

REPORT

October 2023

The Mortgage Market in Sweden



Svenska
Bankföreningen
Swedish Bankers' Association

Innehåll

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Introduction

Mortgages make up a significant percentage of the loan portfolio in Sweden and are an important component of the household budget for many individuals. The Mortgage Market in Sweden describes current mortgage and construction trends and how they have evolved over time.

A brief description of general economic trends in Sweden is followed by a discussion of developments in housing construction. It is observed that the economy in 2022 was marked by high inflation, increasing interest rates and dwindling asset prices, and in addition the economy has weakened during 2023.

It is also observed that housing prices have started to decrease from 2022 after a number of years of increasing prices for both tenant-owned apartments and single-family homes. The underlying reasons for the decreasing house prices are, above all, the high inflation and the rising mortgage interest rates.

Next, the development of mortgage lending in Sweden is outlined, where the pace of lending has slowed down in the past year. Finally, an overview is provided of household indebtedness, together with the measures implemented to counteract high indebtedness, as well as the main forms of borrowing for mortgage institutions.

I. The economic situation in Sweden

The first half of 2022 was marked by extensive disruption of global value chains and Russia's war of aggression against Ukraine, and was followed by high inflation, dwindling asset prices and increasing interest rates during 2022 and 2023. GDP increased by 2.8 percent in 2022, which was lower than in 2021 when GDP increased by 5.9 percent.

During the second quarter of 2023, GDP fell by 0.8 percent compared to the previous quarter. The NIER (National Institute of Economic Research) estimates that Swedish economy will operate below capacity during 2023 and that GDP will decrease by almost 1 percent. The interest-sensitive Swedish households have been hit hard by the high inflation and higher interest rates, as has residential construction, which is declining rapidly. A slowdown in exports is also contributing to an expected decrease in GDP during the year.

The labour market has developed comparatively strongly, and employment has continued to increase during the first half of 2023. There is still labour shortage in several sectors, which has helped to mitigate a decline in the labour market.

Housing investment started to decline during the second half of 2022 and has continued to fall during 2023. High financing and construction costs, combined with the fall in housing prices, have put pressure on the profitability of housing constructors. The number of housing starts is expected to decrease by 55 percent in 2023, which is the steepest decline since the beginning of the 1990s.

Table I. The NIER indicators for the Swedish economy, 2023, annual percentage change and percent, respectively

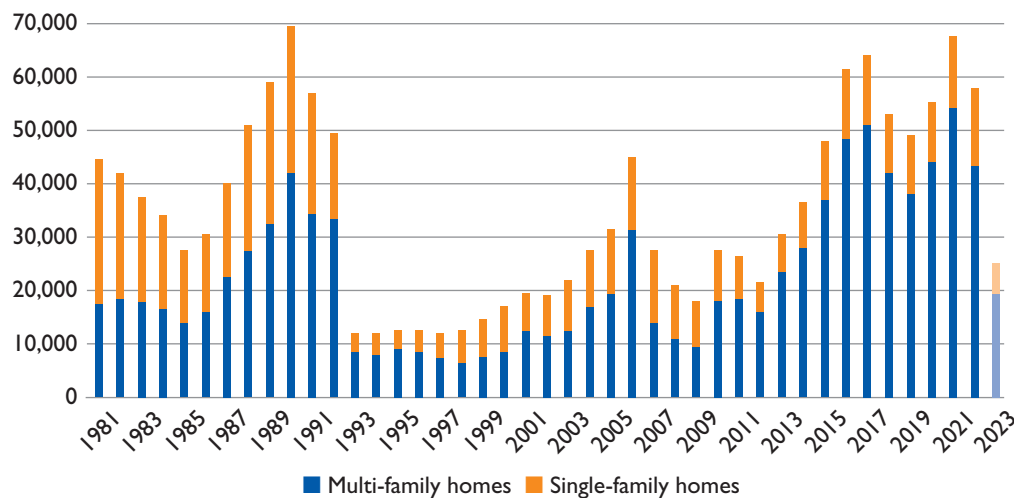
	2022	2023	2024
GDP, market price	2.8	-0.9	1.2
Employment	2.7	1.4	-0.3
Unemployment ⁽¹⁾	7.5	7.7	8.4
Commercial productivity ⁽²⁾	0.5	-2.6	1.4
CPI	8.4	8.7	2.7
Policy rate ⁽³⁾	2.5	4.0	2.8
Ten-year government bond rate ⁽³⁾	1.5	2.5	2.7

(1) As a percentage of labour force. (2) Working-day adjusted. (3) At year-end.

2. The housing and construction market

The rate of construction started to decline in 2022 after several years with a relatively high construction rate, which peaked in 2021 with a record 67,700 housing starts. The number of housing starts 2021 was the highest since 1990. Low interest rates, economic growth and high demand for single-family homes and large apartments during the pandemic are a few explanations for the high construction rate. During 2022, however, construction has started to slow down. According to the forecast by the National Board of Housing, construction will decrease significantly during 2023 to 25,500 new dwellings, a decrease of 55 percent compared to 2022. The drop in housing construction will thereby be the largest since the mid-1990s. This forecast is based primarily on assessments made by Swedish municipalities in the Board's housing market survey, taking into account factors such as current trends in prices, sales, building permits and residential construction.

Chart 2.1. Housing starts 1981–2023, number



Source: Statistics Sweden and 2023 forecast from the National Board of Housing

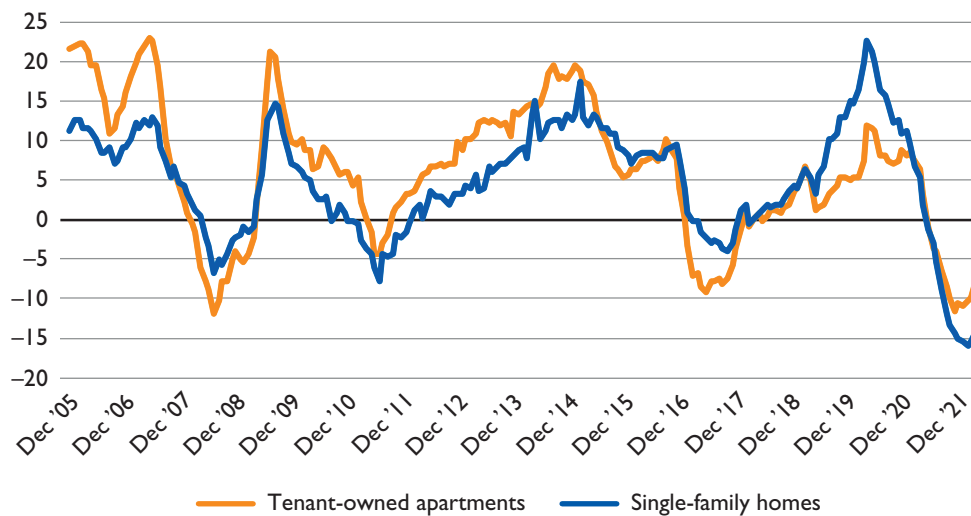
A significant percentage of new construction is taking place in metropolitan areas. In 2022, the Stockholm, Gothenburg and Malmö metropolitan areas accounted for 45 percent of housing starts in Sweden. This is slightly lower than the previous year, when the share was 50 percent. The larger cities have accounted for 50 to 60 percent of new construction in Sweden since the mid-1990s. The change is significant compared with 1990, when 25 percent of housing starts were in the above three urban areas. For a number of years, Stockholm alone accounted for 30 percent of Swedish housing starts, but from 2018 that share has dropped to around 25 percent.

