REPORT

October 2024

The Mortgage Market in Sweden

Svenska Bankföreningen
Swedish Bankers' Association

Contents

Introduction

Mortgages make up a significant percentage of the loan portfolio in Sweden and are an important component of the household budget for many individuals. The Mortgage Market in Sweden describes current mortgage and construction trends and how they have evolved over time.

A brief description of general economic trends in Sweden is followed by a discussion of developments in housing construction. It is observed that the economy in 2023 was marked by weak growth and a recession. However, the previously high inflation has significantly decreased during the first half of 2024, and market interest rates have started to decline.

It is also observed that housing prices, declining during 2022, have stabilized during 2023 and increased slightly in the first half of 2024. The underlying reasons for the recent development in housing prices are, above all, the earlier high inflation and the rising mortgage interest rates.

Next, the development of mortgage lending in Sweden is outlined, where the pace of lending has slowed down in the past years. Finally, an overview is provided of household indebtedness, together with the measures implemented to counteract high indebtedness, as well as the main forms of borrowing for mortgage institutions.

1. The economic situation in Sweden

The Swedish economy continues to be characterised by weak growth during the first half of 2024 and according to Statistics Sweden's GDP indicator Sweden is still in a recession during the first half year. For the full year 2023, GDP decreased by 0.2 percent compared to an increase in GDP by 1.0 percent in 2022.

Part of the explanation for the weak development of the Swedish economy in recent years is the decline in housing investments since 2022. Housing investments started to decline in 2022 and have continued to decline in 2023 and 2024. High financing and construction costs, combined with the fall in housing prices, especially in 2022 and 2023, have put pressure on profitability for housing constructors. The number of housing starts decreased by around 50 percent in 2023, which is the steepest decline since the beginning of the 1990s.

Household consumption decreased during 2023, and many households are still affected by the high inflation and high interest rates in the previous years. However, in 2024, prices have begun to stabilize, and interest rates have started to decline. The labour market has partially resisted the weak economic development in Sweden in recent years. During the second half of 2023, the labour market weakened slightly, and in 2024, unemployment continued to rise while the employment rate decreased.

Table 1.1. The NIER indicators for the Swedish economy, 2024, annual percentage change and percent, respectively

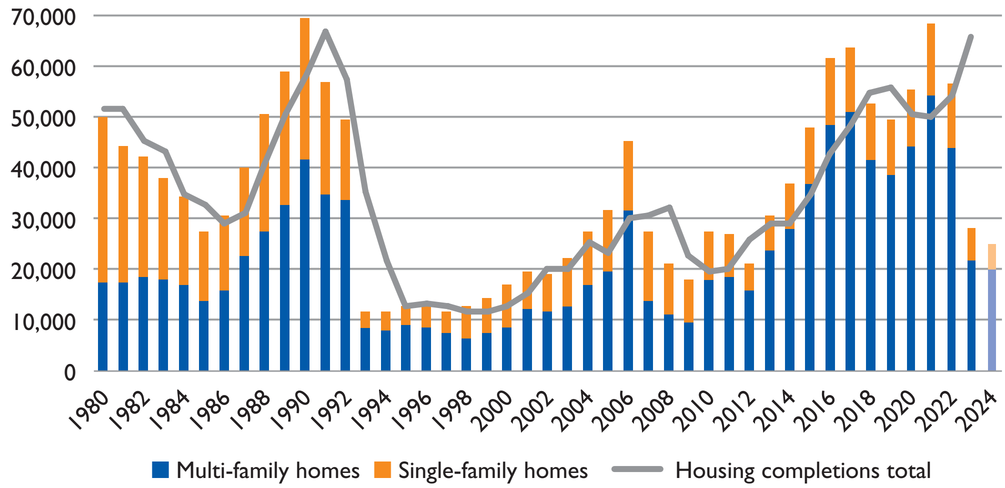
	2023	2024	2025
GDP, market price	–0.2	0.7	2.2
Employment	1.4	–0.2	0.7
Unemployment (1)	7.7	8.3	8.2
Commercial productivity (2)	–1.2	1.0	1.5
CPI	8.5	2.7	0.4
Policy rate (3)	4.0	3.0	2.25
Ten-year government bond rate (3)	2.5	2.4	2.5

(1) As a percentage of labour force. (2) Working-day adjusted. (3) At year-end.

2. The housing and construction market

The rate of construction started to decline in 2022 after several years with a relatively high construction rate, which peaked in 2021 with a record 68,500 housing starts. The number of housing starts 2021 was the highest since 1990. Rising inflation and increasing interest rates from 2022 led to a slowdown in construction followed by a significant drop during 2023 and a continued slowdown in the first half of 2024. In 2023, the number of housing starts fell by approximately 50 percent to 28,200, marking the largest fall since 1993. According to the forecast by the National Board of Housing, construction will decrease further in 2024 to 25,000 new dwellings. This forecast is based primarily on assessments made by Swedish municipalities in the Board's housing market survey, taking into account factors such as current trends in prices, sales, building permits and residential construction.

Chart 2.1. Housing starts and completions 1980–2023 and forecast of housing starts 2024



Source: Statistics Sweden and 2024 forecast from the National Board of Housing.

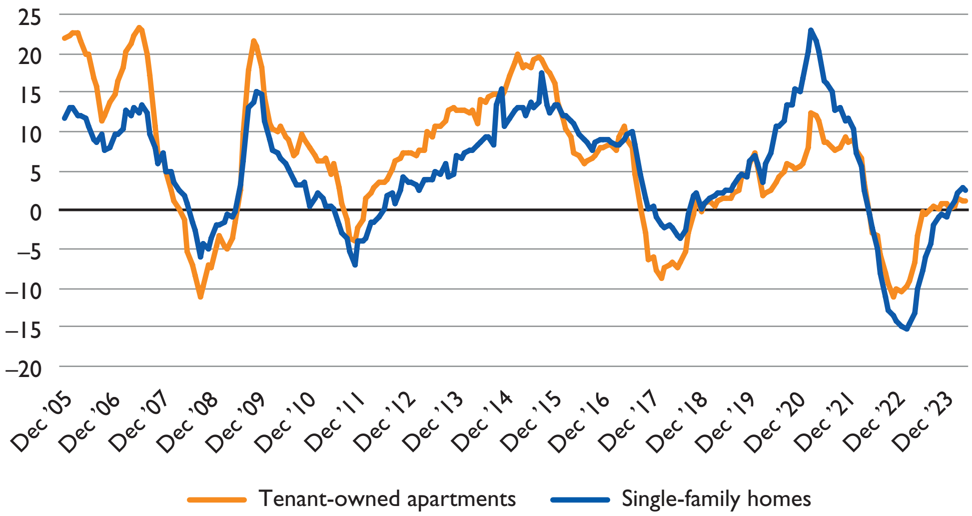
Housing construction is associated with long planning cycles before the dwellings are completed. For at least the past ten years, housing construction has been relatively high in Sweden. The recent ten-year period, up to 2022, has been characterized by low interest rates, strong economic growth, and high demand for housing. This has led to the start of many new housing projects and their completion is still ongoing. In 2023, when the number of started apartments decreased by approximately 50 percent, the number of completed apartments increased by 21 percent to 65,600. This is the highest number of completed apartments since 1991.

A significant percentage of new construction is taking place in metropolitan areas. In 2023, the Stockholm, Gothenburg and Malmö metropolitan areas accounted for 48 percent of housing starts in Sweden. The larger cities have accounted for 45 to 60 percent of new construction in Sweden since the mid-1990s. The change is significant compared with 1990, when 25 percent of housing starts were in the above three urban areas. With a few exceptions, Stockholm alone has for a longer period accounted for 30 percent of Swedish housing starts.

