

EU Regulation in the Pipeline

HBA Conference on Current Developments and Challenges in the Mortgage Market

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Structure of Presentation

- The European Mortgage Federation (EMF/ ECBC)
- Market Trends - Latest Figures
- Regulation in the Pipeline -
 - Retail: Responsible Mortgage Lending (CARRP)
 - Regulatory & Funding: Capital Requirements Directive (CRD4)
- Taking Stock

The Voice of the EU Mortgage & Covered Bond Industry



- The **EMF** is a product federation:
 - bringing together **all categories of mortgage lenders** from EU MS
 - covering both the **retail & funding** sides of the business in its representation of the Industry
- The **ECBC** is the EMF voice of the Covered Bond Industry:
 - bringing together most CB stakeholders => Issuers; Investment Banks; Rating Agencies; Trading Platforms & Law Firms, representing over **95%** of all CBs issued
 - with the objective of **promoting the asset class**

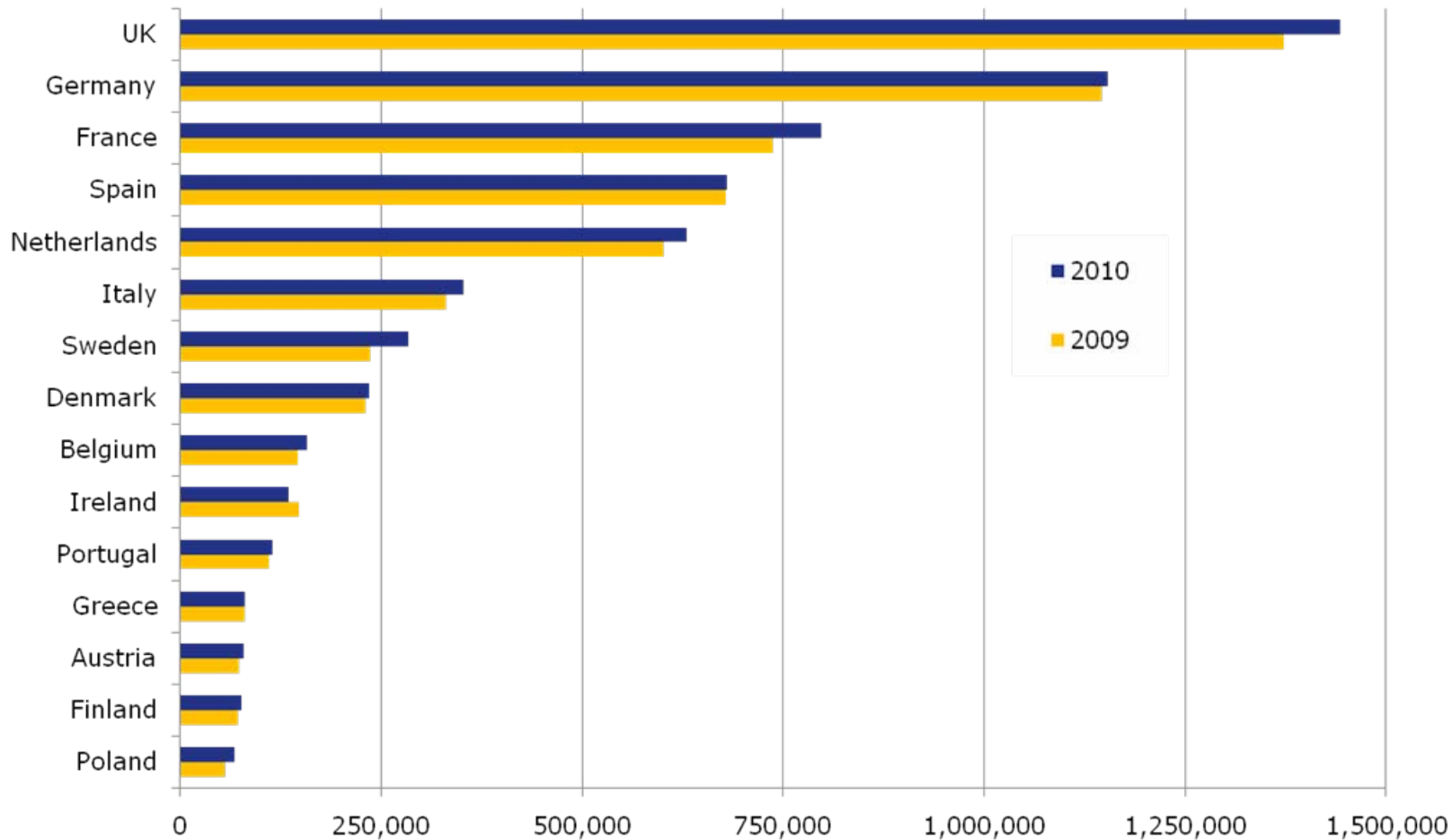
Mortgage Industry in Figures



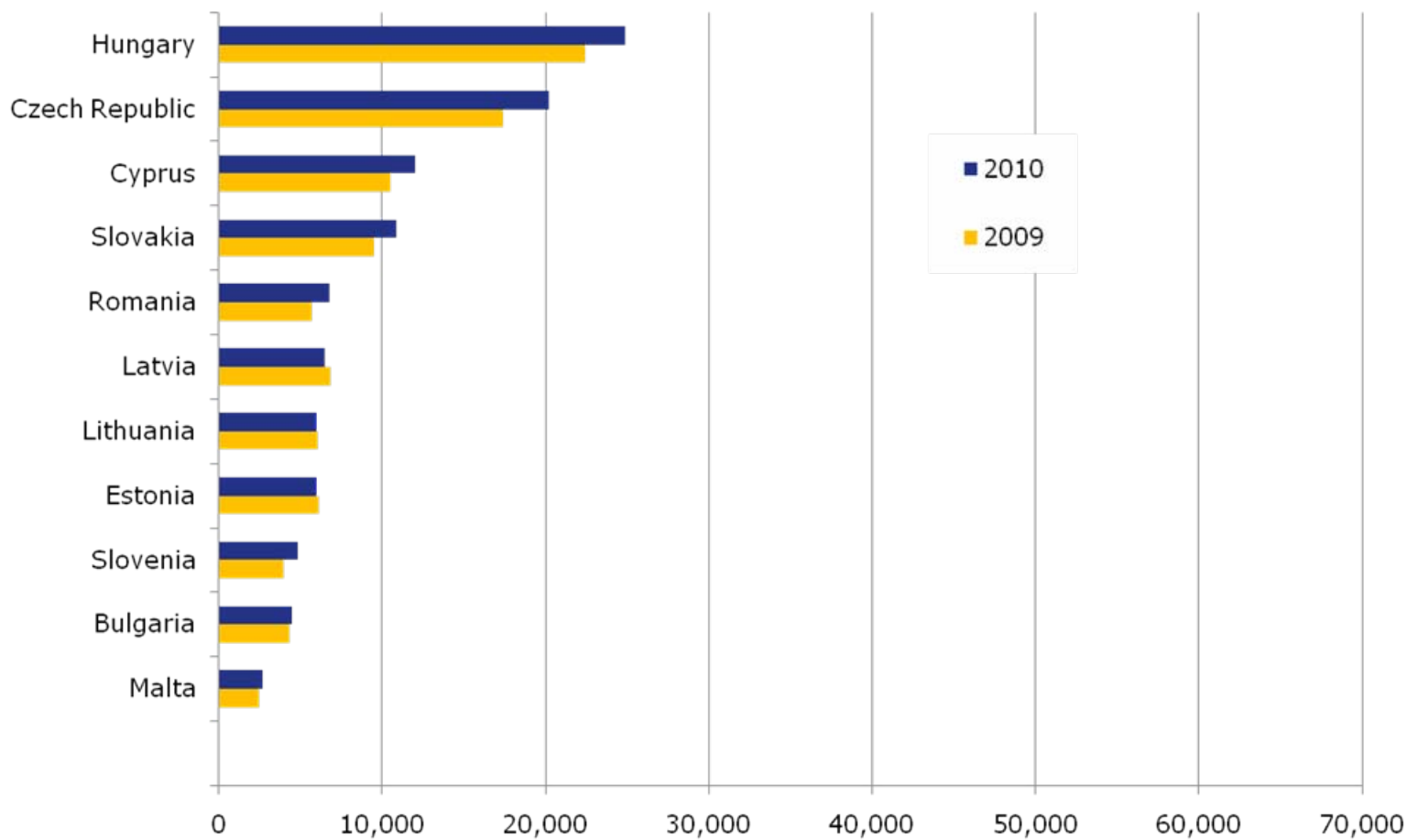
The Mortgage Industry remains a major driver of the general EU economy:

