

The EU-Commission's White Paper on Mortgage Credit

Preparatory note for the meeting of the Mortgage Credit Working Group in Warsaw

On 18 December 2007, the European Commission published its long-announced White Paper on Mortgage Credit, which presents a 'package' of measures to improve the efficiency and the competitiveness of EU residential mortgage markets. On property valuation, the White Paper proposes a Recommendation, which would “invite Member States to facilitate the use of foreign valuation reports, and promote the development and use of reliable valuation standards”.

With a view to preparing a TEGoVA Response to the White Paper on Mortgage Credit, the Mortgage Credit Working Group is expected to hold a discussion addressing the obstacles to cross border property valuation. More specifically, TEGoVA's comments on the White Paper should focus on proposals which could facilitate cross border valuation of properties for lending purposes. Delegates are requested to consider the **attached extract of Annex 3 of the White Paper Impact Assessment** before discussing the questions outlined below. The attached extract contains a comprehensive compilation of the Commission's thinking and philosophy in the area of cross border property valuation and represents a prerequisite for any in-depth discussion of this issue.

I. Context

In annex 3 to the Impact Assessment, the Commission outlines the variety of different roles of valuation and the rules governing property valuations and valuers.

1. Do you agree with the context the Commission identifies with regard to property valuation in the EU?

II. Problem Description & Objectives

In annex 3 to the Impact Assessment, the Commission identifies **two main problems** with property valuation in a cross-border context:

- **Reliability of the valuation and usability of the valuation report:**
 - Different valuation principles (definitions and reporting requirements) in Member States
 - Different valuation methods in Member States
 - Different standards for the professional qualification of property valuers

The Commission also identifies the **possible consequences** of these problems:

- **For mortgage lenders:**

- Uncertainty regarding the quality and reliability of the valuation report => uncertainty regarding the true value of the collateral
 - Uncertainty regarding the acceptance of the report by public authorities
 - Compliance with two sets of valuation rules
 - higher costs, for instance for funding => reduced scope for economies of scale
 - Mortgage lenders may be deterred from cross-border activity on primary and/or secondary markets
 - Reduced competition
- **For investors:**
 - Uncertainty regarding the value of underlying security => reduced demand or higher premium
 - **For consumers:**
 - Higher prices
 - Reduced product diversity
2. *Do you agree with the problems identified by the Commission? Are you of the opinion that there are additional problems? If yes, what are they?*
 3. *Can you provide any additional information to evidence the problems outlined by the Commission?*
 4. *Do you agree with the consequences identified by the Commission? Are you of the opinion that there are additional consequences for the stakeholders in question? If yes, what are they?*

III. Objectives

In annex 3 to the Impact Assessment, the Commission notes that in general terms, it seeks to remove the economic and legal barriers to the cross-border supply of mortgage credit. Having identified the problems above, with regard to property valuation, the Commission aims to:

- Remove the obstacles to the use of foreign valuation reports; and
- Promote the development and use of reliable valuation standards.

5. *Do you agree with these objectives ? How should TEGoVA promote EVS ?*
6. *Should the Commission pursue additional objectives with regard to property valuation?*

IV. Description of options

With a view to determining how to achieve the identified objectives, in annex 3 to the Impact Assessment the Commission explores and assesses five options: option 1 - do nothing, option 2 - self-regulation, option 3 - recommendation, option 4 - legislation based on mutual recognition of valuation standards and option 5 - legislation based on harmonisation.

In comparing the options, the Commission concludes that while options 3 and 5 both have the potential to remove the obstacles identified, option 5 is disproportionate to the scope of the problems given the move of the market towards the application of international valuation standards. The Commission therefore proposes option 3, a recommendation to Member States, as the most appropriate moving forward. As outlined above, the Recommendation would “invite Member States to facilitate the use of foreign valuation reports, and promote the development and use of reliable valuation standards”.

7. *Do you agree with the Commission’s assessment of the options outlined in annex 3?*
8. *In its position paper to the Commission’s Green Paper on Mortgage Credit, TEGoVA emphasized that a recommendation to Member States is the most appropriate instrument to achieve the Commission’s objectives with regard to property valuation. Do we maintain this option ?*
9. *If you are of the opinion that the Commission should pursue additional objectives (see qu. 6), what would to be the most appropriate instrument to achieve these?*

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