# Mortgage Market Integration in Europe: Structures and Policy Issues

Kreditanstalt für Wiederaufbau

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# Structure of the Presentation

1. European mortgage markets in comparison: structure
2. European mortgage markets in comparison: performance
3. Some remarks on the German special case
4. Excursion: United States – integration approach model for Europe?
5. European integration obstacles and benefits
6. Possible agenda for the European Union and for global initiatives

# Mortgage product availability in the credit dimension

## Incompleteness in the Credit Dimension

| | Market | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Denmark | France | Germany | Italy | Netherlands | Portugal | Spain | UK |
| **LTV** | | | | | | | | |
| Typical | 80% | 67% | 67% | 55% | 90% | 83% | 70% | 69% |
| Maximum | 80% | 100% | 80% | 80% | 115% | 90% | 100% | 110% |
| **Borrower** | | | | | | | | |
| Young houselold <30 | ● | ◐ | ● | ◐ | ◐ | ● | ● | ● |
| Older household >50 | ● | ◐ | ◐ | ◐ | ● | ◐ | ◐ | ● |
| Low equity | ○ | ● | ◐ | ○ | ◐ | ◐ | ◐ | ● |
| Self certify income | ○ | ○ | ○ | ○ | ◐ | ○ | ◐ | ◐ |
| Previously bankrupt | ◐ | ○ | ○ | ○ | ○ | ○ | ○ | ◐ |
| Credit impaired | ◐ | ◐ | ○ | ◐ | ◐ | ○ | ◐ | ● |
| Self employed | ● | ◐ | ● | ● | ◐ | ● | ● | ● |
| Government sponsored | ◐ | ● | ◐ | ◐ | ◐ | ● | ◐ | ◐ |
| **Purpose** | | | | | | | | |
| Second mortgage | ● | ◐ | ● | ● | ● | ● | ● | ● |
| Overseas holiday homes | ● | ● | ◐ | ● | ◐ | ○ | ○ | ● |
| Rental | ● | ● | ● | ● | ● | ● | ● | ● |
| Equity release | ● | ○ | ◐ | ● | ● | ○ | ◐ | ● |
| Shared ownership | ● | ◐ | ◐ | ◐ | ◐ | ● | ○ | ● |

Key: ● Readily available ◐ Limited availability ○ No availability

- Most EU lenders as yet serve only standard markets.
- High-LTV markets:
  - Conservative regulations (esp DE),
  - Government rental subsidies distort
  - Second mortgages & insurance competing.
- Subprime markets:
  - Only UK with serious credit impaired market. (easy repossession)
  - Older households, free-lancers are often rationed.
  - Regulatory and insurance “barriers”

**Source: Mercer Oliver Wyman /European Mortgage Federation**

# Mortgage product availability in the interest rate risk dimension

- Historical patterns
  - Covered bonds + FRM (DE, FR, DK),
  - Depositaries + ARM adjustable-rate loans (UK), also emerging Europe (ES, GR, PL).
- … are difficult to change:
  - UK, ES attempts to FRM failed,
  - DE, FR, DK ARM have rate caps.
- Public support for callable fixed-rate loans:
  - US, GSEs + tax deduction,
  - DK, institutions were forced to buy mortgage bonds + tax deduction.

## Incompleteness in the interest rate dimension

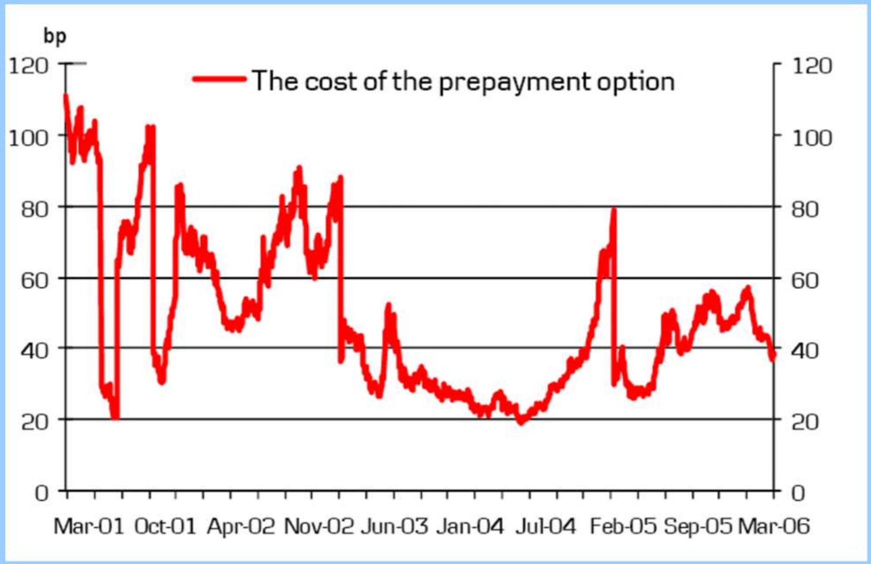
| | FIXED-RATE | | ADJUSTABLE-RATE |
|---|---|---|---|
| EUROPE | Without call protection | With call protection | |
| Germany | O | **X** | X |
| Great Britain | O | O | **X** |
| France | **X** | O | X |
| Netherlands | O | **X** | X |
| Spain | O | O | **X** |
| Denmark | **X** | X | X |
| WORLD | | | |
| USA | **X** | O | X |
| Japan | O | **X** | X |
| Canada | O | **X** | X |
| Australia | O | O | **X** |

LEGEND
Dominant **X**
Widely used X
Not widely used or missing O

**Source: Finpolconsult**

# Prepayment option costs and mortgage pricing

**Prepayment option costs in Denmark, 01-06,**
**4% coupon 2038 mortgage bond**




**Source: Realkredit Danmark**

- Prepayment option costly, higher than credit and administration costs together,
- Options costs volatile due to interest volatility/yield curve + borrower behaviour ‘surprises’,
- European lenders usually apply call protection through prepayment indemnities
  - Yield maintenance indemnities (DE, SE, NL, implicitly DK on non-callables)
  - Statutory capped indemnities (FR, ES, IT), leads to mix of both options + exercise price.

# Prepayment rates and pricing – 06 data synopsis

| | Product | Fixing period | CPR* | Option value quotes** | Call protection applied |
|---|---|---|---|---|---|
| Denmark | FTM | 20-30 yrs | 10-30% **C** | 30-60bp (30y) **C** | None (some discount issues) |
| | FTT | 2-5 yrs | 10% **C** | 0 **C** | YMPP, symmetric |
| France | FTM | 15-20 yrs | 10-20% **C** | n.a., likely ca 30bp **L** | Capped PP |
| Germany | FTT | 5-20 yrs | n.a. | 20-45bp (10y) **L** | None |
| | FTT | 5-20 yrs | n.a. | 10-20bp/10% p.a. 0-10 bp/5% p.a. (term invariant) **L** | None within partial prepayment range agreed |
| | FTT | 5-20 yrs | 3-6% **C** | ~0 **L** | YMPP or exclusion |
| Netherlands | FTT | 5-10 yrs | 15-20% **C** | 30 bp (10y) **C** | YMPP over 10% p.a., caps |
| U.K. | Hybrid (FTT-float) | 2-3 yrs & 3 mths | 30-40% **C** | n.a. | Uncapped PP |
| Portugal | Float | 12 mths | 10-11% **C** | n.a. | Uncapped PP |
| Spain | Float | 12 mths | 8-25% **C** | n.a. | Capped PP |
| Italy | Float | 1-6 mths | 5-8% **C** | n.a. | Capped PP |

**Sources: Merrill Lynch (2006a) and (2006b), Duebel (2006), Soerensen (2006), interviews with Danish lenders. Evidence based on capital market transaction analyses (C), bank term sheets, surveys & analyses (L).**

# A closer look at a complete European market in the interest rate risk dimension - Denmark

## Observations

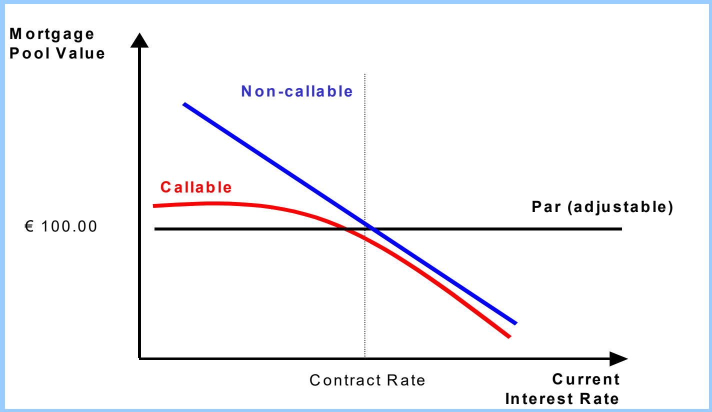
Product menu

- Non-callable fixed-rate <5 yrs – comparable to DE
- Adjustable-rate (capped!)
- Callable (prepayable) 20 or 30 year fixed-rate.
- Loans in DK can be 'delivered', I.e. bought back at the market price. This reduces the risk of 'lock-in' if interest rates rise.

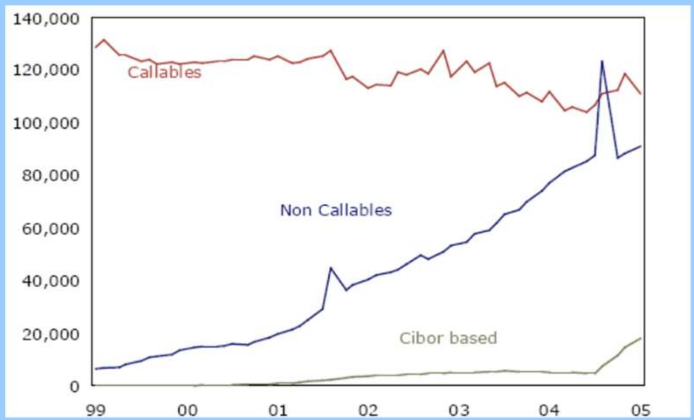
Assessment:

- Basic interest rate risk protections in place, yet sufficient selection options for consumers.
- Caps on adjustable-rates imply that downside interest rate risk is always limited.
- Pricing exclusively via the capital markets
- Standardized DK system at the same time is weak on credit risk innovation, distribution.

