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DECISION MEMORANDUM



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General guidelines on exemption from amortisation requirements on special grounds

Summary

Finansinspektionen has decided on new general guidelines to clarify when a mortgage firm may grant exemption from the requirements on amortisation set out in Finansinspektionen's regulations (FFFS 2016:16) regarding amortisation of loans collateralised by residential property (the amortisation regulations).

In order to protect the individual borrower, it is already possible today for mortgage undertakings to grant amortisation exemption during a limited period of time if there are special grounds. The general guidelines clarify that an extraordinary circumstance in the form of a severe downturn in the Swedish economy constitutes special grounds under the meaning of this phrase that applies in the amortisation regulations. Subsequently, a mortgage firm can grant a time-limited exemption from the requirement on amortisation set out in the regulations given the severe economic downturn in the wake of the spread of COVID-19. The guidelines also clarify that in a crisis of this nature, mortgage firms can grant exemption from the requirement on amortisation at the time the mortgage is being granted or increased.

The objective of the general guidelines is to clarify that mortgage firms may grant exemption from the requirement on amortisation due to a severe downturn in the Swedish economy of the type now being experienced following the spread of COVID-19 and efforts to combat it. In Sweden, the economic forecast is rapidly deteriorating. Due to the uncertainty about the future, many households are becoming concerned about their personal finances. In order to give households more manoeuvrability when planning and managing their finances, the general guidelines state that, given the current situation, a mortgage firm can grant amortisation exemption even if the borrower's individual financial circumstances have not been directly impacted. It continues to be the responsibility of the mortgage firms to decide if an exemption from the amortisation regulations may be granted. Mortgage firms must also consider other relevant regulations, such as rules on credit assessment and the Consumer Credit Act, which requires, among other things, a firm to consider consumers' interests with due care, when issuing new loans.

The general guidelines enter into force on 14 April 2020. It is difficult to predict how long the coronavirus pandemic will last. According to Finansinspektionen's assessment, however, amortisation exemption due to the

pandemic could potentially apply to amortisation payments through 31 August 2021.

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1 Points of departure

1.1 Objective of the regulation

Finansinspektionen has decided on new general guidelines to clarify when a mortgage firm may grant exemption from the amortisation requirements set out in Finansinspektionen's regulations (FFFS 2016:16) regarding amortisation of loans collateralised by residential property (the amortisation regulations). In this memorandum, the term *mortgage firms* refers to firms that are subject to the regulations.

COVID-19, the disease caused by the new coronavirus, and measures to slow its outbreak are affecting every aspect of society, and it is currently difficult to understand what the full impact will be. The virus is a threat to peoples' health and is requiring widespread social response. Together, this is creating considerable financial uncertainty for both individuals and society at large. Finansinspektionen wants to be clear that the mortgage firms subject to the amortisation regulations have the possibility of utilizing the exemption in the regulations, namely granting time-limited exemption given special grounds during the term of the loan.

The term *special grounds* can include extraordinary circumstances that lead to a severe downturn in the Swedish economy, which Finansinspektionen considers to include the current situation. Special grounds can in this case be considered to exist even if the income or financial circumstances of the individual borrower have not been directly impacted.

Following a severe economic downturn of this type, of which it is difficult to predict the impact, it is consistent with the amortisation requirements to apply them in such a manner that the ongoing crisis is considered to constitute special grounds that emerge during the term of the loan for both existing and new mortgages and increased mortgages. This means that exemption from the requirement on amortisation can be granted at the time the mortgage is issued or increased. However, a mortgage firm must still consider other relevant regulations, such as the Consumer Credit Act, which requires, among other things, a lender to consider the consumer's interests with due care (duty of care).

The interpretation of the term *special grounds* specified above should be applied as long as the extraordinary circumstances are present, in this case as long as the impact of COVID-19 on the Swedish economy and Swedish mortgagors is substantial. In order for mortgage firms to apply the term *special grounds* in a uniform manner, it is necessary to issue general guidelines to the amortisation regulations specifying this interpretation of special grounds.

The general guidelines are formulated at a general level and can be applicable in the presence of other extraordinary circumstances that result in a severe downturn in the Swedish economy. It is difficult to specify exactly what these circumstances could be, but a more conventional economic slow-down does not constitute special grounds under this interpretation. In such cases, however,

it is still possible for mortgage firms to grant exemption to individual households that have experienced or can be assumed to soon experience a loss of income.

The amortisation regulations place minimum requirements on amortisation that regulated mortgage firms must apply. The exemption possibilities set forth by the regulations enable firms to allow mortgagors to not amortise or amortise less than the minimum requirement for a limited period. However, it is left to the mortgage firms to decide how they want to use the possibility of granting exemption from the requirement on amortisation.

