

Mortgage Lending in South East Europe: Heading for International Best Practice

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“European Mortgage Markets: Current developments and next steps toward further integration”

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European Mortgage Federation

- Founded in 1967 to represent mortgage lenders' interests at EU level (retail & funding)
- Groups national trade associations and credit institutions from EU Member States + acceding countries
- New Member State membership: Czech Rep., Hungary, Latvia and Poland
- Romanian membership – Domenia Credit and ANL
- Just welcomed Ukraine as latest member
- Represents approx. 75% of EU mortgage market

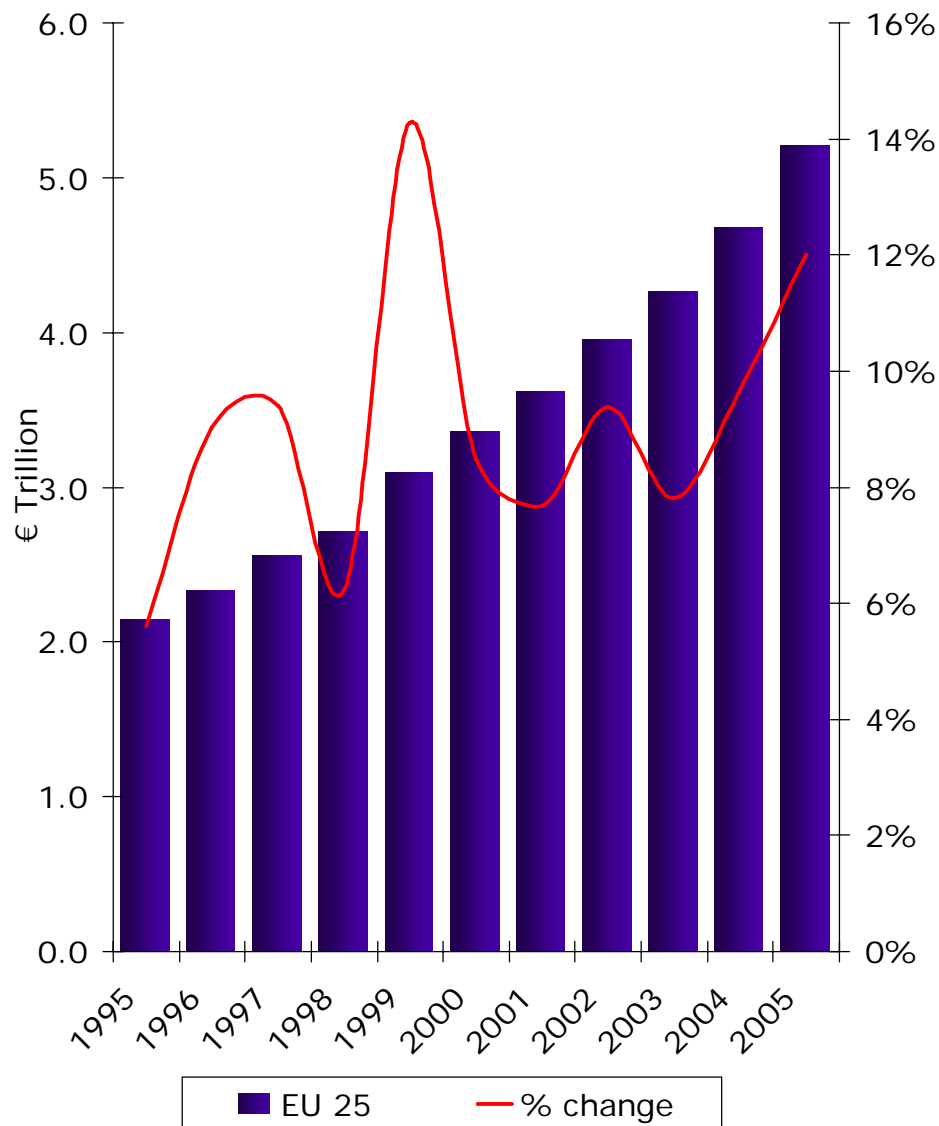
Agenda

I. Current Developments

II. European Integration

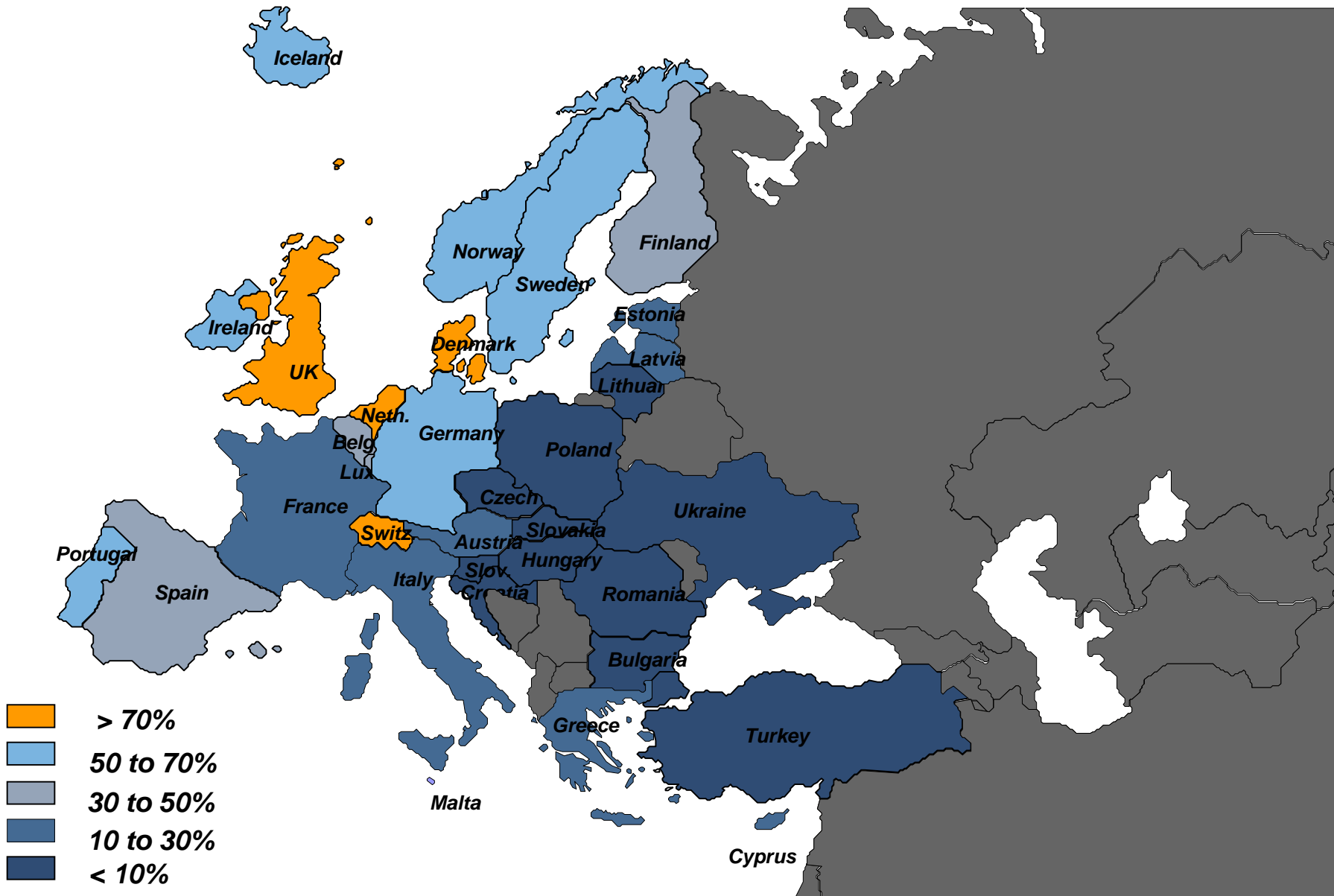
- Consumer protection
- Mortgage Funding
- Market 'infrastructure'

