Decisions by the Board of the Financial Supervisory Authority on the application of the countercyclical capital buffer requirement and extension of the validity of a lower maximum LTC ratio

At its meeting on 22 March 2019, the Board of the Financial Supervisory Authority (FIN-FSA) decided not to impose a countercyclical capital buffer requirement ('variable add-on') as referred to in chapter 10, section 4 of the Credit Institutions Act (610/2014) and to keep in force the decision on a lower maximum loan-to-collateral (LTC) ratio, made on 19 March 2018 by virtue of chapter 15, section 11 of the Credit Institutions Act. With the decision of 19 March 2018, the Board lowered the maximum LTC ratio for residential mortgage loans other than first-home loans by 5 percentage points.

Justifications for the decision

Countercyclical capital buffer requirement

According to preliminary data, the domestic private sector credit-to-GDP gap, used as the primary indicator for setting a countercyclical capital buffer (CCyB) requirement, was −7.1 percentage points at the end of September, thus giving a reference value of 0.0% for the CCyB requirement.

The indicators of credit growth and growth in financial market risk appetite as well as other supplementary risk indicators, such as overall economic development and housing price development, are not, in aggregate, signalling such an increase in financial system risks as would necessitate an increase in the CCyB requirement. In addition, there are currently significant uncertainties with regard to the cyclical situation that make the imposition of the CCyB requirements unjustified.

Maximum LTC ratio

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

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