No 107 - 2019 Analysis and syntheses

Housing financing in 2018

GENERAL SUMMARY

In a context of persistently low interest rates, the housing market was very dynamic in 2018 : the number of transactions reached a new historical peak of 970,000 sales, well above the average of 788,000 that had been observed since 2000, while the INSEE price index for existing property increased by 3.2 % in metropolitan France (+4.2 % in the Île-de-France region and +2.8 % in the Provinces).

In this flourishing environment, the annual production of housing loans amounted to EUR 203 billion in 2018, a figure that is still well above the annual average amount since 2003 (EUR 145 billion), although declining compared with 2017 (-26 %). This withdrawal is due to the decline in external loan transfers (-67 %), which decreased from 23.6 % of annual production in 2017 to 9.5 % in 2018 and has remained at that level in the first quarter of 2019. At the same time, **the outstanding amount of housing loans exceeded the threshold of EUR 1,000 billion in 2018 (EUR 1,010 billion as of 31 December 2018),** recording a growth of 5.8 % which continues in the first quarter of 2019**.**

Housing loans granted by French banks continue to be almost exclusively fixed-rate loans (98.5 % of production in 2018), thereby limiting the risks associated with a possible interest rates increase for households, while almost all outstanding amounts (96.9 %) are protected by collateral, mortgage or guarantee, which allows for a limitation of bank losses in case of borrower default. In addition to this, the credit provision policy is mainly based on the appreciation of the borrower's creditworthiness, which is measured using the debt service to income (DSTI) ratio rather than the value of the funded property.

Despite sound fundamentals, **the sustained increase in household indebtedness in France is a matter of concern** regarding the risks it could pose for financial stability. In this context, the issue of changing eligibility criteria remains paramount. However, as in 2017, **household borrowing conditions continued to loosen at the beginning of 2019**:

- The average lending loan has risen almost continuously since 2009 to reach EUR 170,187 in 2018, an increase of 5.5 % compared with 2017, which remains above real estate prices.
- The average duration of loans continued to increase for the third consecutive year to regain its 2008 level at 19.9 years, i.e. an increase of 11 months compared with 2017.
- The average DSTI rate increased slightly for the third consecutive year to reach 30.1 % in 2018 (+0.4 percentage point (pt) compared with 2017) but remained below the 2009 level (31.6 %).
- The average debt ratio at the time of granting also increased significantly for the third consecutive year to reach 5.2 years in 2018 (+4 months compared with 2017), its highest level since 2004.
- The loan to value (LTV) ratio at the time of granting increased for the fourth consecutive year (+0.3 pt) to 87.3 %, its highest level since 2001. However, with almost all loans being depreciable and house prices being on the rise again, the average ongoing LTV is lower than the average LTV for granting and remains relatively stable since 2016 at around 69 %.

Consequently, the *Autorité de contrôle prudentiel et de résolution* (ACPR) and the Banque de France remain particularly vigilant as regards the development of risks related to the financing of housing; lenders should be cautious about the conditions under which they finance acquirers.

However, given the importance, in production, of borrowers that are already owners with incomes as well as a larger financial capacity, the risks appear to be contained, as evidenced by the low credit loss ratio, both in terms of stock (doubtful outstanding rates of 1.3 % as at 31 December 2018, declining by 13 basis points (bps) compared with 2017) and in terms of flows (12-month defaults accounted for

0.73 % of the outstanding in the first quarter of 2019, its lowest level since mid-2015). The cost of risk remains negligible at 3 bps in 2018, below its average since 2006 (5 bps). This reduced loss ratio is reflected in the low weighting ratio, which continued to decline (from 0.4 pt over 12 months to 11.3 % in June 2018) but remained in line with expectations, especially taking into account risk coverage by the bail-in bodies.

However, despite the stability of the average cost of liabilities and the slight decline in overhead costs, the net margin for the outstanding amounts of housing loans continued to deteriorate in 2018 as a result of the rapid decline in the average collected interest rate (from 2.2 % in December 2017 to 2 % in December 2018). With production rates remaining below the average outstanding rates, the renewal of the stock of loans is expected to continue reducing the average interest rate on outstanding amounts for some time, while exerting additional pressure on margins.

Keywords: retail housing loan, average lending, average duration, loan to value, effort rate, doubtful stocks and provisions, cost of risk
JEL codes: G21, R21, R31

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Key figures[1]

Outstanding loan amounts and loan production

Outstanding retail housing loan amounts	€1,010 bn	*+5.8%* ↑
Fixed-rate share	94.6%	*+1.2 pt* ↑
Collateralised share	96.9%	*+0.1 pt* ↑
Annual retail housing loan production	€203 bn	*-25.7%* ↓
External loan transfers share	9.5%	*-14.2 pts* ↓

Granting criteria and loss ratio

Granting criteria		
Average loan amount	€170 k	*+5.5%* ↑
Average loan duration	19.9 years	*+11 months* ↑
Debt-service ratio	30.1%	*+0.4 pt* ↑
Debt ratio	5.2 years	*+4 months* ↑
LTV ratio	87.3%	*+0.3 pt* ↑
Loss ratio		
Gross non-performing loan rate	1.3%	*-0.1 pt* ↓
Cost of risk	3 bps	*-1 bps* ↓

[1] Figures as at 31 December 2018 (or for the year 2018) and changes compared with 2017.

Preliminary remarks

This "Analyses et Syntheses“ publication relies on the responses received by the ACPR's Secretariat General within the framework of its annual survey on housing financing for the year 2018, as well as on the monthly data reporting on retail housing loan production implemented by the ACPR in September 2011 using a sample of representative banks[2]; the analysis is also based on external data sources (Banque de France, INSEE, General Council for the Environment and Sustainable Development (CGEDD), etc.), which complement the data collected from banks, as well as on information published by the European Banking Authority (EBA) in its annual transparency exercise[3], which allow for some international-scale comparisons.

As was done in 2017, the SGACPR asked the main guarantors of housing loans (Crédit Logement, the Caisse d'Assurances Mutuelles du Crédit Agricole (CAMCA; group Crédit Agricole), the Compagnie Européenne de Garanties et Cautions (CEGC; Group BPCE), Parnasse Garanties (Group BPCE) and CM-CIC Caution Habitat (Group Crédit Mutuel)), as well as the Société de Gestion des Financements et de la Garantie de l'Accession Sociale à la propriété (SGFGAS) in order to obtain detailed information on the amount of loans covered by the State guarantee.

As each year, several institutions were able, when sending their numbers for the year 2018, to complete or modify their data for the previous years, thereby improving the representativeness of several indicators and correcting reporting errors. As a result, some figures in this study may differ from those published last year.

[2]BNP PARIBAS, BNP PARIBAS PERSONAL FINANCE, SOCIÉTÉ GENERALE, CRÉDIT DU NORD, CAISSES REGIONALES DE CRÉDIT AGRICOLE, LCL, CAISSES D'ÉPARGNE, BANQUE POPULAIRE, CRÉDIT FONCIER DE FRANCE, CRÉDIT MUTUEL, CIC, CRÉDIT IMMOBILIER DE FRANCE, HSBC France et LA BANQUE POSTALE. These institutions account for 97.4 % of outstanding home housing loans as at 31 December 2018.

[3]See https://eba.europa.eu/risk-analysis-and-data/eu-wide-transparency-exercise/2018/results for the financial year 2018.

The housing loan market

1. Prices and sales picked up

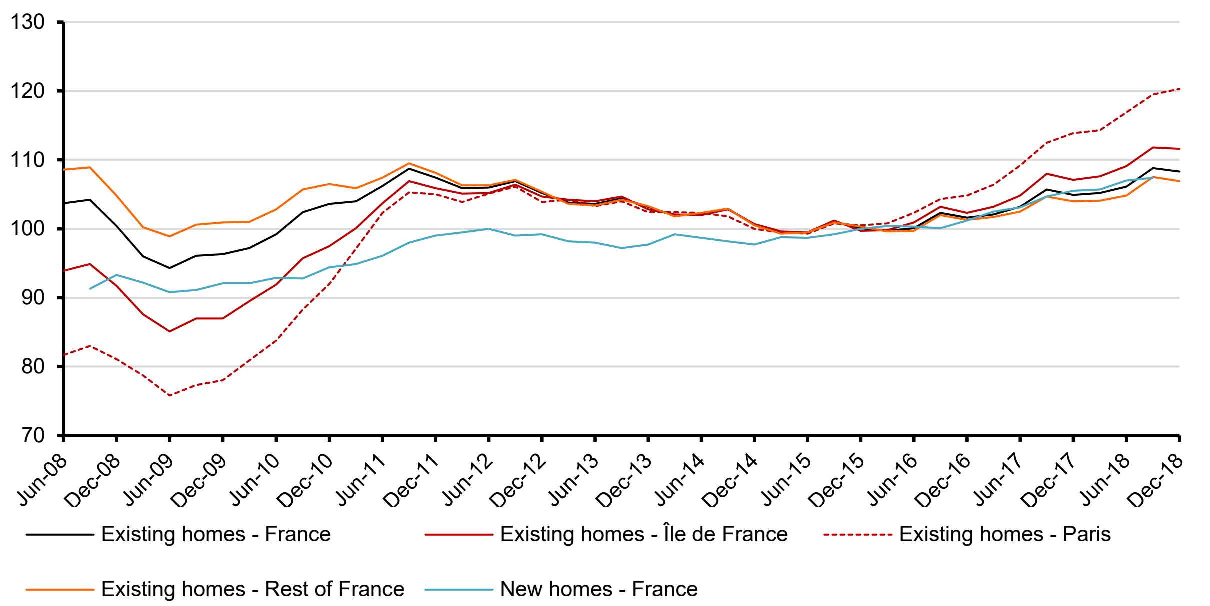
Activity in the residential real estate market is encouraged by interest rates that remain at very low levels (see Chart 3 below), and the year 2018 was no exception as regards dynamism, both in terms of prices and transaction volumes.

The upward trend in housing prices that has been observed since 2015 continued in 2018. Nevertheless, trends differed from region to region: while the prices of existing homes climbed by 3.2 % on average for France as a whole, they respectively rose by 5.6 % in Paris and 4.2 % in the Île-de-France region, but only by 2.8 % in the Provinces, where they remained below their peak of September 2011 (Chart 1)

New housing prices followed the same trend, with a 3 % increase all over France.

Despite lending terms that remained favourable for the conduction of real estate projects, this rise in prices is exerting pressure on households' purchasing power, as illustrated by the decline of the household solvency indicator -calculated by *Crédit Logement*[4]- since the end of 2017.

Chart 1 Residential property prices

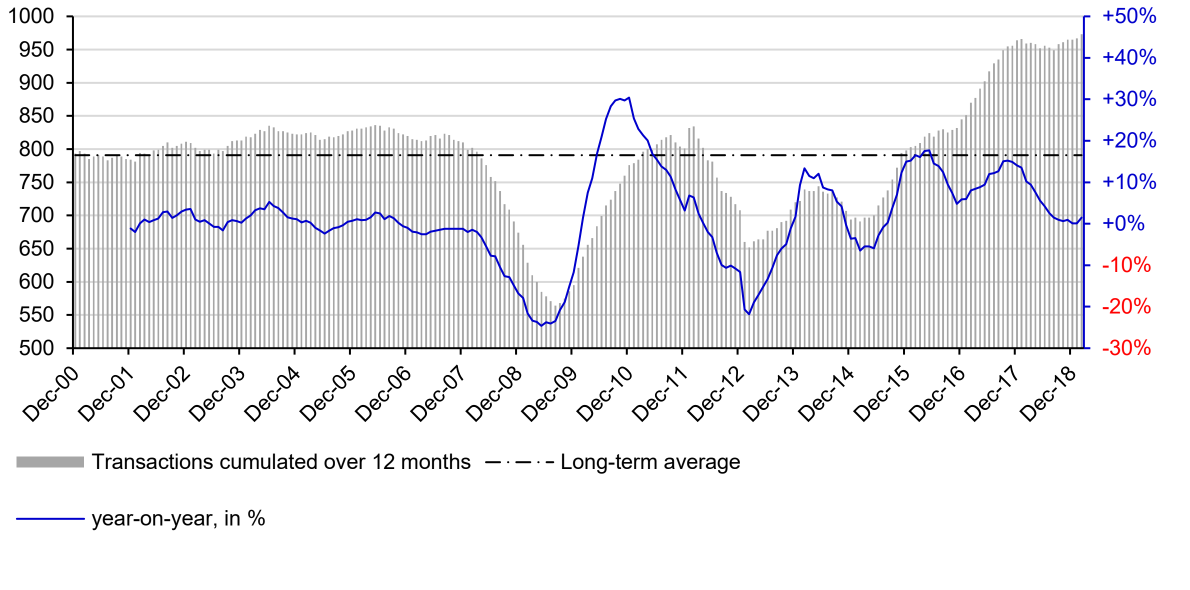


Source : INSEE index ; last point : final quarter 2018

[4] https://www.lobservatoirecreditlogement.fr/uploads/obs_publications/1710277480-TDB_Avril_2019_Observ_Credit_Logement_CSA.pdf

At the same time, the number of annual transactions reached a new all-time-high of 970,000 sales, well above the long-term average of 788,000 sales that has been observed since 2000 (Chart 2).

Chart 2 Long-term sales for the existing homes segment in thousands of units (1 year cumulative amount)

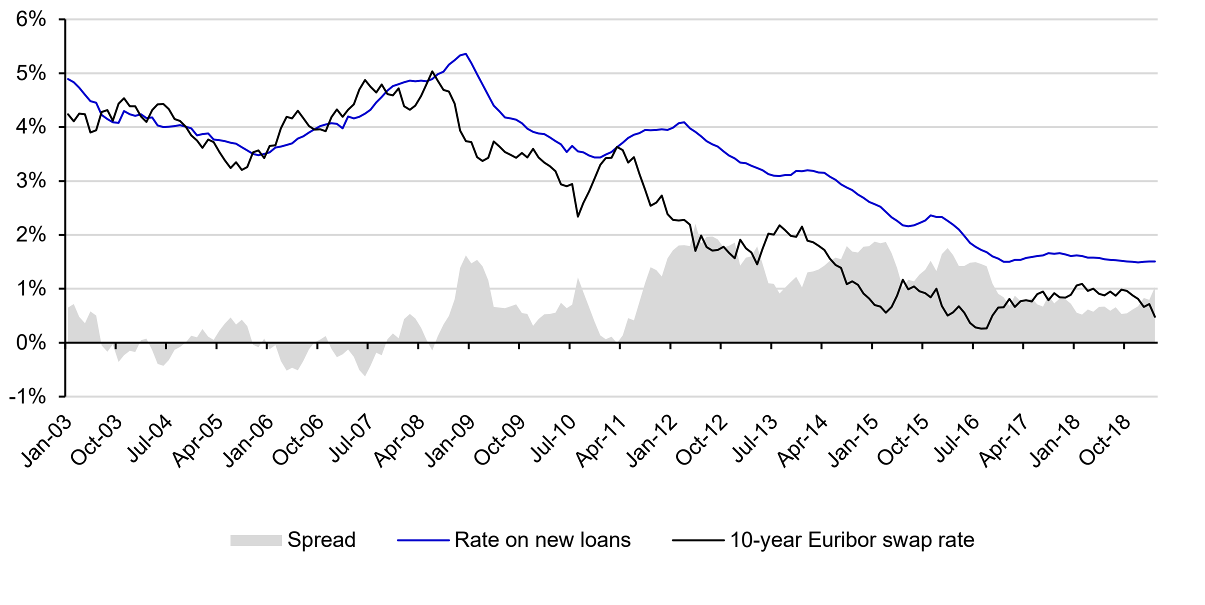


Source : CGEDD according to dgfip (MEDOC) and notarial bases ; last point : February 2019

2. Lending buoyed by steadily low interest rates, new loan share declining compared with 2017

Interest rates on housing loans remained very low (Chart 3). After a slight increase (up 11 bps) in 2017, interest rates on housing loans dropped by 12 bps in 2018 to a new all-time low of 1.49 % as at 31 December 2018. Since then, a slight upward tendency left them to stand at 1.52 % as at 31 March 2019.

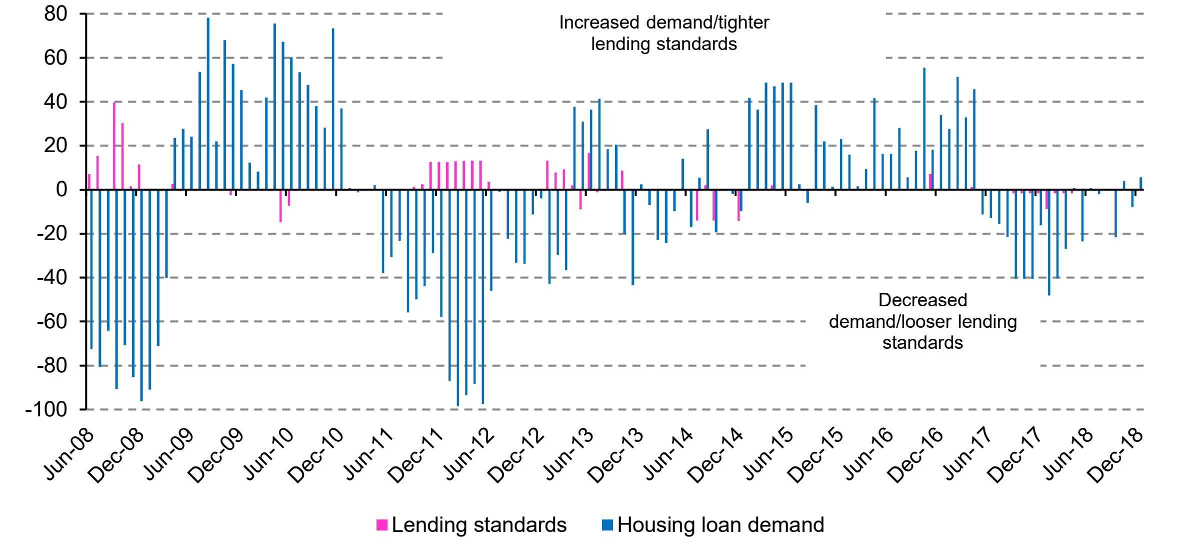
Chart 3 New housing loan rate



Source : Banque de France ; last point : March 2019

The stabilisation of interest rates was accompanied by the continuation of the slight dip in credit demand which started in 2017, while banks report that they have left their loan granting standards unchanged starting in May (Chart 4).

Chart 4 Criteria for granting and requesting housing loans



Source : Banque de France, Monthly Bank Lending Survey in France ; last point : December 2018

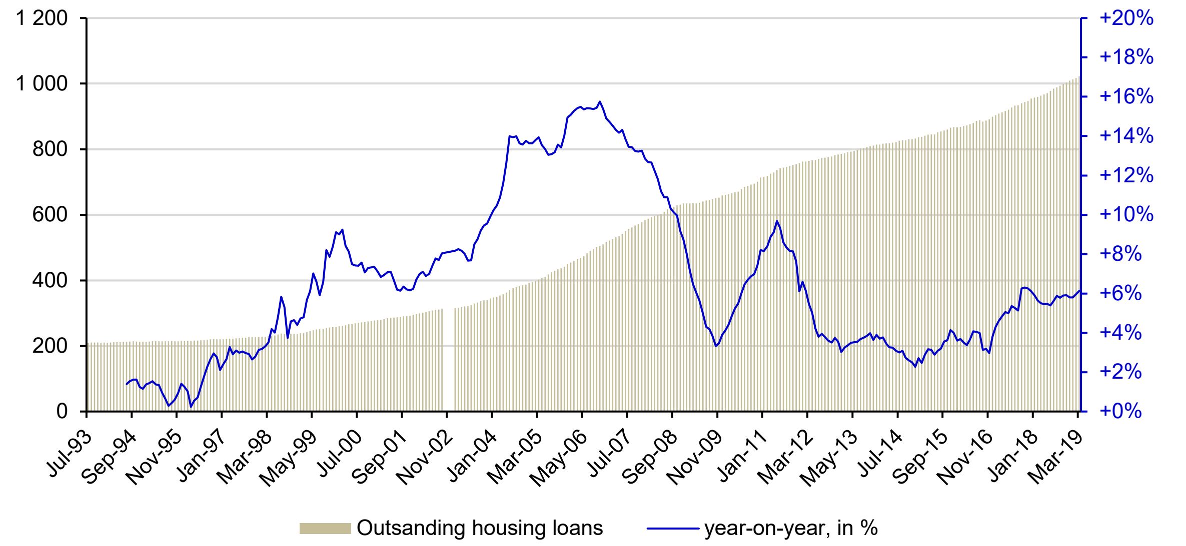
In this context, the annual production of housing loans amounted to EUR 203 billion in 2018, which is still well above the average annual amount since 2003 (EUR 145 billion), although it shows a decline compared to 2017 (-26 %) (Chart 5). After a slowdown that started mid-2017, cumulative production over a rolling 12 month period showed a slight upswing during the second half of 2018 (+4.5 %) that extended in the first quarter of 2019 (+3 %).

Chart 5 Housing loan production (in EUR billion)

Source : Banque de France ; New home habitat loans, CVS flows, accumulated over 12 months ; last point : March 2019

In 2018, loans recorded a 5.8 % growth, slightly below that observed in 2017 (+6.1 %), rising to EUR 1.0 trillion (EUR 1.010 billion as at 31 December 2018) (Chart 6). The increase in outstanding amounts is maintained at around 6 %, year-on-year, in the first quarter of 2019.

Chart 6 Outstanding housing loans to individuals (EUR billion)



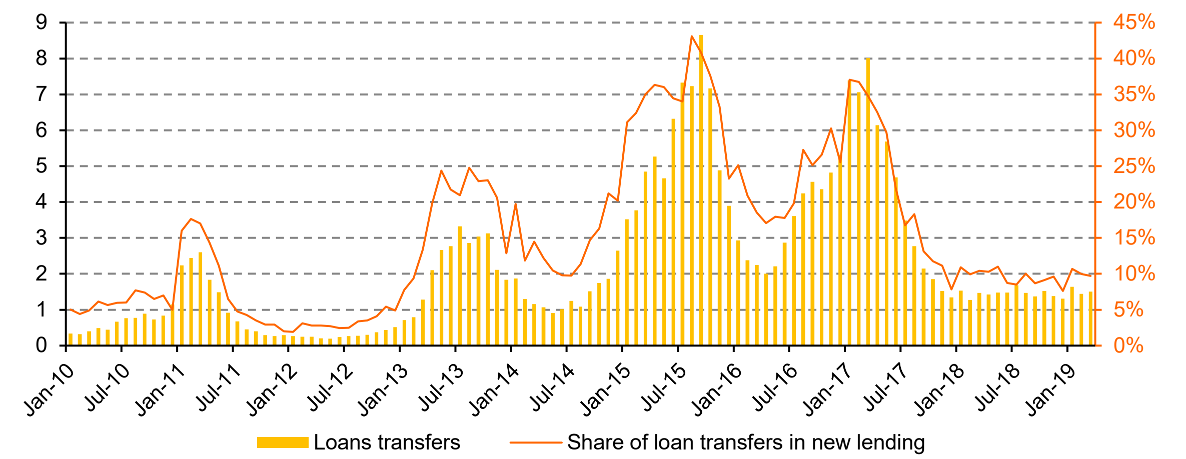
Source : Banque de France, Housing loans to individuals resident (securitised stocks reintegrated) ; last point : March 2019

3. Loan transfers in sharp decline

The withdrawal of annual loan production in 2018 compared with 2017 (-26 %) was due to a drop in loan transfers (-67 %), from 23.6 % in 2017 to 9.5 % in 2018 (Chart 7), a figure that had not changed in the first quarter of 2019.

Moreover, according to the Banque de France's statistics, loan transfers and renegotiations, which still accounted for 41.6 % of new lending in 2017, fell to 17.3 % in 2018 and stabilised at that level in 2019.

