



REPORT

# Banks' administration of amortisation requirement exemptions

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16 June 2023



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## Foreword

Finansinspektionen (FI) received an assignment from the government to map the banks' handling of amortisation requirement exemptions. This report presents our findings.

FI presents the data and material we have gathered during dialogue meetings with the banks. We also describe the results of the mapping and account for FI's overall view of banks' possibilities to grant exemptions from the amortisation requirements. The analysis shows that banks have been using the possibilities of temporarily granting exemptions from the amortisation requirements more frequently than before. FI welcomes that banks have improved their processes for handling amortisation requirement exemptions as the number of cases has increased.

The current economic environment could lead to an increase in the number of exemptions in the future. FI will continue to monitor banks' handling of amortisation requirement exemptions.

Stockholm 16 June 2023

Daniel Barr  
Director General

## Summary

Banks have broadly handled amortisation requirement exemptions well. This is the conclusion of a survey Finansinspektionen (FI) conducted as an assignment from the government. Banks have improved their procedures for handling exemptions, which have increased due to increased pressure on households' finances and more widespread knowledge within society about the possibility of receiving an exemption. The banks' improved procedures are an adjustment to this change.

The assignment originated against the backdrop of high inflation and higher interest rates, which are putting pressure on households' personal finances. Given these circumstances, it is important to use the flexibility in the regulatory framework and that banks grant exemptions from the amortisation requirements when justified. FI will continue to monitor the banks' handling of amortisation requirement exemptions.

The possibility for banks to grant exemptions from the amortisation requirements given special grounds has been in place since the amortisation requirement was introduced in 2016.<sup>1</sup> *Special grounds* refers to mortgagors experiencing a significant deterioration in their financial circumstances.

It is the bank that decides in each individual case whether or not to grant a temporary exemption. One prerequisite that must be met for the bank to grant an exemption from the amortisation requirements is that the circumstances justifying the exemption must have occurred after the borrower received the mortgage and therefore was not present at the time the mortgage was granted.

Additional conditions are that the exemption must fall within the framework of good lending practice and that the bank must perform an individual assessment of the borrower's overall financial situation. Such an assessment must be based on adequate information about the borrower's situation, for example current information about the borrower's income, expenses and savings.

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<sup>1</sup> See section 11 of Finansinspektionen's regulations ([FFFS 2016:16](#)) regarding amortisation of loans collateralised by residential property.

## Background

In its letter of appropriation for 2023, FI received an assignment to map how mortgage providers handle the possibility of temporary exemptions in the amortisation requirements. The assignment is formulated as follows:

[FI] shall map how mortgage lenders have applied Finansinspektionen's regulations with regard to granting, in the presence of special grounds during the term of the credit, exemption from the amortisation requirement to a borrower for a limited period of time.<sup>2</sup>

This report describes the results of our mapping. The aim of the report is to present the data and the material that we have gathered from our dialogue meetings with the banks and account for FI's overall view of banks' possibilities for to grant exemptions from the amortisation requirement.<sup>3</sup>

The report is divided into three parts. We first describe in brief the amortisation requirements and their built-in flexibility. The next section then presents the banks' processes for handling the exemptions, and information about which groups of mortgagors were the most prominent among those granted exemptions. Finally, we account for FI's view on the banks' handling of the amortisation requirement exemption.

### Amortisation requirements

Access to mortgages is key in financing the purchase of a home. At the same time, large loans are associated with risks. The legislator therefore requires the banks to apply repayment terms that are consistent with a sound amortisation culture and prevent excessively high debt among households.<sup>4</sup>

In order to supplement the statutory requirements, FI decided, after obtaining the approval of the government, to implement regulations on amortisation requirements: Finansinspektionen's regulations (FFFS 2016:16) regarding amortisation of loans collateralised by residential property (hereafter the amortisation regulations). These regulations were tightened in 2018. The first amortisation requirement entails that households taking out a mortgage with a loan-to-value (LTV) ratio (the loan divided by the value of the home) of over 50 per cent must amortise 1 per cent of the loan per year. Households with an LTV greater than 70 per cent must amortise 2 per cent of the mortgage's original value. The stricter amortisation requirement entails that borrowers with a loan-to-income

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<sup>2</sup> See section 3.4 of [FI's Letter of Appropriation 2023](#) (in Swedish).

<sup>3</sup> We write bank or mortgage provider in the report to refer to the eight mortgage institutions that are included in the mapping.

<sup>4</sup> See Chapter 6, section 3b of the Banking and Financing Business Act (2004:297). There is also a requirement that banks do not contribute to financial imbalances on the credit market (Chapter 6, section 3c of the Banking and Financing Business Act).

(LTI) ratio (total mortgage divided by annual income before tax) above 450 per cent need to amortise an additional 1 per cent of the loan per year.

