

## *REGULATIONS ON HOUSING LOANS*

Economic growth reached nearly 10% in 2005, the real estate sector being the main driving force behind acceleration. Although the Estonian economy as a whole did not show signs of imbalances, the real estate sector experienced excessive demand. Contrary to expectations, the growth rate of housing loans did not decrease at the end of 2005 but increased to approximately 70% in annual terms. The robust loan growth, in turn, brought about a 30% increase in residential property prices. In construction, prices increased by an annual average of 7-8%.

Considering the above factors, Eesti Pank decided to change housing loan regulations for banks by:

- Raising the risk weight on housing loans in capital adequacy calculation to 100% instead of the earlier 50%, as a result of which banks have to increase the share of own funds in financing housing loans;
- Including 50% of the housing loan portfolio in the reserve requirement base, in case the bank's risk weight in capital adequacy calculation is lower compared to what Eesti Pank has established.

Taking into account the impact of close cross-border relations of Estonian banking on the Estonian loan market, a proposal was made to the supervisory authorities of foreign banks with branches in Estonia and some foreign central banks to apply a 100% risk weight also on the housing loans of Estonian residents, if possible.

As a result of these measures, banks have to increase the amount of their own capital in financing lending, which increases their own responsibility when granting housing loans. The new regulations may cause the banks to review their loan conditions. The regulations entered into force on 1 March 2006.