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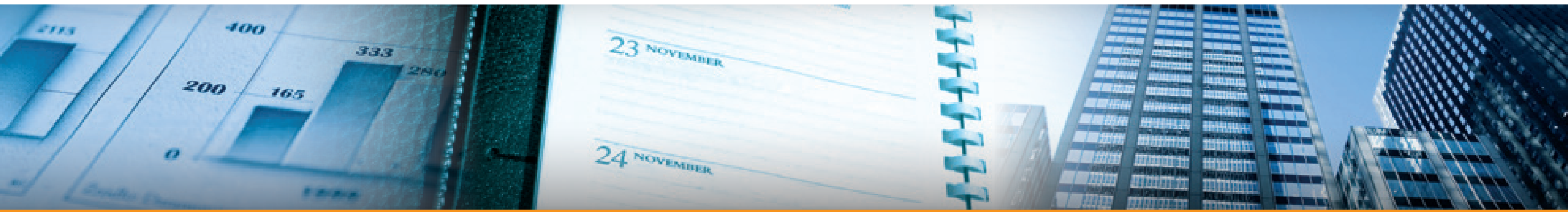

Summary

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EUROPEAN MORTGAGE FEDERATION

ECBC
European Covered Bond Council

We Stand United for Europe

With hearts full of sympathy for the victims and the families of those touched by last week's events in Brussels, the EMF-ECBC confirms its firm commitment to the European values and agenda. We stand ready, with renewed determination and enthusiasm, to strengthen our contribution to building a Europe that is a house of freedom and tolerance for future generations.

Covered Bonds are the Answer to Growth and Jobs in the EU

By Ane Arnth Jensen, Managing Director, Association of Danish Mortgage Banks

On the 14th of April 2016, Copenhagen will host the 23rd European Covered Bond Council (ECBC) Plenary Meeting. We very much look forward to hosting the meeting and anticipate a day with many interesting presentations and debates.

Denmark is in many ways the land of covered bonds. For more than 200 years, the Danish mortgage model, which is entirely based on covered bonds as a source of funding, has provided homeowners and businesses with affordable and stable financing. Our model provides for some of the lowest loan rates in all of Europe. And it is very resilient. Throughout the financial crisis, loan losses were low and loan volumes even rose. This was also the case in other EU countries where covered bonds play a significant role.

The Danish mortgage model holds a special place in the Danish economy. Total lending accounts for more than 130% of GDP. 70% of total lending in Denmark constitutes mortgage lending from the Danish specialised mortgage banks. And 50% of the financing requirement of Danish businesses is covered by mortgage loans. Not least small and medium-sized enterprises benefit from the affordable and stable financing provided by the Danish mortgage sector. In other words, covered bonds are a fundamental prerequisite for growth and employment in Denmark.

Covered bonds and their significance as a funding source are also on the European Commission's agenda. We find it useful that the Commission has set out to determine whether or not EU-wide covered bond regulation may support and foster growth and employment in the EU. A European approach building on the basic principles of sound mortgage regimes may raise international investors' awareness of the European covered bond tradition. However, it is no less imperative that covered bonds can be retained as an extremely safe and stable source of funding.

Despite the positive signals from the European Commission, European financial sector regulation still poses a big challenge for covered bonds.

European credit institutions have been faced with significant volumes of new regulation in recent years. Everyone is working to adapt to the new and stricter capital requirements, new liquidity rules, special rules for systemically important financial institutions, consumer protection requirements, national supervisory requirements and new measures from credit rating agencies. In the EU, homeowners and businesses are already feeling the impact of financial regulation on their loans. And there is more to come.

At European and international levels – in Basel (Basel Committee on Banking Supervision – BCBS), at the European Banking Authority (EBA) and at the European Central Bank (ECB) – a number of new regulatory instruments are currently being considered. These instruments may have a huge impact on mortgage lending and covered bonds and, thus, borrowers all over Europe.

I am specifically referring to the plans to introduce a capital floor on the level of capital to be held by universal banks and mortgage banks applying more advanced approaches to determine capital requirements (IRB banks and mortgage banks), regardless of how secure their lending is. A capital floor which will be determined based on the revised standardised approach.

In Denmark, as in several other European countries, real estate financing by IRB banks and specialised mortgage banks plays an important role for the economy. The standardised approach is not reflective of the low mortgages loan losses and impairment rates in Denmark. As a result, the possible introduction of a permanent capital floor based on a "one-size-fits-all" standardised approach would disconnect the link between the risk of these loans and the required capital levels in our market, and thus distort the pricing of mortgage loans. This could have negative consequences for the overall economy in Europe and be a setback for the possibility of regaining sustainable growth. Furthermore, it could induce the credit institutions affected by disproportionate increases in capital requirements that do not reflect the risk of their current business model to engage in higher risk activities and relieve their balance sheet of low-risk loans. This, we believe, would not be conducive to financial stability.

The European Commission is working to create growth and employment in Europe, and to ensure a robust financial sector. This is a very important task which we fully support. We all benefit from financial stability and economic growth.

However, many of the measures contemplated appear to be working against this vision.

Therefore, I call upon the European Commission to refrain from adopting the Basel Committee's plans blindly, but to take into consideration the unique European conditions. Let us join forces to promote a healthy financial sector for the benefit of growth and employment. And look to the good examples of secure, stable and inexpensive financing in Europe, where not least covered bonds play a vital role.

I look forward to discussing these and many other interesting and important topics at the next ECBC Plenary Meeting in Copenhagen, and to welcoming you to the land of covered bonds.

DLR Kredit A/S – A Specialised Provider of Agricultural and Urban Trade Property Lending

By Lars Blume-Jensen, Senior Vice President, DLR Kredit A/S

THE SPECIALISED DANISH MORTGAGE BANKS

Total lending from the specialised Danish mortgage banks amounted at end 2015 to DKK 2,561 bn., corresponding to 130% of the Danish GDP. By law the specialised Danish mortgage banks are allowed only to fund loans by issuing covered bonds based on security in real property and the importance of the specialised Danish mortgage credit system is reflected in the fact that the specialised Danish mortgage banks accounts for more than 70% of the total lending in Denmark to households and non-financial corporations from both universal banks and mortgage banks.

The specialised Danish mortgage banks ensure a robust, stable and cheap source of financing and the Danish mortgage financing system is thus of great importance for the competitiveness of companies and, hence, for growth and welfare. During the latest financial crisis the mortgage banks were able to issue and sell covered bonds to fund loans to customers on a current basis and the system contributes as such to the overall financial stability in the Danish economy. For investors the covered bonds issued from the specialised Danish mortgage banks are very attractive due to the inherent security, high liquidity and the high rating of the bonds.

Table 1 ▶ DLR's loan portfolio

(DKKbn)	2014	2015	LOAN PORTFOLIO END 2015 DISTIBUTED IN PC ON LOAN TYPES: Fixed-interest loans	ARM Short	F1/F2	F3/F4	F5	Other short-rate loans 1)
Agricultural properties etc.	84.543	85.045	14%	26%	16%	21%	9%	13%
Owner-occupied homes incl. residential farms 2)	8.029	8.008	35%	4%	23%	18%	16%	4%
Office and business properties	19.901	20.173	22%	10%	22%	22%	17%	7%
Rental housing properties	13.807	14.107	16%	8%	25%	28%	16%	7%
Cooperative housing properties	2.826	2.779	37%	4%	8%	11%	31%	9%
Other properties	2.499	2.394	13%	21%	12%	14%	34%	5%
Total	**131.604**	**132.506**	**17%**	**20%**	**18%**	**21%**	**13%**	**11%**

Note: All amounts are calculated at remaining bond debt

1) CIBOR and EURIBOR-based loans, including guarantee loans
2) Residential farms comprise farms below 10 ha without significant farming activities

DLR KREDIT A/S – SPECIALISED LENDER TO AGRICULTURAL AND URBAN TRADE PROPERTIES

DLR Kredit A/S (DLR) has, in spite of a loan portfolio of DKK 132.5 bn. at end 2015, merely a market share of 5.2% of the total lending from the specialised Danish mortgage banks. However, lending to owner-occupied homes is not amongst DLR's primary lending areas as these instead comprise agricultural and urban trade properties. If we consider DLR's primary business areas alone, i.e. agriculture, office and business premises, private rental housing properties and private cooperative housing properties, the average market share is 15.2%.

DLR is primarily owned by 63 local and regional (shareholding) banks that at the same time are co-operation partners responsible for distributing DLR's loans, while the loan handling and the credit work is centralised and carried out by DLR. DLR's loan portfolio is diversified as regards geography and number of customers, and a significant two-thirds share of DLR's loan portfolio is concentrated in the agricultural sector. Geographically, DLR's lending is spread across Denmark, as the loan-providing banks have between them an extensive network of branches spread throughout the country. DLR also has limited lending in Greenland and the Faroe Islands.

The specialised mortgage banks in general strongly support the financing of small and medium-sized enterprises (SME's) in Denmark. DLR's ownership structure and, thus, the geographically widespread lending likewise provides solid support to this, illustrated by the fact that almost 40% or DKK 52 billion of DLR's total loan portfolio is lending to SME's, cf. CRR art. 501.

OWNERSHIP STRUCTURE AND CREDIT RISK

The underlying principles of the mature, well-established specialised Danish mortgage credit system build on detailed and restrictive legislation, including the balance principle, have the effect that credit risk almost exclusively is the only the risk factor that the mortgage banks must relate to. Other risk factors, e.g. market risk and currency risk, are effectively handled by limits and measures in the legislation. Likewise the degree of credit risk for the mortgage banks to take is effectively mitigated by legislation, direct supervision and by the current credit work in the mortgage banks. As a result, the Danish mortgage banks have always been characterised by very low loss rates and no investor in the covered bonds issued from the mortgage banks has ever suffered a loss.

