



New instruments to rein in household debt

Bank of Finland's Financial stability assessment
Bank of Finland Bulletin press conference 4 May 2021

Bank of Finland's financial stability assessment

- Editorial: New instruments to rein in household debt
- Stability assessment: Debt-to-income cap and maximum maturity on housing loans needed to curb risks to financial stability
- Experts' articles on topical subjects
 - Assessment of impact of macroprudential tools proposed by Ministry of Finance working group
 - Effects of COVID-19 on banks, businesses and residential and real estate investment markets
 - New stress testing framework to assess the capital adequacy of Finnish banks
 - New statistics on households' housing loans for investment purposes
- Accessible summary
- Available on the Bank of Finland Bulletin website at <https://www.bofbulletin.fi/en/home/>

Key messages

- Support measures have maintained the stability of the international financial system.
- Regulatory measures have strengthened banks' loss absorption and lending capacity.
- We have yet to see all the impacts of the COVID-19 pandemic on banks and non-financial corporations.
- Housing market risks have increased amid weak economic developments.
- A debt-to-income cap and a limit on the maturity of housing loans should be introduced without further delay.

Regulatory measures have strengthened banks' lending and loss absorption capacity

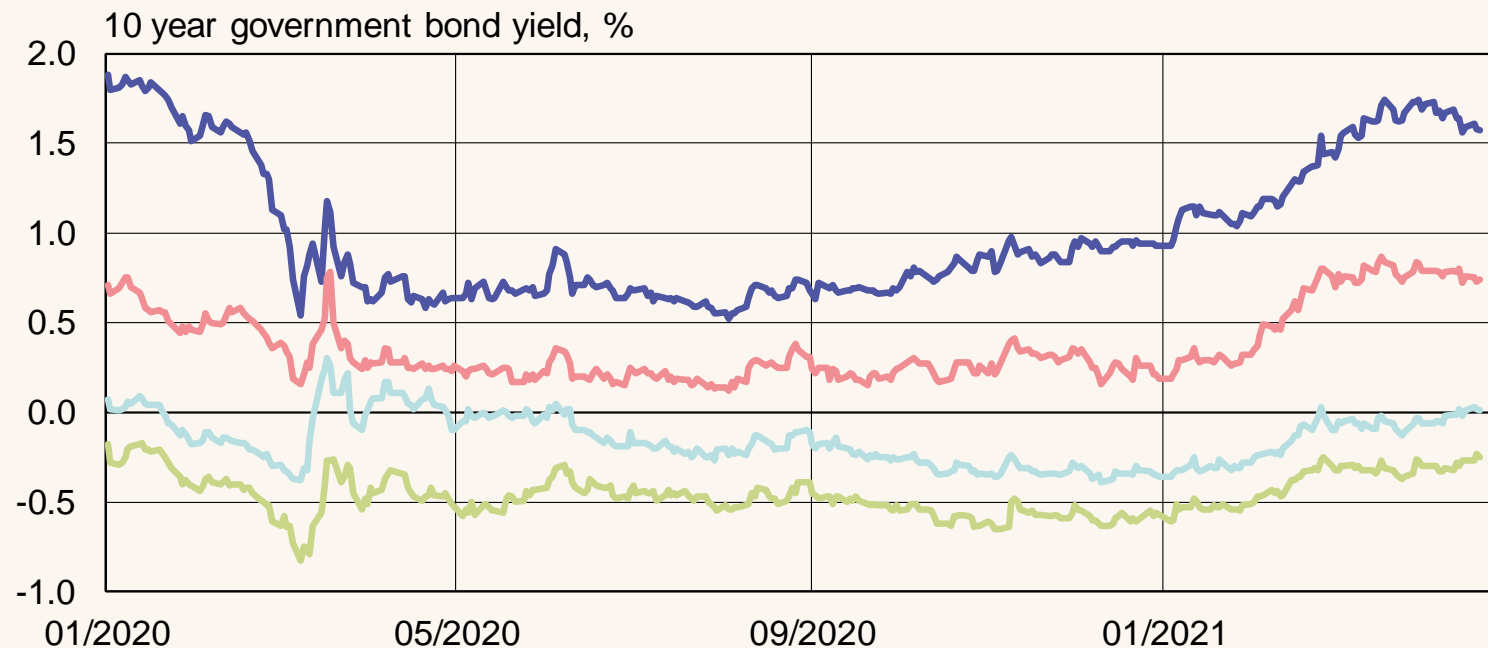
Support measures have maintained the stability of the international financial system

- Support measures have built a bridge over the crisis.
- All the effects of the crisis on businesses and households are not yet discernible.
- The key is how businesses and households can service their debts once the support measures come to an end.

