



Swedish Covered Bonds Withstand Higher Mortgage Rates

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S&P Global
Ratings

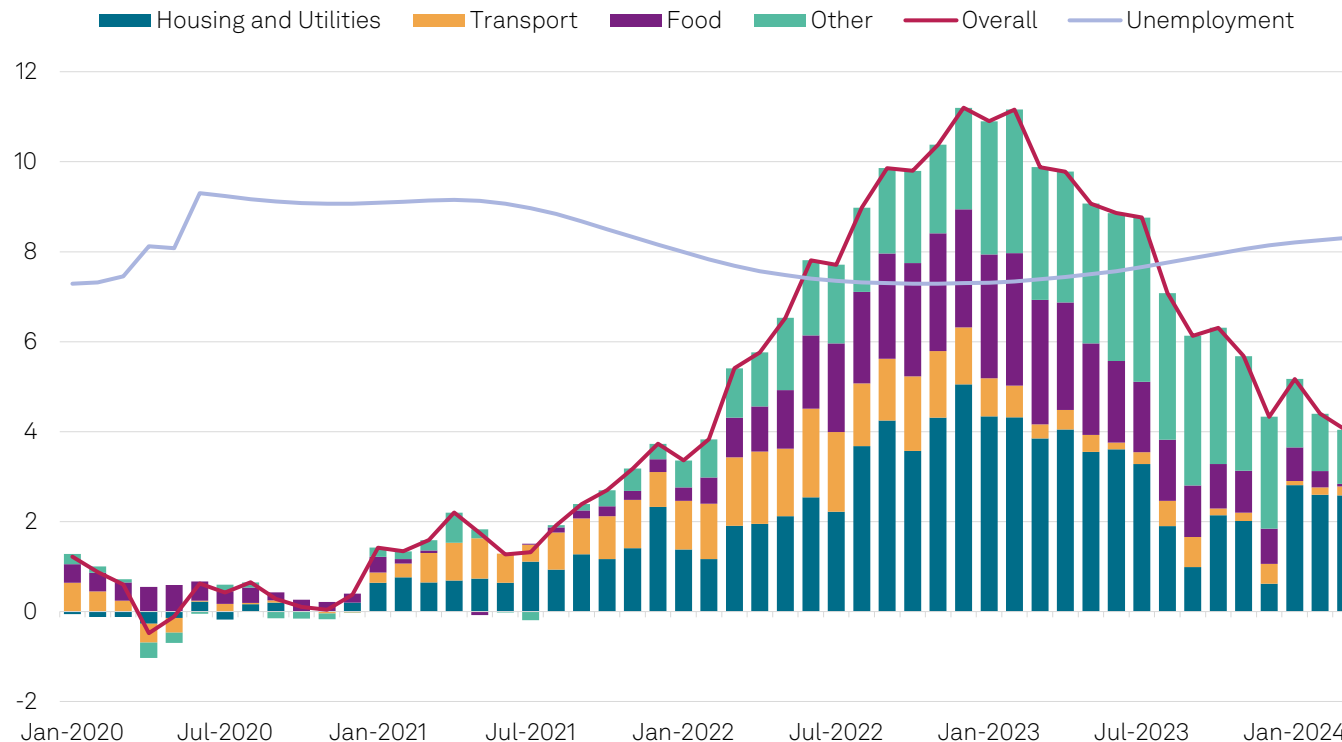
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Key Takeaways

- Average monthly mortgage payments in Sweden have increased by more than 68% since 2022, as policy and mortgage rates increased to multi-year highs. Housing and utility costs now comprise 64% of the recent growth in consumer price index (CPI).
- The average monthly payment per loan part for a sample of over a million mortgage loans backing Swedish covered bond programs we rate has risen to Swedish krona (SEK) 2,527 in 2024 from SEK1,503 in 2022, partly due to the increasing popularity of floating-rate mortgages. Most Swedish borrowers have two loan parts.
- In our 2024 sample, borrowers already paying high installments have been proportionally more affected by increasing interest rates. Since 2022, the proportion of borrowers paying less than SEK2,000 has decreased to below 50% from 74% and the proportion paying more than SEK5,000 has increased to 7.4% from 2.2% .
- Loans originated in 2023 had 20% higher installments than those originated in 2021 due to lower interest-only availability and a higher proportion of floating-rate loans. This has likely affected mortgage market activity.
- In our sample, more than 80% of loans are either floating-rate or will be reset to a fixed rate by the end of 2024, having then experienced higher interest rates. The proportion of floating-rate and short-term fixed floating-rate loans has increased, thereby increasing overall borrower interest sensitivity.
- Swedish mortgage performance remains stable despite our analysis highlighting higher-than-expected monthly payments. We expect Swedish covered bond ratings to remain stable, given high overcollateralization buffers and unused notches of uplift from the issuer credit rating.

