



The Financial Integration of European Mortgage Markets

European Mortgage Federation
16 September 2003



European Mortgage Federation

- § European association founded in 1967
- § To represent the interests of mortgage lenders
- § Brings together mortgage lenders from all European countries plus Norway and Switzerland
- § Accession countries membership: Romania, Czech Rep., Hungary, Malta, Poland & Latvia
- § Represents over 75% of EU mortgage market



Market trends

- § Outstanding volume of mortgage loans in 2001 exceeded EUR 3.9 trillion
- § Twice the amount of 10 years ago
- § Growing at approx. 8% per year over the last 10 years
- § Around 40% of European GDP
- § Little Cross border business at the moment



Why do a study on the integration of mortgage markets?

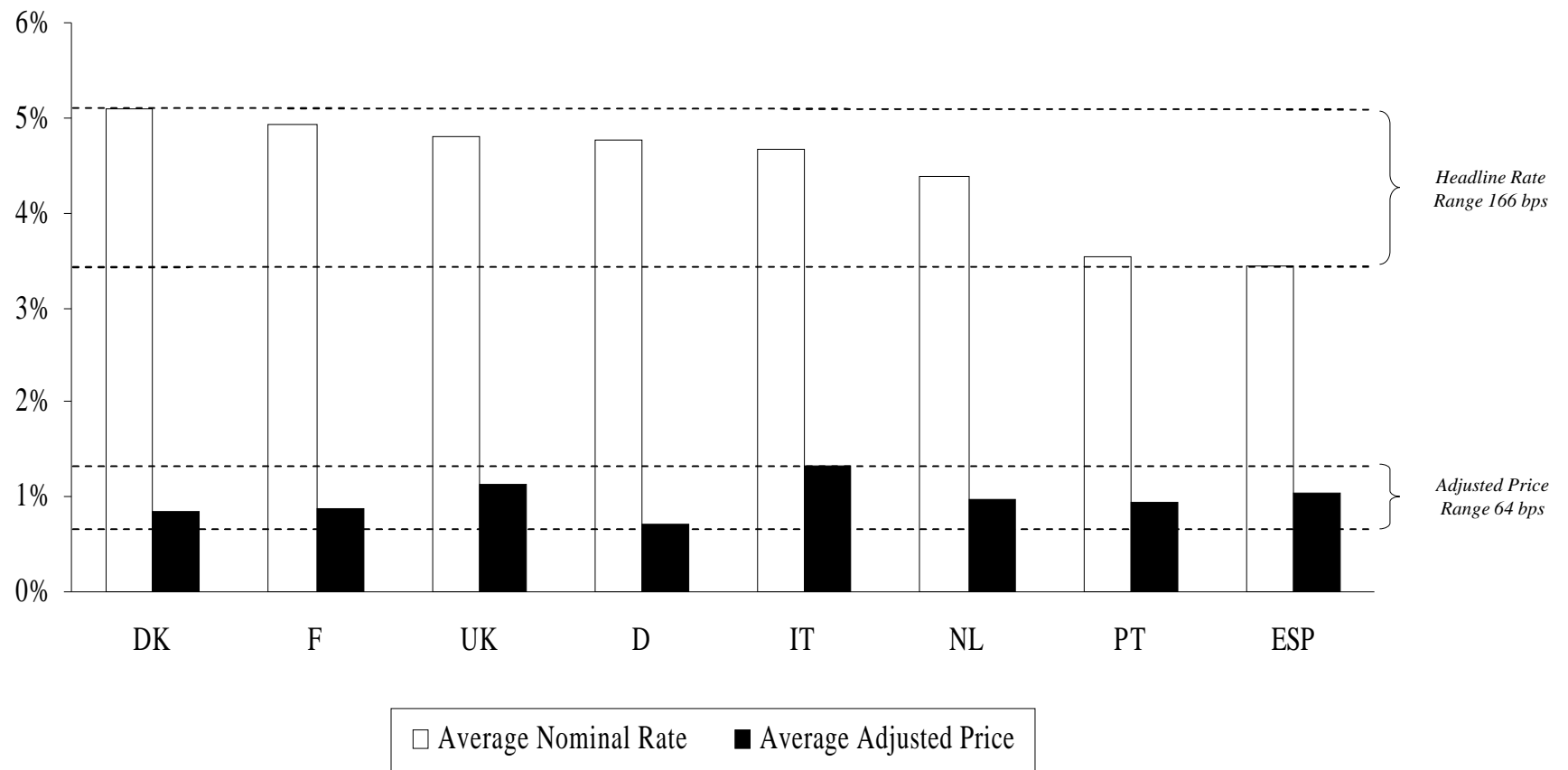
- § Prodi singled out mortgage markets as one of the key sectors where progress needed to be made towards greater integration.
- § Mercer Oliver Wyman to examine potential for greater integration (a copy is available on our website at www.hypo.org).
- § According to the study's findings, the price differences between countries is relatively narrow (approximately 50bp).
- § However, there is little integration of national markets because, from an economic point, it's simply not profitable to lend across borders.