Financial conditions tightened as economic expectations rose

Long-term government bond yields increased in the spring of 2021, especially in the USA

— United States — United Kingdom — Germany — France

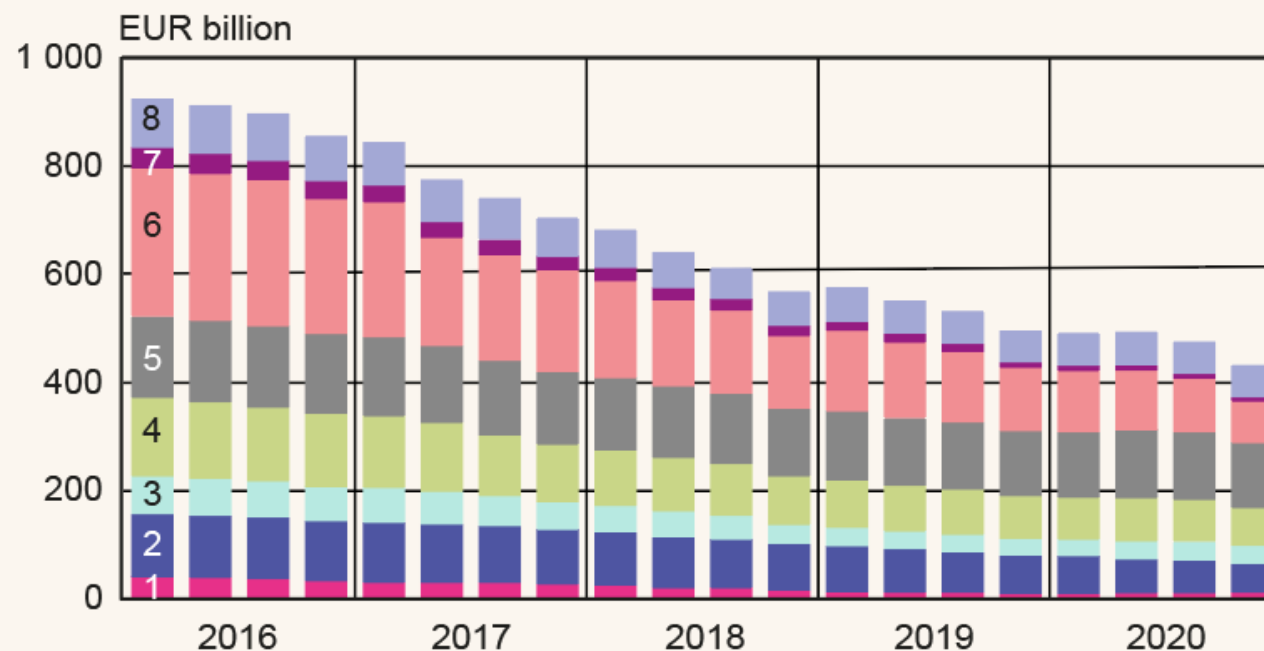


Source: Macrobond.

Downward trend of non-performing loans may turn

Amount of non-performing loans from European banks has remained stable despite the pandemic

- 1. IE
- 2. GR
- 3. DE
- 4. ES
- 5. FR
- 6. IT
- 7. PT
- 8. Others



Source: SSM.

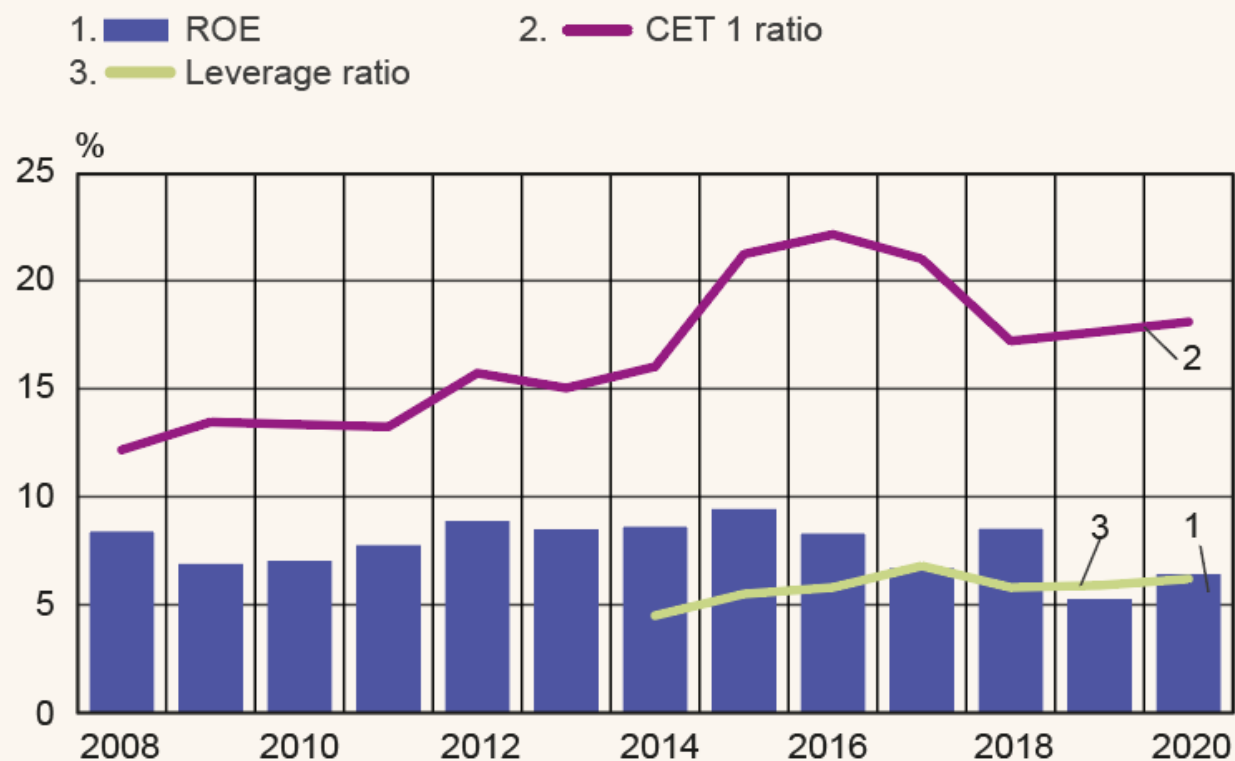
Financial regulation strengthened banks before the pandemic

- Regulation has strengthened banks' capital adequacy and loss absorption capacity.
- Macroprudential tools contributed to further improve banks' resilience before the pandemic.
- Relaxation of macroprudential requirements and banking supervision and regulation has fostered lending during the pandemic.

