

BOARD OF THE BANK OF LITHUANIA
R E S O L U T I O N

**AMENDING RESOLUTION NO 03-144 OF THE BOARD OF THE BANK OF LITHUANIA OF
1 SEPTEMBER 2011 ON THE RESPONSIBLE LENDING REGULATIONS**

24 January 2017 No 03-22
Vilnius

The Board of the Bank of Lithuania hereby r e s o l v e s:

1. To amend Resolution No 03-144 of the Board of the Bank of Lithuania of 1 September 2011 on the Responsible Lending Regulations to read as follows:

'BOARD OF THE BANK OF LITHUANIA
R E S O L U T I O N

ON THE RESPONSIBLE LENDING REGULATIONS

Acting in accordance with Articles 9, 11, 47¹, 42(3)(1) of the Republic of Lithuania Law on the Bank of Lithuania, Article 12(11) of the Republic of Lithuania Law on Real Estate Related Credit, the Macroprudential Policy Strategy approved by Resolution No 03-31 of the Board of the Bank of Lithuania of 12 March 2015 on the approval of the macroprudential policy strategy, and having regard to item 3.3 of the Protocol (No 4) on the Statute of the European System of Central Banks and of the European Central Bank to the Treaty on the Functioning of the European Union (OJ C 115, 9 5 2008, p. 230) and the Guidelines on creditworthiness assessment of the European Banking Authority of 19 August 2015 (EBA/GL/2015/11), the Board of the Bank of Lithuania hereby r e s o l v e s:

1. To approve the Responsible Lending Regulations (attached)'
2. To establish that this Resolution shall enter into force on 1 July 2017.
3. To establish that paragraph 21 of the Responsible Lending Regulations approved by this Resolution shall enter into force on 1 January 2018.
4. To establish that the Responsible Lending Regulations approved by this Resolution shall not apply to credit agreements, decisions regarding which had been taken before the day of the entry into force of this Resolution.

CHAIRMAN OF THE BOARD

VITAS VASILIAUSKAS

APPROVED
by Resolution No 03-22
of the Board of the Bank of Lithuania
of 24 January 2017

RESPONSIBLE LENDING REGULATIONS

**CHAPTER I
GENERAL PROVISIONS**

1. The aim of the Responsible Lending Regulations (hereinafter 'Regulations') shall be to specify the requirements for the assessment of the creditworthiness of borrowers of real estate-related credit and for responsible lending, to promote responsible lending practices of creditors, market discipline and transparency in activities with a view to minimising systemic risk posed by creditors, preventing excessive credit growth, unsustainable developments in real estate prices and over-indebtedness of borrowers.

2. The Bank of Lithuania adjusts the rates of macroprudential policy instruments as set out in the Table 'Rates of Macroprudential Policy Instruments' herein (hereinafter 'Annex table') taking into account the dynamics of financial sector resilience, macroeconomic indicators, indebtedness of borrowers, development of the credit and real estate markets and other factors relating to systemic risk so as to ensure sustainable contribution of the financial sector to economic growth.

3. The terms used herein shall be interpreted as defined in the Republic of Lithuania Law on Real Estate Related Credit (hereinafter 'the Law'), Republic of Lithuania Law on Financial Institutions, Republic of Lithuania Law on Consumer Credit and Republic of Lithuania Law on the Bank of Lithuania.

CHAPTER II

SCOPE

4. The Regulations shall apply to:
- 4.1. credit agreements specified in Article 2(1) of the Law;
 - 4.2. credit agreements concluded by natural persons seeking to engage in the activities of rent and exploitation of real estate as well as residential and non-residential construction, which may be carried out by obtaining a business certificate or an individual activity certificate in accordance with the procedure set forth by legal acts of the Republic of Lithuania.
5. For peer-to-peer lending platform operators operating in accordance with the Law, the Regulations shall apply *mutatis mutandis*.
6. The Regulations shall not apply to:
- 6.1. credits subject to restructuring;
 - 6.2. credit agreements specified in Article 2(2) of the Law, except for credit agreements referred to in subparagraph 4.2 herein.

CHAPTER III RESPONSIBLE LENDING

7. Responsible lending shall be such lending activities of creditors when the creditor properly carries out a detailed assessment of the borrower creditworthiness, does not assume excessive credit risk, does not allow the borrower to assume excessive financial obligations and does not contribute to the possibility of the build-up of systemic risk.

