Swiss Banking

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SBA amends self-regulation in the residential investment property segment - FINMA recognises revised self-regulation

Basel, August 28, 2019 – The Swiss Bankers Association (SBA) has amended the self-regulation in the mortgage financing for residential investment properties segment. The sector is thereby making a swift and expedient contribution to further ensuring market stability in the residential investment property segment, and thus an important contribution to the continued stability of the financial centre. FINMA recog-nised the revised self-regulation as a minimum regulatory standard in a letter dated 26 August 2019. Following an intensive dialogue between the sector and the authorities, a convincing joint solution was found. The amended self-regulation will enter into force on 1 January 2020. The SBA assumes that the Federal Council, as previously announced, will give precedence to the self-regulation and will forego a tightening of the Swiss Capital Adequacy Ordinance in the area of residential investment properties.

The Swiss Bankers Association (SBA) announced in March 2019 that it was considering an amendment to the self-regulation in the mortgage financing segment. For this purpose, it established a working group tasked with making a swift and targeted contribution to ensuring market stability in the “residential investment property” segment. Together with the State Secretariat for International Financial Matters (SIF), FINMA and the Swiss National Bank (SNB), the SBA conducted an in-depth analysis of market trends and in a constructive dialogue, identi-fied the best possible measures. The proposal for the amendment of the self-regulation submitted by the SBA in June 2019 was recognised as the minimum regulatory standard by FINMA in a let-ter dated 26 August 2019.

Amendments to the guidelines

Amendments have been made in particular to the “Richtlinien betreffend Mindestanforderungen bei Hypothekarfinanzierungen” (guidelines concerning minimum requirements for mortgage fi-nancing). These are designed to increase the down payment made by the borrower and shorten the repayment period for the loan in the case of investment property financing. The sector is therefore making an important contribution to the continued stability of the Swiss financial centre.

The following specific measures have been introduced:

- For mortgage financing for investment properties, the minimum down payment will now be 25% of the lending value (hitherto 10%). Any difference between a higher acquisition price and a lower lending value must be financed entirely with own funds ("lowest value principle").
- For investment properties, the mortgage must now be amortised to two thirds of the lending value of the property within a maximum of 10 years (hitherto 15 years).

Markus Staub, Head of Prudential Regulation, explains the focus on reducing the loan-to-value ratio and shortening of the amortisation period: "Both measures are comparatively straightforward in terms of implementation, capitalise on tried and tested instruments and are suitable for making a targeted and effective contribution to further stabilising the real estate and mortgage market."

In parallel to the amendments to the guidelines concerning minimum requirements for mortgage financing, the SBA has made clarifications in the glossary of the "Richtlinien für die Prüfung, Bew-ertung und Abwicklung grundpfandgesicherter Kredite" (guidelines for the assessment, valuation and treatment of mortgage-backed loans).

Self-regulation more expedient than stricter regulation

By introducing the amended self-regulation, the sector is implementing a measure with a rapid and targeted impact. In the spring of 2019, the SBA therefore already welcomed the announce-ment that the Federal Department of Finance would give precedence to enhanced self-regulation over a tightening of the Capital Adequacy Ordinance (CAO). Such a tightening of regulation within the scope of the CAO would be an unnecessary "interim step" in view of the upcoming entry into force of "Basel III Final" in the coming years, which would have resulted in far-reaching implica-tions for the banks' classification practices and sales management.

Media Contact

Monika Dunant
Head of Public & Media
Relations

+41 58 330 63 95