We have yet to see all the impacts of the COVID-19 pandemic on banks and non-financial corporations

Finnish banking sector remains well-capitalised

Finnish banking sector's CET1 ratio and profitability improved in 2020

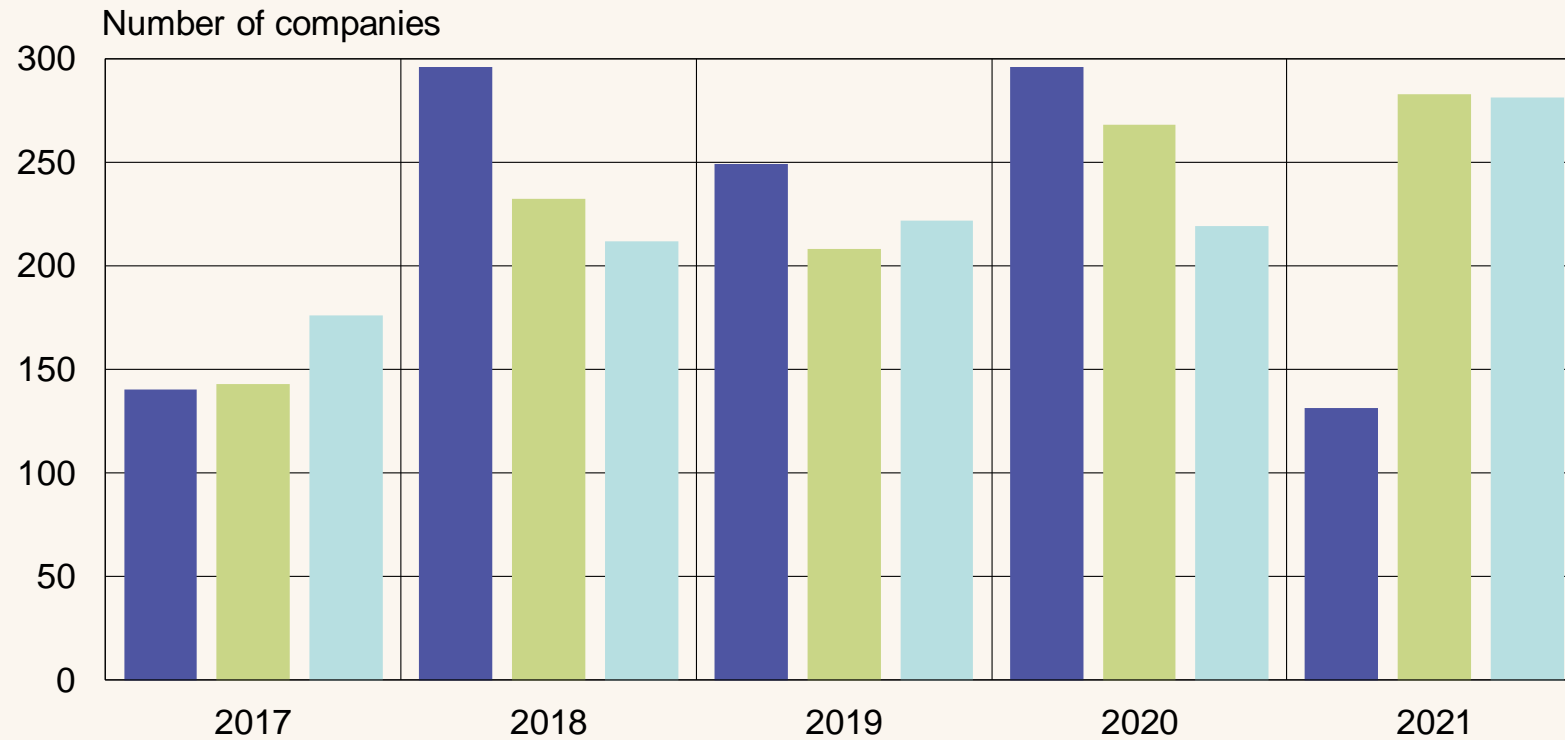


Source: FIN-FSA.

