



OPINION OF THE EUROPEAN CENTRAL BANK
of 4 August 2017
on an additional mortgage amortisation requirement
(CON/2017/29)

Introduction and legal basis

On 3 July 2017, 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 an additional mortgage amortisation requirement (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 contains 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 further limit household indebtedness and to counteract macroprudential and financial stability risks associated with excessive indebtedness as well as to further increase households' resilience to macroprudential disturbances. The rules set out in the draft proposal would apply to new mortgages for the domestic housing market in Sweden. All institutions subject to Finansinspektionen's supervision would be covered by the regulation. Hence, it would apply to virtually all institutions providing loans to individuals, i.e. banks, savings banks, cooperative banks and other credit institutions.
- 1.2 Finansinspektionen introduced a progressive amortisation requirement in 2016, which is based on a loan-to-value ratio². Pursuant to that requirement, new mortgages exceeding 70 % of a 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 if the new mortgage amounts to more than 50 % but less than 70 % of the property's market value (hereinafter the '2016 Amortisation Requirement'). According to Finansinspektionen, the 2016 Amortisation Requirement has led to a decrease in debts among new mortgage debtors in Sweden, which in turn has strengthened the resilience of such debtors against macroprudential instabilities. However, mortgage debtors' indebtedness has continued to increase in relation to their income ('debt-to-income ratio'). As a result, Finansinspektionen does

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).

² See Opinion CON/2016/18. All ECB opinions are published on the ECB's website at www.ecb.europa.eu.

- not consider that the 2016 Amortisation Requirement ensures an adequate decrease in mortgage debtors' debt-to-income ratio over time. Hence, households' mortgage debts are likely to increase significantly faster than their income.
- 1.3 Since macroprudential risks increase in correlation with high debt-to-income ratios among Swedish households, the draft proposal proposes to introduce an amortisation requirement based on the debtor's debt-to-income ratio. More precisely, this would mean that an individual with total mortgage debts exceeding 450 % of the individual's gross income (i.e. annual income before deducting taxes) must amortise any new mortgage granted after 31 December 2017 with a yearly amount equal to (at least) 1 % of the individual's total mortgage debts (i.e. any existing mortgages together with the new mortgage).
 - 1.4 The new rules will apply in addition to the 2016 Amortisation Requirement. Consequently, a new mortgage credit granted after 31 December 2017 to an individual with a debt-to-income ratio exceeding 450 % must be amortised by at least 1 % if the loan-to-value ratio is below 50 %, and by at least 2 % if the loan-to-value ratio exceeds 50 % but is less than 70 % and, finally, by at least 3 % if the loan-to-value ratio exceeds 70 %.
 - 1.5 The draft proposal provides an option for lenders to offer their customers an alternative amortisation option. As an alternative to the additional 1 % amortisation requirement set out in paragraph 1.4, an individual with existing mortgage debt, granted prior to 1 January 2018, who is granted a new mortgage after 1 January 2018, provided that the new mortgage is collateralised by the same residential property as the existing mortgage, may choose to amortise the new mortgage loan each year by an amount equal to at least 10 % of the initial new mortgage amount.
 - 1.6 Given that the draft proposal provides that the debt-to-income ratio must be established on the basis of an individual's gross income, the amortisation requirement will only apply to individuals and not to legal entities.
 - 1.7 Similarly to the 2016 Amortisation Requirement, the draft proposal includes an option for lenders not to apply the amortisation requirements for an initial five-year period for loans granted to finance the acquisition of newly constructed homes. In addition, the draft proposal provides that an exemption may be granted on a temporary basis in a number of situations, such as unemployment, sickness or death in the family. Such exemptions apply in special circumstances where a borrower is unable to amortise the mortgage. These exemptions are at the discretion of the lender and are not specified further in the draft proposal.
 - 1.8 Finally, the legal basis for the draft proposal is the same as for the 2016 Amortisation Requirement³. This means that Finansinspektionen must obtain the Government's consent before the new amortisation regulation enters into force⁴.

³ Chapter 6, Section 3b and Chapter 16, section 1, point 4 of the Swedish Banking and Financing Business Act (Sw. Bank- och Finansieringsrörelselagen), which entered into force on 1 May 2016.

⁴ Chapter 5, Section 2a of the Regulation on Swedish Banking and Financing Business (Sw. Förordning (2004:329) om bank- och finansieringsrörelse), which entered into effect on 1 May 2016.

2. General observations

- 2.1 The ECB recognises that macroprudential risks increase as households' debt-to-income ratios, and in particular mortgage-debt-to-income ratios, rise. The ECB would once again repeat its positive view regarding implementing macroprudential tools to foster a sound amortisation culture and to counteract excessive household indebtedness and financial instabilities⁵. Against this background, the ECB welcomes the core objectives of the draft proposal, namely to limit excessive household indebtedness and to counteract macroprudential and financial stability risks as well as to further increase households' resilience in relation to macroprudential instabilities.
- 2.2 Although the regulation including the 2016 Amortisation Requirement⁶ (hereinafter the 'Regulation') explicitly states that all Swedish credit institutions subject to Finansinspektionen's supervision would be covered by the Regulation, the decision memorandum to the Regulation⁷ further states that the 2016 Amortisation Requirement also covers foreign firms that grant mortgages in Sweden through branches or in some other manner. As the purpose of the draft proposal is, in addition to addressing the macroeconomic risks stemming from household indebtedness, to protect consumers in Sweden, the Regulation is to apply to all credit institutions active in the country⁸. Considering this, the ECB understands that the Regulation will not apply to Swedish institutions granting mortgages to consumers outside Sweden through branches or in some other manner.
- 2.3 The ECB refrains from making any observations regarding the possible institutional implications for Finansinspektionen's operational independence, as the competent supervisory authority dealing with macroprudential affairs, arising out of the potential requirement that Finansinspektionen must obtain the Swedish Government's consent before any regulations on macroprudential tools enter into force⁹.

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

Done at Frankfurt am Main, 4 August 2017.

[signed]

The President of the ECB

Mario DRAGHI

⁵ See paragraph 2.2 of ECB Opinion CON/2016/18 and paragraph 2.1 of ECB Opinion CON/2017/14.

⁶ Section 1 of Finansinspektionen's regulations regarding amortisation of loans collateralised by residential property, FFFS 2016:16.

⁷ Decision Memorandum 'Regulations regarding mortgage amortisation requirement' by Finansinspektionen dated 16 May 2016, FI Ref. 14-16628.

⁸ See Section 2.7 of the Consultation Memorandum 'Proposed additional repayment requirements for households with high debt ratios' by Finansinspektionen dated 22 June 2017, FI Dnr 17-9236.

⁹ See paragraph 2.2 of ECB Opinion CON/2016/18 and paragraph 2.1 of ECB Opinion CON/2017/14.