EBA/Op/2025/07

28 May 2025

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

Introduction and legal basis

1. On 30 April 2025, the European Banking Authority (EBA) received a notification from the European Systemic Risk Board (ESRB) on the intention of the Swedish Financial Supervisory Authority (Finansinspektionen), thereafter the 'Swedish FSA', to apply Article 458(9) of Regulation (EU) No 575/2013 of the European Parliament and of the Council (Capital Requirements Regulation, CRR)[1].

2. The notification concerns the two-year extension of a measure introduced by the Swedish FSA in 2018 and already extended previously making use of Article 458(2)(d)(iv)[2] of that Regulation.

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 the CRR.

4. In accordance with the second subparagraph of Article 458(4) of the CRR, 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 CRR to the Council, the European Commission and the Member State concerned.

5. In accordance with Article 14(2) of the Rules of Procedure of the EBA[3], the Board of Supervisors has adopted this Opinion.

[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] Currently Art.458(2)(d)(iv) of Regulation (EU) No 575/2013.

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

Background of the measure to be extended

6. The proposed measure concerns a credit institution-specific minimum level of 25% for the average risk weight of Swedish housing loans applicable to credit institutions that have adopted the internal ratings-based (IRB) approach. The requirement applies both to individual institutions and at the consolidated level. The measure targets retail exposures secured by real estate, both SME and non-SME exposures[4]. The period of application of the two-year extension will start from 31 December 2025.

7. In its Opinions dated 25 June 2018[5], 16 October 2020[6], 19 October 2021[7] and 12 October 2023[8], the EBA did not object to the adoption of the measure and the subsequent extensions. The EBA acknowledged the macroprudential risks in the Swedish economy related to residential mortgage loans and the Swedish housing market.

8. Nevertheless, the EBA raised concerns in its Opinion dated 12 October 2023, including the following:

- The Article 458 measure aims to correct issues in the modelling of IRB models that have remained throughout the years. The EBA invited the Swedish FSA to reassess the appropriateness of the notified measure in light of the ongoing review of banks' internal models.

- The EBA stressed the need to avoid overlaps with other requirements, in particular with the Pillar 2 Guidance (Article 104b Directive 2013/36/EU), which is set based on the outcome of stress tests.

[4] It should be noted that the exposures affected by the measure include also certain exposures collateralised by real estate other than residential property and some exposures collateralised by real estate located outside of Sweden. Their inclusion is a consequence of the need to operationalise the measure in a practical and simple way using COREP information.

[5] Opinion of the European Banking Authority on measures in accordance with Article 458 of Regulation (EU) No 575/2013 of 25 June 2018 (EBA/Op/2018/06) available at https://www.eba.europa.eu/sites/default/documents/files/documents/10180/2137845/6b62e4b6-7e8f-41eb-9492-0c270d5eeffc/EBA%20Opinion%20on%20measures%20in%20accordance%20with%20Article%20458%20%28EBA-Op-2018-06%29.pdf?retry=1

[6] Opinion of the European Banking Authority on measures in accordance with Article 458 of Regulation (EU) No 575/2013 of 16 October 2020 (EBA/Op/2020/16) available at https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Opinions/2020/934115/EBA-Op-2020-16%20-%20EBA%20Opinion%20on%20measures%20in%20accordance%20with%20Art%20458%20%28SE%29.pdf

[7] Opinion of the European Banking Authority on measures in accordance with Article 458 of Regulation (EU) No 575/2013 of 19 October 2021 (EBA/Op/2021/10) available at

https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Opinions/2021/1022985/Opinion%20of%20the%20EBA%20on%20measures%20in%20accordance%20with%20Article%20458%20of%20Regulati.pdf

[8] Opinion of the European Banking Authority on measures in accordance with Article 458 of Regulation (EU) No 575/2013 of 12 October 2023 (EBA/Op/2023/11) available at https://www.eba.europa.eu/sites/default/files/document_library/Publications/Opinions/2023/1063254/EBA-Op-2023-11%20Opinion%20of%20the%20EBA%20on%20measures%20in%20accordance%20with%20Article%20458%20of%20Regulation%20(EU)%20No%205752013.pdf

- The EBA invited the Swedish FSA to undertake a comprehensive assessment on the necessity and appropriateness of the existing macroprudential measures in light of the introduction of the output floor.

Opinion on the extension

Economic rationale for the measure

9. The Swedish FSA has notified an extension of the period of application of its earlier decision by two years, from 31 December 2025, as the vulnerabilities and systemic risks stemming from Swedish mortgages and the developments in the housing market persist.