## Interest rate dynamics of the three principal DK products




## Market shares of the three principal products 1999-2005






Source: Finpolconsult, Nykredit

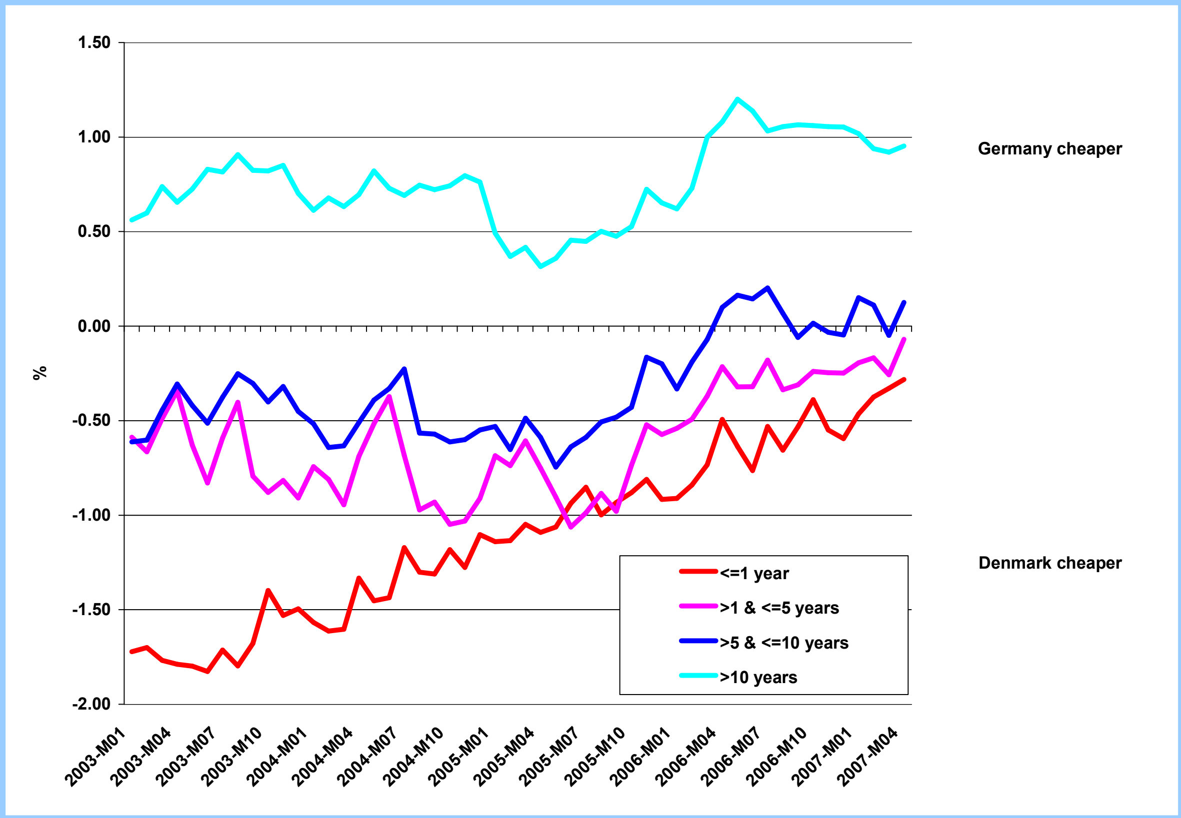
# Product concentration – liquidity & regulatory barriers

| | Spain | Germany |
|---|---|---|
| **London economics** | | |
| Variable rate mortgage spreads | 1.19 | 1.45 |
| APRC spreads (i.e. including fees) | 1.39 | 2.08 |
| **ECB Statistics 2003-2005** | | |
| Fixed rates (mat >10 y) on loans for house purchase | 6.39 | 4.82 |
| Long-term rate | 4.1 | 4.1 |
| Spread | 2.3 | 0.7 |
| Floating rates on loans for house purchase | 3.34 | 4.59 |
| Short-term rate | 2.2 | 2.2 |
| Spread | 1.14 | 2.39 |

- Countries 'specialize' on mortgage products:
  - Spain: ARM priced over Euribor, Germany: FRM priced over swap/Pfandbriefe curve
  - Huge liquidity in core products shifts relative prices
- Regulatory structure contributes to concentration:
  - ARM prepayment indemnites allowed in Spain (1%), forbidden in Germany
  - FRM prepayment indemnities severely capped in Spain (2.5%), almost free in Germany.

# Product price differences – Germany vs. Denmark

## Interest rate differences by interest binding period




- Denmark with prepayable FRM, Germany non-prepayable or call protected reset ARM.
- Germany ARM very expensive, liquidity effect and non-market pricing. DK ARM priced on the market and with constant lender spread.



Source: Danish Central Bank, Bundesbank

# Other consumer protection issues/philosophy/culture & transactions costs

### Observations

- Varying approaches of consumer protection regulations:
  - Anglo (UK, EI) on consumer information & counseling,
  - French/Southern European on 'material' consumer protection.
- Example: strength of foreclosure threat
  - Repossession (UK), strict foreclosure rules (DE),
  - 'Solution amiable' (FR).
- Valuation rules differ by banking culture
  - Open market value (UK) vs.
  - Sustainable mortgageable value (DE)
- Different registration systems
  - Accessory mortgages with strong role of notary (FR, ES)
  - Fiduciary mortgages with low transactions costs (DE)
  - Access conditions to registers vary widely.

### Housing as an investment – transactions costs in the EU 2005


**Source: European Mortgage Federation**

- High transactions costs limit asset class liquidity in Western & Southern Europe.
- Integration into contractual savings system patchy:
  - Some countries promote housing savings (DE, FR), partly related to aversion against indebtedness.

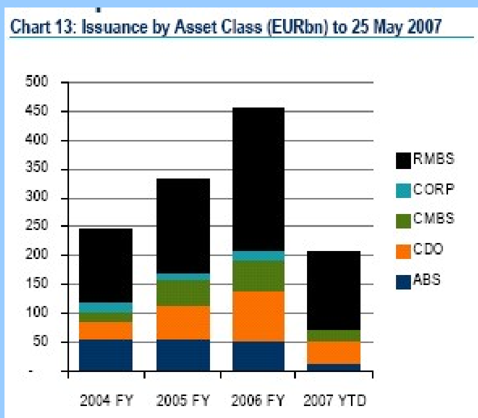
## Financial markets convergence – intra-EU and globally

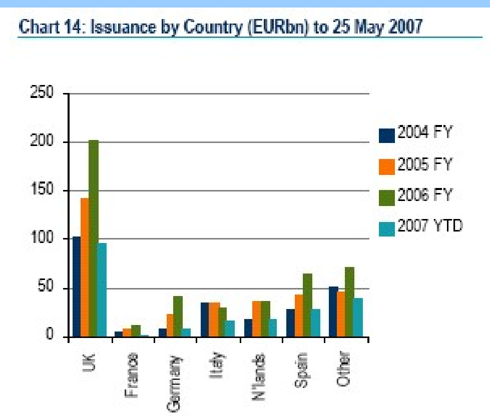
- Adaptation of institutions & products
  - Anglo→Euro: Mortgage-backed securities (1990s), mortgage insurance (2000s),
  - Euro→Anglo: Covered bonds (2000s),
  - Intra-Euro: Covered bonds (1990s), 3rd party distribution (2000s),
  - System adaptation in emerging Europe (CZ, PL, HU).

- Strong appetite of specialists to go cross-border
  - “Vertical” national mortgage banking circuits in retreat (DE, DK) ,
  - “Horizontal” service providers (GMAC, Genworth insurance) push across borders.

# Financial markets convergence – use of capital market for EU mortgage funding not very clear

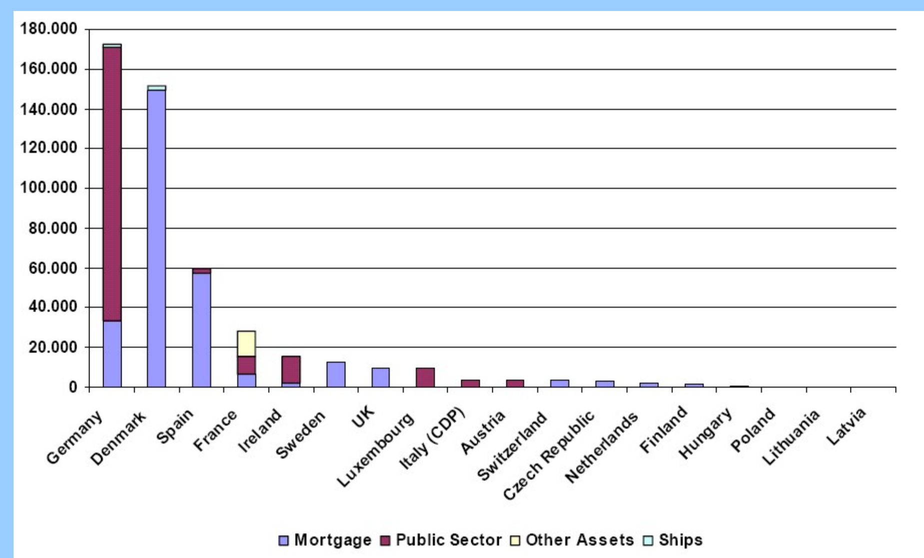
**ABS/RMBS Issuance 2004-2007**




Source: Merrill Lynch

**Covered Bond Issuance in EU 2005**




Nobody knows exactly what proportion of residential mortgages is funded via capital markets in Europe.

F ca 15%, UK ca 20%, D 10%?

DK almost 100%

Universal banks/deposit funding advancing in former 'covered bond countries', D Fr, DK

Covered bond market notoriously data/information poor.

Source: ECBC

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# Performance: European markets are very competitive

- Latecomers are becoming more competitive, fast.
- Intense, but distorted competition in many developed markets
  - Cross-subsidization;
  - Mispricing of yield curve/mismatch (non-adj. price 10-30bp higher);
  - Partial mispricing of credit risk.

Caveats
- Weighted average over all products;
- Options costs (credit/default, prepayment) are notoriously difficult to determine, esp. in systems where the option is not securitized.