No alarming increase in bankruptcies

Bankruptcy proceedings launched

■ January ■ February ■ March

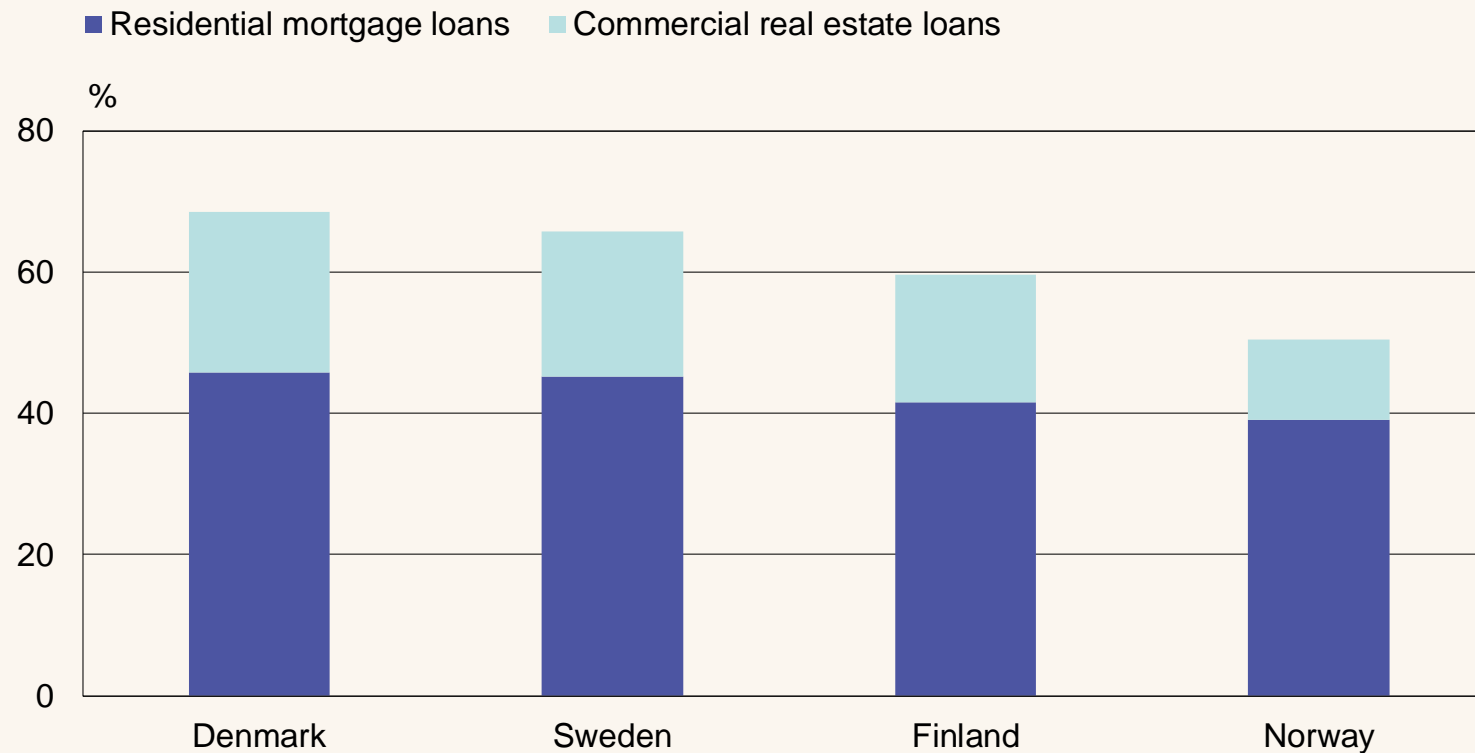


Source: Statistics Finland.

Housing market risks have increased amid weak economic developments

Housing loans and loans to the real estate sector account for a large proportion of Nordic bank lending

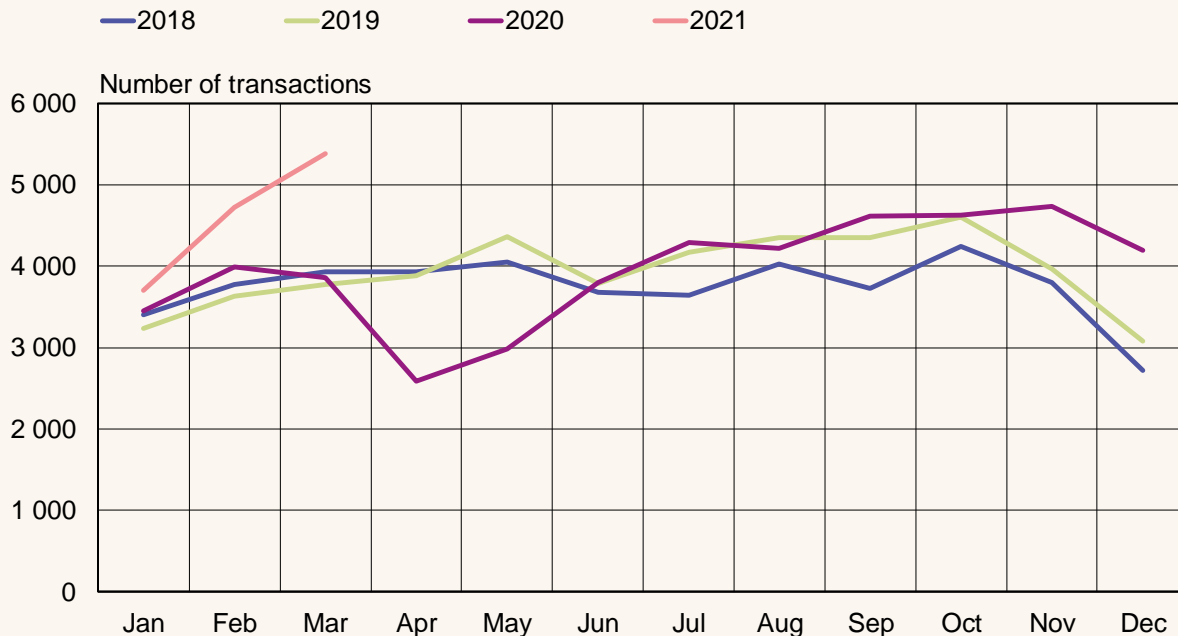
Nordic banks have issued high volumes of residential and commercial real estate loans



Lähde: EBA.

