



Banca Națională
a Moldovei

Regulation on responsible lending to consumers by banks

Scope of the Regulation

- ✓ Promoting responsible lending practices of banks, market discipline and transparency in order to reduce systemic risk, **prevent excessive credit growth and over-indebtedness of debtors.**
- In order to establish the limits for DSTI (debt-service-to-income) and LTV (loan-to-value), a microeconomic study was conducted, based on individual data related to loans granted by banks.

Field of application

Establishes
responsible
lending
requirements
for banks

Applies to
credit
agreements
for
consumers

LTV, DSTI and maximum maturity **do not apply to**:

- 1) restructured loans;
- 2) loans in the form of an overdraft facility and under which the loan must be repaid within one month;
- 3) loans fully guaranteed for the entire period with deposit at a bank;
- 4) credits taken over by third parties in the event of the debtor's death or loan partition;
- 5) credits which are the result of a court decision or other authority established by law

Definitions

*credit
granted to
consumer*

*consumer
loan*

*real estate
investment
loan*

*restructured
loan*

*the pledged
real estate*

*the price of
the pledged
real estate*

*loan-to-value
ratio, LTV*

*debt-service-
to-income
ratio, DSTI*

debt service

market value

*the debtor's
average
income*

*confirmed
income*

Definitions



actual income received,

which can be **documented from official sources** held by

- public authorities,
- banks,
- non-bank financial institutions, and/or
- credit history bureaus,
- including remittances that can be documented, as well as
- income confirmed by special documents with special regime (e.g. tax invoices, milk purchase receipts, etc.)



Responsible Lending principles (1)

must be based on information from official sources documenting confirmed income, credit obligations assumed and other information available to the creditor

the principle of preventing any delay in making payments, non-repayment of loans or delays in the exercise of pledge rights

the principle of repaying the credit from the confirmed consumer's income and not on forced recovery

it must be ensured that the consumer's ability to meet its obligations is not based on expectations of an increase in the consumer's source of income

must carry out the assessments objectively

Responsible Lending principles (2)

the loans for real estate investments, to be based on the limitation of the "ratio between loans and guarantees", LTV

must be based on limiting the "debt—service-to-income" ratio, DSTI

must take into account the limitation of the maximum credit maturity

ensure that the credit repayment schedule is established in regular and relatively equal installments, decreasing or as the case may be, in accordance with the periodicity of the consumer's income, without delaying the payment of the principal near the maturity of the loan

Consumer creditworthiness assessment



Assessment of the consumer's ability to assume a certain obligation under the credit agreement which the consumer could honor together with the credit obligations already assumed



The lender's decision to grant credit must be based on a prudent assessment of the consumer's ability to repay the loan during the term of the credit agreement

