FINANSINSPEKTIONEN

The Swedish Mortgage Market

2 April 2020

Summary

Finansinspektionen’s (FI) assignment is to contribute to a stable financial system through well-functioning markets and strong consumer protection. We should also contribute to sustainable development and limit financial imbalances. As part of this assignment, FI is following the ongoing development of household debt. Large debt can mean risks for individual households, banks, financial stability and macroeconomic development. The mortgage survey serves as an important basis for the assessment of the risks associated with household mortgages. Household debt has risen faster than household disposable income for a long time. One important reason for this is that house prices have been increasing rapidly.

The percentage of new mortgagors with a high level of debt in relation to either their income or the value of the home continues to be high. New mortgagors in 2019 increased their average loan-to-income ratio. The percentage of borrowers with a loan-to-income ratio above 450 per cent also increased slightly, but it was still lower than in 2017. The average loan-to-value ratio also increased in 2019 among new mortgagors, thus breaking the trend of falling loan-to-value ratios since 2013.

The percentage of new mortgagors that amortise their mortgages has also increased over a period of several years, in part due to the amortisation requirements. The percentage of mortgagors who amortised in 2019 remained the same as in 2018. The average rate of amortisation was also approximately the same in 2019 as it was in 2018. If a household experiences financial difficulties as a result of the spread of the coronavirus (COVID-19), the amortisation rules allow the bank to grant the household an exemption from the amortisation payments. FI takes the position that, given the current situation, the banks should be generous in their application of the exemption.

In general, new mortgagors still have good margins for servicing their loans under weaker economic conditions. More households than before could handle higher interest rates without experiencing a deficit in their cash flow. However, there was a slight in increase in 2019 in households that experienced a monthly deficit following a loss of income compared to 2018. The increase refers primarily to single-person households.

Good resilience indicates that there is a limited risk that mortgages would cause extensive credit losses for banks. This becomes relevant, for example, if the economy were to sharply decline as a result of the spread of the coronavirus and the measures being taken in response thereto.

Households can also be expected to reduce their consumption when their financial circumstances deteriorate. This applies in particular to households with a high level of debt in relation to their income or the value of the home. Such a reduction in consumption can be expected to accentuate the economic downturn.

The measures FI has taken in recent years to reduce the risks associated with household debt have increased households’ resilience. In part due to these measures, households have borrowed less and purchased less expensive homes than what they would have otherwise done. This should mitigate the reduction in household consumption.