

Q&A on housing market recommendation

Q: What action is the Systemic Risk Council recommending that the Government take?

A: The Systemic Risk Council recommends to the Government to restrict Danish homeowners' access to interest-only loans. Specifically, it is proposed that homeowners must amortise on their housing debt if the loan-to-value ratio of the home exceeds 60 per cent. The measure applies to new housing loans, and the effect of the measure therefore depends on the number of new loans granted.

Q: What is the purpose of the Council's recommendation?

A: The primary purpose of the initiative is to increase the resilience of homeowners – and the Danish economy – to falling house prices, increasing interest rates and other negative economic shocks that may impact the individual homeowner or Danish economy more generally.

The low nominal interest rates in Denmark and Europe allow Danish homeowners to take on very high levels of debt relative to their income. The continued widespread use of interest-only loans exacerbates this trend. When both short-term and long-term interest rates are low, the mortgage debt amortisation is, in practice, what determines how much potential home buyers can pay for a home. An amortisation requirement for the highly indebted homebuyers will cap the level of debt that they can take on.

Q: Why does the Council think that the recommendation should be made now?

A: The amortisation requirement strengthens the resilience of homeowners by addressing a structural problem in the housing market. Addressing risks before they materialise constitutes due care, and, with the low interest rates, the housing market structures can be improved without significantly impacting homeowners' finances.

Housing price projections are currently pointing towards a lower price growth as their central estimate. However, the significant housing market activity has increased the uncertainty of these predictions. House prices have quickly reached a high level in the past year, which leads to a risk of continuing price growth. Furthermore, it leads to a greater risk of subsequent price falls. A long, continued period of rising house price increases the risk of growing imbalances.

Q: Which homeowners will be affected by the measure?

A: Mortgage loans with interest-only loans are popular in Denmark. The measure will therefore affect highly indebted homeowners in all income segments throughout the country.

Q: Will pensioners be restricted of their access to home equity release?

A: No. Many pensioners have a low loan-to-value ratio, and they consequently do not have to increase their repayments. The reason may be that they have been paying off their housing debt for many years, while rising house prices have increased the value of their property.

Q: Why has the measure not been designed so that it only impacts areas in Denmark that have seen substantial house price increases?

A: History has shown that housing market crises are not confined to the areas with the highest prices. Peripheral areas were particularly hit hard in the years following the financial crisis. With this measure, the Council wishes to increase homeowners' resilience to falling house prices, rising interest rates and other negative economic shocks in all parts of Denmark. However, more

homeowners in the areas in which prices have risen the most and where loan-to-value ratios are high will have to increase their repayments relative to other homeowners.

Q: Is there not a risk that the proposed changes will spark a crisis in the housing market?

A: The Council finds that the initiative will have only limited impact on house prices.

Q: Is the Government obliged to follow the Council's recommendation?

A: No. The Government is required, within a period of three months, to either comply with the recommendation or to present a statement explaining why the recommendation has not been complied with.

Q: How quickly can you expect to see the effect of the measure?

A: The measure applies to new housing loans, and the effect of the measure therefore depends on the number of new loans granted. The Council will continuously monitor whether the measure has the intended effect.