

Ons kenmerk
Uw kenmerk
Datum 28 November 2005
Betreft Reaction to Green Paper,
Mortgage Credit in the
EU, 19/07/2005
Behandeld door Dick Kortekaas
Doorkiesnummer 00 31 10 2421269

Dr. Alexander Schaub
Director General, Internal Market
European Commission
Rue de la Loi 200
B-1049 BRUSSELS

Dear Dr. Schaub,

In this letter we shall set out why we believe that mortgage servicing can help serve as a catalyst to achieve a single European mortgage market. Mortgage servicing makes it easy for suppliers of capital to enter a foreign market by removing practical bottlenecks. As mortgage servicers were not represented in the Forum Report and because your Green Paper made no mention of the added value provided by mortgage servicers, we shall first specify in summary form what mortgage servicing involves. We shall then discuss the Green Paper and conclude this letter with a recommendation to the Commission.

Function of mortgage servicing

Mortgage servicers fulfil the following functions:

- ~ They offer low cost entrance to financial institutions wishing to invest in a mortgage market;
- ~ They offer a level playing field to financial institutions wishing to enter a foreign mortgage market;
- ~ They set up a wider range of products at attractive prices for consumers;
- ~ They render the market more efficient and increase quality in process and technology;
- ~ They can put financial institutions in touch with a variety of distribution channels;
- ~ They offer smaller and medium-sized financial institutions a chance to stay in the market as Basel II and Solvency requires them to invest substantially in IT systems and operational quality;
- ~ They link the primary and secondary financial markets as servicers support off balance sheet funding as and this access to the capital market will boost both markets.

The result of working closely together with a mortgage servicer is that suppliers of capital are able to enter another EU market without being physically present. Moreover, thanks to their central position within the mortgage value chain, mortgage servicers resolve a number of bottlenecks. This may include checking a client's credit-worthiness, arranging valuation of real estate, restricting or preventing fraud, managing flows of money including preparing and making possible the execution of the deed of mortgage at the notary's. Naturally, a variety of financial reports and management information statements are always furnished to those supplying capital.

In short, mortgage servicers offer directly to foreign suppliers of capital a "level playing field" allowing the possibility of competing with locally accepted products in line with the local legal and regulatory framework. Mortgage servicers thus make a significant contribution to local competitive mortgage markets and we are in the front line in terms of contributing to the further integration of the European market in mortgages.

Objectives sought from a European market in mortgages

Four parties play an important role in the mortgage value chain. There is an important difference between these parties in terms of the size of market they focus on.

Financial institutions wishing to invest in a mortgage market operate in an international market. Up until today, mortgage servicers have chiefly been operating locally, but within this group a trend toward internationalisation is noticeable. Distribution channels and the consumer as well remain locally focused and this is not expected to change rapidly.

We subscribe to and support your basic view that integrating local EU markets into one European market for mortgages should lead to a market with greater efficiency and competition, a matter which is in the interest of all concerned. In truth, in the light of the fact that distribution channels and the consumers are locally focused, the impulse pushing toward greater competition and greater exposure to market forces must therefore come from financial institutions wishing to invest in another EU market. It is based on this view that we are now already operating as mortgage servicers.

You want cheaper and better loans for consumers. We are convinced that consumers cannot be expected to start looking for these benefits in foreign markets, and thus the benefit must arise by foreign parties entering a local market. Mortgage servicers facilitate that entry and we thus contribute actively to cheaper and better loans being made available to consumers.

We do understand that not all EU markets find themselves in the same position in terms of market development and that competition should be further stimulated in certain countries. That stimulus may come both from legislation, but certainly also via the conventional market mechanisms. Financial institutions will determine on the basis of a number of considerations whether they intend to enter into another market. That determination must correspond to strategy and they must perceive opportunities to gain market share over a longer time frame. In short, there are further additional factors that play a part in the decision to enter another market.

Mortgage servicers can play a strategic role for new members of the European Union as we develop best practices. This expertise can be beneficial when developing mortgage markets from scratch.

Product diversity

You note significant differences between the different EU markets in terms of product offering and in terms of offering a solution to consumers with less attractive credit-worthiness.

Product offerings are partly conditioned by economic traditions and cultural factors. These factors are difficult to influence. In fact, even in the absence of EU legislation, we see a trend where products that have shown their worth are launched in another market. This applies to mortgages destined for consumers with less attractive credit-worthiness. In the UK these products were launched a long time ago and we now observe the development of these products on the Dutch and German markets.

Legal issues

It is of course of great importance to be able to establish the client's credit-worthiness and it is evident that a valuation based on clear principles of assessment is absolutely necessary. However facilitating both these questions via EU legislation only provides a partial solution. Merely opening up and providing parties with access to databases will not suffice for effective assessment. Your Green Paper does not examine the phenomenon of fraud, but there exist countless creative options allowing a mortgage application to be honoured and that requires broader knowledge and know-how than simply consulting a database or a generally accepted valuation form. In short, more is needed in this respect. And mortgage servicers provide solutions to that. Not merely by making our expertise available, but very concretely by proposing fraud prevention programmes and a link to a database with information about consumers' credit-worthiness.

Mortgage collateral

When foreign suppliers of capital work together with a mortgage servicer they can make direct use of mortgages based on the law applicable locally. This circumvents the need for parties to invest their own time and money in launching classical mortgage products on the market. When launching new products on a market a mortgage servicer can be of assistance in ensuring the product is in compliance with the local legal and regulatory framework.

Recommendation

The creation of an integrated European market for mortgages can, in our view, be promoted by pursuing two tracks.

The first track is by EU legislation. Through legislation it is possible to remove barriers and integrate the mortgage markets. In this context we suggest you examine the position outside the mortgage market and, by way of example, also include issues of cross-border payments traffic.

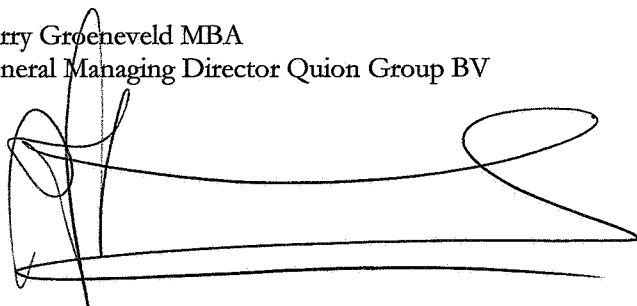
The second track is to permit the market to do its job. We as mortgage servicers believe we can play a far more prominent part in a European mortgage market on the road to integration. The advantages of our function within the mortgage value chain are clear to financial institutions, parties involved in distribution as well as to consumers.

We believe a twin-track policy is the right one. With each one reinforcing and strengthening the other, the added value of a twin-track policy will be substantial.

We shall of course be happy to respond to questions on your part and, should that be desired, to provide further information.

Yours sincerely,

Harry Groeneveld MBA
General Managing Director Quion Group BV



Quion Groep BV
Lichtenauerlaan 170
3062 ME Rotterdam
The Netherlands

On behalf of and with support of the following mortgage servicers:

Steve Haggerty
Managing Director

Homeloan Management Ltd
1 Providence Place
Skipton
North Yorkshire BD 23 2 HL
United Kingdom

Alexandere Janicki
General Managing Director

Aareal Hypotheken-Management GmbH
Janderstrasse 7-8
D-68199 Mannheim
Germany

Clarence Dixon
Managing Director

Crown Mortgage Management GmbH
An der Welle 4
60322 Frankfurt am Main
Germany