## Purpose of the amortisation requirements

The main purpose of amortisation requirements is to ensure that banks apply repayment terms that both are consistent with a sound amortisation culture and prevent excessive household debt. The regulation protects consumers since excessively large loans are a risk for the individual borrower. Amortisation requirements have an impact on how much the borrower both wants to, and may, borrow in that the borrower will most likely meet a liquidity restriction. By decreasing their debt over time borrowers may enhance resilience and reduce risks associated with indebtedness.<sup>5</sup> Large loans can also carry macroeconomic risks. A highly indebted mortgagor that is experiencing financial troubles may be forced or choose to reduce their consumption. From a macroeconomic perspective, this can be worrisome if a sufficiently large number of borrowers reduce their consumption simultaneously. This increases the risk of creating or amplifying economic downturns and deteriorating macroeconomic development.

FI has evaluated the effects of the amortisation requirement and other macroprudential measures on several occasions and using different methods.<sup>6</sup> The most recent evaluation was in 2021.<sup>7</sup> Due to the macroprudential measures in place, new mortgagors have borrowed less and bought less expensive homes than they otherwise would have.<sup>8</sup> The amortisation requirements have helped slow both loan growth and the rise in housing prices.<sup>9</sup> The amortisation requirements have also meant that households are more likely than before to amortise, which means that the loan burden for individual households is decreasing more quickly over time.<sup>10</sup> However, indebtedness has continued to increase sharply during the period.

## Exemptions from the amortisation requirements

According to the amortisation regulations, a lender is able to grant temporary exemptions from amortisation requirements on mortgages following an individual assessment. The regulations state that a temporary exemption may be granted if *special grounds* arise during the term of the loan.<sup>11</sup> Being granted an amortisation exemption presupposes that the circumstances that constitute special grounds must

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<sup>5</sup> How sensitive households are to higher interest rates, lower incomes, falling housing prices or higher subsistence costs is also dependent on the size of the households' liquid buffers; see Almenberg et al. (2021).

<sup>6</sup> See, for example, FI (2017), Andersson et al. (2018) and Andersson and Aranki (2019).

<sup>7</sup> FI (2021). See [Overall assessment of macroprudential measures](#) for a summary in English of the original report, which is in Swedish.

<sup>8</sup> Bäckman et al. (2023).

<sup>9</sup> Wilhelmsson (2022).

<sup>10</sup> Andersson and Aranki (2019).

<sup>11</sup> See section 11 of the amortisation regulations.

have occurred after a mortgage has been granted and thus did not exist at the time the loan was granted. It is up to the lender to assess in each individual case what constitutes special grounds, if such exist and if the exemption option should be utilised.

Exemptions due to special grounds assume, in other words, that the lender makes an *individual assessment* of the borrower's circumstances. During such an assessment, the bank needs to consider the borrower's overall financial situation. The assessment needs to be based on sufficient information, for example current information about income, expenses, and liquid financial assets. This means that an exemption typically can be motivated by a loss of income (for example unemployment or parental leave) or a sharp increase in costs. An application for exemption is handled as part of a lender's ongoing contact with their customers in the same manner as a lender makes decisions about deferring amortisation payments on loans that are *not* subject to amortisation requirements.

## Background to the exemption option

In the decision memorandum underlying the amortisation regulations (see the informational box "Description of the exemption options in the decision memorandum underlying the amortisation regulations"), FI cites examples of circumstances where the borrower's financial situation has significantly deteriorated and therefore can serve as a basis for exemption. These examples include unemployment, long periods of sick leave, and death in the immediate family. The decision memorandum states that this list of examples is not exhaustive and other situations could also entail a deterioration in the financial circumstances, as conveyed in the regulations.

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## Description of the exemption options in the decision memorandum underlying the amortisation regulations

The decision memorandum describes the exemption options as both an important consumer protection and a macroprudential tool.<sup>12</sup>

There is a risk of households becoming less resilient to negative shocks if there were no opportunities to permit an interest-only period. This can have major consequences for a household's finances and at an aggregate level lead to heightened macroeconomic risks. This would counteract the purpose of the regulations, i.e., to reduce the macroeconomic risks associated with highly leveraged households. On the basis of these reasons, mortgage firms can already allow a borrower to refrain from amortising for a limited period of time if there are special grounds. However, this requires that the circumstances that constitute special

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<sup>12</sup> See [the decision memorandum](#) for the amortisation regulations, pp. 54-55.

grounds occur after a mortgage has been granted and thus do not exist when the loan is granted.

