

Press release

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Mortgage financing:

FINMA approves amended self-regulation

The Swiss Financial Market Supervisory Authority FINMA has approved the amendments to the minimum standards for mortgage financing issued by the Swiss Bankers Association (SBA). The revisions to the self-regulation enter into force on 1 September 2014. FINMA believes that the amendments, which involve shortening the amortisation period, changes to the eligibility of second incomes and the introduction of the “lower of cost or market” principle for the evaluation of mortgages, are a step in the right direction. FINMA will analyse developments in the mortgage market and the need for further measures to ensure that it and its partner authorities can respond swiftly if required.

FINMA has for some time been drawing attention to the risks associated with strong growth in mortgage volumes. Demand for mortgage financing has been and remains high, not least due to the persistently low level of interest rates. FINMA has noted that despite the stricter minimum requirements for mortgage financing introduced back in 2012, as well as the activation and raising of the countercyclical capital buffer, the volume of mortgage lending continues to grow faster than incomes, consumer prices and gross domestic product (GDP).

Focus on amortisation, second incomes and the “lower of cost or market” principle

FINMA has called for additional measures to further counteract this ongoing development, with a view to securing the financial sustainability of mortgage loans over the long term and bringing about more sustainable mortgage lending. This demand was not, however, framed in terms of individual, specific measures. FINMA therefore welcomes the fact that the SBA has agreed on amendments to its minimum standards for mortgage financing. The changes essentially involve the following points:

- shortening the amortisation period (for repayment down to 2/3 of the lending value of the mortgage) from 20 years to 15. The loan must be repaid in regular tranches of equal amount from the start.

- changes to the eligibility of second incomes when assessing financial sustainability. Second incomes are now normally eligible only in the case of joint and several liability.
- introduction of the “lower of cost or market” principle. In future, the lending value of real estate will be based on the market value or the purchase price, whichever is lower.

The FINMA Board of Directors believes these amendments to the SBA guidelines are a step in the right direction, and has therefore approved them as a minimum standard. The amendments enter into force on 1 September 2014.

Authorities reserve the right to impose additional binding measures

FINMA will continue to monitor developments in the mortgage market. It will also work with the Federal Department of Finance, the Federal Finance Administration and the Swiss National Bank to assess the need for more far-reaching measures. The authorities' objective remains to safeguard their ability to respond swiftly should the measures put in place prove insufficient to effectively dampen demand for mortgage loans and thus lead to a cooling down of the mortgage market.

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