FIN-FSA Board decision concerning countercyclical capital buffer and lower maximum loan-to-collateral ratio

At its meeting on 26 September 2018, the Board of the Financial Supervisory Authority (FIN-FSA) decided not to impose a countercyclical capital buffer requirement (‘variable add-on’) as referred to in chapter 10, section 4 of the Credit Institutions Act (610/2014).

The Board also decided that the decision on a lower maximum loan-to-collateral (LTC) ratio, made on 19 March 2018 by virtue of chapter 15, section 11 of the Credit Institutions Act, will remain in force. With this decision, the Board lowered the maximum LTC ratio for residential mortgage loans other than first-home loans by 5 percentage points.

Justification for the decision

Countercyclical capital buffer requirement

The credit-to-GDP gap, used as the primary indicator for setting a countercyclical capital buffer (CCyB) requirement, continued to contract in early 2018. At the end of the first quarter of 2018, the indicator value was -8.5 percentage points (the value for end-2017 was revised from -7.4 to -8.0 percentage points), which gives a reference value of 0.0% for the CCyB requirement.

Of the alternative risk indicators, the value for the annual change in the credit stock relative to the five-year moving average of GDP was still slightly positive, which can indicate a moderate upward trend in cyclical risks related to credit. Overall, the indicators of credit growth and growth in financial market risk appetite as well as other supplementary risk indicators (such as overall economic developments and housing price developments) are not signalling such a build-up of financial system risks as would necessitate a rise in the CCyB requirement. The decision already made to increase banks’ buffers against structural risks via the systemic risk buffer must also be taken into consideration.

Maximum loan-to-collateral ratio

The maximum loan-to-collateral (LTC) ratio for residential mortgage loans restricts the amount of a residential mortgage to 90% at most (in the case of a first home purchase, to 95% at most) of the current value of collateral posted at loan approval. In order to limit any exceptional build-up of risks to financial stability, the Board of the FIN-FSA may decide to reduce these maximum amounts by no 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 LTC ratio.

The decision made by the FIN-FSA Board on 19 March 2018 and effective since 1 July 2018 to lower by 5 percentage points the maximum LTC ratio for residential mortgage loans other than first-home loans is still justified in terms of containing household indebtedness. Keeping the decision in force and maintaining the LTC ratio at its current lower level is justified and conforms with chapter 15, section 11, subsection 5 of the Credit Institutions Act.