1.2 Current and future regulatory framework

The basic provision on amortisation requirements for credit institutions is set out in Chapter 6, section 3b of the Banking and Financing Business Act (2004:297). The provision states that a credit institution that grants loans associated with a lien on immovable property, et cetera, to individuals must apply repayment terms that are consistent with a sound amortisation culture and prevent excessively high household debt. A corresponding provision applies to mortgage institutions in Chapter 4, section 12a of the Mortgage Business Act (2016:1024). The content of the provisions is specified in more detail in the amortisation regulations.

The so-called Mortgage Directive¹ contains some rules regarding mortgages and has been implemented in Sweden primarily through the Mortgage Business Act. The directive and the act do not require that mortgages be amortised. Through the Mortgage Directive, a definition of *mortgage* is introduced into the Consumer Credit Act, and this definition covers loans secured by residential immovable property, site-leasehold rights, or tenant-owner rights. Mortgages as defined in the Consumer Credit Act also include other loans raised to acquire or keep ownership of such property, including so-called unsecured loans. In the acts that require amortisation, and in the amortisation regulations that specify these requirements, however, the term *mortgage* only refers to loans secured by a home, in other words residential immovable property, site-leasehold rights, tenant-owner rights, etc. When the term *mortgage* is used in this memorandum, it refers to the loans subject to the amortisation regulations.

There are multiple rules that the firms subject to the amortisation regulations need to consider in their lending activities. The most central business rules for credit institutions, which represent the largest share of the mortgages in Sweden, are set out in Chapter 8 of the Banking and Financing Business Act. The provisions in this chapter specify, for example, that a credit institution, before deciding to grant a loan, must assess the risk that the obligations arising from the loan agreement cannot be discharged, and that the institution only may grant a loan if the obligations on good grounds can be expected to be

¹ Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property.

discharged (Chapter 8, section 1). The provisions also state that the credit decision must be documented such that the basis for the decision is described and the management of the credit case can otherwise be followed (Chapter 8, section 3). Rules regarding the credit assessment and credit decision are also set out in Finansinspektionen's regulations and general guidelines (FFFS 2018:16) regarding management of credit risks in credit institutions and securities companies. In addition to that set out above, the credit institution and other mortgage firms need to always consider the consumer protection rules set out in the Consumer Credit Act on, for example, the duty of care, and general guidelines issued pursuant to this act.

1.3 Alternative regulatory approaches

Instead of issuing general guidelines, it is possible to amend the amortisation regulations. It is also possible to communicate in some other way than through general guidelines how Finansinspektionen interprets the provision in question.

Finansinspektionen makes the assessment, however, that the existing amortisation regulations allow the interpretation the authority now wants to communicate. It is therefore not necessary to amend the regulations. Finansinspektionen also considers the issue of general guidelines to more clearly present to the firms the authority's interpretation of the provision than any other form of communication.

Finansinspektionen therefore makes the overall assessment that the most appropriate method of regulation is to issue general guidelines. *The Swedish Savings Banks Association* has objected in its consultation response to Finansinspektionen's choice of using this regulation alternative. The Association's position is considered in section 2.1.

1.4 Legal basis

Finansinspektionen has been authorised pursuant to Chapter 5, section 2, point 5 of the Banking and Financing Business Ordinance (2004:329) and section 12, point 10 of the Mortgage Business Ordinance (2016:1033) to issue regulations on how to interpret legislative provisions on amortisation requirements. Before Finansinspektionen decides on such regulations, however, the authority must receive approval from the Government (see Chapter 5, section 2a of the Banking and Financing Business Ordinance and section 13 of the Mortgage Business Ordinance).

However, Finansinspektionen needs neither authorisation nor approval from the Government to issue general guidelines in its area of responsibility.

1.5 Firms subject to the proposed general guidelines

The amortisation regulations apply to credit institutions, in other words banking companies, savings banks, members' banks, credit market companies and credit market associations. The regulations also apply to lenders authorised under the Mortgage Business Act with regard to their lending to consumers. The new regulations also apply to foreign firms that grant mortgages in

Sweden through branches or in some other manner. The firms subject to the regulations are jointly referred to as *mortgage firms* in this memorandum.

The general guidelines are issued for the firms' application of section 11 of the amortisation regulations. The guidelines will thus not apply to all mortgage firms subject to the regulations.

1.6 Preparation

Finansinspektionen submitted a proposal of the general guidelines and a consultation memorandum for external consultation on 3 April 2020. The external consultation was sent to seven consultation bodies, and the response deadline was 12:00 PM on 8 April 2020. Eight consultation responses were submitted. The opinions of the consultation bodies and Finansinspektionen's consideration of them are presented in section 2. Some of the consultation responses bring up issues that are not related to the possibility for exemption under section 11 of the amortisation regulations. Since the preparation of this matter does not include the capacity to make changes to provisions other than those to which Finansinspektionen's proposal refers to, these viewpoints are not discussed in the memorandum.