As for DLR, the ownership structure and the inherent cooperation agreement also implies that DLR's losses and credit risk have been further reduced by means of loan loss guarantees provided by the local as well as the regional loan-providing banks. At the end of 2015, 93% of DLR's total loan portfolio was comprised by guarantees. In addition, a small part of the portfolio of around DKK 0.5 bn. was covered by a government guarantee. Furthermore, DLR has the possibility of offsetting losses on loans provided by the individual banks in the aggregate commission payments to the individual banks for putting up the guarantees.

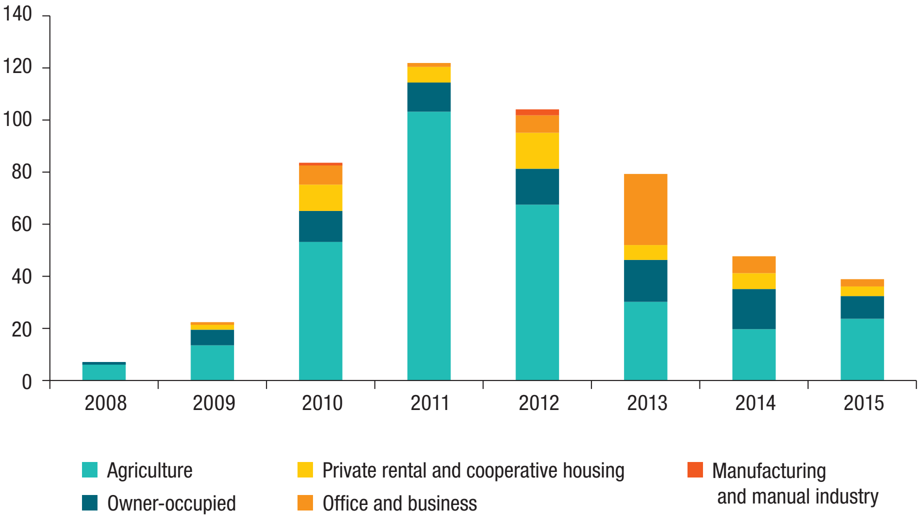
On the whole, the guarantee and the loan loss offsetting schemes mean that DLR's risk of loss on lending can be characterised as manageable and relatively (very) limited. In addition to this, agricultural land is a scanty factor in Denmark and because of the accompanying fundamental demand there is always a floor under the price of land mitigating the risk of losses, which was also the case during the recent financial crisis.

In 2015, the actual total loss of DLR was DKK 35 m. corresponding to 0.03% of the total loan portfolio. Of this, DKK 30 m. could be offset in commission payments to the loan providing banks. During the financial crisis actual losses were always at a very low level, peaking in 2011 at almost 0.1% of the total loan portfolio.

The ownership structure and the inherent cooperation agreement makes it possible for DLR to fund the loans by issuing covered bonds at competitive prices due to, i.e. liquidity, credit quality enhancement and the detailed and restrictive Danish legislation. The price on the specific covered bonds sold to investors to fund a loan is, according to DLRs use of the specific (strict) balance principle, cf. Danish mortgage credit legislation, transferred directly to the borrower as the interest rate on the specific loan.

For investors the quality of the Danish specialised mortgage credit system is reflected in the very high ratings on the covered bonds obtained from the rating agencies. Regarding investors in DLR's covered bonds, the credit quality and the general low-risk profile are reflected in S&P's AAA rating of DLR's covered bonds (SDO's) as well as DLR's mortgage bonds (RO's). DLR's issuer rating is set at BBB+ (Stable).

Figure 1 ▶ DLR's actual losses, 2008 – 2015



EUROPEAN LEGISLATION AND HARMONISATION – CHALLENGING FOR THE SPECIALISED DANISH SYSTEM

The specialised Danish mortgage credit system is challenged by both the recently implemented European legislation on capital adequacy and liquidity measures as well as possible outcomes of the ongoing work on further harmonising the definition of covered bonds in Europe.

It is of utmost importance that the specialised Danish mortgage banks are not being squeezed out due to legislative efforts which primarily are focused on a universal banking landscape and on different types of legislative set-up's for covered bonds in other European counties.

DLR is the Danish evidence that smaller banks – through common ownership – can get access to competitive, stable and cheap funding of loans against security in real property via a specialised mortgage bank. And this not at least for the purpose of lending to SME's.

In light of this, European regulatory initiatives and harmonisation efforts must not compromise the smooth functioning of the specialised Danish mortgage credit system, including DLR, which as a specialised mortgage bank, is a primary source of funding for agriculture as well as for urban trade properties in Denmark.

To download a preliminary programme and register for the event, please click here.

The World Bank Group will hold **its 7th Global Housing Finance Conference in Washington, DC on 25-26 May 2016**. Jointly hosted biannually by the World Bank and the International Finance Corporation (IFC), the underlying theme of the conference is based around the new Sustainable Development Goals (SDGs), which replace the Millennium Development Goals. Goal 11 focuses on sustainable cities and communities, and the conference, through robust panel discussions, will explore new and innovative ideas on how to ensure access for all to adequate, safe and affordable housing and basic services.

As in previous years, the conference attracts an audience of officials, practitioners, NGOs and donors from the developed countries and emerging markets. The principal aim of the Conference is to exchange views and experiences and derive the key operational conclusions for policy makers and housing finance practitioners. The conference creates awareness of the major challenges in developing or strengthening housing finance markets and seeks cooperation for better solutions.

EMF Quarterly Review – Q4 2015

By Daniele Westig, Economic Adviser, EMF-ECBC

INTRODUCTION

The last quarter of 2015 depicts a similar aggregate situation those of the previous quarters: overall recovery of gross lending figures due to improving economic environment; generally increasing or stable house prices; and historically low interest rates as a reflection of the expansionary monetary policies of the European Central Bank (ECB) et al.

MORTGAGE LENDING

In our EU28[1] sample, overall outstanding mortgage lending continued to grow by a healthy 3.6%[2] with respect to the same quarter last year (year-on-year (y-o-y)), slightly accelerating with respect to the 3% of the previous quarter. In addition, the quarter-on-quarter (q-o-q) increase of 0.79% was the largest increase at the end of the year since 2011. As far as overall gross lending is concerned, the aggregate figures show a contraction of 2.2% q-o-q, the first since the beginning of the year and a deceleration to 17.8% y-o-y with respect to increases of nearly 30% in the previous three quarters. Below we examine in more detail the quite different dynamics that exist in the analysed European countries.

Again as in the previous quarters, the expansion in outstanding mortgage lending figures can be explained by the continuous improvement of the macroeconomic fundamentals, which, coupled with public support, have provided a fertile ground for increased mortgage lending. In the **Czech Republic**, thanks to a positive economic outlook the still relatively young mortgage market has reached levels never seen before. Remaining in Central Europe, **Hungary** saw an increase in its gross lending figure with the last two quarters depicting the highest values since the beginning of 2012. According to data gathered by real estate networks, the number of dwellings sold increased in 2015 as did the number of building permits granted, although the figures are still a fraction of pre-crisis levels. Country-wide this dynamic is quite heterogeneous as Budapest and the surrounding region depicts significant growth, while the other regions showed some form of activity, but one a more modest scale. The announced housing subsidies and VAT rate cuts from 27% to 5% on new dwellings kick-in in January 2016 and are expected to boost Hungarian mortgage lending activity and housing market developments. **Italy** too saw both its outstanding and gross residential lending figures expanding at the end of 2015, reflecting the increase in demand for mortgages and the positive dynamics of housing sales. Therefore, after several years of contraction the Italian residential market confirmed the positive performance witnessed earlier in 2015 with an increase in transactions of more than 9% y-o-y. Likewise, **Spain** has had a strong last quarter in 2015 in terms of gross lending, surpassing the Euro10 bn. barrier for the first time in three years and increasing by 25% y-o-y. From a yearly perspective, 2015 was the best gross residential lending performance since 2011. An improved economic and financial environment is also reflected by the outstanding lending figures, whose decrease decelerated with respect to the previous quarters.

In **France** 2015 was also a strong year in terms of gross lending reaching Euro 151.6 bn., or 26.4% more with respect to 2014. This was also supported by the public debate which, since the summer of 2014, has become favourable to a more supportive approach for residential markets. Public incentives for new housing were progressively put in place. Households' morale as measured by the INSEE, the French national statistics institute, reached its pre-crisis peak and even a slight increase in interest rates did not alter this positive trend. The French market saw a significant recovery in 2015, including the sales' growth of real estate developments, those from builders of individual homes to first-time buyers, not to mention the household purchases of existing dwellings. Particularly welcome was the return of first-time buyers supported by government measures. In **Belgium** gross lending figures show a steady progression during the whole of 2015, though on a y-o-y basis a near 25% reduction seems quite severe. This can principally be explained by the exceptionally high figure registered at the end of 2014 due to the increase of credits granted for house renovations, transfer of the home tax system from the federal to the regional level and the decision of the Flemish regional government to gradually dismantle the home bonus system as of January 2015. If re-mortgaging is not considered, the last quarter of 2015, with exception to the spike at the end of 2014, depicts the highest ever value in gross lending. Regarding overdue contracts, this figure has been growing since the end of 2008, but the ratio to overall granted loans remains stable at around 1.1% and 1.2%. The gross lending figures in **Portugal** also rose considerably by 81.2% y-o-y thanks to the gradual increase in economic activity, contrasting the downtrend in total outstanding residential, which decreased by nearly 4% y-o-y.

