



MEASURES TO MITIGATE THE EFFECTS OF THE INCREASE IN THE REFERENCE INDEXING FACTORS OF CONTRACTS OF CREDIT FOR PERMANENT HOME OWNERSHIP

Due to the increases in the reference indexing factors for credit contracts, namely Euribor, in the current context of inflation, the Government approved last November a set of measures to support families, with a view to reducing the effects of the increase in interest rates on credit contracts for permanent home ownership, with up to EUR 300,000.00 still outstanding.

The approved measures will be in force until 31 December 2023 and are aimed at mitigating repayment effort rate.

In concrete terms, banks will be obliged to monitor and check the evolution of their customers' effort rate, and may ask them for the information and documents appropriate for such verification, namely the income statement and the proof of income statements. On the basis of such information and documents, banks will assess the effort rate, i.e. the ratio between the total amount of the customer's monthly instalments and the customer's monthly income. Customers themselves, faced with a significant reduction in their financial capacity, may take the initiative to notify their bank of this circumstance, so that it can assess it.

Thus, if the bank detects signs of a significant worsening in the effort rate or of the verification of a significant effort rate, it must present the customer with one or more proposals that are appropriate to his or her financial situation and to mitigate the worsening of his or her effort rate.

Under the law it is considered that there is:

- **A significant effort rate:** when the customer's effort rate corresponds to at least 50% (that is, when the total amount of the customer's monthly instalments correspond to at least 50% of his monthly income).
- **A significant worsening of the effort rate:**
 - When it reaches 36% following an increase of 5% in relation to the effort rate in the same period or, for contracts concluded in the last 12 months, in relation to the date of their conclusion; or when it reaches the mentioned 36% as a result of an increase equal to or greater than of the reference indexer in relation to the value considered for the purposes of the projection of the impact of the future increase of that indexing factor;
 - When it is higher than 36% in the homologous period and there is an increase in the effort rate or in the reference indexer under the terms referred to in the previous point.

By way of example, the law provides for the following solutions to mitigate the increase in the debt service ratio:

- The signing of a new credit agreement for the purpose of refinancing the debt of the existing credit agreement;
- A change in one or more of the following conditions of the credit agreement, including:
 - The extension of the term of the loan;
 - The establishment of a grace period for repayment of principal or for repayment of principal and payment of interest;
 - The deferral of part of the capital for an instalment at a future date;
 - The reduction of the interest rate applicable to the contract during a certain period of time;
- The consolidation of several credit agreements.



It was also introduced the possibility that, in the event of the materialisation of the extension of the loan maturity, it is possible for the client to resume the term that was contracted before this extension.

Finally, and still within the context of the approved measures, until 31 December 2023, no early repayment commission will be due on the loans covered, that is, of credit contracts for permanent home ownership. The specific aim of this measure is to promote early repayments and to facilitate the eventual transfer of the credit to another bank.



Among others, banks will be able to offer their customers the following solutions:

- conclusion of a new contract;
- extending the term of the loan;
- setting of a grace period;
- deferral of part of the principal to a payment at a future date;
- temporary reduction in the interest rate;
- consolidation of several contracts.



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