2 Reasoning and considerations

The amortisation regulations were introduced to reduce the risks associated with household indebtedness. They went into force on 1 June 2016. The regulations require a lender granting, or in some cases increasing, a mortgage after these regulations entered into force to amortise in accordance with the requirements set out in the regulations. According to section 11 of the regulations, however, a lender may allow a borrower during a limited period of time to not amortise in accordance with the regulations if special grounds emerge during the term of the loan. The objective of this exemption clause is to protect both the individual borrower and the economy.

The preparatory works for the provision in the Banking and Financing Business Act on a sound amortisation culture state that it should be possible to grant amortisation exemption if the credit institutions find it to be appropriate given the presence of certain special grounds, for example illness or unemployment, and such exemption can be considered sound lending practice.² The preparatory works serve as the basis for a corresponding provision in the Mortgage Business Act.

What can constitute special grounds under Finansinspektionen's amortisation regulations is discussed in the original decision memorandum for the regulations.³ The memorandum states that it is too difficult to try to specify in the regulations all of the special grounds and circumstances that could be cause for exemption. Instead, the provisions should allow firms to determine on a

² Bill 2015/16:89 p. 18.

³ FI Ref. 14-16628 p. 50f.

case-by-case basis what is considered to be special grounds.

Finansinspektionen also states in this memorandum that there are many circumstances and situations that could constitute special grounds for allowing a borrower to refrain from amortising for a period. Typical situations that are specified are unemployment, long periods of sick leave, and death in the immediate family.

2.1 How should the term *special grounds* be interpreted in the current situation?

Finansinspektionen's position: A severe downturn in the Swedish economy constitutes special grounds under the meaning in the amortisation regulations. Given such circumstances, the exemption clause in section 11 of the regulations could be applied even if the income or financial circumstances of an individual borrower have not been directly impacted.

Consultation memorandum: The proposal presented the same position.

Consultation bodies: *The Association of Swedish Finance Houses and the Swedish National Debt Office* support the proposal with no additional comments. *The Swedish National Board of Housing, Building and Planning* considers it to be a reasonable measure and has no comments on the proposal. *The Riksbank* supports the measure but states that the amortisation requirements play an important role in households' long-term resilience and to counteract the structural risks associated with households' high indebtedness. The Riksbank therefore emphasises that it is important for the exemption from the amortisation requirements to be temporary. *The Swedish Bankers' Association* supports the proposal but states that the mortgage firms must be able to use a simplified process to handle applications. In order to achieve this, the Association believes that each mortgage firm should be given the possibility of making a general decision on how the firm intends to meet the requests of individual mortgagors and not assess all applications individually. The Association also states that the granting of an amortisation exemption may not be considered the type of concession that results in the loan being reclassified to a higher risk class. *The Swedish Savings Banks Association* considers it to be very positive that Finansinspektionen is taking action but rejects the proposal. The Association takes the position that the possibility of granting borrowers amortisation exemption to the extent proposed by Finansinspektionen requires the repeal of the current amortisation regulations. The Association asserts that the exemption from the amortisation requirements should not be based on the idea that a circumstance can constitute (special) grounds regardless of whether it has had any impact on an individual household's finances. The Association also writes in its consultation response that it is not appropriate to use general guidelines to, in the opinion of the Association, change the content of a regulation in the manner that the proposed general guidelines are intended to do with regard to the term *special grounds*.

Finansinspektionen's reasoning: The description in the introduction to section 2 about what can constitute special grounds is valid with regard to the possibility for mortgage firms to grant an exemption when the special grounds have a clear connection to the individual circumstances of a single borrower. COVID-19, in contrast, affects society as a whole, and the full extent of its impact is difficult to assess. The possibility to travel, organise meetings, and conduct many businesses is severely impaired or in some other way strongly affected by the spread of the coronavirus. This has a major impact on supply and demand in the economy, and it is not clear how long the problems will persist. As a result of these disruptions, many employers have announced potential lay-offs or furloughed their employees, and it is likely that the situation on the labour market will be challenging for some time to come. As a whole, this is creating considerable uncertainty for many income-earners about how to best plan their finances. The effects may linger long after COVID-19's immediate threat to peoples' health has passed.

It is Finansinspektionen's opinion that, given such a severe downturn in the Swedish economy, a mortgage firm should be able to apply the exemption set out in section 11 of the amortisation regulations more extensively than what was previously expressed and without direct reference to the individual borrower's situation. This means that there can be special grounds for granting exemption from the requirement on amortisation even if the income or financial circumstances of mortgagors have not been impacted. This applies as long as the exceptional circumstances caused by the spread of the virus persist.

