

# Housing finance in the euro area

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*\* The views expressed in this presentation are those of the author and do not necessarily reflect those of the ECB.*

# Outline

1. Housing finance and the central bank
2. Selected results of the Task Force\* report  
*(ECB Occasional Paper No. 101/March 2009)*
3. Beyond the crisis

\* Ad hoc Task Force of the Monetary Policy Committee of the European System of Central Banks.

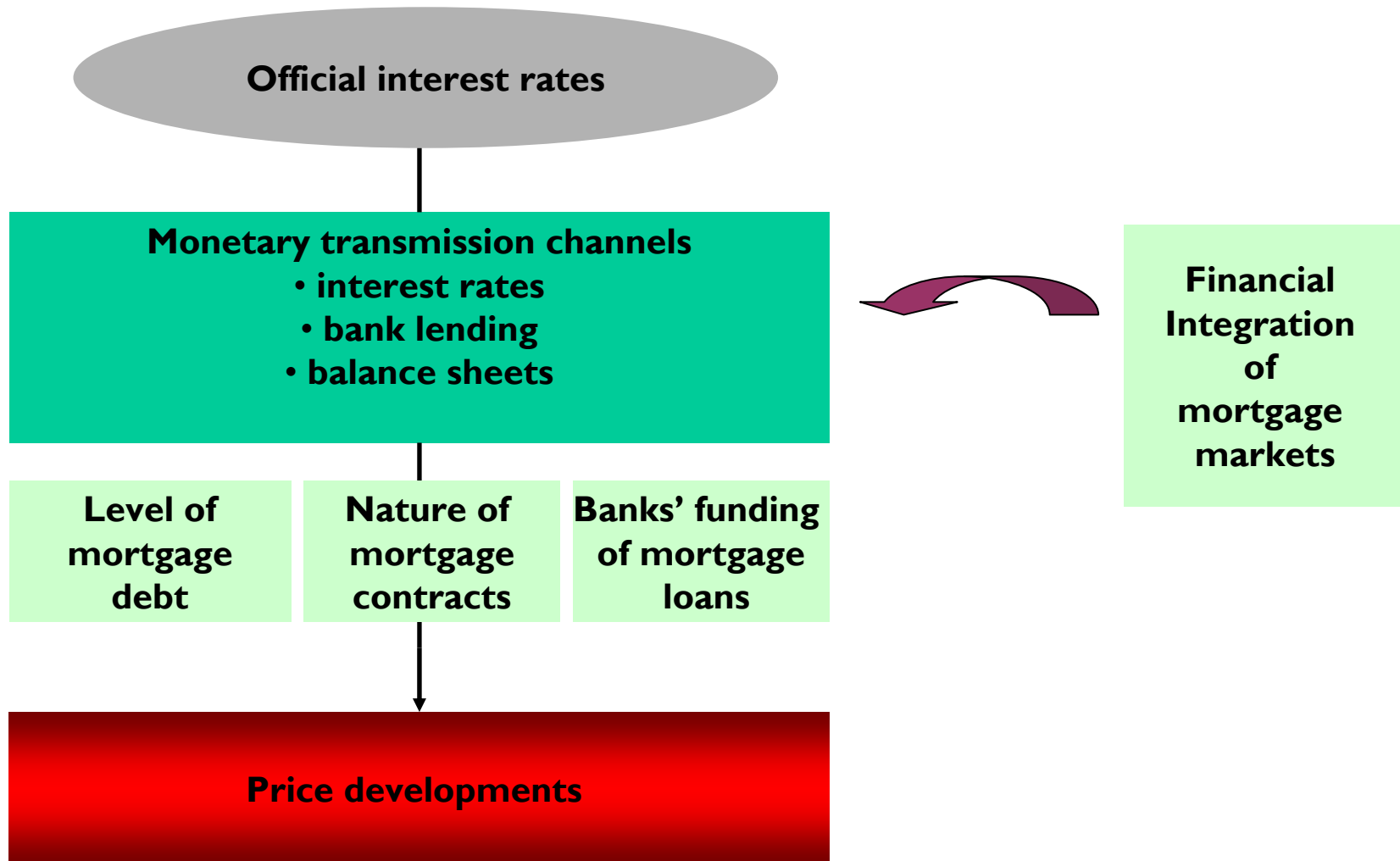
# I. Housing finance and the central bank

## The mission of the Eurosystem:

- As the monetary authority of the euro area, maintain price stability as the primary objective.
- As a leading financial authority, also aim to safeguard financial stability and foster financial integration

