

REPORT

October 2021

The Mortgage Market in Sweden



Svenska
Bankföreningen
Swedish Bankers' Association

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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 with home loans. The Mortgage Market in Sweden describes both current and historic mortgage and construction trends. These developments are illustrated using statistics shown in tables and charts.

A brief description of general economic trends is followed by a discussion of developments in housing construction. The year 2020 was marked by the outbreak of Covid-19 and the major effects of the pandemic on society and the economy. The economy recovered at the end of 2020, and this continued during the first half of 2021.

Most observers believed that the high construction figures, which had decreased somewhat after the peak in 2017, would continue to fall during the pandemic. However, the housing and construction market was more resilient than many observers had expected, and demand for single-family homes and larger apartments increased instead during the pandemic with many people working from home. Construction is expected to increase further in 2021.

Housing prices have been increasing for a number of years. After the outbreak of the pandemic in 2020, there was considerable uncertainty on the housing market. Following the introduction of several measures by the authorities to reduce the effects of the pandemic, this uncertainty decreased and was instead replaced by significant price increases, in particular among single-family homes during the second half of 2020 and the first half of 2021. By the end of June 2021, the price of single-family homes has, on average, increased by 20.1 percent and the price of tenant-owned apartments has increased by 11.5 percent.

Total residential mortgage lending amounted to SEK 4,855 billion in June 2021. The rate of growth for mortgages was 6.3 percent annually, which is an increase compared with the same period last year when the growth rate was 5.9 percent. The lending increase to single-family homes was 6.0 percent annually in June 2021. The rate of lending for tenant-owned apartments is higher than for single-family homes, amounting to 7.5 percent annually at the end of June 2021. Mortgage interest rates have generally declined for several years and interest rates are at historically low levels.

Household indebtedness is outlined, as are implemented and proposed measures to counteract high indebtedness. Finally, an overview is provided of the main forms of borrowing for mortgage institutions, as well as information regarding the fact that the general easing by Finansinspektionen (Swedish Financial Supervisory Authority) of the amortisation rules implemented in April 2020 following the outbreak of the pandemic has been discontinued at the end of August 2021.

I. The economic situation in Sweden

The pandemic's impact on the economy resulted in Sweden's GDP falling sharply in the early part of 2020. GDP fell by –7.7 percent in the second quarter of 2020, although it recovered somewhat during the rest of the year and fell by –2.8 percent over the year as a whole. The economic recovery has continued, with GDP increasing by 0.9 percent in the second quarter of 2021 compared to the first quarter.

The strong rebound in the economy has been relatively rapid and, according to the NIER (National Institute of Economic Research), can be explained in part by the fact that the downturn had not been caused by underlying economic imbalances, and in part by the extensive economic policy support measures introduced both in Sweden and abroad. These measures have helped households and firms to weather the crisis, according to the NIER. As the need for these support measures decreases and they can be phased out, public finances will strengthen again without this having any major restrictive effect on demand. Furthermore, the prices of assets such as shares and houses have risen considerably during the downturn.

The increasing economic activity during 2021 is mainly a result of higher inventory investments and increasing exports. Household consumption has also returned to a fairly normal rate of increase.

Housing investments have only been affected temporarily by the pandemic and the number of housing starts has increased by 11 percent over the last year. According to the forecast by the National Board of Housing, construction will increase further in 2021 to 59,000 dwellings, a growth of around 8 percent. One of the reasons for this is the increase in housing prices, above all when it comes to single-family homes.

Table I. The NIER indicators for the Swedish economy, June and August 2021
Annual percentage change and percent, respectively

	2020	2021	2022	2023
GDP, market price	–2.8	4.4	3.6	1.7
Employment	–1.3	–0.2	2.0	1.1
Unemployment ⁽¹⁾	8.3	8.9	7.7	6.9
Commercial productivity ⁽²⁾	0.6	1.3	0.6	0.9
CPI	0.5	1.9	1.6	2.3
Repo rate ⁽³⁾	0.0	0.0	0.0	0.0
Ten-year government bond rate ⁽³⁾	0.0	0.4	0.7	1.1

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

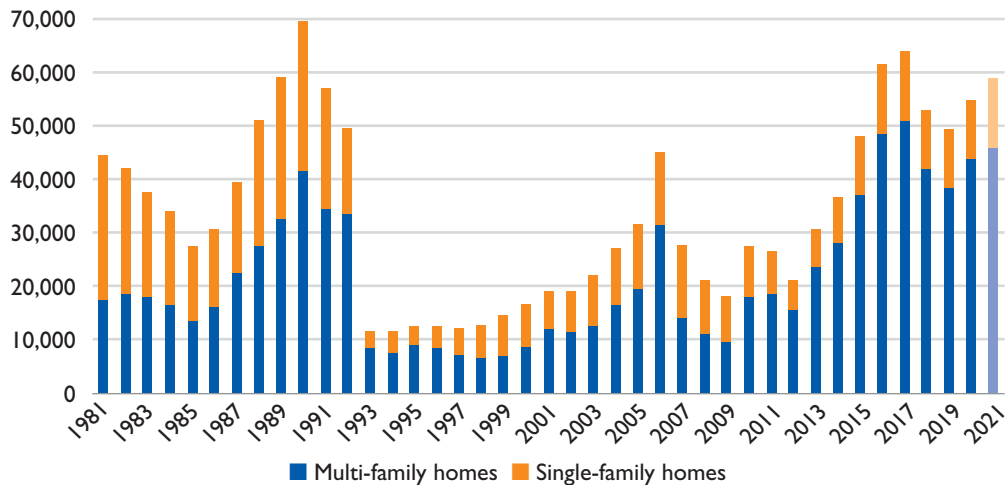
To counteract increased indebtedness among households, a fundamental amortisation rule was imposed in 2016 and an additional rule based on debt ratio in 2018. This affected the demand for newly built dwellings and contributed to falling prices on the housing market. Around the end of 2019 and the beginning of 2020, the housing market recovered. Even though the pandemic initially led to uncertainty on the housing market, house prices remained stable and then started to increase significantly towards the end of 2020 and in early 2021. The price increase was especially high among larger apartments and single-family homes.

Household real disposable income fell last year, but spending fell much further, and savings rates climbed to their highest level since at least 1980, writes the NIER. Household incomes will rise rapidly this year. Dividend income will be high compared to last year, when many companies chose to suspend pay-outs as a result of the pandemic as well as the requirement to cancel dividends in order to take part in the government support programmes introduced in 2020. Households' total employment income will also rise rapidly.

