

## COMPETITION IN THE SWEDISH MORTGAGE MARKET HEATS UP

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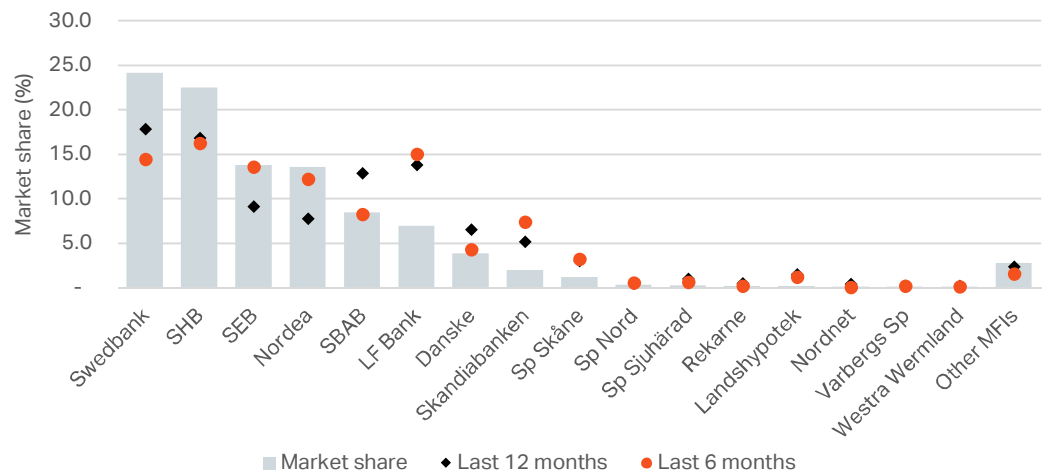
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Competition for Swedish mortgage customers continues to increase, driving down bank margins. Meanwhile, revelations about money laundering at Sweden's largest mortgage bank accelerated a fall in the bank's market shares, benefitting smaller banks which have avoided negative headlines that have affected their larger peers (see Figure 1). Swedish housing prices turned upwards during the first half of 2019, erasing previous losses and returning the market to year-on-year gains. Most of these gains occurred in the first quarter of the year (see three- and six-month compound annual growth rates (CAGRs) in Figure 2), and Nordic Credit Rating (NCR) projects slower growth in the second half.

NCR intends to update this analysis of the Swedish mortgage and housing markets quarterly, providing transparency about the market and the underlying impact on banks' market shares.

Figure 1. Swedish household mortgage market shares and marginal market share over the last 6 and 12 months, June 2019



Source: Statistics Sweden, NCR analysis

Figure 2. Cumulative average growth rate of Swedish housing price indices, as of June 2019



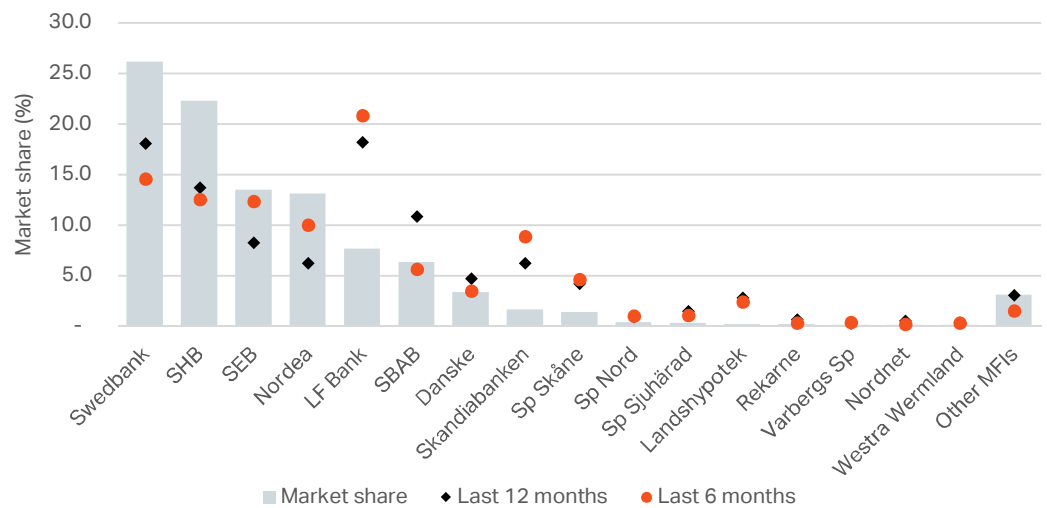
Source: Valueguard HOX Index, NCR analysis