Another change in the home construction market is that multi-family dwellings account for a larger share of new construction. From 2010, the proportion of multi-family dwellings in relation to total housing starts has, on average, amounted to 77 percent. During the 1980s, multi-family dwellings accounted for almost 50 percent of new construction, and during the 1990s and 2000s they represented around 60 percent of new construction.

Inflation increased significantly during 2022, prompting the Riksbank to rapidly increase the policy rate to the highest level since 2008. The increased policy rate has affected the interest rate level in the economy and caused the mortgage interest rate to increase sharply. In addition, energy prices have been high during the period resulting in increased heating costs. Overall, this created uncertainty in the housing market and, as a consequence, caused housing prices to cool during 2022. In 2023, housing prices stabilised at a lower level and during the first half of 2024 housing prices have seen some growth.

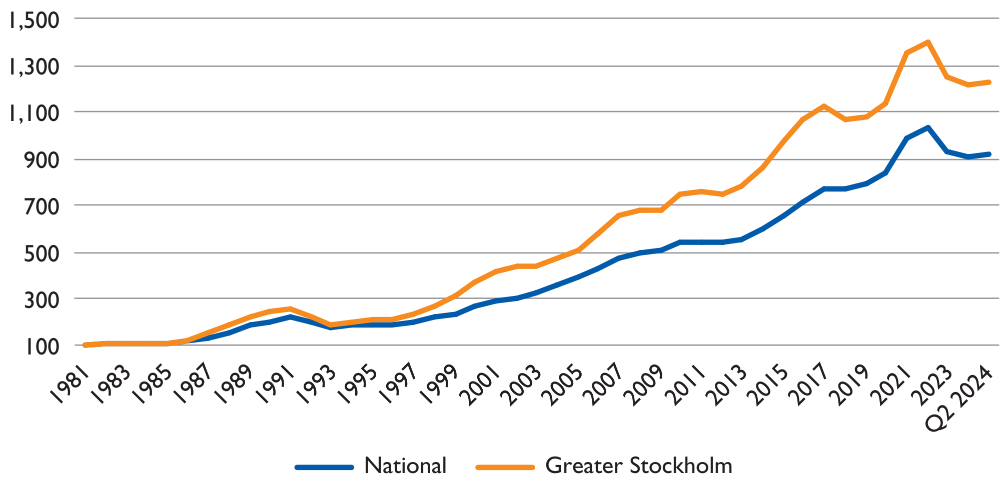
Chart 2.2. Housing prices, annual percentage change, quarterly values



Source: HOX-index / Valueguard

Although the decline in housing prices has been comparatively large in the past years, there have been considerable increases in the values of housing in the longer term. From the end of the 1990s, housing prices in Sweden have increased almost continuously (see chart 2.3). There are a number of reasons for the price increases, including both low supply and increasing demand. Demand has risen as a result of several factors, such as relatively favourable economic growth in Sweden, increasing household incomes, low interest rates, good access to credit, changed tax rules, a growing population and rapid urbanisation.

Chart 2.3. Price index single-family homes, 1981=100

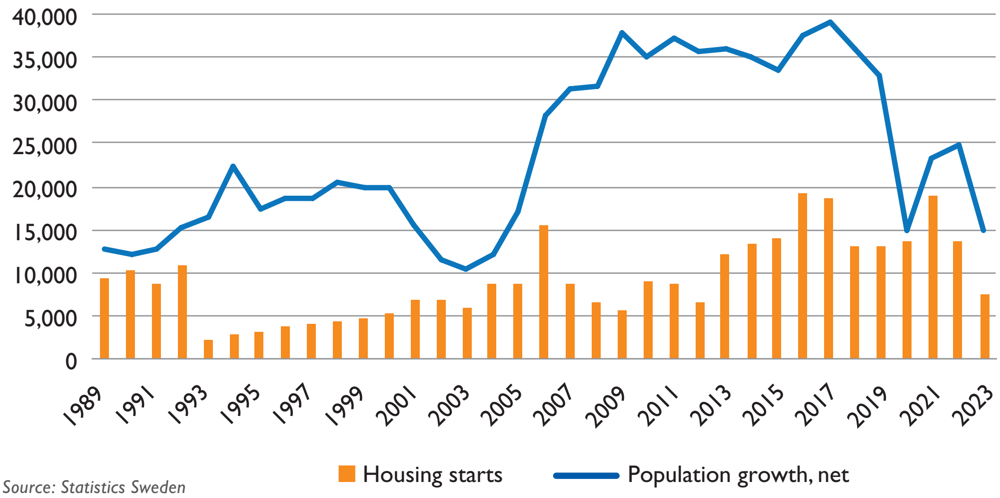


Source: Statistics Sweden.

On the supply side, the limited housing construction relative to population growth, especially in urban areas, has for many years been a fundamental reason for the rise in prices. One example is Stockholm County, where the annual net increase in population averaged 35,000 between the years 2007 to 2019. However, the number of housing starts far from matched the significant increase in population. Between 2007 and 2019, only 11,000 dwellings on average were started per year (see Chart 2.4).

Between 2020 and 2023, the population growth in Stockholm averaged 19,000 people per year. This is a significant decrease compared to the period from 2007 to 2019. Since 2013, housing construction has increased, and between 2020 and 2023, the number of housing starts averaged 13,400 per year.

Chart 2.4. Net population growth and housing starts in Stockholm County



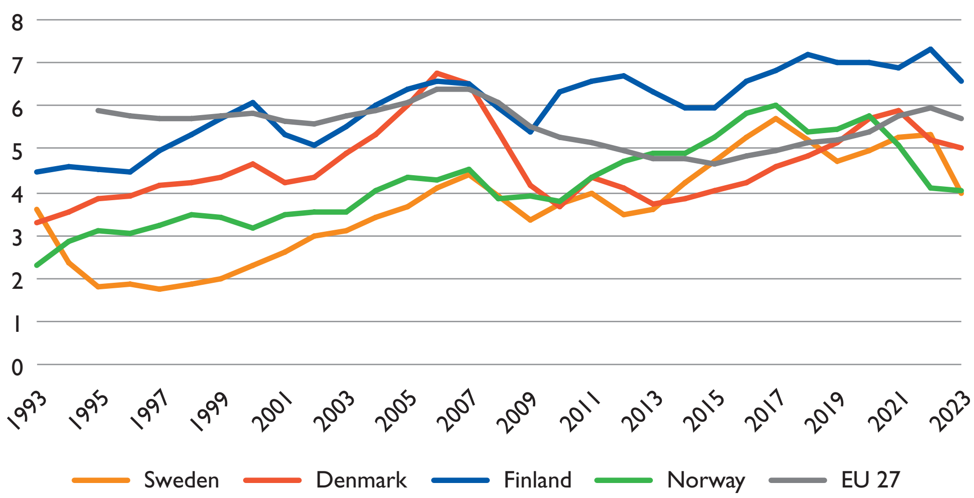
Source: Statistics Sweden

The difference between the number of apartments started and population growth has thus decreased significantly in recent years. During the period from 2007 to 2019, the ratio of population growth per housing start averaged 3.6 people per apartment started. During the period from 2020 to 2023, the ratio has decreased to an average of 1.5 people per housing start. In Stockholm, the average household size is 2.2 people per household, slightly higher than the average in Sweden. If the average household size also applies to the housing starts, it means that the new production of apartments in Stockholm has more than adequately met the needs of the rising population over the past four years. Additionally, in 2024, there have been reports from metropolitan areas that queuing times for newly built rental apartments have decreased and that in some outer areas, the queuing time is down to zero.

Housing construction fell dramatically after the crisis in Sweden in the beginning of the 1990s, as illustrated by Chart 2.1. From the middle of the 1990s, residential housing investments have, for long periods, represented a lower percentage of GDP in Sweden than in other Nordic countries and the EU average (see Chart 2.5). However, Swedish housing investments, as a percentage of GDP, have increased for a number of years until 2022. In 2023, housing investments (gross fixed capital formation) fell by 23 percent and continued to decline in the first quarter of 2024. The decline was deeper in the segment of housing investments that constitutes new construction, amounting to -39 percent in 2023.

