

23.8.2019

General Board of the European Systemic Risk Board  
Chair, Mr. Mario Draghi  
cc: Head of the ESRB Secretariat, Mr. Francesco Mazzaferro  
Sonnemannstrasse 20  
60314 Frankfurt am Main  
Germany

Ref: ESRB/2019/8

### Response to the Recommendation of the European Systemic Risk Board

Dear Chair,

Regarding the Recommendation of the General Board of the European Systemic Risk Board (ESRB/2019/8) on *medium-term vulnerabilities in the residential real estate sector in Finland*, I take the opportunity to note the following.

The government of Finland thanks the ESRB for the Recommendation. We will carefully study its content and consider appropriate measures with other relevant authorities.

One conclusion in the recent ESRB assessment, referred to in the Recommendation, is that household indebtedness in Finland is higher than it was in 2016, a year when the ESRB warned<sup>1</sup> Finland on the same vulnerabilities. The increase in indebtedness has partly been accounted for by loans to housing companies (which are repaid by households and other investor-shareholders in these companies). Finnish authorities largely share this observation and the concerns related to it.

As listed in the Recommendation, several measures have been introduced by the Finnish national authorities since 2016. The measures include inter alia an *average risk weight floor* of 15 % for housing loans for credit institutions (utilizing internal ratings-based approach), the imposition of a *systemic risk buffer* on all credit institutions and the tightening of the *loan-to-value ratio* (LTV) to 85 % for other than first-time buyers.

The Recommendation essentially suggests the inclusion of legally binding borrower-based income-related measures in Finnish law such as *debt-to-income* (DTI) or *debt-service-to-income* (DSTI) ratio, and after that, the activation of such tool. The current legislation in Finland does not include these measures.

Given the continued worrisome trend and high level in household indebtedness, and in addition to the above-mentioned measures, the Ministry of Finance of Finland established a working group of experts last autumn. The task of the working group is to assess different measures in order to prevent and

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<sup>1</sup> (ESRB/2016/08)

reduce excessive household indebtedness and its possible negative consequences. The working group will study the effectiveness of various tools based on international experiences and propose necessary legal amendments. The term of the working group will expire at the end of this month.

I am looking forward to seeing the output of the working group first and will then consider their proposals together with the content of your Recommendation, which is highly appreciated.

Yours sincerely,

Minister of Finance, Finland

A handwritten signature in black ink, appearing to read 'Mika Lintilä', written in a cursive style.

Mika Lintilä