It would be far too difficult to attempt to specify in the regulations all of the specific reasons and circumstances that would give rise to an exemption. Every household has its specific situation, which means that various perceivable negative scenarios have a different overall impact on each household's financial situation. FI therefore takes the position that the mortgage providers should be given the flexibility to determine what constitutes special grounds on a case-by-case basis. Mortgage providers have extensive experience of dealing with borrowers who are experiencing financial difficulty and are therefore well-prepared to decide whether the problem is of such a nature that a mortgage holder may be allowed to refrain from amortising for a limited period. Thus, clarification of exactly which circumstances constitute special grounds is not necessary.

There are many circumstances and situations that could constitute special grounds for allowing a borrower to refrain from amortising for a period. Typical situations are unemployment, long periods of sick leave and death in the immediate family. Although the changed circumstances that can affect a borrower may be of a permanent nature, an exemption from the amortisation requirement is to be temporary and regularly evaluated by the lender. The purpose of the amortisation requirement is to reduce the macroeconomic risks associated with highly leveraged households. Allowing highly leveraged households to have a permanent exemption from the amortisation requirement would counteract this purpose. However, an exemption could be granted for several years if the grounds persist.

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## Earlier communication about exemptions

The regulation assumes that it is not possible to predict all situations that could justify an exemption, and the situations listed by FI are merely examples. Since the amortisation regulations were introduced, however, FI has provided additional guidance on the provision and noted that parental leave (2016)<sup>13</sup> and separation (2018)<sup>14</sup> are also the type of circumstances that *could* constitute special grounds if they have resulted in *a significant deterioration in the borrower's financial situation since the loan was granted*.

At the beginning of September 2022, FI received an assignment to evaluate the effects of borrower-based measures during periods of high inflation and rising

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<sup>13</sup> <https://www.fi.se/sv/publicerat/nyheter/2016/amorteringskrav-vid-foraldradighet/> (in Swedish).

<sup>14</sup> See [the decision memorandum](#) *A stricter amortisation requirement for households with high loan-to-income ratios*, p. 53.



interest rates. In its report to the government in October 2022, FI accounted for how borrower-based measures are intended to work over time, for example during different parts of the business and credit cycles.<sup>15</sup> In this report, we also noted that amortisation requirements are primarily structural measures that are meant to reduce the probability that the financial system will become unstable and financial imbalances large. FI emphasised in the report that an option to receive a temporary amortisation exemption is included in the amortisation regulations. The exemption is to be used by lenders when borrowers experience a significant deterioration in their financial circumstances.

Later in the autumn of 2022, during a period of sharply increasing electricity prices, we clarified that even other circumstances could generate a significant deterioration in borrowers' financial circumstances and therefore constitute special grounds for exemption, for example a sharp increase in the borrower's expenses. At the same time, FI noted that an increase in interest rates *by itself* does not constitute special grounds.<sup>16</sup>

In March 2023, we published our annual report *The Swedish Mortgage Market 2023*.<sup>17</sup> In conjunction with the report we also published a summary of what we had observed so far in this mapping, updated statistics of exemptions, and an additional notice to lenders that exemptions require an individual assessment based on sufficient information.<sup>18</sup> FI also noted that, as with all other credit processing, lenders are responsible for identifying, governing, internally reporting and exercising control over their credit risk when handling exemptions from the amortisation requirement. Lenders are also responsible for considering consumer protection and making the necessary assessments according to current regulations.

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<sup>15</sup> See FI (2022).

<sup>16</sup> <https://www.fi.se/sv/publicerat/nyheter/2022/om-undantag-fran-amorteringskravet/> (in Swedish).

<sup>17</sup> FI (2023a).

<sup>18</sup> FI (2023b).

## Banks' handling of exemptions

At the end of 2022, FI started a series of individual dialogue meetings with the large banks to follow up on their handling of the exemption option. The state of the economy – with high inflation, exceptionally high energy prices, rising interest rates and falling housing prices – was putting pressure on households' finances. The change in the economy meant that more borrowers were experiencing a significantly more difficult situation than had been the case in a long time.

### Banks' processes for handling applications have improved

According to the banks, since the autumn of 2022, more mortgagors than before have been turning to their mortgage provider to ask for advice. The customers' questions cover multiple areas that impact their personal finances, including amortisation payments and banks' possibilities to grant exemptions from the amortisation requirements. Many of the customers seeking advice are not subject to the amortisation requirements, but in the current situation still have a need for advice and support on various matters from their lender.

It is not only the need for advice that has increased among borrowers during this period. There is also greater awareness about the possibility of receiving an exemption. In the autumn of 2022, when the change in the economy became more obvious for an increasing number of mortgagors, more information about the possibility of an exemption was spread. From having mostly handled amortisation exemptions in a standardised manner, with decisions often linked to individual criteria such as unemployment, banks had to start to review their processes in the autumn of 2022 to a larger extent.