Consumer Prices Are Normalizing, But Housing Costs Remain High

Swedish consumer price inflation components



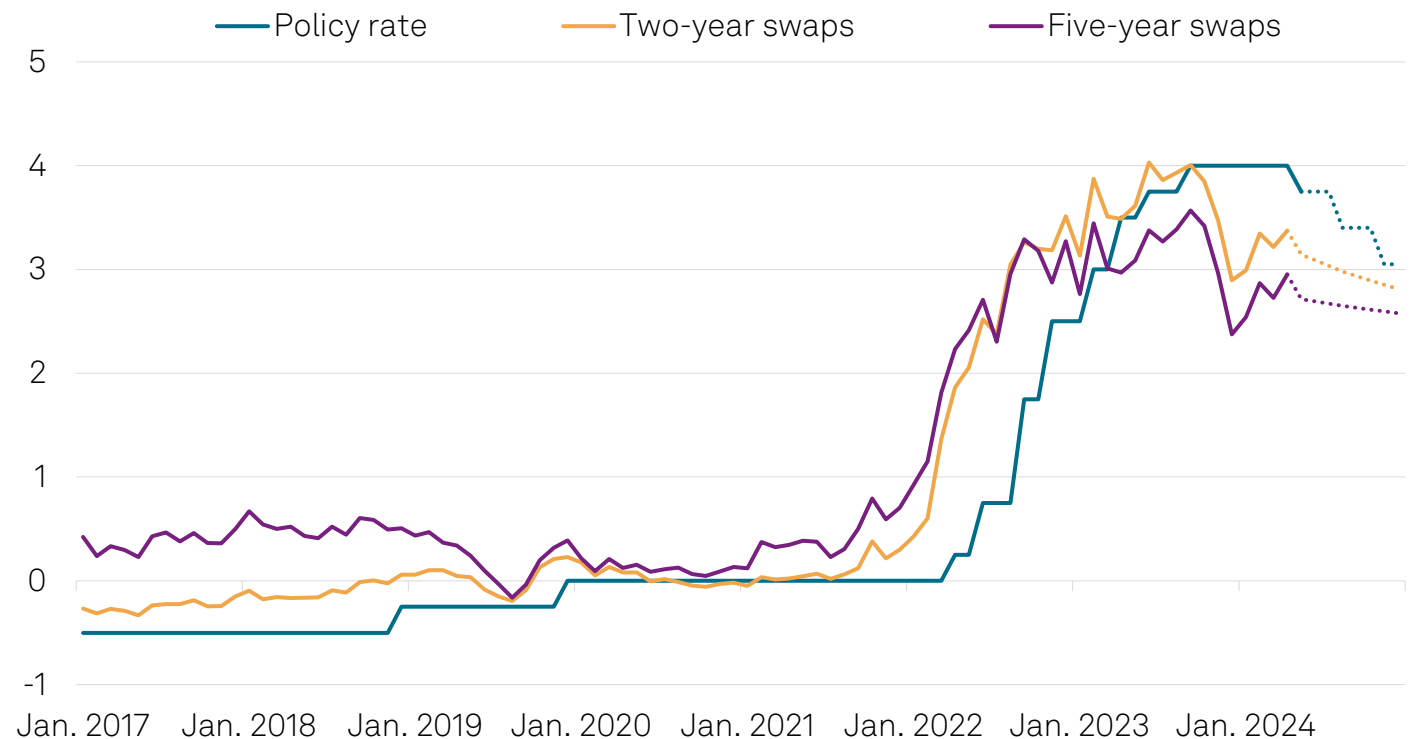
Sources: Statistics Sweden, S&P Global Ratings.

- Over 2022-2023, Swedish consumers suffered a substantial cost of living shock.
- Despite falling since early 2023, consumer price inflation remains higher than the long-term average, mainly due to persistent housing and utilities cost pressures, which comprise 64% of the recent growth in CPI.
- We increased our short-to-medium term inflation forecast due to prolonged high wage growth against a backdrop of sluggish productivity and uncertain trade developments.
- As housing continues to contribute the most to CPI growth (particularly at the start of 2024), the recent lowering of the policy rate may have a knock-on effect on housing costs, although it has not explicitly been stated by the Swedish central bank as a driver for the decision.