Value of EU Residential Mortgage Market 1995-2005



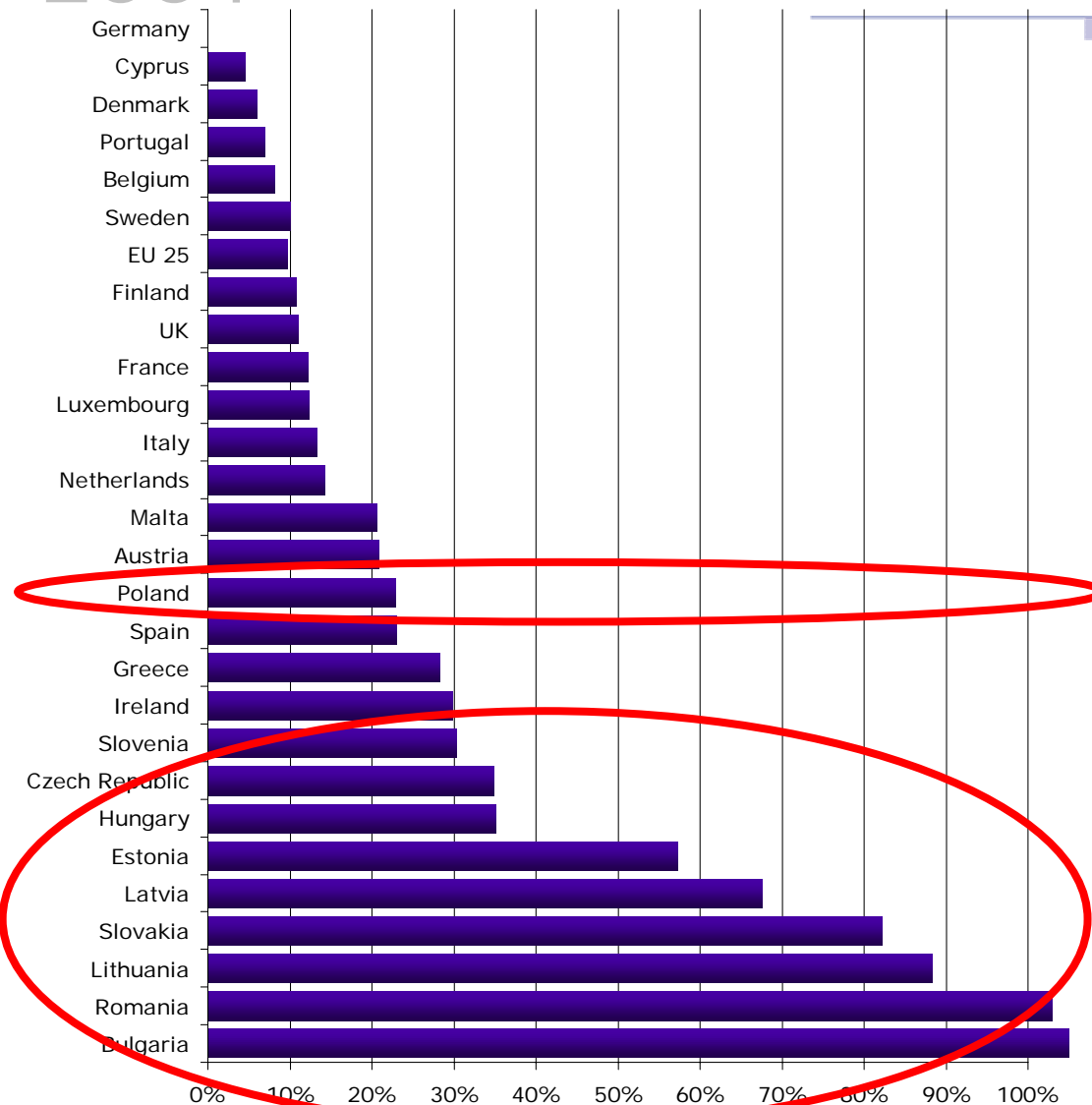
- €5.2 trillion in debt outstanding as at end 2005
- Growth rate in 2005 was 12%, compared to long run growth of 8% over past 10 years
- Market has more than doubled in size over past 10 years