Our assessment is that banks' processes have gradually become more efficient and suited to their purpose. Many banks initially experienced problems handling more requests than normal from their customers. At first this led to a more ad hoc handling, but over time it has become more uniform within the banks.

The overall view from our dialogue meetings with the banks is that the handling of the exemption option for the most part functions well today. Banks have started or improved internal processes for

- informing their customers about situations that could constitute special grounds
- advising customers on how they should view amortisation compared to other savings, depending on their financial status
- handling applications by requesting information and assessing each individual customer's finances.

During our dialogue meetings, banks have primarily highlighted that they have experienced difficulties in handling parental leave and interpreting the phrase *significant deterioration in financial circumstances* in the amortisation regulations in conjunction with the exemption.

It is the lender who decides whether exemptions from the amortisation requirement are to be granted. Different lenders reach different assessments in their decisions related to exemptions, in part because they have different business models for their lending. Such conditions impact the outcomes in a similar manner as to when lenders decide on how much they are willing to lend to different borrowers, and at what terms.

### Which borrowers are granted exemptions?

There were many different types of customers who contacted their bank to request an exemption, particularly during the autumn of 2022. Initially, many customers wanted to reduce their amortisation payments, citing, for example, higher interest rates as a reason, even if they had not experienced a significant change in financial circumstances, as set out in the amortisation regulations. At that point in time, many chose not to submit an application when they were informed that they needed to do something themselves, for example set up a budget that the lender could review and use as a basis for assessment.

In the early spring of 2023, several banks were indicating that the *type of customer* who was requesting exemptions more frequently had a similar financial situation as described in the decision memorandum to the amortisation regulations. Lenders have described the type of customer who *receives exemption* as a household that has experienced a drop in income, or a minor drop in income combined with a sharp increase in expenses.

The banks state that the most common reasons for why mortgagors are considered to have experienced a significant deterioration in their financial circumstances, and thus have been granted exemption, are loss of income or a combination of loss of income and a sharp increase in expenses. There are also cases where a sharp increase in expenses on its own has been the deciding factor for determining that a mortgagor has experienced a significant deterioration in financial circumstances and received an exemption. It is not possible to define the exact extent to which different motivations have led to an exemption since banks as a rule do not save this type of information in an easily accessible manner.

The typical customer that *is denied an exemption* is a borrower with fundamentally strong finances that would like to stop amortising instead of adapting their consumption to the current state of the economy with high inflation and higher mortgages. The banks state that the most common reason that lenders do not grant exemptions is that the borrower is judged to continue to have significant financial

margins despite their weaker finances. Often, this is because their income is still larger than their expenses. In some cases, it is because they have significant buffers in the form of liquid financial assets. The borrower's financial circumstances have thus not deteriorated to an extent that the lender determines that there are special grounds on which to grant an exemption from the amortisation requirements.

Lenders also make the assessment that it is beneficial for the customer to continue to amortise in accordance with the requirements even though their financial circumstances have deteriorated, for example because their LTV has risen as a result of falling housing prices or because the reduction in interest expenses from amortisation is beneficial compared to other types of savings.<sup>19</sup>

### The number of granted exemptions has increased

In conjunction with its dialogue with the banks, FI has gathered data on the number of exemptions from the amortisation requirements, as well as additional information about lenders who were granted exemptions. In order to put these numbers into perspective, approximately half of the borrowers at the eight largest banks are subject to the amortisation requirements. This corresponds to around 1.2 million households.<sup>20</sup> The number of newly granted exemptions due to special grounds during the period January 2022–April 2023 was approximately 25,000.<sup>21</sup> At the end of 2021 and the first half of 2022, the number of exemptions ranged between 600 and 800 per month (see Diagram 1). Between August and September, the number of granted exemptions doubled and continued to increase during the remainder of 2022. The average per month between September 2022 and April 2023 was approximately 2,500 exemptions, which corresponded to the quarterly figures between Q4 2021 and Q3 2022. The highest number was noted in January 2023. Since then, the number has declined slightly. The number of exemptions granted in April was the lowest in more than six months and was approximately in line with the number from October 2022.

Many borrowers sought information about the possibility of receiving an amortisation exemption in September 2022, which our data also reflects. Starting in September, both the number of applications and granted exemptions gradually rose. This can primarily be explained by two factors. The first is greater demand from customers. When personal finances are subjected to increasing pressure from higher costs and higher interest rates at the same time as it becomes more well-

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<sup>19</sup> The LTV here refers to the mortgage in relation to the home's estimated market value. It differs from the LTV used for the amortisation requirement, which refers to the mortgage relative to the value of the home when the original loan was granted.

