ACPR
BANQUE DE FRANCE

Analyses et Syntheses

Housing finance in France in 2017

n°92 – July 2018

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Overview

Boosted by very low interest rates, despite a very slight rise during the year, activity in the residential real-estate market remained very dynamic in 2017, as shown by the 15% growth in existing home sales. In addition, prices for both new and existing properties remained on an upward trend, rising by 3.7% and 3.9% respectively, while the latter market segment recorded price increases of 8.6% and 4.9% in Paris and the Île-de-France region respectively.

Reflecting this favourable environment, annual new housing loans extended by French banks (EUR 272.1 billion in 2017) continued to grow at a sustained pace, especially in the first half of 2017, before declining in the second half. According to monthly monitoring data collected by the General Secretariat of the Autorité de contrôle prudentiel et de résolution (ACPR), new lending excluding loan transfers and renegotiations, increased by 21% in 2017. Unlike last year, however, the share of loan transfers gradually declined over the year, from a peak at 37% of new lending in January 2017 to 8% in December 2017. Continuing its trend of the second half of 2017, new residential lending slowed sharply at the start of 2018: as a result of the fall in loan transfers and renegotiations, the 12-month cumulated new lending was down by 36.5% in April.

In this context, the year-on-year growth rate of outstanding loans, which had reached 6.3% in October 2017,[1] also gradually slowed: at end-April 2018, it stood at only 5.5%.

As in previous years, banks' risk exposure on housing loans in France remained contained:

- Due to the continuing fall in interest rates, fixed-rate loans accounted for almost all new lending (98.7%) and an ever-increasing share of outstanding loans (up 2.7 percentage points (pts) to 93.4%); a rise in interest rates would therefore have a very limited impact on borrowers' credit risk;
- Banks still appear relatively well-shielded against a price shock, even though the loan-to-value (LTV) ratio for outstanding loans deteriorated slightly by 0.3 pp to 72.3%;
- The vast majority of outstanding loans are secured (96.8%), by guarantees that protect the banks, such as sureties;
- Lastly, the ratio of non-performing loans fell for the second time since the financial crisis, down 6 basis points (bps) to 1.43%; in addition, the cost of risk as a ratio of outstanding loans decreased for the third consecutive year, by 1.4 bps to 4.3 bps.

However, several developments call for continued vigilance:

- Despite the stabilisation of loan rates, even at very low levels, the effect of the rise in prices and resulting tensions on households' purchasing power could no longer be offset. Even though borrower solvency remains the main criterion of analysis, rather than the value of assets financed, certain lending standards applied by French banks continued to deteriorate in 2017: the average loan amount (up 4.9 % to EUR 161.4 thousand) and the debt ratio (up 2.2 months to 4.9 years) thus reached record highs; the initial loan maturity, which increased by 4 months to 19 years, and the debt service ratio, which rose slightly by 0.2 pp to 29.7%, were still below their respective highs recorded in 2008 (20 years) and 2009 (31.6%);
- Despite the stabilisation of the average liability cost and the overhead rate, the net margin ratio, as measured by the ACPR, continued to deteriorate in 2017

[1] Compared to the October 2016 outstanding.

due to the continued rapid decline in the average interest rate on outstanding housing loans; this decrease in the profitability of housing loans is particularly problematic as it is no longer, since the start of 2018, offset by the large volumes of loan transfers and renegotiation fees that banks had benefited from in 2017. In addition, the availability of the income derived from borrower insurance, generally obtained from the lending bank when setting up the loan, could be threatened by the adoption of the Bourquin amendment, which now makes it possible to change contract every year.

Keywords: housing loans to individuals, average loan amount, average maturity, loan-to-value ratio, debt service ratio, non-performing loans and provisions, cost of risk.

JEL codes: G21, R21, R31

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Preliminary comments

This study is based on the information gathered through the 2017 annual survey on housing finance conducted by the General Secretariat of the ACPR as well as on the ACPR's monthly monitoring of new housing loans to individuals, which was set up in September 2011 and covers a sample of representative banks.[2]

The study also draws on additional external sources of information (Banque de France, INSEE and the CGEDD (French sustainable development council), etc.), as well as data published by the European Banking Authority (EBA) as part of its annual EU-wide transparency exercise,3 which allowed us to make certain international comparisons.

As in 2016, the SGACPR contacted the main housing loan guarantors – Crédit Logement, Caisse d'Assurances Mutuelles du Crédit Agricole (CAMCA; Crédit Agricole Group), Compagnie Européenne de Garanties et Cautions (CEGC; BPCE Group), Parnasse Garanties (BPCE Group) and CM-CIC Caution Habitat (Crédit Mutuel Group) – as well as Société de Gestion des Financements et de la Garantie de l'Accession Sociale à la Propriété (SGFGAS) to obtain detailed information about the amount of State-guaranteed loans.

As happens every year, several banks were able to send additional or corrected information for previous years along with their responses to the 2017 survey, which has helped to make a number of indicators more representative and to correct misreported information. As a result, some figures in the present study may differ from those published in the previous report.

[2] BNP Paribas, BNP Paribas Personal Finance, Société Générale, Crédit du Nord, the Caisses Régionales de Crédit Agricole, LCL, the Caisses d'Épargne network, the Banques Populaires network, Crédit Foncier de France, Crédit Mutuel, CIC, Crédit Immobilier de France, HSBC France and La Banque Postale. These banks represented 97.2% of outstanding housing loans to individuals at 31 December 2016.

[3] See http://www.eba.europa.eu/risk-analysis-and-data/eu-wide-transparency-exercise/2017/results for the 2017 results.

1. The housing loan market

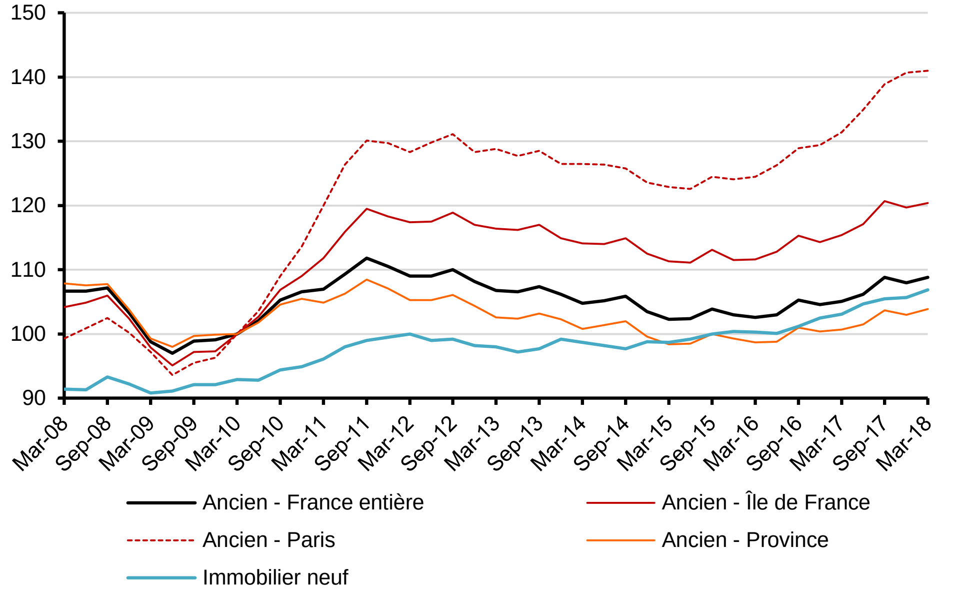
1.1. Prices and sales picked up

Activity in the residential real estate market, encouraged by interest rates that remained at very low levels (See Chart 3 below), was extremely buoyant in 2017, both in terms of prices and sales volumes.

The rise in new housing prices, which has been observed since mid-2014, continued during the year (up 3.7% in 2017) while the upward trend in existing home prices, which started in 2016, steepened (up 3.9% in 2017). Nevertheless, trends differ from region to region: while the prices of existing homes climbed by 3.9% on average for France as a whole in 2017, they rose by 8.6% in Paris and 4.9% in Île-de-France, exceeding their historical peaks, but by 3.5% in the rest of France, where they remained below their peak of September 2011 (Chart 1).

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

Chart 1
Residential property prices



Source: INSEE index; most recent value : Q1 2018

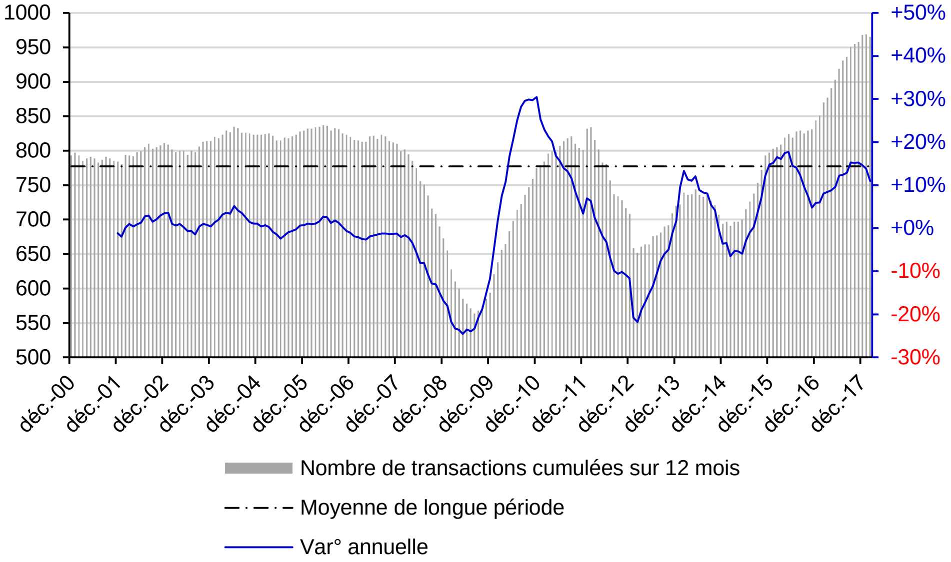
Existing homes – France; Existing homes – Paris; New homes – France; Existing homes – Ile-de-France; Existing homes – rest of France

At the same time, the number of transactions increased by 15% year-on-year to reach a historical peak of 968,000 sales in 2017, well above the long-term average of 775,000 sales (Chart 2).

Transactions cumulated over 12 months; Long-term average; year-on-year, in %

[4] https://www.lobservatoirecreditlogement.fr/uploads/obs_publications/1087093209-TDB_avril_2018_Observ_Credit_Logement_CSA.pdf

Chart 2
Sales in the existing homes segment in thousands of units (12 month cumulative amount)

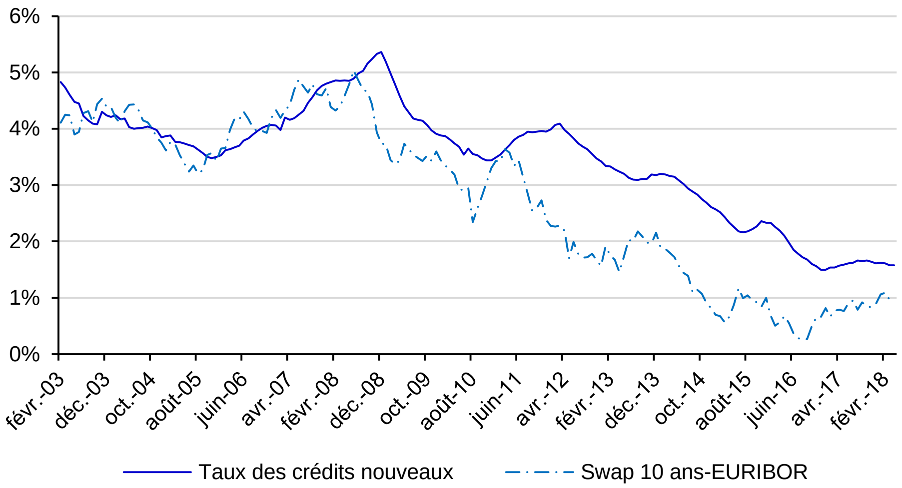


Source: CGEDD based on figures from the French Public Finance Ministry (MEDOC) and notaries' databases; most recent value: February 2018

1.2. Lending was buoyed by low interest rates, but new loans have been declining rapidly since early 2018

Interest rates on housing loans remained very low. Nevertheless, they picked up very slightly from 1.50% at end-2016 to 1.61% at end-2017 (up by 11 bps) driven by the rise in long-term rates (Chart 3). After peaking at 1.66% in October, however, housing loan rates dropped to 1.58% in April 2018.

Chart 3
Interest rates on new housing loans

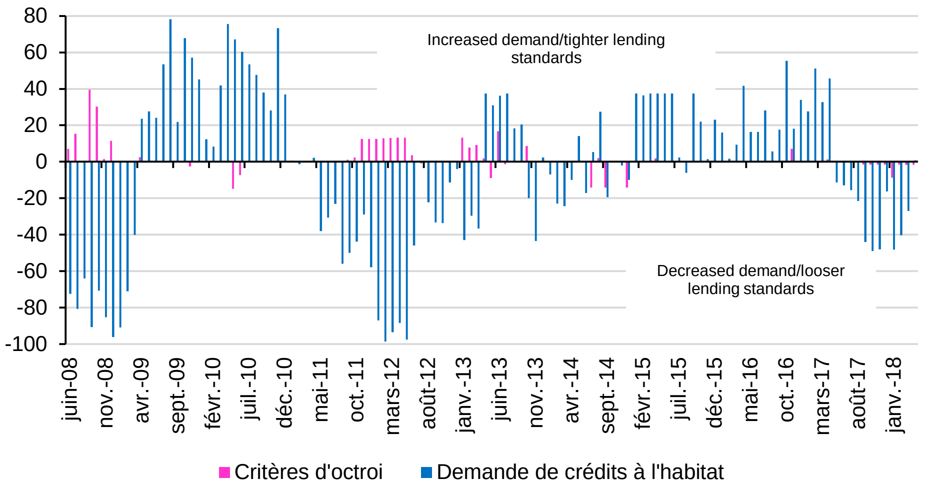


Source: Banque de France; most recent value: April 2018

Rate on new loans ; 10-year Euribor swap rate

The slight rise in interest rates in 2017 was accompanied by a dip in credit demand, which began declining in May, while banks report having started to slightly ease their lending standards from September (Chart 4).

Chart 4
Lending standards and demand for housing loans

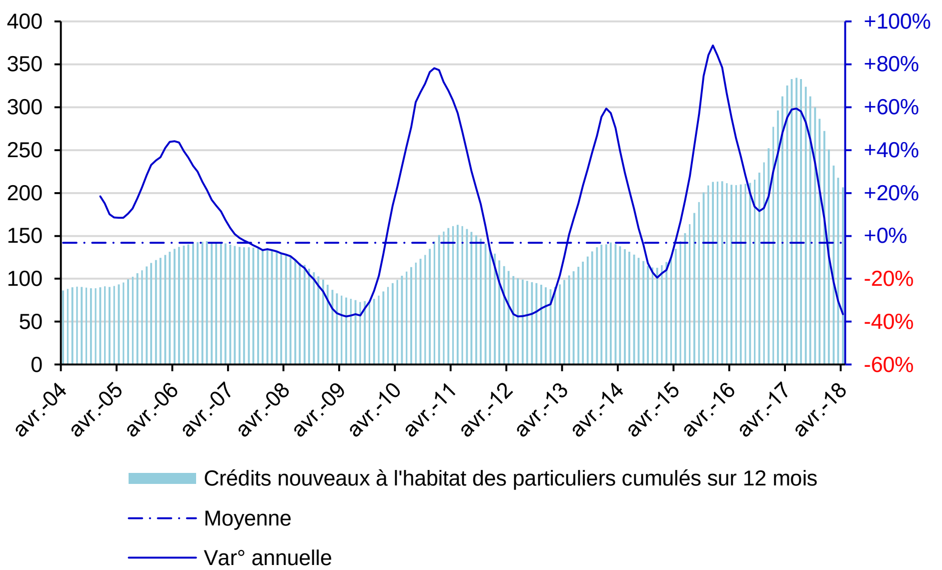


Source: Banque de France, monthly survey of bank lending in France; most recent value: April 2018

Lending standards; housing loan demand

In this context, new housing loans showed contrasting trends in 2017 (Chart 5). In the first half, they reached unprecedented levels and peaked at over EUR 334 billion over a rolling 12 month period in June 2017, corresponding to an annual increase of 59%. However, new lending slowed in the second half of 2017 to stand at EUR 272.1 billion in December before declining rapidly in 2018. In April, it was down by 36.5% year-on-year, its sharpest drop since June 2012.

Chart 5
New housing loans in EUR billions



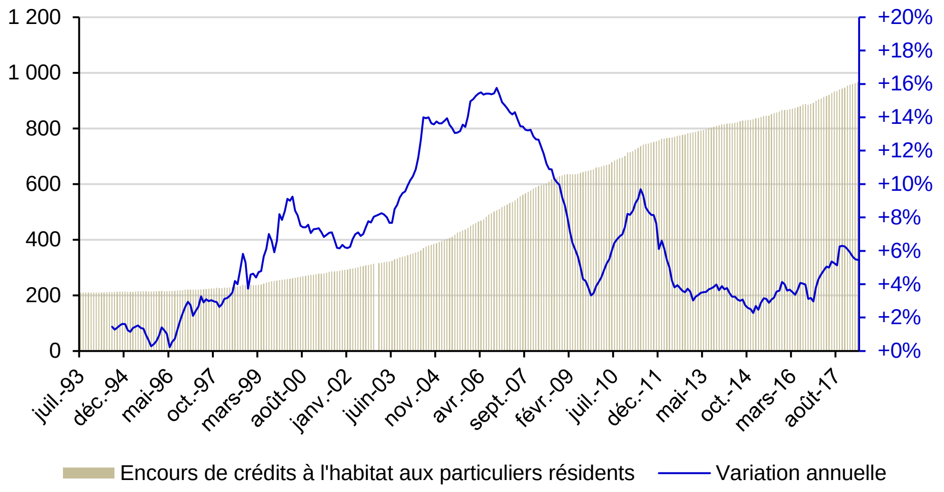
Source: Banque de France; New housing loans to individuals,seasonally-adjusted,12 month cumulative amount; most recent value: April 2018

New housing loans cumulated over 12 months; average; year-on-year variation

The rise in new lending affected trends in outstanding housing loans: in 2017, outstanding loans grew by 6%, compared to 4% in 2016 (Chart 6). However, growth in outstanding loans began to slow in 2018 (up 5.4% year-on-year in April).

