

# Finansinspektionen's Regulatory Code

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This translation is furnished solely for information purposes. Only the printed version of the regulation in Swedish applies for the application of the law.

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## Finansinspektionen's regulations regarding amortisation of loans collateralised by residential property

FFFS 2016:16

Consolidated electronic issue

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Please note that only the printed edition in Swedish applies for the application of the law.

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Amendments: FFFS 2017:23, FFFS 2018:24

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### Scope and definitions

**Section 1** These regulations apply to

1. banking companies,
2. savings banks,
3. members' banks,
4. credit market companies,
5. credit market associations, and
6. lenders authorised in accordance with the Mortgage Business Act (2016:1024).

For an undertaking referred to in the first paragraph, point 6, the regulation only applies to the undertaking's lending to consumers. (*FFFS 2018:24*)

**Section 2** In these regulations the terms and expressions shall have the following meanings.

1. *Loan-to-value ratio*: The current total loan amount in relation to the market value of the residential property.
2. *Residential property*: A property, site-leasehold right or building that is not part of a property, which is intended for housing purposes for one or two families and a tenant-owner apartment or freehold apartments intended for housing purposes.
3. *Mortgage*: A loan issued to one or several borrowers and collateralised by a residential property or the equivalent in Sweden.
4. *Gross income*: The following income for one or several borrowers who are responsible for paying the new loan:

a) the most recently established earned income in accordance with Chapter 1, section 5, second paragraph of the Income Tax Act (1999:1229), and

b) other income that is confirmed and permanent.

5. *Largest loan amount*: The total loan amount at its largest following the most recent valuation.

6. *Agricultural unit*: The same as in the Real Estate Tax Act (1979:1152).

7. *Market value*: The price that would be attained if a sale were carried out under market conditions with reasonable time allowed for negotiation. The market value shall be assessed without consideration for speculative and temporary conditions and established via an individual valuation. It shall be possible to base an individual valuation on general price levels or purchase prices.

8. *New loan*: A new loan or the extension of an existing loan secured by collateral or the equivalent in a residential property in Sweden.

If a borrower retains a loan, but replaces the residential property on which the loan is collateralised with another residential property in Sweden, the loan shall be considered to be a new loan.

A loan that has been collateralised by a pledge or the equivalent on a residential property in Sweden and that, when the residential property is transferred, is taken over by the party acquiring the residential property, this shall be considered to be a new loan.

9. *Loan-to-income (LTI) ratio*: The current LTI-based loan amount in relation to the current gross income.

10. *LTI-based loan amount*: The sum of

a) a new loan, and

b) other mortgages issued to the borrower who is responsible for paying the new loan.

If a mortgage referred to in b) has also be issued to a borrower who is not responsible for paying the new loan, its share of the mortgage shall not be included. The percentage shall be determined based on the number of borrowers.

Loans amortised in accordance with section 8 shall be included only if the undertaking makes the assessment that the loans shall be amortised in accordance with section 5.

A mortgage collateralised by an agricultural unit shall not be included.

11. *Total loan amount*: The total amount of the loan, including new loans, granted by one or more undertakings in exchange for collateral in the form of a pledge or the equivalent on the same residential property. Loans amortised in accordance with section 8 shall be included in the total loan amount when the undertaking makes the assessment that the loans shall be amortised in accordance with section 5. (FFFS 2017:23)

## **Amortisation requirement for loans secured by collateral in the form of a pledge or the equivalent on a residential property**

**Section 3** In the case of new lending, an undertaking may only grant or extend a loan if the borrower undertakes, at a minimum, to amortise the loan in accordance with these regulations.

**Section 4** An undertaking shall calculate a loan-to-value ratio when issuing a new loan.

When issuing new loans after 28 February 2018, the undertaking shall also calculate a loan-to-income ratio for natural persons. The undertaking shall calculate a new loan-to-income ratio if one or more of the borrowers who raised such a loan will no longer be responsible for repaying the loan, and this change is the result of any cause other than the passing of the borrower. *(FFFS 2017:23)*

**Section 5** If the loan-to-value ratio exceeds 50 per cent, or if the loan-to-income ratio exceeds 450 per cent, the new loan shall be amortised. Sections 11–16 contain provisions regarding exemptions from the amortisation requirement.

The amortisation amount shall be set at

1. the total of the amounts that shall be amortised in accordance with sections 6 and 7, or
2. the amounts that shall be amortised in accordance with section 8.

If the new loan replaces but does not exceed one or more loans that were previously issued to the same borrower and collateralised against the same residential property, an undertaking may allow the new loan to instead be amortised in accordance with the terms of each previously issued loan. The same applies if the new loan is taken to pay the pre-payment penalty that applies to such a previously issued loan. *(FFFS 2017:23)*

**Section 6** If the loan-to-value ratio exceeds 70 per cent, the total amount of the new loan shall be amortised annually by an amount that as a minimum corresponds to two per cent of the highest loan amount.

If the loan-to-value ratio exceeds 50 per cent but is less than 70 per cent, the total amount of new loan shall be amortised annually by an amount that as a minimum corresponds to one per cent of the highest loan amount.

