# Decision by the Board of the Financial Supervisory Authority on the application of macroprudential tools

At its meeting on 26 September 2017, the Board of the Financial Supervisory Authority (FIN-FSA) decided not to impose a countercyclical capital buffer requirement (variable capital add-on) as referred to in chapter 10, section 4 of the Credit Institutions Act (610/2014).

According to the current estimate, there is no need to reduce the maximum loan-to-value ratio for residential mortgage loans referred to in chapter 15, section 11 of the Credit Institutions Act, or to restrict the collateral to be taken into account in calculating the loan-to-value ratio, nor is there any need to apply other macroprudential tools not currently in use. Key indicators are not pointing to an immediate need to tighten the conditions for the maximum loan-to-value ratio.

On 21 August 2017, the European Commission made a decision not to propose to the EU Council that it object to the decision of the Board of the FIN-FSA of 26 June 2017 on the minimum risk weight on residential mortgage loans. Consequently, the minimum risk weight on residential mortgage loans will take effect on 1 January 2018 in accordance with the Board's decision.

**Justifications for the decision**

<u>Countercyclical capital buffer requirement</u>

The most recent observation from the first quarter of 2017 for the credit-to-GDP gap, used as the primary indicator for setting a countercyclical capital buffer requirement, is negative, -8.0 percentage points, thus giving a reference value of 0.0% for the countercyclical capital buffer requirement.

Household indebtedness is still at a high level, although growth in indebtedness has faded. Supplementary risk indicators (such as overall economic developments, pace of credit growth, housing price developments, risk pricing and banks’ vulnerabilities) are not, overall, signalling such an increase in financial system risks as would necessitate a higher countercyclical capital buffer requirement with a view to improving banks’ cyclical risk resilience.

<u>Maximum loan-to-value ratio for residential mortgage loans</u>

The maximum loan-to-value 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 Board of the FIN-FSA 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 loan-to-value ratio.

In light of most recent information, growth in both the residential mortgage loan stock and household indebtedness has faded to some extent, and housing price developments have continued at a moderate pace. Thus, key indicators are not pointing to an immediate need to tighten the conditions for the maximum loan-to-value ratio from their basic level.