NRF Institute

Swiss Bankers Association amends self-regulations for mortgage financing of investment properties

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By **Michael Lips**
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Asset Class Commercial Real Estate

Jurisdiction Switzerland

Confirmations Change in Law

Overview

The Swiss National Bank has been warning against mortgage risks and the overheating of the investment property market for a long time. Before imposing stricter rules for granting such mortgages, the Swiss Financial Market Supervisory Authority (FINMA) gave the banking sector the opportunity to set stricter rules via self-regulation.

On 28th August 2019, the FINMA approved certain adjustments to the self-regulation suggested by the Swiss Bankers Association (SBA) which set a new binding minimum standard for mortgage loans. The changes will increase the minimum equity requirements as well as the minimum amortisation of mortgage loans for investment properties. The amended "Guidelines Concerning Minimum Requirements for Mortgage Financing" and the amended "Guidelines for the Assessment, Valuation and Treatment of Mortgage-Backed Loans" will enter into force on 1st January 2020.

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The FINMA has also announced to adopt the new provisions in its capital requirements for the insurance sector, in order to prevent distortions of competition between banks and insurance companies.

New standard for mortgage financing of investment properties

While the minimum equity requirement for mortgage financing of owner-occupied residential property remains at ten per cent (10%), such requirement will be increased for investment properties. Pursuant to the new provisions, borrowers must provide equity in the amount of at least twenty-five per cent (25%) of the collateral value, instead of the current ten per cent (10%).

In this respect, the lowest value principle continues to apply, whereby any difference between a higher acquisition price and lower collateral value must also be entirely financed by equity.

In addition, mortgages for investment properties must be amortised to two-thirds of the collateral value within a maximum of ten (10) years (currently fifteen (15) years).

The tightened rules will only apply to the new mortgage financing of investment properties. They will not apply to existing loans for such properties. Also, they will not apply to existing or future mortgage financing of owner-occupied residential properties.

For the time being, no further measures are envisaged. However, should the situation worsen, then further measures may be required or taken by the FINMA.

No changes for private ownership of second properties

The definition of investment property as set out in the SBA’s revised self-regulation does not expressly include second home properties, i.e. apartments or single family houses owned by private individuals as investment and not occupied by the owners.

As a consequence, the new rules will not apply to such properties, even though this so-called "buy-to-let" market segment makes up around one quarter of all bank mortgage loans granted for residential investment properties.

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According to the FINMA, this segment should be treated in the same way as other investment properties, given the related risks. Accordingly, the FINMA recommends that banks also apply the stricter equity and amortisation requirements to mortgage loans for such second properties on a voluntary basis. In addition, the FINMA will continue to monitor this market segment and take appropriate measures, if required.

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