Chart 7 Loan transfers - monthly flows in EUR billion (left-hand scale) and as a % of the production of new housing loans (right-hand scale)

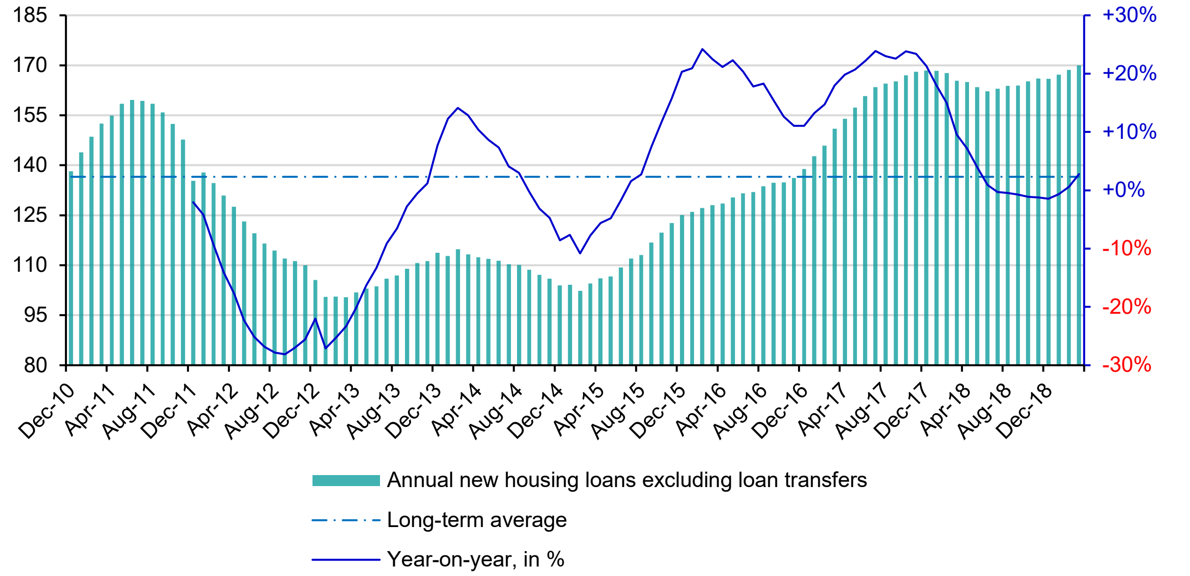


Source : ACPR, annual survey on housing financing and monthly monitoring of the production of housing loans ; last point : March 2019

4. New loans excluding loan transfers remained high but growth slowed slightly in 2018

Excluding credit transfers, the production of housing loans over a rolling 12 month period declined slightly in 2018 (-1.5 %) to reach EUR 166 billion, before initiating an upswing in the first quarter of 2019 (EUR 170 billion as at 31 March 2019) (Chart 8).

Chart 8 Evolution of the production of housing loans excluding loan transfers

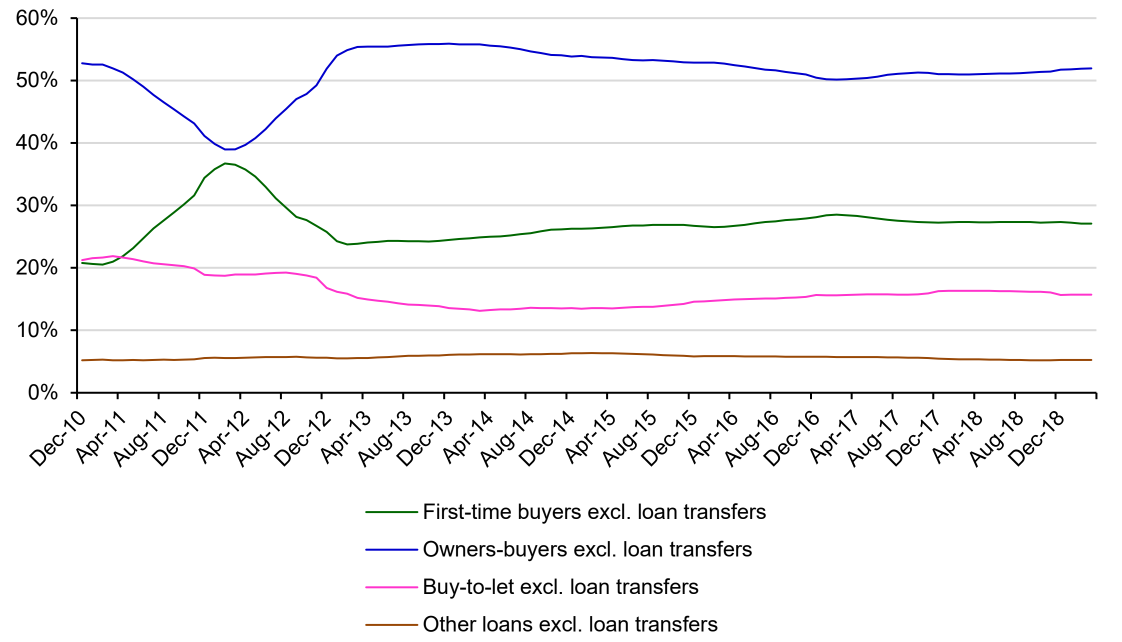


Source : ACPR, monthly monitoring of the production of housing loans, accumulated 12-month data ; last point : March 2019

The production structure excluding loan transfers remained stable overall in 2018 (Chart 9), as acquirers that were already owners still accounted for the largest share of new loans. Their contribution grew further, from 51 % in December 2017 to 51.7 % in December 2018, reaching 51.9 % in March 2019.

The rise of the owners-buyers' share happened at the cost of buy-to-let investment, which dipped by 0.6 pp in 2018, falling to 15.7 % in December 2018 and stabilising at that level at the end of Q1 2019. The share of first-time buyers remained relatively stable over 2018 (-0.2 pp), reached 27.4 % in December of that year, and eventually dropped to 27.1 % in March 2019, its mid-2016 level.

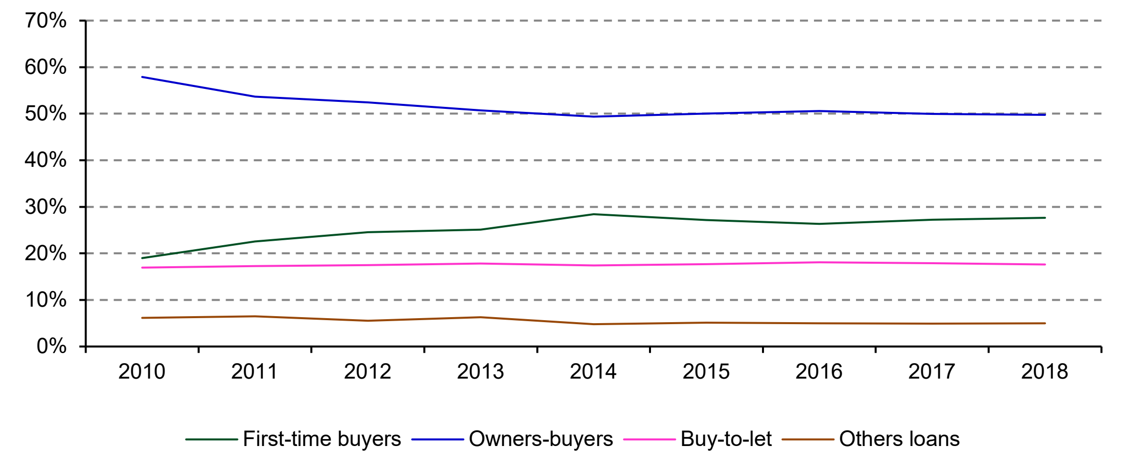
Chart 9 Evolution of the housing loan production structure excluding loan transfers



Source : ACPR, monthly monitoring of the production of housing loans; average 12 month rolling data ; last point : March 2019

The structure of outstanding loans excluding loan transfers exhibited different changes from those experienced by new loans. While the owners-buyers' share remained largely prominent, but decreased slightly from 50 % to 49.7 % (-0.3 pp), the share of first-time buyers conversely rose from 27.2 % to 27.7 % (+0.5 pp). The buy-to-let share registered a slight decline (-0.3 pp) at 17.6 % (Chart 10).

Chart 10 Breakdown of outstanding retail housing loans by market segment, excluding loan transfers



Source : ACPR, Annual Survey on Housing Financing

5. The share of bridge loans remained very low within the new loan market segment

The share of bridge loans in production registered a slight upswing, from 2.9 % in 2017 to 4.2 % in 2018, but remained well below its 2007 peak (11.5 %) (Chart 11). Unlike principal loans and loans for renovation works, the annual growth rate of which recorded a decline in 2018 (by -18.1 % and -3.9 % respectively), the bridge loans share recorded a sustained growth rate in 2018 (+21.8 %), which continued in 2019 (+5.1 % over a rolling 12 month period in March 2019).

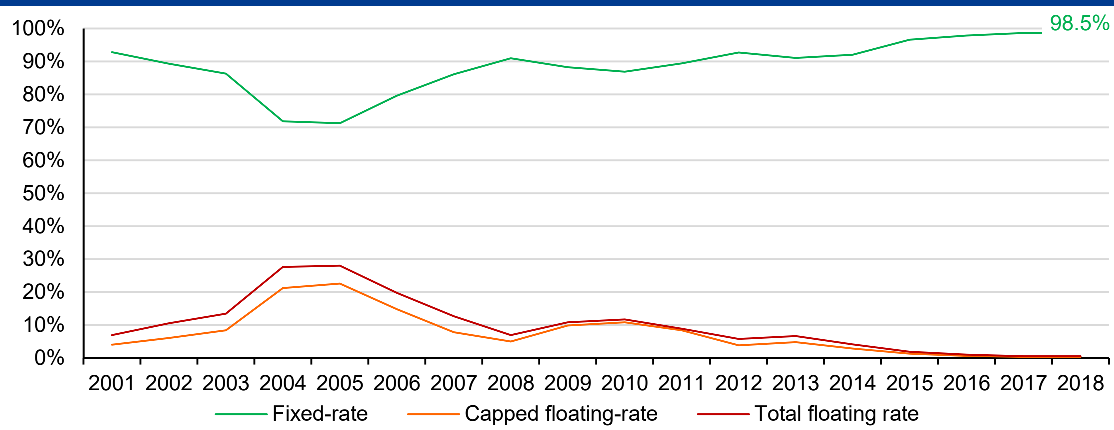
Chart 11 Share of bridge loans in the new housing loan market segment

Source : ACPR, annual survey on housing financing and monthly monitoring of the production of housing loans ; rolling 12 months data

6. Fixed-rate loans kept the lion's share of new housing loans

Fixed-rate loans still kept the lion's share of new housing loans, accounting for 98.5 % of new housing loans, a slightly lower percentage (-16 bps) compared with 2017 (Chart 12). The share of floating-rate loans within the new loan segment remained stable at 0.6 %, representing a small fraction of the granted loans. As for the previous years, capped-rate loans (i.e. floating-rate loans that are capped to prevent a significant increase in interest rates) remained prominent, accounting for 68.8 % of the new loan market segment.

Chart 12 Breakdown of new loan structure by interest rate type

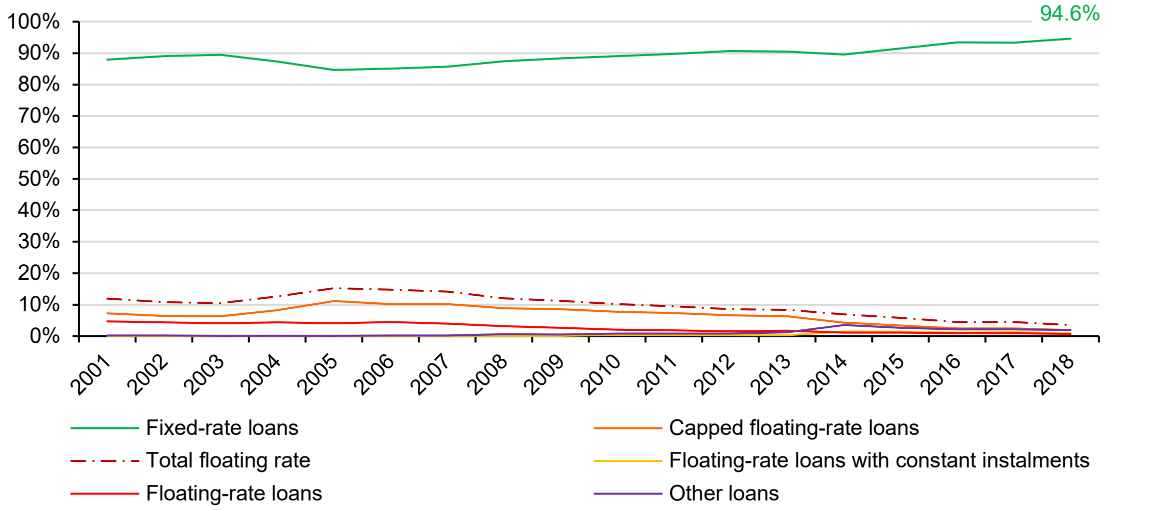


Source : ACPR, Annual Survey on Housing Financing

The outstanding loans structure, broken down by interest rate type, followed a consistent pattern with that of new loans (Chart 13) : fixed-rate loans kept the lion's share of outstanding loans (94.6 % in 2018 vs 93.4 % in the previous year).

Floating-rate loans decreased from 4.5 % to 3.5 % of outstanding loans while other loans stayed relatively stable at 1.9 %. The latter mainly comprises loans that combine a fixed-rate for a given time period before converting to a floating rate, as well as bullet loans.

Chart 13 Breakdown of outstanding loans structure by interest rate type

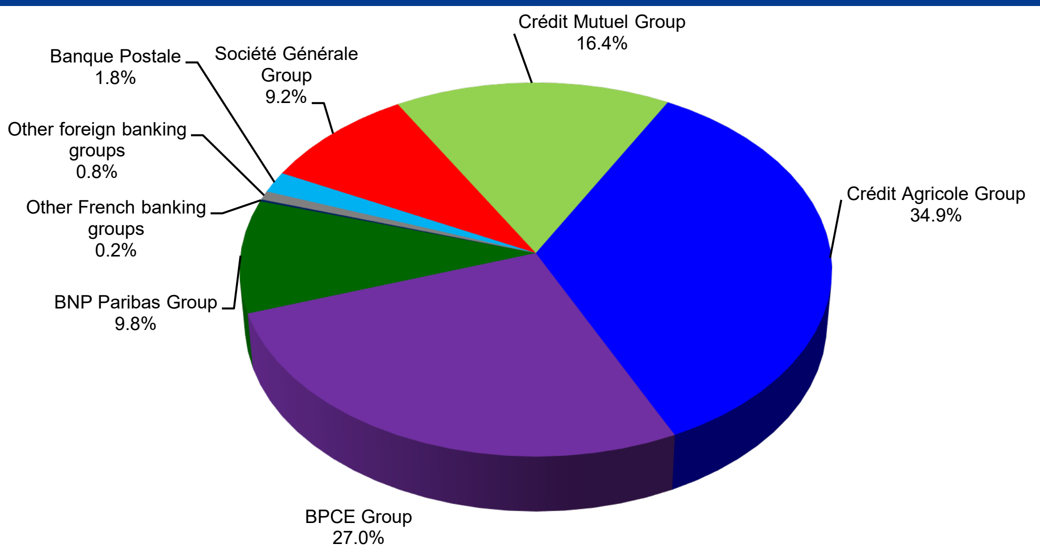


Source : ACPR, Annual Survey on Housing Financing

7. A market dominated by mutualist banking groups

French banks accounted for almost all outstanding housing loans granted in France, and three mutualist banking groups held a widely dominant position, accounting for more than three-quarters of market shares (Chart 14).

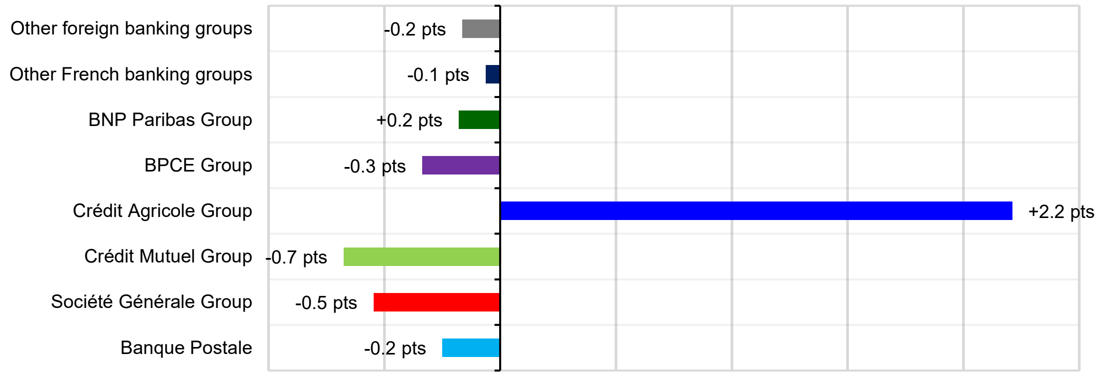
Chart 14 Market shares of the various mutualist groups as at 30 June 2018 (outstanding amounts)



Source : EBA, Transparency exercise (non-SME retail exposures secured by real estate treated in standard and advanced methods) ; ACPR calculations on all banks reporting exposures to France

The data published by the EBA further highlight that the Crédit Agricole group increased its market share over the past 4 years (+2.2 pts) at the expense of other French and foreign banking groups, which reduced their market share, notably the Crédit Mutuel Group (-0.7 pt) as well as Société Générale (-0.5 pt) (Chart 15).

Chart 15 Evolution of market shares of the various groups between 31 December 2014 and 30 June 2018



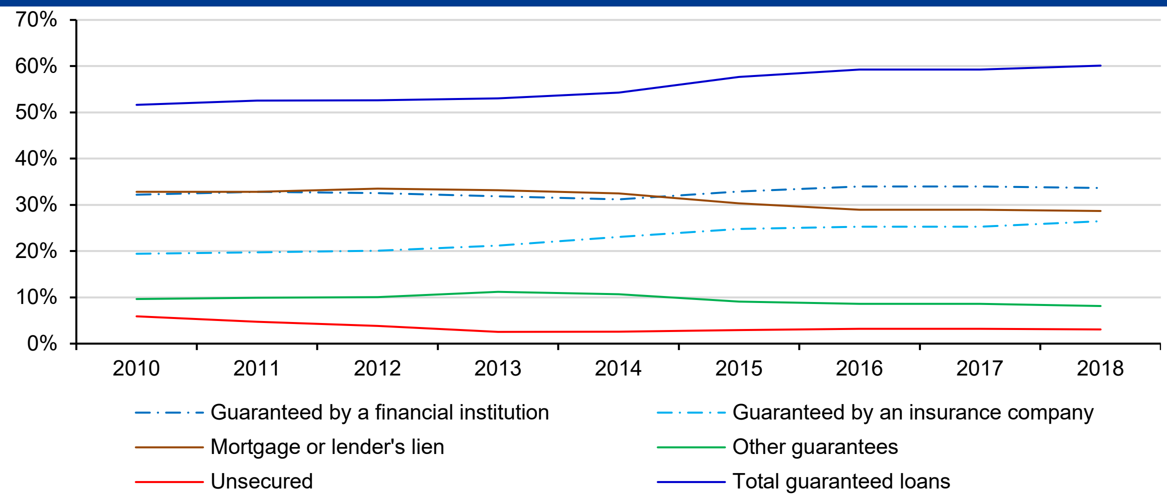
Source : EBA, Transparency exercise (non-SME retail exposures secured by real estate treated in standard and advanced methods) ; ACPR calculations on all banks reporting exposures to France

8. Guaranteed loans remained prominent

Guaranteed loans accounted for the majority of outstanding amounts (60.1 %), up by 0.9 pt compared with 2017 (Chart 16). Credit institutions continued to be the first providers of guarantees at 33.6 %. Coming third, guarantees provided by insurance companies have continued to show a steady growth since 2010, from 19.4% to 26.5 % in 2018.

This reflects the market share gains recorded by the Crédit Agricole group through its dedicated subsidiary, CAMCA. Conversely, physical collateral (such as mortgages or lender's lien) decreased by 0.3 pt at 28.7 %, while other guarantees were down 0.5 pt at 8.1 %. Unsecured loans were relatively stable at 3.1 % (-0.1 pt).

Chart 16 Structure of outstanding loans by type of guarantee

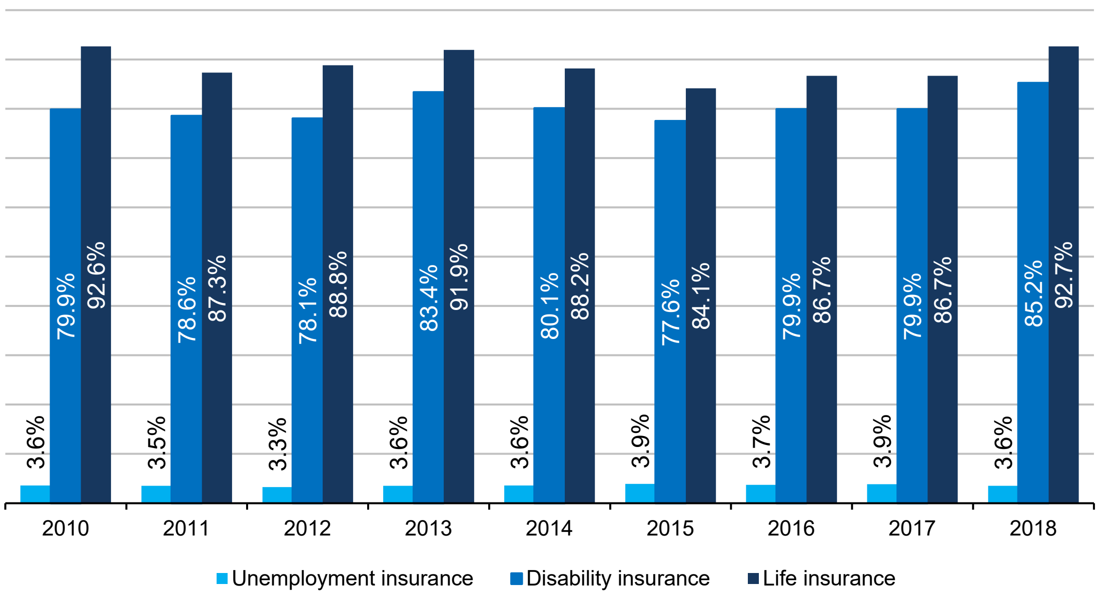


Source : ACPR, Annual Survey on Housing Financing

Guarantees provided by credit institutions were mainly issued by Crédit Logement, which provides guarantees – to greater or lesser degrees – to all the banks included in the sample, and by CM-CIC Caution Habitat, which covers the Crédit Mutuel group. The guarantees provided by insurance companies are mostly issued by the subsidiaries of mutualist groups: CEGC for the BPCE group, and CAMCA for the Crédit Agricole group. Other guarantees mainly include FGAS guarantees (7 %), as well as a wide range of other arrangements (personal guarantees, pledging of life insurance policies, etc.).

In addition, the vast majority of borrowers continued to be insured against death (92.7 %) and work disability (85.2 %). However, insurance against job loss remained very rare and was only underwritten by 3.6 % of borrowers, a share that has remained almost unchanged since 2010 (Chart 17). It should be noted that the sudden increase in death insurance coverage (from 86.7 % in 2017 to 92.7 % in 2018, +6 pt) is due to a change in the reporting modalities of an institution and does not necessarily reflect a change in fundamentals.

Chart 17 Share of borrowers covered by an insurance policy



Source : ACPR, Annual Survey on Housing Financing

Borrower risk profile

1. The amount of the average loan[5] is still being drawn by owner-buyers

The amount of the average loan has increased almost continuously since 2009 and stood at EUR 170,187 in 2018, a 5.5 % increase compared with 2017, which remains above that of real estate prices (Chart 18). The trend continued in 2019, with the average loan reaching EUR 172,786 in March 2019, rising by 5.9 % over a rolling 12-month period.

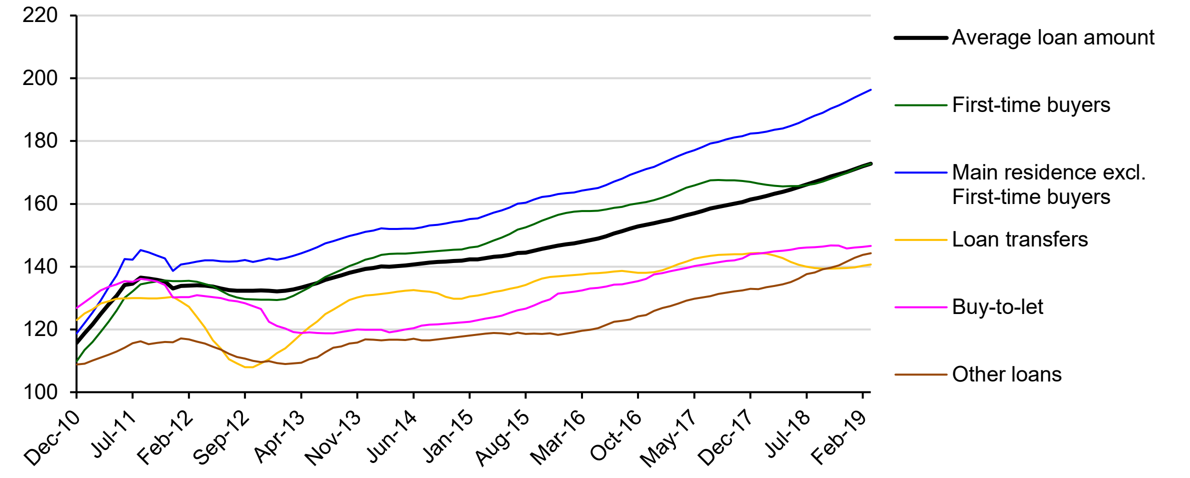
Chart 18 Average loan amount (EUR thousands) and evolution compared with real estate prices (right-hand scale)

Source : ACPR, annual survey on housing financing and monthly monitoring of the production of housing loans ; INSEE (Ancient Housing Price Index, Metropolitan France)

[5] The calculation method for the average loan amount has changed in 2017: it is now equal to the sum of new loans over the number of new loans (instead of the average of average loans per bank weighted by the amount of new loans in previous publications). This change in the methodology has a moderate impact on average loan amount and trend, but also, in a relatively marginal way, on the estimates of borrower income and LTI rates at the time of granting.