### MARGINAL MARKET SHARES DEMONSTRATE ONGOING CHANGE

Over the past few years, some of Sweden's largest mortgage lenders have faced public scrutiny for one reason or another. The latest, and most notable for the Swedish mortgage market, has been Swedbank's issues with money laundering. Such concerns have created growth opportunities for Länsförsäkringar Bank (LF Bank), SBAB and Skandiabanken, enabling them to take market share on new lending or to convert existing customers (see Figure 1).

The opportunity for growth is particularly strong in the market for Swedish houses (comprising two-thirds of mortgage loans), where Swedbank's existing market share of 26.1% is 12pp higher than its market share in 2019. LF Bank has been the market leader over the last 12 months and had a dominant 21% of the segment in 2019. Furthermore, Landshypotek Bank, a newcomer to residential mortgage lending, has used its rural and agricultural focus to attract nearly 3% of the marginal market for single-family homes over the last 12 months (Figure 3). Finally, Sparbanken Skåne, the only savings bank licensed to issue covered bonds, had a market share of 4.2% over the last 12 months, three times its overall market share, while other Swedish savings banks with sufficient capital positions to increase their mortgage books are improving their market positions from modest levels.

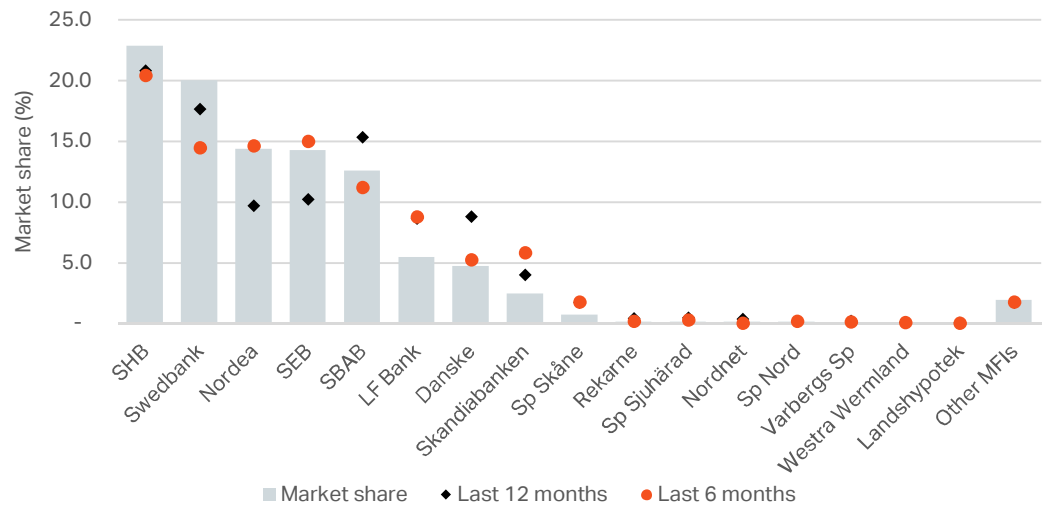
**Figure 3. Market shares of loans for Swedish houses and marginal share of the market over the last 6 and 12 months, June 2019**



Source: Statistics Sweden, NCR analysis, NCR analysis

Market shares of mortgage loans for flats remain closer to their historical levels. While Swedbank has lost market share, other players, including mainly metropolitan SBAB, are largely maintaining their historical positions. While mortgage loans for flats are only a third of the overall mortgage market, it is notable that flats comprise 45% of new mortgage loans since 2011 due to significant increases in value as well as high levels of newly-produced apartment housing across Sweden.