8. Responsible lending shall be based on the following requirements:

8.1. the creditor, prior to taking a decision on granting credit to a borrower, shall comprehensively assess the borrower's creditworthiness relying on sufficient information and evidence;

8.2. all significant factors objectively implied shall be assessed, taking into account information provided by the borrower received from the registers and information systems used for the assessment of creditworthiness and other information available to the creditor that may affect the borrower's creditworthiness, in particular the borrower's income sustainability, credit history, probability of change in income (increase and decrease), and all existing financial obligations;

8.3. the creditor should seek that its lending activities do not contribute to the possibility of the build-up of systemic risk;

8.4. lending shall be based on the limitation of the ratio of total credit amount (hereinafter 'credit amount') to the market value or price of the real estate mortgaged and/or the limitation of the ratio of credit amount to the market value or price of the real estate to be acquired or constructed, applying the loan-to-value ratio (LTV);

8.5. lending shall be based on the limitation of the debt service-to-income (DSTI) ratio;

8.6. lending shall be based on the limitation of the maximum loan maturity and regular payments reducing the outstanding amount of credit.

CHAPTER IV LOAN-TO-VALUE RATIO

9. The loan-to-value ratio (hereinafter 'LTV') may not exceed the LTV value specified in line 1 of the Annex table, except in the cases specified in paragraphs 10, 14, 15, 16 and 17 herein.

10. When meeting of the obligations under a credit agreement is not secured by mortgage of real estate, the loan-to-value ratio of the credit amount and the real estate to be acquired or constructed shall not be limited.

11. When meeting of the obligations under a credit agreement is secured by mortgage of additional or other real estate, the loan-to-value ratio of credit amount and the real estate to be acquired or constructed should be assessed; it may not exceed the value indicated in line 1 of the Annex table.

12. When determining the LTV, the creditor may not rely on the assumption that the real estate value will appreciate in the future (due to growth in real estate prices, change of the designation of the real estate, etc.).

13. The LTV shall be calculated according to the formula:

$$LTV = \frac{\text{credit amount}}{\text{value of real estate mortgaged}} \times 100$$

where:

13.1. credit amount – the credit amount which may be used under a credit agreement;

13.2. mortgaged real estate – real estate mortgaged to secure meeting of obligations under a credit agreement;

13.3. value of mortgaged real estate – the market value or price of mortgaged real estate, whichever of the two is lower, where:

13.3.1. the market value of mortgaged real estate – the market value of mortgaged real estate, estimated in accordance with the provisions of Article 14 of the Law;

13.3.2. the price of mortgaged real estate – the price of real estate specified in the real estate purchase and sale contract concluded no earlier than one year prior to filing the application;

13.3.3. where the price of real estate is unknown (the real estate has been inherited, donated, etc.) or the borrower can provide reasonable evidence (a real estate valuation report, etc.) that the market value of the real estate, as a result of investments made in that real estate, is higher than that at the time of the conclusion of the real estate purchase and sale contract, the value of the mortgaged real estate shall be established on the basis of the market value of the mortgaged real estate.

14. The LTV shall not apply to credit agreements aimed at refinancing credits granted to the borrower, provided that all of the following conditions are met:

14.1. the outstanding balance of the credit amount does not increase;

14.2. the real estate mortgaged remains unchanged or additional real estate is mortgaged.

15. Where a borrower concludes a credit agreement and the State partially compensates the credit in accordance with the procedure set forth by legal acts of the Republic of Lithuania, the LTV may be higher than that specified in line 1 of the Annex table, taking into account the share of the credit compensated by the State.

16. The LTV may be higher than the value indicated in line 1 of the Annex table, where the borrower, so as to change the real estate owned that is considered to be their principal place of residence, is going to conclude a credit agreement for the acquisition or construction of other real estate suitable for permanent residence, and undertakes, within a reasonable period fixed in the credit agreement, to reduce liabilities under the credit agreement with the funds received from the sale of the real estate that was their previous principal place of residence. The provisions of this paragraph may only be applied when the creditor has reasonable and sufficient evidence that the borrower, having sold the real estate that was their previous principal place of residence, upon expiry of the period fixed in the credit agreement, will have funds to reduce liabilities under the credit agreement to such an extent that the LTV does not exceed the value indicated in line 1 of the Annex table. A reasonable term should be a term of no more than 12 months after the credit agreement conclusion date.

17. A value of LTV lower than that indicated in line 1 of the Annex table shall apply when:

17.1. the borrower concludes a credit agreement on the acquisition or construction of real estate suitable for permanent residence, while having already concluded another credit agreement on the acquisition or construction of real estate suitable for permanent residence. This provision shall not apply in the case specified in paragraph 16 herein;

17.2. meeting of obligations under a credit agreement is secured by mortgage of real estate registered in a non-Member State. In such a case it is recommended to apply a LTV lower by 15 percentage points than that indicated in line 1 of the Annex table.

