



Template for notifying intended measures to be taken under Article 458 of the Capital Requirements Regulation (CRR)

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| 1. Notifying national authority and scope of the notification | |
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| 1.1 Name of the notifying authority | Finnish Financial Supervisory Authority, FIN-FSA |
| 1.2 Categorisation of measures | At its meeting on 28 June 2019, the Board of the Financial Supervisory Authority (FIN-FSA) decided to extend the period for the application of a credit institution-specific minimum level of 15% for the average risk weight on housing loans applicable to credit institutions that have adopted the Internal Ratings-Based Approach, based on Article 458 (2)(d)(vi) of the CRR, from 1 January 2020 until 31 December 2020. |
| 1.3 Request to extend the period of application of existing measures for one additional year (Article 458(9) of the CRR) | <p>In 2017, the FIN-FSA identified changes in the intensity of macroprudential/systemic risk in the financial system with the potential to have serious negative consequences for the financial system and the real economy in Finland. The FIN-FSA deemed that these changes in the intensity of macroprudential/systemic risk would best be addressed by means of stricter national measures in the form of a credit institution-specific minimum level of 15% for the average risk weight on housing loans pursuant to Article 458 of the CRR. The FIN-FSA's intention to introduce a credit institution-specific minimum level of 15% for the average risk weight on housing loans was communicated to the public on 27 March 2017.</p> <p>Because the changes in the intensity of macroprudential/systemic risk in the financial system with the potential to have serious negative consequences for the financial system and the real economy in Finland remain, the FIN-FSA has decided to extend the period of application of its earlier decision of 26 June 2017 for one year until 31 December 2020. In order to justify its decision, the FIN-FSA submits the following relevant quantitative and qualitative evidence :</p> <p>The FIN-FSA Board will reassess the need for an average minimum risk weight for housing loans once CRD5/CRR2-amendments enter into force in the year 2021, enabling the use of a sectoral systemic risk buffer applicable to retail exposures to natural persons which are secured by residential property (CRD5 Art. 133, Para. 5, Sub-para. b,i), taking into account the capitalisation of the credit institution sector and the existence of other measures restraining the effect of the minimum risk weight floor as well as the development of the level of household indebtedness in Finland and borrower-based instruments available.</p> |

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| <p>1.4 Notification of measures to which Article 458(10) of the CRR applies ('notification only procedure')</p> | <p>n.a.</p> |
| <p>2. Description of the measure</p> | |
| <p>2.1 Draft national measures (Article 458(2)(d) of the CRR)</p> | <p>On 26 June 2017, the Board of the FIN-FSA decided on a credit institution-specific minimum level of 15% for the average risk weight on housing loans applicable to credit institutions that have adopted the Internal Ratings-Based Approach, based on Article 458 of the CRR. The minimum level came into force on 1 January 2018. The measure covers housing loans for the purchase of housing property located in Finland and is applied on a consolidated basis. The Act (878/2008) on the FIN-FSA Chapter 2, Article 10:1, 6 entitles the Board to decide upon the application of Article 458 of the CRR.</p> <p>The Board of the FIN-FSA decided upon an average risk weight floor compared with a risk weight add-on, due to fact that an average is seen as less intrusive in terms of its effects on credit pricing and risk-based allocation of credit to the real economy, while still ensuring adequate aggregate capitalisation of the institutions in question. DELETED. The risk weight floor is calculated as a weighted average of exposure at default (EAD) and is reported on a quarterly basis.</p> |
| <p>2.2 Scope of the measure (Article 458(2)(d) of the CRR)</p> | <p>Credit institutions that have adopted the Internal Ratings-Based Approach</p> |
| <p>2.3 Calibration of the measure</p> | <p>As the notification concerns the extension of the period of application of an existing measure, the calibration of the measure remains the same as for the original measure. As regards the original measure, the calibration of the minimum level for the average risk weight was based on the objective that the size of the capital buffer generated by the risk weights should cover potential loan losses resulting from a severe financial and housing market crisis. The Finnish financial crisis of the 1990s, housing crises experienced by other European countries during the Global Financial Crisis, model-based loan loss simulations as well as macro-prudential stress tests were used as benchmarks for the calibration.</p> <p>To guide the calibration in the original measure, the following calculations were undertaken. First, an estimate was made as to how high risk weights should have been to compensate for the housing loan losses experienced by the Finnish banks in the 1990s banking crisis. Second, using the Bank of Finland macroeconomic model, a simulation of the impact of similar shocks that hit Finland in the 1990s was made and transformed onto the balance sheets of the current banking sector. DELETED. Fourth, the potential impact of equal-sized economic shocks that hit Spain and Ireland during the Global Financial Crisis on Finnish banks' housing loan losses was estimated.</p> <p>Calculations showed that an average risk weight of approximately 15% would be sufficient to cover the loan losses stemming from such severe risk scenarios, though risk weights implied by the different calculations varied. The analysis supporting a 15% level was based on Finland-specific data, using statistical models and shocks to account for the systemic elements. Given the wide range of outcomes from the quantitative calculations, the</p> |