First Policy Rate Cut Since The 2023 Peak; Market Rates Continue To Fall

- Following eight consecutive rate hikes leaving the Swedish base rate at 4% in late 2023, Sweden's central bank (Riksbank) lowered its policy rate by 25 basis points in May 2024, to reflect closer to target inflation and weak GDP growth and labor markets.
- We expect policy and market rates to continue falling. The market consensus for the Swedish base rate suggests 3% by the end of 2024.
- Swap rates are down and are steady at between 2% and 3%, establishing a new normal for mortgage rates. In our view, this will help support mortgage borrowers.

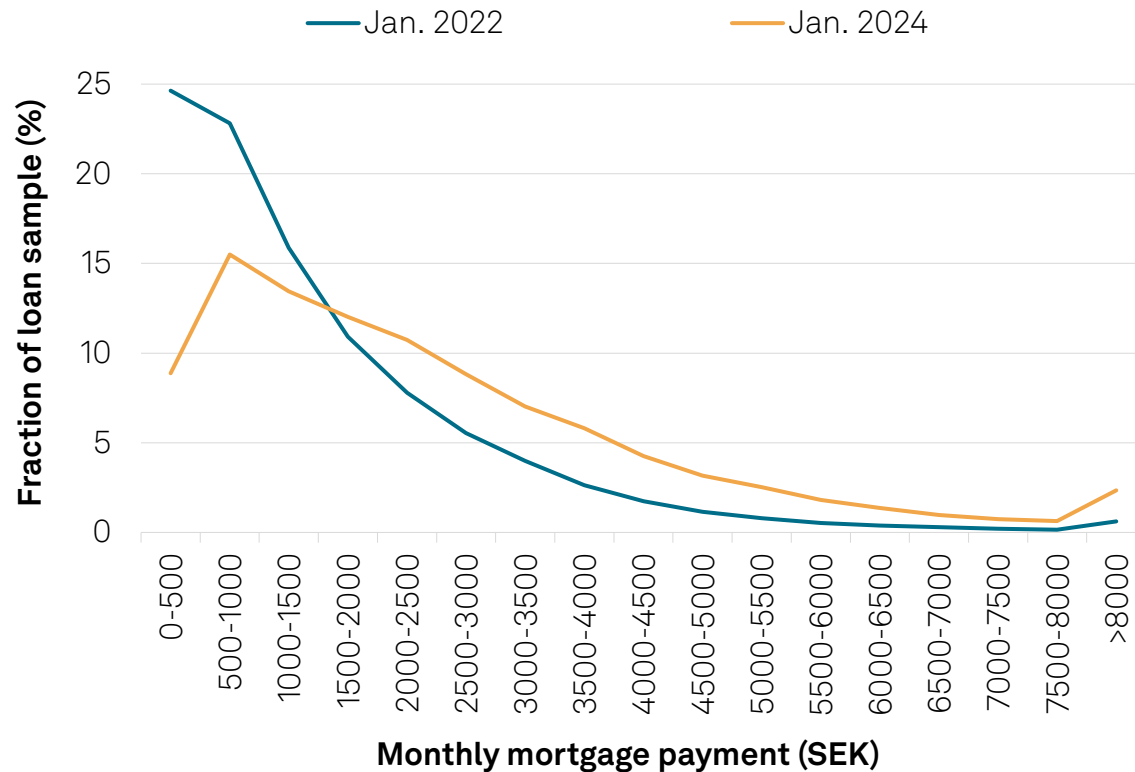
Swedish interest rate benchmarks (%)



Dotted lines indicate market-implied forward rates for swaps and market consensus forecast for the policy rate.
Sources: Bloomberg, S&P Global Ratings.

Typical Monthly Mortgage Payment Up By 68% Between Early 2022 And 2024

Monthly payment distribution



bps--Basis points. SEK--Swedish krona. Source: S&P Global Ratings.

- We compared monthly mortgage payments in a 2024 sample of over a million Swedish mortgage loans with a previous sample from 2022.
- The average monthly mortgage payment per loan part in our 2024 sample had increased by 68% to more than SEK2,500, from SEK1,500 in our 2022 sample. Most Swedish borrowers have two loan parts.
- Monthly payments have risen proportionally more for borrowers already making higher payments than for those making lower payments.
- The proportion of borrowers paying less than SEK2,000 has decreased to below 50% in 2024 from 74% in 2022. Those paying more than SEK5,000 now account for 7.4%, up from 2.2%.

