

## **Decisions by the Board of the Financial Supervisory Authority on the application of the countercyclical capital buffer requirement, extension of the validity of a lower maximum LTC ratio and application of the minimum risk weight adopted by Finansinspektionen on Finnish credit institutions**

At its meeting on 20 December 2018, the Board of the Financial Supervisory Authority (FIN-FSA) decided not to impose a countercyclical capital buffer requirement ('variable add-on') as referred to in chapter 10, section 4 of the Credit Institutions Act (610/2014) and to keep in force the decision on a lower maximum loan-to-collateral (LTC) ratio, made on 19 March 2018 by virtue of chapter 15, section 11 of the Credit Institutions Act. With the decision of 19 March 2018, the Board lowered the maximum LTC ratio for residential mortgage loans other than first-home loans by 5 percentage points.

In addition, the FIN-FSA Board decided to recognise, by virtue of Article 458(5) of the Capital Requirements Regulation (CRR, 575/2013) and section 10, subsection 1, paragraph 6 of the Act on the Financial Supervisory Authority, that the average minimum risk weight of 25% introduced by the Swedish Financial Supervisory Authority (Finansinspektionen) on 22 August 2018 on housing loans awarded in Sweden by credit institutions applying the IRB Approach will also be applied to Finnish credit institutions as of 31 December 2018. The minimum risk weight applies to Finnish credit institutions with a housing loan stock in Sweden in excess of SEK 5 billion.

### **Justifications for the decision**

#### *Countercyclical capital buffer requirement*

According to preliminary data, the domestic private sector credit-to-GDP gap, used as the primary indicator for setting a countercyclical capital buffer (CCyB) requirement for the second quarter of 2018 was -4.3 percentage points, thus giving a reference value of 0.0% for the CCyB requirement.

The indicators of credit growth and growth in financial market risk appetite as well as other supplementary risk indicators, such as overall economic developments and housing price developments, are not, in aggregate, signalling such an increase in financial system risks as would necessitate an increase in the CCyB requirement. In taking the decision, the FIN-FSA Board also took into account its previous decision to strengthen credit institutions' capital buffers against systemic risk by setting a systemic risk buffer requirement.

#### *Maximum LTC ratio*

The maximum LTC ratio for residential mortgage loans restricts the amount of a residential mortgage to 90% at most (in the case of a first

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Unrestricted

home purchase, to 95% at most) of the current value of collateral posted at loan approval. In order to limit any exceptional increase in risks to financial stability, the FIN-FSA Board may decide to reduce these maximum amounts by not more than 10 percentage points. In addition, it may decide to restrict the taking into account of any other collateral security except real security in calculating the LTC ratio.

The decision taken by the FIN-FSA Board on 19 March 2018 and effective since 1 July 2018 to lower by 5 percentage points the maximum LTC ratio for residential mortgage loans other than first-home loans is still justified in terms of containing household indebtedness. Keeping the decision in force and maintaining the LTC ratio at its current level is justified and conforms with chapter 15, section 11, subsection 5 of the Credit Institutions Act.

*Recognition of the minimum risk weight imposed by Finansinspektionen*

On 22 August 2018, the Swedish competent authority, Finansinspektionen, took a decision to impose an average minimum risk weight of 25% on residential mortgages awarded by credit institutions applying the IRB Approach. The decision will take effect on 31 December and will remain in force until 30 December 2020.

The measure is based on Article 458(2)(d)(vi) of the CRR, which provides that the competent authority may introduce higher risk weights on asset price bubbles in the real estate sector to prevent the build-up of macroprudential risks in the financial system. The minimum risk weight imposed by the Finansinspektionen is institution-specific and applies to household exposures resident in Sweden secured by mortgages.

On 17 July 2018, the European Commission decided not to propose to the Council that the decision of Finansinspektionen be rejected. Consequently, the decision of Finansinspektionen came into force as planned.

On 1 November 2018, Finansinspektionen sent a request to the FIN-FSA for application of the risk weight requirement to Finnish credit institutions. In its request, Finansinspektionen proposes that the decision be applied to credit institutions with a housing loan stock in Sweden in excess of SEK 5 billion. With a view to ensuring that the capital requirements for the credit institutions referred to in the decision are adequate to support the risks involved in housing loans, application of the requirement to Finnish credit institutions in the manner requested by Finansinspektionen is justified.