Poland also witnessed a rise in demand for housing loans in during the last three months of last year. This rise was due to the amendment in the government aid scheme "Housing for the Young". Banks also tightened their standards for granting residential loans in order to prevent over-indebtedness by decreasing the maximum permissible age of the borrower at the moment of loan repayment, and by expanding the catalogue of indicators showing an excessive use of credit of potential borrowers. Also the introduction in 2016 of new provisions regarding the increase in the minimum of the borrower's contribution tightened the standards for granting a housing loan. Moving further east to **Romania**, the volume of outstanding mortgage loans for the last quarter of 2015 increased by nearly 14% with respect to the previous year. Both local and foreign currency mortgage loans exhibited growth, but the former remains the driving force behind the overall evolution. The non-performing loan (NPL) ratio for mortgage loans is low and decreasing.

Moving north, **Denmark**'s gross mortgage lending figures increased for the first time since the beginning of the year, but with respect to the same period in the previous year the figure was nearly 40% lower. In **Sweden**, thanks to strong macroeconomic performance coupled with increases in household salaries, good access to credit and rapid growth of urbanisation and populations, the year for gross mortgage lending finished quite strongly overcoming the temporary dip experienced in the autumn of 2015. Also outstanding mortgage lending accelerated at the end of 2015 to 8.1% from 7.5% y-o-y in the previous quarter. A further factor which Sweden and **Germany** share to explain a

[1] In Q4 2015 the sample of the proxy for the amount of total outstanding mortgage lending in the EU28 included BE, CZ, DE, DK, ES, FI, FR, HU, IE, IT, NL, PL, PT, RO, SE and UK. (i.e. around 95% of the total outstanding mortgage lending in the EU28 in 2015). Please, note that at the date of publishing, Q4 2015 data for NL was not yet available and the most recent observation has been used.

[2] If not otherwise expressed the changes of outstanding and gross lending figures are expressed based on the values in Euro.

persistent and strong demand for housing is the migratory influx.

In the **United Kingdom** strong economic performance helped to underpin the recovery in the housing and mortgage market. Mortgage lending increased in the last quarter of 2015 both q-o-q and y-o-y. This follows a period of subdued activity in the first half of 2015 and part of 2014. The slowdown was partly attributed to the implementation of affordability rules in April 2014, followed by the announcement of macro-prudential interventions two months later. Looking ahead, there may be limited potential for stronger activity and lending figures, the main factors restricting activity being the already elevated levels of house prices to relative to earnings, uncertainty around buy-to-let as the government has introduced tax changes which come into effect in April 2016, regulation in the home-owner space as well as the tight supply in the secondary housing market which continues to cause supply/demand imbalances. Moving to **Ireland**, gross lending figures decreased towards the end of 2015. The number of mortgage drawdowns grew by 7%, while the number of approvals dropped by 8%, year-on-year in the fourth quarter. There were 7,450 approvals, based on the three-month moving average, and 8,103 drawdowns. This may be partly explained by the introduction by the Irish Central Bank of new limits on loan to value (LTV) and loan to income (LTI) ratios for new mortgages in February 2015.

HOUSE PRICES

In line with the overall favourable mortgage lending landscape, improving economic activity and the well know demand/supply imbalance in the housing market, house prices also show a general increase throughout the continent and especially in the major cities, but with slightly different nuances in the different countries.

Sweden depicts the largest y-o-y growth in our sample with a staggering 12.3% increase. Tenant owned apartments rose by around 18%. The construction figures continued to increase during 2015; however building permits and building standards are quite strict and few expect a housing construction boom in Sweden. Also, after several years of low construction it doesn't seem to be enough to curb price increases. In the light of the refugee crisis and the high number of refugees which have arrived in Sweden, the shortage of housing is becoming even more severe. Experts, authorities and politicians are discussing ways to increase construction further. However, few concrete measures have been taken yet. Some experts claim that not only lack of projected land for construction is hampering construction but also lack of workforce. In **Denmark** after a peak during spring 2015, notwithstanding a gradual decline during the rest of the year on a yearly basis, the prices increased by 6.4% with owner-occupied flats growing by a staggering 10.8%. The yearly rise in prices is driven by Copenhagen, but the rest of the country is catching up. **Germany** also shows a robust growth of 4.4% y-o-y, a slightly higher figure with respect to the same period of the previous year. Breaking down this figure, prices for single family houses advanced by 4% while prices for condominiums increased by 5.2%. In the **United Kingdom**, even with elevated house prices relative to earnings, house prices continued to rise given the tight supply of houses on the market. This was exacerbated by would-be movers not putting their property on the market as there are not suitable properties for themselves. There as some signs of improvement, though the scale remains quite small. In **Finland**, Helsinki and its suburbs increased by 1.4%, while the rest of the country saw a contraction of nearly 1%. Since the 2000s house prices have increased more than salaries, thereby undermining the purchasing power on the housing market. On the Iberian Peninsula prices are also rising. In **Portugal** this trend started at the beginning of 2015 with a 5% increase due to a higher demand of households for new loans, promoted by a slight easing of credit conditions caused by greater competitiveness amongst banks. **Spain** has registered the first positive y-o-y growth since 2008 of 1.8%. Increasing figures are seen also in the **Czech Republic**, especially in Prague and Brno, but it is also slowly starting in other regions of the country. It is estimated that house prices at the end of 2015 reached the highest value in the last six years in Prague.

A more stable picture is seen in **Poland**, where prices both on the primary and the secondary market remained unchanged. There were slight increases in the secondary market in Gdansk, due to the sale of more expensive and better located properties. The average availability of credit for housing in large cities slightly improved, driven by stable property prices, growing household income and stable interest rates on new mortgage loans. Likewise in **France**, after three years of decreasing prices in the existing housing market, 2015 recorded a sort of soft landing with a slight decrease of 0.8% in the region of in and around Paris, and a timid increase of 0.5% in the rest of the country, resulting in an aggregate stable figure. Hence, with the current abundance of liquidity, existing house prices are expected to increase moderately in the near future.

In **Italy**, notwithstanding a small q-o-q increase of 0.2%, the y-o-y figures show a 2.3% decrease in Q3 2015, the latest available data. New dwellings had a 0.5% decrease y-o-y, while existing dwellings plummeted by 2.9% in the same period. In **Romania**, house prices continued to decline during 2015, though the figure is still slightly higher with respect to the same period in 2014.

INTEREST RATES

Everywhere in the EU, be it in or out of the Euro Area, the Member States face record low and declining interest rate levels. The unbiased average of the representative interest rates of our sample declined by nearly 14 bps to 2.53%. In a few countries, some interest rates reached rock bottom and began to timidly increase. Regarding the choice of a fixed or variable interest rate mortgage in Europe, the picture remains very heterogeneous reflecting both economic and more cultural choices.

Though **Sweden** has the only central bank in our sample which has a negative reference rate of -0.5%, other countries like the **Czech Republic**'s central bank began thinking of moving into negative territory, thus further decreasing interest rates. In Sweden mortgage interest rates were stable during the last quarter, while only the fixed rate for five or more years increased slightly to 2.7%. Important factors regarding the low mortgage interest rates are that the inflationary pressure is very low in **Sweden** and the funding costs are relatively low for the Swedish banks. Increasing household debts and house prices are heavily debated topics in Sweden at the moment. The government has decided to implement amortisation rules in 2016 and these will come into force in the summer. In **Denmark** the long period of low interest rates continued in the fourth quarter of 2015, especially for loans with interest rates fixed to maturity – mainly representing loans with a 30 year interest rate fix; these declined to 3.78%, whereas the interest rate for loans with a floating rate increased to 1.12%. Taken in an historical view, the interest rates are still very low. Moving on to the **United Kingdom**, mortgage interest rates continued to fall in Q4 2015 due to a number of measures, especially as lenders competed on mortgage rates to attract new customers. Funding conditions were favourable for lenders, which has also helped push down mortgage rates, thus leaving interest rates at or close to record lows in Q4 2015. In **Romania** mortgage interest levels remained close to the level registered in the previous quarter and in **Poland** persisting deflation and the cut of the Central Bank's reference rate to 1.5% in March 2015 led to historically low interest rates. Similarly, in **Hungary** the Central Bank also cut the reference rate to a record low of 1.35%. Variable rate mortgage loans are the most typical choice and they reversed their decline in the last quarter of 2015, even registering a slight increase, the only one in our non-Euro Area sample.

Moving to the Euro Area, nearly all countries with exception of Belgium and Ireland, the most representative mortgage loan decreased with respect to the previous quarter. In **Belgium** there has been a slight increase of 2 bp to 2.48%, while in **Ireland** it increased by 1 bp to 3.42%. Here, about 30% of the value of new mortgage loan agreements was on fixed rates with an initial fixation period of more than one year, which is in line with the same period of the previous year, but it decreased from the 44% of the previous quarter. Mortgage rates on outstanding loans are also heavily influenced by the ECB base rate, because about half of mortgages outstanding are on tracker rates, which are just over 1%.

In **France** the year ended with open market average credit rates set at 2.2%. During the autumn, interest rates increased by 4 bps, probably linked to the return of first-buyers with extended duration. During the last quarter of 2015, the rates plateaued with some discrepancies between new and existing housing purposes. Variable rate loan production remains marginal, i.e. only 0.5% due to an insufficient benefit for borrowers. In **Spain**, the weighted average on new loans was 2.07% in December and all rates decreased except for long-term fixed ones, which saw a slight increase of 0.26 bps to 2.7%. The product market breakdown was practically unchanged with respect to the previous quarter, with variable and short fixed-term loans accounting for more than 90% of the total. **Portugal** also depicts the vast majority of its mortgage loans with a variable interest rate. This rate is based on a spread assigned by the credit institution in consideration of the client's risk assessment and on the Euribor. With the latter currently being in negative territory, the interest rates stood at 2.13% at the end of 2015. Both **Germany** and **Italy** depict record low interest rates, with the latter breaking the 2% barrier for short-term loans, which stood at 1.97%.

