

REPORT

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The Mortgage Market in Sweden



Svenska
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Swedish Bankers' Association

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Introduction

Mortgages comprise a significant percentage of the loan portfolio in Sweden and are an important component of the household budget for many individuals with home loans. The Mortgage Market in Sweden describes both current and historic mortgage and construction trends. These developments are illustrated using statistics shown in tables and charts.

A brief description of general economic trends is followed by a discussion of developments in housing construction. The first half of 2020 is marked by the outbreak of Covid-19 and the major effects of the pandemic on society and the economy. This shows that after a significant increase in construction until 2017, when the number of housing starts reached the record figures from the beginning of the 1990s, construction has started to slow down in the last years. Housing prices have been increasing for a number of years. After a drop in housing prices in the autumn of 2017, the prices stabilised at a lower level during 2018 and recovered somewhat in 2019. Housing prices have, despite the uncertainty after the outbreak of Covid-19, continued to increase during the first half of 2020. At the end of June 2020 the price of single-family homes has, on average, increased by 7.3 percent and the price of tenant-owned apartments has increased by 2.6 percent.

Total residential mortgage lending amounted to SEK 4,569 billion in June 2020. The rate of growth for mortgages was 6.0 percent annually, which is an increase as compared with the same period last year when the growth rate was 5.5 percent. The lending increase to single-family homes was 5.0 percent annually in June 2020 compared to 4.9 percent the same time last year. The rate of lending to tenant-owned apartments is higher than for single-family homes and was 7.1 percent annually at the end of June 2020, which is the same growth rate compared to the same period last year. Mortgage interest rates have generally declined for several years and interest rates are at historically low levels.

Household indebtedness is outlined, as are implemented and proposed measures to counteract high indebtedness. Finally, an overview is provided of the main forms of borrowing for mortgage institutions and information regarding the general easing by Finansinspektionen of the amortisation rules in April 2020 after the outbreak of Covid-19.

I. The economic situation in Sweden

As a result of the Covid-19 pandemic Sweden's GDP fell by 8.3 percent in the second quarter of 2020 according to figures by SCB Statistics Sweden. The Swedish economy has not been hit quite as hard as many other countries in the euro area, which according to the NIER (National Institute of Economic Research) is because the Swedish authorities' measures to limit the spread of infection have been less far-reaching than in many other countries. The downturn in Sweden is alleviated by economic policy measures and employment is propped up by extensive use of the short-time work scheme. The NIER makes the assessment that the pandemic will continue to weigh on the Swedish economy for at least another year, until the summer of 2021. GDP grew by 1.2 percent in 2019. The NIER estimates that GDP will fall by 4.8 per cent for the full year 2020.

The NIER writes in its June forecast that there are many indications that the construction sector has not been hit as hard as the manufacturing and services sectors. Housing starts was relatively stable during the first half of 2020 but is expected to fall during the rest of 2020. This means that housing investments, with a certain delay, will fall. The number of housing starts reached 48,600 last year, which is about 3,700 dwellings fewer than in 2018. According to a forecast from the National Board of Housing, construction will decrease further to 45,500 dwellings in 2020.

Different measures have been imposed on housing loans in the past few years, among others a fundamental amortisation rule in 2016 and an additional rule based on debt ratio in 2018. This affected the demand for new built dwellings and contributed to falling prices on the housing market. At the end of 2019 and the beginning of 2020 the housing market recovered. The pandemic has led to a renewed spread of uncertainty in the housing market, however house prices seem stable or even on the increase.

Table 1. The NIER indicators for the Swedish economy, June and August 2020, annual percentage change and percent, respectively

	2019	2020	2021	2022
GDP, market price	1.2	-4.8	3.4	4.1
Employment	0.7	-1.9	-0.6	1,8
Unemployment ⁽¹⁾	6.8	8.5	9.5	8.7
Commercial productivity ⁽²⁾	1.7	-0.7	1.3	1.7
CPI	1.8	0.4	1.1	1.4
Repo rate ⁽³⁾	-0.25	0.0	0.0	0.7
Ten-year government bond rate ⁽³⁾	0.1	0.0	0.4	0.7

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

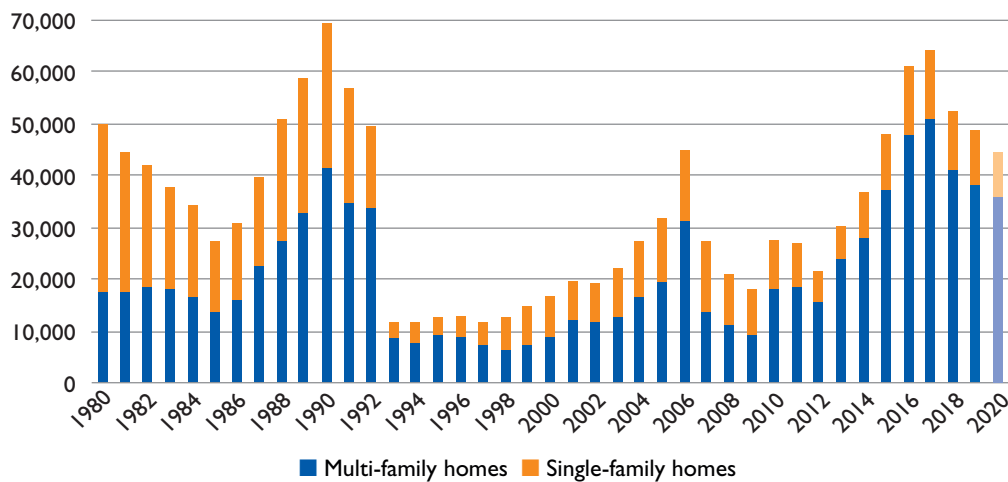
Household real disposable income and consumption will decrease during 2020 according to the NIER. However, consumption is expected to increase next year as the effects of Covid-19 diminish. The future development of housing prices is important for household consumption forecasts and if housing prices were to fall this would most probably lead to lower consumption growth.

Neither during the 1990s crisis nor the financial crisis were there as many redundancies in a single month compared to spring 2020. The NIER expects that the employment rate will fall and the unemployment rate will increase during the second half of 2020. One reason for this, among others, is that companies will make less use of the short-time work scheme. The current scheme with an increased subsidy during Covid-19 will come to an end at the turn of the year while the economy will continue to be weak.

2. The housing and construction market

Residential construction has increased for a number of years and peaked with 64,000 housing starts in 2017. The number of housing starts in 2017 was comparably high and had not been higher since 1990. Construction growth thereafter levelled off and the number of housing starts was 48,600 in 2019. The National Board of Housing writes that construction is expected to drop further during 2020 to 45,500 housing starts. The year 2020 began with what appeared to be a certain recovery in housing construction and an increase in sold tenant-owned apartments. The pandemic has affected the economy in general, but the housing market seems to have resisted to some extent. The National Board of Housing however assesses that construction of tenant-owned apartments and rental apartments may decrease by 15–20 percent during 2020, whereas the construction of single-family homes will drop by only 10 percent. The forecast is based primarily on assessments made by Swedish municipalities in the Board's housing market survey, taking into account, among other things, current trends in prices, sales, building permits and residential construction.