Finnish housing market and mortgage lending recovered quickly from first wave of the pandemic

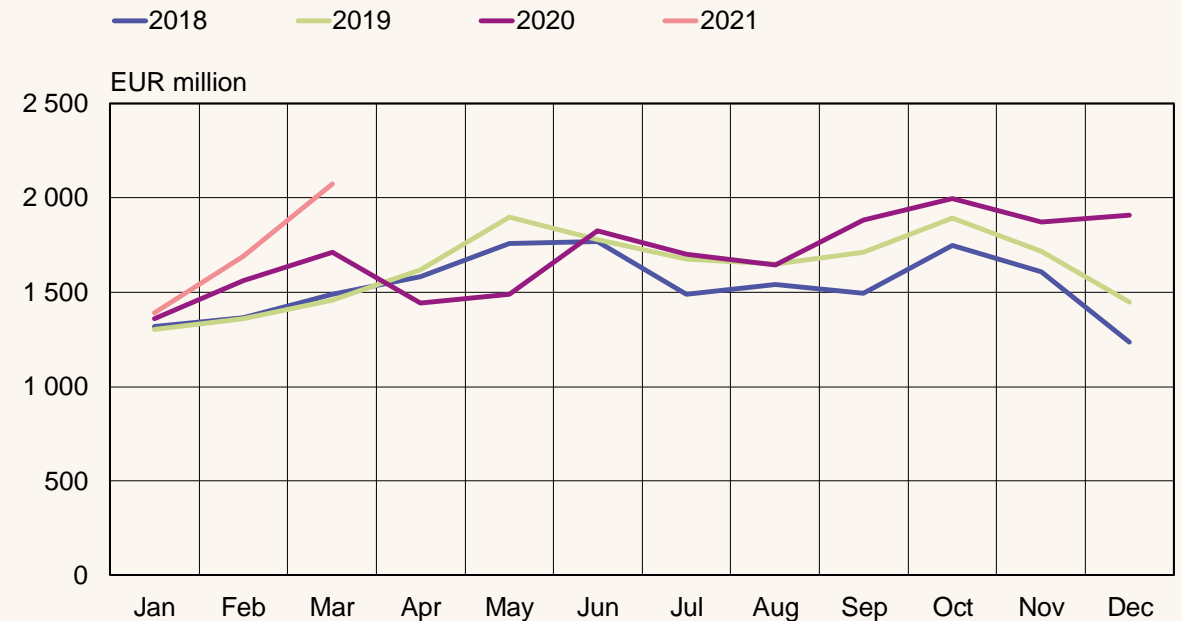
Monthly sales of old dwellings in housing companies in Finland



Source: Statistics Finland (sales through real estate agents).

@38215

New housing loan drawdowns from the Finnish credit institutions



Source: Bank of Finland.

@38215

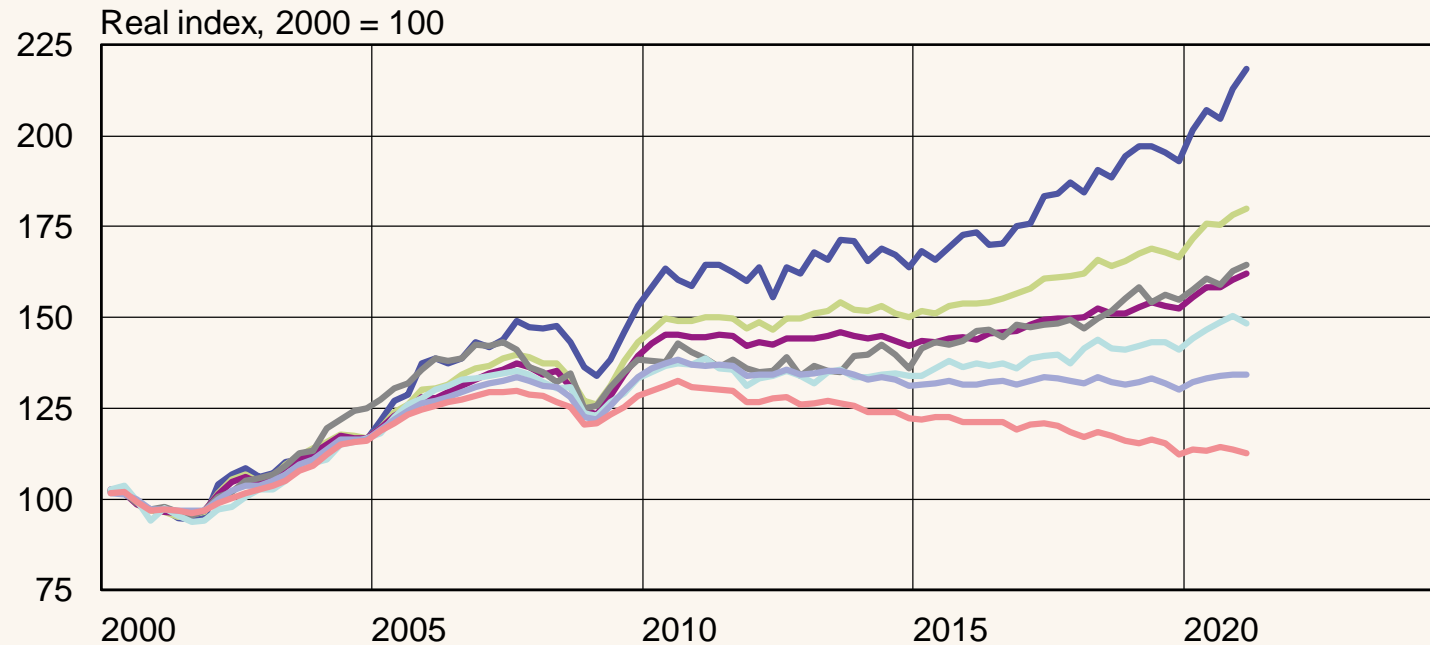
Investment loans account for 8% of the housing loan stock