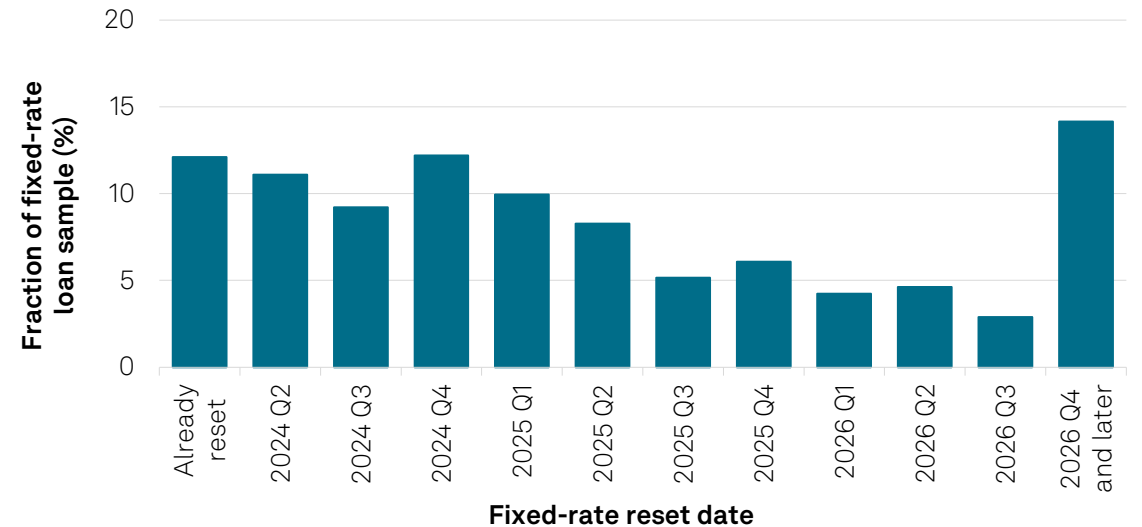
	Rate (%)	Average payment (SEK)	Average increase (SEK)	Average increase (%)
January 2022	1.60	1,503	--	--
January 2024	3.95	2,527	1,024	68

Interest Rate Sensitivity On The Rise Due To More Floating-Rate Mortgages And Shorter Rate Fixings

Collateral breakdown, by interest rate type



Reset date distribution for fixed rate loans



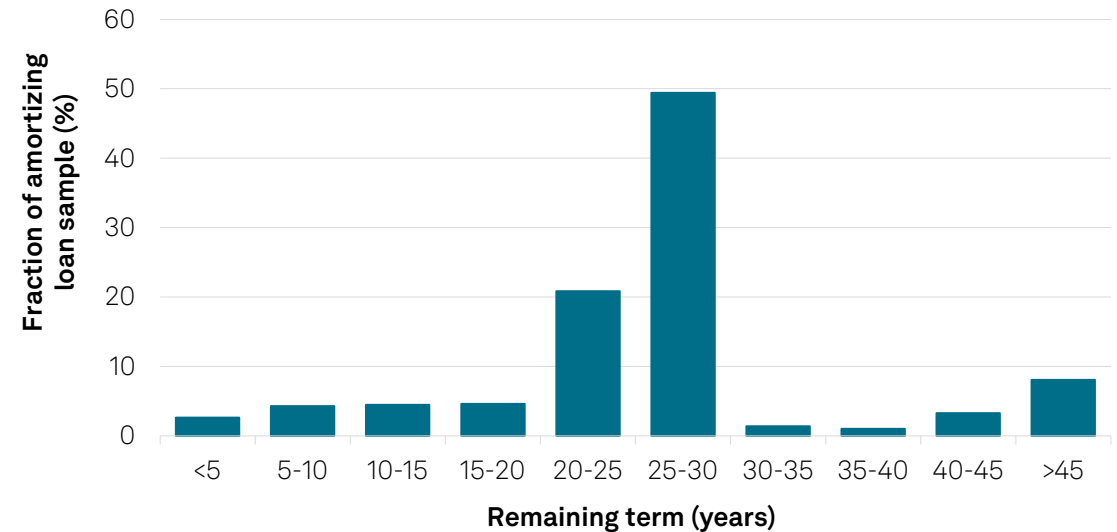
- Sweden is traditionally a mortgage market with short-term interest rate fixings. During the low interest rate environment, longer interest rate fixings gained popularity, but this trend has now reversed.
- Between 2022 and 2024, the proportion of floating-rate mortgage loans in the sample backing the covered bonds we rate has increased to 51% from 41%, making borrowers more sensitive to rate rise, on average.
- Furthermore, fixed-rate mortgages have a shorter fixing period, and about 45% of those will have reset by the end of 2024, from 40% in the 2022 sample.