Chart 2.1. Housing starts 1980–2020



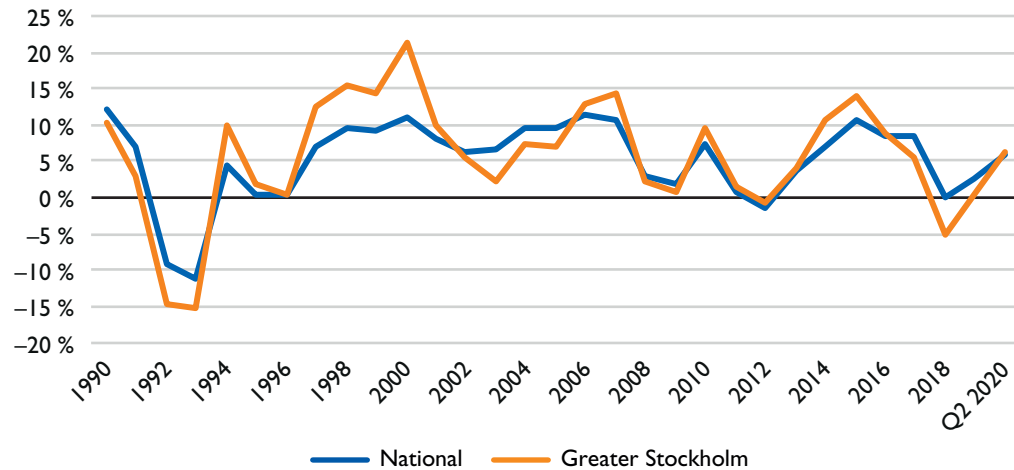
Note: The number of housing starts fell sharply in 2007. This is largely explained by the Government decision in 2006 to abolish general housing subsidies for dwellings (multi-family homes) started after 31 December 2006. This meant that many property developers accelerated the start of construction to begin before the end of 2006 in order to receive subsidies.

Source: Statistics Sweden and 2020 forecast from the National Board of Housing.

A significant percentage of new construction is taking place in metropolitan areas. In 2019 the Stockholm, Gothenburg and Malmö metropolitan areas accounted for 51 percent of housing starts in Sweden. The larger cities have accounted for 50 to 60 per 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 three above mentioned urban areas. Among the larger cities in 2018 and 2019 there was a drop in the construction figures in Stockholm. A similar decrease has occurred in Gothenburg during 2019 when construction decreased by 30 percent compared to 2018. In Malmö construction has been relatively stable during the last three years. During a number of years Stockholm alone accounted for 30 percent of Swedish housing starts, but that share dropped to around 25 percent in 2018 and 2019.

Another change in the home construction market is that multi-family home dwellings account for a larger share of new construction. Since 2010 the proportion of multi-family home dwellings in relation to total housing starts has, on average, been 76 percent. During the 1980s multi-family dwellings accounted for almost 50 percent of new construction and during the 1990s and 2000s to around 60 percent of new construction.

Chart 2.2. Single-family home prices, annual percentage change

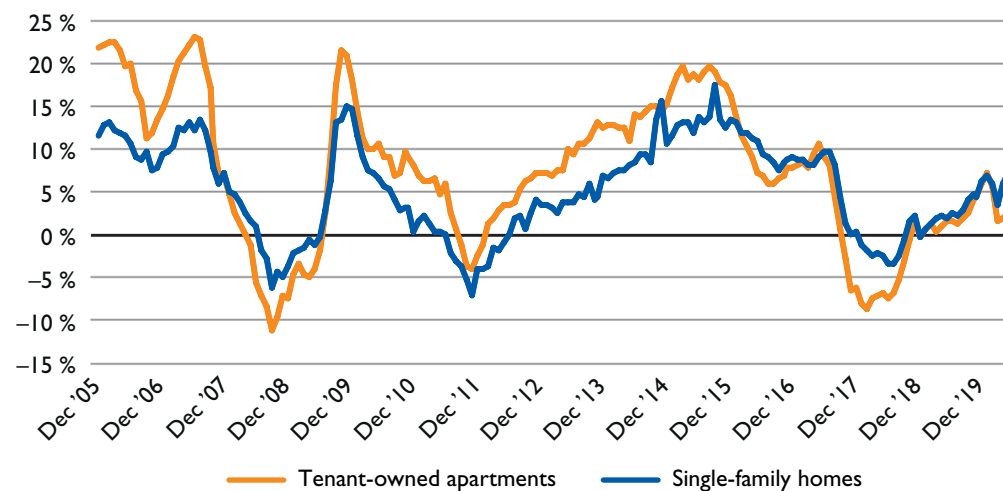


Source: Statistics Sweden.

In 2018 single-family home prices slowed down. Nationally prices remained unchanged in general, but decreased by 5.2 percent in Stockholm. During 2019 prices of single-family homes recovered. The recovery continued until the second quarter 2020 when prices increased by 5.8 percent annually. During the first quarter of 2020 the Corona pandemic broke out and even though it has created uncertainty in the markets, house prices generally appear to be stable or even on the increase.

There has been a significant difference in price trends for single-family homes and tenant-owned apartments for several years. The HOX-index (Valueguard / KTH) shows price trends for both single-family homes and tenant-owned apartments (see Chart 2.3). For several years the prices of tenant-owned apartments have risen more than prices of single-family homes according to the HOX-index. From the beginning of 2016 the price increases for tenant-owned apartments slowed down significantly and, in addition, the price increases have been lower than for single-family homes. In autumn 2017 the prices of tenant-owned apartments fell by almost -10 percent on an annual basis. After price decreases for both tenant-owned apartments and single-family homes in 2018, the prices recovered somewhat in 2019 and at the beginning of 2020 when the pandemic broke out. The uncertainty in the housing market created by the pandemic has mainly affected the market for tenant-owned apartments where the prices have slowed down, and in June the prices of tenant-owned apartments increased by 2.6 percent on an annual basis. By comparison, the single-family home prices increased by 7.3 percent at the end of June 2020. According to the HOX-index, the price development in Sweden's largest submarket, Stockholm, has been similar to the rest of the country in the past year. In June 2020 the prices of tenant-owned apartments in Stockholm increased by 2.4 percent and prices of single-family homes increased by 7.8 percent.

