Overall assessment of macroprudential measures

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Summary

Since 2010, FI has implemented a number of macroprudential measures aimed at increasing the resilience in the financial system and subduing the risks associated with high and rising household debt. These measures include tightening the capital requirements on banks and introducing a mortgage cap and two amortisation requirements.

In this report, we present an overall assessment of these measures, with a focus on the measures that, via lenders, place restrictions on households' mortgage borrowing. FI's evaluation shows that the mortgage cap and the amortisation requirements in general have had the intended effects by mitigating the risks associated with mortgagors' debt.

The measures have helped subdue and prevent a scenario where new mortgagors borrow more and the percentage of households that are highly indebted grows rapidly. Without taking action, household debt – and home prices – would be even higher than they are today. The measures will also slow future growth of debt and home prices and prevent lenders from using high loan-to-value ratios and low amortisation as a means of competition.

The amortisation requirements have primarily decreased mortgagors' *willingness* to borrow money. There are limits for how much of their income households are willing to allocate to accommodation. But the measures have also decreased some households' *possibilities* for borrowing through the limitations of the mortgage cap or the requirements in lenders' credit assessments.

Buying a home today requires higher income, more equity, and larger debt service payments than before. This is due primarily to higher home prices, but FI's measures have also contributed to this development. Overall, the measures' impact on the functionality of the housing market are judged to be limited. They have primarily been temporary. Turnover increased prior to the measures' entry into force and fell slightly thereafter, but it has since returned to previous, and even higher, levels.

At the beginning of the coronavirus pandemic, FI expanded the possibility for lenders to grant exemptions from the amortisation requirements. The exemption opportunities have given households with large mortgages greater manoeuvrability during a period of exceptionally high uncertainty regarding economic development. Approximately one out of ten borrowers have used the exemption. For new lending, FI's evaluation indicates that the temporary exemption resulted in new mortgagors taking slightly larger mortgages and buying slightly more expensive homes. The expanded exemption will expire in August 2021 as planned.

It is also possible for banks to grant exemptions from the amortisation requirements for purchases of newly produced homes. The banks have allowed customers to use the exemption to some extent. In general, the contractual amortisation payments for buyers of newly produced homes are relatively similar to the payments observed among home buyers the years before the requirements were introduced. For buyers of newly produced homes, the amortisation payments have not been tightened in the same way as they have for buyers of existing homes.

FI’s overall assessment of the macroprudential measures

When FI was assigned responsibility for macroprudential policy in 2014, home prices and household debt had been increasing faster than household income for a long time. The percentage of households with high debt had also been growing rapidly at the same time as previous experiences indicated that there was a risk that rapidly increasing indebtedness would eventually have a serious impact on the economy.

This problem continues to be relevant today. Extremely low interest rates that have increased households’ willingness to pay combined with structural problems on the housing market’s supply side have contributed to home prices and household debt continuing to increase faster than household income. The trend has continued, and during the coronavirus pandemic it even accelerated, probably in part due to greater demand for living space. Without FI’s macroprudential measures, debt and prices – and the risks to personal finances and the national economy – would have increased even more over the past five years. There is still a need for macroprudential measures, and having the amortisation requirements in place means they slow the type of price and debt upswings that we are seeing now. If anything, the need for preventive measures has increased.

Overall, the measures FI implemented have had the intended effect. Capital-based macroprudential measures have increased the resilience in the banking system and created buffers that the banks can use on in bad times. The amortisation requirements have contributed to households borrowing less, buying less expensive homes and amortising more. Amortisation exemption is no longer a means of competition among borrowers, and the trend of a rising percentage of non-amortised loans has been broken. At the same time, the percentage of new mortgagors that take large loans relative to their income or value of their home has slowed, despite the low interest rates and rising prices. The mortgage cap decreased the consumer risks associated with high loan-to-value ratios, and this measure has also decreased the banks’ possibilities for using high loan-to-value ratios as a means of competition.

