STUDY ON MORTGAGE INTEREST RATES IN THE EU

EUROPEAN MORTGAGE FEDERATION

2012

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Index

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1. Executive Summary

- The aim of this Study is primarily to update a previous EMF Study of 2006[1] and to shed light on: a) the different types of mortgage interest rates which exist in the EU Member States; b) the breakdown of mortgage markets by interest rate type; c) trends in mortgage interest rates across countries, particularly in light of the effects of the crisis. This Study covers the following EU countries: Belgium, Denmark, France, Germany, Hungary, Ireland, Italy, Poland, Portugal, Spain, Sweden and the United Kingdom.

- As evidenced in the previous Study of 2006, residential mortgage markets typically fall into two broads groups, which can be defined as fixed-interest rate countries and variable-rate countries. The first group has traditionally included Belgium, Denmark, France and Germany, while Hungary, Ireland, Italy, Portugal, Spain and Sweden have often been included in the second group.

- Notwithstanding the above distinction, in many EU countries the breakdown by mortgage rate type (fixed or variable rates) can change very rapidly, which is evidenced by the historical data available in this Study. These changes are typically due to general monetary policy conditions, as well as to changes in the relative cost of short-term rates versus long-term rates due the slope of the yield curve, but are also affected by cultural factors (such as borrowers' risk-averseness, etc), the predominant type of funding sources and interest rate caps/floors.

- In particular, in markets where covered bonds play a predominant or considerable role in mortgage funding, the slope of the yield curve determines higher or lower costs associated with variable-rate mortgages: if the yield curve becomes steeper, long-term rates are expected to increase and therefore variable rate mortgages become less expensive and more attractive than fixed rate mortgages.

- Before the recent global crisis, mortgages with an initial fixed period were the predominant type of loan in most of the EU markets in terms of both new business and balances outstanding. Since the onset of the crisis in Q3 2008, there has been a moderate shift in borrowers' preferences towards variable rate mortgages in some markets (Belgium, Italy) due to policy rates at record lows, but at the end of 2011, fixed rates were still predominant in these markets.

- In some mortgage markets (Denmark, Italy, Spain, Portugal) the main variability mechanism for variable interest rates is a linkage with the main reference rate based on the wholesale money market rate (or inter-bank market rate).

- The level of mortgage interest rates went down from very high levels in the early 1990s (as a result of tighter monetary policies due to very high inflation rates) to considerable lows in the 2000s and this decrease continued uninterruptedly until 2007. From 2007 to Q3 2008, a general upward trend in mortgage interest rates was observed as a result of monetary policy tightening due to inflationary pressures. The crisis of late 2008 then prompted an unprecedented expansionary monetary policy stance in the EU, resulting in record lows in representative mortgage rates during 2010.

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[1] *EMF Study on Interest Rate Variability*, 2006, available at www.hypo.org

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- From Q3 2010 to Q2 2011, there were signs of reversal in monetary policies as a result of inflationary pressures, which eased however in the second half of 2011. The onset of the sovereign debt crisis for some euro area economies in Q2 and Q3 2011 prompted a further turnaround in monetary policy across the EU. Rises in policy rates by Central Banks caused moderate increases in mortgage interest rates, which nevertheless remained low once put in historical context.

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2. Aim and rationale of the Study

Further to the publication of the "Study on Interest Rates Variability" in 2006, there has been increasing interest in mortgage interest rates in the EU, particularly in terms of their definitions, market breakdown according to interest rate type, variability mechanisms and also trends in mortgage rate levels.

This Study aims at providing updated and in-depth information on the above issues and covers the following countries: Belgium, Denmark, France, Germany, Hungary, Ireland, Italy, Poland, Portugal, Spain, Sweden and the United Kingdom. A country-specific approach has been followed, so that each national market is treated separately in individual chapters, which are structured along as follows:

- **Description and definition of main interest rate types in individual countries (*fixed, initial fixed, variable, others*):** definitional notes are a relevant issue, as interest rate types largely differ in definitions across the EU: initial fixed, fixed to maturity and variable are the most common types, but these definitions are not the same in all EU markets. The variety of mortgage products and interest rates offered in the different countries is considerable. Moreover, the terminology used to designate the same mortgage interest rate may differ from one country to another or the same name is used for different types of mortgage interest rates.

  This Study aims at providing country-specific information on this issue as well as analysing the transmission channels of monetary policy.

  Detailed descriptions of existing types of mortgage interest rates for each national market is provided in Table 1 which is available in the Annexes.

- **Mortgage markets breakdown by interest rate type**: the breakdown in mortgage markets by interest rate type varies remarkably across the EU, and reasons are often due to country-specific factors such as the general market interest rates, options given to the borrower, funding methods and regulation (consumer regulation and product innovation). Moreover, membership to the euro area had a significant impact on borrowers' preferences. In particular, there is evidence that, in a low and stable interest rate environment - which characterised mortgage markets in the EU between 2002 and 2007 - borrowers tended to prefer variable interest rates products. This situation significantly changed around the peak of the mortgage and housing cycles in 2007 and during 2008, given the rise in central interest rates by the ECB and other Central Banks due to growing inflationary pressures which caused increases in mortgage interest rates; as a result, borrowers shifted again to fixed rate products.

- The onset of the mortgage and housing markets' crisis in Q3 2008, however, quickly reversed the above picture. The unprecedented expansionary stance in monetary policy - which Central Banks undertook as a response to the crisis - resulted in mortgage interest rates going down to record lows during 2009 and 2010. This study sheds light on whether borrowers in individual markets have reacted to the crisis by adjusting their mortgage type preferences.

  Detailed time-series of mortgage market breakdown by interest rate type are provided both in individual Country Sections and in the Tables 2A and 2B which are available in the Annexes.

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- **Trends in mortgage interest rates in the EU countries:** this Study provides extensive statistical information on long-term developments in existing types of mortgage interest rates in individual markets before and after the recent housing and mortgage crisis.

  Detailed time-series of data on mortgage interest rates in the EU Member States are provided both in individual Country Sections and in the Tables 3 to 5 which are available in the Annexes.

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COUNTRY REPORTS

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3.1 BELGIUM

Description and definition of main interest rate types

See Annexes, Table 1

Factors affecting the breakdown in mortgage interest rate types

The main factor affecting consumer preferences in interest rates is represented by market interest rates. As soon as the difference between fixed rate and variable rate widens (assuming that the fixed interest rate is higher), consumers usually shift to variable interest rates. As soon as consumers fear that interest rates will go up in the near future, the market share of fixed interest rate increases.

Table 1: Mortgage market breakdown by interest rate type, outstanding mortgage loans (%)

	Representative mortgage interest rate (fixed to maturity)	Other fixed interest rate (variable between 1 and 3 years)	Other variable interest rate
1997	40.0	3.7	56.3
1998	64.7	2.9	32.5
1999	76.8	3.5	19.8
2000	56.9	12.3	30.8
2001	55.8	6.1	38.1
2002	48.2	12.2	39.6
2003	48.6	24.4	27.0
2004	33.0	49.8	17.2
2005	54.9	31.7	13.4
2006	78.1	6.6	15.2
2007	85.4	1.2	13.4
2008	83.2	2.5	14.3
2009	53.5	29.8	16.7
2010	52.0	31.1	16.9
2011	80.2	9.4	10.4

Source: Febelfin

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Trends in mortgage interest rates

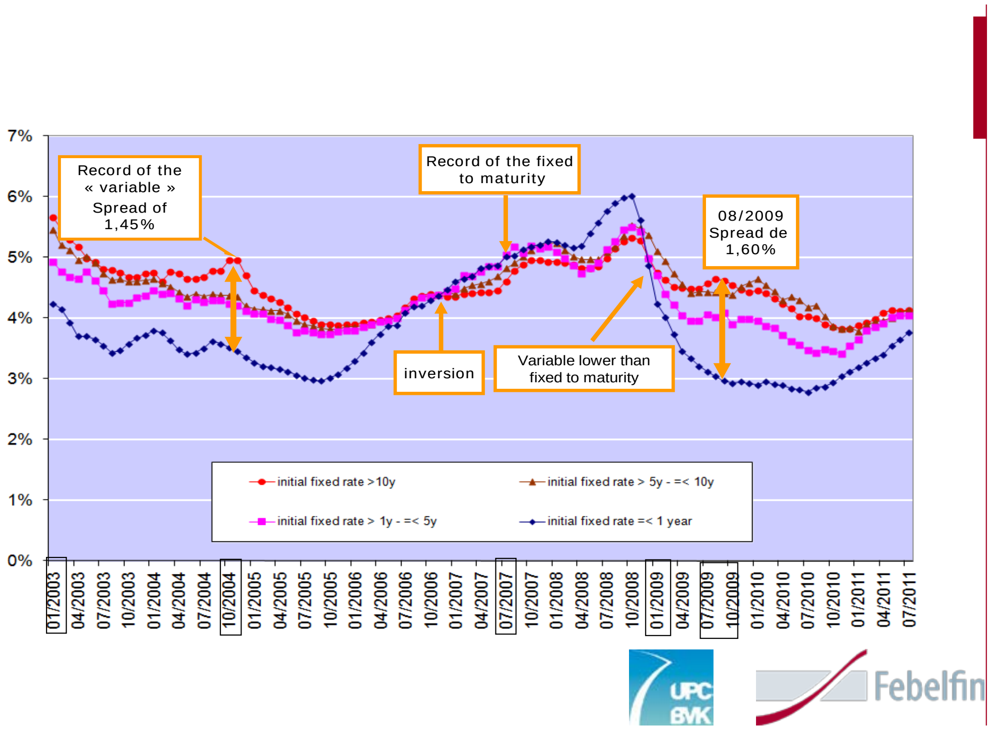
In Q4 2004, the difference between the annual variable rate and the fixed to maturity rate was 1.45%, that is to say that the market share of variable-rate loans rate was at its record high.

From 2006 onwards, all interest rate types started to converge, and as a result the fixed interest rate increased moderately. Since November 2006 this trend has clearly reversed, resulting in a record high in the market share held by “fixed to maturity” loans, while the market share of new loans at variable interest rate went down to tiny percentages. At the end of 2008, the variable interest rate was again lower than the fixed interest rate.

In August 2009, the spread between annually variable rate and fixed rate reached its record high (1.60%), as variable interest rates went down to their record low (Chart 1). However, the majority of new loans were still at fixed rate, since many consumers feared that interest rates would soon go up again and then opted for fixed-rate mortgages.

Since mid-2010, the market share of fixed interest rate has increased again, especially due to the lower spread between fixed and variable interest rate.

Chart 1: Mortgage interest rates by type, quarterly data, %



Source: Febelfin, National Bank of Belgium

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Table 2: Mortgage interest rates, year-end, %

	Fixed rate (fixed to maturity)	Variable rate
1993	7.27	n/a
1994	8.81	n/a
1995	6.63	n/a
1996	5.64	n/a
1997	5.88	n/a
1998	5.01	n/a
1999	6.09	n/a
2000	6.79	n/a
2001	5.93	n/a
2002	5.41	4.24
2003	4.73	3.72
2004	4.71	3.36
2005	3.89	3.18
2006	4.36	4.47
2007	4.93	5.26
2008	4.99	4.87
2009	4.43	2.92
2010	3.82	3.12
2011	3.69	3.82

Source: National Bank of Belgium

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3.2 DENMARK

Description and definition of main interest rate types

See Annexes, Table 1

Factors affecting the breakdown in mortgage interest rate types

Traditionally (at least dating back to 1990) the dominant Danish mortgage interest rate type has been the long-term (i.e. 30-year) fixed-rate mortgage. In the late 1990s, the Danish mortgage market was liberalised in terms of product availability. The interest rate reset loans (according to the Danish terminology, this should be referred to a variable-rate mortgage loan) were introduced in 1996 and quickly gained market shares against the "traditional" fixed rate mortgage interest rates. Hence, deregulation and the upward yield curve in the late 1990s caused borrowers' preferences to shift towards loans with an initial fixed period.

The interest reset loans continued to gain market shares against the fixed rate mortgages until 2005, as the general level of interest rates declined while the yield curve remained steep.

In 2004, variable interest rate and capped variable interest rate mortgages were introduced. Variable rate mortgages have since then gained some ground as businesses have been able to better manage their risk through derivatives with the CIBOR-linked loans. Capped variable interest rate mortgages became more popular as the interest rate level rose from 2004 to 2007 (particularly on the short end of the yield curve). Private households opting for a variable rate mortgage were able to cap their interest rate payments.

Between 2005 and late 2008, fixed rate mortgages held their ground, whereas from 2005 to 2007, the yield curve flattened somewhat in Denmark.

As short-term interest rates went up in late 2008 and the onset of the financial crisis has steepened the yield curve, interest reset mortgage loans once again have taken market shares from fixed rate mortgages. In this period, the market share held by capped variable interest rate mortgages has not been relevant as the level of interest rates has declined steadily.