## Adjusted price 2006 over 2003

| | FR | UK | GR | IT | NL | ES | PT | DK |
|---|---|---|---|---|---|---|---|---|
| AP 2003 | 0.89% | 1.15% | 0.70% | 1.34% | 0.97% | 1.03% | 0.95% | 0.70% |
| AP 2006 | 0.36% | 0.68% | 0.35% | 0.99% | 0.64% | 0.87% | 0.88% | 0.63% |
| Δ | **0.53%** | **0.47%** | **0.35%** | **0.35%** | **0.33%** | **0.16%** | **0.07%** | **0.07%** |

## Price components 2006

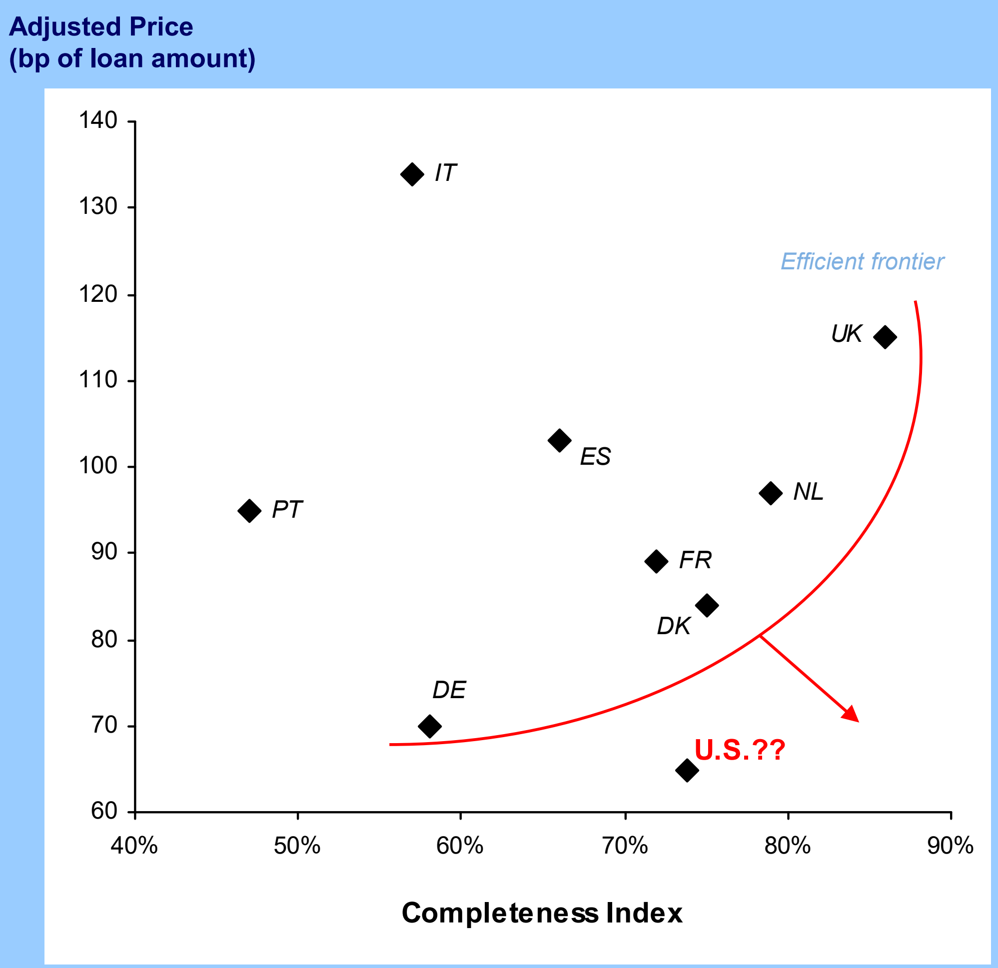
| | Interest rate | Fees | Yield curve adjustment | Credit risk adjustment | Pre-payment adjustment | Adjusted price |
|---|---|---|---|---|---|---|
| CZ | 4.75% | 0.03% | 3.35% | 0.18% | 0.00% | 1.25% |
| IT | 4.84% | 0.03% | 3.55% | 0.23% | 0.10% | 0.99% |
| PT | 4.57% | 0.06% | 3.56% | 0.18% | 0.01% | 0.88% |
| ES | 4.65% | 0.10% | 3.77% | 0.09% | 0.02% | 0.87% |
| GR | 4.64% | 0.02% | 3.57% | 0.30% | 0.00% | 0.79% |
| UK | 5.73% | 0.11% | 5.07% | 0.10% | 0.00% | 0.68% |
| IE | 4.24% | 0.00% | 3.42% | 0.13% | 0.02% | 0.67% |
| NL | 4.60% | 0.14% | 3.84% | 0.07% | 0.18% | 0.64% |
| DK | 4.75% | 0.06% | 3.82% | 0.04% | 0.32% | 0.63% |
| SE | 3.98% | 0.04% | 3.39% | 0.04% | 0.00% | 0.60% |
| BE | 4.89% | 0.03% | 3.98% | 0.13% | 0.29% | 0.52% |
| FR | 4.36% | 0.17% | 3.88% | 0.13% | 0.17% | 0.36% |
| DE | 4.41% | 0.05% | 4.02% | 0.09% | 0.00% | 0.35% |

**Source: Mercer Oliver Wyman (w. Finpolconsult) /European Mortgage Federation.**

# Performance: completeness vs. efficiency trade-off – the credit dimension

- Efficiency frontier exists between price and completeness in European mortgage markets.
- Depositary systems using adjustable-rate products tend to be more complete / flexible (UK).
- Capital-market-based systems tend to be less complete, but also less costly (DE).
- Emerging European markets (ES, IT, PT, also PL, CZ) start with a limited product menu and need time to reach the efficiency frontier.
- Capital markets seen as important factor in reaching efficiency (ES cov bonds).

**Adjusted price[1] vs. completeness index[2]**




**Source: Mercer Oliver Wyman/European Mortgage Federation, Finpolconsult.**

1 Nominal price (including fees) adjusted for interest rate risk, credit risk and prepayment options
2 includes 15% weight for borrower information and distribution system.

# Performance: completeness vs. stability trade-off – the interest rate dimension

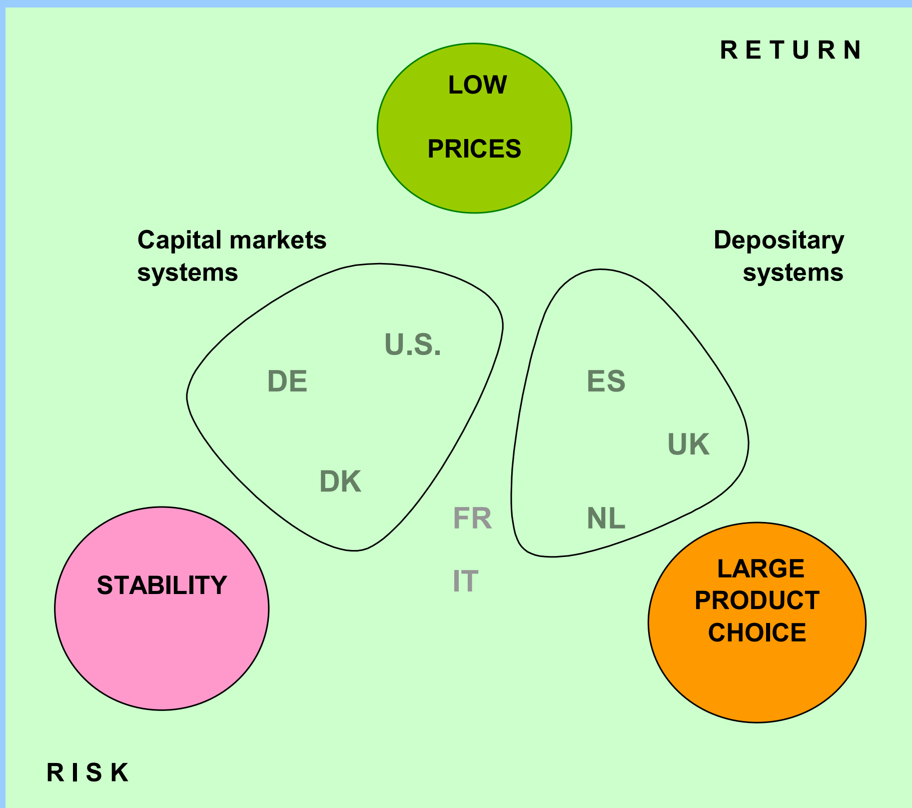
| | PRICE, INITIAL PAYMENT | | | | RISK OF FUTURE PAYMENT SHOCK | |
|---|---|---|---|---|---|---|
| | Price impact | Increment | Cumulative | Protection level | Protection impact | Risk level |
| Callable fixed-rate | | | 650 bp | HIGHEST | | LOWEST |
| | Prepayment option | 50 bp | | | Only upside risk | |
| Non-callable fixed-rate | | | 600 bp | | | |
| | Full yield curve | 120 bp | | | Repricing risk | |
| Capped adjustable-rate | | | 480 bp | | | |
| | Cap | 30 bp | | | Limited interest rate risk | |
| Adjustable-rate | | | 450 bp | LOWEST | No protection | HIGHEST |

**Source: Finpolconsult**

- Adjustable-rate mortgages are cheap, yet risky:
  - Cause higher house price fluctuations, greater negative equity risk (IMF research).
  - Higher default levels of marginal borrowers (subprime, high LTV) - UK crisis 1989-95
- Non-callable fixed-rate mortgages carry some interest rate risk:
  - Short-term fixed-rate loans with repricing risks,
  - Non-callables reduce interest rate pass-through (see DE case below).
- Callable fixed-rate mortgages provide the most protection
  - Yet, the prepayment option is costly.
- Adjustable rate loans with caps are a reasonable cost-risk compromise.

