

HOME LOANS IN FRANCE: WILL THE NEW PRUDENTIAL REQUIREMENTS RESULT IN INTEREST RATE HIKES AND HIGHER DOWN PAYMENTS?

Since 1 January 2025, banks in the European Union have had to consider the loan-to-value (LTV) ratio of loans to households for house purchases when calculating their regulatory capital. This new prudential requirement is ill-suited to the French market. The criteria for granting home loans are based mainly on the debt service-to-income ratio, leading to historically low default rates. However, since mid-2025, the supervisor has been paying increasing attention to the LTV of home loans in France, which is fuelling concerns about higher borrowing costs and an increase in down payment rates.

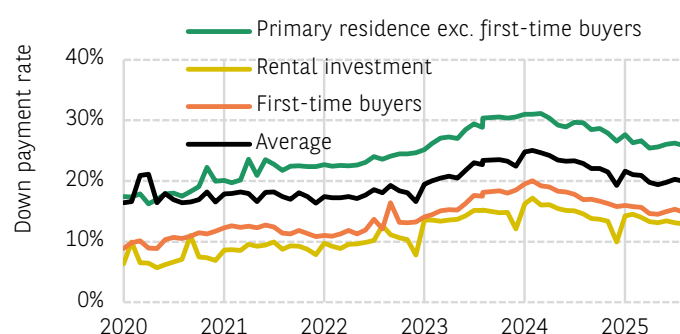
Banks can choose between two approaches. The first, known as the "standard" approach, is based on risk weights provided by the regulator. The second, known as the "advanced" approach, is based on internal models validated by the supervisor and provides a more accurate reflection of the level of risk associated with assets. However, since the entry into force of the CRR3 – the European translation of the finalised Basel III Accord – on 1 January 2025, the maximum difference between the risk weights resulting from these two approaches has been limited. From 2030 onwards, total risk-weighted assets may not be less than 72.5% of those same assets calculated exclusively using the standardised approach. This is the "output floor". The CRR3 also introduces, as part of the standardised approach, a risk weight for home loans based on the ratio between the outstanding amount of home loans and the value of the properties financed. The higher the LTV, the higher the risk weight.

French banks, which have set lending standards (borrower income stability) that allow them to benefit from low risk and low internal model weights, find themselves subject to a requirement that does not recognise their specific characteristics. Their ratio of non-performing home loans is as low as in the rest of the Eurozone (less than 2% between Q2 2023 and Q3 2025). However, since the summer of 2025, the supervisor has seemingly been placing increasing importance on the role of LTV in assessing the quality of home loans. If this regulatory requirement was to be stringent, home loans could become more expensive to compensate for the additional capital required, or down payments could increase.

However, this initial interpretation should be tempered. Firstly, the output floor will not reach its final level until 2030¹. Adjustments will be gradual. Above all, this floor applies to total risk-weighted assets and not to individual loans. The effective weight of a home loan that would be below the theoretical floor would not automatically be raised. Only compliance with the aggregate level of the output floor matters. The impact of the additional cost would not necessarily be concentrated solely on home loans. This is particularly true given that French banks have diversified portfolios and that home loans help towards retaining a solvent customer base.

For the time being, down payment rates have remained relatively stable, at around 20% since 2020 (see chart). French banks have probably not changed their lending standards in anticipation of the final level of the output floor. Even if the output floor alone is not expected to lead to a significant increase in down payments for home loans, the resulting cost of additional capital could make bank loans more expensive across the board, beyond just the home loan segment.

THE DOWN PAYMENT RATE REMAINS STABLE DESPITE THE GRADUAL INTRODUCTION OF THE OUTPUT FLOOR



SOURCE: ACPR-BANQUE DE FRANCE, BNP PARIBAS

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¹ 5% per year between 2025 and 2029, rising from 50% to 70% to reach 72.5% in 2030.

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