# I. Housing finance and the central bank

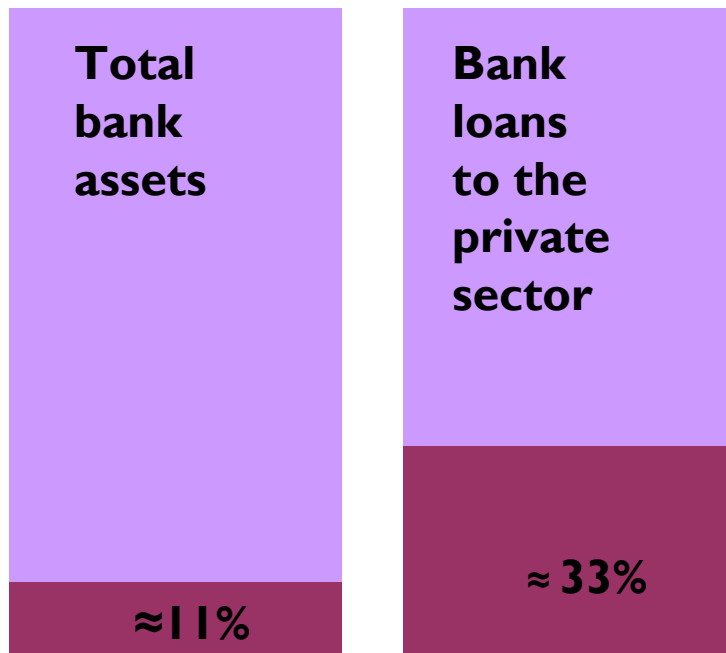
## Housing finance and the monetary transmission:



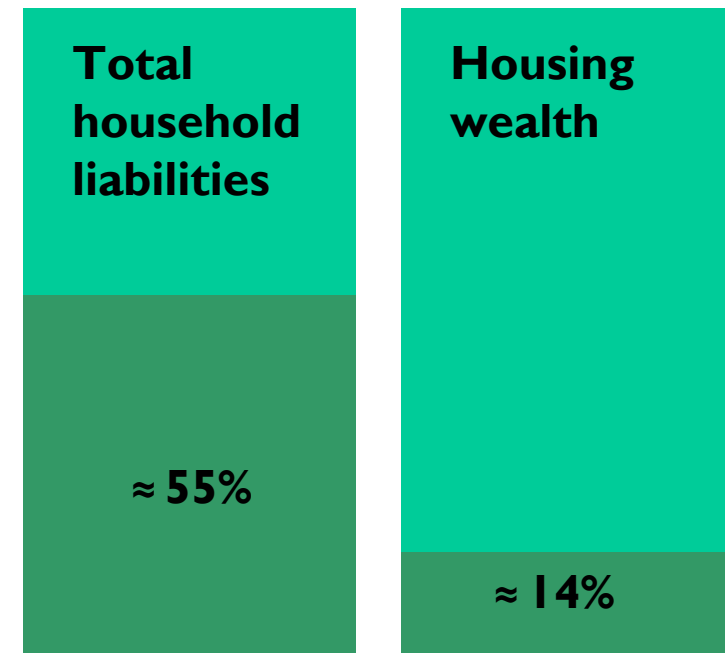
# I. Housing finance and the central bank

The share of mortgage debt in selected euro area balance sheet positions

## Monetary and Financial Institutions sector



## Household sector



Source: ECB calculations based on Balance Sheet Items Statistics and Euro Area Integrated Accounts Statistics.

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## 2. Selected results of the Task Force report

The main findings across the euro area for the period from 1999 to 2007:

- Mortgage indebtedness increased
- Loan characteristics changed in a way that benefits higher indebtedness
- Bank funding of mortgages shifted to market sources
- Mortgage spreads decreased

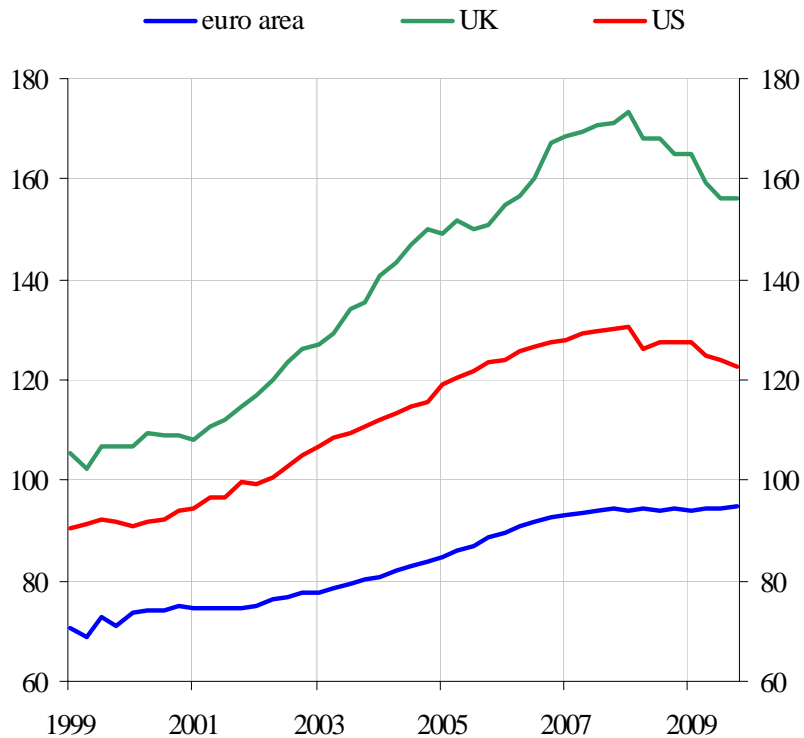
**But:**

- There remained substantial differences across euro area countries
- Housing finance in the euro area continues to differ from the US model