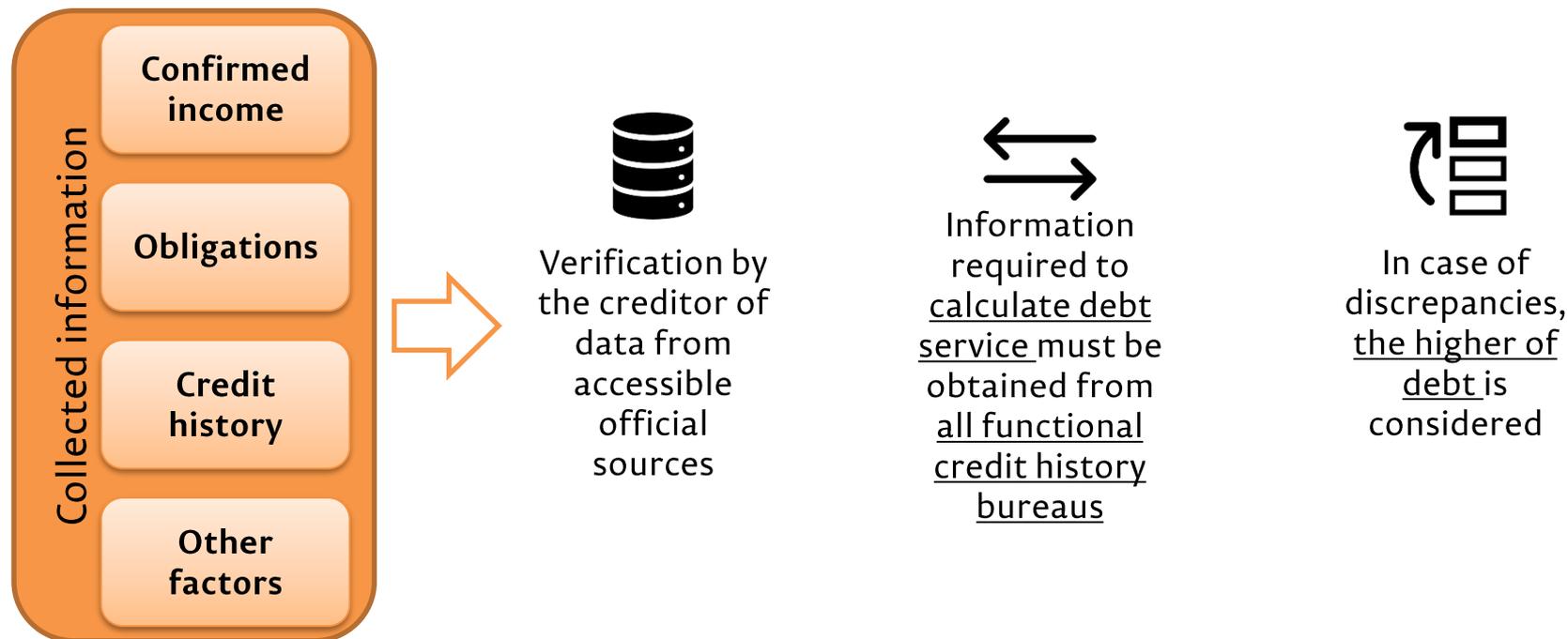


If the credit is granted to two or more persons (co-debtors), their income and financial obligations must be assessed together



The creditor must ensure that the guarantor is informed at least of the provisions of the Civil Code regarding the obligations of the guarantor

Consumer creditworthiness assessment: collected/evaluated information



Loan to value ratio (LTV)

LTV applies to loans for real estate investments and can not exceed →

80%

$$LTV = \frac{\textit{Total value of the loan}}{\textit{Value of the pledged real estate}} \times 100\%$$

- For the loan compensated and/or partially/fully guaranteed by state (directly/ indirectly), LTV limit will be calculated taking into account the compensated and/or guaranteed credit share (deducted)
- For the loan partially secured by cash deposits, LTV limit will be calculated based on the unsecured amount of loan

Loan to value ratio (LTV)

Exceptions

- Credit refinancing, if:
 - 1) the current balance of the loan amount does not increase;
 - 2) the pledged property remains the same and its market value has not decreased or another property is proposed as collateral so that the market value of the pledged property is not less than the market value of the property, indicated in the mortgage contract concluded for the purpose of guaranteeing refinanced credit.
- LTV may be temporarily increased if the consumer wishes to improve his living conditions and undertakes, within a reasonable time set in the credit agreement, to reduce the obligations under the credit agreement with the money received from the sale of the basic housing.
 - Reasonable term: 3 months for purchase, 12 months for construction.
 - Exception limit: 15% of the total new real estate loans granted in the previous 3 months.

Debt service to income ratio (DSTI)

DSTI applies to all credits consumers (households) covered by the Regulation

DSTI must not exceed →

40%

$$DSTI = \frac{\text{Debt service}}{\text{Average monthly income}} \times 100\%$$