- One tenth of housing loans taken out in March 2021 were for the purpose of residential property investment.
- Many property investors also hold housing company loans related to new-build construction.
- The rental market is an important segment of a well-functioning housing market, but residential property investment also entails risks.

Further widening of house price differences between growth centres and rest of Finland

Real prices of old dwellings in housing companies in Finland, quarterly

- Helsinki city centre
- Helsinki metropolitan area
- Tampere
- Finland excl. Helsinki metropolitan area
- Helsinki
- Turku
- Finland, overall



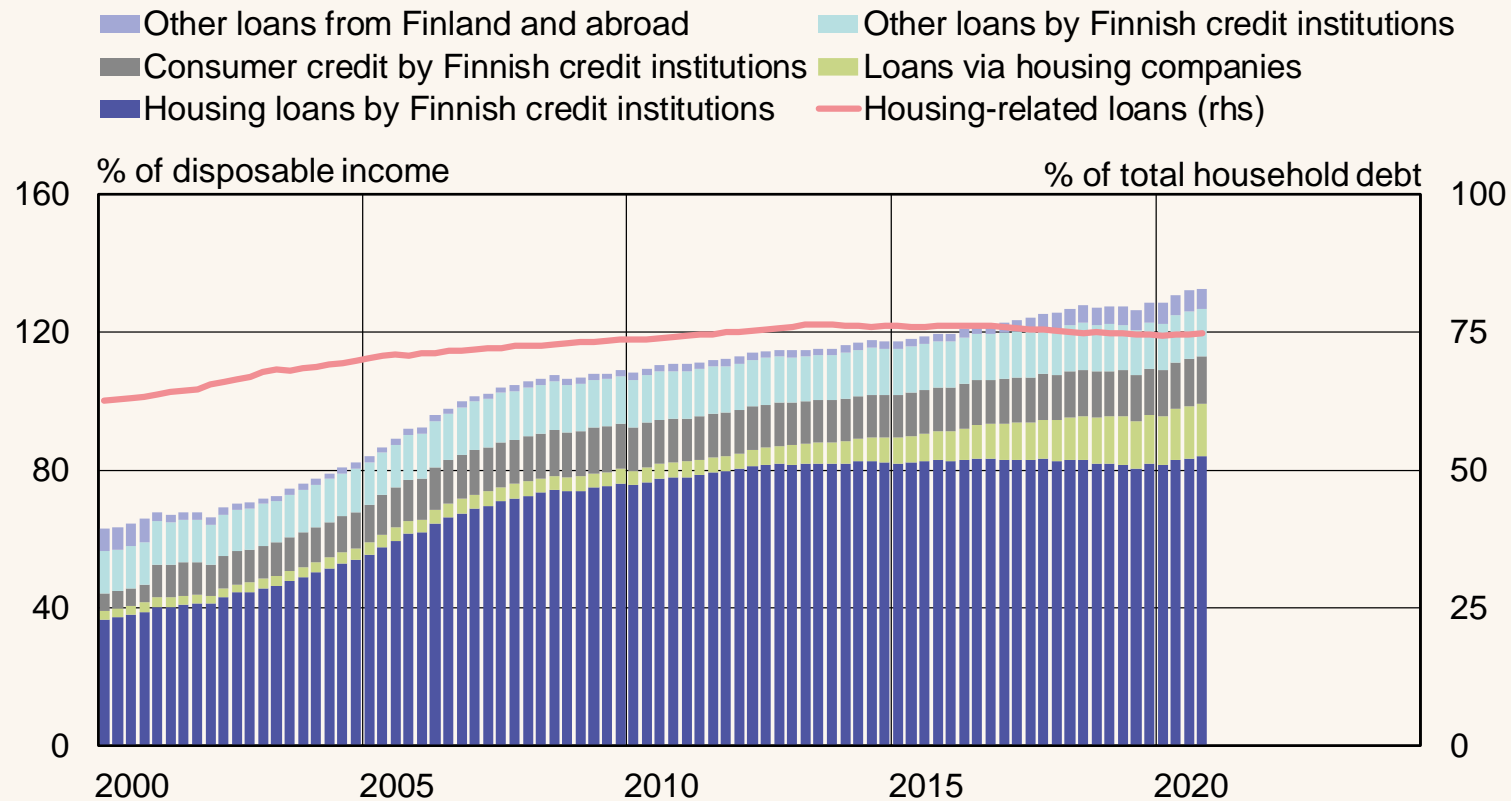
Sources: Statistics Finland, Macrobond and calculations by the Bank of Finland.

@38215

A debt-to-income cap and a limit on the maturity of housing loans should be introduced without further delay

Household indebtedness relative to income has been rising for a prolonged period

Household debt by purpose in Finland



Sources: Statistics Finland and Bank of Finland.

