

# The Swiss Pfandbrief

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Zurich, July 1st 2009, 0745 JS

# Agenda

Terminology, Law

Swiss Pfandbrief Institutes

Swiss Pfandbrief

Member Banks

Cover Pool

Investor Benefits

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## **Terminology**

- Swiss Pfandbrief and not Swiss Covered Bond
- Cover Pool based on law and not on private agreement

## **Pfandbrief law**

- Established 1931
- Since then 3 minor revisions
- Stable framework
- Only 52 articles
- Purpose: To grant the real estate owners long-term mortgages at constant and cheap interest rates
- To close the refinancing gap of member banks

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## **Only two Pfandbrief institutes legally permitted**

- Pfandbriefzentrale schweizerischer Kantonalbanken:  
All cantonal banks (24)
- Pfandbriefbank schweizerischer Hypothekarinstitute AG:  
All other banks (240)

## **No monopoly**

- Self-help organizations
- Outsourced bond issuing departments and outsourced cover pool
- Every Swiss bank legal right to become a member bank

## **Special banks with limited business scope**

- To issue Swiss Pfandbriefe
- To grant Pfandbrief loans to member banks
- To invest share capital and reserves

## Further Strengths

- Supervised by the Swiss Banking Commission
- Triple-A rating by Moody's
- Accepted by Swiss National Bank as collateral for the Repo pool
- Transparent Annual Report with only 20 pages
- Cost efficient: Swiss Pfandbriefbank handles a CHF 40 billions balance sheet with over 100'000 mortgages with a staff of 7 persons, resulting in a cost-income ratio of only 7 %

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## **General features**

- Standardized (commodity)
- Only Swiss Francs (1 EURO = 1.5 CHF)
- Only long-term (3-20 years)
- Only fixed coupons

## **Issuing date**

- At the due date of an old Pfandbrief series
- When conditions are favorable
- On investor demand (tailor made)

## **Size**

- Depends on demand of member banks or demand of investor, what-ever is smaller
- Average size CHF 283 Mio
- Maximum size CHF 1000 Mio

## Issuing process

- Public through banking syndicate at fixed conditions
- Private through Pfandbrief institute

## Issuing price

- Depends on the
  - Duration
  - Interest curve
  - Coupons
  - Issuing volume
  - Secondary market of all other outstanding Swiss Pfandbriefe
  - Comparison with other issuers
- Latest Issuance as of June 10<sup>th</sup> 2009:
  - Series 388 2nd reopening, 4 years 199 days, Swap mid +1Bp
  - Series 409 2nd reopening, 11 years 105 days, Swap mid +8 Bp

## Trading

- Public placements

Primary market (fixing date - settlement date)

Secondary market (settlement date - repayment date)

All 96 series quoted at the Swiss Stock Exchange

Swiss Pfandbriefe account to 20 % of all bonds quoted at Swiss Stock Exchange

- Private placements

not traded (buy and hold)

## Volume

- CHF 63 billions (EURO 42 billions)
- For years biggest bond issuer in Switzerland (even bigger than government)
- Expected issuance in 2009: CHF 9.4 billions (not including extraordinary Limmat transactions CHF 8 billions)

## Investors

29 % pension schemes

25 % institutional investors (asset managers)

20 % banks and investment funds

18 % insurances

9 % retail investors and others

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## **Types**

- Most are cantonal banks, followed by Raiffeisen, regional banks and the two major banks UBS and Credit Suisse.
- With exception of cantonal banks most banks are rated with Single-A or Triple-B

## **Shareholder**

- Each member bank has to be a share holder of its Pfandbrief institute
- Share capital participation equivalent to portion in total Pfandbrief loans

## **Benefits**

- Member bank obtains Pfandbrief loan at Triple-A conditions
- Dividends on share capital
- Rebates on interest rates of Pfandbrief loans
- Commissions

## **Costs of a Pfandbrief loan**

Issuing price (investor's yield for the Swiss Pfandbrief)

+ Commission for issuing syndicate

+ Federal stamp tax

+ Margin for Pfandbrief institute

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## **Principle**

- Pfandbrief loan only against pledge of first rank Swiss mortgages

## **Pledge**

- Mortgages are pledged to Pfandbrief institute by electronic entry of the cover proposal through the member bank into the electronic cover pool register of Pfandbrief institute

## **Handling**

- Electronic cover pool produces cover proposal which is evaluated by one employee of Pfandbrief institute and authorized by another
- Valuation of Pfandbrief institute independent of valuation of member bank
- Substantial cover proposals are additionally evaluated by the cover pool committee
- Member bank can check on its screen whether its request is accepted or refused from Pfandbrief institute

## **Supervision**

- Daily supervision by Pfandbrief institute based on exception list
- Member bank is obliged by Pfandbrief law to improve coverage in case of impaired or non performing mortgage loans or if total interest payable of the Pfandbrief loans is bigger than total interest receivable on the pledged mortgages

## **Composition**

- Cover pool of Pfandbriefbank consists of more than 100'000 individual mortgages
- 92 % are single or multifamily homes and only 8 % commercial properties

## **LTV and rules for the valuation of property**

- LTV has to be authorized by federal finance department
- Maximal LTV 2/3, for commercial properties 1/2
- Value determined by Pfandbrief institute

- **Example**

Earning value of multifamily house =  $\frac{2}{3}$  of value calculated on net income of property capitalized with a rate which is twice as high as a rate for a 10 year mortgage

- In total 9 % of the Swiss mortgages are financed through Swiss Pfandbriefe

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## Investor benefits

- Special Bank principle with no currency and interest change risk
- Two stage Swiss Pfandbrief system: Swiss Pfandbrief institute and not mortgage bank determines value of property
- Simple cover pool: Only Swiss properties, only Swiss francs, no ship / airplane mortgages, no derivatives, no foreign properties, no foreign currencies
- Fourfold security: creditworthiness of Pfandbrief institute, member bank, proprietor (borrower) and property
- No loss since establishment of Pfandbrief law in 1931

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