2. The housing and construction market

After a number of years of increasing residential construction, this peaked in 2017 with 64,000 housing starts. The number of housing starts in 2017 was high in comparative terms, achieving the highest level since 1990. Construction growth levelled off after this, with the number of housing starts reaching 49,400 in 2019. Many observers expected construction to drop further in 2020, and after the outbreak of the pandemic in that year, the National Board of Housing warned that construction might decrease by 15–20 percent. However, the housing and construction market was more resilient than many observers had expected, and demand for single-family homes and larger apartments increased instead during the pandemic with many people working from home. Construction will increase further during 2021 according to the forecast by the National Board of Housing, and the number of housing starts will amount to 59,000, an increase of around 8 percent compared to 2020. 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 1980–2021



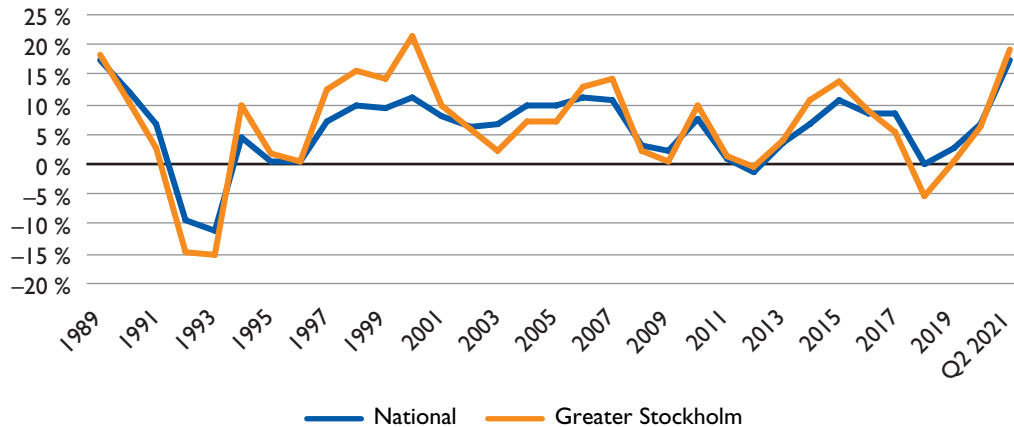
Note: The number of housing starts fell sharply in 2007. This is largely explained by the Government decision in 2006 to abolish general housing subsidies for dwellings (multi-family homes) started after 31 December 2006. This meant that many property developers waccelerated the start of construction to begin before the end of 2006 in order to receive subsidies.

Source: Statistics Sweden and 2021 forecast from the National Board of Housing.

A significant percentage of new construction is taking place in metropolitan areas. In 2020, the Stockholm, Gothenburg and Malmö metropolitan areas accounted for 49 percent of housing starts in Sweden. 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. Among the larger cities, there was a drop in the construction figures in Stockholm from 2018. A similar decrease has occurred in Gothenburg from 2019, when construction decreased by 30 percent compared to 2018. In both Stockholm and Gothenburg, however, the number of housing starts has increased again during 2020. In Malmö, construction has not dropped in the corresponding years, rather it has increased. For a number of years, Stockholm alone accounted for 30 percent of Swedish housing starts, but that share dropped to around 25 percent from 2018.

Another change in the home construction market is that multi-family dwellings account for a larger share of new construction. Over the last ten years, the proportion of multi-family dwellings in relation to total housing starts has, on average, amounted to 78 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.

Chart 2.2. Single-family home prices, annual percentage change

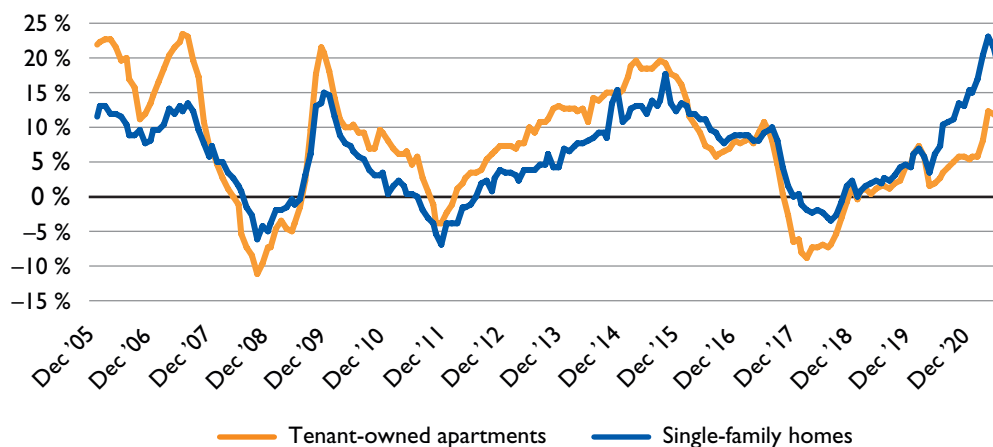


Source: Statistics Sweden

After the outbreak of the pandemic in 2020, there was initially significant uncertainty on the market for single-family homes. Following several measures by the authorities to reduce the impact of the pandemic, this uncertainty diminished, with prices of single-family homes increasing significantly during the second half of 2020 and the first half of 2021. One explanation for the price increases among single-family homes is the changes in demand that occurred during the pandemic, for example the need of more living space because of increased working from home and the sharp drop in travelling abroad.

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 2.3). 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. After price decreases for both tenant-owned apartments and single-family homes in 2018, prices recovered somewhat in 2019 and at the beginning of 2020 when the pandemic broke out. The initial uncertainty on the housing market created by the pandemic mainly affected the market for tenant-owned apartments.

Chart 2.3. Housing prices, annual percentage change, quarterly values



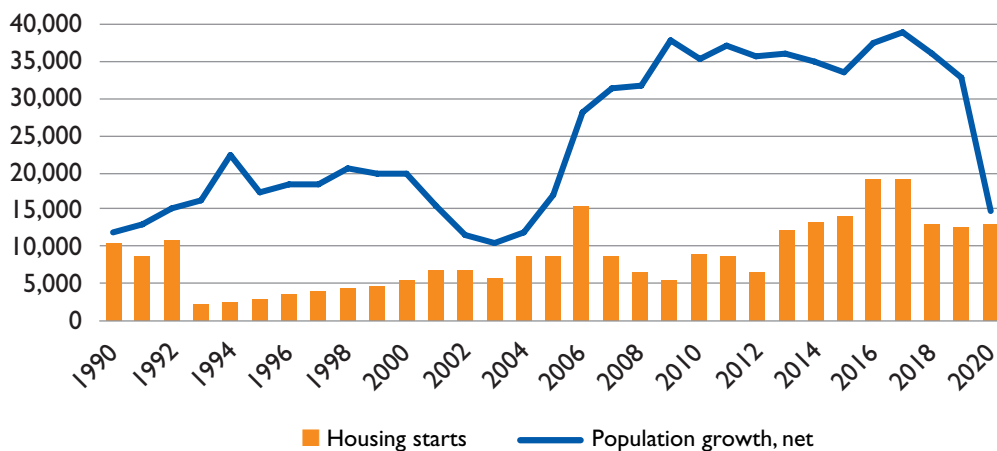
Source: HOX-index / Valueguard

Even though the prices of tenant-owned apartments recovered at the end of 2020 and increased further in 2021, the price trend for single-family homes has been much stronger. The prices of tenant-owned apartments increased by 11.5 percent on an annual basis at the end of June 2021 while single-family home prices increased by 20.1 year-on-year. According to the HOX-index, the price trend in Sweden's largest submarket, Stockholm, has been similar to the rest of the country over the past year. In June 2021, the prices of tenant-owned apartments in Stockholm increased by 11.2 percent and prices of single-family homes increased by 21 percent.