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| | <p>assessment was supported by qualitative factors and international comparisons.</p> <p>At the time of making the original decision, an ex ante impact analysis was performed for the various levels of the minimum average risk weight floor. DELETED.</p> <p>Also, additional factors support maintaining the level of the proposed risk weight floor at approximately 15%. In particular, household indebtedness relative to both GDP and disposable income has remained at a high level after having doubled in the last two decades. As a result, households may be particularly vulnerable to housing market crises. The recent global financial crisis showed that highly indebted households may significantly reduce their consumption if house prices fall, thus affecting the real economy and resulting in major (indirect) loan losses.</p> |
| <p>2.4 Suitability, effectiveness and proportionality of the measure (Article 458(2)(e) of the CRR)</p> | <p>As regards the <i>suitability</i> of the macroprudential measure, the key vulnerability in the Finnish financial system is the historically high household indebtedness. The potential of this measure or any other macroprudential action to directly reduce household indebtedness is limited, but the credit institution-specific minimum level of 15% for the average risk weight on housing loans of credit institutions that have adopted the internal ratings-based approach would ensure that the banks have sufficient additional capital to cover loan losses resulting from a severe financial crisis. Since the identified macroprudential/systemic risk involves the market as a whole, it is appropriate to address the risk through a market-wide macroprudential measure.</p> <p>DELETED. This negative impact may emerge through direct housing loan losses on banks or in the form of indirect effects on the real economy with further impact on housing and other household lending and on non-financial corporate lending. Sufficient levels of capital in banks mitigate the impact of price volatility in the residential real estate market, for example due to accumulation of asset price bubbles or changes in house prices as a result of changes in economic fundamentals.</p> <p>The purpose of the measure is to target potential asset bubbles in the residential real estate sector by strengthening the resilience of the banking sector as part of the financial system pursuant to ESRB recommendations on macroprudential policy (ESRB/2011/3 and ESRB/2013/1). It is motivated to strengthen and ensure the resilience of the banking sector against asset bubbles at an early stage. DELETED.</p> <p>However, house prices in urban growth centres have increasingly and significantly diverged from those in the rest of the country. Ongoing urbanisation and migration among Finland's working-age population further increase the risk of regional house price bubbles in those areas where demand for housing outpaces supply.</p> <p>DELETED. A credit institution-specific minimum level of 15% for the average risk weight on housing loans would ensure that all banks are sufficiently capitalised against macroprudential/systemic risks arising from the residential real estate markets, while current risk weight levels are motivated by the idiosyncratic risks related to bank-specific housing loans.</p> <p>Concerning the scope of the measure, the measure is focused on housing loans, since the macroprudential/systemic risk confronting the Finnish financial system according to the ESRB, the OECD and the IMF relates to residential real estate and mortgage markets. This issue in particular was emphasised by the ESRB in its risk warning addressed to Finland in November 2016.</p> <p>In the context of its warning to Finland (ESRB/2016/08) the ESRB noted the “planned initiatives to strengthen capital adequacy requirements for mortgage exposures” among other policy measures implemented in Finland with regard to the residential real estate market. The assessment regarding the measures stated that “while these policy measures</p> |

are appropriate given the nature of residential real estate vulnerabilities in Finland, they may not be sufficient to fully address them". According to the ESRB, "Finnish banks have large mortgage portfolios with lower risk weights compared to their European peers". It should be noted that the high level of household indebtedness referred to in the ESRB warning could be likely to intensify possible detrimental effects of a residential real estate boom-bust cycle on the banking sector.