With regard to the comments of *the Swedish Savings Banks Association*, Finansinspektionen would like to assert the following. The point of departure is that mortgages must be amortised in accordance with the requirements set out in the amortisation regulations, and special grounds are required to make an exception. This is also the point of departure of the requirements set out in Chapter 6, section 3b of the Banking and Financing Business Act on a sound amortisation culture.⁴ However, it is Finansinspektionen's opinion that it is clear that the situation currently emerging can constitute special grounds and there is therefore cause to clarify this through general guidelines to ensure uniform application. In other words, Finansinspektionen does not consider in the current exceptional situation that is necessary for there to be a link between the special grounds and the individual's circumstances to grant an exemption as asserted by the Swedish Savings Banks Association. The authority thus makes the assessment that the regulations allow for the application of the exemption on special grounds given a severe downturn in the Swedish economy even if an individual mortgagor's financial circumstances have not been directly impacted. Consideration should also be given in this context to one of purposes of the regulations, which was to reduce the macroeconomic risks associated with highly leveraged households. Given this background,

⁴ Cf. Bill 2015/16:89 p. 18.

Finansinspektionen finds that the regulations must preferably be clarified through general guidelines.

The general guidelines target affected mortgage firms and make it possible for them to grant exemption from the requirement on amortisation with reference to an economic downturn of the most serious nature like the spread of the coronavirus is causing. *The Swedish Bankers' Association* has asserted that there is a risk that an individual assessment of all applications for amortisation exemption will delay the implementation for mortgagors, particularly if there are high demands on documentation. Finansinspektionen would like to clarify in this respect that a mortgagor's application for amortisation exemption based on the severe downturn in the Swedish economy does not need to contain a description of the mortgagor's individual circumstances. The assessment can thus be based solely on the circumstance that the Swedish economy is experiencing a severe downturn. Subsequently, the mortgage firm does not need to document any individual circumstances that would constitute special grounds. However, the mortgage firm needs to document that it has granted the amortisation exemption for a borrower in order to in this way create conditions for monitoring and managing the credit risk in its mortgage portfolio. The firms must also consider other applicable rules on, for example, the provision of information and sound lending practices.

The Swedish Bankers' Association also takes the position that the circumstance that a borrower is granted amortisation exemption due to a severe downturn in the economy may not lead to the loan being considered as having received a concession or that the borrower is experiencing financial difficulties. As mentioned above, Finansinspektionen takes the position that the assessment of whether exemption from the amortisation regulations due to special grounds applies can be based solely on the circumstance that the Swedish economy is experiencing a severe downturn. Mortgage firms thus do not necessarily need to conduct an individual assessment to grant such an exemption. An exemption on these grounds thereby says nothing about the borrower's financial circumstances. However, the mortgage firm may need to assess the borrower's financial situation due to other reasons. In these cases, the mortgage firm must handle the results of such an assessment like normal in accordance with relevant regulations.

2.2 When can an exemption be granted?

Finansinspektionen's position: Following a severe downturn in the Swedish economy, it should be possible to grant exemptions for existing mortgages and mortgages that are being issued or increased. For new mortgages and mortgages that are being increased, it should be possible to grant the exemption at the time the loan is being issued or increased.

Consultation memorandum: The proposal presented the same position.

Consultation bodies: *The Riksbank* shares Finansinspektionen's position that it is important when granting exemptions for new mortgagors to consider

amortisation payments and for it to be specified in the mortgage agreements that amortisation payments must normally be made in accordance with the amortisation regulations.

Finansinspektionen's reasoning: According to section 11 of the amortisation regulations, a firm may grant an exemption *during the term of the loan*. As presented in the original decision memorandum, this means that the special grounds must start after the loan has been issued.⁵ This starting point is still reasonable given normal conditions. Finansinspektionen, however, makes the assessment that in such exceptional situations, like those arising from the current situation and that will result in a severe downturn in the Swedish economy, it is possible to grant amortisation exemption at the time the mortgage is being issued or increased. This is therefore clarified in the general guidelines. The mortgage agreement must specify, though, that amortisation payments normally are made in accordance with the requirements. This also means that the credit assessment for granting new loans, like normal, needs to take amortisation payments into consideration. When the exemption period expires, the loan must also be amortised in accordance with the regulations and the original loan agreement, as long as there are no other grounds for extending the exemption.

It is therefore important to emphasise that the mortgage firm, when granting new loans or increasing a loan, must conduct a traditional credit assessment in accordance with applicable consumer protection regulations. The mortgagor must be able to handle the loan financially, regardless of whether a temporary amortisation exemption is granted.

2.3 For how long can an exemption be granted?

Finansinspektionen's position: It should be possible to grant exemptions made due to the spread of the new coronavirus as of the date the general guidelines enter into force, and the exemptions could apply until 31 August 2021.

Consultation memorandum: The memorandum used as its starting point that exemptions could be granted until 30 June 2021.