Another change in the home construction market is that multi-family dwellings account for a larger share of new construction. From 2010, the proportion of multi-family dwellings in relation to total housing starts has, on average, amounted to 76 percent. During the 1980s, multi-family dwellings accounted for almost 50 percent of new construction, and during the 1990s and 2000s they represented around 60 percent of new construction.

Since 2022, inflation has increased significantly, which has led the Riksbank to increase the policy rate in several steps to the highest level since 2008. The increased policy rate has affected the interest rate level in the economy and caused the mortgage interest rate to increase markedly. Rising energy prices have increased heating costs and added to the rising living costs of households, especially for one-family homes. Overall, this has created uncertainty on the housing market and, as a consequence, caused housing prices to cool during 2022. During the spring of 2023, however, housing prices have started to stabilise at a lower level.

There has been a significant difference in price trends for single-family homes and tenant-owned apartments for several years. The HOX-index (Valueguard / KTH) presents price trends for both single-family homes and tenant-owned apartments (see Chart 2.2). For several years, the prices of tenant-owned apartments have risen more than the prices of single-family homes, according to the HOX-index. From the beginning of 2016, the price increases for tenant-owned apartments have slowed down significantly and, in addition, the price increases have been lower than for single-family homes. As the price increases have slowed down in 2022, the difference in price trends between tenant-owned apartments and single-family homes has also decreased. The recovery in the prices of single-family homes in 2023 has, however, been lower than for tenant-owner apartments.

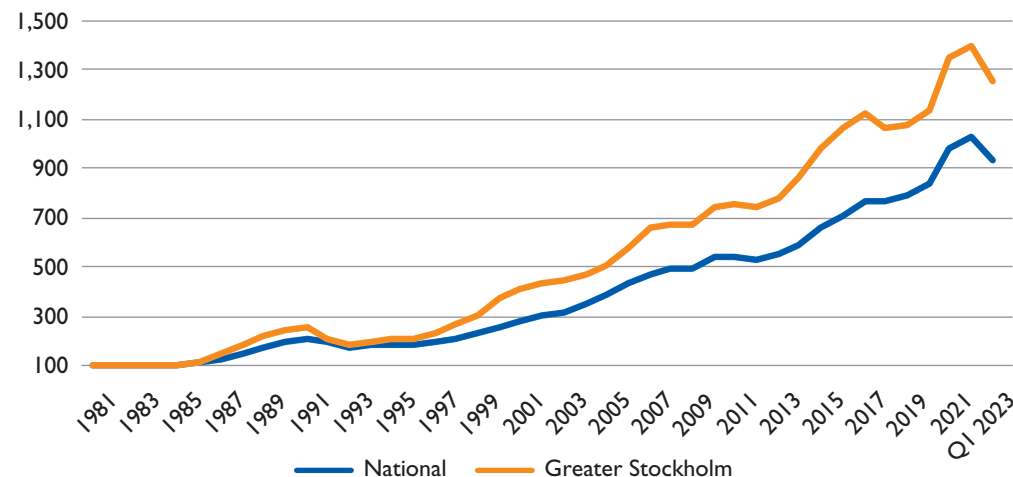
Chart 2.2. Housing prices, annual percentage change



Source: HOX-index / Valueguard

Although the decline in housing prices has been comparatively large in the past year, there have been considerable increases in the values of housing in the longer term. From the end of the 1990s, housing prices in Sweden have increased almost continuously (see chart 2.3). There are a number of reasons for the price increases, including both low supply and increasing demand. Demand has risen as a result of several factors, such as relatively favourable economic growth in Sweden, increasing household incomes, low interest rates, good access to credit, changed tax rules, a growing population and rapid urbanisation.

Chart 2.3. Price index single-family homes, Index 1981=100

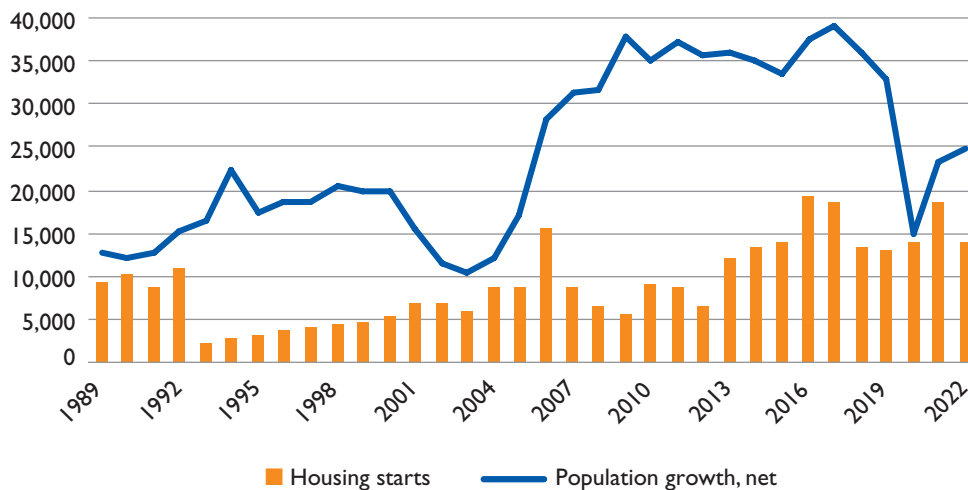


Source: Statistics Sweden.

On the supply side, the limited housing construction relative to population growth, especially in urban areas, has been a fundamental reason for the rise in prices. One example is Stockholm County, where the annual net increase in population has averaged 35,000 between the years 2007 to 2019. However, the number of housing starts has far from matched the significant increase in population. Between 2007 and 2019, only 11,000 dwellings on average were started per year (see Chart 2.4).

During 2020, population growth slowed down significantly in Stockholm, which was mainly due to changing moving patterns during the pandemic, where a significant relocation of individuals from the County to the rest of Sweden has occurred, as well as to diminishing immigration. Although the rate of population growth has increased again, it is not as high as before 2020. The number of housing starts began to increase in Stockholm from 2013. Housing construction has remained at a relatively high level between 2020 and 2022, at the same time as population growth has diminished. This has meant that the supply of housing in relation to size of the population has improved somewhat in the last two years.

