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DECREE
of Národná banka Slovenska
of 14 November 2017
laying down detailed provisions on the assessment of
borrowers' ability to repay consumer loans

Národná banka Slovenska, in accordance with Section 7(41)(a) to (c) of Act No 129/2010 on consumer credits and on other credits and loans for consumers (and amending certain laws), as amended (hereinafter 'the Act'), has adopted this Decree:

Section 1
Subject matter

This Decree applies to creditors as defined in Section 20(1)(a) of the Act, banks, foreign banks, and foreign bank branches¹ (hereinafter referred to collectively as 'creditors' and individually as a 'creditor') and specifies details about:

- (a) the method for calculating the indicator of a borrower's ability to repay a consumer loan (hereinafter 'debt service-to-income (DSTI) ratio');
- (b) how to take into account a potential increase in the interest rate on a consumer loan (hereinafter 'borrowing rate');
- (c) what is meant by significantly exceeding the sum of the outstanding amounts of loans that are to be refinanced or topped up;
- (d) requirements for obtaining information about, and submitting evidence of, a borrower's income and for the verification of information on a borrower's income;
- (e) the maximum term of a consumer loan.

Section 2
The method for calculating the DSTI ratio

(1) The DSTI ratio shall be calculated as the ratio of the borrower's financial obligations under paragraph 3 to the borrower's total net income under paragraph 4 less the borrower's total expenditure on basic necessities under paragraph 5. All items of the calculation of the DSTI ratio are calculated for a period of one month.

(2) The maximum limit on the DSTI ratio calculated in accordance with paragraph 1 is 1.

(3) For the purposes of paragraph 1, a borrower's financial obligations shall be determined as the sum of:

- (a) the amount of the consumer loan instalment under Section 7(20)(c) of the Act, subject to the provisions of paragraphs 8 and 9 and Section 4 of this Decree; and
- (b) the borrower's income-reducing financial obligations under Section 7(20)(d) of the Act, subject to the provisions of paragraphs 10 to 17 of this Decree.

(4) A borrower's total net income under Section 7(20)(a) of the Act means the arithmetic average of the borrower's net real income for a specific period of time, normally the three calendar months immediately preceding the assessment of the borrower's ability to repay the consumer loan.

¹ Section 2(1), (7) and (8) of Act No 483/2001 on banks, as amended by Act No 213/2014.

(5) For the purposes of paragraph 1, the borrower's expenditure on basic necessities under Section 7(20)(b) of the Act shall not be set lower than the sum of the borrower's minimum subsistence amount,² the total minimum subsistence amounts of all persons living with the borrower in a common household to whom the borrower has a maintenance obligation,³ and the total maintenance payments that the borrower pays to other persons under a court order or, if the amount of the maintenance is not specified by the court, not less than 30% of the total minimum subsistence amounts of such persons. Total expenditure means the borrower's expenditure on basic necessities under the first sentence increased by 20% of the difference between, on the one hand, the borrower's total net income and, on the other hand, the sum of the borrower's minimum subsistence amount, the total minimum subsistence amounts of all persons living with the borrower in a common household to whom the borrower has a maintenance obligation, and the total maintenance payments that the borrower pays to other persons under a court order or, if the amount of the maintenance is not specified by the court, not less than 30% of the total minimum subsistence amounts of such persons.

(6) Total expenditure shall not include the increase mentioned in the second sentence of paragraph 5 if the ratio of the borrower's total debt, including the consumer loan applied for, to the borrower's net annual income, calculated as 12 times the borrower's total net income in accordance with paragraph 4, does not exceed 1. For the purposes of this paragraph and paragraph 7, the borrower's total debt means the sum of the outstanding amounts of the borrower's existing loans, verified in an electronic credit register and calculated as the sum of the outstanding amounts of the borrower's existing housing loans, consumer loans, overdraft credit, and credit card credit, and the amount equal to 20% of the undrawn amount of the borrower's authorised overdraft and credit card facilities.

(7) Where a consumer loan is provided for the acquisition of a right in rem in movable property that will serve as collateral for the loan and the loan does not exceed 80% of the purchase price of the collateral, total expenditure shall not include the increase mentioned in the second sentence of paragraph 5 if the ratio of the borrower's total debt, including the consumer loan applied for, to the borrower's net annual income, calculated as 12 times the borrower's total net income in accordance with paragraph 4, does not exceed 1.5.

(8) For the purposes of Section 7(20)(c) of the Act, in respect of consumer loans which are subject to a fixed borrowing rate as defined in Section 2(k) of the Act and to repayment in varied instalment amounts, the DSTI ratio shall be calculated using whichever instalment amount is the highest. In the calculation mentioned in the previous sentence, the first and last instalments shall not be taken into account, except that the last instalment shall be taken into account if the instalments are payable once a year.