Pools Now Have Lower Rate Sensitivity, Due To Fewer Loans With Long Maturities And Interest-Only Repayment Profiles

Collateral breakdown, by repayment type



Remaining term for amortizing loans

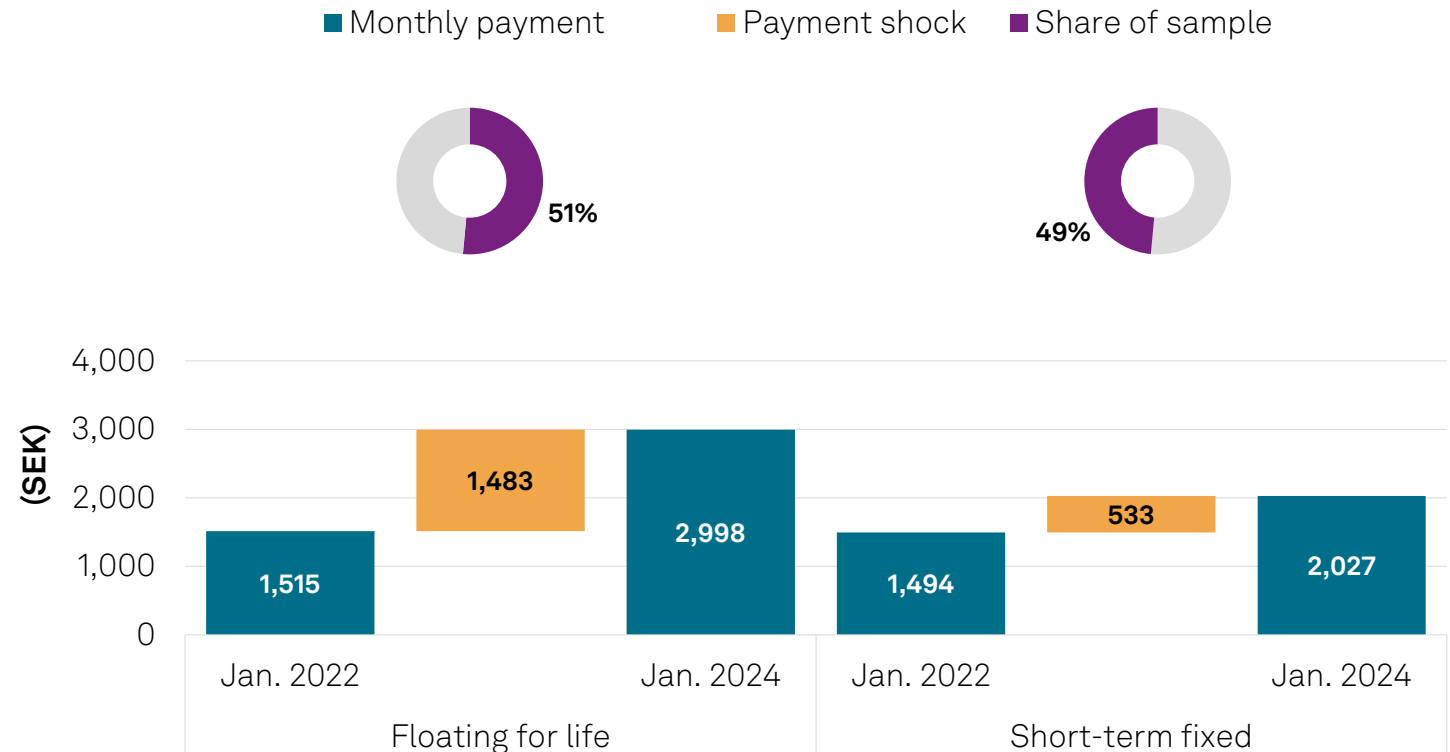


- The proportion of our 2024 sample that is interest-only loans has decreased to 43% from 45% in 2022. However, this is still a significant share. Higher mortgage rates have not led borrowers to take more interest-only loans but seem to have encouraged amortization slightly.
- Absolute monthly payments are generally lower for interest-only loans. However, these loans are more sensitive than amortizing loans to interest rate rises.
- Amortizing loans with a remaining term of more than 30 years have decreased to 14% of our sample, from 15%. Higher interest rates do not seem to have increased mortgage maturities. This is important as loans with a longer maturity are also more sensitive to rising interest rates as the interest component is a comparably higher portion of monthly installments.

