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## Consultation response to "Proposal for new regulations stipulating an amortisation requirement for new mortgages"

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*The Riksbank welcomes Finansinspektionen's proposals for new regulations stipulating an amortisation requirement for new mortgages. As the Riksbank has stated previously, it is of considerable importance that measures to combat the risks of increased household indebtedness are rapidly introduced and that the planned regulation is not subject to further delay.*

*An amortisation requirement is a step along the way, even if the requirement now being proposed is relatively mild from an international perspective. The Riksbank would therefore like to see the amortisation requirement supplemented with income-based debt limitations. Such limitations will be even more important if the revaluation of homes every fifth year based on a general housing price trend is to be allowed.*

*To facilitate a harmonised application of the regulations, the Riksbank thinks that it should be made clear what is meant by a "substantial change in value".*

*The Riksbank wishes to stress the importance of the amortisation requirement being effective. It is therefore positive that the exemptions that are being introduced are temporary and limited to cases where there are special grounds. The Riksbank also supports the proposal that it shall be up to the lender to grant exemptions from the amortisation requirement and not be a borrower's automatic right.*

*On the other hand, the Riksbank maintains its criticism of the proposal for exempting mortgages for newly built homes from the amortisation requirement. If such an exemption is nevertheless to be introduced, the Riksbank thinks that it should be time-limited. A permanent exemption, which is also linked to the borrower, risks over time creating an increasing volume of mortgages that do not need to be amortised and contributing to lock-in effects on the housing market.*

*The Riksbank also maintains its criticism of the fact that Finansinspektionen must obtain the consent of the Government prior to the amortisation requirement regulations being adopted.*

*The Riksbank welcomes the fact that Finansinspektionen intends to monitor the degree of compliance with the amortisation requirement. In the Riksbank's opinion, this monitoring should also include an analysis of how and to what extent the amortisation requirement exemptions are applied.*

■ *An evaluation of the regulation should also be carried out at regular intervals after it has come into force in order to analyse whether the amortisation requirement has had the desired effect on debt levels.*

### **The amortisation requirement should be put in place as quickly as possible**

The Riksbank has been highlighting for a long time the importance of measures to combat the risks of increasing household indebtedness being implemented quickly and of the regulation not being subjected to further delays but coming into force during the spring of 2016. The Riksbank therefore welcomes Finansinspektionen's proposal for new regulations stipulating an amortisation requirement for new mortgages.

### **Revaluation of homes every fifth year and the need for income-based debt limitations**

To reduce the economic risks of household indebtedness, the Riksbank has, in previous consultation responses (see the Riksbank's response to *Proposal for new regulations stipulating amortisation requirements for new mortgages*<sup>1</sup> and to the *Amortisation requirement memorandum*<sup>2</sup>), underlined the importance of reducing household debt, not only in relation to the value of the home but also in relation to incomes.

An amortisation requirement is a step along the way, even if the requirement now being proposed is a relatively mild one from an international perspective, not least considering the scope for exemption and revaluation.

Finansinspektionen proposes that households shall be allowed to revalue their homes every fifth year based on a general housing price trend. The loan-to-value ratio and the size of the amortisation payments shall be determined based on the new market value.

As long as housing prices increase more than incomes, such a possibility will mean that many households may continue to have large debts. They may even increase their debts in relation to their incomes, despite a lower loan-to-value ratio.

In light of this, it is the Riksbank's assessment that the amortisation requirement risks having far too little a dampening effect on how debts develop in relation to incomes. There are measures, such as a debt-to-income limit, that could effectively limit the risk of debts continuing to grow more rapidly than incomes. The Riksbank believes that such measures should be considered, and this will be even more important if the regulations provide scope for revaluing homes every fifth year.

### **Revaluation of homes in connection with a significant change in value**

Finansinspektionen proposes that a revaluation should also be allowed if a significant change in value of the home has occurred that is not due to the general housing price trend nationally or locally.

As in the response to Finansinspektionen's earlier proposal for regulations stipulating an amortisation requirement, the Riksbank wishes to underline the importance of clarifying what determines whether a change in value is "significant" or not. Such a clarification could be achieved by, for example, combining the regulations with general guidelines.