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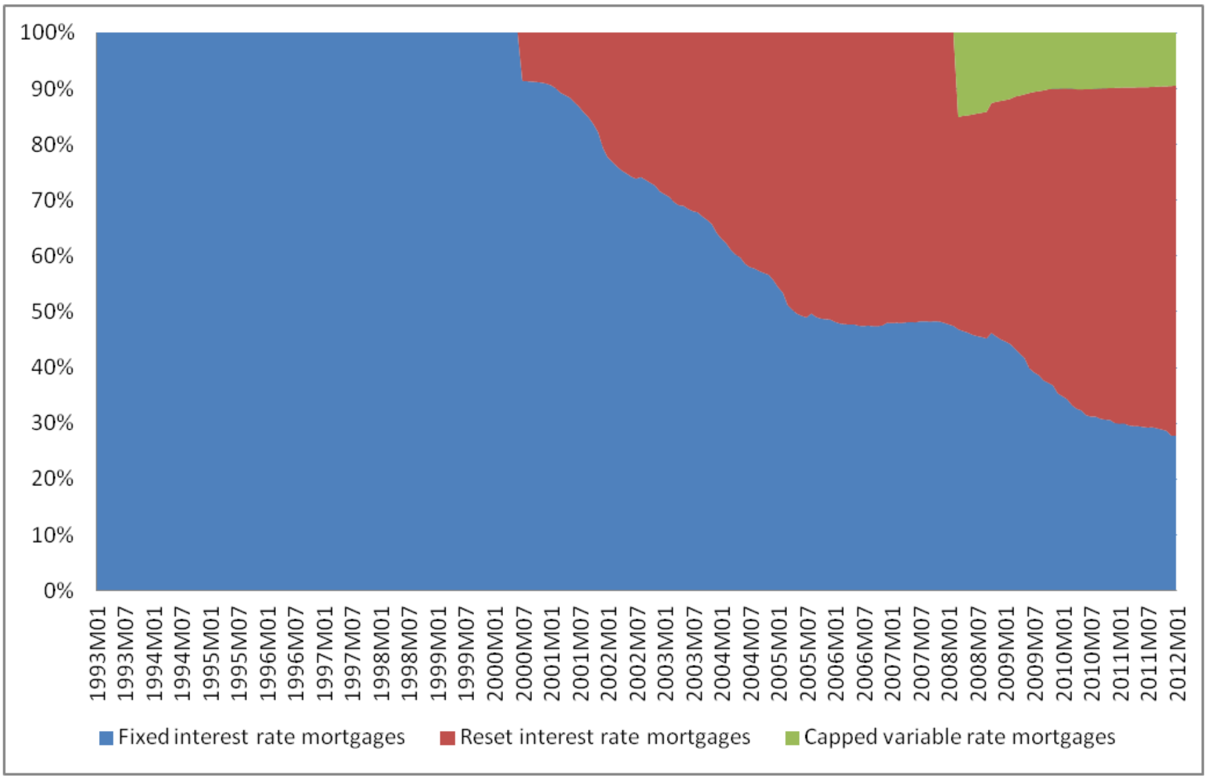
Chart 1: Mortgage market breakdown by interest rate type, monthly data, %



Source: Association of Danish Mortgage Bank

Note:

From 2004 to 2008 capped variable rate mortgages were included among "reset interest rate mortgages". Variable rate mortgages have been included among "reset interest rate mortgages" since 2004.

<u>*Trends in mortgage interest rates*</u>

The evolution of Danish interest rates has followed that of the *Bundesbank* (in 1982 Denmark decided to peg the DKK to the DEU, i.e. the German Mark) and then the ECB. As capital markets had been liberalised in the early 1980s, Denmark substantially gave up independent monetary policy.

The relatively high interest rates in the early 1990s were due to considerable inflationary pressures throughout the 1980s. Subsequently, European Central Banks managed to tame inflation, and interest rates then have come down ever since, with the exception of rises in nominal rates in order to counter accelerating inflation as a consequence of economic upswings in the late 1990s and in the period from 2004 to 2006.

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Table 1: Mortgage interest rates, year-end, %

	Fixed interest rate	Variable interest rate
1990	11.15	n/a
1991	9.80	n/a
1992	10.17	n/a
1993	7.11	n/a
1994	9.73	n/a
1995	8.36	n/a
1996	7.87	n/a
1997	7.12	4.39
1998	6.29	4.07
1999	7.37	4.35
2000	7.24	5.46
2001	6.40	3.91
2002	5.66	3.04
2003	5.45	2.48
2004	4.97	2.45
2005	4.44	2.94
2006	5.22	4.18
2007	5.94	4.72
2008	6.58	4.64
2009	5.19	1.74
2010	4.70	1.59
2011	4.14	1.19

Sources: Association of Danish Mortgage Banks (1997-2011), Danish National Bank prior to 1997

Table 2: Mortgage interest rates, further breakdown (including fee), year-end, %

	Fixed rate	Initial fixed, up to one year	Initial fixed, from one to five years	Initial fixed, from five to ten years
2003	5.89	3.14	3.84	4.69
2004	5.43	3.27	3.38	4.08
2005	4.97	3.52	3.68	3.99
2006	5.61	4.64	4.61	4.55
2007	6.27	5.29	5.19	5.39
2008	7.31	5.55	5.36	5.75
2009	5.65	2.52	3.38	4.40
2010	4.91	2.22	3.03	3.95
2011	4.72	2.09	2.37	3.03

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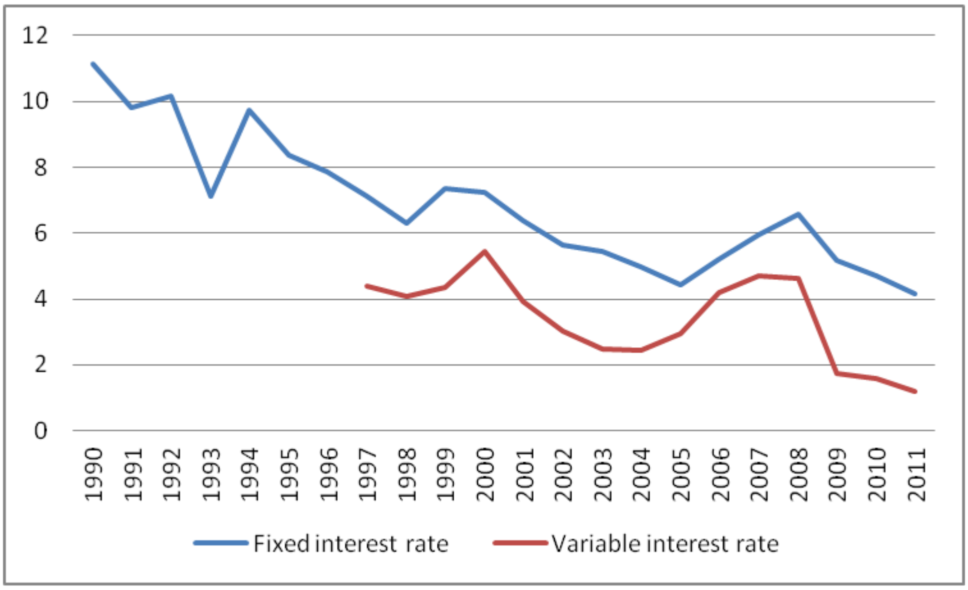
Source: Danish National Bank

Chart 2: Mortgage interest rates by type, %



Sources: Association of Danish Mortgage Banks (1997-2011), Danish Central Bank prior to 1997

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3.3 FRANCE

Description and Definition of Mortgage Interest Rates

See Annexes, Table 1

Factors affecting the breakdown in mortgage interest rate types

The standard mortgage loan is the long-term (20 to 25 years) fixed-rate loan, while the variable-rate mortgage - often less expensive - has not held a high market share in recent years.

The French mortgage market is strongly influenced by the rules applying to State-subsidised loans. This stability in the mortgage market breakdown can be explained by the traditional, long-established role of the Government, not only with regard to the relationship between borrowers and lenders, but also to the available funding sources. As a matter of fact, before the 1990s, the Government played a main role in the creation of the mortgage market. It largely influenced the relations between banks and borrowers, and the majority of the loans issued were either subsidised or government-regulated: conditions such as duration, loan to value and interest rates were therefore restricted.

On the other hand, the Government built the funding structure of the mortgage market by introducing market rules: firstly, the mortgage market was re-organised, and fixed-rate loans were accepted as collateral, and secondly, strong fiscal support was granted to household saving plans. Banks therefore benefited from plentiful, stable, easy-to-collect and cheap mortgage funding, and were also able to convert deposits to long-term fixed rate loans. Over the same period, mortgage market rules were established. Competition between lenders focussed more on interest rates than on supply of diversified products.

After 1988, successive governments undertook some deregulation of the mortgage market, but the borrowers' ability to use this "new freedom" was inhibited by the unusually high level of real interest rates. The French monetary policy at that time was clearly dominated by the issue of the exchange rate with the German Mark. Moreover, during the 1990s, France experienced a serious housing market crisis. Thus, the economic context was not particularly supportive of product innovations and particularly of variable rate mortgages: variable rates were too high, and the early repayment of fixed rates loans was so easy and cheap that fixed rate mortgages worked more or less like downward-adjustable rate mortgages.

Since the launch of the euro area, monetary policy has no longer been conditioned by exchange rate issues; then variable-rate loans have become much safer. The funding of these loans is mainly through covered bonds, which represent a fast-growing market as the different types of deposits grow at a slower rate than total outstanding residential loans.

The market share held by variable-rate mortgages considerably increased until 2004, when 32% of the new mortgage loans were at variable rate, 64% with a capped rate, 12% with a fixed repayment and variable duration, and 24% without any specific repayment protection. This breakdown does not take into account the wide diversity of the variable loans supply, thanks to which other options like rate caps and fixed-rate conversion are also available.

At end of 2005, the ECB started to raise its policy rate, and the market share of variable interest rates began to decrease, coming down to 9% in 2008. Since 2009, it has remained more or less

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stable. However, variable rates have become competitive anew, although the ongoing crisis has cast uncertainty and borrowers have proven slightly more risk-averse.

Table 1: Mortgage market breakdown by interest rate type, outstanding loans, %

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fixed	76.4	89.9	84.6	81.9	67.8	67.6	75.7	81.6	88.3	87.6	87.1
Variable	23.5	10.0	15.1	17.8	31.6	31.1	23.6	17.1	9.1	11.3	11.7
Other	0.1	0.1	0.3	0.4	0.6	1.3	0.7	1.3	2.7	1.1	1.2

Sources: Banque de France, Autorité de Contrôle Prudentiel

Trends in mortgage interest rates

The French mortgage market is characterised by high concentration, i.e. few suppliers. However, it remains very competitive because granting mortgage loans is considered strategic by banks in order to attract new customers. The mortgage rate is a function of the duration of the loan, and has no relation with Loan-to-Value ratio (LTV) and solvency. All borrowers benefit from rates which are very close to Government Bond yields.

Chart 1 reports data for fixed mortgage rates on PAS (*Prêts à l'Accession Sociale*, i.e. Social Loans), with quarterly data since 1993, adjusted by the average duration of the loans.