Chart 2.4. Net population growth and housing starts in Stockholm County, number

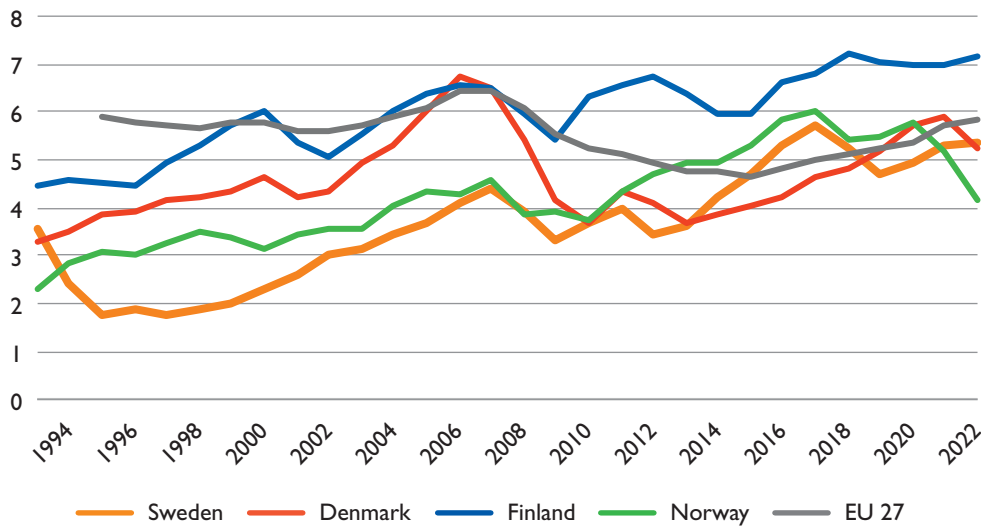


Source: Statistics Sweden

Housing construction fell dramatically after the crisis in Sweden in the beginning of the 1990s, as illustrated by Chart 2.1. From the middle of the 1990s, residential housing investments have, for long periods, represented a lower percentage of GDP in Sweden than in other Nordic countries and the EU average (see Chart 2.5). However, Swedish housing investments have increased for a number of years as a percentage of GDP, and are currently higher than before 2014. In 2022, Swedish housing investments amounted to 5.4 percent of GDP and the EU average amounted to 5.8 percent. This can be compared with the 2022 Chartes for Germany and Cyprus, which had the highest rates of residential investment in the EU at 7.6 percent of GDP. The lowest rate of housing investments was found in Greece, at 1.6 percent of GDP.

The Swedish market is characterised by a number of conditions that reduce the risk of more widespread problems on the mortgage market. One factor is that banks’ lending processes are stringent and governed by well-functioning legislation. Banks have long based their credit decisions on the borrower’s repayment capacity rather than the value of the collateral. There is also an efficient infrastructure, for example in the form of a property register and good access to credit information about borrowers to secure safe lending. The high employment rate means that it is common for households to have two incomes that can be used to repay the loan. The welfare system is another significant factor, since households can maintain an acceptable financial position even in the event of unemployment or illness.

Chart 2.5. Residential housing investments as percentage of GDP, percent



Source: Eurostat

The Swedish market is also characterised by very limited speculation. The market share of buy-to-let among housing is limited. Most Swedes regard their homes primarily as a residence and not as an investment opportunity.

3. Competition on the mortgage market

Property lending in Sweden is, to a great extent, offered by specialised housing finance institutions (mortgage institutions), although it is also offered by banks and in recent years by mortgage credit companies. As of June 2023, total lending to the public in Sweden secured by housing amounted to SEK 5,346 billion. Mortgage deeds serve as the primary security for home loans and tenant-owned apartment loans from banks and housing finance institutions.

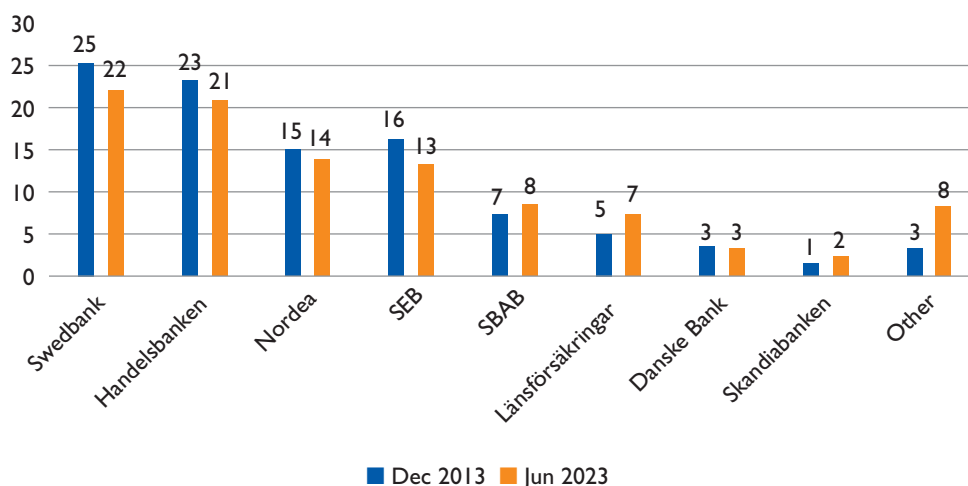
The three largest housing finance institutions are owned by Swedbank (Swedbank Hypotek), Handelsbanken (Stadshypotek) and Nordea (Nordea Hypotek). SEB has no separate housing finance institution and residential lending is offered directly by the bank. SBAB Bank was originally a state-owned mortgage institution that was restructured into a bank in 2010, still fully owned by the state. Home loans are also offered by Länsförsäkringar Hypotek, Danske Hypotek and Skandiabanken. In some cases, the smaller institutions may be significant participants on the mortgage market by virtue of relatively large market shares with respect to new mortgages.

Over the course of several years, a number of mortgage credit companies, which fund their lending by structures of alternative investment funds (AIF), have established themselves on the market. One example is Stabelo, which cooperates with Avanza Bank and Nordnet Bank. Another example is Hypoteket. Mortgage credit companies may conduct mortgage lending without a banking or credit-market company licence, which means that they are not subject to the same regulations as banks. The new companies instead operate on the Swedish market with a different form of licence from Finansinspektionen than banks and credit-market companies. The new companies fund their mortgage lending by creating and managing investment products on behalf of institutional investors within the framework of an AIF. AIFs are managed by companies connected to mortgage credit companies, which in turn administer the mortgage process vis-à-vis the mortgage borrowers.

Mortgage credit companies' outstanding loans are small in relation to total outstanding housing loans, representing 1.2 percent of the total stock in June 2023. However, the new companies are significant competitors on the mortgage market as they accounted for 6.6 percent of new lending to households in 2022. The changed financing situation for mortgage credit companies in 2023 has meant that their share of new lending has fallen, and at the end of June 2023 their share of new mortgages in the past year amounted to 1.3 percent.

The market share of total lending to Swedish households secured by housing in June 2023 compared with December 2013 is illustrated in Chart 3.1. The group "Other" includes savings banks and other institutions (including mortgage credit institutions and alternative investment funds, AIFs). During the last ten-year period, the market shares of the larger institutions have decreased somewhat, while the market shares of the smaller institutions have generally increased.

Chart 3.1. Lending secured by housing, Swedish households, December 2013 and June 2023, percent

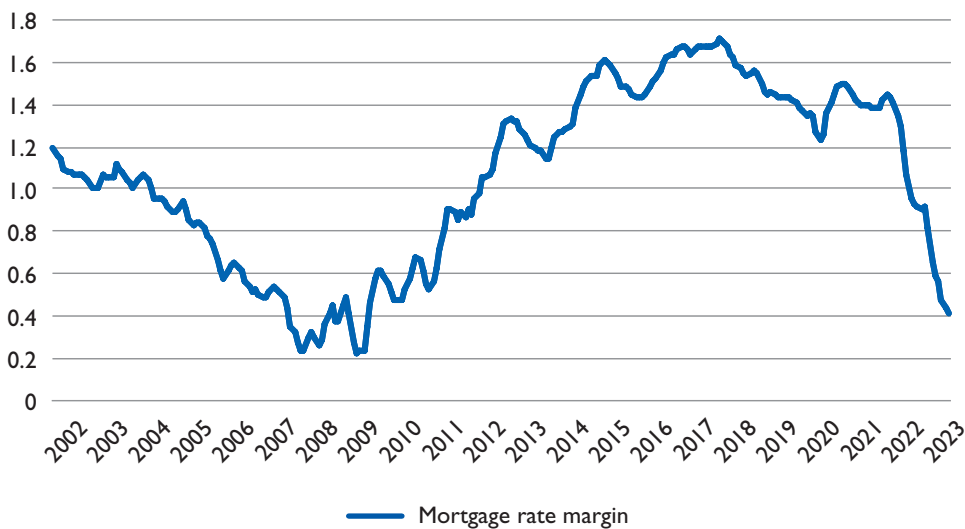


Source: Statistics Sweden

As described on the previous page, there are a significant number of mortgage institutions in Sweden and, in addition, a couple of mortgage credit companies. This implies that there are favourable conditions for home buyers to apply for mortgages from multiple institutions and a market with high competition for mortgage customers.