Residential Mortgage Debt to GDP



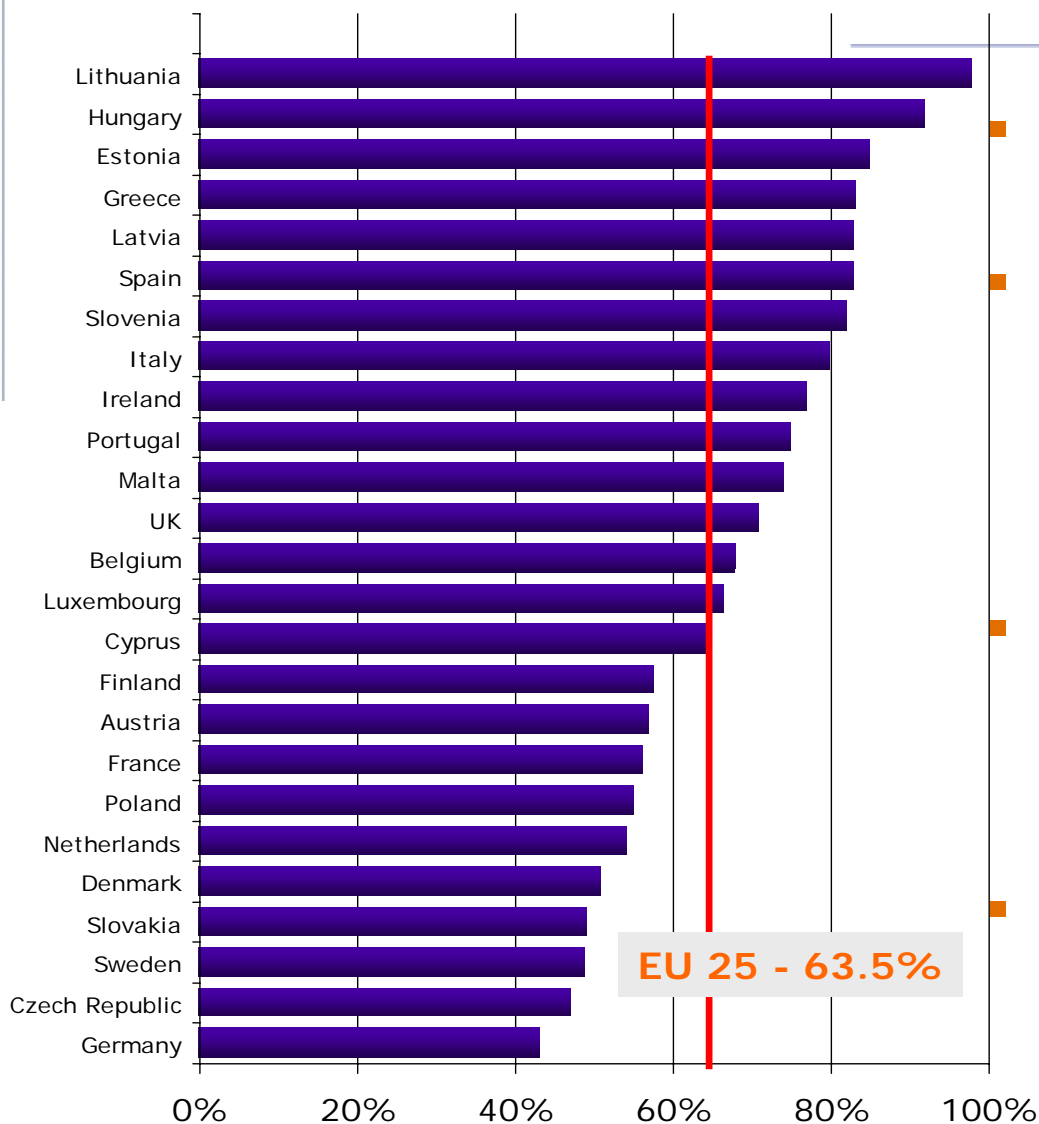
Source: European Mortgage Federation

Mortgage markets growth in 2004



- In EU 25 fastest growing mortgage markets in CEECs
- Fastest growing mortgage markets in EU 15 Ireland, Greece and Spain
- Fastest growing EU mortgage market is Lithuania (88%)
- SEEC countries growing at +100%