Table 2: Mortgage Interest Rates, year-end, %

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fixed	5.40	5.30	5.00	4,40	4.16	3.65	3.69	4.18	4.82	4.37	3.57
Variable	5.10	5.20	4.40	3,80	3.55	3.23	3.54	4.07	4.83	3.73	3.01
Capped variable	5.00	5.10	4.40	3,80	3.49	3.31	3.52	4.03	4.64	3.44	3.71

Sources: Banque de France, Autorité de Contrôle Prudentiel

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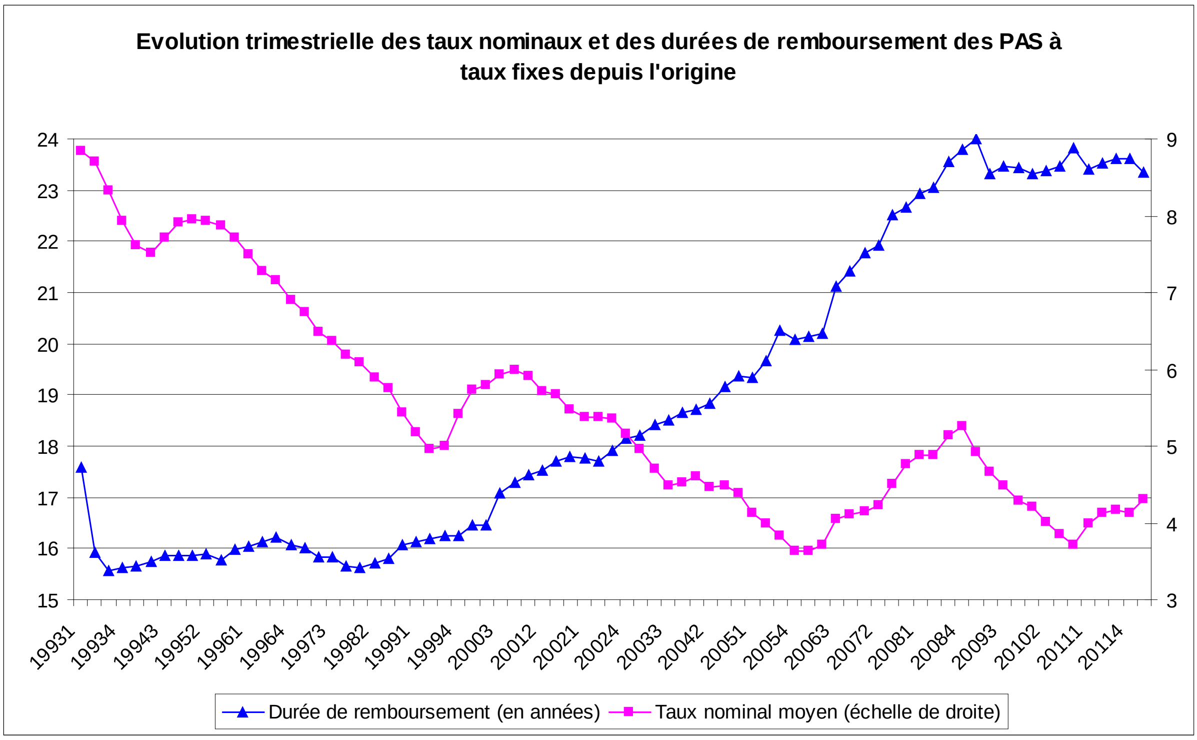
Chart 1: Fixed mortgage rates on PAS (*Prêts à l'Accession Sociale*), %



*Source: SGFGAS (*Société de Gestion du Fonds de Garantie de l'Accession Sociale a la propriété)

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3.4 GERMANY

Factors affecting the breakdown in mortgage interest rate types

The products designed to finance residential property in the German mortgage market have become more diverse in recent years. However, long-term mortgage loans, i.e. loans at fixed interest rates for a period of five to ten years, have retained their traditionally predominant position in the German mortgage market. Other products like “forward loans” - allowing clients to set in advance the conditions of the loan they plan to use in future - or variable loans are available as well. Once put in international comparison, the German banking sector has a large number of suppliers and a very low degree of market concentration, and competition in the property lending business is very high.

In Germany, the main funding instrument is savings deposits, followed by Mortgage *Pfandbriefe*. The latter are regulated by the “Pfandbrief Act”, according to which safety is a very important issue. The cover pools for Mortgage *Pfandbriefe* must include loans which are secured by real estate liens such as mortgages and land charges. Another important pillar of the safety of the Mortgage *Pfandbrief* is the fact that only a maximum of 60% of a property’s mortgage lending value may serve as collateral. For the funding of the part of the loan exceeding the 60% limit, other funding tools like unsecured bank bonds are available.

The launch of the Economic and Monetary Union (EMU) did not lead to significant changes in the composition of borrowers’ demand. Even the financial market crisis did not affect consumer preferences significantly. However, borrowers' demand shifted towards products with long-term low interest rates, which allow an accurate long-term calculation of household expenditures.

Against the background of interest rates at historical lows, the combination of a fixed-rate mortgage loan (10-year or longer) and a follow-up financing with a *Bauspar* loan has also become very popular.

Since the MFI interest rate statistics - which allow the calculation market shares by the type of different interest rates have become available, no significant change in the mortgage market breakdown has been observed.

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Table 1: Mortgage interest rates, year-end, %

	Representative-typical for new loans = Initial fixed from five to ten years *	Initial fixed from one to five years **	Variable and initial fixed up to one year ***	Initial fixed up for more than ten years
1990	9.89	9.94	9.94	n/a
1991	9.45	9.86	10.21	n/a
1992	8.55	8.65	9.71	n/a
1993	7.34	6.66	7.75	n/a
1994	8.81	8.42	8.05	n/a
1995	7.46	6.45	6.88	n/a
1996	7.09	6.01	6.36	n/a
1997	6.66	6.08	6.31	n/a
1998	5.29	4.80	5.78	n/a
1999	6.40	5.90	5.97	n/a
2000	6.44	6.19	6.81	n/a
2001	5.87	5.42	6.15	n/a
2002	5.52	4.96	5.83	n/a
2003	5.14	4.75	4.63	5.19
2004	4.63	4.29	4.37	4.67
2005	4.19	4.25	4.44	4.32
2006	4.60	4.86	5.23	4.56
2007	5.03	5.33	5.97	5.01
2008	4.83	4.84	5.38	4.73
2009	4.29	3.76	3.36	4.38
2010	3.70	3.31	3.38	3.77
2011	3.54	3.24	3.67	3.54

Source: Deutsche Bundesbank

Note:
*= 2003 - 2010: Representative-typical for new loans = Initial fixed between five and ten years; 1990 - 2003: Mortgage loans secured by residential real estate with interest rates fixed for ten years, effective interest rate (average interest rate);
**= 2003 - 2010: Initial fixed between one and five years; 1990 - 2003: Mortgage loans secured by residential real estate with interest rates fixed for five years, effective interest rate (average interest rate);
***= 2003 - 2010: Variable and initial fix up to one year ; 1990 - 2003: Mortgage loans secured by residential real estate with variable interest rates, effective interest rate (average interest rate).

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3.5 HUNGARY

Description and Definition of Mortgage Interest Rates

See Annexes, Table 1.

The Hungarian Central Bank (hereinafter MNB) regularly publishes interest rate data broken down by four categories: variable and initial fix up to one year; initial fixed from one to five years; initial fixed from five to ten years; initial fixed over ten years.

In Hungary, interest rates on loans expressed in local currency (HUF) have always been higher than in the euro area. Mortgage lending volumes started to grow significantly after 2000, in parallel with the introduction of the housing subsidy system which took place in 2001. Before restrictions to the housing subsidy system were put in place, HUF mortgage interest rates were around 6% for an existing dwelling and 5% for a new one. At that time, HUF-denominated mortgage loans were predominant and mortgage lending boomed compared to the previous years.

Due to restrictions on the housing subsidy system and increasing HUF interest rates from the end of 2003, mortgage interest rates on HUF-denominated loans became no longer attractive for customers, so banks started to grant foreign currency denominated mortgage loans. Since lending culture is relatively underdeveloped in Hungary, and borrowers are primarily cost-sensitive, the cuts in the subsidy system caused borrowers to gradually shift from the HUF mortgage loans towards foreign currency loans, thus benefiting from lower interest rates (especially on CHF-denominated loans). Interest rates on subsidised HUF loans were fixed for a period of 1 to 5 years, while foreign currency loans were granted with variable interest rates. Therefore, from 2003 to 2005, mortgage borrowers shifted from HUF-denominated to foreign-denominated mortgage loans and from initial fixed and fixed rate loans towards variable mortgage interest loans.

In the period between 2005 and 2008, when banks were competing to meet increasing mortgage demand, the variety of products and the related options and services for borrowers increased. For example, lenders launched mortgage loans with variable maturity or flexible instalments. The continued increase of Loan-to-Value (LTV) ratios, the availability of more complex products (e.g. insurance combined with a foreign currency loan) and the growth in sales via mortgage brokers signalled the highly risk-based competition undertaken by banks. Home equity loans also became popular, and by 2009 slightly more than 50% of gross mortgage lending was granted for housing purposes.

Since August 2010, mortgage lending in foreign currency has been prohibited by the Hungarian government. Given the high interest rates on HUF-denominated mortgages, the weak housing market and poor macroeconomic performance, mortgage lending activity has been stagnating around low levels in 2010 and 2011.

Funding

The Act on Mortgage Banks was introduced in 1997. This legislation, which was mostly based on the German *Pfandbrief* model, helped create an efficient mortgage funding system that was further boosted by the interest subsidy related to covered bond issues. An efficient funding system also helped establish a healthy asset/liability matching for lenders. The stricter rules imposed by the Mortgage Banking Act (such as tight property valuation criteria, average LTV not exceeding 60% in the mortgage pool, etc) promoted a more prudent mortgage lending culture. In 2004, nearly 70%

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of mortgage lending was financed through issues of covered bonds by mortgage banks. Mortgage banks were also able to refinance other commercial banks' mortgage business activity. At that time, the market proportion of fixed and initial fixed-rate mortgage loans started to increase.

As a result of the tightened housing subsidy scheme in 2003, demand for subsidised loans (denominated in HUF, with initial fixed interest rate) decreased and the market share held by CHF-denominated loans (with variable interest rates) increased steadily. Due to the availability of parent bank funding, the issuance of covered bonds no longer played such an important role in funding foreign currency-denominated loans. As a result, only a mere 30% of the total mortgage loan portfolio was secured by mortgage bonds in 2007. The newly-issued mortgage loans were almost exclusively issued at variable rates. Nevertheless, the proportion of mortgage loans financed by mortgage bonds is still relatively high in Hungary compared to the EU average.

<u>New regulations stemming from the financial crisis (prohibition on foreign-denominated loans and LTV restriction)</u>

As a result of the global financial turbulence which started in Q3 2008, many Hungarian households found themselves in difficult financial condition due to the devaluation of the HUF and the deteriorating economic environment (rising unemployment etc). Instalments on CHF-denominated loans rose by 30 to 40% due to the depreciation of the HUF against the CHF. In August 2010, the government implemented stricter regulation on mortgage lending, and foreign currency-denominated mortgage lending has been prohibited since then. The LTV ratio on HUF mortgage loans cannot exceed 75% of the real estate's market value (while this LTV limit is 60% on foreign-denominated mortgage loans). Prior to this new regulation, the LTV limit was above 100% for some banks, and with the exception of the mortgage banks, no regulation on LTV limits was in force.

<u>Most significant new Regulations affecting debtors' interests</u>

In September 2011, the government introduced the possibility of early repayment at non-market rate for those mortgage debtors that were able to prepay their mortgage loans. The early repayment option was available for mortgage borrowers until February 2012. According to provisional estimates, about 20% of the total outstanding mortgage stock of foreign currency-denominated (mostly CHF) mortgage loans were repaid until the end-February 2012. The difference between the official and the actual HUF exchange rate (approximately 30%) had to be financed solely by the lenders. This regulation has generated further losses for mortgage lenders. Higher NPL ratios have already had a negative effect on the financial condition of most Hungarian banks in 2010 and 2011.

On the 15th of December 2011, an agreement was signed between the government and the Hungarian Banking Association aiming to help mortgage borrowers that were not able to prepay their foreign-denominated loans, but who were suffering from high foreign-denominated debt burden. More-than-90-day overdue foreign-denominated loans were entitled for conversion to HUF-denominated loans, together with a loan write-off of 25% of the converted debt. For the benefit of borrowers of foreign-denominated mortgage loans, a cap was set on the HUF equivalent of the foreign-denominated mortgage instalments for a five-year period (whereby the HUF/CHF exchange rate is fixed at 180 instead of the actual 240; therefore, this scheme is protecting the borrowers against the high exchange rate volatility of the HUF versus foreign currencies). The difference of the capped instalment value and the real instalment value is then cumulated on a separate account and will be added to the customers' debt obligation after a 5-year, interest-free period.

There are also other incentives in preparation aimed at helping mortgage debtors, such as subsidy on the mortgage interest rate and the establishment of the so-called National Asset Management Company (NAT). This company would buy the flats of defaulting mortgage debtors from lenders at lower prices and then let these flats to borrowers, who may stay there as tenants. This scheme will cover 25,000 residential properties.

Trends in mortgage interest rates

2000 - 2004

Before the upswing of mortgage lending denominated in foreign currency, HUF-denominated mortgage loans were the most popular, typically at a fixed interest rate from one to five years. In 2001, the government introduced its housing subsidy program which vigorously boosted the Hungarian housing and credit markets. This program provided households with HUF-denominated mortgage loans at interest rates – in case of subsidised loans - ranging between 5% and 6%.

In 2003, however, the program was cut substantially and at year-end 2003 HUF interest rates started to increase significantly (the Central Bank increased its base rate up to 12.5% in November 2003). From 2004 onwards, the popularity of mortgage loans denominated in foreign currency started to gain ground.

2004 - 2009

From 2004, growth in foreign-denominated mortgage lending resulted in even stronger expansion of the Hungarian credit market. In the years from 2004 to 2009, banks were engaged in risk competition, and due to the strong mortgage demand they were able to price a significant premium into their loans. In 2005, the average interest rate on CHF-denominated loans was 5.93%, and then it rose to 7.23% by the end of 2008. In 2005, 60% of new mortgage loans were denominated in foreign currencies, and at the beginning of 2009 the ratio of foreign currency loans to outstanding mortgage loans exceeded 60%. At that particular time, household decisions were determined by the amount of monthly instalments to be paid without due consideration for the exchange rate and related interest rate risk.

During the global economic downturn many factors (higher policy rates in the EU and Hungary, etc) contributed to the substantial increase of funding costs which, nevertheless, was passed on to interest rates paid by households only to a limited extent.