But even if FI makes the assessment that household resilience has increased due to the measures, there are some areas where data is not available. It is indisputable that high debt, all else equal, decreases household resilience, but this does not necessarily mean that measures that decrease debt increase an individual household’s resilience. It is also important to look at how the rest of the household’s balance sheet are impacted by the measures. Unfortunately, this is difficult to assess, in part due to a lack of detailed Swedish data on household debt, assets and consumption. FI therefore welcomes that appointment of an inquiry to analyse the possibility of gathering and making available data on household assets and debt. Detailed data on household debt is important not only to interpret the risks associated with households' loans and that serve as a basis for decision-making but also to evaluate the impact of measures taken.

Since it was introduced, the amortisation requirement has included a potential exemption given special grounds, such as unemployment or illness. This feature is important since it means that mortgagors experiencing temporary problems can drop their expenses to below what they would have been without an amortisation requirement.

In the spring of 2020, FI communicated that a deep economic crisis can also constitute special grounds. Borrowers were thereby able to receive temporary exemption without experiencing unemployment or illness. This gave households with large mortgages the possibility of substantially lowering their regular expenditure during a time of exceptionally high economic uncertainty and sharply rising unemployment. Approximately one out of ten borrowers utilised the exemption. FI's analysis also indicates that the possibility of utilising the temporary exemption contributed to new mortgagors borrowing slightly more and buying slightly more expensive homes. Since the economic uncertainty has now decreased and the recovery is under way, the temporary exemption will expire in August 2021 as planned.

But FI also makes the assessment that an amortisation requirement, just like all other requirements, can have negative side effects. The measures are therefore weighed carefully in advance, and we continuously analyse potential adverse side effects from them. These side effects can be broken down into primarily two categories: the effects on different groups' possibilities for being granted a mortgage, and thus buying a home, and the housing market's overall functionality.

In terms of the possibilities for being granted a mortgage, it is important to use the situation prior to FI's introduction of the measures as the baseline. The banks calculated with amortisation payments in their credit assessment to a large extent, and in most cases they required a down payment already before FI's requirements. But then households did not need to amortise according to the calculations in the credit assessment; instead, they could often amortise less or not at all. The ability to borrow money did not change noticeably, therefore, after the first amortisation, even if the stricter amortisation requirement contributed to a more conservative credit assessment for some households. But the slow-down in the size of the mortgages as a result of the amortisation requirements is due to a greater extent to households *choosing* to borrow less than their *losing the ability* to borrow more.

The percentage of young households buying a home has not decreased after the amortisation requirement was introduced. FI's calculations of micro data also indicate that most young households that actually bought a home before the requirement was introduced would have managed to buy the same or a somewhat less expensive home even after the requirement went into effect.

FI’s calculations also show that rising home prices are the most important reason for why the possibilities for young households to buy a home have decreased. Given the challenges young households meet on today's housing market, it is positive that an inquiry has been appointed to analyse how to facilitate for young households and other first-time buyers.

When it comes to the effects of the amortisation requirements on the housing market, FI makes the assessment that as a whole they have been limited or temporary. Turnover on the housing market tended to increase slightly just before the requirements were introduced. After they entered into force, turnover decreased, but then, for most submarkets, rapidly rebounded to previous levels.

The amortisation requirements have had somewhat of a slow-down effect on home prices. At the same time, other forces have driven the development in the opposite direction, and home prices in relation to household income are today at significantly higher levels than before the requirements were introduced. The temporary but rapid fall in prices in 2017 and 2018 appears to a large extent to have been due to increased construction and not the stricter amortisation requirement. Historically, new construction remains at high levels, even if it is lower than the years before the stricter amortisation requirement. This applies in particular to specific submarkets, such as tenant-owned apartments in Stockholm.

Despite the implementation of requirements intended to slow the development, many of the problems that macroprudential oversight needs to address remain. Loans to households continue to increase rapidly, supported by low interest rates and relatively generous interest rate deductions. Negative effects are also amplified by a poorly functioning housing market over time, with high prices and low supply of homes. FI’s possibilities for influencing the housing market’s functionality, however, are limited. Measures in other policy areas are required to decrease the structural problems in the housing market. For example, measures associated with increased construction, better utilisation of the housing supply, and housing support for weak groups would mitigate the risks associated with household debt and decrease the need for macroprudential measures.