



FMA CIRCULAR ON SOUND PRIVATE RESIDENTIAL REAL
ESTATE LENDING (ARTICLE 5 PARA. 1 KI-RMV)

FMA CIRCULAR ON PRIVATE RESIDENTIAL REAL ESTATE
FINANCING

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1 INTRODUCTION

1.1 SUBJECT MATTER

- (1) Since it had been decided not to extend the Regulation on Real Estate Financing Measures in Credit Institutions (KIM-V; *Kreditinstitute-Immobilienfinanzierungs-Verordnung*)¹ beyond 30 June 2025, the Financial Market Stability Board (FMSG; *Finanzmarktstabilitätsgremium*) instructed the FMA in its meeting on 2 December 2024 to review suitable measures for safeguarding lending standards established under the KIM-V. In the press release issued about its meeting held on 26 February 2025, the FMSG advised that sustainable lending remains essential to financial stability and proposed the following guideline: "*Guideline on lending standards: The board emphasizes that the loan-to-collateral ratio should not exceed 90%, the debt service-to-income ratio should not exceed 40% and the maximum maturity should not exceed 35 years. The proportion of loans not meeting these criteria should not exceed 20 % of new lending in any given quarter.*"²
- (2) This FMA Circular therefore defines the supervisory expectation and is intended to serve as a guide about how lending based on sound criteria for private residential real estate financing arrangements should occur and specifically reflects the FMA's legal view regarding the interpretation of Article 5 para. 1 KI-RMV and the conduct obligations that arise from it.
- (3) This circular does not constitute a legal regulation. No rights and obligations extending over and above the provisions of the law can be derived from circulars³.

1.2 LEGAL BASIS AND APPLICABLE FRAMEWORKS

- (4) Following the expiry of the KIM-V, compulsory macroprudential rules no longer exist for credit institutions regarding lending standards. Irrespective of this, rules have in any case existed that competent (microprudential) authorities are required to guarantee a sound risk management and robust risk coverage since Basel II implementation in the CRD⁴. Article 79 CRD VI⁵ requires of competent authorities "*that credit-granting is based on sound and well-defined criteria and that the process for approving, amending, renewing, and re-financing credits is clearly*

¹ Published in Federal Law Gazette II no. 230/2022 as amended by Federal Law Gazette II no. 157/2024

² Press Release relating to the 44th meeting of the Financial Market Stability Board. <https://fmsg.at/en/publications/press-releases/2025/44th-meeting.html>

³ Pursuant to Article 69 para. 5 of the Austrian Banking Act (BWG; *Bankwesengesetz*) as published in Federal Law Gazette No. 532/1993 as amended, the FMA is required in the enforcement of its tasks to apply the Guidelines, Recommendations, Standards and other measures issued by the European Banking Authority (EBA); therefore the BWG and Regulations issued based on it are interpreted by the FMA in accordance with the meaning of EBA publications. In the event that such publications are substantively amended or supplemented in the future, then the interpretation of the BWG by the FMA might also change.

⁴ Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions (recast) as repealed by Directive 2013/36/EU.

⁵ Directive (EU) 2024/1619 amending Directive 2013/36/EU as regards supervisory powers, sanctions, third-country branches, and environmental, social and governance risks.

established;” (see Article 5 para. 1 KI-RMV⁶). EBA Guidelines on Loan Origination (“LO-GL”)⁷ also contain extensive clarifications. The FMA has declared itself as fully compliant with the EBA Guidelines and applies them in its administrative practices.

- (5) Private residential real estate financings also fall within the scope of the FMA-MS-K⁸. This circular shall be viewed as complementing the FMA-MS-K, as it states details about the loan origination process for part of lending business, namely for private residential real estate financing. In doing so, this circular takes into account the criteria for a proportionate application and the nature, scope and complexity of such specific lending business.

