Lombard loan

Brief description

A lombard loan is a means of securing additional liquidity through the pledging of securities as collateral. Only a certain percentage of the securities' market value is taken as the basis for granting the loan. A lombard loan is a straightforward and affordable tool for bridging temporary financial gaps or generating new funds, thanks to the level of marketability involved and the ease with which collateral can be realized.

Features

Lombard loans can be used in two ways:

- As a fixed advance
  Characteristics: fixed term and agreed fixed rate of interest
  Minimum amount: CHF 100,000
- As a current account credit
  Characteristics: flexible credit line offering variable rates of interest up to the maximum lending value of the securities pledged
  Minimum amount: CHF 25,000

Advantages

- Favourable terms
- Rapid and flexible availability of liquidity
- Can be used in the form of a fixed advance as well as a current account credit
- Means you can participate continuously in the portfolio's growth

Risks

- If – due to unfavourable market movements – the value of the securities deposited drops below a specific limit, you may have to provide additional top-up collateral (margin call) or sell some of the securities deposited to pay back part of the loan.
- Similarly, if market conditions are negative, any leverage used in investment transactions could have a disproportionate impact. Diversified investments can also generate a negative leverage effect.
- In addition to market risks, interest rate and currency risks can decrease the value of collateral and trigger margin calls.
- The tax authorities regard taking out a loan as one of several criteria that can result in an investor being classified as a commercial securities dealer. This then means that capital gains are no longer exempt from taxation.

Risk disclosure when taking out a loan to invest in securities

Taking out loans to invest in securities could potentially entail the risk of extensive losses if the securities deposited as collateral need to be liquidated at an inopportune time in the market, particularly where leverage is involved or in the event of aggressive drawdowns.
As a risk-mitigating measure, investors should avoid utilizing lombard loans right up to their lending limits. Additional cash can also be held – this can be brought in as top-up collateral or used to pay back part of the loan in the event of a margin call.

Costs

The costs comprise the debit interest due plus the account administration charges. Information on terms and conditions will be given verbally in the advisory discussion for the product.
In addition, clients will receive a product agreement for their lombard loan as well as the brochure entitled "Terms and conditions in basic business for private clients", which document the loan in writing.