## 2. Selected results of the Task Force report

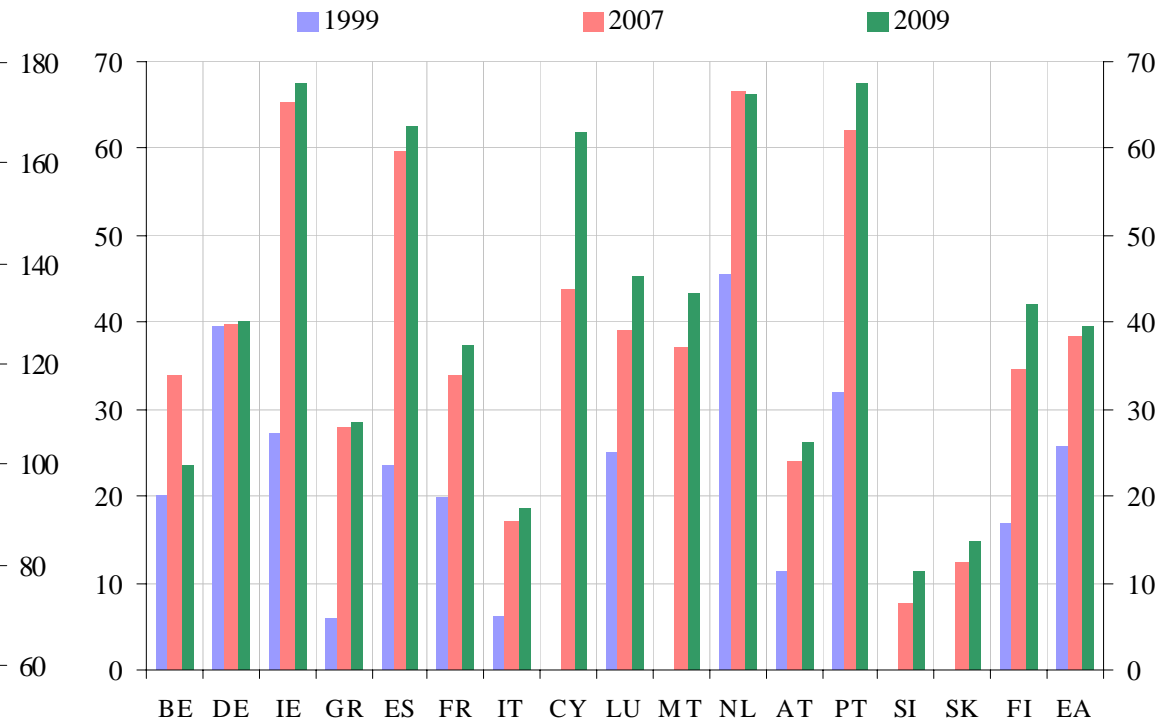
Mortgage indebtedness increased almost everywhere, but remains different across countries:

**Household debt**  
(in percent of disposable income)



Sources: ECB and Eurostat, Bank of England, Board of Governors of the Federal Reserve System.

**Household bank mortgage debt**  
(in percent of GDP)



Source: ECB.

Note: Debt is outstanding MFI loans for house purchase (not corrected for securitisation).

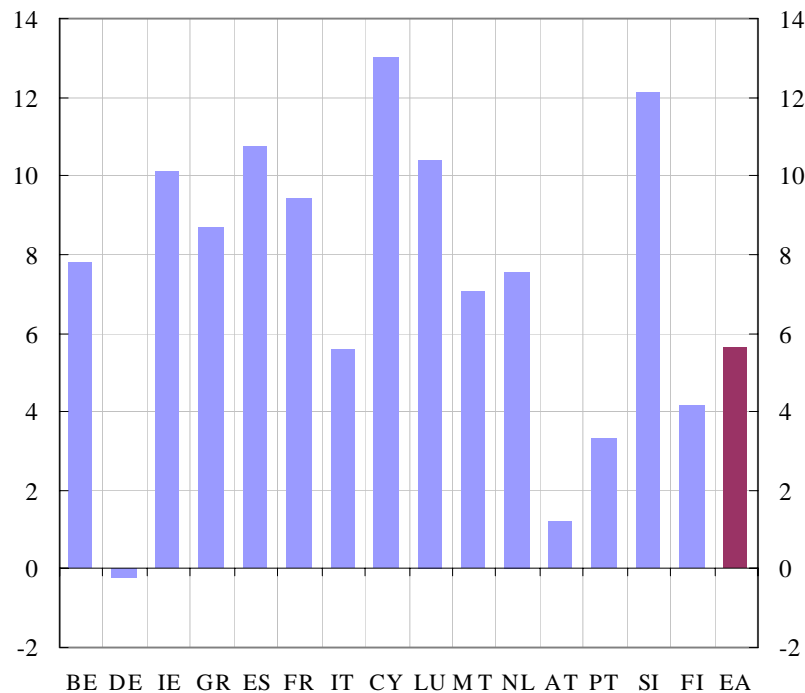


## 2. Selected results of the Task Force report

Trends in mortgage growth are influenced by many different factors (income, interest rates, house prices and demographics):

