REPORT

The Swedish Mortgage Market

28 March 2023

Summary

Swedish households' loans have risen faster than household disposable income for a long time. This is partly due to low interest rates and rising housing prices. In 2022 and the beginning of 2023, the economic and financial conditions changed dramatically. Inflation rose sharply, the mortgage rate more than doubled, and housing prices fell. Many forecasters predicted that an economic downturn was on its way. All of this impacted the situation for households, in particular those that bought a home.

This report analyses the development on the mortgage market using a sample of new mortgagors who took out a new mortgage early in the autumn in 2022 and where the transaction often was agreed on during the summer of 2022 or earlier. The sample thus reflects to some extent the dramatic shifts that occurred in the economy, but the market has since continued to change. Interest rates have continued to rise, housing prices have continued to fall, and lending to households is increasing at a steadily slower rate.

Activity on the housing market declined in 2022, which was also evident in our sample. The number of new mortgagors in the sample was significantly lower than in previous years at the same time as the number of first-time homebuyers increased. The share of first-time buyers in the sample rose back to the same level as in 2019, after having fallen during the pandemic years.

The 2022 sample otherwise is similar in many respects to the 2021 sample. New mortgagors bought homes that were equally expensive on average and borrowed on average as much in 2022 as they did in 2021. Prices for single-family homes and tenant-owned apartments throughout Sweden were also at similar levels in both years when we collected the data in the samples. The average loan-to-value ratio was approximately the same in both years, and the loan-to-income ratio decreased slightly in the sample in 2022. In 2022, a somewhat smaller share of borrowers had a loan-to-income ratio of more than 450 per cent and a loan-to-value ratio of more than 70 per cent compared to the previous year.

Borrowers faced significantly altered conditions

Interest rates increased sharply in 2022. The average mortgage rate in the 2022 sample more than doubled compared to the previous year. For new mortgagors, a significantly larger share of their income went to servicing interest costs than in previous years. On average, this figure was approximately 10 per cent, which is more than twice as large as the previous year and the highest since Finansinspektionen (FI) began to gather data in 2012. At the same time, a significantly larger share of new borrowers chose variable mortgage rates than in 2021. The share with variable rates in 2022 was the largest since 2016.

Borrowers are much more vulnerable than they were last year

High loan-to-value ratios and loan-to-income ratios mean that borrowers may be more vulnerable to various shocks. However, for a more complete assessment of this vulnerability, the data needs to be supplemented with borrower cash flows to illustrate income in relation to expenses. We therefore use a simplified calculation of cash flow in the report. New borrowers' surpluses were on average lower already when they took the loan compared to borrowers in 2021. This increased vulnerability is due primarily to higher interest rates and, to some extent, an increase in standardised costs. Many borrowers may therefore need to reduce their savings or adapt their consumption in response to altered financial conditions. Since new mortgagors tend to have larger loans and smaller margins than existing mortgagors, new mortgagors may be particularly vulnerable to higher inflation, higher rates and falling housing prices.

The deterioration in the borrowers' starting point compared to in 2021 also means that borrowers are more vulnerable due to the cost and interest rates increases that have since occurred. Their vulnerability to a drop in income has increased further. In the event of a loss of income, such as unemployment, between 12 and 17 per cent of the single-person borrowers in the sample would experience negative cash flows. This share tripled between 2021 and 2022 and is particularly concerning given the weaker outlook for the economy. Borrowers who buy or live in an existing tenant-owned apartment are also vulnerable to any potential fee increases. Our estimations show that approximately one out of three mortgagors would experience a deficit following a large increase in the mortgage rate and the fee to the tenant-owner association.