

Housing Finance in the Euro Area

Guido Wolswijk
European Central Bank

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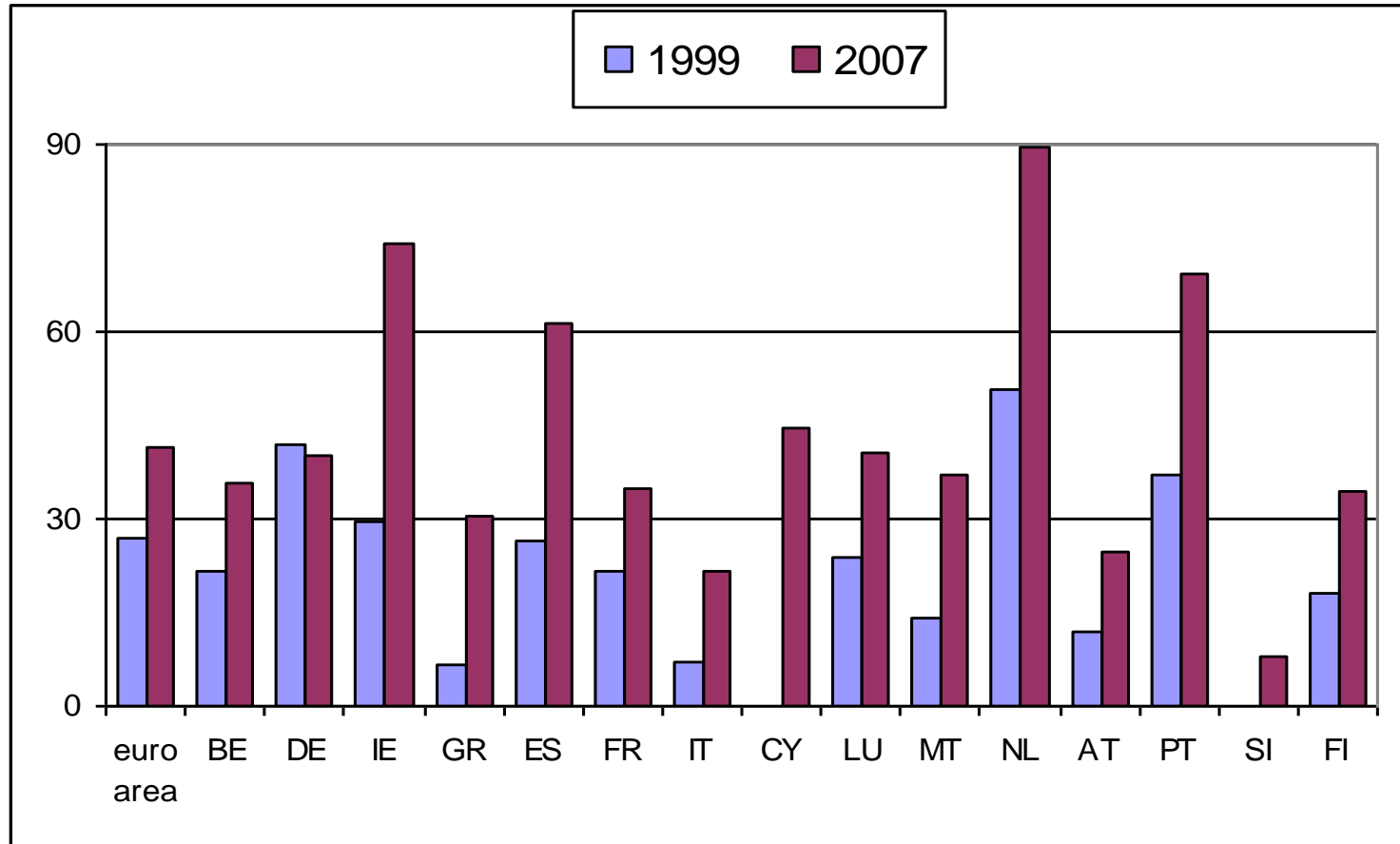
Outline