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Considerations have also been given to the structural vs. cyclical nature of the systemic risk in question. Ensuring bank resilience by strengthening bank capital through more robust risk weights has a positive impact on financial stability that is not dependent on the financial cycle. At the same time, the underlying systemic threat includes mainly structural but also some cyclical elements. The high levels of household indebtedness and other vulnerabilities in the Finnish financial system, however, are key structural factors amplifying the potential impact of a housing loan crisis.

The *effectiveness* of the measure is assessed according to its capacity to ensure the resilience of the banking sector and to prevent or mitigate a systemic crisis in the residential real estate and mortgage markets. On this point, the measure ensures that the absolute level of own funds in the banking sector will be higher at any given level of risk-weighted capital ratios. It also implies that the absolute levels of own funds of the banks will stay at a sufficient level even if the banks reduce their voluntary capital buffers.

In addition, the measure has a moderating impact on the credit cycle in the residential mortgage market, and thereby on the residential real estate market, affecting the probability of a growing asset price bubble. The effectiveness of the measure has also been, and will further be promoted through communication, as applying Article 458 of the CRR is a clear signal to the public regarding the risks in the Finnish housing and mortgage markets.

Furthermore, the measure can be considered to be effective as a result of its scope. Covering credit institutions domiciled in Finland and supervised by the FIN-FSA and those supervised by the ECB/SSM as well as branches of foreign credit institutions with housing loan stocks (in accordance with the established framework for reciprocity) constitutes an effective response to the corresponding macroprudential/systemic risk. **DELETED.**

In measuring the effectiveness of the proposed measure, the FIN-FSA and Bank of Finland monitor, in particular, the impact of the measure on bank capitalisation in terms of the amount of own funds, risk-weighted capital ratios and leverage ratios. The potential unintended consequences on bank lending and loan margins are also assessed.

As regards *proportionality*, the measure is seen as proportionate as it ensures the resilience of the banking sector against mortgage lending risks while not having a large impact on limiting mortgage lending, which could, in turn, have an adverse effect on the real economy.

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Proportionality is also ensured by the floor-type nature of the measure. As explained above, the major impact of the measure is on the part of the banking sector that has not fully considered the macroprudential/systemic risk accentuated by the high level of indebtedness in the household sector. At the same time, it prevents other banks that use the internal ratings-based approach from adopting disproportionate risk weights and invites for more consistency. Limiting only the average risk weights of banks' housing loans, the measure allows for necessary flexibility in banks' lending behaviour while improving their resilience.

Moreover, proportionality is supported by the fact that the measure applies to banks using the internal ratings-based approach only. The measure does not apply to those banks using the standard approach with higher risk weights. At the same time, the measure provides

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| | <p>guidance to those banks changing their approach for calculating risk weights into the internal ratings-based approach by setting out the authority's view on the appropriate level of risk associated with mortgages.</p> <p>The measure is aligned with the macroprudential/systemic risk as specified by the ESRB, and only has a direct impact on lending in residential real estate markets, not on lending to the non-financial corporate sector. Its impact on the granting of corporate loans is thereby seen as limited.</p> |
| 2.5 Other relevant information | n.a. |
| 3. Timing of the measure | |
| 3.1 Timing of the Decision | 28 June 2019 |
| 3.2 Timing of the Publication | 28 June 2019 |
| 3.3 Disclosure | IFIN-FSA pressrelease, web-site |
| 3.4 Timing of Application (Article 458(4) of the CRR) | 1 January 2020 for one year |
| 3.5 Phasing in | n.a. |
| 3.6 Term of the measure (Article 458(4) of the CRR) | Until 31 December 2020 |
| 3.7 Review (Article 458(9) of the CRR) | The measure will be reviewed in Q2 2020 |

4. Reason for the activation of the stricter national measure

4.1 Description of the macro-prudential or systemic risk in the financial system (Article 458(2)(a) of the CRR)

The Finnish financial system and real economy are vulnerable to the macroprudential/systemic risk associated with high household indebtedness and, in particular, the large stock of housing loans held by the credit institutions operating in Finland. The intensity of systemic risk has increased over a long period of time and has remained elevated in the past years. The risks are mainly of a structural nature and stem from a range of vulnerabilities in the household and credit institution sectors as well as the residential real estate market.