Every quarter, Finansinspektionen publishes a calculation of the gross margin on mortgages as part of its investigation of the position of mortgage customers in the mortgage market. In the latest published calculation of the gross margin, it is evident that the mortgage margin has decreased significantly since the beginning of 2022 (see chart 3.2). The declining mortgage margin coincides with a substantial increase in market interest rates and mortgage rates. According to Finansinspektionen, the decreasing mortgage margin is primarily due to the fact that financing costs for banks have risen, while the lending rates for mortgages have not increased at the same rate. According to Finansinspektionen’s calculations, the mortgage margin was 0.41 percent at the end of June 2023 and has not been lower since the middle of 2009.

Chart 3.2. Mortgage rate margin, percent



Source: Finansinspektionen

4. Residential mortgage lending

According to Statistics Sweden's Financial Market Statistics, total lending secured by single-family homes, tenant-owned apartments and apartment buildings amounted to SEK 5,346 billion at the end of June 2023. Three years ago, in June 2020, the corresponding Charte was SEK 4,570 billion. Lending has thus increased by SEK 776 billion, or 17 percent, in three years.

Table 4.1. Total lending secured by single-family homes, tenant-owned apartments and multi-family homes, SEK billion, June 2023

	Single-family homes	Tenant-owned apartments	Multi-family homes	Total
Households	2,711	1,405	57	4,173
Companies	147	8	1,018	1,173
Total	2,858	1,413	1,075	5,346

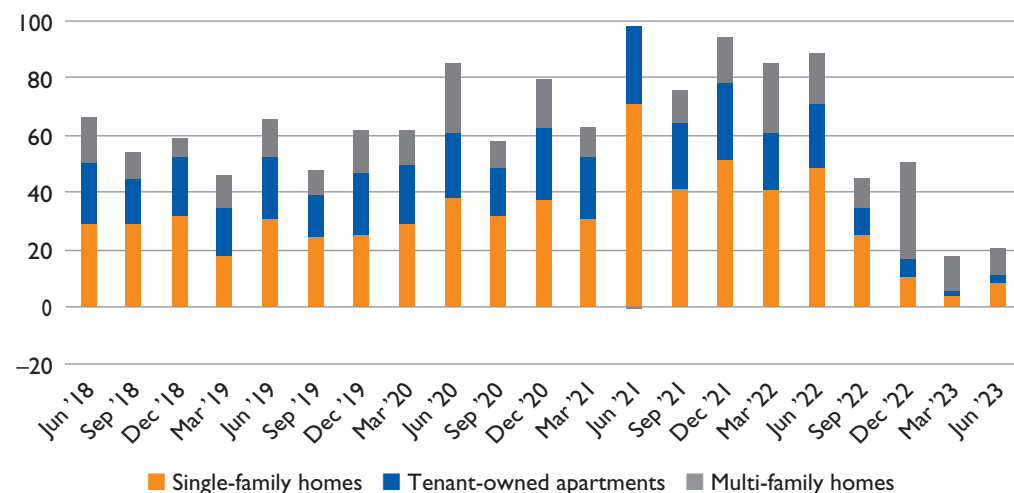
Source: Statistics Sweden

Chart 4.1 illustrates the quarterly growth in net new lending (new lending less amortisation) for housing, broken down into single-family homes, tenant-owned apartments and multi-family buildings. In the years 2018 and 2019, net new lending stood at between SEK 46 and 66 billion quarterly. During 2020 and up until the second quarter of 2022, quarterly net housing loan growth increased to between SEK 58 and 97 billion. The large quarterly net increases during the latter period coincide to a great extent with the pandemic and the high demand for single-family homes. The quarterly net new lending for single-family homes has been higher during this period than before, and during the second quarter of 2021 alone, net new lending for single-family homes increased by SEK 71 billion. Net new lending during the second quarter of 2021 was also high for tenant-owned apartments. The overall net increase during the second quarter of 2021 was SEK 97 billion, the largest increase ever for a single quarter.

From the second half of 2022 and throughout 2023, the demand for mortgage loans has decreased as a result of factors such as declining housing prices and a reduced number of property sales. During the first half of 2023, net new lending has decreased to approximately SEK 20 billion per quarter.

The decreased demand for housing loans has led to the rate of lending for single-family homes decreasing to 1.7 percent in June 2023 and the rate of lending for tenant-owned apartments decreasing to 1.6 percent (see Chart 4.2). This is the lowest growth rate for loans for both single-family homes and tenant-owned apartments since the statistical series began in 2001. At the same time last year, the rate of lending amounted to 6.9 percent and 7.1 percent respectively.

Chart 4.1. Quarterly change (net increase) in lending secured by single-family homes, tenant-owned apartments and multi-family homes, SEK billion



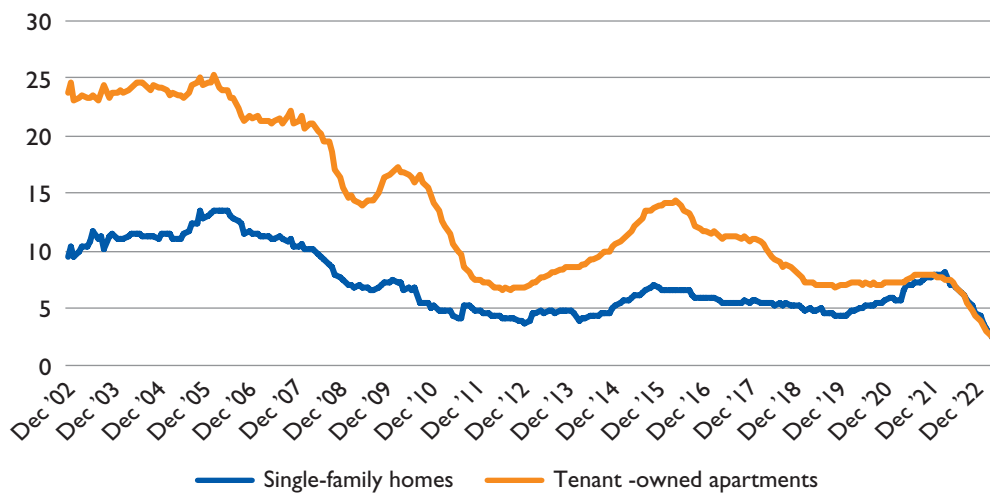
Source: Statistics Sweden

In the middle of 2016, the rate of growth for Swedish home loans was almost 9 percent annually, subsequently slowing down more or less continuously until the beginning of 2020. The slowdown in the home loan growth rate from 2016 coincided with the introduction by Finansinspektionen of the amortisation rules for new housing loans (see part 5), which is an important explanation for the slower growth rate.

