



Factsheet / 03. March 2021 / reference rate for mortgages

Introduction of new SARON reference rate in Liechtenstein

1 Background

The London Interbank Offered Rate (LIBOR), which has been used as one of the most important benchmark interest rates worldwide since 2009, will become a thing of the past at the end of 2021. For that reason, national authorities and working groups worldwide have developed their own alternative reference rates (ARRs) to replace LIBOR.

In Switzerland and accordingly also in Liechtenstein, the Swiss Average Rate Overnight (SARON) is now the authoritative reference rate for variable-rate mortgages. SARON is a proven reference rate in existence since 2009.

2 Why is the LIBOR reference rate discontinued?

The LIBOR benchmark rate represents the average interest rate at which banks are willing to borrow unsecured funds in interbank transactions. It serves as the basis for many contracts concluded on financial markets (e.g., the performance of derivatives can be derived from an index as the underlying) as well as for the interest payments of loan and mortgage contracts.

The main reason for the discontinuation of LIBOR was the financial market crisis of 2008/2009 as well as manipulations, after which fewer commercial banks were willing to grant each other unsecured loans. As a result, LIBOR was less and less supported by actual transactions. Instead, it was increasingly based on estimates, which caused it to become less meaningful and credible.

3 What are the advantages of the new SARON reference rate?

The introduction of SARON in Switzerland and Liechtenstein forms the basis for the conversion of financial contracts using a reference rate. The introduction of SARON can be traced to a 2017 recommendation of the National Working Group on Swiss Franc Reference Rates (NWG). SARON is the overnight interest rate of the secured money market for Swiss francs (CHF). As such, it is based on effective, historical transactions and pricing in the highly liquid Swiss repo market. The calculation method for SARON was developed by the Swiss National Bank (SNB) and SIX Group. The reference rate is publicly available and is calculated and published by SIX daily after close of trading.

Liechtenstein banks have already begun launching new SARON products on a Swiss franc basis. Clients can accordingly already take out money market mortgages based on the SARON reference rate for real estate purchases.

4 What role does the Mortgage and Real Estate Credit Act play in relation to the new SARON reference interest rate?

Pursuant to the Mortgage and Real Estate Credit Act (HIKG), which is expected to enter into force on 1 April 2021 and which contains requirements governing application of a reference rate, consumers will receive prior notification of the interest rate. This means that the borrower (consumer) must be informed in advance of the interest costs that will be incurred in connection with the mortgage.

For existing mortgage loans based on LIBOR, banks inform their clients that if the LIBOR interest rate is no longer applicable, a successor interest rate defined by the bank will apply. This means in principle that existing mortgages will continue unchanged and will be converted to the new SARON reference rate when LIBOR no longer applies.

Note:

The Mortgage and Real Estate Credit Act (HIKG) serves to implement EU Directive 2014/17 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010.

5 Useful external links

1. [Swiss National Bank-SARON](#)
2. [Report and formal request of the Government to the State Parliament of Liechtenstein regarding the Mortgage and Real Estate Credit Act \(HIKG; Implementation Directive 2014/17/EU\)](#)

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