In 2018, the increase in the average loan amount was mainly driven by owners-buyers with higher incomes, the average loan of which, already well ahead of that of other segments, increased by 6 % in 2018 to reach EUR 192,598 (Chart 19). The increase in average loan amount for other segments is either more moderate (+1.7 % for first-time buyers, +1.3 % for buy-to-let) or downwards for loan transfers (-3.2 %). Lastly, and reflecting significantly stronger price dynamics, the average loan amount increased almost twice as fast in the Île-de-France region as in the Provinces (+8.7 % and +4.7 % respectively). These trends continue in 2019.

Chart 19 Average loan amount by market segment (EUR thousands)

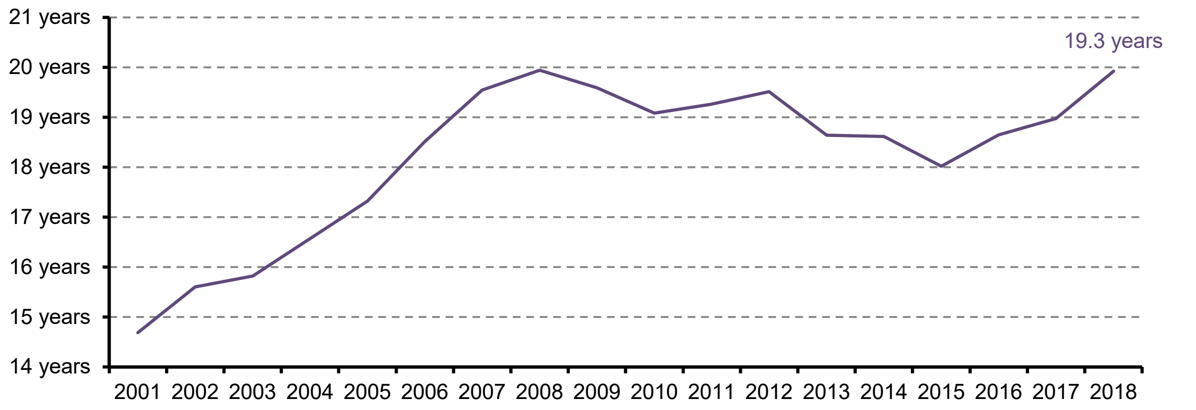


Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

2. Initial loan maturity returning to its 2008 peak

Initial loan maturity continued on its upward trend for the third consecutive year to regain its 2008 peak of 19.9 year, i.e. an 11 month increase compared with 2017 (Chart 20). Excluding loan transfers, the initial maturity of which is almost three years below average, reflecting the fact that they are already partly amortised, the increase was slower (+6 months) but the average initial loan maturity is set to 20.5 years.

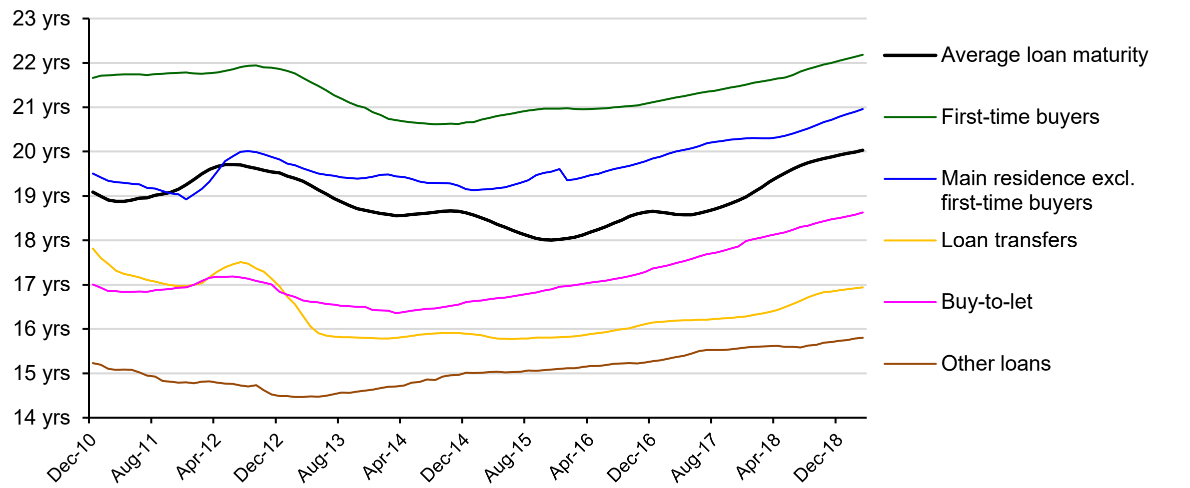
Chart 20 Initial maturities (excluding bridge loans)



Source : ACPR, annual survey on housing financing and monthly monitoring of the production of housing loans

Still excluding loan transfers, the increase in average maturity is primarily explained by owners-buyers (+5.9 months to 20.9 years) and first-time buyers (+6.5 months to 22.1 years) (Chart 21).

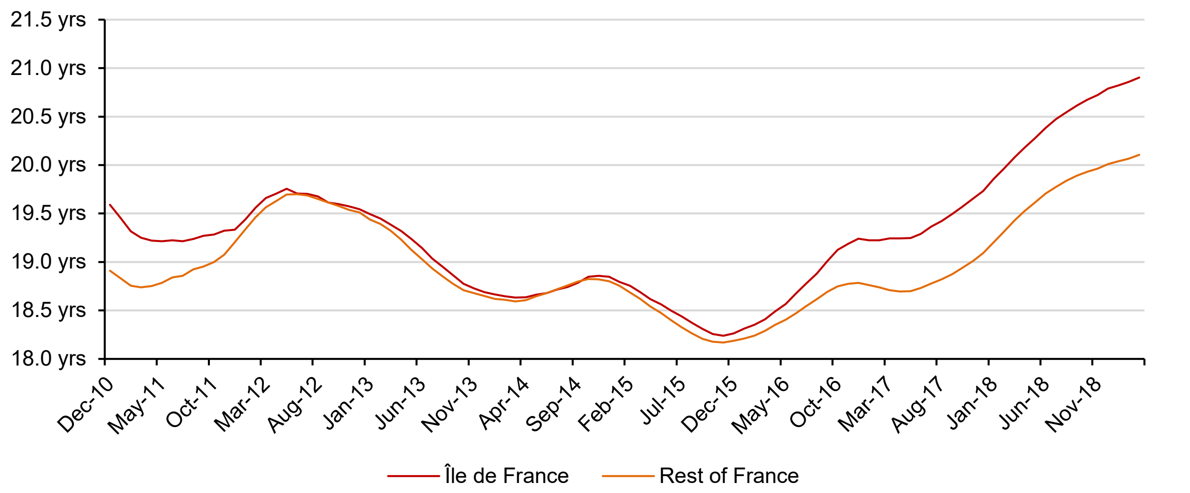
Chart 21 Initial loan maturity (excluding bridge loans) by market segment



Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

The average initial loan maturity also continued to lengthen at a slightly faster pace in the Île-de-France region (20.8 years in December 2018, +12.7 months in one year) than in the Provinces (20 years in December 2018, +11 months) and this trend continued in 2019. In March 2019, the difference in average initial loan maturity between the Île-de-France region and the Provinces reached its highest point since 2010, at 9.6 months (Graph 22).

Chart 22 Initial loan maturity (excluding bridge loans) by region

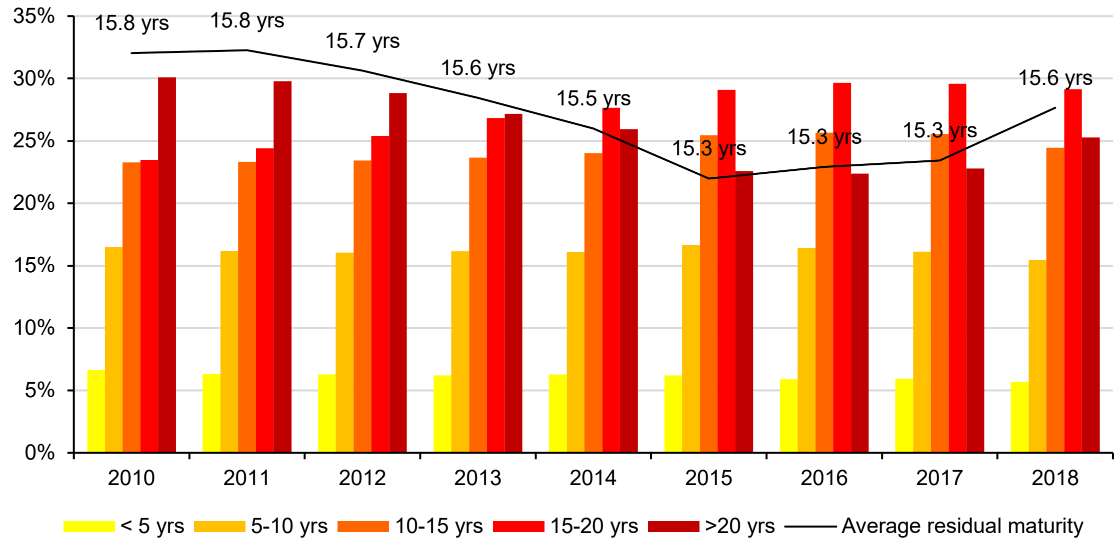


Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

Lastly, the lengthening of initial loan maturity led to a rise of residual maturity, which climbed to 15.6 years, i.e. its 2013 level (Chart 23).

According to the breakdown of the structure of outstanding loans by residual maturity, the "≥ 20 years" category increased to 25.3 % in 2018, at the expense of other segments.

Chart 23 Breakdown of outstanding housing loans by residual maturity



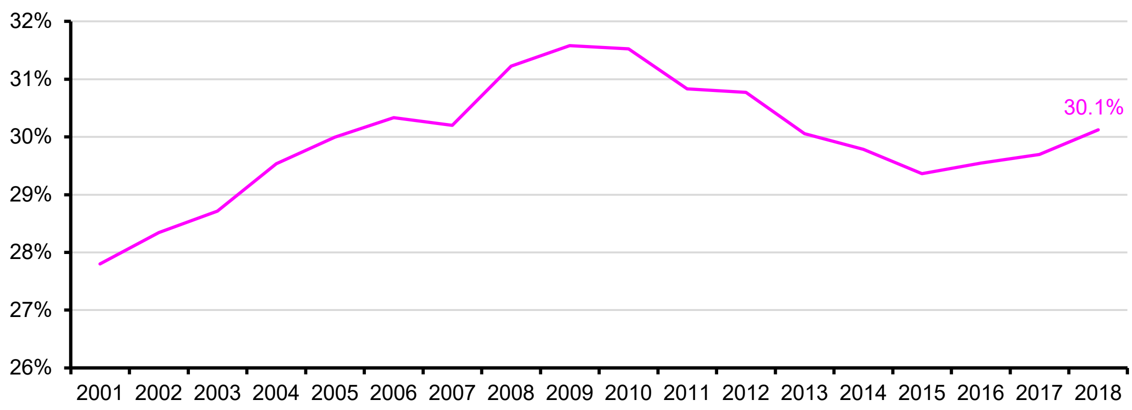
Source : ACPR, Annual Survey on Housing Financing

3. The debt service ratio remained contained

The average debt service ratio at origination increased slightly for the third consecutive year to reach 30.1 % in 2018, but remained below its peak of 2009 (31.6 %) (Chart 24).

Despite the average loan amount increase (+5.5 %), the debt service ratio was subject to a limited deterioration (+0.4 pt compared to 2017), low interest rates and a relatively flat curve that allowed borrowers to extend the duration of their loan without a significant increase of their repayments.

Chart 24 Average debt service ratio at origination

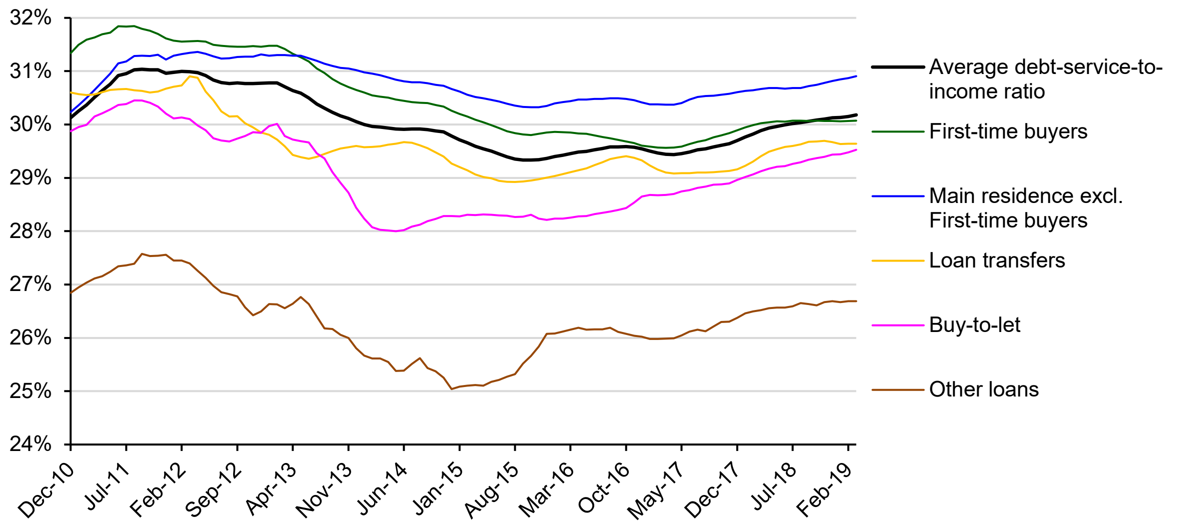


Source : ACPR, annual survey on housing financing and monthly monitoring of the production of housing loans

The rise in the debt service ratio at origination was largely driven by that of owners-buyers and buy-to-let (Chart 25), both segments growing respectively by 21 bps and 47 bps in 2018.

Finally, the debt service ratio increased almost three times faster in the Île-de-France region than in the Provinces (+87 bps to 31.3 % vs + 32 bps to 29.9 %).

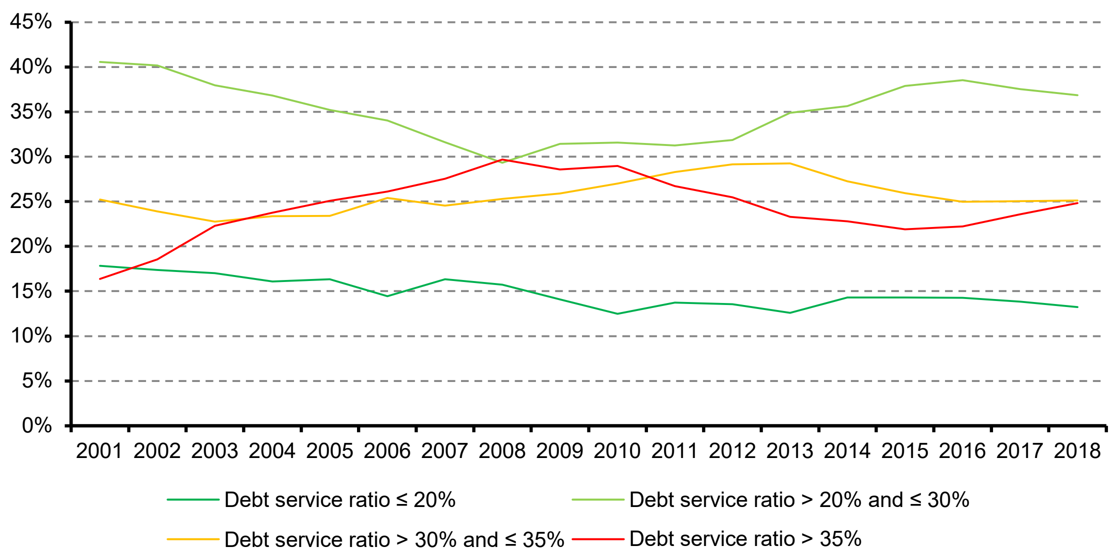
Chart 25 Average debt service ratio according to purpose



Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

The structure of new loans by debt service ratio in 2018 was fairly similar to that of the previous year, although it was somewhat skewed towards the riskier categories (Chart 26) : even though the proportion of borrowers with a debt service ratio comprised between 20 and 30 % still accounted for the largest share in new lending, it fell from 37.5 % in 2017 to 36.9 % in 2018, while the share of the most indebted borrowers (debt service ratio above 35 %) rose from 23.6 % to 24.9 %, and that of the least indebted borrowers (debt service ratio below 20 %) fell from 13.9 % to 13.2 %.

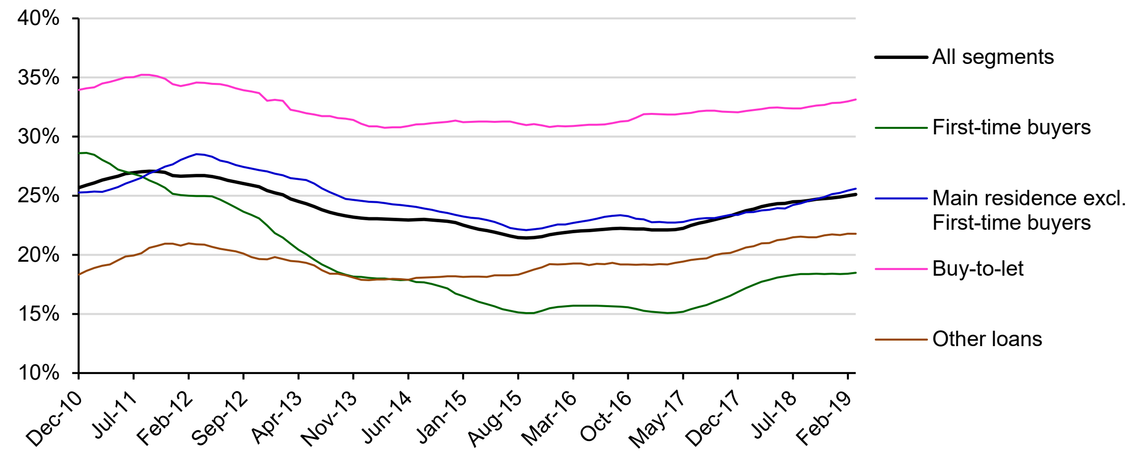
Chart 26 Structure of new loans according to debt service ratio



Source : ACPR, annual survey on housing financing and monthly monitoring of the production of housing loans

The buy-to-let segment still accounted for the largest share of borrowers, with a debt service ratio at origination above 35 % (32.9 % in 2018), ahead of owner-buyers (25.1 %), other loans (21.7 %) and first-time buyers (18.4 %) (Chart 27). However, the increase in loan shares with a debt service ratio above 35 % is now almost exclusively carried by owner-buyers (Chart 61).

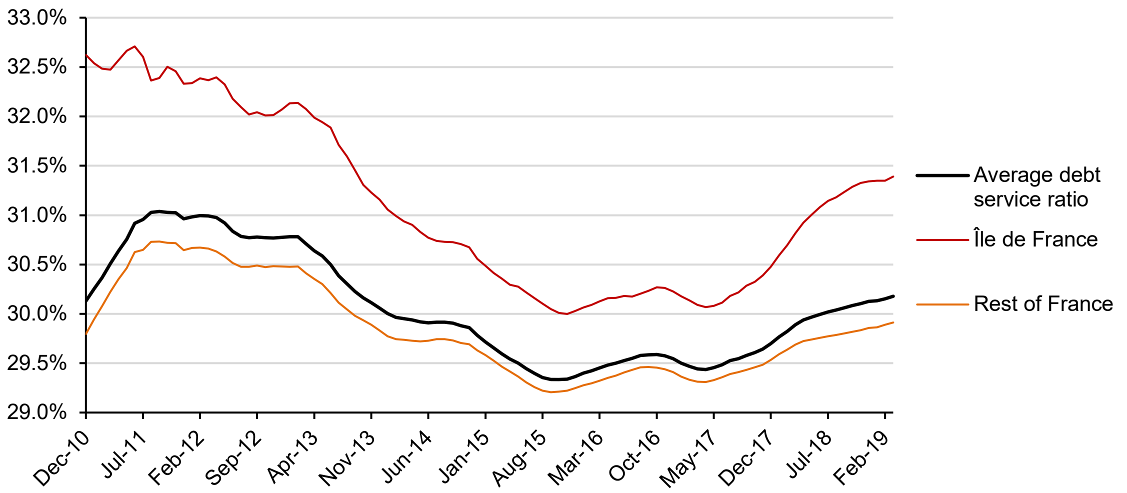
Chart 27 Share of loans with a debt service ratio above 35 %



Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

In 2018, the average debt service ratio posted a sharper increase in the Île-de-France region (+87 bps) than in the rest of France (+32 bps). As at 31 December 2018, the difference in the debt service ratio between the Île-de-France region and the rest of France was at 1.5 pt, its highest level since 2013, and it remained at this level in the first quarter of 2019 (Chart 28).

Chart 28 Average debt service ratio by region

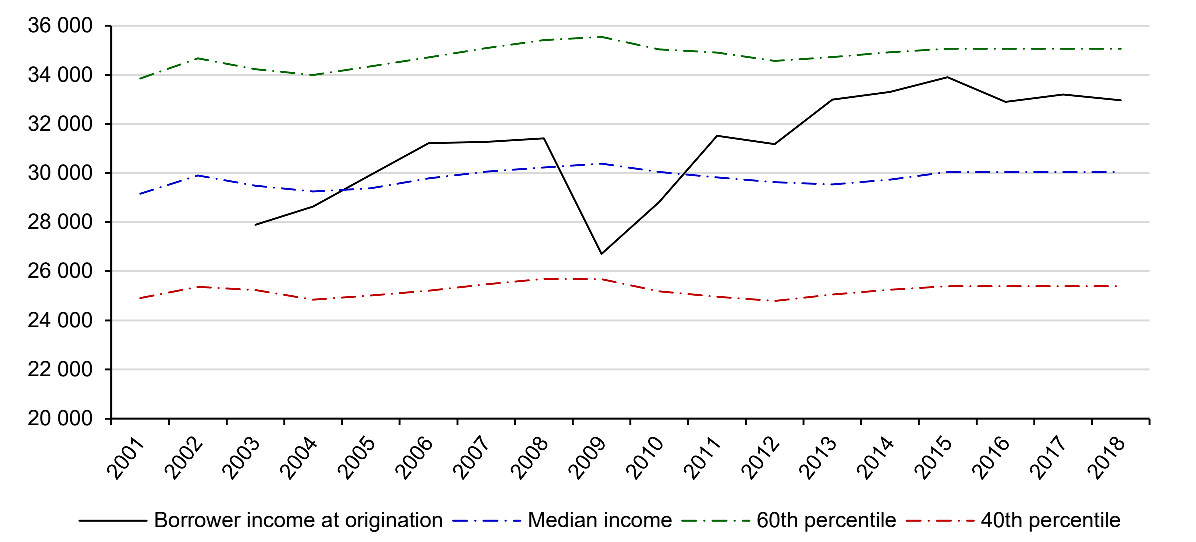


Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

4. Average income at origination declined slightly[6]

The average borrower income at origination declined slightly in 2018 to stand at EUR 32,964 (-0.7% compared with 2017) (Chart 29). However, it recorded a slight rebound in March 2019 (+0.8 % over a rolling 12-month period).

Chart 29 Estimated average borrower income at origination, in EUR



Source : Banque de France ; INSEE (for median and 40th and 60th percentiles)[7] ; ACPR, annual survey on housing financing and monthly monitoring of the production of housing loans

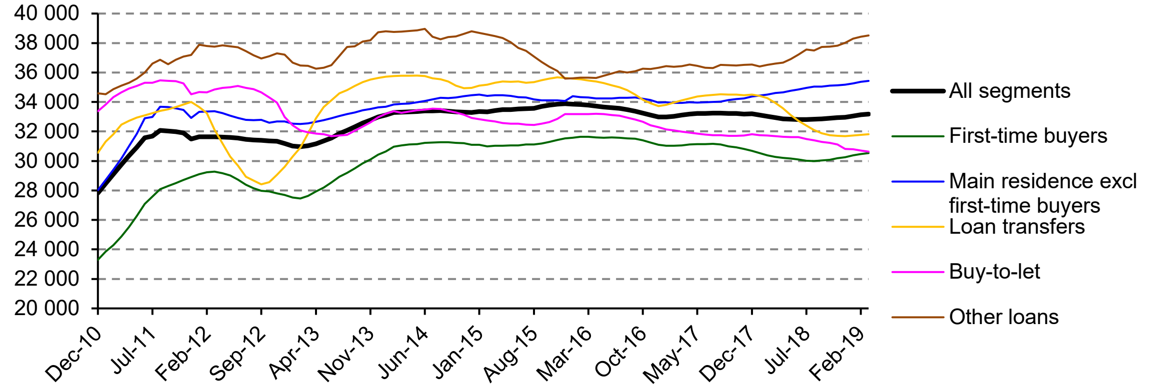
The decline in average income is mainly due to borrowers with loan transfers, whose average income decreased by 8.1 % in 2018, and, to a lesser extent, to borrowers performing buy-to-let operations (-3.2 %). In the case of loan transfers, the decline mainly reflects the lengthening of the duration (an impact of -3 %) and the decrease in the average loan amount (impact of -3.2 %), and, regarding buy-to-let investments, the increase in average duration (impact of -2.4 %).