# Summary – performance of developed mortgage systems

## Golden Triangle Assessment




**Source: Finpolconsult**

- Approach "Minimum Price":
  - standardize primary market products & maximize liquidity via capital markets→low prices, with *relatively* limited product availability (e.g. U.S. Fannie Mae purchase policies)
- Approach "Maximum Choice":
  - maximize product choice / margin, manage prices by shifting risk to consumers.
- Approach "Maximum Stability":
  - Maximize stability and promote liquidity through safe capital market instruments, limit product choice.
- Trends blur strategic distinctions
  - Depositary systems adopting capital markets (ES, UK)
  - Capital markets systems adding choice (DE, US)

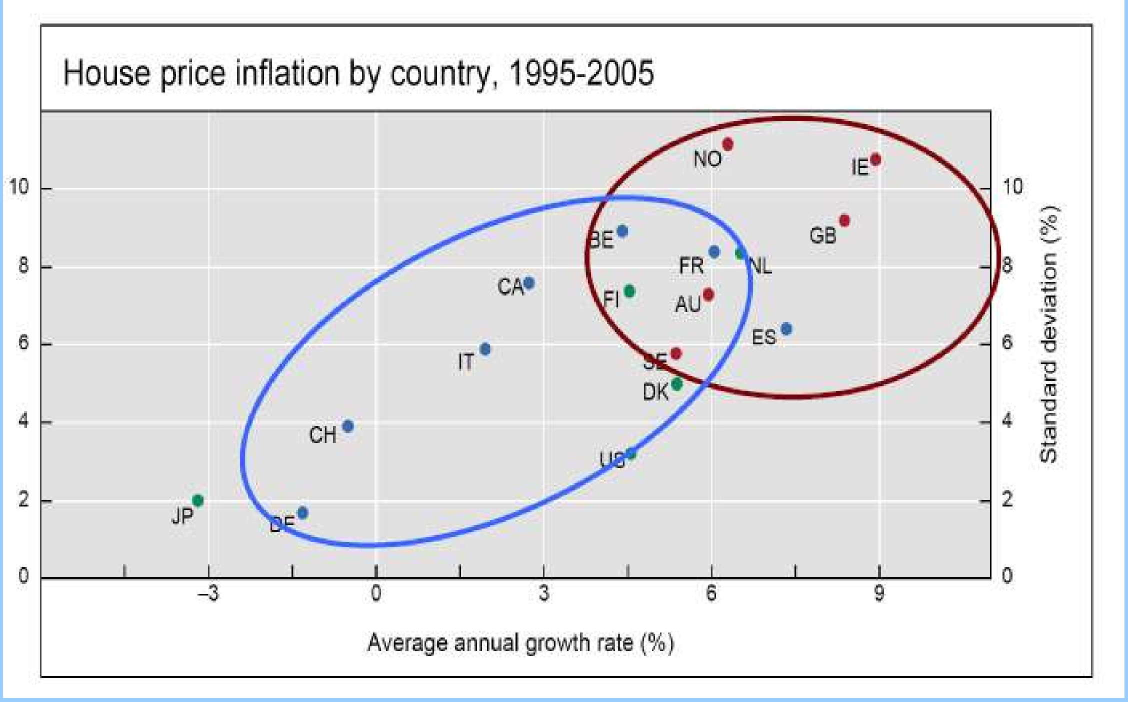
# Correlation between house price growth & nature of housing finance system

Group 1: (BLUE) Conservative

Group 2 (GREEN): Aggressive, fixed

Group 3 (RED): Aggressive, float

German position changing, from Group 1 (until 05, *misclassified by BIS*) to Group 2




| | | Mortgage rate | MEW | Maximum LTV | Valuation method |
|---|---|---|---|---|---|
| Group 1 | BE, CA, FR, DE, IT, ES, CH | Mostly Fixed | No | Low | Mixed |
| Group 2 | DK, FI, JP, NL, US | Mostly Fixed | Yes | Medium | Mixed |
| Group 3 | AU, IE, NO, SE, UK | Variable | Yes | Very high | Market value |

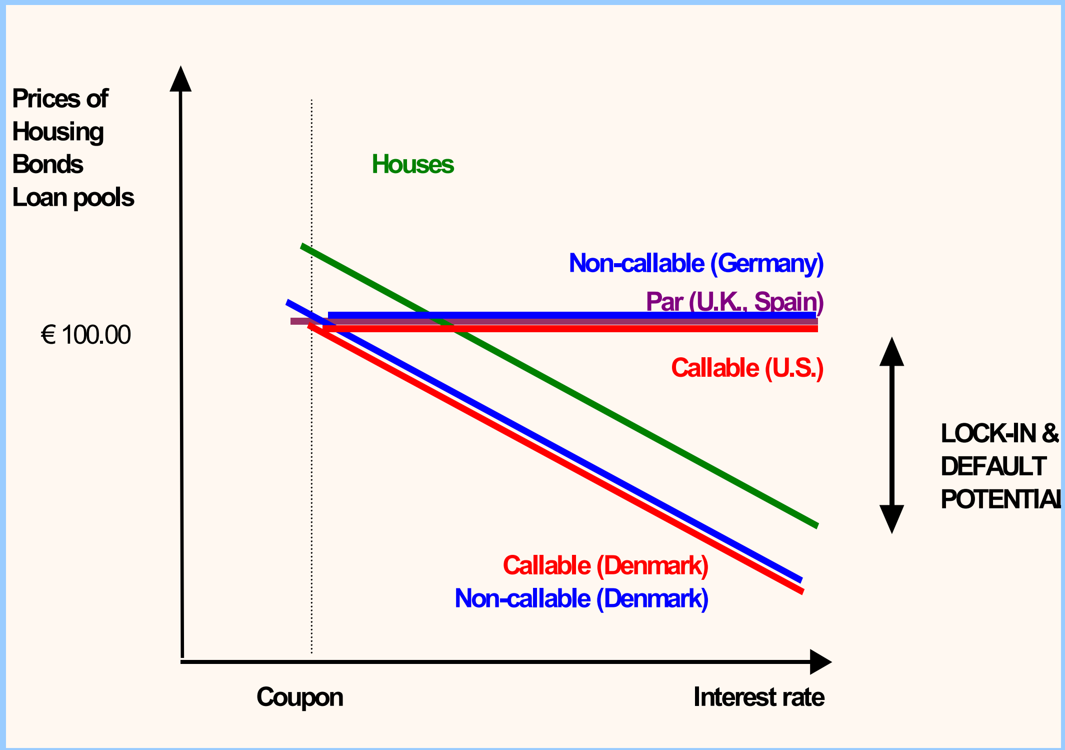


Source: BIS/ Zhu & Tsatsaronis

# Current stability issues: the lock-in downside

- Floating: UK default crisis 1989-95, and perhaps Spain/[UK, Ireland] 08-10?
- U.S. S&L crisis 80s, 07/8 house price stagnation/decline, rate increases. Lenders are in trouble as callables extend their duration (prepayment in U.S. only at par!!).
- Denmark: delivery option of BOTH callable and non-callable avoids lock-in.
- Germany: yield maintenance prepayment indemnity generates par structure →lock-in.

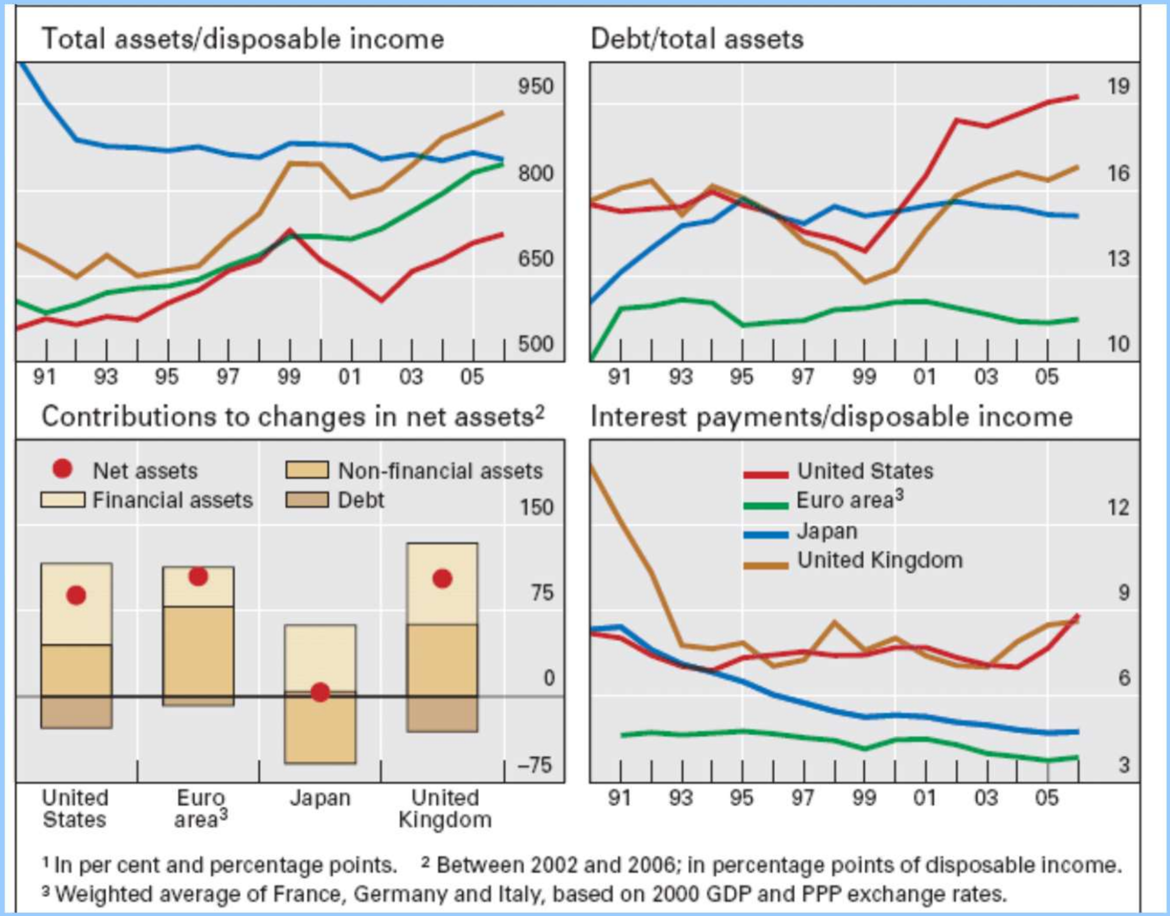
## Price impact of interest rate increase




Source: Duebel/Finpolconsult.