In response to the liquidity tensions stemming from the financial crisis and as a result of more risk-averse practices, banks practically stopped granting CHF-denominated loans, and started to grant only EUR and HUF denominated loans. As a consequence of this currency shift, the APRC (Annual Percentage Rate of Charge) on new loans increased markedly (by roughly 2 percentage points).

Summer 2010 – to date

Since August 2010, mortgage lending in foreign currency has been prohibited by the Hungarian government. As the weak mortgage demand shifted to HUF loans, banks opted for stronger price

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competition when offering HUF mortgage loans. Interest rates on HUF-denominated mortgage loans decreased gradually in 2010, making these loans more and more competitive vis-à-vis foreign currency loans. Standing at 9.44% at the end of 2010, the interest rate on HUF mortgage loans was, however, still 2 to 4 percentage points higher than the interest rate on foreign currency loans observed before the crisis. By the end of 2010, as a result of the central bank's policy rate rise, the gradual decline of interest rates of HUF loans came to a turnaround.

At present, HUF-denominated mortgage loans are commonly granted at variable interest rates that are tied to a reference rate (BUBOR). Before the crisis, the pricing of mortgage loans was not reference-based and the interest rate could change during the maturity of the loan depending on market conditions. In 2011, the average interest rate on HUF mortgage loans increased compared to the previous year, most of this increase taking place in Q4 2011, when HUF-denominated mortgage borrowing remarkably increased due to repayment of CHF and EUR denominated mortgage loans at a preferential exchange rate.

The housing market is currently at a standstill in Hungary, and experts do not foresee a substantial change in market conditions before 2013. The current mortgage interest rate environment is not supportive of the housing market.

Table 1: Mortgage interest rates, year-end, %

	2005	2006	2007	2008	2009	2010	2011
Representative mortgage interest rates (CHF-denominated loans until 2008, HUF-denominated loans onwards)	5.93	5.82	6.42	7.23	11.65	9.44	12.54
Variable or initial fixed up to one year (HUF denom.)	10.78	11.52	11.48	13.34	11.65	9.44	12.54
Initial fixed from one to five years (HUF denom.)	11.70	12.86	12.39	14.25	12.98	11.18	n/a
Initial fixed from five to ten years (HUF denom.)	14.98	15.28	18.42	21.33	16.87	15.64	9.03
Variable or initial fixed up to one year (EUR denom.)	6.23	5.85	7.44	9.60	9.23	n/a	n/a
Variable or initial fixed up to one year (CHF denom.)	5.93	5.82	6.42	7.23	6.29	n/a	n/a

Source: Hungarian Central Bank

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3.6 IRELAND

Description and Definition of Mortgage Interest Rates

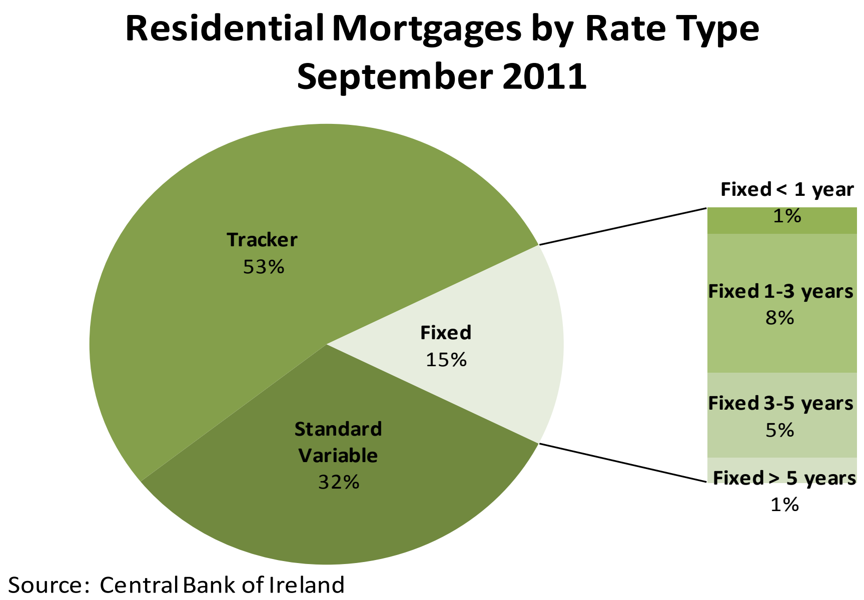
See Annexes, Table 1.

Factors affecting the breakdown in mortgage interest rate types

Since 2000, the preference of Irish borrowers has been for mortgage loans of a variable rate or fixation of one year or less, according to figures from the Department of the Environment, Community and Local Government and the Central Bank of Ireland. Generally, the premium attaching to fixed rate products and the risk of missing out on rate reductions during the period of fixation has been generally viewed as outweighing the benefits of certainty of repayment amounts.

The proportion of new mortgages fixed for more than one year dipped below 10% in 2004 as the ECB main refinancing rate remained at its then historical low of 2%. However, the proportion of new mortgages being fixed grew after the expectations of ECB rate rises were realised in late 2005. More recently, fixed-rate mortgages have accounted for less than 15% of new and outstanding mortgages. Out of those at fixed rate for more than a year, more than half were fixed for short terms (up to three years). It should be noted however, that the variable/fixed rate of less than one year includes tracker mortgages which constitute around 50% of all residential mortgage debt outstanding. A tracker mortgage is fixed at a margin (e.g. 1%) to a benchmark rate, normally the ECB main refinancing rate, resulting in immediate pass-through of ECB interest rate rises or cuts.

Chart 1: Residential Mortgages by Rate Type, September 2011, %



Source: Central Bank of Ireland

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The appetite for the various interest rate types may be influenced by expectations regarding developments in ECB rates as well as changes in the ECB rate itself. It will also be affected by the relative cost of the various rate types to the borrower.

As in other markets, fees apply in Ireland for early repayment of and for switching from fixed-rate mortgages.

Deposits are an increasingly important source of funding for mortgage lenders. The Central Bank of Ireland set a target loan-to-deposit ratio of 122.5% by December 2013 for the Irish-owned banks (AIB, Bank of Ireland Group, EBS Limited and Irish Life & Permanent) in 2011. While the main focus has been on deleveraging, especially non-core assets, banks are also keen to maintain or grow their deposit bases. The onset of the financial crisis has also disrupted the wholesale money markets. The availability of funding has significantly reduced, while wholesale money market investors have reassessed the risk involved in lending and increased their risk premiums for lending, particularly to Irish banks. As a result, the availability of wholesale money market funding has reduced while the cost has increased.

As a result, competition for retail deposits has increased in recent years, with an impact on lending margins. Between December 2007 and December 2011, the average interest rate on outstanding retail deposits went down by 100 basis points, while the average interest rate on outstanding residential mortgages declined by 221 basis points. Over the same period, the ECB main refinancing operations rate declined by 250 basis points, making it increasingly expensive for lenders to manage tracker mortgages.

The EMU has had a key influence on the development of types of interest rates, providing credit institutions with access to a much larger liquidity pool. This made mortgage credit more affordable and available. It also helped spur competition in the mortgage market, along with the entry of new market entrants in the early 2000s. Lenders developed innovative and competitively-priced interest rate products, such as products with initial discounts, tracker mortgages, mortgages where the margin applied was linked to the LTV (i.e. the lower the LTV, the lower the margin) and offset mortgages where a credit balance in a linked bank account would offset the amount of interest charged on the mortgage. The focus of competition between lenders was on tracker and variable-rate products, where most demand lay during the years of strong economic growth. In practice, the variable rates offered by lenders for property purchase depend on the LTV of the mortgage.

Trends in mortgage interest rates

The Irish Government has repeatedly stated its position that the pricing of financial products including variable rates on mortgages is a commercial decision for lenders having due regard to customers and the impact on profitability. However, the Central Bank of Ireland engages with lenders if they appear to have variable rates disproportionate to their costs.

On the demand side, the mortgage market has been influenced by consumer demand for variable rate products. However, it is important to note that from the early 2000s, tracker mortgages grew in popularity, eventually peaking at half of all residential mortgage debt by value.

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While the Irish mortgage market benefitted from entry into the euro area through lower interest rates, the ECB almost doubled its key rate between December 2005 and July 2008 from 2.25% to 4.25%, contributing to an equivalent rise in rates for new mortgage lending in Ireland, especially as take-up of tracker mortgages grew.

The onset of the global crisis initially prompted a steep cut in interest rates, mirroring the decline in the main ECB refinancing rate. However, as the position of the domestic banking sector weakened, so did the access of credit institutions to international capital markets for funding. In particular, the deterioration in the sovereign debt position in 2010 prompted credit institutions to become reliant on emergency funding from monetary authorities, which is relatively costly.

Since 2008, interest rates, particularly variable interest rates, have since fallen to historically low levels.

Table 1: Mortgage interest rates, year-end, %

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Representative mortgage interest rates	3.81	3.39	3.39	4.07	4.92	5.17	3.11	3.13	3.46
Fixed interest rate	3.99	3.66	3.65	4.31	5.06	5.37	3.81	3.80	4.42
Variable interest rate	3.77	3.36	3.35	3.98	4.86	5.12	3.01	2.85	3.20

Source: Central Bank of Ireland

Note:

Fixed interest rate refers to the new mortgage loan which is fixed for longer than one year; the interest rate is calculated by using an annualised weighted average of monthly rates for that year.

Variable interest rate: the new mortgage loan is an average of a flotation rate or fixed for a period of less than one year. Interest rate calculated using an annualised weighted average of monthly rates for that year.

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3.7 ITALY

Description and Definition of Mortgage Interest Rates

See Annexes, Table 1.

Factors affecting the breakdown in mortgage interest rate types

The mortgage market breakdown by interest rate type (fixed, variable, etc.) in Italy mainly depends on consumer preferences and borrowers' financial literacy. The fixed rate is recommended to those borrowers who want certainty about the monthly instalment they will have to pay during the loan's lifecycle, have fixed income and also expect accelerating inflation. The variable rate is recommended to those borrowers who expect decreasing inflation and therefore lower interest rates, have a medium-high income and are less risk-averse[2].

Regulation

Recent regulation has not directly affected consumer preferences in terms of interest rate types, but provided customers with a range of new benefits and opportunities. For example, the so-called "portability of mortgages" (according to the so-called "Decree Bersani" no. 7/2007 and the subsequent Law N. 40/2007) allows customers to change their bank by taking out a new mortgage for the same amount as that of the outstanding residual debt, at the conditions agreed between the new bank and the customer. The Decree also allows the new bank to take over the mortgage guarantee issued for the previously-granted loan– which gives the borrowers relevant advantages such as the modification of the interest rate type, the spread and the duration of the old mortgage. In addition, the new bank's mortgage can also offer better conditions (insurance, management, etc.) compared to the previous one.

With reference to the recent financial crisis, the expansionary monetary policy adopted by the European Central Bank and subsequent lower interest rates have certainly boosted demand for variable interest rates. During 2011, however, fixed rates have increased due to mounting pressure caused by Italian sovereign debt.

Trends in mortgage interest rates

The average interest rate on new residential mortgage loans increased from 2004 to 2008, moving from 3.66% (December 2004) to 5.09% (December 2008). Due to repeated cuts in the main refinancing operations' interest rate performed by the ECB as a response to the crisis, the average interest rate on new residential mortgage loans recorded a strong decrease in December 2009, reaching 2.88% while, as of December 2010 it increased slightly, reaching 2.97%.

Table 1: Mortgage interest rates, year-end, %

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[2] As of November 2011, the breakdown by mortgage interest rate type for new lending in Italy was as follows: Fixed to maturity: 29%; Variable rate: 66%; Other: 5%. For latest data on mortgage market breakdown, please see the EMF Quarterly Review Q3 2011. For the full dataset on mortgage market breakdown by interest rate type, see Table 2B available in the Annexes.

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	2003	2004	2005	2006	2007	2008	2009	2010
Representative mortgage interest rates (new loans)	3.80	3.66	3.73	4.87	5.72	5.09	2.88	2.97
fixed interest rate (more than ten years)	5.09	5.02	4.74	5.26	5.88	5.21	4.92	4.30
variable interest rate (fixed up to one year)	3.61	3.54	3.60	4.71	5.48	4.91	2.24	2.52
Other:								
Fixed from one to five years	3.76	3.80	3.28	4.09	4.99	4.98	3.35	3.48
Fixed from five to ten years	5.00	4.51	4.22	5.15	5.66	5.08	4.05	4.01

Source: Bank of Italy

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3.8 POLAND

Description and Definition of Mortgage Interest Rates

See Annexes, Table 1.

Factors affecting the breakdown in mortgage interest rate types

The share of non-floating mortgage products in Poland has always been extremely low. It can be safely said that variable rate mortgage loans constitute 99% of the total mortgage portfolio. More detailed data is not available.