Chart 1a ▶ Countries where gross residential lending has remained below 50% of 2007 levels

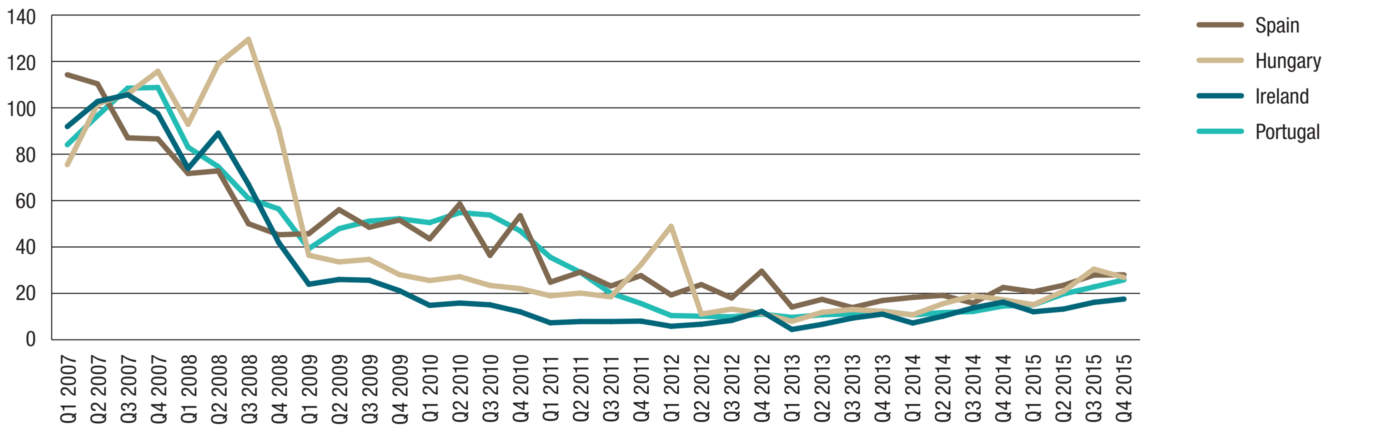


Chart 1b ▶ Countries where gross residential lending has remained below, but above 50% of, 2007 levels

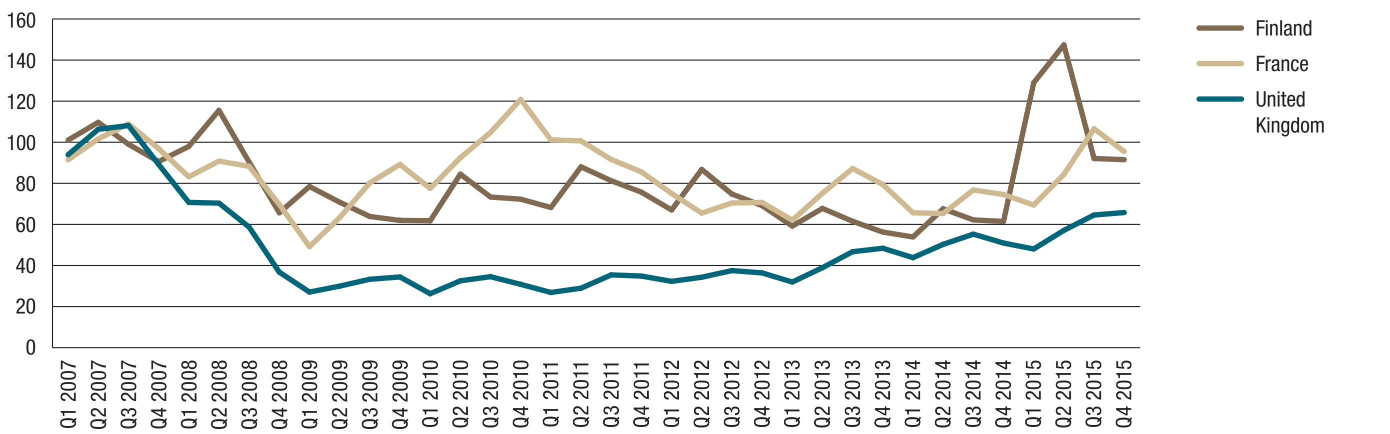


Chart 1c ▶ Countries where gross residential lending has risen above 2007 levels

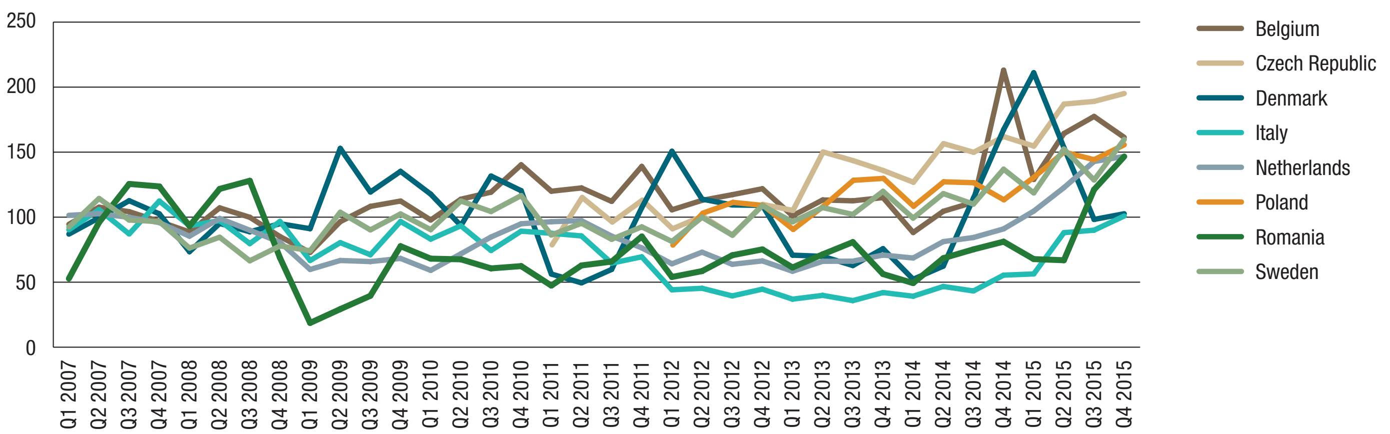


Chart 2a ▶ Countries where house prices have fallen in the available latest quarter

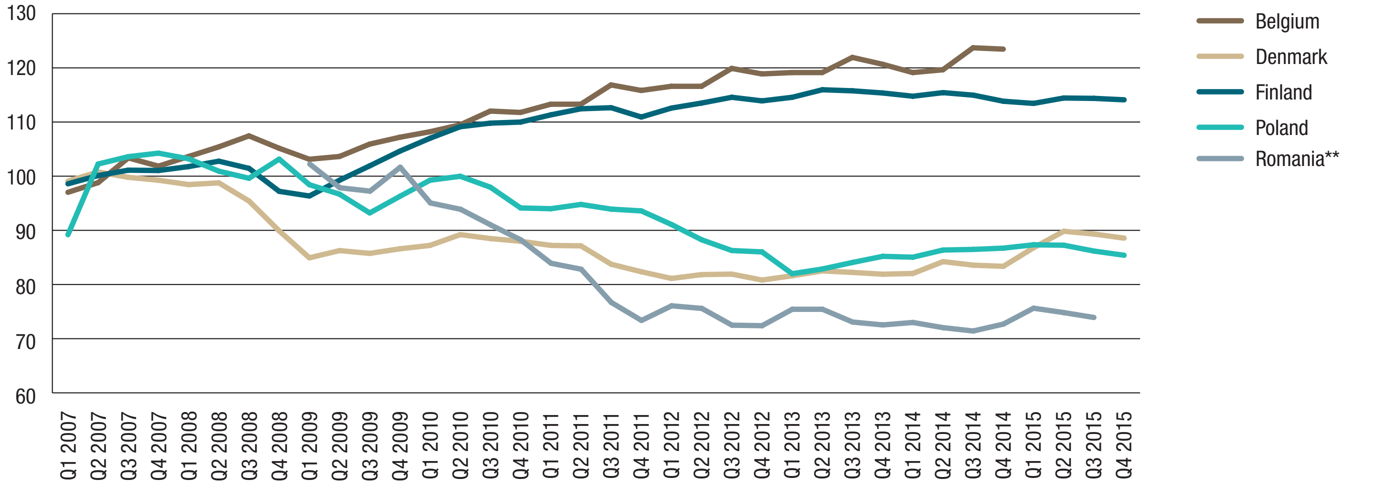


Chart 2b ▶ Countries where house prices have risen slightly over the latest quarter