The home loan growth rate started to increase again from spring 2020. The increase in lending during the outbreak of the pandemic in Sweden in the spring of 2020 may be explained in part by the temporary exemption from the amortisation rules on mortgage loans that was introduced between April 2020 and August 2021. Another explanation for the increase is the changing demand between different kinds of housing during the pandemic and the fact that demand for single-family homes increased significantly.

The growth rate for loans secured for single-family homes has generally been slower and more stable than for tenant-owned apartments. Since 2016, the difference in the rate of lending between single-family homes and tenant-owned apartments has diminished by and large continuously. From mid-2022 to June 2023, the difference in the rate of lending has been negligible.

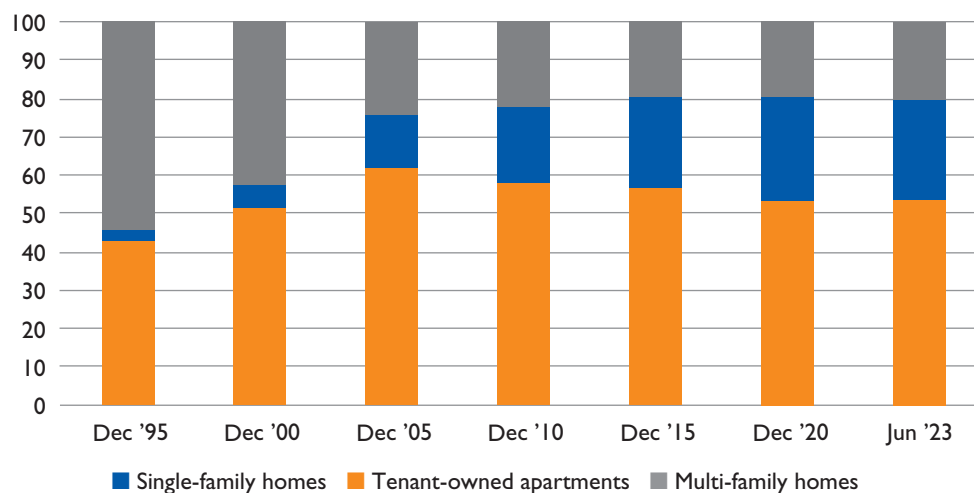
Chart 4.2. The home loan portfolio, annual percentage change



Source: Statistics Sweden

There are several explanations why, for a great many years, the rate of increase as regards loans for tenant-owned apartments has been higher than for single-family homes. One explanation is the conversion of rental apartments into tenant-owned apartments, which previously took place primarily in the metropolitan regions. Another is the fact that the high rate of housing construction over the last ten years has been largely focused on tenant-owned apartments rather than single-family homes. Additionally, prices of tenant-owned apartments have increased more than prices of single-family homes for long periods. Chart 4.3 illustrates how the percentage of home loans secured by tenant-owned apartments has increased since 1995.

Chart 4.3. Outstanding mortgage loan portfolio broken down by type of security, percent



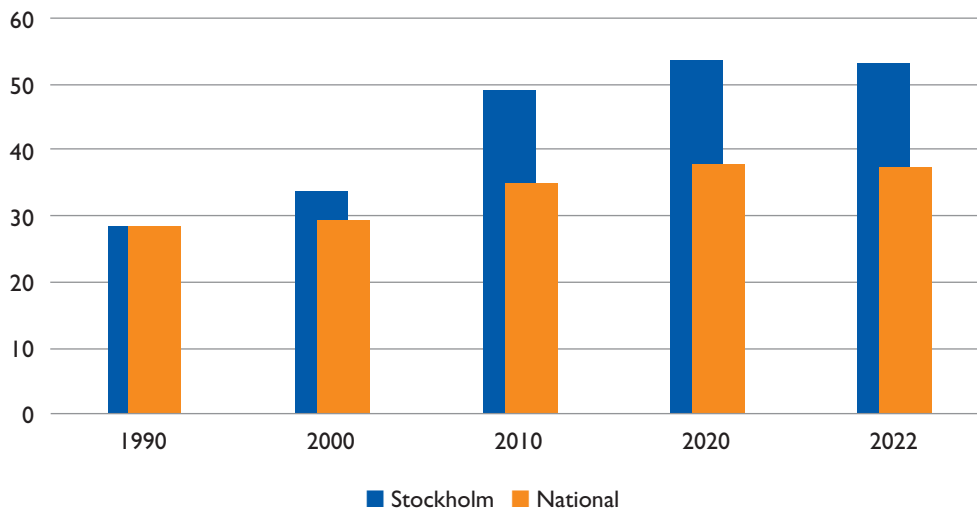
Source: Statistics Sweden

The proportion of tenant-owned apartments in the new construction of apartment buildings has also been high, amounting to around 50 percent since 2007. From 2020, the new construction of rental apartments has increased and the share of new tenant-owned apartments therefore decreased to 35 percent of newly constructed apartments in multi-family buildings in 2022. In the mid-1990s, the proportion of tenant-owned apartments accounted for only 15 percent of newly constructed multi-family buildings.

Chart 4.4 illustrates the change, from 1990 until 2022, in the percentage of tenant-owned apartments as a proportion of the multi-family housing stock. Between 1990 and 2000, the percentage of tenant-owned apartments in the multi-family housing stock increased marginally from 28 percent to 29 percent. Between 2000 and 2010, the percentage of tenant-owned apartments increased to 35 percent and in 2022 the share stood at 38 percent.

The percentage of tenant-owned apartments in Stockholm is higher, and in 2022 the percentage of tenant-owned apartments in the multi-family housing stock in Stockholm stood at 53 percent. In the 1990s, the share of tenant-owned apartments in the multi-family housing stock was largely the same in Stockholm and nationally. The share of tenant-owned apartments in Stockholm increased much faster in the 2000s than in many other places in the country, from 34 percent in 2000 to 49 percent in 2010.

Chart 4.4. Share of tenant-owned apartments in multi-family homes, percent



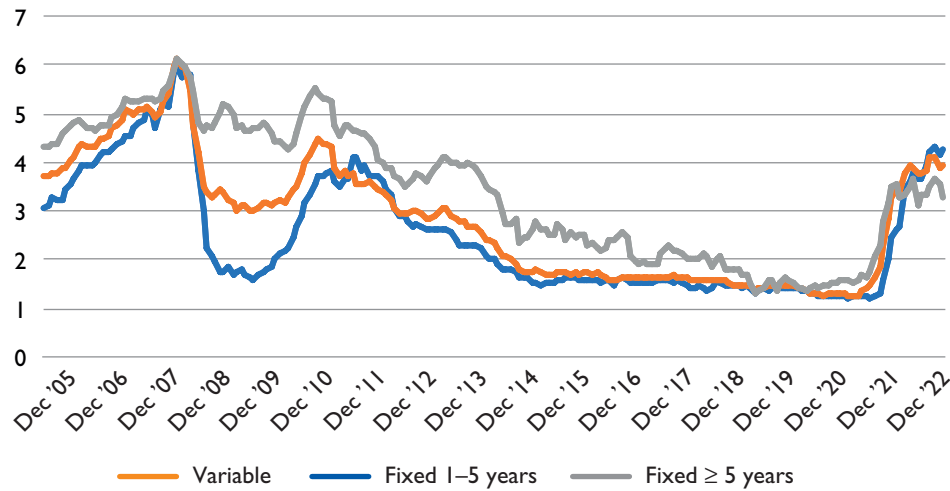
Source: Statistics Sweden

The properties in which tenant-owned apartments are located are formally owned by tenant-owners' associations. A resident in a tenant-owned apartment is entitled to live in one of the tenant-owners' associations' apartments. Since the tenant-owners' association owns the property, any loans secured by the property constitute debt for the tenant-owners' association. Tenant-owners' associations are thus significant borrowers in Sweden and, in June 2023, loans to tenant-owners' associations amounted to SEK 577 billion. By comparison, household loans secured by tenant-owned apartments amounted to SEK 1,405 billion.