Consultation bodies: *The Swedish Bankers' Association* states that there are practical obstacles to the period during which mortgage firms can grant exemption ending on 30 June 2021. According to the Association, this means that there will need to be informational initiatives targeting mortgagors and a large number of customers will have questions in June 2021 prior to amortisation payments being reinstated in July 2021. There is a risk that this will create a large administrative burden for the banks. The Association therefore proposes that the period for which the exemption can be granted should end either at the end of April 2021 or at the end of August 2021. The

⁵ FI Ref. 14-16628 p. 50f.

Association also takes the position that the responsible authority must decide at that time if exceptional circumstances that give rise to this possibility for exemption from the amortisation requirements are still present. The Association considers this to be necessary to ensure uniform application among mortgage firms.

Finansinspektionen's reasoning: The provision in section 11 of the amortisation regulations states that an exemption may be granted for *a limited period of time*. This means that an exemption decision may not be permanent. The idea is that the borrower, following the expiration of the exemption period, will once again amortise in accordance with the regulations and thus in accordance with the agreement. The length of the exemption period normally is determined following a case-by-case assessment of how long the special grounds can be expected to persist. The original decision memorandum for the amortisation regulations states that such a period could last several years.⁶

Finansinspektionen's point of departure is that it will be possible to grant exemptions based on special grounds due to the coronavirus pandemic from the point in time that the general guidelines go into effect. The authority has also considered setting a predetermined limit for how long such special grounds should be considered to occur. Since it is currently difficult to assess how long the more acute effects of COVID-19 will persist, and since the idea is that the general guidelines could be applied to other situations in which there is a severe downturn in the Swedish economy, the authority has chosen not to state a specific time in the general guidelines.

Taking into consideration the viewpoint from *the Swedish Bankers' Association* regarding how long the exemption could be granted, Finansinspektionen considers it to be reasonable starting point for the exemption due to the spread of COVID-19 to extend until 31 August 2021. In other words, it would apply to amortisation payments that otherwise would have been made through this date. This prevents the practical difficulties associated with reinstating amortisations during a summer month. If the exceptional circumstances are no longer present on this date, the special grounds resulting from a severe downturn in the Swedish economy will no longer be applicable. In order then for an exemption from the amortisation requirement to be granted, there needs to be a different reason, for example a loss of income due to unemployment.

The Swedish Bankers' Association also comments that decisions about whether the exceptional circumstances still are present should be made by Finansinspektionen. As previously communicated, Finansinspektionen will announce well in advance of the end of the period whether it makes the assessment that it is reasonable for mortgage firms to grant exemptions due to

⁶ FI Ref. 14-16628 p. 50f.

COVID-19 even for the period after 31 August 2021. Finansinspektionen will communicate this assessment no later than 30 April 2021.

2.4 How should the term special grounds be interpreted in other situations that lead to a severe downturn in the Swedish economy?

Finansinspektionen's position: It should be possible to apply these general guidelines in other situation that lead to a similar economic impact as the spread of the coronavirus.

Consultation memorandum: The proposal presented the same position.

Consultation bodies: No comments.

Finansinspektionen's reasoning: It should be possible to apply these general guidelines in other situations that lead to a similar economic impact as the spread of the coronavirus. In other words, in the event of a severe downturn in the Swedish economy that affects many households. Exactly which situations this could include is difficult to predict, but as stated in section 1.1, the understanding is social, economic or financial crises that lead to a severe downturn in the Swedish economy. A more conventional economic slow-down does not constitute special grounds in this interpretation. As mentioned above, however, in these cases exemptions are still possible for individual households that have experienced or can be assumed to soon experience a loss of income.

3 Impact of the regulation

In order to increase consumer protection on the mortgage market and counteract financial imbalances, Finansinspektionen introduced three regulations over the past ten years that directly impact mortgagors. The mortgage cap from 2010 specified that households may not borrow more than 85 per cent of the value of the home when using the home as collateral. Finansinspektionen introduced the first amortisation requirement in 2016. Under this requirement, households borrowing more than 50 per cent of the value of the home are required to amortise at least 1 per cent of the original loan each year. Households borrowing more than 70 per cent of the value of the home are required to amortise at least 2 per cent a year. In 2018, Finansinspektionen tightened the amortisation regulations. Under the stricter requirement, households taking out a mortgage larger than 4.5 times their pre-tax income are required to amortise one percentage point more than what they already amortise under the first amortisation requirement.

The authority's analyses show that all three regulations slowed the growth in the size of the mortgages taken out by new mortgagors and also to some extent

helped slow growth in house prices.⁷ Due to the amortisation requirements, mortgagors also amortised more on their loans and thus further reduced their debt.⁸ By having smaller loans, households' interest expenses are lower than what they would have otherwise been. The new general guidelines clarify that a mortgage firm can grant a mortgagor an amortisation exemption under extraordinary circumstances that result in a severe downturn in the Swedish economy.

