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

At its meeting on 26 June 2024, the Board of the Financial Supervisory Authority (FIN-FSA) decided that the countercyclical capital buffer (CCyB) requirement referred to in chapter 10, section 4 of the Act on Credit Institutions (610/2014) will be kept at 0.0%. The Board also decided that the maximum loan-to-collateral (LTC) ratio referred to in chapter 15, section 11 of the Act on Credit Institutions and in section 14 of the Act on the Registration of Certain Credit Providers and Credit Intermediaries (186/2023) will remain at its standard level of 90%. The maximum LTC ratio for first-home loans will also be kept at its standard level of 95%.

Countercyclical capital buffer requirement maintained at 0.0%

The global economy has shown early signs of a pick-up during the spring. The US economy, in particular, has performed well. China's economic growth has also picked up, according to data for the early part of the year, although the problems in the country's real estate and construction sectors have continued. The economic situation in the euro area is subdued, but at the same time inflation has slowed.

The outlook for the Finnish economy remains weak. According to the Bank of Finland's June forecast, the Finnish economy is still in recession and GDP in 2024 will be down year on year by a total of 0.5%. However, during the second half of the year the economy is expected to gradually bounce back from the recession. Finland's GDP growth is projected to be 1.2% in 2025 and to rise to 1.7% in 2026. Inflation in Finland has slowed to below 1% in recent months but is forecast to start rising as the year progresses. For the full year 2024, inflation is projected to be 1.2%. In 2025, consumer price inflation is expected to rise slightly due to, for example, increases in value added tax.

Indicators of private sector indebtedness and credit stock growth suggest that the financial cycle is still at a weak point. At the end of March 2024, the primary risk indicator – the deviation of the private sector credit-to-GDP ratio from its long-term trend, or the credit-to-GDP gap – was still clearly negative (-15.7 percentage points) but nevertheless slightly up from the previous quarter. Even when calculated using a narrower definition of credit, the credit-to-GDP gap was clearly negative (-11.0 percentage points). There are as yet no signs of a strong upturn in the economy.

The supplementary risk indicators do not point to a significant increase in the cyclical stability risks associated with total lending. The financial markets have functioned without major disruptions, and the financial market stress indicator has remained low. There are signs that the fall in the prices of existing dwellings is easing, but the housing market is still subdued. The

current account deficit shrank in 2023 year on year, and the current account is expected to remain slightly in deficit in the immediate years ahead. An overall assessment based on the risk indicators used therefore suggests that there are no grounds for the application of the CCyB.

Maximum loan-to-collateral ratio remains at its standard level

Residential property sales fell slightly in January–May 2024 from a year earlier, and by April households had taken out fewer new housing loans than the previous year. Housing sales picked up temporarily in November–December 2023 as first-home purchases increased before the transfer tax exemption for them was removed at the beginning of 2024. In March–April, the prices of existing dwellings rose from the low reached in early 2024. In the country as a whole, prices were roughly at the same level on average as at the end of 2023. The prices of new dwellings edged up in the first quarter of 2024, but sales volumes were very low.

The housing market shows no signs of any significant pick-up over the near term in the demand for housing or for loans. Consumer confidence in the economy remained weak in May. Consumers considered it an unfavourable time to take out a loan, and home purchase intentions were at a low level. The actual and potentially continuing decline in interest rates and a growth in household purchasing power will support a moderate recovery in the housing market and in borrowing as 2024 wears on. As the maximum LTC ratio will be raised to its statutory standard level (90%) and transfer tax rates are now lower, these factors may also boost activity in the housing market.

Household indebtedness has decreased since late 2021 as new borrowing has declined, average mortgage sizes have fallen and nominal disposable income has increased rapidly. The share of new mortgages with a loan term longer than 30 years has decreased since the entry into force in July 2023 of new legislation on a maximum repayment period and on the scope for deviation from this. The loan servicing capacity of households has predominantly remained sufficient. These factors are mitigating the vulnerabilities associated with mortgage lending and indebtedness and the immediate risks to financial stability.

