law No. 227/2012, of October 25, on procedures for credit institutions in liaising with debtors in arreas; updated by Aviso do Banco de Portugal n.º 7/2021
 → PARI and PERSI (PRAP and OASP)
- 3. Decree Law No. 74-A/2017, of June 23, regulating real estate credit contracts (<u>Directive 2014/17/EU)</u>
 - → Mortgage Law
- 4. Macroprudential measures recommendation by Banco de Portugal
 - → LTV, DSTI and maturity limits



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Current legal framework

- 1. Decree Law No. 103/2009, of May 12, on urgent protection measures for unemployed mortgage debtors
 - Moratoria for home loan (mortgage) of households equivalent to 50% of monthly instalment
 - applicable when at least one of the loan takers is facing unemployment for 3 months
 - Duration of 24 months, to be reassessed
 - State loan for the moratoria with interest rate of Euribor 6m 0,5%



Current legal framework

2. Decree Law No. 227/2012, of October 25, on procedures for credit institutions in liaising with debtors in arreas

Pre-Arrears Action Plan (PRAP)

Credit institutions should permanently and systematically monitor their customers' credit agreements, carrying out, at least once a month, the necessary actions to identify any signs of payment difficulties. They should define and implement a PRAP.

Bank customers must warn the credit institutions of their risk of defaulting on credit agreements, due, for example, to being unemployed or through illness, and the institution must provide them with a document describing all their rights and duties, with contact details to receive communications.

Out-of-court arrears settlement procedure (OASP)

In the OASP, bank customers benefit from a set of rights and guarantees aimed at facilitating an agreement with credit institutions to settle arrears situations, avoiding recourse to the courts. This negotiation model applies to most credit agreements concluded with consumers.



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Current legal framework

3. Decree Law No. 74-A/2017, of June 23, regulating real estate credit contracts (Directive 2014/17/EU)

Resolution by lender

Lenders can resolve loan if, cumutaviley:

- Borrower fails 3 consecutive payments
- Borrower fails to repay even after an additional period of 30 days given by the lender

Partial payment delays cannot be considered as long as the borrower repays by the following instalment

Renegotiation

Lenders cannot charge for renegotiation of spread or maturity

Early repayment

Fees for early repayment are capped:

- 0,5% in variable rate period
- 2% in fixed rate period



Current legal framework

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4. Recommendation by Banco de Portugal on macroprudential measures for retail clients

Limits to loan-to-value ratio (LTV)

- <= 90% for mortgages for own and permanente residence
- <= 80% for other mortgages
- <= 100% for immovable properties held by institutions

Limits to debt service-to-income ratio (DSTI)

- <= 50% for new loans; exceptions for each institution
 - up to 10%: DSTI <=60%
 - up to 5%: no limit

Maturity

- <= 40 years for borrowers aged 30 and under
- <= 37 years for borrowers aged over 30 and up to and including 35
- <= 35 years borrowers aged over 35

Average maturity should gradually converge to 30 years until the end of 2022

Political proposals



- Government indicated considering measures, given the context
 - Requiring lenders to present solutions such as extension of maturity
 - Exemption of early repayment fees, in 2023
 - Reducing IRS for borrowers with home loans
- Other parties' proposals
 - Moratoria, similar to the model applied in Covid-19 context
 - Cap on 50% of DSTI for ongoing loans lenders to adjust spread case by case
 - Datio in solutum and unseizability of main residency in case of late repayments



EBA EUROPEAN BANKING AUTHORITY

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Concluding Remarks

PORTUGAL

- Home loans in 2021 have surpassed in number and volume data from 2010
 average mortgage amounts continue rising, reaching 126K continuous rises since 2013
- Higher amount loans on the rise; maturities slightly decreasing
- Variable-rate mortgages are still the preferred option
 85% of new loans in 2021 and 93% of outstanding loans end of 2021
- Average spreads of new loans concentrated between 0,5% and 1,5%;
 still several outstanding loans with higher spreads
- Euribor rises represent significant increases of monthly instalments
 1% rise in Euribor »» 14% in instalment, in typical 30 yr maturity loan with 1% spread
- Current legal framework for mortgage debtors lacks direct measures to facilitate restructuring measures (such as a grace period or a payment deferral)
- Constraints stemming from macroprudential limits



Recommendations

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- EBA guidance regarding renegotiation of loans
 - ✓ stricter rules for credit institutions
- EBA guidance to facilitate changing from variable rate loans to fixed rate
 - ✓ limit costs and impacts
- EBA consideration of reactivation of moratoria
 - ✓ MS discretion application
 - ✓ Better design on the basis of experience from Covid-19 model
- Further engagement with national consumer associations