The significant drop in housing construction in 2023 has resulted in housing investments as a share of GDP falling to 4.0 percent, which is the lowest among the Nordic countries. The EU average for housing investments as a share of GDP amounted to 5.8 percent in 2023. This can be compared with the 2023 figures for Cyprus and Germany, which had the highest rates of residential investment in the EU at 8.6 and 7.2 percent of GDP, respectively. The lowest rate of housing investments was found in Greece, at 1.9 percent of GDP.

Chart 2.5. Residential housing investments as percentage of GDP, percent



Source: Eurostat

The Swedish market is characterised by a number of conditions that reduce the risk of more widespread problems on the mortgage market. One factor is that banks' lending processes are stringent and governed by a since long established and well-functioning legislation. Banks have long based their credit decisions on the borrower's repayment capacity rather than the value of the collateral. There is also an efficient infrastructure, for example in the form of a property register and good access to credit information about borrowers to secure safe lending. The high employment rate means that it is common for households to have two incomes that can be used to repay the loan. Another significant factor is the welfare systems and collective agreement insurances, which ensure that households can maintain an acceptable financial position even in the event of unemployment or illness.

The Swedish market is also characterised by very limited speculation. The market share of buy-to-let among housing is limited. Most Swedes regard their homes primarily as a residence and not as an investment opportunity.

3. Competition on the mortgage market

Property lending in Sweden is, to a great extent, offered by specialised housing finance institutions (mortgage institutions), although it is also offered by banks and in recent years by mortgage credit companies. As of June 2024, total lending to the public (both households and companies) in Sweden secured by housing amounted to SEK 5,310 billion. Mortgage deeds serve as the primary security for home loans and tenant-owned apartment loans from banks and housing finance institutions.

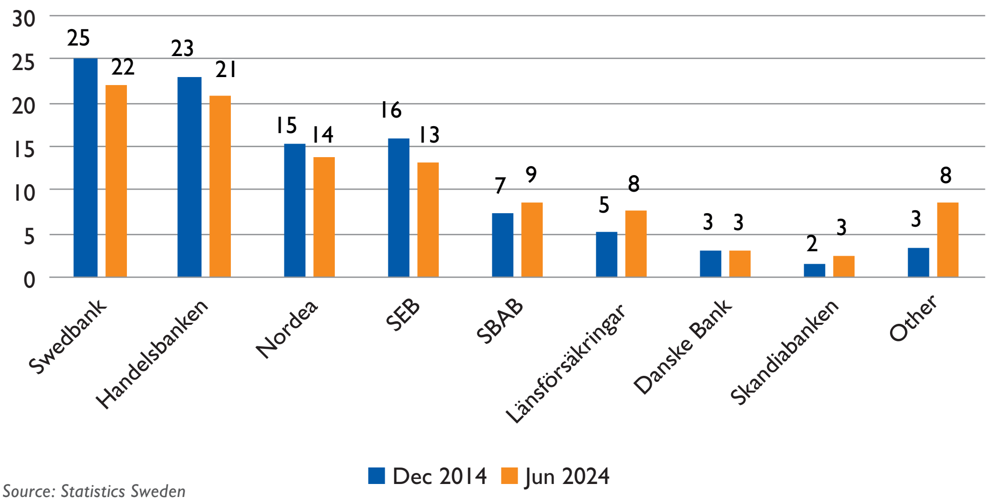
The three largest housing finance institutions are owned by Swedbank (Swedbank Hypotek), Handelsbanken (Stadshypotek) and Nordea (Nordea Hypotek). SEB has no separate housing finance institution and residential lending is offered directly by the bank. SBAB Bank was originally a state-owned mortgage institution that was restructured into a bank in 2010, still fully owned by the state. Home loans are also offered by Länsförsäkringar Hypotek, Danske Hypotek, Skandiabanken, Avanza Bank, Landshypotek Bank, ICA Banken, Ålandsbanken, Ikanobanken, Bluestep Bank, Nordnet Bank and a number of savings banks. In some cases, the smaller institutions may be significant participants on the mortgage market by virtue of relatively large market shares with respect to new mortgages.

Over the course of several years, a number of mortgage credit companies, which fund their lending by structures of alternative investment funds (AIF), have established themselves on the market. One example is Stabelo, which cooperates with Avanza Bank and Nordnet Bank. Another example is Hypoteket. Mortgage credit companies may conduct mortgage lending without a banking or credit-market company licence, which means that they are not subject to the same regulations as banks. The new companies instead operate on the Swedish market with a different form of licence from Finansinspektionen than banks and credit-market companies. The new companies fund their mortgage lending by creating and managing investment products on behalf of institutional investors within the framework of an AIF. AIFs are managed by companies connected to mortgage credit companies, which in turn administer the mortgage process vis-à-vis the mortgage borrowers.

Mortgage credit companies' outstanding loans are small in relation to total outstanding housing loans, representing 0.8 percent of the total stock in June 2024. However, the new companies were for a number of years significant competitors on the mortgage market and their market shares increased as their yearly new lending to households accounted for around 5 percent of total until the beginning of 2023. The changed financing situation for mortgage credit companies during 2023 has meant that their share of new lending has fallen, and that their total outstanding mortgages have started to decrease.

The market share of total lending to Swedish households secured by housing in June 2024 compared with December 2014 is illustrated in Chart 3.1. The group "Other" includes savings banks and other institutions (including mortgage credit institutions and alternative investment funds, AIFs). During the last ten-year period, the market shares of the larger institutions have decreased somewhat, while the market shares of the smaller institutions have generally increased.

Chart 3.1. Lending secured by housing, Swedish households, market shares, December 2014 and June 2024, percent

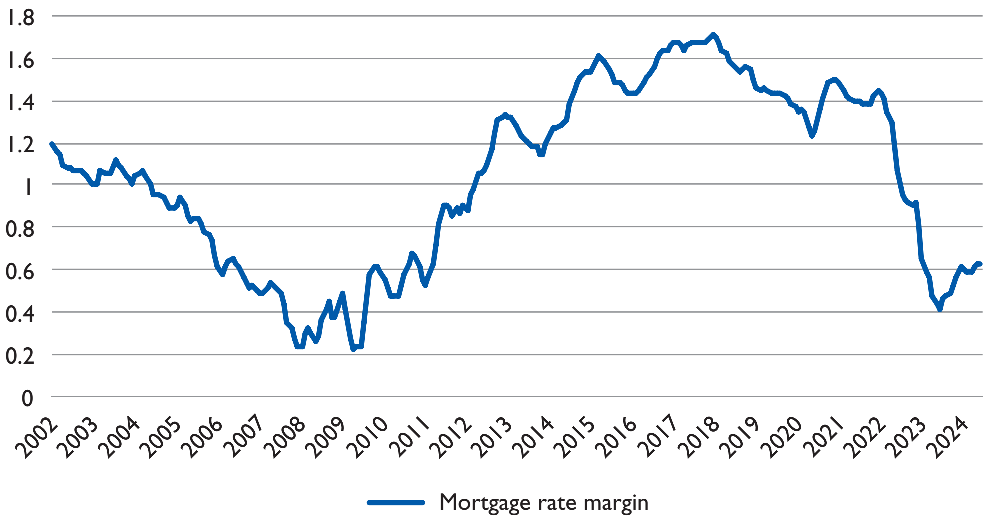


Source: Statistics Sweden

As described above, there are a significant number of mortgage institutions in Sweden and, in addition, a couple of mortgage credit companies. This implies that there are favourable conditions for home buyers to apply for mortgages from multiple institutions and a market with high competition for mortgage customers. There are also no significant barriers for foreign actors to establish themselves in the Swedish mortgage market.

