

Enhancing Single Market Competitiveness through a 28th Regime to Support a Harmonised European Mortgage Framework

The development of the foundations for a European mortgage market represents one of the fundamental pillars for completing the Single Market, offering a concrete opportunity to strengthen competition, improve efficiency, and foster deeper financial integration across the EU.

Such progress would generate positive effects not only in terms of financial stability, but also in supporting sustainable economic growth, contributing to the harmonization of access to homeownership across Member States.

In this perspective, a European mortgage takes on a transformative role: it can become a tool for inclusion and social mobility — a true social elevator capable of supporting the creation of widespread wealth, while strengthening economic and institutional cohesion within the Union.

The competitiveness of the EU Single Market depends on the existence of a regulatory and market framework capable of fostering progressive and systematic convergence from national best practices toward a coherent and harmonised set of key market features at European level. Such convergence is essential in the context of the Savings & Investment Union to ensure a genuine level playing field for consumers, lenders, and investors across Member States.

Housing finance is a core component of this framework. Mortgage markets represent more than 40% of EU GDP and account for over one third of European banks' balance sheets, making them a structurally important segment of the European financial system and a key transmission channel for competitiveness, monetary policies, innovation, and social inclusion.

In line with the objective of legislative simplification and enhanced competitiveness, the solid regulatory foundation provided by the Mortgage Credit Directive (MCD) represents a cornerstone on which European mortgage markets can further converge toward common overarching best practices and market initiatives.

A combination of targeted regulatory interventions in the European implementation of the Basel III framework could in addition act as a powerful Single Market initiative. Specific actions would include, in particular:

- Make the transitional arrangements in Article 465(5) of the Capital Requirements Regulation (CRR) permanent at the current level of the Output Floor for residential mortgage exposures that meet the low-risk criteria, and develop a 28th regime European mortgage guarantee framework¹, which together could act as a powerful Single Market initiative.
- Reassess the necessity of introducing the Basel III prudent value (CRR property value) in Article 229 CRR as a new concept of value in the calculation of capital requirements, instead of the long-standing and well-established concepts of market value and mortgage lending value. The property value has not been adopted in other jurisdictions such as the UK and Switzerland, thereby exposing EU lenders to an uneven playing field in their lending business.

This combination would facilitate convergence across national practices, data standards, and market structures, improve cross-border comparability, scale up lending volumes, diversify the investor base, and enhance the capacity of financial institutions to support households. This is particularly relevant in the context of housing affordability, energy-efficient renovation, and demographic change.

At the same time, it would strengthen the international competitiveness of European lenders by optimising regulatory efficiency, while preserving financial stability and consumer protection, core characteristics of Europe's predominantly on-balance-sheet mortgage loan funding model.

¹ The Dutch Banking Association does not agree to a 28th regime for a European Mortgage Guarantee.

European Guarantee Framework – Complementing National Schemes

A European-level guarantee scheme could be developed as a complement to well-functioning national systems already in place in several Member States, which have demonstrated strong performance over recent decades.

Indeed, a variety of successful public-private risk and cost sharing mechanisms at national level have significantly improved access to finance for, variously, first time buyers, low income households and young families in these jurisdictions. Examples include Fondo Prima Casa (Italy), Prima/Noua Casa (Romania), Spiti Mou (Greece), Crédit Logement (France) and Nationale Hypotheek Garantie (Netherlands). Depending on the jurisdiction, there have been strong leverage effects, with banks being able to lend 10-12 times the initial public commitment, whilst optimising their risk-weighted assets (RWAs). These various mechanisms provide valuable insights into the design of a potential future European guarantee scheme.

Beyond homeownership, adequate provision of rental housing must also be addressed. The Danish public housing model illustrates how public support—through capital contributions, mortgage subsidies, and guarantees—can efficiently finance high-quality rental housing based entirely on loan capital, for both new construction and renovation.

A European 28th Regime Mortgage Guarantee Scheme

Many Western and European countries are currently characterised by high levels of public debt and very rigid state budgets (with +/- 75% de facto being fixed expenses according to Moody's), which significantly constrain their fiscal space and limit their ability to finance large-scale housing affordability programs through additional public borrowing. Traditional debt-financed interventions would further increase sovereign debt burdens, potentially raising borrowing costs and creating political and market pressures.

In this context, public guarantees represent a far more efficient and strategic instrument. Rather than requiring immediate budgetary outlays or increasing headline public debt in the same way as direct spending, guarantees leverage limited public resources to mobilise substantially larger volumes of private capital. They act as a risk-sharing mechanism, reducing uncertainty for lenders and investors while preserving public balance sheets.