Average Nominal Rate and Adjusted Price by Country

April/May 2003

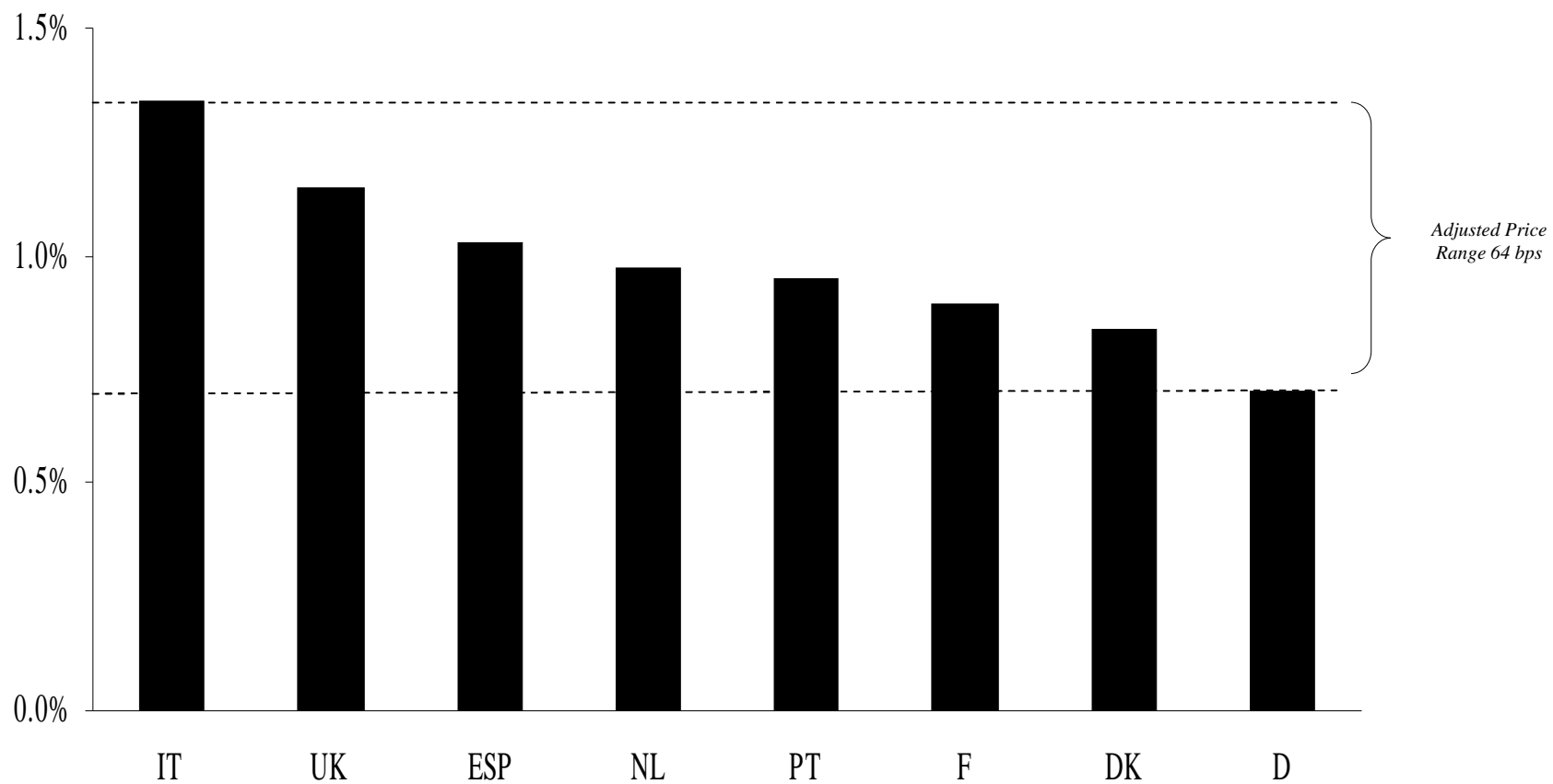
Interest Rate, %





Adjusted Price by Country

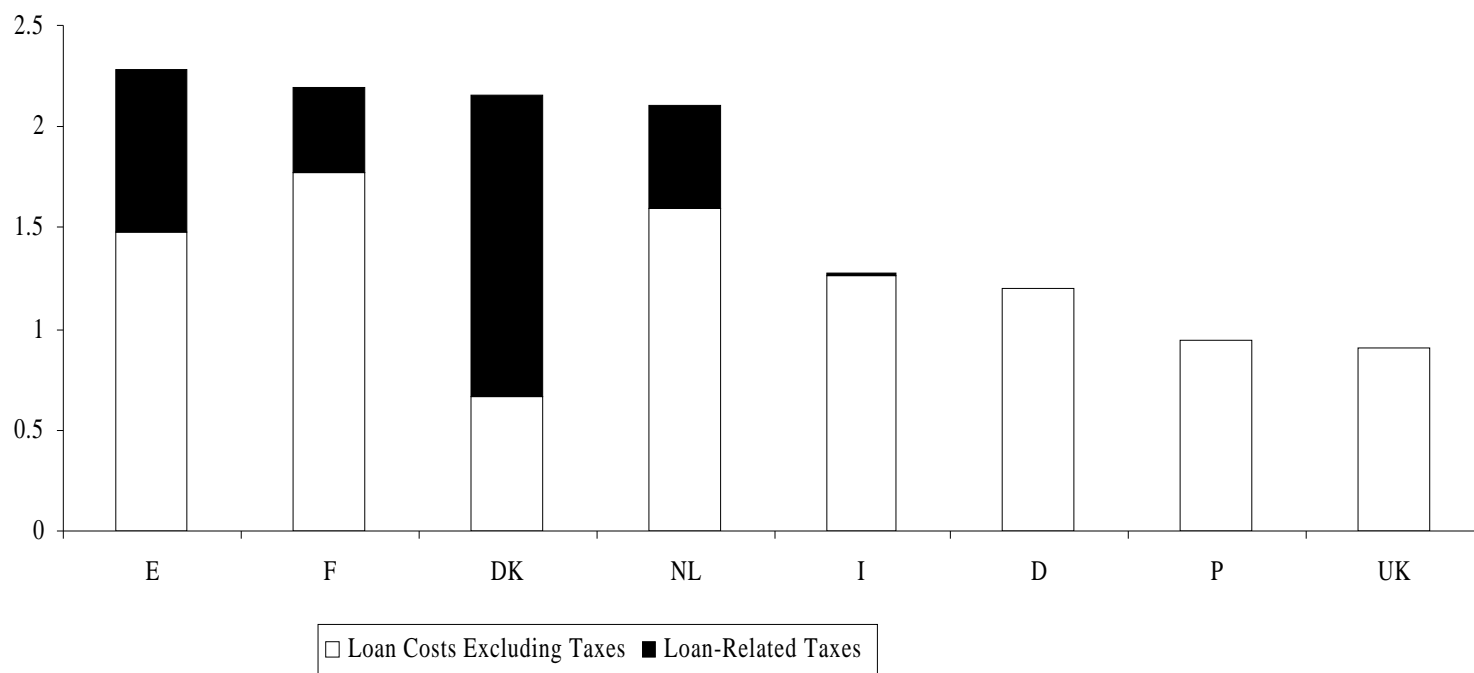
Interest Rate (%)





Loan costs as a percentage of property purchase price

Loan Costs (% of Property Purchase Price)





Why is there no business case for cross border lending?

