



BANKING STAKEHOLDER GROUP

CONSULTATION ON EBA/CP/2015/16 ON
“THE EBA BENCHMARK RATE UNDER ANNEX II OF THE MORTGAGE
CREDIT DIRECTIVE (2014/17/EU)”

General Comments and Replies to Questions

BY THE EBA BANKING STAKEHOLDER GROUP

London, November 20, 2015

Foreword

The EBA Banking Stakeholder Group (BSG) welcomes the opportunity to comment on the Consultation Paper 2015/16 on The EBA benchmark rate under Annex II of the Mortgage Credit Directive (2014/17/EU).

This response has been prepared on the basis of comments circulated and shared among the BSG members and the BSG's Technical Working Group on Consumer Issues and Financial Innovation.

This response outlines some general comments by the BSG, as well as our answers to the questions indicated in the Consultation Paper.

General comments

Sections 4 and 6 of the Annex II of the MCD specify that creditors should calculate the illustrative example of APRC included in ESIS using the highest level of a cap on the borrowing rate, or where there is no cap, the highest borrowing rate in at least the last 20 years or the longest period for which data are available, or “based on the highest value of any external reference rate using in calculating the borrowing rate where applicable or the highest value of a benchmark rate specified by a competent authority or EBA where the creditor does not use an external reference rate”.

The BSG agrees that the EBA should specify a formula for the benchmark rate rather than a single EBA benchmark rate.

The BSG is, however, of the opinion that the proposed formula for calculating the benchmark rate is not the best option that could be considered. Having in mind the consumer interest, we think that our proposal is a better way of achieving this goal.

The BSG suggests also that the most suitable underlying rate should be LIBOR, EURIBOR or the other interbank rates in the relevant Member States, instead of central bank interest rate.

Replies to Questions

1. Do you agree with the EBA's approach to deliver the EBA benchmark rate by publishing a formula from which creditors can calculate the rate? If not, outline why you disagree and suggest an alternative approach including the reasons for the suggestion.

The BSG is supporting the Option 1.3 suggested by the EBA in the Consultation Paper.

The BSG agrees that the EBA should specify a formula for the benchmark rate rather than a single EBA benchmark rate. This would make it more appropriate to the conditions in each Member State.

Regarding the historic period for the underlying rate, the BSG is supporting EBA approach - the EBA benchmark rate would be based on underlying rate for the 20 year period before the ESIS is provided to the consumer or the longest period for which data are available. However, in the longer run the MCD will need to be reviewed as the 20 year period will begin to include a time period when interest rates were at record lows. At this point it may be appropriate to introduce a more forward looking measure of potential interest rates increases.

2. Do you agree with the proposed EBA formula? If not, outline why you disagree and specify how the formula could be improved.

The ECB considered two potential formulae:

Option 1: EBA benchmark rate = the highest value of the ECB Main Refinancing rate or the national central bank refinancing rate (or equivalent national central bank rate) in the 20 year period (or the maximum period available) prior to the date of issue of the ESIS PLUS the borrowing rate applicable during the longest period known at the time of the provision of the ESIS

Option 2: EBA benchmark rate = the highest value of the ECB Main Refinancing rate or the national central bank refinancing rate (or equivalent national central bank rate) in the 20 year period (or the maximum period available) prior to the date of issue of the ESIS MINUS the lowest value of the ECB Main Refinancing rate, the national central bank refinancing rate (or equivalent national central bank rate) PLUS the borrowing rate applicable during the longest period known at the time of the provision of the ESIS.

The EBA concluded that Option 2 is the most suitable formula to calculate the EBA benchmark rate, because it considers that an element of the underlying rate may also be included in the borrowing rate and therefore eliminates the possibility of double counting in the formula.

The BSG disagrees with the EBA formula.

First of all, we are proposing a different underlying rate – please see the response to Q3.

Second, the suggested formula has some vulnerabilities. We don't understand why the lowest possible rate should be deducted and it hardly makes any difference as the lowest rate is normally very low. It is also not clear how this formula would work if central banks introduce negative interest rates.

Third, we think that it should be the highest of the underlying rates PLUS the borrowing rate applicable to the mortgage during the longest period known at the time of the provision of the ESIS MINUS the value of the underlying rate considered into the borrowing rate or the actual level of the underlying rate in case of not using it in calculating the borrowing rate.

3. Do you agree with the underlying rate to be input into the proposed EBA formula? If not, outline why you disagree and suggest alternative rate, including the reasons for the suggestion.

The EBA considered two rates as the underlying rate to calculate the benchmark rate:

Option 1 – Central Bank interest rate – for Eurozone Member States this would be the ECB Main Refinancing rate; for non-Eurozone Member States this would be the national central bank refinancing rate or equivalent national central bank rate;

Option 2 – Average variable mortgage rates – collected by ECB from Member States and published on the ECB website.

The EBA concluded that Option 1 is the most suitable underlying rate to use.

The BSG has a different opinion: we judge that the underlying rate should be LIBOR, EURIBOR or the other interbank rates in the relevant Member States. This is because these are more relevant to the funding costs of residential mortgages than the base rates. Experience from the past, especially in the crisis times, has shown that banks can raise mortgage rates due to increases in their funding costs, even if ECB base rate or the central bank base rate remains at the same level or even decreases.

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Submitted on behalf of the EBA Banking Stakeholder Group

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