S U M M A R Y

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# The Swedish mortgage market and bank lending
**Report, February 2010**

## Summary

The companies included in the survey were Länsförsäkringar Bank, Nordea, SBAB, SEB, Handelsbanken, Skandiabanken and Swedbank. These companies together represent around 90 per cent of the Swedish mortgage market.

According to the survey, the ability of borrowers to repay their loans is generally very good, even if interest rates should rise significantly. The maximum interest rate the companies accounted for in their calculations varied considerably, from 6.5 to 10 per cent. Assuming an interest rate of 7.5 per cent, approximately 92 per cent of the households in the sample still had a surplus. The companies' standardised subsistence costs were in general very generous.

Around 12 per cent of the borrowers in the sample had a loan-to-value ratio of more than 90 per cent and around one-third a loan-to-value ratio of more than 80 per cent. Historically, these results are high. The companies' own rules for how much may be borrowed against a home varies between 75 and 95 per cent of the market value (or the estimated market value). Most companies offer a first mortgage, which is limited to 75–85 per cent of the market value, and a second mortgage for the amount exceeding this limit. Three of the companies do not formally distinguish between a first and second mortgage, but still often require higher amortisation or additional collateral for the portion of the financing with the highest risk.

FI has tested how well households can withstand even higher interest rates coupled with decreases to disposable income resulting from rising unemployment. The tests show that most households have a surplus even in fairly extreme scenarios. The stress tests also show that it would take an extremely sharp fall in both housing prices and the solvency of households for the financial sector to suffer from significant credit losses. It is therefore not possible to conclude at this time that mortgages, or the indebtedness of households in general, represent a threat to the stability of the financial market.

However, FI believes that the rising loan-to-value ratios are a cause for concern from a consumer protection standpoint. Even modest price falls on the housing

market would mean that the mortgages of a number of households would exceed the market value of the property. If one of these households would at the same time also experience unemployment, this could entail that the household would be forced to sell the property at a price that would not cover the mortgage. The largest risks are shouldered by new borrowers entering the housing market with little or no capital to contribute. Not surprisingly, the survey showed that younger borrowers have the highest debt ratio and loan-to-value ratio.

The companies were asked to submit the following information:

- An update of the data serving as the basis for the annual mortgage survey
- More detailed information about the companies' procedures and internal regulations
- A sample that includes all of the home loans paid between 28-30 September 2009

The sample contains information about the borrower's debts and disposable income, the market value of the property and the banks' "left-to-live-on" calculations. Finansinspektionen intends to conduct in-depth analyses of specific aspects of the banks' credit routines during the course of 2010. It should be noted that several of the results from the survey are approximations since a number of simplified assumptions were applied in order to be able to compare the companies.