# Non-financial asset contribution to wealth (consumption) – turning south again?

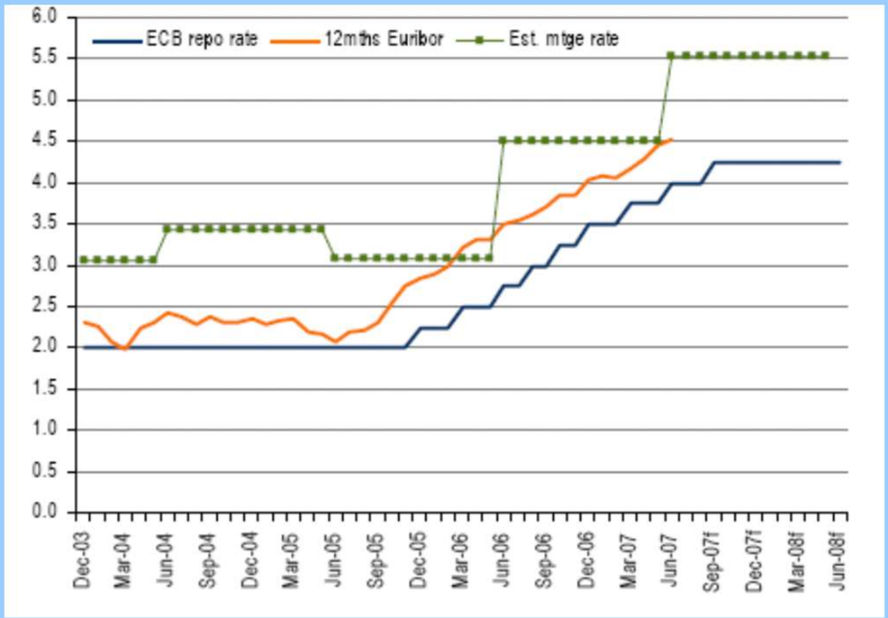
## Household Assets & Indebtedness




Source: BIS 77th Annual Report

## Current stability issues: Spanish payment shock 2006/7

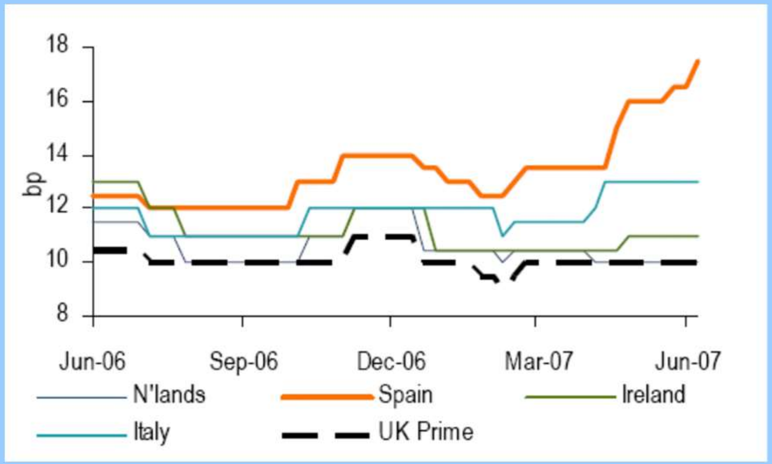
### Rising rates, rising defaults?




Source: Merrill Lynch

# Stability in the mortgage bond markets – structuring, public and private credit enhancements

## RMBS Spreads – AAA is not always AAA



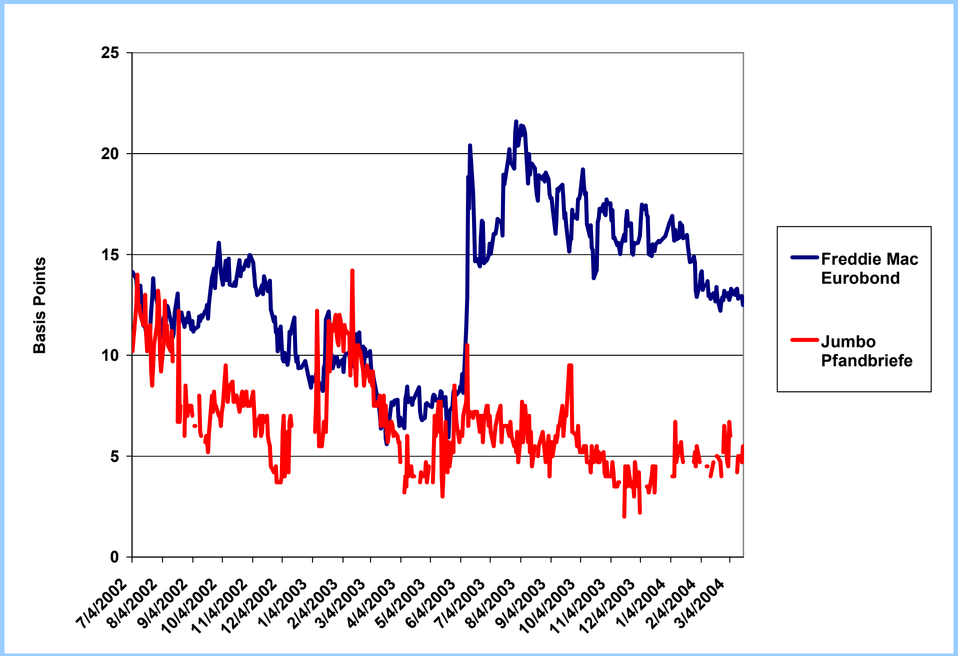

Source: Merrill Lynch

Pure structuring approach may fail investors, lead to excess complexity, illiquidity (CDO)

Covered bonds to combine structuring and external enhancement (yet laws heterogeneous);

'Agency' not necessarily more stable, cheaper, despite implicit public guarantees.

## Public guarantee is not always cheaper than corporate guarantee




Source: Commerzbank Securities, Dresdner Kleinwort Benson, Dübel.

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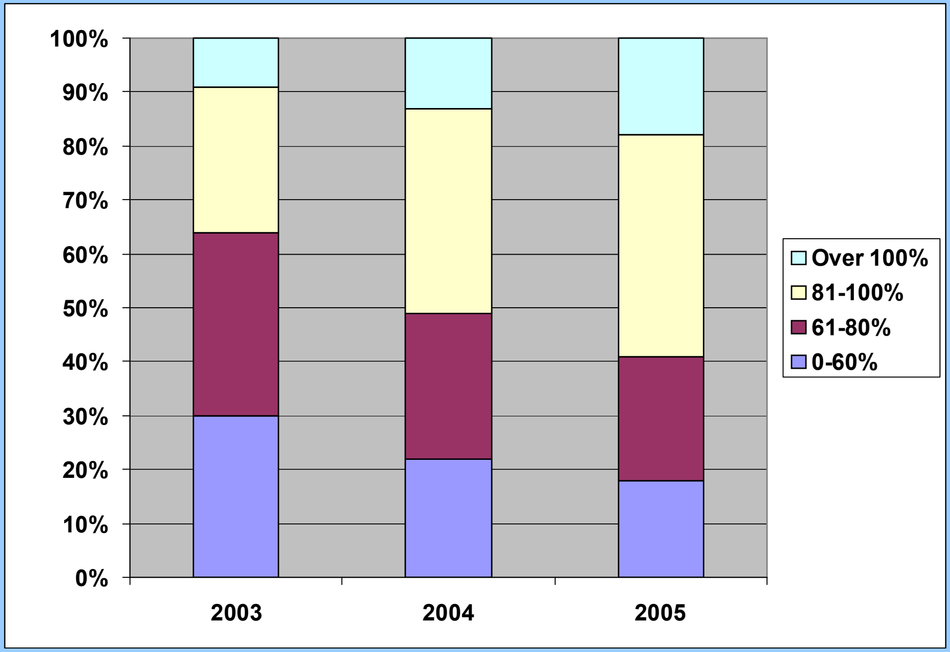
# Germany – getting more flexible

**Observations**

- Land & housing market
  - Land markets have gained flexibility
  - Elastic supply and low-cost building technologies arrived (esp. East Germany, Privatizations support supply)
- Mortgage markets
  - Demand for higher LTV, subprime, call features increasing and callable?
  - Supply dominated by rigid regulatory credit (LTV & subprime) limits, while interest rate risk taken by investors is high (Postbank, ING).
  - Increasing disintermediation (brokers, introducers, platform world).

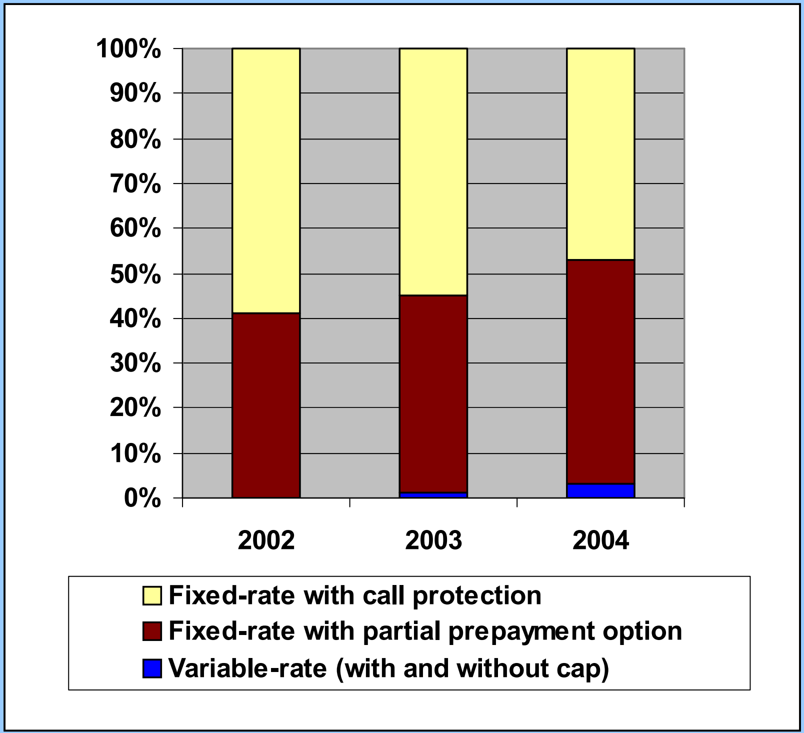
**Demand shift to high-LTV products, 2003-2005**



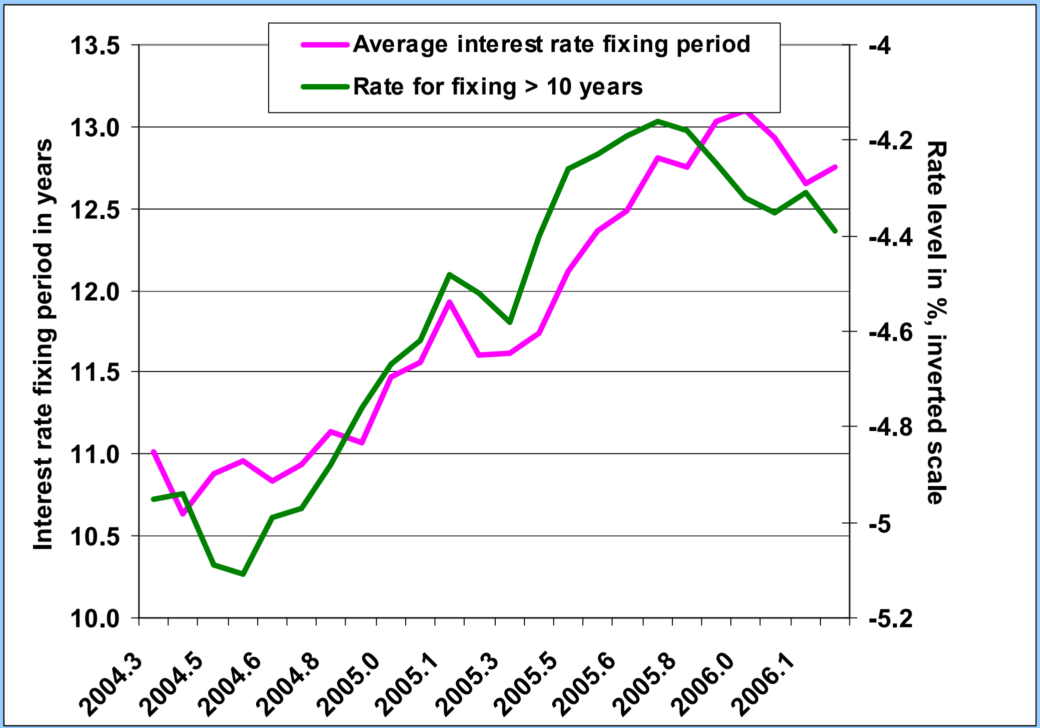

**Source: Hypoport AG**

# Germany – limited interest-rate pass-through via non-callable mortgages

**Rising demand for callability features 2002-2004**




**Interest rate binding periods for German non-callable fixed-rate loans and typical interest rate levels**




- In a market dominated by non-callable loans, consumers self-select non-callable fixing periods – not product,
- Pass-through of interest rate signals to the borrower at 10 years plus fixing is very limited,
- Yet, consumers demand greater flexibility (volatile curricula, inheritance wave, etc).



