EBA/Op/2025/05

12 May 2025

Opinion of the European Banking Authority on measures in accordance with Article 458 of Regulation (EU) No 575/2013

Introduction and legal basis

1. On 11th April 2025, the European Banking Authority (EBA) received a notification from the European Systemic Risk Board (ESRB) on the intention of Norway's Ministry of Finance to apply Articles 458(2) and 458(9) of Regulation (EU) No 575/2013 as incorporated into Annex IX of the Agreement on the European Economic Area (EEA) by the EEA Joint Committee Decision No 79/2019 (hereafter, the EEA Agreement). [1,2,3]

2. The notification concerns the change in the calibration of a measure originally introduced by the Norwegian Ministry of Finance on 31st December 2020 and already extended for a period of application until 30th June 2025. The measure is an exposure-weighted average risk weight floor applying to Norwegian retail residential real estate exposures and applies to credit institutions using the Internal Ratings Based (IRB) approach to calculate regulatory capital requirements for the relevant exposures.

3. The EBA's authority to deliver an Opinion is based on the second subparagraph of Article 458(4) in conjunction with Article 458(9) of Regulation (EU) 575/2013.

4. In accordance with the second subparagraph of Article 458(4) of Regulation (EU) No 575/2013, within one month of receiving the notification, the EBA is required to provide its opinion on the points referred to in Article 458(2) of the same Regulation to the Standing Committee of the EFTA States, the EFTA Surveillance Authority and the EFTA State concerned.

[1] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1).

[2] Agreement on the European Economic Area (OJ L 001 3.1.1994, p. 3).

[3] Regulation (EU) No 575/2013 and Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338) shall be read with the adaptations provided for in Annex IX of the EEA Agreement.

5. In accordance with Article 14(2) of the Rules of Procedure of the Board of Supervisors, the Board of Supervisors has adopted this Opinion.[4]

Background of the measure to be extended

6. The proposed measure under Article 458 of Regulation (EU) No 575/2013 concerns the change of the calibration of a measure which was in place until 31st December 2024 and extended until 30th June 2025. According to the notification, an average risk weight floor at 20% applies until 30th June 2025 and the risk weight floor is increased at 25% from 1st July 2025 onwards. The measure with the updated calibration will be in force until 31st December 2026.

7. The floor applies to the retail exposures secured by immovable property located in Norway. The institutions in scope of the measure are all institutions established in Norway that use the IRB approach for the calculation of capital requirements for the relevant exposures. This includes one subsidiary whose parent is established in a Member State. For the exposures under scope, IRB institutions have a combined market share of approximately 70%. If the measure is recognised by Member States, the measure will also apply to branches in Norway and Norwegian exposures of IRB institutions established in the reciprocating Member States.

8. The Ministry calibrated the measure using portfolio level PD and LGD parameters based on data that give prominence to the real estate crisis of the 1990s. The Ministry updated the estimates of the PD and LGD parameter values which when inserted into the IRB risk weights formula, produce risk-weights in the range of 23%-29%. The mid-point of this range was considered appropriate by the Ministry due to the uncertainty about the PD values. The final risk weight floor calibration is also supported by a staff memo of the Norwegian Central Bank (Norges Bank) using early-1990s banking crisis data.[5]

9. As of 31st December 2024, Norwegian IRB banks' average risk weights for residential real estate exposures range from 19% to 24% (21% on aggregate), before the application of any risk-weights floor. The updated calibration, which is effective from 1st July 2025, is expected to increase the aggregate risk weighted exposure amount of the targeted institutions by about NOK 75-80 billion as of end-December 2024, according to Ministry provided figures. According to the notification, the increase of the floor to 25% will imply an additional NOK 14 billion required to maintain CET1 ratios, compared to the current 20% floor.

10. The original measure was introduced on 31st December 2020 and was extended for the first time on 31st December 2022 and again on 31st December 2024. The original and subsequent extensions of the measure were notified to the ESRB and the EBA under the procedure in accordance with Article 458(10) of Regulation (EU) No 575/2013. The notified increase of the average risk weight floor at 25% as of 1st July 2025 onwards leads to an increase of risk weights which is over 25% beyond those provided for in Regulation (EU) 575/2023. Therefore, the

[4] Decision of the EBA concerning the Rules of Procedure of the Board of Supervisors of 22 January 2020 (EBA/DC/2020/307).