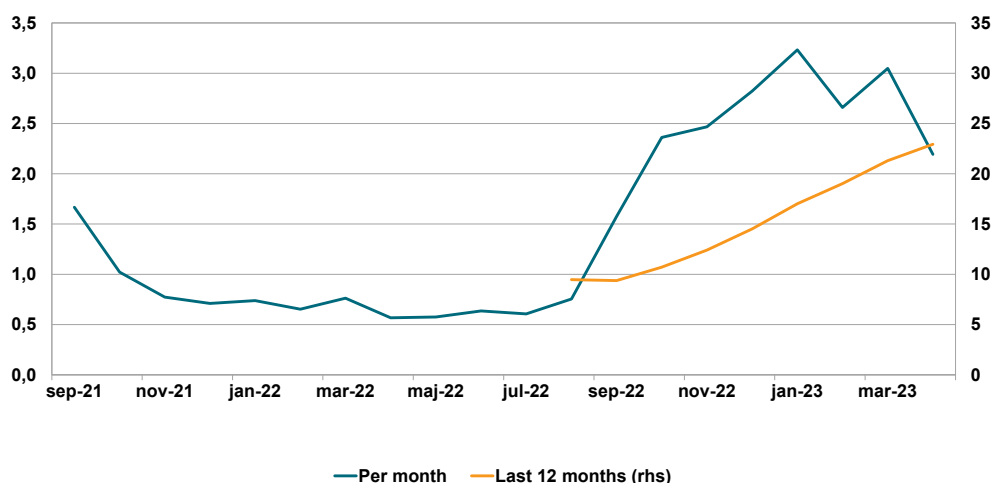
<sup>20</sup> Refers to aggregate data in our mortgage market survey; see FI (2023a). Most recent information is for Q3 2022.

<sup>21</sup> We do not have information about which of these exemptions are new and which are extensions of previous applications. Some of the exemptions granted in 2023 can reasonably be expected to be extensions, given that some banks chose to grant exemptions for a shorter period.

known throughout society that it is possible to be granted an exemption, more borrowers apply for exemptions. The second is the banks' improved processes for granting exemptions, which make it easier to provide information about and advice to their customers, handle applications and make individual assessments.

### 1. Granted exemption due to special grounds

000's



Source: FI.

Note: The yellow line refers to the sum of the total granted exemptions, rolling over 12 months.

None of the banks have complete information about everyone applying for an exemption. In addition, they handle the exemption option differently. The information that is available is therefore not fully comparable between banks. Some lenders have chosen to focus on giving the customer information in an initial dialogue, during which they largely filter out requests for exemptions that would not be granted. As a result, basically all the applications for exemptions that are registered are also actually granted. Other lenders have instead chosen to handle the applications with digital and centralised application processes.

Sometimes borrowers also reduce their amortisation payments in other ways than utilising the amortisation exemption. For example, borrowers can amortise less when their LTV or LTI ratios fall below the thresholds stipulated in the amortisation requirements. This occurs when a sufficient proportion of the loan has been amortised or following a revaluation of the home.<sup>22</sup> It is also relatively common for borrowers whose amortisation payments are not determined by the requirements to renegotiate their amortisation and receive permission from the bank to deviate from the previously decided amortisation terms. This type of

<sup>22</sup> It is possible to revalue a home every five years, which impacts the LTV ratio, and thus whether continued amortisation is required according to the regulations.

amortisation relief is significantly more common than exemptions due to special grounds.

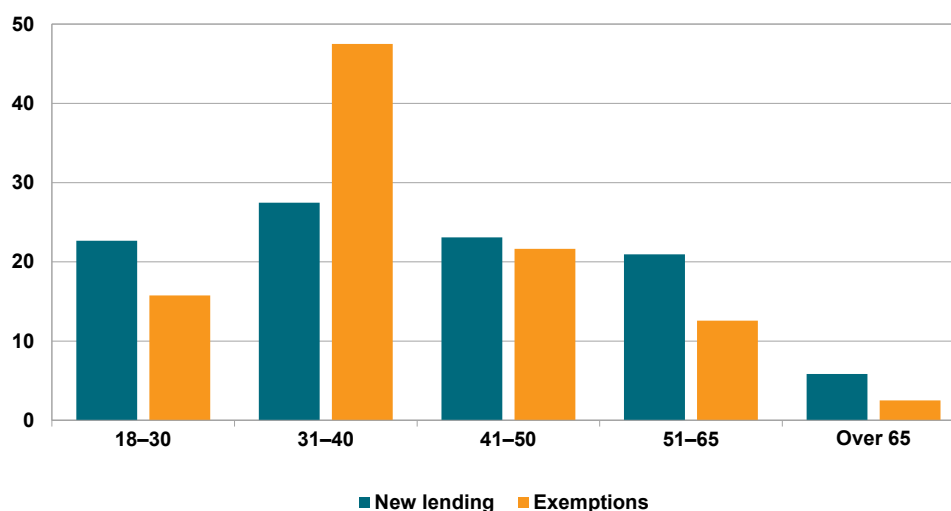
### Certain groups more likely to receive exemptions