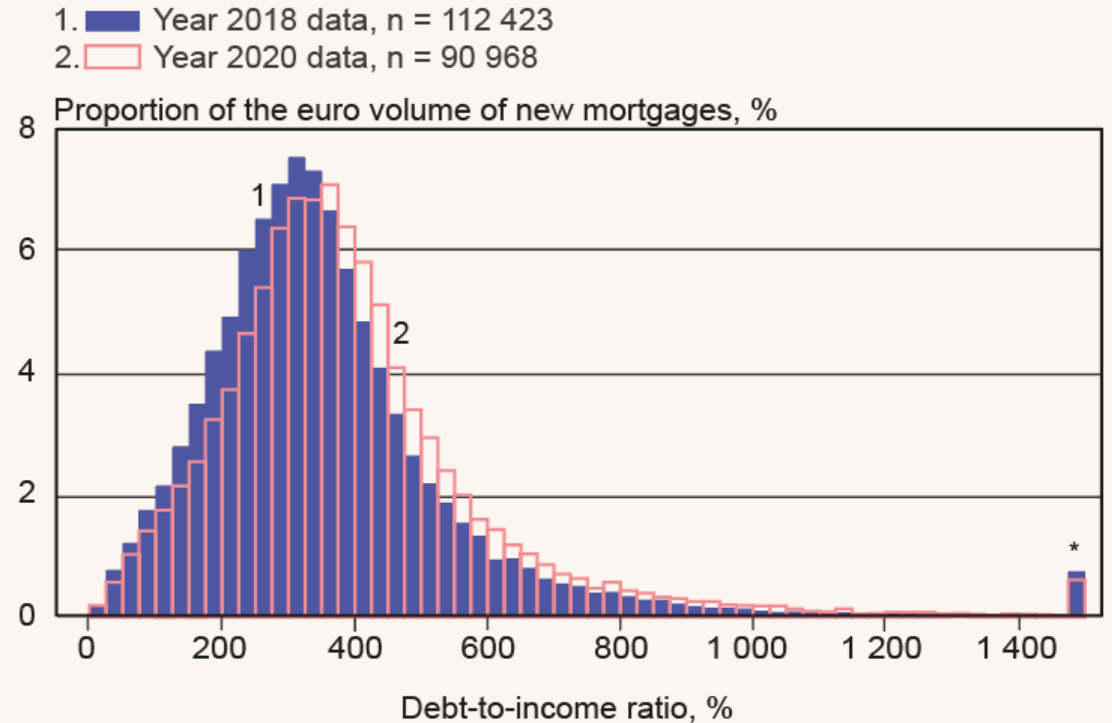
@38215

New mortgage-borrowers have an increasing amount of debt relative to income

- A higher proportion of new housing loans* are granted to households that are highly indebted relative to income.
- High debt-to-income ratios are more common in growth centres than elsewhere in Finland.

* Of the euro volume of new housing loans.

New mortgage-holders' debt-to-income ratios have increased



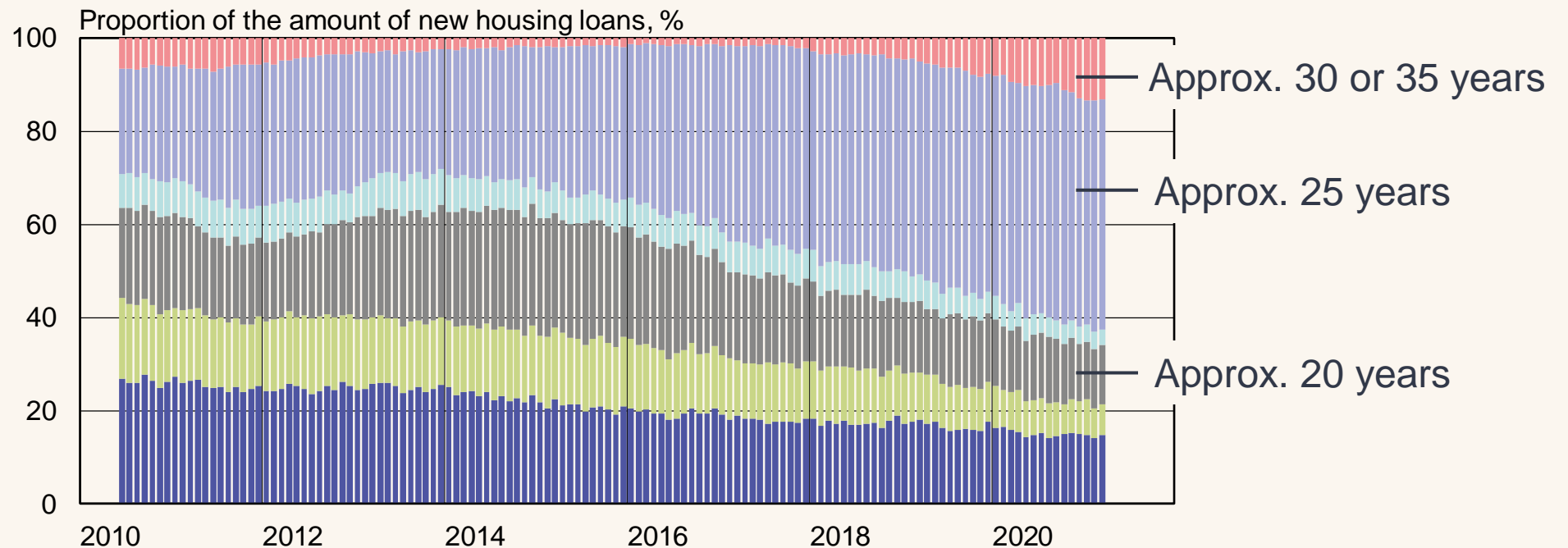
*Outliers of the right-hand tail have been added to the haircut value 1 500.

