

Press Release

Paris, 28 January 2021

The Haut Conseil de stabilité financière (HCSF – High Council for Financial Stability) adopted on 27 January 2021 the Recommendation R-2021-1 on lending standards in the residential real estate market in France. This Recommendation is accompanied by a notice providing its definitions.

After reviewing recent developments in the residential real estate market and new housing loans since its Recommendation of 20 December 2019, the HCSF announced on 17 December 2020 its intention to amend this Recommendation.

The main amendments relate to the following points:

- the benchmark ceiling for the debt service-to-income ratio (DSTI) will be raised from 33% to 35% and the definition of the DSTI has been clarified;
- the assessment of the maximum maturity may take into account the grace period when the date on which the property comes into possession is later than the date on which the loan was granted. Thus, a maximum tolerance of two years for the grace period can be added to the 25-year maturity limit for housing loans intended for the purchase or construction of a new dwelling, and for those related to purchases of existing dwellings associated with renovation works representing at least 25% of the total cost of the transaction;
- the flexibility margin for the share of new loans that can diverge from best practices in terms of maturity and DSTIs will be increased from 15% to 20% of the volume of total new loans. As part of the increase in the margin and in order to ensure that it benefits mainly households purchasing their main residence, the share reserved for the purchase of the main residence will be increased from 75% to 80% of the maximum flexibility margin and a share of 30% of the maximum flexibility margin is specifically reserved for first-time buyers.
- The Recommendation of 20 December 2019 called for a maximum debt-to-income ratio of seven years for loans granted within the flexibility margin. This limit is not kept in this Recommendation, but monitoring by the Autorité de contrôle prudentiel et de résolution (ACPR) will be enhanced in order to precisely track the characteristics of new loans that deviate from the Recommendation's criteria for each segment of new lending;
- The new Recommendation also specifies that renegotiations, loan buybacks and credit consolidation do not fall within its scope. The HCSF nevertheless invites banks and financing companies to take into account the best practices set out in the Recommendation and to ensure that these transactions enable borrowers to reduce their DSTIs.

The HCSF will continue to rely on the ACPR to monitor the implementation of this Recommendation. An updated reporting template will be implemented very rapidly to enable this monitoring.

The HCSF notes that, since the adoption of the previous Recommendation and beyond developments related to the public health crisis, new housing lending has continued to grow, on a sounder basis. The gradual easing of credit standards observed over the last few years seems to have paused, with the share of loans with high DSTIs, long maturities, or high loan-to-value ratios starting to decline.

The new Recommendation and its transposition, in the summer of 2021, into a legally binding measure will secure the changes already observed and consolidate the French housing finance model, to which the HCSF reaffirms its commitment. This model, which is based on fixed-rate housing loans with reasonable maturities, granted on the basis of an analysis of the repayment capacity of borrowers, helps to protect households and secure home ownership.