

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.

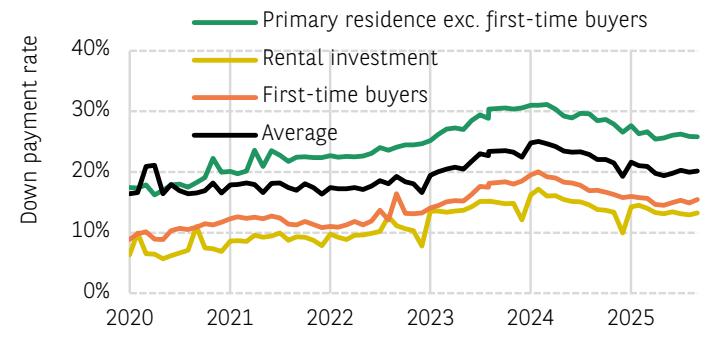
Banks can choose between two approaches. The first, known as the "standard" approach, is based on risk weights provided by the regulator. The second, known as the "advanced" approach, is based on internal models validated by the supervisor and provides a more accurate reflection of the level of risk 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

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

ECONOMIC RESEARCH



BNP PARIBAS

The bank
for a changing
world

Thomas Humblot
thomas.humblot@bnpparibas.com

GROUP ECONOMIC RESEARCH

ECOINSIGHT

Structural or thematic topics

ECOPERSPECTIVES

Analyses and forecasts with a focus on developed and emerging economies.

ECOFLASH

Data releases, major economic events

ECOWEEK

Recent economic and policy developments, data comments, economic calendar, forecasts

ECOPULSE

Easy-to-read monthly overview of inflation dynamics

ECOCHARTS

Monthly barometer of key economic indicators of the main OECD countries.

ECOTV

What is the key event of the month?

You will find the answer in our economy broadcast.

MACROWAVES

Our economic podcast

HOW TO RECEIVE OUR PUBLICATIONS

SUBSCRIBE ON OUR WEBSITE
see the Economic Research website

&

FOLLOW US ON LINKEDIN
see the Economic Research linkedin page

OR TWITTER
see the Economic Research Twitter page



Published by BNP PARIBAS Economic Research

Head office: 16 boulevard des Italiens - 75009 Paris France / Phone : +33 (0) 1 42 98 12 34

Internet: www.group.bnpparibas - www.economic-research.bnpparibas.com

Head of publication : Jean Lemierre

Chief editor: Isabelle Mateos y Lago

The information and opinions contained in this document have been obtained from, or are based on, public sources believed to be reliable, but there is no guarantee of the accuracy, completeness or fitness for any particular purpose of such information and such information may not have been independently verified by BNPP or by any person. None of BNPP or any of its subsidiary undertakings or affiliates or its members, directors, officers, agents or employees accepts any responsibility or liability whatsoever or makes any representation or warranty, express or implied, as to the accuracy and completeness of the information or any opinions based thereon and contained in this document and it should not be relied upon as such. This document does not constitute research, as defined under MiFID II, or form any part of any offer to sell or issue and is not a solicitation of any offer to purchase any financial instrument, nor shall it or any part of it nor the fact of its distribution form the basis of, or be relied on, in connection with any contract or investment decision. Information and opinions contained in this document are published for the information of recipients, but are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by any recipient, are subject to change without notice. In providing this document, BNPP does not offer investment, financial, legal, tax or any other type of advice to, nor has any fiduciary duties towards, recipients. Any reference to past performance is not indicative of future performance, which may be better or worse than prior results. Any hypothetical, past performance simulations are the result of estimates made by BNPP, as of a given moment, on the basis of parameters, market conditions, and historical data selected by BNPP, and should not be used as guidance, in any way, of future performance. To the fullest extent permitted by law, no BNPP group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this document even when advised of the possibility of such losses. All estimates and opinions included in this document are made as of the date of this document. Unless otherwise indicated in this document there is no intention to update this document. BNPP may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this document or derivatives thereon. Prices, yields and other similar information included in this document are included for information purposes however numerous factors will affect market pricing at any particular time, such information may be subject to rapid change and there is no certainty that transactions could be executed at any specified price. BNPP may have a financial interest in any issuer or person mentioned in this document, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon, or vice versa. BNPP, including its officers and employees, may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this document. BNPP may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this document. BNPP may be a party to an agreement with any person relating to the production of this document. BNPP may to the extent permitted by law, have acted upon or used the information contained herein or in the document, or the analysis on which it was based, before the document was published. BNPP may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this document. Any person mentioned in this document may have been provided with relevant sections of this document prior to its publication in order to verify its factual accuracy.

This document was produced by a BNPP group company. This document is for the use of intended recipients and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BNPP. By accepting or accessing this document you agree to this.

BNP Paribas is a société anonyme incorporated in France, licensed and supervised as a credit institution by the European Central Bank (ECB) and as an investment services provider by the Autorité de contrôle prudentiel et de résolution (ACPR) and Autorité des marchés financiers (AMF), and having its registered office at 16, boulevard des Italiens, 75009 Paris, France. Some or all of the information contained in this document may already have been published on <https://globalmarkets.bnpparibas.com>.

For country-specific disclaimers (United States, Canada, United Kingdom, Germany, Belgium, Ireland, Italy, Netherlands, Portugal, Spain, Switzerland, Brazil, Turkey, Israel, Bahrain, South Africa, Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan, Thailand, Vietnam) please type the following URL to access the applicable legal notices: https://globalmarkets.bnpparibas.com/gm/home/Markets_360_Country_Specific_Notices.pdf

© BNP Paribas (2025). All rights reserved.

Subscribe to our publications:

ECONOMIC RESEARCH



BNP PARIBAS

La banque
d'un monde
qui change