The key housing-related vulnerabilities in the Finnish financial system include historically high household indebtedness relative to income and credit institutions' extensive exposures to housing loans with relatively low internal ratings-based (IRB) model risk weights. Housing loans make up a significant proportion of total household debt and loans granted by Finnish credit institutions. It is therefore well motivated to address existing systemic risks by targeting the macroprudential policy onto lending for house purchase. When loans to housing companies, owned by households and private investors, are also taken into account, the role of housing-related lending is even greater in the Finnish financial system.

The growth of housing loans has slowed down in the 2010s, but the stock is at a record-high and the terms of new housing loans have gradually eased over the past few years. First, housing loans with an initial maturity of approximately 25 years have become increasingly popular relative to loans with maturities of approximately 20 years. Second, the average interest rate on new housing loans is record low (and the lowest in the euro area), while the average interest rate margin on new housing loans has decreased. Third, interest-only periods, in particular at the beginning of the loan period, constitute new risks of which there is only short-term experience.

The Finnish credit institution sector is large and highly concentrated and also interconnected with the Nordic financial system, which has elevated risks and vulnerabilities related to housing markets. Nordea's redomiciliation in 2018 further increased the Finnish banking sector's size, degree of concentration, and interconnectedness with the rest of the Nordic banking system. The interconnectedness between banks across the Nordic-Baltic region means that there could be significant cross-border spillovers between the banking systems as a result of risks related to residential real estate markets in any of the countries of the region.

When funding housing loans, credit institutions operating in Finland are dependent on wholesale funding and, in particular, covered bonds with housing loans serving as collateral. Covered bonds are also important for credit institutions as liquid investments. The high importance of covered bonds both as a source of funding and as investments exposes credit institutions to changes in the risk sentiment of global financial markets. Reflecting the transfer of Nordea's domicile, the credit institutions sector's dependence on market funding grew further in the late 2018.

The most important factor affecting the build-up and elevated level of housing-related vulnerabilities in Finland is the high indebtedness of the household sector. In 2018, the debt-to-income (DTI) ratio of the household sector slightly decreased as household income grew more rapidly than total debt. The DTI ratio, however, remained higher than in 2016 and elevated in historical comparison. At end-2018, the DTI ratio of the household sector was 127.3%, compared with 126.2% at end-2016 and 67.5% at end-2000. In particular, the growth of the stock of total housing-related debt relative to households' annual disposable income has been significant over the long term.

Furthermore, debt and related risks are unevenly distributed among indebted households. A

significant share of new and existing housing debt is borne by households whose total debt is high relative to their annual income. There is international evidence that the more households accumulate debt during an economic upswing, the more they are prone to cut consumption in a downturn. These knock-on effects can harm the real economy and the financial system extensively and for long periods of time, as experienced in a number of countries during the global financial crisis.

The fact that almost all (more than 97%) housing loans are tied to variable interest rates increases the vulnerability of households that are heavily indebted relative to their income. Depending on the loan amortisation method, a rise in the reference rate either increases the monthly debt service costs (annuity loans or fixed amortisation loans) or lengthens the loan repayment period (fixed-installment loans). Finland has also been gradually reducing the share of housing loan interest payments deductible in taxation, from 100% in 2011 to 25% by 2019. This increases household interest expenses in the future. Should the general interest rate level rise, the reduction of tax deductibility will have a more pronounced effect on households' interest expenses.

A significant share of Finnish households' total assets consists of dwellings. The large proportion of housing wealth is explained, for example, by the fact that owner occupancy is notably more common in Finland than renting. In addition, real house prices have increased considerably over the long term. In 2010s, developments in real house prices have been more moderate than previously and currently there is a risk of regional price overvaluation.

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House prices in urban growth centres have increasingly diverged from those in the rest of the country. Real house prices have increased most rapidly in Helsinki and some other large cities. The effects of low interest rates and improved employment conditions are particularly evident in attractive growth centres. Ongoing urbanisation and migration among Finland's working-age population increase the risk of local house price bubbles in areas where demand for housing outpaces supply. In recent years new-build construction has been exceptionally buoyant and thus partially eased the upward pressures on house prices. However, the increased supply could add to downward price pressures in stressed situations.