Products other than variable rate-based are not readily available in Poland (and rather expensive in comparison to variable-rate products), therefore it is not possible to investigate the “consumer preferences”. Nevertheless, taking into account the popularity of foreign-denominated loans (compared to PLN loans) we can assume that the main factors influencing consumers’ preferences are: a) product availability; b) level of monthly instalments/price of a loan.

Trends in mortgage interest rates

The level of interest rates in Poland is mostly inflation-induced. That was also the main reason for the unavailability of this type of product in the 1990s; inflation rates in those times were so high that the banks did not offer mortgage loans at all. It was not until 2002 that the mortgage loans’ interest rate fell for the first time below the psychological threshold of 10%.

The other factor which influenced the level of interest rates was the general liquidity problem which has been observed since the onset of the crisis in Q3 2008. Due to ongoing funding problems, the interest rates on foreign-denominated loans have increased significantly.

Table 1: Mortgage interest rates, year-end, %

2002	9.97
2003	8.20
2004	8.08
2005	6.98
2006	5.74
2007	6.09
2008	8.05
2009	7.32
2010	6.58

Source: Bank of Poland

Note: average interest rate on new mortgage loans denominated in PLN.

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3.9 PORTUGAL

Description and definition of main interest rate types

See Annexes, Table 1.

Factors affecting the breakdown in mortgage interest rate types

The low level of interest rates and the increase in permanent disposable income in recent years have resulted in an increase in mortgage credit and also in borrowers' more pronounced demand for variable rate products, particularly those with initial fixed rate for less than one year. At present, the most common mortgage interest types are the following: initial fixed rate for less than one year, and variable to maturity linked to an external index, EURIBOR[3], which varies every 3 or 6 months.

Borrowers have the option of early repayment for any type of mortgage loan at low cost, especially with regard to variable rate products. This option also influences the variability of interest rates. Higher regulation on consumer protection has allowed borrowers to exercise early repayment at any time, to transfer the loan to another lender with better conditions without extra charges, and also to renegotiate their loan with the same lender (according to the Decree no. 51/2007 of 7 March 2007).

These options have been possible for borrowers not only thanks to interest rates at historical lows and stricter regulation on consumer protection, but also as a result of more efficient and less expensive administrative procedures related to the purchase and sale of real estate. The maturity of the mortgage contracts was extended from 30 to 50 years. The introduction of the "*Casa Pronta*" ("Ready House") system, which made it possible to carry out all the procedures related to buying and selling a property in one single public office, was associated with a decrease in the administrative costs of buying a property and also with less restrictive real estate law. The combination of the above factors increased the number of options for borrowers and provided stimulus to the housing market.

The predominance of variable-rate mortgages on the Portuguese mortgage market comes from the fact that mortgage providers are universal banks and that retail deposits are the prevailing funding source, complemented with capital markets. An alternative funding system, i.e. Covered Bonds, was set more recently as the first mortgage bond was issued only in 2006.

Even since the onset of the global financial crisis and the higher variability of reference rates, variable-rate mortgages continued to be the most popular, as a result of borrowers' expectations that mortgage rates will not decrease further.

Trends in mortgage interest rates

Since 1990, mortgage rates have recorded a considerable decrease. The total interest rate (i.e. including initial fixed rate and variable interest rates) on new loans in 1990 was at two-digit levels (19.60%) while at the end of 2011 it went down to 4.28%.

[3] The EURIBOR (which stands for Euro Interbank Offered Rate) is the daily reference rate based on the averaged interest rates at which the euro area banks offer to lend unsecured funds to other banks in the euro wholesale money market (or inter-bank market).

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The key-factors behind this interest rate decline were: political stability, the adhesion to the EU in 1986, decelerating inflation rates and the introduction of the EUR in 2002, which allowed access to credit at lower interest rates and enhanced financial markets' stability. These developments, coupled with the prevailing deposit-based funding method, contributed to make variable interest rates more and more attractive and popular (at the end of 2011, nearly 99% of mortgage contracts were at variable rate and at initial fixed rate for less than one year).

The latest data for reference rates, particularly the 3-month and 6-month EURIBOR, showed an increase which, due to their high correlation with mortgage interest rates, is expected to result in a rise in mortgage interest rates over the next years.

Table 1: Mortgage Interest Rates, year-end, %

	Representative mortgage interest rates	Fixed interest rate	Variable interest rate*	Total (including initial fixed rate and variable interest rate)
1990	19.60	n/a	n/a	19.60
1991	20.70	n/a	n/a	20.70
1992	18.70	n/a	n/a	18.70
1993	14.70	n/a	n/a	14.70
1994	13.30	n/a	n/a	13.30
1995	12.60	n/a	n/a	12.60
1996	11.20	n/a	n/a	11.20
1997	8.20	n/a	n/a	8.20
1998	6.00	n/a	n/a	6.00
1999	5.30	n/a	n/a	5.30
2000	7.40	n/a	n/a	7.40
2001	5.40	n/a	n/a	5.40
2002	5.10	n/a	n/a	5.10
2003	3.43	n/a	3.43	3.47
2004	3.39	n/a	3.39	3.45
2005	3.50	n/a	3.50	3.53
2006	4.40	n/a	4.40	4.41
2007	5.18	n/a	5.18	5.20
2008	4.96	n/a	4.96	4.94
2009	2.22	n/a	2.22	2.25
2010	2.96	n/a	2.96	2.98
2011	4.25	n/a	4.25	4.28

*=Including Floating Rate Loans plus New Loans with initial rate fixation up to one year

Note: the maturity breakdown which is reported refers to the initial rate fixation period and not to the original maturity of the contracts

Sources: Bank of Portugal Statistical Bulletin, Table B.7.1.1, Interest rates on new loans to Private Individuals for house purchases (end of period);
Bank of Portugal Statistical Bulletin, Table B.7.1, Interest rates on new loans to Private Individuals for house purchases (end of period)

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3.10 SPAIN

Description and Definition of Mortgage Interest Rates

See Annexes, Table 1.

Factors affecting the breakdown in mortgage interest rate types

Variable rate loans are the most popular type of residential mortgage loan in Spain. The interest rate is usually reviewed every 6 or 12 months, according to the official reference rate for mortgage loans secured on residential property (typically the 12-month EURIBOR), which is stated in the mortgage loan contact. Official reference rates are published on a monthly basis by the Bank of Spain and are publicly available[4].

According to the Bank of Spain, at the end of 2009, variable-rate loans accounted for 84% of mortgage lending outstanding and approximately 87% of them were indexed to the 12-month EURIBOR. However, as a result of uncertainty and liquidity problems in the EU since the end of 2008, which triggered a pronounced increase in mortgage interest rates, consumers have become more sensitive to the risks linked to variable interest rates. This is evidenced by the increase in the number of new mortgage loans with initial fixed period over one year (especially those with a fixed term between one and five years) to the detriment of "pure" variable interest rates. The proportion of mortgages with initial fixed period rates (between one and five years) out of gross residential mortgage lending increased from 5.6% in 2005 up to 12.1% in 2010 and 16.2% at the end of 2011.

Demand for fixed interest rates continued to be marginal. At the end of 2011, it only amounted to 0.8% of gross residential mortgage lending. The main reason for weak demand for fixed-rate mortgages is the higher initial financial burden for consumers and the shorter loan term.

Other options for the borrower such as early repayment do not seem to have a significant impact on consumer preferences. The early repayment compensation regime is regulated by the Spanish Act 2/94 of 30 March 1994 on "Subrogation and Modification of Mortgage Loans" and by Law 41/2007 (regulating all loan contracts that were signed after December 9th, 2007).

The new Law 41/2007 established two compensations as follows:

1. Compensation for withdrawal (the same in both variable and fixed interest rates mortgage loans for households):

- 0.50% of the early repaid capital when the early repayment is made within the first five years of the life of the credit or loan, or
- 0.25% of the early repaid capital when the early repayment is made at a time after that indicated in the previous point.

[4] The Spanish legislation on transparency of mortgage credit and consumer protection requires variable rate loans to be tied to the official reference indices published every month in the Official State Gazette. In addition, in the public deed the reference index should be indicated, as well as the exact dates for revision of the mortgage interest rate during the entire lifetime of the loan.

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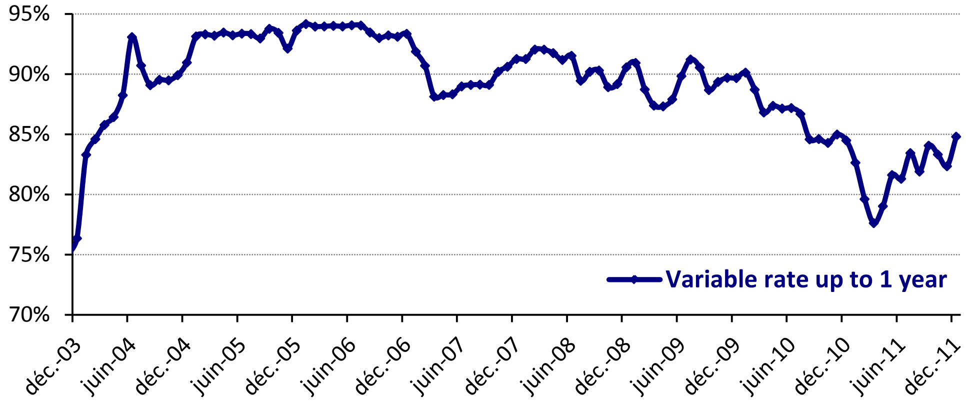
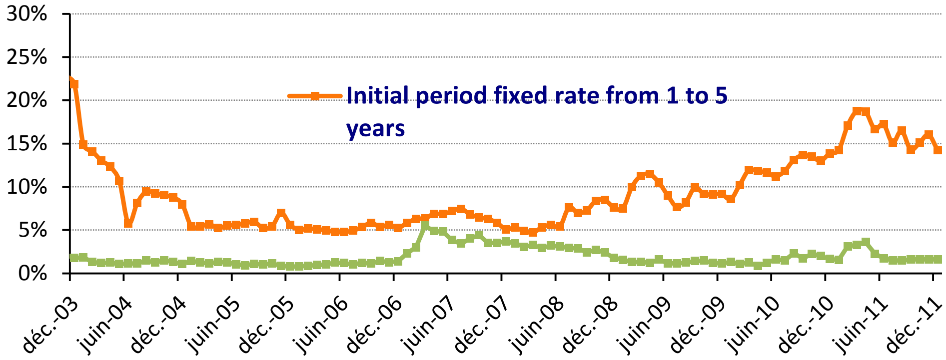
2. In the case of fixed rate products, a compensation for interest rate risk when there is a capital loss for the lender as a consequence of the early termination of the credit or loan.

Charts 1 and 2: Gross residential lending, market breakdown by interest rate type, %





Trends in mortgage interest rates

The EMU membership in 1998 led to a significant decrease in the level of interest rates in Spain as a consequence of increased macroeconomic and monetary stability and also due to the expansionary monetary policy implemented by the ECB during most of the period from 1999 to 2006.

From 1990 to 2004, mortgage interest rates declined significantly in Spain, i.e. from around 16% in the early 1990s down to 3% in 2004 when interest rates went to their record low. However, interest rates went up from Q3 2005 to the end of 2008 as a consequence, first, of tightened ECB monetary policy and, secondly, due to the increasing uncertainty and liquidity tightening in the EU after the onset of the international financial crisis.

In July 2008, the 12-month EURIBOR – the main reference in Spain of variable-rate mortgage loans - recorded its record high (5.39%) and remained above 5% for five consecutive months, having an impact on the financial burden of households.

From the end of 2008 onwards, the cuts in central rates down to record lows, as well as other measures implemented both by the ECB (in order to increase liquidity in the markets) and by the government (in order to increase confidence), were passed on to mortgage interest rates. During 2009 and 2010, these measures resulted in record lows in mortgage interest rates which, in a context of increasing unemployment, considerably helped reduce household debt burden. Equally, the ratio of doubtful loans to outstanding mortgage lending decreased from 3% in September 2009 down to 2.4% at the end of 2010.

As far as recent developments in interest rates are concerned, over the first half of 2011 mortgage interest rates gradually increased and reached the levels recorded in mid-2009 as a result - on the one hand - of tightened monetary policy in the euro area and - on the other hand - of growing funding difficulties for financial institutions as a result of the continued tensions in sovereign debt markets.

However, the increase recorded by mortgage interest rates over the first half of the year was partially offset by the downward trend recorded at the end of the year as a consequence of the reversal in ECB's monetary policy.

Table 1: Mortgage Interest Rates, year-end, %

	Representative mortgage interest rate	Fixed interest rate	Variable interest rate	Initial period fixed rate from one to five years	Initial period fixed rate from five to ten years
2003	3.29	4.16	3.29	3.27	5.91
2004	3.19	3.36	3.19	3.47	6.71
2005	3.29	3.39	3.29	3.59	6.56
2006	4.53	4.74	4.53	4.78	7.79
2007	5.35	5.33	5.35	5.65	7.29
2008	5.63	5.64	5.63	5.72	8.05
2009	2.45	4.03	2.45	3.06	7.17
2010	2.52	2.87	2.52	2.94	7.07
2011	3.47	4.85	3.47	3.97	8.99

Source: Bank of Spain

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3.11 SWEDEN

Description and Definition of Mortgage Interest Rates

See Annexes, Table 1.