Outstanding housing loans; year-on-year variation

Chart 6
Outstanding housing loans to individuals in EUR billions



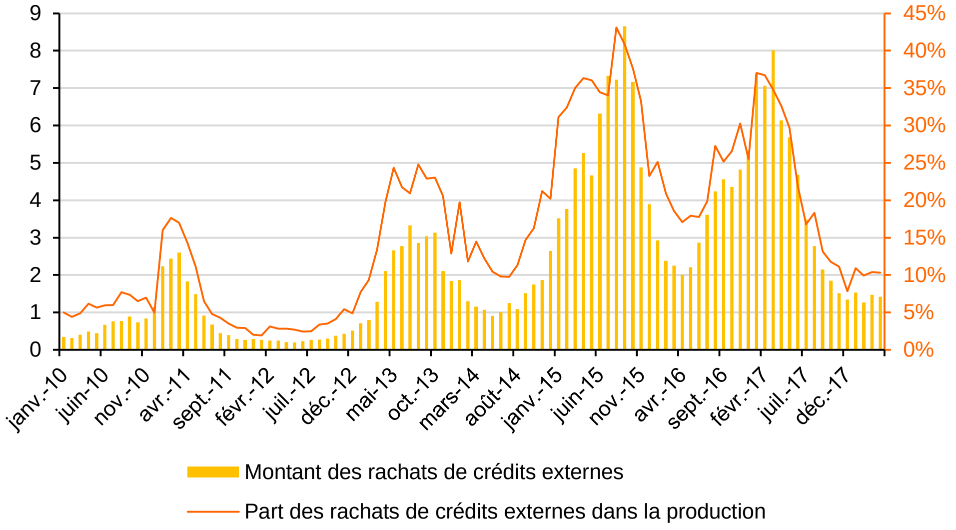
Source: Banque de France, housing loans to French-resident individuals (including securitised loans); most recent value: April 2018

1.3. Loan transfers declined sharply

After picking up significantly in mid-2016, loan transfers slowed from early 2017, sliding from 37% of new lending in January 2017 to 8% in December 2017, then rose slightly to 10% in April 2018 (Chart 7).

In addition, according to Banque de France statistics, loan transfers and renegotiations accounted for 39.6% of new lending in 2017, down on their 2016 level (45.6%). Moreover, in the first quarter of 2018, loan transfers and renegotiations of housing loans reached EUR 9.2 billion, compared with EUR 59.5 billion a year earlier (down 84.5%).

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



Source: ACPR, annual survey and monthly monitoring of new housing loans; most recent value: april 2018

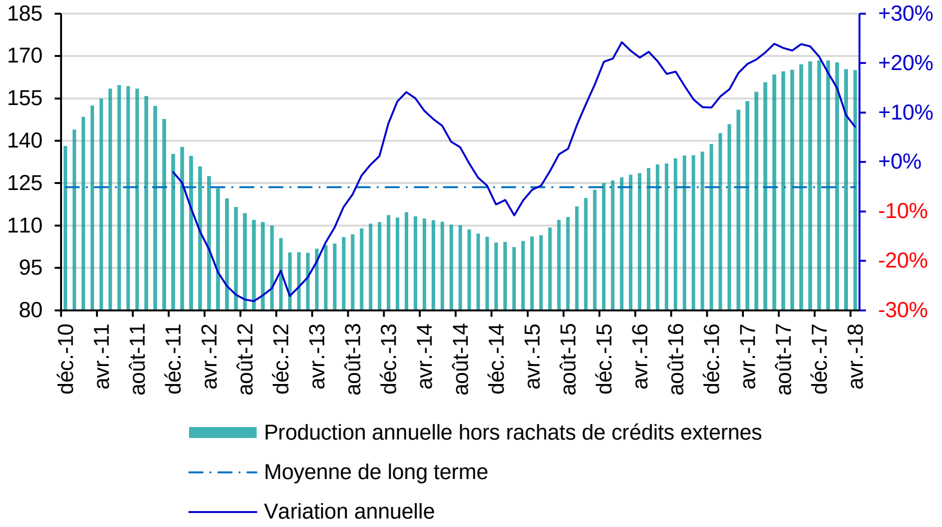
Loan transfers; share of loan transfers in new lending

This drop in loan transfers and renegotiations had a direct impact on the profitability of the banks concerned, which recorded a sharp decrease in their loan transfers and renegotiation fees in the first quarter of 2018 compared to the same period of 2017.

1.4. New lending excluding loan transfers reached high levels but its grow slowed in October 2017

New housing loans excluding loan transfers increased over a rolling 12 month period to reach EUR 168 billion in December 2017, before dipping slightly in 2018 (EUR 165 billion in April 2018) (Chart 8).

Chart 8
New housing loans excluding loan transfers

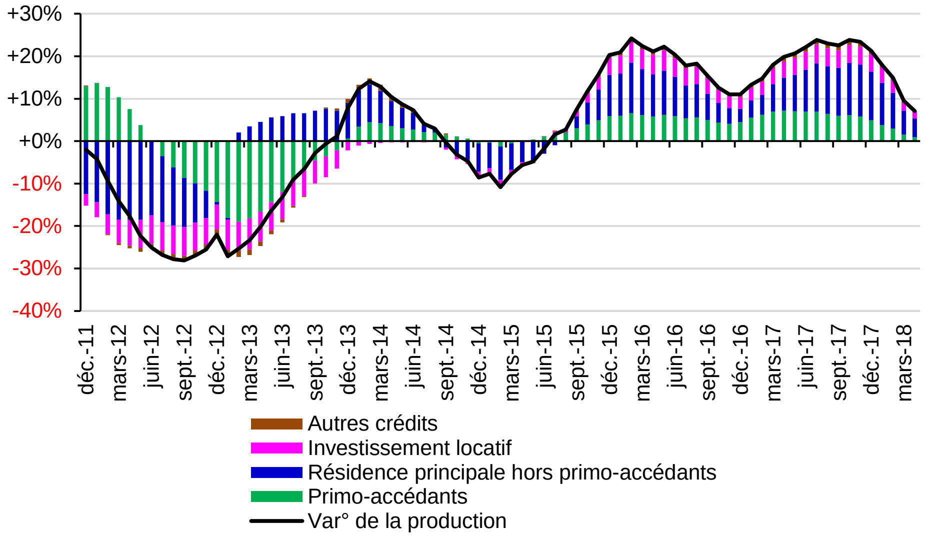


Source: ACPR, monthly monitoring of new housing loans, 12 month cumulative amount; most recent value: April 2018

Annual new housing loans excluding loan transfers; long-term average; year-on-year variation

The slower growth of new housing loans since end-2017 reflects primarily that of new loans granted to first-time buyers, which were up by 22% over a cumulative 12 month period in October 2017 compared to 3.4% in April 2018. Their contribution to the increase in new lending thus fell from 4.7 pp to 1.1 pp (Chart 9). The growth of new loans in the other segments also slowed down, albeit to a lesser extent: between October 2017 and April 2018, it slid from 24.1% to 8.7% for owner-buyers (its contribution was down from 9.5 pp to 3.2 pp), from 27.8% to 11.5% for the buy-to-let segment (its contribution falling from 3.3 pp to 1.3 pp) and from 20% to -0.2% for other loans (a contribution down from 0.9 pp to 0 pp).

Chart 9
Contribution of the different segments to new housing loans excluding loan transfers

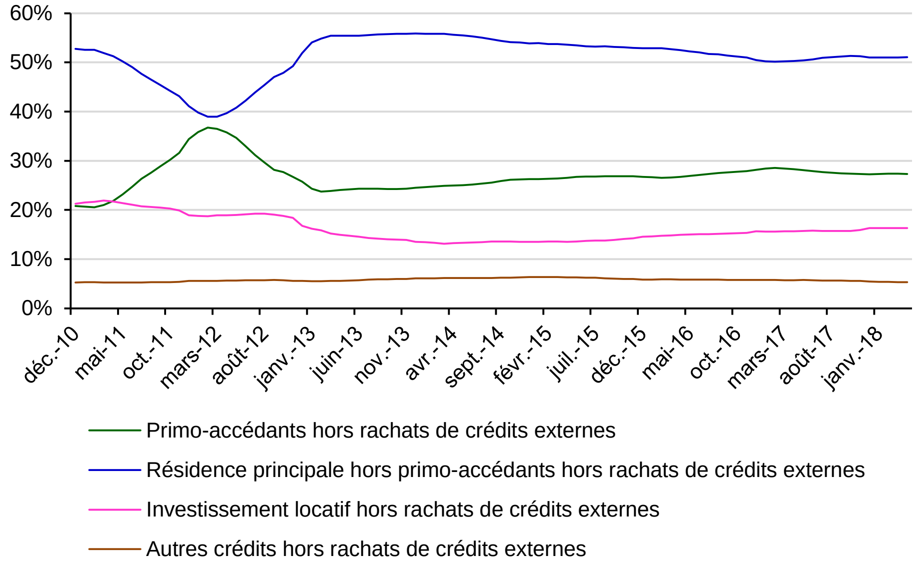


Source: ACPR, monthly monitoring of new housing loans, 12 month cumulative amount; most recent value: April 2018

Other loans; buy-to-let; main residence excl. first-time buyers; first-time buyers; variation in new loans

In this context, the structure of new housing loans excluding loan transfers remained relatively stable in 2017 (Chart 10), as owner-buyers still account for the largest share of new loans. For the first time since 2013, this share rose, climbing from 50.1% in February 2017 to 51% in April 2018, while the share of first-time buyers declined, dipping from 28.5% to 27.3% over the same period. The share of buy-to-let investments continued its steady increase, which began at the end of Q1 2014, inching up from 15.7% in April 2017 to 16.3% in April 2018; however, it was still below its peak of 2010 (18.9%).

Chart 10
Structure of new housing loans excluding loan transfers



Source: ACPR, monthly monitoring of new housing loans ; 12 month moving averages; most recent value: April 2018

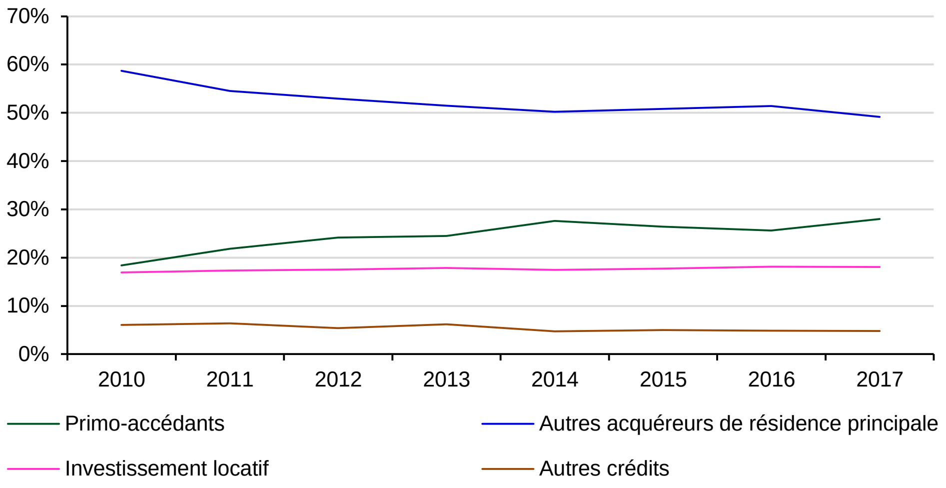
First-time buyers excl. loan transfers; owner-buyers excl. loan transfers; buy-to-let excl. loan transfers; other loans excl. loan transfers

In addition, the Ile-de-France region and the rest of France continued to display relatively similar trends: after peaking in October 2017 (up by 31.3% and 28.7% over a cumulative 12 month period, including loan transfers), both regions posted a sharp decline, falling by 8.5% and 9.8% respectively, in April 2018.

The structure of outstanding loans excluding loan transfers exhibited somewhat different changes from those of new lending: the share of owner-buyers was still the largest, but dipped slightly from 51.4% to 49.2%; conversely, that of first-time buyers rose from 25.6% to 28%. The buy-to-let segment was stable at 18.1% (Chart 11).

First-time buyers; Owner-buyers; Buy-to-let; Other loans

Chart 11
Breakdown of outstanding housing loans to individuals excluding loan transfers, by market segment

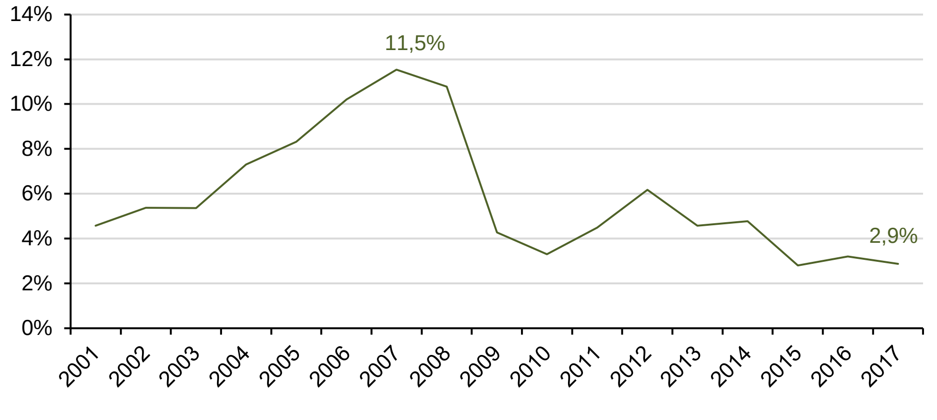


Source: ACPR, annual survey of housing finance

1.5. The share of bridge loans in new lending was still small

The share of bridge loans in new lending remained very low at 2.9%, a level four times lower than that observed in 2007 (Chart 12). Unlike principal loans and loans for renovation work, whose growth rate recorded a sharp decline between October 2017 and April 2018 (falling from 28.4% and 30% to -10.1% and -3.2% respectively, over a cumulative 12 month period), that of bridge loans has remained relatively high since Q4 2016, posting an average increase of 8.4% per year over the period and 9.6% in April 2018.

Chart 12
Share of bridge loans in new housing loans

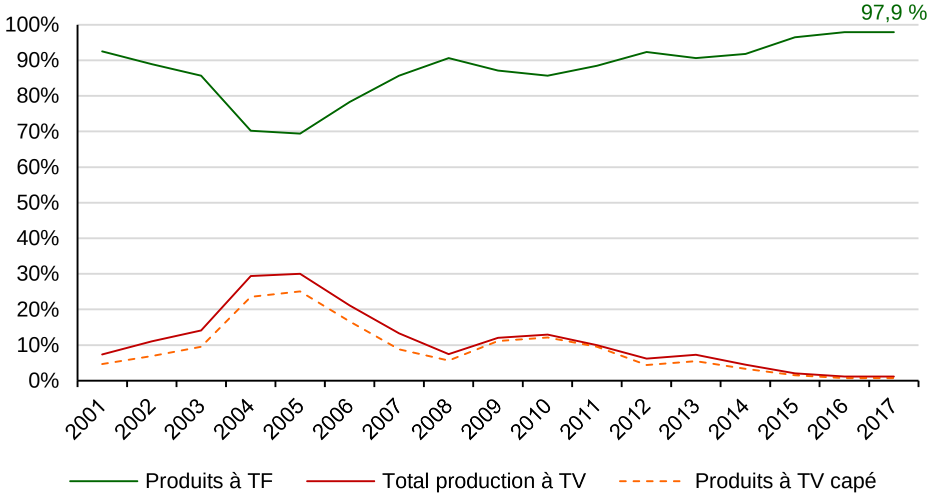


Source: ACPR, annual survey of housing finance and monthly monitoring of new housing loans; 12 month moving averages

1.6. Fixed rate loans took the lion's share of new housing loans

Fixed-rate loans accounted for the lion's share of new housing loans (97.9%), a stable percentage compared to 2016 (Chart 13). The share of floating-rate loans in new lending continued to decline, accounting for a very small share of approved loans: since 2005, it has shrunk from 30% to 0.6%. As in previous years, capped-rate loans (i.e. floating-rate loans that are capped to protect from significant interest rate hikes) continued to predominate, with a 72% share of new housing loans.

Chart 13
Structure of new lending by interest rate type

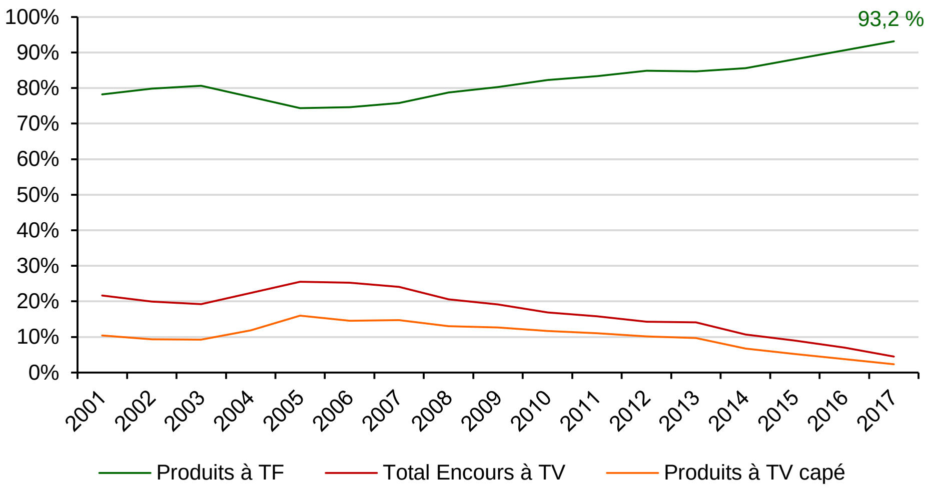


Source: ACPR, annual survey of housing finance

Fixed-rate; Total floating rate; capped floating rate

The structure of outstanding loans by interest rate type followed a similar trend to that of new loans (Chart 14): fixed-rate loans took the lion's share of outstanding loans (93.2% in 2017, against 90.6% in 2016). Floating-rate loans declined from 7% to 4.5% of outstanding loans while other loans dipped slightly, slipping from 2.3% to 2.1%. The latter mainly comprise loans that bear interest at a fixed rate for a given period before converting to a floating rate and bullet loans.

Chart 14
Structure of outstanding loans by interest rate type

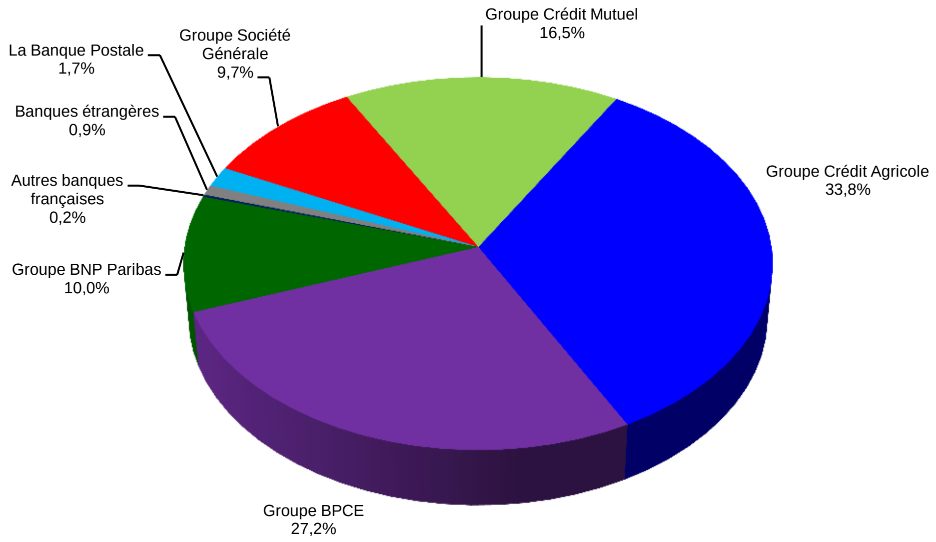


Source: ACPR, annual survey of housing finance

1.7. A market dominated by mutual banking groups

French banks accounted for almost all outstanding housing loans granted in France and the three mutual groups held a largely dominant position with more than three-quarters of the market (Chart 15).