[5] How high should risk weights be on Norwegian residential mortgages. *Norges Bank Staff Memo*. Andersen, H. (No 10/2013).

procedure in accordance with Article 458(10) of the same Regulation does not apply for the period of application between 1st July 2025 and 31st December 2026. Instead, the procedure under Article 458(9) in conjunction with Articles 458(2) and 458(4) of Regulation (EU) 575/2013 applies.

Opinion on the extension

Economic rationale for the measure

11. The recalibration of the measure aims to ensure that Norwegian IRB institutions employ risk weights, which at portfolio level, are appropriate for the systemic risks of the institutions' residential real estate exposures in Norway. The Ministry assesses that the prolonged increase in real estate prices and household debt have led to a build-up of financial imbalances and an increase of systemic risk related to credit institutions' real estate exposures in Norway.

12. According to data provided, household debt stands at 111% of GDP and is considered by the Ministry to be high, both in historical terms and in an international context. Household debt has long risen faster than household income even though it remained stable and slightly declined over the last two years. Similarly, the Debt-to-Income (DTI) ratio of households remains at high levels, and it is unevenly distributed. The share of high-DTI households increased over the last years and a large share of new mortgages is taken by households with high debt burden. At the same time, only a small proportion of household debt carries fixed interest rates. As a result, the average interest burden increased from 4.8% of disposable income in 2021Q2 to 11.9% of disposable income as of 2024Q3. According to the notification, high interest payments could amplify shocks via the response of consumption. So far, there are few signs of difficulties with debt servicing. Based on data from the latest Norges Bank Financial Stability Report, during 2023 households decreased their consumption and adjusted their savings behavior following higher inflation and higher interest rates.[6]

13. The Ministry highlights that Norwegian credit institutions are mainly exposed to residential mortgage loans. Since the banking crisis at the start of the 1990s, house prices have grown considerably more than disposable income per capita, supported by the interdependence between house prices and household debt. The Ministry argues that a negative shock in domestic property markets may cause a significant increase in credit losses, and in turn constrain institutions' capacity to provide new credit. According to additional information provided, prices for existing homes are expected to rise on the back of a low supply of new homes, increased household purchasing power, and lower residential mortgage rates going ahead. Further, the regulatory maximum Loan-to-Value ratio limit was raised from 85% to 90% in December 2024 to dampen potential distribution effects of this requirement, without causing a significant increase in systemic risk, according to the latest Norges Bank Financial Stability Report. The Ministry expects the change to contribute to the increase in house prices.

[6] Financial Stability Report 2024 H2, Norges Bank, Web report 2024-2 Financial stability

14. The notification outlines that the measure is suitable to ensure that IRB institutions meet certain minimum standard for the risk-weights at the portfolio level. Norwegian and foreign IRB institutions are deemed crucial for the credit supply to households and corporates in Norway. The Ministry considers the measure consistent with Finanstilsynet's general practices for IRB supervision. The measure aims to act as a backstop for IRB models, given also the uncertainty due to model estimation data collected during periods of positive developments in the Norwegian real estate market. The calibration of the measure is considered proportionate to the intensity of the systemic risks associated with the Norwegian residential real estate market.

15. The Ministry of Finance does not expect the extension and the change of measure calibration to have a negative impact on the internal market. It argues that the measure could even have a positive impact on other EEA markets if it is reciprocated. This is because institutions will have higher loss absorbing capacity related to the targeted Norwegian exposures. At the same time, misalignment of risks and loss-absorbing capacity associated with the Nordic institutions' Norwegian operations may have repercussions for the institutions' ability to provide services to other markets.

Rationale for not using alternative measures

16. Regulation (EU) No 575/2013 requires the designated authority to explain why other possible measures would be less suitable and effective in dealing with the macroprudential or systemic risk identified than measures in accordance with Article 458(2)(d) of that Regulation.

- Article 124 of Regulation (EU) 575/2013 does not apply to credit institutions using the IRB approach, which are the target of the notification. Around 75% of the exposures under scope of the notification are held under the IRB approach, hence it is deemed any measure under 124 is not adequate to meet the risks in the residential real estate market.

- The Ministry assesses that increasing minimum input values for LGD, in accordance with Article 164 of Regulation (EU) 575/2013, is not sufficient to ensure overall conservative risk-weights for residential real estate portfolios given the assessed high sensitivity of risk weights to PD values. The assessment methodology of Finanstilsynet for IRB models already encompasses strict requirements for LGD modelling.

