Helaba

Focus on: Credit
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German banks
Lower capital requirements for residential mortgages



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The German financial regulator BaFin has reduced the systemic risk buffer applicable to residential mortgage loans since February 2023 from 2 % to 1 % as of 1 May 2025. In this way, it has responded to an easing of the situation on the residential property market - although default rates in this lending segment have remained stable on a low level anyway. New residential mortgage business has recently seen an encouraging improvement. Given the fact that capital ratios in the banking sector are already high, this step is unlikely to have any significant impact on new lending volumes; rather, its effect will be to provide additional scope for banks to adjust their margins and conditions for customers.

Systemic risk buffer reduced for residential mortgages in Germany

Since 1 May 2025, banks have once again had to back their mortgage loans with slightly less capital. On 30 April 2025, the German Federal Financial Supervisory Authority (BaFin) **announced** that it was lowering the sector-specific systemic risk buffer that banks are required to hold as CET1 capital for residential mortgage loans from a previous level of 2 % to 1 %. It justified its decision by citing a significant market stabilisation and a considerably lower likelihood of distortions on the residential property market since the buffer was originally introduced in March 2022. At the same time, however, BaFin is maintaining a risk buffer of 1 % as it believes that residual risks still remain in banks' existing residential mortgage portfolio in view of weak economic growth and signs that the labour market is cooling slightly.

BaFin had originally **imposed a systemic risk buffer** for residential mortgage loans in March 2022, albeit institutions were not expected to meet the requirement until February 2023. This step was prompted by growing risks following many years in which prices and lending had risen significantly in the residential real estate segment. Among others, the Bundesbank had previously drawn attention, on several occasions, to a considerably greater risk of excessive valuations following the prolonged phase of low and negative interest rates. According to BaFin's latest statement, overvaluations on the German residential real estate market have now declined sharply on the back of rising interest rates since the middle of 2022.

In the regulator's view, an analysis of property prices, interest rates and incomes indicates that, meanwhile, the level of overvaluation had fallen below 10 %. Data from the Association of German Pfandbrief Banks (vdp) shows that property prices have recently begun to rise again, with new lending business recovering from a low level in 2024 following a slump in 2022 and stabilisation in 2023. The vdp's Property Price Index was up 3.6 % year-on-year at the end of March 2025; in the first quarter of 2025 alone, it rose by 1.2 % (see **vdp Property Price Index** for Q1 2025).

However, the German financial regulator also pointed out that banks' existing portfolios still contain risks arising from residential mortgages that were issued during the years when prices peaked, in some cases on the basis of

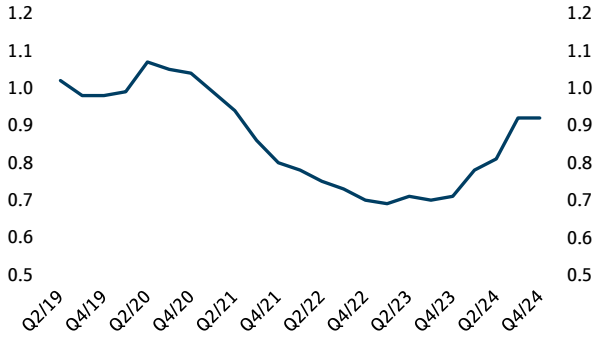
overvalued collateral. Even if it considers the risk of falling collateral values to be limited, it is maintaining a systemic risk buffer of 1 % for the time being and, in doing so, primarily reflecting the challenging economic environment and simmering trade conflicts.

Very low default rates on residential mortgage loans

The proportion of non-performing residential mortgage loans in Germany has recently remained stable on a low level. While fluctuating slightly over the last few years, it was most recently below 1 %. Among other factors, this was attributable to a stable labour market and banks' prudent lending standards. The NPL ratio for residential mortgages has also stabilised on a low level in other European countries. In December 2024, it stood at 1.4 % across the entire European Union.