Chart 2.3. Housing prices, annual percentage change, quarterly values

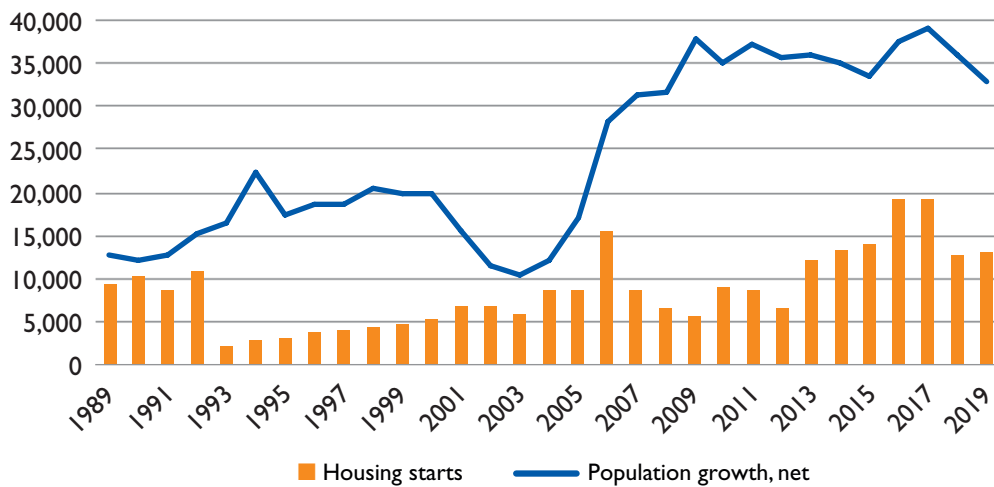


Source: HOX-index / Valueguard.

Unlike in many other European countries, housing prices in Sweden did not fall in the wake of the financial crisis but instead continued increasing until the end of 2017. There are a number of reasons for the price increases, which could be derived from both a low supply and increasing demand. Demand has increased as a result of several factors, including relatively favourable economic growth in Sweden, increasing household incomes, low interest rates, good access to credit, changed tax rules, an increasing population and rapid urbanisation.

On the supply side, the limited housing construction relative to population growth, especially in urban areas, has been a fundamental explanation for the rise in prices. One example is Stockholm County, where the annual net increase in population has been 35,000 on average in the last 14 years. The number of housing starts has not, however, matched the significant increase in population. Between 2007 and 2012, only between 5,000 and 9,000 dwellings were started per year. However, the number of housing starts rose slightly after 2012 in Stockholm, but fell back in 2018 and amounted to about 13,100 dwellings in 2019 (see Chart 2.4).

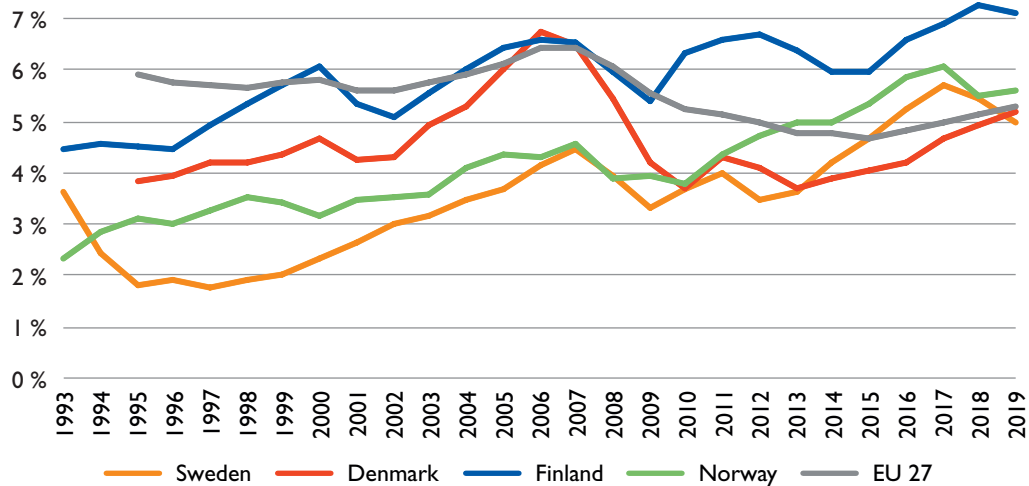
Chart 2.4. Net population growth and housing starts in Stockholm County



Source: Statistics Sweden.

Housing construction fell dramatically after the crisis in Sweden in the 1990s, as illustrated by Chart 2.1 earlier in this publication. From the middle of the 1990s until 2014, residential housing investments represented a lower percentage of GDP in Sweden than in other Nordic countries and the EU average (see Chart 2.5). Even though Swedish housing investments have decreased as a percentage of GDP over the past two years and are again below the EU average, they remain higher than before 2014. In 2019, Swedish housing investments amounted to 5.0 percent of GDP, which is slightly lower than the

Chart 2.5. Residential housing investments as percentage of GDP

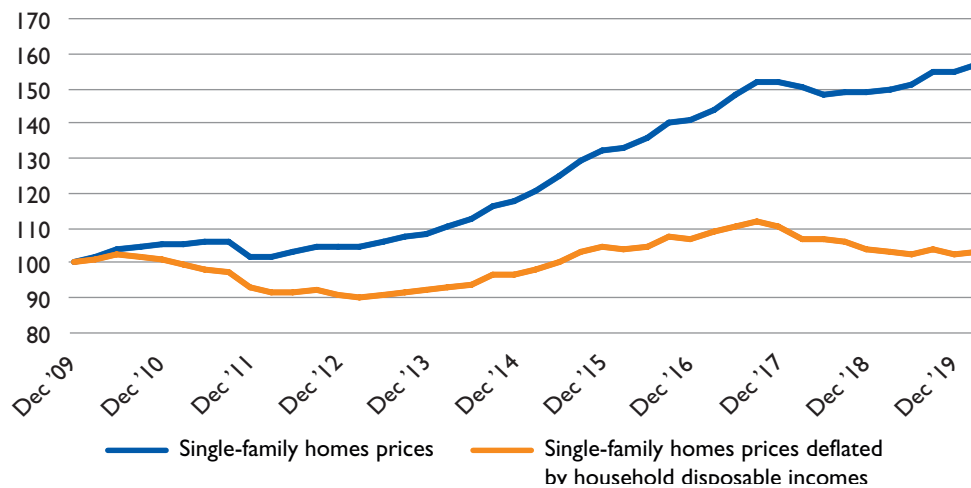


Source: Eurostat.

EU average of 5.3 percent. This can be compared with the 2019 figures for Cyprus and Finland, with the highest rates of residential investment in the EU at 7.2 and 7.1 percent of GDP, and with Greece, with the lowest rate at 0.7 percent of GDP.

The increasing incomes of Swedish households is a further explanation for increasing housing prices over a number of years. Single-family home prices have increased by 57 percent in the last decade, from December 2009 to the first quarter of 2020. The price increase of single-family homes and the corresponding price increase deflated by Swedish households' net disposable incomes as illustrated in Chart 2.6 below. When household disposable income is considered, the single-family home prices have instead increased by 3.4 percent in the last ten years.

Chart 2.6. Single-family home nominal prices and single-family home prices deflated by household net disposable incomes, index 100=2009



Source: Statistics Sweden.

The Swedish market is characterised by a number of conditions that reduce the risk of declining prices and more widespread problems on the mortgage market. One factor is that banks' lending processes are stringent and governed by 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 in the form of, for example, a property register and good access to credit information about borrowers. The welfare system is another significant factor, since 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. Most Swedes regard their homes primarily as a residence and not as an investment opportunity.

