



## Swiss Bankers Association amends self-regulations for mortgage financing

**Jurisdiction:** Switzerland

**Date Issued:** 29 July 2014

**Date of Applicability:** 01 September 2014

**Asset Class:** None

### Description

The Swiss Bankers Association (SBA) recently amended the minimum standards for mortgage financing and the Swiss Financial Market Supervisory Authority (FINMA) has approved the amendments. The revised self-regulations enter into force on 1st September 2014.

Amendments have been made to two sets of guidelines: the guidelines for examining, evaluating and settling mortgage-backed loans and the guidelines on the minimum requirements for mortgage financing.

The amendments include the following key points:

- The amortization period for the repayment of one-third of the lending value of the property is reduced from 20 to 15 years and the amortization requirements are increased (regular and linear amortization tranches to be paid, beginning not later than twelve months after the commencement of the loan term). These changes apply to new mortgage loans and to increases of existing mortgage loans. They do not apply to existing mortgage loans or to changes to existing mortgage loan terms, such as extensions of fixed-rate mortgages.
- Any difference between the purchase price and the lower lending value must be financed entirely with equity capital; no second pillar funds are allowed.
- The lowest value principle applies to the financing of real property acquisitions and ownership transfers. Accordingly, the lending value may not exceed the lower of the market value or purchase price.
- Second incomes may only be considered for the financial sustainability assessment of a mortgage loan if the earner of the second income is liable under the mortgage loan on a joint and several basis.

In addition to these amendments, a number of minor updates and editorial adjustments were made.

Both sets of guidelines apply to owner-occupied residential properties and to investment properties. The amended guidelines have been approved by the FINMA and therefore set a regulatory minimum standard. The compliance of the banks with this standard must be reviewed by the auditors of the banks.

These amendments to the SBA guidelines were prompted by the developments in the real property and mortgage markets over the past years. Increases in mortgage loans and property prices led to imbalances that could affect banks and the entire Swiss economy. For the time being, no further measures are envisaged, but the market developments remain under observation by the Swiss Federal Government, the Swiss National Bank and the FINMA. Should the situation worsen, then further measures are possible, for instance by increasing the compulsory countercyclical capital buffer (see our alerts issued on 18th March 2013 and on 31st January 2014).

### Updated by



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