Munich, den 17th May 2010

Establishing solid systems for housing finance on a world-wide scale

- Joint Congress of the European Federation of Building Societies and UN-Organisation discuss requirements for crisis-proof Systems –

Munich – „We have to create a counterbalance to Anglo-Saxon influences in Brussels, as their promoted uniform European housing finance model contains many disadvantages for consumers." This was a statement of **Mag. Herbert G. Pfeiffer, President of the European Federation of Building Societies (EFBS)** at the joint congress of the EFBS and the United Nations Economic Commission for Europe (UNECE) on "Housing finance beyond subprime" held in Munich. It is still indispensible to continuously stress national specifics and to advocate for equity based housing finance systems.

The global crisis was mainly caused by unreliable financing practices in the housing market, in particular in the USA, but also in Ireland, Great Britain, and Spain, housing bubbles emerged. Credits with up to 120 percent of the property value were assigned to customers with a low degree of creditworthiness – so-called subprime customers. Variable interest rates and a lack of equity created risks, resulting in thousands of cases of consumers facing foreclosure. In contrast to this, countries like Germany, France, and Austria did not feel any turbulence in the housing market, as their housing finance systems are based on security.

The causes of the financial crisis called for specific responses from the European Commission in order to protect consumers. As a matter of fact the European Commission often does not distinguish between stable and unstable systems of housing finance. "So far, the Commission measured everything with the same yardstick", said the **Managing Director of the European Federation of Building Societies, Andreas J. Zehnder**. As an example he mentioned the current ideas on tightening the rules on capital requirements for mortgage credits. Zehnder: "The Bausparkassen would also be forced to reflect the increased costs in their conditions, even though their system turned out to be crisis-proof. A drastic price increase would be the result as well as solid and unsound financing systems would be lumped together."

Another example is the European Commission's intention to create more cross-border competition for mortgage credits. At this point, the Commission must not promote harmonisation, but has to develop an alternative to national rules. This is the result of a study of the Institut der deutschen Wirtschaft which was issued in cooperation with the Centre for European Economic Research and Prof. Dr. Johannes Köndgen, University Bonn.

The authors of the study „An internal European market for housing finance‟ examined the economic and legal framework of seven EU Member States. Their conclusion is: "Further harmonisation efforts cause more damages than benefits." The diversity of products would be reduced. Even the well-proven long-term fixed-rate loan would be under pressure. This would be an enormous set-back especially to the mortgage markets in the process of the development in the countries in Central and Eastern Europe.

„It would be best, if European consumers could choose between national law and an optional European law‟, said **Pfeiffer**. Cross-border financing of real estate would be facilitated and conditions might be more favorable. An optional European law could also trigger a fruitful systemic competition.

„From an international point of view, there is a risk of harmful role models‟, eked **Zehnder**. Problematic is that international congresses, aiming to help developing and emerging countries, are dominated by protagonists representing failed financing systems. This congress is supposed to provide the opposite approach, based on stable financing systems.