### House prices

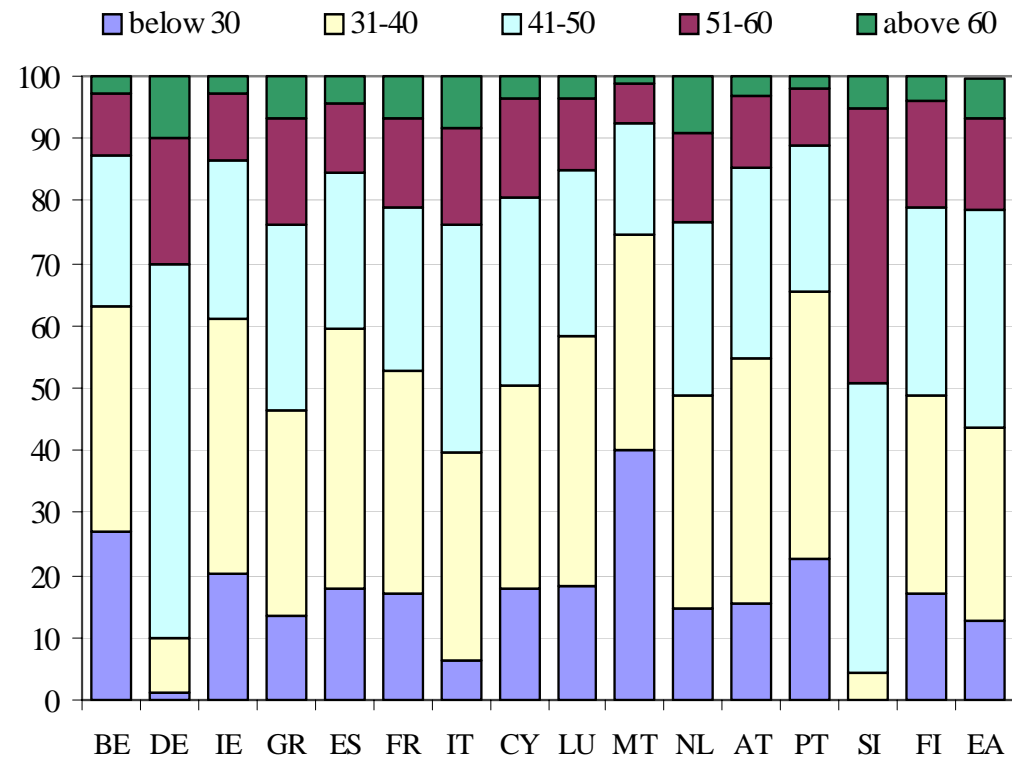
(average annual change 1999-2008)



Sources: National sources and ECB calculations. Data for Slovakia are available from 2005. The data differ substantially between countries in terms of coverage and calculation methods.

### Housing loans by age of head of household

(share in 2007 in percent)



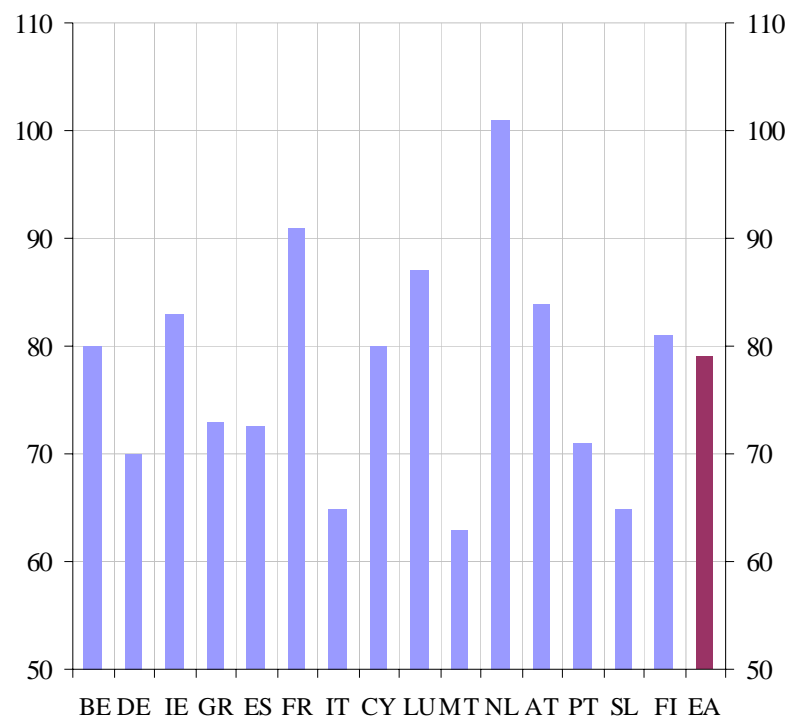
Source: Bank questionnaire.

Note: Data refer to flows (except IT where they refer to amount outstanding).

## 2. Selected results of the Task Force report

Loan characteristics point to different degrees of flexibility and have remained very different across countries:

**Typical loan-to-value ratio**  
(in percent)



Sources: NCBs and bank questionnaire.