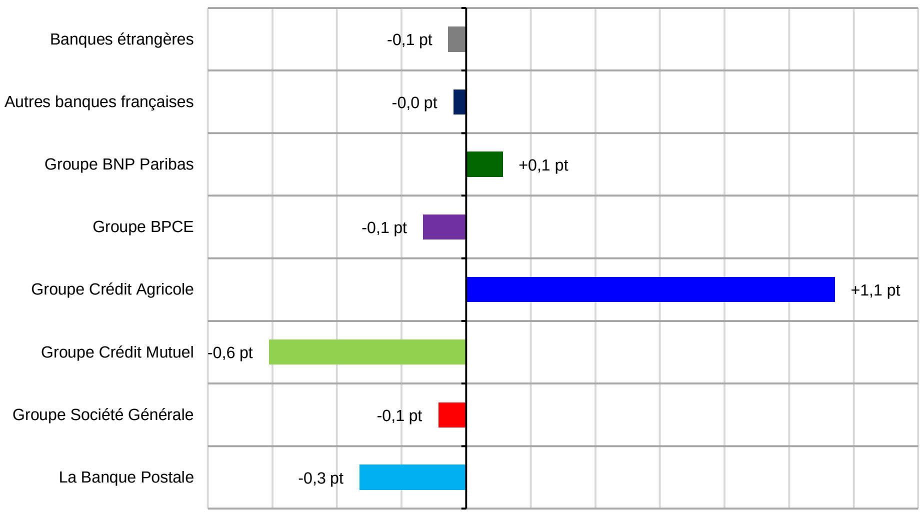
Chart 15
Market share of the different groups at 30 June 2017



Source: EBA, Transparency exercise *(exposures to retail customers excluding SMEs secured by property treated using the standardised and advanced approaches);ACPR calculations for all banks having reported French exposures*

The data published by the EBA also show that the Crédit Agricole group increased its market share over the last 3 years (up by 1.1 pp), to the detriment of the Crédit Mutuel group (down by 0.6 pp) and Banque Postale (down by 0.3 pt); apart from BNPP, whose market share increased slightly (up by 0.1 pp), other banking groups, both French and foreign, saw their market share decline over the same period (Chart 16).

Chart 16
Market shares of the different groups between 31 December 2014 and 30 June 2017

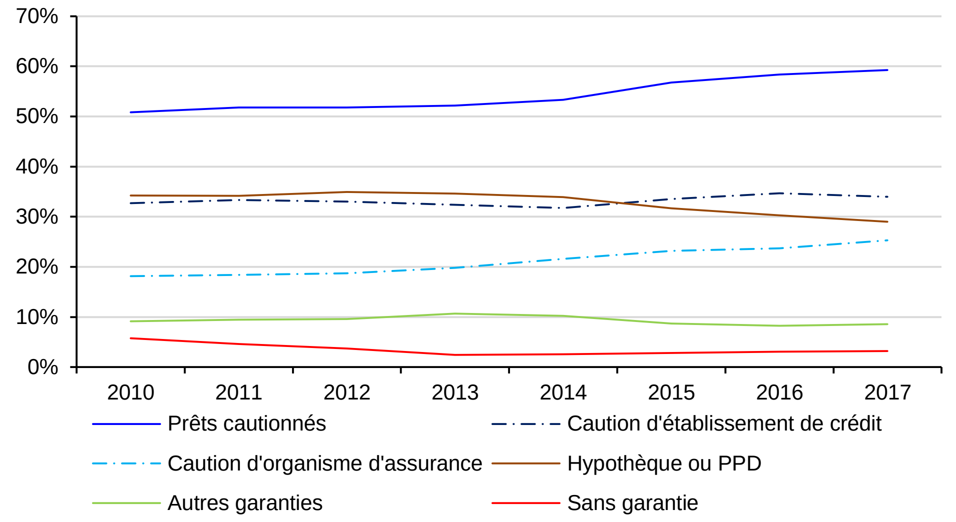


Source: EBA, Transparency exercise *(exposures to retail customers excluding SMEs secured by property treated using the standardised and advanced approaches);ACPR calculations for all banks having reported French exposures*

1.8. Guaranteed loans continued to increase

Guaranteed loans accounted for the majority of outstandings (57.9%), up by 0.9 pp on 2016 (Chart 17). For the third consecutive year, credit institutions were the principal providers of guarantees, at 34%. In third rank, guarantees provided by insurance companies have continued to grow steadily since 2010, climbing from 18.1% in 2010 to 25.3% in 2017. This reflects in particular the market share gains recorded by the Crédit Agricole group via its dedicated subsidiary CAMCA. Conversely, loans guaranteed by a mortgage or lender's lien decreased again by 1.3 pp to 30%, while other guarantees were up by 0.4 pp to stand at 8.6%. Unsecured loans were stable at 3.1%.

Chart 17
structure of outstanding loans by type of guarantee



Source: ACPR, annual survey of housing finance

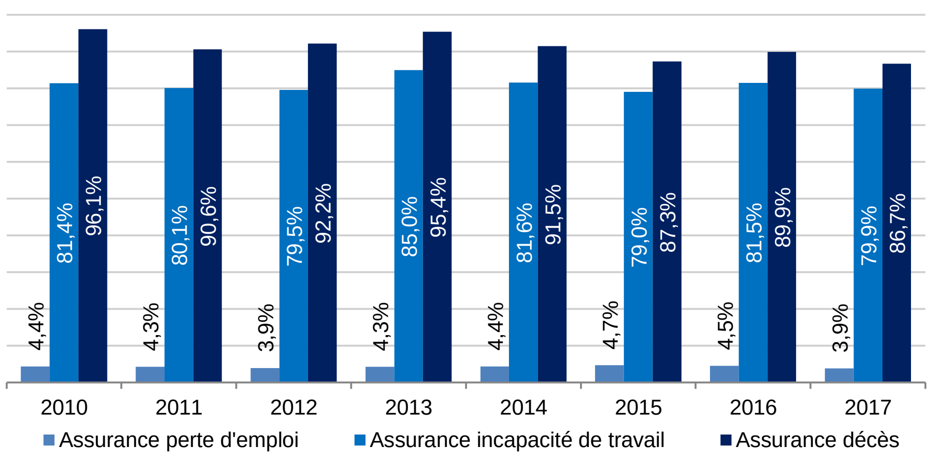
Guaranteed loans ; Guaranteed by an insurance company ; Other guarantees ; Guaranteed by a credit institution; Mortgage or lender's lien; unsecured

Guarantees provided by credit institutions are mainly issued by Crédit Logement, which provides guarantees – to greater and lesser degrees – to all the banks in the sample, and CM-CIC Caution Habitat, which covers the Crédit Mutuel group; the guarantees provided by insurance companies are mostly issued by subsidiaries of mutual groups: CEGC for the BPCE group and CAMCA for the Crédit Agricole group; other guarantees mainly include FGAS guarantees (7.1%) and a wide range of other methods (personal guarantees, pledging of life insurance policies, etc.).

In addition, the vast majority of borrowers continue to be insured against death (86.7%) and work disability (79.9%). However, insurance against job loss is still very rare and only taken out by 3.9% of borrowers, a share that has remained almost unchanged since 2010 (Chart 18).

Unemployment insurance; disability insurance; life insurance

Chart 18
Share of borrowers covered by an insurance policy

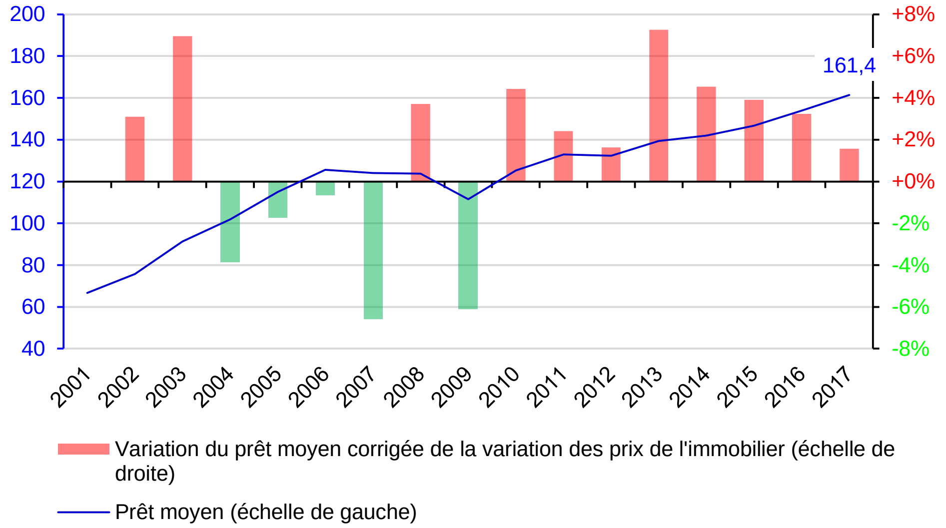


Source: ACPR, annual survey of housing finance

2.1. The average loan amount continued to rise[5]

Thanks to the low interest rates that enabled borrowers to take on greater debt without significantly impacting their debt service ratio (see below), the average loan amount continued to rise in 2017, recording a 4.9% increase to stand at EUR 161,350, an increase equivalent to that of 2016 (Chart 19). In contrast to the 2010-2016 period, this development mainly reflects the sharp upturn in real estate prices observed over the year (see above).

Chart 19
Average loan amounts in EUR thousands and real estate prices (right hand scale)



Source: ACPR, annual survey of housing finance and monthly monitoring of new housing loans; INSEE (existing homes price index, metropolitan France)

Change in average loan amount adjusted for the change in real estate prices (right hand scale); Average loan amount (left hand scale)

The increase in the average loan amount in 2017 (up by EUR 7,503) was mainly driven by owner-buyers, well ahead of loan transfers and first-time buyers; since January 2018, the rise in the average loan amount has increasingly been underpinned by a positive structural effect (Chart 20): non-first time buyers, who post the highest average loan amount, have seen their share in new lending increase to the detriment of loan transfers.

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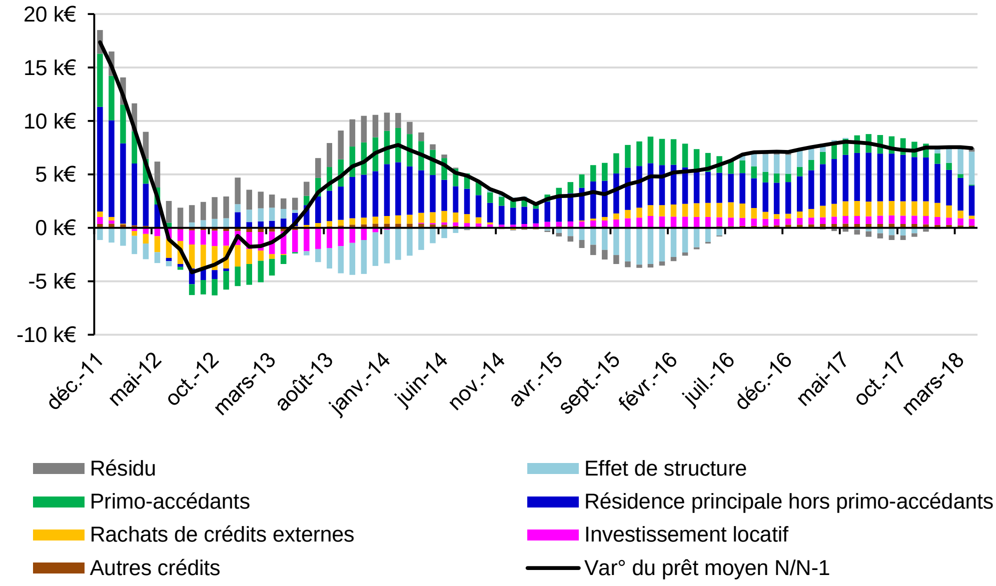
[5] The method for calculating the average loan amount changed in 2017: it now corresponds to the sum of new lending over the number of new loans (instead of the average of average loans per bank weighted by the amount of new lending in the previous publications). This new method has a moderate impact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

Chart 20
Contribution of the different segments to changes in the average loan amount[6]



Source: ACPR, monthly monitoring of new housing loans; 12 month moving averages; most recent value: April 2018

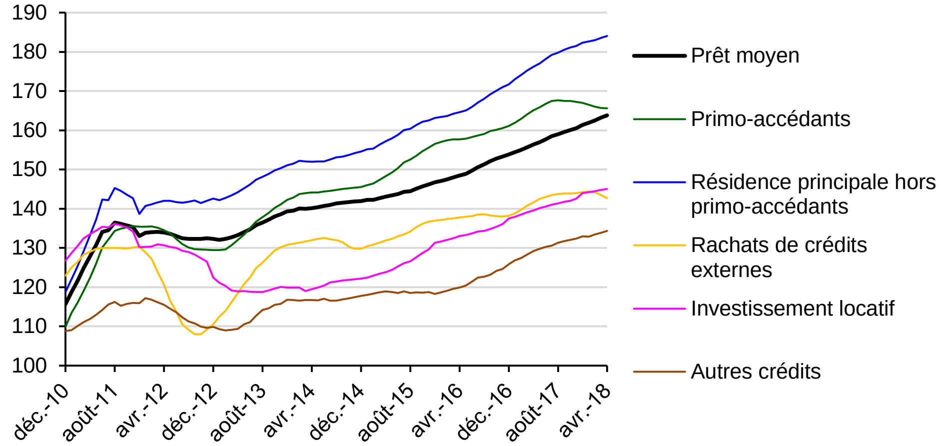
Note: at 31 April 2018, the average loan amount had increased by EUR 7.5 thousand compared to April 2017 (black curve); this rise is attributable to an increase in the average loan amount issued to buyers of a main residence excluding first-time buyers (EUR 2.8 thousand) (dark blue part of the histogram), and to a change in the structure of new loans (EUR 3.1 thousand) ("Structural effect", light blue part of the histogram), etc.

Residual; first-time buyers; loan transfers; other loans; structural effect; main residence excl. first-time buyers; buy-to-let; N/N-1 variation in average loan

In 2017, average loan amounts continued to rise across the board: it was up by 6.2% in the case of owner-buyers, by 5.6% for other loans, by 4.7% for buy-to-let, by 4.4% for loan transfers and by 3.7% for first-time buyers. However, the trend slowed down at the beginning of 2018: between April 2017 and 2018, the increases in average loan amounts ranged between 4.4% for owner-buyers to 0.3% for first-time buyers (Chart 21).

[6] The "Contributions" of the different segments measure the share of the increase in the average loan amount that is attributable to the rise or fall in the average loan amount of each segment; the "structural effect" measures the share of the increase in the average loan amount that is attributable to the change in the structure of new lnding (a more or less strong representation of high or low average loan amount segments); lastly, the "Residual" corresponds to the variation in the average loan amount that is not explained by the two aforementioned elements.

Chart 21
Average loan amount in EUR thousands by market segment

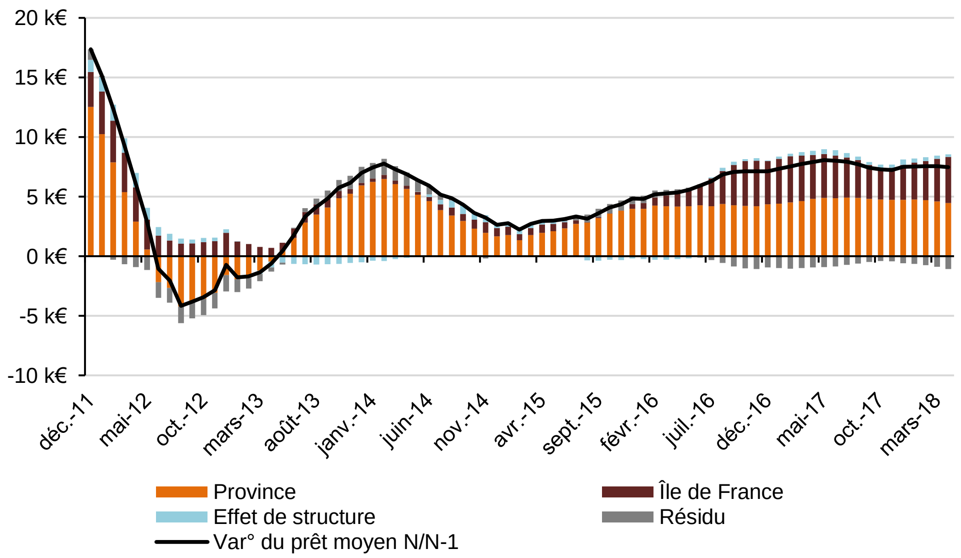


Source: ACPR, monthly monitoring of new housing loans ; 12 month moving averages ; most recent value : April 2018

Average loan ; first-time buyers ; main residence excl. first-time buyers; loan transfers ; buy-to-let ; other loans

Finally, while the Île-de-France region accounts for a quarter of new loans, it has significantly contributed to the rise in the average loan amount since about mid-2016 (Chart 22); this trend reflects a stronger increase in the average loan amount than in the rest of France since that date (between April 2017 and April 2018, the two regions recorded increases of 7% and 4.2% respectively), which can partly be explained by different price dynamics (see above). The average loan amount in the Île-de-France region is therefore still significantly higher than in the rest of France (EUR 237,039 compared with EUR 148,355 in April 2018).

Chart 22
Contribution of the Île-de-France region and the rest of France to year-on-year changes in the average loan amount

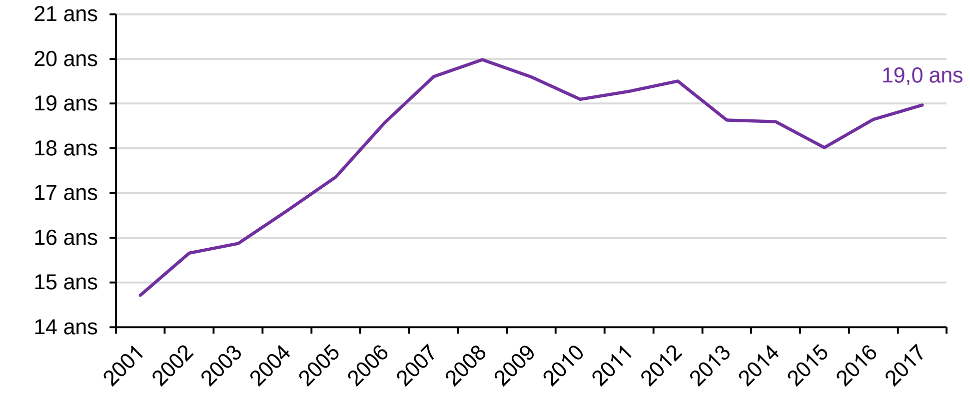


Source: ACPR, monthly monitoring of new housing loans; 12 month moving averages; most recent value: April 2018

2.2. Initial loan maturity continued to increase

Initial loan maturity continued on its upward trend that had started in 2016 to reach 19 years in 2017, its highest level in five years but still below the peak of 2008 (20 years) (Chart 23).