House price developments in the large cities and their city centres are in stark contrast to the development of the nationwide average, and especially so when exempting the Helsinki metropolitan area from the house price index. A significant fall in house and other asset prices could reduce consumption particularly for heavily indebted households with a weak net asset position and cause higher loan losses for creditors.

High loan-to-value (LTV) ratios of housing loans at loan origination increase the risks related to falling house prices. As of July 2016, a maximum loan to collateral (LTC) ratio for new housing loans was introduced in Finland, allowing also other assets than the purchased real estate to be considered as eligible collateral when calculating the LTC cap. The binding LTC cap is currently 85% (95% for first-time buyers). This macroprudential measure partly mitigates risks in relation to the flow of new lending for house purchase. The LTC cap cannot, however, adequately mitigate potential overheating on the housing market or growth in household indebtedness when excessive credit growth and rising asset prices fuel each other during economic upturns.

Systemic risks and vulnerabilities related to housing loans and household indebtedness are continuously monitored and analysed by the Bank of Finland and the FIN-FSA. International institutions, such as the European Central Bank (ECB), the European Systemic Risk Board (ESRB), the Organisation for Economic Co-operation and Development (OECD) and the

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| | <p>International Monetary Fund (IMF) have also taken notice of the systemic risks related to household indebtedness in Finland.</p> <p>On 22 September 2016, the ESRB adopted a warning addressed to Finland regarding medium-term vulnerabilities in the residential real estate sector. According to the warning, Finland's vulnerabilities are primarily related to high and increasing household indebtedness, with particular implications for the resilience of the banking sector.</p> |
| <p>4.2 Analysis of the serious negative consequences or threat to financial stability (Article 458(2)(b) of the CRR)</p> | <p>A large share of Finnish credit institutions' loans are housing loans and other housing-related loans, such loans to housing corporations. According to MFI statistics (2019M03), housing loans account for 41% of credit institutions' loans to euro area residents, and loans to housing corporations 14%, which makes 55% in total.</p> <p>A severe and prolonged downturn in the housing market could increase banks' loan losses and weaken their solvency and potentially their ability to lend. Severe problems in the housing market could also hamper the funding of Finnish banks through covered bonds, the importance of which has strongly increased in recent years. Given the high concentration of the Finnish banking sector and the dependence of households and SMEs on banks, it is essential to ensure that Finnish banks' capital buffers against housing loan losses remain sufficient in all circumstances.</p> <p>As discussed in the previous section, the intensity of macroprudential/systemic risk related to banks' large direct and indirect exposures to Finnish and Nordic housing markets continues to be elevated and has even increased during the last two years because of increased household indebtedness, rapidly growing housing company loans, weakened credit standards, increased interconnectedness of the Finnish banking sector with the Nordic banking sector and widening regional differences in the Finnish housing market.</p> <p>The reasons for why these elevated systemic risks may pose a threat to financial stability in Finland continue to be, by and large, the same as they were two years ago when the initial decision on the introduction of the risk weight floor was made.</p> <p>Both Finnish banks and households are highly exposed to housing market risks. As discussed above, a major share of the household loan stock consists of housing loans and housing company loans. In addition, houses represent a major part of household wealth. The share of housing related lending out of total bank lending is equally significant.</p> <p>Because of these large exposures, severe economic or housing market crises could significantly increase banks' loan losses from housing loans, and thus weaken their ability to provide loans. To guide the calibration of the risk weight floor, several calculations were undertaken two years ago to estimate the potential loan losses from housing loans in severe economic crises (see below). Those calculations suggested that a risk weight floor of approximately 15 per cent was needed to generate sufficiently large risk buffers to withstand the potential loan losses in crises. The conclusions of those calculations still apply.</p> <p>Highly indebted households typically cut back on spending in economic or housing market crises to be able to keep servicing their debts. Spending cuts decrease the demand for domestic products and services, weakens the profitability of domestic businesses and increase banks' loan losses from corporate loans. In many economic crises, these "indirect"</p> |