Note: information relates to first-time house buyers.

**Guarantee schemes and early repayment**  
(in percent of outstanding amount of mortgage loans)

	Government guarantee scheme	Private insurance scheme	Early repayment: Law or Contract
Belgium	1	18	L/C
Germany	0	0	L/C
Ireland	0	2	C
Greece	4	19	C
Spain	0	1	L/C
France	14	44	L/C
Italy	0	2	L
Cyprus	0	55	L/C
Luxembourg	0	2	C
Malta	1	-	C
Netherlands	13	0	C
Austria	0	13	L
Portugal	0	0	L
Slovenia	0	0	C
Finland	5	4	C
Euro area	4	19	-

Source: NCBs and bank questionnaire.

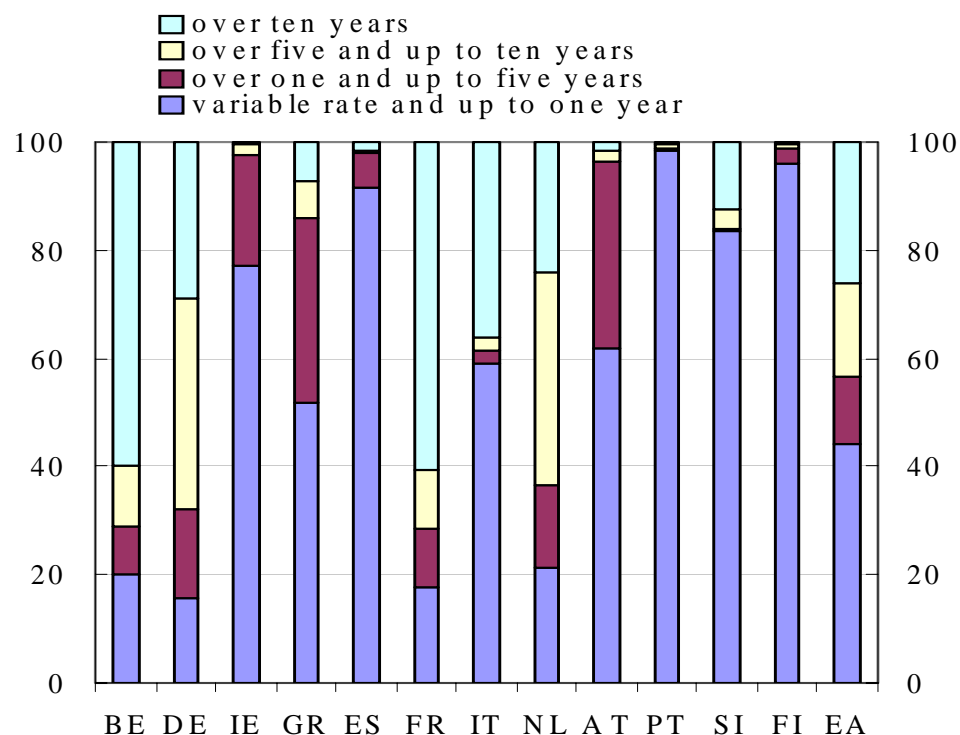
Note: In BE, ES, FR, PT the law establishes the maximum value of early repayment while the actual cost is contractually fixed in advance.

## 2. Selected results of the Task Force report

Length of interest rate fixation differs across countries, reflecting for example experiences with macroeconomic stability:

### Mortgage loans by period of interest rate fixation

(in percent of total new business since mid-2005)



Source: ECB.

Note: CY, LU and MT are excluded due to limited data availability.

### Characteristics of a “typical” loan

(assessment in 2007)

	Typical interest rate	Typical maturity (years)
Belgium	fixed	20
Germany	fixed	25-30
Ireland	variable	31-35
Greece	variable	15-20
Spain	variable	30
France	fixed	19
Italy	variable	22
Cyprus	variable	20-25
Luxembourg	variable	> 20
Malta	variable	30-40
Netherlands	fixed	30
Austria	variable	30
Portugal	variable	30-40
Slovenia	variable	> 20
Finland	variable	20-25
Euro area	-	-