Source for both charts: Hypoport AG, computations by Finpolconsult

# Germany – deregulation agenda for the mortgage market

- Deregulation so far:
  - Removal of state guarantees for Landesbanken,
  - Mortgage bank system reform.

- Additional
  - Civil code reform: universal prepayment option,
  - Replacement of special bank with special product regulation: Bausparkassen,
  - Mortgage lending deregulation: higher LTVs, indexed loans,
  - Push for greater use of capital markets: callable Pfandbriefe, address bank mismatch, facilitation of MBS investment of institutions.

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## US historical integration approach

- 1920s regulatory fragmentation of state banking systems (no cross-border lending/funding) gives rise to creation of Federal Home Loan Banks (1932)
- 1934 system of public guarantees (Federal Housing Association)
- 1937 – failed attempts to introduce European-style mortgage banks (National Mortgage Associations, Act of 1934) results in government intervention (Federal National Mortgage Association)
- 1969 – Vietnam war fiscal crisis prompts Fannie Mae ‘privatization’, new horizontal split of the system (Ginnie Mae);
- 1980s, early 1990s Federal (Reagan) deregulations disempowers state consumer protections; Fannie Mae and Freddie Mac become duopolies with de-facto consumer protection powers, Subprime market develops
- 1990s states claw back some consumer protection powers

Approach:

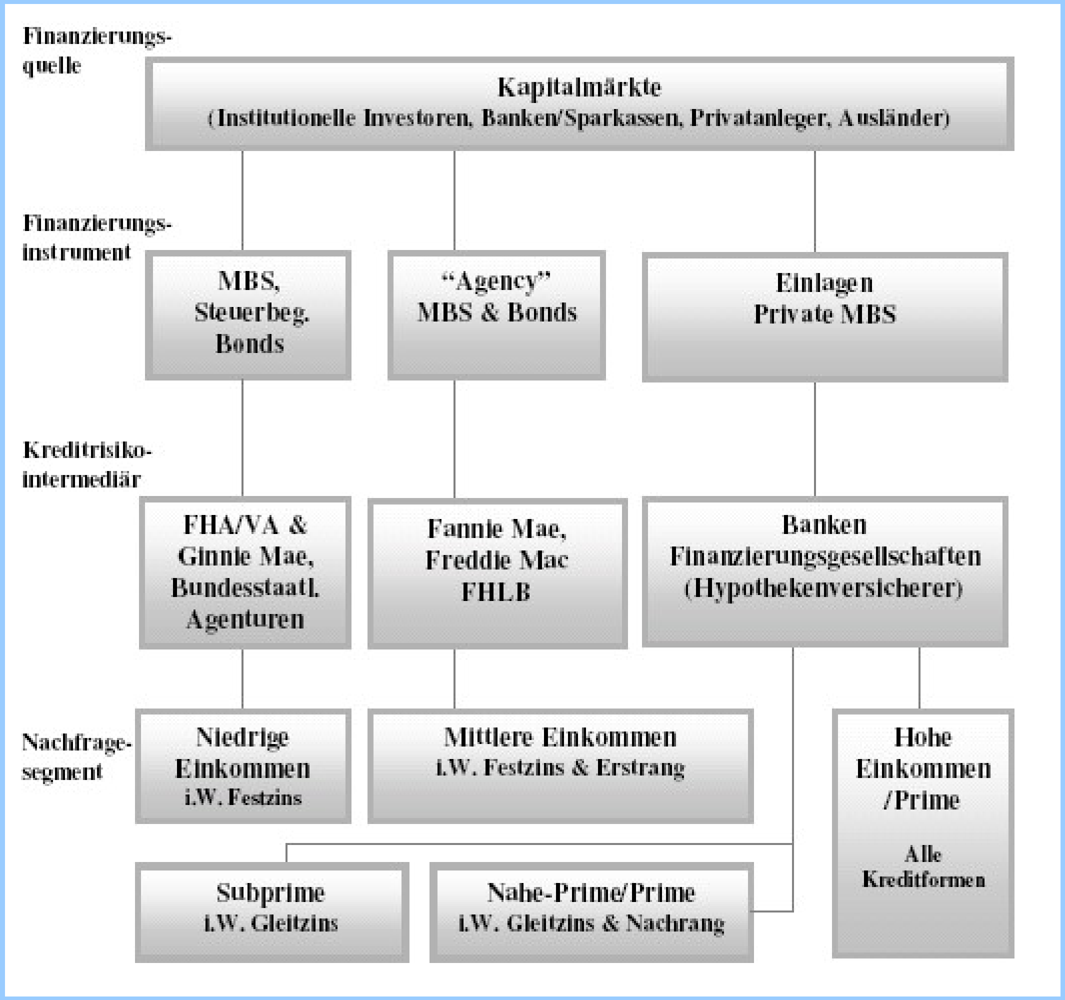
a) funding and guarantees first - but addressing a policy, not a market failure!!

b) consumer protection last (still unsolved)

→ a) possible model for Europe, b) as complicated in US as in Europe.

# US structure – initial 'horizontal' public-private split has turned into 'vertical'

**US mortgage credit system 2007**

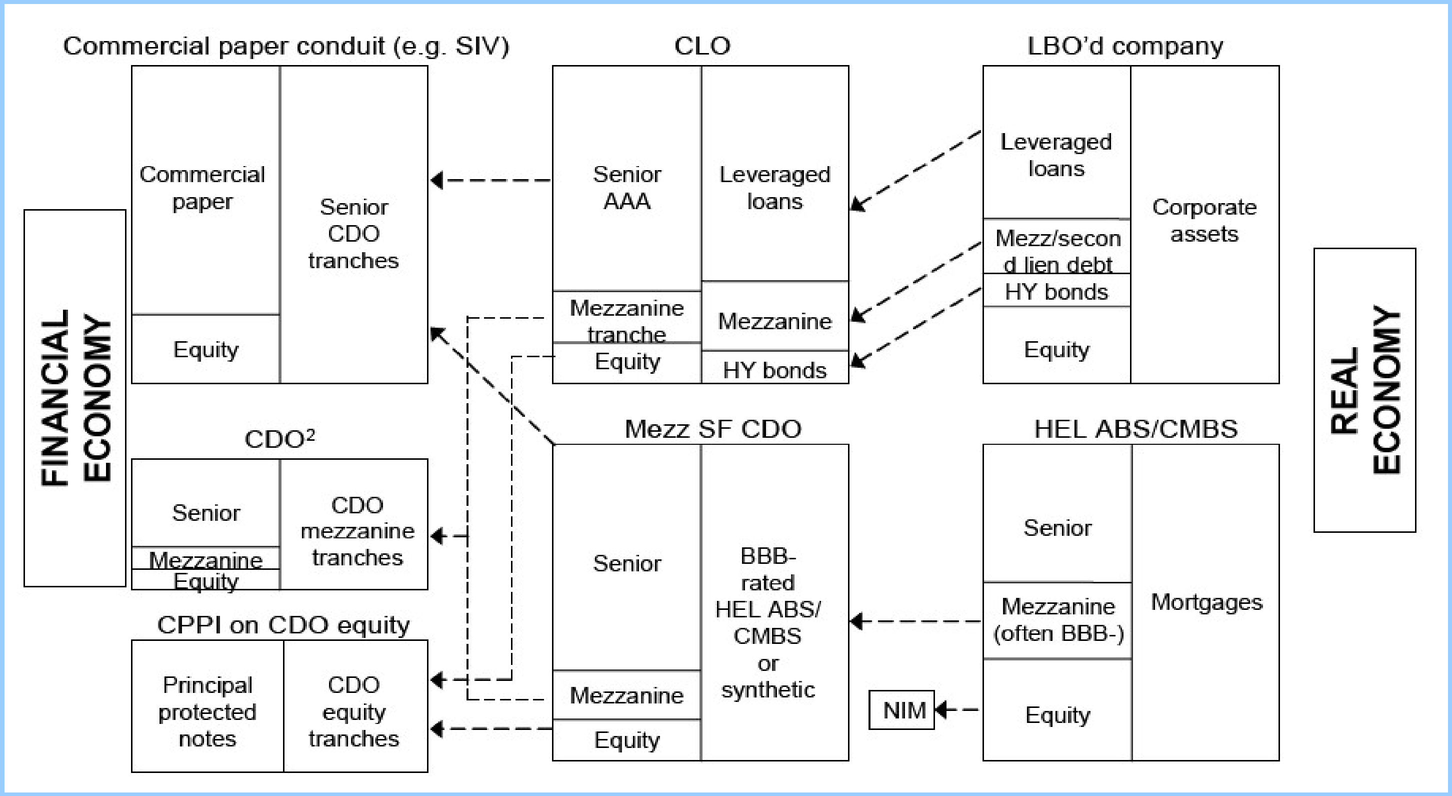





Source: Finpolconsult

# Laissez-faire in the US private mortgage bond sector – Europe's future?

**Converting mortgages and corporate assets into bonds**




**Source: Presentation given at Barcelona Global ABS Conference June 2007**

- No risk intermediaries, fee-based system;
- No liquidity, no market pricing;
- SEC always too late.

