



**FINANSTILSYNET**

THE FINANCIAL SUPERVISORY  
AUTHORITY OF NORWAY

Circular

# Lending practices for residential mortgages and consumer loans

**CIRCULAR:**

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**THIS CIRCULAR APPLIES TO:**

Banks  
Mortgage companies  
Finance companies  
Insurers  
Pension funds  
Branches of foreign financial institutions  
Credit institutions engaged in cross-border  
activities

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# 1 Introduction

On 9 December 2020, the Ministry of Finance adopted regulations on requirements for financial institutions' lending practices (Lending Regulations). The regulations entered into force on 1 January 2021, replacing the residential mortgage lending regulations from 15 November 2019 and the regulations on requirements for financial institutions' lending practices for consumer loans from 12 February 2019.

This circular replaces Finanstilsynet's circulars 5/2019 and 13/2019.

Financial institutions must adapt their internal credit procedures to the requirements set forth in the Lending Regulations. The Ministry of Finance has commented on some of the provisions on its website: <https://www.regjeringen.no/en/topics/the-economy/finansmarkedene/utlansforskriften/id2791101/>

Finanstilsynet gives further comments to the regulations below.

## 2 Re Section 3 Exemptions

The regulations do not apply to equity release agreements with a loan-to-value ratio below 85 per cent. Equity release agreements are loans secured on residential property that are expected to be redeemed through the future sale of the property. The loan-to-value ratio for such loans shall be understood as the expected loan-to-value ratio at the time the collateral is realised, given a prudent assessment of life expectancy, future house price developments and expected interest rate levels.

The regulations do not apply when granting credit cards if the customer's total credit card limits will not exceed NOK 25 000. The provisions of the Financial Contracts Act concerning the obligation to assess the customer's creditworthiness apply regardless of the provisions of these regulations.

The regulations do not apply when financial institutions grant unsecured credit free of interest and charges. Credit free of interest or charges includes free of charge payment cards where the customer must pay the total amount on the invoice due date, and, in case of non-payment, must pay penalty interest pursuant to the Act relating to interest on overdue payments.

## 3 Re Section 4 Documentation

The assessment of the customer's debt servicing capacity shall be based on 'supplementary information about the borrower's income, total debt and the value of the property if the property is provided as collateral'. This means that information must be collected about all the customer's debt items and interest and instalment terms in the individual loan agreements, unless the debt item is immaterial for an overall assessment of debt servicing capacity. If the information cannot be collected from a register, it must be obtained from the customer.

## 4 Re Section 5 Debt servicing capacity

The financial institution shall assess the borrower's ability to service the loan based on the borrower's income and all relevant expenses, including interest, loan instalments and normal living expenses.

When assessing the borrower's servicing capacity, the financial institution shall factor in an interest rate increase of 5 percentage points on the borrower's total debt. The purpose of the stress test is to assess whether the borrower has a sufficient liquidity buffer. When calculating the debt servicing capacity, it shall be assumed that the interest rate increase will take effect immediately (alternatively at the end of the fixed-rate period for fixed-rate loans). In other words, only instalments that are due during the fixed-rate period shall be included in the assessment of debt servicing capacity. Expected income growth during the fixed-rate period shall not be taken into account.

When calculating normal living expenses, financial institutions are expected to take all relevant expenditures into account, such as expenses for kindergarten and after-school programmes, housing expenses (e.g. municipal charges, electricity, insurance and maintenance) and car expenses. If the assessments of normal living expenses are based on rates set by Consumption Research Norway (SIFO), financial institutions must add an amount to the SIFO budget that is sufficient to cover relevant expenses not included in the reference budget (e.g. health services, holiday travel, gifts, etc.).

## 5 Re Sections 9 and 13 Instalment payments

Instalment payments may cease when the loan-to-value ratio falls below 60 per cent of the property's market value.

The provisions of Sections 9 and 13 regarding instalment payments do not preclude the financial institution from granting deferment of instalment payments as a result of events occurring during the term of the loan which temporarily impair the borrower's ability to pay. Questions have been raised about what is meant by 'temporarily impair the borrower's ability to pay', including whether this may include separation, divorce, division of an estate, disability and unemployment. The provision covers these circumstances, provided that they occur 'during the term of the loan' and neither were or nor ought to have been known to the financial institution at the time the customer's debt servicing capacity was assessed. The right to grant deferment of instalment payments only applies in connection with a temporary impairment of the customer's debt servicing capacity. If this capacity is permanently impaired, the financial institution must reassess the loan relationship.

