

Response to the European Commission's Call for Evidence on an Initiative on the European Savings and Investment Union

European Mortgage Federation-European Covered Bond Council (EMF-ECBC)

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Introduction

The European Mortgage Federation-European Covered Bond Council (EMF-ECBC) welcomes the European Commission's initiative to develop a European Savings and Investments Union (SIU). The housing market is a critical component of the broader financial landscape, building citizens' confidence in a better future with tangible micro and macro scaling-up opportunities for consumers, lenders and investors, which secure growth, competition and financial stability.

The integration of housing finance markets within the SIU framework would not only enhance the set of options for lenders and institutional investors but more importantly would activate new value chain opportunities for citizens and SMEs, optimising sustainable single market housing policies. The SIU is a unique opportunity to drive a new market value chain with a critical spillover effect in many sectors crucially relevant for the success of the single market; first and foremost the European labour market.

This new market Ecosystem addresses disparities in housing affordability and availability across EU Member States. By promoting cross-generation, cross-border investments in housing, the SIU could contribute to more balanced, inclusive, and sustainable housing markets. Existing financial instruments therefore should be safeguarded and where possible enhanced and be part of the toolbox at the disposal of financial institutions and investors participating in capital markets.

The Complementarity and Importance of Covered Bonds and Securitisation

Covered Bonds and securitisation are essential building blocks of the SIU. There is critical and strategic complementarity in the use of covered bonds and securitisation, with covered bonds providing robust access to stable long-term funding and securitisation providing a valuable risk and regulatory capital management tool, as well as funding for certain types of securitisation (e.g. RMBS). Both contribute to the development of capital markets. In the current political debate, these instruments play unique but mutually reinforcing roles in the financial ecosystem by offering:

1. **Diverse Funding Sources:** Both instruments provide stable funding for banks through diverse funding options. Covered bonds offer on balance stable, long-term funding with low risk. Securitisation offers options for funding and to transfer risk outside the banks' balance sheet. Securitisation that meets SRT requirements can be used to free up capital.
2. **Market Stability and Resilience:** The dual recourse nature of covered bonds contributes to financial stability, particularly in times of crisis. Securitisation, as a funding source and a means of re-distributing risk across a broad base of investors through its tranching mechanism, enhances market resilience through accrued risk sharing and/or supports credit availability.

3. **Enhanced Liquidity & investor diversification:** Covered bonds and securitisation – as complementary financial instruments – provide diverse sources of liquidity to the market, making them attractive for institutional investors. The different risk profiles and structures of each asset class attract a wide and diversified range of investors, enhancing the robustness and depth of capital markets.
4. **Economic Growth:** By improving access to finance for banks and businesses, both instruments support economic growth. Covered bonds provide stable funding for mortgages and public sector projects, while securitisation facilitates credit for a whole range of economic sectors, including SMEs, mortgages and consumer lending.

Covered Bonds have a long-standing track record of stability, efficiency and resilience, making them one of the most successful financial instruments in European capital markets. Their robust legal framework and high-quality cover pools provide strong investor protection, ensuring confidence even during periods of financial uncertainty. A stable regulatory environment is essential to maintaining issuer and investor confidence and ensuring the continued success of Covered Bonds. This includes preserving their risk sensitive capital treatment under prudential regulations and recognising their low-risk nature and systemic importance in financial markets.

The use of securitisation, however, has greatly decreased in the EU since the global financial crisis. The revival of securitisation through a more risk-sensitive prudential calibration and more efficient due diligence and transparency requirements is an opportunity to secure a complementary and comprehensive European market toolkit allowing lenders and investors the broadest set of options for market access, with prudent regulatory treatments reflecting the different risk profile, macroprudential features, credit support and supervisory regimes.

It is worth highlighting that in terms of transparency, the Covered Bond Label (CBL) plays a critical role in enhancing market transparency and investor trust. By promoting standardised disclosure practices, the Harmonised Transparency Template (HTT) strengthens the credibility of the Covered Bond market and ensures consistent, high-quality information for investors. Such a market initiative led by the European Covered Bond Council (ECBC) may be useful in the context of securitisation disclosure, where a debate is ongoing on the level and importance of the data to be included to avoid unnecessary and cumbersome information which is not for the benefit of investors.

European Secured Notes (ESNs) as a Complementary Funding Tool

The introduction of European Secured Notes (ESNs) represents an innovative approach to bridging the financing gap for SMEs and infrastructure projects. While Covered Bonds have traditionally focused on mortgage and public sector lending, ESNs can play a crucial role in diversifying funding sources and addressing the investment needs of high-potential but underfunded sectors. In this context, the financing of SMEs active in construction and renovation is also instrumental to support the housing sector and the climate transition.

In July 2023, the European Commission published a Call for Advice (CfA) from the EBA on a range of topics, including the possibility of introducing ESNs. To ensure the success of the instrument, we would recommend establishing a clear regulatory framework that aligns with the principles of Covered Bonds while addressing the unique characteristics of SME and infrastructure financing. This would facilitate the issuance of ESNs across Member States through harmonised standards and enable cross-border investments and secondary market development. Also in this context, we see added value and complementarity in ESN and securitisation as tools providing SME financing.

Finally, but not least importantly, ensuring that ESNs receive an appropriate risk-based treatment in capital and liquidity regulation would be key to incentivising their issuance and adoption.

Reduce burdens and simplify regulation

When setting the regulatory agenda, authorities should closely consider the costs for financial institutions and the impact these costs will have on European companies and consumers and Europe's economic growth. Burden reduction covers many issues e.g. fewer reporting requirements and a review/simplification of the detailed level 2 and 3 regulation.

A competitiveness check of financial regulation is vital: all existing and new bank and capital markets regulation should be adequately calibrated to the sectors' competitive strength in the global financial markets. Mandatory competitiveness checks should also be part of the better regulation agenda. This includes also the opportunity for a revision of the macroprudential framework for banks which currently goes beyond the international standards set by the Basel Committee on Banking Supervision, in order to avoid EU "gold-plating" and complexities that foster an uneven playing field and hinder the EU's competitiveness in the global financial landscape, including hindering, so far, the effectiveness of the Savings and Investments Union (SIU).

Conclusion

The EMF-ECBC strongly supports the European Commission's vision for a European Savings and Investments Union (SIU) and recognises its potential to shape a more integrated, resilient, and sustainable housing market.

A housing finance ecosystem, including Covered Bonds, Securitisation, and European Secured Notes (for SMEs), will be instrumental in unlocking new value chain opportunities, fostering competition and financial stability, and bridging housing affordability gaps across Member States. By mobilising savings more effectively and optimising market depth, the SIU can drive long-term economic prosperity while reinforcing confidence among consumers, lenders, and investors.

The EMF-ECBC remains committed to collaborating with policymakers to ensure that housing finance remains a cornerstone of the European financial ecosystem, supporting a thriving single market and a stronger future for all.