MEMO/07/593

Brussels, 18 December 2007

White Paper on the Integration of EU Mortgage Credit Markets – Frequently Asked Questions (FAQs)

(See ***IP/07/1955***)

How does the White Paper on the Integration of EU Mortgage Credit Markets relate to the Single Market Review?

Alongside the Communication on a single market for 21st century Europe (see IP/07/1728), the Commission published a Staff Working Document on its forthcoming initiatives in the area of retail financial services. Building on the Commission's strategy for retail financial services outlined in the Green Paper on Retail Financial Services and taking into account the issues identified in the wealth of contributions received as part of the public consultation, the document identifies several areas where work should be undertaken to improve the competitiveness and efficiency of European retail financial services markets. Mortgage credit is identified as an area where integration is lacking and targeted initiatives could benefit both citizens and financial services providers alike.

What are the Commission's objectives in the field of mortgage credit?

The White Paper sets out the Commission's objectives in the field of mortgage credit. The Commission seeks to develop integration in EU mortgage markets by:

- facilitating the cross-border supply and funding of mortgage credit by removing the barriers and reducing the costs of engaging in cross-border activity;
- increasing the diversity of products that meet consumers' needs by removing barriers to the distribution and sale of products, including innovative and new products across Europe;
- improving consumer confidence by ensuring that consumers are empowered to make their own decisions and benefit from a high level of protection;
- facilitating customer mobility by ensuring that consumers wishing to change mortgage lenders are not prevented or dissuaded from doing so by the presence of either legal or unjustifiable economic barriers.

Is there really a "business case" that justifies any action by the Commission?

European mortgage markets are in general considered to be competitive and efficient at the national level. However, several studies have shown that the integration of EU mortgage markets would bring significant benefits to both mortgage lenders and citizens. According to a study carried out in 2005 by London Economics on behalf of the Commission, the value to the EU economy of such increased integration over the next ten years is estimated at EUR 94.6bn, which amounts to 0.89% of 2005 EU GDP.

By 2015, the study estimates that integration of the EU mortgage credit market would raise EU GDP by 0.7% and private consumption by 0.5%. Another study carried out in 2003 by Mercer Oliver Wyman and the European Mortgage Federation suggests annual benefits of 0.12-0.24% of EU GDP in 2003. The estimated benefits arise in both cases from the increased efficiency of mortgage lenders and the availability of a wider range of products.

Why does the Commission want to integrate mortgage markets, if the average consumer will not be shopping cross-border?

The Commission acknowledges that today only a small fraction of the European population is active cross-border and indications are that this is likely to remain relatively small in the short to medium term. Integration will therefore be predominately driven through cross-border activity by mortgage lenders for the near future. Consequently, the Commission aims at facilitating the cross-border supply of mortgage credit by removing the barriers to and reducing the costs of engaging in cross-border lending. In this way, consumer should be able to choose not only from the products and services which are currently available on their home market, but also from products and services which have been designed elsewhere in the EU and are offered to the consumer by locally established firms, local agents or brokers of EU lenders, or even on a purely cross-border basis.

Is the Commission proposing a Directive on mortgage credit?

The Commission has not yet decided whether legislation is the most appropriate way forward to achieve the potential benefits from integration of mortgage markets. Action will only be pursued where there is evidence of clear and concrete benefits for citizens and a strong economic rationale. While the general impact assessment accompanying this Communication suggests that legislation would be for some areas the most effective policy option to achieve the set objectives, the Commission is of the view that further analysis and consultation with stakeholders must take place before a final political assessment can be made on the most appropriate way forward. It goes without saying that no Directive will be tabled if the costs of legislative measures outweigh their benefits.

Stakeholders have identified the integration of EU mortgage funding markets as offering the most potential for benefits. Why do you not propose concrete actions for improving the efficiency of mortgage funding markets?

On mortgage funding, the Commission plans to continue its analysis of the nature, the causes and the magnitude of the problems identified by both the Mortgage Funding Expert Group[1] and the European Financial Markets Lawyers Group's Working Group on Securitisation.[2] Recent developments in sub-prime markets, the complexity and the horizontal dimension of the obstacles identified, as well as the wide-ranging implications for all stakeholders all have to be given due consideration before drawing any policy conclusions.