Most Loans Are Floating Rate, Or Will Revert From Fixed Rate By Year-End

- In the 2024 sample, 49% of loans are fixed rate and the rest (51%) are floating rate, where rate rises materialize quicker.
- In our 2022 sample, 40% of loans had a short-term fixed-rate, resetting by 2023, and a further 45% will end their fixed-rate period in 2024, which mean almost all borrowers in the sample have been affected by higher interests at the end of 2024.
- Therefore, more than 80% of the loans in our 2024 sample will have seen some impact from rate rises by the end of 2024.
- While payments on fixed- and floating-rate mortgages were similar in our 2022 sample, rising interest rates have doubled floating-rate mortgage payments, while payments on fixed-rate loans have only increased by about one-third.

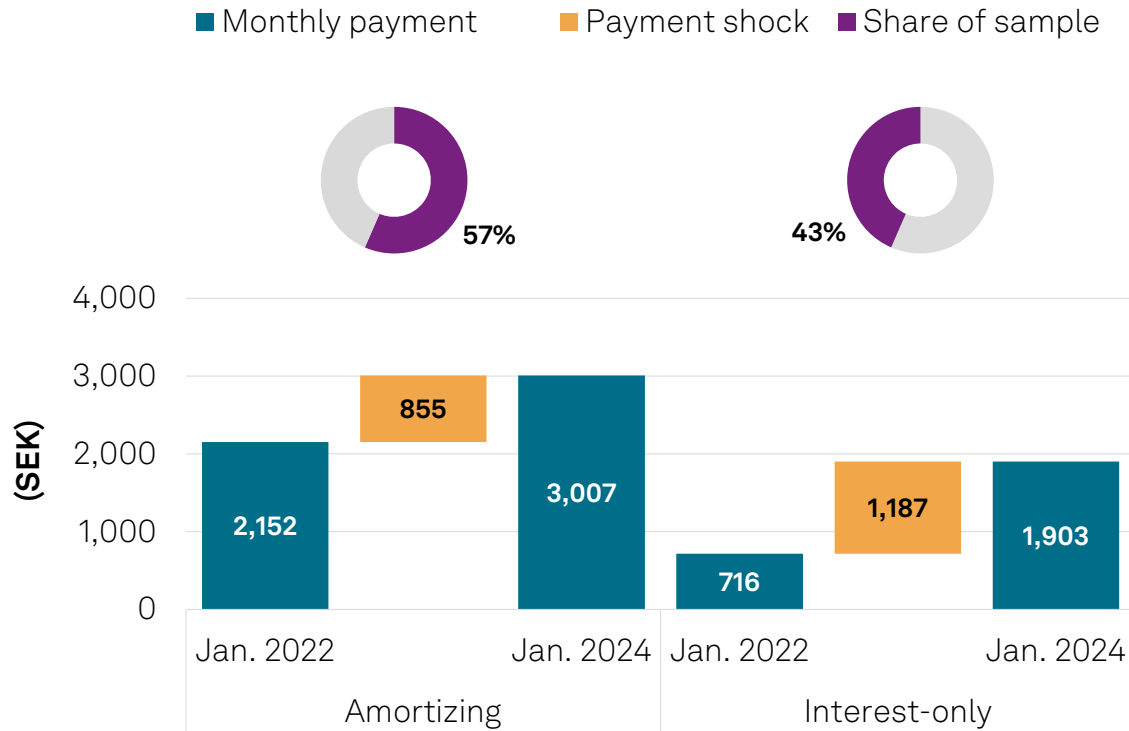
Monthly payments by loan product type



Pie charts show prevalence of each loan product type in the sample. bps--Basis points. SEK--Swedish krona. Source: S&P Global Ratings.