Based on data from the banks, we can better describe the groups of borrowers that were granted exemptions. We compare the distribution of granted exemptions to the distribution of the banks' new lending over the past few years. We use data from the survey of new mortgagors gathered for FI's report on the Swedish mortgage market.<sup>23</sup>

Barely half of the mortgagors that received exemptions in Q4 2022 and Q1 2023 were in the age group 31–40 (see Diagram 2). In terms of number of borrowers, this age group is overrepresented among those who were granted an amortisation exemption; it is relatively less common with exemptions in other age groups.

#### 2. Exemptions more common in age group 31–40

Per cent



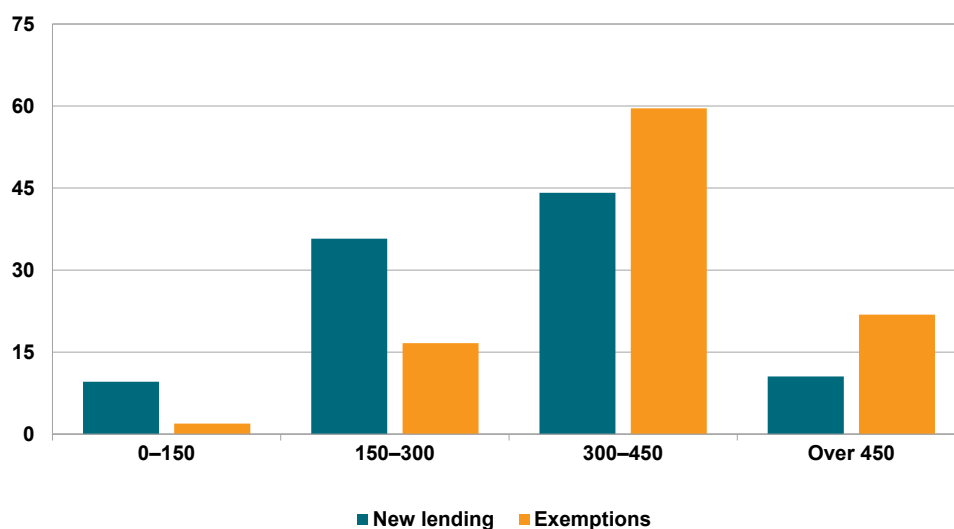
Source: FI.

Note: The percentages are calculated using the number of households. *New lending* refers to survey data for the period 2016–2022 for borrowers covered by the amortisation requirements. *Exemptions* refers to amortisation exemptions on special grounds.

<sup>23</sup> The mortgage market survey includes all new mortgage agreements entered during two weeks in early autumn, at the eight largest mortgage institutions. The survey samples were gathered in 2009 and 2011–2022. For more information, see FI (2023a).

### 3. Exemptions are most common for borrowers with higher LTI ratios

Per cent



Source: FI.

Note: *New lending* refers to survey data for the period 2016–2022, for borrowers covered by the amortisation requirements. The LTI ratio in the sample on new lending includes all of a mortgagor's loans. *Exemptions* refers to amortisation exemptions on special grounds.

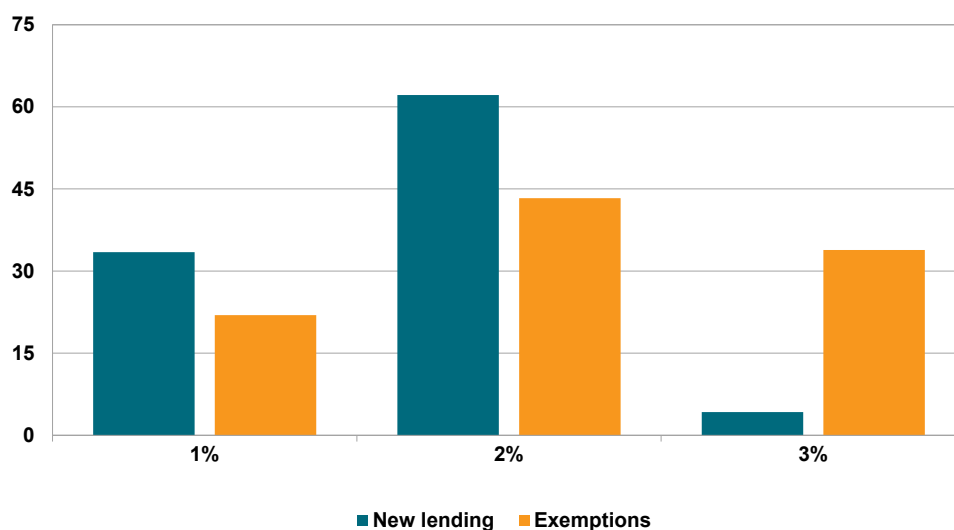
Borrowers with high LTI ratios and high LTV ratios are more likely to have been granted an exemption. Around 60 per cent of the borrowers who were granted an exemption in the past six months have an LTI ratio of between 300 and 450 per cent (see Diagram 3).<sup>24</sup> This is a larger percentage than if the distribution of exemptions were to correspond to the distribution of new lending in the survey. Among borrowers with higher LTI ratios (above 450 per cent of gross income), it was more than twice as common to be granted an amortisation exemption compared to what the distribution in new lending would indicate.