Factors affecting the breakdown in mortgage interest rate types

Consumer preference for mortgage interest rates has changed over the years. When market interest rates reached very high levels during the previous financial crisis of 1992, borrowers with variable-rate mortgages were hit very severely. As a result of that crisis, borrowers tended to opt for fixed-rate mortgages for several years. However, Swedish borrowers behaved rationally: as interest rates started to decrease after the financial crisis in 1992, variable interest rates became more attractive so that the market share of variable interest rates started to increase from the end of the 1990s.

The *Riksbank* (the Swedish Central Bank), published an article[5] providing evidence that the household choice between different types of mortgage rates periods varies over time and that there are a number of reasonable explanations for this variability. Another key finding is that data shows a clear co-variance between the share of variable rate loans and the difference between interest rates on fixed and variable loans. A simple explanation is that when fixed interest rates increase in relation to variable interest rates, consumers should tend to choose variable interest rates. However, the *Riksbank* continues, there are strong arguments that undermine this assumption. For many households, a mortgage loan is by far their largest financial commitment; rash financial decisions could result in unnecessarily large household expenses. On the contrary, a possible explanation is that there is a risk premium included in the fixed interest rate which makes it, on average, more expensive compared to a variable interest rate. In addition, the risk premium included in fixed interest rates varies over time and influences the breakdown of variable and fixed interest rates mortgages.

To a certain extent, predictions about the interest rate levels seem to affect the choice between variable and fixed interest rates. In mid-2010 not only did interest rates start to increase sharply, but so did the expected level of interest rates over the coming years. Since then, the share of variable interest rates out of new mortgages has sharply decreased.

Since the onset of the financial crisis in 2008, it has been relatively more expensive for lenders to fund variable-rate mortgages. Mortgage institutions normally fund their loans via covered bonds with longer maturities. Fixed interest rates are then swapped with variable rates, in order to meet demand for variable-rate mortgages. Before the financial crisis in 2008, the cost for financial institutions to swap fixed interest rates with variable interest rates was very low, but after the crisis, variable interest rates have become relatively more expensive for borrowers than before.

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5 For further details, see Johansson, J., Lagerwall, B., and Lundvall, H., *Larger share of variable mortgages: how does this affect the impact of monetary policy?* in "The Riksbank's inquiry into the risks in the Swedish housing market", Riksbank, Stockholm, April 2011. The full publication is available at: http://www.riksbank.se/upload/Rapporter/2011/RUTH/RUTH%20eng.pdf

Trends in mortgage interest rates

Historical data for Sweden has only been available since 1996. Despite unavailability of earlier data, it is known that mortgage interest rates were much higher in the beginning of the 1990s and peaked at the time of the financial crisis in Sweden in 1992. Since 1992, mortgage interest rates have continued to decrease.

However, in 2005, mortgage interest rates started to increase, and this upward trend continued until the onset of the financial crisis in 2008. Mortgage interest rates fell quickly during the financial crisis as the *Riksbank* lowered the repo rate to alleviate the effects of the crisis. In Q1 2010, variable interest rates reached the record low of 1.41%. From 2010, interest rates have started to increase again, but have remained low in historical terms.

A description of the reasons behind the development of mortgage interest rates since 1990 would probably deserve more in-depth analysis. In short, one major factor behind interest rate development is the enormous difference between the two economic situations observed in Sweden in the beginning of the 1990s and today. During the 1980s the Swedish economy underwent significant imbalances, and in the beginning of the 1990s, the commercial property market crashed significantly, triggering a serious financial crisis in 1992. Both inflation and market interest rates were high during the 1980s, and during the crisis of 1992 interest rates reached their peak. Several measures were undertaken to take the Swedish economy out of the recession, which managed to restore confidence in the Swedish economy in the late 1990s. There is evidence of increased confidence as a result of lower market interest rates and lower interest rate spread against the German interest rate. Today, the economic situation in Sweden is to a great extent more positive than in many other EU countries.

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Table 1: Mortgage interest rates, year-end, %

	Representative mortgage interest rates (variable interest rate)	Initial fixed, from one to five years	Initial fixed, more than five years	Variable interest rate
1996	5.27	7.01	8.02	5.27
1997	5.33	6.76	7.02	5.33
1998	4.53	5.80	6.02	4.53
1999	4.39	6.03	6.15	4.39
2000	4.87	5.93	5.99	4.87
2001	4.71	5.57	5.89	4.71
2002	4.87	5.48	5.66	4.87
2003	3.73	4.63	4.94	3.73
2004	2.98	3.82	4.43	2.98
2005	2.37	3.68	4.16	2.37
2006	3.64	4.31	4.53	3.64
2007	4.77	5.16	5.23	4.77
2008	3.64	4.22	4.87	3.64
2009	1.44	3.08	4.55	1.44
2010	2.78	3.74	4.83	2.78
2011	4.19	3.85	4.39	4.19

Source: Statistics Sweden

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3.12 UNITED KINGDOM

<u>*Description and Definition of Mortgage Interest Rates*</u>

See Annexes, Table 1.

<u>*Factors affecting the breakdown in mortgage interest rate types*</u>

Since the latter half of the 1990s following deregulation of the market, UK borrowers have shown a tendency to be driven primarily by the initial rate offered, thus the spread of initial fixed over variable rate pricing at any given time is typically a key consideration in borrower preferences. In the years running up to the financial crisis, affordability pressures were heightened, particularly for First-Time Buyers (FTBs). FTBs were more likely to opt for fixed rate products. It is likely that this was to get certainty over monthly payments when their income is stretched.

There has been an increase in the proportion of outstanding loans that are on variable rates. There are two main drivers to this trend. The low Bank Rate has provided little incentive for existing borrowers to refinance at the end of a tie in period and they have therefore been more likely to roll on to a lender's reversion rate, the majority of which are linked, either directly or indirectly, to Bank rate. Tighter lending conditions have also made it more difficult for existing borrowers to refinance, particularly for those who have little equity or originally took out a product that is no longer widely available. This has a similar effect of increasing the propensity for existing borrowers to move to a variable reversion rate, increasing the proportion of outstanding mortgages that are on a variable rate.

<u>*Trends in mortgage interest rates*</u>

In the early 1990s mortgage interest rates were continuously on the rise and peaked at 7.16% in 1995. From the mid-1990s until 2003 mortgage interest rates followed a downward trend; during this period monetary policy was expansionary but there were also new entrants and increased competition in the mortgage market resulting in increased product innovation and more competitive pricing as lenders tried to increase market share. In addition, new funding streams from the money markets decreased the costs of funding for lenders and therefore the rates they could charge. Between 2003 and 2008 a tightening of monetary policy was reflected in the interest rates on new advances, mortgage interest rates increased again, but unlike the early 90s when rates passed 7%, the average rate remained below 6% (peaking at 5.83% in 2008).

Following the financial crisis and the collapse of financial institutions in 2008, the Bank of England's engaged in emergency relaxing of monetary policy, and from October 2008 the Bank rate fell in six successive months to an unprecedented low of 0.5% where it has remained for 27 months. Consequently, mortgage interest rates fell in 2009 and 2010, down to an average of 3.75% in 2010. Representative mortgage rates have not fallen by as much as the fall in the Bank Rate might suggest and the link between the costs of funding incurred by lenders and the Bank rate has been weakened since the credit crunch. Increased capital requirements and pressures to extend forbearance to borrowers in arrears have increased operating costs, and wholesale markets have only partially recovered, increasing the costs of funds.

Information on interest rates for fixed and variable lending is available from 2004. In the early part of this period there was very little difference between the interest rates for these different

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mortgage types. From 2008 with the rapid fall in the Bank rate the spread increased, with fixed rates deals becoming more expensive relative to variable rates.

Table 1: Mortgage interest rates, year-end, %

	Representative mortgage interest rates	Fixed rate	Variable rate
1993	5.63	n/a	n/a
1994	6.48	n/a	n/a
1995	7.16	n/a	n/a
1996	6.77	n/a	n/a
1997	5.84	n/a	n/a
1998	6.12	n/a	n/a
1999	5.98	n/a	n/a
2000	5.19	n/a	n/a
2001	5.48	n/a	n/a
2002	4.58	n/a	n/a
2003	4.18	n/a	n/a
2004	5.04	5.19	4.89
2005	5.24	5.12	5.26
2006	5.12	5.01	5.10
2007	5.75	5.60	5.82
2008	5.83	5.92	5.62
2009	4.28	4.84	3.20
2010	3.75	4.53	3.27
2011	3.56	4.11	3.01

Sources: Council of Mortgage Lenders, Bank of England

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CONCLUSIONS

- As evidenced in the Study of 2006, interest rates types on residential mortgage loans are broadly threefold: initial fixed, fixed to maturity and variable. However, this distinction is not exhaustive and does not reflect the plurality of different products which are available on the EU markets.

- However, when looking at the mortgage markets' breakdown by interest rate type, the EU markets can broadly be grouped by "fixed rate countries" (Belgium, Denmark, France and Germany) and "variable rate countries" (Ireland, Italy, Poland, Portugal, Spain and Sweden).

- The mortgage markets breakdown by interest rate types is typically influenced by several factors: funding source, yield curve, policy rate, caps and floors. In particular, in markets where covered bonds play a predominant or considerable role in mortgage funding, the slope of the yield curve determines higher or lower costs associated with variable-rate mortgages: if the yield curve becomes steeper, long-term rates are expected to increase and therefore variable rate mortgages become less expensive and more attractive than fixed rate mortgages.

- Many markets have seen a considerable shift in borrowers' preferences from fixed rate mortgages to variable rate mortgages during the years of the booming cycle (from 1999 to 2006). This trend – which is also witnessed by quarterly data regularly collected in the EMF Quarterly Review - then came to a halt after the onset of the crisis in Q3 2008, but has then materialised again in "fixed rate" countries such as Belgium and Denmark. In the UK, more and more borrowers have opted for variable rate mortgages which now are the majority of outstanding mortgages[6].

- During the booming years (i.e. prior to the crisis of 2008) foreign-denominated mortgage loans with variable rate (particularly in CHF) have become very popular in some of the new Member States, especially in Hungary and Poland. Since the crisis, these mortgages have become much more expensive for borrowers due to the marked depreciation of local currencies vis-à-vis the EUR and the CHF.

- The main variability mechanism for variable interest rates is the reference to the EURIBOR rate (Spain, Portugal). Danish variable-rate mortgages are linked to the CIBOR (the Danish equivalent of the LIBOR).

- Looking at historical developments in mortgage interest rates across the EU, mortgage interest rates followed a downward trend in most countries between the late 1990s and the early 2000s, which went on uninterruptedly until 2007. As a result of monetary policy tightening - due to rising inflationary pressures - from 2007 to Q3 2008 mortgage interest data across the EU started to increase. The crisis of late 2008 then prompted an unprecedented expansionary monetary policy stance in the EU, resulting in record lows in all types of mortgage interest rates during 2010.

- From Q3 2010 to Q2 2011, there were signs of reversal in monetary policies as a result of marked inflationary pressures. Tightened monetary policies were passed on to mortgage interest rates which however remained low in historical terms in all individual markets.

[6] Please see the EMF Quarterly Review, Q4 2011.

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Monetary policies throughout the EU then were eased in the second half of 2011, as a response to the worsening sovereign debt crisis.

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Annexes

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Table 1: Overview of mortgage interest rate types in the EU

	Type of interest rate	Description	Length of initial period of fixation	Further breakdown
BELGIUM	***Fixed rate***	"Fixed rate" means fixed to maturity.	Whole duration of the mortgage credit.	n/a
	Initial fixed period rate	See "variable rate".	The initial period of fixation can fall within these categories: - Between one and three years - Between three and five years - Between five and ten years - More than ten years	n/a
	Variable rate	The term "variable rate" is commonly used to indicate loans with "initial fixed period rate". Indeed, the shortest variability period allowed by law is one year variability.	n/a	n/a

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	Type of interest rate	Description	Length of initial period of fixation	Further breakdown
DENMARK[7]	***Fixed rate***	The fixed-rate mortgage is the "traditional" Danish mortgage loan. It carries a fixed interest rate for the duration of the loan. The loans are amortised as annuities over the duration of the loan. The loans are match-funded by fixed rate covered bonds with an imbedded borrower redemption option at par. At all times the borrower can buy back the bonds at market value. The loan is granted to private households as well as businesses.	30 years or 20 years.	A variant of the loan is an amortisation schedule where the first 10 years of the loan are interest-only. Other variants exist where the borrower can choose 10 random years which are interest-only.
	Initial fixed period rate	The dominant loan product for Danish mortgage loans today is the interest-rate reset mortgage loans. The interest rate is reset once every year. The covered bonds funding the loans are bullet bonds. These bonds mature according to the frequency by which the interest rate on the matching loans is reset. As the bonds mature new bonds are sold at auctions held by the mortgage banks to refinance the maturing bonds. The market (i.e. investors) hence determines the new interest rate on the new bonds and hence the underlying loans. The loans typically amortise as annuities. The payment schedule is adjusted every time the interest rate is reset.	30 years or 20 years.	Variations of the loan type involve less frequent refinancing every 3, 5 or 10 years.