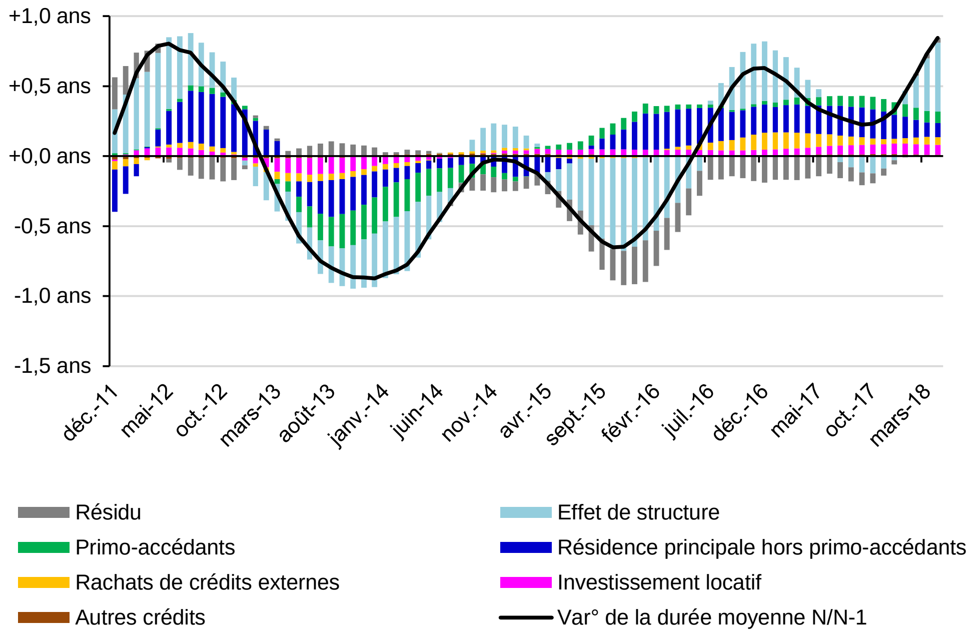
Chart 23
Initial loan maturities (excl. bridge loans)



Source: ACPR, annual survey of housing finance and monthly monitoring of new housing loans

While all segments contributed to the increase in the initial loan maturity in 2017 (by 3.9 months), this rise can primarily be attributed to owner-buyers (contribution of 2.1 months) and, to a lesser extent, to first-time buyers (1.1 months) and buy-to-let (0.9 months) (Chart 24). However, since 2018, and to a growing extent, the rise in the initial loan maturity has been strongly impacted, as in the case of average income, by changes in the structure of new lending, i.e. in particular the decline in loan transfers in favour of owner-buyers who display significantly longer average loan maturities. This structural effect has accounted for most of the increase in the average maturity since February 2018.

Chart 24
Contribution of the different segments to the year-on-year increase in initial loan maturity



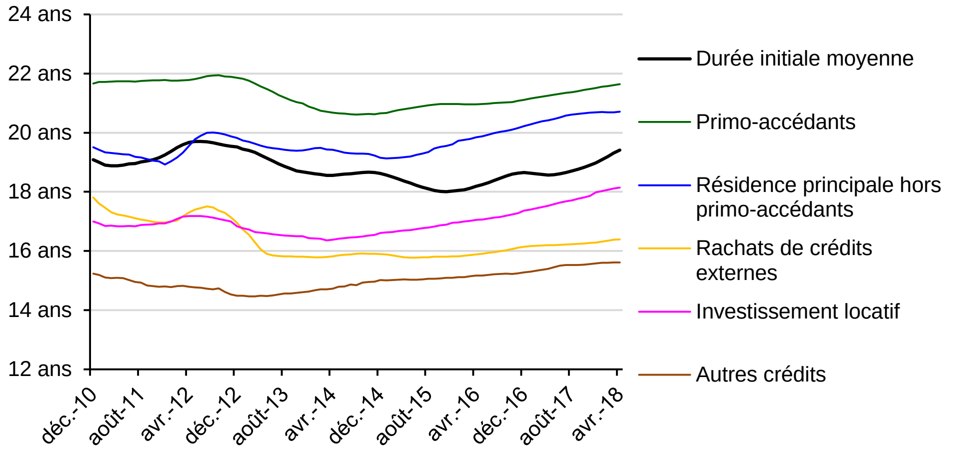
Source: ACPR, monthly monitoring of new housing loans, 12 month moving averages ; most recent value : April 2018

Residual; first-time buyers; loan transfers; other loans; structural effect; main residence excl. first-time buyers; buy-to-let; N/N-1 variation in average loan

Excluding the structural effect, the rise in the initial loan maturity is increasingly attributable to the increase in the buy-to-let segment (up 7.3 months between April 2017 and April 2018) and the first-time buyer segment (up 4.7 months); for the other segments, the increases range from 2.3 months for loan transfers to 3.4 months for owner-buyers (Chart 25).

Finally, several banks stated that they no longer or extremely rarely offered loans with maturities of over 25 years. For those banks that continue to do so, these loans are extended to young customers (under 40), mainly manual clerical staff, and first-time buyers.

Chart 25
Initial loan maturities excl. bridge loans, by market segment

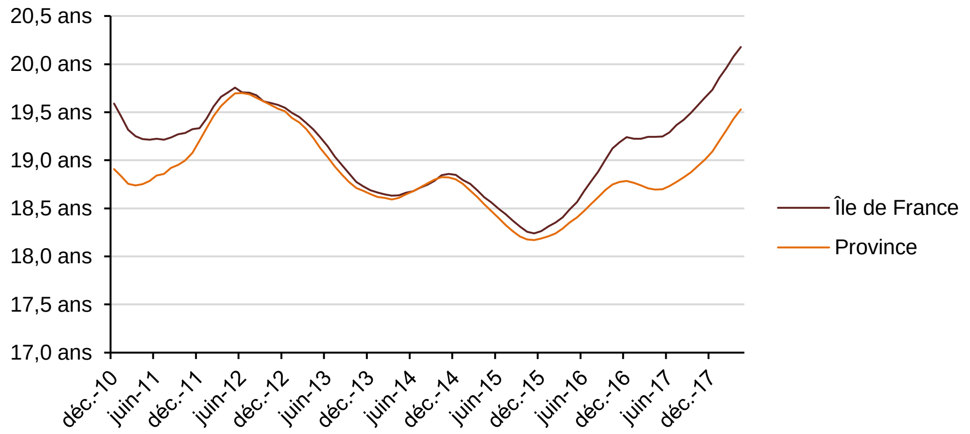


Source: ACPR, monthly monitoring of new housing loans, 12 month moving averages ; most recent value : April 2018

Average initial maturity ; first-time buyers ; main residence excl. first-time buyers; loan transfers; buy-to-let; other loans

The average initial loan maturity continued to lengthen at a slightly faster pace in the Île-de-France region (up 11.2 months between April 2017 and April 2018) than in the rest of France (up 10 months); the average initial loan maturity granted in the Île-de-France region is now well above its peak of May 2012 (Chart 26).

Chart 26
Initial loan maturities excl. bridge loans, by region



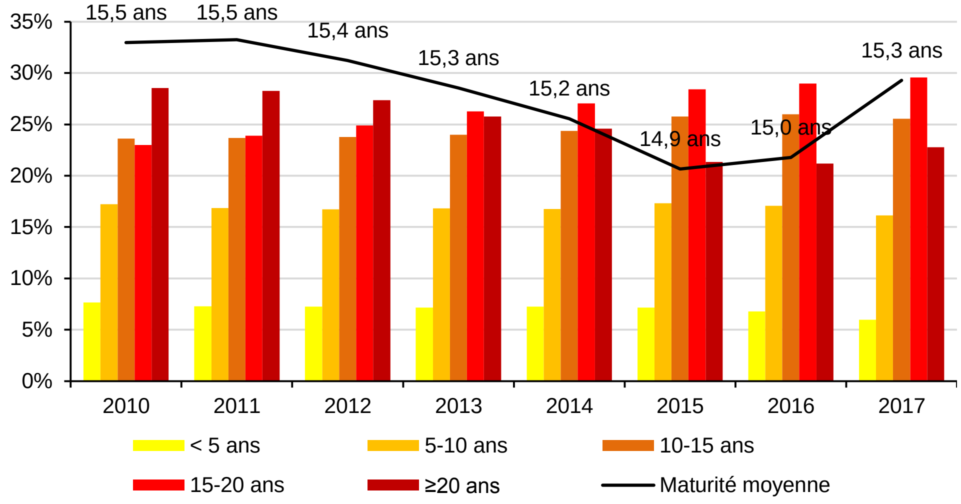
Source: ACPR, monthly monitoring of new housing loans; 12 month moving averages; most recent value: April 2018

Île-de-France ; rest of France ; Dec ; June

Lastly, the lengthening of the initial loan maturity led to a rise in the residual maturity, which climbed to 15.3 years, i.e. its 2013 level (Chart 27). According to the breakdown of outstanding loans by residual maturity, the "15-20 years" and "≥20 years" categories increased slightly by respectively 0.6 pp and 1.6 pp in 2017.

<5 years; 5-10 years; 10-15 years; 15-20 years; ≥20 years; average maturity

Chart 27
Structure of outstanding housing loans, by residual maturity

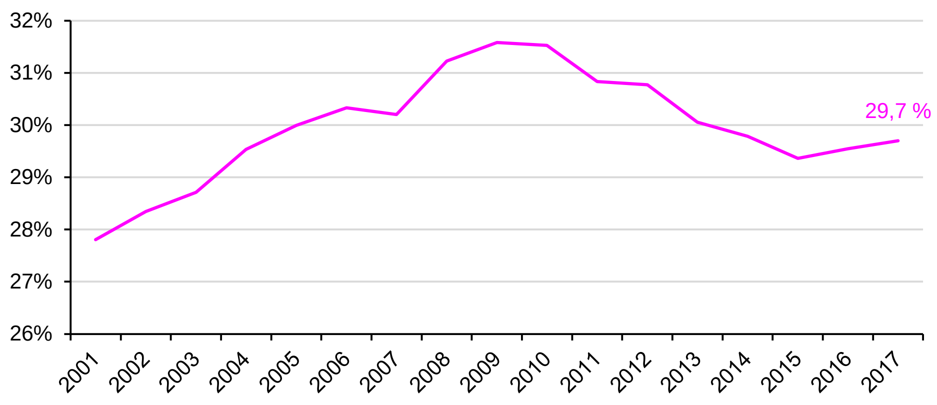


Source: ACPR, annual survey of housing finance

2.3. The debt service ratio increased for the second year in a row

Like the average initial loan maturity, the average debt service ratio at origination continued on its upward trend started in 2016 to reach 29.7% in 2017 (Chart 28). However, it remains below its peak of 2009 (31.6%).

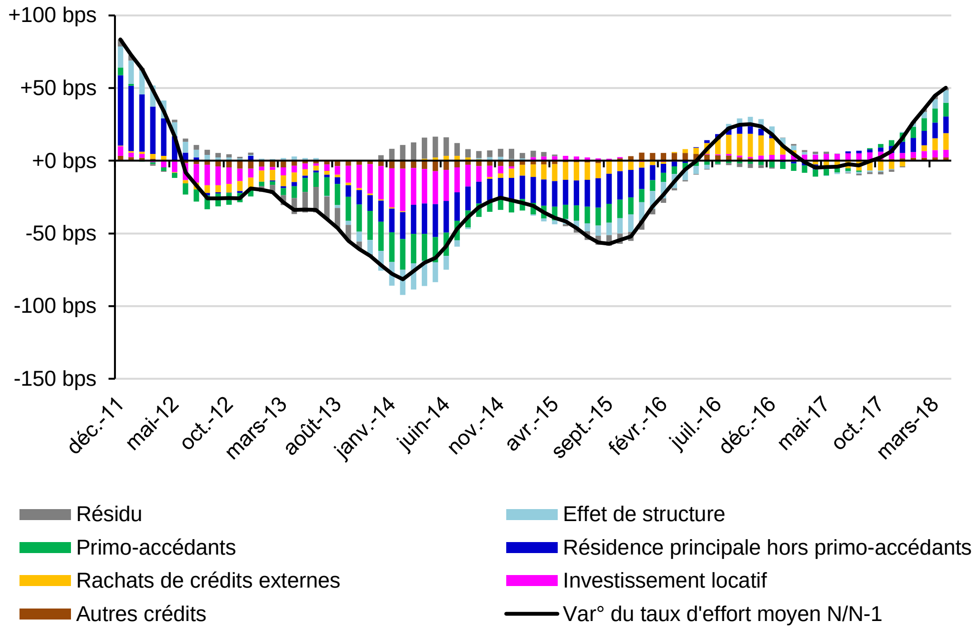
Chart 28
Average debt service ratio at origination



Source: ACPR, annual survey of housing finance and monthly monitoring of new housing loans

The average debt service ratio at origination actually started rising in the last quarter of 2017 (up 15 bps), gaining momentum in the first months of 2018 (up 45 bps between April 2017 and April 2018 to reach 29.9%) (Chart 29). The increase in the average debt service ratio in 2017 was driven by owner-buyers (up 8 bps), while first-time buyers (up 6 bps) and buy-to-let (up 4 bps) made a more modest contribution; in the first months of 2018, the rise was fueled in equal proportions by loan transfers, owner-buyers and first-time buyers (up by 11 bps, 11 bps and 10 bps respectively in April) and, like in the case of the average loan amount and the average maturity, by a positive structural effect (up 8 bps).

Chart 29
Contribution of the different segments to the average year-on-year variation in the debt service ratio at origination

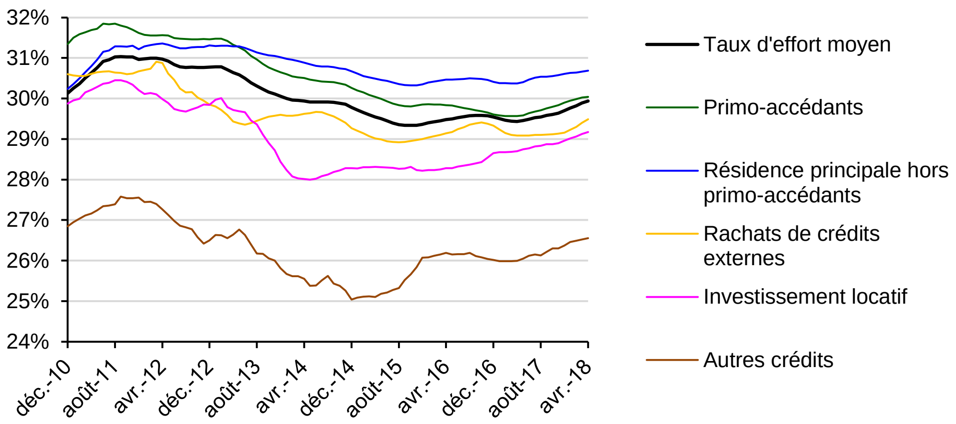


Source: ACPR, monthly monitoring of new housing loans ; most recent value: April 2018

Residual; First-time buyers; loan transfers; other loans; structural effect; main residence excl. first-time buyers; buy-to-let; average year-on-year variation

In 2017, other loans posted the highest increase in the debt service ratio (up by 35 bps), ahead of buy-to-let (up by 31 bps) and first-time buyers (up by 29 bps) (Chart 30); in early 2018 the trend amplified with respective increases of 56 bps, 47 bps and 47 bps in these three segments from April 2017 to April 2018.

Chart 30
Average debt service ratio by market segment



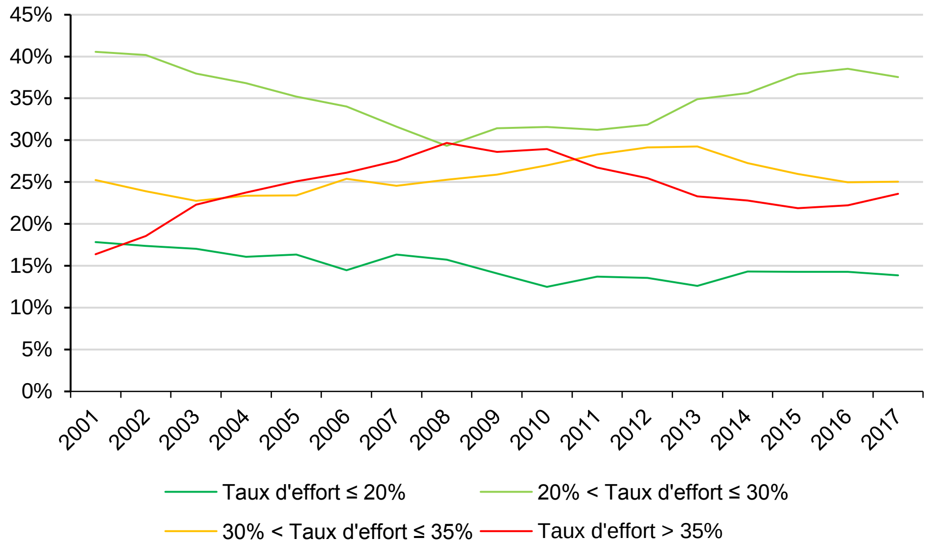
Source: ACPR, monthly monitoring of new housing loans ; 12 month moving averages ; most recent value: April 2018

Average debt service ratio; first-time buyers; main residence excl. first-time buyers; loan transfers; buy-to-let; other loans

The structure of new lending by debt service ratio in 2017 was fairly similar to that of 2016, even though it is somewhat distorted in favour of the most risky categories

(Chart 31): although borrowers with a debt service ratio of between 20% and 30% still accounted for the largest share of new lending, their share fell from 38.5% in 2016 to 37.5% in 2017, while the share of the most indebted borrowers (with a debt service ratio above 35%) rose from 22.2% to 23.6% and that of the least indebted borrowers fell from 14.3% to 13.8%.

Chart 31
Structure of new lending by debt service ratio

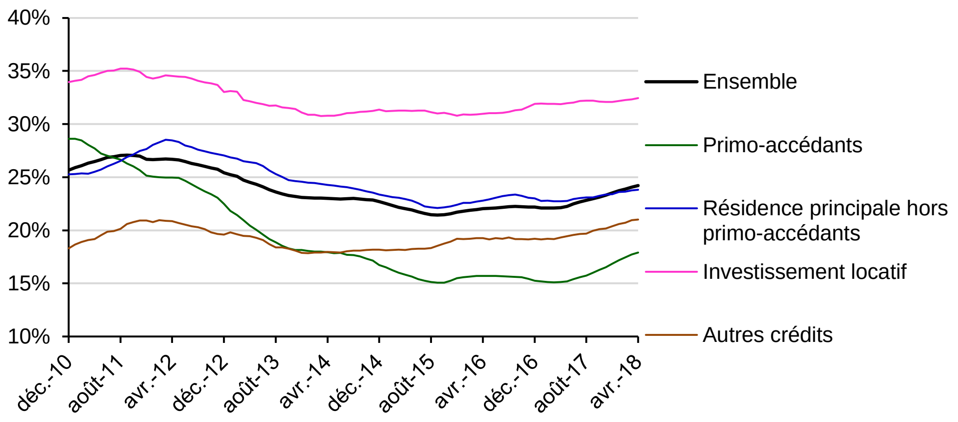


Source: ACPR, annual survey of housing finance and monthly monitoring of new housing loans

Debt service ratio ≤ 20% ; Debt service ratio > 20% and ≤ 30%; Debt service ratio > 30% and ≤ 35%; Debt service ratio > 35%

The buy-to-let segment still accounted for the largest share of borrowers with a debt service ratio at origination above 35%, ahead of owner-buyers, other loans and first-time buyers (Chart 32). However, the increase in the share of borrowers with a debt service ratio above 35% was essentially driven by first-time buyers (contribution of 45 bps in December 2017 and 79 bps in April 2018), well ahead of owner-buyers (20 bps and 54 bps) (Chart 33).