Payment Shock Is More Severe For Interest-Only Borrowers

Monthly payments by repayment type

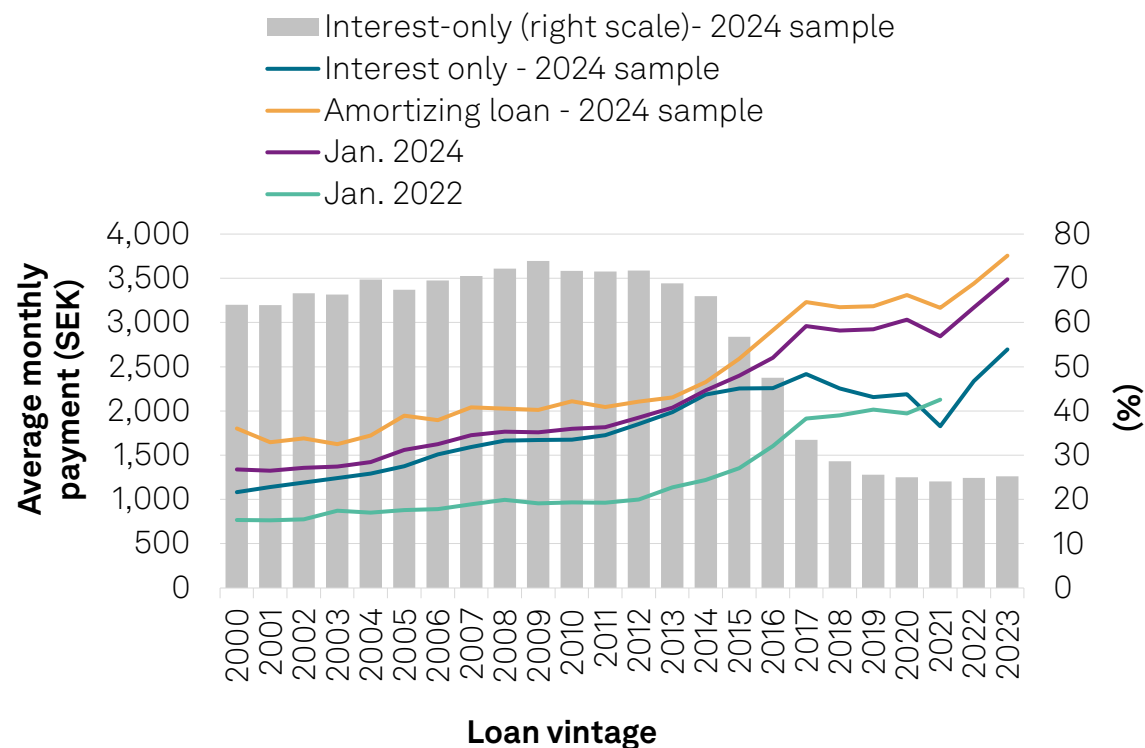


- In our 2022 sample, interest-only loan monthly payments were typically much lower due to not having to regularly pay down principal, averaging just SEK716, versus SEK2,152 for repayment loans.
- Interest rate rises since 2022 have typically more than doubled the monthly payment on interest-only loans, with the average payment rising by almost SEK1,200 to more than SEK1,900 per month in our 2024 sample.
- Repayment loans posted only a 40% average payment increase of SEK855 from the previous payment.
- In the 2022 sample, amortizing mortgage payments were more about three times that of average payments on interest-only loans. In 2024, the difference changed to 58%.

Pie charts show prevalence of each loan product type in the sample. bps--Basis points. Base scenario is as of Jan. 1, 2022. SEK--Swedish krona. Source: S&P Global Ratings.

New Loans Have High Payments, While Older Vintage Loans Have The Highest Payment Increases