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| | <p>loan losses, amplified by high household indebtedness, have been larger than banks' direct loan losses from housing loans.</p> <p>The role of Finnish banks in the provision of finance to the private sector is critical. Therefore, large loan losses or severe problems in banks' funding could severely hamper banks' ability to lend to the private sector in times of crises, thus deepening the crises and delaying economic recovery.</p> <p>Some recent developments in housing lending and housing markets have increased the intensity of systemic risks and their threats to financial stability. First, although the rate of growth of household debt has remained moderate (3.5% y-o-y), the structure of household debt has become more vulnerable due to the fast growth of housing company loans (around 10% y-o-y), the risks of which for households and housing investors are less transparent than those of traditional housing loans. Second, as a result of the lengthening average maturities of new housing loans, housing loans are amortised more slowly than before. That, ceteris paribus, increases the average LTV of the housing loan stock and increases lenders' LGDs. Third, regional differences in house price developments increase the risk of local house price overvaluations and their potential negative consequences. Fourth, the narrowed interest margins for new housing loans have further weakened banks' first defence against loan losses.</p> <p>Finnish banks depend on both deposits of the public and market funding for financing housing loans. Banks are acquiring a larger share of market funding via bonds secured by housing loans. DELETED. The wider use of covered bonds is reflected in a higher level of bank asset encumbrance.</p> <p>Banks have also invested in covered bonds issued by other Nordic banks and mortgage credit institutions. This increases the overall importance of housing loans and related debt securities on both sides of the bank balance sheet. Cross-ownership of debt securities and the concentration and interconnectedness of the Nordic banking sector may increase the cross-border contagion risks related to housing loans.</p> <p>At end-March 2019, the total capital adequacy ratio of the Finnish banking sector amounted to 20.49 % and the CET1 ratio to 16.49 %. The leverage ratio was 5.54 %.</p> <p>Potential triggers for the materialisation of identified risks and vulnerabilities include cyclical factors such as a weaker-than-expected growth in the Finnish economy. In particular, a situation in which economic growth would pick up in other parts of the euro area, inducing pressure for interest rate increases, could significantly affect house prices and trigger a downward trend. There is also the risk that severe housing market shocks in other Nordic countries could spread into the Finnish financial system and real economy.</p> |
| <p>4.3 Indicators prompting use of the measure</p> | <p>See above</p> |