Every quarter, Finansinspektionen publishes a calculation of the gross margin on mortgages as part of its investigation of the position of mortgage customers in the mortgage market. Finansinspektionen has developed a method to calculate and illustrate the development of a theoretical gross margin on mortgages. Recently, Finansinspektionen has also published an alternative method for calculating the mortgage margin. In the latest published calculation of the gross margin, it is evident that the mortgage margin decreased significantly in 2022 and until mid-2023, and thereafter increased slightly until the second quarter of 2024, when it amounted to 0.62 percent. Although the mortgage margin has rebound somewhat, the current levels have not been this low since early 2011.

Chart 3.2. Mortgage rate margin, percent



Source: Finansinspektionen

4. Residential mortgage lending

According to Statistics Sweden's Financial Market Statistics, total lending secured by single-family homes, tenant-owned apartments and apartment buildings amounted to SEK 5,310 billion at the end of June 2024. In the past year, the lending rate for mortgages has decreased significantly, and in June 2024, the annual growth rate was only 1.0 percent. Three years ago, in June 2021, the total housing loans amounted to 4,877 billion SEK, which means that lending has increased by 433 billion SEK or 8.9 percent in three years.

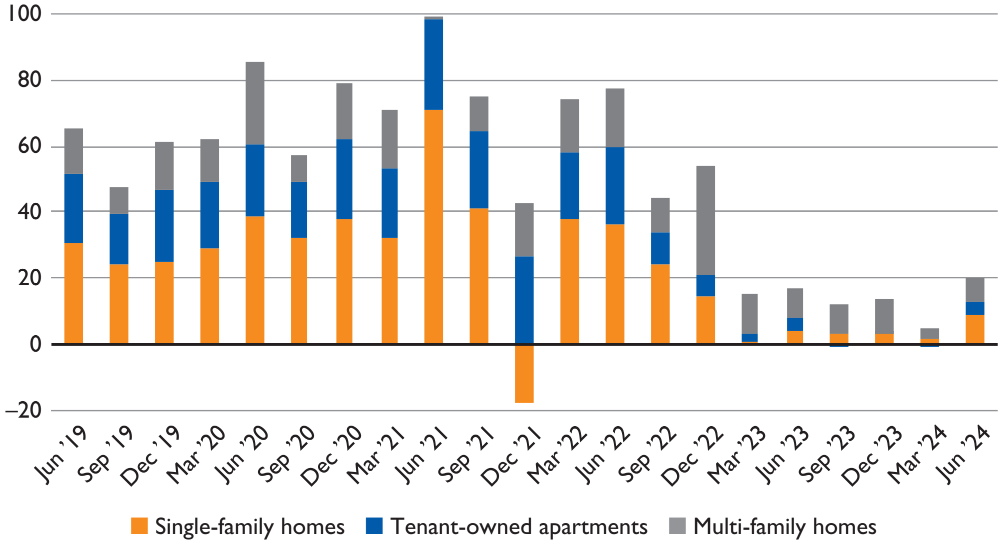
Tabell 4.1. Total lending secured by single-family homes, tenant-owned apartments and multi-family homes, SEK billion, June 2024

	Single-family homes	Tenant-owned apartments	Multi-family homes	Total
Households	2,729	1,409	55	4,193
Companies	60	8	1,049	1,117
Total	**2,789**	**1,417**	**1,104**	**5,310**

Source: Statistics Sweden

Chart 4.1 illustrates the quarterly growth in net new lending (new lending less amortisation) for housing, broken down into single-family homes, tenant-owned apartments and multi-family buildings. In the years 2019 to 2022, net new lending stood at between SEK 26 and 99 billion quarterly. The large quarterly net increases during parts of 2020 and 2021coincide to a great extent with the pandemic and the high demand for single-family homes that occurred. The quarterly net new lending for single-family homes was higher during this period than before, and during the second quarter of 2021 alone, net new lending for single-family homes increased by SEK 71 billion. Net new lending during the second quarter of 2021 was also high for tenant-owned apartments. The overall net increase during the second quarter of 2021 was SEK 99 billion, the largest increase ever for a single quarter.

Chart 4.1. Quarterly change (net increase) in lending secured by single-family homes, tenant-owned apartments and multi-family homes, SEK billion



Note: The drop in lending to single-family homes in the 4th quarter of 2021 is explained by that a part of the lending to single-family homes in the quarter has been reclassified as lending to other real estate.

Source: Statistics Sweden

Throughout 2023, the demand for mortgage loans has decreased as a result of factors such as declining housing prices and a reduced number of property sales. During 2023 and the first half of 2024, net new lending has decreased to approximately SEK 14 billion per quarter. During the first quarter of 2024 net new lending amounted to only SEK 5 billion.

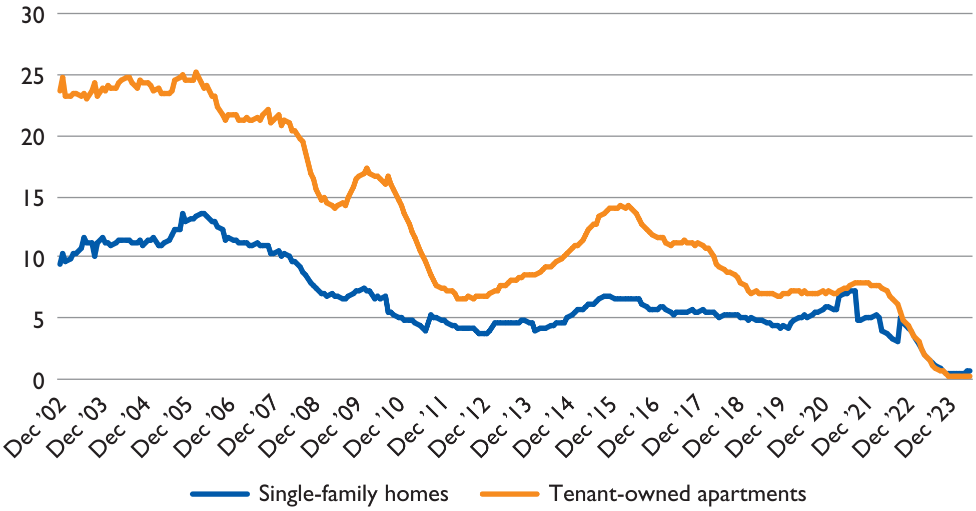
The decreased demand for housing loans is primarily due to reduced demand for loans for single-family homes and tenant-owned apartments. The growth rate for loans for single family homes was 0.6 percent annually in June 2024 and 0.2 percent for tenant-owned apartments (see Chart 4.2). The growth rate for loans for multi-family houses is somewhat higher than for loans for single-family homes and tenant-owned apartments and amounted to 2.8 percent annually in June 2024. However, this is a lower growth rate compared to the same period last year when loans for multi-family houses increased by 6.4 percent annually.

In the middle of 2016, the rate of growth for Swedish home loans was almost 9 percent annually, subsequently slowing down more or less continuously until the beginning of 2020. The slowdown in the home loan growth rate from 2016 coincided with the introduction by Finansinspektionen of the amortisation requirements for new housing loans (see part 5), which is an important explanation for the slower growth rate.

The home loan growth rate started to increase again from spring 2020. The increase in lending during the outbreak of the pandemic in Sweden in the spring of 2020 may be explained in part by the temporary exemption from the amortisation requirements on mortgage loans that was introduced between April 2020 and August 2021. The main explanation for the increase is that demand for single-family homes in particular increased during the pandemic.

The growth rate for loans secured for single-family homes has generally been slower and more stable than for tenant-owned apartments. Since 2016, the difference in growth rates of lending between single-family homes and tenant-owned apartments has gradually diminished. From the end of 2022 and onwards the difference in the rate of lending has been negligible.