- § Average return on a mortgage loan is low
- § High costs associated with the setting up a business in another country (distribution channels, access to borrower information, etc)
- § Market inefficiencies related to loan approval, mortgage registration and repossession
- § lack of market scale, lender size & loan size
- § Cross-subsidisation



What are the benefits of integration of mortgage markets?

For consumers

- Reduced prices: fall in monthly repayments that will come about as lenders reduce their cost base
- Greater choice: wider product range, more suitable products, new market segments

Mortgage lenders

- A larger market would reduce cost per unit
- A European secondary mortgage market would reduce the costs of funding



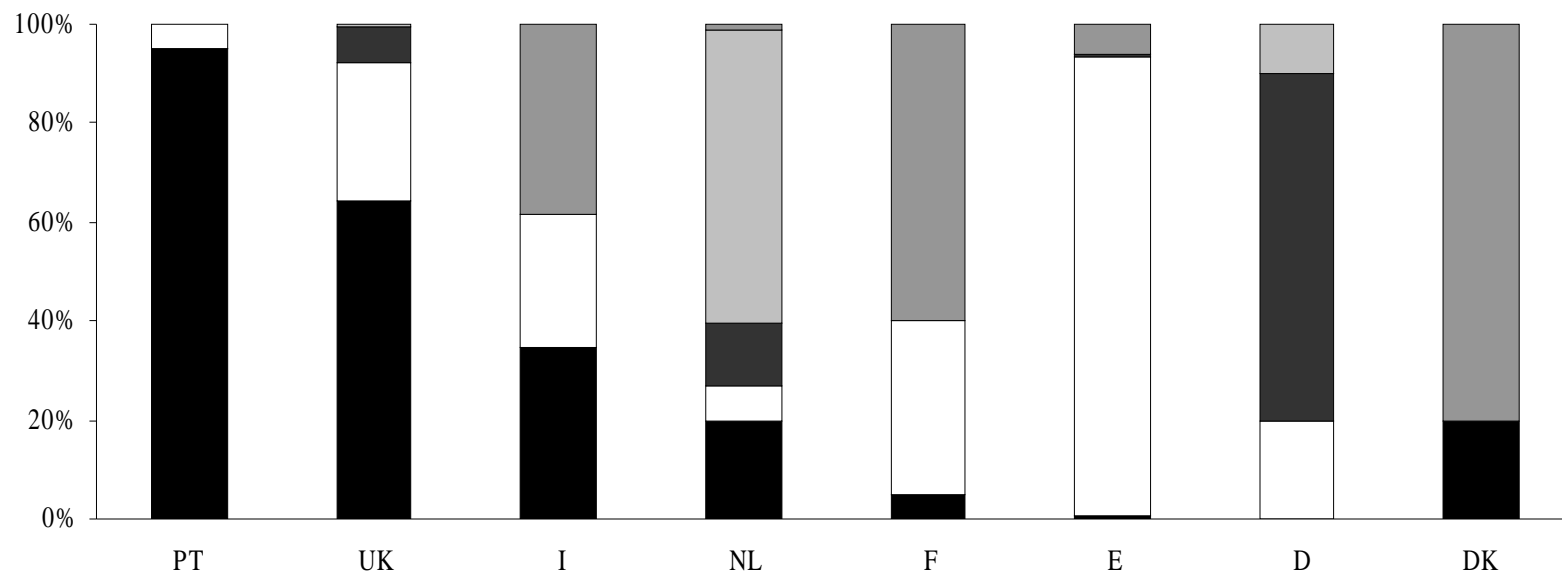
Why have national markets not closed product gaps if demand already exists for those products?

- § Regulation: for instance, in Spain, national rules allow consumers to prepay fixed rate loans. This gives consumers greater flexibility.
- § Consumer habits: In the UK, there is a stronger appetite for variable rate loans than, for instance, in Germany where consumers prefer fixed rate products



What are the typical products?

