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Loan-to-value ratio for loans granted against collateral in residential property and included in the cover pool for covered bonds

Summary

The cover pool for covered bonds may consist of loans granted against collateral in residential properties to the extent that the loans in relation to the collateral are within a loan-to-value ratio of 80 per cent even if the cover pool is linked to covered bonds issued prior to 8 July 2022.

Question

In this position, Finansinspektionen discusses the matter of whether the cover pool for covered bonds issued prior to 8 July 2022 may consist of loans granted against collateral in residential properties to the extent the loan in relation to the collateral is within a loan-to-value ratio of 80 per cent.

Governing law

Chapter 3, section 3 of the Covered Bonds (Issuance) Act (2003:1223) and Article 129(1)(d) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (CRR), states that a loan granted against collateral in one or several residential properties may be included in the cover pool to the extent that the loan in relation to the collateral is within a loan-to-value ratio of 80 per cent.

On 8 July 2022, some amendments to the Covered Bonds (Issuance) Act went into force (see the Amendment [2022:803] to the Covered Bonds (Issuance) Act [2003:1223]). The amendments entail in part an increase to the highest loan-to-value ratio allowed for loans granted with collateral in residential properties that are included in the cover pool. The highest allowable loan-to-value ratio was raised from 75 to 80 per cent.

There are no transitional provisions regulating what the highest allowable loan-to-value ratio should be for loans included in a cover pool to which there are links to covered bonds issued prior to 8 July 2022.

One question that has arisen is whether, in this case, it is possible to allow a highest loan-to-value ratio of 80 per cent for all loans in the common cover pool.

In the preparatory works for the amendments to the Covered Bonds (Issuance) Act (Bill 2021/22:76 p. 87f.), the Government states that the underlying EU Directive¹ does not specify how the regulation should be applied in a situation where older and new bonds are secured by a single cover pool. The Government takes the position that it is necessary that there are prerequisites to apply such an issuance in order not to disrupt existing, well-functioning markets like the Swedish market. The Government defers to the practical application of the law to settle the matter.

Assessment

Finansinspektionen notes that the legislator, since 8 July 2022, allows a higher loan-to-value ratio than before for credits collateralised by residential properties that are included in the cover pool for covered bonds. Special transitional provisions have not been implemented that preserve the previous – and more stringent – requirements on loans included in the cover pool if the loans secure bonds issued prior to 8 July 2022.

The alternative to allowing older and new covered bonds linked to the same cover pool, where loans granted against collateral in residential properties may be included up to a loan-to-value ratio of at the most 80 percent, is to require separate cover pools depending on whether a loan-to-value ratio of a maximum of 75 or 80 per cent is used.

¹ Directive (EU) 2019/2162 of the European Parliament and of the Council of 27 November 2019 on the issue of covered bonds and covered bond public supervision and amending Directives 2009/65/EC and 2014/59/EU.

Finansinspektionen makes the assessment that the cover pool for covered bonds issued prior to 8 July 2022 may consist of loans granted against collateral in residential properties to the extent the loan in relation to the collateral is within a loan-to-value ratio of 80 per cent. For this assessment, the authority has considered the statements in the preparatory work referred to above and given special consideration to such a position not giving rise to any risks or impacts that must be considered.

This legal position applies until further notice.

Contact person

If you have any questions about this position, please email finansinspektionen@fi.se.