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Internal Market and Services DG

FINANCIAL INSTITUTIONS

Retail issues, consumer policy and payment systems

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MARKT/H3/JR

WORK PLAN

MORTGAGE FUNDING EXPERT GROUP (MFEG)

1. INTRODUCTION

The Commission established the Mortgage Funding Expert Group (MFEG) in April 2006. Further information on the Expert Group, including its composition, may be found in the Terms of Reference at the following address: http://ec.europa.eu/internal_market/finservices-retail/home-loans/integration_en.htm.

The purpose of the document is to act as a roadmap for the discussions and to facilitate the organisation of the work of the Mortgage Funding Expert Group. Any comments or proposals contained in the document are preliminary and should not be perceived as exhaustive. They neither represent the views of the Expert Group nor those of the Commission.

2. OBJECTIVES

The Expert Group will:

- Identify the barriers to integration for each of the funding models outlined in the Forum Group Report (RMBS, Covered Bonds, Temporary Loan, Whole Loan Sale, Unsecured/signature products, 3rd Party Enhancement);
- Seek to classify the barriers according to their origin (commercial practices, technical standards, national/EU legislation etc.);
- Prioritise the barriers identified in terms of their significance to the market;
- Consider and justify possible solutions for each of the barriers identified and make concrete recommendations to the Commission. All solutions, not just legislative, should be considered by the Expert Group.

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The Expert Group will, at the end of its duration, publish a report on its findings. The report will be published on the European Commission internet site.

3. STOCK TAKING OF THE CURRENT SITUATION

The Expert Group agreed to take stock of the situation in EU mortgage funding markets. The objective is to obtain an overview of the different types of mortgage products and funding options on offer and used in different EU Member States, the US and Asia.

Members of the Expert Group agreed to:

- Provide proposals for information to be included in the overview and suggest countries to be included. Information should be provided to the Commission by 20 June 2006. These proposals will be discussed at the meeting on 28 June 2006.
- Experts should complete the tables for their respective countries. Where there is more than one expert from one country, Experts should coordinate their responses. The two observers, ESF and EBIC, should assist in this process to ensure that as many countries are covered as possible. The completed overviews of each country should be sent to the Commission by 18 September 2006. The completed overview will be discussed at the meeting of 27 September 2006 time permitting.

4. FRAMEWORK FOR EFFICIENT AND COMPETITIVE EU MORTGAGE FUNDING MARKETS

The Expert Group recommended that the debate begin by developing its framework/vision for European mortgage funding markets. By establishing a general principles framework for the market's evolution, the identification of barriers and proposal of solutions should be facilitated and a consistent strategy adopted.

A preliminary discussion was held on 17 May 2006 which raised issues such as deregulation, transparency, efficiency, market completeness, etc. Experts should send any additional comments in writing to the Commission by 29 May 2006. On the basis of the discussions during the meeting and the written views expressed by the Experts, the Commission will produce a draft text for discussion at the meeting on 28 June 2006.

5. ANALYSE THE BARRIERS/DISINCENTIVES TO INTEGRATION OF EU MORTGAGE FUNDING MARKETS

5.1. Establishing a List of Barriers/Disincentives to Integration

Experts agreed on a list of barriers/disincentives to integration of EU mortgage markets which they believed should be considered in more depth. These barriers may be placed into 3 categories:

- Primary Markets: Loan Portfolio Issues (Valuation, Prepayment, Foreclosure, Tax), Portfolio Standardisation, 3rd Party Enhancement, Institutional Issues of origination, Servicing.
- Secondary Markets (Issuer): SPVs, Master Trusts, Bankruptcy Remoteness, Covered Bond Framework, Securitisation Framework, Transaction approval by Regulators, Transferability of loans, Tax, 3rd Party Enhancement.
- Investor: Availability of data on pool performance, Real Estate Index, Comparability of Mortgage data reporting, Basel II Risk Weights, Repos, Tax, 3rd party enhancement.

Experts agreed to consider the abovementioned issues in more depth in order to identify the precise nature and scope of the barriers.

For each of the different barriers/disincentives identified, Experts agreed to consider the issues for the following different funding instruments: RMBS, Covered Bonds, Temporary Loan, Whole Loan Sale, Unsecured/signature products, 3rd Party Enhancement.

5.2. Allocation of Responsibilities

Each meeting will deal with a different barrier/disincentive identified. For each barrier/disincentive, a rapporteur(s) was (were) appointed to coordinate the work.

Exceptionally, for secondary market issues, it was agreed that the work would be organised according to funding instrument rather than barrier/disincentive (i.e. RMBS, Covered Bonds, Temporary Loan, Whole Loan Sale, Unsecured/signature products, 3rd Party Enhancement).

A short report will be drafted for each barrier/disincentive (for primary market issues and for investor issues) or funding instrument (for secondary markets). These will be presented to the entire group for discussion at a subsequent meeting.

At the end of the process, the Commission will collect all the approved short reports and incorporate them into a final report which will be presented to the Expert Group for discussion and adoption at the final meeting.

5.3. Indicative Timetable for Meetings

In order to facilitate the organisation of the work, please find below an indicative planning for the forthcoming meetings.

- 17 May: discussion and adoption of work plan, initial debate on a vision for EU funding markets, debate on primary market (origination (institutional issues)/servicing).
- 28 June: vision (discussion of draft report), origination (institutional issues) (discussion of draft report), servicing (discussion of draft report), preliminary debate on other primary market issues (valuation, foreclosure, tax, portfolio standardisation), preliminary discussion on third party enhancement.
- 12 July: preliminary debate on prepayment, other primary market issues (discussion of draft reports), preliminary debate on investor issues including data and reporting standards, reports, and Basel II.
- 27 September: preliminary debate on all secondary market issues (RMBS, Covered Bonds, Whole Loan Sale and Temporary Loan Facilities), country overview (discussion of draft – if time allows).
- 25 October: prepayment (discussion of draft report), debate on investor issues (discussion of draft reports), secondary market issues (discussion of draft reports).
- 3 November: deadline for final draft reports to be sent to Commission.
- 15 November: discussion and adoption of final report.