1.2.1 ARTICLE 39 BWG

- (6) Article 39 para. 1 BWG defines that the directors of a credit institution or of a responsible undertaking pursuant to Article 30 para. 6 BWG shall exercise the diligence of a prudent and conscientious manager as defined in Article 84 para. 1 Stock Corporation Act (AktG; *Aktiengesetz*). In particular, *they must obtain information on and control, monitor and limit the risks of banking transactions and banking operations using appropriate strategies and mechanisms*, and have in place plans and procedures pursuant to Article 39a. Moreover, they shall also consider the overall earnings situation of the credit institution.

1.2.2 ARTICLE 5 PARA. 1 KI-RMV

- (7) Pursuant to Article 5 para. 1 KI-RMV credit institution, on the one hand, shall ensure that granting of credit is based on *sound and well-defined criteria*, while, on the other hand, that the *procedures for approving, amending, renewing and refinancing credits shall be comprehensible and documented in writing*.

1.2.3 EBA GUIDELINES ON LOAN ORIGINATION

- (8) Of the various requirements that focus on the governance of loan origination, in this context, Chapter 4.2 LO-GL is particularly relevant, in that it requires that *credit risk appetite should be implemented with the support of appropriate metrics and limits, that also cover client segments, currencies and collateral types*. In the case of private residential real estate financing, the risk appetite shall therefore be defined and justified regarding the collateral, term and debt service-to-income ratio (DSTI). Chapter 4.3 LO-GL requires policies and procedures to be defined that implement this in a specific manner.
- (9) In this context, the following provisions are particularly relevant regarding the specific provisions for reviewing of consumers’ creditworthiness: Para. 96 LO-GL requires that “*in line*

⁶ Regulation of the Financial Market Authority (FMA) on the proper capture, management, monitoring and limitation of the types of risk specified in Article 39 para. 2b BWG (Regulation on Credit Institution Risk Management – KI-RMV; Kreditinstitute-Risikomanagementverordnung).

⁷ EBA Guidelines on loan origination and monitoring, EBA/GL/2020/06.

⁸ FMA Minimum Standards for Lending Business and other transactions with counterparty risks FMA-MS-K (2022 recast).

with the relevant consumer protection legislation,⁹ the borrower's ability and prospect to meet the obligations under the loan agreement should be assessed, covering, in particular, an assessment of the borrower's source of repayment capacity, taking into account specificities of the loan, such as nature, maturity and interest rate". Para. 98 additionally explains that "when assessing the borrower's ability to meet obligations under the loan agreement, institutions and creditors should take into account relevant factors that could influence the present and future repayment capacity of the borrower, and should avoid inducing undue hardship and over-indebtedness". Para. 101 LO-GL requires that "for assessing the borrower's ability to meet obligations under the loan agreement, institutions and creditors should adopt suitable methods and approaches."

- (10) Para. 107 LO-GL is especially relevant for variable interest rate financing arrangements: "As part of the creditworthiness assessment, institutions and creditors should carry out sensitivity analyses reflecting potential negative events in the future, including a reduction in income; an increase in interest rates in cases of variable rate loan agreements; negative amortisation of the loan; and balloon payments or deferred payments of the principal or interest."

1.2.4 CRR 3

- (11) Regarding exposures secured by mortgages on immovable property, the final subparagraph of Article 124 (3) CRR states: "For the purposes of the first subparagraph, point (d), institutions shall put in place underwriting policies with respect to the origination of exposures secured by immovable property that include the assessment of the ability of the borrower to repay. The underwriting policies shall include the relevant metrics for that assessment and their respective maximum levels." As a result, the DSTI has been defined as a compulsory decisive metric for the lending decision for the overwhelming proportion of private residential real estate financings, with specific values requiring to be set and duly observed.

1.3 SCOPE OF APPLICATION

- (12) This circular applies to CRR credit institutions pursuant to Article 1a para. 1 no. 1 BWG established in Austria, CRR credit institutions licensed pursuant to Article 4 para. 4 BWG (third-country branches), as well as CRR credit institutions from other Member States that are active in Austria via a branch pursuant to Article 9 para. 1 BWG.
- (13) The standards presented apply to private residential real estate financings pursuant to Article 6a para. 2 no. 1 VERA-V¹⁰ as amended.