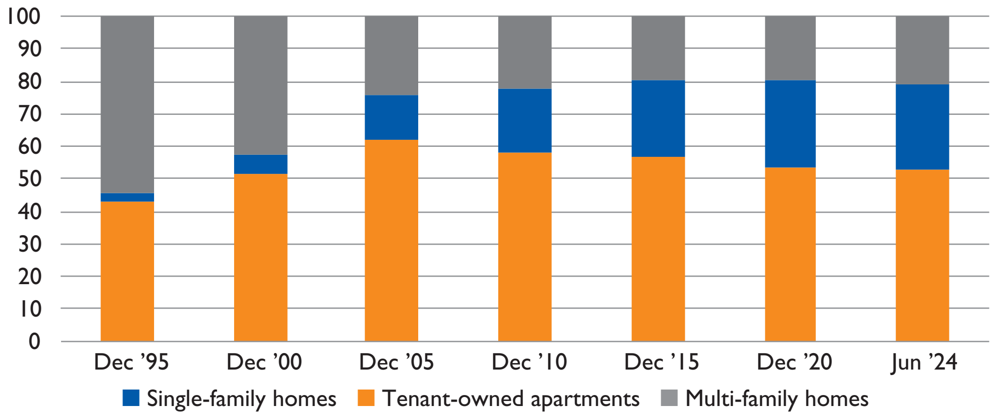
Chart 4.2. The home loan portfolio, annual percentage change, monthly values



Source: Statistics Sweden

There are a several explanations why, for a great many years until 2022, the growth rate of loans for tenant-owned apartments has been higher than for single-family homes. One explanation is the conversion of rental apartments into tenant-owned apartments, primarily in the metropolitan regions, which took place early in the period. Another is the fact that the high rate of housing construction over the ten-year period until 2022 has been largely focused on multi-family buildings with tenant-owned apartments rather than single-family homes. Additionally, prices of tenant-owned apartments have increased more than prices of single-family homes for long periods. Chart 4.3 illustrates how the percentage of home loans secured by tenant-owned apartments has increased since 1995, but stabilised the last five years.

Chart 4.3. Outstanding mortgage loan portfolio broken down by type of security, percent of total

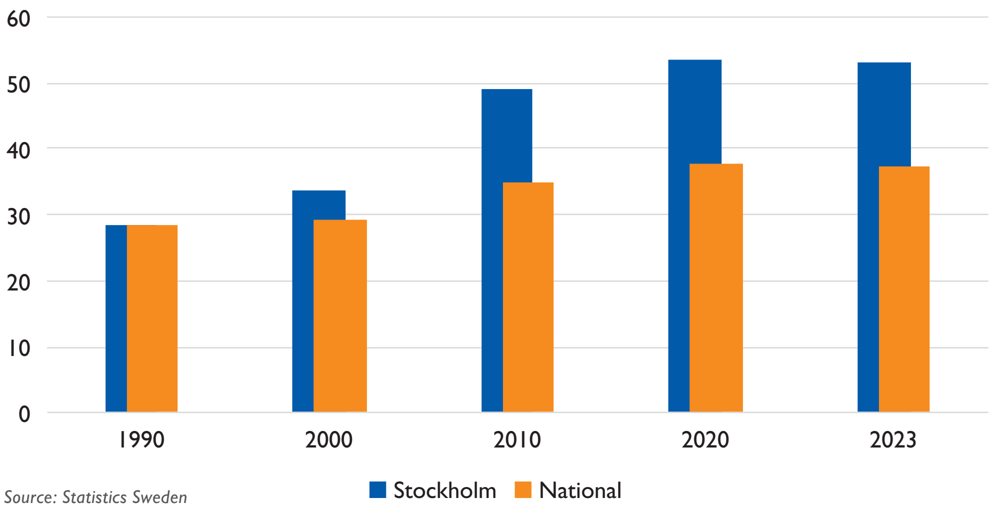


Source: Statistics Sweden

The proportion of tenant-owned apartments in the new construction of apartment buildings has also been high for many years. From 2007 and until 2019 the share amounted to around 50 percent. From 2020, the new construction of rental apartments has increased and in parallel the share of new tenant-owned apartments has decreased somewhat. The share of newly constructed tenant-owned apartments in multi-family buildings accounted for 37 percent in 2023. In the mid-1990s, the proportion of tenant-owned apartments accounted for only 15 percent of newly constructed multi-family buildings.

Chart 4.4 illustrates the change, from 1990 until 2023, in the percentage of tenant-owned apartments as a proportion of the total multi-family housing stock. Between 1990 and 2000, the percentage of tenant-owned apartments in the multi-family housing stock increased marginally from 28 percent to 29 percent. Between 2000 and 2010, the percentage of tenant-owned apartments increased to 35 percent. The past ten-year period the share of tenant-owned apartments has levelled out and the share stood at 38 percent in 2023.

Chart 4.4. Share of tenant-owned apartments in multi-family homes, percent



Source: Statistics Sweden

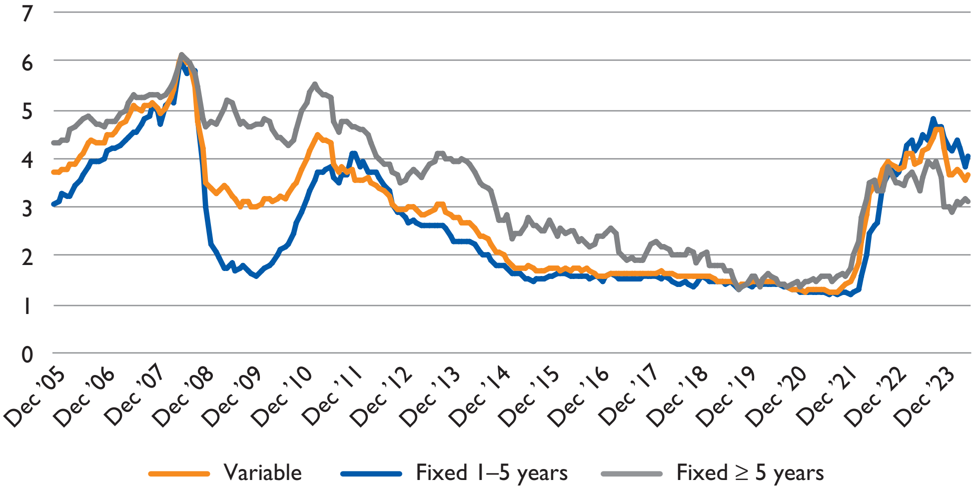
The percentage of tenant-owned apartments in Stockholm is higher than the rest of the country, and in 2023 the percentage of tenant-owned apartments in the multi-family housing stock in Stockholm stood at 53 percent. In the 1990s, the share of tenant-owned apartments in the multi-family housing stock was largely the same in Stockholm and nationally. The share of tenant-owned apartments in Stockholm increased much faster in the 2000s than in many other places in the country, from 34 percent in 2000 to 49 percent in 2010. Also, in Stockholm the share of tenant-owned apartments in the multi-family housing stock has stabilised the last years.

The properties in which tenant-owned apartments are located are formally owned by tenant-owners' associations. A resident in a tenant-owned apartment is entitled to live in one of the tenant-owners' associations' apartments. Since the tenant-owners' association owns the property, any loans secured by the property constitute debt for the tenant-owners' association. Tenant-owners' associations are significant borrowers in Sweden and, in June 2024, loans to tenant-owners' associations amounted to SEK 570 billion. By comparison, household loans secured by tenant-owned apartments amounted to SEK 1,409 billion.

