Eidgenössische Finanzmarktaufsicht FINMA
Autorité fédérale de surveillance des marchés financiers FINMA
Autorità federale di vigilanza sui mercati finanziari FINMA
Swiss Financial Market Supervisory Authority FINMA

Press release

Date:
28 August 2019

Embargo:

Contact:
Vinzenz Mathys, Media Spokesperson
Tel. +41 (0)31 327 19 77
vinzenz.mathys@finma.ch

Mortgages for investment properties: FINMA recognises adjustments to self-regulation

The Swiss Financial Market Supervisory Authority FINMA recognises the adjustments to self-regulation proposed by the banking sector for mortgage loans as a binding minimum standard. The changes will tighten up the requirements regarding the loan-to-value ratio and amortisation of mortgage loans for investment properties. Owner-occupied residential properties are not affected by the adjustments.

FINMA recognises the adjusted self-regulation by the Swiss Bankers Association (SBA) in the area of mortgage lending for investment properties as a binding minimum standard. This self-regulation now requires borrowers to provide a minimum down payment of at least a quarter of the loan-to-value ratio, instead of the current ten per cent. The lower of cost of market principle continues to apply, whereby any difference between a higher acquisition price and lower loan-to-value ratio is to be financed entirely with the borrower’s own funds. In addition, the mortgage is now to be amortised to two-thirds of the loan-to-value ratio of the property within a maximum of 10 years (currently 15 years). The tightened rules only apply to new borrowers, but not to existing loans or to the existing standards relating to owner-occupied residential property. The rules will come into force on 1 January 2020.

FINMA welcomes the measures

The revisions are moderate overall, but FINMA considers them to be a step in the right direction. FINMA has been drawing attention to the signs of overheating in residential investment property for some time (see FINMA’s annual media conference 2019 and web dossier). FINMA intervenes when individual institutions take on excessive risks, but such measures are always backward-looking and only apply to individual banks. These measures therefore only have a limited impact on the general risk situation across the entire market. For this reason, FINMA demanded a change in regulation that would curb overall demand for particularly risky mortgage loans for investment properties.

In light of this, FINMA welcomes the SBA's adjustments to its minimum standards in the area of mortgage lending for investment properties. FINMA will also adopt the new provisions in its capital requirements for the insurance sector, so as to prevent distortions of competition.

Private ownership of second properties not covered

The definition of investment property as set out in the SBA's revised self-regulation does not expressly include the buy-to-let segment. These properties are generally apartments and single family houses owned by private individuals that are not occupied by the owners themselves, but are instead rented out. This segment makes up around a quarter of all loans granted by banks for residential investment properties. FINMA takes the view that this segment ought to be treated in the same way due to its risk potential. The effectiveness of the tightened self-regulation is limited due to the exclusion of mortgages for buy-to-let properties. FINMA is therefore recommending that banks voluntarily also apply the stricter capital and amortisation requirements to loans for buy-to-let properties.

FINMA will continue to monitor this sector closely as part of its supervisory work and will, where necessary, take measures aimed at individual institutions.