

**E** SPEECH BY MR. CHRISTOPHER TUGENDHAT, VICE-PRESIDENT  
OF THE COMMISSION OF THE EUROPEAN COMMUNITIES, TO THE  
EUROPEAN COMMUNITY MORTGAGE FEDERATION ANNUAL GENERAL  
CONGRESS, BRUSSELS, 22 JUNE 1984.

EUROPEAN FINANCIAL INTEGRATION AND HOUSING CREDIT

I AM VERY PLEASED TO BE HERE TODAY TO ADDRESS  
THE ANNUAL GENERAL CONGRESS OF THE EUROPEAN COMMUNITY  
MORTGAGE FEDERATION. BY ENCOURAGING HOME-OWNERSHIP  
YOUR MEMBERS ARE MAKING AN IMPORTANT SOCIAL CONTRIBUTION  
AND ARE HELPING OUR SOCIETIES TO EVOLVE IN A THOROUGHLY  
DESIRABLE FASHION. AND THE VERY EXISTENCE OF YOUR FEDER-  
ATION AND OF OTHER EUROPEAN BODIES CONCERNED WITH HOUSING  
CREDIT IS WITNESS TO YOUR LIVELY INTEREST IN THE DEVELOP-  
MENT OF FINANCIAL INTEGRATION WITHIN THE COMMUNITY.  
UNFORTUNATELY, AS I SHALL EXPLAIN IN A MOMENT, WE HAVE  
RUN UP AGAINST CERTAIN POLITICAL DIFFICULTIES IN RELATION  
TO HOUSING CREDIT IN THE COMMUNITY. I HOPE THESE MAY  
BE OVERCOME, BUT I BELIEVE IT RIGHT AT THE OUTSET TO  
DRAW YOUR ATTENTION TO THIS PROBLEM.

IN MY SPEECH TO THE CONGRESS OF THE EUROPEAN FEDERATION OF BUILDING SOCIETIES IN MUNICH ON 17 SEPTEMBER 1982 I SAID THAT IT WAS MY AIM TO PRESENT A DRAFT HOUSING CREDIT DIRECTIVE TO THE COUNCIL BY THE END OF 1984. WHEN I ADDRESSED THE BRITISH BUILDING SOCIETIES ASSOCIATION IN MARCH THIS YEAR I INDICATED THAT I STILL HOPED TO KEEP TO THIS TIMETABLE.

THE COMMISSION HAS NOT BEEN IDLE IN THE PERIOD SINCE MY ORIGINAL ANNOUNCEMENT. AS I SAID IN MARCH, THE SUBJECT HAS PROVED EXTREMELY COMPLEX FROM A TECHNICAL POINT OF VIEW AND IT HAS NOT BEEN EASY TO RECONCILE DIFFERING NATIONAL APPROACHES TO HOUSING CREDIT. THE PROBLEMS WERE RELATIVELY SIMPLE IN THE BANKING SECTOR, FOR INSTANCE, WHERE THE OBJECTIVE WAS TO ENABLE FOREIGN BANKS TO WORK ON THE SAME FOOTING AS DOMESTIC BANKS. BUT IN THE HOUSING CREDIT SECTOR WE ARE INTRODUCING A NEW ELEMENT BY PROVIDING FOR DIFFERENT FINANCING AND LENDING TECHNIQUES TO CO-EXIST ON A SINGLE MARKET. I THINK NEVERTHELESS THAT WE SHALL BE ABLE TO IRON OUT THESE PRACTICAL PROBLEMS.

WE HAVE EXPERIENCED UNEXPECTED AND POTENTIALLY MORE SERIOUS PROBLEMS AT THE POLITICAL LEVEL. A CERTAIN NUMBER OF NATIONAL AUTHORITIES HAVE SHOWN THEMSELVES SURPRISINGLY COOL AND HAVE RAISED BUREAUCRATIC OBJECTIONS TO FINANCIAL INTEGRATION IN THIS SECTOR, IN MOST INSTANCES TAKING THE VIEW THAT THE FIRST BANKING COORDINATION DIRECTIVE (WHICH, INCIDENTALLY ONLY DEALS WITH RIGHT OF ESTABLISHMENT) GOES FAR ENOUGH. WE CANNOT ACCEPT THIS VIEW IN THE FACE OF THE MULTIPLICITY OF PRACTICAL OBSTACLES TO THE PROVISION OF HOUSING CREDIT ACROSS BORDERS. AND THIS APPARENT RELUCTANCE IS MARKEDLY AT ODDS WITH THE AMBITIONS BEING EXPRESSED BY GOVERNMENTS ON ALL SIDES FOR A RELAUNCH OF THE COMMUNITY AND THE CONSOLIDATION OF THE INTERNAL MARKET AND, IN THE IMMEDIATE FUTURE, THE HOPES WE HAVE FOR THE EUROPEAN SUMMIT AT FONTAINEBLEAU NEXT WEEK.