By the end of 2021, mortgage interest rates had been declining for a long time, reaching record-low levels (see Figure 4.5). As an example, the initial fixed rates had dropped to the lowest levels since at least 1985. Variable interest rates were also at historically low levels. The low interest rates have, according to most observers, been an important factor behind the relatively high growth rate in mortgages over the last several years. The difference between variable and initial fixed mortgage rates has also been historically narrow.

Russia's war of aggression against Ukraine and the aftermath of the pandemic are main reasons behind the problems that arose in the global economy in 2022. Sweden was significantly affected by sharply increased inflation and rising market interest rates in 2022. The Riksbank initiated a series of interest rate hikes during 2022 and 2023 to combat inflation. As a result, mortgage interest rates started to increase during the spring 2022, and in 2023 mortgage rates with shorter duration continued to increase. During the first half of 2024, mortgage rates started to decline, especially after the Riksbank began lowering the policy rate in May 2024. In June 2024, the average variable mortgage rates (<1 year) amounted to 4.0 percent, and mortgage rates with an initial fixed term of more than 5 years amounted to 3.1 percent.

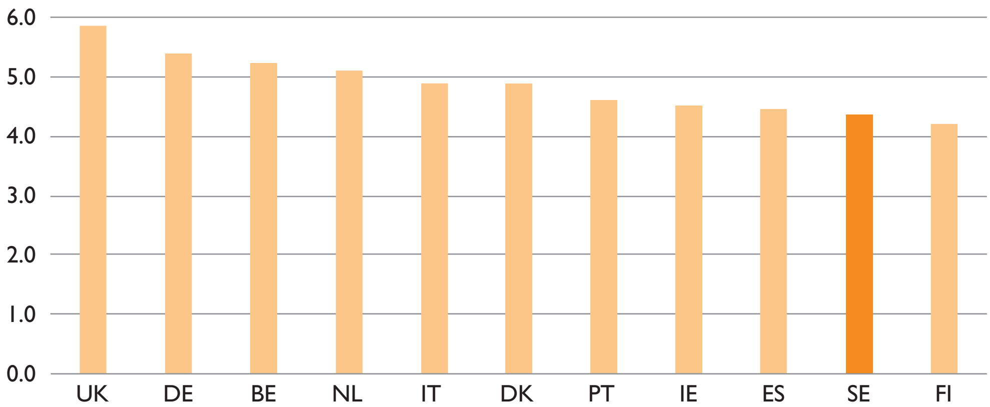
Chart 4.5. Lending rates to households for housing loans, new loans, December 2005–June 2024, broken down by interest term, percent



Source: Statistics Sweden

Like Swedish mortgage interest rates, European mortgage interest rates have increased. Chart 4.6 shows variable mortgage interest rates (fixed for up to one year) in some comparable European countries, revealing that the interest rates range between 4.2 and 5.9 percent in these countries. Finland and Sweden have the lowest variable interest rates in Europe. It should also be noted that there is a significant difference between countries in the prevalence of variable-rate mortgage loans, which will be discussed further in this section.

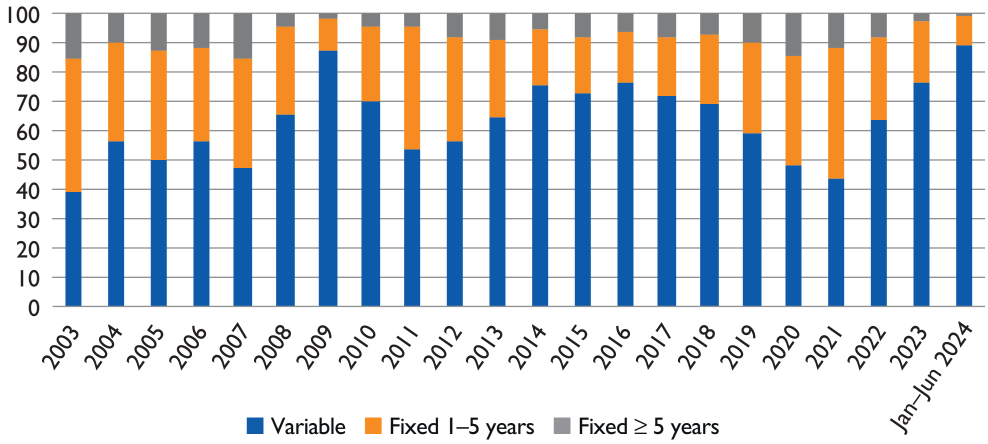
Chart 4.6. Variable mortgage interest rates (variable and initial fixed period rate up to 1 year), first quarter of 2024, percent



Source European Mortgage Federation.

During the period from January to June 2024, 89 percent of new home loans taken out by households had variable interest rates (see Chart 4.7). The share of households' new mortgages with variable interest rates started to increase in 2022 and has continued to increase until the first half of 2024. The increasing share of new mortgages with variable interest rates has coincided with mortgage interest rates starting to rise in 2022. Previously, the difference between variable and initial fixed interest rates was comparatively small, but as the interest rates started to increase during the spring of 2022, the difference between variable and initial fixed mortgage interest rates also increased. As the initial fixed mortgage interest rates increased more than the variable mortgage interest rates in 2022, demand for the variable interest rates increased. However, since 2023 and until the end of June 2024, fixed mortgage interest rates have generally been lower than variable mortgage interest rates, but the demand for mortgages with variable rates has remained high. It is probably due to an expectation that interest rates will fall further in the near future.

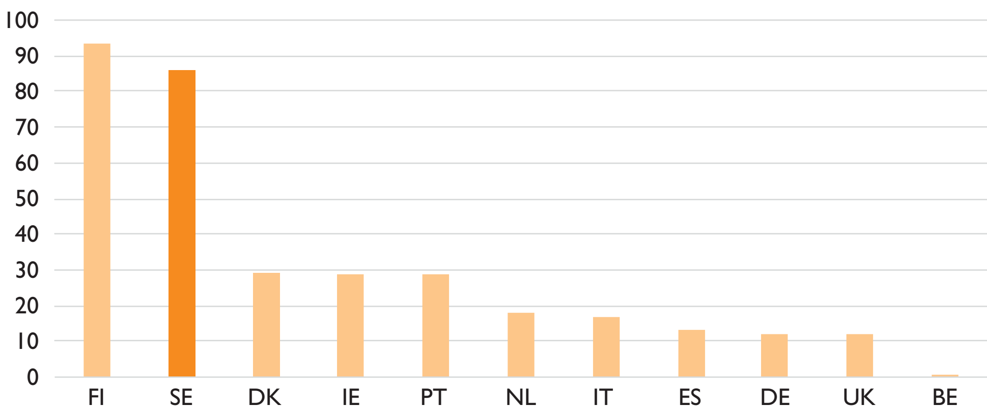
Chart 4.7. New loans to households, housing finance institutions, percentage breakdown by interest term, percent



Source: Statistics Sweden

Although the demand for housing loans with variable interest in Sweden varies from year to year, the share of variable interest rates here is higher than in many other comparable European countries. Chart 4.8 illustrates the share of variable interest loans among new housing loans in the first quarter of 2024 in a number of European countries. The highest proportions of variable rates for new mortgages during the quarter are found in Finland (93 percent) and Sweden (86 percent), while in Belgium, for example, housing loans with variable interest rates are rare. At the same time, variable mortgage rates are lowest in Finland and Sweden (see Figure 4.6).

