Mortgage credit in the European Union. Green paper

2006/2102(INI) - 19/07/2005 - Non-legislative basic document

PURPOSE: to present a Green Paper on “Mortgage Credit in the EU”.

CONTENT: this Green Paper examines the case for greater EU action in the residential mortgage credit market. Much of the Paper’s content is based on a Commission funded study examining the costs and benefits of further mortgage integration. The presentation of this Green Paper forms an important element for the integration of financial services and retail financial services in particular.

In 2003, outstanding residential loans in the EU stood at around 44% of the EU’s GDP. Most of these loans were taken out with national and local lenders. Consumers appear reluctant to do business with foreign lenders for loans of this size and importance. Nor have foreign lenders exploited the EU’s internal market and offered their services in countries other than those in which they are based. The slow-uptake of cross-border mortgage lending is attributed to differences in marketing and the difficulty of comparing products, differing national legal rules on mortgage products and practical difficulties such as credit worthiness and property valuations.

The Paper questions what the potential benefits of mortgage integration could be. Estimated benefits include overall lower cost of the mortgage or home loan, better value for money ancillary products such as mortgage and home insurance; being able to target more borrowers (including those currently marginalised due to poor or incomplete credit ratings); plus the overall benefits associated with the EU’s economy of scale.

This Green Paper also examines what role, if any, the Commission should play in stimulating an dynamic internal market in mortgages. In addition it considers what, if any, benefits such an internal market would have on consumers. A number of questions are posed and include: Could Commission action result in better choice? How could consumers be best advised about mortgages to help them make an informed decision? What are the benefits, if any, of standardised rules on calculating interest rates or the fees charged when switching loans. How to improve access to cross-border information on matters relating to residential mortgage lending? Should the EU be encouraging more cross-border activity in mortgage loans? Is there scope for a new kind of mortgage lender, that is not a bank and therefore not subject to banking rules?

In preparing the Green Paper the Commission has taken four main distinct, but interrelated, areas into account namely, consumer protection, legal issues, collateral and funding. All of these issues are examined in detail. The Commission welcomes views on all matters covered in the paper and on any further issues considered key to the increased integration and efficiency of the EU mortgage credit markets.