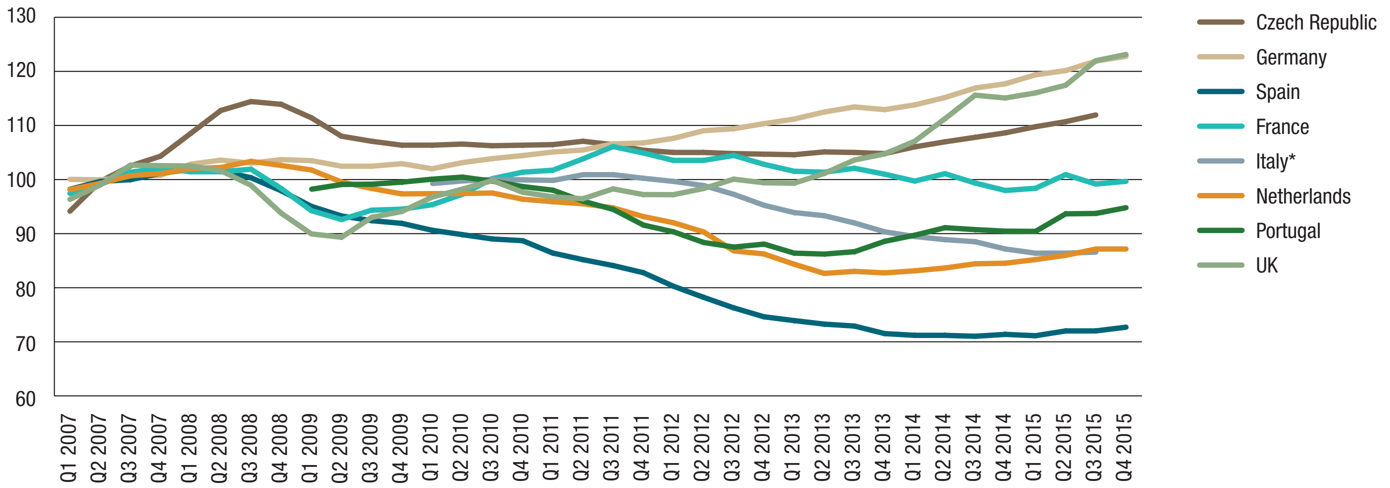
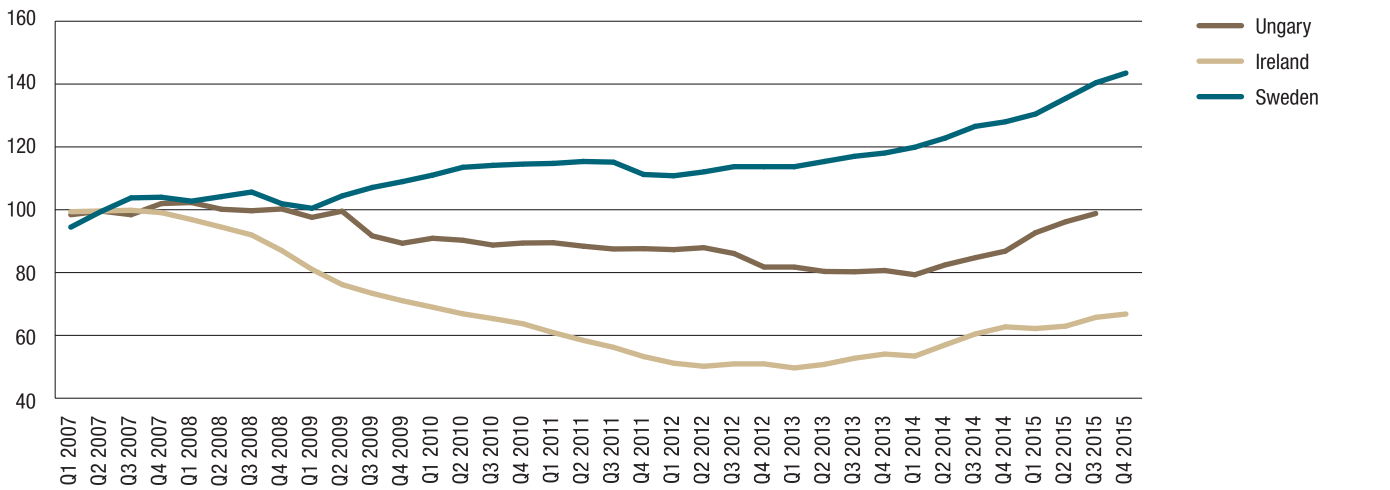


Chart 2c ▶ Countries where house prices have risen by at least 1.5% over the latest quarter



Covered Bonds Enter Negative Territory

By Bodo Winkler, Head of Investor Relations & Credit Treasury, Berlin Hyp

On the 8th of March 2016 something happened that some analysts and market participants have already described as the beginning of a new era. The first publicly-placed, Euro-denominated bond, that was not issued by a public entity or an SSA but by a private financial institution, was successfully placed on the market. Berlin Hyp's 3y Mortgage Pfandbrief was priced by syndicate banks Credit Agricole, Deka, J.P. Morgan, LBBW and UniCredit at a reoffer price of 100.488%. As the bond has a 0% coupon, the result is a yield of -0.162% at issuance.

Although the issuer effectively pays back less at maturity than he received at issuance the book, which was opened with an initial spread guidance of MS + 4 bp, was almost three times over-subscribed. It amounted to almost EUR 1.4 bn. when leads closed it only one hour and twenty minutes after opening, and fixed the reoffer spread at MS + 1 bp.

With approximately 65% of the bond, bank treasuries took the lion's share, followed by central banks and official institutions with 20% (the minor share of which went to the Eurosystem) and asset managers with 15%. What about regional distribution? 71% went to Germany, 9% to the UK and Central and Eastern European countries (CEE) took the third-biggest chunk with 6%.

AVOIDING ASSET-LIABILITY-MISMATCHES

Pfandbrief Banks have so far avoided issuing bonds at a negative yield as they feared investors would shun these instruments even though about three-quarters of all German covered bonds are trading at negative yields in the secondary market. As one maturity after another went into negative yield territory, possible maturities became more and more limited. We at Berlin Hyp had exactly that experience in April 2015 when we prepared for the issuance of our inaugural Green Pfandbrief. We had to rethink this innovation when it became obvious that the favoured 5y maturity would lead to a negative yield.

Figure 1 ▶ Allocation by Region

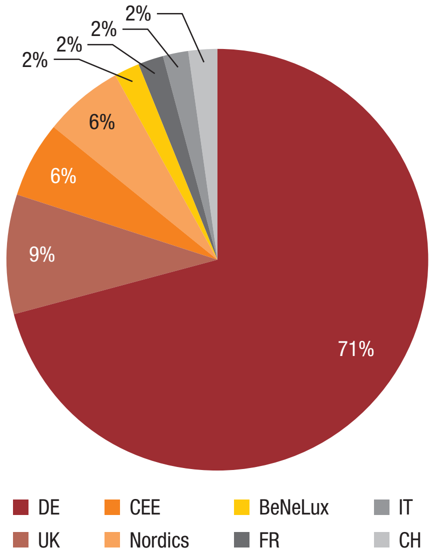
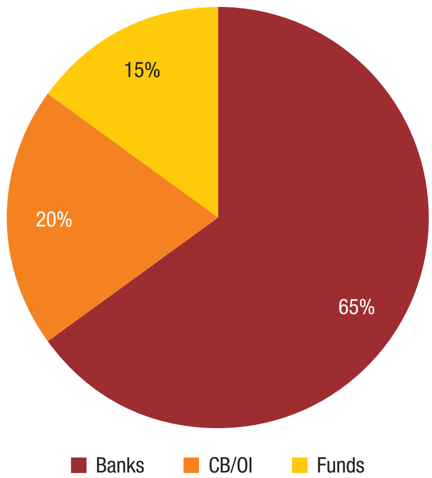


Figure 2 ▶ Allocation by Investor Type



The result was that the first Green covered bond finally came with a 7y maturity. But investors have adapted to the new normal.

Covered bonds should allow issuers a funding with matching maturities as this is one of the many features that make the instruments so secure. It is a means of managing liquidity and interest rate risk within the cover pool. Thus, it is important for issuers to be able to choose the maturities, from a wide range, that best match their profile on the asset side.

POSITIVE IMPETUS FOR THE MARKET

From our point of view it was striking that real money investors took a substantial part of the deal. While we expected a high participation of bank treasuries who have to manage a LCR portfolio and central banks from outside the Eurozone, we were pleasantly surprised by the large chunk that went to asset managers. Irrespective of the negative yield, the deal offered a decent pick-up of close to 40 bp against German Bunds. This might have been important for those who want or need to be invested in highly secure German debt. In addition to that, the yield offered was still higher than the European Central Bank's (ECB) deposit rate (at issuance 0.3). Thus, the bond offers bank treasuries a positive return compared to the alternative of parking liquidity in their central bank account.

We hope that our Pfandbrief opens the door for other covered bond issuers to reanimate the more short-term end of the curve. They have seen encouraging signs from the deal. Basically, it is possible to issue a covered bond with negative yield and still have a highly over-subscribed order book, achieve a comparatively high regional investor diversification, and enjoy the participation of investors that are not LCR-driven or central banks.

21 March 2016: MCD-Day!

By Jennifer Johnson, Head of Legal & Economic Affairs, EMF-ECBC

The 21st of March was a significant day for the European mortgage industry, as it was the official deadline for transposition of the Mortgage Credit Directive (MCD) into national legislation. As a result, this date marked the end, in principle, of almost five full years of consultation, discussion, negotiation and, in many cases, interpretation in Brussels and the 28 EU Member State capitals. I say "in principle" because, whilst a majority of Member States has completed transposition of the Directive, a handful will need more time, but most of these are expected to complete the process in the next couple of months.

The path to the adoption and implementation of the Directive over the last five years has not been a straightforward one – although with European directives, perhaps it never is. Readers familiar with the MCD will however recall particularly tricky discussions with the European Parliament, when the then ECON Committee Rapporteur proposed a significant broadening of the scope to include a series of provisions relating, for example, to portability and subrogation of the mortgage, which had never been discussed or assessed at EU level before, and which many feared were seeking to address very specific national concerns. Despite these sometimes large "bumps" in the road, the end result when the Directive was finally adopted in February 2014 was essentially a fair one, with an appropriate balance struck between the rights and obligations of lenders and borrowers.

How the Directive will work in practice remains, of course, to be seen. The interpretation challenges already experienced during the transposition phase, particularly relating to the calculation of the APRC, perhaps give a taste of what's to come when the Directive is fully operational across the EU.

WILL THERE BE UNINTENDED CONSEQUENCES OF IMPLEMENTATION?