- I. Introduction**
- II. Characteristics of mortgage loans**
- III. Funding of mortgage loans**
- IV. Mortgage markets in international perspective**
- V. Implications for monetary policy**
- VI. Conclusion**

I. Introduction

- **Eurosystem report**
- **Filling some data gaps**
 - **national sources**
 - **bank questionnaire**
- **Initiated spring 2008:**
 - data in principle refer to 1999-2007**

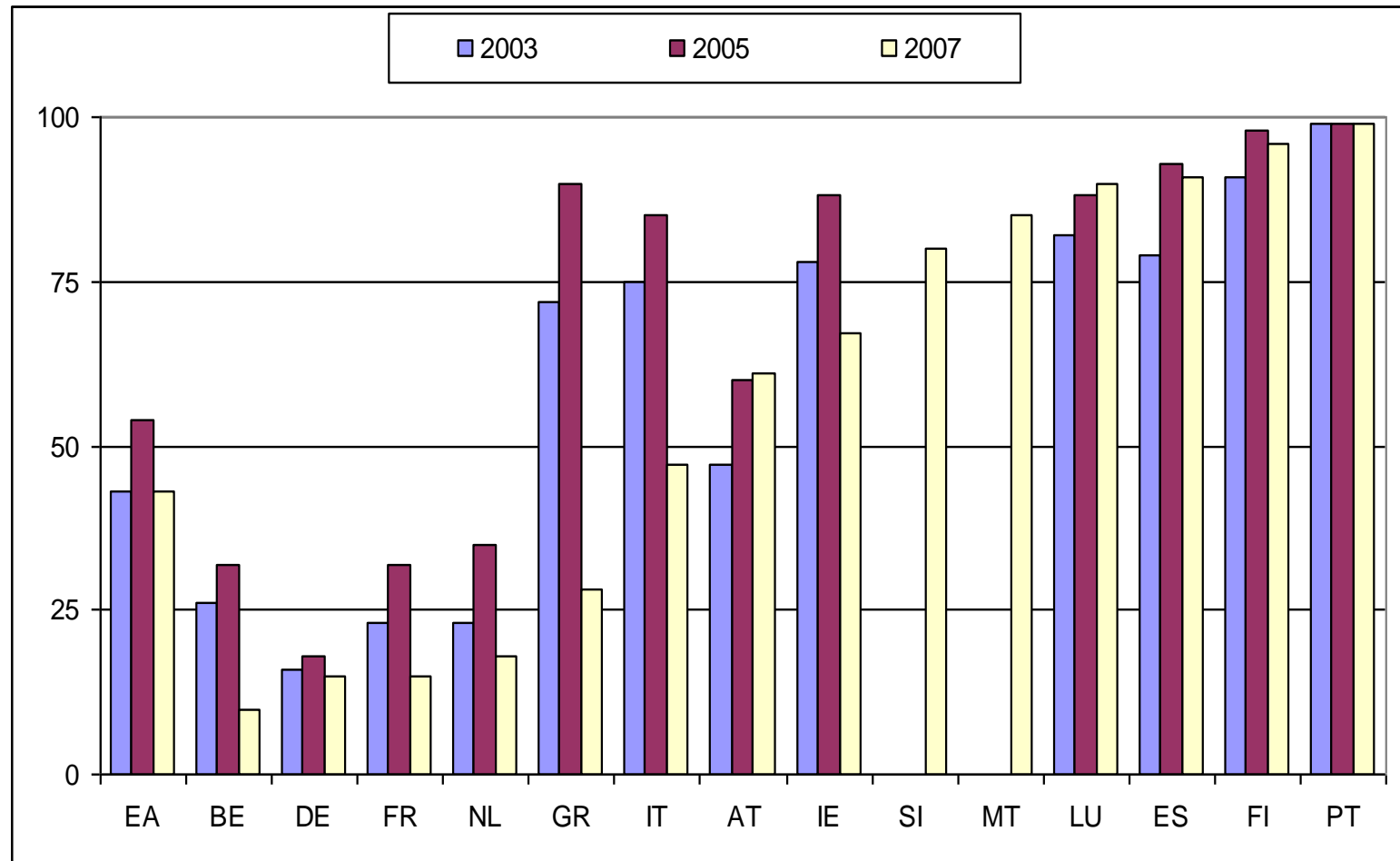
II. Mortgage characteristics: Housing debt (% GDP)



