17 September 2026

Final EMF-ECBC Response to European Commission Communication on the Competitiveness of the EU Banking Sector

A competitive EU banking sector is essential to delivering the Competitiveness Compass and Affordable Housing agenda, enabling banks to mobilise financing for households, businesses and the wider economy.

Completion of SIU

Completion of the SIU requires strong and complementary banking and capital markets. Banks are key to financing the economy; capital markets provide channels through which lending can be funded and investments mobilised.

Mortgage lending represents nearly €9tr in outstanding loans, almost 50% of EU GDP, and remains the primary source of homeownership finance in Europe.

The EU's global leadership in covered bonds (CBs), worth more than €3.3tr, is a key competitive advantage. As one of the few areas of finance in which Europe is the undisputed global leader, it also supports the EU's strategic financial autonomy. CBs provide resilient, efficient long-term funding, contribute to financial stability and have demonstrated their reliability, including in crises. Regulatory treatment should reflect their low risk and resilience through an appropriate adjustment to risk weights.

A toolbox of complementary collateralised funding tools would further enhance bank competitiveness. An appropriate legislative framework for European Secured Notes (ESNs) could complement CBs by facilitating funding for strategic sectors e.g. SMEs.

We welcome efforts to strengthen high-quality securitisation as funding source for the real economy, including mortgages. Risk-sensitive treatment of both securitisation and CBs would strengthen funding capacity while preserving appropriate prudential standards.

Implementation of International Standards

We have long raised concerns about the disproportionate impact of the Output Floor (OF) on mortgage lending, the financing of housing construction and renovation, homeownership and affordability and bank competitiveness, given the EU practice of holding mortgages on-balance sheet. EMF-ECBC research indicates that around 2/3 of IRB mortgage exposures are bound by the OF. Without transitional arrangements, average capital requirements would increase by around 18%, reducing lending capacity and exacerbating housing affordability pressures.

The transitional arrangements for residential mortgages and the original OF calculation of 50% should be made permanent. This would strengthen bank competitiveness, simplify banking regulation, support a level playing field with jurisdictions employing off-balance sheet approaches to mortgages and reinforce their ability to finance housing.

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The Property Value (PV) in Art.229 CRR raises concerns of market disruption and operational burden. We call for the Commission to reconsider the PV and preserve the long-established concepts of Market Value and Mortgage Lending Value.

Bank Profitability & Competitiveness

Mortgage prudential treatment should also be considered in light of the profitability and valuation gap between EU and US banks, driven by regulation and market fragmentation, as well as by differences in scale, efficiency, business models and capital-market development. Sustainable profitability allows EU banks to attract investment and deploy capital in support of the real economy.

This matters for housing finance. Where affordability is constrained by insufficient supply, restricting mortgage credit does not address the underlying problem — disproportionately conservative capital requirements for well-underwritten, low-risk mortgages instead raise financing costs and make homeownership less accessible. Capital requirements should reflect underlying risk, not serve as a tool for managing house prices. The framework should recognise the low-risk profile of well-underwritten EU mortgages, preserving financial stability while enabling banks to compete internationally and finance Europe's housing needs.

The forthcoming Financial Omnibus provides a key opportunity to address these concerns and strengthen bank capacity to finance housing and the real economy.

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