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PRESS RELEASE

Belgian mortgage lending from a European perspective

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Loans for financing house building, purchase or renovation are households' main financial liability and account for a large share of loans granted by banks. Therefore, they are of crucial importance for the Eurosystem and have repercussions for the transmission channels through which monetary policy affects borrowing conditions and, thus, developments in activity and prices.

The latest *Structural issues report* (SIR), compiled on a European scale and entitled "*Housing finance in the euro area*", was devoted to these issues. This article looks into the main findings of the survey, by reviewing the main structural developments on the mortgage credit market in Belgium over the years from 1999 to 2007 and comparing them with changes in other euro areas countries. More specifically, it elaborates on developments in household debt and the main features of mortgage loans (interest rates, maturity, loan-to-value (LTV) ratio, contract flexibility, banks' margins), along with the way in which the banks have financed these loans.

Household borrowing for house building, purchase or renovation has increased in most euro area countries over the last few years. This expansion can be attributed to several factors, such as the low interest rates during the period under consideration, growth in population and disposable income, as well as the effects of deregulation and liberalisation of financial services, which have brought about a widening of both the number of credit providers and the range of products on offer.

Several trends, which are common to the fifteen euro area countries surveyed, are noted as far as the characteristics of mortgage loans are concerned, such as longer loan maturities, an increase in the LTV ratio and greater flexibility in repayment arrangements. However, there are still considerable differences between the Member States, especially as regards the share of variable-rate loans in total mortgage lending.

On another front, the way in which mortgage loans are funded has radically changed for the banks. Over the last decade, there has been a rapid expansion of covered bond issues and securitisation of mortgage loans in the euro area. Retail savings deposits nevertheless remain the principal source of this funding and a wide heterogeneity can be observed in the banks' various sources of funding, reflecting not only national differences in legislation, but also in consumers' preference for savings deposits, and in the state of the mortgage credit market and, to some extent, in borrowers' preference for fixed- or variable-rate loans, too.

The data used mainly relate to the situation before the financial market turbulence began in the summer of 2007. The financial crisis turned the above-mentioned trends on their head. For example, it has had a definite impact on bank funding and may have contributed to the reversal of the trends observed in the structure of credit institutions' funding, nowadays steering them increasingly towards more conventional and less volatile sources of funding.

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