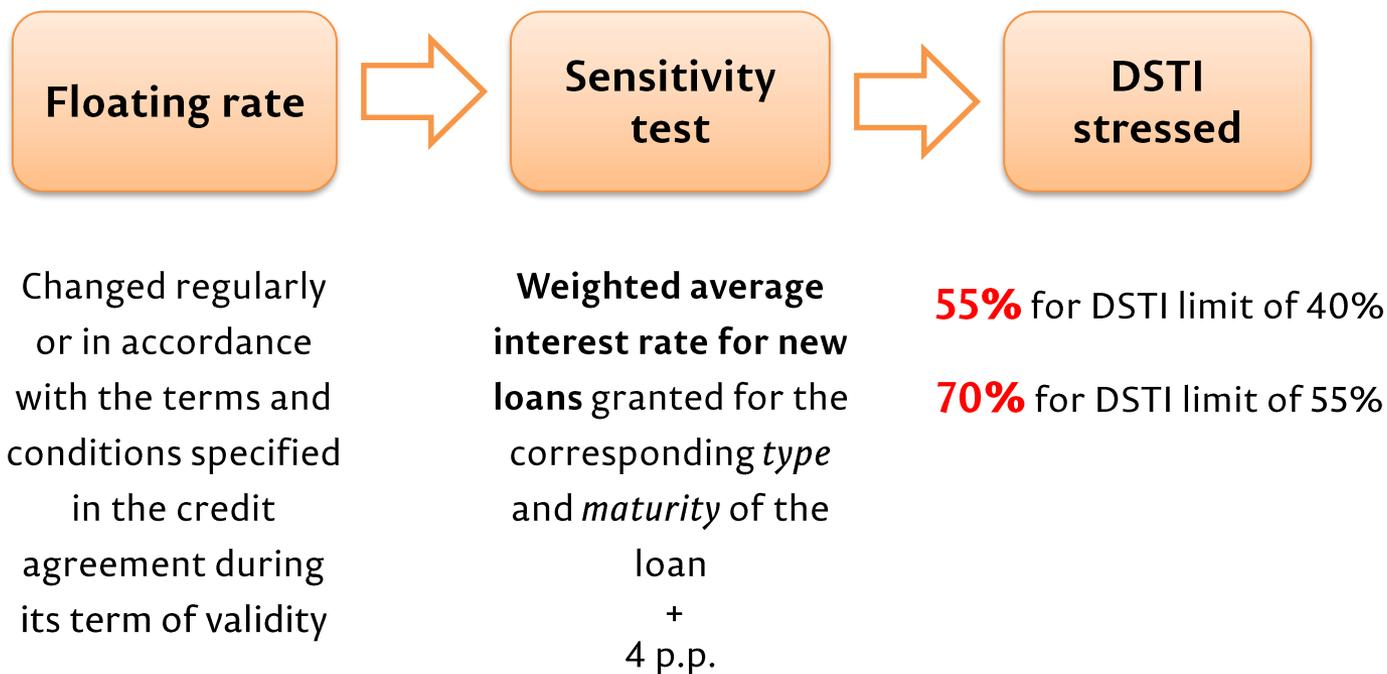
Debt service - the average monthly value of the total debt service costs known to the creditor at the stage of assessing the consumer's creditworthiness, established as the **sum of the average monthly payments calculated for all consumer's loans/debts at the time of granting the credit together with the average monthly payment of new credit.**

Average monthly income - the **average monthly net income of the consumer** realized by the consumer in at least the last 6 months available for evaluation, but not more than 12 months before the submission of the credit application. Only confirmed regular income that the creditor recognizes as sustainable will be included, taking into account the provisions of p. 18 from the Regulation (irregular income); the long-term sustainability of the income will be assessed by the creditor.

Irregular income

- Income that can change significantly / with questionable sustainability: **adjustment coefficients, set by the creditor, are applied**
- When the consumer has a source of irregular income (e.g. from entrepreneurial or professional activity, based on an entrepreneur's license or seasonal work) => the creditor will recognize the income for the purpose of calculating the DSTI if **at least 3 receipts during 6 consecutive months within a 12 months period** before the credit application is submitted **are confirmed**
- For dividends => the creditor will recognize the income from dividends **received during the last 12 months** before the application for the respective loan is submitted
- For loans attached to the exchange rate and the income is in MDL, a DSTI must not exceed **30%**

Sensitivity test of DSTI



Debt service to income ratio (DSTI)

Exceptions

- 1) Loans granted under the “First Home” Government program
- 2) Loans granted for the improvement of living conditions (temporary, aligned with the exception of the LTV)
- 3) DSTI +15 p.p. if the average monthly income of the consumer **exceeds at least twice the size of the average monthly salary per economy** approved by the Government for the year in which the credit decision is taken = **55%** and **45%** for foreign currency-linked loans
- 4) In case of impossibility to prove the confirmed income, **the maximum cumulative amount of the monthly debt service** of the consumer must not exceed 40% of the **minimum guaranteed amount of salary in the real sector**, established by the Government of the Republic of Moldova

Maximum credit maturity

Maximum maturity of a loan for real estate investments →

30 years

Maximum maturity of a consumer loan →

5 years

Exceptions:

- Credit refinancing (remaining balance does not increase, pledge unchanged or additional pledges, new maturity does not exceed the remaining maturity of the loan subject to refinancing)
- Revolving credit facilities (subject to DSTI revaluation at least every 5 years)

Reporting and entry into force

- **Reporting:** Banks will report to the NBM the values of LTV and DSTI in the Credit Risk Register

- **Entry into force: from the 1st of July 2022**



Non-bank lending market: on May 20th, 2022 the National Commission for Financial Market approved the Regulation on responsible lending requirements applied to non-bank credit organizations