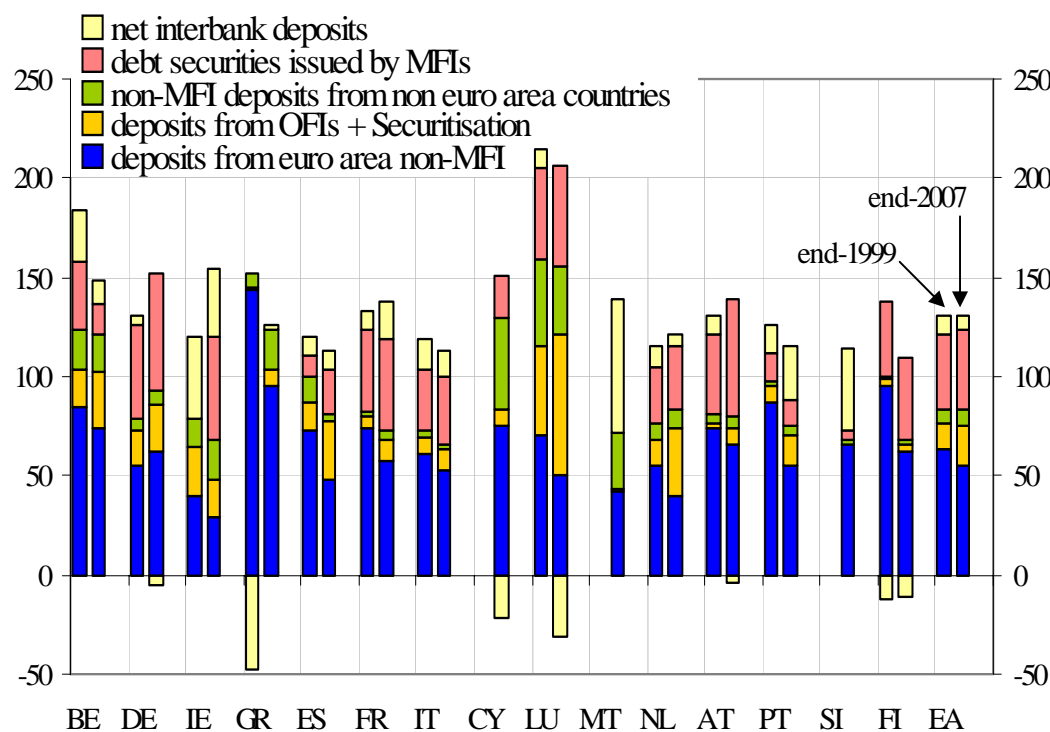
Source: NCBs and bank questionnaire.

## 2. Selected results of the Task Force report

Pre-crisis, bank funding shifted to market sources, but retail deposits were still the main single source:

### Sources of bank funding

(in percent of total financing of non-MFIs)

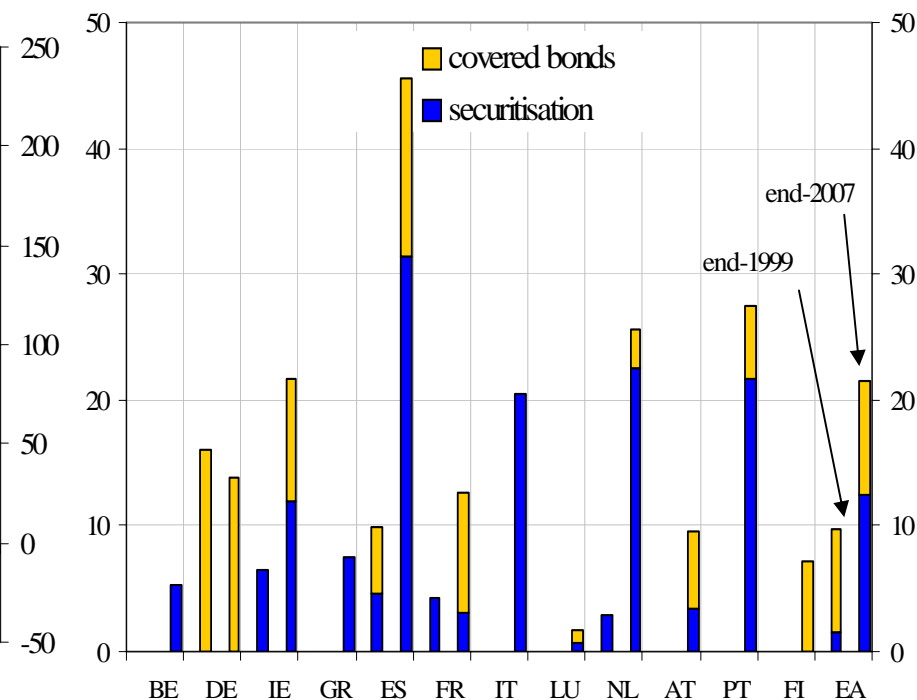


Source: ECB.

Note: Data include estimates of derecognised loans.

### Mortgage secured funding

(in percent of total mortgage loans)



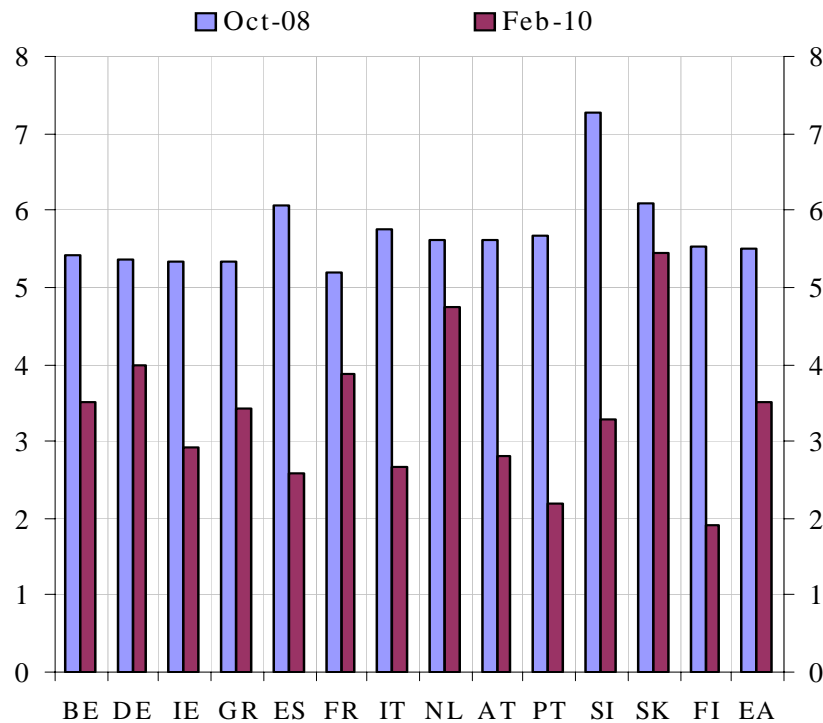
Sources: ECB, NCBs, ESF, ECBC, Moody's.