In terms of LTV ratios, borrowers with an LTV between 50 and 70 per cent and higher than 85 per cent were most common among those granted exemptions. Borrowers with an LTV less than 50 per cent are subject to the amortisation requirements if they have an LTI higher than 450 per cent. Borrowers with an LTV less than 25 per cent were underrepresented among those granted exemptions. The percentage of borrowers with LTV ratios between 25 and 50 per cent that were granted an exemption, however, was in line with the percentage in new lending.

<sup>24</sup> The LTI ratio in new lending refers to all loans that new mortgagors have at the point in time when the new loan is granted; see FI (2023a).

#### 4. Exemptions more common among borrowers with higher amortisation requirements

Per cent



Source: FI.

Note: *New lending* refers to survey data for the period 2016–2022 for borrowers covered by the amortisation requirements. *Exemptions* refers to amortisation exemptions on special grounds.

Borrowers that amortise 3 per cent were eight times more likely to be granted an exemption than if the distribution of exemptions were to correspond to the distribution in new lending (see Diagram 4). It was also these borrowers that had some of the highest debts. Borrowers with lower amortisation rates were underrepresented compared to the distribution in new lending.

Among borrowers granted exemptions, the percentage of borrowers who lived in major cities was overrepresented. It was also most common for relatively new loans to receive an exemption. More than half of the borrowers that were granted an exemption had taken out or increased their loan in 2021 or 2022. More than half of the borrowers that were granted an exemption were households consisting of cohabitants with children. The percentage of single-person households without children granted an exemption was smaller than this group's share of new lending. In terms of the collateralised object, exemptions were granted more or less equally to borrowers that live in single-family homes and tenant-owned units as in the corresponding distribution in new lending.

It was less common for exemptions to be granted to borrowers who at the time the loan was issued had a discretionary income of more than SEK 10,000, but it did occur.<sup>25</sup> However, it was twice as common for exemptions to be granted to

<sup>25</sup> Part of the credit assessment is that the bank calculates the discretionary income, which is based to the greatest extent possible on actual income and expenses. The banks also use



borrowers who at the time the loan was issued had negative discretionary income. Almost two-thirds of those that were granted an exemption had a gross income of between SEK 30,000 and SEK 50,000 per person. The income distribution for those that have received exemptions is relatively similar to the distribution for new mortgagors. There is some overrepresentation among borrowers with income of less than SEK 20,000 and among borrowers with income between SEK 30,000 and SEK 50,000.

More than half of the borrowers that have received exemptions amortised on average SEK 2,500 or less each month. This can be compared to a figure of approximately 70 per cent among new borrowers. A small percentage of those granted exemptions amortised more than SEK 5,000. However, the percentage is significantly larger than what the corresponding shares in new lending would indicate. Similarly, borrowers with a debt service ratio of more than 20 per cent, i.e., more than 20 per cent of the borrower's income goes to interest and amortisation payments, are strongly overrepresented among those that were granted exemptions.<sup>26</sup>

### Exemptions of four to twelve months most common

Approximately 95 per cent of those that were granted exemptions in the past six months received one for a maximum of twelve months (see Diagram 5). How long the exemption periods are, though, varies significantly between banks. Most exemptions are for four to twelve months.