3.1 Impact on society and mortgagors

Household mortgages amount to approximately SEK 3,500 billion. Every year, households amortise approximately SEK 60 billion on these loans.⁹ Only part of the 60 billion that households are currently amortising are directly affected by the amortisation regulations. This is because the figure also includes amortisation payments that are agreed with the mortgage firm but are not the result of the amortisation requirements and amortisation payments households make in addition to their agreement with the mortgage firm. At the same time, many mortgagors that are subject to the amortisation requirements today would have needed to amortise even if there were no requirements, but their payments would have been smaller.

What the augmented possibility for relief from the amortisation requirement means at an aggregate level and for individual households depends on which relief the mortgage firm grants and how the household reacts. Some households can opt to completely stop their amortisation payments during a deferral period, and other households can opt to continue to amortise in accordance with the mortgage agreement. There may also be households that opt to amortise a little less. Below are calculations using several different conceivable scenarios for how households and mortgage firms may act.

3.1.1 Impact on different types of mortgagors

This section shows how different types of households may be affected by a general moratorium on the requirement to amortise. The calculations refer only to mortgagors subject to the amortisation requirements.¹⁰ A consistent assumption is that these mortgagors have not become unemployed, since this would mean they can be granted amortisation exemption on other special grounds. No assumption is made here about how much the households would

⁷ See Finansinspektionen, "Amortisation requirement reduced household debt", 2017, *FI Analysis 10*; Andersson, M., T. Aranki, M. Gjirja and N. Olsén Ingefeldt, 2018, "The mortgage cap reduced household debt", *FI Analysis 12*, Finansinspektionen; and Andersson and Aranki, "Fewer vulnerable households after the stricter amortisation requirement", 2019, *FI Analysis 17*, Finansinspektionen.

⁸ See Finansinspektionen, *The Swedish Mortgage Market*, 2020. (In Swedish. Summary available in English.)

⁹ Of this figure, SEK 15–25 billion is amortised by households subject to the amortisation requirements. Without the amortisation requirements, households would have amortised approximately 40 per cent less, if we assume that they made the same payments as in 2015.

¹⁰ The data consists of a random sample of new mortgagors from the period 2016–2019. Their mortgages have been adjusted according to their agreed amortisation payments, and their income has been adjusted according to general wage increases during the period.

amortise if they receive a general exemption. The calculations instead show the percentage of households in each amortisation interval.¹¹ The calculations provide an indication of which households would have the most money freed up if bank grant the exemption in full.

Of all mortgagors, 27 per cent amortise less than SEK 2,000 a month (Table K1). The largest percentage of households, 56 per cent, amortise between SEK 2,000 and SEK 6,000. The lowest amortisation is in the category Rest of Sweden. There, one-third of the borrowers amortise less than SEK 2,000 a month. The largest amortisation payments are in Stockholm. There, almost 40 per cent amortise more than SEK 4,000 a month.

In terms of age, households with borrowers between the ages of 31 and 65 would receive the largest relief measured in SEK. High income-earners would receive larger reliefs than households with lower income. Approximately half of the households in income deciles 1–3 amortise less than SEK 2,000. Among the income deciles 8–10, 37 per cent amortise more than SEK 6,000 a month. In terms of the percentage of income, the differences are smaller.

Single-person households amortise less than households with two adults. Almost 80 per cent of the single-person households amortise less than SEK 4,000 a month. The corresponding share for households with two adults is around 50 per cent.

¹¹ The last interval contains those that amortise more than SEK 8,000 a month. With annual amortisation payments of 2 per cent, this corresponds to an original mortgage of SEK 4.8 million.

Table K1. Breakdown for different types of households of amortisation subject to requirements

		Amortisation per month (SEK thousand)				
		0–2	2–4	4–6	6–8	>8
All		27	36	20	9	8
Region	Malmö	18	36	24	11	10
	Gothenburg	27	35	20	9	8
	Stockholm	18	34	23	12	13
	Rest of Sweden	34	36	18	7	5
	Other cities	27	37	20	9	6
Age	–30	33	39	18	7	4
	31–50	21	35	23	11	10
	51–65	29	34	19	9	10
	66–	50	30	11	5	5
Income	Deciles 1–3	51	38	9	2	1
	Deciles 4–7	21	40	25	9	5
	Deciles 8–10	12	27	24	17	20
1 adult	Without children	44	38	12	3	3
	With children	39	39	14	4	4
2 adults	Without children	22	34	23	11	9
	With children	15	34	26	13	12

Source: FI.

Note: Every row sums to 100 per cent. The table shows how the amortisation payments break down within each category.

