

Report on inspection of Jyske Bank A/S (loans for purchase of owner-occupied homes in growth areas)

Introduction

In February and March 2018, the Danish Financial Supervisory Authority (the Danish FSA) made an inspection of Jyske Bank's granting of new loans for retail clients' purchases of owner-occupied homes in growth areas. The inspection was part of a thematic inspection of six large banks' granting of loans in the second and third quarters of 2017.

Competition for home loan clients has in recent years been keen. This has, among other things, resulted in more risky financial institutions and in the fact that they in many instances grant loans to clients with low disposable amounts, high debt-to-income ratios or where clients' liabilities exceed their assets.

The purpose of the inspection was primarily to assess the Bank's risk tolerance when granting loans for clients' purchases of owner-occupied homes in growth areas. Consequently, the Danish FSA investigated whether the Bank's loan granting complied with "Guidelines on caution in connection with credit assessment with respect to home financing in growth areas etc." (growth guidelines) which were issued in January 2016. The Danish FSA also assessed the Bank's own controls and reporting as to whether the granting of loans complied with the growth guidelines.

Growth areas were defined as the City of Copenhagen and residential suburbs and the City of Aarhus.

Conclusion and risk assessment

The Danish FSA's assessment of whether the loan granting complied with the growth guidelines was based on the Danish FSA's examination of a spot test of 32 loans granted which were established during the inspection period, and a data analysis of the Bank's total granting of loans for the purchase of owner-occupied homes in growth areas during the inspection period. In addition, the Danish FSA examined the result of the Bank's own controls in relation to the growth guidelines.

According to the growth guidelines financial institutions must pay particular attention to ensuring that clients who purchase homes in growth areas have robust financial situations.

At least 14% of the loans granted for purchases of owner-occupied homes during the inspection period were not up to the growth guidelines. The primary deviation was that a great deal of clients had high debt-to-income ratios without having sufficiently large assets. Moreover, some clients' liabilities exceeded their assets without sufficiently large repayments of their debt, or they had an unsatisfactory disposable amount calculated at fixed interest rates (for instance with interest-rate stress) and instalments over max. 30 years. The Bank had also granted floating-rate loans and interest-only option to a higher degree than most other banks inspected. The Bank was ordered to make sure that the clients' financial affairs were sufficiently robust before granting home loans in growth areas.

It appears from the growth guidelines that the Bank must not necessarily comply with the individual items of the guidelines but may choose other types of initiatives to limit the risk for the Bank and its clients. These initiatives must limit the risk to as high a degree as the items of the guidelines. With respect to certain items the Bank had decided to make other kinds of initiatives that were according to the Danish Financial Supervisory Authority up to the growth guidelines.

The Bank's own controls as to whether the growth guidelines had been complied with were based on data analyses and an annual spot test among the cases that according to the data analysis had deviating key figures in relation to the main rules of the growth guidelines. The Bank did not make any spot tests among the other loans. The data analysis was a simplified approach as to whether the loans granted deviated from the growth guidelines. It was, among other things, not possible via the data analysis to assess whether the disposable amount was sufficient for the client. Therefore, there was a risk that the Bank's controls underestimated the proportion of cases that deviated from the growth guidelines. A result of the inspection was that the Bank will in future make a broader spot test.

It did not appear from the Bank's internal reporting why many loans in the data analysis had deviating key figures in relation to the main rules of the growth guidelines whereas the same loans were during the spot test examination found to comply with the growth guidelines. Another result of the inspection was that the Bank will in future register these reasons. The Bank will also in future register the instances where the Bank had to use other types of initiatives than the ones mentioned in the business procedures. The Bank will include both registrations in its management reporting.