HCSF

Haut Conseil de Stabilité Financière

Press release - Annex

Paris, 17 December 2020

First assessment of housing lending in France in 2020 and the impact of Recommendation R-2019-1 of the Haut Conseil de Stabilité Financière (HCSF – High Council for Financial Stability)

After noting the strength of housing lending in France since 2015, which is partly explained by a gradual but persistent loosening of credit standards, and following a public consultation on the risks associated with these developments, the HCSF recommended in December 2019[1] that credit institutions comply with the best practices that have so far ensured the soundness of the French housing finance model, i.e.:

- rely mainly on an assessment of the creditworthiness of borrowers and ensure that, as a rule, no more than one-third of the maximum income is spent on debt repayment (debt-service-to-income ratio –DSTI– below 33%);
- grant housing loans with reasonable maturity (25 years maximum), allowing institutions to lend at a fixed rate while mitigating long-term interest rate risk.

The recommendation provides for leeway of up to 15% for new loans diverging from these criteria, without requiring any particular justification. 75% of this leeway is reserved for the purchase of main residences, particularly by first-time buyers.

At its meeting on 17 December 2020, the HCSF made an initial assessment of the implementation of the recommendation.

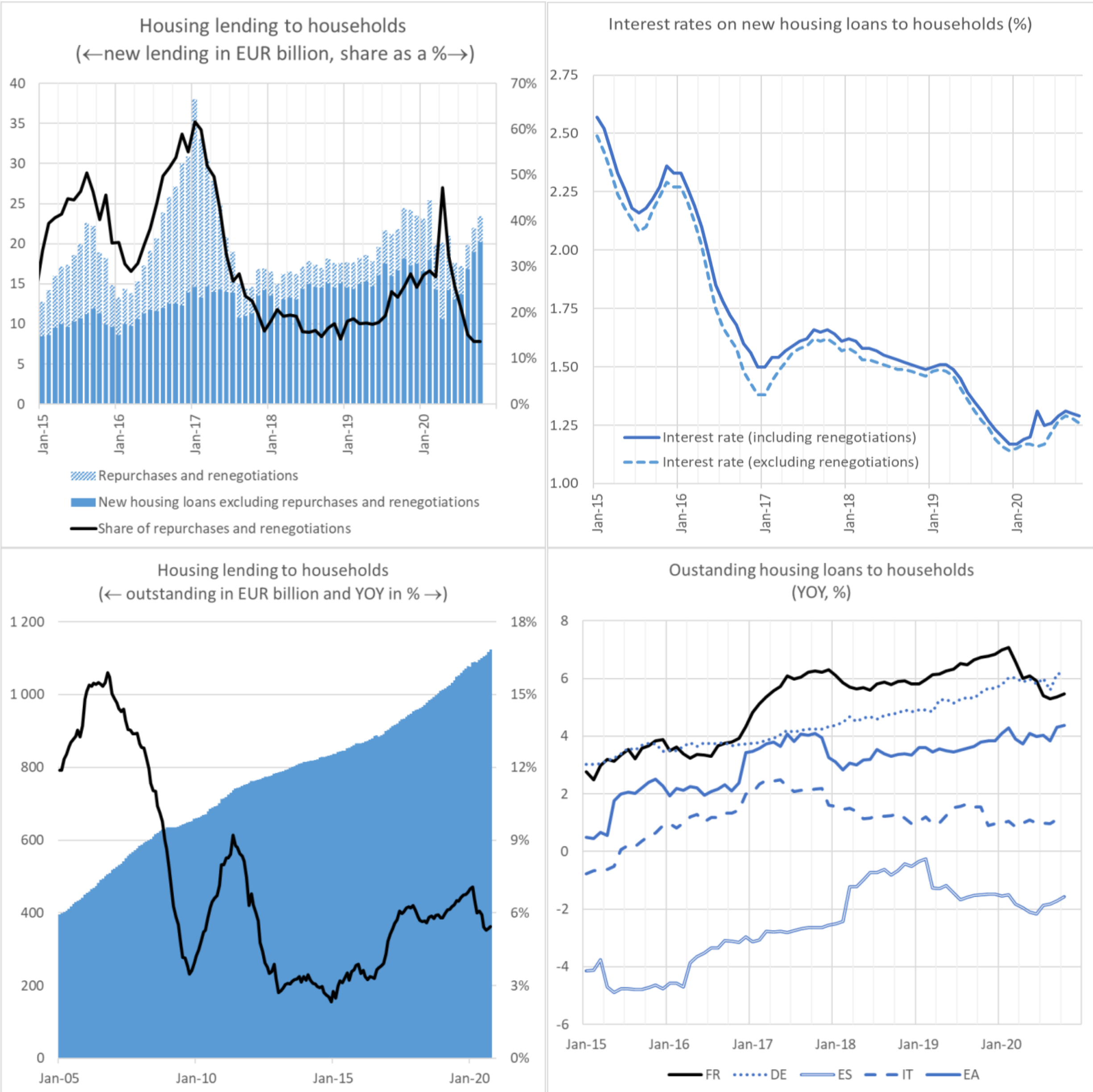
New housing lending has been dynamic, offsetting the slowdown observed in the spring

The HCSF noted the strength of new housing lending, excluding repurchase and renegotiations[2]. After falling to EUR 10.6 billion in April 2020 as a result of the pandemic and of the lockdown measures, new housing lending (excluding repurchase and renegotiations) returned to a high level during the summer and reached historic highs in September and October (EUR 19.0 billion and EUR 20.2 billion respectively). The current dynamics go beyond a mere catch-up effect: the average monthly level of new lending since March (EUR 15.2 billion) remains below the exceptional level of 2019 (EUR 16.1 billion) but exceeds the average levels observed in 2017 (EUR 13.3 billion) and 2018 (EUR 14.0 billion).

