

FINANSTILSYNET

The Financial Supervisory Authority of Norway

Translation as of October 2021

This translation is for information purposes only. Legal authenticity remains with the official Norwegian version as published in Norsk Lovtidend.

Regulations on financial institutions' lending practices (Lending Regulations)

Chapter 1. Purpose, scope and exemptions

Section 1. Purpose

The purpose of the regulations is to promote financial stability by setting requirements for financial institutions' lending practices to prevent financial vulnerability among households and financial institutions.

Section 2. Scope

The regulations apply to financial institutions' lending practices. The regulations also apply to foreign financial institutions that carry on business in Norway pursuant to the Financial Institutions Act, Sections 5-2, 5-3, 5-5 and 5-6.

Chapters 2, 3 and 5 apply to loans secured on residential property, including holiday homes, to natural persons and sole proprietorships. Sections 7, 8, 10 and 12 of the regulations nevertheless also apply to loans to legal persons.

Chapters 2, 4 and 5 apply to unsecured loans to consumers (consumer loans).

Section 3. Exemptions

The regulations do not apply to equity release agreements with a loan-to-value ratio of maximum 85 per cent which expressly state that the financial institution shall cover the difference if the total loan exceeds the value of the residential property on the due date. In this context, an equity release agreement means an agreement to grant a residential mortgage backed by an amount stemming from the future sale of the property, where the loan amount is not due for payment before one or more agreed life events occur.

The regulations do not apply when granting credit cards if the customer's total credit card limits will not exceed NOK 25 000.

The regulations do not apply when financial institutions grant unsecured credit free of interest and charges.

Loans as mentioned in the first to third subsection shall not be included in the calculation of the value of granted loans pursuant to section 12, first and second subsection and section 15, first subsection.

Chapter 2. General provisions

Section 4. *Documentation*

The financial institution shall document that the granting of a loan is based on a prudent credit assessment utilising supplementary information about the borrower's income, total debt and the value of the property if the property is provided as collateral.

Section 5. *Debt servicing capacity*

The financial institution shall not provide loans if the borrower will lack sufficient resources to meet normal living expenses after a 5 percentage point interest rate increase on the borrower's total debt.

The assessment of the borrower's ability to service the loan shall be based on the borrower's income and all relevant expenses, including interest, loan instalments and normal living expenses. For lines of credit, the assessment shall be based on full utilisation of overall credit lines. In the case of fixed-rate loans, the interest rate increase shall be calculated on the basis of the amount that, according to the repayment plan, is outstanding at the end of the fixed-rate period.

Section 6. *Debt-to-income ratio*

The financial institution shall not grant a loan if the borrower's total debt exceeds five times annual income. In this context, annual income means personal income as defined in the Taxation Act, alternatively ordinary income before the minimum standard deduction and personal allowance. Tax-exempt income can nevertheless be included if such income can be documented and is stable over time.

Tax-favoured funds in the customer's home savings scheme for young people (BSU) at the time of granting can be deducted from the loan amount when calculating the debt-to-income ratio.

Chapter 3. Residential mortgages

Section 7. *Loan-to-value ratio*

At the time of granting, instalment loans secured on residential property shall not exceed 85 per cent of the property's appraised value, which cannot be higher than its prudently assessed market value.

The first subsection does not apply to mortgages secured on a second home in the municipality of Oslo. At the time of granting, such instalment loans shall not exceed 60 per cent of

the property's value, calculated in accordance with the first subsection. In the present context, a secondary home means a property other than the one registered as the customer's address in the National Registry.

At the time of granting, interest-only loans (lines of credit) shall not exceed 60 per cent of the property's value, calculated in accordance with the first subsection.

All loans secured on residential property shall be included in the calculation of the loan-to-value ratio, including joint debt in housing cooperatives and jointly owned properties.

Section 8. *Additional collateral*

When calculating the loan-to-value ratio in accordance with Section 7, the value of the property may be supplemented by satisfactory additional collateral in the form of a lien on other real property, a surety or a guarantee. Additional collateral in the form of a lien on other real property shall be within the loan-to-value ratio limits set out in Section 7.

Tax-favoured funds in the customer's home savings scheme for young people (BSU) at the time of granting can be deducted from the loan amount when calculating the loan-to-value ratio.