II. Mortgage characteristics

- **Substantial cross-country divergences but some convergence over time**
- **Marked variation in share of variable-rate loans in total new loans**

II. Mortgage characteristics: share of variable-rate loans in new housing loans



II. Mortgage characteristics: variable-rate loans

Differences in share of variable-rate loans:

- **Demand:**
inflation history
- **Supply:**
maturity of funding
- **Institutional:**
Basle II
national rules on early repayment

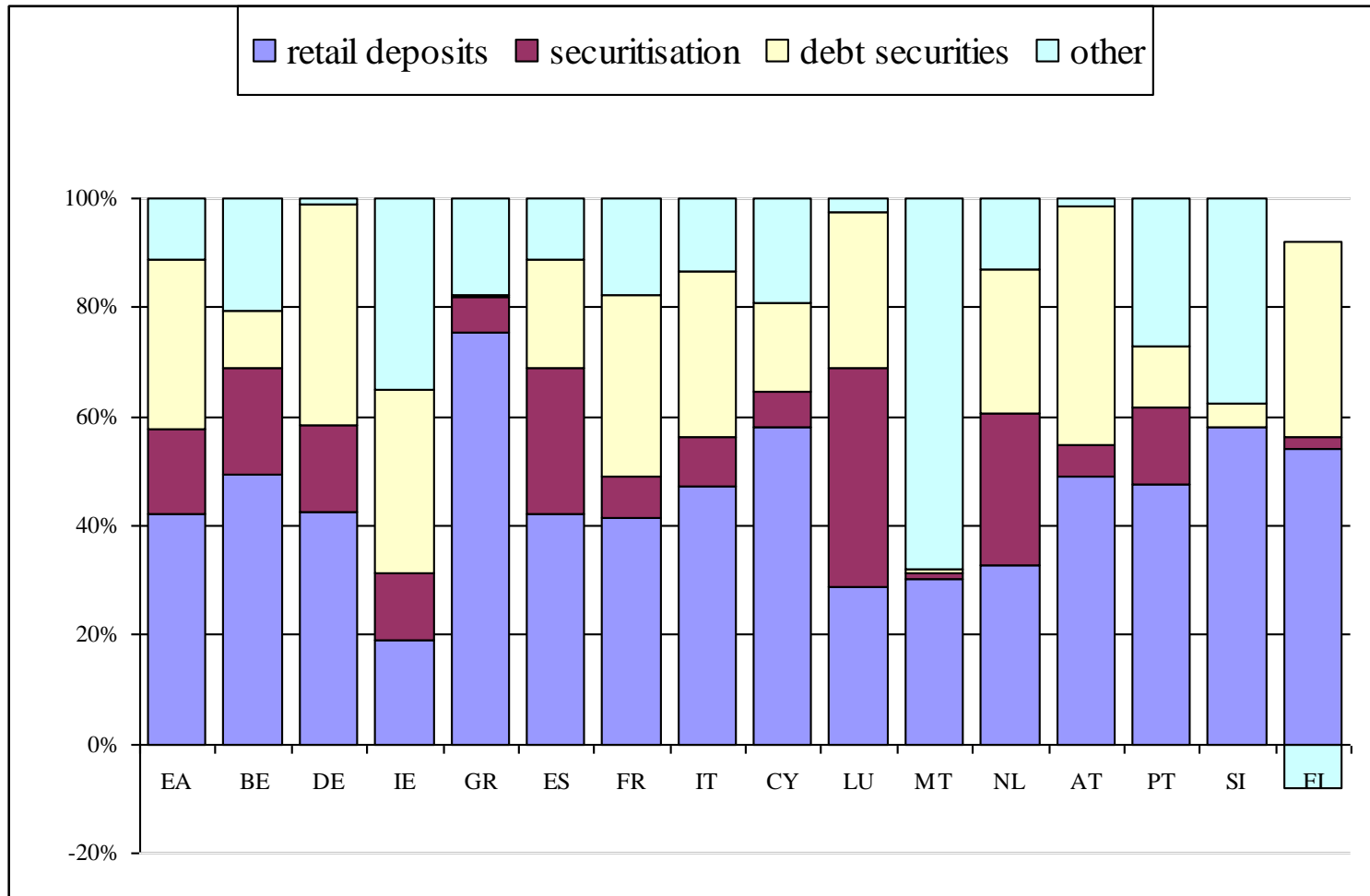
II. Mortgage characteristics: other key indicators, 2007