This approach offers excellent value for money: with relatively modest fiscal commitments, governments can unlock significant financing capacity, accelerate housing supply, and improve affordability. By crowding in private investment, guarantees can effectively kick-start a meaningful housing affordability initiative, achieving results that conventional debt-financed programs might struggle to deliver under current fiscal constraints.

Ultimately, well-designed guarantee schemes allow governments to pursue social and economic objectives, such as expanding access to homeownership and supporting social mobility, while maintaining fiscal discipline and safeguarding long-term financial stability.

A European “28th regime” mortgage guarantee, building on successful national experiences, could play a central role in enabling banks to expand lending to targeted social segments, enhancing housing affordability, sustainability outcomes and data quality. The scheme would aim to improve access to homeownership, reduce down-payment requirements, and support lending to borrowers with limited financial capacity, while also promoting building energy efficiency and preserving financial stability through the effective mobilisation of private capital.

In practical terms, the scheme could be implemented through a dedicated fund established by the European Investment Bank (EIB) within the framework of the European Housing Platform. The fund would provide a first demand guarantee on a portion of the mortgage loan. For specific categories of borrowers, such as young people, low-income households, single parents or elderly borrowers, the level of the guarantee could be increased subject to clearly defined criteria and conditions applicable at EU level. The guarantee would cover the bank's credit risk and not the borrower's repayment obligations. As a result, banks participating in the scheme would be able to lend with lower risk exposure, and reduce both capital requirements and execution risk.

Eligibility for the scheme would be clearly defined and aligned with existing EU legislation. For example, it would apply to first-time home buyers purchasing a property used as their primary residence. All loans would need to be fully compliant with the Mortgage Credit Directive. In addition, participating mortgage loans could demonstrate explicit affordability and sustainability objectives. It would be useful to be able to extend the guarantee to condominiums in line with the EIF's Invest EU sustainability products, as well as to construction companies for new buildings and renovations, making the sale of completed units to private individuals a core requirement, together with the stipulation of green mortgages for those buyers (including through mortgage transfers). Construction companies could also retain the properties and let them, ensuring affordable rents for households. The involvement of construction companies would also generate a significant boost for the entire residential construction sector.

Operationally, the process would remain straightforward, also based on existing best practices at national level. Borrowers could apply for the guarantee on their mortgage loan through a participating bank, which would then request the European guarantee via the EIB platform. This application is not obligatory. Following a straightforward eligibility assessment, the fund would confirm the guarantee, allowing the bank to grant the mortgage loan within the guaranteed framework.

If well designed and fully Basel-compliant, a European 28th regime mortgage guarantee could efficiently mobilise private capital, support social inclusion, enhance housing affordability and preserve an appropriate balance between public support and market-based finance.

The overarching objective of such an initiative would be to reinforce mortgage loan finance as a key social mobility mechanism enabling access to affordable and sustainable housing for European households, while strengthening Single Market competitiveness by promoting greater convergence and harmonisation of mortgage market features, building on existing EU legislation.

Conclusion

A more harmonised and comparable European mortgage framework, supported by a European 28th regime mortgage guarantee, would act as a catalyst for Single Market competitiveness, financial stability, and social inclusion. By aligning regulatory efficiency with market innovation, the EU can unlock the full potential of mortgage loan finance in support of households, economic growth and the climate transition².

From a Capital Markets perspective, this initiative, by strengthening the asset side of banks' balance sheets, would also enhance access to capital markets and improve the efficiency of funding activities. It would optimise asset-liability management and reduce funding costs through greater use of sustainable funding instruments such as senior unsecured debt, securitisation and covered bonds.

The European mortgage guarantee scheme outlined above is intended as a 28th regime which would serve as a complement to well-functioning national systems already in place in several Member States that have demonstrated strong performance over recent decades, as well as existing programmes under InvestEU. The distinguishing features of this European 28th regime mortgage guarantee scheme compared to existing guarantees under InvestEU is that it is intended as a market shaping initiative more than a market supporting initiative. While InvestEU focuses on providing for a flexible EU guarantee framework that serves as a wholesale de-risking tool for intermediaries and projects, the European 28th regime mortgage guarantee scheme is intended as a complementary harmonising, loan-level European mortgage guarantee that directly reshapes retail mortgage markets, capital treatment and Single Market integration. Whereas InvestEU is focused on lenders and projects, the European 28th regime mortgage guarantee supports mortgage loans and families, by generating and sustaining effective housing demand, reducing structural barriers to homeownership and smoothing access to mortgage finance across economic cycles.

² See EMF-ECBC Concept Note "[Mortgage Lenders and Capital Markets Supporting an Affordable and Sustainable Housing Ecosystem](#)", May 2025