IT IS VITAL THAT THE POLITICAL WILL NOW BEING EXPRESSED AT THE LEVEL OF GOVERNMENTS SHOULD MAKE ITSELF FELT IN THE NATIONAL SUPERVISORY BODIES. THERE ARE LESSONS TO BE DRAWN HERE FROM OUR EXPERIENCE IN THE BANKING AND INSURANCE SECTORS. IN THE BANKING SECTOR THERE HAVE BEEN RAPID DEVELOPMENTS, AS WITNESS THE ADOPTION IN RECORD TIME OF THE CONSOLIDATED SUPERVISION DIRECTIVE OF 1983. THIS IS BECAUSE THE NATIONAL AUTHORITIES HAVE WORKED CLOSELY TOGETHER TO WORK OUT SOLUTIONS. IN THE INSURANCE SECTOR CONSIDERABLE PROGRESS WAS MADE DURING THE 1970'S WITH DIRECTIVES ON ESTABLISHMENT, BUT UNTIL RECENTLY ALL TOO LITTLE PROGRESS WAS BEING MADE ON THE INSURANCE SERVICES DIRECTIVE WHICH WAS FIRST TABLED AS LONG AGO AS 1975. I SINCERELY HOPE THAT WHEN IT COMES TO DETAILED NEGOTIATIONS ON HOUSING CREDIT SUPERVISORY AUTHORITIES WILL BE INSPIRED BY THE FORMER EXAMPLE.

YOUR FEDERATION AND YOUR MEMBERS INDIVIDUALLY HAVE A SIGNIFICANT ROLE TO PLAY HERE. YOU HAVE THROUGHOUT TAKEN A CLOSE INTEREST IN THE COMMISSION'S WORK AND HAVE FED IN CONSTRUCTIVE REQUESTS AND IDEAS, THUS MAKING FOR AN EXCELLENT WORKING RELATIONSHIP. IT IS NOW TIME TO ADOPT THE SAME APPROACH TOWARDS YOUR NATIONAL SUPERVISORY AUTHORITIES SO AS TO ENSURE THAT THE POTENTIAL COMMERCIAL AND CONSUMER BENEFITS OF LIBERALIZATION IN THE HOUSING CREDIT SECTOR ARE NOT NEGATED BY BUREAUCRATIC OBJECTIONS.

TURNING TO THE PROBABLE CONTENT OF THE PROPOSAL  
ENVISAGED BY THE COMMISSION.

THE CENTRAL OBJECTIVE OF OUR PROPOSAL, AS YOU  
KNOW ALREADY, WILL BE TO ENABLE DIFFERENT FORMS OF MORT-  
GAGE CREDIT, HAVING THEIR ROOTS IN THE HISTORY AND TRAD-  
ITIONS OF THE DIFFERENT MEMBER STATES, TO BE PROVIDED  
SIDE BY SIDE ON THE MARKET OF A GIVEN MEMBER STATE,  
WHETHER THROUGH A LOCAL ESTABLISHMENT OR AS A SERVICE  
ACROSS NATIONAL BORDERS. THE INTENTION HERE IS THAT  
PRIVATE INDIVIDUALS AND BUILDERS SHOULD HAVE AVAILABLE  
THE WIDEST CHOICE OF CREDIT INSTRUMENTS. EQUALLY, WE  
OF COURSE WANT TO FACILITATE THE FULL EXERCISE BY CREDIT  
INSTITUTIONS OF THE FREEDOM OF ESTABLISHMENT AND FREEDOM  
TO PROVIDE SERVICES LAID DOWN IN THE TREATY.

THIS OBJECTIVE WILL ONLY BE OBTAINED PROVIDED EVERY NATIONAL SUPERVISORY AUTHORITY IS CONFIDENT THAT A CREDIT INSTITUTION WISHING TO START OPERATIONS WITHIN HIS BAILIWICK IS PROPERLY LICENCED AND PROPERLY SUPERVISED.