Furthermore, only time will tell what unintended consequences might arise from the implementation of the Directive. For example, the adverse – and clearly unintended – effects of the extensive requirements in relation to mortgage loans in a foreign currency are already apparent: in its attempt to address foreign lending concerns in certain Central and Eastern European Countries – which have incidentally in the meantime been approximately addressed by respective national authorities – the European Commission has, by way of the MCD requirements, created an unworkable or at best very expensive compliance regime, which is forcing lenders to withdraw from markets which were never the intended target of the legislation.

This is particularly detrimental to UK residents employed in the Republic of Ireland and paid in Euros, and vice-versa. Similar concerns have been highlighted in relation to Swedish residents working in Denmark and being paid in Danish krone. This is not only an unfortunate outcome, but an ironic one, given that lending in these border areas was one of the only true examples of the cross-border lending that the European Commission one day hopes to achieve, as outlined in its Green Paper on Retail Financial Services.

GREEN PAPER ON RETAIL FINANCIAL SERVICES – EMF-ECBC RESPONSE

Speaking of the Green Paper, the EMF-ECBC's experts have spent much of the last three months since its publication in December 2015 considering the European Commission's assessment of European retail financial services markets and preparing the mortgage industry's response to the extensive list of questions. The response was delivered to the European Commission on the 18th of March 2016.

In a nutshell, the mortgage industry is not opposed to having a more integrated cross-border market and increased cross-border activity. However, this potential is, in the EMF-ECBC's view, mainly relevant for other types of financial services products that are simpler to provide than a mortgage loan. Indeed, the mortgage sector is a particular case when it comes to cross-border activities. This is due to the essential character of the mortgage product, which is intrinsically linked to the location of the property, and will, therefore, to a certain extent, always be subject to the respective national frameworks.

Furthermore, if a credit institution decides to enter a market, the decision is based on an economic evaluation of the advantages and disadvantages. Factors which prevent credit institutions from offering a product at cross-border level can be very different, such as lack of demand, high costs linked to different regulations, different mechanisms in Members States (e.g. length of foreclosure procedures) that influence pricing and the ability to offer a product in an efficient way for the entity and for consumers, and so on. Most of the obstacles highlighted by the European Commission in its Green Paper play a role in a financial services provider's decision to service – or not to service – a market. In the end, the final decision rests upon whether or not there is a potentially economically viable business. For cross-border activities which imply operating in a market without establishing a physical presence there, economies of scale are hard to achieve.

The EMF-ECBC does, however, indicate that there are potential market opportunities in the area of digitalisation of financial services and suggests that the European Commission should focus on how the regulatory environment can better support a digital mortgage market. This being said, the EMF-ECBC notes that the mortgage granting process cannot be entirely digitalised. The assessment of the creditworthiness of the borrower, the valuation of the property and the intervention of a notary in a number of Member States, for example, remain key elements of the process which require physical presence or action of various actors in the chain.

The deadline for responses to the Green Paper was the 18th of March, so all eyes will be on the European Commission for the next couple of months in anticipation of a follow-up statement or action plan. Whatever the outcome, the EMF-ECBC will be ready, as always, to offer its expertise to the European Commission on the specific nature of the European mortgage business.

UniCredit Finds Home For a Diversified Funding Strategy

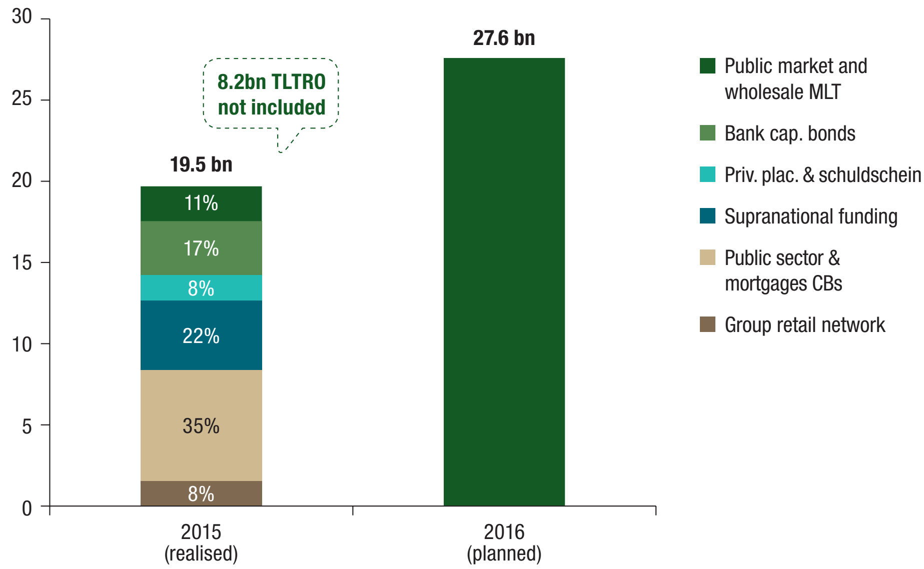
UniCredit had not issued in the senior space out of Italy for a long time but last month picked the right moment and priced successfully a new seven year bond. A return to senior issuance with significant oversubscription reflects the name recognition of UniCredit and the strength and diversification of its funding platform.

UniCredit Group pursues a diversified funding strategy, raising liquidity through different instruments in both the Institutional and Retail Markets, and leveraging on its three main issuance centres in Austria, Germany and Italy. The combined amount of medium/long-term funding planned for 2016 at Group level is approximately Eur 27.6 bn. in line with previous years. It is expected to be mainly issued via the Regional Liquidity Center Italy and partly in Germany and Austria. A key contributor to the 2016 funding plan will be the issuance of unsecured debt, given the relevance this asset class has in the context of the new regulatory developments (TLAC/MREL), in addition to ordinary liquidity needs. For this reason, senior issuance will be more focused at UC Spa level and to a lesser extent in Germany and Austria. Both the institutional (via benchmark bonds as well as private placement) and retail/private banking distribution channels, will be tapped for senior unsecured throughout the various jurisdictions in which the Group operates.

In 2015 UniCredit executed a medium/long-term Funding Plan lower than 2014 mainly because of a sound liquidity position at Group level, further reinforced by the participation in the first quarter 2015 to the Targeted Long-Term Refinancing Operations (TLTRO, 8.4 bn.) launched by the European Central Bank as one of the main pillars for supporting the economic growth in the Eurozone.

After one year of absence in the senior market, last month UniCredit launched its first public senior unsecured bond. A new senior benchmark fixed rate with a maturity of 7 years and a size of Euro 1 billion was issued drawing strong demand and giving the market a great deal and a confidence boost. The initial spread guidance was set at the 200 bps area but then, given the very positive market feedback, it has been revised down achieving a final issue spread equal to 190 bps. JP Morgan, Citibank, SocGen, UniCredit Bank AG and Santander have managed the placement acting as joint book runners. The bond, which will be documented under the Euro Medium-Term Notes Programme, has been the first senior institutional issuance in 2016 and sets a new reference point in the UniCredit Spa senior benchmark curve.

UniCredit Group - Medium-Long Term Funding Plan 2016: Funding Mix



UniCredit attracted a high level of demand on its return to the public euro senior debt market and the book was one of the largest since the beginning of the year in the senior unsecured space.

The transaction attracted a strong level of demand involving more than 200 institutional investors and the deal's final order book reached over Eur 2.3 bn. Fund managers took 73% of the deal and the rest was allocated amongst insurance companies (14%), banks (11%) and other investors (2%). French accounts took 39% confirming their recent trend of investing in senior deals. Italians bought 19% of the bonds while German, Austrian and Swiss investors bought the final 13%. UK and Irish accounts had been more involved than in recent trades taking up 14%.

Another very important part of the group funding mix will be represented by the collateralised funding which will help reducing the overall funding plan cost. The Group will leverage on the use of available collateral taking advantage of different issuing platforms: the Mortgage Covered Bonds "Obbligazioni Bancarie Garantite" issued by UniCredit SpA – via the CPT structure – and Mortgage/Public Sector Covered Bonds ("Pfandbrief") issued by both UniCredit Bank AG and UniCredit Bank Austria AG, and furthermore collateralised funding received by Supranational Agencies and similar institutions. Issuance of covered bonds, while optimising funding costs, will keep alive the benchmark covered bond curve of the various Group entities. The use of collateralised funding will be more active in jurisdictions outside Italy, given that secured funding does not contribute to TLAC/MREL position of UC Spa.

NEWS IN BRIEF

2nd EMF-ECBC 'Financing Energy Efficiency' Roundtable – a 'greener future'

On the 26th of February 2016, the EMF-ECBC staged in Brussels its second high-level roundtable on the Financing of Energy Efficiency. This event provided the opportunity for the EMF-ECBC to present the key elements of its proposal for a pan-European private financing initiative to support households in the energy efficient renovation of their homes. The event brought together the European Commission, the European Parliament, the World Bank, the United Nations, government representatives, property valuation experts, energy efficiency experts and the mortgage and covered bond industries to discuss, in particular, the parameters that could serve as the basis for developing this pan-European market initiative, i.e. the ways in which to measure the energy efficient improvement of the property that can be linked to a preferential mortgage interest rate or a larger loan, and how to build a business case and an incentive chain for market participants. Indeed, developing a strategy to make the European building stock more efficient and sustainable is a priority for the EU, and a necessity to help deliver the EU's greenhouse gas emission reduction goal and meet its commitment under the climate agreement reached at the COP21 climate conference in Paris. Both international and European institutions, and market participants present at the Roundtable expressed a strong interest in the creation of "energy efficient mortgages" and a strong willingness to further discuss this initiative.

Given the strong support for this initiative, the EMF-ECBC will continue examining the concrete steps that the Industry would need to take in order to make "energy efficient mortgages" a reality. Based on discussions so far, the EMF-ECBC sees potential for the creation of a market platform with the following governance structure: (1) a technical committee to provide technical solutions; (2) a steering committee gathering mortgage investment banks with a decisional role; and (3) an advisory council gathering European and international institutions, national authorities, investors and rating agencies. The EMF-ECBC will continue its market analysis and make bilateral contact with those stakeholders who expressed an interest in pooling resources and moving forward together.

