Decision by the Board of the Financial Supervisory Authority on a countercyclical capital buffer requirement and a maximum loan-to-value ratio for residential mortgage loans

At its meeting on 27 September 2016, the Board of the Financial Supervisory Authority (FIN-FSA) decided not to impose a countercyclical capital buffer requirement (variable capital add-on), as referred to in Chapter 10, Section 4 of the Credit Institutions Act (610/2014).

According to the current estimate, there is no need to reduce the maximum loan-to-value ratio for residential mortgage loans, as referred to in Chapter 15, section 11 of the Credit Institutions Act, nor to restrict the collateral to be taken into account in calculating the loan-to-value ratio.

The FIN-FSA continues preparations for setting, by 1 July 2017, a credit institution-specific minimum level of 10% for the average risk weight on residential mortgage loans of credit institutions that have adopted the Internal Ratings Based Approach, in accordance with the Board decision taken on 14 June 2016.

Justifications for the decision

The most recent value for the credit-to-GDP gap, used as the primary indicator for setting a countercyclical capital buffer requirement, i.e. the value for the first quarter of 2016 (5.5 percentage points) gives a reference value of 1.0% for the countercyclical capital buffer requirement. The recent relatively high values for the credit-to-GDP gap stem from growth in liabilities between domestic non-financial corporations and in the internal foreign liabilities of domestic non-financial corporate groups.

Supplementary risk indicators are not signalling such an increase in financial system vulnerabilities as would necessitate a higher countercyclical capital buffer requirement.

The maximum loan-to-value ratio for residential mortgage loans restricts, as from 1 July 2016, the amount of a residential mortgage loan to 90% at most (in the case of the purchase of a first home to 95% at most) of the current value of collateral posted at loan approval. In order to limit any exceptional increase of risk 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 loan-to-value ratio.

According to the current estimate, there is no need to apply tighter conditions to the maximum loan-to-value ratio than their basic level, as no signs of an exceptional increase of risk to financial stability have emerged.