Decision by the Board of the Financial Supervisory Authority on a countercyclical capital buffer requirement and the maximum loan-to-value ratio for residential mortgage loans

At its meeting of 20 December 2016, the Board of the Financial Supervisory Authority (FIN-FSA) decided not to impose a countercyclical capital buffer requirement (variable capital add-on) as referred to in chapter 10, section 4 of the Credit Institutions Act (610/2014).

According to the current estimate, there is no need to reduce the maximum loan-to-value ratio for residential mortgage loans referred to in chapter 15, section 11 of the Credit Institutions Act, or to restrict the collateral to be taken into account in calculating the loan-to-value ratio, nor is there any need to apply other available macroprudential tools not currently in use.

The FIN-FSA continues preparations for setting, no later than 1 July 2017, a credit institution-specific minimum level of 10% for the average risk weight on residential mortgage loans of credit institutions that have adopted the Internal Ratings Based Approach.

Justifications for the decision

The most recent observation for the credit-to-GDP gap, used as the primary indicator for setting a countercyclical capital buffer requirement, is negative (–0.7 of a percentage point) for the second quarter of 2016, thus giving a reference value of 0.0% for the countercyclical capital buffer requirement. The gap has declined from the value of the previous quarter, which was also markedly downgraded owing to statistical revisions. The credit-to-GDP gap has shown a downward trend since 2010, and the latest observation is the smallest since 2003.

Overall, supplementary risk indicators (among other things, the development of the macro economy and the current account, the growth rate of credit, household indebtedness, housing price developments, risk pricing and banks' vulnerabilities) are still not signalling such an increase in financial system vulnerabilities as would necessitate a higher countercyclical capital buffer requirement.

The maximum loan-to-value ratio for residential mortgage loans restricts the amount of a residential mortgage loan to 90% at most (in the case of the purchase of a first home, 95% at most) of the current value of collateral posted at loan approval. In order to limit any exceptional increase in risks to financial stability, the Board of the FIN-FSA may decide to reduce these maximum amounts by not more than 10 percentage points. In addition, it may decide to restrict the taking into account of any other collateral security except real security in calculating the loan-to-value ratio.

There is currently no immediate need to tighten the conditions for the maximum loan-to-value ratio from their basic level, as no clear signs of an exceptional increase in risks to financial stability are in sight.