EUROPEAN CENTRAL BANK

EUROSYSTEM

EN **ECB-PUBLIC**

OPINION OF THE EUROPEAN CENTRAL BANK

of 15 June 2018

on mortgage amortisation requirements

(CON/2018/30)

Introduction and legal basis

On 19 April 2018, the European Central Bank (ECB) received a request from Finansinspektionen (the Swedish financial supervisory authority) for an opinion on a draft proposal for an amendment to existing mortgage amortisation requirements (hereinafter the 'draft proposal').

The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union and the sixth indent of Article 2(1) of Council Decision 98/415/EC[1], as the draft proposal contains rules applicable to financial institutions insofar as they materially influence the stability of financial institutions and markets. In accordance with the first sentence of Article 17.5 of the Rules of Procedure of the European Central Bank, the Governing Council has adopted this opinion.

1. Purpose of the draft proposal

1.1 The overall purpose of the draft proposal is to counteract macroprudential and financial stability risks associated with excessive indebtedness, to further increase households' resilience to macroprudential disturbances and to harmonise the rules applicable to institutions providing mortgages for the domestic housing market in Sweden. In particular, under the draft proposal existing mortgage amortisation requirements applicable to credit institutions which operate under the Banking and Finance Business Act (BFA)[2] (i.e. banks, savings banks, cooperative banks and other credit institutions) and provide mortgages in the domestic housing market in Sweden will also apply to credit providers operating under the Mortgage Credit Business Act (MCA)[3].

1.2 In 2016, Finansinspektionen introduced a progressive amortisation requirement based on a loan-to-value ratio[4], and in March 2018 an additional amortisation requirement was introduced based on the debtor´s debt-to-income ratio[5] (hereinafter together the 'existing mortgage amortisation requirements').

1 Council Decision 98/415/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions (OJ L 189, 3.7.1998, p. 42).

2 (Sw. Lag (2004:297) om bank- och finansieringsrörelse.

3 Lag (2016:1024) om verksamhet med bostadskrediter.

4 See Opinion CON/2016/18. All ECB opinions are published on the ECB's website at www.ecb.europa.eu.

5 See Opinion CON/2017/29.

1.3 Following the introduction of the first amortisation requirement in 2016, Directive 2014/17/EU of the European Parliament and of the Council[6] (hereinafter the 'Mortgage Credit Directive'), was implemented in Sweden through the MCA. The MCA provides that creditors acting under the MCA must impose repayment requirements that are compatible with a sound amortisation culture and that counteract excessive household indebtedness[7]. The draft amendment will have the effect of aligning mortgage amortisation requirements applicable to creditors operating under the MCA with the existing amortisation requirements applicable to credit institutions operating under the BFA.

1.4 In addition, the draft amendment introduces an exemption from the mortgage amortisation requirements for amortisation-free mortgages which are granted for an undefined term and repaid only when the debtor sells the property due to old age, failing health or death (typically granted to elder citizens and referred to as "equity release credits"). The Mortgage Credit Directive specifically states that the Directive will not apply to equity release credit agreements[8], therefore implying that creditors acting under the MCA may be permitted to offer equity release credits. In order to allow credit institutions operating under the BFA to operate on the same terms and on a level playing field, the draft proposal provides the option to all creditors to exclude equity release credits from amortisation requirements.

1.5 Finally, the procedure for the adoption of the draft proposal is the same as for the existing mortgage amortisation requirements[9]**.** This means that Finansinspektionen must obtain the Government´s consent before the draft amendment enters into force[10].

2. General observations

2.1 The ECB welcomes the core objectives of the draft proposal, namely to limit excessive household indebtedness and to counteract macroprudential and financial stability risks, as well as to further increase households' resilience in relation to macroprudential instabilities[11]. The harmonisation of the applicability of existing mortgage amortisation requirements helps to reduce regulatory arbitrage as between credit institutions operating under the BFA and creditors operating under the MCA.

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6 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 and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010 (OJ L 60, 28.2.2014, p. 34).

7 Chapter 4, section 12(a) of the Mortgage Credit Business Act (Sw. Lag (2016:1024) om verksamhet med bostadskrediter) and Opinion CON2017/14.

8 Point 2 of Article 3, of 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 and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010.

9 Chapter 16, section 1 of the Swedish Banking and Financing Business Act (Sw. Bank- och Finansieringsrörelselagen); chapter 7, section 1 of the Mortgage Credit Business Act (Sw. Lag (2016:1024) om verksamhet med bostadskrediter); chapter 5, section 2 of the Regulation on Swedish Banking and Financing Business (Sw. Förordning (2004:329) om bank- och finansieringsrörelse) and section 12 of the Mortgage Credit Business Regulation (Sw. Förordning (2016:1033) om verksamhet med bostadskrediter).

10 Chapter 5, Section 2a of the Regulation on Swedish Banking and Financing Business (Sw. Förordning (2004:329) om bank- och finansieringsrörelse) and Section 13 of the Regulation on Mortgage Credit Business Regulation (Sw. Förordning (2016:1033) om verksamhet med bostadskrediter).

11 See paragraph 2.1 of ECB Opinion CON/2016/18 and paragraph 2.1 of ECB Opinion CON/2017/29.

2.2 The ECB notes that equity release credits are exempted from amortisation requirements as the Mortgage Credit Directive permits creditors operating under the MCA to offer equity release credits. In this regard, the ECB suggests that the Swedish authorities thoroughly analyse the potential implications of this exemption for credit and property markets and regularly assess whether maintaining the exemption is justified in view of potential risks to financial stability, the safety and soundness of the banking system and distortions to competition, or whether mitigating actions might be required.

2.3 The ECB refrains from making any observations regarding the possible institutional implications for Finansinspektionen's operational independence as a macroprudential authority arising out of the requirement that Finansinspektionen must obtain the Government's consent before any regulations on amortisation requirements enter into force[12].

This opinion will be published on the ECB's website.

Done at Frankfurt am Main, 15 June 2018.

[signed]

The President of the ECB

Mario DRAGHI

[12] See paragraph 2.2 of ECB Opinion CON/2016/18 and paragraph 2.3 of ECB Opinion CON/2017/29.