⁹ In this context in Austria: Article 9 of the Mortgage and Immovable Property Credit Act (HJKrG; Hypothekar- und Immobilienkreditgesetz).

¹⁰ Regulation of the Financial Market Authority (FMA) on Asset, Income and Risk Statements (VERA-V; Vermögens-, Erfolgs- und Risikoausweis-Verordnung), published in Federal Law Gazette II no. 471/2006 as amended in Federal Law Gazette II no. 83/2025

2 SOUND LOAN ORIGINATION FOR PRIVATE RESIDENTIAL REAL ESTATE

2.1 OVERVIEW

- (14) In line with paras. 85, 96, 98, 101, 102 to 109 as well as Annex 1 LO-GL, in addition to the credit assessment, the following three factors shall be applied as criteria for the lending decision (but which does not however release them from a duty to apply all other factors listed in the LO-GL or other relevant factors):
1. the debt service-to-income ratio (DSTI), defined in Article 23h BWG and Article 6a para. 2b VERA-V, considered together with the term of the loan, is a criterion for the ability to repay the loan as defined in paras. 96 and 98 LO-GL,
 2. collateralisation, measured in terms of the loan-to-collateral ratio, as defined in Article 23h BWG and Article 6a Abs. 2a VERA-V, as well as
 3. the term of the private residential real estate financing arrangement to be approved.

2.2 REQUIREMENTS

- (15) Sound granting of credit exists if the following applies regarding the three aforementioned factors. By way of derogation from this, sound loan origination may also be assumed to exist where the criteria defined in Chapter 2.3 are met.

2.2.1 DEBT SERVICE-TO-INCOME RATIO

- (16) A debt service-to-income ratio of 40 % in conjunction with a maximum term of 35 years is generally considered appropriate to ensure the ability to repay the loan, with “ability to repay” being understood as being able to repay the loan from available income without recourse to the disposal of collateral. In the case of financing arrangements with a shorter fixed-interest period than the entire term of the financing the reference value is reduced to adequately take into account interest rate risk. In such cases, the greater the difference is between the fixed-interest period and the term, as well as the further into the future the period lies, for which the applicable interest rate is not fixed results in an even greater reduction of the required maximum DSTI.
- (17) The debt service-to-income ratio may be considered as insignificant for financings with an original term of up to two years that are able to be repaid in full from other reliable income sources than income pursuant to Article 6a para. 2b no. 4 VERA-V, especially in the case of bridging loans (pursuant to Article 6a para. 2 no. 15 VERA-V).

- (18) In the event of financing arrangements also being offered with terms of over two years that meet the requirements set out in MN 46 FMA-FXTT-MS¹¹ that are able to be repaid fully or partially from another reliable source of income other than the income pursuant to Article 6a para. 2b no. 4 VERA-V, then another calculation method may be selected for reflecting the repayments actually to be paid from income pursuant to Article 6a para. 2b no. 4 VERA-V in the appropriate DSTI. The provisions of the VERA-V remain unaffected by this.

2.2.2 LOAN-TO-COLLATERAL RATIO

- (19) Since the risk exists that the expected income used in calculating the debt service-to-income ratio is either not generated in the amount expected and/or is not generated for the entire term of the loan, collateral is required from a certain loan amount that is in line with the borrower's credit quality and income. Permissible exceptions exist for bridging loans¹².
- (20) It is not possible to reduce the risk of the loan being unable to be serviced as planned, e.g. due to unemployment, divorce, illness, incapacity for work, death, criminal offences, guarantees, gambling addiction etc. to such an extent that thorough credit rating checks and insurance policies covering residual debt render this risk immaterial.
- (21) In any case, sufficient collateral shall be required to fully cover financing arrangements from a loan amount of EUR 50,000¹³ (EUR 100,000 under the conditions listed in Article 6a para. 2c VERA-V). A maximum 90 % loan-to-collateral ratio serves as a reference value for the granting of credit.