(9) For the purposes of Section 7(20)(c) of the Act, in respect of authorised overdrafts and credit card credit, the DSTI ratio shall be calculated using the minimum monthly instalment that would be payable if the borrower's authorised overdraft and credit card facilities were fully drawn, but not less than 3% of the total amount of the borrower's authorised overdraft and credit card facilities.

(10) For the purposes of Section 7(20)(d) of the Act, when calculating the borrower's financial obligations related to existing loan agreements under which the borrower is a co-borrower, the borrower shall be treated as the sole borrower under these agreements. If a co-borrower under another loan agreement applies for a loan together with the borrower, the instalment amount of the other loan shall be included only once.

² Act No 601/2003 on the minimum subsistence amount (and amending certain laws), as amended.

³ Sections 62 to 65 of Act No 36/2005 on family (and amending certain laws), as amended.

(11) For the purposes of Section 7(20)(d) of the Act, in respect of loans which are not subject to a fixed borrowing rate under other legislation,⁴ have a residual term of more than eight years, are to be provided at the same time as the consumer loan or have already been provided, and will not be repaid by the consumer loan applied for, the borrower's income-reducing financial obligation shall be the higher of the following two amounts:

- (a) the current instalment amount;
- (b) what the instalment would be if the borrowing rate were at least two percentage points higher than the borrowing rate currently stipulated in the loan agreement and if the loan had a term of 30 years; or, alternatively, if the instalment were higher by a percentage whose numerical value is equal to the loan's residual term expressed in calendar years.

(12) For loans meeting conditions under other legislation,⁵ the tax bonus shall not be taken into account.

(13) For loans which over the term of the loan are not subject to a fixed borrowing rate as defined in other legislation⁴ and which, at the same time, are subject to a borrowing rate fixed for more than ten years, the calculation under paragraphs 11 and 12 shall assume a stressed borrowing rate that is at least one percentage point higher than the current borrowing rate of the loan; or, alternatively, it shall assume that the instalment amount is higher by a percentage whose numerical value is equal to half of the loan's residual term expressed in calendar years

(14) If the loan agreement stipulates that the maximum cumulative increase in the borrowing rate over the term of the loan shall be lower than two percentage points, the calculation under paragraphs 11 and 12 shall assume a stressed borrowing rate at that maximum level.

(15) For loans secured by immovable property, the stressed borrowing rate under paragraphs 11 to 14 shall not exceed 6%.

(16) The provisions of paragraph 11 to 15 concerning the amount of the financial obligation may be waived if:

- (a) the period of time for which the borrowing rate of the existing loan will remain fixed is longer than the term of the consumer loan applied for; and
- (b) the borrower does not have another loan with a residual term of less than eight years, other than a consumer loan in the form of a revolving credit line.

(17) For the purposes of Section 7(20)(d) of the Act, the amount included in the calculation under paragraph 3(b) shall be at least equal to 3% of the total amount of the borrower's authorised overdraft and credit card facilities.

(18) The accuracy and currency of information on existing loan instalments required for calculating the amount of the borrower's income-reducing financial obligations under paragraphs 10 to 17 shall be verified against the information on the existing consumer and housing loans which is available in a consumer credit register at the time when the provision or topping-up of the consumer loan is being assessed.

(19) If in the assessment of a borrower's ability to repay a consumer loan, it is assumed that the borrower will become entitled to receive an old-age pension⁶ at some point during the term of the loan, this fact shall be taken into account either for the assumption of the maximum term of the loan or for the assumption of a reduction in the borrower's income.

⁴ Section 2(1)(j) of Act No 90/2016 on housing loans (and amending certain laws).

⁵ Section 33a of Act No 595/2003 on income tax, as amended.

⁶ Sections 65, 65a, 66 and 109 of Act No 461/2003, as amended.

Section 3

How to take into account potential increases in borrowing rates

(1) The potential impact of an increase in the borrowing rate as defined in Section 7(22) of the Act shall be included in the calculation of the DSTI ratio under paragraph 2 and 3 of this Section for the provision of a consumer loan which:

- (a) does not have a fixed borrowing rate, as defined in Section 2(k) of the Act, for the term of the loan; and
- (b) does not have a fixed borrowing rate, as defined in Section 2(k) of the Act, for an unspecified part of the loan's term, providing that the term of the loan does not exceed five years.

(2) For consumer loans mentioned in paragraph 1, the calculation of the borrower's DSTI ratio shall include the higher of the following two amounts:

- (a) the instalment amount stipulated in the consumer loan agreement;
- (b) what the instalment would be if the borrowing rate were at least two percentage points higher than the current borrowing rate stipulated in the loan agreement and if the loan had a maximum term in accordance with Section 6.