EBA Consultation on Reporting of Prudent Valuation Information

On the 4th of March 2016 the European Banking Authority (EBA) launched a public consultation on the inclusion of prudent valuation into COREP, the reporting framework through which EU banking institutions report supervisory information. The amendments proposed by the EBA reflect the prudent valuation requirements in Commission Delegated Regulation (EU) No 2016/101.

As part of the European Banking Authority's harmonisation of European regulatory reporting (COREP), the EBA has proposed in this consultation paper a series of amendments to the COREP framework. The changes will allow the inclusion of the new requirements for reporting information on prudent valuation, as well as some supplementary requirements for reporting credit risk information.

The information collected will allow banking supervisors throughout the EU to assess how banking institutions are complying with the requirements on prudent valuation set by EU legislation and the related technical standards developed by the EBA, as well as any additional financial information required by competent authorities to perform their supervisory tasks.

The EBA is accepting comments on this issue up until the end of March 2016. Further details can be found here.

3rd ECBC Asian Covered Bond Investor Roundtable

On the 9th of March 2016 the ECBC hosted the 3rd edition of its Asian Covered Bond Investor Roundtable in Singapore. This year's edition was the biggest yet gathering together over 50 key stakeholders in the covered bond asset class from both Europe and Asia.

The Roundtable allowed for an open exchange of information on a range of issues affecting covered bonds in mature and emerging markets at both continental and global levels. These included: the impact of the European Central Bank's activities; the European Commission's consultation on covered bonds in the EU; the evolution of the Covered Bond Label; current market trends from the perspective of issuers and investors; and the continued global development of the covered bond asset class.

We look forward to announcing details of the 4th edition of the Roundtable, which will take place in the spring of 2017, in due course.

BCBS Consultation on Proposed Revisions to the Operational Risk Capital Framework

On the 4th of March 2016 the Basel Committee on Banking Supervision (BCBS) issued for consultation proposed revisions to the operational risk capital framework. The new Standardised Measurement Approach (SMA) for operational risk builds on the Committee's earlier consultation paper issued in October 2014.

The proposed revisions to the operational risk capital framework are part of the Committee's broad objective of balancing simplicity, comparability and risk sensitivity. The SMA addresses a number of weaknesses in the current framework. In particular:

- The SMA will replace the three existing standardised approaches for calculating operational risk capital as well as the Advanced Measurement Approach (AMA), thus significantly simplifying the regulatory framework.
- The revised methodology combines a financial statement-based measure of operational risk – the "Business Indicator" (BI) – with an individual firm's past operational losses. This results in a risk-sensitive framework, while also promoting consistency in the calculation of operational risk capital requirements across banks and jurisdictions.
- The option to use an internal model-based approach for measuring operational risk – the "Advanced Measurement Approaches" (AMA) – has been removed from the operational risk framework. The Committee believes that modelling of operational risk for regulatory capital purposes is unduly complex and that the AMA has resulted in excessive variability in risk-weighted assets and insufficient levels of capital for some banks.

"The proposals are an important step towards completing the post-crisis reforms during the current year," said Stefan Ingves, Chairman of the Basel Committee on Banking Supervision and Governor of Sveriges Riksbank. He noted the Committee's plans to conduct a quantitative impact study (QIS) to help inform the final calibration of the proposed standard and added: *"For most banks, the Committee expects that these proposals will have a relatively neutral impact on capital. While the objective of these proposals is not to significantly increase overall capital requirements, it is inevitable that minimum capital requirements will increase for some banks."*

The BCBS consultation, further details on which can be found here, runs until the 3rd of June 2016.

EBA Issues Amended Standards on Supervisory Reporting for Institutions

On the 8th of March 2016 the European Banking Authority (EBA) published its final draft Implementing Technical Standards (ITS) amending the Commission's Implementing Regulation (EU) No 680/2014 on supervisory reporting.

These final draft ITS include minor changes to templates and instructions which the EBA deemed necessary in order to reflect some of the answers published in its Single Rulebook Q&A, to align with disclosure requirements for capital buffers as well as to correct legal references and other clerical errors. The amendments are expected to be applicable for reporting as of December 2016.

To help users better understand the amendments, the EBA also published a version of the Annexes of this final ITS in track-changes. In addition, validation rules, data point model (DPM) and XBRL taxonomies reflecting the amended templates – collectively known as 'framework release 03/2016' – have also been published.

Further details on these can be found here.

ESAs Publish Final Draft Technical Standards on Margin Requirements for Non-Centrally Cleared OTC Derivatives

On the 8th of March 2016 the European Supervisory Authorities (European Banking Authority – EBA, European Insurance and Occupational Pensions Authority – EIOPA, European Securities and Markets Authority – ESMA) published the final draft Regulatory Technical Standards (RTS) outlining the framework of the European Market Infrastructure Regulation (EMIR), which can be found on the EBA's website, here.

These RTS cover the risk mitigation techniques related to the exchange of collateral to cover exposures arising from non-centrally cleared over-the-counter (OTC) derivatives. They also specify the criteria concerning intragroup exemptions and the definitions of practical and legal impediments to the prompt transfer of funds between counterparties. These standards aim at increasing the safety of the OTC derivatives markets in the EU.

More precisely, the draft RTS contain the following provisions:

- For OTC derivatives not clear by a Central Counterparty (CCP), the draft RTS prescribe that counterparties have to exchange both initial and variation margins. This will reduce counterparty credit risk, mitigate any potential systemic risk and ensure alignment with international standards.
- The draft RTS outline the list of eligible collateral for the exchange of margins, the criteria to ensure the collateral is sufficiently diversified and not subject to wrong-way risk, as well as the methods to determine appropriate collateral haircuts.
- The draft RTS lay down the operational procedures related to documentation, legal assessments of the enforceability of the agreements and the timing of the collateral exchange.
- The draft RTS cover the procedures for counterparties and competent authorities related to the treatment of intragroup derivative contracts.

The section covering the treatment of derivatives associated with covered bonds can be found on pp. 50 – 60 of EBA's Feedback Table, which is available here.

BCBS Working Paper: Literature Review on Integration of Regulatory Capital and Liquidity Instruments

On the 9th of March 2016 the Basel Committee for Banking Supervision (BCBS) published a new working paper carrying out a literature review on the integration of regulatory capital and liquidity instruments. This working paper aims at reviewing the literature's assessment of recent reforms. It consists of three essays:

1. **Essay on capital** reviews a large number of papers that assess the impact of higher capital requirements in terms of the costs and benefits to economic activity and welfare.
2. **Essay on liquidity and its interaction with capital** identifies a number of potential channels through which liquidity requirements can affect bank behaviour, balance sheets and profitability.
3. **Essay on other supervisory requirements** reviews:
   a. whether measures other than capital and liquidity requirements adequately complement these regulations in making the banking system more resilient;
   b. whether simpler regulatory rules may be more robust to extreme stress events than the ones in place and whether stress testing can enhance robustness.

Covered Bonds are referenced in the working paper and the BCBS draws the following conclusions:

- *"**On the liabilities side of banks' balance sheets, both the NSFR and the LCR are expected to result in stable funding replacing non-stable funding. This likely reduces wholesale funding and potentially increases covered bond issuance.** The NSFR is expected to lengthen the maturity of liabilities. Together these liability adjustments may increase interest expenses, because more stable and longer maturity funding sources are associated with larger spreads and are, thus, more costly. Regarding off-balance sheet items, the LCR is expected to result in a reduction in contingent credit lines or liquidity facilities granted by the bank."*
- In addition, in the paper's conclusions the BCBS states the following: *"The evidence obtained so far indicates that banks seem to meet the liquidity requirements also by adjusting their liabilities. **An initial finding suggests that banks may increase their share of stable funding by reducing interbank loans. Interesting avenues for future research might examine whether liquidity requirements can lead to greater issuance of securitised or covered bonds by banks and/or whether covered bonds (in Europe) or securitisation would replace unsecured wholesale funding.** Such findings would tease out whether the share of unstable funding and the interconnectedness of the banking sector would decline with liquidity requirements."*

Mortgage lending is also touched upon with the BCBS reporting on a study by Mendicino estimating the effect of higher capital ratios (RWA) on mortgage lending. The BCBS also reports a study corroborating the inverse correlation between LTV/DTI limitations and default risk.

The full BCBS paper is available here.

EMF-ECBC Response to BCBS' Second Consultative Document on Revisions to the Standardised Approach for Credit Risk

In response to the Basel Committee on Banking Supervision's (BCBS) second consultative document on Revisions to the Standardised Approach (SA) for credit risk, on the 11th of March 2016 the European Mortgage Federation – European Covered Bond Council (EMF-ECBC) published a position paper outlining its key views:

- Given the **diversity of global real estate (RE)** markets in terms of risk profile, generally speaking, a one-size-fits-all approach is not appropriate. National specificities should not be ironed out by the framework, but should, instead, be taken into account in such a granular market as RE.
- The present **consultation should be considered together with the capital floors consultation** as internal rating-based banks (IRB banks) will also be impacted by this proposal.
- In order to align risk weights with actual risk profiles, lenders should have the **option to update the value of the property**. The option could be linked to the monitoring and/or revaluation requirement of the Capital Requirements Regulation (CRR).
- **The proposed risk weights lead to significantly higher SA capital charges** for higher loan–to-value (LTV) loans. This effect can be reduced by allowing an **LTV calculation based on loan splitting**.
- **A more balanced approach is needed for income-producing real estate** as there is no evidence that cash-flow-producing real estate is a generally riskier exposure.
- **A fine-tuning of the operational requirements** is needed especially with regards to the recognition of guarantees and financial collaterals as well as the valuation basis and frequency.
- There should be **consistency between risk weights across different exposure classes**, so that secured exposures are not penalised compared to unsecured exposures. Otherwise there is a risk that lenders decide not to request any collateral at all for higher LTVs.

