



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)

6 March 2009

EBIC comments on the London Economics Study on Non-Credit Institutions (NCIs) providing mortgage loans in the EU

1. EBIC welcomes the opportunity which the European Commission (EC) has given stakeholders to comment on the contents of the recently published Study on Non-Credit Institutions (NCIs) providing mortgage loans in the EU.
2. EBIC would like to take up this opportunity to highlight some common EU banking industry views on the regulation of mortgage lending NCIs as well as to make a few comments on the Study itself¹.
3. As a first point, it should be noted that the Study does not contain any concrete policy options. In addition, since the publication of the Study the EC has not yet communicated when it intends to express itself on whether EU action in this context is considered necessary, and if so, what form it will take. EBIC therefore takes the opportunity of this response to request more clarity from the EC generally on its planning on this matter.
4. The EC did however express the view in the White Paper on the Integration of EU Mortgage Credit Markets that it is in favour of allowing NCIs to be active in the mortgage lending business, but deems it essential that responsible lending, financial stability and effective supervision are not in any way compromised.
5. EBIC is very much in agreement with such a view, believing in addition that a level playing field must be ensured among all actors present in the EU mortgage markets

¹ Mortgage lending should be understood in this document as referring to a loan secured against a property for the sole purpose of the purchase of that property.

and that, as such, adherence to the principle of "same business, same risks, same rules" is essential to avoid competitive disadvantage.

6. What this means with respect to all institutions providing mortgage credit to consumers, irrespective of whether they are credit institutions or non-credit mortgage lending institutions, is that they should be subject to adequate supervision of national financial services authorities, and that conduct of business and consumer protection rules should apply equally to all.
7. One of the key markets targeted by mortgage lending NCIs is the non-conforming or sub-prime sector. Consumers in these market segments are often more vulnerable and may be less financially literate. It is therefore all the more important to ensure that existing consumer protection rules also apply to mortgage lending NCIs to maintain confidence in such a sector. Consumer protection issues such as pre-contractual information (adherence to the voluntary Code of Conduct on Home Loans) as well as contractual terms remain the same regardless of the funding method.
8. One finding in the Study is that the most common form of mortgage cross-border provision by lending institutions is by the establishment of subsidiaries. In this context, the Study explains that in Member States in which it is not necessary to be registered and authorised as a CI to provide mortgage loans, businesses may opt to register subsidiaries as NCIs rather than as CIs if capital requirements are lower for the former. Later, the authors of the Study explain that regulatory requirements for NCIs are at a less intensive level as compared to CIs because NCIs "do not take deposits and therefore the risks to the functioning of the financial system and to consumers is perceived to be low".
9. While it is true that mortgage lending NCIs do not have responsibilities towards depositors, further investigation is required to establish the actual level of risk they represent to the financial system. EBiC therefore urges the EC to look critically into those Member States where such a situation of regulatory difference exists, to ensure that NCIs are regulated in an adequate way at the national level, and that the risk which they represent is properly accounted for.

10. As a general point, given that only ten non-credit institutions from seven Member States were surveyed, EBIC considers that the EC should treat the conclusions of this survey with the utmost caution when seeking to formulate possible policy options.