

## Ministerie van Financiën

> Retouradres Postbus 20201 2500 EE Den Haag

European Systemic Risk Board  
Sonnemannstrasse 22  
60314 Frankfurt  
Germany

### **Directie Financiële Markten**

Korte Voorhout 7  
2511 CW Den Haag  
Postbus 20201  
2500 EE Den Haag  
[www.rijksoverheid.nl](http://www.rijksoverheid.nl)

### **Ons kenmerk**

2019-0000139373

### **Uw brief (kenmerk)**

Datum 24 september 2019  
Betreft ESRB recommendation 2019/7

Dear Mr. Draghi,

The ESRB is publishing a recommendation on medium-term vulnerabilities in the residential real estate sector in the Netherlands (Recommendation ESRB/2019/7). The Dutch government welcomes the recommendations and supports the work by the ESRB to monitor systemic risks to financial stability in the European financial sector.

The recommendations are partly addressed to the Dutch government and partly to the Dutch Central Bank (DNB). The ESRB recommends that (a) the Netherlands ensures that the recommendation powers of the Dutch Financial Stability Committee (FSC) are complemented by an "act or explain" mechanism or that an accountability mechanism is established in order to make public the views of the authority responsible for the application of borrower-based measures following a recommendation issued by the FSC. In 2014 and 2017 the ESRB<sup>1</sup>, the Financial Stability Board (FSB)<sup>2</sup> and the International Monetary Fund (IMF)<sup>3</sup> have recommended the Dutch government to – in short – embed the FSC in primary legislation and strengthen accountability for FSC recommendations via the establishment of a formal "act or explain" mechanism. In line with these recommendations, the Dutch government is currently preparing legislation that will give the FSC a legal basis in primary law and power to make recommendations. The new legislation will also put in place a mechanism of accountability through transparency. As the Dutch government (the Minister of Finance in collaboration with the Minister of Interior and Kingdom Relations) is the authority which is responsible for the application of borrower-based measures, this mechanism holds that authority publically accountable regarding recommendations made by the FSC. It ensures that the views of this authority regarding FSC recommendation are made public.

---

<sup>1</sup> European Systemic Risk Board, "ESRB Recommendation on the macro-prudential mandate of national authorities (ESRB/2011/3); Follow-up Report – Overall assessment", June 2014.

<sup>2</sup> Peer Review of the Netherlands; Review Report, Financial Stability Board, 11 November 2014, p. 6.

<sup>3</sup> Financial system stability assessment Kingdom of the Netherlands, International Monetary Fund, March 16, 2017, p. 18.

Also, the ESRB recommends (b) the tightening of the existing legally binding limit that applies to the LTV ratio and an amendment to the methodology for determining the maximum limit that applies to the debt service-to-income (DSTI) ratio. Since 2013 households are obliged to amortise a new mortgage loan on at least an annuity basis within 30 years to qualify for mortgage interest deductibility (MID). As a result, the loan-to-value of newly originated mortgage loans decreases rapidly in the years after origination. Furthermore, the legally binding loan-to-value limit was gradually tightened from 106% in 2012 to 100% in 2018. The current government has decided to refrain from further tightening the loan-to-value limit to preserve accessibility to the residential real estate market. Moreover, last year the Dutch competent authorities and the financial sector have started a joint effort to decrease potential risks related to non-amortising mortgage debt. It is also important to note that the default rate on Dutch mortgage loans is very low due to, amongst others, strict personal bankruptcy legislation and the National Mortgage Guarantee (NHG), which significantly reduces systemic risk.

**Directie Financiële  
Markten**

**Ons kenmerk**  
2019-0000139373

To prevent overleveraging on household level, the loan-to-income limits were embedded in law in 2013. The maximum percentage of gross annual income that a household can spend on mortgage payments (interest and amortisation) is determined yearly based on independent advice from the independent National Institute for Family Finance Information (Nibud). Various elements of this methodology are currently being evaluated, including the use of four-year averages of the calculated percentages.

Recommendation (c) on the activation of capital-based measures in order to ensure the resilience of the banking sector in relation to the medium-term vulnerabilities identified in the Netherlands is addressed to DNB. DNB will, in cooperation with the Dutch Minister of Finance, investigate whether the current risk weighting of mortgages is in line with the underlying systemic risks.

Lastly, the ESRB recommends (d) broader policy action aiming to curb factors which facilitate or promote increasing household indebtedness. The Dutch government is aware of the cyclicity of the Dutch housing market. In close cooperation with DNB, the Dutch government is currently exploring possible policy measures that can limit the cyclicity of the housing market. Although the Dutch government has no signs of pockets of credit-driven overvaluation in major cities, the importance of increasing the housing supply is recognised. To accelerate building plans, the Ministry of the Interior and Kingdom Relations signed "housing agreements" with the municipalities and provinces in urban regions with the largest housing shortages. Moreover, the Dutch government has specific attention for the supply of rental housing. The legislative proposal 'Measures in the middle segment rental market' (Maatregelen Middenhuur) contributes to the functioning of the rental market and to a specific increase in the supply of rental housing.

Furthermore, the Dutch government recognises that, although the share of mortgage debt to GDP has declined in recent years, it remains relatively high by international standards. Consecutive governments have already taken several measures to reduce mortgage debt. Besides the earlier mentioned measures, the current government will accelerate a reduction of the maximum tax rate for the MID as of 2020. The Dutch government is currently evaluating the tax treatment

of owner occupied housing and mortgage debt and currently has no plans to take further measures regarding the MID.

**Directie Financiële  
Markten**

The Dutch government will follow-up on the actions taken in response to this Recommendation or justify any inaction in compliance with the different timelines mentioned by the ESRB.

**Ons kenmerk**  
2019-0000139373

Yours sincerely,

W.B. Hoekstra