3. Competition on the mortgage market

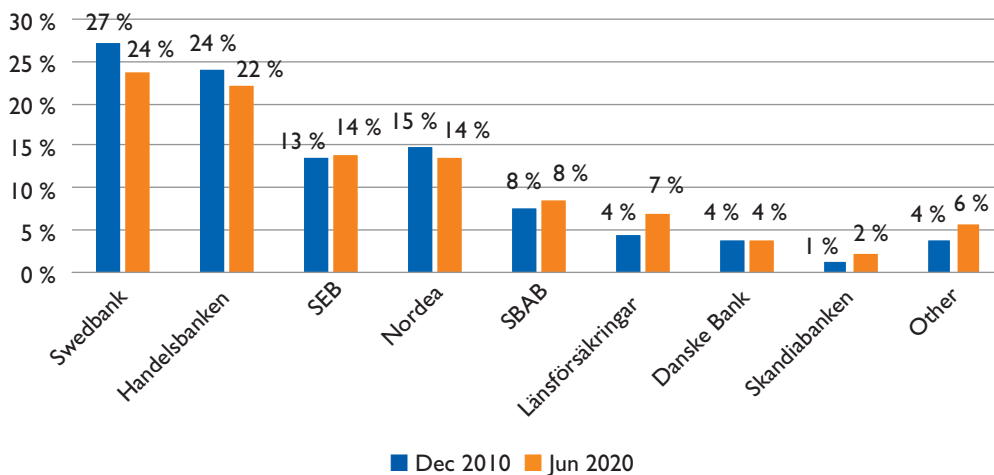
Property lending in Sweden is, to a great extent, offered by specialised housing finance institutions (mortgage institutions), but is also offered by banks. As of June 2020, total lending in Sweden secured by housing was SEK 4,569 billion. Mortgage deeds serve as the primary security for home loans and tenant-owned apartments-loans from banks and housing finance institutions.

The three largest housing finance institutions are owned by Swedbank (Swedbank Hypotek), Handelsbanken (Stadshypotek) and the now Finnish bank 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 which was reorganised into a bank in 2010, still fully owned by the state. Home loans are also offered by Länsförsäkringar Hypotek and by Danske Bank and Skandiabanken, both of which are 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.

In recent 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 banking licence, which means that they are not subject to the same requirements as banks. The new companies instead operate in the Swedish market with another form of licence from Finansinspektionen than banks and credit-market institutions. 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 lend to mortgage borrowers. The lending of mortgage credit companies is small in relation to the total outstanding housing loans, representing 0.3 percent of the total stock in June 2020. However, the new companies are significant competitors on the mortgage market and accounted for 3.7 percent of new lending in the past year.

The market share in June 2020 compared with December 2010 of total lending to Swedish households secured by housing is illustrated in Chart 3.1. The group “Other” includes, among others, savings banks and other institutions (not mortgage credit institutions and AIFs).

Chart 3.1. Lending secured by housing, Swedish households, December 2010 and June 2020



Source: Statistics Sweden.

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 4,569 billion at the end of June 2020. Three years ago, in June 2017, the corresponding figure was SEK 3,832 billion. Lending has thus increased by SEK 737 billion, or 19 percent, in three years.

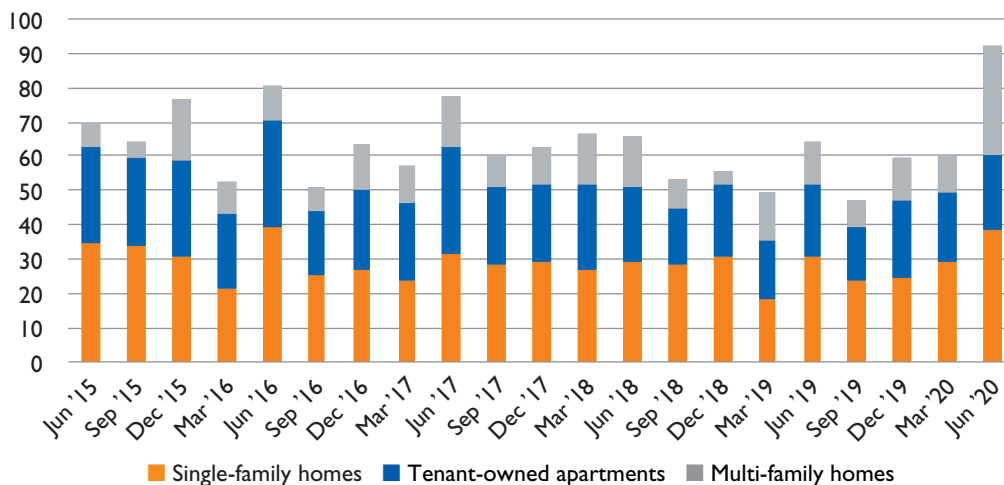
Table 4.1. Total lending secured by single-family homes, tenant-owned apartments and multi-family homes, SEK billion, June 2020

	Single-family homes	Tenant-owned apartments	Multi-family homes	Total
Households	2,363	1,201	57	3,621
Companies	94	7	847	948
Total	2,457	1,208	904	4,569

Source: Statistics Sweden.

Chart 4.1 illustrates the quarterly growth in net lending (new lending less amortisation) for housing, broken down into single-family homes, tenant-owned apartments and multi-family buildings. The chart shows that net lending quarterly was relatively high between the years 2015 and 2017, when net lending was between SEK 50 to 80 billion. In 2018 and 2019 the quarterly net housing loan growth decreased to between SEK 47 and 65 billion. During the first two quarters 2020 lending has increased somewhat, especially for multi-family homes in the second quarter.

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

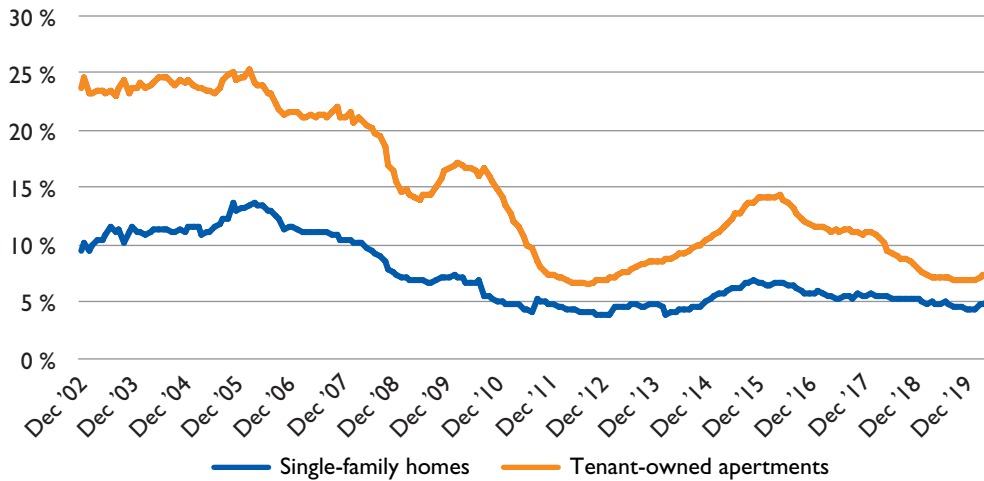


Source: Statistics Sweden.