## Structure of the Presentation

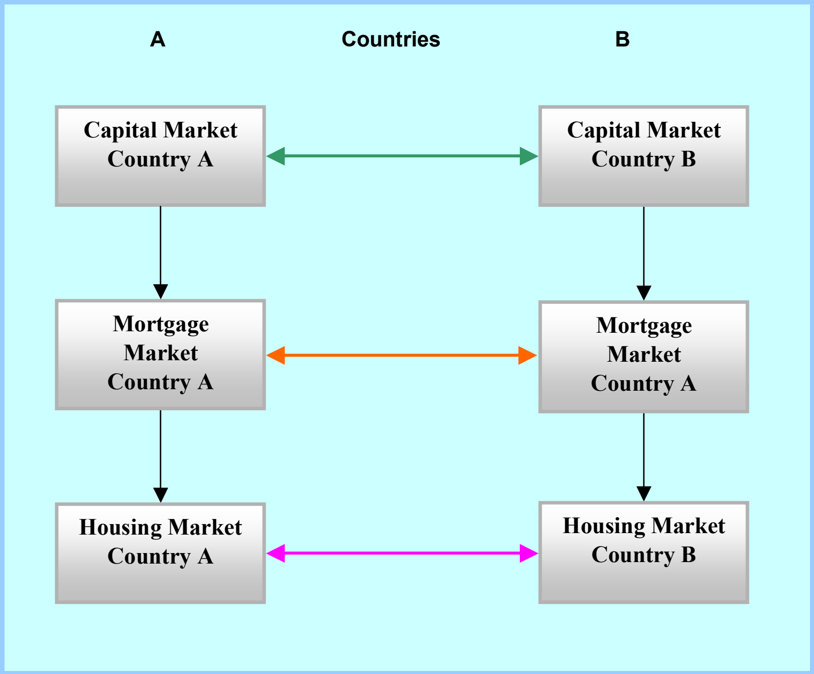
1. European mortgage markets in comparison: structure
2. European mortgage markets in comparison: performance
3. Some remarks on the German special case
4. Excursion: United States – integration approach model for Europe?
5. European integration obstacles and benefits
6. Possible agenda for the European Union and for global initiatives

# Integration channels & obstacles

- Capital market channel so far dominating - covered bonds & mortgage-backed securities→indirect.
- Direct mortgage market cross-border channels rather limited:
  - Trade in mortgage loans - only 1% of lending
    - Obstacles: consumer protection followed by financial regulation issues,
  - Trade in mortgage credit risk/pan-European credit portfolios (so far U.S. insurers & KfW Provide program)
    - Obstacles: inconsistent financial regulation and collateral issues,
  - M&A and greenfield entry
    - Obstacles: inconsistently applied competition and subsidy rules.
- Developing market in trading housing portfolios.

- There are also market obstacles, e.g. mortgage cross-subsidization & lack of access to distribution.

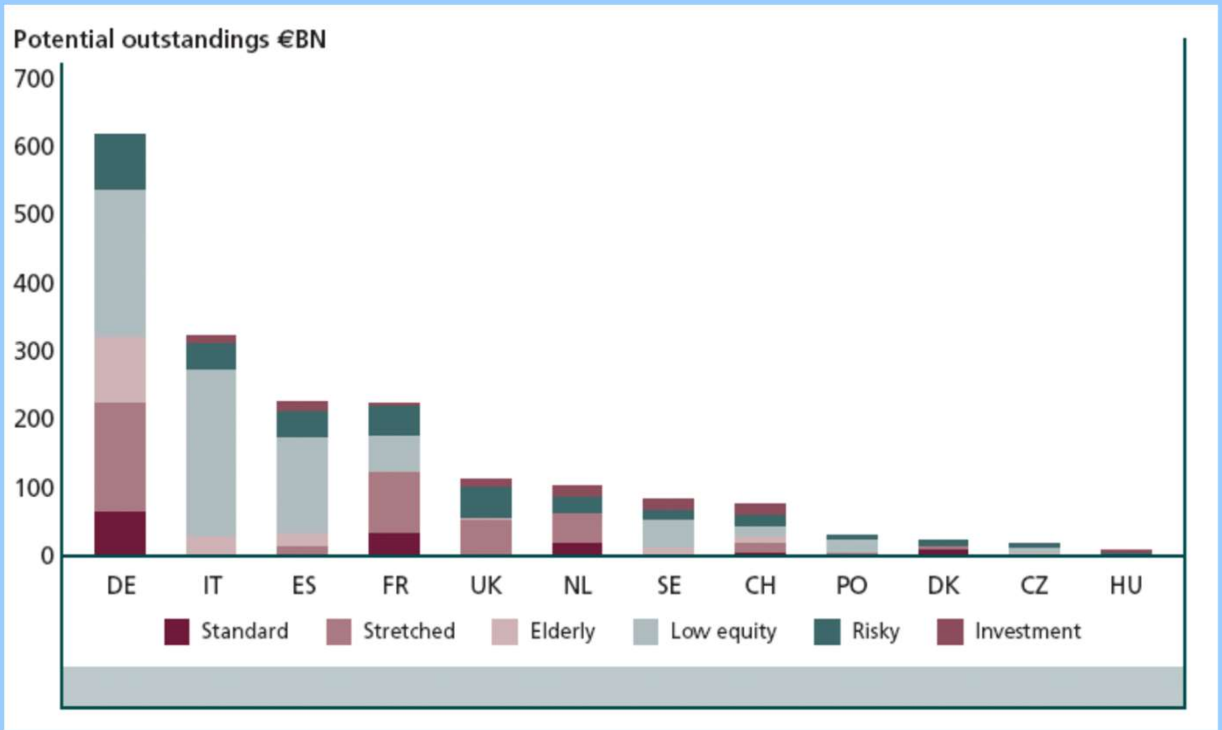
## Integration channels




**Source: Finpolconsult**

# Integration benefits – greater completeness potentially major source

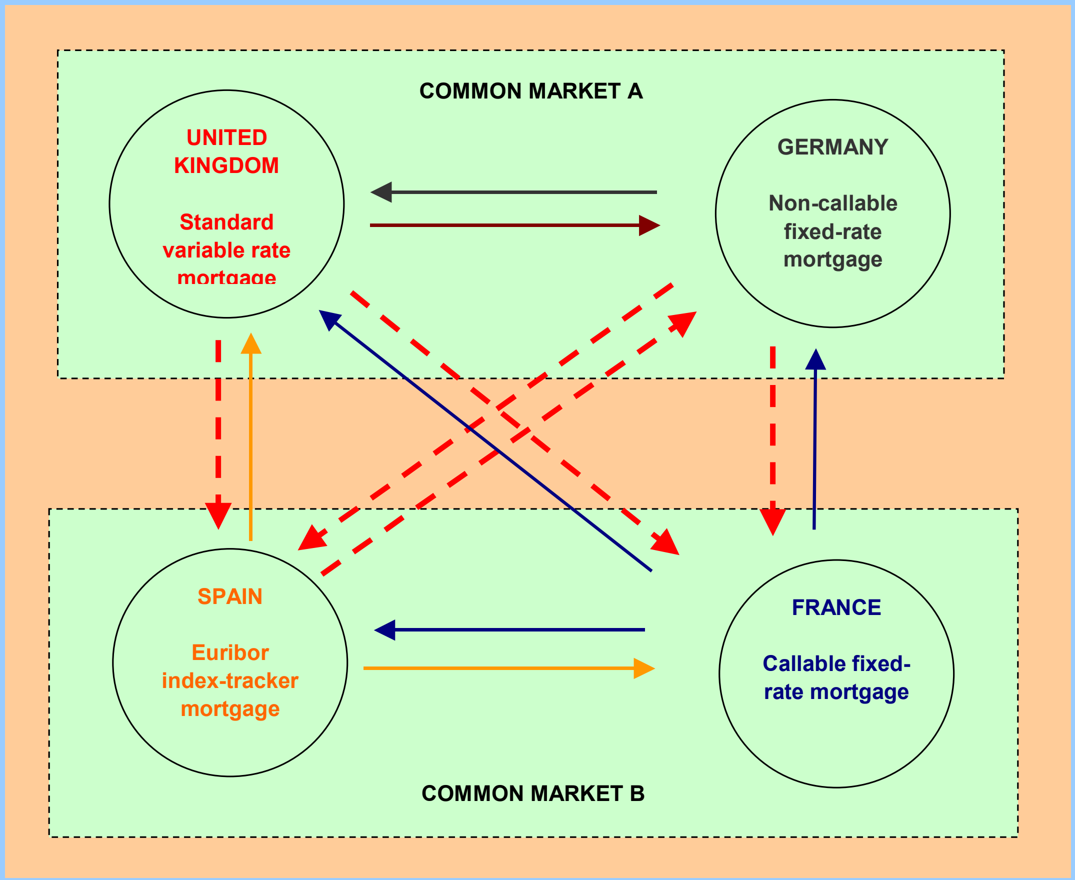
**Potential EU mortgage market volume gains from greater completeness in the credit dimension**




**Source: Mercer Oliver Wyman**

- Stepwise realization:
  - Greater product choice,
  - Housing market reforms.
- In addition gains through greater efficiency via
  - Intensified capital market use (liquidity, pricing efficiency),
  - Cross-border product standardization,
  - Cross-border servicing.

# Key integration obstacle in the primary mortgage market: consumer protection




**Status quo under mutual recognition approach:**

**Core products cannot be exchanged !!**

**Multiple internal markets.**

- Possible approach:
  - define empirical methodology to assess the credit risk impact of mortgage products;
  - maximum harmonization on the minimum level;
  - interaction process between Member State and Commission on possible stricter rules.

