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

At its meeting on 21 December 2017, 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).

According to the current estimate, there is no need to reduce the maximum loan-to-collateral (LTC) ratio for residential mortgage loans referred to in chapter 15, section 11 of the Credit Institutions Act, or to restrict the collateral to be taken into account in calculating the LTC ratio, nor is there any need to apply other macroprudential tools not currently in use. The FIN-FSA is ready to restrict the maximum LTC ratio, should risks relating to household indebtedness increase further.

Justification for the decision

Countercyclical capital buffer requirement

The most recent observation from the second quarter of 2017 for the credit-to-GDP gap, used as the primary indicator for setting a countercyclical capital buffer (CCyB) requirement, is negative, -4.1% (the observation for the first quarter was revised from -8% to -7.1%), thus giving a reference value of 0.0% for the CCyB requirement.

Despite signals of higher risks, these and other supplementary risk indicators (such as overall economic developments and housing price developments) are not, overall, signalling such an increase in financial system risks as would necessitate an immediate rise in the CCyB requirement with a view to improving banks’ cyclical risk resilience.

Maximum loan-to-collateral ratio for residential mortgage loans

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 increase in 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.

The level of household indebtedness reached a record high of 127.6% in the second quarter of 2017, compared with 126.4% (revised data) in the previous quarter and 125.4% in the second quarter of 2016. The annual growth rate of the stock of residential mortgage loans rose to 2.1%.

The FIN-FSA is ready to tighten macroprudential policy by reducing the binding LTC ratio and/or restricting the use of any other collateral security except real security in calculating the LTC ratio, should risks relating to household indebtedness increase further.