By the end of 2021, mortgage interest rates had been declining for a long time, reaching record-low levels (see Chart 4.5). As an example, the initial fixed rates had dropped to the lowest levels since at least 1985. Variable interest rates were also at historically low levels. From mid-2015, mortgage interest rates and especially the variable mortgage interest rates and initial fixed 1-5 year rates have levelled out. The low interest rates have, according to most observers, been an important factor behind the relatively high lending rate over the last several years. The spread between variable and initial fixed mortgage rates has also been historically narrow.

Russia's war of aggression against Ukraine that began in February 2022 and the aftermath of the pandemic are two reasons behind the problems that have arisen in the global economy. Since 2022, Sweden has been significantly affected by sharply increased inflation and rising market interest rates. Mortgage interest rates started to increase during the spring 2022, and in June 2023 variable mortgage rates averaged 4.3 percent and mortgage rates with an initial fixed term of more than 5 years amounted to 3.3 percent.

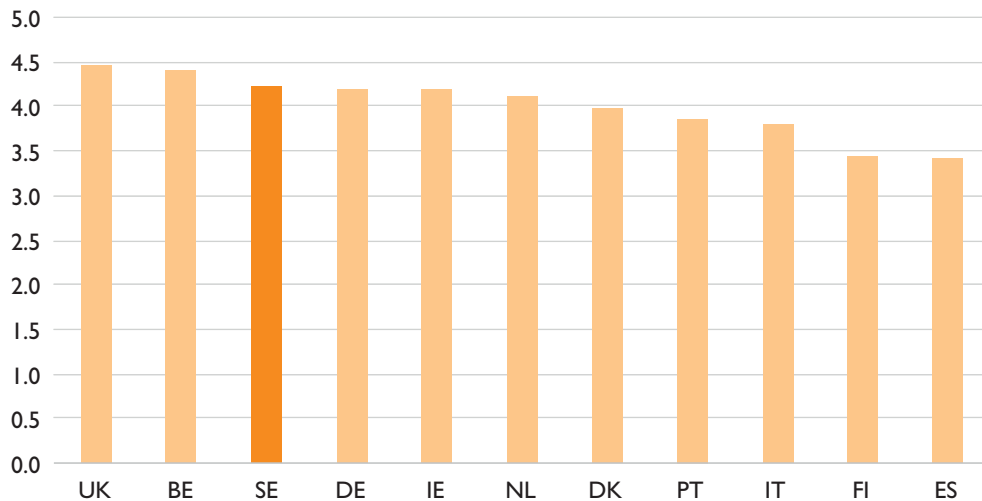
Chart 4.5. Lending rates to households for housing loans, new loans, December 2005 – June 2023, broken down by interest term, percent



Source: Statistics Sweden

Like Swedish mortgage interest rates, European mortgage interest rates have increased. Chart 4.6 shows variable mortgage interest rates (fixed for up to one year) in some comparable European countries, revealing that the interest rates range between 3.4 and 4.5 percent in these countries. Spain and Finland have the lowest variable interest rates in Europe. It should also be noted that there is a significant difference between countries in the prevalence of variable-rate mortgage loans, which will be discussed further in this section.

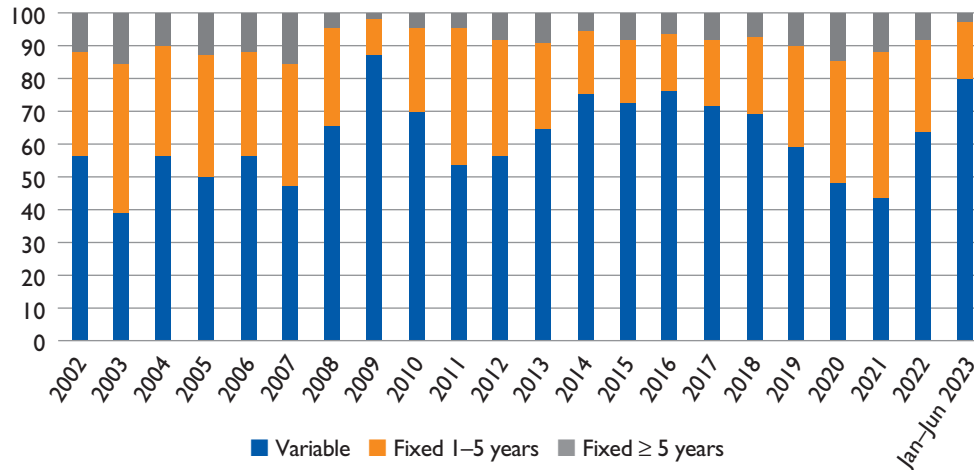
Chart 4.6. Variable mortgage interest rates (variable and initial fixed period rate up to 1 year), first quarter of 2023, percent



Source European Mortgage Federation

During the period from January to June 2023, 80 percent of new home loans taken out by households had variable interest rates (see Chart 4.7). The share of households' new mortgages with variable interest rates started to increase from the spring of 2022 and has continued to increase during the first half of 2023. The increasing share of new mortgages with variable interest rates coincided with the fact that mortgage interest rates started to rise during the spring 2022. Previously, the difference between variable and initial fixed interest rates was comparatively small, but as the interest rates started to increase during the spring of 2022, the difference between variable and initial fixed mortgage interest rates also increased. As the initial fixed mortgage interest rates increased more than the variable mortgage interest rates in 2022, demand for the variable interest rates increased. Since 2023, fixed mortgage interest rates have generally been lower than variable mortgage interest rates, but the demand for variable rates has remained high, probably due to an expectation that interest rates will start to fall in the coming years.