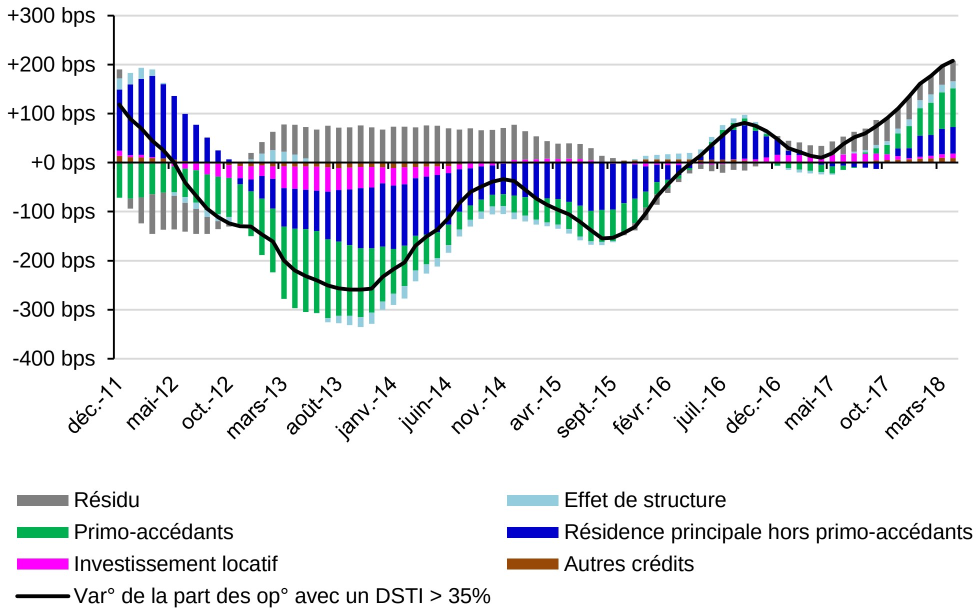
Chart 32
Share of loans with a debt service ratio above 35%



Source: ACPR, monthly monitoring of new housing loans ; 12 month moving averages ; most recent value : April 2018

All segments ; first-time buyers ; owner-buyers ; buy-to-let; other loans

Chart 33
Contribution of the different segments to the year-on-year variation in the share of loans with a debt service ratio above 35%



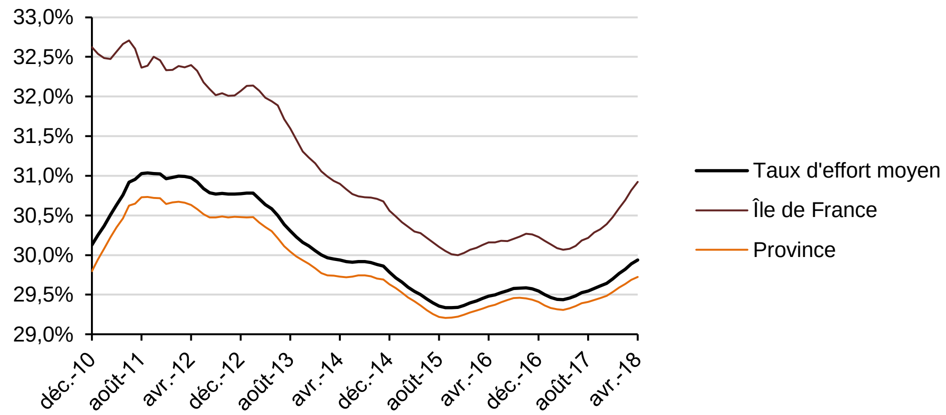
Source: ACPR, monthly monitoring of new housing loans; 12 month moving averages ; most recent value : April 2018

Residual ; first-time buyers ; buy-to-let ; structural effect ; main residence excl. first-time buyers; other loans; variation in the share of transactions with a DSTI ratio >35%

According to banks, the loans with a debt service ratio above 35% are most often extended to high net-worth customers.

Lastly, the average debt service ratio posted a sharper increase in the Île-de-France region than in the rest of France: in 2017, it grew twice as fast as in the rest of France (up 25 bps against 12 bps) and in early 2018 the trend amplified (up 85 bps against 41bps), fueled by different price dynamics across the two regions (Chart 34).

Chart 34
Average debt service ratio by region



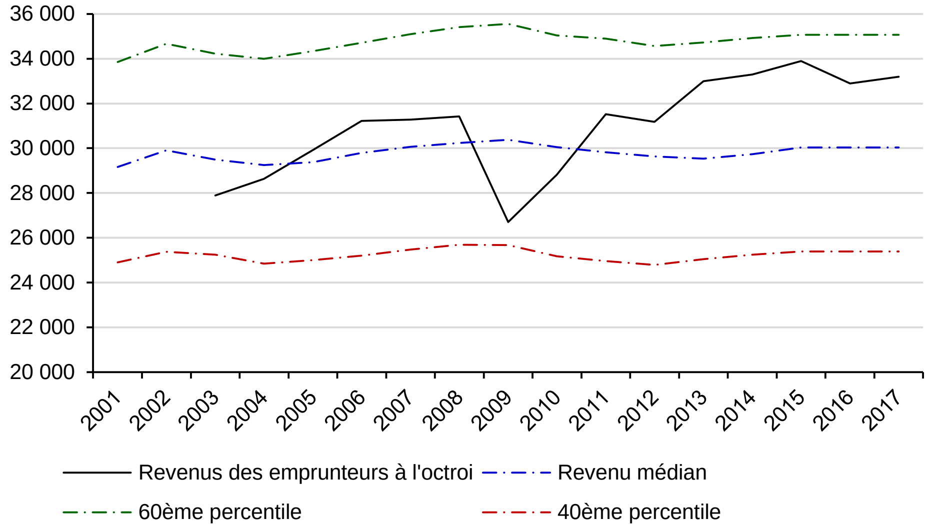
Source: ACPR, monthly monitoring of new housing loans; 12 month moving averages; most recent value: April 2018

Average debt service ratio; Île-de-France; Rest of France

2.4. Average income at origination remained relatively stable

Average borrower income at origination remained relatively stable at EUR 33,194 (up 0.7% compared to 2016) (Chart 35).

Chart 35
estimated average borrower income at origination, in euro



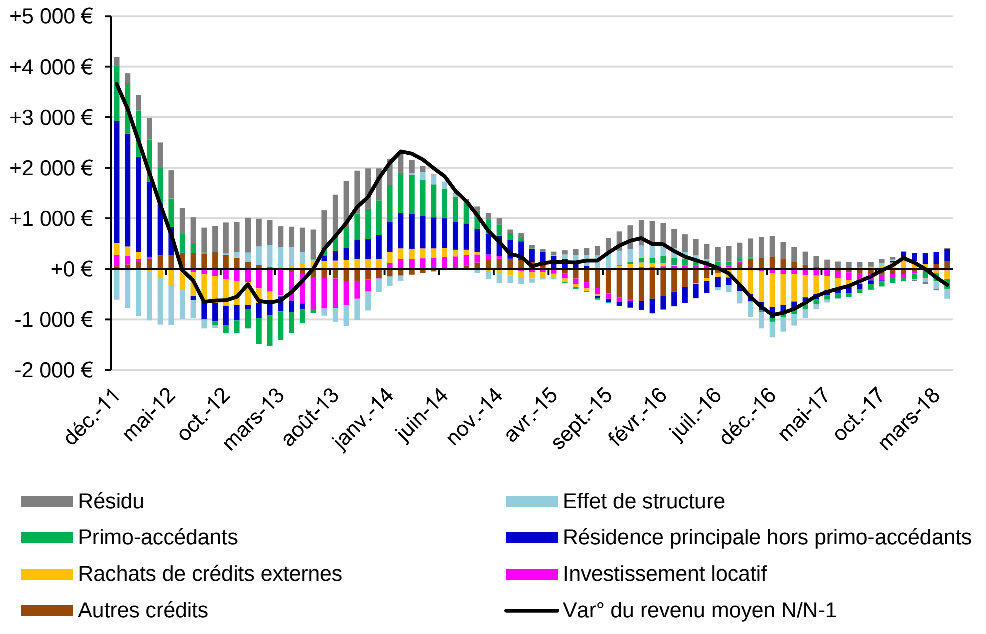
Source: Banque de France; INSEE (for median income and the 40th and 60th percentiles) [7]*; ACPR, annual survey of housing finance and monthly monitoring of new housing loans.*

Borrower income at origination; median income; 60th percentile; 40th percentile

The slight increase in average borrower income in 2017 (up EUR 218) was driven almost exclusively by loan transfers (up by EUR 179) and owner-buyers (up by EUR 152); in early 2018, however, average borrower income started to decline (down EUR 319 compared to April 2017), despite the strong positive contribution from owner-buyers (up by EUR 241 in April), (Chart 36).

[7] Last available data: 2014.

Chart 36
Analysis of the year-on-year change in average borrower income at origination

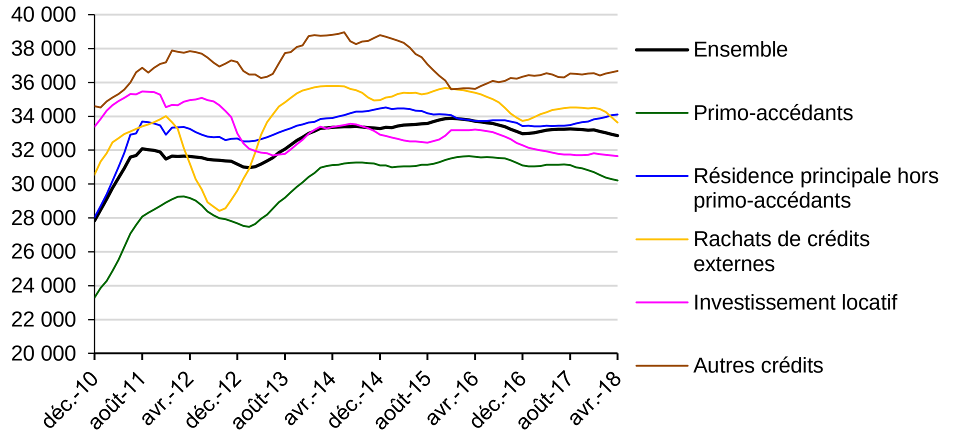


Source: ACPR, monthly monitoring of new housing loans; 12 month moving averages; most recent value: April 2018

Residual; first-time buyers; loan transfers; other loans; structural effect; main residence excl. first-time buyers; buy-to-let; year-on-year variation in average income; Dec; May; Oct; Mar

Between April 2017 and April 2018, average borrower income declined for first-time buyers (down 3%), loan transfers (down 1.8%) and buy-to-let investments (down 0.9%). On the other hand, it continued to rise for owner-buyers (up 2%) and to a lesser extent for other loans (up 0.4%) (Chart 37).

Chart 37
Average borrower income at origination by market segment, in euro



Source: ACPR, monthly monitoring of new housing loans ; 12 month moving averages; most recent value: April 2018

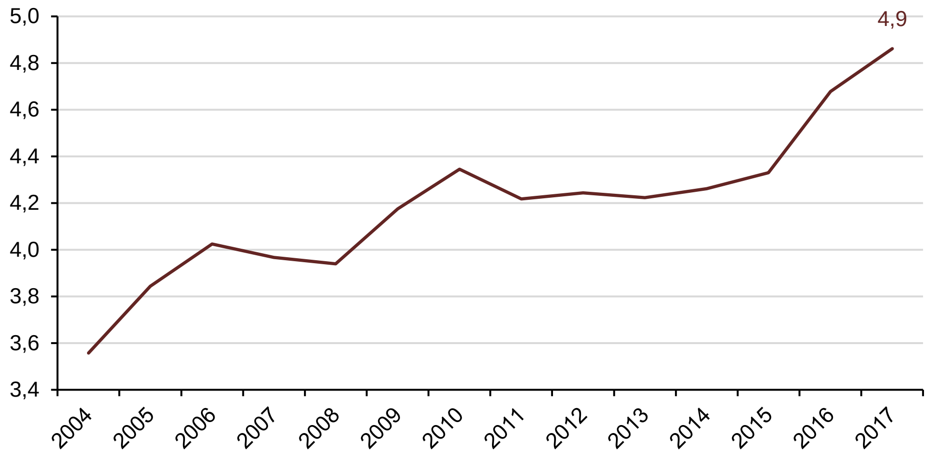
All segments ; first-time buyers ; main residence excl. first-time buyers; loan transfers; buy-to-let; other loans

Lastly, while average borrower income at origination inched up in the Île-de-France region and in the rest of France in 2017 (up 0.2% and 0.5% respectively), it fell back in both regions in early 2018 (down 0.2% and 1.2% respectively between April 2017 and April 2018). Average annual income was still around 50% higher in the Île-de-France region than in the rest of France (EUR 44,554 against EUR 29,829 in April 2018).

2.5. The loan to income ratio rose further

Given that the average loan amount rose significantly faster than income in 2017, the average loan to income ratio - expressed in years of income – posted a further increase for the fourth consecutive year, climbing by 2.2 months to 4.9, its historical high (Chart 38).

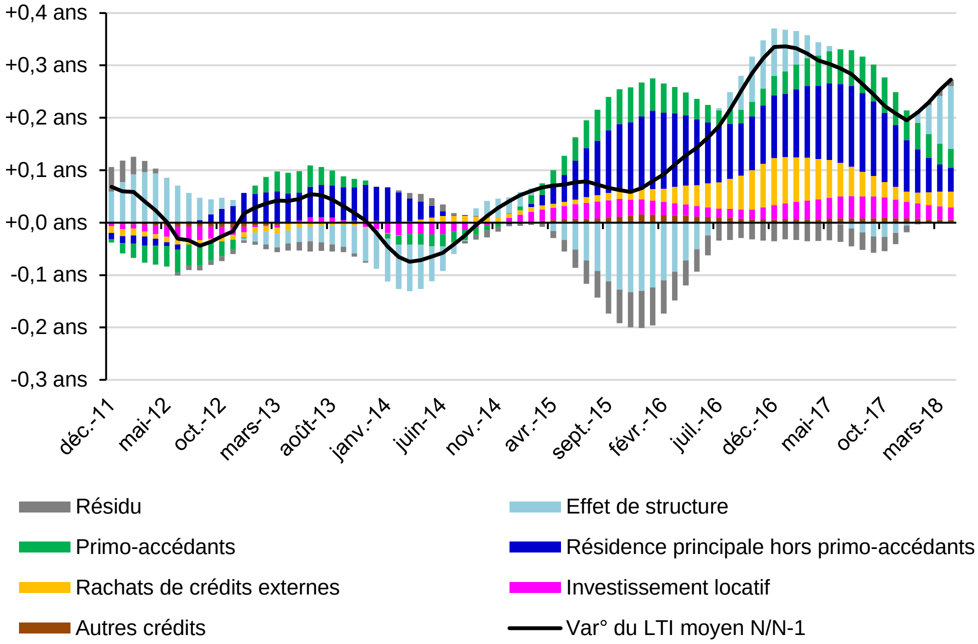
Chart 38
Average LTI ratio at origination, in years of income



Source: ACPR, annual survey of housing finance and monthly monitoring of new housing loans

The increase in the average LTI ratio in 2017 was mainly driven by owner-buyers (up by 1.2 months) and to a lesser extent by first-time buyers (up by 0.7 months); since early 2018, and as for several other indicators, the upward trend has been underpinned by a rapidly growing positive structural effect (Chart 39).

Chart 39
Contribution of the different segments to the growth in the LTI ratio at origination

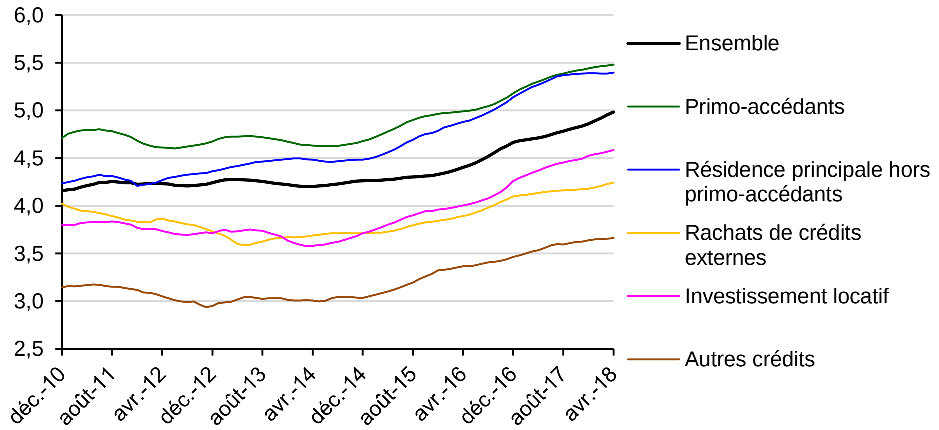


Source: ACPR, monthly monitoring of new housing loans; 12 month moving averages; most recent value: April 2018

Residual; first-time buyers; loan transfers; other loans; structural effect; main residence excl. first-time buyers; buy-to-let; year-on-year variation in the average LTI; years

In 2017, the LTI ratio grew relatively homogeneously across the first-time buyers, owner-buyers and buy-to-let segments, with increases slightly over 3 months; the increase was smaller for other loans (up by 2.1 months) and loan transfers (up by 1 month) (Chart 40). The upward trend continued in early 2018, albeit at a slightly slower pace, for buy-to-let and first-time buyers (up by 2.7 and 2.3 months respectively), while the LTI ratio for owner-buyers was stable in the first quarter of 2018.

Chart 40
Average LTI at origination by market segment



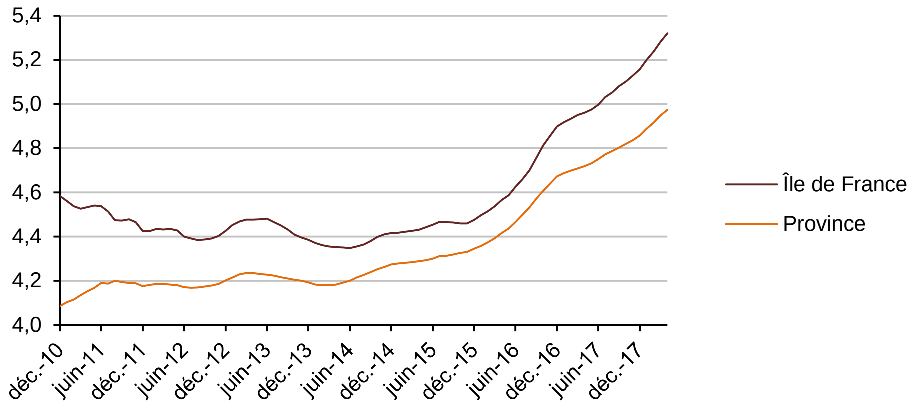
Source: ACPR, monthly monitoring of new housing loans; 12 month moving averages; most recent value: April 2018

All segments; first-time buyers; main residence excl. first-time buyers; loan transfers; buy-to-let; other loans; Dec; Aug; Apr

Finally, following a trend started in 2016, the average LTI ratio continued to rise more rapidly in the Île-de-France region (up by 3 months in 2017 and 4.3 months between April 2017 and April 2018) than in the rest of France (up by 2.2 and 3.1 months respectively) (Chart 41).