10. In recent years, Sweden has experienced a significant and prolonged build-up of systemic risks linked to Swedish mortgages and residential real estate. Most of the vulnerabilities affecting the changes in the intensity of macroprudential risk or systemic risk are unchanged from those observed when the measure was previously extended. According to the Swedish FSA, the substantial level of systemic risk relating to the housing market and the persistence of macro financial vulnerabilities in Sweden are mainly linked to:

    - very high share of banks' exposures to mortgage lending to Swedish households, around 83% of banks' total lending to households;
    - overvaluation in housing prices supported by a previous long period of low interest rates, strong economic growth, rising real wages, a strong mortgage lending market and a limited supply of housing;
    - the persistence of household indebtedness and a high DTI;
    - the majority of mortgages (74%) being tied to variable interest rates.

11. Swedish mortgages continue to constitute an important and large part of Swedish banks' balance sheets and amount to about 64% of Swedish GDP. Consequently, the Swedish FSA argues that, in the event of a severe downturn in the Swedish economy or turbulence in the financial system, a negative dynamic may arise between the residential real estate market, the macroeconomic situation and banks' behaviour. This could have negative repercussions for the Swedish real economy and in the long run pose a threat to the stability of the banking system. Moreover, the Swedish FSA points out that Swedish banks have close links with other countries in the Nordic and Baltic regions, which would also be affected through cross-border spillovers.

12. To mitigate the above risks and vulnerabilities, some borrower-based measures apply in addition to the risk weight floor measure for mortgages:

a. From 2010, a loan-to-value (LTV) limit applies to new mortgage loans, which should not exceed 85% of the market value of the property;

b. From June 2016, households borrowing more than 50% of the residential property's value must amortise at least 1% of their mortgage a year, while households borrowing more than 70% must amortise at least 2%;

c. From March 2018, households borrowing more than 4.5 times their annual income before tax must amortise an additional 1% of their mortgage per year.

13. The calibration of the risk weight floor measure remains unchanged with respect to the current measures. The Swedish FSA has assessed that this calibration is set so that the minimum level for the average risk weight covers future loss levels in Swedish residential mortgages in a severe downturn with high financial stress, taking into account the broader systemic risks that could arise from spillovers. A risk weight floor of 25% is still considered to be adequate for this purpose, as the underlying risks have not materially changed since 2018 when the measure was originally calibrated.

14. The Swedish FSA estimates that the capital requirement that corresponds to a 25% average risk weight floor for Swedish mortgages is, in nominal terms, SEK 115 billion, or about 21% of the total capital requirement for the largest Swedish banks at the consolidated level. Thus, the risk weight floor has increased capital levels and created additional loss-absorbing capacity in the Swedish banking system.

15. The Swedish FSA considers that the proposed measure is necessary, suitable, effective and proportionate. The proposed measure is intended to ensure that important residential mortgage banks can withstand a potentially severe downturn in the housing market without restricting the supply of credit. The measure is deemed to be effective and proportionate as it targets those specific exposures that give rise to the risks linked to Swedish mortgages and residential real estate. The Swedish FSA assesses that the measure is suitable and effective, as it is intended to ensure a level playing field for all banks that operate in the Swedish residential mortgage market while also upholding resilience and safeguarding financial stability.

16. The Swedish FSA does not expect the measure to have a negative impact on the internal market. All significant lenders with IRB exposures to the Swedish mortgage market are consolidated in Sweden, though some lending occurs via branches of foreign banks. Therefore, the reciprocity in the application of the measure is assessed as necessary to avoid leakages and regulatory arbitrage, but also certain forms of competitive advantage. The Swedish FSA emphasises that a Memorandum of Understanding (MoU) on prudential supervision of significant branches applies to the Nordic-Baltic macroprudential network.[9] Further, an additional MoU on cooperation and coordination on cross-border financial stability was signed in 2018 by the ministries of finance,

[9] Memorandum of Understanding between FINANSINSPEKTIONEN (Sweden), FINANSTILSYNET (Norway), FINANSTILSYNET (Denmark), FINANSSIVALVONTA (Finland) and the EUROPEAN CENTRAL BANK on prudential supervision of significant branches in Sweden, Norway, Denmark and Finland of 2 December 2016 available at https://www.fi.se/contentassets/dbde31519a7543a18808d3db1deacb4e/mou-filialer-nordiska-lander-2016-12-19n.pdf

financial supervisory authorities, central banks, and resolution authorities of the Nordic and Baltic countries.[10] The Swedish FSA assesses that the continued presence of the measure will have a positive impact on the Internal Market as it will bring benefits to financial stability to the region by reducing and mitigating the macroprudential or systemic risk identified.