Payment shock and interest-only share, by loan vintage

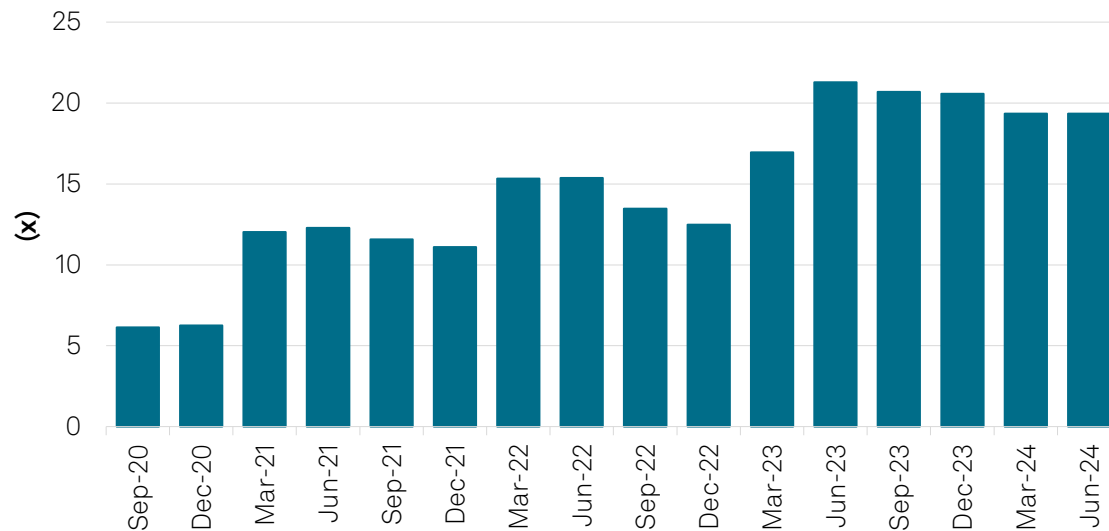


- Across our samples, loan payments for interest-only loans increased. Since fewer new interest-only loans are being granted, older vintage loans are more likely to be affected by higher interest rates and payment shock.
- For instance, interest-only loans constituted a high proportion (60%-70%) of loans originated before 2015.
- Earlier vintage loans--despite generally having lower loan balances and lower monthly payments--have a greater relative sensitivity to interest rate rises, on an average.
- For example, the average payment for 2011 vintage loans was SEK963 at the beginning of 2022, compared with SEK2,128 for the 2021 vintage.
- However, for 2011 vintage loans, the average monthly payment has increased by 88%, versus only 34% for the 2021 vintage.
- Regardless, due to higher interest rates, borrowers from the 2023 vintage had a more than 20% higher installment than borrowers from the 2021 vintage.

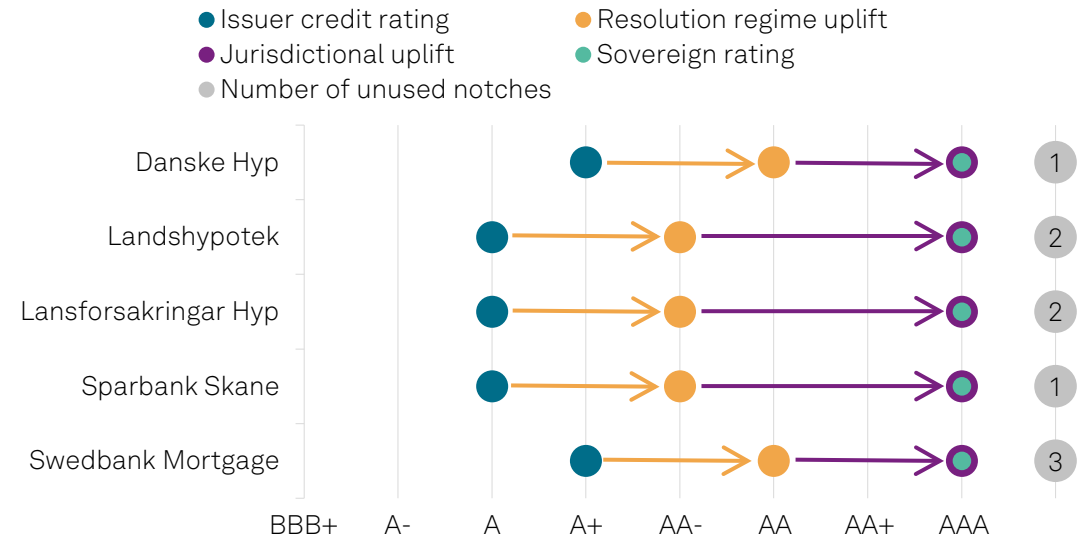
SEK--Swedish krona. Source: S&P Global Ratings.

Swedish Covered Bond Ratings Should Withstand Weaker Loan Performance

Ratio of available to required credit enhancement



Covered bond program uplift from issuer credit rating



- In 2024, Swedish banks' asset credit quality will likely remain under pressure due to high mortgage rates and potential labor market pressure.
- However, Swedish covered bond programs have significantly more available credit enhancement than the level required to maintain the current ratings, acting as a buffer against increasing credit losses.
- The ratings also benefit from "unused notches" of uplift, insulating program ratings if the issuer rating comes under pressure.

Related Research

- [EMEA Structured Finance Chart Book: May 2024](#), May 13, 2024
- [Global Covered Bond Insights Q2 2024: Strong Start To The Year For Issuance](#), March 27, 2024
- [Economic Outlook Eurozone Q2 2024: Labor Costs Hinder Disinflation As Rate Cuts Loom](#), March 26, 2024
- [Swedish Real Estate: The End Of The Slump Could Soon Be In Sight](#), Feb. 29, 2024
- [Nordic Banks In 2024: Ploughing On Through Tough Terrain](#), Feb. 7, 2024
- [European Housing Markets: Forecast Brightens Amid Ongoing Correction](#), Jan. 25, 2024
- [European Structured Finance Outlook 2024: Pushing On Through](#), Jan. 9, 2024
- [Covered Bonds Outlook 2024: Stability Amid Turbulence](#), Dec. 11, 2023
- [Swedish Covered Bond Market Insights 2023](#), Oct. 5, 2023
- [Payment Shock In Swedish Covered Bond Pools](#), April 18, 2023

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