



EUROPEAN CENTRAL BANK

EUROSYSTEM

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ECB-PUBLIC

OPINION OF THE EUROPEAN CENTRAL BANK

of 24 March 2016

on mortgage amortisation requirements

(CON/2016/18)

Introduction and legal basis

On 5 February 2016, the European Central Bank (ECB) received a request from Finansinspektionen (the Swedish financial supervisory authority) for an opinion on a draft proposal for a regulation establishing mortgage amortisation requirements (hereinafter the 'draft proposal').

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union and the sixth indent of Article 2(1) of Council Decision 98/415/EC¹, as the draft proposal relates to rules applicable to financial institutions insofar as they materially influence the stability of financial institutions and markets. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

1. Purpose of the draft proposal

- 1.1 The overall purpose of the draft proposal is to limit household indebtedness. The rules set out in the draft proposal would apply to new mortgages for the domestic housing market in Sweden. All firms subject to Finansinspektionen's supervision would be covered by the regulation. Hence, it would apply to virtually all firms providing loans, i.e. banks, savings banks, cooperative banks and other credit institutions.
- 1.2 According to Finansinspektionen, a rising share of new mortgage debtors in Sweden take out mortgages that exceed 50 % of the value of the home. In addition, a large percentage of loans in Sweden are not amortised at all but prolonged at maturity. Finansinspektionen's data for 2014 records that only 60 % of households made principal payments on their mortgages. Moreover, some households have unduly optimistic expectations of future housing prices and interest rate levels. Finansinspektionen's data shows that overall household indebtedness is high in relation to disposable income. This poses a threat to the Swedish economy because highly leveraged households are found to be sensitive to economic shocks, such as unexpected changes in income, housing prices or interest rates. Finansinspektionen considers that the main risks lie with households whose mortgages exceed 50 % of the value of the property securing the mortgage.
- 1.3 The draft proposal provides that all new loans granted for housing purposes (i.e. a leasehold right for a property or site which is intended for housing for one or two families, or a condominium or

¹ Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions (OJ L 189, 3.7.1998, p. 42).

apartment owned by a housing cooperative) on or after 1 June 2016 and secured by a property must include provisions on amortisation requirements if the mortgage exceeds 50 % of the property's market value.

- 1.4 The draft proposal also provides that the amortisation requirements apply to existing loans if the existing loan amount is increased. The amortisation amount is calculated on the basis of total indebtedness (i.e. existing indebtedness together with the increased loan amount).
- 1.5 As risks increase with higher household indebtedness, the draft proposal adopts a progressive amortisation requirement according to which new mortgages exceeding 70 % of the property's market value must be amortised by at least 2 % per year of the total loan amount, and by at least 1 % per year of the total loan amount when the new mortgage amounts to more than 50 but less than 70 % of the property's market value.
- 1.6 In order to avoid the regulation increasing cyclical fluctuations, the draft proposal provides that as a general rule the market value of a property should not be reassessed more than once every five years. However, a revaluation of a property may be performed more frequently than once every five years if there has been a considerable change in the property's market value for reasons other than the general trend in house prices e.g. because the property has undergone extensive renovation, conversion or extension.
- 1.7 The draft proposal includes an option for lenders not to apply the amortisation requirements in relation to loans granted to finance the acquisition of newly constructed homes. A borrower acquiring a newly constructed home would be exempt from the mortgage amortisation requirements. In addition, the draft proposal provides that exemption shall be given on a temporary basis in a number of situations including unemployment, sickness or death in the family. Such exemptions shall cater for special circumstances where a borrower is unable to amortise the mortgage. These exemptions are at the discretion of the lender and not specified further in the draft proposal.
- 1.8 Finally, regarding the legal basis for the draft proposal, the ECB understands that a proposal for new rules regarding mortgage amortisation requirements is contained in a Government Bill pending before the Swedish Parliament (Riksdag)². According to the preparatory work to the Government Bill, there are reasons for the Government to combine an authorization to Finansinspektionen to issue more detailed regulations on amortization requirements with a requirement that Finansinspektionen must obtain the Government's consent before such regulations enter into force.³

² Proposition 2015/16:89. In the proposal, it is proposed that a new legal provision regarding an amortisation requirement will be introduced into Chapter 6, section 3b of the Swedish Banking and Financing Business Act (Sw. lag (2004:297) om bank- och finansieringsrörelse.

³ A requirement for authorized authorities to obtain the consent of the Government is generally required when proposed regulations can result in essential costs for the State, a municipality or a county due to a generally applicable regulation (Regulation (2014: 570) on the Government's consent to the adoption of certain regulations) (Sw. Förordning (2014:570) om regeringens medgivande till beslut om vissa föreskrifter).

2. General observations

- 2.1 The ECB understands that house prices and household indebtedness have increased markedly in Sweden since the mid-1990s, while the general propensity to amortise mortgage loans has decreased. Against this background, the ECB welcomes the core objectives of the draft proposal, namely to limit household indebtedness and mitigate the risks to financial stability associated with high indebtedness.
- 2.2 The ECB refrains from making any observations regarding the possible institutional implications for Finansinspektionen's operational independence as a macroprudential authority arising out of the potential requirement that Finansinspektionen must obtain the Government's consent before any regulations on amortization requirements enter into force.

This opinion will be published on the ECB's website.

Done at Frankfurt am Main, 24 March 2016.

[signed]

The President of the ECB

Mario DRAGHI