Chart 4.8. New housing loans with variable interest rates (fixed up to one year) during the first quarter of 2024, share of total, percent



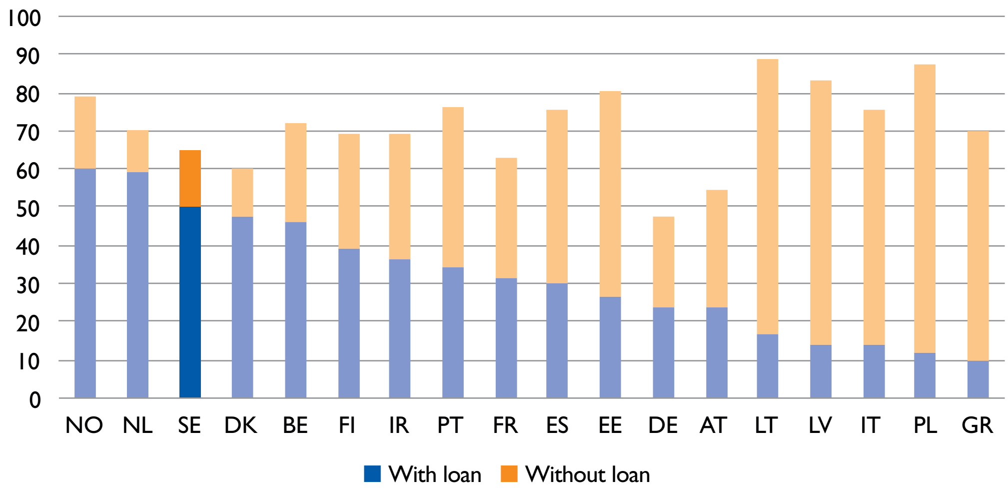
Source: European Mortgage Federation.

5. Household indebtedness

In Sweden, 65 percent of households own their homes, see Chart 5.1. Of these households, 77 percent have a mortgage. The relatively high percentage of households (who own their own home) with a mortgage is a sign of a mature mortgage market, as well as of a tradition of taking out loans to finance homes. The percentage of homeowners (households) with home loans is also relatively high in the other Nordic countries. A comparably high percentage of households (who own their own home) with home loans is also found in countries such as the Netherlands and Belgium.

In many markets in Eastern Europe, as well as in Italy and Greece, the percentage of households with mortgages is relatively low. This may be due in part to the fact that the mortgage market is comparably new, and in part to a tradition of financing housing in other ways, for example in Italy and Greece. Although the percentage of households with mortgages is low in these countries, the percentage of households that own their homes is high and customarily exceeds 70 percent.

Chart 5.1. Share of households who own their home, with or without a housing loan, 2023, percent.



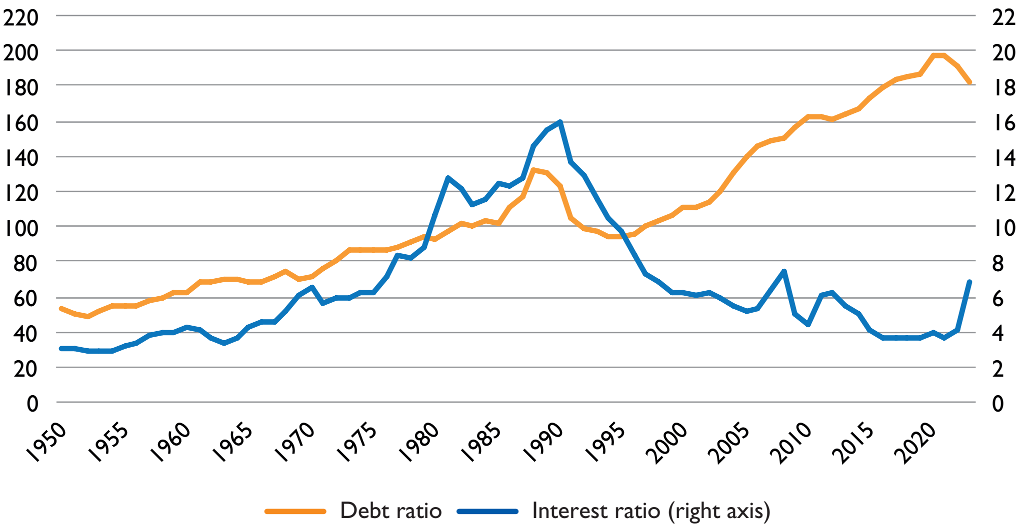
Source: Eurostat

Swedish household indebtedness has risen continuously since the mid-1990s and up until 2021, both in absolute figures and relative to disposable income. The debt ratio (loans in relation to disposable income) for Swedish households reached its highest level in 2021, on average 197 percent. Thereafter, the household debt ratio has decreased and amounted in 2023 to 181 percent of disposable income. This is due to reduced demand for loans, including mortgage loans, as a result of rising mortgage interest rates from 2022, while household incomes have increased in nominal terms.

At the same time, it is important to note that the debt ratio of young households and urban households is significantly higher than the average. New borrowers have an average debt ratio amounting to 282 percent in 2023 calculated on their gross income, according to Finansinspektionen in its yearly report on the Swedish mortgage market. However, the average debt ratio has decreased the last two years also for new mortgage borrowers.

With the exception of a marked decrease in the debt ratio over the course of several years following the financial crisis in the beginning of the 1990s and the last two years, the household debt ratio has increased almost continuously since at least the 1950s (see Chart 5.2). The household interest payments in relation to their income, the interest ratio, has increased the last two years as a result of increasing interest rates since 2022. In 2023, the households' interest ratio amounted to 6.8 percent, which is the highest level in 15 years. In 2023, the households' interest ratio was at about the same level as in the mid-1970s. However, in the mid-1970s, the household debt ratio was only 86 percent compared to today's 181 percent. One explanation for the fact that the interest payments in relation to income are not higher today, despite the debt ratio being at a historically high level, is that loan interest rates in recent years have generally been lower than in the 1970s.

Chart 5.2. Household debt ratio and interest ratio (debt and interest payments, gross, as a percentage of disposable income, net) 1950–2023, percent



Source: Statistics Sweden

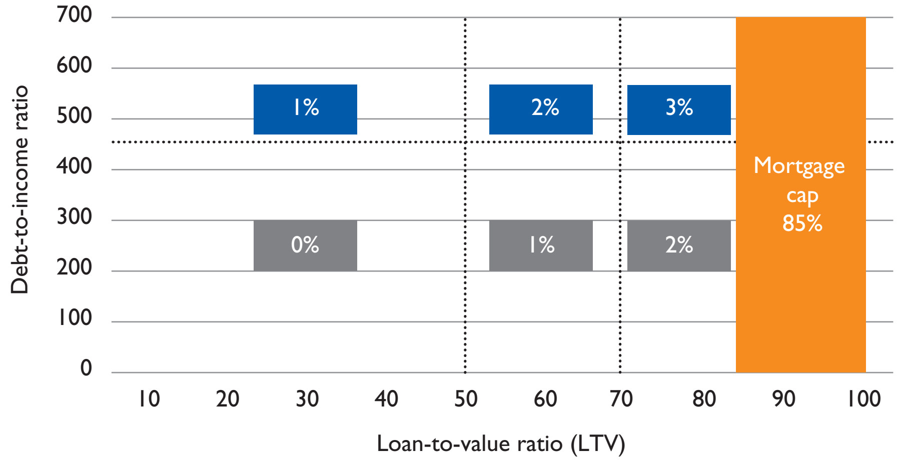
A number of measures have previously been taken with the aim of counteracting high indebtedness. In 2010, Finansinspektionen introduced a mortgage cap, whereby home loans may not exceed 85 percent of the value of the home. Finansinspektionen has also introduced a risk weight floor for Swedish mortgages in order to tie up more capital in relation to banks' mortgage lending. The risk weight floor for mortgages is currently 25 percent.

Another measure to tackle high indebtedness is the introduction of amortisation requirements. In June 2016, Finansinspektionen's regulation on amortisation requirements entered into force. The regulation provides that new mortgage loans from June 2016 with a loan-to-value (LTV) above 50 percent must be amortised. Mortgages with an LTV above 70 percent must be amortised by at least two percent of the original loan amount each year. Mortgage loans with an LTV ratio between 50 and 70 percent must be amortised by a minimum of one percent annually.