New mortgages as per borrower's debt-to-income ratio, data for 2018 and 2020.
Sources: Financial Supervisory Authority and calculations by the Bank of Finland.

Rapid increase in the popularity of mortgages with long maturities

Maturities of new housing loans drawn in Finland

- At most 14 years
- Over 14 and at most 19 years
- Over 19 and at most 21 years
- Over 21 and at most 24 years
- Over 24 and at most 26 years
- Over 26 years



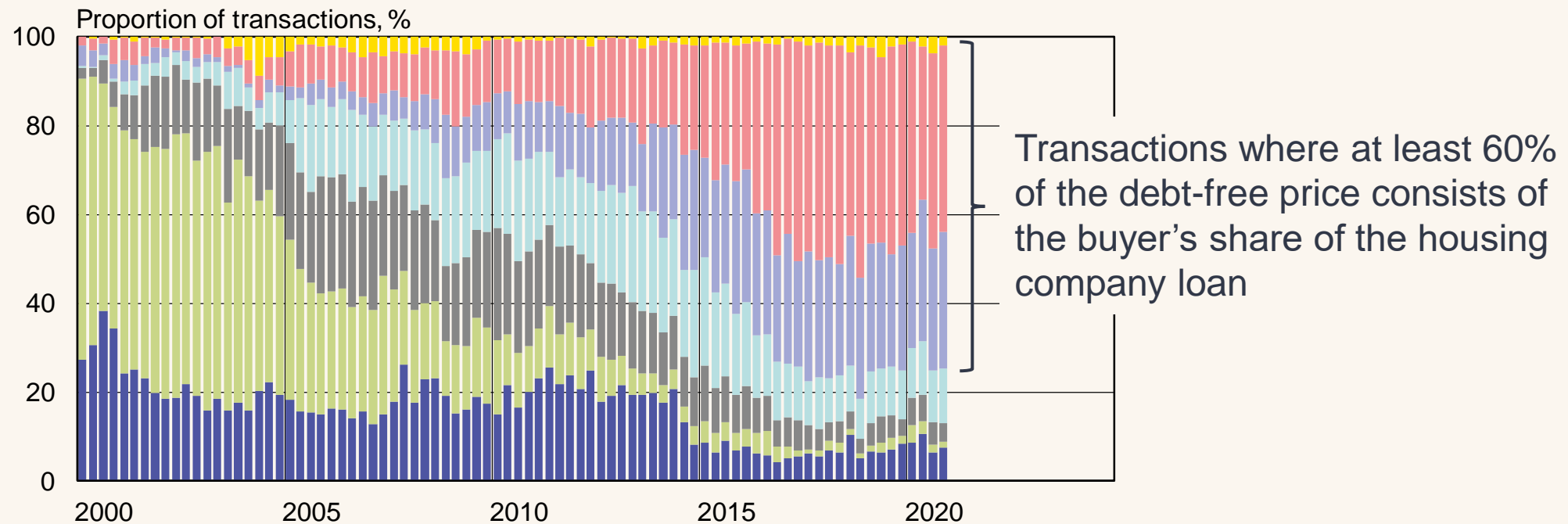
Source: Bank of Finland.

@38215

Large shares of housing company loans more widespread in the sales of new dwellings

New dwellings sold in blocks of flats and terraced houses by the size of the housing company loan share

■ 0% ■ 0–39% ■ 40–49% ■ 50–59% ■ 60–69% ■ 70–79% ■ At least 80%



Sources: Central Federation of Finnish Real Estate Agencies and Bank of Finland calculations.

@38215

Measures proposed by the Ministry of Finance working group should be introduced

- **A debt-to-income cap** would constrain total household debt from rising to a level too high relative to income.
- **Maximum maturities** of housing loans and housing company loans would maintain good credit-servicing practices.
- **Limiting very large housing company loans** would prevent an increase in the risks related to housing finance.
- The proposals also allow for some **flexibility** above the limit.

The neutral debt-to-income cap has risen

- **The debt-to-income cap would now be set at 500%**, if the objective is to minimise its impact on the provision of credit.
- The constraint would not target particularly the financing of first homes.
- **Impacts on long-term economic growth would be moderate.**
- **The constraint would dampen economic fluctuations** more effectively than the current maximum loan-to-collateral ratio.

A limit on maturities and housing company loans would curb the granting of very large loans with very long maturities

- The growing popularity of housing loans with very long maturities increases the need to limit maturities.
- Imposing a limit on maturities would impact banks granting a large volume of housing loans with long maturities.
- Limits on housing company loans could have an impact on the financing of new-build construction and increase demand for housing loans.
- A loan-to-value limit would still allow very large housing company loans in the financing of new-build construction.

Summary of key messages

- Finland's financial system has operated well during the pandemic.
- We have not yet seen all the effects of the COVID-19 pandemic.
- Housing market risks and household indebtedness have increased.
- Measures to curb indebtedness should be introduced without delay.



Thank you!

suomenpankki.fi