[7] Prevalent founding source in Denmark is Covered Bonds.

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DENMARK	***Variable rate***	Variable rate mortgages in Denmark are linked to the CIBOR rate (Danish equivalent to LIBOR), which is the unsecured money market rate. Borrowers pay a premium on top of the CIBOR rate. The interest rate is primarily adjusted every six months. The loans typically amortise as annuities. The loans are only given to businesses.	30 years or 20 years.	
	Other rate	Variable rate loans with an interest rate cap. When the CIBOR rate hits the cap, the interest rate is not allowed to rise further. The loans typically amortise as annuities. The loans are typically given to private households.	30 years or 20 years.	For some loans the interest rate is locked at the ceiling for the duration of the loan when the interest rate hits the ceiling. In another variant of the loan, the interest rate comes back down when the interest rate once again falls below the ceiling.

	Type of interest rate	**Description**	**Length of initial period of fixation**	**Further breakdown**
GERMANY[8]	***Initial fixed, from one to five years***	Interest rate fixation refers to the period for which the interest rate is fixed in a loan contract. An initial fixed-period rate contract will start with a period during which the interest rate does not change. Fixed rate mortgages are included in the initial fixed period statistics.		
	Initial fixed, from five to ten years			
	Initial fixed over ten years			
	Initial fixed period rate ***Initial fixed period rate***		The initial fixed period is broken down into three maturity categories: - between one and five years; - between five and ten years; - more than ten years	- Foreign-denominated loans (CHF, EUR or JPY) or local currency loans (HUF) - State-subsidised housing loan (only for HUF loans, with an interest rate which is generally fixed for 5 years) or market conditions referenced interest rate

[8] Prevalent founding source in Germany is Covered Bonds.

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	Type of interest rate	Description	Length of initial period of fixation	Further breakdown
HUNGARY	***Variable rate***	In a variable rate contract the interest rate could vary monthly, quarterly, in six months, or up to a period of one year.	Less than 1 year	- Non-ruled (reviewable): the interest rate could be changed (if previously agreed with the bank), provided that refinancing conditions have changed; - Foreign or HUF loans; - Housing or home equity (the latter has higher interest rates)
	Fixed rate	A mortgage product where the rate and repayment are fixed, usually for a specified duration (e.g. two or three years). During this period the lender cannot change the repayment amount, while borrowers looking to exit the fixed arrangement/pay down the mortgage before the end of the fixation period are subject to an early repayment fee.	When the fixation period has expired, the mortgage generally rolls on to the lender's standard variable rate or the borrower may be offered a fixed rate for another set period. Unlike in other European countries, mortgages that are fixed until maturity are very rare, if available at all.	

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	Type of interest rate	Description	Length of initial period of fixation	Further breakdown
IRELAND	***Variable rate***	A mortgage product where the lender sets the rate which can be altered by the lender as needed. The borrower can also pay down or redeem the loan without penalty.		
	Other rate- tracker rate ***Other rate- tracker rate***	A tracker mortgage is fixed at a margin (e.g. +1%) to a benchmark rate (the ECB main refinancing rate), resulting in immediate pass-through of ECB interest rate rises or cuts. Tracker mortgages are no longer available for new home loans.	Fixed at a margin to a benchmark rate generally until maturity.	
	Other rate- split rate	For a split rate mortgage, part of the loan is on variable rate while the other part is on fixed. Borrowers have the option to pay down a proportion of their mortgage (variable rate part) with certainty over the repayment costs of the fixed rate part.	The fixation period for the fixed rate part will generally be for a specified duration, usually two or three years.	

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	Type of interest rate	Description	Length of initial period of fixation	Further breakdown
ITALY	***Fixed rate***	The interest rate remains fixed for the entire life of the loan. The fixed rate is based on the official index for long-term loans (IRS).	As a proxy of the category of fixed interest rates, we consider the interest rate determined for a period longer than 10 years	
	Initial fixed period rate	It identifies the contractual period during which the interest rate does not change.	- Up to one year; - between one and five years; - between five and ten years; - more than ten years	
	Variable rate	The interest rate changes throughout the lifecycle of the loan, according to changes in an interest rate index (EURIBOR)	As a proxy of the category of variable interest rates, we consider the variable rate determined for a period shorter than 1 year	
	Fixed rate	The interest rate is fixed up to 5 years, then the interest rate is based either on fixed or floating rate.	Between one and five years.	

	Type of interest rate	Description	Length of initial period of fixation	Further breakdown
POLAND	***Initial fixed period rate***	The interest rate is fixed up to 5 years, after which the interest is based on floating rate.	Between one and five years	
	Variable rate	The interest rate is variable through the entire duration of the loan. It is based on WIBOR/LIBOR rate plus a margin.		
	Fixed rate	The interest rate remains unchanged throughout the entire duration of the loan		

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	Type of interest rate	Description	Length of initial period of fixation	Further breakdown
PORTUGAL	***Initial fixed period rate***	Initially, the interest rate is fixed (most common is up to a one- year period). After this initial fixed period, the interest rate can either be fixed for another period or change due to a renegotiated rate or be linked to an external index (EURIBOR)	- Up to one year - More than one year	- Renegotiable; - Referenced to an external index
	Variable rate	The interest rate can change during the entire duration of the loan, and it can vary every month or up to a period of 1 year (more common 3 or 6 month)	Up to one year.	- Referenced to an external index
	Fixed rate	The interest rate remains unchanged in nominal terms along all the maturity of the loan.	Above one year the interest rate is considered “fixed rate”.	

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	Type of interest rate	Description	Length of initial period of fixation	Further breakdown
SPAIN	***Initial fixed period rate***	The interest rate is fixed for an initial period of more than one year (usually between one and five years). After this initial fixed period the interest rate is reviewed periodically according to an official reference rate for mortgages.	- Between one and five years; - Between five and ten years	
	Variable rate	The interest rate usually varies every 6 or 12 months, according to an official reference rate for mortgages, which guarantees that the loan will be adjusted to market prices when reviewed. Official reference indexes published monthly by the Bank of Spain and easily available. The most common reference index is the one-year inter-bank rate (EURIBOR).	Up to one year	

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SWEDEN	Type of interest rate	Description	Length of initial period of fixation	Further breakdown
	Fixed rate	Fixed interest rates during the entire maturity of the loan (approx. 40 to 60 years) do not exist.		
	Initial fixed period rate	An initial fixed-period rate contract will start with a period during which the interest rate does not change. After this initial fixed period, the interest rate can either be fixed for another period or vary.	The initial rate of fixation is smaller than the loan maturity. The initial rate of fixation varies from one year up to around ten years.	
	Variable rate	Variable rate contracts are normally interest rates up to (but not including) one year. Variable mortgage interest rates do not follow a reference index by law or regulation.	Before 2008, variable rates were normally calculated on a daily basis. Due to much higher interest rate volatility since the onset of the crisis in 2008, "on a daily basis-variable rate" loans were no longer offered by lenders. New variable mortgage loans had 3-month fixed interest rates. Today almost all variable interest rate mortgages are reviewed every three months.	Capped variable mortgage interest rates are offered by several mortgage institutions and banks. Capped variable interest rates are offered for a period between 2 to 5 years. During the time to maturity the interest rate will vary, but never exceed the ceiling which is stated in the contract.

UNITED KINGDOM	Type of interest rate	Description	Length of initial period of fixation	Further breakdown
	Fixed rate	The interest rate paid remains unchanged during the entire duration of the loan.	The entire duration of the loan.	
	Initial fixed period rate	The initial fixed period can go from 1 to 20 years. The most common initial fixed rate periods are 1,2,3,5 and 10 years. After the initial fixed period the interest rate can be fixed for another period or become variable.	Typically, 1, 2, 3, 5 and 10 years.	
	Variable rate	The interest rate can vary during the entire duration of the loan. It can vary on an ad-hoc basis as determined by the lender or it can be altered at set points during the contract. The interest rate of a variable rate mortgage changes in many ways, it can be referenced or reviewable.		

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Table 2A: Mortgage market breakdown by interest rate type, quarterly data, outstanding loans, %

	II 2007	III 2007	IV 2007	I 2008	II 2008	III 2008	IV 2008	I 2009	II 2009	III 2009	IV 2009	I 2010	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011
Denmark																			
fixed	n/a	n/a	n/a	n/a	n/a	n/a	43,5	41,9	38,7	36,2	34,0	31,0	30,0	29,0	28,5	28,1	28,6	28,3	26,9
Variable rate with interest rate cap																	11,1	11,0	10,9
variable	n/a	n/a	n/a	n/a	n/a	n/a	56,5	58,1	61,3	63,8	66,0	69,0	70,0	71,0	71,5	71,9	60,3	60,7	62,2
Germany																			
Variable and initial fixed up to 1 year	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0,5	0,5	0,5	0,5
Initial fixed 1-5 years	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2,8	2,8	2,8	2,9
Initial fixed > 5 years	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	96,7	96,7	96,7	96,6
Hungary																			
HUF denominated	61,1	57,4	53,5	48,9	48,7	44,8	39,4	35,6	38,4	38,2	37,6	37,0	34,0	35,5	34,7	37,0	36,1	34,5	37,4
EUR denominated	1,3	1,2	1,1	1,1	0,9	0,9	1,4	2,5	3,4	4,4	5,3	5,8	6,0	6,1	5,9	5,9	5,7	6,0	6,5
CHF denominated	32,7	35,5	36,1	49,2	49,3	52,9	57,5	59,7	56,0	55,3	54,9	54,6	57,0	55,2	55,8	53,3	55,9	55,0	53,3
Other FX denominated	4,9	5,9	9,2	0,8	1,1	1,4	1,7	2,2	2,2	2,1	2,2	2,5	3,0	3,2	3,6	3,7	2,4	3,1	2,8
Ireland																			
Fixed 1-3 years	17,1	16,6	16,9	16,4	14,9	13,9	11,6	9,0	7,9	7,1	6,3	6,3	7,1	6,8	7,3	7,9	7,7	7,3	n/a
Fixed 3-5 years	4,3	5,8	5,7	5,7	5,8	6,1	6,0	5,6	5,3	5,4	5,2	5,2	5,8	6,1	4,9	5,1	4,9	4,6	n/a
Fixed more than 5 years	2,2	2,2	2,1	2,1	2,2	2,3	2,4	2,9	2,7	2,3	2,2	2,8	1,5	1,4	1,3	1,3	1,3	1,2	n/a
Variable and initial fixed up to 1 year	76,5	75,4	75,3	75,8	77,2	77,8	80,0	82,5	84,1	85,2	86,3	85,7	85,6	85,7	86,5	84,3	84,1	84,3	n/a

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	II 2007	III 2007	IV 2007	I 2008	II 2008	III 2008	IV 2008	I 2009	II 2009	III 2009	IV 2009	I 2010	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011
Sweden																			
Initial fix >1 year	58,6	59,0	59,6	58,6	57,4	55,8	54,7	52,1	48,9	46,1	42,7	41,6	40,8	41,7	44,3	47,8	49,6	50,8	n/a
Variable and fixed up to 1 year	41,4	41,0	40,4	41,4	42,6	44,2	45,3	47,9	51,1	53,9	57,3	58,4	59,2	58,3	55,7	52,2	50,4	49,2	n/a
UK																			
Initial fixed	50,5	52,9	53,0	51,4	51,1	50,8	48,1	44,4	42,5	40,1	37,6	35,6	33,8	32,4	31,5	30,7	29,6	28,6	28,1
Variable	49,5	47,1	47,0	48,6	48,9	49,2	51,9	55,6	57,5	59,9	62,4	64,4	66,2	67,6	68,5	69,3	70,4	71,4	71,9

Source: European Mortgage Federation

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Table 2B: Mortgage market breakdown by interest rate type, quarterly data, new loans, %