	<i>Min.</i>	<i>Max.</i>	<i>Avg.</i>
'Typical' Loan-To-Value ratio	63%	101%	79%
'Mortgage equity withdrawal' (% of new loans)	< 1%	30%	5%
Interest rate caps (% of outstanding variable-rate loans)	0%	50%	19%
Early repayment (% of outstanding loans affected)	0%	9%	6%
Possibility for maturity extension (% of outstanding loans)	0%	90%	29%
Length foreclosure procedure (in months)	2	132	24

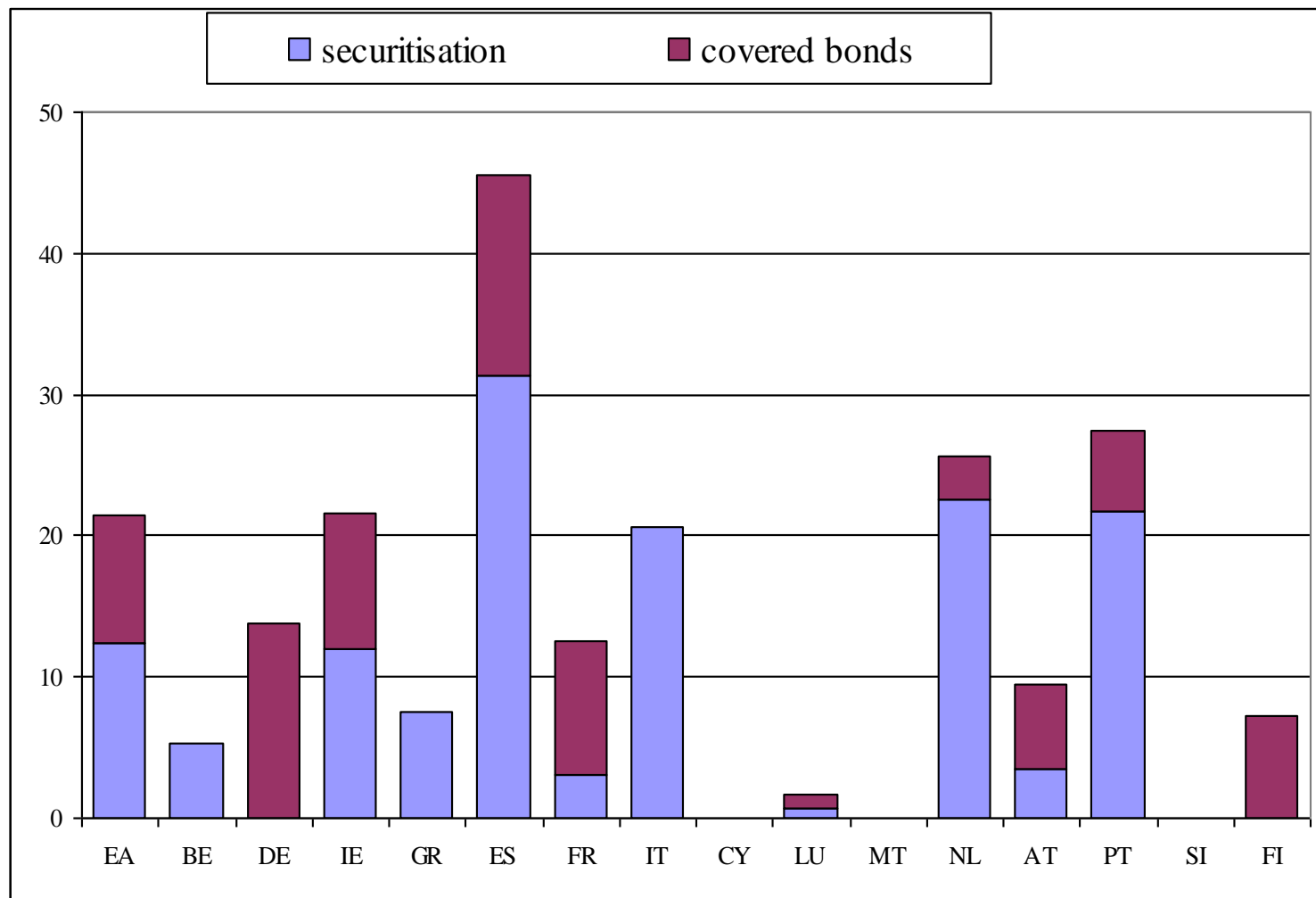