From March 2018, stricter amortisation requirements entered into force. The stricter amortisation requirements stipulate that new borrowers with a housing loan and whose housing debts exceed 4.5 times their gross income must amortise at least one percent in addition to the fundamental amortisation requirements.

If specific reasons arose after the loan was granted, according to the amortisation regulations, it is possible for banks and mortgage institutions to grant temporary exemptions from the amortisation requirement after an individual assessment has been made based on these specific reasons.

Chart 5.3. Amortisation requirement, overview

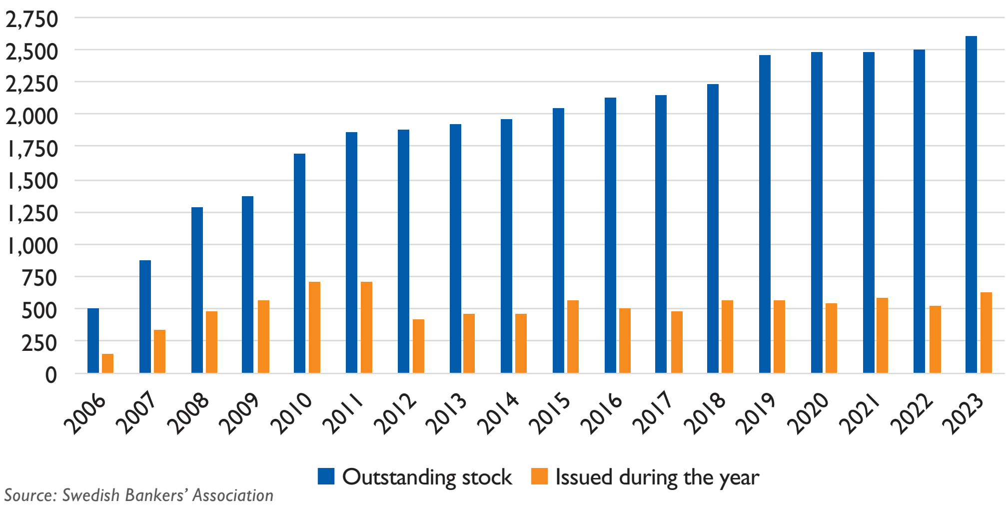


6. Funding

Currently, all of the important participants on the Swedish mortgage market have covered bonds as a funding instrument. Following new legislation which came into force in 2004, former housing bonds were all converted into covered bonds in the subsequent years. Chart 6.1 illustrates the growth in the outstanding stock of covered bonds and the amounts that have been issued. The increase in the outstanding stock between the years 2006-2008 is to a large extent due to housing bonds being converted into covered bonds. In the summer of 2022, significant changes were made to the Swedish law on covered bonds following an EU decision to harmonise national regulations through a directive.

Issues of covered bonds to finance mortgage lending take place in both banks and mortgage institutions. In tandem with the covered bonds, housing finance institutions' lending is also funded by borrowing in the form of loans from the parent bank. Loans from the parent bank amounted to an average of 45 percent of the housing institutions' total balance. Other forms of financing in mortgage institutions are in principle negligible.

Chart 6.1. Covered bonds – outstanding and issued during each year, SEK billion



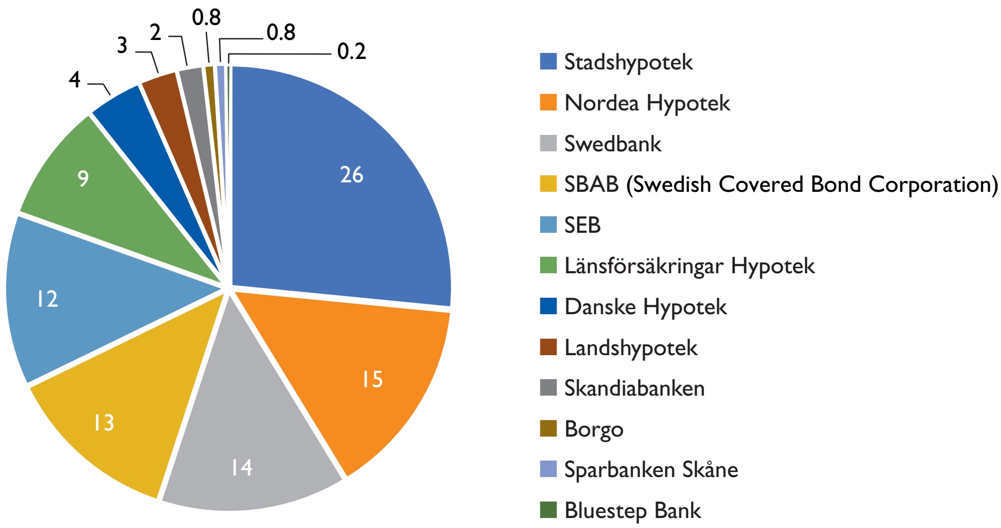
Source: Swedish Bankers' Association

Since their introduction in 2004, Swedish covered bonds have proven to be a well-functioning form of financing. One of several explanations is the high credit quality of the stock of mortgages that make up the majority of the collateral for the bonds. Unlike in many other countries, the Swedish market worked well during the recent financial crisis as well during the pandemic. Just over 35 percent of the Swedish banks' covered bonds are owned by foreign investors. In addition, around 20 percent of Swedish covered bonds are held by Swedish insurance companies and pension institutions. Covered bonds fulfil an important function as an investment for insurance companies and pension institutions at the same time that these actors are important for the market for covered bonds.

During the period 2020 to 2022, the Riksbank has purchased covered bonds as a part of the Swedish monetary policy. The Riksbank's holdings of covered bonds increased continuously up until the first quarter of 2022, when the Riksbank's holdings amounted to SEK 418 billion, or the equivalent of 16 percent of the outstanding stock of covered bonds. After this time, the Riksbank's holdings of covered bonds have decreased and, at the end of March 2024, the stock of covered bonds held by the Riksbank amounted to SEK 262 billion, which corresponds to approximately 10 percent of the total stock of covered bonds in Sweden.

In recent times, a new kind of institutions, mortgage credit companies, has been established on the Swedish market. Stabelo and Hypoteket are two examples mentioned in Chapter 3. The new companies are funded through selling shares of mortgage funds, by which they create and manage investment products on behalf of institutional investors within the framework of an alternative investment fund.

Chart 6.2. Covered bonds (under Swedish law) – outstanding stock per institution on 31 December 2023, percent



Source: Swedish Bankers' Association

7. Other events in 2023–2024

The Finansinspektionen has been tasked with monitoring how mortgage lenders apply the possibility of granting borrowers exemptions from amortisation requirements if they have loans secured by newly produced housing. The report from Finansinspektionen's assignment shows that seven out of eight banks grant exemptions from the amortisation requirement for loans to newly produced housing in all or some cases. One of the surveyed banks does not use the exemption.

In 2024, Finansinspektionen published revised regulations on amortisation. The revised regulations include clarifications that mortgage customers should have the opportunity to request and receive the amortisation basis information electronically and in other ways that are suitable for the customer. The regulations also clarify that the amortisation basis information should normally be provided to the customer on the same day the mortgage institution received the request, or the next business day if it was received late or outside working hours.

In the summer of 2022, a government study put forward a proposal for a state register of tenant-owned apartments. The register must contain basic information as well as information about mortgages for all tenant-owned apartments in the country. Lantmäteriet, The Swedish Land Survey, has received state grants to start building up a state register of tenant-owned apartments from 2025 and onwards.

In the spring of 2023, the government established a committee with the task of investigating how the mortgage cap and amortisation requirement have worked thus far and how they can be designed in the future to address macroeconomic risks and consumer protection in an appropriate manner. The committee is expected to present its findings no later than October 2024.

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