Unlike in many other European countries, housing prices in Sweden did not fall in the wake of the 2008–2009 financial crisis, but instead continued increasing. Price did not drop until 2018, but have since continued increasing again. 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.

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 2006 to 2019. However, the number of housing starts has not matched the significant increase in population. Between 2007 and 2012, only between 5,000 and 9,000 dwellings were started per year. The number of housing starts rose after 2012 in Stockholm, however, but fell back from 2018 and amounted to around 13,200 dwellings in 2020 (see Chart 2.4). During 2020, population growth has decreased in Stockholm and amounted to less than 15,000 individuals during the year. The decreasing population growth in Stockholm County is 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.

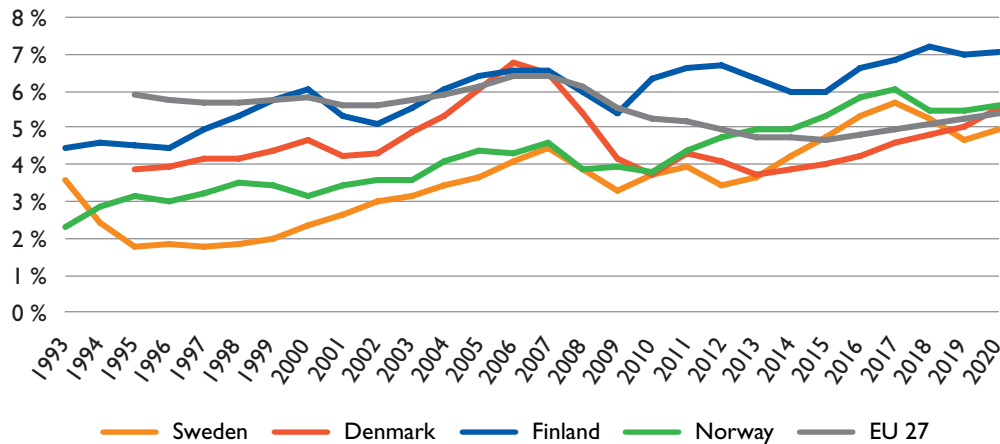
Chart 2.4. Net population growth and housing starts in Stockholm County



Source: Statistics Sweden

Housing construction fell dramatically after the crisis in Sweden in the 1990s, as illustrated by Chart 2.1. From the middle of the 1990s until 2014, and again from 2019, residential housing investments represented a lower percentage of GDP in Sweden than in other Nordic countries and the EU average (see Chart 2.5). Even though Swedish housing investments have decreased as a percentage of GDP from 2019 and again are below the other Nordic countries and the EU average, they remain higher than before 2014. In 2020, Swedish housing investments amounted to 5.0 percent of GDP and the EU average amounted to 5.4 percent. This can be compared with the 2020 figures for Cyprus, which has the highest rates of residential investment in the EU at 7.8 percent of GDP, followed by Germany and Finland at 7.1 percent. The lowest rate of housing investments is found in Greece, with 0.9 percent of GDP.

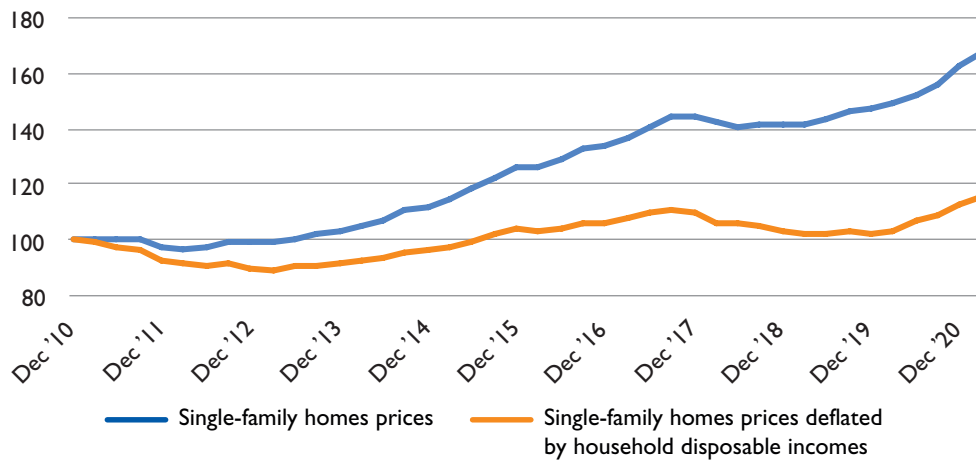
Chart 2.5. Residential housing investments as percentage of GDP



Source: Eurostat

The increasing incomes of Swedish households is a further explanation for increasing housing prices over a number of years. Single-family home prices have increased by 78 percent over the last decade, from December 2010 to the second quarter of 2021. The price increase of single-family homes and the corresponding price increase deflated by Swedish households’ net disposable incomes is illustrated in Chart 2.6 below. When household disposable income is considered, single-family home prices have instead increased by 19 percent over the last ten years.

Chart 2.6. Single-family home nominal prices and single-family home prices deflated by household net disposable incomes, index 100=2010



Source: Statistics Sweden

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. The welfare system is another significant factor, since households can maintain an acceptable financial position even in the event of unemployment or illness.

The Swedish market is also characterised by very limited speculation. Most Swedes regard their homes primarily as a residence and not as an investment opportunity.