% Mortgage Market



- Fixed rate to term
- Initial fixed-period ($i > 10$ years)
- Initial fixed-period ($5 < i < 10$ years)
- Initial fixed-period ($1 \leq i < 5$ years)
- Variable rate < 1 year (Reviewable & Referenced)



Will it result in an EU directive on mortgages?

- § No proposal to regulate mortgage loans at a European level.
- § The Commission needs to look at the business case.
- § Our study quantifies the benefits of integration
- § There are three core channels that would help market integration:
 1. Increased cross border lending
 2. Mergers & Acquisitions
 3. Secondary Mortgage Market



What action is the EMF going to take following on from the study?

- § We will make recommendations based on the study's findings

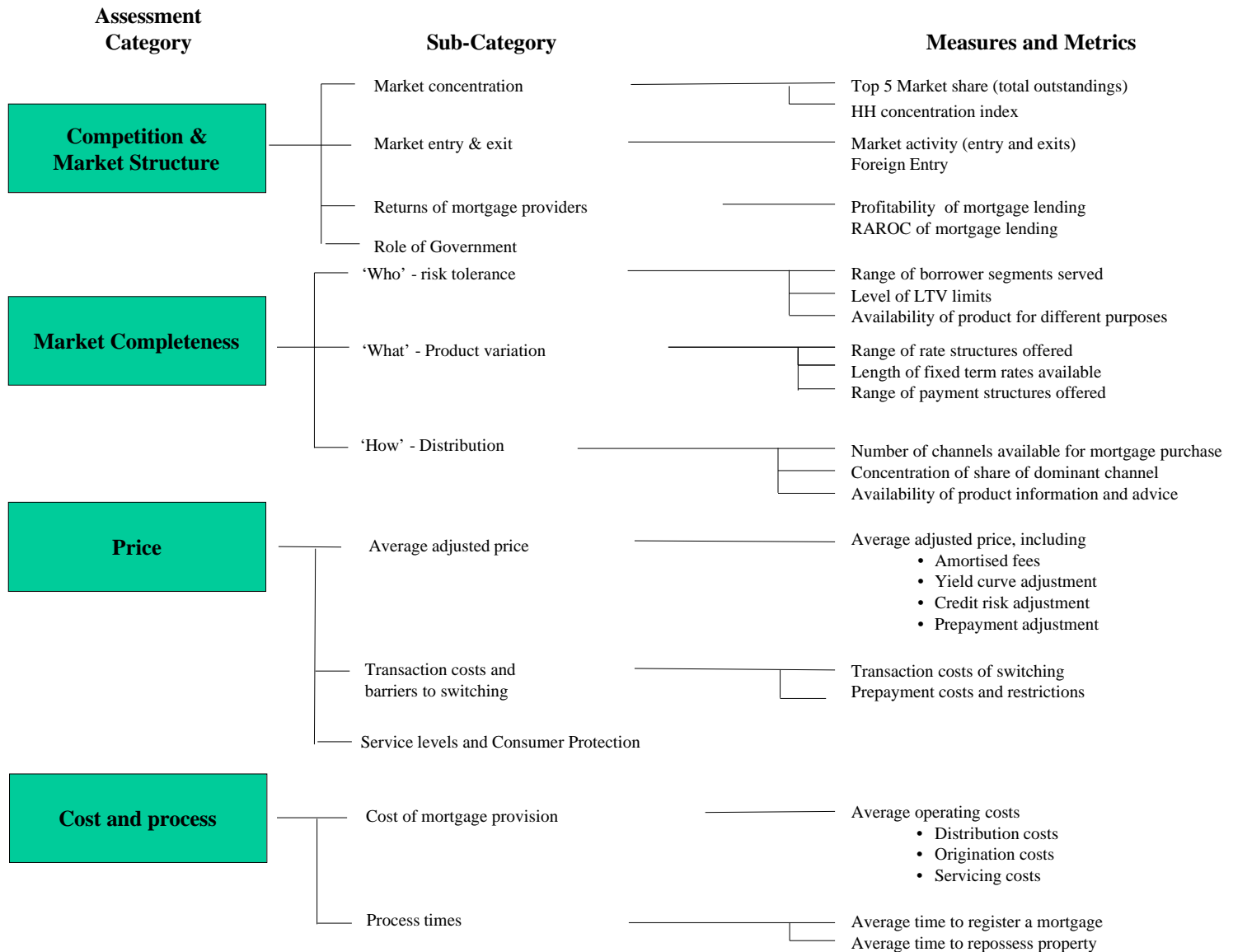
- § We will present our recommendations during our Conference on 27th and 28th November.