III. Mortgage loan funding

- **Banks (MFIs) are main mortgage providers in the euro area**
- **Sharp rise in funding via covered bonds and securitisation of loans until 2007**
- **but retail deposits are still the main single funding source**

III. Mortgage loan funding : sources as % of total funding, 2007



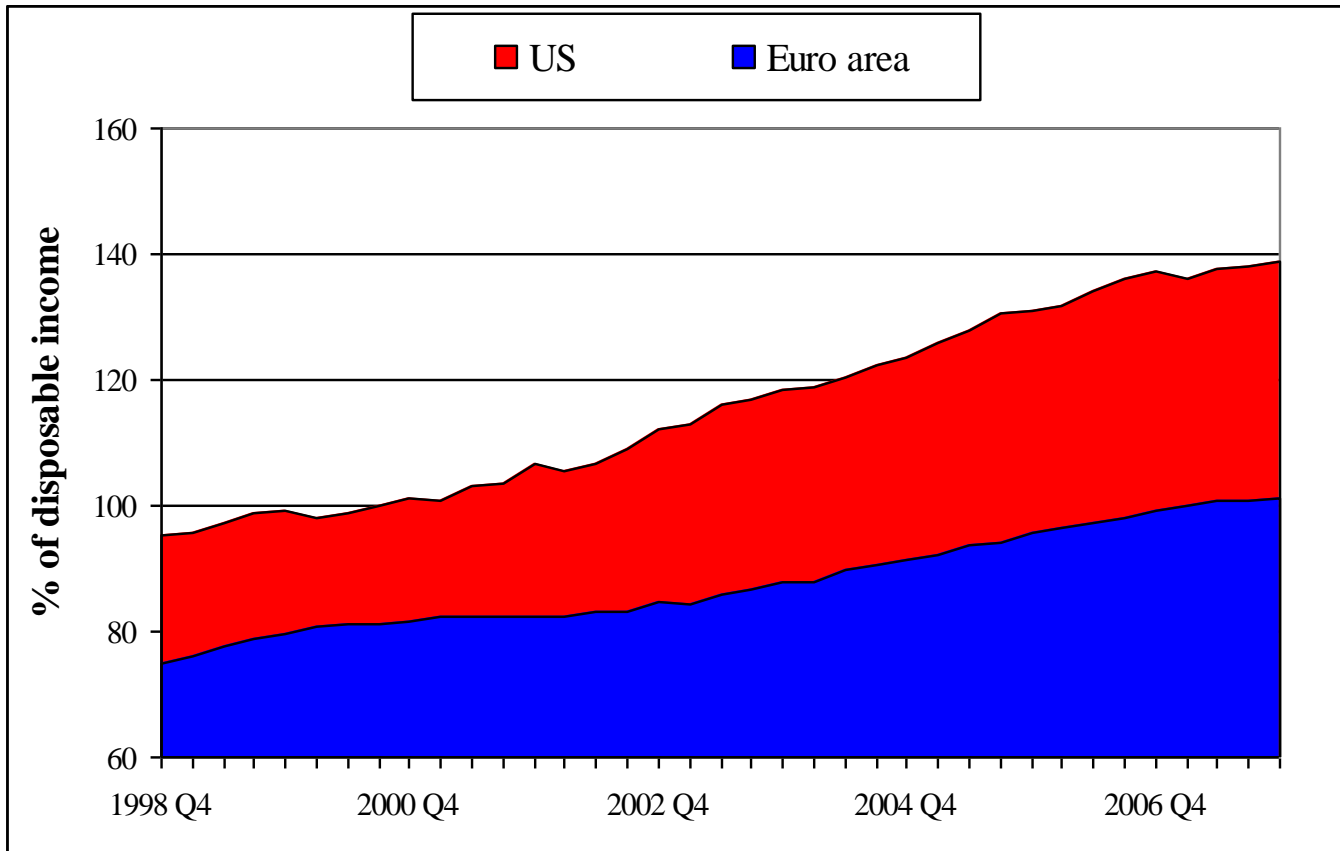
III. Mortgage loan funding: Securitisation and covered bonds (% of outstanding housing loans, 2007)