- **€6.4 trillion (6,412 billion)** outstanding at end of **2010 (provisional)**:
 - 2-digit growth rate until 2006 (11.6% in 2006)
 - Slow-down of growth rate to 8.1% in 2007
 - 1st y-o-y decrease in lending of 1.4% in 2008
 - 1st signs of recovery in 2009 with growth of 0.6%
 - Growth of 4.5% in 2010 indicates continued recovery
- Equal to **53.4%** of aggregate EU GDP
- Access to housing for **70.5%** of EU population
- Mortgage CBs = **€1.5 trillion** asset class that provides **23.2%** of all mortgage funding

Outstanding Mortgage Loans in the EU15 Countries – 2010 and 2009 (mill. EUR)



Outstanding Mortgage Loans in the NMS12 Countries – 2010 and 2009 (mill. EUR)



Background

- **Before the crisis:** Cheap funding & relaxing of credit underwriting conditions
- **Consequence of the crisis:** Loss of confidence & drying-up of liquidity
- **Market reaction to the crisis:**
 - Lenders reassess the price of risk & face an increase in cost of funding => increase in the cost of credit to consumers
 - Lenders strengthen underwriting conditions, notably banning subprime loans => reduced access to credit & housing (1st time buyers/self employed/low income)
 - Lenders turn to CBs for funding as securitisation dries up and access to savings deposits is limited (low interest rate & loss of confidence)
 - Consumer demand is easing: "wait and see" approach
- **EU Authorities' Reaction:** Regulation

Regulation in the Pipeline (1)

1. Directive on Credit Agreements Relating to Residential Property (CARRP)

■ Commission Proposal:

- Policy shift from market integration (2003/2007) to consumer protection at pre-contractual stage
- Business Case?
- Limited scope & principles-based approach
- Inappropriate use of delegates acts!

■ Content:

- Pre-contractual Information: Updated ESIS (CoC)
- Creditworthiness Assess./Oblig. to deny & inform
- Product Suitability Assessment/Unsuitability
- APRC/Total Cost of Credit
- Requirements for competence of lenders' staff
- Credit intermediaries & non-banks
- **Early repayment:** contractual option/mandatory 8

Regulation in the Pipeline (2)

- **EP Stance: Questions Commission Approach**
 - Scope: lending to developers, property valuation, land registration, foreclosure, LTV/LTI caps?
 - Principles-based /prescriptive?

- **ECON (lead Committee):**
 - Rapporteur is A. Sanchez Presedo (S&D, ES)
 - Draft Report: Late-June, but delays possible

- **IMCO:**
 - Rapporteur is K. Lechner (EPP, DE)
 - Committee likely to “share” the file with ECON

- **Industry Stance:** Which strategy?

Conclusion: Taking stock

- **Increased pressure on lenders:**
 - Unbalanced regulation on the retail side: significant increase in lenders' liability risk (litigation)
 - Strong increase in cost of capital
 - Increase in cost of funding
 - Cost of implementing new regulation
 - Cost of cumulative effect of multi-layered regulation
 - Contradictory demands: more "responsible lending" (i.e. stricter lending criteria) but greater availability of credit...

- **Likely consequences:**
 - Increased caution in lending activities
 - Increase in cost of credit to the consumer
 - Direct impact on range of EU citizens who will be able to access credit and homeownership
 - Potentially significant decrease on EU Mortgage & Housing markets in the future
 - Evolution of interest rates?

- **Question mark:** evolution of interest rates & potential impact



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