



European Banking Industry Committee

European Banking Federation (EBF) • European Savings Banks Group (ESBG) • European Association of Cooperative Banks (EACB)
European Mortgage Federation (EMF) • European Federation of Building Societies (EFBS)
European Federation of Finance House Associations (Eurofinas)/European Federation of Leasing Company Associations (Leaseurope)
European Association of Public Banks (EAPB)

Commissioner Charlie McCreevy
European Commissioner for
Internal Market and Services
European Commission,
B 1049 Brussels

Brussels, 30 March 2005

EBIC Position on Mortgage Credit

Dear Commissioner McCreevy,

The European Banking Industry (EBIC) welcomes the Commission's initiative to launch the Forum Group on Mortgage Credit, which published an interesting Report including a set of concrete Recommendations last December. EBIC's approach to integration more widely is set out in a letter to the European Commission dated 10 September 2004 (copy attached). This letter should be read in conjunction with that submission.

At this early stage in our respective reflections on the wide range of possible measures proposed by the Forum Group, we would like to give you a first Position Paper which reflects our general political views on the question of market integration. Furthermore EBIC members are currently undertaking internal consultations in order to prepare a more detailed EBIC position on the set of Recommendations put forward by the Forum Group on Mortgage Credit.

EBIC members are in favour of further market integration that brings concrete benefits to both consumers and lenders in the framework of the single market. In this respect, EBIC would welcome an early proposal as to the definition of cross-border lending (Recommendation 1) which could help further investigation of real obstacles and needs to integrate the markets.

As far as consumers are concerned, empirical evidence currently shows a fairly low cross-border demand in the area of residential mortgage credit. This low level of cross-border activity is due to infrastructural factors and the very nature of mortgage products which are characterized by their strong links to the property financed and the law of the country where the property is located. Experience shows that consumers' level of demand is however higher where it is the lender who crosses the border to offer his national products in another market.

From the consumers' perspective, confidence is crucial and we understand the potential key benefits of the single market to be the following:

- Full product choice at competitive prices. Such benefits can be best achieved in a single market where national lenders compete with each other as well as with foreign lenders offering products on a cross-border basis and/or where the consumer has the possibility to access products offered on another national market based on adequate and transparent information. EBIC agrees on the principle of pluralism in the banking sector provided that there is the same level playing field for all kinds of institutions and that there is no distortion of competition. EU legislation should not favour one type of business model or corporate structure or one type of product over another.
- Meeting consumers' information and transparency requirements. These requirements are met by the Code of Conduct on Home Loans and its tailored ESIS (European Standardised Information Sheet), which was negotiated and agreed upon with consumer representatives, and which the industry believes to be the appropriate tool to ensure transparent and adequate consumer information. As such, the industry remains strongly committed to the Code (see EBIC letter to Commissioner Byrne dated 19 October 2004) and would welcome a new survey on implementation to be launched by the Commission that would help the industry to define possible measures of improvement. For its part, the industry is currently conducting a wide consultation that will enable it to present its Second Progress Report.

From the lenders' perspective, and subject to further analysis, the industry would like to highlight that the Forum Group Report correctly identifies a number of areas where there is room for improvement. But the industry believes that targeted harmonisation of regulation should be used as a means to increase integration of the European Mortgage Market only when other means have proved to be ineffective.

Moreover, EBIC members feel that the Forum Group Report does not encompass all aspects of the economics of mortgage business. Recent studies demonstrate that national mortgage markets are broadly efficient and highly competitive. Indeed, in many markets, competition has squeezed mortgage lenders' margins. Mortgage loans are sold with very little return as they are used to establish a long-term relationship with the customer which in turn allows lenders to cross-sell other products.

The high level of competition in the residential mortgage credit market also renders foreign market penetration fairly difficult. Lenders have to invest considerably to gain the knowledge they lack about the considered foreign property market, the value of the financed property as security (valuation), the available distribution channels, the foreign legal system (transaction and registration of the real security), enforcement procedure and other process-specific information and advisory services. The credit institution that operates across national borders is forced to incorporate these additional costs into the mortgage rate.

Economies of scale would at least partially offset these costs and this low profitability, and consequently foster more cross-border supply. However, EBIC members would express some doubt that more cross-border business would lead to lower interest rates.

Before responding in detail to each of the recommendations, and as a preliminary step, we would appreciate a reassurance from the Commission about the future of the Code of Conduct and the exclusion of all mortgage loans from the Consumer Credit Directive. These are precursors to the industry being able to focus on the other technical issues at stake.

Identifying areas where existing obstacles prevent consumers and lenders from taking full advantage of the single market has been a good first step but equally, if not more important, is proving that the removal of the identified obstacles would have a direct positive effect on market integration.

The industry therefore recommends that the Commission awaits the results of the survey that London Economics' is currently conducting. It is indispensable for further debate that a thorough assessment of the benefits of integration is available before any decision is taken as to the usefulness of implementing any new measures.

In conclusion, the industry would welcome integration measures that pass the market test of efficiency, meaning measures that have been strictly assessed on the basis of business impact analyses measured by using such tools as proportionality tests and/or cost benefit analyses.

We hope that the above reflections will provide you with useful information as to our general approach to market integration with a view to the preparation of the Green Paper on mortgage credit.

We look forward to discussing these issues with you.

Yours Sincerely,



Hein Blocks
EBIC Chairman



Annik Lambert
Secretariat EBIC Working Group
Mortgage Credit

Copy: Commissioner Markos Kyprianou