

Swedish banks hide mortgage-asset risk

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Bloomberg said Sweden's banks, Europe's safest on paper, have been hiding mortgage-asset risk behind rules the government now says are out of date and too lax.

The Nordic country's Finance Minister, Anders Borg, now wants banks to raise the risk weights on their mortgage assets as a next step to enforcing some of the world's highest capital ratios. The central bank estimates that stricter risk-weight requirements could add as much as 2.5 percentage points to reserve requirements.

"The risks are much higher today than the historical data indicate," Bengt Hansson, head of research at BKN, which advises the government on housing finance, told the newswire. "With that in mind, banks should have bigger reserves on mortgages."

"We have a housing bubble in Sweden and one of the biggest risk factors in the Swedish economy is household indebtedness," Hansson said. "If prices were to fall by 20 percent, there would be credit losses on mortgages for the banks, as we have seen elsewhere in the world. It is good to have large reserves so that a bank crisis stays at bank loan losses and doesn't spill over too much to the state."

Bank lending to households rose 50 percent in 2011 from 2006, according to the statistics office.