Île-de-France ; Rest of France ; Dec ; Jun

Chart 41
Average LTI at origination by region



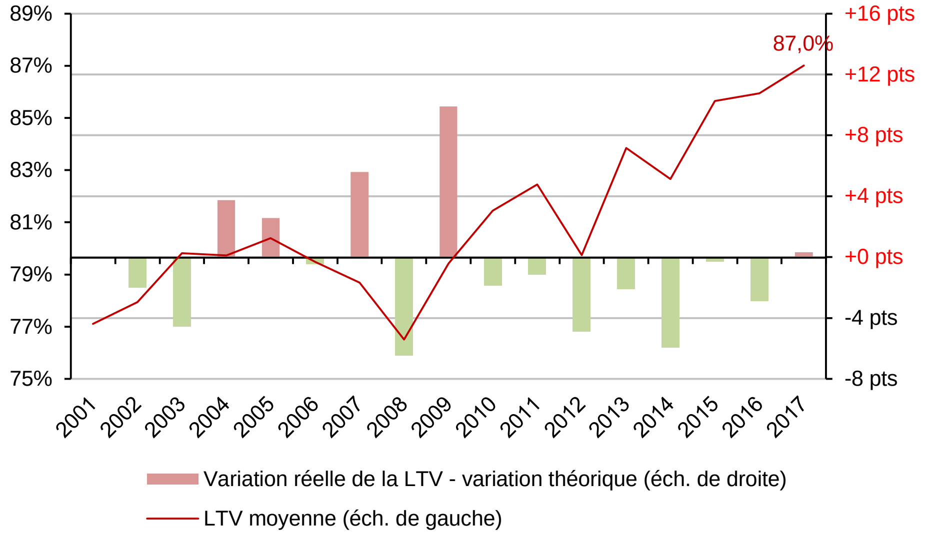
Source: ACPR, monthly monitoring of new housing loans; 12 month moving averages; most recent value: April 2018

2.6. The LTV ratio and negative equity loans were up

In 2017, the average LTV ratio at origination continued to increase, reaching a new peak at 87% (up 101 bps). Unlike 2016, it rose slightly faster than the theoretical LTV ratio[8] (Chart 42). The LTV ratio excluding loan transfers reached 86.3% at end-2017, also up compared to 2016 (up 137 bps).

[8] The theoretical variation in the LTV ratio (δ_*) is measured by the relationship 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 standards (looser when $\delta_n>\delta_{n*}$/tighter when $\delta_n<\delta_{n*}$)), although the respective contributions of the two variables cannot be identified at this stage.

Chart 42
Average LTV at origination



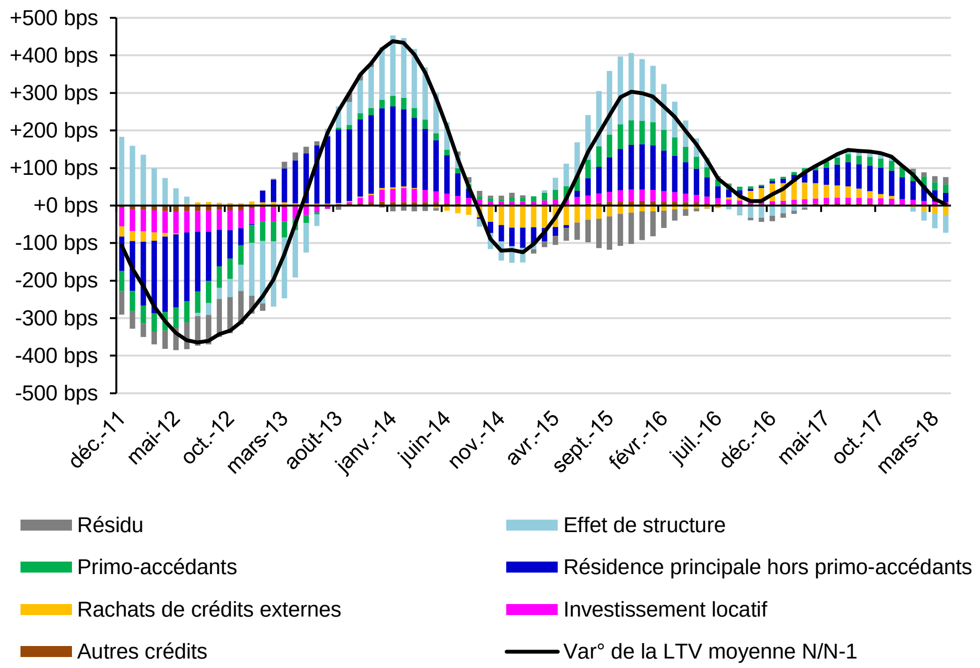
Source: ACPR, annual survey of housing finance and monthly monitoring of new housing loans; INSEE

Actual LTV variation – theoretical variation (rhs); average LTV (lhs)

In 2017, the increase in the average LTV ratio was largely driven by owner-buyers (up 59 bps), well ahead of first-time buyers (up 27 bps) and buy-to-let (up 16 bps). After having peaked in July 2017 (up 148 bps compared to July 2016), the growth rate of the LTV ratio at origination slowed significantly to 3 bps in April 2018, despite a negative structural effect. Owner-buyers (up 25 bps) and first-time buyers (up 21 bps) continued to contribute to the rise in the average LTV ratio (Chart 43).

Residual; first-time buyers; loan transfers; other loans; structural effect; main residence excl. first-time buyers; buy-to-let; variation in the average LTV ratio

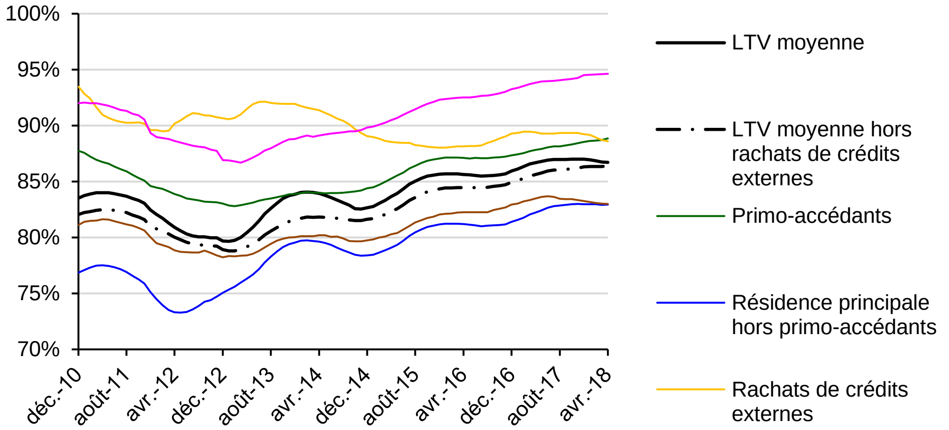
Chart 43
Contribution of the different segments to the year-on-year variation in the average LTV ratio at origination



Source: ACPR, monthly monitoring of new housing loans; 12 month moving averages; most recent value: April 2018

In 2017, the rise in the average LTV ratio was more pronounced for owner-buyers (up 159 bps, against 126 bps for buy-to-let and 120 bps for first-time buyers); in April 2018, the average LTV ratio posted a smaller increase in all three segments, climbing by 72 bps, 82 bps and 103 bps respectively, while it declined for loan transfers and other loans (down 80 bps and 50 bps) (Chart 44).

Chart 44
Average LTV ratio at origination by market segment

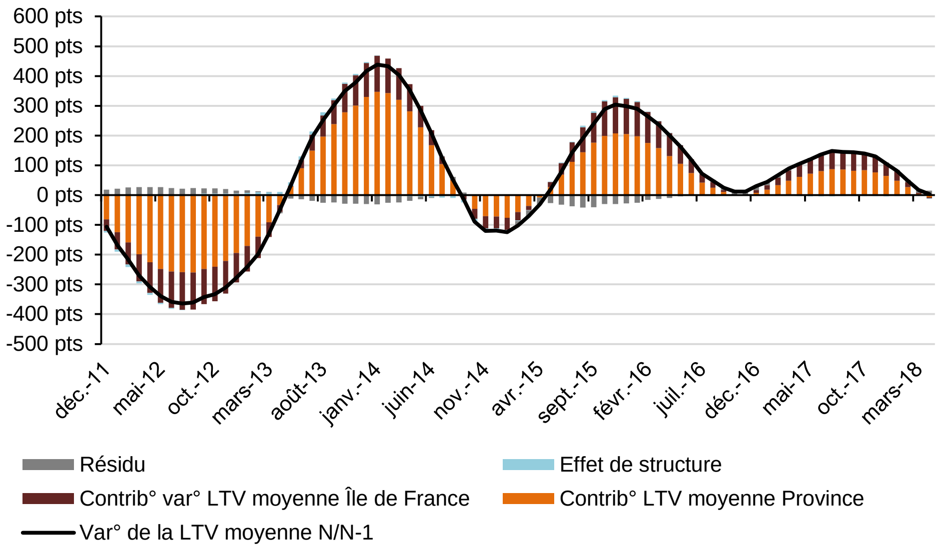


Source: ACPR, monthly monitoring of new housing loans; 12 month moving averages; most recent value: April 2017.

Average LTV ratio; Average LTV excl. loan transfers; first-time buyers; main residence excl. first-time buyers; loan transfers

In addition, the Île-de-France region, which saw its LTV ratio increase by 167 bps, against 86 bps for the rest of France, made a significant contribution to the rise in the LTV ratio over the year; however, in early 2018, both regions recorded a marked slowdown in their average LTV ratio, followed by a slight decline in April (down 13 bps in the Île-de-France region and down 9 bps in the rest of France) (Chart 45).

Chart 45
Average LTV at origination by region



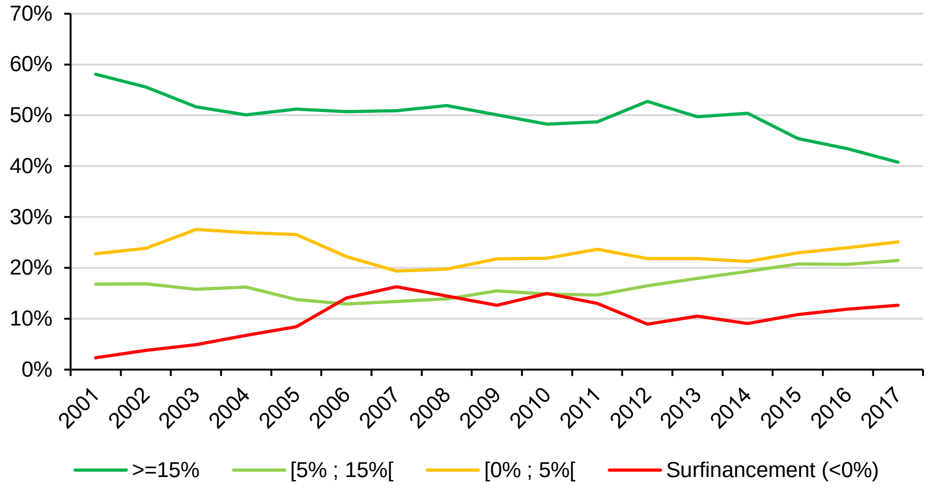
Source: ACPR, monthly monitoring of new housing loans; 12 month moving averages; most recent value: April 2018.

Residual; Structural effect; contribution to average LTV variation Île de France; Contribution to average LTV variation rest of France; year-on-year variation in average LTV

The increase in the average LTV ratio resulted from a drop in the share of loans with a down-payment rate above 15% (down 2.7 pp), which continued to record a relatively sharp decline after remaining virtually stable over the past decade to stand at 40.8%; this fall was mainly offset by a rise in the share of loans with a down-payment rate of between 0 and 5% (up 1.1 pp) and, to a lesser extent, loans with a down-payment rate of between 5% and 15% (up 0.8 pp) and negative equity loans[9] (also up 0.8 pp). Despite representing 13.5% of new lending, the latter were still 3.6 pp below their 2007 peak (Chart 46).

[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.

Chart 46
Structure of new lending by size of down-payment

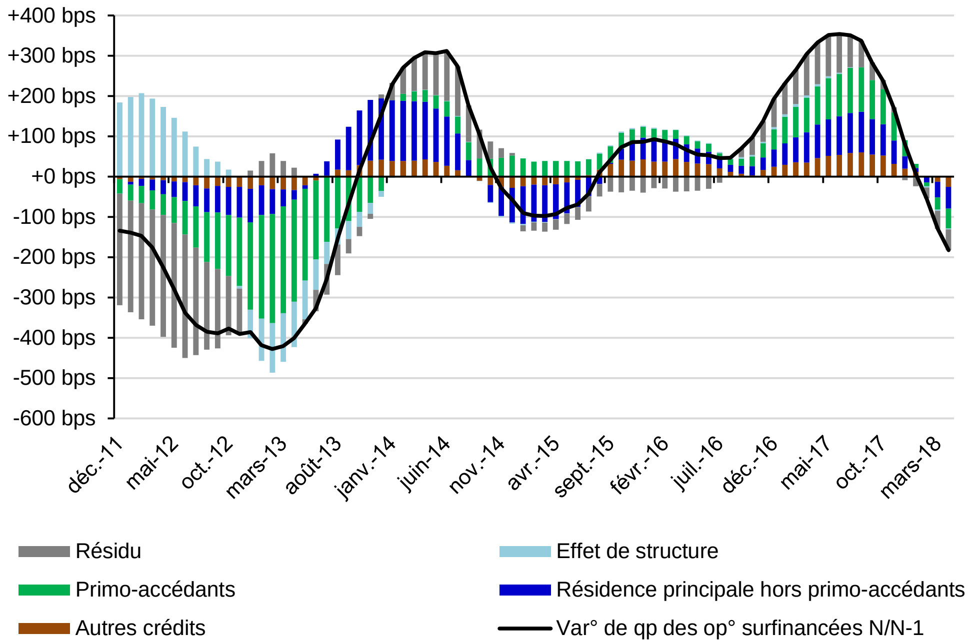


Source: ACPR, annual survey of housing finance and monthly monitoring of new housing loans

Negative equity

The growth rate of the share of negative equity loans peaked in July 2017 before posting a marked slowdown; since February, the share of these loans has even declined, plunging by 183 bps between April 2017 and April 2018 to 11.5% (Chart 47). This trend reversal concerns all three segments, even though owner-buyers (down 53 bps) and first-time buyers (down 50 bps) alone account for almost all of the decrease in negative equity loans.

Chart 47
Contribution of the different segments to the growth in negative equity loans



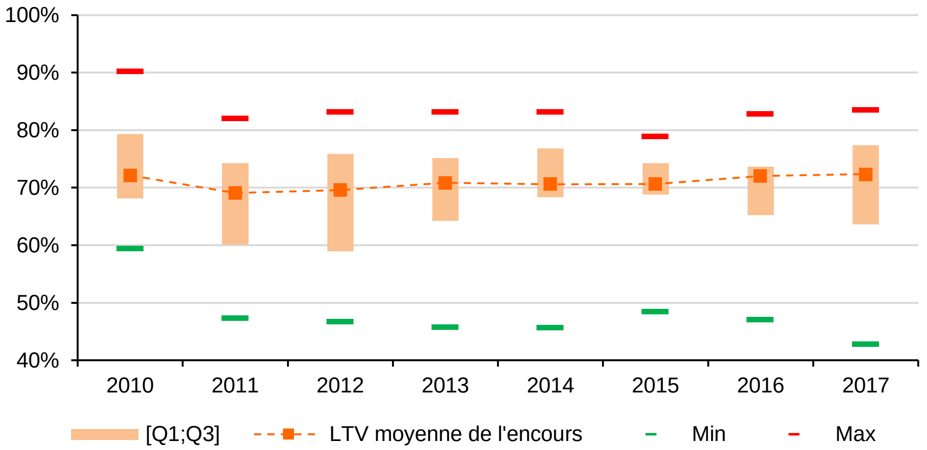
Source: ACPR, monthly monitoring of new housing loans; 12 month moving averages; most recent value: April 2018.

Residual; first-time buyers; other loans; structural effect; main residence excl. first-time buyers; year-on-year variation in negative equity loans

As in previous years, loans with the highest LTV (> 95%) are generally extended to young customers (under 40), generally from manual and clerical socio-economic categories, who wish to buy a property under state-funded guarantee schemes but do not have sufficient savings to finalise the transaction. The share of buy-to-let investments, for which investors seek to maximise financial charges, and of loan transfers is greater than in total new lending.

Lastly, despite the rise in real estate prices, the average LTV on outstanding loans, measured on the basis of ACPR survey responses, rose slightly (up 0.3 points to 72,3%), albeit less sharply than the LTV on origination, which remains much higher (Chart 48). However, given the strong dispersion of the banks' responses on this criterion, the rise in the LTV on outstanding loans over the past three years and the diametrically opposite trajectories of the extreme values, this average value should be viewed with caution.

Chart 48
LTV on outstanding loans



Source : ACPR, annual survey of housing finance

LTV on outstanding loans

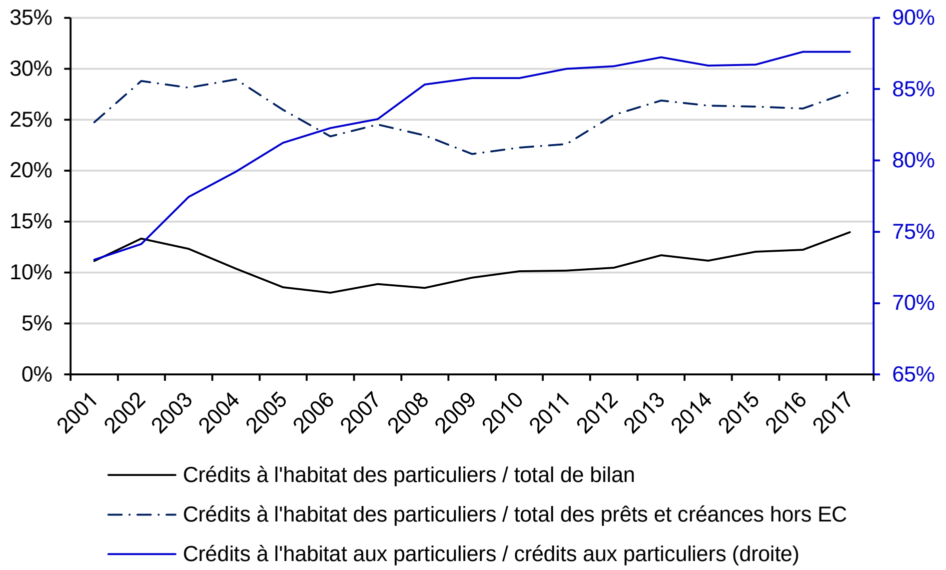
3. Risks linked to housing loans

3.1. The weight of housing loans in loans to individuals increased further

While the share of housing loans (EUR 954.6 billion at end-2017) remained stable at 87.6% of loans to individuals, their weight in banks' balance sheet total rose slightly to stand at 14% (up 1.8 pp); the weight of housing loans as a share of total non-credit institution lending also increased (up 1.7 points to 27.7%) (Chart 49).