18. The creditor shall make sure that the share of the value of the real estate to be acquired or constructed that must be paid by the borrower not from the credit funds received under the credit agreement is paid from own funds and, prior to disbursing the credit, shall obtain confirmation from the borrower that the relevant share of the value of the real estate has been paid from the borrower's own (not borrowed) funds.

CHAPTER V DEBT SERVICE-TO-INCOME RATIO

19. The debt service-to-income ratio (hereinafter 'DSTI') of a borrower shall not exceed the value specified in line 2 of the Annex table, except in cases specified in paragraphs 23 and 24 herein.

20. The DSTI shall be calculated according to the formula:

$$\text{DSTI} = \frac{\text{average monthly payment under all debt obligations}}{\text{monthly income}} \times 100$$

where:

20.1. all debt obligations – credit granted and all debt obligations of the borrower at the time of the conclusion of the credit agreement (other credits, consumer credits, hire purchase, credit card limit, other loans, etc.);

20.2. the average monthly payment under all debt obligations shall be calculated as the sum of average monthly payments calculated with respect to each debt liability. The average monthly payment under a debt liability shall be calculated by dividing the amount of credit repayment and interest, including other charges included in the payments, by the residual maturity of the credit in months. When a consumer credit agreement has been concluded, the average monthly payment shall be calculated by dividing the

outstanding amount of credit repayment and the cost of credit by the residual maturity of respective obligations in months, except in cases specified in paragraph 21 herein;

20.3. monthly income – the borrower’s monthly income that the borrower can actually have at their disposal after deducting taxes specified by legal acts. Monthly income shall be calculated taking into account the borrower’s average income during at least the last six months that the creditor recognises as sustainable; the long-term sustainability of the income shall be also assessed. Average sustainable income of the borrower for other periods may be applied when the creditor has reasonable and sufficient evidence that, in the particular case, the borrower’s income for other periods may be considered as sustainable and the application of the respective period is not in breach of the responsible lending requirements. What income of the borrower should be considered as sustainable shall be determined by the creditor according to paragraphs 32 and 33 herein.

21. In terms of credits that cannot be partially repaid (an open-end credit agreement, account credit agreement, other credit agreement whereby the borrower is granted the right to draw on credit without exceeding the set credit limit, etc.), the average monthly payment shall be calculated by adding up the following values:

21.1. the unused amount of credit and the cost of credit divided by the total credit maturity in months, but not exceeding 36 months (including open-end credit agreements);

21.2. the used amount of credit and the cost of credit divided by the residual credit maturity in months, but no more than 36 months (including open-end credit agreements).

22. When granting credit with a variable interest rate (which can be changed regularly or under the terms and conditions specified in the credit agreement during its validity period), the creditor must perform an interest rate sensitivity test and make sure that the borrower will be able to meet debt obligations if the interest rate increases. While performing a sensitivity test of the borrowing rate, the creditor, when calculating the DSTI, must use the applicable borrowing rate not lower than that indicated in line 3 of the Annex table. The DSTI resulting from the sensitivity test of the borrowing rate shall not exceed the DSTI value indicated in line 4 of the Annex table.

23. The borrower’s DSTI may be higher than the value indicated in line 2 of the Annex table but may not exceed the value indicated in line 5 of the Annex table when the creditor has reasonable and sufficient evidence that the use of the higher DSTI in that particular case is not in breach of the principles of responsible lending. According to the requirements of this paragraph, the amount of credits granted shall not be larger than the percentage indicated in line 6 of the Annex table of the total amount of new housing loan agreements concluded by the creditor over a calendar year. In this paragraph, a new housing loan agreement shall be a newly concluded housing loan agreement and amendments to the terms and conditions of housing loan agreements when the total amount of credit is being increased (as specified in Resolution No 03-91 of the Board of the Bank of Lithuania of 28 May 2015 on macroprudential reporting).

24. In the case and under the conditions specified in paragraph 16 herein, the borrower’s DSTI may temporarily exceed the value indicated in line 2 of the Annex table provided that the creditor makes sure that the borrower will be able to meet all existing debt obligations.

CHAPTER VI MATURITY OF CREDIT AGREEMENT

25. The maximum maturity of a credit agreement may not exceed that indicated in line 7 of the Annex table, except in the case specified in paragraph 26 herein.

26. The maturity of a credit agreement aimed at refinancing credit granted to the consumer may exceed that indicated in line 7 of the Annex table, provided that the following conditions are met:

26.1. the outstanding balance of the credit amount does not increase;

26.2. the mortgaged real estate remains unchanged or additional real estate is mortgaged;

26.3. the established maturity of the credit agreement does not exceed the remaining maturity of the credit agreement subject to refinancing.