The decrease was more moderate for first-time buyers (-1.4 %) while income increased for owner-buyers (+1.4 %) and other loans (+4%) (Chart 30). These trends held in the first quarter of 2019, excluding for first-time buyers income (+0.8 % in March 2019 over a rolling 12-months period), while the decline in borrowers' incomes benefiting from loan transfers was slightly undermined (-6.2%).

[6] It should be recalled that the ACPR does not collect data on borrower income at origination yet; it is therefore estimated based on the average amount of the loan, the average loan duration and the debt service ratio at origination - which allows for the calculation of an annuity - and the average rate for new loans. Besides, all other things being equal, the average income is reduced whenever interest rate or average loan amount decrease, and whenever average loan duration or debt-service ratio increase.

[7] Last available data : 2015

Chart 30 Average borrower income at origination by market segment, in EUR



Source : ACPR, monthly monitoring of new housing loans ; 12 month moving averages ; Most recent value : March 2019

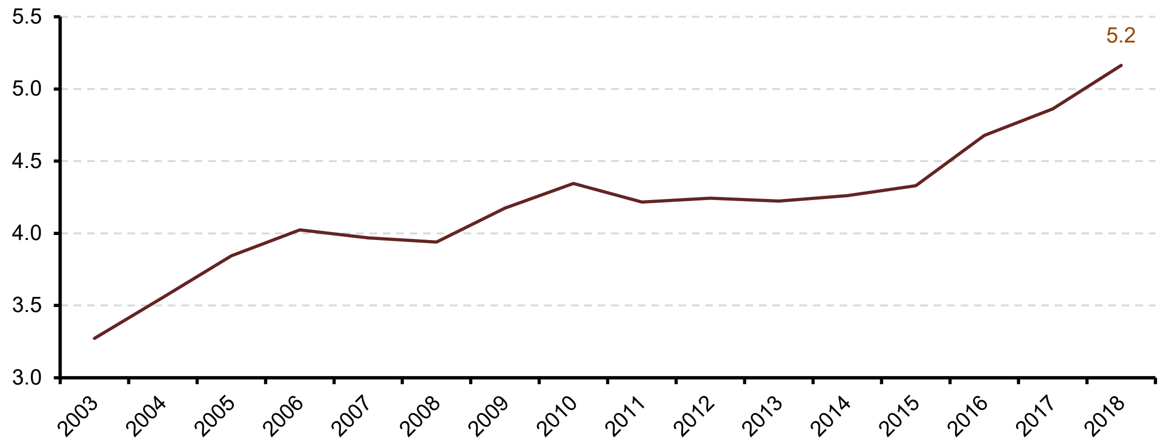
Lastly, while average borrower income at origination inched up in the Île-de-France region in 2018 (+0.7 %), it fell back in the rest of France (-1 %). The recovery observed during the first quarter is more beneficial to borrowers in the Île-de-France region (+1.4 %) than from the rest of France (+0.6 %).

As at 31 March 2019, the average income of borrowers from the Île-de-France region (EUR 45,158) remained 50 % higher than that of borrowers from the rest of France (EUR 30,087), a gap that has remained relatively stable since 2010.

5. Loan to income ratio rapidly rising

Given that the average loan amount rose and the income decreased, the average loan to income ratio – expressed in years of income – posted a further increase for the fifth consecutive year, climbing by 3.6 months to 5.2 years, its all-time high (Chart 31). The trend continued in the first quarter of 2019, despite a slight slowdown (+3 months in March 2019 over a rolling 12-month period).

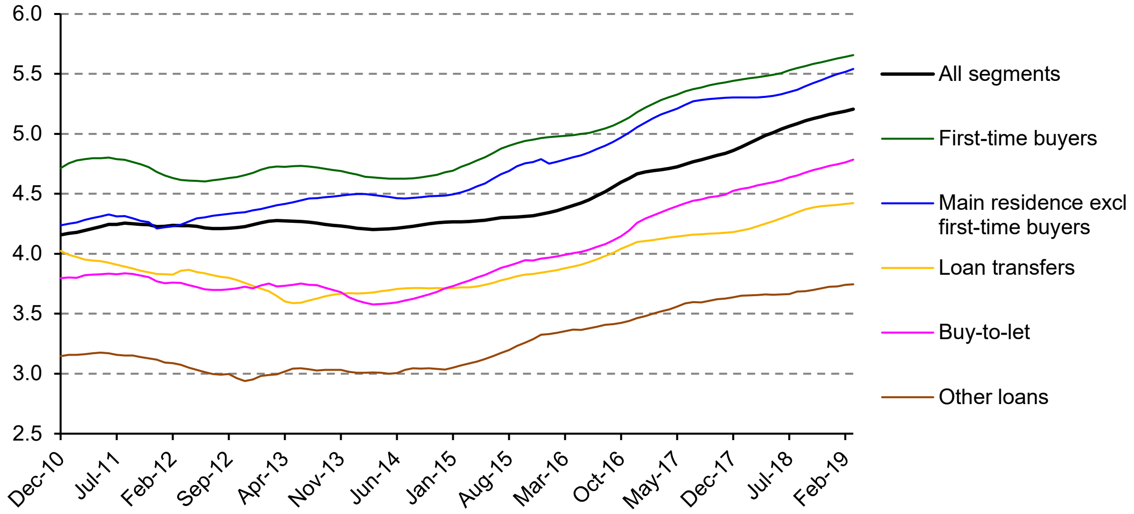
Chart 31 Average LTI ratio at origination, in years of income



Source : ACPR, annual survey on housing financing and monthly monitoring of the production of housing loans

The increase in the average LTI ratio in 2018 was quite homogeneous among first-time buyers (+2.1 months at 5.6 years) and owner-buyers (+2 months at 5.5 years), but slightly more pronounced for loan transfers (+2.7 months at 4.4 years) and buy-to-let investment (+2.5 months at 4.7 years), the LTI ratios of which being lower nevertheless (Chart 32). These trends continued in early 2019, with an acceleration of the increase affecting owner-buyers (+2.9 months at 5.6 years).

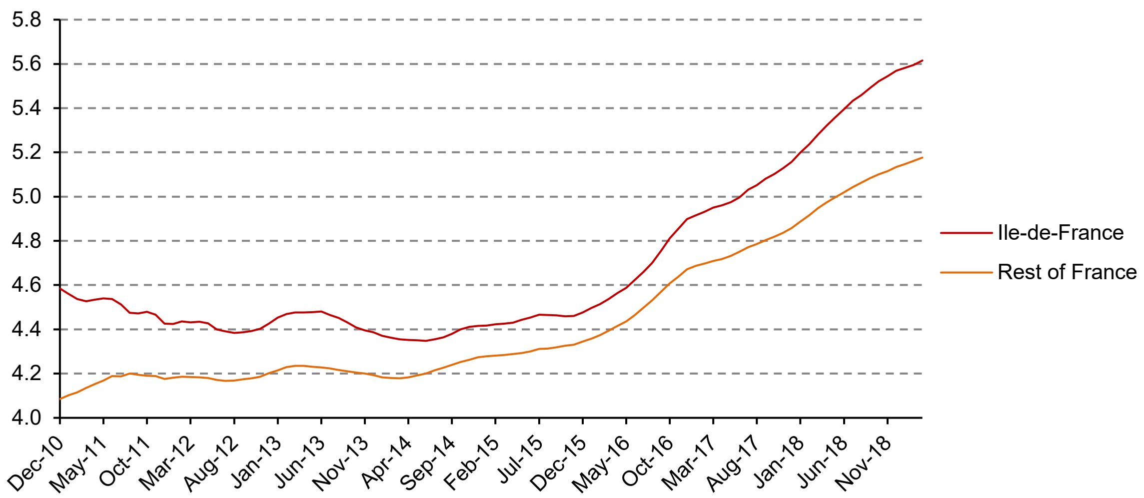
Chart 32 Average LTI ratio at origination by market segment



Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

Finally, following a trend that started in 2016, the average LTI ratio continued to rise more rapidly in the Île-de-France region (up by 4.9 months in 2018 and 4 months between March 2018 and March 2019) than in the rest of France (up by 3.3 months and 2.8 months respectively) (Chart 33).

Chart 33 Average LTI ratio at origination by region

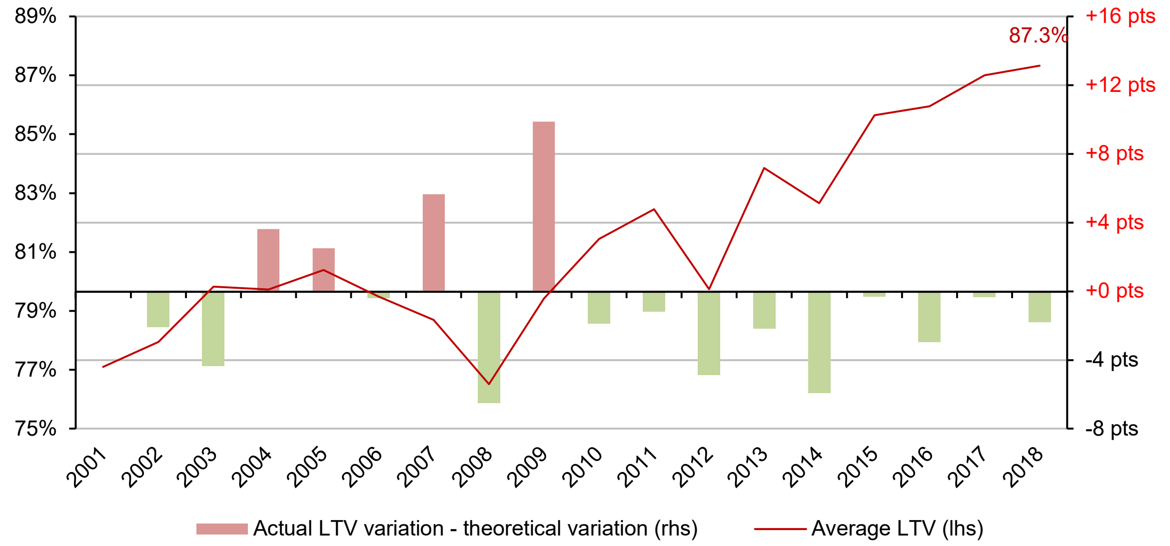


Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

6. LTV ratio rising at origination but stable in life

In 2018, the average LTV ratio at origination continued to deteriorate, reaching a new peak at 87 % (up 0.3 pt) but increased less than the theoretical LTV ratio[8] (Chart 34). Excluding loan transfers, the LTV ratio reached 87.4 % at the end of 2018, and was also up compared with 2017 (up 1.1 pt). The trend continued in the first quarter, with the average LTV at origination reaching 87.8 % in March 2019 (up 1 pt over a rolling 12-month period).

Chart 34 Average LTV at origination

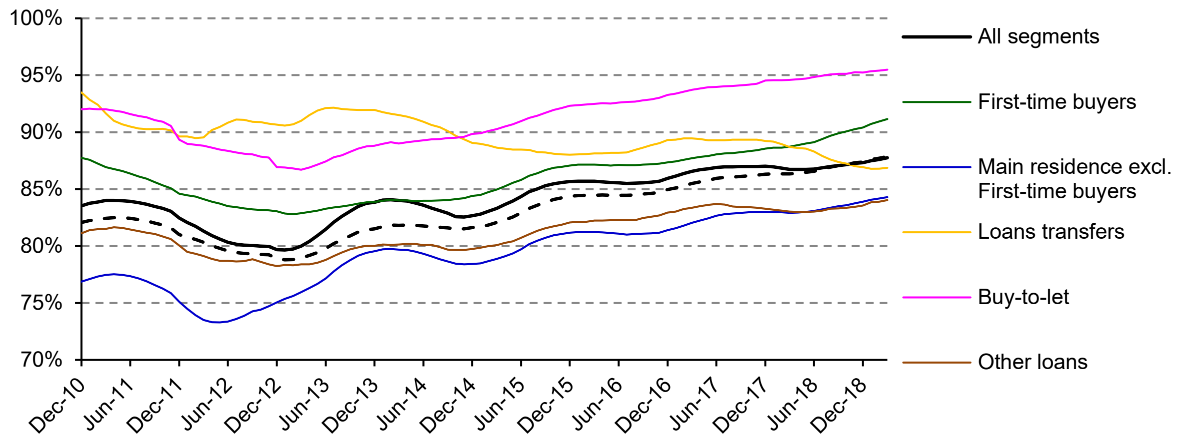


Source : ACPR, annual survey on housing financing and monthly monitoring the production of housing loans ; INSEE

In 2018, the increase in the average LTV ratio was largely driven by owner-buyers (up 1.9 pt to 90.4 %), with other categories showing increases below 1 pt, and even a decline for external loan repurchases (-2.3 pts). Owner-buyers (up 2.4 pts over a rolling 12-month period at 91.1 %) and first-time buyers (up 1.4 pt to 84.3 %) continued to contribute to the rise in the average LTV ratio (Chart 35).

[8] The theoretical variation in the LTV ratio (δ^*) is measured by using the ratio between the change in average loan amount (L) and the change in the property price index (I):$\delta_n^* = (L_n/L_{n-1})/(I_n/I_{n-1})$. The difference between the actual variation in the LTV ratio ($\delta_n = LTV_n/LTV_{n-1}$) and the theoretical variation is interpreted as the result of a structural effect (variation in the share of loans with a higher-than-average LTV ratio, when $\delta_n > \delta_n^*$, or a lower-than-average LTV ratio, when $\delta_n < \delta_n^*$) and changes in lending criteria (loosing when $\delta_n > \delta_n^*$/tightening when $\delta_n < \delta_n^*$)), although the respective contributions of the two variables cannot be identified at this stage.

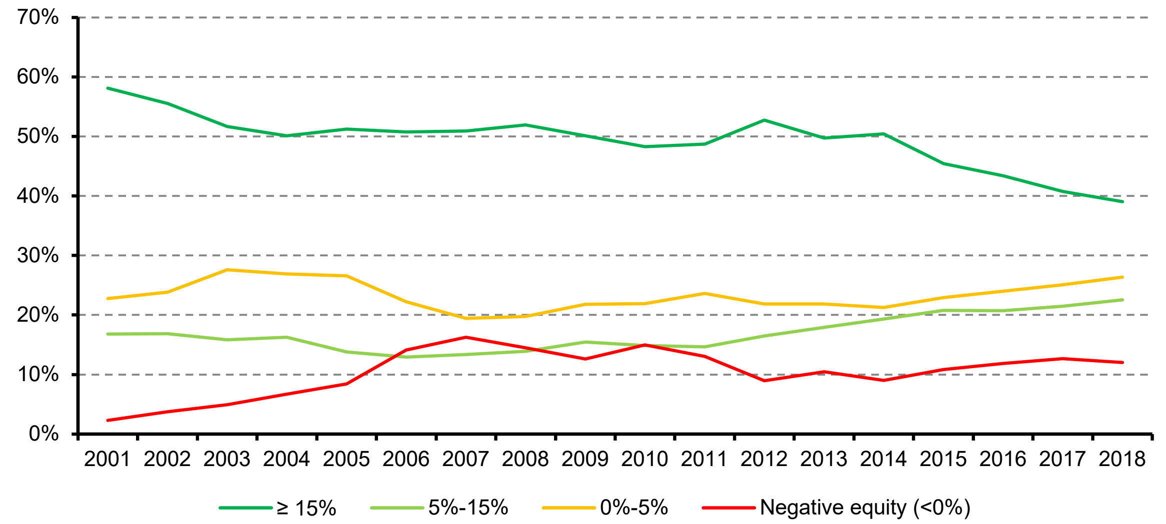
Chart 35 Average LTV ratio at origination by market segment



Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

The increase in the average LTV ratio resulted from a drop in the share of loans with a down-payment rate above 15 % (down 1.7 pp in 2018), which continued to record a relatively sharp decline after remaining virtually stable over the past decade, and stood at 39.1 % at the end of 2018. This drop mainly benefited the share of loans with a down-payment rate between 0 and 5 % (up 1.3 pp) and loans with a down-payment rate of between 5 % and 15 % (up 1.1 pp). However, negative equity loans[9] fell slightly (down 0.7 pp to 12 %) (Chart 36).

Chart 36 New loan structure by size of down-payment

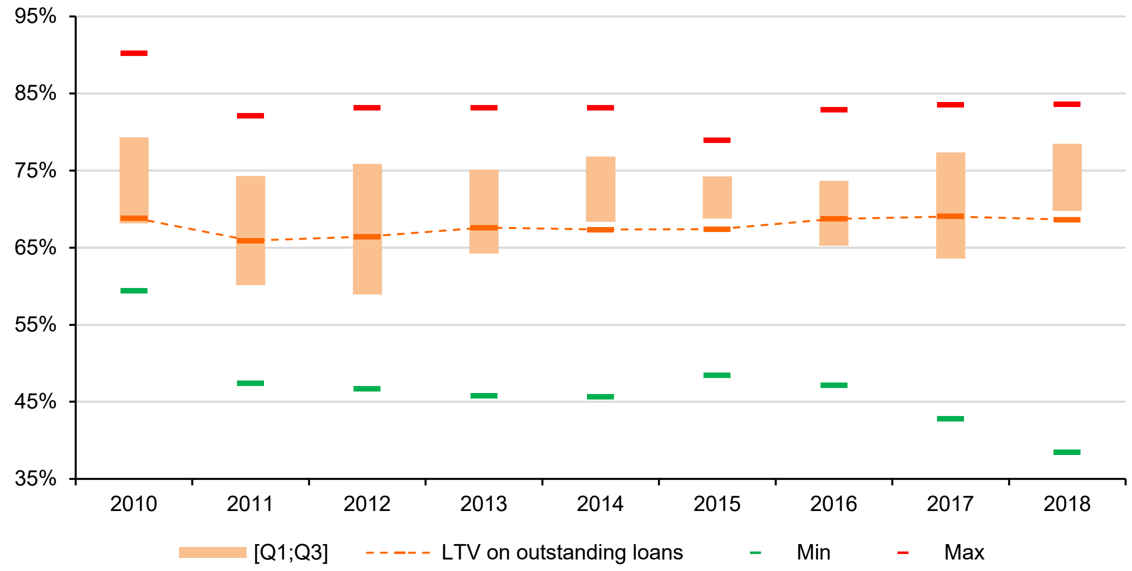


Source : ACPR, annual survey on housing financing and monthly monitoring of the production of housing loans

[9] Transactions where the loan at origination exceeds the value of the financed property, as the bank also finances, for example, the transaction fees or the cost of the guarantee, etc.

Lastly, despite the rise in real estate prices, the average LTV on outstanding loans, measured on the basis of responses to surveys conducted by the ACPR, decreased slightly in 2018 (down 0.4 pp to 68.7 %) and remained well below the LTV ratio at origination (Chart 37). However, given the strong dispersion of banks' responses on this criterion and the diametrically opposite trajectories of the extreme values, this average value should be viewed with caution.

Chart 37 LTV on outstanding loans



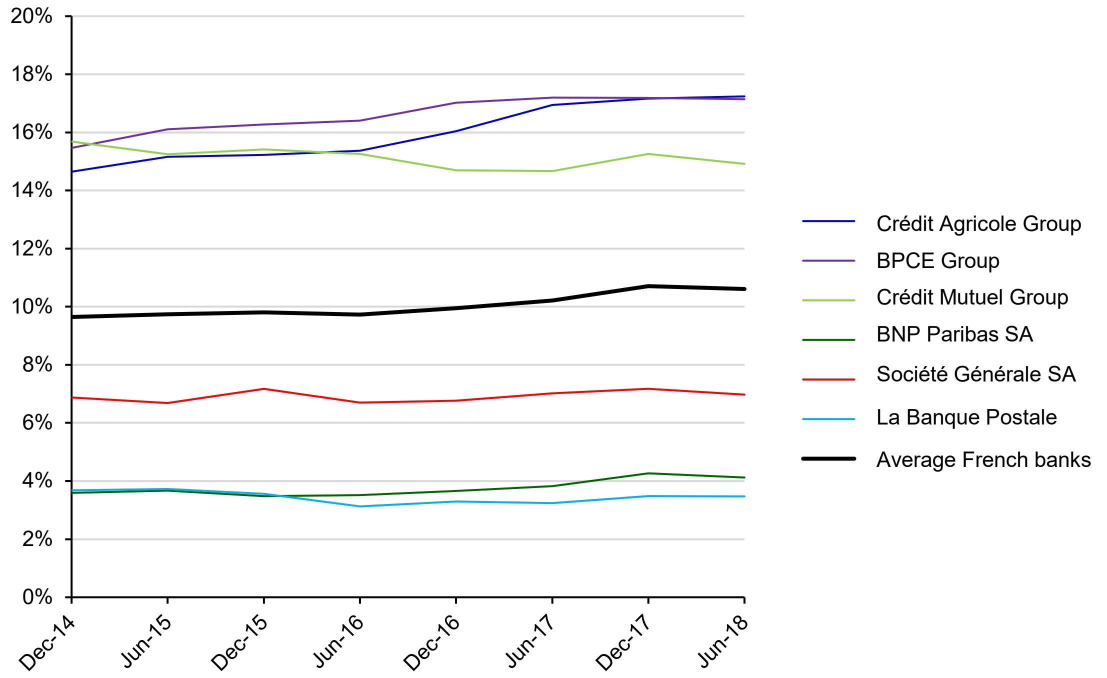
Source : ACPR, Annual Survey on Housing Financing

Risks linked to housing loans

1. The weight of housing loans in retail lending has slightly increased

The weight of housing loans in the total credit exposures of French banks increased slightly to 10.6 % in June 2018 (up 0.4 pp over 12 months). This figure is, however, significantly higher for mutualist groups (Crédit Agricole, Banques Populaires – Caisses d'Épargne et Crédit Mutuel) whose share of housing loans is comprised between 14 % and 18 % (Chart 38).

Chart 38 Evolution of the weight of housing loans within the total credit exposures of French banks

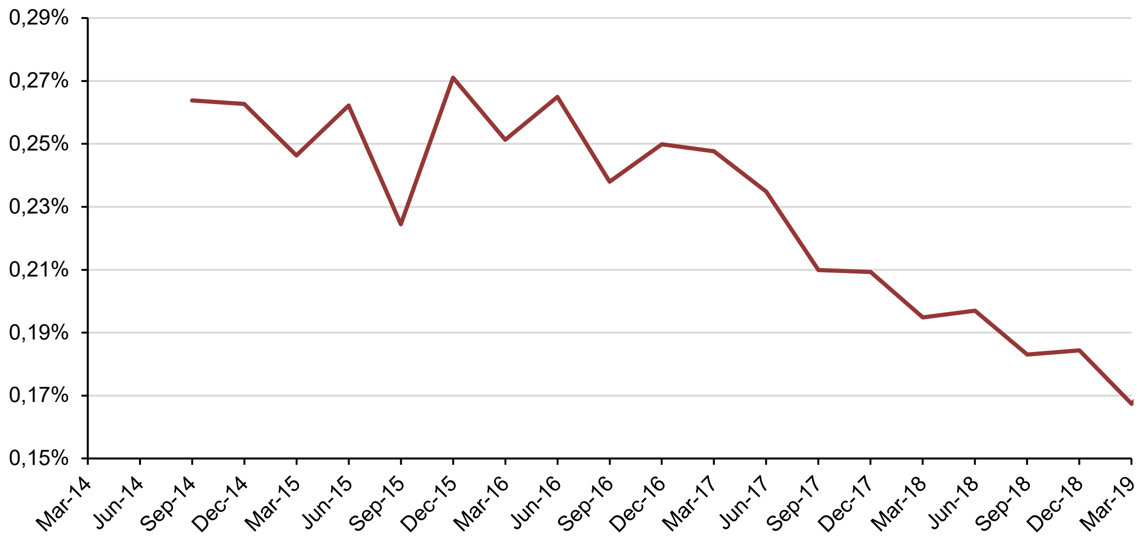


Source : EBA, Transparency exercise 2015 to 2018 ; last point : June 2018

2. Gross non-performing loans were down

Despite the loosening of some granting criteria, housing financing continued to benefit from a low NPL ratio. At the end of March 2019, quarterly default flows thus recorded a historical low at 0.17 % of the outstanding amount (Chart 39); the one-year default rate also reached its lowest point since mid-2015 at 0.73 %.