Rationale for not using alternative measures

17. Regulation (EU) No 575/2013 (CRR) and Directive 2013/36/EU (CRD) offer various options for addressing macroprudential or systemic risks. Article 458(2)(c) and (e) of that Regulation requires the designated authority to demonstrate that the stricter national measure is suitable, effective, and proportionate, and why other possible measures (i.e., under Articles 124 and 164 of the Regulation (EU) No 575/2013 and Article 133 and 136 of Directive 2013/36/EU) would be less suitable and effective than Article 458 of the CRR in dealing with the macroprudential or systemic risk identified.

18. The present notification reiterates the previous justifications for deploying Article 458 of the CRR, and that the measure under Article 458 of the CRR is the most appropriate for the Swedish FSA at this time, specifying that:

- Article 124 of the CRR does not apply to credit institutions using the IRB approach.

- Article 164 enables the competent authority to increase the exposure weighted average LGD floor applied by IRB banks on their mortgage exposures. According to The Swedish FSA, an increase in the LGD would widen the differences in risk weights between IRB banks and result in a disproportionate increase in risk weights for some banks. In addition, the Swedish FSA stressed that using Article 164 would increase the complexity of determining capital requirements and could reduce the transparency of IRB risk weights for market participants.

- Regarding Article 133 of the CRD, in relation to the systemic risk buffer (SyRB), the Swedish FSA states that it already applies a SyRB of 3% to all exposures of the three major banks to address the structural risks associated with the large, concentrated and interconnected banking sector in Sweden. The Swedish FSA assesses that a further increase in the SyRB would not address the systemic risks identified effectively or appropriately because the SyRB applies to all types of exposure. Regarding the sectoral application of the SyRB (sSyRB), The Swedish FSA argues that the sSyRB would not act as a floor, but rather as a multiplier in terms of nominal capital requirements, impacting most heavily on IRB banks with the highest risk weights and least heavily on IRB banks with the lowest risk weights. The size of the buffer required to generate the equivalent capital impact would also be extremely high and therefore challenging from both a communication and reciprocity perspective. Finally,

[10] Memorandum of Understanding on Cooperation and Coordination on cross-border financial stability between relevant Ministries, Central Banks, Financial Supervisory Authorities and Resolution Authorities of Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden of 31 January 2018 available at https://www.fi.se/contentassets/5529800727444fb0851249b985883373/samforstandsavtal-mou-finansiell-stabilitet-2018-01-31.pdf

due to the ongoing review of banks' internal models, sSyRB would be based on varying risk weights and, therefore, would require frequent recalibrations.

- Regarding Article 136 of the CRD, the countercyclical capital buffer (CCyB) is applied to all Swedish credit exposures and not just to mortgage exposures. The Swedish FSA considers the CCyB not to be appropriate as it would affect non-targeted exposures and penalise banks with the lowest share of relevant exposures in mortgage loans.

Assessment and conclusions

19. Based on the evidence provided by the Swedish FSA, the EBA takes note of the concerns raised regarding systemic risk relating to the housing market and the persistence of macroprudential vulnerabilities in the Swedish financial system. The EBA does not object to the extension of the current measure for 2 years or a shorter period if risks at stake cease to exist sooner.

20. The measure has been in place in one form or another since 2014, originally introduced through Pillar 2 and then replaced in 2018 by the current Article 458 measure. The EBA notes that the calibration of the measure has not changed since. According to the Swedish FSA, the risk weight floor of 25% continues to be adequate despite changes in the housing market, the macroeconomic environment and further macroprudential measures implemented since the application of the original measure.

21. The calibration is set so that the average risk weight floor covers future losses in Swedish residential mortgages in a severe downturn scenario with a high financial stress. Therefore, the EBA stresses the need to avoid overlaps with other requirements, in particular with the Pillar 2 Guidance (Article 104b Directive 2013/36/EU), which is set based on the outcome of stress tests.

22. The measure is set to address issues related to banks' repair of IRB models, which are still under review in Sweden, with an implementation timeline longer than originally expected. IRB models continue to generate risk weights for mortgage exposures that are relatively low, with concerns about unjustified variability between banks. The EBA understands that micro-prudential measures have been taken in Sweden 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 micro-prudential requirements and in particular 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.

23. Lastly, the introduction of relevant changes to the CRR will affect the risk weights for IRB banks, in particular the output floor under Article 92 of Regulation (EU) 575/2013, which will become fully applicable by January 2033. The EBA therefore invites the Swedish FSA to undertake a comprehensive assessment on the appropriateness of the notified measure taking into account the outcome of the internal model review and the impact of relevant changes to the CRR.

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

Done at Paris, 28 May 2025

[signed]

Jose Manuel Campa

Chairperson

For the Board of Supervisors