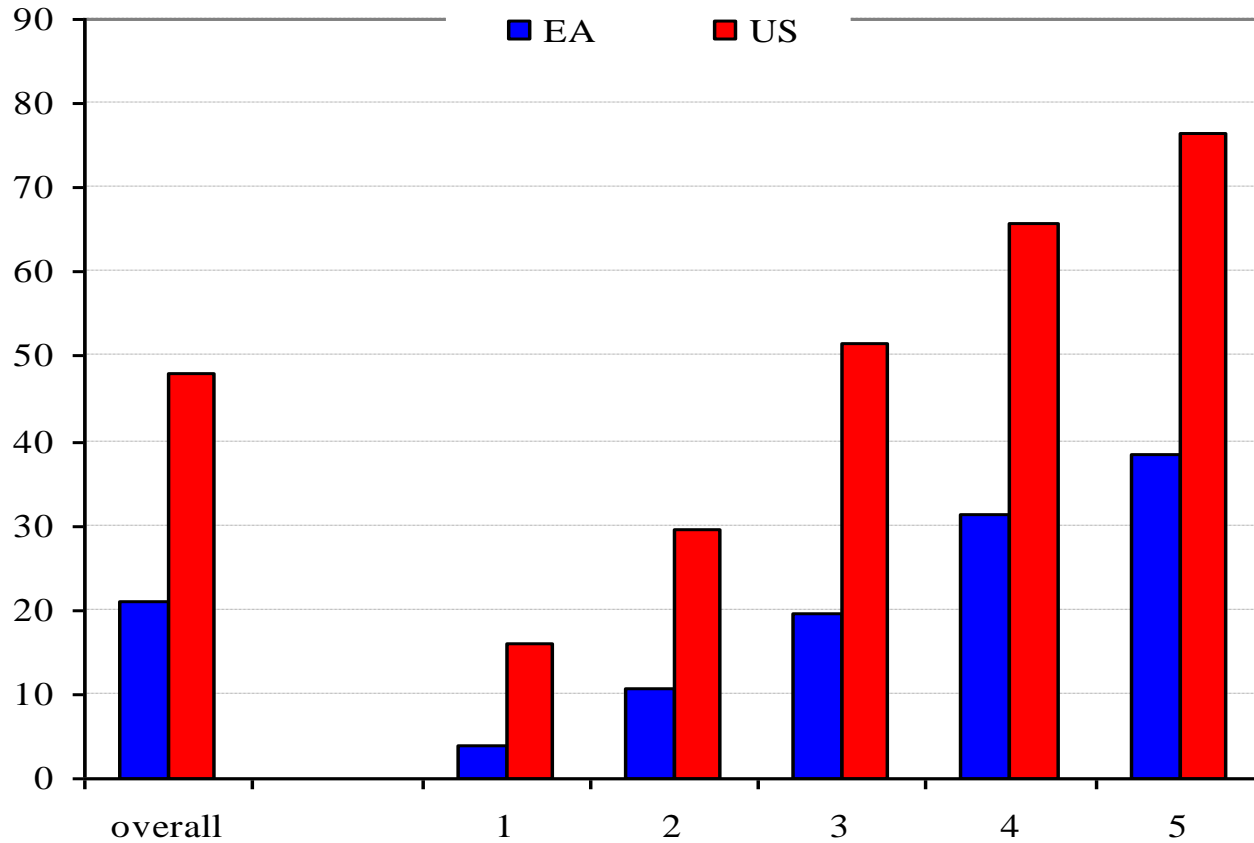
III. Mortgage loan funding: Impact of the crisis