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| <p>4.4 Justification why the stricter national measure is necessary (Article 458(2)(c) of the CRR)</p> | <p>Article 124 of the CRR (<i>Exposures secured by mortgages on immovable property</i>) does not apply to banks using the internal ratings-based (IRB) approach.</p> <p>Article 164 of the CRR (<i>Loss Given Default</i>) entitles competent authorities to, based on the data collected under Article 101 and taking into account forward-looking immovable property market developments and any other relevant indicators, assess periodically, and at least annually, whether the minimum LGD values applied are appropriate for exposures secured by residential property or commercial immovable property located in their territory. Competent authorities may, where appropriate on the basis of financial stability considerations, set higher minimum values of exposure-weighted average LGD for such exposures.</p> <p>DELETED.</p> <p>According to Article 101 of the CRD (<i>Ongoing review of the permission to use internal approaches</i>), competent authorities shall review on a regular basis, and at least every 3 years, institutions' compliance with the requirements regarding approaches that require permission by the competent authorities before using such approaches for the calculation of own funds requirements. Where material deficiencies are identified in risk capture by an institution's internal approach, competent authorities shall ensure they are rectified or take appropriate steps to mitigate their consequences, including by imposing higher multiplication factors, or imposing capital add-ons, or taking other appropriate and effective measures.</p> <p>DELETED:</p> <p>Articles 103-104 of the CRD (<i>Application of supervisory measures to institutions with similar risk profiles, Supervisory measures</i>) state that when competent authorities determine under Article 97 that institutions with similar risk profiles such as similar business models or geographical location of exposures are or might be exposed to similar risks or pose similar risks to the financial system, they may apply the supervisory review and evaluation process referred to in Article 97 (Pillar II) to those institutions in a similar or identical manner. Additional own funds may be required as a result of the assessment of systemic risk.</p> <p>The Finnish mortgage loan stock is held by FIN-FSA-supervised entities, ECB/SSM-supervised entities and branches supervised by other Nordic supervisory authorities. Pillar II requirements introduced by the FIN-FSA or ECB/SSM apply to individual credit institutions registered in Finland. A part of the Finnish mortgage market is held by branches of foreign credit institutions headquartered in other Nordic countries. The share of Finnish housing loans held by these branches amounted to approximately 9% in the beginning of 2019.</p> <p>DELETED.</p> <p>Article 105 of the CRD (<i>Specific liquidity requirements</i>) is outside the scope of the assessment.</p> <p>Pursuant to Article 133 of the CRD (<i>Requirement to maintain a systemic risk buffer</i>) Member States may introduce a systemic risk buffer of Common Equity Tier 1 capital for the financial sector or one or more subsets of that sector, in order to prevent and mitigate long term non-cyclical systemic or macroprudential risks not covered by the CRR, in the meaning of a risk of disruption in the financial system with the potential to have serious negative</p> |
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| | <p>consequences to the financial system and the real economy in a specific Member State.</p> <p>The systemic risk buffer was introduced in Finland at the beginning of 2018. The buffer may be applied to all credit institutions or, alternatively, to a set of institutions. The buffer may not necessarily be the same for all credit institutions and may be set either institutionally on the highest consolidated level or in relation to domestic exposures. The Act on Credit Institutions specifies risk factors to be taken into account when deciding on the systemic risk buffer. These factors include credit institutions' risk concentrations and interconnectedness; size, concentration and significance of the credit institution sector in terms of financial intermediation; and the indebtedness of the credit institutions' largest customers.</p> <p>Discretion in applying the buffer is limited by the Ministry of Finance Decree defining the indicators when assessing the risk factors. The Decree also lists additional conditions which, when fulfilled, permit the setting of the systemic risk buffer on a specific level. A systemic risk buffer of up to 3% may be set if the systemic risk for Finnish credit institutions is higher than in other EU or euro-area countries. The same may be done if on the basis of at least three indicators, the level of systemic risk in Finland is higher than the Finnish long-term average. A systemic risk buffer of between 3% and 5% may be set if the systemic risk is found to be clearly higher in Finland than in other EU or euro-area countries, or clearly higher than the long-term Finnish average.</p> <p>The systemic risk buffer has been decided upon by the FIN-FSA Board and will enter into force on 1 July 2019 as an institution-specific buffer targeting all credit institutions on a 1.0 % level and the largest credit institutions on a 1.5 - 3.0 % level. DELETED.</p> <p>Article 136 of the CRD (<i>Setting countercyclical buffer rates</i>) stipulates that each designated authority shall calculate for every quarter a buffer guide as a reference to guide its exercise of judgment in setting the countercyclical buffer rate. The buffer guide shall reflect, in a meaningful way, the credit cycle and the risks due to excess credit growth in the Member State and shall duly take into account specificities of the national economy. It shall be based on the deviation of the ratio of credit-to-GDP from its long-term trend.</p> <p>The countercyclical buffer rate in Finland is currently set at 0.0%. Aggregate credit-to-GDP data in combination with ancillary information imply that the buffer should remain at this level.</p> <p>The countercyclical capital buffer is a cyclical measure, while the macroprudential/systemic threat confronting the Finnish financial system is currently mainly of a structural nature. The countercyclical buffer applies to the aggregate credit stock, whereas the macroprudential/systemic risk inherent in the Finnish financial system concerns mortgage and housing markets.</p> <p>Furthermore, the FIN-FSA and Bank of Finland have publicly spoken in favour of introducing income-based instruments (loan-to-income, debt-to-income and debt service-to-income) as part of the national macroprudential toolkit. A working group has been established by the Ministry of Finance with the aim of formulating a concrete proposal to be submitted in the early autumn of 2019.</p> |
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5. Cross-border and cross-sector impact of the measure