# Integration at work in capital markets:
# – covered bonds & mortgage-backed securities

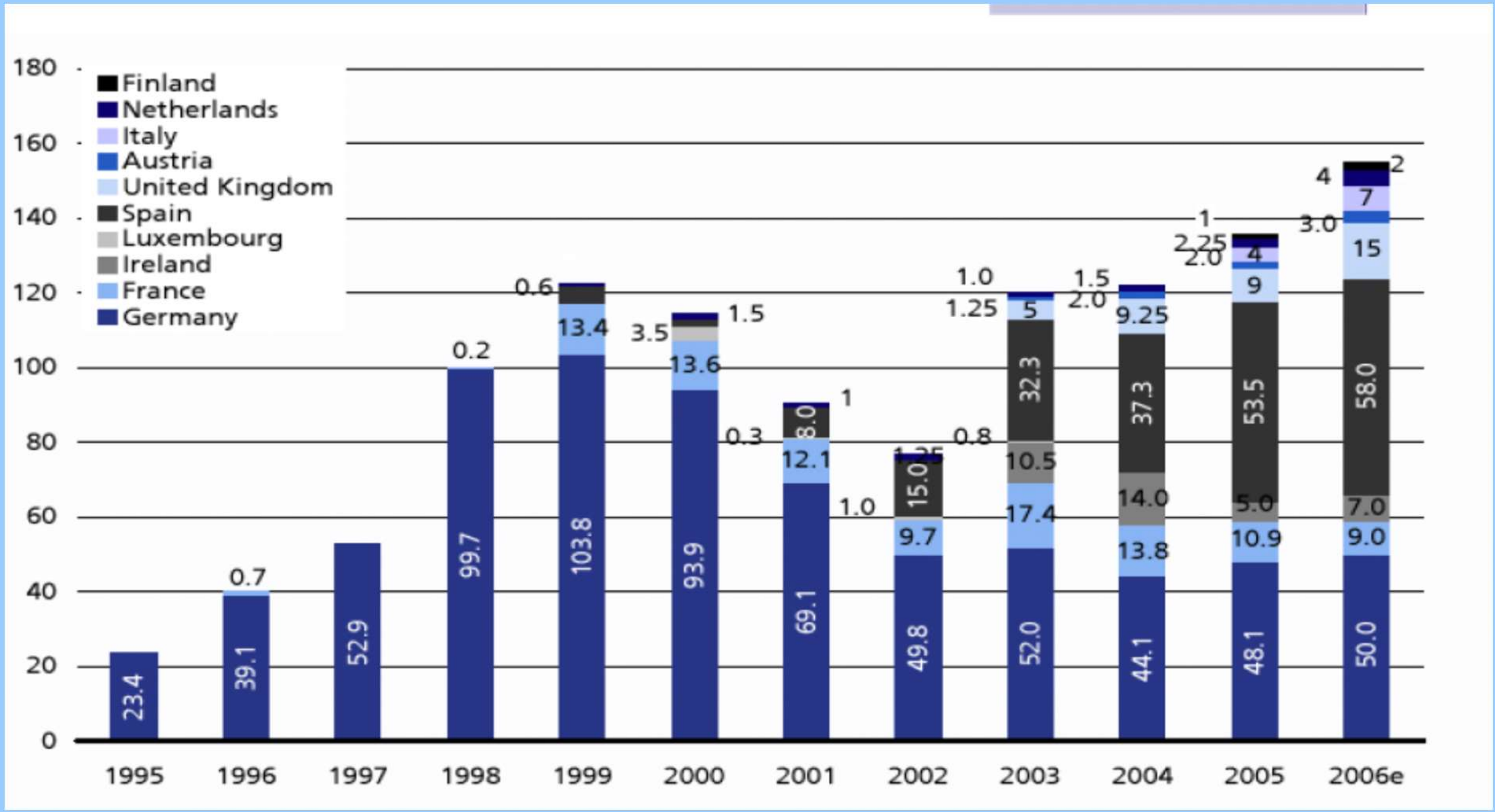
- Covered bond and MBS markets develop in parallel nearly everywhere
  - UK (covered bond law), earlier DE (true sale initiative).
  - Emerging European mortgage markets are catching up (covered bonds, not RMBS)
  - MBS markets outside UK/Spain predominant in special risks (CMBS, non-standard res).

- EU ABS fixed income market shares
  - ~4-5%, covered bond market share
  - ~16% (gross new issuances).

- Integration obstacles:
  - Attempts to generate minimum product standards lobby-driven (both structured finance and covered bonds);
  - Only apparent conflict, as joint obstacles prevail (mismatch, legal/registration issues);
  - Too many issuers (>70 in cov bonds) => producing high intermediation costs;
  - Insufficient liquidity of instruments due to collateral issues, greater liquidity could generate 10 – 20 bp lower liquidity premia.

# Integration at work in capital markets: – diversification of covered bond issuers

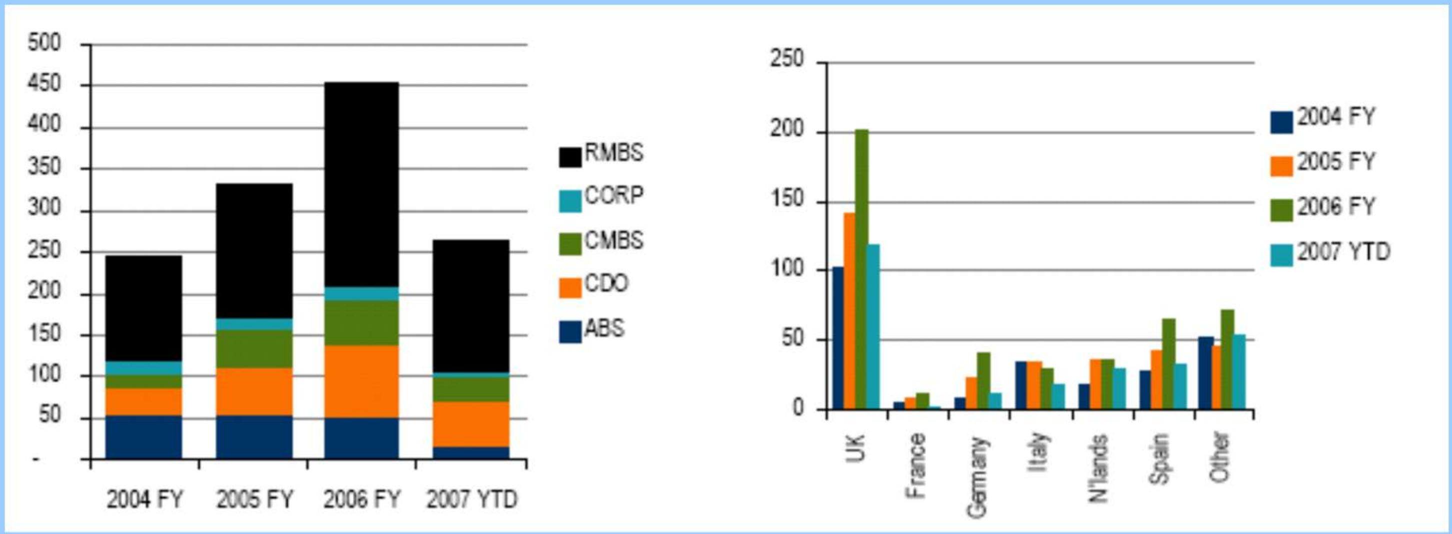
### EU new covered bond issuance by country of origin




**Source: European Mortgage Federation.**

# Integration at work in capital markets:
# – emerging structured finance markets follow UK

**EU structured finance issuance by type & country of origin**




**Source: Merrill Lynch**

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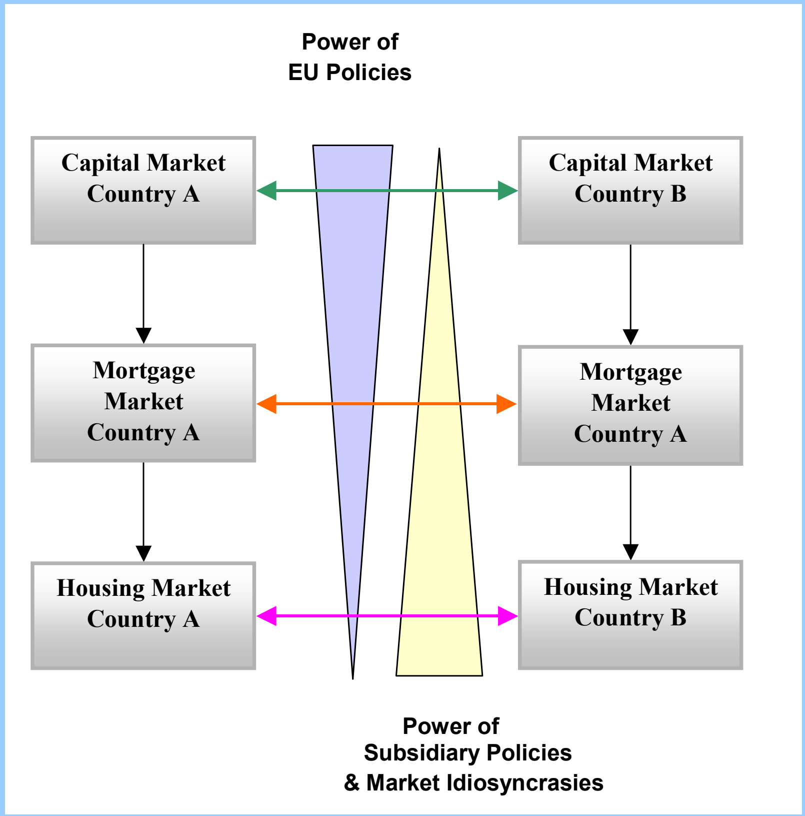
# Possible agenda for the European Union

**EU agenda could focus on the 4 C's of MF – collateral, consumer, competition, capital markets.**

- Collateral
  - Cross-border registration & enforcement of collateral,
  - Reduced transactions costs (incl. tax),
  - Common valuation standards;
  - Minimum foreclosure standards.
- Consumer protection
  - Improve consumer information (ESIS, APRC),
  - Common methodology to assess the credit risk impact of mortgage products,
  - Address strategic dilemma of Rome Convention.
- Competition
  - Facilitate cross-border M&A,
  - Remove idiosyncratic special bank regulation, replace by special product regulation,
  - Address subsidies.
- Capital markets
  - Eurohypotec,
  - Incentives to use capital markets (Basel III),
  - Cross-border diversification mechanisms,
  - Minimum standards for asset-backed instruments.

# EU mid-term agenda – go upstream?




Open questions:

- Does it make sense to focus on the integration and convergence of finance, when the real side remains divergent and distorted?
  - One mortgage pricing process, but large rent price variations/intervention intensities.
- What are the stability and wealth implications of developing finance, but not the real supply side?

# Possible global initiatives

- Consumer protection
  - Consumer information and risk awareness initiative.
- Financial regulation
  - 'Basel III' – focus on interest rate risk, idiosyncratic mortgage credit risk,
  - Common valuation standards beyond EU,
  - Common minimum standards for asset-backed instruments (esp. CDO & Pfandbriefe).
- Broader stability aspects
  - Best practice initiative on removing housing supply side distortions,
  - Enhanced, standardized and in-time market information,
  - Promotion of capital markets incl. derivatives as control instrument for credit risk taking,
  - More clearly define job-share between market (e.g. rating) & regulation.

# END

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