

TO:
European Commission
Directorate General for Internal Market and Services

By email:
markt-mortgage-consultation@ec.europa.eu

Brussels, 13 March 2009

Re: Eurofinas and Leaseurope comments on the London Economics study on role and regulation of non-credit institutions providing mortgage loans in the EU

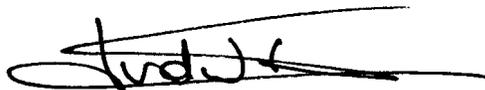
Madame, Sir,

Please find below the Eurofinas and Leaseurope comments on the London Economics study on role and regulation of non-credit institutions providing mortgage loans in the EU.

I would be pleased to answer any question you may have on our response.

Alternatively, please feel free to contact my colleagues Jacqueline Mills (j.mills@leaseurope.org – tel: 02 778 05 66) and Alexandre Giraud (a.giraud@eurofinas.org - tel: 02 778 05 64) for any further information you may require.

Yours sincerely,



Tanguy van de Werve
Director General
Eurofinas and Leaseurope

Eurofinas and Leaseurope welcome the publication of the London Economics study on *the role and regulation of “non-credit institutions” in EU Mortgage Credit Markets*.

1. As a preliminary remark, Eurofinas and Leaseurope would like to highlight that the terminology used in the study to designate those institutions which are not considered as credit institutions within the meaning of Directive 2006/48 (i.e. “non credit institutions”) could be misleading. Indeed, the term non-credit institution does not adequately reflect the activity of these institutions which is precisely to offer credit. For the sake of clarity, Eurofinas and Leaseurope therefore propose to refer to “Mortgage Lending” Financial Institutions (MLFIs). Financial Institution being the term referred to in the above-mentioned Directive for these types of institutions.
2. The Federations believe that the findings of the study do not provide a clear case for EU level action in the field of mortgage lending financial institutions¹.
3. As noted in the study, the market share of mortgage lending financial institutions in Member States' national mortgage markets “is small to very small as compared to the market share of credit institutions”. Out of the fifteen Member States that were able to provide data or estimates, the market share of mortgage lending financial institutions in national residential mortgage markets varies from 0% to 12%. The results show that for nine Member States, financial institutions have a market share of less than 5%.
4. In view of this very low level of residential mortgage lending by financial institutions in EU Member States, Eurofinas and Leaseurope consider that there is, at this stage, no real need for EU level action in the field of mortgage lending by financial institutions as this would not be consistent with the subsidiarity and proportionality principles underpinning the framework for European legislative initiatives.
5. When reflecting upon the outcome of the study and its possible ensuing course of action, the Commission should perform an in-depth analysis of the issues (if any) that arise due to the absence of EU level regulation of financial institutions in the field of mortgage lending. If the outcome of this analysis were to indicate that EU action is necessary, the objectives the Commission wishes to hereby achieve should be clearly established.
6. When conducting this analysis, it is crucial that the Commission bear in mind the existence of consumer protection and market behaviour rules that apply to both mortgage lending credit institutions and financial institutions. Thus, it would be incorrect to suggest that the latter are unregulated.

¹ Mortgage lending should be understood in this document as referring to a loan secured against a property for the sole purpose of the purchase of that property.

7. Moreover, if the Commission's analysis were to indicate that EU action is needed in the field of mortgage lending by financial institutions, it should be recalled that these institutions do not receive from the public any deposits or other repayable funds, within the meaning of Directive 2006/48. The business models and underlying sources of funding of mortgage lending financial institutions and credit institutions are very different and should not be amalgamated. Given these differences, further investigation is therefore required to establish the actual level of risk mortgage lending financial institutions represent to the financial system.
8. Any potential EU legislative intervention should therefore be proportionate to the potential risks of these institutions to the functioning of the financial system as a whole and to depositors' protection. In other words, applying the same prudential requirements to both mortgage lending credit institutions and financial institutions would be totally disproportionate. As the study highlights, a differentiated approach according to category of institution has been adopted so far by the majority of Member States that subject mortgage lending financial institutions to prudential regulation.
9. Further, Eurofinas and Leaseurope take the view that one should not necessarily assume that there would be competitive disadvantages for mortgage-providing credit institutions in comparison to financial institutions simply due to the existence of less stringent supervisory rules for the latter. Any such statements need to be substantiated and supported by factual evidence. It should be noted further that precisely because they do not have access to deposits and other sources of funds from the public, mortgage lending financial institutions are particularly suffering from the current financial crisis. Moreover, where governmental support is available to certain credit institutions, it is not always available to other categories of lenders, resulting in a competitive advantage in favour of credit institutions.
10. Lastly, Eurofinas and Leaseurope believe that any sensationalist links between the role of mortgage lending financial institutions in the US subprime crisis and the necessity to undertake action at European level with respect to *EU* mortgage lending financial institutions should be avoided.

About Eurofinas

Eurofinas, the European Federation of Finance House Associations, is the main voice of the specialised consumer credit industry at European level. It currently represents 16 Member Associations, in turn bringing together more than 1,000 finance houses, captive companies, specialised and universal banks. Together, these consumer credit providers financed over 400 billion euros worth of new loans during 2007, with outstandings reaching 713 billion euros at the end of the year. Companies represented through Eurofinas employ some 90 000 individuals.

About Leaseurope

Leaseurope is the voice of leasing and automotive rental in Europe. As a Federation, Leaseurope brings together associations throughout Europe that represent either the leasing, long term and/or short term automotive rental industries. The scope of products covered by Leaseurope's members' ranges from hire purchase and finance leases to operating leases of all asset types (automotive, equipment and real estate) and also includes the rental of cars, vans and trucks. In 2007, 340 billion euros of new leasing volumes were granted by the firms represented through Leaseurope's members, contributing to financing on average approximately 20% of total European investment. Moreover, these firms are responsible for the leasing and rental of around 17 million vehicles throughout Europe.