

Risk-Shifting Effect Associated with the Swiss Frank's Mortgage Loans

Summary

The article presents potential issues of mortgage loans denominated in Swiss francs in connection with the phenomenon of risk-shifting by banks to borrowers. Therefore, we signaled the deficit for safeguarding of the banks against sudden and large step change in the exchange rate of the Swiss franc. We developed a reflection on the phenomenon, mechanisms and examples of risk-shifting from the banking sector to the real economy, which was exemplified in relation to the last crisis in the US. Based on the case in the Polish banking sector we present the losses, which were and will be incurred by the customers drawing the mortgage loans in CHF. The hedging of the exchange rate risk on the bank's side was not applied for the customers, therefore they were charged with risk by banks, what afterwards will return back to banks. We show the magnitude of the risk-shifting impact and the proposal to change this in the future by implementing new paradigms to the risk management process.

Key words: mortgages denominated in Swiss francs, risk-shifting, mechanism of risk-shifting, speculation risk, currency exchange risk