

Finansinspektionen's Regulatory Code

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Finansinspektionen's general guidelines regarding limitations to the size of loans collateralised by residential properties;

FFFS 2016:33

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decided on 12 December 2016.

Finansinspektionen provides the following general guidelines for the application of Chapter 6, section 4 of the Banking and Financing Business Act (2004:297) and Chapter 4, section 1 of the Mortgages Business Act (2016:1024).

1 Scope and definitions

1.1 Scope

These general guidelines apply to:

1. joint stock banks,
2. savings banks,
3. members' banks,
4. credit market companies,
5. credit market associations, and
6. lenders authorised in accordance with the Mortgage Business Act (2016:1024).

These general guidelines state how firms subject to these general guidelines should limit loans collateralised by homes. The purpose is to prevent an unhealthy development on the credit market where firms use increasingly higher loan-to-value ratios as a means of competition. Such a development would risk exposing consumers to unacceptable risks and undermine confidence in the credit market.

These general guidelines only apply to the undertakings' new lending and homes in Sweden.

1.2 Definitions

The terms used in these general guidelines have the following meaning:

1. *Loan-to-value ratio*: The total amount of loans from one or several firms that has been collateralised by a home in relation to the home's market value.
2. *Residential property*: A property or site-leasehold right intended for housing purposes for one or two families and a tenant-owner right or tenant-owner apartment intended for housing purposes.
3. *Market value*: The price that would be attained if a sale were carried out under market conditions with reasonable time allowed for negotiation. The market value should be assessed without consideration for speculative and temporary conditions

and established via an individual valuation. It should be possible to base an individual valuation on general price levels or purchase prices.

4. *New loan*: New granted loans or increase of existing loans. New loans replacing an equal or larger loan that as previously granted by another firm and collateralised by the same home are not included.

2 Limitations to the loan-to-value ratio

When a firm grants a loan collateralised by a home the loan should be limited such that the loan-to-value ratio for the home does not exceed 85 per cent of the home's market value at the time the loan is granted.

This limitation to the loan-to-value ratio should be established in the firm's credit instructions, where applicable.

These general guidelines shall enter into force on 1 January 2017, whereupon Finansinspektionen's general guidelines (FFFS 2010:2) regarding limitations to the size of loans collateralised by residential properties shall be repealed.

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