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Press release on the approval of the Regulation on responsible lending to consumers by banks

Presentation of Regulation [1]

The Executive Board of the National Bank of Moldova, by its Decision No 101 of 19.05.2022, approved the Regulation on responsible consumer lending by banks, which will enter into force on 1 July 2022.

The Regulation is part of the package of macroprudential measures recommended for implementation by national macroprudential authorities to achieve the intermediate objective of preventing and/or limiting excessive credit and debt growth. The document defines responsible lending as a lending activity, in which the creditor assesses the creditworthiness of the consumer and does not allow the consumer to assume financial obligations exceeding their payment ability, thus accumulating excessive indebtedness. The Regulation also introduces requirements for the calculation of individual indicators in respect of the consumer, and limitation of their levels, which will ensure sustainable lending, which in turn will support the financial system's contribution to economic growth.

The capping of individual indicators, such as loan-to-value ratio (LTV), and debt service-to-income ratio (DSTI) are macro-prudential instruments widely used in the European Union countries and other advanced economies. The indicators have been introduced to ensure responsible eligibility of borrowers and grant access to finance to those who are able to meet their obligations, thus limiting the indebtedness of the most vulnerable individuals.

Therefore, the *loan-to-value ratio* applies to loans for real estate investments and **cannot exceed 80%**, and if the loan is partially and/or fully offset and/or guaranteed by the state (e. g., under First Home Programme) or is partially guaranteed by bank deposits – the LTV limit will be calculated considering the offset and/or guaranteed credit share (to be deducted).

At the same time, the *debt service-to-income ratio* applies to consumer loans and **should not exceed 40%** of the consumer's confirmed income. Thus, the sum of the average monthly payments calculated for all credits/loans of the consumer, upon the loan issuance, together with the average monthly payment of the requested loan should not exceed 40% of the consumer's average net monthly income received in at least the last 6 months before the loan application. The Regulation also provides for some exceptions aimed at ensuring access to finance and levelling the DSTI limit for consumers with higher or irregular income.

Also, to achieve the goal pursued by the introduction of DSTI, the *maximum maturity of the loan* granted to the consumer was limited - 5 years for consumer loans and 30 years for loans for real estate investments.

To establish single rules for all participants engaged in lending, the National Commission for Financial Markets has concurrently approved a similar act for the non-bank lending market - the Regulation on responsible lending requirements for non-bank lending organizations.

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