3. Competition on the mortgage market

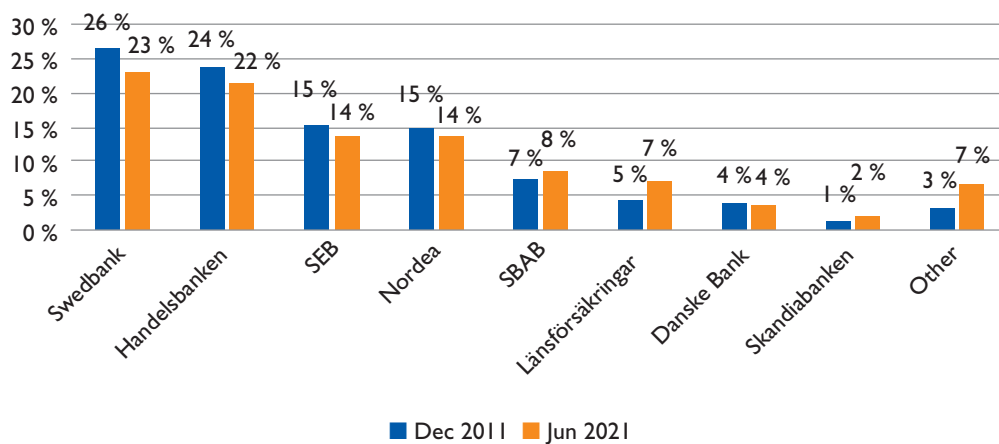
Property lending in Sweden is, to a great extent, offered by specialised housing finance institutions (mortgage institutions), although it is also offered by banks. As of June 2021, total lending in Sweden secured by housing amounted to SEK 4,855 billion. Mortgage deeds serve as the primary security 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 and by Danske Bank and Skandiabanken, both of which are banks. 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.

In recent 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 licence, which means that they are not subject to the same requirements as banks. The new companies instead operate on the Swedish market with a different form of licence from Finansinspektionen than banks and credit-market institutions. 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 lend to mortgage borrowers. Lending by mortgage credit companies is small in relation to total outstanding housing loans, representing 0.7 percent of the total stock in June 2021. However, the new companies are significant competitors on the mortgage market and accounted for 4.9 percent of new lending to households in the past year.

The market share of total lending to Swedish households secured by housing in June 2021 compared with December 2011 is illustrated in Chart 3.1. The group “Other” includes savings banks and other institutions (including mortgage credit institutions and alternative investment funds, AIFs).

Chart 3.1. Lending secured by housing, Swedish households, December 2011 and June 2021



Source: Statistics Sweden

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 4,855 billion at the end of June 2021. Three years ago, in June 2018, the corresponding figure was SEK 4,090 billion. Lending has thus increased by SEK 765 billion, or 19 percent, in three years.

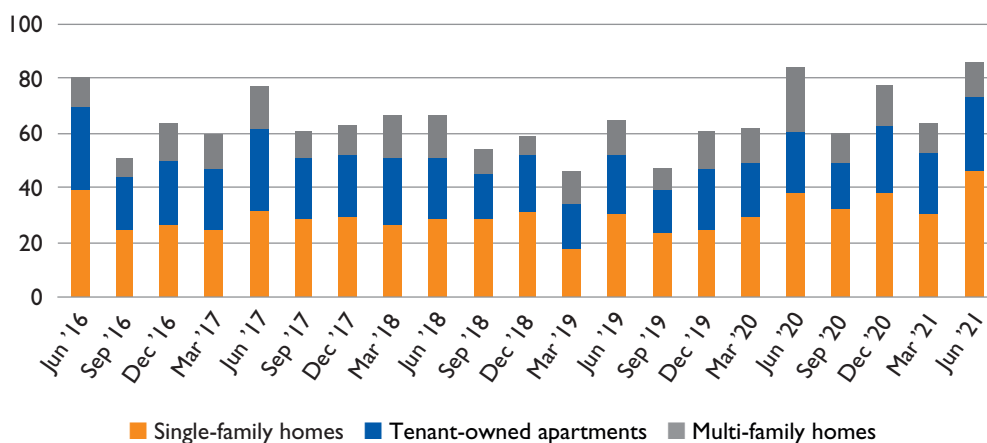
Table 4.1 Total lending secured by single-family homes, tenant-owned apartments and multi-family homes, SEK billion, June 2021

	Single-family homes	Tenant-owned apartments	Multi-family homes	Total
Households	2,505	1,290	58	3,853
Companies	99	8	895	1,002
Total	2,604	1,298	953	4,855

Source: Statistics Sweden.

Chart 4.1 illustrates the quarterly change in net lending (new lending less amortisation) for housing, broken down into single-family homes, tenant-owned apartments and multi-family buildings. The chart shows that net lending quarterly was relatively high between the years 2016 and 2018, standing at between SEK 50 and 80 billion. In 2019, quarterly net housing loan growth was slightly lower, between SEK 46 and 65 billion, above all due to lower a growth rate for loans to single-family homes. During 2020 and up until the second quarter of 2021, quarterly net housing loan growth has increased again to between SEK 60 and 86 billion. The large quarterly net increases during 2020 and 2021 coincide with the pandemic and the increasing demand for single-family homes. During the second quarter 2021, net lending to single-family homes increased by SEK 46 billion, the largest quarterly increase since at least 2001.

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



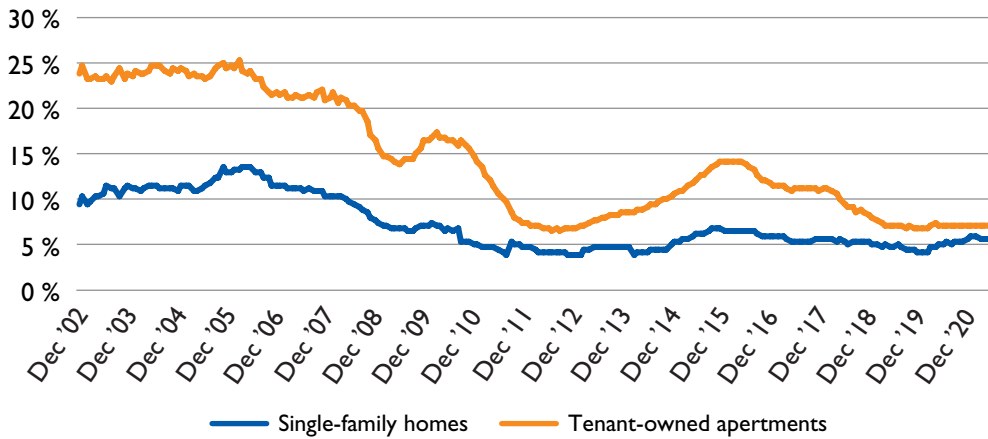
Source: Statistics Sweden

The rate of lending to single-family homes stood at 6.0 percent in June 2021 (see Chart 4.2). The rate of lending to tenant-owned apartments is higher than for single-family homes and amounted to 7.5 percent annually. 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 has 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 in April 2020. 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 increasing number of individuals working from home in combination with a sharp drop in overseas travel has resulted in greater demand for more living space and the potential to spend a larger proportion of your income on housing.

