

## **Henning Rasche**

Member of the Board of Managing Directors  
of the Eurohypo AG, Eschborn

President of the Association  
of German Pfandbrief Banks (vdp), Berlin

### **Lunch Speech**

European Parliamentary Financial Services Forum

Date: 12<sup>th</sup> September 2006

12:30 – 14:30 o'clock

Location: European Parliament, Brussels

30 participants expected

**Dear Mrs In't Veld,**

**dear Members of the European Parliament,**

**dear representatives from the European Commission**

**dear Ladies and Gentlemen,**

I'm very pleased having the chance to meet you here in the premises of the European Parliament in Brussels and to discuss with you the further integration of the European mortgage market. This event takes place at a very appropriate moment as the European Parliament is actually making up its opinion on the Commission's Green Paper on mortgage credit. For giving me the opportunity to explain the positions of the mortgage industry I like to express my special thanks to the Chair Mrs. In't Veld.

Best thanks also to Mr. Martin for his contribution to this lunch briefing on mortgages

Before going into detail some explanations to my person. As member of the Board of Managing Directors of the Eurohypo AG located near Frankfurt, I am representing the biggest German mortgage bank.

- In 2005 retail banking of Eurohypo achieved an increase in new commitments to € 866 million (2004: € 513 million), outperforming our target.
- Our outstanding volume of residential mortgages reaches € 26 billion (out of € 97 billion total mortgage credit in our balance sheet).
- Eurohypo has special interests in residential mortgage lending in connection with her new parent company Commerzbank. Now Commerzbank with her broad network of branch offices will acquire mortgage retail business, while Eurohypo is responsible for funding it.

Eurohypo is the biggest issuer of Pfandbriefe. The outstanding volume achieve € 110 billion. This complies with a market share of 11% in the German Pfandbrief market. Also from this point of view I am following the discussion of the Mortgage Green Paper with deep interest, because some of the proposals of the Green Paper might have a negative impact on a funding instrument with a long history in generating interest rates at lowest levels for residential loans.

Probably you know, that I am President of the Association of German Pfandbrief Banks too. In Germany, most of the members of this banking group are specialized on mortgage loans and have a significant market share in the segment of residential mortgage loans (about 20%). But today I'm invited to point out the position of Eurohypo, a big player in the mortgage market, which is so far the common position of the companies organised in the European Parliament Financial Services Forum.

Ladies and Gentlemen;

After these preliminary words please let me come to our main point, the Green Paper and its implications on our industry.

First we have to remember some basics, when discussing the Green Paper.

1. There was a clear message from contributors that integrating the EU market should not be to the disadvantage of national mortgage markets.
2. Respondents also agreed that integration should not lead to product standardisation, the diversity of mortgage products in Europe being appreciated as an asset which should not be sacrificed.
3. Hence there was an overall understanding that integration should not occur through product standardisation but that alternatives to regulation should be considered.
4. Finally, according to contributions from all stakeholders, integration will be predominantly supply-driven rather than demand driven.

As all of you know, mortgage markets significantly differ between Member States, reflecting different social, cultural, legal and fiscal conditions. The range of products, distribution structures, loan durations and funding mechanisms also vary considerably. Strong competition has reduced mortgage lenders' margin. There is evidence that the average price range of mortgages in the European Union is down to only 60 basis points. Thus, there is hardly any room for a further substantial decrease of mortgage interest rates for borrowers through more active cross border lending.

The decision to grant mortgages to borrowers in other Member States depends above all on the ability of lenders to process this business and to be competitive on foreign markets. Successful cross border mortgage business depends on

- access to borrowers through distribution channels,

- access to land/mortgage and credit registers, and
- to information about the local real estate market.

Property valuation, information about the quality of the mortgage collateral, the assessment of the borrowers' financial situation and other process-specific information and advisory services are further areas where cross border lenders have to invest in.

We all agree, that mortgage market integration has to be conducted to the benefit of European consumers. Indeed, from a consumer perspective, the main benefits of a more integrated European mortgage market would be greater product choice. I would like to stress that consumer confidence in new products and consumer information enabling them to make an informed decision are key in this context. It is the concept of an educated and well informed consumer which has to underpin the mortgage market integration process.

### **Policy options**

If mortgage regulation or targeted harmonisation of key features of the mortgage credit product were to be considered as a possible policy option, from my point of view there should be demonstrable evidence that the absence of binding rules is a barrier to integration. Binding legislation is generally inappropriate to improve market mechanisms or to overcome the competitive challenges described above.

Instead, measures should be taken to allow market forces to fill product gaps and act against market incompleteness. In line with the Commission's better regulation principle, any policy action should be proportionate, targeted and not hamper competition, mortgage products or last but not least funding techniques.

I have to emphasise that

- EU regulation in the area of mortgage prepayment and early repayment fees, which are core mortgage product features, could have a huge impact on finance techniques and systemic issues in Member States.
- Fixed rate mortgages provide protection against interest rate volatility and therefore automatically fulfil core consumer protection purposes.
- Their capital market based funding through the issue of covered bonds / Pfandbriefe should not be put to any risk by binding EU prepayment rules which do not comply with national systemic requirements. Without a well introduced and high efficient funding technique mortgage interest rates will rise – probably by 60 to 80 basis points.

Therefore the conclusions are:

First from our point of view the main focus of further initiatives could be the comparability of mortgages and consumer information through the provision of a complete set of standardised information.

Secondly, European action could furthermore tackle structural barriers that hinder lenders operating across borders. This covers common access to national land registers, to credit data, to information about improvements to the length of enforcement procedures in some Member States and repossession procedures.

Finally, the development of a liquid secondary mortgage market could accelerate mortgage market integration. Cross border sales of mortgage assets and mortgage portfolio trading would favour risk diversification and the realisation of economies of scale.

Ladies and Gentlemen,

I am very glad to further discuss this issue with you during lunch. This is also an opportunity for me to know about your concerns in this area. I hope that the briefing paper is helpful for your further work and that the final

opinion of the Parliament will reflect some of our views. We would of course welcome the Parliament sharing our conviction of a market driven approach.

Thank you very much for your attention. Now I'm pleased to announce Mr. Colin Vincent from Banca Woolwich to point out his opinion. Mr. Vincent, it's your turn.