The rate of lending to single-family homes was 5.0 percent in June 2020 (see Chart 4.2). The rate of lending to tenant-owned apartments is higher than for single-family homes and was 7.1 percent annually. In the middle of 2016, the rate of growth of the Swedish home loan 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 the Swedish Financial Supervisory Authority of the amortisation rules for new housing loans, see part 5, which is an important explanation for the slower growth rate. During the spring 2020 there has been a certain increase in the home loan growth rate. The increase in lending during the Covid-19 pandemic outbreak in Sweden in the spring 2020 may partly be explained by the temporary exemption from the amortisation rules on mortgage loans in April 2020.

The growth rate for loans secured by single-family homes is in general slower and more stable than for tenant-owned apartments. In the last ten years the growth rate for single-family home loans has varied between 4 and 7 percent, while the growth rate for tenant-owned apartments loans has fluctuated between 7 and 17 percent.

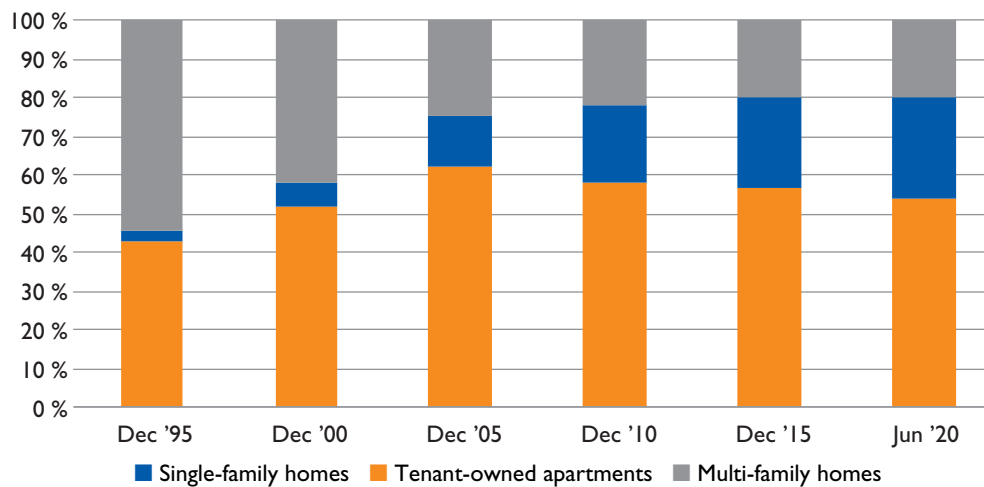
Chart 4.2. The home loan portfolio, annual percentage change, monthly values



Source: Statistics Sweden.

The rate of increase for tenant-owned apartments has, for a number of years, been higher than for single-family homes. A couple of reasons for this are the conversion of rental apartments into tenant-owned apartments, which previously took place primarily in the metropolitan regions, and the fact that significantly more tenant-owned apartments than single-family homes were built during the last years. Additionally, prices of tenant-owned apartments have increased more than prices of single-family homes. Chart 4.3 illustrates how the percentage of home loans secured by tenant-owned apartments has increased since 1995.

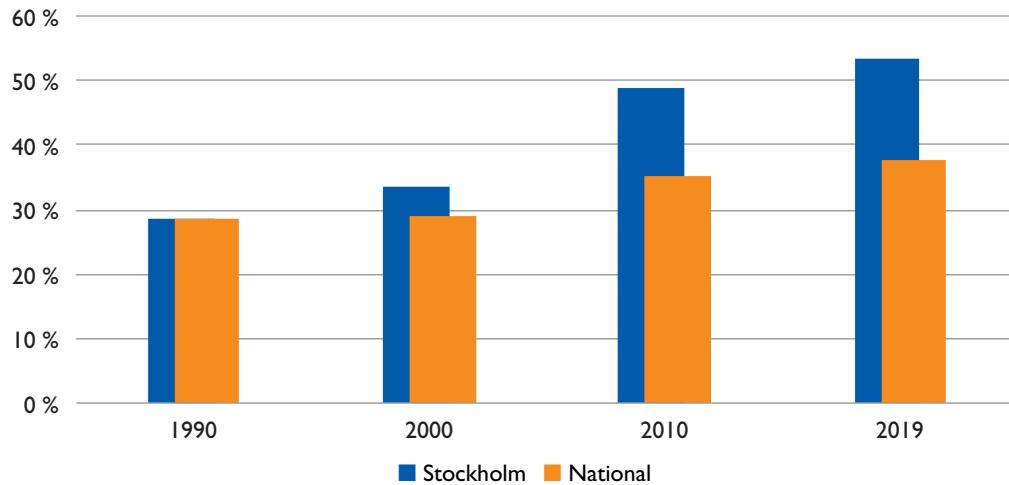
Chart 4.3. Outstanding mortgage loan portfolio broken down by type of security



Source: Statistics Sweden.

One reason why lending secured by tenant-owned apartments has been higher than for single-family homes is, as mentioned above, the conversion of rental apartments into tenant-owned apartments. The proportion of tenant-owned apartments in the new construction of apartment buildings has also been high, amounting to around 50 percent in the past ten years. 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 2019, in the percentage of tenant-owned apartments as a component of the multi-family housing stock. Between 1990 and 2000, the percentage of tenant-owned apartments in the multi-family housing stock increased from 28 percent to 30 percent. Between 2000 and 2010, the percentage of tenant-owned apartments continued to increase to 35 percent. The growth rate since then has been somewhat slower and in 2019, the percentage of tenant-owned apartments was 38 percent.

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



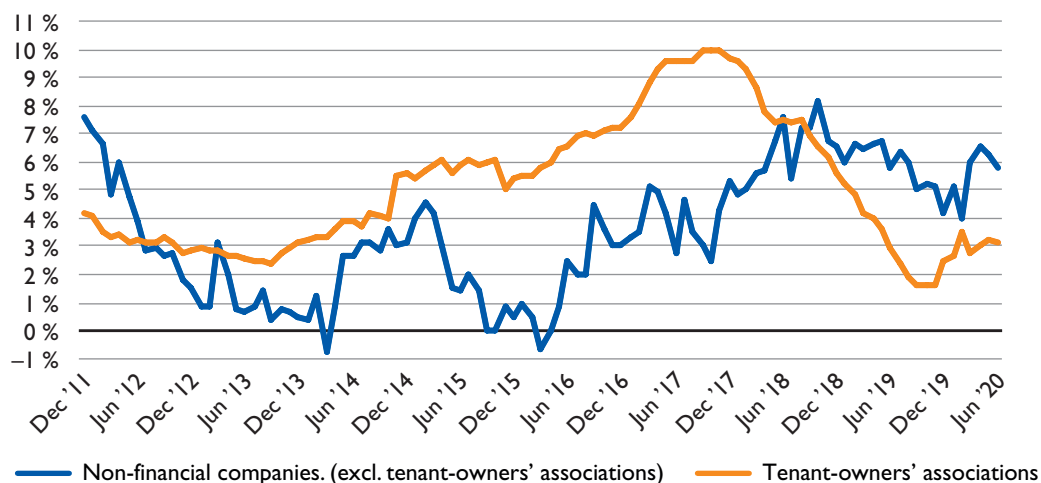
Source: Statistics Sweden.

