



” Instalment-free periods - the government's response to rising interest rates on mortgage loans

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AMRON CENTRE ANALYSIS

June 27, 2022





On its last session, on June 8 this year, Monetary Policy Council (NBP) took the subsequent decision to raise interest rates. As experts expected, NBP reference rate was increased by 75 basis points. This was a response to dynamically growing inflation, accelerating from month to month. According to the data of the Central Statistical Office, consumer price index increased in May 2022 by 13.9% compared to the same month last year. What is worse, it is difficult to expect any change in this trend in the near future. Previously observed pro-inflation factors (post-COVID recovery of the economy, increase in energy prices, monetary policy) are presently intensified by the new ones, related to the Russian aggression on Ukraine, including in particular further inflation impulses related to the prices of energy resources and the blockade of food exports from Ukraine. Additionally, the government seems to be erratic and not determined in its fight against inflation, implementing measures that are inconsistent with the activities and measures implemented by the NBP. As a result, we can expect further increases in inflation and consequently also in interest rates. So far, the NBP reference rate has increased by 5.90% from the level recorded in October 2021. However, with a high degree of probability it can be assumed that it was not the last increase of the rate and its target level is difficult to predict. Meanwhile, during the period of low interest rates, i.e. from May 2020 to September 2021, banks granted approx. 340 000 new loans for housing purposes, the vast majority of which were of course loans with a variable interest rate based on the WIBOR ratio. The social scale of the problem can therefore be significant. The increase in repayments of a mortgage in the amount of PLN 300 thousand, taken for 25 years due to the increase in interest rates reached the level of approximately 50% of the instalment paid by the borrower in October, and for the growing number of households, the burdens related to the loan repayments have already exceed the level of 50% of income (a reminder: Polish Financial Supervision Authority (KNF) in Recommendation S indicated the acceptable level of DSTI at 40% for borrowers with lower income and 50% for those with higher income).

Borrowers in a difficult financial situation already have available a number of solutions offering support, such as Borrower Support Fund, credit holidays introduced in connection with the coronavirus pandemic, possibility of annexing a loan agreement - switching to a loan with a fixed interest rate, change of the loan period and others. However, due to the difficult situation related to the dynamic increase in the amount of loan instalments, the government presented a new draft solution: the act on crowdfunding for business ventures and assistance to borrowers.

The new bill provides for changes in two main areas. Firstly, it introduces amendments to the Act of March 23, 2017 on mortgage loans and supervision over mortgage brokers and agents (Journal of Laws of 2020, item 1027, as amended) in scope of activities related to the loan restructuring process. The change assumes so-called instalment-free periods, i.e. possibility of temporarily suspending repayment of a mortgage loan, taken out to meet the borrower's housing needs. The time horizon of the proposed solution covers the period until the end of 2023, and the right to suspend mortgage payments is to be available for two months per quarter in the period from July 1, 2022 to December 31, 2022 and for one month per quarter in the period from January 1, 2023 to December 31, 2023. Suspension of repayments will apply to both the principal and interest parts of the loan instalment, however, during the suspension periods, the borrower will be required to pay fees for insurance related to the loan agreement. This solution will be addressed only to those borrowers, who have incurred liabilities in Polish zlotys. Importantly, if the borrower takes advantage of this solution, all the terms provided for in the loan agreement will be automatically extended. Applications for instalment-free periods can be submitted both in paper and electronic form.

Secondly, the project assumes replacing WIBOR with alternative measure of mortgage interest rates. In draft author's opinion, the WIBOR ratios are too high, what naturally results in high interest rates on mortgage loans. It is therefore necessary to replace them with a different base rate. According to the draft act, KNF is to initiate the process of determining the new index. If a satisfactory solution cannot be found, a new base rate may become the POLONIA reference rate. POLONIA is a percentage rate determining the average interest rate on unsecured one-day interbank deposits, set by the National Bank of Poland. Transition to the new index is planned to take place from the beginning of 2023.



The draft also provides for increasing the amount of the Borrowers Support Fund to PLN 2 billion (by PLN 1.4 billion) and introducing the possibility of wider use of those funds. It also formally repeals the provisions on instalment-free periods introduced in connection with the COVID-19 epidemic and clarifies the definition of a housing loan by indicating the purpose of such loan, which must be satisfying the borrower's housing needs, as well as by defining circumstances than exclude the possibility of obtaining the support.

The proposed idea of instalment-free periods proved successful in case of the support programmes launched during the COVID-19 pandemic. A total number of 210 000 mortgage borrowers have benefited from a solution similar to the proposed one. According to the assumptions of the act, the value of support for the new solution is to reach PLN 4 billion, which is estimated to reduce costs related to mortgage loans repayments by 1/3 in the period of 2022-2023. However, it should be emphasized that this solution brings a temporary relief in monthly burdens at the price of a possible (even significant) increase in the total amount of the liability. Changing the benchmark for mortgage interest rates may occur even more illusory support. The level of the POLONIA rate is currently lower than the level of the WIBOR3M and 6M ratios by approx. 1.5%, so the benefit for the borrowers when changing the interest rate indicator could be measurable. However, as historical data shows, there is no guarantee that this difference will persist. It should also be remembered that the dynamics of the POLONIA rate's growth in recent months clearly corresponded to the dynamics of interest rate increases, so the conversion will not stop further increases in interest rates in the event of further increases in base rates. Last but not least, the rate itself will remain only one element of interest rates on loans.



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