- § The study will be an important input into the work of the Forum Group on Mortgage Credit



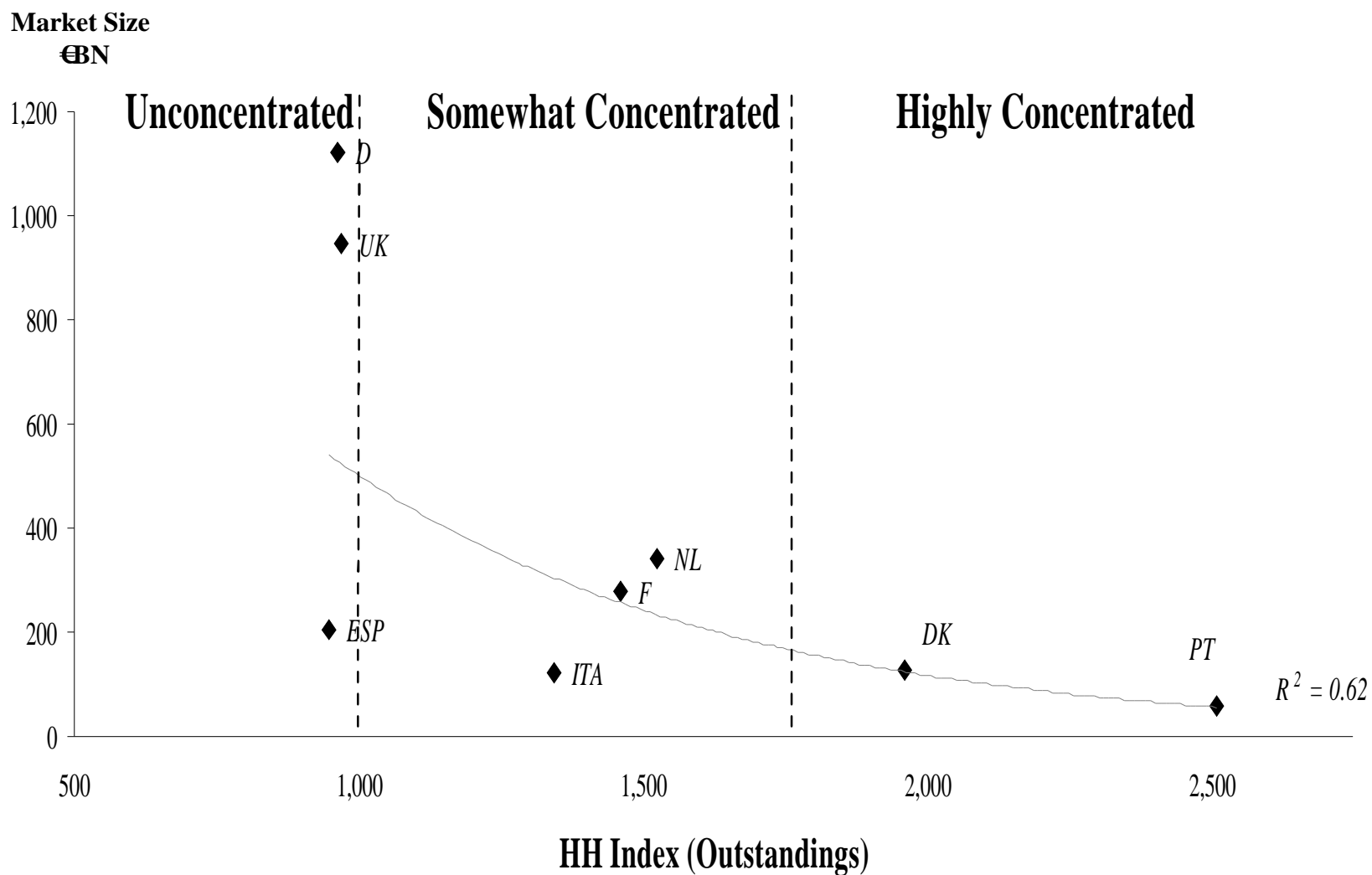
Questions

Assessment Categories for Market Comparison





