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Limits on granting housing loans and maximum loan maturity

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This Decree is established on the basis of subsection 83 (2) of the Credit Institutions Act.

§ 1. Scope of the Decree

(1) This Decree establishes the requirements for the ratio between the amount of a housing loan and the value of the loan collateral (hereinafter the *loan-to-value limit*), requirements for the ratio between the loan and interest payments periodically payable by the borrower under various loan contracts and the income of the borrower (hereinafter the *debt service-to-income limit*), the maximum maturity of a housing loan and the exceptions permitted upon following the requirements of this Decree.

(2) Within the meaning of this Decree, a housing loan shall be a loan granted by a lender specified in section 2 to a borrower who is a physical person for buying, building, extending, rebuilding or renovating residential property in Estonia that is secured by a mortgage.

§ 2. Application of the Decree

This decree shall be applicable to all credit institutions operating in Estonia, including to Estonian branches of foreign credit institutions operating in Estonia.

§ 3. Loan-to-value limit

(1) Meeting of the loan-to-value limit is assessed on the basis of a loan-to-value (LTV) ratio. The loan-to-value ratio is found by dividing the amount of a loan by the value of the immovable property or immovable properties used as collateral for the loan as follows:

$$\text{loan-to-value ratio} = \frac{\text{loan amount}}{\text{property value}}$$

(2) At the moment the decision to grant the housing loan is taken, the loan-to-value ratio may be up to 85%.

(3) The loan-to-value ratio for housing loans with KredEx guarantee may be up to 90%.

(4) The collateral of a housing loan shall be a mortgage on the same residential property that is being bought, built, extended, rebuilt or renovated on the account of the loan or on another immovable property belonging to the borrower and/or co-borrower. A housing loan may also be secured by a mortgage on immovable property belonging to a third party.

(5) Only mortgages of the first ranking may be accepted as collateral. A credit institution may accept mortgages of the following rankings provided that all higher-ranked mortgages are assigned to the same credit institution or state.

(6) The value of the immovable property securing the loan used for the calculation of the loan-to-value ratio is either the market value of the immovable property before signing the housing loan contract or the actual purchasing price of the residential property, whichever is lower.

(7) If the collateral of the housing loan secures also any other loan obligation of the borrower or a third party, all amounts of the loans secured with this collateral shall be taken into account when calculating the loan-to-value ratio.

(8) The loan-to-value limit shall not be applied to housing loans which are granted for restructuring or refinancing of an earlier loan and whose amount does not exceed the claim arising from the restructured or refinanced loan.

§ 4. Debt service-to-income limit

(1) Meeting of the debt service-to-income limit is assessed on the basis of a debt service-to-income (DSTI) ratio. The debt service-to-income ratio is found by dividing the amount of the principal and interest payments of all loan obligations of the borrower by the net income of the borrower, as follows:

$$\text{debt service-to-income ratio} = \frac{\sum_{i=1}^n (\text{principal and interest payments})_i}{\text{borrower's net income}}$$

where n is all the credit agreements of the borrower including the new housing loan.

(2) At the moment the decision to grant the housing loan is taken, the debt service-to-income ratio may be up to 50%.

(3) The borrower's net income is the regular and proven post-tax income of the borrower. Regular income is the amount of income that is received every month, quarter and/or year by the borrower that is approximately the same every time and where the borrower has considered how long the income has been received for and how sustainable it is. Post-tax income is income once all the amounts due as state taxes and payments have been deducted.

(4) Loan payments, i.e. the amount of principal and interest payments, are the amount of the monthly loan payments both of the new housing loan and of all the other loans, leases and other consumer credit agreements of which the lending credit institution is aware and that have been granted to the borrower by the credit institution granting the loan or by another credit institutions and by other lenders.

(5) If a housing loan is granted with a variable interest rate, the interest rate of the housing loan shall be either the interest rate indicated in the loan contract plus two percentage points, or an annual interest rate of 6%, whichever is higher.

(6) The values indicated in the numerator and denominator upon calculating the debt service-to-income ratio are specified on a monthly basis in euros. If the net income of the borrower or loan payments are not monthly or have been expressed in another currency, they shall be transferred to a monthly basis and specified in euros for the purpose of calculating the ratio.

(7) If a housing loan is taken with a co-borrower, all loan payments of the borrower and the co-borrower of which the credit institution granting the loan is aware shall be aggregated in the numerator and the net income of the borrower and the co-borrower in the denominator of the debt service-to-income ratio.

§ 5. Maturity of a housing loan

The maximum contractual maturity of a housing loan contract may be 30 years as of the moment when the loan amount or, in the event of granting the housing loan in instalments, the first instalment of the loan amount is granted to the disposal of the borrower.

§ 6. Limit for permitted exceptions

Up to 15% of the total amount of new housing loans issued by a credit institution in a quarter may be granted exceeding the limits specified in section 3 and/or 4 of this Decree and/or for a longer maturity than set forth in section 5. From entry into force of the Decree to 31 March 2015, a credit institution may issue up to 15% of the total amount of new housing loans issued within this period, exceeding the aforementioned limits and/or for a longer maturity than set forth in section 5.

§ 7. Entry into force

This Decree shall enter into force on 1 March 2015.

Ardo Hansson
Governor