FOR PRACTITIONERS IN THE MORTGAGE CREDIT SECTOR THE IDEA OF FOREIGN MORTGAGE INSTITUTIONS OF HITHERTO UNFAMILIAR TYPES ESTABLISHING A PRESENCE IN A GIVEN MARKET WITHOUT FIRST BEING APPROVED AND SUPERVISED BY THE HOST COUNTRY AUTHORITY OBVIOUSLY PRESENTS SPECIAL PROBLEMS. BUT ON THE OTHER HAND, OPERATING A BRITISH-TYPE BUILDING SOCIETY UNDER, SAY, THE LIQUIDITY GUIDELINES SET UP BY GERMAN AUTHORITIES MIGHT WELL PROVE VIRTUALLY IMPOSSIBLE SINCE THERE IS A RISK THAT THE TWO MORTGAGE CREDIT SYSTEMS WOULD BE INCOMPATIBLE. WE INTEND TO OVERCOME THESE PROBLEMS BY INTRODUCING NEW PROCEDURES FOR COOPERATION AMONGST SUPERVISORS.

I ENVISAGE THAT THE DRAFT DIRECTIVE WILL CONTAIN A NUMBER OF PRINCIPLES RELEVANT FOR BOTH FREEDOM OF ESTABLISHMENT AND FREEDOM TO PROVIDE SERVICES. IN THE CONTEXT OF MORTGAGE CREDIT THESE COMPLEMENTARY RIGHTS IMPLY NOT ONLY A RIGHT OF ACCESS TO THE MARKET OF ANOTHER MEMBER STATE BUT ALSO THE RIGHT TO EXPORT THE RELEVANT MORTGAGE ACTIVITY SINCE SOME OF THE MAJOR OBSTACLES TO CROSS-BORDER MORTGAGE FINANCE ARE TO BE FOUND IN THE DOMESTIC RULES OF A NUMBER OF MEMBER STATES WHICH LIMIT OR PROHIBIT ALTOGETHER ANY FOREIGN EXPOSURE.

IT IS OF COURSE OUR INTENTION TO REMOVE SUCH OBSTACLES. A GENERAL PROVISION WILL THEREFORE ABOLISH ALL LEGAL IMPEDIMENTS WHICH DIRECTLY OR INDIRECTLY PREVENT CREDIT INSTITUTIONS HAVING THEIR HEAD OFFICE IN ONE MEMBER STATE FROM SETTING UP OR SUPPLYING SERVICES IN ANOTHER MEMBER STATE. THIS WILL BE ACCOMPANIED BY A SPECIFIC PROVISION AIMED AT REMOVING ANY PROHIBITION ON GRANTING MORTGAGE CREDIT FOR MORTGAGES ON REAL ESTATE NOT SITUATED IN THE HOME COUNTRY OF THE RELEVANT INSTITUTION.

ANOTHER SIMILAR PROVISION WILL ABOLISH ALL LEGAL OR ADMINISTRATIVE IMPEDIMENTS PREVENTING OR MAKING IT ESPECIALLY DIFFICULT FOR ANY CREDIT INSTITUTION TO PROVIDE MORTGAGE CREDIT IN THE HOST COUNTRY WITH A FINANCING TECHNIQUE WHICH IS AUTHORISED IN THE HOME COUNTRY. THIS WILL, OF COURSE BE A KEY PROVISION OF THE DIRECTIVE. IF FREEDOM OF ESTABLISHMENT AND FREEDOM OF SERVICES ARE TO BE FULLY EFFECTIVE MORTGAGE INSTITUTIONS MUST BE ABLE TO FUND THEMSELVES, AND TO PROVIDE FINANCE, IN ACCORDANCE WITH THE TECHNIQUES WITH WHICH THEY ARE FAMILIAR. IN THE FIELD OF MORTGAGE CREDIT THERE IS A VERY CLOSE CONNECTION BETWEEN THE METHOD OF FUNDING AND THE TECHNIQUE OF LENDING. INDEED IT WOULD BE PRACTICALLY IMPOSSIBLE FOR AN INSTITUTION TO OPERATE IF IT WERE UNABLE TO LEND IN THE HOST COUNTRY IN ACCORDANCE WITH ITS NORMAL TECHNIQUES.

SIMILARLY WE THINK IT WILL BE NECESSARY TO LAY DOWN PROVISIONS ENABLING MORTGAGE INSTITUTIONS ORIGINATING IN ANOTHER MEMBER STATE TO ISSUE BONDS IN THE HOST COUNTRY. FURTHER WE WANT TO PROVIDE THE POSSIBILITY FOR THE CREDIT INSTITUTIONS TO EXTEND LOANS IN ONE MEMBER STATE FINANCED BY THE ISSUE OF BONDS IN ANOTHER MEMBER STATE. IT MAY BE THAT IT WILL BE NECESSARY TO ISSUE A SPECIAL DIRECTIVE AT THE SAME TIME, DESIGNED TO LIBERALIZE THE RELEVANT CAPITAL MOVEMENTS BECAUSE SUCH OPERATIONS ARE STILL SUBJECT TO EXCHANGE CONTROL RESTRICTIONS IN SOME MEMBER STATES.



