

Commission White Paper sets out strategy for EU mortgage markets

A White Paper on the Integration of EU Mortgage Markets has been published by the Commission which brings together the conclusions of a comprehensive review of European residential mortgage markets. It presents a balanced 'package' of measures to improve the efficiency and the competitiveness of these markets, to the benefit of consumers, mortgage lenders and investors alike. This can be achieved, in particular, through improvements in the areas of cross-border supply, product diversity, consumer empowerment and customer mobility.

Building on the Commission's strategy for retail financial services, mortgage credit has been identified as an area where integration is lacking and targeted initiatives could benefit both citizens and financial services providers alike. Obstacles have been identified in the market for residential mortgages that restrict the level of cross-border activity on both the supply and demand sides, and reduce competition and choice in the market.

While the influence of factors such as language, distance, consumer preferences or lender business strategies cannot be underestimated, there are a range of other factors which can be tackled by appropriate policy initiatives, in particular factors which prevent or substantially raise the cost of taking out or offering a mortgage credit in another EU Member State.

The potential benefits of removing these barriers could, according to some estimates, reduce the interest payable on a 100,000 euro mortgage loan by as much as 470 euro per year.

Objectives

The Commission is seeking 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.

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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 94.6 billion euro, which amounts to 0.89% of 2005 EU Gross Domestic Product (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% to 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.

Cross-border 'niche'

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 to facilitate 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, consumers 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.

Consumer savings

The White Paper also recognises that there can be no efficient market without confident and well-informed consumers, who are able to seek out and choose the best product for their needs.

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.

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.

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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 next?

During 2008, the Commission will be concentrating its work on:

- analysing, the costs and benefits of different policy options in order to assess an appropriate way forward;
- engaging in consumer testing of a revised European Standardised Information Sheet;
- establishing an Expert Group on Credit Histories;
- preparing, 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 in order to encourage Member States to improve the efficiency of their procedures.

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* The Costs and Benefits of Integration of EU Mortgage Markets, London Economics, August 2005

** Study on the Financial Integration of European Mortgage Markets, Mercer Oliver Wyman and the European Mortgage Federation, October 2003