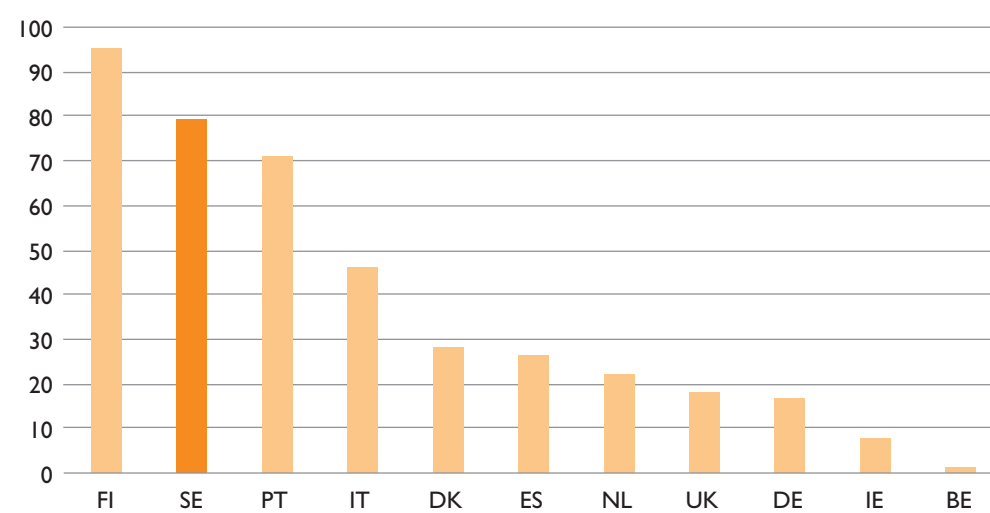
Chart 4.7. New loans to households, housing finance institutions, breakdown by interest term, percent



Source: Statistics Sweden

Even though the demand for housing loans with variable interest has varied in Sweden in recent years, the share of variable interest rates here is higher than in many other comparable European countries. Chart 4.8 illustrates the share of variable interest loans among new housing loans in the first quarter of 2023 in a number of European countries. In Finland, 95 percent of new housing loans have variable interest rates whereas in Sweden 79 percent of new housing loans have variable interest rates. In Belgium, for example, housing loans with variable interest rates are rare.

Chart 4.8. New housing loans with variable interest rates (fixed up to one year) during the first quarter of 2023. Share of total, percent



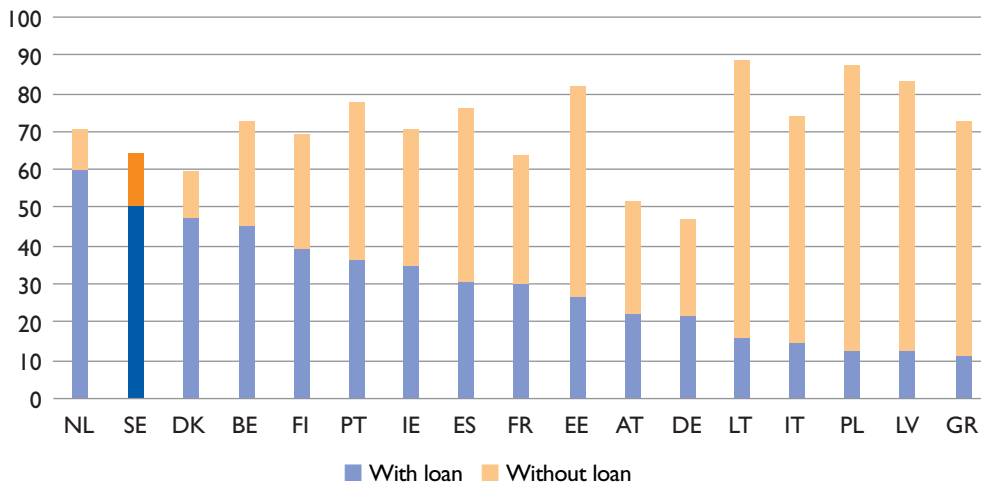
Source: European Mortgage Federation

5. Household indebtedness

In Sweden, 64 percent of households own their homes, see Chart 5.1. Of these households, 79 percent have a home loan. The relatively high percentage of households (who own their own home) with a mortgage is a sign of a mature mortgage market, as well as of a tradition of taking out loans to finance homes. The percentage of homeowners (households) with home loans is also relatively high in the other Nordic countries, except for Finland, which has a slightly lower percentage. A comparably high percentage of households (who own their own home) with home loans is also found in countries such as the Netherlands and Belgium.

In many markets in Eastern Europe, as well as in Italy and Greece, the percentage of households with home loans is relatively low. This may be due in part to the fact that the mortgage market is relatively new, and in part to a tradition of financing housing in other ways, for example in Italy and Greece. Although the percentage of households with home loans is low in these countries, the percentage of households that own their homes is high and customarily exceeds 70 percent.

Chart 5.1. Share of households who own their home, with or without a housing loan, 2022, percent



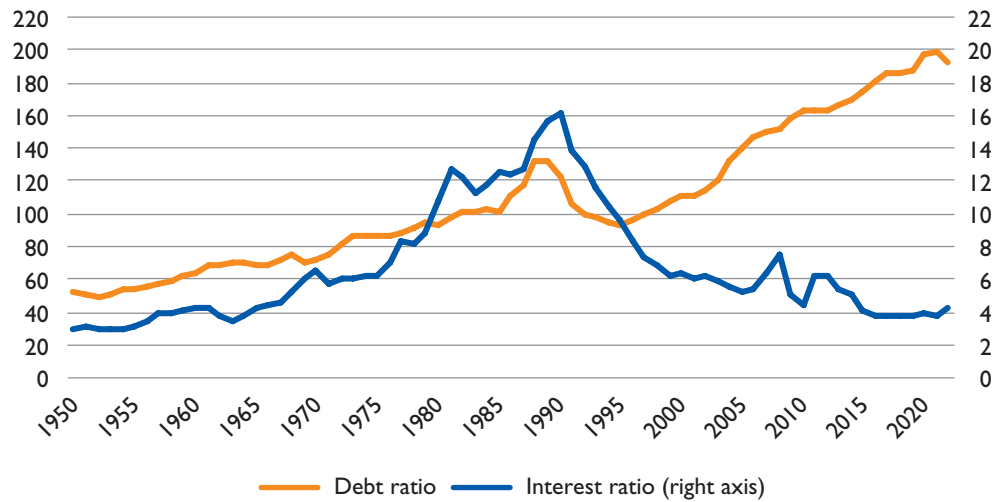
Source: Eurostat

Swedish household indebtedness has risen continuously since the mid-1990s and up until 2021, both in absolute terms and relative to disposable income. The debt ratio (loans in relation to disposable income) for Swedish households reached its highest level in 2021, on average 199 percent. In 2022, the household debt ratio decreased slightly to 192 percent of disposable income. This is due to reduced demand for loans, including mortgage loans, as a result of rising mortgage interest rates in 2022, while household incomes have continued to grow. This level is still relatively high when compared internationally.

At the same time, it is important to note that the debt ratio of young households and urban households is significantly higher than the average. New borrowers have an average debt ratio amounting to 334 percent in 2022 calculated on their gross income, according to Finansinspektionen in its yearly report on the Swedish mortgage market. The debt ratio is higher in the metropolitan areas, and in Stockholm the average debt ratio amounted to 387 percent in 2022.

With the exception of a marked decrease in the debt ratio over the course of several years following the financial crisis in the beginning of the 1990s, the household debt ratio has increased almost continuously since at least the 1950s (see Chart 5.2). Although interest rates have increased in 2022, household interest payments in relation to their income, the interest ratio, is no higher in 2022 than in the mid-1960s. However, in the mid-1960s, the household debt ratio was only around 70 percent. One explanation for the fact that the interest payments in relation to income have been low in recent years, at the same time as the debt ratio is at a record high level, has been the historically low lending rates.