Owner occupation in EU 25- 2004



- Average owner occupation in EU 25 63.5%

- Most CEECs have high owner occupation rates, above 80%. This is due to privatization after communism

- Several Southern European countries have higher owner occupation due to cultural reasons

- Romania and Bulgaria home ownership rates of +95%

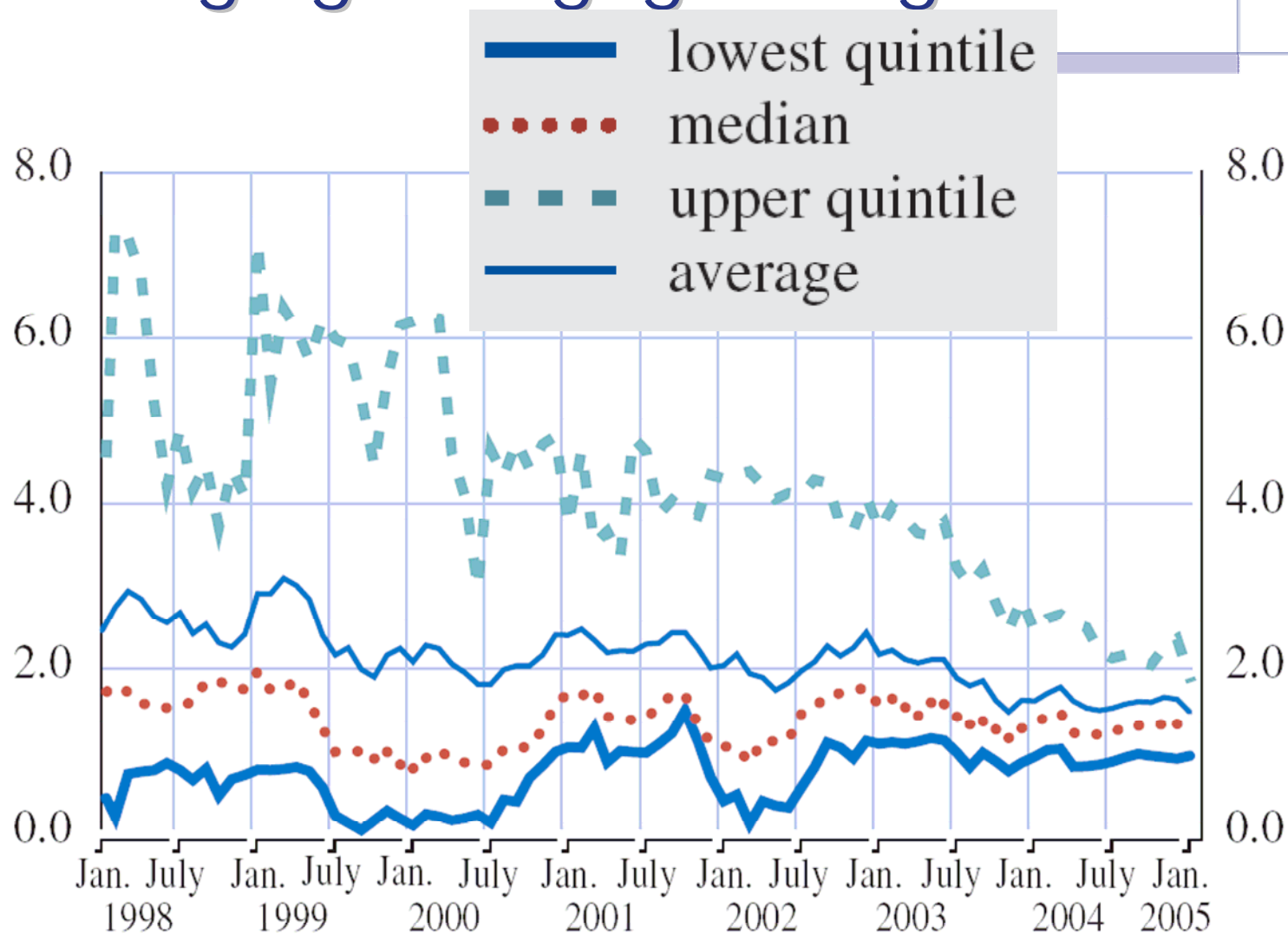
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Converging Mortgage Margins



Source: European Central Bank

Some consolidation ...