2.2.3 TERM

- (22) The loan's term is in line with the borrower's expected income streams and in accordance with para. 104 LO-GL: life expectancy, reduction in income due to retirement, and increasing risks associated with advancing age are to be adequately considered. Loans with a term exceeding 35 years shall only be justifiable in clearly defined and justifiable exceptional cases.

2.3 EXCEPTIONS

- (23) By way of derogation from the requirements defined in Chapter 2.2, sound loan origination may exist, where the following conditions are met:
1. conditions for treatment deviating from the requirements stated in Chapter 2.2 are clearly and quantitatively defined in internal lending standards. This means that circumstances may be determined in advance, e.g. based on the prevailing interest rate and the fixed-interest period, under which exceptions may be granted in specifically defined instances.

¹¹ FMA Minimum Standards for the Risk Management and Granting of Foreign Currency Loans and Loans with Repayment Vehicles (2023 recast).

¹² As defined in Article 6a para. 2 no. 15 VERA-V.

¹³ In accordance with the *de minimis* threshold defined in Article 6a para. 2 no. 14 VERA-V.

2. Amount-based limits are defined outside the “front office” department for exceptions, both in relation to individual exposures, as well as for all private residential real estate financings.¹⁴
3. Every time divergent loan origination standards pursuant to nos. 1 and 2 are applied shall be documented, in particularly stating why the criteria for an exception are met, and how the exceptions influence the portfolio as a whole (see the monitoring requirements in Chapter 8.2 LO-GL and all requirements in FMA-MS-K regarding documentation - especially MNs 32 to 35 and MN 40 FMA-MS-K). In addition, the reporting obligations about exceptions are accounted for in the risk report (see FMA-MS-K MN 77 lit. n).

2.4 REVIEWING OF LENDING STANDARDS

- (24) The FMA routinely monitors that sound lending standards are ensured based on reporting under Annex H VERA-V and addresses them in management meetings and supervisory dialogue and during the Supervisory Review and Evaluation Process (SREP). The starting point for monitoring is calculating the proportion of newly arranged private residential real estate financings, for which one or more of the reference values stated in this circular are exceeded, i.e. in terms of the debt service-to-income ratio or loan-to-collateral ratio. The calculation practice that applied under the KIM-V is maintained: this proportion is calculated based on the current or previous calculation period for a half-year (for the periods from 1 January to 30 June as well as 1 July to 31 December respectively). Where the proportion determined in this way exceeds 20 % or EUR 1 million, depending on which amount is the greater, then the supervisor conducts an individual assessment whether the institution’s loan origination and divergently defined loan origination standards pursuant to MN 23 constitute sound loan origination pursuant to the regulatory rules stated in this circular in Chapter 1.2.
- (25) The credit institution’s internal audit function shall check whether the private residential real estate financing arrangements granted observe the internal guidelines, especially the correct application of exceptions, on a regular basis.¹⁵

¹⁴ See Chapters 4 and 5.1 of the FMA-MS-K

¹⁵ See also MN 38 and 41 of the FMA Minimum Standards for Internal Auditing.

ANNEX

Illustrative example regarding MN 18

A private residential real estate financing arrangement of EUR 500,000 is intended to be repaid in part by means of a one-off lump sum repayment (of EUR 250,000) after five years, as well as by way of monthly repayments. The one-off lump sum repayment results from the proceeds of an endowment insurance policy that will expire under the terms of the contract, for which the borrower is not required to make further payments, and which has been pledged to the credit institution, and which may therefore be considered as a reliable source of income pursuant to MN 18. The one-off lump sum repayment of EUR 250,000 may therefore be subtracted when calculating the relevant DSTI of this financing arrangement. The numerator of the DSTI therefore only needs to include the repayment of the remaining EUR 250,000 as well as the ongoing fees and interest payments, although interest payments must be calculated based on the amount of EUR 500,000 for the first five years.