Chart 5.2. Household debt ratio and interest ratio (debt and interest payments, gross, as a percentage of disposable income, net) 1950–2022, percent



Source: Statistics Sweden

A number of measures have previously been taken with the aim of counteracting high indebtedness. In 2010, Finansinspektionen introduced a mortgage cap, whereby home loans may not exceed 85 percent of the value of the home. Finansinspektionen has also introduced a risk weight floor for Swedish mortgages in order to tie up more capital in relation to banks' mortgage lending. The risk weight floor for mortgages is currently 25 percent.

Another measure to tackle high indebtedness is the introduction of amortisation requirements. In June 2016, Finansinspektionen's regulation on amortisation requirements entered into force. The regulation provides that new mortgage loans from June 2016 with a loan-to-value (LTV) above 50 percent must be amortised. Mortgages with an LTV above 70 percent must be amortised by at least two percent of the original loan amount each year. Mortgage loans with an LTV ratio between 50 and 70 percent must be amortised by a minimum of one percent annually.

From March 2018, stricter amortisation requirements entered into force. The stricter amortisation requirements stipulate that new borrowers with a housing loan and whose housing debts exceed 4.5 times their gross income must amortise at least one percent in addition to the fundamental amortisation requirements.

In April 2020, in order to mitigate the effects for households caused by the sharp decline in the Swedish economy after the outbreak of the pandemic in 2020, Finansinspektionen introduced an option for a general exemption from the amortisation requirements. The exemption from the amortisation rules came to an end on 31 August 2021. However, it is still possible for banks and mortgage institutions to grant temporary exemptions from the amortisation requirement after an individual assessment has been made based on specific reasons that have occurred after the loan was granted.

6. Funding

Currently, all of the important participants on the Swedish mortgage market have covered bonds as a funding instrument. Following new legislation which came into force in 2004, former housing bonds were all converted into covered bonds in the subsequent years. Chart 6.1 illustrates the growth in the outstanding stock of covered bonds and the amounts that have been issued. The increase in the outstanding stock between the years 2006-2008 is to a large extent due to housing bonds being converted into covered bonds. In the summer of 2022, significant changes were made to the Swedish law on covered bonds following an EU decision to harmonise national regulations through a directive.

Issues of covered bonds to finance mortgage lending take place in both banks and mortgage institutions. In tandem with the covered bonds, housing finance institutions' lending is also funded by borrowing in the form of loans from the parent bank. Loans from the parent bank amounted to an average of 47 percent of the housing institutions' total balance. On average, only a very small percentage is attributable to other financing in mortgage institutions, such as certificates.

Chart 6.1. Covered bonds – outstanding and issued during each year, SEK billion



Source: Swedish Bankers' Association

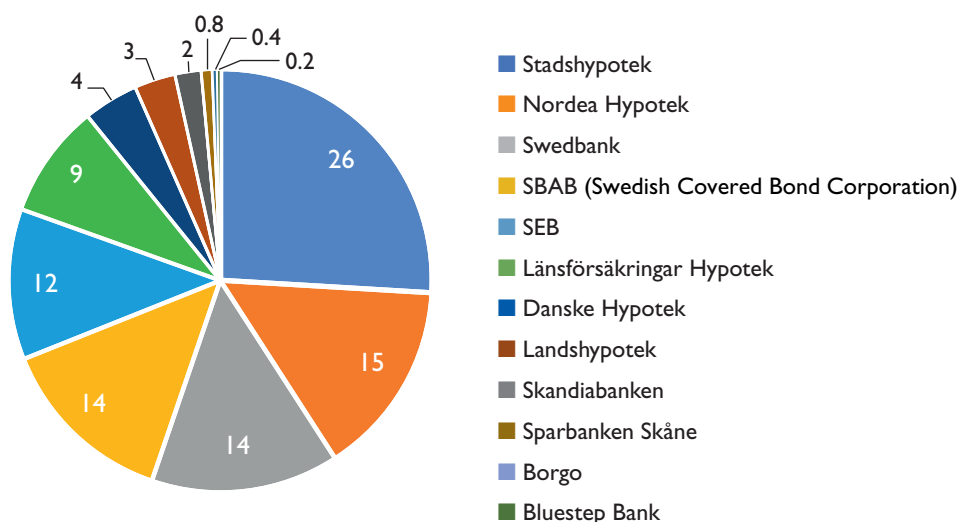
Since their introduction in 2004, Swedish covered bonds have proven to be a well-functioning form of financing. One of several explanations is the high credit quality of the stock of mortgages that make up the majority of the collateral for the bonds. Unlike in many other countries, the Swedish market worked well even during the recent financial crisis. The market for Swedish covered bonds also functioned well during the pandemic. Just over 30 percent of the Swedish banks' covered bonds are owned by foreign investors. In addition, around 20 percent of Swedish covered bonds are held by Swedish insurance companies and pension institutions, which thereby fulfil an important function on the mortgage market.

Since 2020, the Riksbank has purchased covered bonds as a part of the Swedish monetary policy. The Riksbank's holdings of covered bonds have increased continuously up until the first quarter of 2022, when the Riksbank's holdings amounted to SEK 418 billion, or the equivalent of 16 percent of the outstanding stock of covered bonds. After this time, the Riksbank's holdings of covered bonds have decreased and, at the end of March 2023, the stock of covered bonds held by the Riksbank amounted to SEK 354 billion, which corresponds to approximately 14 percent of the total stock of covered bonds in Sweden.

During 2006, three institutions converted their mortgage bonds into covered bonds. These institutions were Nordea, SBAB and Stadshypotek. During 2007, they were joined by a further three institutions, namely Landshypotek, Länsförsäkringar Hypotek and SEB. In 2008, Swedbank Hypotek began to convert housing bonds into covered bonds and Skandiabanken followed by issuing covered bonds in 2013. During 2018, Danske Hypotek and Sparbanken Skåne started issuing covered bonds, and Bluestep Bank started issuing them in 2020. In 2021, Borgo AB (Ltd) was also granted permission to issue covered bonds and started issuing them during 2022. Chart 6.2 shows how the outstanding stock is distributed among these institutions at the end of 2022.

In recent times, a number of new institutions, i.e. mortgage credit companies, have established themselves on the Swedish market. Stabelo and Hypoteket are two examples mentioned in Chapter 3. The new companies are funded through their mortgages, by which they create and manage investment products on behalf of institutional investors within the framework of an alternative investment fund.

Chart 6.2. Covered bonds – outstanding stock per institution on 31 December 2022, percent



Source: Swedish Bankers' Association

7. Other events in 2022–2023

In the summer of 2022, a government study put forward a proposal for a state register of tenant-owned apartments. The register must contain basic information as well as information about mortgages for all tenant-owned apartments in the country.

The amortisation requirement introduced in 2016 is designed with some flexibility that, under certain conditions, allows for temporary exemptions to be negotiated with the bank. In December 2022, Finansinspektionen was assigned by the government to examine how exemptions from the amortisation requirement are functioning in practice. In June 2023, Finansinspektionen published the assessment of the banks' handling of exemptions from the amortisation requirements. Finansinspektionen's assessment revealed that banks have, for the most part, managed exemptions from the amortisation requirement satisfactorily. The banks have improved their processes for handling amortisation exemptions, at the same time as these have become more common due to increased pressure on household finances due to high inflation and higher interest rates.

In the spring of 2023, the government established a committee with the task of investigating how the mortgage cap and amortisation requirement have worked thus far and how they can be designed in the future to address macroeconomic risks and consumer protection in an appropriate manner. The committee is expected to present its findings no later than October 2024.



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