- Still difficult but a number of big deals have taken place affecting mortgage sector:
 - Abbey National (UK) / Banco Santander (Spain)
 - Unicredit (Italy) / HypoVereins Bank (Germany)
 - Currently a bid by BNP (France) for Banca Nazionale del Lavoro (Italy)
- Most of Eastern European market already in foreign hands
- Concentration still low in Europe – top 5 EU lenders represent 24% of the market compared to 37% in US
(source: Mercer Oliver Wyman)

Why integrate?

- Estimated benefits of integration worth almost €100bn over 10 years or 0.9% of EU GDP
(source: London Economics, Aug 2005)
- Efficiency gains – EU servicing costs still much higher than US market
- Filling product gaps – improve access to housing finance, sub-prime loans, high LTV, etc
- Ultimately may lead to lower mortgage rates
- Part of wider agenda for single European market
- Lisbon agenda aims to make Europe more competitive vs US, China, India,...

How to integrate?

- The European Commission published a Green Paper in Summer 2005 which examines the case for Commission action
- Compared to legal, collateral and funding issues, it devotes an important section to consumer protection questions
- Question also remains about approach to integration: Maximum or Minimum Harmonisation?
- EMF view is:
 - Maximum harmonisation is best where necessary
 - Better to harmonise information...
 - ...not products as this will mean less choice

Integration - Consumer Protection

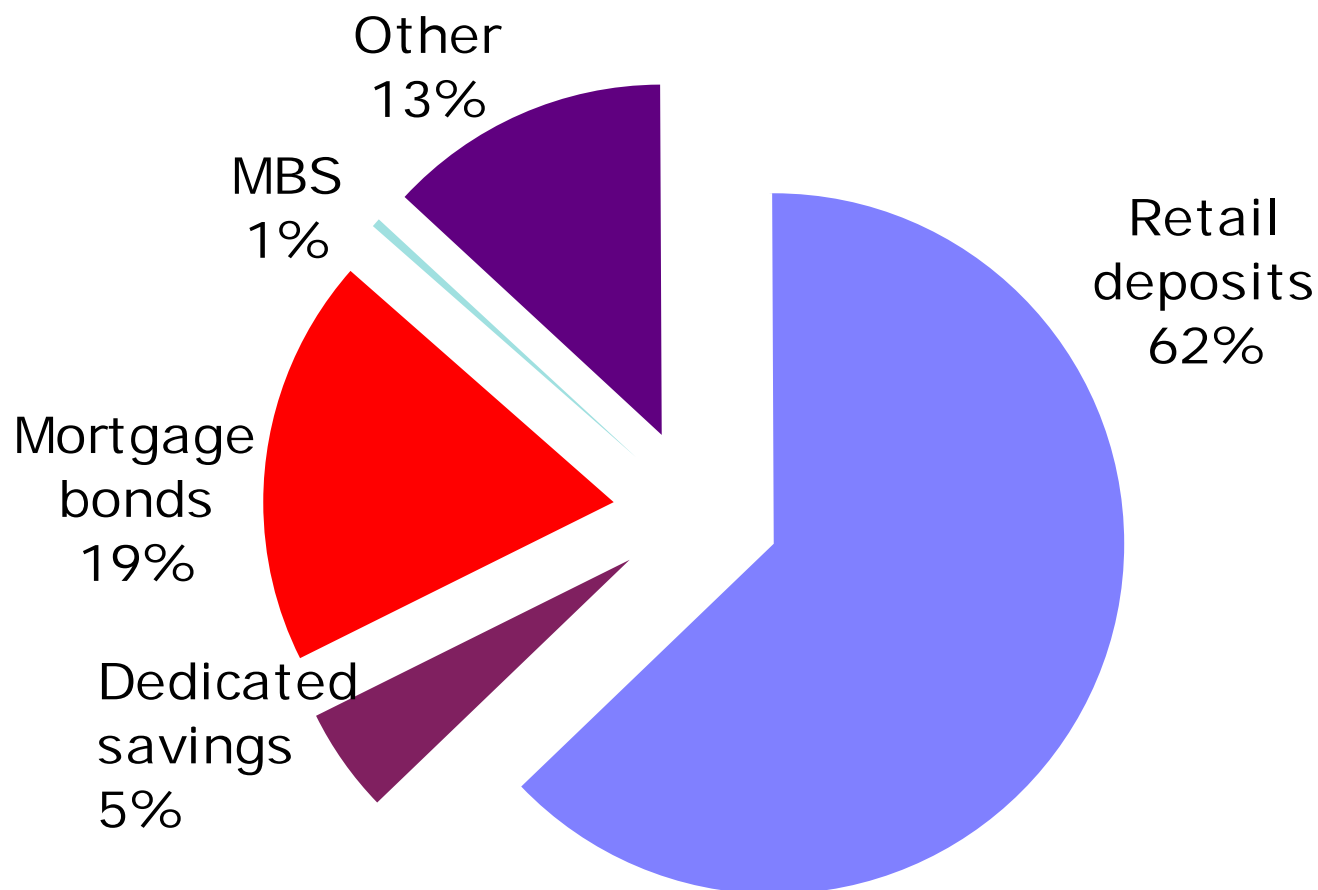
- Very different levels of protection at the national level
- Integration Focus will be on:
 - Provision of Information
 - Provision of Advice
 - Early Repayment
 - Annual Percentage Rate (APR)
- Voluntary industry Code of Conduct already exists and is implemented by most European lenders
- European standardised information sheet provided at pre-contractual stage
- Consumer education should also be seen as a priority