Housing loans/balance sheet total; housing loans/total non-credit institution lending; housing loans/total lending to individuals

Chart 49
Weight of housing loans to individuals

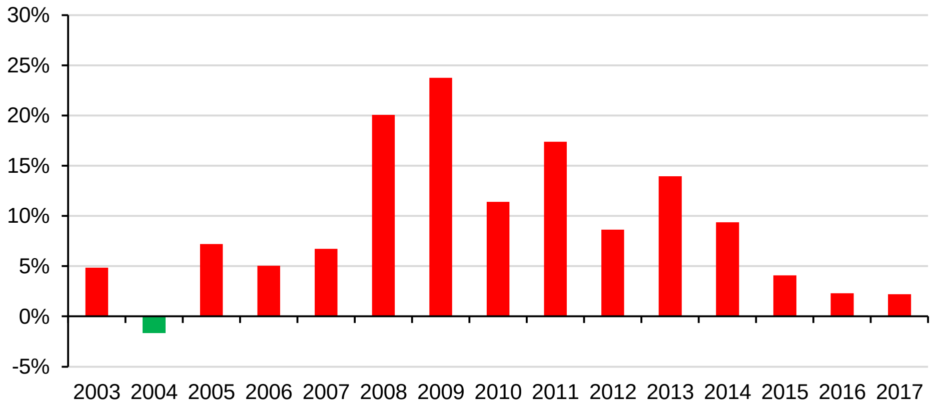


Source: ACPR, annual survey of housing finance and BAFI/SURFI/FINREP data

3.2. Gross non-performing loans were down

Although the growth rate of gross non-performing loans continued to slow, it posted a further year-on-year increase, climbing by 2.2% to stand at EUR 13.9 billion in 2017 (Chart 50).

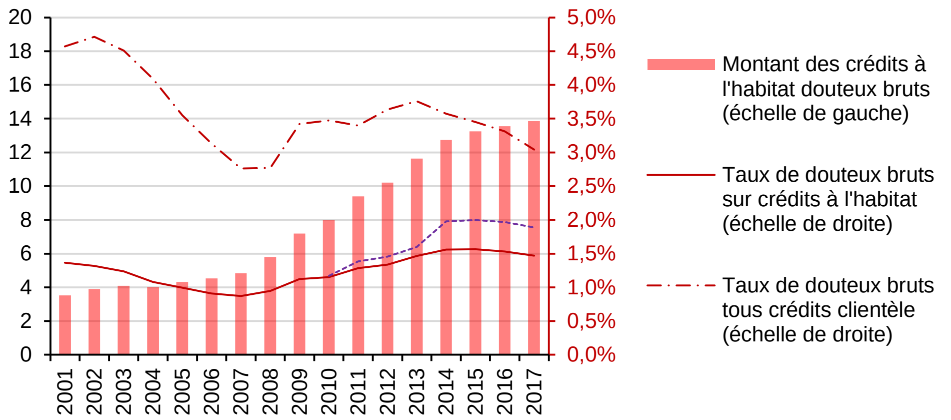
Chart 50
Gross outstanding non-performing housing loans, year-on-year change



Source: ACPR, annual survey of housing finance

Given that performing loans increased at a faster pace (up 6.1%; see above), the ratio of non-performing housing loans recorded a further decline as in 2016.[10] it was down by 6 bps to stand at 1.43% at end-2017. Taking into account non-performing loans recorded in the balance sheets of the main loan guarantors does not alter this trend, with the ratio of non-performing housing loans falling by 10 bps to 1.83%. Housing loans thus continued to display a significantly lower non-performing loan ratio than all non-bank lending, for which the gross non-performing loan ratio, down by 27 bps, reached 3.04% (Chart 51).

Chart 51
Gross outstanding non-performing housing loans, in EUR billions and as a % of total outstanding loans



Source: ACPR, annual survey of housing finance and BAFI/SURFI data; data on the gross non-performing loans of housing loan guarantors have only been collected since 2010

Amount of gross non-performing housing loans (lhs); ratio of gross non-performing housing loans (rhs); ratio of gross non-performing loans (rhs)

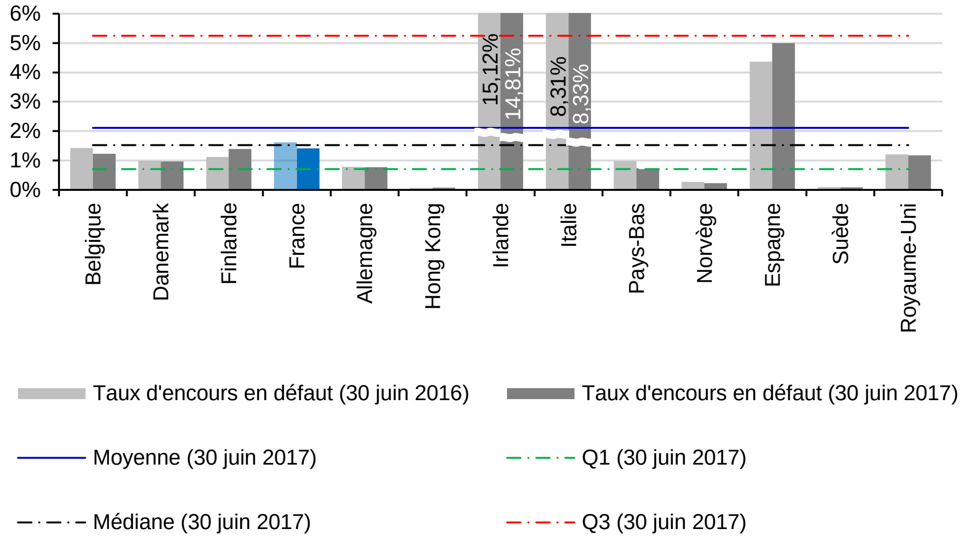
As in 2016, the level of non-performing housing loans in France[11] was below the average for the countries covered by the last EBA transparency exercise; unlike in 2016, it was slightly below the median (Chart 52).

Between 30 June 2016 and 30 June 2017, the ratio of defaulted housing loans for French banks fell by 20 bps to 1.41%, at a faster pace than that for the average of the banks in the sample (down 15 bps to 2.11%). Only Ireland (down 31 bps to 14.81%) and the Netherlands (down 27 bps to 0.71%) recorded stronger decreases. Conversely, the ratio of defaulted housing loans increased in Spain (up 63 bps to 5%) and Finland (up 27 bps to 1.4%). The other countries displayed stable ratios over the period.

[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 52
Ratio of defaulted housing loans by country at 30 June 2017



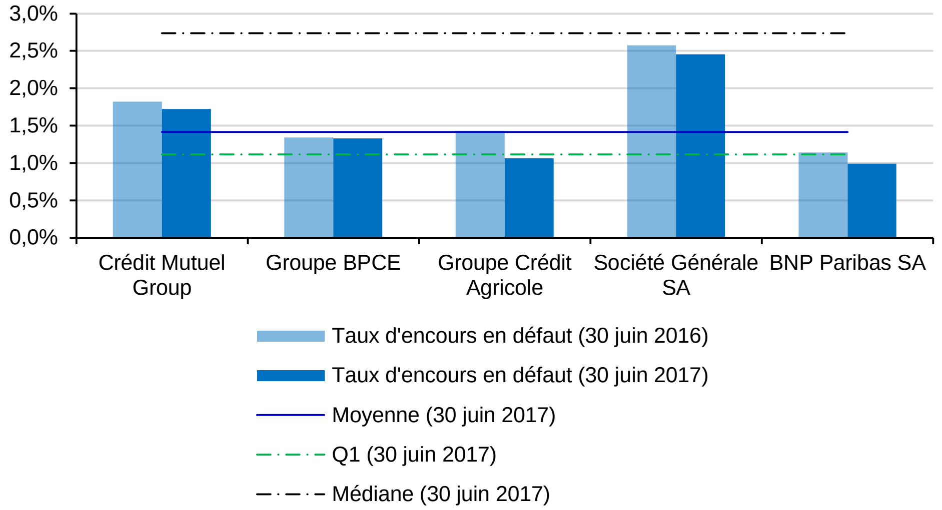
Source: EBA, Transparency exercise (exposures to retail customers excluding SMEs secured by property; subject to the advanced internal ratings-based approach); ACPR calculations; only countries representing at least 1% of total housing loans reported by all banks covered by the EBA exercise are mentioned.

Q1, Q3 = first and third quartiles

Ratio of defaulted housing exposures (30 June 2016); ratio of defaulted housing exposures (30 June 2017); Average (30 June 2017); Median (30 June 2017); Q1 (30 June 2017); Q3 (30 June 2017)
Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Italy, Netherlands, Norway, Spain, Sweden, United Kingdom

As in 2016, French banks, which continued to post relatively heterogeneous NPL ratios, were still below the median (Chart 53). In addition, with the exception of BPCE Group, whose ratio of defaulted housing loans remained virtually stable year-on-year (down 1 bp to 1.33%), all French banks recorded a fall between 30 June 2016 and 30 June 2017, the decline being the most pronounced for Crédit Agricole (down 37 bps to 1.06%).

Chart 53
Ratio of defaulted housing loans in France at 30 June 2017

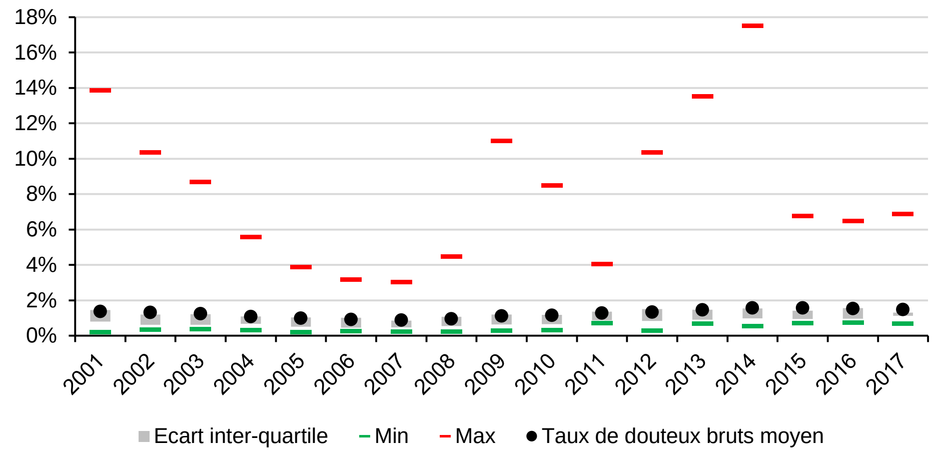


Source: EBA, Transparency exercise (exposures to retail customers excluding SMEs secured by property; subject to the advanced internal ratings-based approach); ACPR calculations on a sample of 28 banks that reported housing loans in France (French banks still account for 99.4% of housing loans extended in France).

Ratio of defaulted loans (30 June 2016); ratio of defaulted loans (30 June 2017); Average (30 June 2017); Q1 (30 june 2017); Median (30 June 2017)

This dispersion can also be observed, to a greater extent, for the institutions in the ACPR survey sample (Chart 54).

Chart 54
Dispersion of gross non-performing housing loan ratios



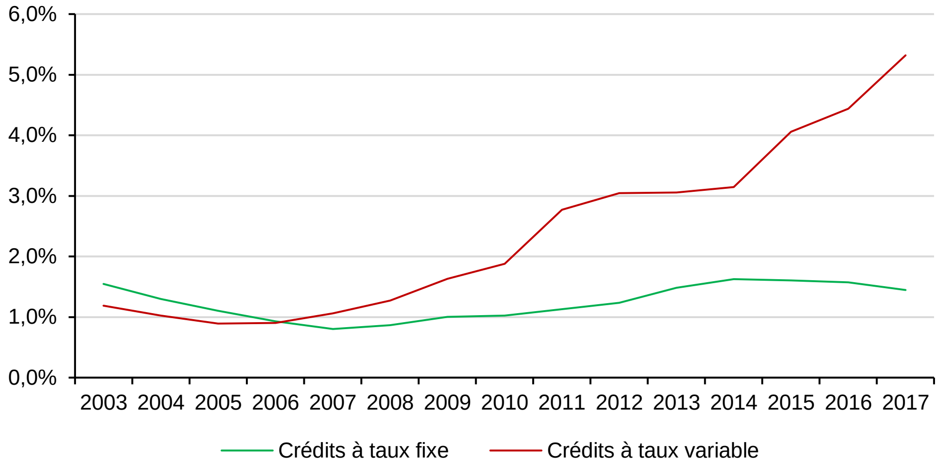
Source: ACPR, annual survey of housing finance

Interquartile range ; Min ; Max ; average non-performing loans ratio

Lastly, while the gross non-performing loan ratio fell for the third consecutive year for fixed-rate loans (down 12 bps to 1.45%), it continued to increase for floating-rate loans (up 88 bps to 5.32%; Chart 55).

Fixed-rate loans; Floating-rate loans

Chart 55
Gross NPL ratio by interest rate type



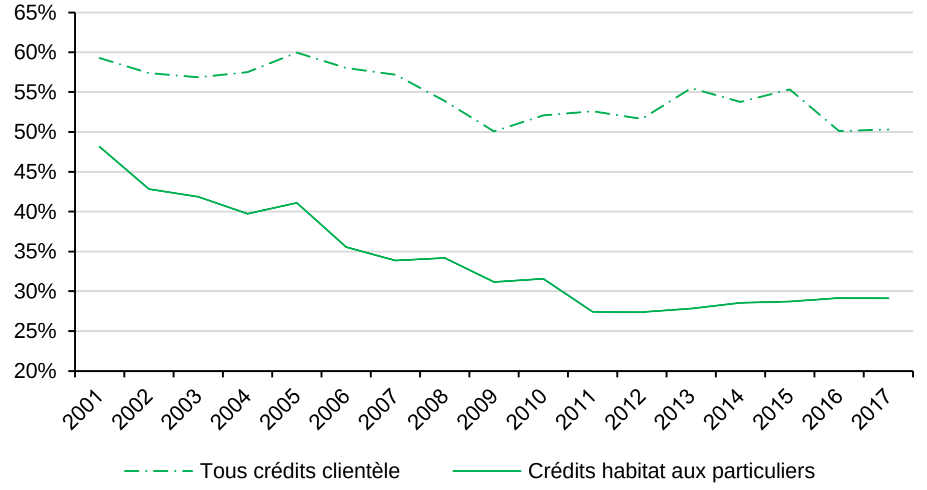
Source: ACPR, annual survey of housing finance

Note: given that the gross NPL ratios by interest rate type were calculated on the basis of a reduced scope (not all banks surveyed disclosed information in this respect), they cannot be directly compared with the gross NPL ratio for all housing loans.

3.3. Provisioning ratios remained unchanged

The NPL provisioning ratio was unchanged at 29.1% (Chart 56), a level that remains below the provisioning ratio observed for all non-bank lending (50.3%) and reflects the importance of the role played by guarantor bodies (see above).

Chart 56
NPL provisioning ratios

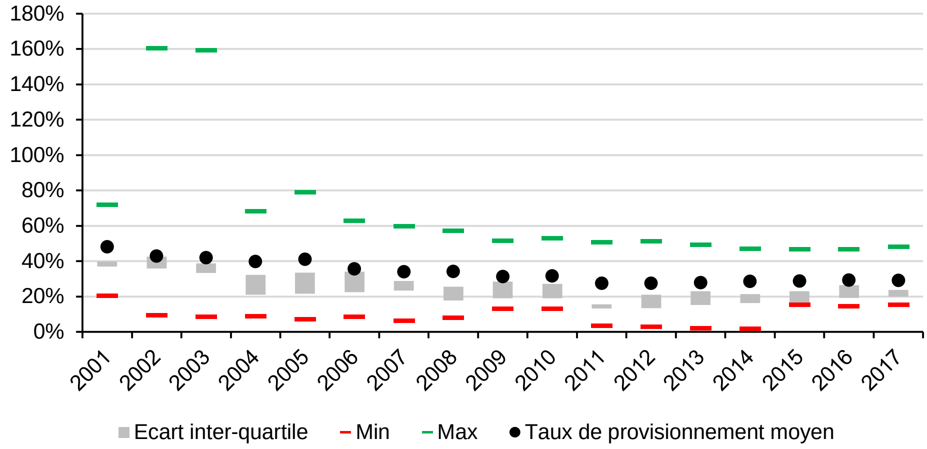


Source: ACPR, annual survey of housing finance and BAFI/SURFI data

All loans ; Housing loans

Although the gap between the highest and lowest provisioning ratios is still significant (one-to-three), it has remained relatively stable over the past three years (Chart 57).

Chart 57
Dispersion of NPL provisioning ratios

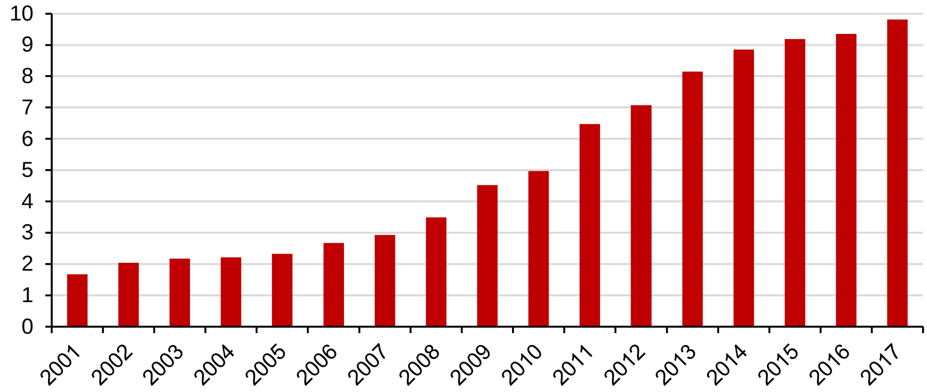


Source: ACPR, annual survey of housing finance

Interquartile range ; Min ; Max ; Average provisioning ratio

In 2017, given that the provisioning ratio remained stable, the net amount of non-performing loans rose by 2.2%, in line with the gross amount, to reach EUR 9.8 billion (Chart 58).

Chart 58
Net non-performing loans in EUR billions

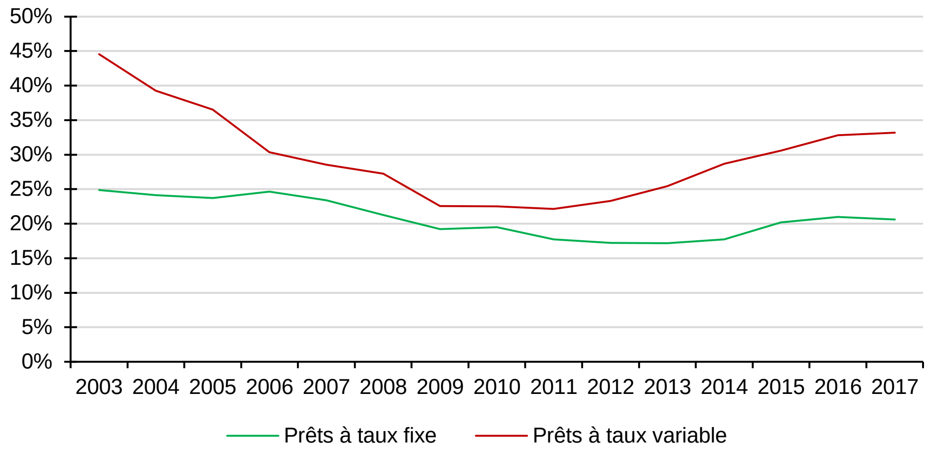


Source: ACPR, annual survey of housing finance

Lastly, the gross NPL provisioning ratio increased slightly for floating-rate loans (up 37 bps to 33.2%), while that for fixed-rate loans moved in the opposite direction (down 41 bps to 21%) (Chart 59).