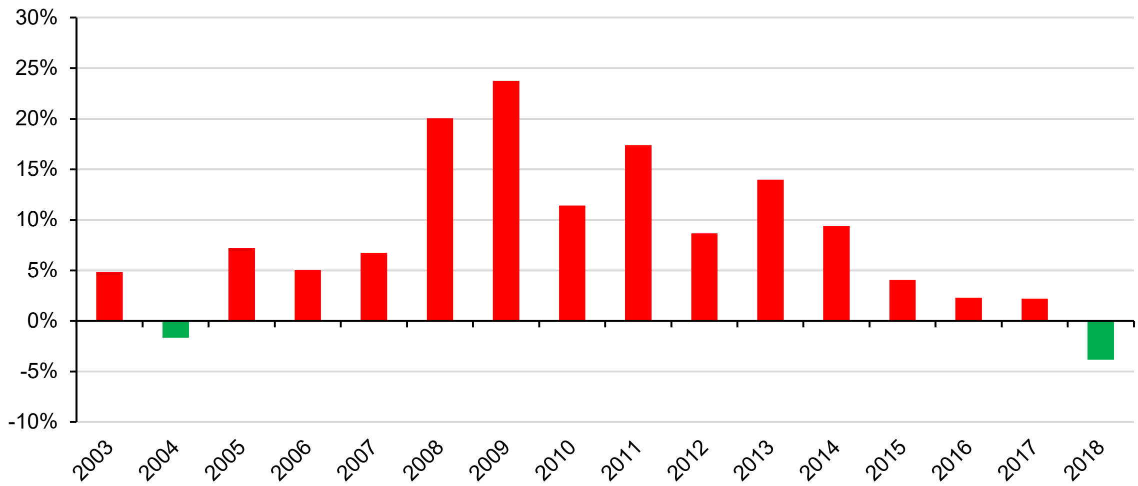
Chart 39 Quarterly default rate on housing loans in France



Source : COREP C 09.01 and C 09, last March 2019.

The growth rate of gross non-performing loans declined by 3.8 % compared with 2017 to reach EUR 13.2 billion in 2018 (Chart 40).

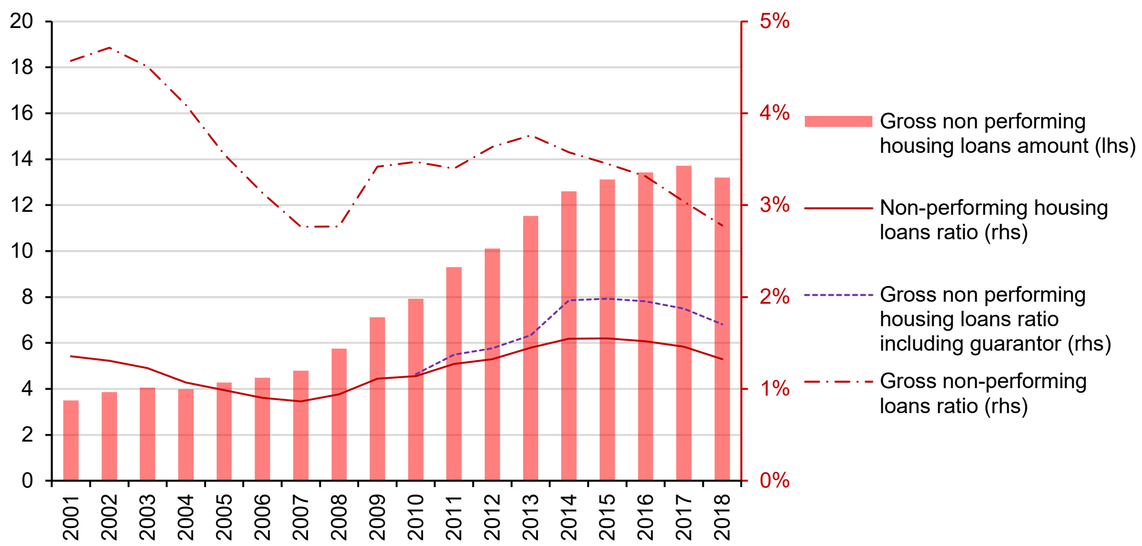
Chart 40 Gross outstanding non-performing housing loans, year-on-year change



Source : ACPR, Annual Survey on Housing Financing

Given that performing loans increased by 6 % in 2018, the ratio of non-performing housing loans recorded a further decline[10]: it was down by 13 bps and stood at 1.32 % at the end of 2018. Taking into account non-performing loans recorded in the balance sheets of the main loan guarantors does not alter this trend, since the ratio of non-performing housing loans fell by 17 bps to 1.70 %. Housing loans thus continued to display a significantly lower non-performing loan ratio than all non-bank loans, for which the gross non-performing loan ratio, down by 26 bps, reached 2.78 % (Chart 41).

Chart 41 Gross outstanding non-performing housing loans, in EUR billions and as a % of total outstanding amounts



Source : ACPR, annual Habitat Finance Survey and BAFI/SURFI data ; gross outstanding stocks of mortgage guarantors are only collected since 2010

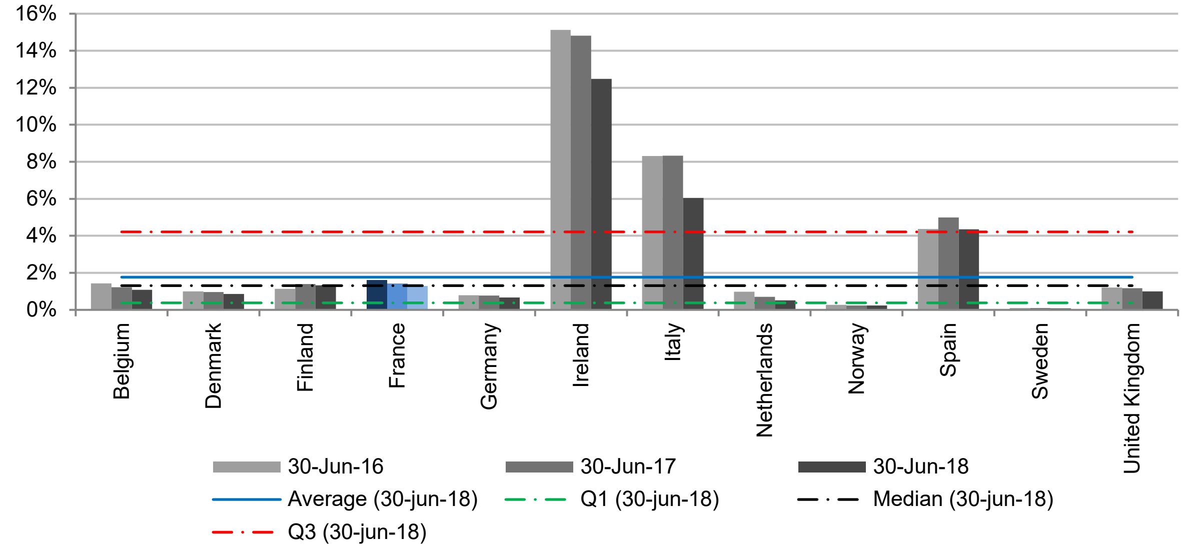
As in 2017, the level of non-performing housing loans in France[11] was below the average for the countries covered by the last EBA transparency exercise, and slightly below the median (Chart 42).

Between 30 June 2017 and 30 June 2018, the defaulted housing loan ratio for French banks fell by 14 bps to 1.28 %, at a slower pace than the average (down 34 bps to 1.77 %). The decline is generalised to all the banks comprised in the sample, the largest decline being observed within countries with the highest default ratio for outstanding loans: Ireland (down 234 bps to 12.47 %), Italy (down 229 bps to 6.04 %) and Spain (down 65 bps to 4.35 %).

[10] As mentioned in the 2016 study, the gross NPL ratio for housing loans might however be overstated insofar as some banks also include a portion of their exposures to individual entrepreneurs along with housing loans to individuals in their disclosures, while the outstanding NPLs that they report are solely divided by performing loans to individuals.

[11] Housing loans distributed in France by all banks in the EBA sample (therefore including foreign banks).

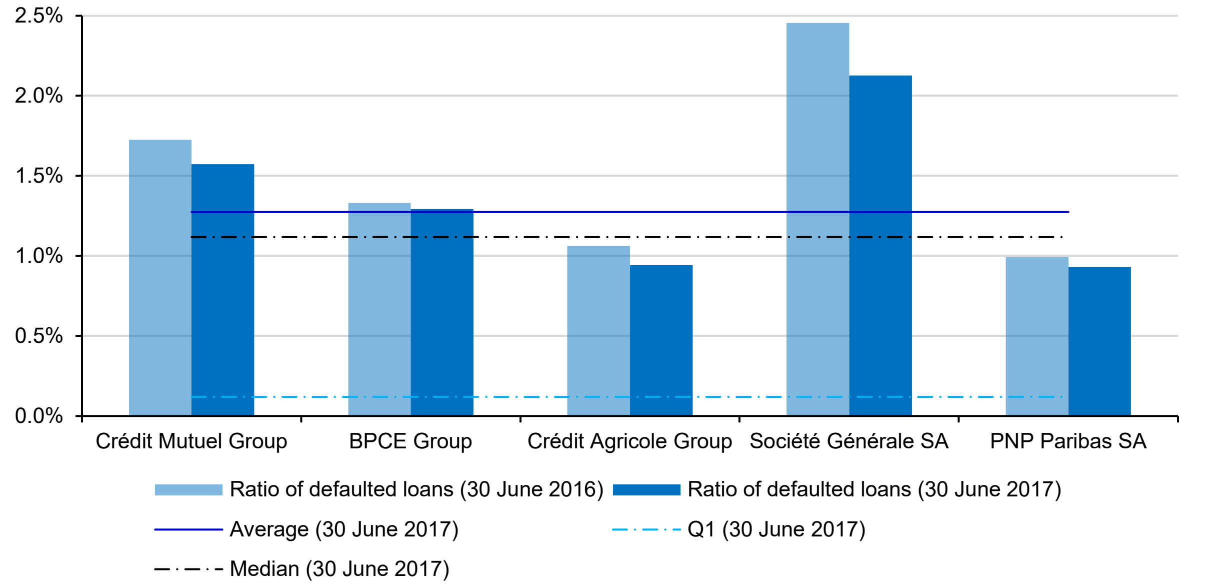
Chart 42 Evolution of the defaulted housing loans ratio by country



Source : Transparency exercise ; stocks processed in advanced method only

All French banks recorded a decrease in the defaulted housing loan ratio between 30 June 2017 and 30 June 2018, that dip being the most pronounced for Société Générale (down 33 bps at 2.13 %) (Chart 43).

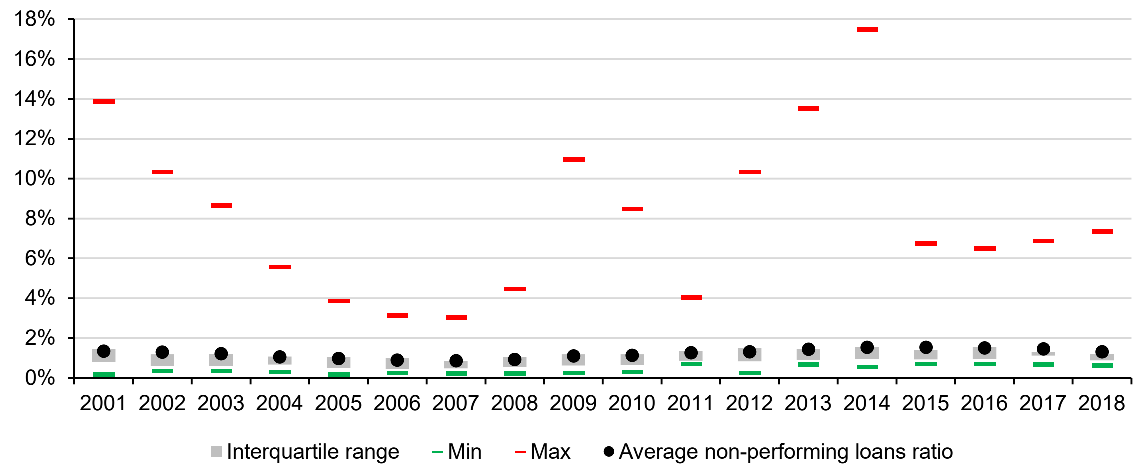
Chart 43 Defaulted housing loans ratio in France as at 30 June 2018



Source : EBA, Transparency exercise (non-SME retail exposures secured by real estate ; outstanding outstanding amounts) ; ACPR calculations on a sample of 28 banks that reported housing lending on France (French banks nevertheless concentrate 99.4 % of housing loans distributed in France)

Lastly, a considerable dispersion of gross non-performing housing loan ratios remained visible between the institutions that were included in the ACPR survey sample (Chart 44).

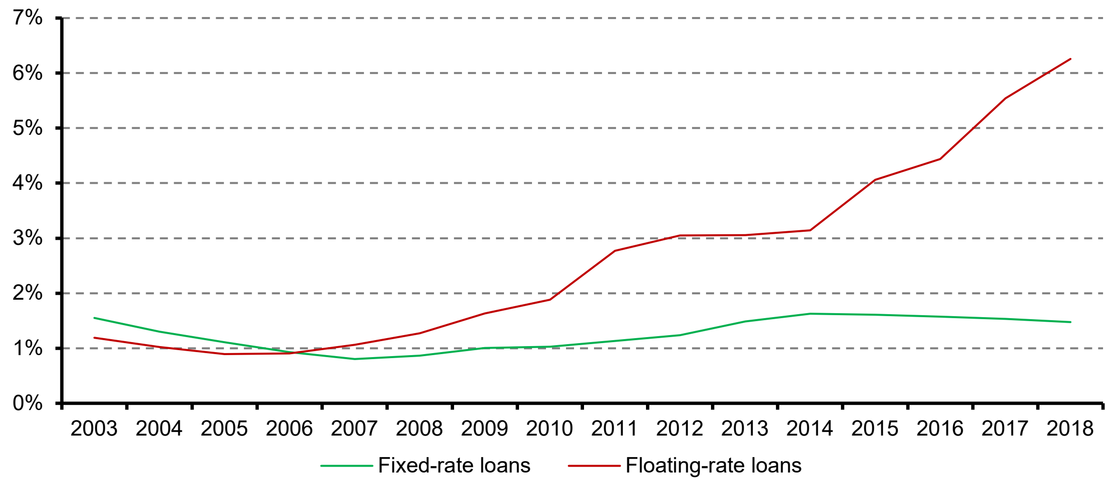
Chart 44 Dispersion of gross non-performing housing loan ratios



Source : ACPR, Annual Survey on Housing Financing

While the gross non-performing loan ratio fell for fixed-rate loans (down 6 bps to 1.47 %), it continued to increase for floating-rate loans (up 72 bps to 6.26 % (Chart 45).

Chart 45 Gross NPL ratio by interest rate type



Source: ACPR, Annual Survey on Housing Financing

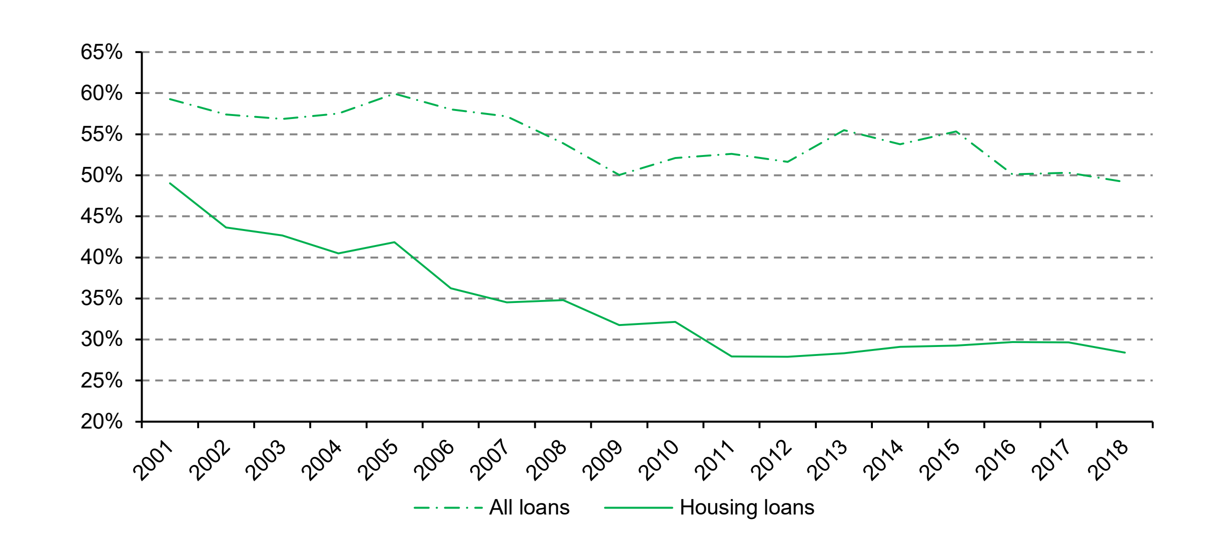
Note : since gross NLP ratios per type of interest rate have been calculated on a restricted basis (a portion of respondents did not provide information on this point), they cannot be directly compared with the gross NPL ratio for all housing loans.

3. Provisioning ratios in slight decline

The NPL provisioning ratio declined by 1.3 pts to 28.4 % (Chart 46), a level that remains below the provisioning ratio observed for all non-bank lending (49.2 %) and reflects the importance of the role played by guarantor bodies (see above).

Based on the EBA transparency exercise of June 2018, however, French banks had a provisioning rate of housing loans 48.5 % above the average and median for banks comprised in the sample.

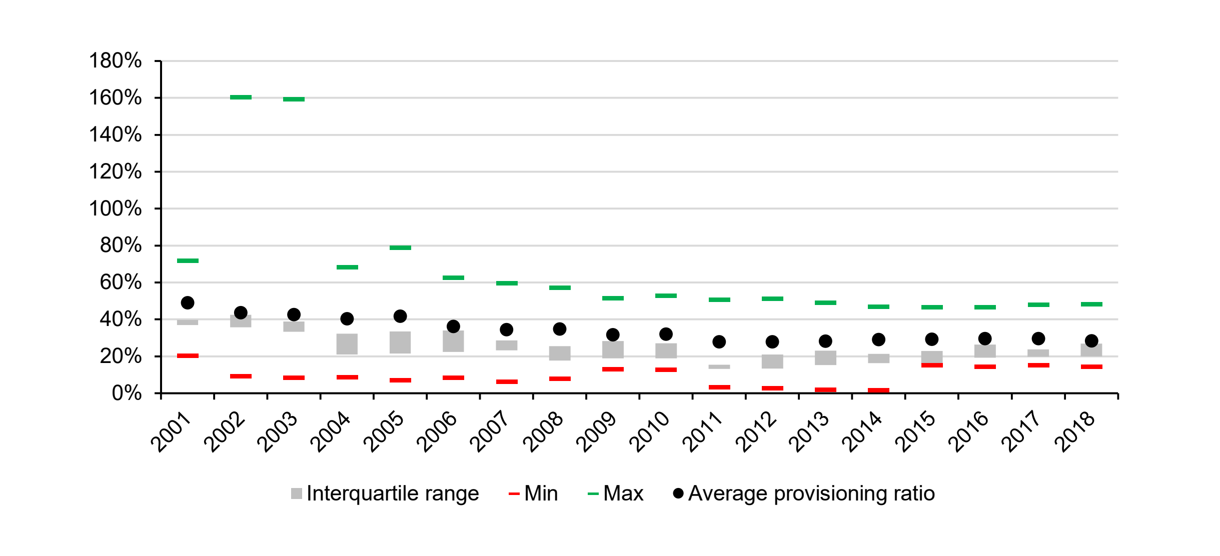
Chart 46 NPL provisioning ratios



Source : ACPR, Annual Survey on Habitat Finance and BAFI/SURFI data

Moreover, the gap between the highest and lowest provisioning ratio remained significant (one-to-three) (Chart 47).

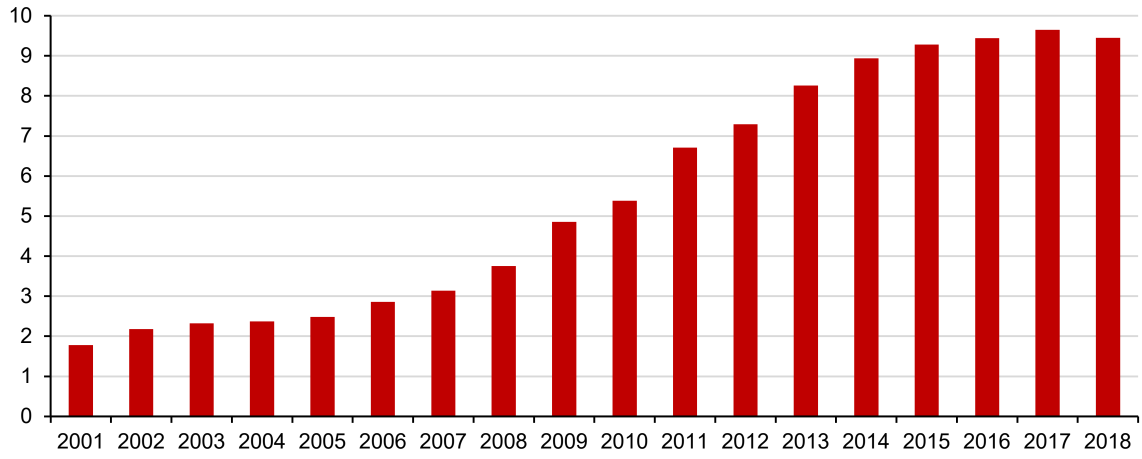
Chart 47 Dispersion of NPL provisioning ratios



Source : ACPR, Annual Survey on Housing Financing

Despite the slight decline in provisioning ratio, the net amount of non-performing loans recorded a 2.1 % decrease in 2018, reaching EUR 9.4 billion (Chart 48).

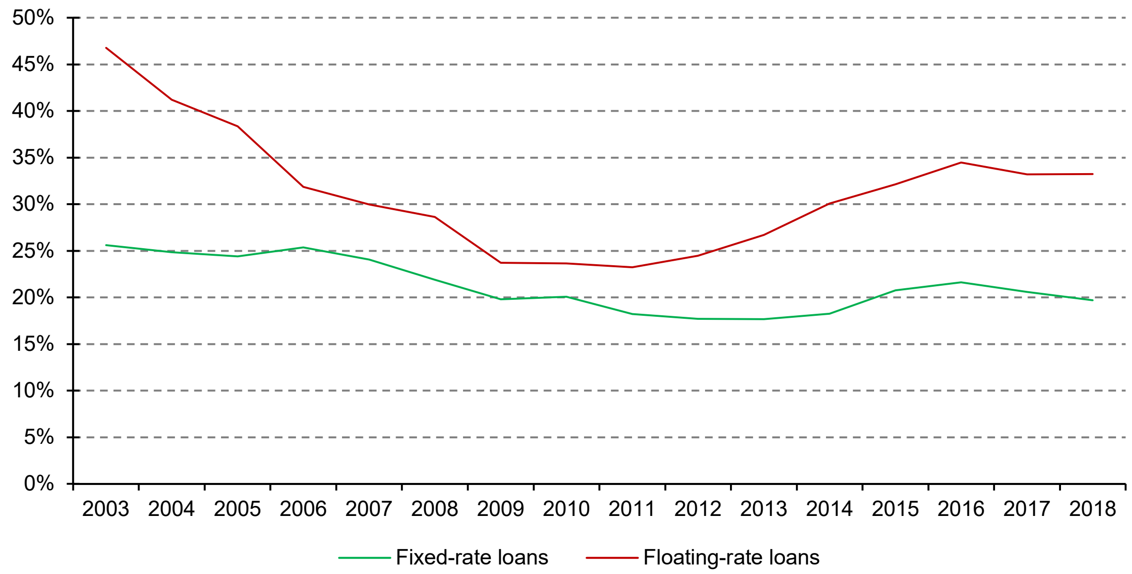
Chart 48 Net non-performing loans in EUR billions



Source : ACPR, Annual Survey on Housing Financing

Lastly, the gross NPL provisioning ratio remained stable for floating-rate loans at 33.2 %, while it decreased slightly for the second consecutive year for fixed-rate loans (down 89 bps to 19.7 %) (Chart 49).