Low default rates on mortgage loans

NPL ratio of residential mortgage loans, %



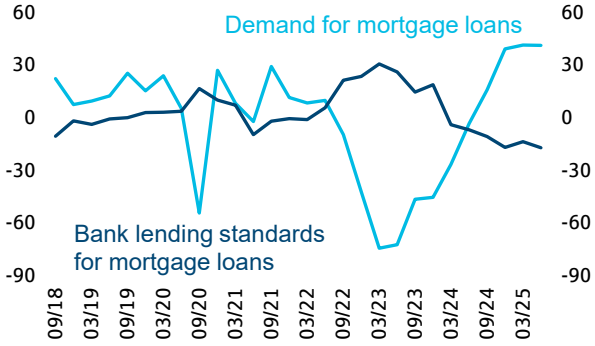
Sources: EBA, Barkow Consulting, Helaba Research & Advisory

With this in mind, BaFin's latest step to reduce the systemic risk buffer for mortgage loans would appear, in our view, to be justified. Moreover, amendments to the Basel Framework that came into force on 1 January 2025 (generally known as Basel IV) impose more stringent capital requirements for residential mortgage loans (output floor, see our publication **"Major European banks: Well prepared for Basel IV"** of 18 June 2024). We believe that this also contributes to adequate risk management for mortgage loans.

Additional scope to adjust margins and conditions for customers

Demand for mortgage loans rebounding

Change in share of positive vs. negative values in each case*, in %



*positive values indicate tightening/increasing, negative values indicate easing/decreasing Sources: LSEG, Helaba Research & Advisory

Commerzbank has indicated that the lower systemic risk buffer will result in a relief of 4 bps regarding its maximum distributable amount (MDA) from Q2 2025, compared to 10.2 % at end of March 2025.

Encouragingly, the recent volume of new mortgage lending has picked up strongly. The turnaround in monetary policy ushered in by the ECB in mid-2024 provided banks with a significant boost in demand for mortgages. At the same time, given a stable business environment, banks have become noticeably more inclined to lend again. In addition, with high capital ratios, they are in a position to easily refinance new lending, and we expect this trend to continue (see our publication **"Large European banks: A stable outlook in unsettled times"** of 13 January 2025). The recent reduction in the systemic risk buffer for residential mortgage lending may thus have a positive impact on margins in this segment. In view of fierce competition for mortgage loans, banks may pass on at least some of this lower capital requirement to customers.

Appendix: Regulatory capital buffers – an overview

In addition to the statutory minimum ratio of 4.5%, the CET1 capital requirement for an institution includes further minimum capital buffers. In addition to the capital conservation buffer (reserve for stress phases) and the countercyclical capital buffer (reserve for general cyclical risks), this is the capital buffer for systemic risks (insofar as this exceeds the capital buffer for global systemically important institutions or for other systemically important institutions).

While the minimum value for the capital conservation buffer is 2.5% across Europe, both the countercyclical buffer and the systemic risk buffer are set by the national supervisory authorities. The amount of the systemic risk buffer can vary depending on the institution or group of institutions and the subgroup of risk positions. There is no upper limit for this buffer. However, depending on the proposed level and the potential impact on other Member States, approval by the European Commission may be required.

Country	Exposures	SyRB* (%)	CCyB* (%)
Austria	All exposures (Bank specific)	0.5-1	0
Belgium	IRB retail exposures secured by residential immovable property for which the collateral (immovable property) is located in Belgium	6	1
Bulgaria	Domestic exposures	3	2
Croatia	All exposures	1.5	1.5
Cyprus			1
Czech Republic	Domestic exposures	0.5	1.25
Denmark	Exposures to real estate companies located in Denmark (Exemption for exposures secured by real estate in the 0 to 15 percent loan-to-value range)	7	2.5
Estonia			1.5
Finland	All exposures	1	0
France	Exposures to French highly indebted non-financial corporations	3	1
Germany	Exposures secured by residential property to legal and natural persons	1	0.75
Greece			0
Hungary	Exposures to commercial real estate	0-2	0.5
Ireland			1.5
Italy	Domestic credit and counterparty credit risks exposures	0.5	0
Lithuania	Retail exposures secured by residential property	2	1
Netherlands			2
Norway	Domestic exposures	4.5	2.5
Poland			0
Portugal	IRB retail exposures secured by residential immovable property for which the collateral (immovable property) is located in Portugal	4	0
Slovenia	Retail exposures secured by residential property and other exposures to natural persons	0.5	1
Spain			0
Sweden	All exposures (Bank specific)	3	2

* Systemrisikopuffer, Systemic Risk Buffer ** Counter Cyclical Buffer
Sources: ESRB, Helaba Research & Advisory

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