**Section 7** If the loan-to-value ratio exceeds 450 per cent, the total amount of the new loan shall be amortised annually by an amount that as a minimum corresponds to one per cent of the highest loan amount. *(FFFS 2017:23)*

**Section 8** When granting a new loan to a borrower for whom a loan was issued prior to 1 March 2018, and where the new loan is collateralised by the same residential property as the existing loan, an undertaking may allow the borrower, instead of amortising in accordance with sections 6 and 7, to amortise the new loan by at least 10 per cent of the original amount of the new loan per year. *(FFFS 2017:23)*

## **Calculation of loan-to-value ratios and informational requirements**

**Section 9** In its calculation of the loan-to-value ratio, an undertaking shall use the market value that applied when the residential property was acquired. The

undertaking may instead use the market value determined during a later revaluation for the calculation of the loan-to-value ratio.

A revaluation according to the first paragraph may be performed at the earliest five years after the residential property was acquired or following the last revaluation that resulted in a change in the amortisation amount. However, a revaluation may be performed earlier than this if there has been a material change in the residential property's market value for reasons other than the general development on the market for residential properties.

The undertaking shall ensure that requisite information used in the valuation can be transferred to the borrower and to undertakings designated by the borrower.

**Section 10** An undertaking shall inform the borrower in writing about the information that served as a basis for the calculation of the amortisation requirement.

### **Exemptions from the amortisation requirement**

**Section 11** An undertaking may allow a borrower not to amortise in accordance with these regulations during a limited period if special grounds emerge during the term of the loan.

**Section 12** For new loans collateralised by a newly built residential property, an undertaking may allow new loans not to be amortised in accordance with these regulations for a period of at the most five years if the borrower is the first person to have acquired the newly built residential property. This also applies to new loans that replace loans used to finance production of the residential property and that are granted to the same borrower.

**Section 13** For new loans collateralised by an agriculture unit, an undertaking may allow the borrower not to amortise in accordance with these regulation.

**Section 13a** An undertaking may allow a borrower not to amortise in accordance with these regulations when, as part of its new lending activities, the undertaking grants a loan as referred to in section 4, fourth paragraph, second sentence of the Consumer Credit Act (2010:1846). (*FFFS 2018:24*)

**Section 14** An undertaking, when issuing a new loan for the purchase of a residential property, may allow exemptions from such amortisation as set out in section 7 where

1. the borrower previously has had a housing loan collateralised by another residential property than the one being purchased and the borrower intends to settle this loan, and
2. the loan-to-income ratio exceeds 450 per cent only as a result of loans that will be settled in connection with the sale of the residential property referred to in point 1.

An exemption to the first paragraph may not be granted for a period longer than six months. (*FFFS 2017:23*)

**Section 15** An undertaking, when issuing a new loan, may grant exemptions from such amortisation as set out in section 7 where

1. the new loan is issued for the purchase or construction of the residential property that is used as collateral for the loan, and

2. agreements for the purchase or construction of the residential property were entered into prior to 1 March 2018. (FFFS 2017:23)

**Section 16** For new loans that replace loans issued prior to 1 March 2018, in the event of a change in ownership under which only a part of the residential property changes owner, an undertaking may grant exemptions from such amortisation as set out in section 7. The exemption may apply to that portion of the new lending that is not in excess of the loans it is replacing. (FFFS 2017:23)

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## Entry into force and transition provisions

FFFS 2016:16

1. These regulations shall enter into force on 01 June 2016.
2. “New loans” as set out in in section 2, point 7 do not refer to loans raised
  - a) before these regulations entered into force,
  - b) for acquisition or production of a residential property used as collateral for the loan, if the agreement regarding the acquisition or building of the residential property was entered into before these regulations entered into force,
  - c) after entry into force for the part of the loan that replaces but does not exceed an existing loan raised before entry into force of these regulations or a loan as referred to in point b, assuming that the loan is collateralised by the same residential property as the original loan, or
  - d) in order to pay the premature loan redemption penalty payable for an existing loan which is replaced by a new loan in accordance with point c.

New loans also do not refer to loans that, in the event of a change in ownership under which only a part of the residential property changes owner, replace loans raised before these regulations entered into force. However, this only applies to the part of the loans that are the same amount or less than the loans raised before entry into force of these regulations.

3. If a residential property used as collateral for the loan was acquired prior to the entry into force of these regulations, the calculation of the loan-to-value ratio, in addition to that prescribed by section 4, may be based on a valuation performed when the new loan is granted for the first time.

FFFS 2017:23

These regulations shall enter into force on 1 March 2018.

FFFS 2018:24

1. These regulations enter into force on den 1 januari 2019 and apply to loans issued after entry into force unless otherwise specified in points 2 or 3.

2. The regulations shall not apply to loans issued to consumers prior to 8 January 2019 if the undertaking prior to the entry into force has submitted an offer pursuant to section 13a of the Consumer Credit Act (2010:1846).

3. The regulations shall not apply to a loan that, when a change in ownership under which only a part of the residential property changes owner, replaces a loan that was issued prior to entry into force. However, this only applies to the part of the new loan that does not exceed the loan it is replacing.