Figure 4. Market shares of loans for Swedish flats and marginal share of the market over the last 6 and 12 months, June 2019



Source: Statistics Sweden, NCR analysis

Missing from these market share graphs is the growth of Stabelo, Hypoteket, MittBolån and others which are not considered monetary financial institutions, but which have demonstrated potential to finance mortgage loans outside of banks and the typical covered bond-financed mortgage market. However, the increased competition has contributed to lower mortgage margins for all mortgage lenders, with most recent data showing a 1.44% average margin compared to a peak of 1.71% in December 2017 (see Figure 5).

Figure 5. Swedish bank's lending margins for residential mortgage loans, June 2019



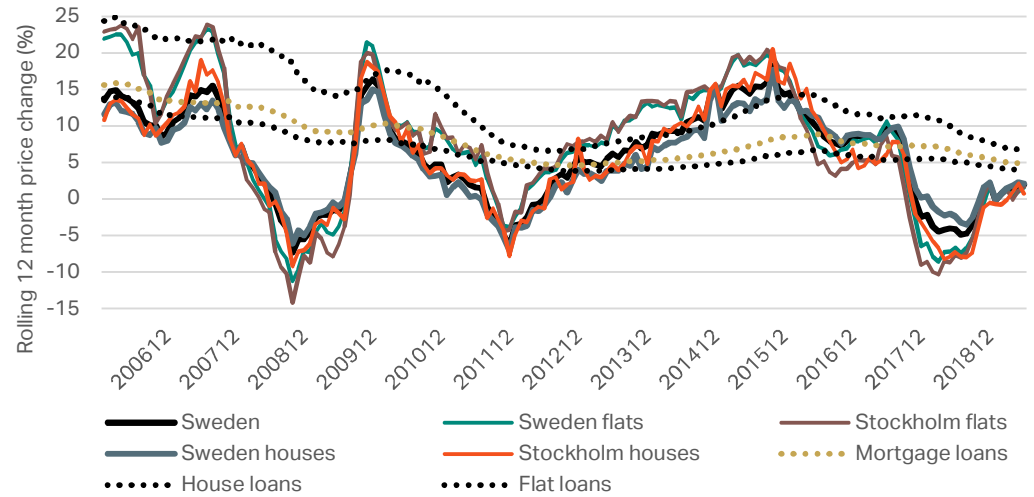
Source: Finansinspektionen

**MORTGAGE LOAN GROWTH IS SLOWING, BUT CONTINUES TO FAR EXCEED PRICES**

Valueguard's HOX index shows positive housing price growth for all 11 of its indices in the last 6 and 12 months. Most of these gains occurred in the first quarter of the year (see three- and six-month compound annual growth rates (CAGRs) in Figure 1). While the Stockholm and Gothenburg single-family home indices fell in the second quarter, they were driven by a one-month fall in June and as such cannot be considered a trend. In fact, data presented this week by Svensk Mäklarstatistik showed a slight upward trend including July transactions. NCR expects the market to continue to move toward 4-5% nominal growth for the year, indicating a reduction in the growth rate through the first half of 2019.

While there is typically a high correlation between mortgage lending and prices, increases in the housing stock and loans for newly-produced housing have contributed to materially higher loan growth (see Figure 6). Since 2005, the stock of household mortgage loans has grown 3.2 times, compared with a 2.3 times improvement in housing prices. The stock of mortgage loans for flats has grown 6.1 times over the same period compared with a 2.9 times improvement in flat prices. It is also likely that increasing valuations of homes have allowed customers to use home equity by mortgaging existing properties to finance renovations or to purchase cars, boats, summer houses and other debt-financed consumption.

Figure 6. Rolling 12-month loan growth by type and rolling 12-month change in housing price indices, 2006-June 2019



Source: Statistics Sweden, Valueguard HOX Index, NCR analysis

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