- **Impact of the financial crisis:**
 - impediments to market finance
 - bond issuance revived after government guarantees
 - virtually stand still of securitisation market
 - covered bonds market not active
 - Increased reliance on bank deposits as source of funding
- **Looking forward:**
 - more caution in lending to households
 - simpler financing structures

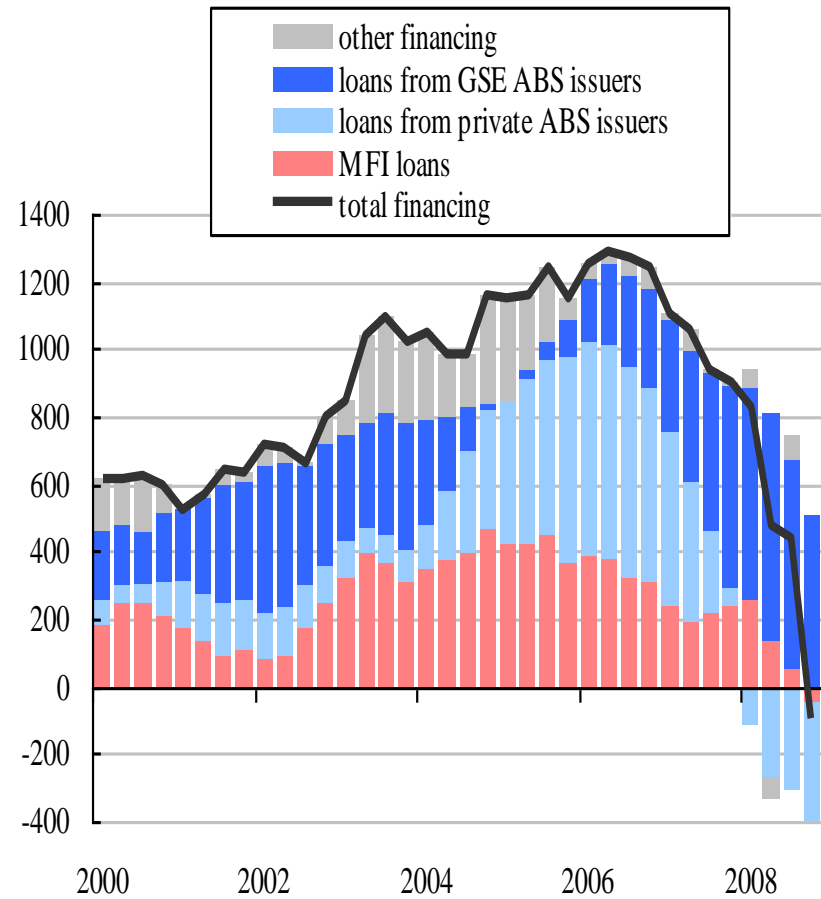
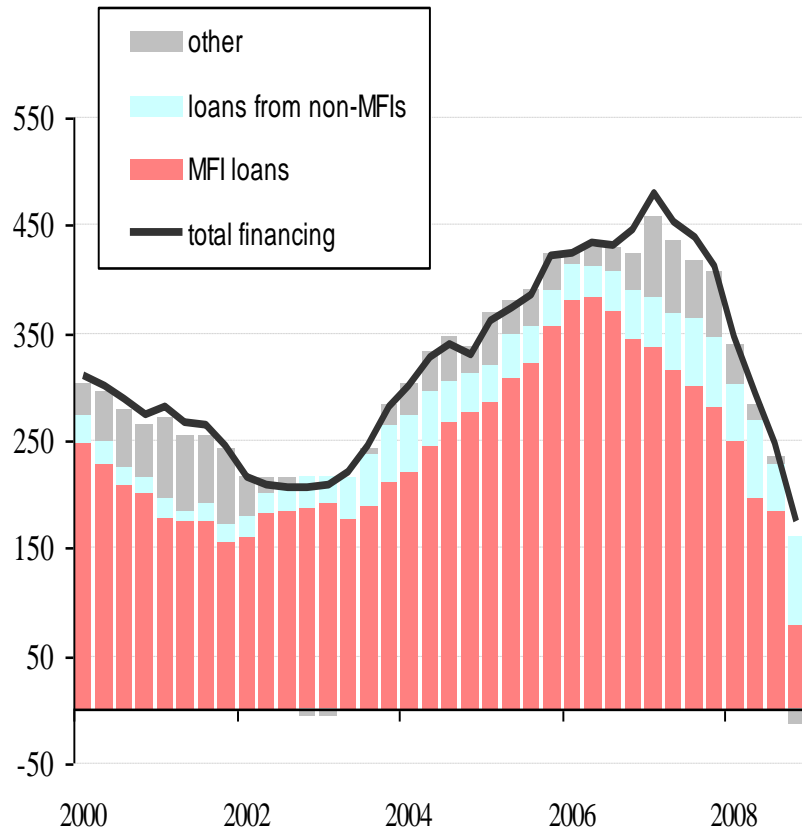
IV. International comparison: debt-to-income ratios



IV. International comparison: households with a mortgage by income percentile, 2005/2004



IV. Household funding – euro area & US



IV. International comparison

**Mortgage supply in euro area less exposed to shocks
via**

- lower loan-to-value ratios**
- less mortgage equity withdrawal**
- more stringent bankruptcy and foreclosure procedures**
- less dependent on market funding**

V. Impact on monetary policy transmission

- **Housing market is important for transmission given high housing debt of households and role of housing loans in banks' portfolios**
- **Some developments in housing finance point to faster/higher transmission:**
 - **Increased household indebtedness**
 - **Increased mortgage equity withdrawal**

V. Impact on monetary policy transmission

- **Other housing finance developments point to slower/lower transmission:**
 - **Increased role of securitisation**
 - **More flexibility in mortgage repayments schedules**

Overall effect mixed

VI. Conclusions

- **Convergence in some aspects of housing finance in the euro area but differences often still substantial, related to:**
 - **consumer preferences, history**
 - **differences in legislation**
- **Impact of current crisis on *structural* housing developments as yet unclear, especially regarding funding**

VI. Conclusions

- **Housing finance in the euro area seems less vulnerable to housing shocks than in the US – but not immune**
- **Impact of housing finance developments in last decade on strength of monetary policy transmission mixed**

Thank you for your attention