In Stockholm, the percentage of tenant-owned apartments is higher and in 2019, the percentage of tenant-owned apartments in the multi-family housing stock in Stockholm was 54 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.

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 of the tenant-owners’ association. Tenant-owners’ associations are thus significant borrowers in Sweden and, in June 2020, loans to tenant-owners’ associations amounted to SEK 502 billion (secured by the property and all other loans). By comparison, household loans secured by tenant-owned apartments amounted to SEK 1,150 billion.

For statistical purposes, a tenant-owners’ association is categorised as a non-financial company and the aggregated loans of tenant-owners’ associations represent 20 percent of outstanding loans taken out by non-financial companies. The rate of lending to tenant-owners’ associations rose for a number of years until the end of 2017. Since then the lending rate decreased significantly until the end of 2019. However, during the first half of 2020 the growth rate of loans to tenant-owners’ associations increased somewhat and amounted at the end of June 2020 to 3.1 percent annually.

Chart 4.5. Lending to non-financial companies and tenant-owners’ associations, annual percentage change, monthly values

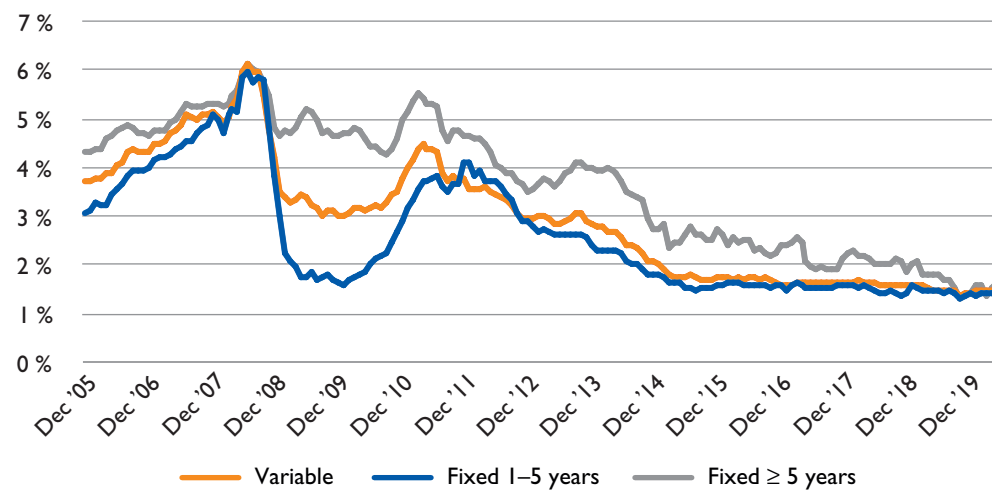


Source: Statistics Sweden.

By contrast, the lending rate for loans to non-financial companies (excluding tenant owners' associations) continued to increase during 2018 and from the end of 2018 it has been higher than the lending rate to tenant-owners' associations. Lending to non-financial companies excluding tenant-owners' associations amounted to 5.8 percent in June 2020 (see Chart 4.5).

For almost 10 years, both the variable and initial fixed housing interest rates have declined (see Chart 4.6). Even in the longer term, interest rates have fallen. The initial fixed rates have dropped to the lowest levels since at least 1985. Variable interest rates are also at historically low levels. From mid-2015 the mortgage interest rates and especially the variable mortgage interest rates and initial fixed 1 to 5 years rates have levelled out. The low interest rates are, according to most observers, an important factor behind the relatively high lending rate in the last several years. The spread between variable and initial fixed mortgage rates is also historically low, and in June 2020 variable mortgage rates averaged 1.4 per cent and mortgage rates with an initial fixed term of more than 5 years amounted to 1.6 per cent.

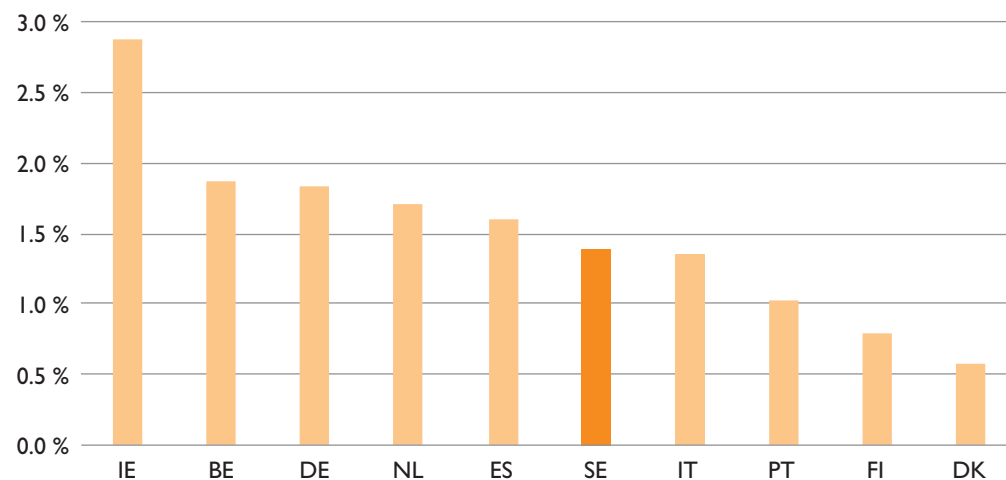
Chart 4.6. Lending rates to households for housing loans, new loans, December 2005 – June 2020, broken down by interest term



Source: Statistics Sweden.

Like Swedish mortgage interest rates, European mortgage interest rates have decreased. Variable mortgage interest rates in Sweden are amongst the lowest in Europe. Denmark and Finland have the lowest variable interest rates in Europe (see Chart 4.7).

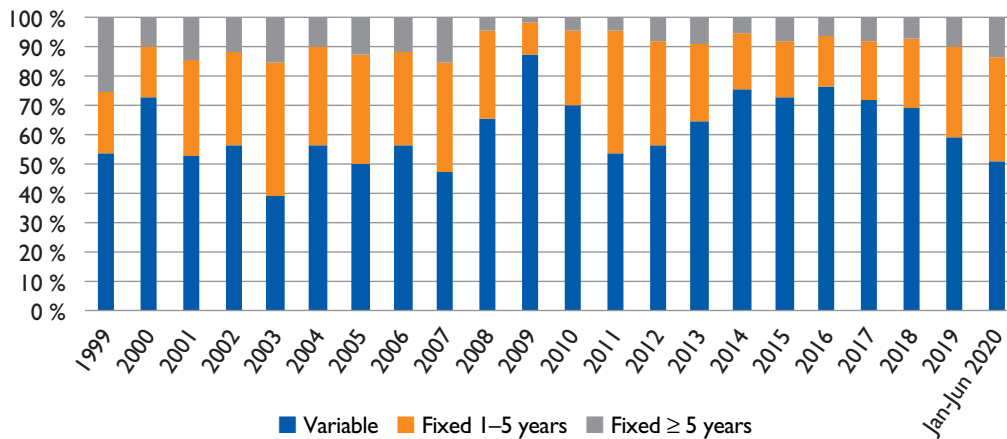
Chart 4.7. Variable mortgage interest rates (variable and initial fixed period rate up to 1 year), first quarter of 2020, percent



Source European Mortgage Federation.