Fixed-rate loans; Floating-rate loans

Chart 59
Provisioning ratios for non-performing housing loans by interest rate type



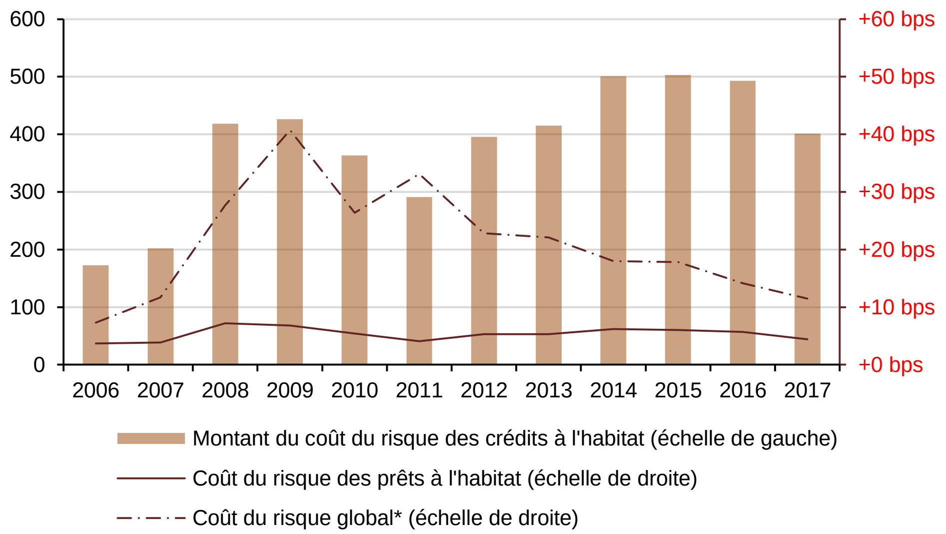
Source: ACPR, annual survey of housing finance

Note: given that the provisioning ratios by interest rate type were calculated on the basis of a reduced scope (not all banks surveyed disclosed information in this respect), they cannot be directly compared with the provisioning ratio for all housing loans.

3.4. The cost of risk was down

The cost of risk, which had started to ebb in 2016, recorded a significant decline in 2017, falling back by 18.6% to stand at EUR 401 million (Chart 60). As a ratio of the average outstanding loan amount, it decreased by 1.4 bp to 4.3 bps. Thus, the cost of risk for housing loans was still much lower than the overall cost of risk of the six largest French banking groups, which, as a ratio of their average balance sheet total, stood at 11.5 bps in 2017.

Chart 60
Cost of risk for housing loans, in EUR millions and as a % of the average outstanding loan amount



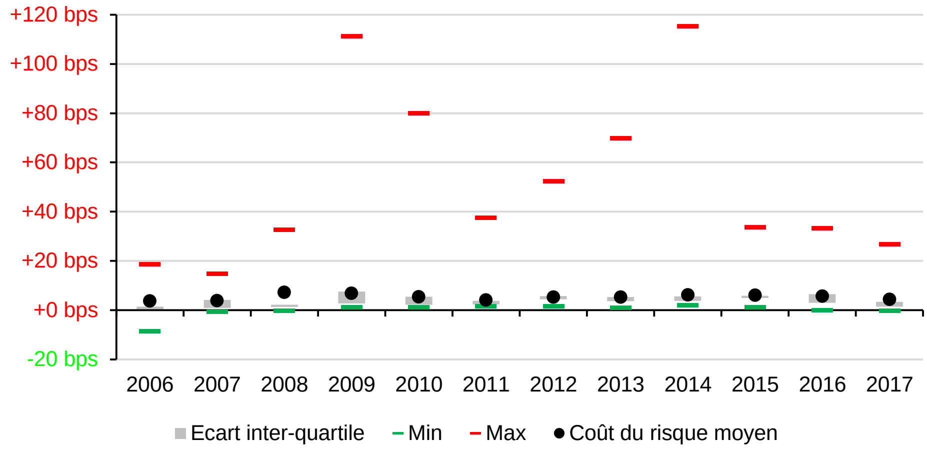
Source: ACPR, annual survey of housing finance; banks' financial disclosures; cost of risk of the six main French banking groups as a ratio of their balance sheet total.

Cost of risk for housing loans amount (lhs); Cost of risk for housing loans / average outstanding housing loans (rhs); Overall cost of risk (rhs)

In addition, the gap between institutions narrowed somewhat (Chart 61).

Interquartile range; Min; Max; Average cost of risk

Chart 61
Dispersion of the ratio of the cost of risk for housing loans to the average loan outstanding



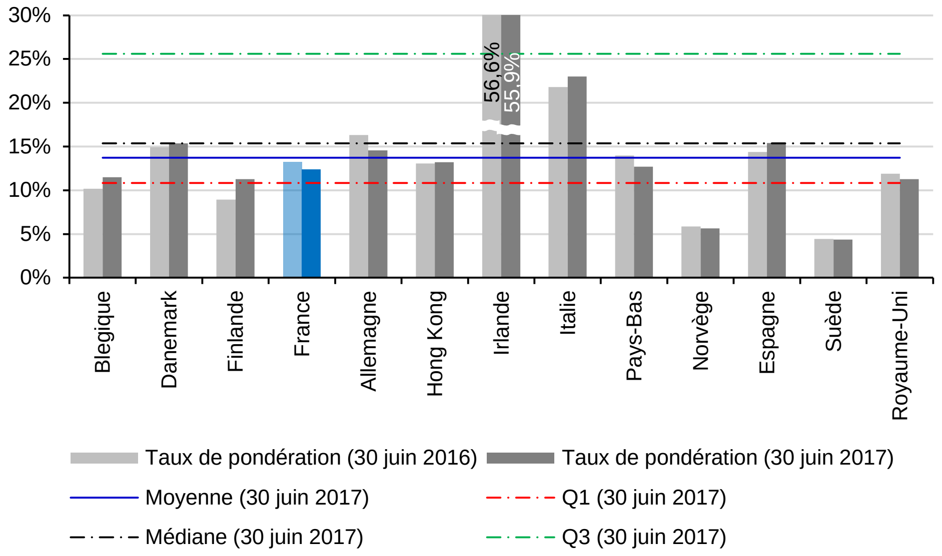
Source: ACPR, annual survey of housing finance

3.5. The average risk weight was below the European banks' average but above it when adjusted for secured loans

At 30 June 2017, 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 12.4%. It falls between the first quartile and the median of the levels observed in all countries covered by the EBA transparency exercise (Chart 62). Sweden (4.4%) and Ireland (55.9%) were still the two extremes.

Between 30 June 2016 and 30 June 2017, the risk weight for housing loans in France decreased by 0.9 pp (from 13.2% to 12.4%); this trend, which is consistent with the improvement in portfolio quality, in particular the decline in non-performing loans and the cost of risk, can also be observed in most countries in the sample, the average risk weight having receded by 1 pp to 13.7%. Germany recorded the largest decline in the risk weight, which dropped by 1.7% to 14.6%, while other countries saw their risk weight increase. Such was the case for Belgium and Finland, which recently implemented macro-prudential measures targeting the financing of residential real estate. They nevertheless remained within the first quartile (with respective increases of 1.3 pp and 2.3 pp to 11.5% and 11.3%). The same holds true for Italy and Spain (with respective increases of 1.1 pp and 1.2 pp to 23% and 15.4%).

Chart 62
Risk weights of housing loans by country of exposure (A-IRB) at 30 June 2017

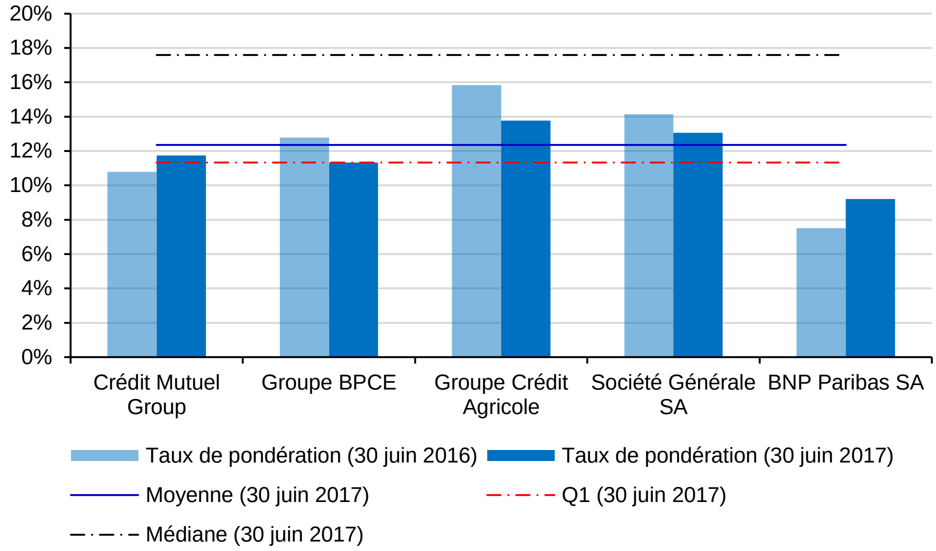


Source: EBA, Transparency exercise (exposures to retail customers excluding SMEs secured by property; subject to the advanced internal ratings-based approach); ACPR calculations; only countries representing at least 1% of total housing loans reported by all banks covered by the EBA exercise are mentioned.

Risk weight (30 June 2016); Risk weight (30 June 2017); Average (30 June 2017); Median (30 June 2017); Q1 (30 June 2017); Q3 (30 June 2017)
Belgium; Denmark; Finland; France; Germany; Hong Kong; Ireland; Italy; Netherlands; Norway; Spain; Sweden; United Kingdom

French banks continued to exhibit relatively different risk weights across France, as well as contrasting trends: while the BPCE, Crédit Agricole and Société Générale groups recorded a drop in their risk weights (down 1.5 pp, 2.1 pp and 1.1 pp respectively), Crédit Mutuel Group and BNP Paribas saw the latter rise by 0.9 pp and 1.7 pp (Chart 63). Like in the case of provisioning ratios, the differences in risk weights across French banks may reflect different borrower characteristics or guarantee schemes. These were thus slightly down compared to mid-2016.

Chart 63
Risk weights of housing loans in France (A-IRB) at 30 June 2017



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

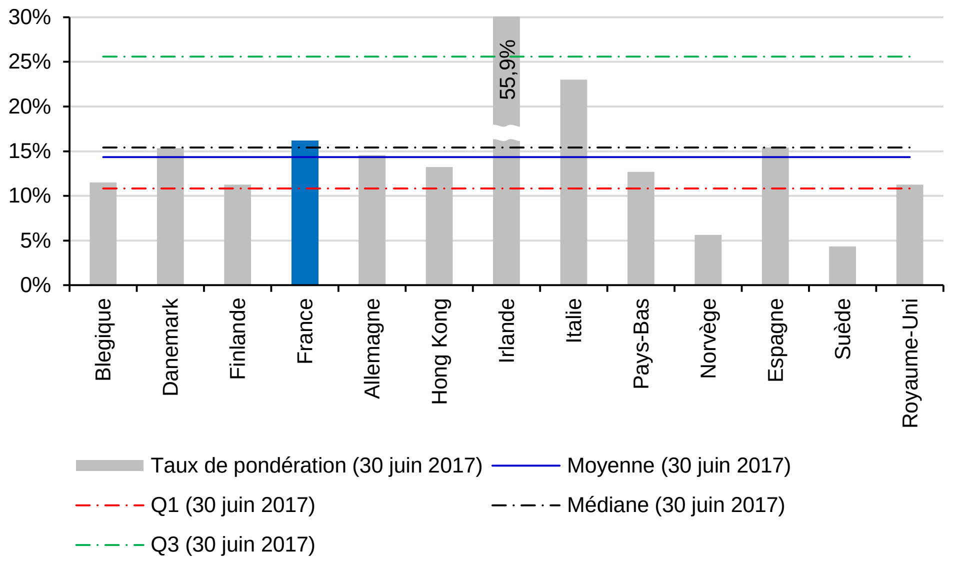
Risk weight (30 June 2016); Risk weight (30 June 2017); Average (30 June 2017); Median (30 June 2017); Q1 (30 June 2017)

However, it should be reminded that this representation only provides a partial view of the risk weights for housing loans extended by French banks. This is because these banks are covered by substantial guarantees provided by entities of which they are shareholders and which are also obliged to meet capital requirements. From a prudential point of view, secured loans are thus covered both by banks and 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, when the risk weights for the secured housing loans extended by French banks were added to those calculated by Crédit Logement for the same outstanding loans, the average risk weight for French banks' housing loans increased by 3.8 pp to 16.15% at 30 June 2017, and was above the average and median of the different countries covered by the EBA transparency exercise (Chart 64).

Risk weight (30 June 2017); Average (30 June 2017); Median (30 June 2017); Q1 (30 June 2017); Q3 (30 June 2017)
Belgium; Denmark; Finland; France; Germany; Hong Kong; Ireland; Italy; Netherlands; Norway; Spain; Sweden; United Kingdom

Chart 64
Risk weights for housing loans by country of exposure (A-IRB) at 30 June 2017 including the risk weights calculated by Crédit Logement



Source: EBA, Transparency exercise (exposures to retail customers excluding SMEs secured by property; subject to the advanced internal ratings-based approach); ACPR calculations; only countries representing at least 1% of total housing loans reported by all banks covered by the EBA exercise are mentioned.

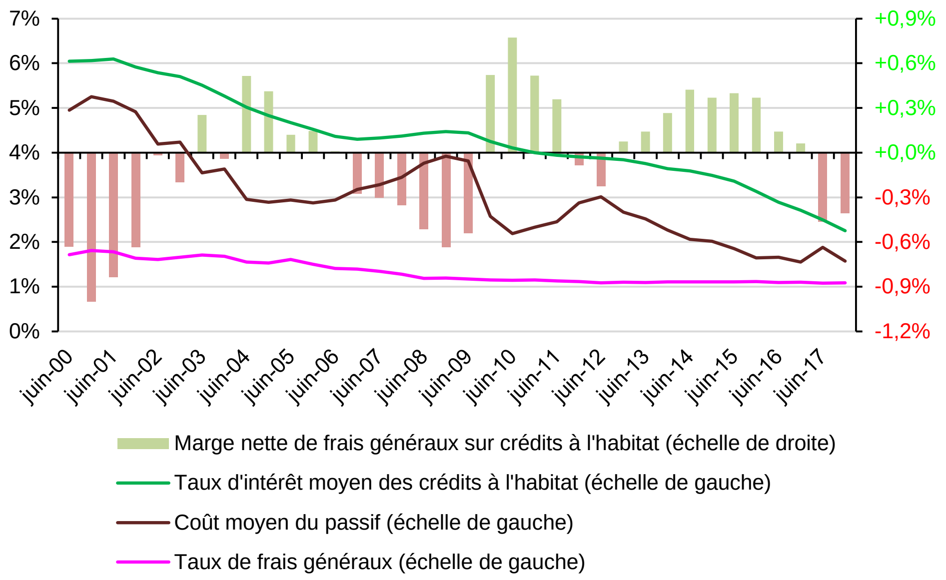
3.6. Margins declined sharply

Although the average liability cost and the overhead rate remained virtually unchanged (inching up from 1.55% to 1.58% and from 1.10% to 1.09% respectively), continuing a trend started in mid-2016, the net margin ratio[12] continued to decline in 2017 as a result of the rapid fall in the average interest rate (from 2.71% in December 2016 to 2.25% in December 2017) (Chart 65).

Even though loan transfers fell sharply in 2017 (see above), the rate on new loans remained below the average rate on outstanding loans. The gap was 64 bps in December 2017, down from 121 bps in December 2016. In these circumstances, unless the rate of new loans increases in the near future, the renewal of outstanding loans should continue to lower the average interest rate on outstanding loans for some time.

[12] See Box 2 of Analyses et Synthèses No. 82 for a detailed presentation of the method for calculating margins on outstanding housing loans.

Chart 65
Changes in margins on outstanding housing loans



Source: BAFI and SURFI, all French banks; ACPR calculations

Net margin of overheads on housing loans (rhs); Average housing loan interest rate (lhs); Average liability cost (lhs); Overhead rate (lhs)

Lastly, it should be noted that the fall in margins is compounded by the uncertainties weighing on borrower insurance revenues, as since 1 January 2018, any contract may, under the Bourquin amendment, be replaced at the time of its annual maturity by an equivalent contract or one with greater guarantees.

Initial loan maturity: for a given year, it corresponds to the average of all initial maturities as set out in the loan agreements, weighted by the loan outstandings.

Loan to value (LTV):

- At origination, the LTV ratio corresponds to the ratio between the principal loan amount and the purchase price of the property, excluding transaction and transfer taxes; it can also be defined as the difference between 1 and the borrower's down payment ratio. Banks report the average of LTV ratios per transaction weighted by the amount of housing loans granted over the period.
- During the term of the loan, the LTV ratio corresponds to the ratio between the outstanding principal of the loan and the market value of the financed property. This information has been included in the annual survey of housing finance since its revision in 2012.

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

Loan transfer: a transaction whereby a bank purchases a borrower's loan from another bank. As loan transfers are followed by the issuance of a new loan to the borrower (by the bank purchasing the original loan), they are included under gross new housing loans measured by the ACPR. They do not, however, affect the net balance of new housing loans[13] as the new loan amount is immediately offset by the repayment of the borrower's original loan to the other bank.

Renegotiation: a transaction whereby the borrower obtains new terms on an original loan, notably a new rate of interest. Renegotiations do not result in the provision of a new loan and therefore do not have to be reported by banks as part of the ACPR's monthly monitoring of new housing loans. They are, however, included in new housing loans measured by the Banque de France as they result in the issuance of a new agreement.

Average borrower income at origination: it is estimated using the following proxy method:
- First, an estimate is made of the total repayment due in a given year or month based on an average-sized loan with an average initial maturity and an average rate of interest; in 2017, on the basis of a loan of EUR 161,350 with an initial maturity of 19 years and a (fixed) interest rate of 1.59%, the total repayment due over the year is EUR 9,858;
- Second, average borrower income at origination is obtained by dividing the repayment amount by the average debt service ratio; in 2017, on the basis of an average debt service ratio of 29.7%, average income was EUR 33,194.

This calculation can somewhat understate borrower income at origination, in that the denominator (the average debt service ratio) takes account of all the debts that a borrower must repay whereas the numerator (the repayment amount) only takes account of the real estate debt. Nevertheless, on an aggregate basis, housing loans to individuals granted in France represented the vast majority of outstanding loans to individuals at end-2016 (see below).

Debt service ratio at origination: the ratio of a borrower's regular outgoings (including all loan repayments) to the borrower's gross income.

Loan to income (LTI) at origination: it is the ratio of the average loan amount at origination to the borrower's estimated annual income at that date. The LTI ratio thus shows how many years of income a borrower would need to repay a housing loan.

[13] Net new lending for a given period is defined as the difference between new loan contracts and contractual or early repayments on existing loans.

List of charts

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