In December 2023, the Board of the FIN-FSA decided to return the maximum LTC ratio for new housing loans other than first-home loans to its statutory standard level of 90%. The housing market has recently been weak and mortgage borrowing slow, but this is not currently causing any exceptional increase in risks that would give grounds for reducing the maximum LTC ratio from its standard level. Looking ahead, however, in assessing the risks to mortgage lending and in taking decisions on macroprudential policy, it must also be kept in mind that the demand for housing and loans may increase

more strongly than expected if interest rates fall as anticipated and consumer confidence begins to strengthen.
Based on the overall assessment of the FIN-FSA Board, there have been no significant changes in the macroprudential environment that would lead to an exceptional increase in financial stability risks and require the maximum LTC ratio to be readjusted from the current standard level.

Assessment of compliance with the recommendation on mortgage applicants' maximum debt servicing burden

The FIN-FSA Board's recommendation on a stressed debt-service-to-income (DSTI) ratio, issued[1] in June 2022 and updated[2] in September the same year, took effect on 1 January 2023. According to the recommendation, supervised entities should conduct a "stressed" calculation of housing affordability for all housing loan applicants and take these calculations into account in their credit decisions. The size of a housing loan to be granted should be tailored so that debtors can also service the interest and capital of the loan and of other debts, and their housing company loan-related financial charges, in a stress scenario under the stressed calculation of housing affordability. The purpose of the recommendation is to curb excessive household indebtedness and to safeguard the ability of households to service their loans and maintain consumption in times of economic disruption. This will also strengthen the resilience of the economy as a whole and the preparedness for unexpected shocks.

According to the recommendation, the total amount (stressed DSTI ratio) of i) the stressed monthly servicing costs of a housing loan granted to an applicant and of the applicant's other mortgages, ii) the applicant's stressed housing company loan-related financial charges and iii) the stressed monthly servicing costs of the applicant's other debts should, as a rule, be no more than 60% of the applicant's monthly net income. The stressed interest rates on housing loans, financial charges and other debts are set in the calculation to no less than 6%, and the loan maturity to no more than 25 years. If the maximum debt servicing burden is greater than 60%, the borrower's repayment capacity should be assessed particularly thoroughly with the customer, and the credit decision should be made at a higher management level. The FIN-FSA expects that, as a benchmark, new housing loans with a stressed DSTI ratio of over 60% should account for no more than 15% of the euro amount of new mortgages granted by the lender in a calendar year.

Data collected from credit institutions suggest that in 2023, when the recommendation took effect, the proportion of mortgages with high stressed loan

[1] The FIN-FSA's original recommendation of 27 June 2022.
[2] The FIN-FSA's revised recommendation of 28 September 2022.

servicing costs fell markedly. For customers who had taken out a new housing loan, total debt in relation to income was also significantly lower than in 2022. Based on the FIN-FSA's examination, at the sectoral level, breaches of the 60% stressed DSTI ratio were well below the recommendation's threshold in 2023. On average, loans exceeding the ratio accounted for less than 10% of the amount of new mortgages granted during 2023. The share of breaches also fell substantially from the previous year, both in value and volume terms. In addition to the recommendation itself, the substantial decline in the breaches may also have been attributable to the overall weakening of the housing market and the credit cycle and to the subsequent contraction in mortgage sizes and growth in nominal income. In any case, the fall in the proportion mortgages with very high stressed DSTI ratios has been in line with the objectives of the recommendation and of macroprudential policy.

Based on the FIN-FSA's examination, in cases where the stressed DSTI ratio was exceeded, credit institutions made the credit decision, as a rule, at a higher management level, in accordance with the recommendation. Most of the credit institutions regularly monitored the number of breaches at least on a quarterly basis. According to credit institutions, the breaches were typically due to various temporary funding and bridge loans in connection with, for instance, the purchase of a new home, or with consideration to the borrower's high wealth or regular capital income, or expectations that the borrower's future income level would improve as a result of graduation from studies, for example. In some cases, the breaches were also explained by the borrower's high income, which was estimated to be sufficient to cover other living expenses even after significant loan-servicing costs exceeding the recommended level.

According to the FIN-FSA's assessment, credit institutions have complied well with the recommendation, overall, and there are therefore no particular grounds for adjusting the recommendation at present.