IN THE FIRST STAGE OF LIBERALIZATION THE HOST COUNTRY WILL BE EMPOWERED TO REQUIRE THAT BOTH THE FUNDING AND THE LENDING OPERATIONS BE EITHER IN THE CURRENCY OF THAT COUNTRY OR IN ECU. MEMBER STATES MAY ALSO REQUIRE MATCHING BETWEEN ASSETS AND LIABILITIES IN EACH NATIONAL CURRENCY OR IN ECU.

UNDERSTANDABLY, APPROPRIATE SUPERVISORY MEASURES WILL HAVE TO GO HAND IN HAND WITH LIBERALIZATION IN ORDER TO ENSURE ON THE ONE HAND THAT THE RELEVANT INSTITUTION DOES NOT GET OUT OF CONTROL IN THE HOME COUNTRY AND, ON THE OTHER, THAT UNFAIR COMPETITION PROBLEMS DO NOT ARISE IN THE HOST COUNTRY. MEMBER STATES WILL ALSO HAVE THE OPTION OF LIMITING THE FOREIGN EXPOSURE OF THEIR MORTGAGE INSTITUTIONS.

WITH REGARD TO ESTABLISHMENT, WE THEREFORE ENVISAGE THAT BRANCHES OF MORTGAGE INSTITUTIONS FROM OTHER MEMBER STATES SHOULD AT THE FIRST STAGE BE SUPERVISED BY THE COMPETENT AUTHORITIES OF THE HOST COUNTRY, ACCORDING TO THE RULES OF THAT COUNTRY; A CLOSE COOPERATION WITH THE COMPETENT AUTHORITIES OF THE HOME COUNTRY WILL HOWEVER BE NECESSARY NOTABLY ON ASPECTS OF THE IMPORTED FINANCING TECHNIQUES. AT A LATER STAGE, WHEN COORDINATION HAS PROGRESSED FURTHER, WE WOULD HOPE THAT THE EMPHASIS WOULD MOVE TO SUPERVISION BY THE HOME AUTHORITIES IN ACCORDANCE WITH THE PRINCIPLE OF HOME COUNTRY CONTROL WHICH IS OUR GENERAL OBJECTIVE IN THE BANKING SECTOR. BUT WE MUST BE PREPARED TO SEE THIS HAPPEN AT A LATER STAGE FOR HOUSING FINANCE THAN FOR MOST OTHER BANKING ACTIVITIES, GIVEN THE STRUCTURAL DIFFERENCES IN THIS AREA.

TURNING NOW TO SERVICES BUSINESS AS OPPOSED TO ESTABLISHMENT, WE ENVISAGE THAT PROVISION OF SERVICES ACROSS NATIONAL BORDERS WILL BE SUBJECT TO A SPECIAL AUTHORIZATION, TO BE GRANTED BY THE SAME AUTHORITY OF THE HOME COUNTRY WHICH GRANTED THE GENERAL OPERATING AUTHORIZATION. THE APPLICANT WILL HAVE TO INFORM THIS AUTHORITY AS TO THE MEMBER STATES IN WHICH IT INTENDS TO PROVIDE SERVICES; THE NATURE OF THE BUSINESS IT PROPOSES TO UNDERTAKE IN THOSE COUNTRIES AND THE GENERAL AND SPECIAL CONDITIONS UNDER WHICH FUNDS WILL BE RAISED AND LOANS GRANTED. AN ORIGINAL FEATURE OF THIS SPECIAL AUTHORIZATION WILL BE A REQUIREMENT FOR MANDATORY PRIOR CONSULTATION OF THE HOST COUNTRY AUTHORITIES, WHO WILL HAVE A RIGHT TO COMMENT WITHIN A CERTAIN TIME PERIOD. I HAVE LITTLE DOUBT THAT THE SYSTEM WE ENVISAGE WILL LEAD TO CLOSE COOPERATION BETWEEN THE SUPERVISORY AUTHORITIES CONCERNED.