CHAPTER VII ASSESSMENT OF BORROWER CREDITWORTHINESS

27. The purpose of assessing the creditworthiness of a borrower shall be to assess the borrower’s ability to assume a particular obligation under the credit agreement that the borrower would be able to meet along with their other financial obligations. The aim is preventing any non-repayment of the granted credit, late payments or forced repayment from the real estate mortgaged by the borrower.

28. The creditor’s decision to grant credit shall be based on the careful and comprehensive assessment of the borrower’s ability to repay the credit during the credit agreement term. The creditor’s lending policy shall be based on the principle of credit repayment from the borrower’s income and not through forced recovery from the real estate mortgaged or due to changes in its value.

29. In case credit is granted to two or more persons (co-borrowers), the income and financial

obligations of all such co-borrowers shall be assessed together.

30. Prior to concluding a credit agreement, the creditor, following the requirements of Article 12(1) of the Law, must comprehensively assess the borrower's creditworthiness on the basis of sufficient, proportionate and requisite information about the borrower's income, average expected minimum household maintenance costs, financial obligations, as well as other financial and economic circumstances.

31. The creditor shall support information on the borrower's income and debt obligations with data obtained after checking it with registers and information systems used for the assessment of creditworthiness, or other data, including information provided by the borrower.

32. In assessing the creditworthiness of a borrower, the creditor must collect and assess information on:

32.1. the borrower's income, its diversity, sustainability, possible dynamics in the future, etc. The creditor must ensure that the borrower's ability to meet their obligations under the credit agreement is not based on an unjustified assumption or unjustified expectations of a significant increase in the borrower's income;

32.2. the borrower's debt obligations under the credit agreement and other agreements, as specified in subparagraph 20.1 herein, as well as other financial obligations on the basis of information provided by the borrower. The creditor shall define the procedure for assessing the borrower's financial obligations not included in the calculated DSTI specified in paragraph 20 herein;

32.3. the borrower's credit history, financial obligations overdue and other information about improper meeting of current or previous financial obligations by the borrower;

32.4. the impact of circumstances indicated by the borrower or known to the creditor on the borrower's economic and financial situation, as well as other factors that are likely to affect the borrower's ability to properly meet their financial obligations, cause unjustified financial problems or their over-indebtedness;

32.5. other significant circumstances.

33. Borrowers whose income may change significantly (e.g. income from dividends, shares, rent of real estate, investment activities or sale of real estate) or whose income sustainability is doubtful, shall be subject to more stringent restrictions than those specified in the Annex table. In cases referred to in this paragraph and when the borrower is engaged in individual activity, works under a business certificate or performs seasonal works and receives irregular income, the creditor shall take reasonable action to verify the sustainability of the borrower's income and information related to their ability to meet obligations under the credit agreement.

34. Where the parties to a credit agreement, after concluding a credit agreement, agree to change the total amount of credit, the creditor, prior to each more significant increase of the total amount of credit, shall update the available information about the borrower, mortgaged real estate and, on the basis of the updated information, shall again conduct a thorough assessment of the borrower's creditworthiness, unless such additional credit has been provided for in the credit agreement and taken into account during the initial assessment of creditworthiness.

35. Where the credit agreement is concluded in foreign currency and the credit is denominated in a currency other than that in which the borrower receives income, the creditor shall consider foreign exchange risk and, where appropriate, apply more stringent restrictions than those specified in the Annex table.

CHAPTER VIII FINAL PROVISIONS

36. The creditor must approve the borrower's creditworthiness assessment and responsible lending regulations that would lay down a reliable procedure for the assessment of the borrower's creditworthiness, procedures and information on the basis of which the borrower's creditworthiness assessment shall be carried out, and follow them in credit provision activities. The creditor must continuously review and assess whether the applicable rules are adequate and effective, and amend them where appropriate.

37. To properly assess the borrower's creditworthiness, the creditor shall prepare all documents related to the credit agreement so that submission of misleading facts by the borrower, the creditor or a credit intermediary could be identified and erroneous assessment of received information be avoided.

Annex
to the Responsible Lending Regulations

RATES OF MACROPRUDENTIAL POLICY INSTRUMENTS

No.	Instrument	Paragraph of the Regulations	Rate, %
1.	LTV	9	85
2.	DSTI	19	40
3.	Borrowing rate used for calculating DSTI when performing a borrowing rate sensitivity test	22	5
4.	DSTI when performing a borrowing rate sensitivity test	22	50
5.	Exemption from the DSTI	23	60
6.	Share of credits granted with the exemption from the DSTI in the total amount of new credit agreements concluded by the creditor during a calendar year for house purchase or construction	23	5
7.	Maximum duration of a credit agreement	25	30 years