Chart 4.2. The home loan portfolio, annual percentage change, monthly values



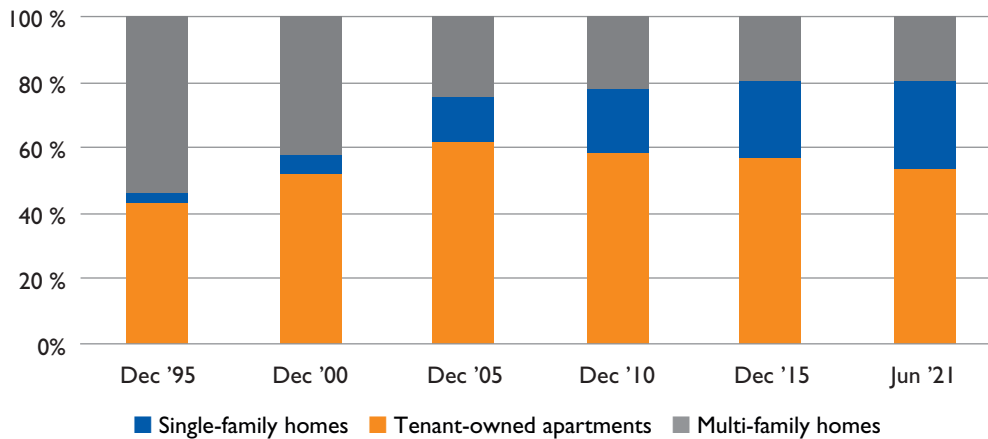
Source: Statistics Sweden

The growth rate for loans secured by single-family homes is generally slower and more stable than for tenant-owned apartments. Over the last ten years, the growth rate for single-family home loans has varied between 4 and 7 percent, while the growth rate for tenant-owned apartment loans has fluctuated between 7 and 14 percent.

For a number of years, the rate of increase for tenant-owned apartments has been higher than for single-family homes. A couple of reasons for this are the conversion of rental apartments into tenant-owned apartments, which previously took place primarily in the metropolitan regions, and the fact that significantly more tenant-owned apartments than single-family homes have been built over the last ten years. 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.

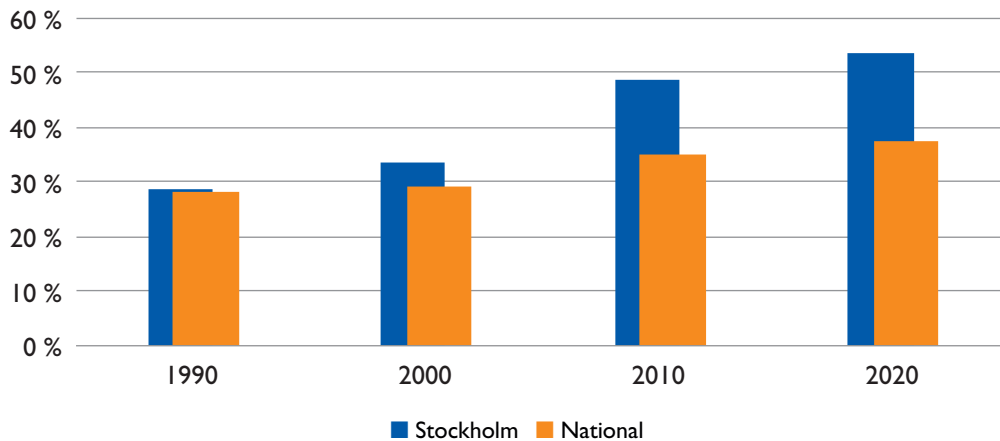
One reason why lending secured by tenant-owned apartments has been higher than for single-family homes is, as mentioned above, the conversion of rental apartments into tenant-owned apartments. The proportion of tenant-owned apartments in the new construction of apartment buildings has also been high, amounting

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



Source: Statistics Sweden

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



Source: Statistics Sweden

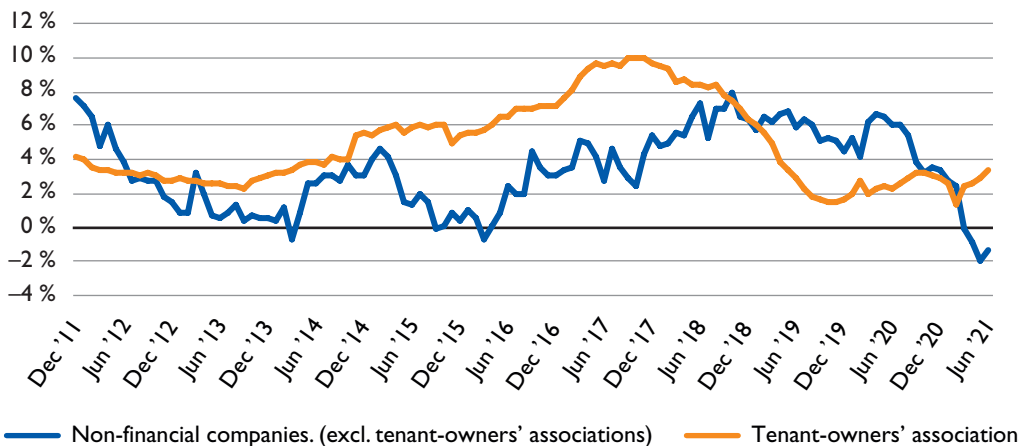
to around 50 percent in the past 15 years. In 2020, the new construction of rental apartments was comparatively high, and the share of new tenant-owned apartments therefore decreased to 39 percent of new constructed apartments in multi-family buildings. In the mid-1990s, the proportion of tenant-owned apartments accounted for only 15 percent of newly constructed multi-family buildings.

Chart 4.4 illustrates the change, from 1990 until 2020, 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 slightly from 28 percent to 29 percent. Between 2000 and 2010, the percentage of tenant-owned apartments increased to 35 percent and between 2010 to 2020 to 38 percent.

The percentage of tenant-owned apartments in Stockholm is higher, and in 2020 the percentage of tenant-owned apartments in the multi-family housing stock in Stockholm stood at 54 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.

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 2021, loans to tenant-owners' associations amounted to SEK 519 billion (secured by the property and all other loans). By comparison, household loans secured by tenant-owned apartments amounted to SEK 1,290 billion.