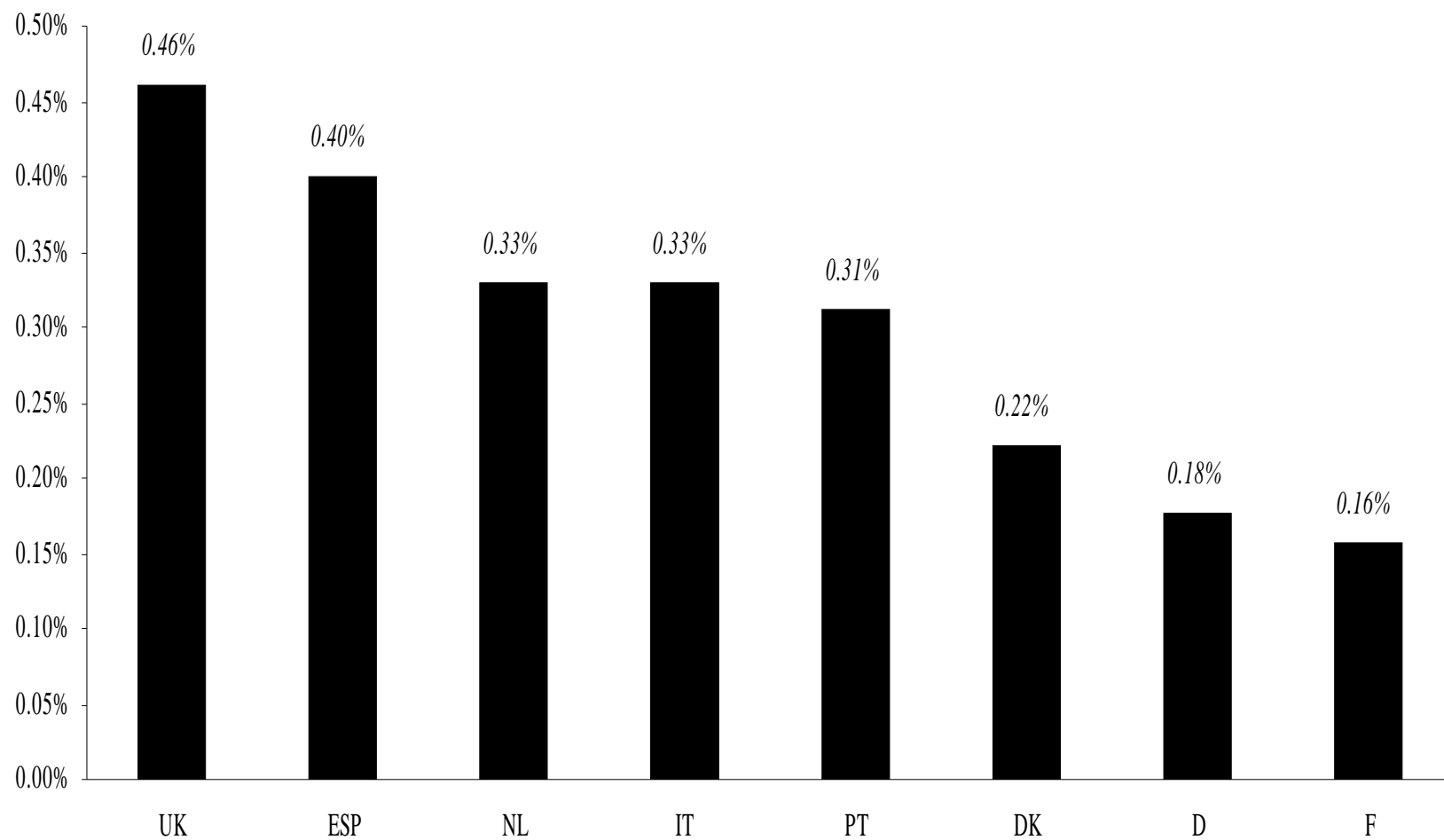
Market Concentration





Lender Profitability

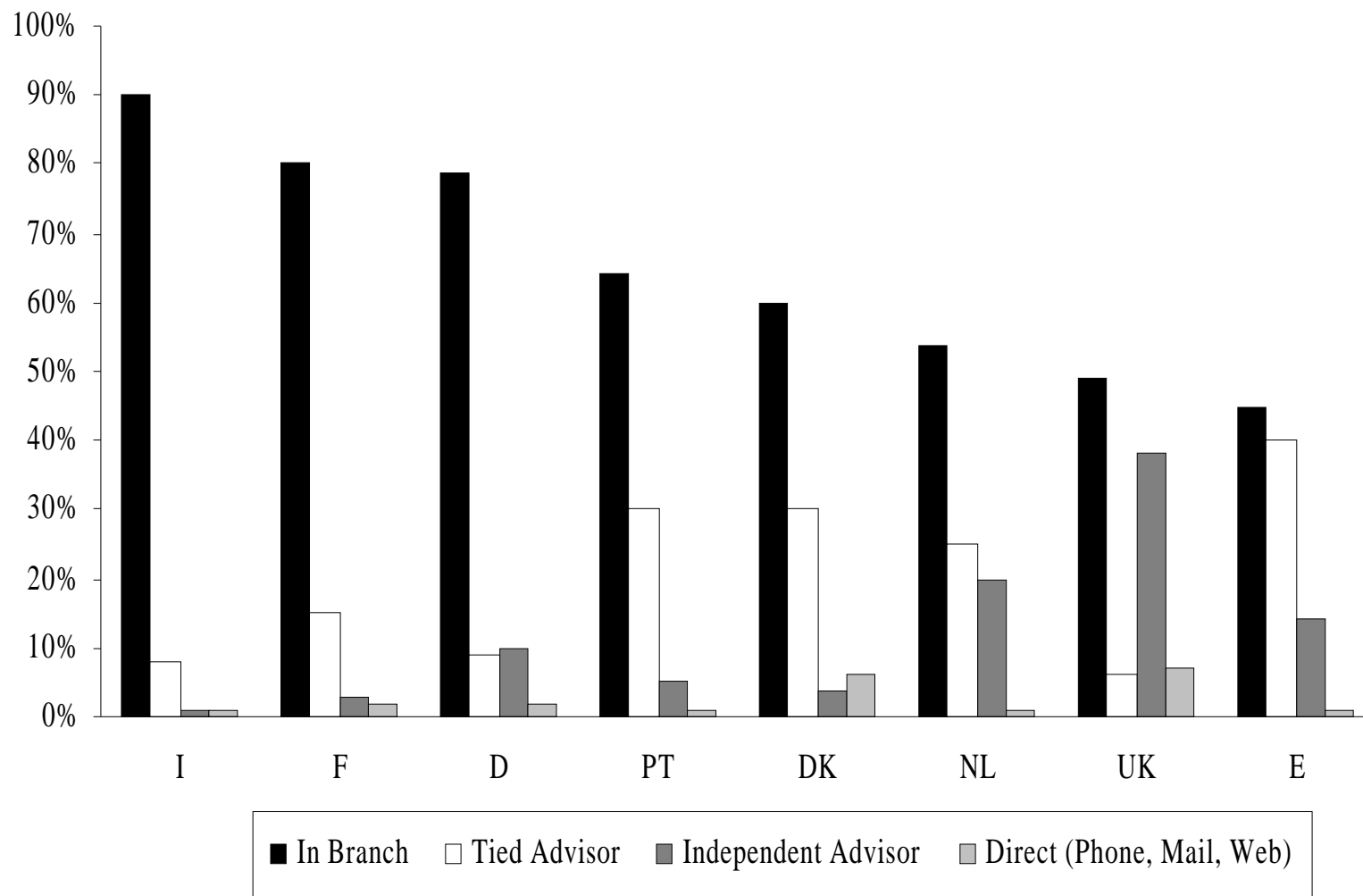
**Estimated Annual Post-Tax Profit
(% of Mortgage Outstanding)**





Residential Mortgage Distribution Mix by Country - 2001

Percentage of Total Distribution





Typical and Maximum Loan to Value