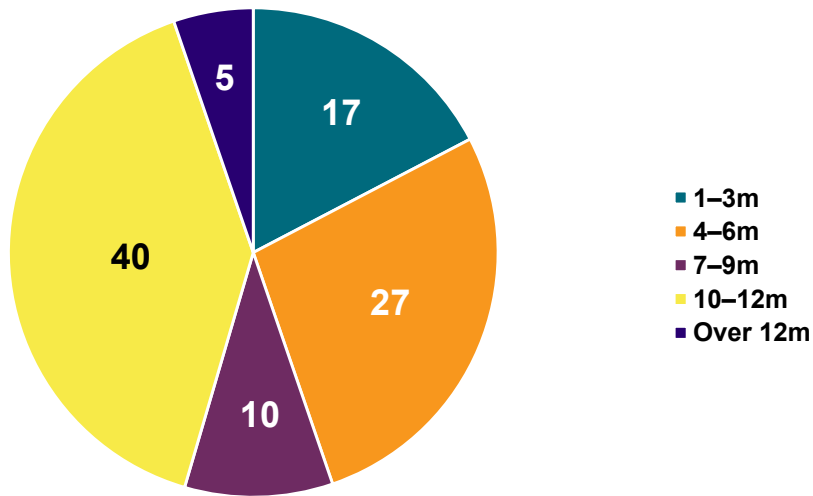
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standards to estimate some costs, for example subsistence costs and operating expenses for the home. See FI (2023a) for a more detailed description.

<sup>26</sup> The debt service ratio measures interest and amortisation payments as a percentage of disposable income. The debt service ratio refers to both mortgages and other loans; see FI (2023a).

5. Most borrowers are granted exemptions of less than one year

Per cent



Source: FI.

## FI's view on banks' handling

Our mapping shows that banks' handling of the amortisation exemption options primarily works well. The banks' processes for handling exemptions have improved over time. The number of exemptions has also increased over time. This increase is in part due to increased pressure on households' finances as well as more widespread information within society about the possibility of receiving exemptions from amortisation requirements. The changes to the economy over the past year are the first test of the exemption in practice. Banks are handling exemptions in a more uniform manner within each bank. In our dialogues, the banks also indicate that they will continue to adapt their processes so as to meet the changing conditions. At the same time as the number of exemptions has increased sharply over the past year, the number of consumer complaints submitted to FI and the Swedish Consumers' Banking and Finance Bureau is basically zero.

FI has previously emphasised the importance of flexibility in the amortisation requirements and that banks should be able to grant exemptions. As we have stated previously, an exemption due to special grounds requires that the circumstances that justify the temporary exemption from the amortisation requirement have occurred after a mortgage was granted and did not exist at the time when the loan was issued. Another requirement is that the exemption falls within the bounds of good lending practice and that the lender makes an individual assessment of the borrower's circumstances. In order for the individual assessment to achieve its purpose, it is important that it be based on sufficient information, for example current information on the borrower's income, expenses and liquid financial assets. It is not enough to assess how these factors have changed to determine if the borrower's financial circumstances have deteriorated significantly.

A given cost increase has very different effects on borrowers with different incomes. Along the same lines, a temporary reduction in income has different impacts on borrowers' circumstances depending on whether an individual borrower has significant liquid financial wealth or only a small buffer of savings. One example is the handling of unemployment, another example is the handling of parental leave. Here, just like in other cases of a drop in income, and as described above, a bank must always make an individual assessment of the borrower's circumstances based on sufficient information about their finances. The drop in income can impact different borrowers differently, and it is also possible in this respect for the borrower to have an influence. The length of the amortisation exemption granted to a borrower is also important. If the exemption period is too short, the borrower will not be able to adjust. If the exemption period is too long, the exemption counteracts the aim of the amortisation requirement – to reduce the macroeconomic risks associated with highly leveraged households. The mapping shows that most borrowers are granted exemptions from the requirements for a

period of four to twelve months. Exemptions can be granted for several periods and thus apply for a number of years, if the grounds persist.

The condition for the lender to be able to assess that there are special grounds is that the borrower's *financial circumstances have significantly deteriorated*. As FI previously noted, the examples we have listed are not exhaustive. There are multiple circumstances that could entail that a household *experiences a significant deterioration in their financial circumstances*.

Conducting an individual assessment using sufficient information also means that it is not possible to determine in advance exactly what kind of decisions various types of future events will result in. The banks have considerable experience in handling borrowers that have experienced financial difficulties. They are therefore well-equipped for being able to determine if the problems are of such a nature that a mortgagor may be granted an amortisation exemption for a limited period of time. It is always the lender who ultimately decides to grant an exemption based on special grounds. When lenders assess the conditions for amortisation exemptions, they take responsibility for – just like with all other lending-related administration – also identifying, governing, reporting internally and exercising control over their credit risk, considering consumer protection, and making the assessments required under current regulations.

FI also notes that the mortgage lenders must comply with other normal procedures and regulations associated with lending-related administration. FI therefore makes the assessment that additional clarification regarding exactly which circumstances constitute special grounds is not needed.

Given that the economy is putting pressure on borrowers, and more are experiencing significant deterioration in their financial circumstances, the possibility of being granted temporary exemption from the amortisation requirements may be used more frequently in the future. FI welcomes that the banks are improving their processes for handling amortisation requirement exemptions as the number of cases increases. FI will continue to map banks' handling in our annual in-depth analysis of the Swedish mortgage market.

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