Chart 49 Provisioning ratios for non-performing housing loans by interest rate type



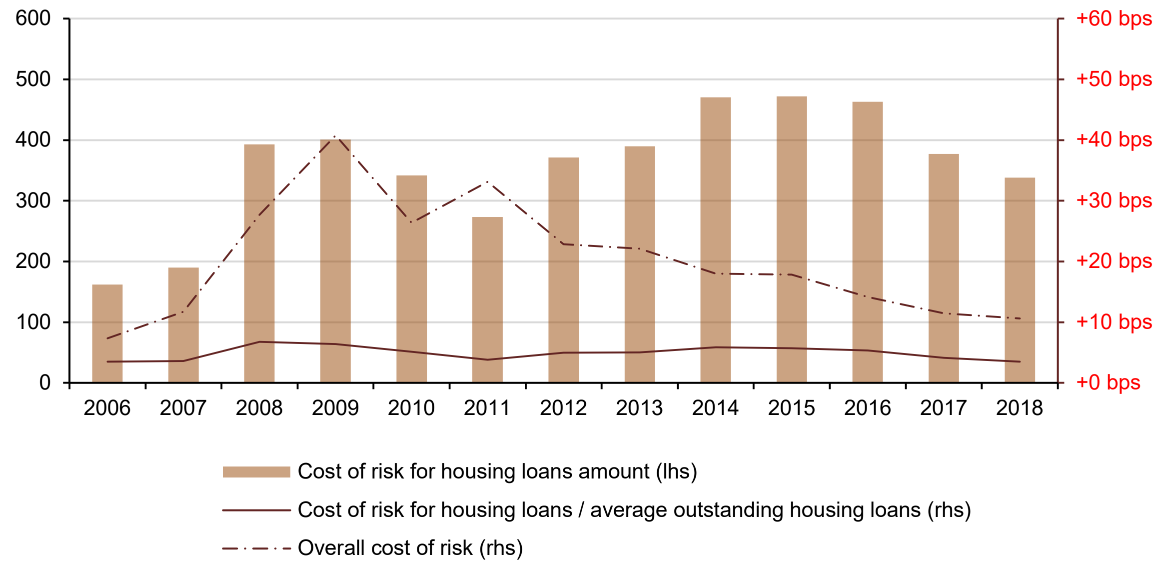
Source : ACPR, Annual Survey on Housing Financing

Note : given that the provisioning ratios by interest rate type have been calculated on a restricted basis (a portion of respondents did not provide information on this point), they cannot be directly compared with the provisioning rate for all housing loans.

4. The cost of risk was down

The cost of risk decreased by 10.3 % in 2018 to reach EUR 338 million. As a proportion of the average outstanding, it stood at 3.5 bps, which is significantly lower than the overall cost of risk of the six largest French banking groups, which, as a ratio of their average balance sheet total, reached 10.6 bps in 2018 (Chart 50).

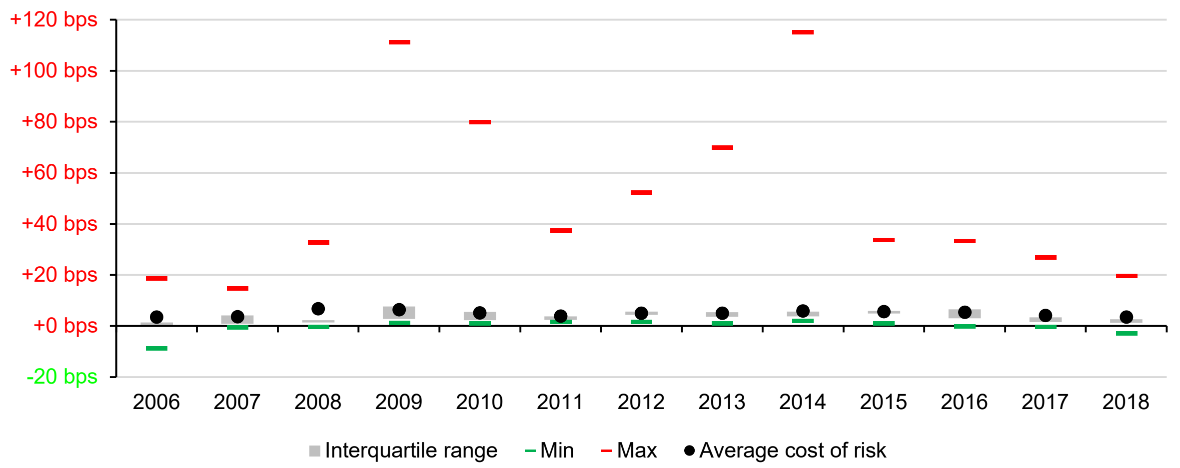
Chart 50 Cost of risk for housing loans, in EUR million and as a % of the average oustanding loan amount



Source : ACPR, annual survey on housing financing ; financial communication from banks ; risk cost of the 6 largest French banking groups to their total balance sheet

In addition, the gap between institutions narrowed significantly in 2018 (Chart 51). For the third consecutive year, some institutions presented negative costs of risk.

Chart 51 Dispersion of the cost of risk ratio for housing loans to the average outstanding loan amount



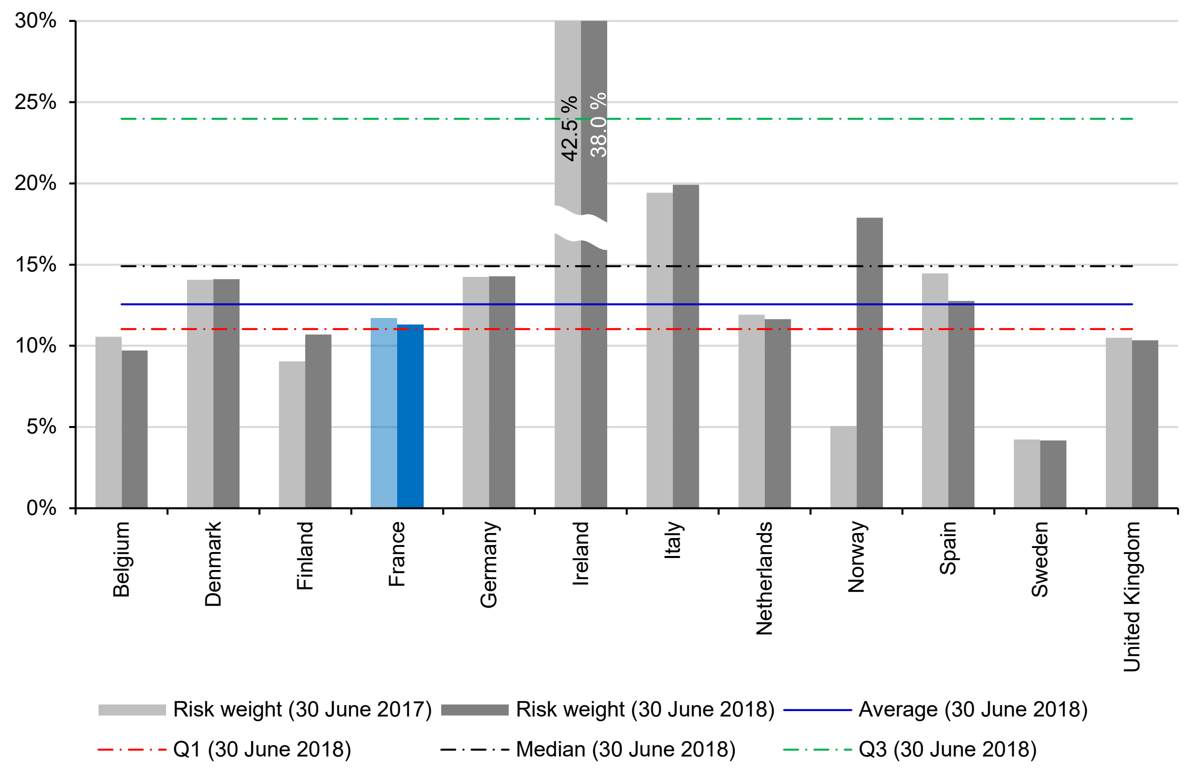
Source : ACPR, Annual Survey on Housing Financing

5. The average risk weight was above average when adjusted taking into account secured loans

At 30 June 2018, the risk weight for housing loans distributed in France by French and foreign banks and subject to the advanced internal ratings-based approach (A-IRB) method stood at 11.3 %. It fell between the first quartile and the median of the levels observed in all the countries covered by the EBA transparency exercise (Chart 52). Sweden (4.2 %) and Ireland (30 %) were still the two extremes.

Between 30 June 2017 and 30 June 2018, the risk weight for housing loans in France decreased by 0.4 pt (from 11.7 % to 11.3 %), in line with portfolio quality improvements, especially the decline in non-performing loans and cost of risk. There are divergent trends within the sample, with the largest decline observed in the countries which presented the highest weights in June 2017 (down 4.5 pts at 42.5 % in Ireland, down 1.7 pt at 14.5 % in Spain); the strong increase observed in Norway (up 12.8 pts to 17.9 %) reflects the correction of an anomaly for a bank that had not reported weighted risks in 2017[12].

Chart 52 Risk weights of housing loans by country of exposure (A-IRB) at 30 June 2018

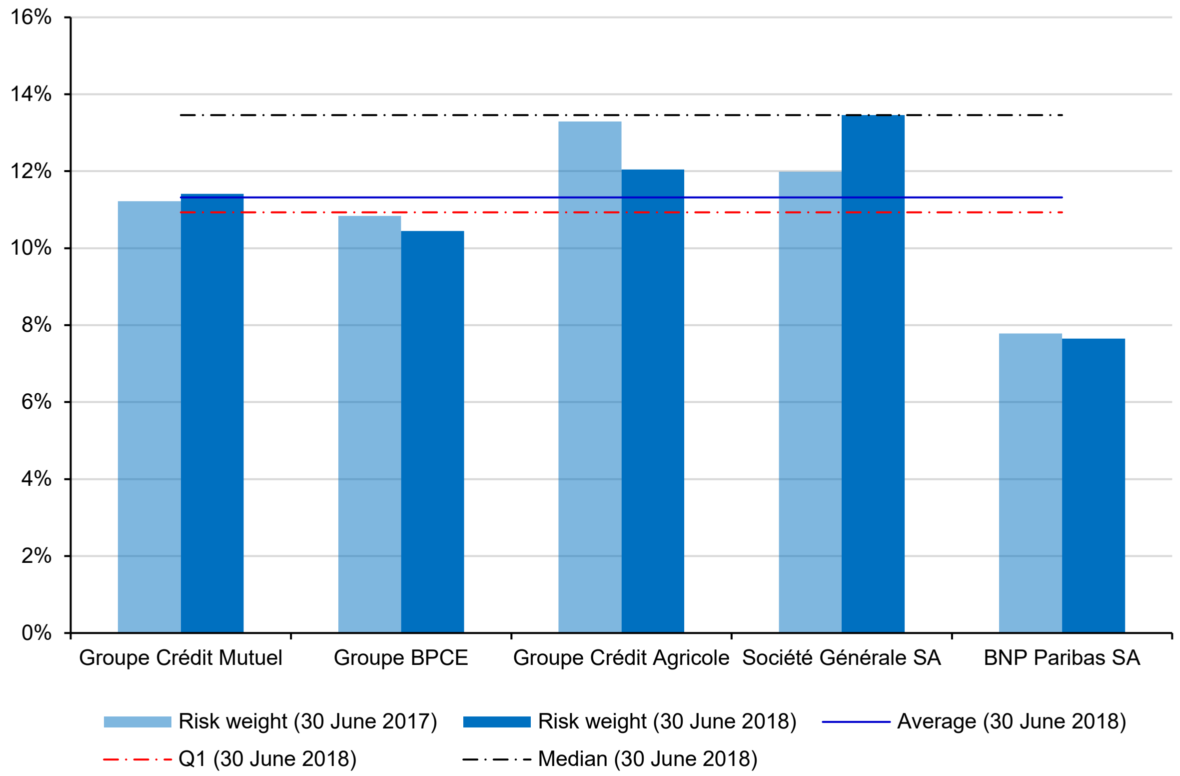


Source : EBA, Transparency exercise (non-SME retail exposures secured by real estate ; outstanding amounts) ; ACPR calculations ; only those countries that individually represent at least 1 % of the total amount of housing loans reported by all banks covered by the EBA exercise

[12] Excluding this bank, the risk weight of exposures to Norway would increase from 13 % to 11.8 %.

French banks continued to exhibit relatively varied risk weights across France, as well as contrasting trends. Between 30 June 2017 and 30 June 2018, the risk weight for housing loans decreased particularly for Crédit Agricole (down 1.2 pt to 12 %), and to a lesser extent for GBPCE (down 0.4 pt to 10.4 %) and BNP Paribas (down 0.1 pt to 7.7 %). By contrast, they increased for Société Générale (up 1.5 pt to 13.5 %) and Crédit Mutuel (up 0.2 pt to 11.4 %) (Chart 53).

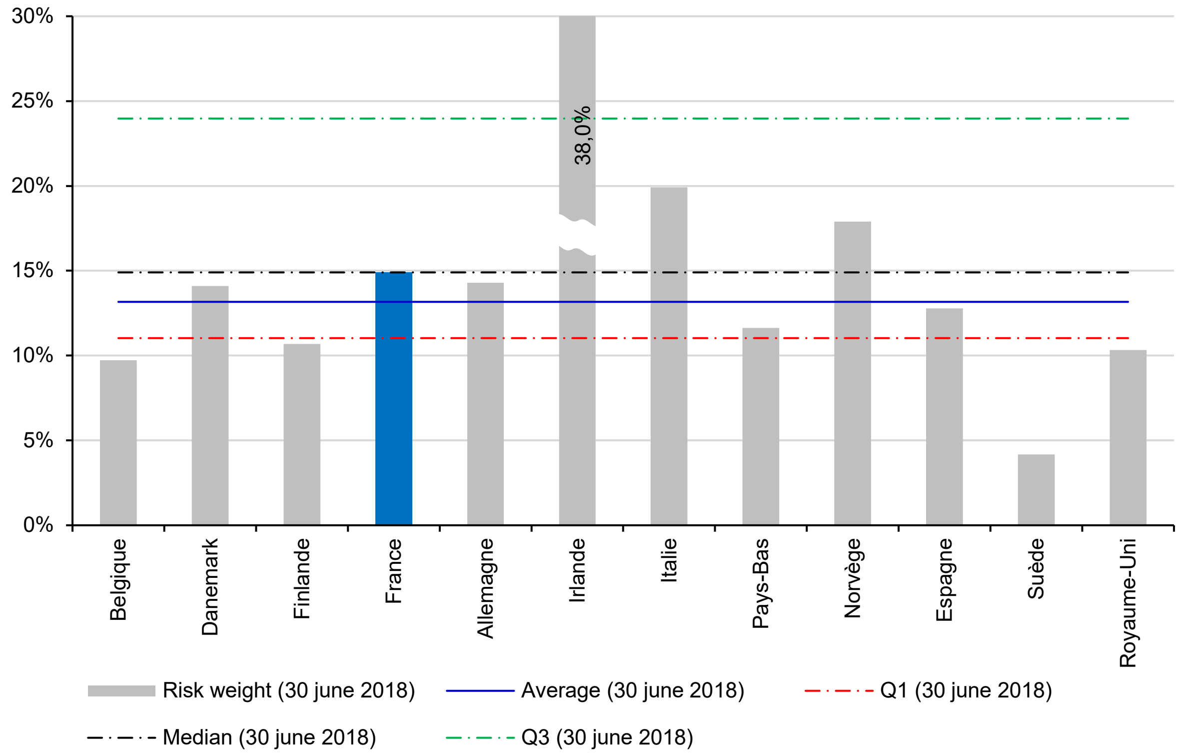
Chart 53 Risk weights for housing loans in France (A-IRB) as at 30 June 2018



Source : EBA, Transparency exercise ; ACPR calculations on a sample of 27 banks having declared housing loans to France

However, it should be reminded that this representation only provides a partial view of the risk weights for housing loans by French banks. This is due to these banks being covered by substantial guarantees provided by entities of which they are shareholders and which are obliged to meet capital requirements. From a prudential point of view, secured loans are thus covered both by banks and by guarantors; the capital requirements calculated by both parties (bank and guarantor) should therefore be added up to estimate the true risk weight for housing loans. Thus, should the risk weights for the secured housing loans extended by French banks be added to those calculated by Crédit Logement for the same outstanding loans, the average risk weight for French banks' housing loans would increase by 3.6 pts to reach 14.9 % at 30 June 2017, and would be on the median of the various countries covered by the EBA transparency exercise (Chart 54).

Chart 54 Risk weights for housing loans by country of exposure (A-IRB) at 30 June 2018 including the risk weights calculated by Crédit Logement



Source : EBA, Transparency exercise (non-SME retail exposures secured by real estate ; outstanding amounts processed in progress) and annual report Loan Housing 2018 ; ACPR calculations; only those countries that individually represent at least 1 % of the total amount of housing loans reported by all banks covered by the EBA exercise

Box 1 Ad hoc stress test exercise conducted by the ACPR on the main French bail-in bodies under the European stress test EBA/ECB

In France, the bail-in system for housing loans constitutes a singularity compared with the rest of the European Union, since a majority of outstanding amounts are guaranteed by a bail-in body that hedges losses that banks face in the event of a default of their borrowers.

This singularity was taken into account in the recent European stress test exercises jointly conducted by the EBA and the European Central Bank (ECB), since French banks were able to enforce this guarantee. To this end, and as in the previous two exercises (2014 and 2016), the ACPR conducted an ad hoc stress test of the main bail-in bodies based on the same scenarios and methodology as the EBA exercise to ensure their robustness.

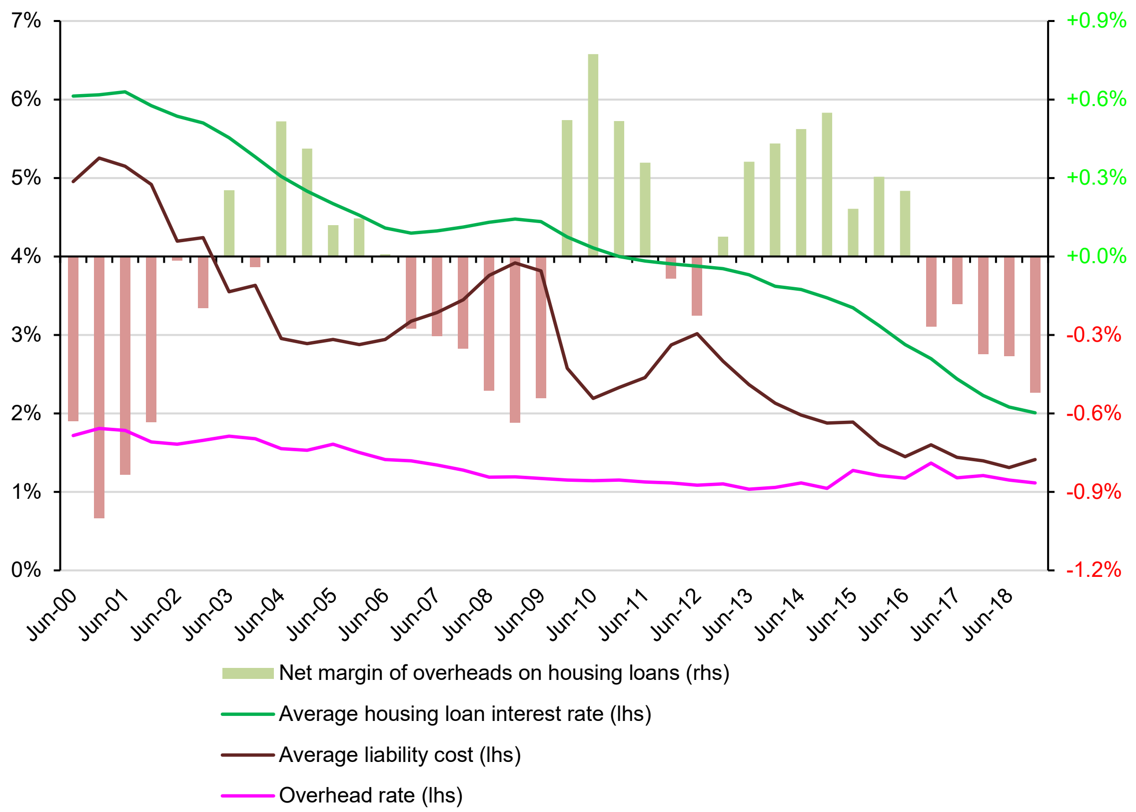
Since the bail-in bodies have all demonstrated sufficient resilience throughout the exercise, including in the event of sharp increases in collateral calls to which they are expected to respond, banks have been able to use this mechanism to forecast their loss rate on these outstanding amounts, therefore justifying the application of lower default losses than those applied to conventional mortgages.

6. Margins continued to decline

Despite the stability of the average liability cost (at 1.4 %) and the slight decrease in the overhead costs rate, from 1.2 % to 1.1 %, the net margin ratio[13] continued to deteriorate in 2018 as a result of the fast decline of the average interest rate.

Even though loan transfers and renegotiations fell sharply in 2018 (cf. supra), the latter only declined from 2.2 % in December 2017 to 2 % in December 2018, registering a more moderate downturn than in 2017 (down 22 bps vs down 47 bps) (Chart 55).

Chart 55 Margin changes on outstanding housing loans



Source : BAFI and SURFI, together with French banks ; ACPR calculations

Production rates remained below the average interest rate of outstanding loans - the variation reached 51 bps in December 2018, declining compared with December 2017 (69 bps) - the renewal of the stock of loans should continue to lower the average interest rate on outstanding amounts for some time.

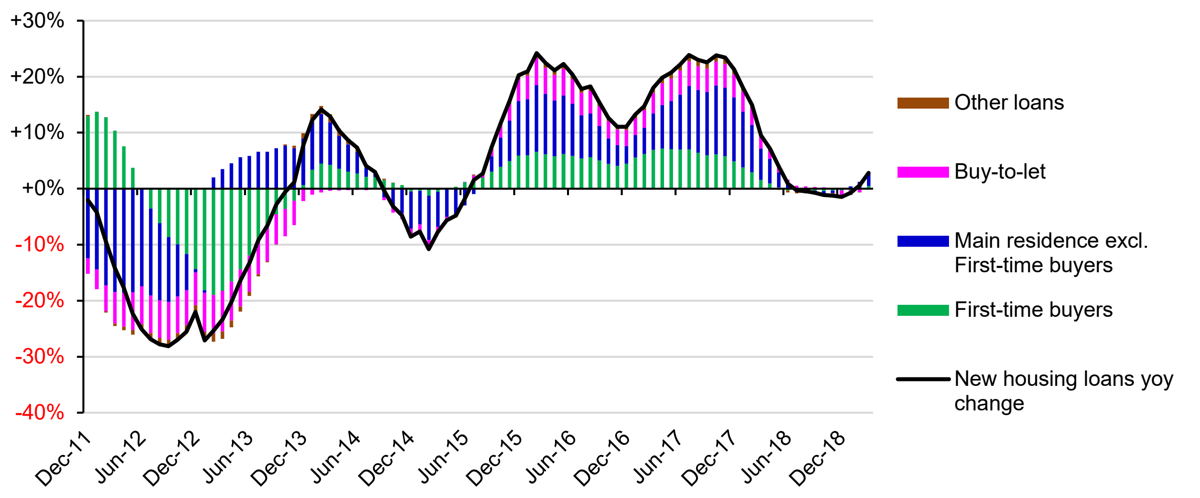
[13]See Box 2 of Analysis and Syntheses No. 82 for a detailed overview of the method for calculating margins on the outstanding amounts of housing loans.

Annex 1 : analysis of the changes in granting criteria

This analysis focuses on how the developments observed in the various market segments (type of transaction/ of payee excluding loan transfers[14] or of geographical area) contribute to the evolution of average risk indicators[15].

Production

Chart 56 Contributions of the various segments to the evolution of new housing loans, excl. loan transfers



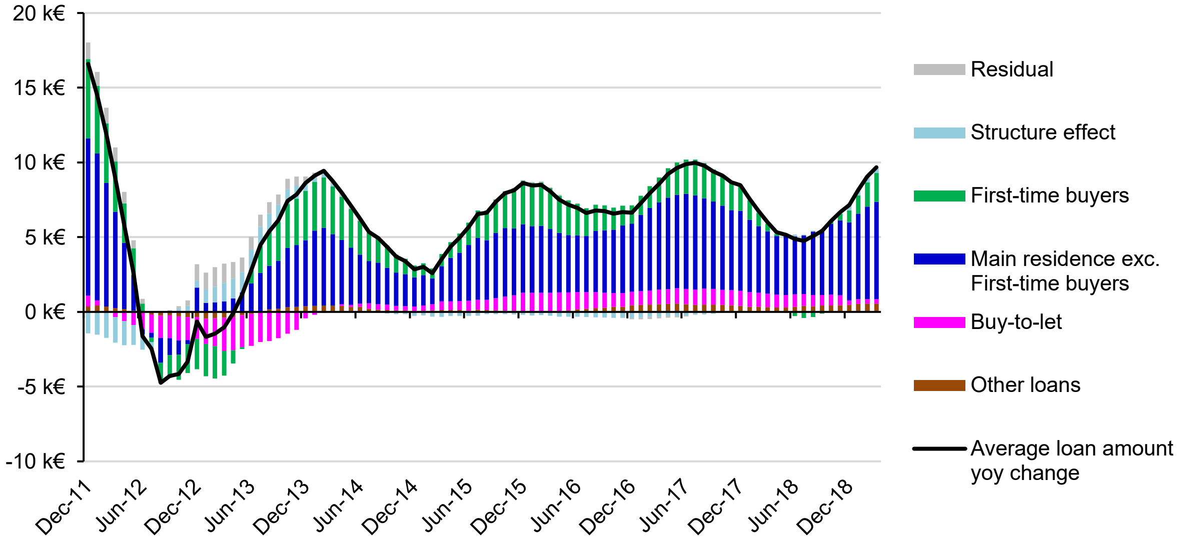
Source : ACPR, monthly monitoring of the production of housing loans, accumulated 12-month data ; last point : March 2019

[14] Since they have recorded large fluctuations in the past that can overshadow the contribution of other market segments.

