

## **Thomas Jordan: Mortgage financing and the risks of a credit crunch in Switzerland and abroad**

Summary of a speech by Mr Thomas Jordan, Member of the Governing Board of the Swiss National Bank, at the Schweizer Ökonomentag, University of Zurich, 10 September 2008.

*The complete speech can be found in German on the Swiss National Bank's website ([www.snb.ch](http://www.snb.ch)).*

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The international financial crisis has raised the question of the risks of a credit crunch on domestic and foreign property markets. A credit crunch can occur if banks' ability to lend is constrained, or if their lending practices become more risk averse. From a macroeconomic perspective, a credit crunch is relevant because it can reinforce an economic slowdown.

The risks of a property market credit crunch differ from country to country. Mortgage markets in the US and UK are showing clear signs of a credit crunch. Both countries have typically seen a sharp slowdown in credit growth, falling house prices and weaker bank balance sheets. Mortgage lending in these countries over the past few years has increasingly been financed through securitisation. The current loss of investor confidence in securitisation has thus hampered banks' ability to refinance mortgage contracts and, as a result, banks in both countries are finding it harder to grant new mortgage loans. At the same time, falling prices have dampened their risk appetite as regards lending. This decline in the supply of credit is now weighing on economic developments in these countries.

For the Swiss mortgage market, there is currently only a small risk of a credit crunch. On the one hand, there have been no widespread excesses on the Swiss property and mortgage markets recently, which makes it unlikely that banks' appetite for risk will decline to any great degree. On the other hand, opportunities for loan refinancing in Switzerland remain strong. The structure of mortgage lending in Switzerland is quite varied, and for banks the "Pfandbrief" mortgage bond is a refinancing tool that provides continuing strong opportunities for loan refinancing, and has experienced something of a renaissance since the financial crisis. As such, the already muted outlook for the Swiss economy is unlikely to suffer any additional impact from a credit crunch on the property market.