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THE FINANCIAL CRISIS' IMPLICATIONS FOR THE INTEGRATION OF THE EU MORTGAGE MARKETS

In any modern economy, mortgage markets rank among the most important business segments for a variety of obvious economic reasons. Not only does mortgage credit for many people pave the way to their own home, which usually represents the lion's share of an average household's assets and implicit old-age provisioning. Moreover, mortgage interest rates greatly influence private households' disposable income in the course of the business cycle, and, correspondingly, play a crucial role as major transmission channels for monetary policy. As if this wasn't enough, US mortgage markets caused no less than the worst financial crisis in decades. It is therefore hardly surprising that mortgage markets receive particular attention by policy-makers and regulators – not least those working for the European Commission in Brussels.

Yet the mortgage markets' economic and political importance is not reflected by the extent to which national mortgage markets in the EU already are "Europeanised", i.e. have become one single integrated EU market. Quite to the contrary, there are still 27 national markets which are more or less separated from one another. This can be garnished with a long list of anecdotal evidence:

- bank customers have nearly no access to mortgage products offered by financial services firms located in other EU member states;
- financial services providers face a variety of barriers when it comes to entering foreign mortgage markets within the EU;
- the spectrum of mortgage products available varies significantly from one member state to another;
- so do mortgage rates and fees.

In contrast, full integration – i.e. creating a single market for mortgage loans – would entail that consumers demand mortgage credit and banks supply it EU-wide, or that consumers and financial services providers do business in all of the EU – regardless of national borders.

The question of how this aim is achieved best has taken centre stage in the European political debate for decades, because the integration of mortgage markets is expected to increase economic welfare via two ways: First, it would raise competition in national markets because foreign providers would try to "export" successful business models to other member states. Second, it would enable providers to realise economies of scale. Both effects would lead to lower prices and more product variety, which would benefit bank customers directly.

Against this background, regulatory steps aimed at paving the way to an integrated EU mortgage market are indispensable, yet which concrete steps are to be taken remains highly controversial. It is beyond dispute that all measures have to meet three general requirements:

- banks must be enabled to realise economies of scale and to offer their services in other member states in order to realise a better product choice at lower prices. Otherwise, reaping the benefits of an integrated market and gaining the anticipated welfare gains is not possible;
- the securitisation of mortgage loans has not been discredited fully in the course of the financial crisis, yet it can play only a subordinated role when it comes to designing the future of EU mortgage markets;
- preserving and, if possible, strengthening consumer confidence is of uttermost importance.

How can these requirements be made consistent with each other? The whole trick is to separate the "production" of the mortgage products from their distribution which resembles a recent trend in the industry called "break-up of the value chain". That means, first, that in order to realise economies of scale, multi-nationally active banks must pool all their back office functions in centralised "loan factories". The latter handle all credit applications, run the scoring-engine, keep the books, track the payments received and trigger, if necessary, forced sales procedures.

At the same time, second, the distribution of mortgage loans should be strictly decentralised. Only if customers can do business in the legal environment they are familiar with – i.e. the legal environment of their home country – will they take out mortgage loans confidently. Their counterparts consist of local banks and independent mortgage brokers – both of which offer, among other things, mortgages that are "produced" by multinationally active banks in the above-mentioned "loan factories". Of course, the multinational banks can set up local branches in other countries, too, in order to sell their products to the customers there.

In order to make all this happen, European decision-makers must create a regulatory environment in which all rules related to the decentralised distribution of mortgages can be set by national authorities, while everything that is essential for establishing multinational "loan factories" should be regulated at EU level. The latter, for example, comprises harmonising certain data protection rules, because otherwise it would be impossible to use pan-European scoring engines.