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<sup>1</sup> REF. NO. 2015-237-STA

<sup>2</sup> DNR 2015-00606

## ■ Exemption on special grounds

As in its earlier proposal for regulations stipulating an amortisation requirement, Finansinspektionen proposes that it shall be possible to grant temporary exemptions from the requirement if there are special grounds to do so. Examples of special grounds include significant deterioration in the borrower's financial circumstances as the result of the death of a close relative, unemployment, illness or divorce. Lenders themselves may determine whether or not to grant an exemption and decide what constitutes special grounds.

As the Riksbank has stated in previous responses, it is very important for the amortisation requirement to be as effective as possible. It is therefore important that the scope for exemption is limited in the way expressed by Finansinspektionen in the consultation memorandum's explanatory statement and that lenders do not exceed the specified framework when granting exemptions.

As in its previous responses, the Riksbank supports Finansinspektionen's proposal that it shall be up to credit institutions to grant exemptions, that the exemption shall be temporary and that the grounds upon which exemptions are granted shall be evaluated at regular intervals.

## Exemption for newly built homes

In line with the proposal referred to the Council on Legislation, Finansinspektionen proposes that it shall be possible for the lender to grant exemptions from the amortisation requirement for mortgages for newly built homes. The exemption shall refer to the first homeowner and not be subject to any time limit but apply as long as the first homeowner, or builder of the new home, still lives there.

The Riksbank still opposes the exemption for newly built homes on the grounds presented in its consultation response to the *Amortisation requirement memorandum*.

In the same response, the Riksbank stated that the exemption should be time-limited. The same should apply here. The proposal to not make the exemption for newly built homes time-limited was only included in the submission referred to the Council on Legislation and has consequently not been previously circulated for consultation. A permanent exemption, which is also linked to the borrower, risks over time creating an increasing volume of mortgages that do not need to be amortised and contributing to lock-in effects on the housing market. One possibility could be an exemption similar to the one that exempts owners of newly built homes from the municipal property charge for a limited period.

The Riksbank welcomes on the other hand that this exemption is also worded as an option for the lender rather than an automatic right of individual households to demand one.

## Advanced consent from the Government

As stated by the Riksbank in its response to the *Amortisation requirement memorandum*, a requirement for advanced consent for Finansinspektionen's regulations is not compatible with the ESRB's<sup>3</sup> recommendation for operational independence.<sup>4</sup> The ESRB recommends that Member States nominate a macroprudential body which should be

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<sup>3</sup> European Systemic Risk Board.

<sup>4</sup> Recommendation of the European Systemic Risk Board (ESRB) of 22 December 2011 on the macroprudential mandate of national authorities (ESRB/2011/3), (2012/C 41/01).

■ given clear targets and control over appropriate instruments. There should also be clear and fast procedures for allocating new instruments to the macroprudential body when necessary. Another important cornerstone is that the macroprudential body shall be operationally independent – especially from political bodies and the finance sector – and ultimately accountable to the national parliament.

An unclear delegation of macroprudential policy instruments risks having a negative effect on public confidence in macroprudential policy. It would also hamper the implementation of measures and restrict the scope for accountability in the macroprudential policy area.

It is important for Sweden to have fast and efficient procedures for implementing new macroprudential policy instruments and there is good reason to ensure that such instruments remain uninfluenced by more short-term considerations to the greatest extent possible.

### **Evaluation**

The Riksbank welcomes Finansinspektionen's proposal to evaluate the degree of compliance with an amortisation requirement. The Riksbank is also of the opinion that such an evaluation should also examine the extent to which the option of granting exemptions is utilised by lenders, what grounds for exemption are given and for how long lenders grant them. This is important, partly to obtain an overall picture of the amortisation requirement's efficacy, and partly to find out whether the scope for exemption might be used as a means of competition.

In order to be able to perform the evaluations proposed above, the Riksbank thinks that it is important for credit institutions to document relevant information that enables evaluation of the amortisation requirement's efficacy.

A more thorough evaluation of the regulation should also be performed at regular intervals after it comes into force. Such an evaluation should cover the question of whether the amortisation requirement is helping to reduce debt levels.

On behalf of the Executive Board

Stefan Ingves

Hanna Köhler

The following took part in the Executive Board's decision: Stefan Ingves (chair), Kerstin af Jochnick, Martin Flodén, Per Jansson, Henry Ohlsson and Cecilia Skingsley.

Reports were presented by Magnus Georgsson and Dilan Ölcer.