Financial Regulation

Resilience of mortgage lending

Expansión

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If economic crises serve for anything it is for us all to learn from our mistakes. Now that the worst is behind us, we should have been thinking for some time now about how to fix what didn’t work and how to safeguard what did. As with a car engine, we have to change the parts that fail, but not necessarily all of them. In the Spanish mortgage market there are many parts that need to be fixed, it cannot be denied, but we should also recognise that many others worked well. In fact, despite the major crisis suffered by the Spanish economy and the rise in unemployment to over 25%, the mortgage market has shown significant resilience.

For example, the NPL rate for mortgage loans did not exceed 7% even in the depths of the crisis, whereas in countries such as Ireland it surpassed 20%, and in other types of lending in Spain, such as to real estate companies, it reached more than 35%. Furthermore, Spanish mortgage loans have led to our having one of the highest rates of home ownership in Europe, with around 80% of Spanish families owning their homes, compared with 70% for the EU as a whole and 50% for Germany. And this was achieved at a low price in internationally comparative terms. At present, Spanish mortgage loan outstandings are among the cheapest in Europe, at around 1.2%, compared with an average of nearly 2.1% for the euro zone.

Behind this resilience are a wide variety of factors, such as the fierce competition that has characterised our market, prudence in approving most of the loans in the portfolio and measures to lighten the burden of the crisis on vulnerable borrowers (renegotiations, Code of Best Practices, reform of the insolvency law, etc.). But a fundamental role was also played by the fact that the majority of our mortgage loans, more than 90%, are at variable interest rates. And this heavy weighting of variable rates during the crisis proved a fundamental advantage for the resilience of Spanish mortgage loans. Although this factor was initially considered a source of vulnerability, the fact that official interest rates were cut during the crisis meant that variable rates were a very positive factor for financial stability.

However, having a market so skewed towards variable rates, which is not the norm in Europe as a whole, may prove to be a vulnerability if in the future we find ourselves in another kind of crisis in which official rates are not cut by so much. Spain is correcting this situation, and at present 60% of mortgage loans granted are at variable rates and 40% at fixed rates. As a result the rates granted are increasing slightly. However, in order for banks to be sure of obtaining funds to lend at such long terms at fixed rates it is important that any prepayments not be too large or that they be compensated for, which is why in countries such as Germany prepayments are subject to penalties.

Spain's new mortgage lending law which is being worked on may have a very significant positive effect if it succeeds in increasing legal certainty, which has recently been undermined. This acts as a disincentive to the market and to obtaining funding with which to continue to grant mortgage loans.

It is important for this law to achieve a balance between banks’ and customers’ rights without discouraging either supply or demand. Reduced growth of the mortgage market would harm customers, particularly young people and those with limited resources, who would find themselves having to resort to a rental market that is currently very expensive in certain regions. Banks cannot predict with certainty whether a customer will default in the future, and it is possible that conditions will be tightened for customers that are actually good credit risks.

In short, it is essential to safeguard one of the strengths that Spain exhibited during the crisis. Let’s fix the faulty parts of the engine and keep those that work; that way it will be better in the future.

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