During the period from January to June 2020, 51 percent of new home loans taken out by households had variable interest rates (see Chart 4.8). The share of variable interest rates has not been lower since 2007. For five years until 2018, the share of variable interest rates has amounted to 70–75 percent among new housing loans. The share of initial fixed period rates has since increased considerably. Some contributing reasons for the reduced share of variable interest rates in recent years include increasing variable interest rates following the Riksbank’s decision to increase the Reporate in December 2018 and the fact that initial fixed interest rates have dropped to the same low levels as variable interest rates. The uncertainty in the markets due to the Covid-19 outbreak at the beginning of 2020 may also have contributed to households preferring to tie rates to a greater extent.

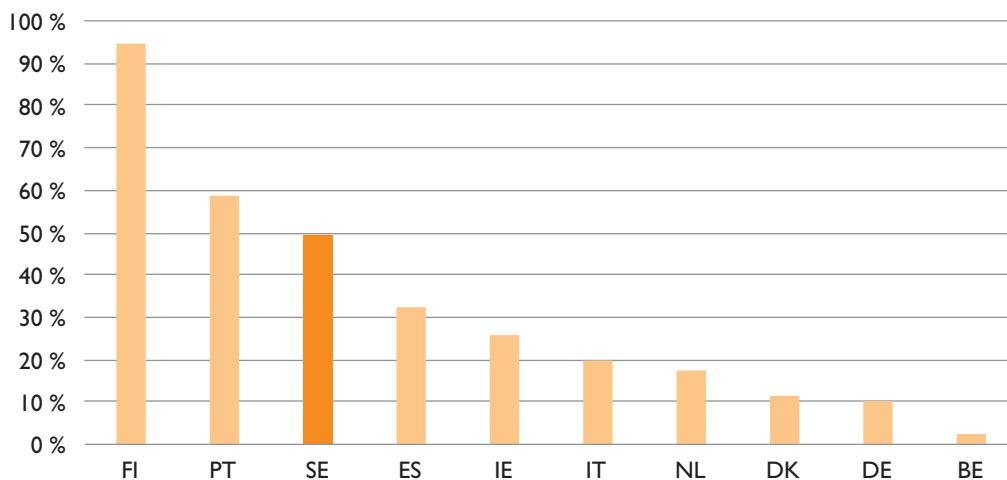
Chart 4.8. New loans to households, housing finance institutions, percentage breakdown by interest term



Source: Statistics Sweden.

Even though the share of variable interest loans among the households’ new housing loans has diminished in Sweden in recent years, the share of variable interest loans is still higher in Sweden than in most other comparable European countries. Chart 4.9 illustrates the share of variable interest rates among new housing loans in the first quarter of 2020 in a number of European countries. In Finland, 94 percent of new housing loans have variable interest rates whereas in Sweden 50 percent of new housing loans have variable interest rates. In Belgium, for example, housing loans with variable interest rates are rare.

Chart 4.9. New housing loans with variable interest rates (fixed up to one year) during the first quarter of 2019, share of total, percent.



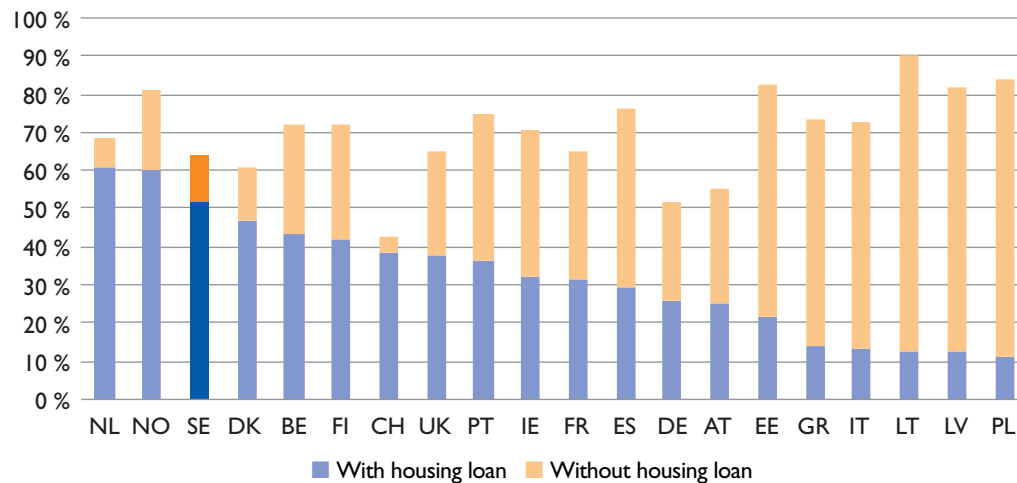
Source: European Mortgage Federation.

5. Household indebtedness

In Sweden, 64 percent of households own their homes. Of these households, 81 percent have a home loan (see Chart 5.1 below). 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, except for Finland with a slightly lower percentage. A comparably high percentage of households (who own their own home) with home loans is also found in countries like the Netherlands and Switzerland. In Switzerland, however, only slightly over 40 percent of households own their own homes.

In many emerging markets in Eastern Europe, as well as in Italy and Greece, the percentage of households with home loans is relatively low. This may be due in part to the fact that the mortgage market is relatively new and in part, for example in Italy and Greece, to a tradition of financing housing in other ways. Although the percentage of households with home loans 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, percent



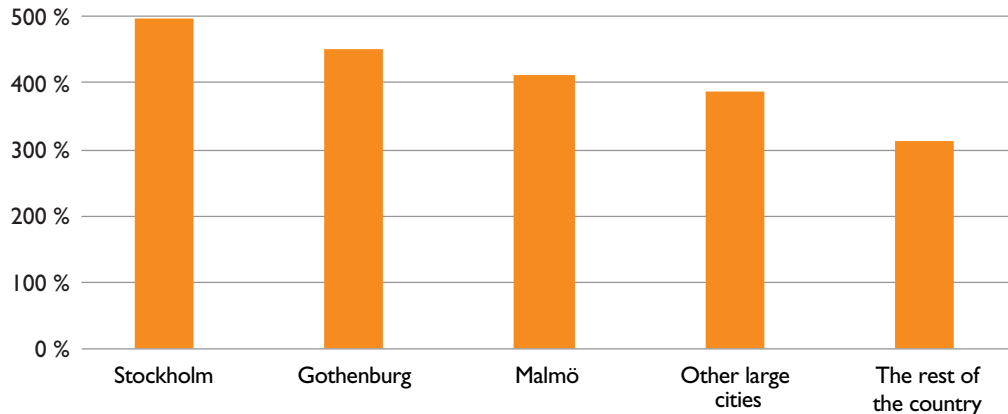
Source: Eurostat.

Swedish household indebtedness has risen continuously since the mid-1990s, both in absolute figures and relative to disposable income. The debt ratio (the loans in relation to disposable income) for Swedish household is, on average, almost 190 percent. This level is relatively high when compared internationally. 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. Chart 5.2 shows that the debt ratio for households with new home loans in Stockholm is almost 500 percent, i.e., their loans are equal to more than five times their annual income after tax.