(3) If a consumer loan agreement stipulates that the maximum cumulative increase in the borrowing rate over the term of the loan shall be lower than two percentage points, the calculation under paragraph 2 shall assume a stressed borrowing rate at that maximum level.

Section 4

Significantly exceeding the sum of the outstanding amounts of loans that are to be refinanced or topped up

(1) For the purposes of Section 7(24) and (31) of the Act, significantly exceeding the sum of the outstanding amounts of loans that are to be refinanced or topped up means exceeding that sum by more than the lower of the following two amounts:

- (a) €2,000;
- (b) 5% of the sum of the outstanding amounts of the loans that are to be refinanced or topped up, whether consumer loans or housing loans.

(2) If a creditor refinances or increases the total amount of a loan mentioned in paragraph 1 after refinancing or topping up the same loan within the previous twelve months, criteria for significantly increasing the total amount of the consumer loan or for exceeding the sum of the outstanding amounts of the loans that are to be refinanced or topped up shall be assessed on a cumulative annual basis.

Section 5

Requirements for obtaining information about, and submitting evidence of, a borrower's income for the verification of information on a borrower's income

(1) For the purposes of verifying information on a borrower's income, internal sources of information on a borrower's income refers to credit turnover, such that may be objectively considered as income in any payment account⁷ which the borrower holds with the creditor, where the creditor is a provider of payment services.

⁷ Section 2(9) of Act No 492/2009 on payment services (and amending certain laws), as amended.

(2) For the purposes of verifying information on a borrower's income, external sources of information on a borrower's income refer to the following:

- (a) a document confirming the borrower's income which is issued by the borrower's employer and is not older than three months;
- (b) statements, not older than three months, of any payment account which the borrower does not hold with the creditor and in which the credit turnover is such that may be objectively considered as income of the borrower;
- (c) information, for a period not older than three months, about one or more of the borrower's payment accounts which are not held with the creditor and in which the credit turnover is such that may be objectively considered as income of the borrower, with the information to be provided in a manner that allows the information to be stored and reproduced without being changed;⁸
- (d) the borrower's employment agreement including all its addenda;
- (e) confirmation from the tax authorities of the borrower's income according to the borrower's most recent income tax return, and a document proving the borrower's income for the period between the filing date of that tax return and the assessment of the borrower's ability to repay the consumer loan;
- (f) a recent document, usually not older than three months, confirming the amount of benefits that the borrower receives under other legislation;⁹
- (g) verification of the borrower's income based on information from the Social Insurance Agency;¹⁰
- (h) another document proving the amount of the borrower's income.

(3) A borrower's declaration of honour on his or her income is not proof of income.

(4) Credit turnover that may be objectively considered as a borrower's income means credit turnover in the borrower's payment account which constitutes the borrower's regular net income and from which the income may be calculated as an arithmetic average for a specific period of time, normally the three immediately preceding calendar months.

Section 6

Maximum terms of consumer loans

(1) The term of a consumer loan not referred to in paragraph 2 shall be set so that it does not exceed eight years.

(2) The term of a consumer loan under other legislation¹¹ shall be set so that it does not exceed thirty years.

Section 7

Transitional provisions

(1) Until 30 June 2018 the provision of Section 2(5) applies as follows: the borrower's total expenditure on basic necessities means the borrower's expenditure on basic necessities under the first sentence of Section 2(5) increased by 15% of the difference between, on the one hand, the borrower's total net income and, on the other hand, the sum of the borrower's minimum subsistence amount, the total minimum subsistence amounts of all persons living with the borrower in a common household

⁸ Act No 492/2009 on payment services, as amended.

⁹ Act No 328/2002 on social security for police officers and soldiers (and amending certain laws), as amended.
Act No 461/2003 on social insurance, as amended.

¹⁰ Section 170 of Act No 461/2003 on social insurance, as amended.

¹¹ Section 7(7) of Act No 310/1992 on home savings, as amended.

to whom the borrower has a maintenance obligation, and the total maintenance payments that the borrower pays to other persons in an amount determined by a court.

(2) For loans provided before 1 January 2018, the borrowing rate used in the calculation of the DSTI ratio under Section 2(11) shall not include any reduction by the amount of the state interest subsidy under a other legislation¹² and by the amount by which the creditor reduces the borrowing rate under other legislation¹² in respect of mortgage loans for young people under other legislation;¹² or, alternatively it shall assume that the instalment amount is higher by a percentage whose numerical value is equal to three times the numerical value of the loan's residual term expressed in calendar years.

Section 8 Commencement

This Decree takes effect on 1 January 2018.

**Jozef Makúch
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¹² Section 85a of Act No 483/2001 on banks, as amended.