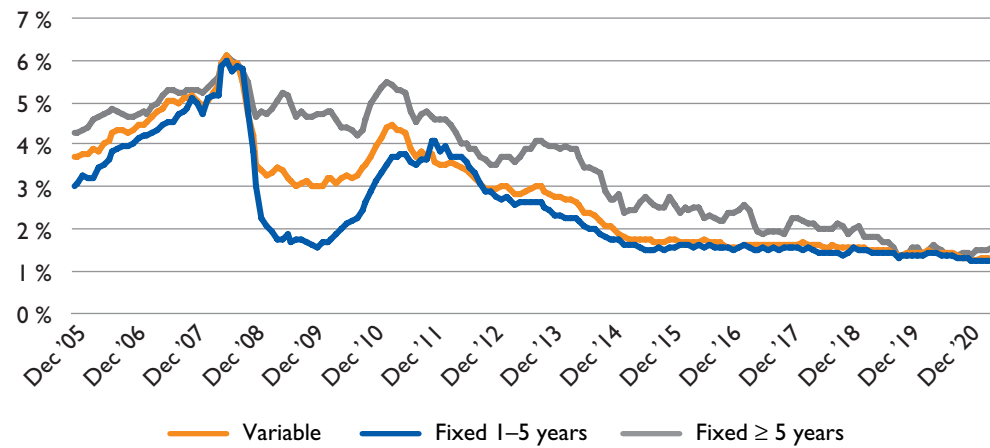
Chart 4.5. Lending to non-financial companies and tenant-owners' associations, annual percentage change, monthly values



Source: Statistics Sweden

For statistical purposes, a tenant-owners' association is categorised as a non-financial company and the aggregated loans of tenant-owners' associations represent 21 percent of outstanding loans taken out by non-financial companies. The rate of lending to tenant-owners' associations rose for a number of years until the end of 2017. Since then, the lending rate decreased significantly until the end of 2019. During 2020 and the first half of 2021, the growth rate of loans to tenant-owners' associations has been relatively stable, varying between 2 and 3 percent annually. In June 2021, the growth rate of loans to tenant-owners' associations was 3.3 percent annually. Lending to non-financial companies excluding tenant-owners' associations amounted to -1.3 percent in June 2021 (see Chart 4.5).

Chart 4.6. Lending rates to households for housing loans, new loans. Dec' 2005–June 2021, broken down by interest term

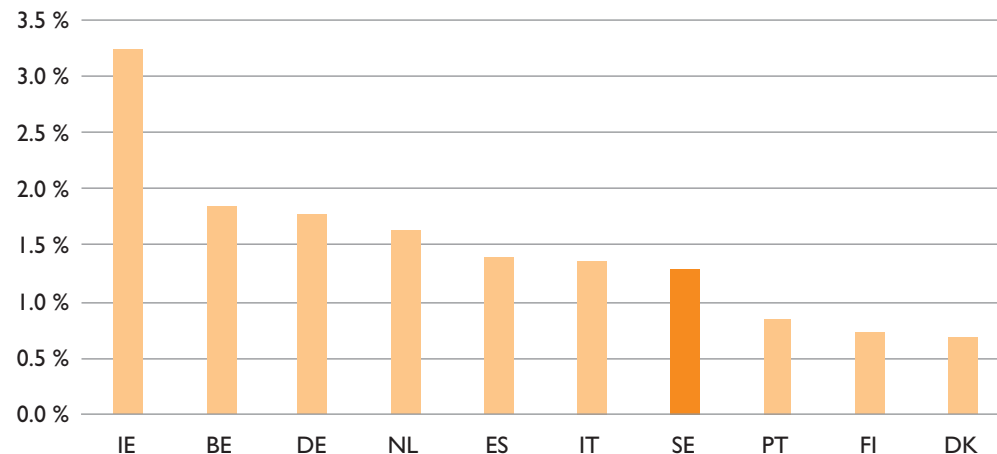


Source: Statistics Sweden

For the last 10 years, both variable and initial fixed housing interest rates have declined (see Chart 4.6). In the longer term, too, interest rates have fallen. The initial fixed rates have dropped to the lowest levels since at least 1985. Variable interest rates are 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 are, according to most observers, an important factor behind the relatively high lending rate over the last several years. The spread between variable and initial fixed mortgage rates is also historically low, and in June 2021 variable mortgage rates averaged 1.25 percent and mortgage rates with an initial fixed term of more than 5 years amounted to 1.6 percent.

Like Swedish mortgage interest rates, European mortgage interest rates have decreased. Variable mortgage interest rates in Sweden are amongst the lowest in Europe. Denmark and Finland have the lowest variable interest rates in Europe (see Chart 4.7).

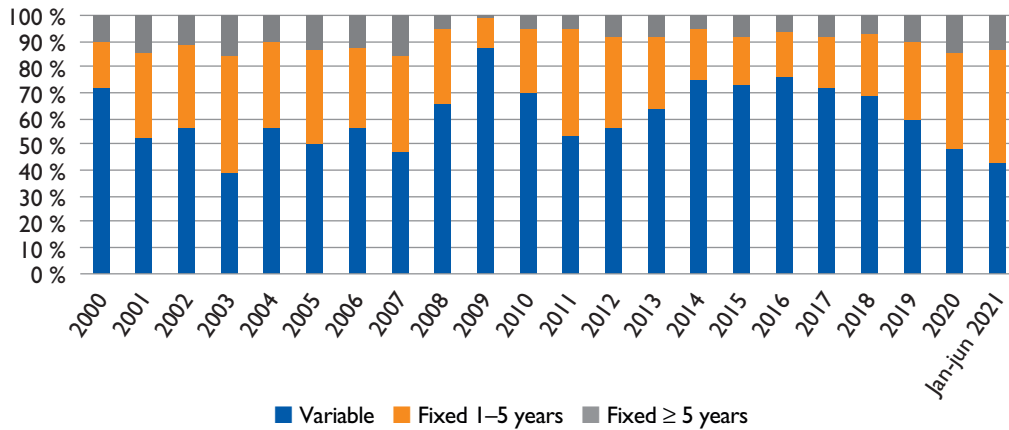
Chart 4.7. Variable mortgage interest rates (variable and initial fixed period rate up to 1 year), first quarter of 2021, percent



Source European Mortgage Federation.

During the period from January to June 2021, 44 percent of new home loans taken out by households had variable interest rates (see Chart 4.8). The share of variable interest rates has not been lower since 2003. For the five years up until 2018, the share of variable interest rates has amounted to 70–75 percent among new housing loans. Since then, the share of initial fixed period rates has increased considerably. One reason for the reduced share of variable interest rates in recent years is the fact that initial fixed interest rates have dropped to the same low levels as variable interest rates. The uncertainty in the markets during the pandemic from 2020 may also have contributed to households preferring to tie rates to a greater extent.

