

Pursuant to Article 44 paragraph 2 point 10 of the Central Bank of Montenegro Law (OGM 40/10, 46/10, 06/13 and 70/17), at its meeting held on 14 October 2019, the Council of the Central Bank of Montenegro passed the following

## **DECISION**

### **on Macroprudential Measures related to Retail Banking Loans**

1. This Decision introduces macroprudential measures to be applied to cash loans that banks grant to natural persons and prescribes the obligation of calculating the level of credit indebtedness of natural persons with a view to maintaining the financial system stability and sustainability of retail credit facilities.

Cash loans referred to in paragraph 1 above shall be considered loans that are the subject of the law regulating consumer loans, other than housing loans.

2. Banks may extend retail cash loans with a repayment period over eight years and contract the extension of repayment term specified in the master loan agreement so that the remainder repayment term exceeds eight years, provided that the loan is fully secured by:
  - 1) fiduciary duty or mortgage;
  - 2) pledge over movable property or
  - 3) financial instruments, guarantees/counter guarantees and other instruments of tangible and intangible collateralization that meet the requirements that can be used to mitigate credit risk, in accordance with the Central Bank decision regulating capital adequacy in banks
3. A bank holding in its credit portfolio retail cash loans with a remaining maturity over six years that exceed 50% of the bank's own funds may grant retail cash loans with a repayment period longer than six years or contract the extension of repayment term specified in the master loan agreement, provided that they have been secured by collateral specified in point 2 of this Decision.

The calculation of the total amount under paragraph 1 above shall not include cash loans secured by the collateral specified in point 2 of this Decision.

4. When granting new loans, banks shall calculate the following indicators of credit indebtedness of individual private borrowers:
  - 1) **LTI** (loan-to-income) ratio which represents the amount of a loan granted and total annual income of the borrower, expressed as a percentage;
  - 2) **DTI** (debt-to-income) ratio which represents the amount of total loan debt and total annual income of the borrower, expressed as a percentage;
  - 3) **LSTI** (loan-service-to-income) ratio which represents the amount of the annual loan cost and total annual income of the borrower, expressed as a percentage;
  - 4) **DSTI** (debt-service-to-income) which represents the ratio of the annual cost of all loans and total annual income of the borrower, and
  - 5) **LTV** (loan-to-value), which represents the ratio of the loan granted and the estimated value of collateral.

The annual loan cost specified in paragraph 1 above shall be the total amount to be repaid by the borrower, expressed on annual level.

Total annual income of a borrower shall cover gross earning, allowances and other borrower income that can be evidenced, net of taxes and other liabilities arising from such income.

5. Banks shall keep records of the indicators referred to in point 4 herein which they use to manage credit risk and establish acceptable level of indebtedness when granting cash loans to individuals.
6. Macroprudential measures specified herein shall remain in effect two years following the application date of this Decision.
7. Banks that fail to comply with this decision shall be subject to measures specified in the law regulating the taking up and pursuit of banking business.
8. This Decision shall enter into force on the eighth day following that of its publication in the Official Gazette of Montenegro and it shall apply from 1 January 2020.

#### **THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO**

Decision no. 0101- 8911-3/2019  
Podgorica, 14 October 2019

**CHAIRMAN  
GOVERNOR,**  
**Radoje Žugić m.p.**

