FINANSTILSYNET

MEMORANDUM

Finanstilsynet (The Danish Financial Supervisory Authority)

29 September 2016

Report on thematic inspection at Jyske Bank A/S (new loans for owner-occupied and cooperative housing in growth areas)

Introduction

In the first half of 2016, the Danish Financial Supervisory Authority (the FSA) conducted a thematic inspection at Jyske Bank A/S.

The purpose was to examine the bank's risk tolerance in respect of new loans for financing of owner-occupied and cooperative housing in growth areas and to assess the bank's basis for decisions and compliance with credit policy and business procedures.

The growth areas were defined as the City of Copenhagen and residential suburbs and the City of Aarhus. The thematic inspection formed part of a cross-functional inspection of the five largest banks (the SIFI banks).

Summary and risk assessment

The FSA had selected 250 authorisations of new-established or increased housing loans secured on owner-occupied and cooperative housing, which the bank was to review according to specific instructions. On the basis of the bank's registrations, the FSA randomly selected 50 authorisations and reviewed these.

In January 2016, the FSA issued guidelines on prudence in the credit assessment of housing loans in growth areas. All the inspected loans were authorised in the period 1 January to 31 October 2015, i.e. before the guidelines.

The very low interest-rate level and the price increases in recent years on homes in the growth areas mean that there is a risk of significant price declines on these homes. When authorising housing loans in the growth areas, the financial institutions must therefore pay particular attention to that the financial position of the clients is robust. The review of the authorisations left the impression that the bank in 2015 in some cases had not had adequate focus on this.

However, the FSA assessed that the bank's risk tolerance in 2015 was lower than the average for the inspected banks.

Generally, the bank's credit policy and business procedures had not defined explicit requirements of the clients' financial ratios, but contained relevant general rules in respect of defining the risk profile wanted.

The selected authorisations deviated from one or more of the bank's own general rules in more than half of the cases. Among other things, the bank accepted - like the other inspected banks - in many cases a higher debt-to-income ratio than recommended in the business procedure. The debt-to-income ratio is the client's total debt divided by the client's annual gross income. The large extent of deviations involve a risk that the bank due to the competitive situation in the growth areas has made authorisations deviating from the requests of the Supervisory Board. However, this has been solved ahead, as the bank before the inspection had prepared a new credit policy. Moreover, it is noted that the share of authorisations with deviations from the general rules would have been significantly lower if all of the bank's new authorisations were covered by the inspection. The reason is that before the selection the FSA had left out the most robust clients.

The FSA established that there were many errors or omissions in the basis for decisions and that these were material in 28 percent of the authorisations. The errors and omissions concerned, for instance, the calculation of the disposable income, the assets and the debt-to-income ratio. Therefore the bank was ordered to ensure that the basis for decisions is improved to the effect that credit decisions are made on a true and fair and adequate basis.