## 6 Re Sections 10 and 14 Refinancing

The regulations permit financial institutions to offer refinancing of loans in cases mentioned in Sections 10 and 14, even if the new loan does not meet the provisions of the regulations on debt servicing capacity, debt-to-income ratio, loan-to-value ratio and instalments. The requirement that the new loan shall not exceed the size of the existing loan(s) on the refinancing date is no obstacle for including documentable costs (interest, charges, etc.) incurred on the loans to be refinanced, in the new loan.

Refinancing of consumer loans in accordance with Section 14 requires that the institution calculates the sum of interest, charges and other costs for the residual term of the total loan and compares this to the overall costs incurred during the total term of the new loan. This provision requires that the financial institution obtains information about actual costs and the repayment profile of each loan to be refinanced. When refinancing home equity credit lines without an agreed repayment schedule, the repayment terms set by the institution shall be the same as for an ordinary serial loan over a maximum of 10 years.

Financial institutions that provide loans for refinancing shall disburse the loan to the creditor(s), not to the borrower. The financial institution is also obliged to obtain confirmation from the customer that accounts and lines of credit with other financial institutions which have been paid off, will be terminated. This is a general rule when changing banks, and does not only apply to loans that meet the requirements of Sections 10 and 14 of the regulations.

## 7 Re Section 11 Restructuring

Provided that the customer's total debt does not increase, the requirement for a maximum debt-to-income ratio does not apply to residential mortgages granted to restructure the debt of customers who would otherwise not be able to service their total debt. When assessing the customer's debt servicing capacity pursuant to Section 5 for such loans, there is no requirement to include the effect of an interest rate increase of 5 percentage points on the customer's total debt.

The provision on restructuring is intended for situations where banks review the overall financial situation of customers who are unable to service their existing debt obligations unless the loans are restructured. This often involves aggregating customers' existing debt into a new residential mortgage with a longer repayment period. The institution must make a critical assessment of the customer's debt servicing capacity in accordance with the requirements of the Financial Contracts Act. If the customer's financial problems are due to overconsumption, the institution must assess the customer's ability to change his or her consumption pattern. It is an important prerequisite that the restructuring does not result in an increase in the customer's total debt. Loans provided as part of a restructuring in accordance with Section 11, including any front-end fees, must not result in an increase in the customer's total debt.

Customers who need to restructure their debt, and who in many cases are in a difficult financial situation, may be locked into a dependency relationship with the bank.

Finanstilsynet points out that such a situation imposes a particular responsibility on the bank, as a professional party, not to exploit its customers' vulnerable situation. It is also assumed that the institution will give the customer additional information about alternative solutions, including debt settlement, that may improve the customer's situation. The institution must comply with the requirement for good business practices.

## 8 Re Sections 12 and 15 Flexibility

'Loans granted' in Section 12 and 'consumer loans granted' in Section 15, which shall be included in the quarterly non-conformance reporting, shall be understood as loans where there is a binding agreement between the financial institution and the customer. These are loan offers that have been accepted by the customer, mainly comprising loans disbursed during the period. Loan commitments and pre-qualification letters shall not be included in the reporting. When exposures are split into two or more loans to the same customer, the total amount shall be reported.

With respect to consumer loans, the number of loan commitments will usually be far higher than the number of loans for which an agreement is entered into with the customer. It is therefore important that the calculation of the flexibility quota is based only on the loan offers accepted by the customer.

Lines of credit shall be included in the total credit granted.

With respect to loans to sole proprietorships and legal persons that are partially secured on residential property, the amount to be included in the calculation of the flexibility quota shall be the nominal value of the mortgage on the residential property. With respect to loans to firms secured on property owned by a third party, for example the owner's home, the nominal amount of the collateral provided shall be included in the calculation of the flexibility quota.

Sections 12 and 15 of the regulations stipulate that the institutions' Boards of Directors, or the management of branches of foreign institutions in Norway, are expected to lay down limits and guidelines for the use of the flexibility provisions. The guidelines are expected to be so unequivocal that they can be used as a basis for credit assessments and enable the institution to check compliance with the guidelines.

