Decision by the Board of the Financial Supervisory Authority on the application of macroprudential instruments

At its meeting on 13 December 2019, the Board of the Financial Supervisory Authority (FIN-FSA) decided that the countercyclical capital buffer (CCyB) requirement, as referred to in chapter 10, section 4 of the Credit Institutions Act (610/2014), will remain at 0.0% and that the decision to lower the maximum loan-to-collateral ratio, made on 19 March 2018 pursuant to chapter 15, section 11 of the Credit Institutions Act, will remain in force. With the decision of 19 March 2018, the Board of the FIN-FSA lowered the maximum LTC ratio for residential mortgage loans other than first-home loans by 5 percentage points.

Justifications for the decision

Countercyclical capital buffer requirement

Uncertainties regarding the development of the Finnish economy remain high. Economic forecasts have deteriorated and foresee slow, but positive, GDP growth.

The domestic private sector credit-to-GDP gap, used as the primary risk indicator for setting the CCyB requirement, remained negative at –10.2 percentage points at the end of the second quarter of 2019. Credit growth has continued to be fuelled mainly by housing corporation loans, consumer credit and corporate loans, although the growth rates of these types of loans have slowed slightly.

The indicators of credit growth and growth in financial market risk appetite as well as other supplementary risk indicators are not, overall, signalling such a build-up in financial system risks as would necessitate an increase in the CCyB requirement. In the current situation, raising the CCyB rate could also, as a procyclical measure, prove to be detrimental.

Maximum loan-to-collateral 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-home purchase, to 95% at most) of the current value of collateral posted at loan approval. In order to limit any exceptional build-up of risks to financial stability, the Board of the FIN-FSA 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.

Residential mortgage lending and sales of old homes picked up in summer 2019. Overall, mortgage lending has grown moderately during 2019. Drawdowns of housing corporation loans have declined as construction has slowed, but the annual growth rate remains brisk.

Changes in the LTC ratios of new residential mortgage loans were minor in the early part of 2019. Overall, terms of new residential mortgage loans have eased further and are significantly lighter than a few years ago. According to revised data, the household debt-to-income ratio rose close to the record high level (128.1%) in the second quarter of 2019 (128.0%).

To constrain household indebtedness, it is justified in the light of the development described above to maintain the maximum LTC ratio for residential mortgage loans other than first-home loans at 85% pursuant to chapter 15, section 11, subsection 5 of the Credit Institutions Act.