- The Ministry has already set a Systemic Risk Buffer (SyRB) in accordance with Article 133 of Directive 2013/36/EU. Nevertheless, the Ministry considers the proposed measure as more targeted at the risks associated with potential financial imbalances in the residential real estate market. The Ministry also considers that there is no overlap between the SyRB and the minimum risk weights floor measure. Along the same lines, the sectoral variant of the SyRB is considered less effective than the proposed risk weights floor measure. According to the notification, the sectoral SyRB, would disproportionately affect institutions with higher risk weights for the residential real estate portfolio.

- The Countercyclical Capital Buffer (CCyB) rate in Norway under Article 136 of Directive 2013/36/EU has been set at 2.5% since 31st March 2023. The Ministry assesses that the proposed measure is necessary because, unlike the CCyB, it targets the residential real estate exposures, and it promotes an adequate level of average risk weights across all IRB institutions in Norway.

Assessment and conclusions

17. The EBA acknowledges the concerns of the Ministry regarding the financial stability risks stemming from high household debt and the build-up of financial imbalances. In particular, the EBA notes the risks from the sensitivity of the interest payments burden to changes in interest rates and the interdependence of household debt and house prices. Based on the evidence provided by the Ministry, the EBA does not object to the proposed measure.

18. The EBA understands the Ministry's concerns about the elevated levels of systemic risk. However, the EBA notes that since the original activation of the measure and the first extension the relevant metrics used for measuring systemic risk do not show a significant change in the intensity of such risk. During the same period, household defaults remained at low levels notwithstanding the large increase in the interest burden of Norwegian households. Further, the Ministry has deemed adequate to relax the LTV limit, which is a borrower-based measure to mitigate real estate risk, noting this comes without a significant increase in systemic risk. Therefore, the EBA would like to invite the Ministry to continue reviewing the appropriateness of the updated calibration and to stand ready to adjust it if it ceases to be considered as proportionate to the level of the systemic risk observed.

19. The EBA acknowledges that IRB model estimates are based on low historical credit losses from Norwegian mortgages and partly reflect the absence of a major mortgage crisis in Norway in recent decades. The EBA understands also that microprudential measures have been taken in Norway to ensure that conservative PD and LGD projections underpin banks' IRB risk-weight calculations, including the use of the margin of conservatism to be applied to risk parameters. Hence, the EBA stresses the need to avoid any overlaps with other microprudential requirements and in particular with the requirements for the estimation of IRB models (Article 179 Regulation (EU) 575/2023 and EBA's RTS and Guidelines on the review of the IRB approach, notably Commission Delegated Regulation (EU) 2022/439 on the IRB assessment methodology and EBA/GL/2017/16 on the PD and LGD estimation), Pillar 2 Requirements and Pillar 2 Guidance (Articles 104a and 104b Directive 2013/36/EU) which could be used to tackle and cover similar risks.

20. A SyRB rate of 4.5% applies to credit institutions in Norway to tackle, among other risks, structural vulnerabilities related also to household indebtedness.[7] Nevertheless, the Ministry

[7] Norges Bank Advice on the systemic risk buffer, Advice on the systemic risk buffer

considers the proposed measure and the SyRB as complementary. However, due to the potential overlap of identified risks, the EBA asks the Ministry to thoroughly investigate potential overlaps with the SyRB calibration and any unintended consequences on lending to households and credit institutions. Depending on the outcome of such investigation, the Ministry should stand ready to adjust its stance.

21. The measure perimeter includes the subsidiary of an institution whose parent is established in an EU Member State. The EBA would like to highlight to the Ministry the need to continue considering whether other microprudential and macroprudential requirements set at the consolidated level for the parent institution may cover the risks identified and whether they may give rise to overlaps with the proposed measure and adverse cross-border effects. In this regard, the EBA encourages the continued dialogue between the Ministry and the authorities of the parent of the aforementioned subsidiary.

22. Lastly, the EBA points to the potential for unintended overlaps of the extended measure with the output floor of Article 92 of Regulation (EU) 575/2013. With the view of the phase-in of the output floor the EBA invites the Ministry of Finance to closely monitor and review the need for the measure.

This Opinion will be published on the EBA’s website.

Done at Paris, 12 May 2025

[signed]

Jose Manuel Campa

Chairperson

For the Board of Supervisors