HCSF

Haut Conseil de Stabilité Financière

Press Release

Paris, 17 December 2020

On Thursday 17 December, the Haut Conseil de stabilité financière (HCSF - High Council for Financial Stability) held its 27th meeting, chaired by Bruno Le Maire, Minister of the Economy, Finance and the Recovery.

The HCSF conducted an assessment of the risks and vulnerabilities in the French financial system, against an economic backdrop still affected by the impact of the Covid-19 pandemic. This evaluation is in particular based on the semi-annual *Assessment of Risks to the French Financial System* report, which will be published shortly by the Banque de France.

The HCSF observes that, after a strong rebound this summer, the economic situation deteriorated again in the autumn, due to the resurgence of the pandemic, and that the extent of the recovery in 2021 will depend greatly on the evolution of the health crisis.

The HCSF considers that risks to financial stability remain at a high level. It stresses the effectiveness of the measures taken by governments and central banks to guarantee access to financing for businesses. It notes that business failures remain at a low level but that the crisis has affected the activity, profitability and financial structure of some companies. It observes that continued public support fosters the economic recovery, in particular by helping businesses consolidate their financial structure and resume their investment projects.

The HCSF also discussed recent developments in the residential real estate market and made a first analysis of the impact of its recommendation of 20 December 2019 on the evolution of lending standards in the residential real estate market in France. A summary of this analysis is annexed to this press release.

As regards housing loans, the HCSF notes in particular the following points:

- interest rates remain close to their historical lows;
- new lending (excluding loan buybacks and renegotiations) reached monthly records in both September and October;
- the gradual easing of credit standards observed over the last few years seems to have paused, with the share of loans with high debt service-to-income (DSTI) ratios or long maturities starting to decline.

The Autorité de contrôle prudentiel et de résolution (ACPR) has also shared with the HCSF the findings of its inspections and discussions with the main credit institutions on the implementation of the recommendation. The HCSF takes good note of the recent developments in the practices of these institutions. It observes some difficulties in implementing the recommendation in certain situations and for certain types of loans.

The HCSF recalls its objective of preserving sound practices, reconciling broad access to credit with credit standards that safeguard financial stability and protect households. In this respect, it decided to amend its recommendation on the following points:

- the recommendation will be clarified to confirm that it does not prevent loan buybacks and renegotiations as long as they reduce the DSTI ratio or the maturity of the loans; the same applies to loan consolidations as long as these loans have been granted independently;
- amortisation deferrals of up to 2 years will be allowed for in order to take account of the specific features of certain transactions, in particular sales before completion and contracts for the construction of single-family homes ;
- in view of the practices observed in the calculation of the DSTI, the calculation method will be further clarified and the benchmark ceiling will be raised from 33% to 35%;
- the share of new loans that can diverge from best practices in terms of maturity or DSTI will be increased from 15% to 20% and will be more targeted on first-time buyers.

The HCSF stresses that the notice relating to its recommendation has been updated in August in order to clarify the treatment of rents associated with buy-to-let investments and of the tax incentives under the Pinel and Denormandie schemes.

The HCSF will formally adopt in the coming weeks an amended recommendation and an updated notice, which will be published on the HCSF website. It asked the ACPR to continue to monitor regularly and provide updates on the implementation of the recommendation and on developments in lending conditions. All credit institutions will comply with this recommendation while ensuring that their customers have broad and appropriate access to housing loans.

The HCSF also intends to adopt a measure in summer 2021 to make the recommendation legally binding. As stated on 12 December 2019, it has the powers to do so under Article L631-2-1 of the French Monetary and Financial Code.

The HCSF's action aims, in the interest of all stakeholders, to safeguard the model used for the financing of house purchases in France, which is based on fixed-rate housing loans with reasonable maturities, granted on the basis of an analysis of the repayment capacity of borrowing households.

The HCSF also shared information on consumer credit: there is currently no increase in household over-indebtedness; the number of applications submitted to the Banque de France remains slightly lower than in 2019. Furthermore, public measures - including the deployment of the Points conseil budget (PCB – Budget Management Advice Offices) - have been put in place to provide assistance with all situations of financial distress.

Finally, in line with the guidance issued last March and in order to enable banks to continue to support the economic recovery, the HCSF decided to leave the countercyclical capital buffer rate for banks unchanged at 0%. The HCSF does not intend to raise this rate for the time being.