Commenting on the EMF-ECBC response, its Secretary General, Luca Bertalot, said, *"The Basel Committee's second consultative document is a clear improvement on the first version. Many of the Industry's concerns have been addressed: from a better taxonomy for real estate to the elimination of the DSC criterion for determining residential real estate exposure risk weights. The EMF-ECBC is confident that the BCBS will give appropriate consideration to the Industry's remaining concerns, taking account of the large differences within real estate markets across the globe and the importance that this sector has for the lives of every one of us."*

The full EMF-ECBC response is available here.

BCBS Consultation on Pillar 3 Disclosure Requirements - Consolidated and Enhanced Framework

On the 11th of March 2016 the Basel Committee on Banking Supervision (BCBS) issued the consultative document "Pillar 3 disclosure requirements – consolidated and enhanced framework". Pillar 3 of the Basel framework seeks to promote market discipline through regulatory disclosure requirements. The proposed enhancements include:

- The addition of a "dashboard" of key metrics.
- A draft disclosure requirement of hypothetical risk-weighted assets calculated based on the Basel framework's standardised approaches.
- Enhanced granularity for disclosure of prudent valuation adjustments.

The BCBS' proposal also incorporates additions to the Pillar 3 framework to reflect ongoing reforms to the regulatory framework. These include, for example, disclosure requirements for:

- The total loss-absorbing capacity (TLAC) regime (here) for global systemically important banks.
- The proposed operational risk framework (here).
- The final standard for market risk (here).

The BCBS' proposal would also consolidate all existing Pillar 3 disclosure requirements of the Basel framework, including:

- The overview of risk management, key prudential metrics and RWA.
- The composition of capital.
- The macroprudential supervisory measures.
- The leverage ratio.
- Liquidity.

Together with the Revised Pillar 3 disclosure requirements (here) issued in January 2015, the proposed disclosure requirements included in this consultation would comprise the single Pillar 3 framework.

This BCBS consultation runs until the 10th of June 2016. Further details can be found here.

EBA Publishes Decision Specifying the Benchmark Rate under the Mortgage Credit Directive

On the 21st of March 2016 the European Banking Authority (EBA) published a decision specifying the formula to be used by creditors when calculating the benchmark rate under the Mortgage Credit Directive (MCD). The MCD requires creditors to use, under certain circumstances, a benchmark rate specified by the EBA for the illustrative examples in the European Standardised Information Sheet (ESIS) for variable rate mortgages. The EBA formula will apply 20 days after its publication in the EU Official Journal but can also be used by creditors prior to its formal publication.

The formula developed by the EBA includes an underlying rate that is specific to each Member State, namely the European Central Bank (ECB) rate for Eurozone countries and the national central bank rate for non-Eurozone countries. As a result, the formula will create an EBA benchmark rate that is bespoke to each Member State, and remains up to date over time. However, to ensure that consumers receive the most appropriate example, the EBA rate only applies where no national rate has been set. The EBA's proposal was subject to a six-week consultation period between October and November 2015. The EBA received four responses, a summary of which and the EBA's feedback to those responses, is included in the Report.

Further information on this decision can be found here.

EBA Publishes the Report on SMEs and the SME Supporting Factor

On the 23rd of March 2016 the European Banking Authority (EBA) published a Report on small and medium enterprises (SMEs) which analyses: (i) the evolution of lending trends and conditions for SMEs; (ii) the effective riskiness of EU SMEs over a full economic cycle; and (iii) the consistency of own funds requirements laid down in the Capital Requirements Regulation (CRR) for credit risk on exposures to SMEs. Overall, the results of the EBA analysis show limited effectiveness of the SME Supporting Factor (SF). However, more data is needed before drawing firm conclusions and, therefore, the EBA recommends continued monitoring of the application of the SF.

The introduction of the so-called SME SF in the new regulatory framework, and the resulting capital reduction, was aimed at ensuring an adequate flow of credit and increased lending to SMEs. Against this backdrop, the EBA Report highlights that there is no sufficient evidence that the SME SF has provided additional stimulus for lending to SMEs compared the large corporates. Based on the empirical evidence available to the EBA, the SME SF has not led to increased lending at this stage.

Overall, the findings of the report rely on empirical evidence for a limited period of time and are in some cases based only on data from a few EU countries. Therefore, in the light of the limitations of the data available for the assessment, as well as the relatively recent introduction of the SME SF, a strong EU-wide conclusion cannot be reached at this stage and further work is needed.

As a consequence, the EBA Report recommends monitoring on a regular basis the effects of the SME Supporting Factor and reconsidering the issue at a later stage.

The full EBA Report can be accessed here.

BCBS Consultation on Internal Model Approaches

On the 24th of March 2016 the Basel Committee on Banking Supervision (BCBS) published a consultative document, “Reducing variation in credit risk-weighted assets - constraints on the use of internal model approaches”, setting out the Committee’s proposed changes to the advanced internal ratings-based approach and the foundation internal ratings-based approach.

The proposed changes include a number of complementary measures that aim to: (i) reduce the complexity of the regulatory framework and improve comparability; and (ii) address excessive variability in the capital requirements for credit risk.

Specifically, the BCBS proposes to:

- Remove the option to use the IRB approaches for certain exposures, where it is judged that the model parameters cannot be estimated sufficiently reliably for regulatory capital purposes.
- Adopt exposure-level, model-parameter floors to ensure a minimum level of conservatism for portfolios where the IRB approaches remain available.
- Provide greater specification of parameter estimation practices to reduce variability in risk-weighted assets (RWA) for portfolios where the IRB approaches remain available.

To recap, the BCBS has already consulted on the design of aggregate capital floors based on standardised approaches and is still considering the design and calibration. This would complement the proposed constraints discussed in this consultation paper.

The final design and calibration of the proposals will be informed by a comprehensive quantitative impact study and by the Committee’s aim to not significantly increase overall capital requirements.

The Committee has invited comments from the public on all aspects of the proposals described in this document, which is accessible here, by the 24th of June 2016.

23rd ECBC Plenary Meeting

The 23rd ECBC Plenary Meeting will take place in **Copenhagen**, Denmark, on the **14th of April 2016** and is kindly being supported by the **Association of Danish Mortgage Banks** (*Realkreditrådet*) and the **Danish Mortgage Banks’ Federation** (*Realkreditforeningen*).

The online registration desk for the Plenary meeting is open and registrations* can be made **up until the 6th of April 2016 at the latest**. Therefore, if you have not yet confirmed your place at the 23rd ECBC Plenary Meeting, we encourage you to do so **as soon as is possible**.

We look forward to welcoming you to Copenhagen next month and, in the meantime, remain at your disposal to answer any questions you may have regarding the event.

Please click here to access the Preliminary Agenda for the meeting.

* Please note that ECBC Plenary meetings are only open to ECBC member institutions and guests invited by the EMF-ECBC Secretariat.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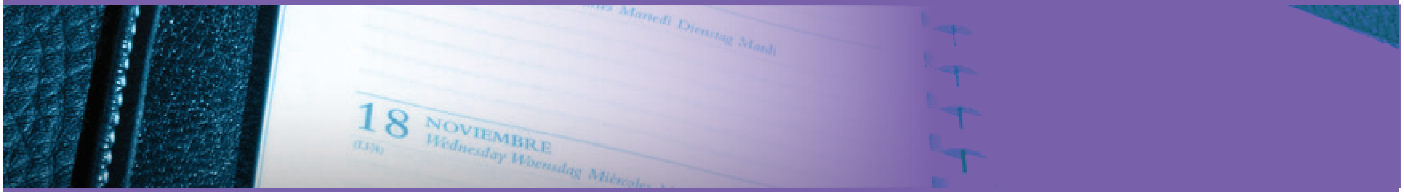

AGENDA

APRIL 2016

06-08/04	7th Annual Affordable Housing Projects Conference – Kuala Lumpur
07/04	City & Financial European Capital Markets Union Summit – London
07/04	11th TXS Pfanbriefforum – Hamburg
13/04	European Covered Bond Council (ECBC) Steering Committee Meeting – Copenhagen
13/04	Covered Bond Label Foundation Covered Bond Label Committee Meeting – Copenhagen
14/04	European Covered Bond Council (ECBC) Plenary Meeting – Copenhagen
15/04	European Mortgage Federation (EMF) Statistics Committee Meeting – Copenhagen
15/04	European Banking Authority Public Hearing on the Leverage Ratio – London
19/04	European Parliament Financial Services Forum (EPFSF) Event on Innovations in the European Financial Sector and Digitalisation of Financial Services – Brussels
19/04	Emerging Funding for the Real Economy – 3rd Edition – Bucharest
20-22/04	EUROFI High Level Seminar 2016 – Amsterdam
29/04	First Single Resolution Board (SRB) Conference – Brussels

MAY 2016

10/05	Euromoney Central and Eastern European Covered Bond Forum – London
11/05	European Covered Bond Council (ECBC) Task Force on Long-Term Financing Meeting – Milan
12-13/05	Italian Banking Association Funding & Capital Markets Forum – Milan
20/05	Italian Banking Association Seminar on Residential Credit – Rome
20/05	Brunel University Conference on Consumer Over-Indebtedness – London
24/05	European Parliament Financial Services Forum (EPFSF) Event on Forthcoming Action Plan on Retail Financial Services and Insurance – Brussels
25/05	World Bank Group's 7th Global Housing Finance Conference – Washington, DC
27/05	European Mortgage Federation (EMF) Valuation Committee Meeting – Cluj
31/05	Build Upon Financial Workshop – Zagreb