	II 2007	III 2007	IV 2007	I 2008	II 2008	III 2008	IV 2008	I 2009	II 2009	III 2009	IV 2009	I 2010	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011
Belgium																			
Fixed interest rate	n/a	85,4	85,1	85,0	82,7	82,5	82,7	70,3	52,3	38,3	32,8	28,8	40,7	51,8	71,7	75,5	75,1	70,8	88,0
Initial fixed rate	n/a	13,4	13,7	13,3	15,1	15,0	13,6	16,1	21,3	20,5	19,7	19,7	19,3	18,7	15,8	11,8	14,3	11,9	3,0
Variable rate (= initial fix <= 1 year)	n/a	1,2	1,2	1,8	2,2	2,4	3,7	13,6	26,4	41,2	47,6	51,5	39,9	29,5	12,5	12,7	10,7	17,4	9,0
Denmark*																			
Fixed	54,0	55,0	38,6	38,0	38,2	43,9	27,0	17,0	8,0	16,1	15,2	12,0	20,0	47,8	38,1	25,9	31,2	31,0	17,2
Variable rate with interest rate cap																	6,8	5,6	5,2
Variable	46,0	45,0	61,4	62,0	61,8	56,1	73,0	83,0	92,0	83,9	84,8	88,0	79,9	52,2	61,9	74,1	62,1	63,4	77,7
Germany																			
Initial fixed 1-5 years	14,0	15,0	15,0	17,0	17,0	15,0	17,0	20,0	19,0	18,0	18,0	17,0	16,0	15,0	15,0	16,0	15,0	15,0	15,0
Initial fixed 5-10 years	39,0	38,0	38,0	37,0	38,0	39,0	38,0	38,0	41,0	41,0	40,0	38,0	37,0	38,0	39,0	39,0	39,0	38,0	39,0
Initial fixed > 10 years	33,0	31,0	32,0	31,0	30,0	31,0	29,0	25,0	24,0	24,0	25,0	26,0	30,0	32,0	32,0	28,0	30,0	31,0	32,0
Variable and initial fixed up to 1 year	14,0	16,0	15,0	15,0	15,0	15,0	16,0	17,0	16,0	17,0	17,0	19,0	17,0	15,0	14,0	17,0	16,0	16,0	14,0
Spain																			
Fixed	3,0	3,5	2,9	2,5	2,3	1,5	1,3	1,0	0,8	1,0	0,8	0,9	1,2	1,1	1,2	1,8	0,6	0,5	n/a
Initial fixed	8,1	7,4	5,8	5,4	6,1	8,2	8,1	11,7	9,4	10,3	9,5	12,3	11,6	14,3	14,2	18,6	18,7	16,3	n/a
Variable	89,0	89,1	91,3	92,0	91,5	90,3	90,6	87,4	89,8	88,7	89,7	86,8	87,2	84,6	84,5	79,6	80,7	83,2	n/a
Italy																			
Variable	27,7	n/a	25,4	n/a	21,0	n/a	21,9	n/a	34,5	n/a	66,5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Fixed to maturity	70,1	n/a	73,3	n/a	76,6	n/a	75,4	n/a	64,2	n/a	32,5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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	II 2007	III 2007	IV 2007	I 2008	II 2008	III 2008	IV 2008	I 2009	II 2009	III 2009	IV 2009	I 2010	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011
Ireland																			
Variable & initial fixed up to 1 year	51,0	70,5	94,5	88,3	76,4	78,2	90,6	88,4	61,0	83,7	83,9	67,7	75,8	75,2	76,8	67,7	85,8	87,8	n/a
fixed >1 years	49,0	29,5	5,5	11,7	23,6	21,8	9,4	11,6	39,0	16,3	16,1	32,3	24,2	24,8	23,2	32,3	14,2	12,2	n/a
Hungary																			
Variable or Initial fix up to 1 year (HUF denom)	5,4	5,1	5,1	4,8	4,0	4,4	5,8	9,9	15,4	14,9	13,5	25,0	65,4	81,1	84,6	81,1	75,2	69,3	69,9
Initial fix >1 = 5 years (HUF denom)	7,5	7,0	6,0	5,4	5,9	5,4	8,1	12,2	23,8	22,3	8,3	5,6	7,2	9,8	8,8	9,2	11,6	11,4	14,6
Initial fix > 5 = 10 years (HUF denom)	2,1	2,9	1,9	1,5	1,8	1,4	1,4	2,7	2,3	2,3	1,8	2,3	3,0	3,8	3,3	5,3	9,1	13,0	12,2
Initial fix > 10 years (HUF denom)	0,3	0,3	0,3	0,3	0,2	0,2	0,2	0,4	0,5	0,4	0,5	0,4	0,1	0,3	0,4	0,5	1,3	3,9	3,9
Variable or Initial fix up to 1 year (EUR denom)	0,5	0,4	0,5	0,4	0,3	0,3	10,6	46,6	44,2	47,3	58,9	49,7	21,0	4,6	1,2	1,4	0,5	0,2	0,0
Variable or Initial fix 1 year (CHF denom)	84,3	84,3	86,3	87,5	87,8	88,4	74,0	28,2	13,9	12,8	17,0	17,0	3,1	0,5	1,6	2,5	2,2	2,1	2,1
Poland																			
Fixed	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Variable	n/a	n/a	n/a	n/a	n/a	n/a	100,0	n/a	n/a	n/a	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	n/a
Portugal																			
Fixed	n/a	n/a	n/a	1,9	3,6	5,2	6,6	4,7	1,6	0,9	0,7	0,7	0,6	1,0	0,9	0,8	0,9	1,5	1,5
Variable	n/a	n/a	n/a	98,1	96,4	94,8	93,4	95,3	98,4	99,1	99,3	99,3	99,4	99,0	99,1	99,2	99,1	98,5	98,5

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	II 2007	III 2007	IV 2007	I 2008	II 2008	III 2008	IV 2008	I 2009	II 2009	III 2009	IV 2009	I 2010	II 2010	III 2010	IV 2010	I 2011	II 2011	III 2011	IV 2011
Sweden																			
Variable and initial fix for <= 1 year	47,2	46,7	48,5	59,0	61,1	68,9	77,2	85,3	83,3	84,9	83,5	77,7	73,9	63,9	60,1	52,6	55,0	54,4	n/a
Initial fix >1<=5 years	28,2	29,1	32,1	27,2	28,1	24,6	19,5	11,4	13,5	12,6	13,9	18,0	20,1	26,0	32,4	42,6	40,6	39,5	n/a
Initial fix >5 years	24,5	24,2	19,4	13,8	10,8	6,4	3,2	3,2	3,1	2,6	2,7	4,3	6,0	10,1	7,5	4,7	4,4	6,1	n/a
UK																			
Initial fixed	76,7	75,9	66,0	54,9	64,8	60,1	53,6	57,1	74,2	76,4	59,0	46,0	46,2	51,1	52,0	59,9	62,9	60,0	64,5
Variable	23,1	23,9	33,7	44,8	34,8	39,7	46,1	42,6	25,6	23,3	40,9	53,7	53,8	48,8	47,9	40,1	37,0	39,8	35,3

Source: European Mortgage Federation

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Table 3: Representative Mortgage interest Rates, year-end, %, historical data

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Belgium	n/a	n/a	n/a	7,27	8,81	6,63	5,64	5,88	5,01	6,09	6,79	5,93	5,41	4,73	4,71	3,89	4,36	4,93	4,99	4,43	3,82	3,69
Denmark	11,15	9,80	10,17	7,11	9,73	8,36	7,87	7,12	6,29	7,37	7,24	6,40	5,66	5,45	4,97	4,44	5,22	5,94	6,58	5,19	4,70	4,14
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,40	5,30	5,00	4,40	4,16	3,65	3,69	4,18	4,82	4,37	3,57	n/a
Germany	9,89	9,45	8,55	7,34	8,81	7,46	7,09	6,66	5,29	6,40	6,44	5,87	5,52	5,14	4,63	4,19	4,64	5,03	4,83	4,29	3,70	3,54
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,93	5,82	6,42	7,23	11,65	9,44	12,54
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	7,10	7,50	6,00	4,38	6,17	4,72	4,69	3,81	3,39	3,39	4,07	4,92	5,17	3,11	3,13	3,46
Italy	n/a	n/a	n/a	11,30	11,05	12,75	9,05	7,20	5,45	6,10	6,50	5,30	5,03	3,80	3,66	3,73	4,87	5,72	5,09	2,88	2,97	4,03
Poland	n/a	n/a	n/a	7,27	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	9,97	8,20	8,08	6,98	5,74	6,09	8,05	7,32	6,58	n/a
Portugal	19,60	20,70	18,70	14,70	13,30	12,60	11,20	8,20	6,00	5,30	7,40	5,40	5,10	3,47	3,45	3,53	4,41	5,20	4,94	2,25	2,98	4,28
Spain	n/a	n/a	n/a	n/a	n/a	n/a	6,20	5,60	4,90	4,40	5,90	4,50	3,80	3,29	3,19	3,29	4,53	5,35	5,63	2,45	2,52	3,47
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	5,27	5,33	4,53	4,39	4,87	4,71	4,87	3,73	2,98	2,37	3,64	4,77	3,64	1,44	2,78	4,19
UK	n/a	n/a	n/a	5,63	6,48	7,16	6,77	5,84	6,12	5,98	5,19	5,48	4,58	4,18	5,04	5,24	5,12	5,75	5,83	4,28	3,75	3,56

Notes:

Hungary: variable or initial fixed up to 1 year (CHF denominated)

Portugal: Interest Rates on new loans granted by MFI to residents in the Euro Area

Source: European Mortgage Federation

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Table 4: Fixed mortgage interest rates, year-end, %, historical data

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Belgium	n/a	n/a	n/a	7,27	8,81	6,63	5,64	5,88	5,01	6,09	6,79	5,93	5,41	4,73	4,71	3,89	4,36	4,93	4,99	4,43	3,82	3,69
Denmark	11,15	9,80	10,17	7,11	9,73	8,36	7,87	7,12	6,29	7,37	7,24	6,40	5,66	5,45	4,97	4,44	5,22	5,94	6,58	5,19	4,70	4,14
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,40	5,30	5,00	4,40	4,16	3,65	3,69	4,18	4,82	4,37	3,57	n/a
Germany	9,89	9,45	8,55	7,34	8,81	7,46	7,09	6,66	5,29	6,40	6,44	5,87	5,52	5,14	4,63	4,19	4,60	5,03	4,83	4,29	3,70	3,54
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	14,98	15,28	18,42	21,33	16,87	15,64	9,03
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3,99	3,66	3,65	4,31	5,06	5,37	3,81	3,80	4,42
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,09	5,02	4,74	5,26	5,88	5,21	4,92	4,30	4,99
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Portugal	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Spain	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4,16	3,36	3,39	4,74	5,33	5,64	4,03	2,87	4,85
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	8,02	7,02	6,02	6,15	5,99	5,89	5,66	4,94	4,43	4,16	4,53	5,23	4,87	4,55	4,83	4,39
UK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,19	5,12	5,01	5,60	5,92	4,84	4,53	4,11

Note:
Italy: > 10 years

Source: European Mortgage Federation

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Table 5: Variable mortgage interest rates, year-end, %, historical data

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Belgium	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4,24	3,72	3,36	3,18	4,47	5,26	4,87	2,92	3,12	3,82
Denmark	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4,39	4,07	4,35	5,46	3,91	3,04	2,48	2,45	2,94	4,18	4,72	4,64	1,74	1,59	1,19
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5,10	5,20	4,40	3,80	3,55	3,23	3,54	4,07	4,83	3,73	3,01	n/a
Germany	9,94	10,21	9,71	7,75	8,05	6,88	6,36	6,31	5,78	5,97	6,81	6,15	5,83	4,63	4,37	4,44	5,23	5,97	5,38	3,36	3,38	3,67
Hungary	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	10,78	11,52	11,48	13,34	11,65	9,44	12,54
Ireland	n/a	n/a	n/a	n/a	n/a	n/a	7,10	7,50	6,00	4,38	6,17	4,72	4,69	3,77	3,36	3,35	3,98	4,86	5,12	3,01	2,85	3,20
Italy	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	3,61	3,54	3,60	4,71	5,48	4,91	2,24	2,52	3,64
Poland	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	9,97	8,20	8,08	6,98	5,74	6,09	8,05	7,32	6,58	n/a
Portugal	19,60	20,70	18,70	14,70	13,30	12,60	11,20	8,20	6,00	5,30	7,40	5,40	5,10	3,43	3,39	3,50	4,40	5,18	4,96	2,22	2,96	4,25
Spain	n/a	n/a	n/a	n/a	n/a	n/a	6,20	5,60	4,90	4,40	5,90	4,50	3,80	3,29	3,19	3,29	4,53	5,35	5,63	2,45	2,52	3,47
Sweden	n/a	n/a	n/a	n/a	n/a	n/a	5,27	5,33	4,53	4,39	4,87	4,71	4,87	3,73	2,98	2,37	3,64	4,77	3,64	1,44	2,78	4,19
UK	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4,89	5,26	5,10	5,82	5,62	3,20	3,27	3,01

Notes:
Belgium: variable rate (fixed up to 1 year)
Germany: variable and initial fix for <= 1 year; Mortgage loans secured by residential real estate with variable interest rates, effective interest rate / Average interest rate
Hungary: Variable or initial fix 1 year (HUF denominated)
Portugal: Interest Rates on new loans granted by MFI to residents in the euro area

Source: European Mortgage Federation

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