Pursuant to Section 12, third subsection, loans that are refinanced pursuant to Section 10 or restructured pursuant to Section 11 shall not be included when calculating the value of loans granted in accordance with the first and second subsection. Correspondingly, Section 15, third subsection states that consumer loans that are refinanced pursuant to Section 14 shall not be included when calculating the value of loans granted in accordance with the first subsection.

Loans that have been refinanced pursuant to Section 10 shall not be included in the non-conformance reporting.

Loans that have been restructured pursuant to Section 11 shall not be included when calculating the value of loans granted in accordance with Section 12, first and second subsection. This means that there is no flexibility quota for such loans. Restructured loans

for which none of the exemptions in Section 11 have been used, shall be included in the calculation of the flexibility quota. Any deviations from the debt servicing capacity requirement apart from interest rate increases and the loan-to-value ratio and instalment payment requirements, must therefore be included in the quota.

## 9 Reporting

Sections 12 and 15 of the regulations also set out that each quarter, financial institutions are required to report to the Board of Directors, or to the management of foreign financial institutions, the proportion of new approved loans that has been granted during the quarter in accordance with the flexibility provision. Finanstilsynet assumes that the report to the Board will be available no later than on the last day of the month following the end of each quarter.

If the terms and conditions for established loans are changed, resulting in deviations from one or more of the terms set out in the flexibility provision, these loans shall also be included in the calculation. An increase in an existing loan shall be regarded as an agreement on (the granting of) a new loan.

### 9.1 Loans secured on residential property

The reporting of residential mortgages pursuant to Section 12 of the Lending Regulations must, as a minimum, include the following specifications for instalment loans and lines of credit, respectively:

<b>Loans secured on residential property <u>outside</u> the municipality of Oslo subject to Section 12 (figures in NOK 1,000):</b>		
	Instalment loans	Lines of credit
In breach of Section 5 only		
In breach of Section 6 only		
In breach of Section 7 only		
In breach of Section 9 only		
In breach of Sections 5 and 6		
In breach of Sections 5 and 7		
In breach of Sections 5 and 9		
In breach of Sections 6 and 7		
In breach of Sections 6 and 9		
In breach of Sections 7 and 9		
In breach of Sections 5, 6 and 7		

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In breach of Sections 5, 6 and 9		
In breach of Sections 5, 7 and 9		
In breach of Sections 6, 7 and 9		
In breach of Sections 5, 6, 7 and 9		
Total loans subject to Section 12		
Total loans secured on residential property granted during the quarter		

<b>Loans secured on residential property in the municipality of Oslo subject to Section 12 (figures in NOK 1,000):</b>		
	Instalment loans	Lines of credit
In breach of Section 5 only		
In breach of Section 6 only		
In breach of Section 7 only		
In breach of Section 9 only		
In breach of Sections 5 and 6		
In breach of Sections 5 and 7		
In breach of Sections 5 and 9		
In breach of Sections 6 and 7		
In breach of Sections 6 and 9		
In breach of Sections 7 and 9		
In breach of Sections 5, 6 and 7		
In breach of Sections 5, 6 and 9		
In breach of Sections 5, 7 and 9		
In breach of Sections 6, 7 and 9		
In breach of Sections 5, 6, 7 and 9		
Total loans subject to Section 12		
Total loans secured on residential property granted during the quarter		

## 9.2 Consumer loans

Only new unsecured consumer loans shall be included in the calculation of the flexibility quota. Furthermore, only consumer loans granted to persons living in Norway shall be included. The reporting of consumer loans pursuant to Section 15 of the Lending Regulations must include, as a minimum, the following specifications for instalment loans and lines of credit, respectively:

<b>Consumer loans subject to Section 15 of the Lending Regulations (figures in NOK 1,000)</b>		
	Instalment loans	Lines of credit
In breach of Section 5 only		
In breach of Section 6 only		
In breach of Section 13 only		
In breach of Sections 5 and 6		
In breach of Sections 5 and 13		
In breach of Sections 6 and 13		
In breach of Sections 5, 6 and 13		
Total loans subject to Section 15		
Total consumer loans granted during the quarter		

## 10 Finanstilsynet's monitoring activities

Finanstilsynet will follow up compliance with the Lending Regulations through on-site inspections, by obtaining board reports on an ad hoc basis and through quarterly reporting from the largest providers of residential mortgages and consumer loans in the Norwegian market. The institutions subject to the quarterly reporting requirement have been notified separately.