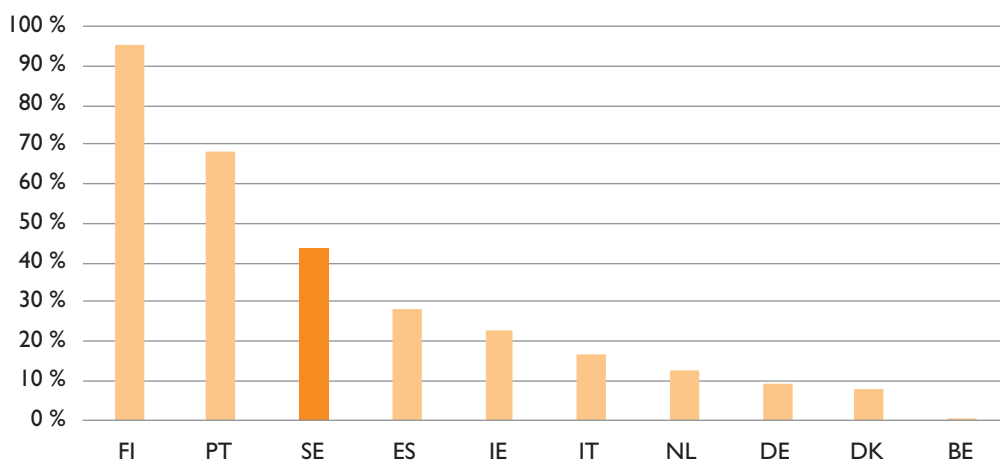
Chart 4.8. New loans to households, housing finance institutions, percentage breakdown by interest term



Source: Statistics Sweden

Even though the share of variable interest loans among the households’ new housing loans has diminished in Sweden in recent years, the share of variable interest loans is still higher in Sweden than in most other comparable European countries. Chart 4.9 illustrates the share of variable interest loans among new housing loans in the first quarter of 2021 in a number of European countries. In Finland, 95 percent of new housing loans have variable interest rates whereas in Sweden 44 percent of new housing loans have variable interest rates. In Belgium, for example, housing loans with variable interest rates are rare.

Chart 4.9. New housing loans with variable interest rates (fixed up to one year) during the first quarter of 2021. Share of total, percent



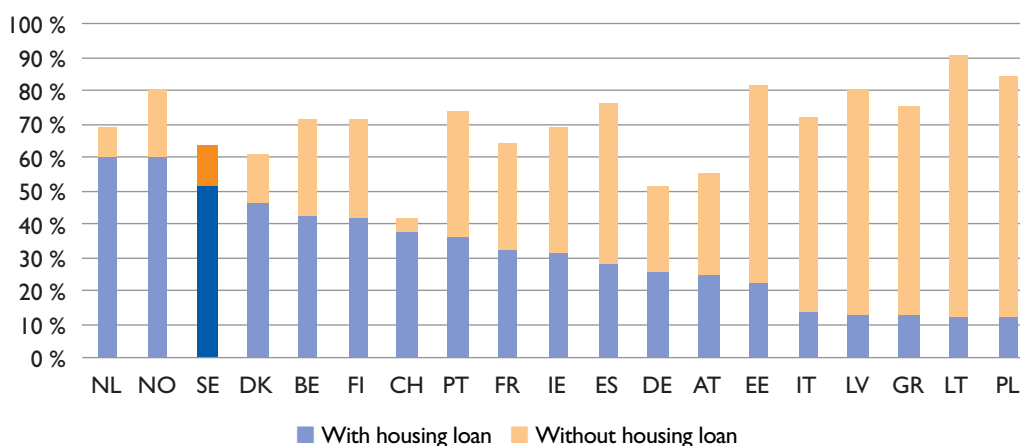
Source: European Mortgage Federation.

5. Household indebtedness

In Sweden, 64 percent of households own their homes. Of these households, 81 percent have a home loan (see Chart 5.1 below). 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 Switzerland. In Switzerland, however, only slightly over 40 percent of households own their own homes.

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, percent

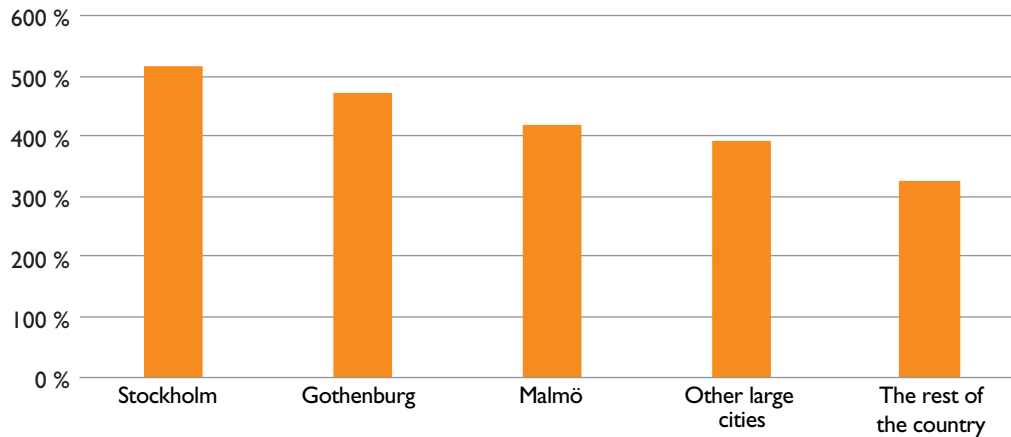


Source: Eurostat

Swedish household indebtedness has risen continuously since the mid-1990s, both in absolute figures and relative to disposable income. The debt ratio (loans in relation to disposable income) for Swedish households is, on average, almost 200 percent. This level is 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. Chart 5.2 shows that the debt ratio for households with new home loans in Stockholm averages 517 percent, i.e. their loans are equivalent to slightly more than five times their annual income after tax.