[15] For example, in the case of the average loan: the "Contributions" of the various market segments measure the share of the increase in average lending in relation to each segment, assuming that the production structure per segment has remained unchanged between the two dates; the "structural effect" refers to the share of the evolution of the average indicator related to changes in the production structure (more or less representation for market segments with high or low levels for the indicator concerned); finally, the "residual" is the change in the average indicator that is not explained by the previous two elements.

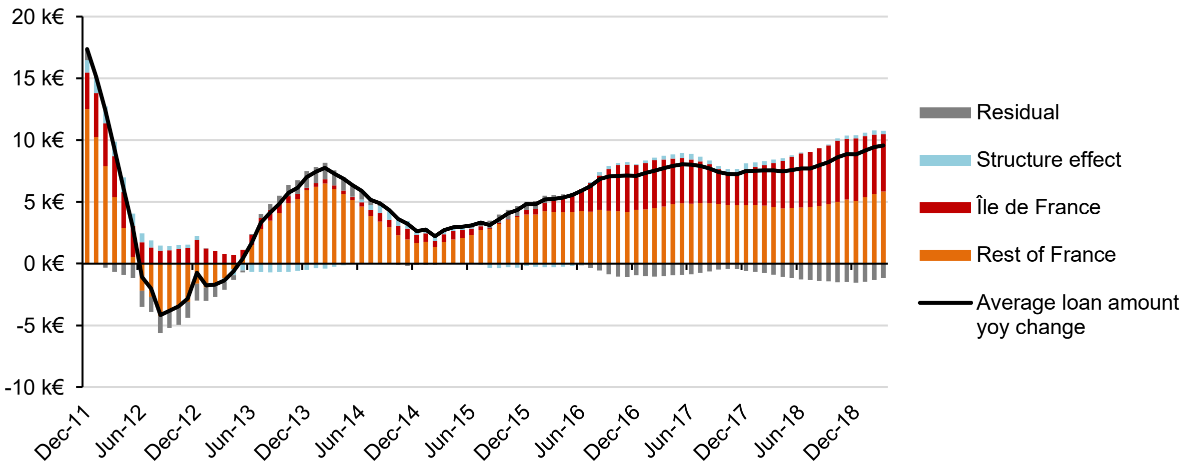
Average loan

Chart 57 Contributions from various market segments to annual average loan development (excluding external credit transfers)



Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

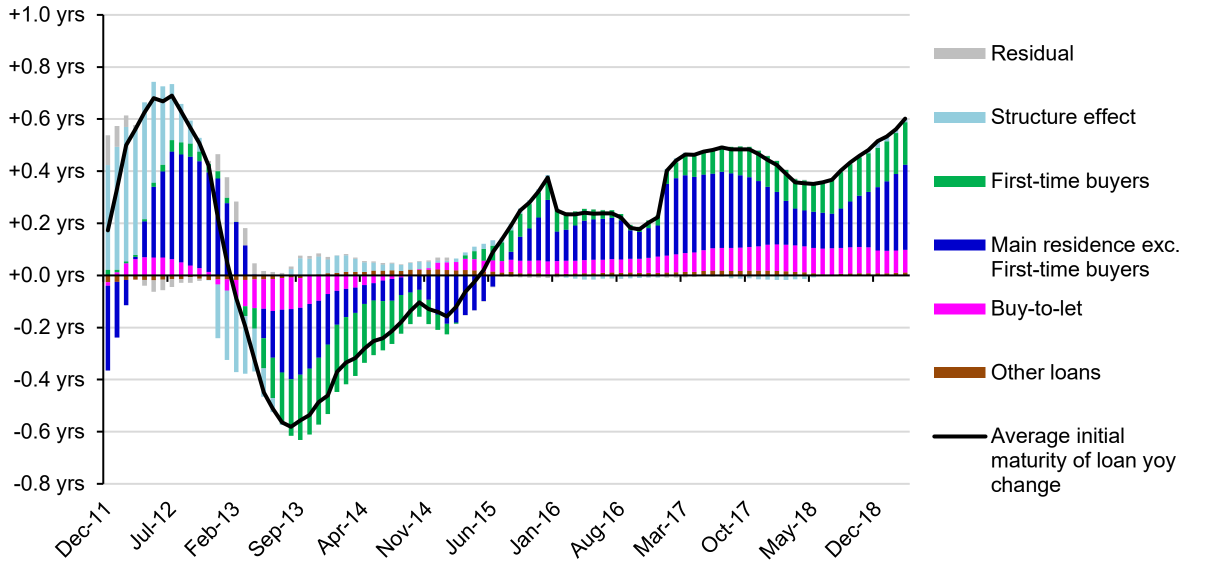
Chart 58 Contributions from the Île-de-France region and the Provinces to annual average loan developments



Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

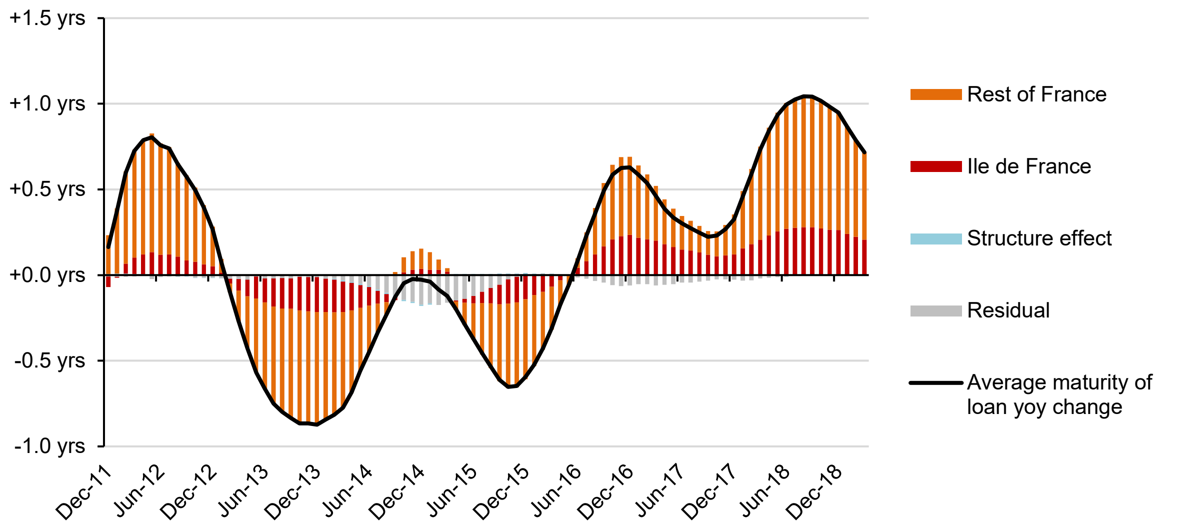
Initial maturity

Chart 59 Contributions of the various market segments to annual developments in the average initial maturity of loans



Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

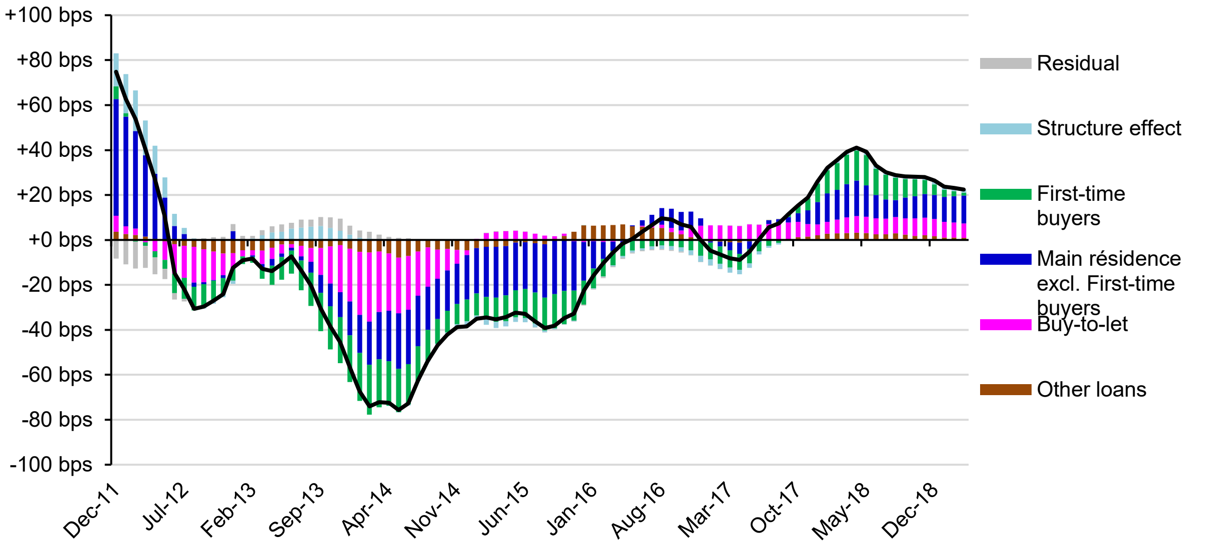
Chart 60 Contributions of the Île-de-France region and the Provinces to annual developments in the average initial maturity of loans



Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

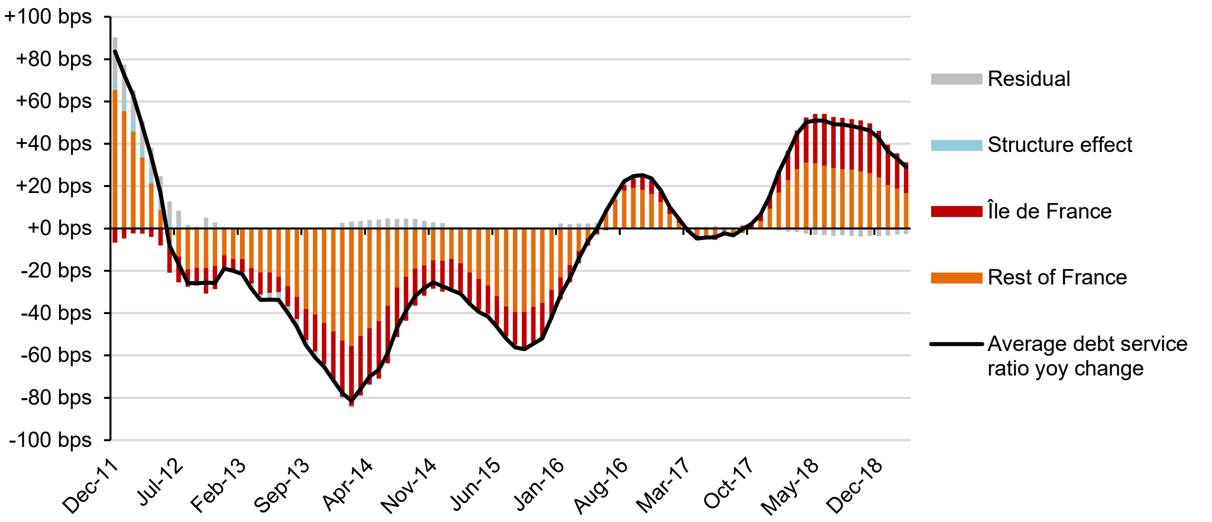
Debt service ratio (DSTI)

Chart 61 Contributions of the various market segments to the annual evolution in the average debt service ratio



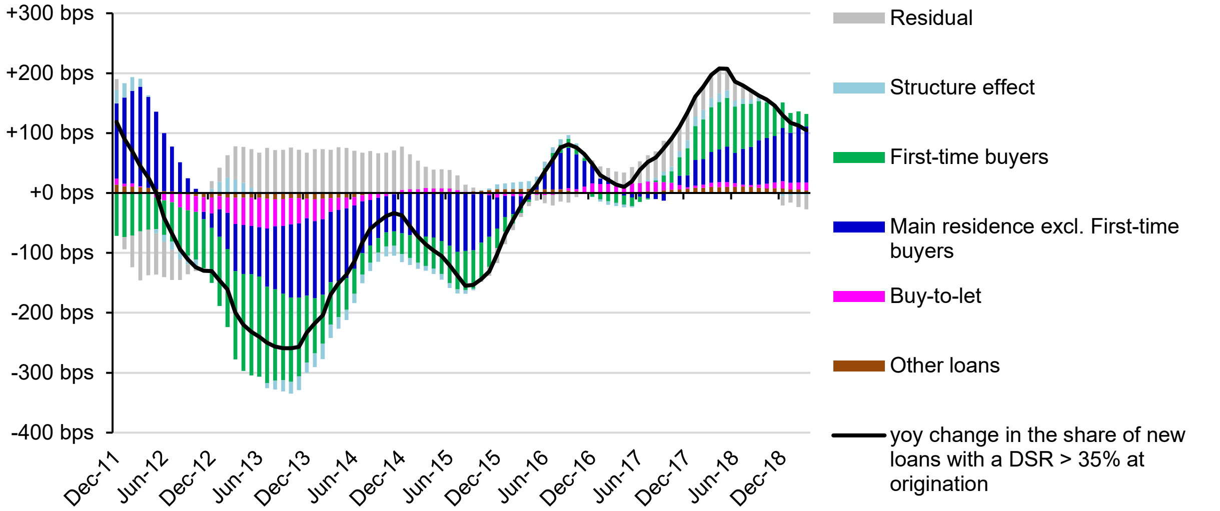
Source : ACPR, monthly monitoring of the production of housing loans ; last point : March 2019

Chart 62 Contributions of the Île-de-France region and the Provinces to annual developments in the average debt service ratio



Source : ACPR, monthly monitoring of the production of housing loans ; last point : March 2019

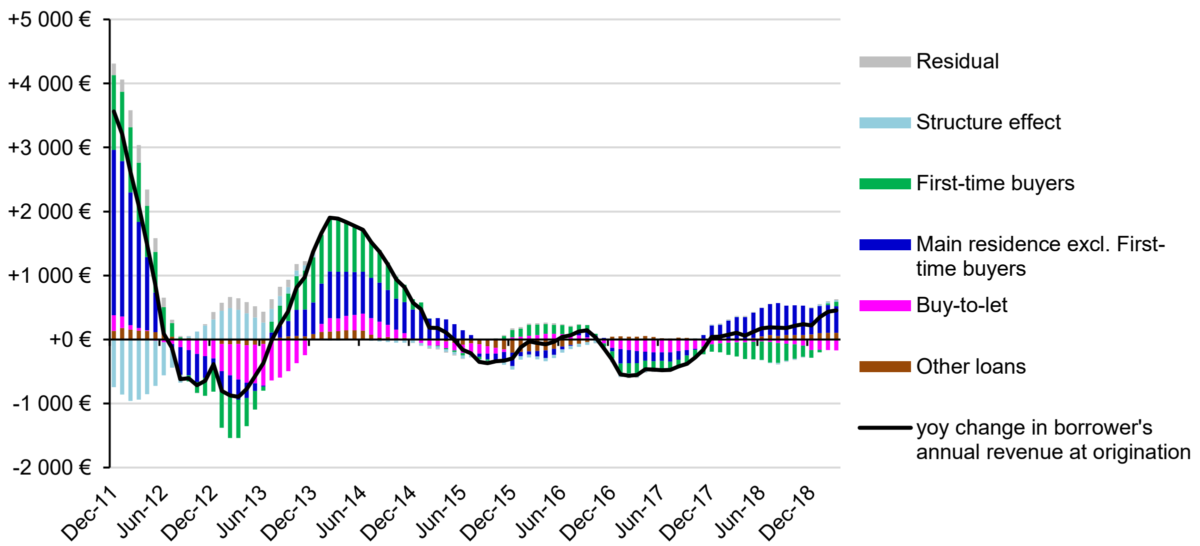
Chart 63 Contributions of the various market segments to the annual evolution of the share of loans with an debt service ratio above 35 %



Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

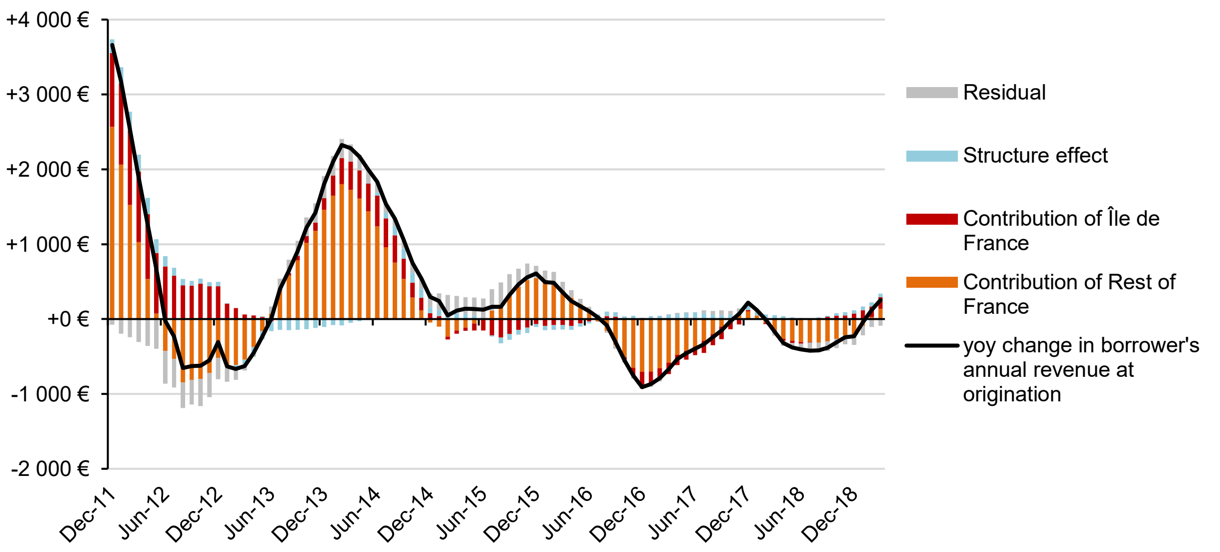
Average income

Chart 64 Contributions of the various market segments to annual developments in the average annual income of borrowers



Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

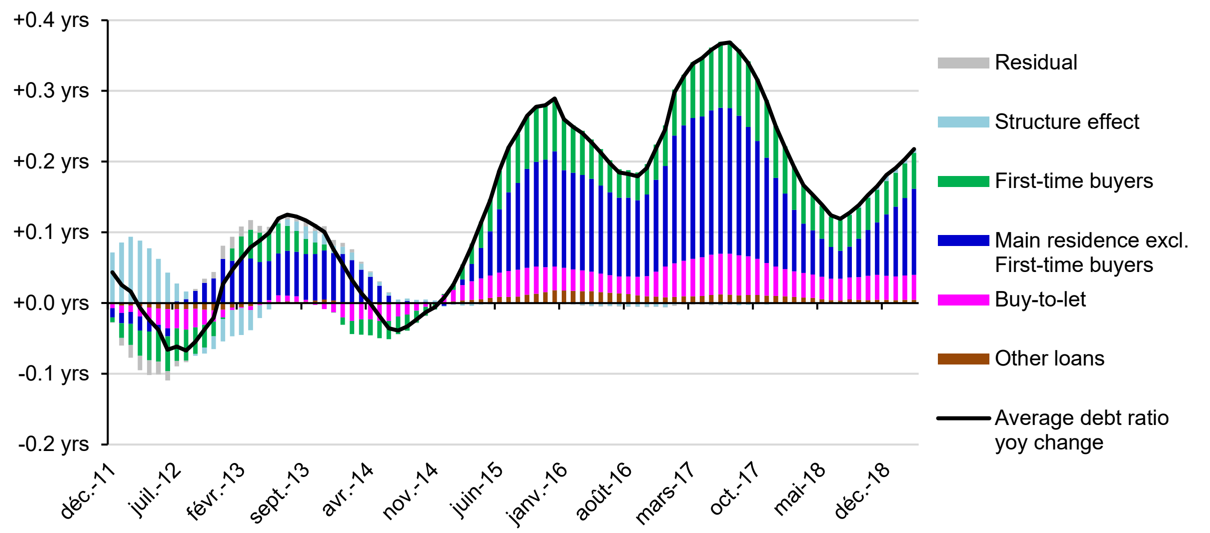
Chart 65 Contributions of the Ile-de-France region and the Provinces to the annual developments in the average annual income of borrowers



Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

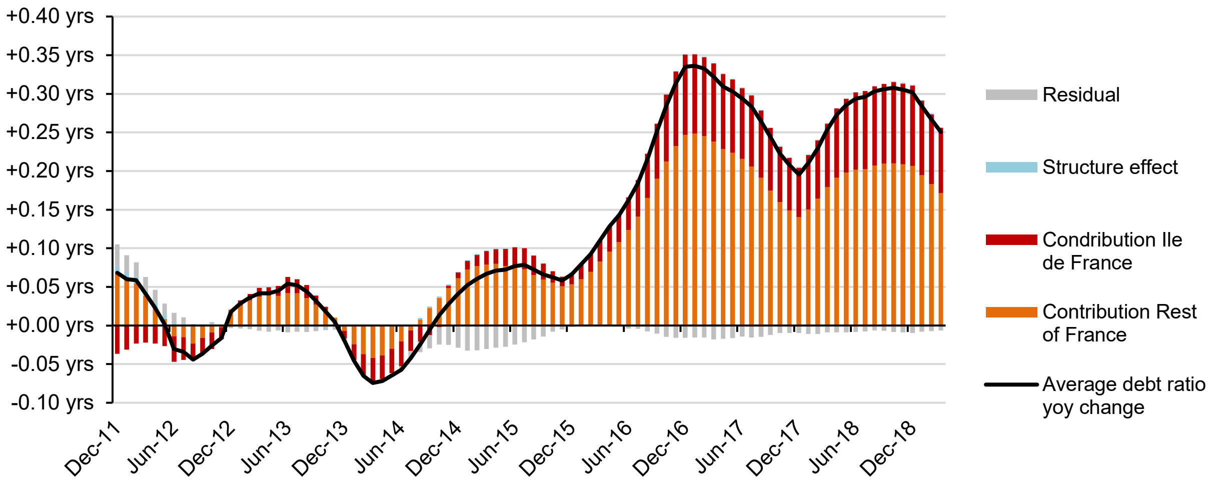
Debt ratio

Chart 66 Contributions of the various market segments to the evolution of the average debt ratio



Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

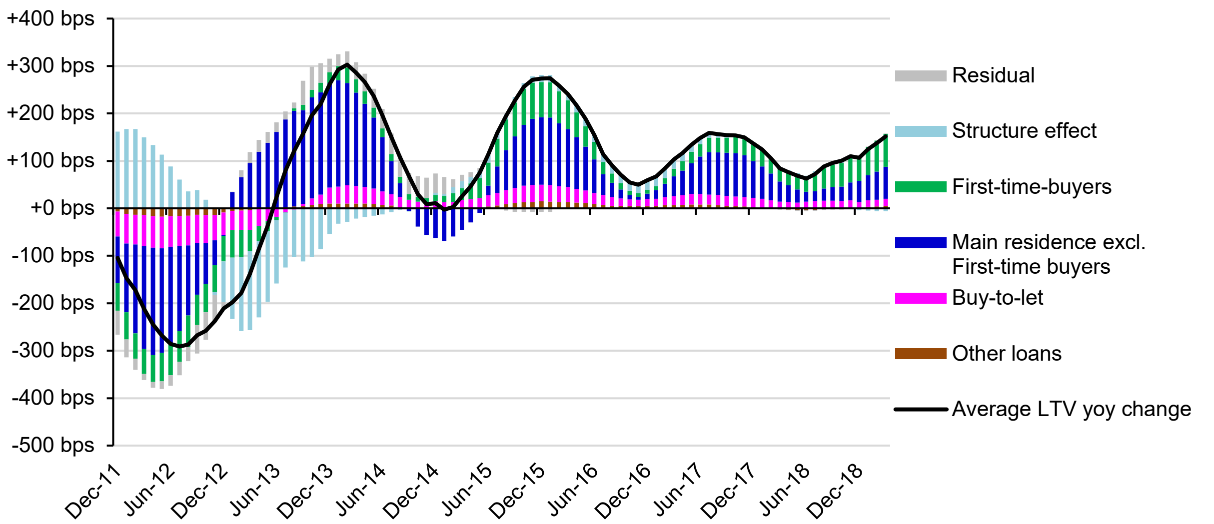
Chart 67 Contribution of the île-de-France region and the Provinces to the evolution of the average debt ratio



Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

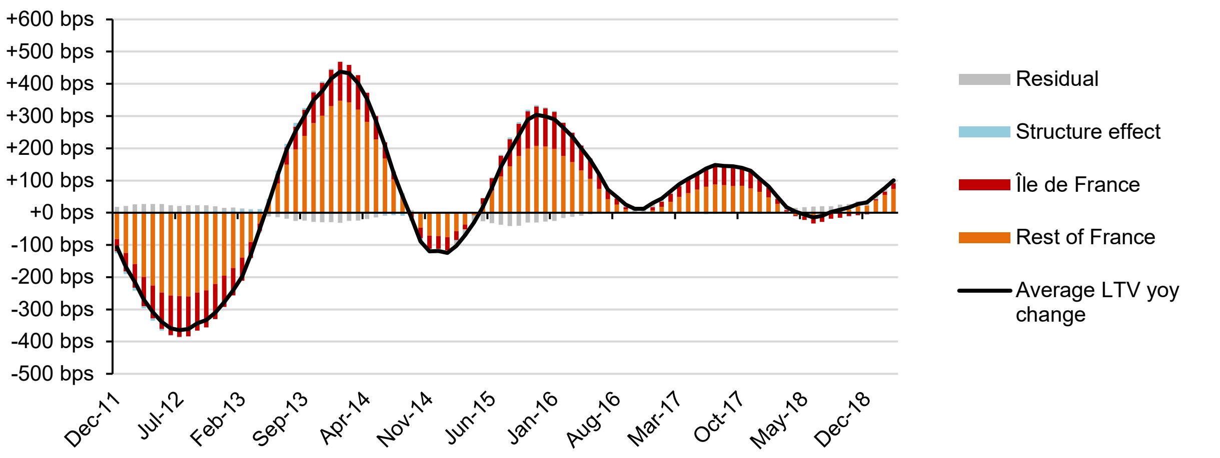
LTV

Chart 68 Contributions of the various segments to annual developments in the average LTV



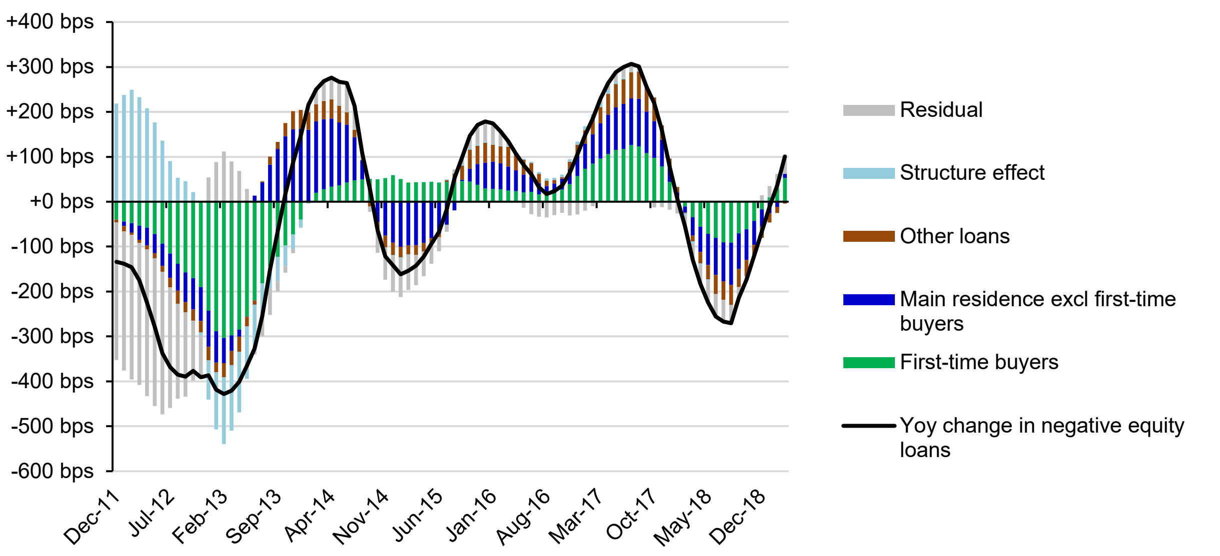
Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

Chart 69 Contributions of the Île-de-France region and the Provinces to annual developments in the average LTV



Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

Chart 70 Contributions of the various market segments to annual developments in over-leveraged transactions

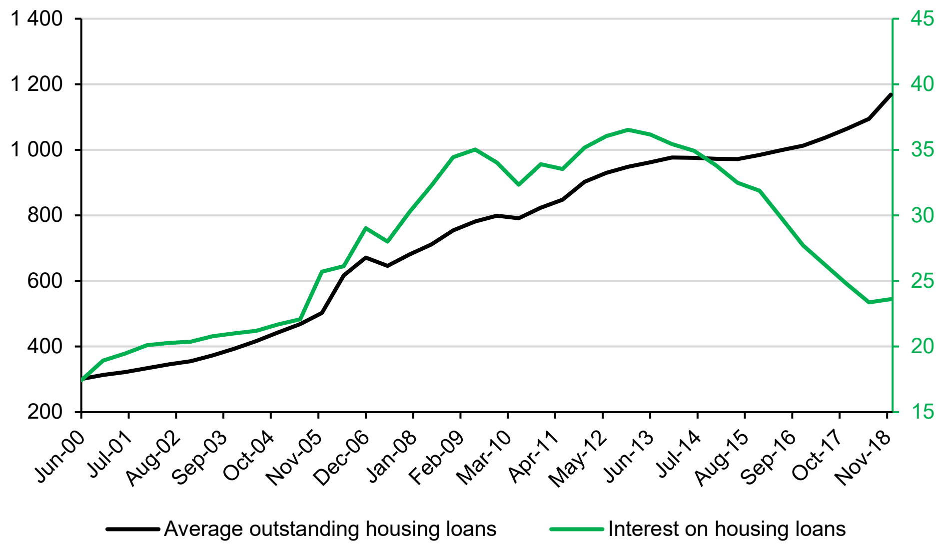


Source : ACPR, monthly monitoring of the production of housing loans ; average 12 month rolling data ; last point : March 2019

Annex 2 : margin changes on the outstanding amounts of housing loans

Although the outstanding amount of housing loans has been growing almost continuously since June 2000, the total amount of interest received by banks, which followed a similar trend or grew more rapidly since late 2012 (Chart 71).

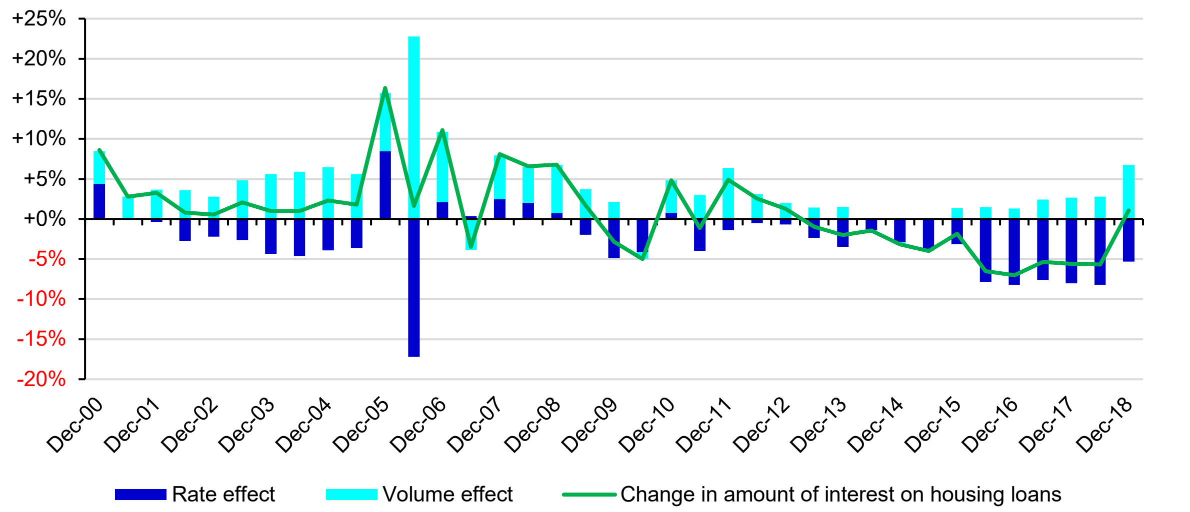
Chart 71 Evolution of outstanding housing loans and amount of interest received by banks



Source : BAFI and SURFI, together with French banks ; ACPR calculations

This decline in the amount of interest on housing loans reflects an insufficient production growth (volume) to curb the decline in the average interest rate of outstanding amounts (rate effect ; Chart 72); however, the second half of 2018 was an exception, as it saw a slight increase in interest rates.

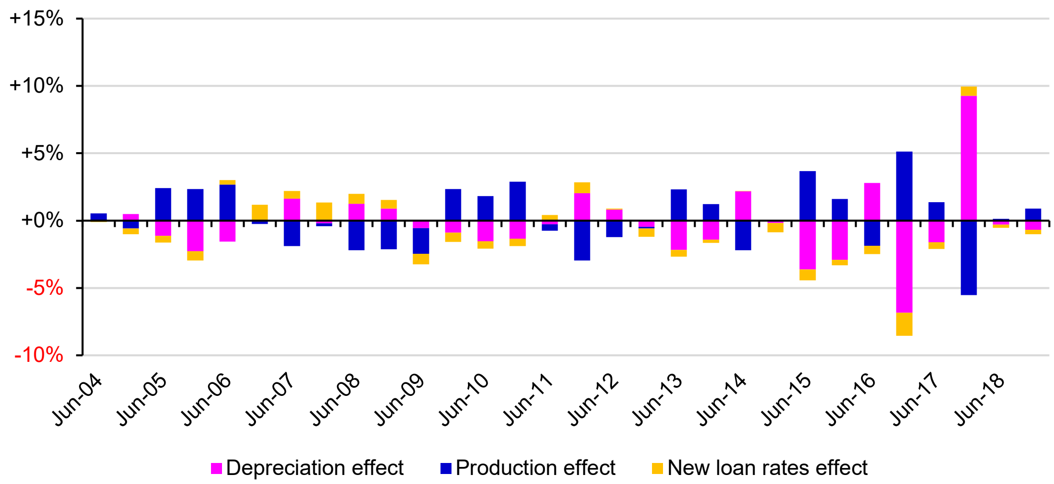
Chart 72 Factors underlying changes in the amount of bank interest on housing loans



Source : BAFI and SURFI, together with French banks ; ACPR calculations

Another point of interest is the analysis of the impact of depreciation, the production and new loan rates on the evolution of the amount of interest received by banks : especially the strong wave of loan transfers in the second half of 2016 which reduced their remuneration by almost 7 % (Chart 73).

Chart 73 Impact of depreciation, production and new loan rates on the amount of interest received by banks for housing loans



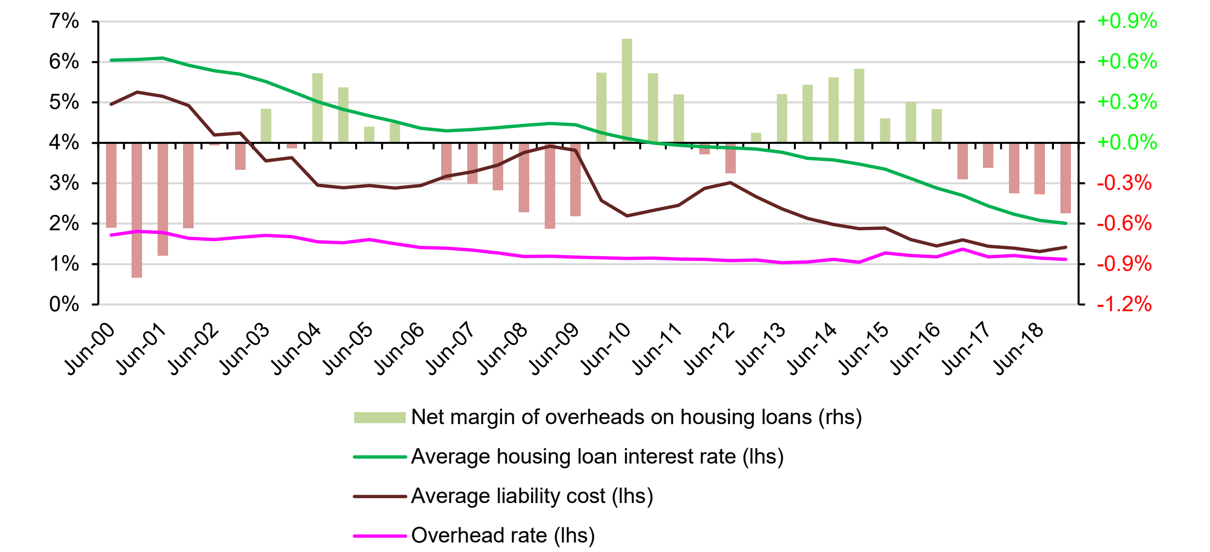
Source : BAFI and SURFI, together with French banks ; ACPR calculations

In this context, net margins on outstanding amounts of housing loans continued to deteriorate in 2018, reaching their lowest point since 2009 at -0.52 % (Chart 74).

As before, the decline in the average outstanding amount of housing loans continued to fuel the compression of margins.

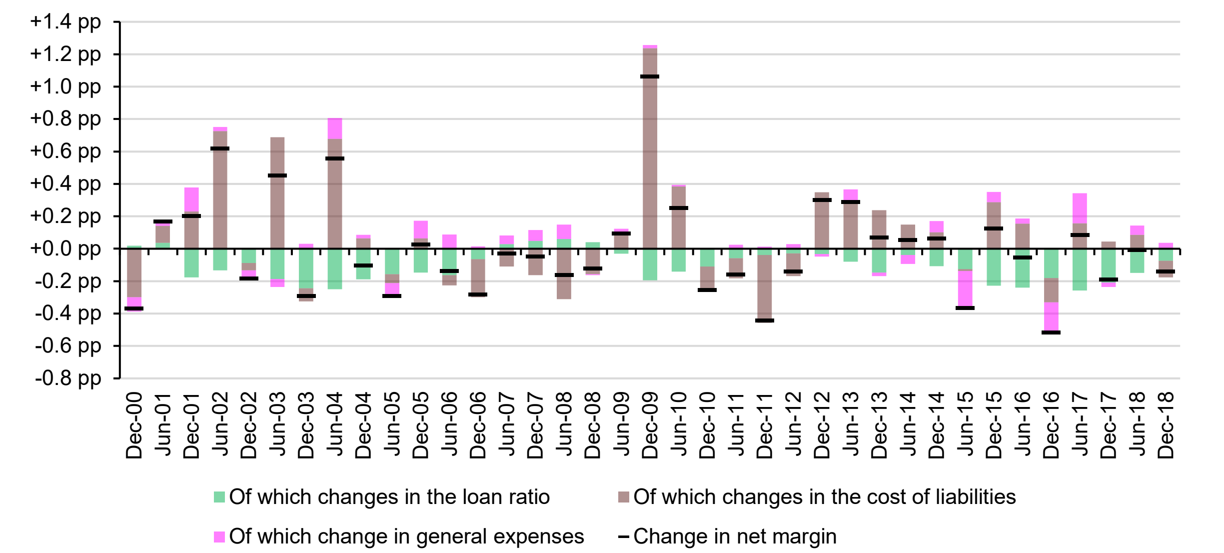
In the second half of 2018, this trend was amplified by an increasing financing cost (Chart 75). However, the decline in the average amount of outstanding amounts decelerated significantly in 2018 : at 22 bps, it was twice as low as the one observed a year earlier (-47 bps).

Chart 74 Variation in margins on outstanding housing loans



Source : BAFI and SURFI, together with French banks ; ACPR calculations

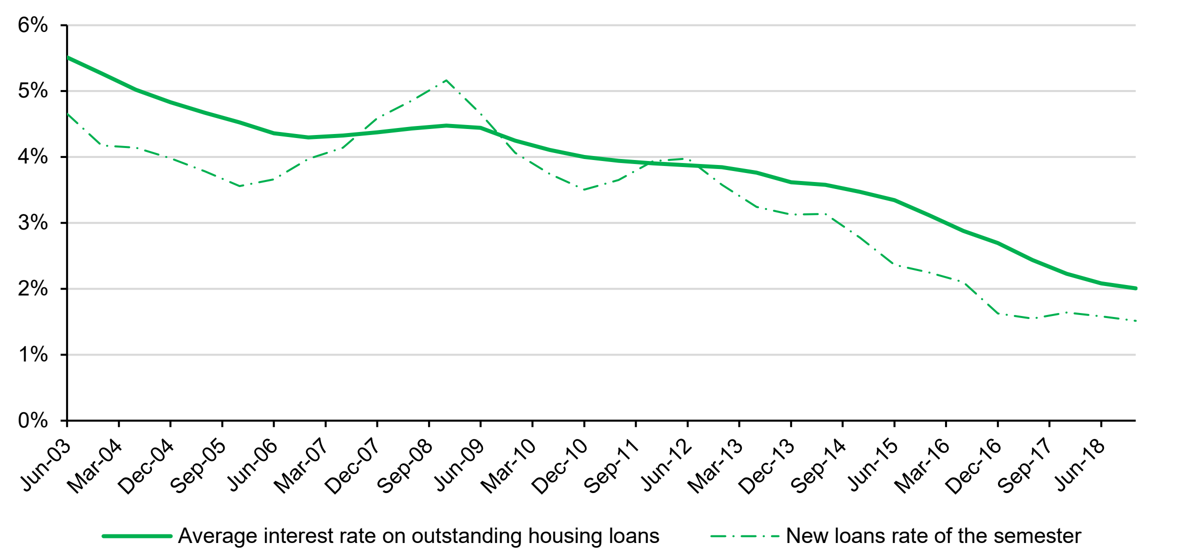
Chart 75 Factors underlying the evolution of margins for the outstanding amount of housing loans



Source : BAFI and SURFI, together with French banks ; ACPR calculations

The decline in the average rate of outstanding housing loans reflects new loan rates which remained below the return of the existing stock (Chart 76).

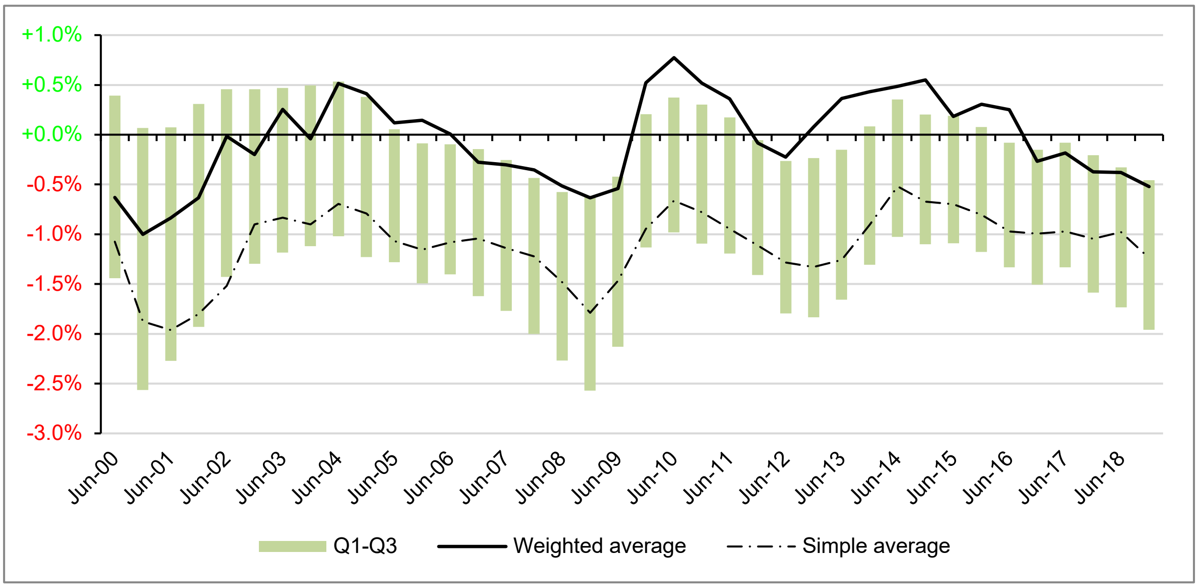
Chart 76 Average interest rate on housing loans and new loan rates



Source : BAFI and SURFI, together with French banks ; ACPR calculations

Individual margin rates continued to exhibit significant differences across institutions (Chart 77). The difference between the simple average and the weighted average shows, however, that the lowest margin rates primarily concern institutions with low outstanding amounts of credit.

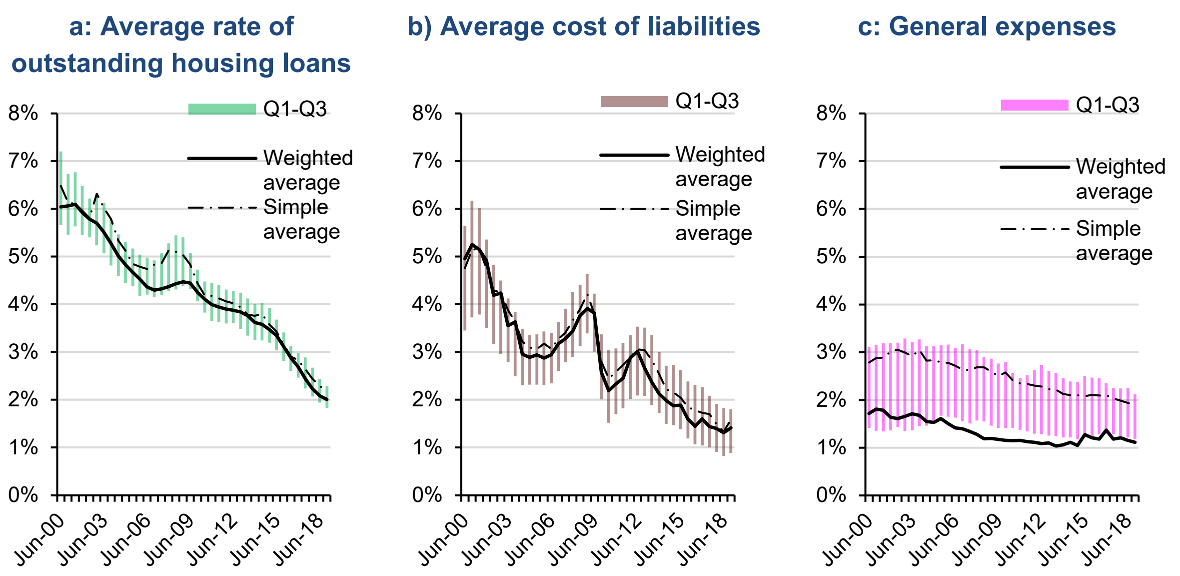
Chart 77 Margin rates on outstanding housing loans per institution



Source : BAFI and SURFI, together with French banks ; ACPR calculations

This variability arose from differences in both the average cost of liabilities and general overheads (Chart 78), while the average rates of outstanding housing loans appeared more homogeneous.

Chart 78 Distribution of margining components by institution



Source : BAFI and SURFI, together with French banks ; ACPR calculations

Glossary

Original maturity : for a particular year of production, the average of the original maturity, as laid down in the loan contracts, weighted by outstanding amounts.

***Loan to profit* or LTV :**

- At granting, LTV is the ratio between the principal loan amount and the purchase value of the house, excluding transfer and/or acquisition rights; it can also be defined as the difference between 1 and the borrower's contributed rate. Institutions shall inform the average LTV per transaction weighted by the amount of the home loans granted during the period.
- During the life of the loan, LTV is equal to the ratio of the outstanding capital to the market value of the funded property. The information has been collected since the recast of the annual housing financing survey in 2012.

Residual maturity : remaining term of a loan until maturity, in accordance with the terms of the contract.

Loan transfer : transaction at the end of which a bank repurchases the loan from a borrower of a competing bank; the redemptions of external credit leading to the issuance of new credit (by the bank that repurchases the loan). Loan transfers are taken into account in the (gross) production of housing loans measured by the ACPR; however, they have no impact on net output[16] to the extent that the amount of the new loan issued is immediately cancelled by the amount of the borrower's redemption at its home bank.

Renegotiation : transaction at the end of which the borrower obtains a change in the terms of the loan contract, change that may include the interest rate. Renegotiations, which do not result in the disbursement of a new credit, and should therefore not be reported by the banks in the context of the monthly monitoring of the production of housing loans by the ACPR, are counted in the production of housing loans as measured by the Banque de France insofar as they lead to the issuance of a new contract.

[16] For a given period, net output is defined as the difference between new business issued and contractual or anticipated recorded depreciation.

Average income of borrowers at granting : it is estimated (*proxy*) as follows :

- As a first step, for a given year or month, the amount of repayment annuities for a loan with an average amount, duration and interest rate is estimated; in 2018, for example, on the basis of a loan of EUR 172,187, with an original maturity of 19.9 years and at a (fixed) rate of 1,59 %, the annuities on this loan with the average characteristics amount to EUR 9,931 ;
- As a second step, the amount of this annuity is measured in relation to the average debt to service ratio in order to obtain an estimate of the average borrower income. In 2018, based on an average debt to service ratio of 30.1 %, an average income of EUR 32,964 was obtained.

This calculation may slightly reduce the average borrower income at granting, since the denominator (the average debt to service ratio) takes into account all the debts payable by the borrower while the numerator (annuity) only takes into account the borrower's real estate debt. In aggregate, however, housing loans to individuals distributed in France accounted for the vast majority of the stock of retail loans at the end of 2017 (see above).

Debt-to-service ratio at granting : it includes, for the numerator, all recurring expenses of borrowers (including repayments of all their loans) and, for the denominator, their total income.

Debt rate at granting : it is defined as the ratio between the average amount of the loan and the annual income of the borrower on the same date; it is also called loan to income (LTI) ratio. LTI thus represents the number of years of income needed to repay a mortgage loan.