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## European Building Societies: No breeding ground for mortgage flue

### Subprime crisis as a role model for the EU?

**Brussels** – The European Commission should draw early enough conclusions from the dramatic development on the US mortgage market. The European Federation of Building Societies reminded due to the recent situation the EU Commission again that European consumers should in any case be prevented from risky and reckless housing finance systems.

The EU Commission is currently assessing if there is a necessity to regulate the EU mortgage credit market. In order to economically justify possible harmonisation measures, the European Commission assigned the management consultants of London Economics to assess the costs and benefits of an integrated EU mortgage market. The study was published in 2005 and comes to the conclusion that an integrated EU mortgage market would increase the EU GDP by 0,7 % and public consumption by 0,5 % by the year 2015. It also predicts a huge growth potential in many national markets. London Economics stated that in most of the EU Member States a subprime market would not exist. Furthermore, by increasing the loan to value ratio up to 120 % of the property value the consulting firm predicted considerable growth potential, since this would allow consumers to spend more money for consumption.

„It was a lucky chance for consumers in Europe that these recommendations proposed by the Management Consultants of L.E. have been proven wrong early enough by the reality on the US subprime market. The EU Commission's considerations how to regulate the EU mortgage market should first and foremost reflect the needs of the consumers. They cherish the diversity of goods within the EU as well as their familiar finance systems” said **Andreas J. Zehnder, Managing Director of the European Federation of Building Societies.**

The recent US mortgage market's crisis, which is presently shocking the international financial markets was caused by risky housing finance methods, mostly with variable interest rates, high loan to value ratios (100 to 120 %), speculation for a rise in real estate prices and the lack of equity.

One should not forget that the collapse of the US mortgage market system has had millions of American families lose their homes. “We understand the concept of consumer protection in a way to protect citizens from these credit practices and not to support the expansion of these forms of housing credits within Europe”, said **Zehnder**.

The EFBS assumes that the EU Commission will clearly indicate within the White Paper on mortgage credit - expected for the end of this year- that the diversity of proven and well established housing finance schemes will remain unchanged and their regulation will stay a matter of national policy.