[1] Announced following the meeting on 12 December 2019, the recommendation has been published on 20 December 2019. It entered into force for new contractual relationships as of the end of 2019.

[2] See statistics on stocks and flows of housing loans.

The strength of new housing lending is being driven by the fact that interest rates are close to their historic lows observed at the end of 2019[3]. After rising for a short period, from this historical low, by a modest 24 basis points (bp) between January and August, rates have, since the summer, been on a downward trend again (-2 bp since August).



Sources: Banque de France and European Central Bank.

In addition to interest rates for new housing loans remaining stable at historically low levels, the most notable development was the spread between interest rates for new housing loans (excluding renegotiations) and interest rates for renegotiated housing loans, which reached 43 bp in April. This difference reflects the fact that, unlike previous renegotiation episodes when borrowers sought to take advantage of lower interest rates, the spring renegotiations were intended to reduce debt servicing costs on a one-off basis.

[3] See statistics on interest rates on new housing loans to households.

These renegotiations, arising from an actual or expected worsening of the borrowers' financial situation, have generally been carried out without any change in the interest rate conditions set out in the contract. These renegotiations could also indicate that some households have a limited capacity to cope with falling incomes, despite government support measures such as the extended furlough scheme. These are likely to be households whose DSTIs were high or those liable to suffer more severe or long-lasting economic consequences from the pandemic.

Household debt is continuing to rise

At the end of October 2020, housing loans therefore remains very dynamic in spite of the economic situation and continue to grow at a fairly rapid pace (5.5% year-on-year in October). It reached EUR 1,124.6 billion in October. This growth remains significantly higher than the trend observed for the euro area as a whole, in line with the increase observed since 2015 (French households accounted for 20% of the debt of euro area households but have contributed 40% to the growth in household debt in the euro area since 2015).

The rapid growth in outstanding housing loans is continuing to fuel the rise in household debt, which reached nearly 100% of gross disposable income by mid-2020.[4]

Beyond the disruptions linked to the public health crisis, the market for existing homes remains vibrant, while the construction sector and market for new homes have remained sluggish over the last few years

Underlying these developments are changes in the housing market (including both new and existing homes). If the crisis related to the Covid pandemic, and in particular the two lockdowns, have affected the market, it seems that the slowdown in activity in the first half of the year has almost been caught up at the end of 2020, while the dynamics observed in recent years have continued.

In the existing homes market, after the disruptions associated with lockdown, the number of transactions has recovered and is currently equivalent to last year's level. At the same time, prices continue to rise, albeit at a slower pace than before the health crisis.

In the new homes market, construction has been declining since the end of 2017. The health crisis has probably exacerbated an underlying trend, while the institutional timetable (municipal elections) has opened up a new phase of consultation prior to the launch of new projects. In terms of housing starts, the situation is less negative: activity is recovering, but not enough to offset the drop in spring. Regarding property development, there was a decline in reservations which, given the low level of stocks and the limited number of projects nearing completion, did not lead to an increase in the number of properties available for sale.

The monitoring of the implementation of the HCSF recommendation of December 2019 draws on a specific reporting process as well as on ACPR controls

In order to ensure compliance with HCSF Recommendation R-2019-1, the Autorité de contrôle prudentiel et de résolution (ACPR) adjusted the existing reporting process for the monitoring

[4] See statistics on Non-financial private sector debt.

of credit standards (CREDITHAB reporting[5]). As part of the general efforts to reduce red tape for banks in the context of the public health crisis, the implementation of this reporting process was postponed by three months. The banks therefore started to submit their data in the new format at the end of September 2020 for the first months of 2020.

This monitoring was supplemented by on- and off-site controls to assess the implementation of the recommendation and to gauge compliance with the criteria and definitions contained in the recommendation.

In this context, and as is generally the case when implementing new reporting processes, the quality of the data provided must be improved both regarding the choice of certain data used to calculate the indicators and the quality of the calculations themselves. Corrective reports are expected from some institutions. The reporting process also made it possible to identify technical non-conformities that can be easily corrected.

The market has begun to adapt to the recommendation, and the loosening in standards previously observed seems to be reversing

Bearing in mind the necessary precautions taken in light of the findings on the quality of the data, the information collected shows that the market has begun to adapt to the recommendation.

While new lending remained very resilient overall, there was a decline in new housing loans with a DSTI ratio of more than 33% or a maturity of more than 25 years between the beginning of the year and the end of October. It should be noted that the recommendation came into effect for new housing loans at the end of 2019. Given the time gap, which could last months, between the start of the relationship and the signing of the loan contract and between the signing and the disbursement of funds, only a gradual correction was expected, especially since usual deadlines were extended due to the public health crisis in the spring.

These developments suggest that the loosening in recent years seems to be reversing. However, it seems premature to draw conclusions regarding this issue and there may be many reasons for these developments. In particular, the current economic context is, in itself, likely to warrant more cautious credit standards. Discussions with the credit institutions nevertheless suggest that part of the ongoing correction can be attributed to the recommendation.

Lastly, the HCSF has also examined the available information to assess recent developments in new housing lending by income level or by type of transaction and did not discern an impact of the recommendation on these developments.

[5] See documentation for the revised *reporting* CREDITHAB.