3.1.2 Impact on households granted an exemption

The next step in the impact analysis is to calculate how households subject to the amortisation requirements are affected by a temporary exemption. The effects are reported per month and therefore apply regardless of how many

months the exemption applies. The first analysis shows the breakdown of monthly amortisation payments for households that amortise in accordance with the requirements in the regulations. The amortisation payments are then shown in relation to income and necessary expenses.¹² Finally, Finansinspektionen has calculated how much households' discretionary income calculation¹³ improves, in per cent, in cases of exemption from amortisation according to the requirements of the regulations. The discretionary income calculation uses the current interest rate level, not the so-called stressed interest rate, since it is existing borrowers' cash flow that is being analysed. Households in the mortgage surveys from 2016–2019 provide the basis for the calculations.

In the analysis, there are three options households and mortgage firms can choose from following the enhanced opportunities for temporary exemption from amortisation requirements in according with the following example:

1. Households do not amortise at all during the entire exemption period
2. Households amortise at the levels in effect prior to the requirements¹⁴
3. Households amortise 1 per cent less of the loan (per year).

Example 1 frees up the most money for households, and Example 3 frees up the least money.

If households subject to amortisation requirements do not amortise at all as a result of the exemption, the median household will have SEK 3,200 more left over after expenses each month (Diagram 1, Panel 1).¹⁵ The median household that amortises at the level prior to the amortisation requirements will have SEK 1,500 left over each month, and the median for households amortising 1 per cent less of the loan will have SEK 1,800 left over. Without amortisation, one out of four households will have more than SEK 5,000 more left over each month. For households that do not amortise at all, half will have more than 8 per cent of their income after tax left over each month (Diagram 1, Panel 2). Half of the households that amortise one percentage point less will have 4.5 per cent or more of their disposable income left over. There is little difference between amortising 1 per cent less of the loan and amortising like prior to the requirements, but the breakdown does differ slightly.

Payment reliefs, and the increase in manoeuvrability, can also be related to the household's margins measured as the improvement in the discretionary income calculation. For half of the households, discretionary income improves by more than 20 per cent if they do not amortise at all (Diagram 1, Panel 3). And one

¹² Finansinspektionen has calculated the expenses as the average of the banks' subsistence costs in the credit assessment plus interest rate expenses at the current interest rate.

¹³ In the discretionary income calculation, subsistence costs and interest expenses (at the current interest rate) are deducted from the household's disposable income.

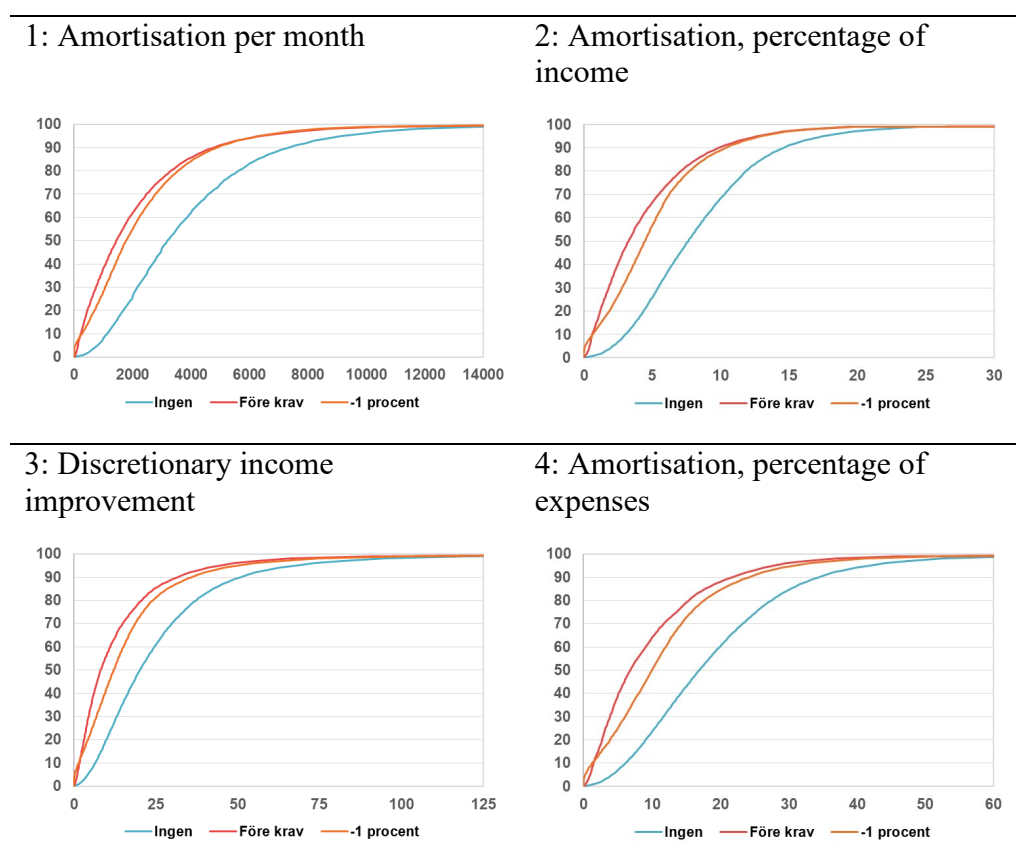
¹⁴ Finansinspektionen has used the level of amortisation rates in 2015, broken down by loan-to-value ratio, loan-to-income ratio, and discretionary income.