Note: No recordings for CY, MT, SI. Data include estimates of derecognised loans.

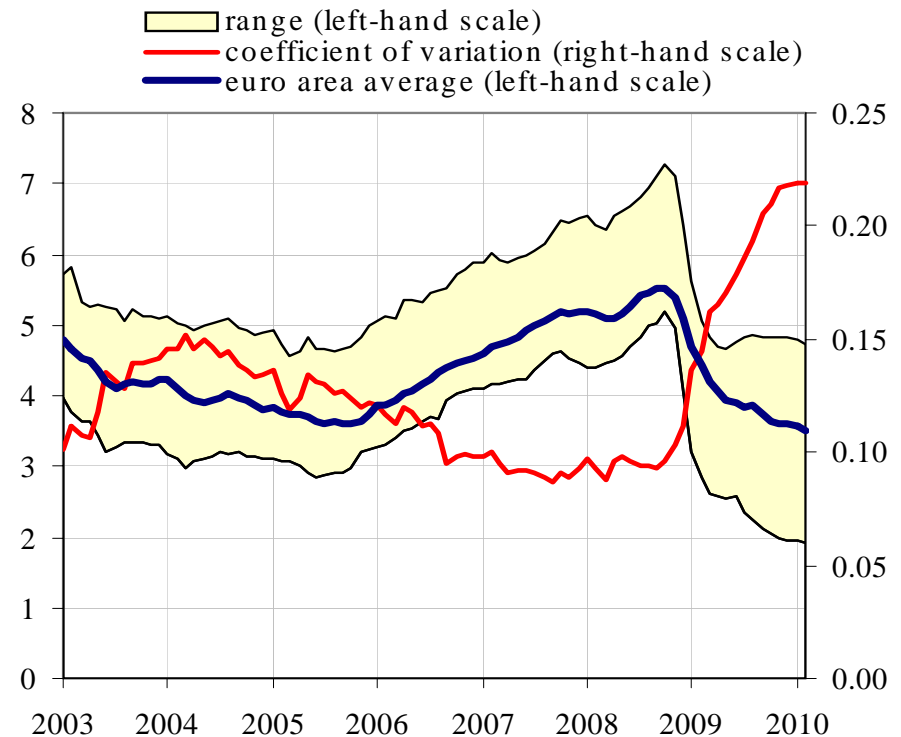
## 2. Selected results of the Task Force report

The dispersion of mortgage lending rates across reflects different speeds and degrees of pass-through:

**Level of composite mortgage lending rate**  
(in percent per annum)



**Dispersion of mortgage lending rates**  
(percent per annum)



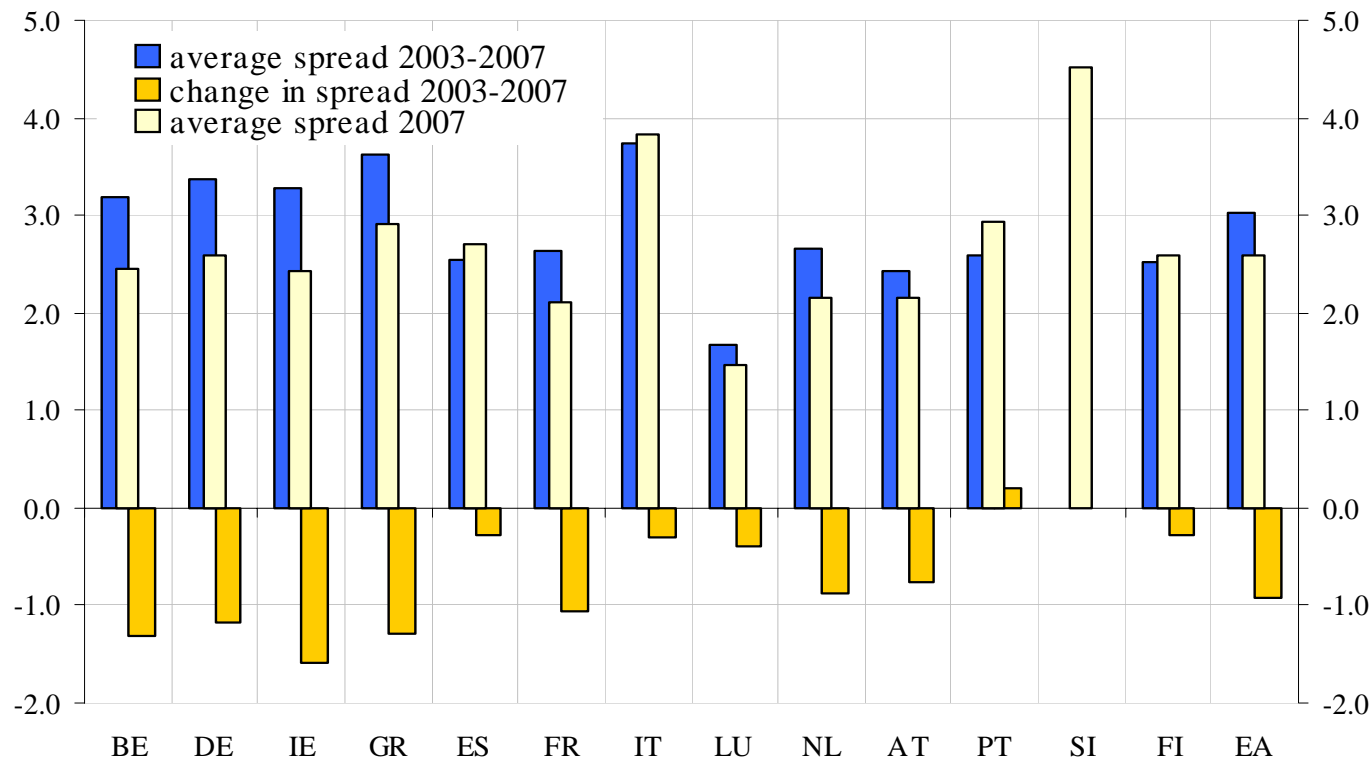
Source: ECB.

Notes: Owing to limited data availability, CY, LU and MT are not included in the calculations. Coefficient of variation is standard deviation across countries divided by the average interest rate for the euro area.

## 2. Selected results of the Task Force report

Mortgage lending spreads declined in the run-up to the crisis, with both levels and changes differing across countries:

**Composite mortgage lending rate minus average cost of deposits**  
(percentage points)



Source: ECB.

Notes: Average cost of deposits are interest rates paid on deposits by households and non-financial corporations, weighted with outstanding amounts. CY, MT and SI are not included due to lack of data.

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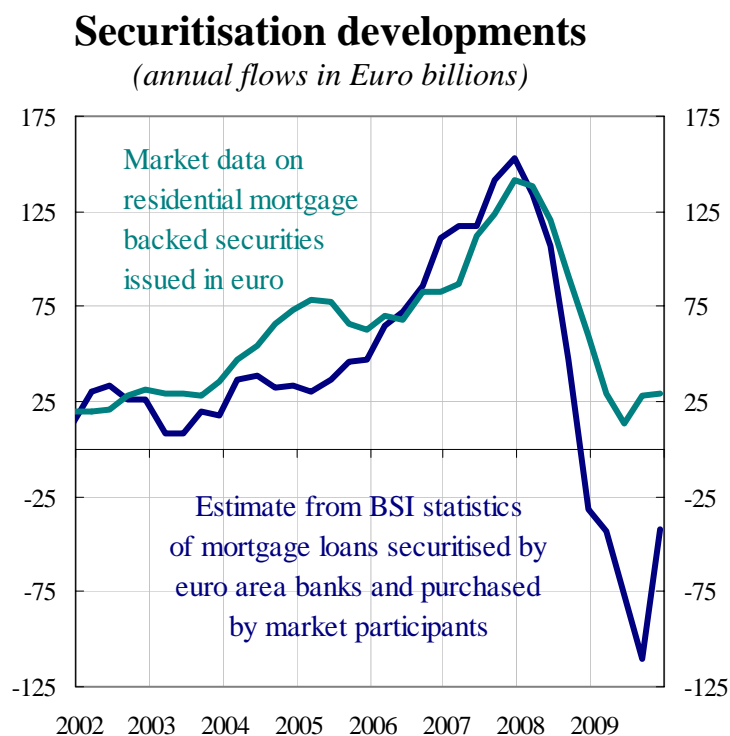
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### 3. Beyond the crisis

#### Identification of medium-term trends is difficult:

- What are sustainable debt levels?
- What is the future of securitisation and mortgage funding?



Source: ECB and Dealogic.

Notes: Estimates of mortgage loans securitised by euro area banks are derived as issuance of OFI debt securities minus MFI holdings of securitised loans.



## 3. Beyond the crisis

### Issues for monetary policy:

- To what extent will housing finance move further towards the anglosaxon model?
  - ... and does this imply a greater potential for macroeconomic instabilities?
- Will asset prices continue to play an increasing role in shaping macroeconomic developments?
  - ... and does this imply a greater need for “leaning against the wind”?
- What is the scope of future mortgage market integration?
  - ... and will this lead to a trade-off between more homogenous monetary transmission and a greater risk of spillovers/contagion?