The debt ratio for new loans declined somewhat during 2018 due to the new stricter amortisation requirements but increased again somewhat in 2019 according to the Finansinspektionen in its yearly report on the Swedish mortgage market. In the metropolitan areas, a higher percentage of new borrowers are affected by the stricter amortisation requirements and the debt ratio decreased in Stockholm and Gothenburg in the last two years. The debt ratio for new borrowers in other areas of the country is stable or only increased negligibly.

A number of measures have been taken in recent years for the purpose of counteracting high indebtedness. In 2010 the Finansinspektionen introduced a mortgage cap, whereby home loans may not exceed 85 percent of the value of the home. The 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.

Chart 5.2. Debt ratio of households with new home loans, percent of disposable income



Source: Finansinspektionen.

Another measure to tackle high indebtedness is the introduction of amortisation requirements. In June 2016 the 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 amortise. 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.

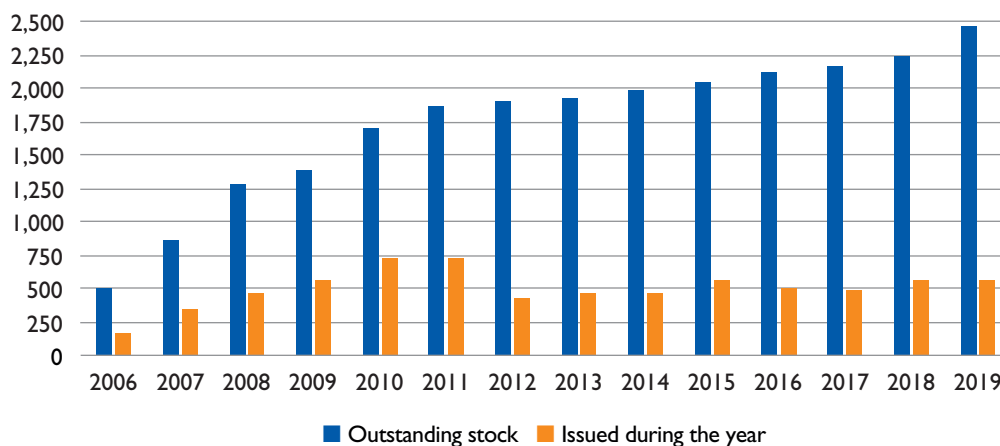
From March 2018 stricter amortisation requirements entered into force. The stricter amortisation requirement implies that new borrowers with a housing loan and whose housing debts exceeds 4.5 times their gross income must amortise at least one percent in addition to the fundamental amortisation requirements.

The outbreak of Covid-19 in early 2020 has had a negative impact on large parts of the Swedish economy. In order to mitigate the effect for households affected by Covid-19 and the sharp decline in the Swedish economy, Finansinspektionen introduced in April 2020 an option for a general exemption from the amortisation requirements. The exemption from the amortisation rules applies until at least 31 August 2021.

6. Funding

Currently, the most important funding instrument for all of the important participants on the Swedish mortgage market is the covered bond. Following new legislation which came into force in 2004, former housing bonds have all been converted into covered bonds and all new issues are now covered bonds. Chart 6.1 illustrates the growth of the outstanding stock of covered bonds and the amounts which have been issued.

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



Source: Swedish Bankers' Association.

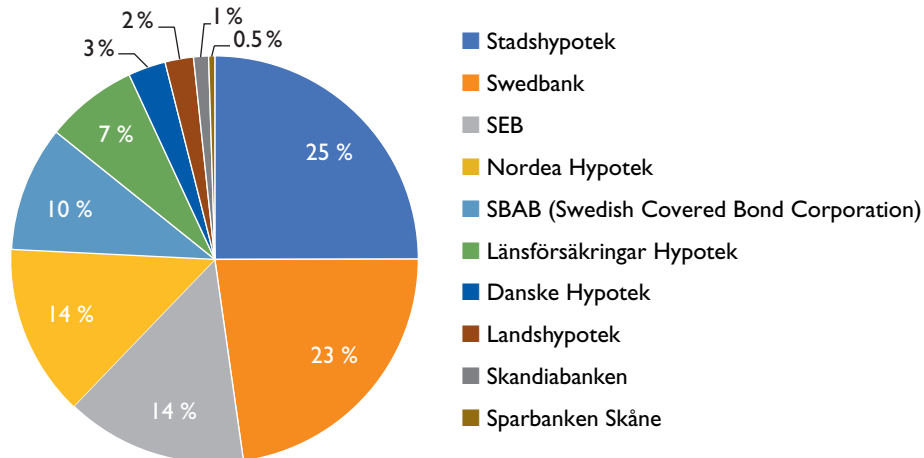
Issues of covered bonds to finance mortgage lending take place in both banks and mortgage institutions. In tandem with the covered bonds, housing finance institutions' lending are funded also by borrowing in the form of loans from the parent bank. Loans from the parent bank amounted, on average, to 42 percent of the housing institutions' total balance. On average, only a very small percentage is attributable to other financing in mortgage institutions, such as certificates.

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 which constitute collateral for the bonds. Unlike in many other countries, the Swedish market worked well even during the recent financial crisis. The market for Swedish covered bonds has also functioned well during the outbreak of Covid-19 in the beginning of 2020. Almost 40 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, which thereby fulfil an important function on the mortgage market.

During 2006, three institutions issued covered bonds and converted the previous mortgage bonds into covered bonds. These institutions were Nordea, SBAB and Stadshypotek. During 2007 they were joined by three additional institutions, namely Landshypotek, Länsförsäkringar Hypotek and SEB. In 2008, Swedbank Hypotek began to convert housing bonds into covered bonds and Skandiabanken followed by issuing covered bonds in 2013. During 2018, Danske Hypotek and Sparbanken Skåne started issuing covered bonds. In 2019, Bluestep Bank was permitted to issue covered bonds and they started their covered bonds business in the same year. Chart 6.2 shows how the outstanding stock is distributed among these institutions at the end of 2019.

In recent, a number of new institutions, mortgage credit companies, have established themselves on the Swedish market. Stabelo and Hypoteket are a couple of examples mentioned in Chapter 3. The new companies are funded with their mortgages by which they create and manage investment products on behalf of institutional investors.

Chart 6.2. Covered bonds – outstanding stock per institution on 31 December 2019



Source: Swedish Bankers' Association.

7. Other events in 2019–2020

Measures taken to mitigate the impact of Covid-19 on the housing market

The outbreak of Covid-19 in early 2020 has had a negative impact on large parts of the Swedish economy. The Swedish government and authorities have taken a number of measures to mitigate the impact of the pandemic on the economy. Specifically in relation to the housing market, in April 2020 Finansinspektionen introduced an option for a general exemption from the amortisation requirements introduced by the authority in 2016 and 2018. The purpose of the amortisation exemption is to mitigate the impact on households affected by Covid-19 and the following sharp decline in the Swedish economy. The exemption from the amortisation rules applies until at least 31st of August 2021.



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