THE MAIN SUPERVISORY ROLE WITH RESPECT TO SERVICES WILL STAY WITH THE HOME COUNTRY AUTHORITIES; BUT :

- THE RELEVANT INSTITUTION WILL BE REQUIRED TO REPORT REGULARLY ON ITS OPERATIONS IN THE HOST COUNTRY TO THE LOCAL AUTHORITIES;
- THERE WILL BE A FACILITY FOR THE SUPERVISORY AUTHORITY OF THE HOST COUNTRY TO COMPLAIN TO THE AUTHORITIES OF THE HOME COUNTRY IF THE INSTITUTION CONCERNED BREACHES LOCAL MANDATORY REGULATIONS, ESPECIALLY PROVISIONS ON FAIR TRADING, AND A CORRESPONDING OBLIGATION ON THE HOME COUNTRY AUTHORITIES TO TAKE REMEDIAL ACTION IF APPROPRIATE.
- IF, IN SPITE OF MEASURES TAKEN BY THE HOME COUNTRY, THE MORTGAGE INSTITUTION PERSISTS IN FLOUTING LOCAL RULES, THE SUPERVISORY AUTHORITY OF THE HOST COUNTRY WILL BE EMPOWERED TO TAKE APPROPRIATE MEASURES TO PUT AN END TO THE SITUATION, BUT THESE MEASURES MUST BE NO MORE THAN IS STRICTLY NECESSARY.

OTHER PROBABLE PROVISIONS WHICH I OUGHT TO MENTION ARE IN THE FIRST PLACE A NON-DISCRIMINATION CLAUSE APPLICABLE TO MORTGAGES GRANTED BY AN INSTITUTION FROM ANOTHER MEMBER STATE, WHICH WILL APPLY TO ALL CASES OF STATE INTERVENTION (SUCH AS TAX RELIEF; INCENTIVES, ETC) . TO MEET AN ESPECIALLY PRESSING NEED, A PROVISION WILL BE INCLUDED UNDER WHICH A SAVINGS CONTRACT MADE IN ONE MEMBER STATE WITH A VIEW TO OBTAINING A MORTGAGE CAN BE MAINTAINED, EVEN IF THE SAVER MOVES TO ANOTHER MEMBER STATE, AND WANTS TO USE IT FOR THE SAME PURPOSES IN THAT OTHER MEMBER STATE. PROVISIONS OF THIS KIND OUGHT TO BE SELF-EVIDENT IN A COMMON MARKET WHERE NATIONAL BORDERS SHOULD HAVE LOST MOST OF THEIR SIGNIFICANCE.

LADIES AND GENTLEMEN, THIS HAS NECESSARILY BEEN THE BRIEFEST OF OUTLINES OF THE LIKELY CONTENT OF THE PROPOSAL WHICH I EXPECT TO PUT TO MY COLLEAGUES IN THE COMMISSION IN THE NEXT MONTHS. IF THE COMMISSION APPROVES IT, THE PROPOSAL WILL BE FORWARDED TO THE COUNCIL FOR CONSIDERATION AFTER THE PARLIAMENT HAS BEEN CONSULTED. I HOPE VERY MUCH COUNCIL WILL THEN ADOPT IT. BEFORE I CONCLUDE, I WOULD LIKE TO STRESS THAT THE COMMISSION VALUES VERY HIGHLY THE INITIATIVES COMING FROM YOUR FEDERATION, AND INDEED FROM ANY OTHER MEMBER OF THE COMMITTEE OF CREDIT ASSOCIATIONS OF THE EUROPEAN COMMUNITY INTERESTED IN MORTGAGE CREDIT, IN ITS EFFORTS TO SET UP A COMMON MARKET IN THIS FIELD. I AM AWARE OF THE IMPORTANT CONTRIBUTIONS YOU HAVE ALREADY MADE AND OF THE USEFUL CONTACTS WHICH EXIST BETWEEN YOUR FEDERATION AND THE COMMISSION SERVICES. WE ARE EXPECTING THIS COOPERATION TO CONTINUE IN FUTURE YEARS WITH THE SAME INTENSITY.

IN CONCLUDING, I WOULD LIKE TO LEAVE YOU WITH THIS THOUGHT, WHICH PICKS UP SOMETHING I SAID IN MY OPENING REMARKS: IF THERE IS ANYTHING WHICH DIRECTLY TOUCHES THE ORDINARY PEOPLE OF THE COMMUNITY IT IS LIKELY TO BE THE COMMISSION'S PROPOSAL ON MORTGAGE CREDIT. TWO OF THE FUNDAMENTAL PRINCIPLES OF THE COMMUNITY ARE THAT PEOPLE SHOULD BE ABLE TO MOVE FREELY BETWEEN MEMBER STATES AND ENJOY THE BENEFITS OF THE WIDEST CHOICE OF FINANCIAL SERVICES. AND THE LIBERALIZATION OF MORTGAGE CREDIT IS AN ESSENTIAL ELEMENT HERE. WE MUST ENSURE THAT THE WORK NOW BEING INITIATED TO RELAUNCH THE COMMUNITY INCLUDES IT.