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| <p>5.1 Assessment of cross-border effects and the likely impact on the internal market (Article 458(2)(f) of the CRR and Recommendation ESRB/2015/2)</p> | <p>The overall impact of the macroprudential measure on the EU internal market is positive. By maintaining a credit institution-specific minimum level of 15% for the average risk weight on housing loans of credit institutions that have adopted the internal ratings-based approach, the resilience of the Finnish banking sector will remain strong, implying a more stable financial environment supporting the functioning of the internal market as well as continuous economic growth. Retaining the measure is particularly motivated by the November 2016 ESRB risk warnings regarding the conditions in residential real estate and mortgage markets in Finland and other Nordic countries.</p> <p>The cross-border effects of the measure have been assessed in accordance with ESRB Recommendation (ESRB/2015/2) on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures. Possible spillover channels operating via risk adjustment and regulatory arbitrage have been identified ex ante, by focusing on i) cross-border effects in the form of leakages and regulatory arbitrage resulting from the implementation of the macroprudential measure in Finland (inward spillovers) as well as on ii) cross-border effects of the measure on other Member States (outward spillovers).</p> <p>DELETED.</p> <p>The analysis implies that the probability of <i>inward spill-overs</i> emerging is limited. In principle, risk adjustment and regulatory arbitrage could appear by actors increasing mortgage lending through the shadow banking sector or expanding lending from foreign actors to Finland. Given the fact that the risk weight floor of 15% is moderate and foreign authorities have reciprocated the measure, incentives for such channelling appear low.</p> <p>As regards <i>outward spillovers</i>, these effects are seen as limited, as the measure applies only to housing loans for purchases of dwellings located in Finland.</p> <p>Overall, in a cross-border context, the macroprudential measure consequently strengthens the resilience of the Finnish banking sector against shocks from abroad and reduces the risk of possible contagion of financial instability from Finland to other Member States. Given the level of housing loan risk weights in Finland relative to other Member States, the measure contributes to a higher degree of coherence as regards the regulatory treatment of housing loans within the EU.</p> <p>In order to address negative cross-border spillovers and potential negative impact on the internal market, the FIN-FSA requested foreign macroprudential authorities to reciprocate the measure. The other Nordic countries have reciprocated the risk weight floor. Reciprocation limits potential incentives for institutions to transform activities from subsidiaries into branches in order to avoid the measure.</p> <p>In addition, the FIN-FSA asked the ESRB to issue a recommendation to this end, which the ESRB did through its Recommendation ESRB/2018/1.</p> |
| <p>5.2 Assessment of leakages and regulatory arbitrage within</p> | <p>See above.</p> |

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| the notifying Member State | |
| 5.3 Reciprocation by other Member States (Article 458(8) of the CRR and Recommendation ESRB/2015/2) | ESRB issued a recommendation to other Member States to reciprocate the measure in accordance with Article 458(8) of the CRR in 2017. |
| 6. Miscellaneous | |
| 6.1 Contact person(s) at notifying authority | Peik Granlund, peik.granlund@fiva.fi , tel. +358-9-1835236 |
| 6.2 Any other relevant information | <p>Annex with related indicators</p> <p>Household indebtedness: https://www.stat.fi/til/rtp/2018/04/rtp_2018_04_2019-03-28_tau_002_en.html</p> <p>Credit institutions' loans to euro area residents: https://www.suomenpankki.fi/en/Statistics/mfi-balance-sheet/tables/rati-taulukot-en/pt_yleison_lainat_ja_talletukset_en/</p> <p>Loans to housing corporations: https://www.suomenpankki.fi/en/Statistics/mfi-balance-sheet/charts/rati-kuviot-en/Lainat_asuntoyhteisöille_chrt_en/</p> <p>Average interest rates on new household loans: https://www.suomenpankki.fi/en/Statistics/mfi-balance-sheet/tables/rati-taulukot-en/Uudet_lainat_kayttotarkoituksittain_en/</p> <p>Average margins on new loans: https://www.suomenpankki.fi/en/Statistics/mfi-balance-sheet/older-news/2016/kotitalous_ja_yrityslainojen_laskennalliset_korkomarginaalit_suomessa_chrt_en/</p> <p>House price indicators: https://www.suomenpankki.fi/en/Statistics/chart-gallery/financial-cycle-indicators/price-developments-in-housing-or-real-estate-markets/asuntojen_hinnat_suhteelliset/</p> <p>Regional house prices: https://www.suomenpankki.fi/en/Statistics/chart-gallery/financial-cycle-indicators/price-developments-in-housing-or-real-estate-markets/asuntojen_nimellishintojen_kehitys/</p> <p>Key banking sector figures: https://www.finanssivalvonta.fi/en/statistics/banks/key-financial-figures/</p> |