¹⁵ The median household has half of the households below it in the breakdown and half of the households above it.

out of ten households sees an improvement in their discretionary income of at least 50 per cent. This means that the median household cash flow increases by 17 per cent each month from the exemption from the amortisation requirement (Diagram 1, Panel 4).

The exemption from the amortisation requirement means that the mortgages do not decrease during the exemption period. If the exemption lasts one year and households do not amortise, the households subject to the amortisation requirements will have mortgages the following year that are on average SEK 44,000 larger than if they had amortised. At the current interest rate, this corresponds to SEK 550 more in annual interest expenses after tax deductions. Households that have a loan-to-income ratio of more than 450 per cent and a loan-to-value ratio of more than 70 per cent should on average have mortgage that is SEK 80,000 larger after one year if they do not amortise at all. This corresponds to SEK 900 more in annual interest after tax deductions.

Diagram 1. Cumulative breakdown.



Source: FI.

Note: Households not subject to the amortisation requirements are not included in the breakdown. The X axis shows the values for the variable, and the Y axis shows the percentage of the borrowers that have a lower value than the value on the X axis. “None” means amortisation-free, “prior to requirements” means the level of amortisation prior to the requirements, and “-1 per cent” means a

decrease in amortisation payments of 1 per cent of the loan. For example, start with Diagram 1, amortisation per month. Select SEK 4,000 per month and read the Y axis on the blue curve – 62 per cent. This means that 62 per cent of those that amortise with requirements have an amortisation payment that is less than SEK 4,000 per month.

3.2 Impact on the firms

3.2.1 *Firms affected*

Several types of firms are subject to the amortisation regulations and thus the general guidelines, including credit institutions – banks and credit market firms – active in Sweden. Currently, 116 credit institutions have authorisation in Sweden, of which 88 are banks (including 45 savings banks and 2 members' banks) and 28 are credit market firms. The general guidelines also apply to 36 foreign firms that grant mortgages in Sweden through branches or in some other manner. The guidelines also apply to 18 mortgage institutions. There are also 535 foreign banks that conduct some form of business in Sweden without subsidiaries or branches and have very little mortgage business in Sweden.

There are many credit institutions that have a core business other than issuing mortgages. These are subject to the general guidelines but are not affected directly. The core business of such firms is often to provide credit for consumption and instalment loans (for example, when buying a car), facilitate securities trading, provide unsecured loans or help with financing for public purposes.

3.2.2 *Costs for the firms*

Finansinspektionen makes the assessment that processes and procedures for handling applications that refer to temporary amortisation exemption due to special grounds have already been established and implemented at the mortgage firms. However, there is a risk that these are not adapted for a sharp increase in the number of applications during a limited period. The firms may therefore need extra processing time to handle the increased flow. There may also be an increase in the processing times in conjunction with the reinstatement of regular amortisation payments.

All borrowers that amortise are not subject to the amortisation requirement. However, it is conceivable that some borrowers who are not subject to the amortisation requirement will apply for temporary amortisation exemption and the processes at the mortgage firms are similar for both groups. Approximately three-fourths of all mortgagors currently amortise their mortgages regardless of whether they are subject to the amortisation requirements.¹⁶ Under the assumption that 20 per cent of the borrowers will apply for temporary amortisation exemption, this leads to an estimated maximum total cost of SEK 122 million for all mortgage firms. This is based on an estimate of the large number of applications requiring 15 minutes of processing per application, at

¹⁶ The 2019 mortgage survey.

an hourly rate of SEK 1,300, and that there are in total around 2.5 million households with mortgages in Sweden.

One-off costs may also be necessary to prepare effective and reliable systems for handling a large flow of applications. These costs in the meantime can decrease the processing times required for an application, thus reducing the running costs that can be assumed to increase during limited periods of time. There may also be costs for reviewing procedure and process descriptions and implementing them in the operations. However, such costs are judged to be small and to vary between mortgage firms. Since one-off costs in general are expected to decrease the processing costs, Finansinspektionen makes the assessment that the total costs for all firms will not exceed SEK 122 million.

3.2.3 Impact on small firms

For small firms, the costs are expected to be lower than for large firms. This is primarily because there will be probably be fewer applications for mortgage firms with a smaller customer base. In general, the conditions will vary for smaller firms, and it is therefore difficult to estimate the costs for system development and incoming requests related to amortisation exemption.