Regulation at product level

- The Consumer Credit Directive 87/102 and 2002/222
- The Door-step Selling Directive 85/572
- The Unfair Terms Directive 93/13
- The Timeshare Directive 94/47
- The Protection of Individuals' Personal Data Directive 95/46
- The Dir. on Misleading and Comparative Advertising 97/55
- The Electronic Commerce Directive 2000/31
- The Distance Marketing Directive 2002/65
- The Proposal for an Unfair Commercial Practices Directive 2003/1341

Integration – Mortgage Funding

- 2/3 of funding from deposits but balance changing



Source: European Mortgage Federation

Integration – Mortgage Funding

- Secondary market could be key to integrating primary mortgage market
- Benefits of integrated secondary mortgage market could include:
 - enabling cross-border exposures without cost of going cross-border
 - increasing market liquidity and reduce funding costs
 - enabling new products to be introduced such as sub-prime or long term fixed rates
- Will await conclusions of funding expert group at end of 2006

Integration – Mortgage 'infrastructure'

- There are many practical barriers to integration such as language differences, legal systems or cultural differences which are difficult/expensive to overcome
- But some barriers can be overcome and will improve efficiency:
 - Opening up credit registers
 - Property Valuation regulations
 - Land registers (Eulis project)
 - Improving enforcement procedures
 - Making collateral easier to transfer (Eurohypothech?)

When will integration happen?

- Consultation by European Commission during 2006 on Consumer Protection and mortgage funding
- European Parliament examining issue also during 2006
- White Paper with concrete proposals expected in 2007
- New member states, Bulgaria & Romania to join in 2007, Turkey, Macedonia and other FYR later?
- London Economics estimate that it could take 10 years to introduce measures and to see impact

Conclusions

- Integration already happening slowly, but further steps likely to be taken in 2007 and beyond.
- Little demand from consumers for cross border products...
- ...so benefits from further integration likely to be achieved by lenders going into new markets
- Other forces for integration include the new accounting standards and capital adequacy rules
- Overall expect further growth of markets in Europe, especially in new Members States and accession countries

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