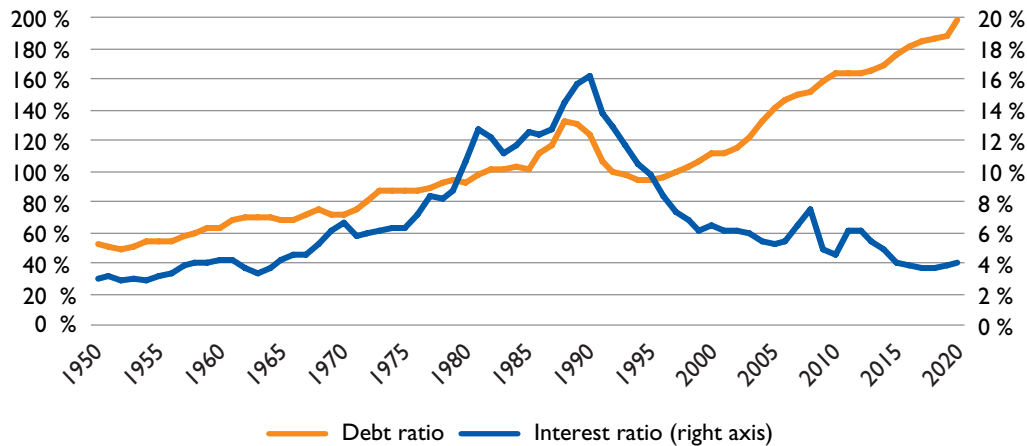
The debt ratio for new loans declined somewhat during 2018 due to the new, stricter amortisation requirements, but has increased again somewhat in 2019 and 2020 according to Finansinspektionen in its yearly report on the Swedish mortgage market. In the metropolitan areas, a higher percentage of new borrowers are affected by the stricter amortisation requirements. Following the introduction of the stricter amortisation requirement in 2018, the average debt ratio declined in all parts of Sweden and above all in the metropolitan areas where the house prices are the highest. The debt ratio has subsequently increased again, and in 2020 is higher than the average debt ratio in 2017, except in Stockholm. In Stockholm, the average debt ratio for new loans is still lower than in 2015.

The household debt ratio, i.e. debts as a percentage of disposable income, has not only increased since the mid-1990s. With the exception of a marked decrease in the debt ratio over the course of a couple of years following the financial crisis in the beginning of the 1990s, the household debt ratio has been increasing since at least the 1950s (see Chart 5.3). Household interest payments in relation to their income, the interest ratio, is no higher in 2020 than at the beginning of the 1960s. However, in the early 1960s, the debt ratio was only around 70 percent. The fact that the interest payments in relation to income are currently low, at the same time as the debt ratio is at a record high level, can be explained by the historically low lending rates.

Chart 5.2. Debt ratio of households with new home loans, percent of disposable income

Source: Finansinspektionen

A number of measures have been taken in recent years 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.

Chart 5.3. Household debt ratio and interest ratio (debt and interest payments, gross, as a percentage of disposable income, net)

Source: Statistics Sweden

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.

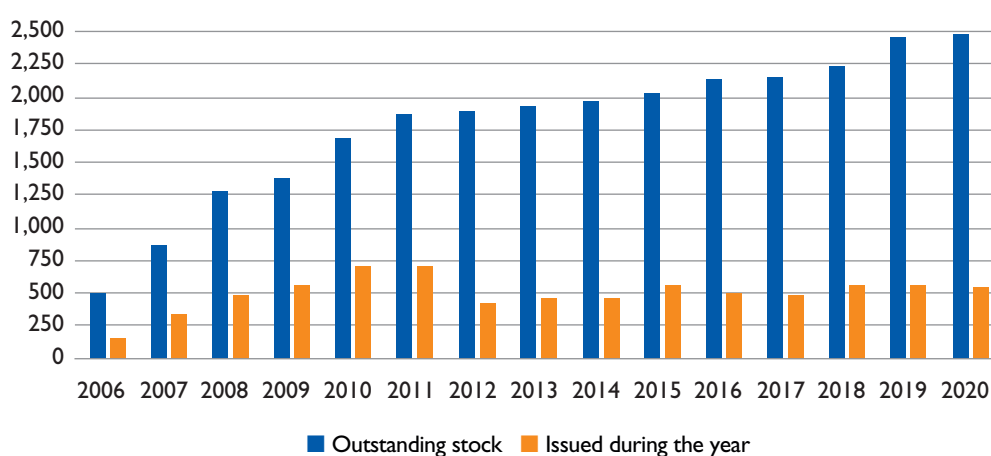
The outbreak of the pandemic in early 2020 has had a negative impact on large parts of the Swedish economy. In April 2020, in order to mitigate the effects for households affected by Covid-19 and the sharp decline in the Swedish economy, Finansinspektionen introduced an option for a general exemption from the amortisation requirements. The exemption from the amortisation rules came to an end on 31 August 2021.

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 and all new issues are now covered bonds. 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.

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 46 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



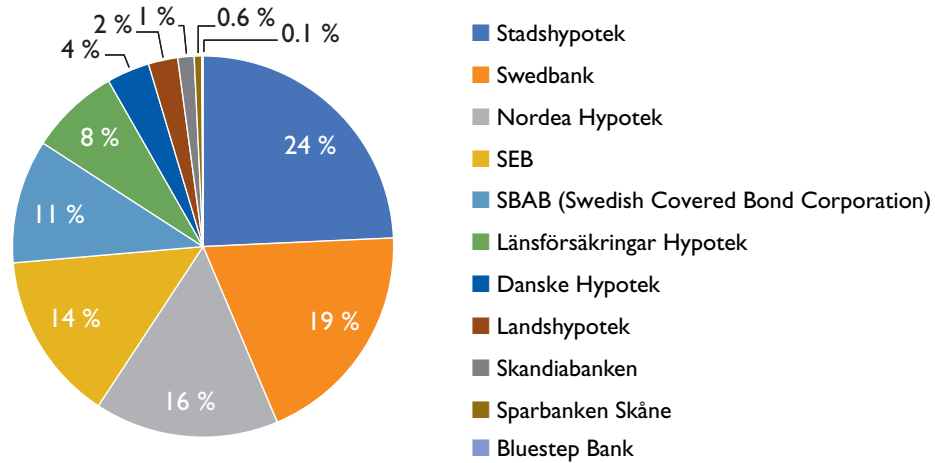
Source: Swedish Bankers' Association

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 has also functioned well following the outbreak of the pandemic at the start of 2020. Almost 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. At the end of June 2021, the stock of covered bonds held by the Riksbank amounted to SEK 386 billion, which corresponds to 15 percent of the total stock of covered bonds in Sweden.

During 2006, three institutions issued covered bonds and converted the previous 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 permitted to issue covered bonds. Chart 6.2 shows how the outstanding stock is distributed among these institutions at the end of 2020.

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 2020



Source: Swedish Bankers' Association

7. Other events in 2020–2021

Measures taken to mitigate the impact of Covid-19 on the housing market

The outbreak of the pandemic in early 2020 has had a negative impact on large parts of the Swedish economy. The Swedish government and authorities implemented a number of measures to mitigate the impact on the economy. In April 2020, specifically in relation to the housing market, Finansinspektionen introduced an option for a general exemption from the amortisation requirements that the authority had introduced in 2016 and 2018. The purpose of the amortisation exemption was to mitigate the impact on households affected by the pandemic and the subsequent sharp decline in the Swedish economy. The exemption from the amortisation rules came to an end on 31 August 2021.





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