Eidgenössische Finanzmarktaufsicht FINMA
Autorité fédérale de surveillance des marchés financiers FINMA
Autorità federale di vigilanza sui mercati finanziari FINMA
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Mortgage loans: 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 are connected to the implementation of the final Basel III standards in Switzerland. FINMA will monitor the application of the new minimum standards and take measures at individual institutions where needed.

FINMA recognises the adjusted self-regulation by the Swiss Bankers Association in the area of mortgage lending as a binding minimum standard. These adjustments were necessary due to the introduction of the final Basel III standards in Switzerland. In particular, the minimum requirements for capital and amortisation as well as the qualitative requirements in the Mortgage Directive were amended. They will enter into force at the same time as the Federal Council's revised Capital Adequacy Ordinance and the FINMA Ordinance on the Credit Risks of Banks and Securities Firms on 1 January 2025.

Higher risk weightings for investment properties

FINMA continues to regard a correction on the property and mortgage market as one of the main risks for the Swiss financial market (see FINMA Risk Monitor 2023). Based on stress tests, FINMA has identified significant loss potential for the institutions, particularly in lending for investment properties. This is due to the fact that investment property lending involves higher risks than lending for owner-occupied housing and that investment property lending accounts for a significant proportion of the total mortgage portfolio at many institutions. In line with the Basel III standards, differentiated risk weightings will now be introduced for both types of lending. As a result, the risk weightings of higher loan-to-value investment properties will now be significantly higher than before.

As a consequence of these higher capital requirements for investment properties, the stricter minimum capital and amortisation requirements for investment properties from 2019 will be withdrawn. The aim of the stricter minimum requirements was to minimise the build-up of risk in the area of investment properties.

The self-regulation only sets a minimum standard in this area. In view of the risks, FINMA recommends that banks do not increase the lending limits for investment properties, including loans for buy-to-let properties. FINMA will monitor the impact of the amended minimum standards and make use of its supervisory tools on a case-by-case basis if necessary.

Affordability risks increasing

The revision of the Mortgage Directive extends the requirements for the independence of the valuation of properties, the rules on the use of valuation models, the inclusion of non-profit housing developers and the obligation to check the plausibility of creditworthiness and affordability in the case of periodic resubmission and event-driven monitoring. The requirements for creditworthiness and affordability remain principles-based. Within the framework of these principles, the banks can structure their lending criteria according to their individual risk appetite.

FINMA welcomes these adjustments, but sees increased affordability risks. On the one hand, the proportion of SARON mortgages has risen in some cases. On the other hand, banks tend to overestimate loan affordability. FINMA frequently observes, for example, that the projected interest rate is set too low or the affordability limits too high. In addition many banks grant too many “exception to policy” loans, i.e. loans that are outside their own lending criteria. This contradicts prudent lending practices and is therefore neither in the spirit of the regulation nor the self-regulation in the sector.

FINMA will continue to keep an eye on the application of the principles-based regulation in this area and – depending on how the risks develop – will consider rule-based regulation.