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EU Regulation of National Mortgage Markets Detrimental

- German government backs vdp opinion on Green Paper of the EU Commission on mortgage loans

On July 19, 2005 the European Commission published a "Green Paper" on the integration of mortgage loan markets in Europe. The paper puts forward the question of whether the European Union should adopt regulations on mortgage loans in Europe.

Louis Hagen, Executive Director of the Association of German Pfandbrief Banks (*Verband deutscher Pfandbriefbanken, vdp*), announced yesterday in Berlin that "further convergence of the different mortgage markets in the EU can only be achieved via the markets, i.e. through competition, maintaining as diverse a range of products as possible and creating a liquid secondary market." Integration based on product harmonization would be detrimental and constitute a disadvantage for consumers.

The new German government supports this position. In a statement on the Green Paper, it clarified that any restriction in terms of product diversity in Europe would go counter to achieving the aim of an optimally integrated mortgage lending market.

In its statement, the German government clearly denied the need for EU-wide regulation, given the wide range of products available at European level. The vdp agreed with this stance, as Hagen explained: "European mortgage providers are very efficient and the interest rates for mortgage loans are relatively similar. This applies especially in countries within the euro-zone."

The Association pointed out that German consumers specifically benefit from the particular product of long-term fixed-rate mortgage loan funded through the issuance of Pfandbriefe. In its statement, the German government highlighted that such loans, which banks cannot call in without good grounds, are in the consumer's interest. They protect home owners from interest rate increases and give them a secure basis for financial planning. Hagen went on to say that "it would be absurd for German consumers to lose these benefits in the name of 'consumer protection'. German consumers have

freedom of contract and are free to choose the type of loan they like.” Hagen added that this was not the case everywhere in Europe.

The funding of mortgage loans via Pfandbriefe is widespread in Germany, it provides regulated access to the capital market and lending rates that are among the lowest in Europe. “This system has worked beautifully for centuries and its strength has made the Pfandbrief one of the few German export bestsellers in the capital markets. We cannot see any reasons for changing this system,” commented Hagen. On the contrary: a new Pfandbrief law (regarding the introduction of a funding register) simplifies the process of passing on loans that are collateralized against charges on real estate, i.e. the loans behind Pfandbriefe and thus facilitate trading in the secondary market.

The German government and the vdp see the future of European integration in a highly liquid secondary market for mortgage loans across European borders. “Only very few consumers in Portugal will be likely to sign a mortgage loan agreement with a Latvian bank. However, it should be made easier for the Portuguese bank to sell its collateralized receivables to a German bank that can fund itself at favorable terms through Pfandbriefe.” Hagen is convinced that, “Consumers in every part of Europe would benefit from such a transaction.”

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