Section 9. *Instalment payments*

For loans in excess of 60 per cent of the property's value, annual repayments must at minimum correspond to the lower of 2.5 per cent of the approved loan and the instalment payments that would have been required on an annuity loan with a 30-year repayment period.

When granting instalment loans in addition to lines of credit, annual repayments must at minimum correspond to the lower of 2.5 per cent of the sum of the approved instalment loan and the line of credit, and the instalment payments that would have been required on an annuity loan with a 30-year repayment period.

When calculating the loan-to-value ratio in accordance with the first subsection, the value of the property may be supplemented by satisfactory additional collateral in the form of a lien on other real property owned by the borrower.

The first and second subsection 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.

Section 10. *Refinancing*

These regulations do not preclude replacing residential mortgages by new loans (refinancing) where the new loan is in breach of one or more of the requirements of Sections 5, 6, 7 and 9, provided that the new loan:

1. does not exceed the size of the existing loan at the refinancing date,
2. is secured on the same residential property,

3. has a term that does not exceed the residual term on the existing loan and
4. carries the same, or more stringent, requirements on instalment payments as the existing loan

Section 11. *Restructuring*

Section 6 does not apply to residential mortgages granted to restructure the debt of customers who would otherwise not be able to service their total debt, provided that the customer's total debt does not increase. In the case of such loans, the financial institution shall assess the customer's debt servicing capacity pursuant to Section 5 but disregard an interest rate increase of 5 percentage points on the customer's total debt.

Section 12. *Flexibility*

Financial institutions may grant loans that do not meet one or more of the requirements of Sections 5, 6, 7 and 9 for up to 10 per cent of the value of total residential mortgages granted each quarter.

The first subsection does not apply to mortgages secured on residential property in the municipality of Oslo. Each quarter, financial institutions may grant mortgages secured on residential property in the municipality of Oslo that do not meet one or more of the requirements of Sections 5, 6, 7 and 9 for up to 8 per cent of the value of total mortgages granted in the municipality of Oslo, alternatively for up to NOK 10 million.

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.

The financial institution shall establish limits and guidelines for the granting of loans as specified in the first and second subsection.

Each quarter, financial institutions are required to report to the Board of Directors, or to the management of foreign branches, the proportion of approved loans that has been granted in accordance with this Section.

Chapter 4. Consumer loans

Section 13. *Instalment payments*

The financial institution shall require monthly repayments on the consumer loan. The size of the monthly payments shall, as a minimum, ensure that the loan will be repaid in the course of five years when it is repaid as a serial or annuity loan. With respect to lines of credit, the minimum amount shall be calculated each month based on the utilisation of the credit, and shall ensure that the credit will be repaid in the course of five years when it is repaid as a serial loan.

The first subsection does 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.

Section 14. *Refinancing*

These regulations do not preclude replacing consumer loans by new loans (refinancing) even when the new loan is in breach of one or more of the requirements of Sections 5, 6 and 13, provided that the new loan:

1. does not exceed the size of the existing loan(s) at the refinancing date, and
2. does not increase the sum of interest, charges and other costs to be paid by the borrower beyond the total cost of repaying existing debt.

Section 15. *Flexibility*

Financial institutions may grant consumer loans in breach of one or more of the requirements of Sections 5, 6 and 13 for up to 5 per cent of the value of total consumer loans granted each quarter. With respect to lines of credit, the approved limit shall be used as a basis when calculating loans granted.

The financial institution shall establish limits and guidelines for the granting of loans as specified in the first subsection.

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.

Each quarter, financial institutions are required to report to the Board of Directors, or to the management of foreign financial institutions, the proportion of approved loans that has been granted in accordance with this Section.

Chapter 5. Entry into force etc.

Section 16. *Supplementary provisions*

Finanstilsynet may provide supplementary provisions to the regulations.

Section 17. *Entry into force and evaluation*

The regulations enter into force on 1 January 2021 and will apply up to and including 31 December 2024.

By 30 September 2022, Finanstilsynet shall advise the Ministry of Finance on the need for amendments to the regulations in the interest of financial stability. Advice as mentioned in the first sentence shall be accompanied by a consultation document designed in accordance with the Instructions for Official Studies and Reports. When preparing the consultation document, Finanstilsynet will obtain assessments and data from Norges Bank.