

Reciprocation LU measure (LTV limits) – Explanatory note

On 11 June 2021, the Recommendation of the European Systemic Risk Board (ESRB) of 24 March 2021 — amending Recommendation ESRB/2015/2 — on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2021/2) was published in the Official Journal of the European Union. Among other measures already reciprocated in Belgium, the ESRB recommends that the following Luxembourgish measure be reciprocated:

Luxembourgish measure :

Legally binding loan-to-value (LTV) limits for new mortgage loans on residential real estate located in Luxembourg, with different LTV limits across categories of borrowers:

- 1) LTV limit of 100% for first-time buyers acquiring their primary residence;
- 2) LTV limit of 90% for other buyers i.e. non first-time buyers acquiring their primary residence. This limit is implemented in a proportional way via a portfolio allowance. Specifically, lenders may issue 15% of the portfolio of new mortgages granted to these borrowers with an LTV above 90% but below the maximum LTV of 100%;
- 3) LTV limit of 80% for other mortgage loans (including the buy-to-let segment).

The National Bank of Belgium (NBB), as macroprudential authority¹, recommends credit institutions and (re)insurers under Belgian law to apply the Luxembourgish measure, provided that two materiality thresholds are reached: a country-specific materiality threshold and an institution-specific materiality threshold.

- The country-specific materiality threshold for the total cross-border mortgage lending to Luxembourg is EUR 350 million;
- The institution-specific materiality threshold for the total cross-border mortgage lending to Luxembourg is EUR 35 million

Credit institutions and (re)insurers are only recommended to apply the abovementioned Luxembourgish measure when both the country-specific threshold and the institution-specific threshold are reached. The NBB will closely monitor the relevant Belgian cross-border exposures towards Luxembourg and conclude whether the country-specific materiality threshold is reached or not. This piece of information is available on the NBB website and will be regularly updated.

Further details on the Luxembourgish measure to reciprocate:

- LTV is the ratio between the sum of all loans or tranches of loans backed by the borrower with residential property at the time when the loan is granted and the value of the property at the same time.
- The LTV limits apply independently from the type of ownership (e.g. full ownership, usufruct, bare ownership).
- The measure applies to any private borrower taking out a mortgage loan to purchase residential real estate in Luxembourg for non-commercial purposes. The measure also applies if the borrower uses a legal structure like a real estate investment company to complete this transaction, and in the case of joint applications. 'Residential real estate' includes construction land, whether the construction work takes place immediately after the purchase or years after. The measure also applies if a loan is granted to a borrower

¹ Law of 22 February 1998 establishing the organic statute of the National Bank of Belgium

for purchasing a property with a long-term lease agreement. The real estate property may be for owner occupation or buy to let.