[1] *Report of the Mortgage Funding Expert Group*, 22.12.2006.

[2] *Legal Obstacles to cross-border securitisation in the EU*, European Financial Markets Lawyers Group, Working Group on Securitisation, 7.5.2007.

The Commission will in particular examine: mortgage lenders' incentives to move risk off balance sheet; prudential standards and the transparency of banks' exposures to securitisation transactions that are directly or indirectly related to mortgage credit; and whether further measures to improve transparency from the end investors' perspective are necessary.

Why does the Commission consider early repayment as one of the most important issues for integrating EU mortgage markets if other factors such as the distance to customers, missing distributions channels, high processing cost, language problems, different consumer behaviour and finance traditions are responsible for still modest cross-border business?

The existence of different national early repayment regimes has indeed been identified by the impact assessment accompanying the White Paper as one of the key obstacles to integration of mortgage markets. Unlike other identified issues, early repayment terms and conditions have not only consequences for all four Commission objectives, but impact directly on product diversity, which is identified by studies as one of the key elements for achieving the benefits of mortgage market integration. The issue of early repayment therefore cannot be ignored when attempting to design a credible policy on the integration of mortgage markets.

Does the Commission intend to harmonise early repayment rules?

The Commission has not yet taken a decision as to whether a legislative approach is the appropriate way forward to achieve integration of European mortgage markets. The Commission acknowledges the political sensitivity of this issue, and the complexity of finding an appropriate level of harmonisation. The Commission will carefully analyse the costs and benefits of harmonising early repayment as such and of all different options as well as explore, in particular with Member States and the European Parliament, to what extent it would be possible to reach a consensus on an adequate European regime for early repayment before making a judgement as to whether and how early repayment rules should be harmonised.

How will the announced package benefit consumers?

Consumers will benefit directly and indirectly from the announced measures. Many of the measures to improve the efficiency and competitiveness of cross-border mortgage lending – both on primary and secondary markets – would lead to improved product diversity and, potentially, lower prices for consumers. One study estimates that integrated mortgage markets could reduce the interest payable on a EUR 100 000 mortgage loan by as much as EUR 470 per year. Consumers should also be able to access a wider range of products due to their increased mobility through better and more comparable pre-contractual information, improved access to and appropriateness of credit data, and less product tying. With the proposals on responsible lending, consumer confidence should be maintained or even improved, by minimising the chance of consumers choosing an inappropriate product.

What steps is the Commission taking to make sure that the sub-prime crisis in the US is not repeated in Europe?

Many of the issues currently being discussed in the US have been under debate in the EU for several years such as pre-contractual information requirements, responsible lending practices and the regulation of credit intermediaries. The White Paper presents the Commission's intentions on these issues. However, the White Paper is not in itself an answer to the sub-prime crisis. Much more work needs to be undertaken in order to understand fully the drivers of the crisis and to react in an appropriate manner. On the issue of mortgage funding, the Commission has already organised meetings with the financial services industry, the ECB, CEBS and CESR in order to bring appropriate policy responses to the developments on the financial markets. The Commission will further monitor very closely the developments in the US sub-prime mortgage market to react, if necessary, with further action.

What happens next?

The Commission will fulfil its tasks set in the White Paper. In particular, the Commission will in 2008:

- undertake individual impact assessments, including rigorous cost-benefit analyses, in order to assess the need for legislation on certain key issues;
- engage in consumer testing of a revised European Standardised Information Sheet;
- establish an Expert Group on Credit Histories;
- prepare, subject to an appropriate impact assessment, a Recommendation on land registration, foreclosure and property valuation;
- prepare scoreboards on the costs and duration of land registration and foreclosure procedures.

What is the status of a White Paper and why is it important?

A White Paper sets out the Commission's policy programme in a specific area. Before a White Paper is written, a Green Paper is published, which is a consultative document including suggestions and options for new policy. While Green Papers are open for public consultation, White Papers are not, as, in principle, a White Paper is the final say. However, each single proposal for legislation announced in a White Paper or deriving from a policy initiative announced in it will be subject to one or more rounds of open consultation and impact assessment.