Integration of Residential Mortgage Markets of Turkey and European Union in Light of Recent Regulation in Turkey[1]

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1. The Mortgage Markets in Turkey

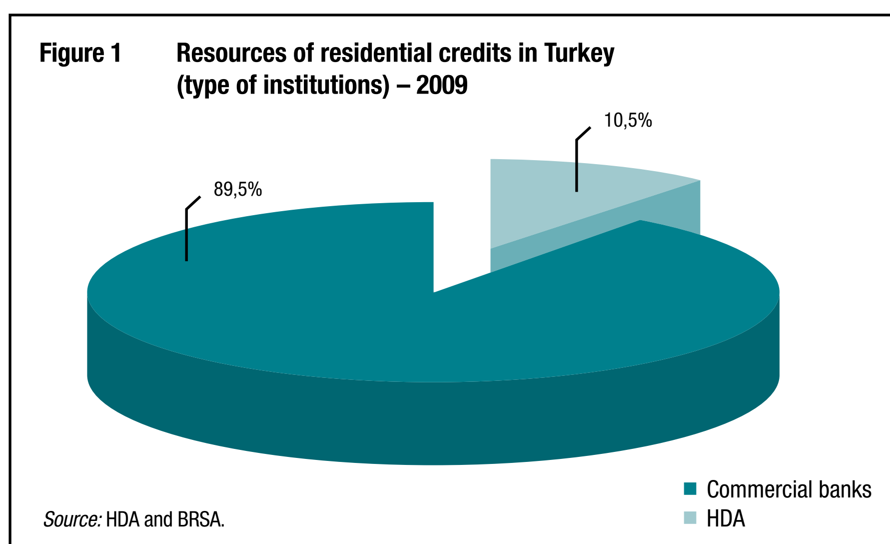
1.1 Structure of Turkish Residential Mortgage Markets

In Turkey, for a long time, the public sector has financed those wanting to have a first home. Providing funds to homeowners was not attractive to the banking sector because the laws hindered supplying loans in this area until 1979. Later on, it had not been found appealing for the banking sector to give loans to home buyers compared to other investment areas despite the fact that legal handicaps had been eliminated. Beginning in 1989, it became more attractive to provide finance for housing, and starting with a couple of banks, this area has become one where all the banks operate and compete with each other. In addition, it has gradually become possible to provide financing for home buyers with lower interest rates and longer loan terms. Today, the Housing Development Administration (HDA), which has operated as a public institution since 1984, and commercial banks provide funds for people who want to buy housing in the Turkish residential markets.

Like the Turkish financial system, which commercial banks dominate (86.1%), they also dominate in the residential credit markets. As of the end of 2009, the share of commercial banks in the Turkish mortgage market was 89.5%, while the share of HDA was 10.5% (Figure 1).

The HDA has been acting both as a housing finance institution and as a real estate developer in residential mortgage markets. It provides loans for housing construction by cooperatives, private companies, and municipalities. Real estate development activities of the HDA involve the consolidation of large tracts of land purchased from public or private owners and the preparation of plans, along with the provision of infrastructure. The HDA either implements large scale housing projects by contracting out both project preparation and construction or sells some of its project sites to non-profit home builders. The interest rates of HDA mortgage credits given to builders (cooperatives, private construction companies, and municipalities) have been indexed to the consumer price index (CPI) and the rate of state sector wage increases. The principal and interest rates are adjusted twice a year (January and July), while maturity changes between 5-11 years according to the size of housing.

Figure 1 Resources of residential credits in Turkey (type of institutions) – 2009



Source: HDA and BRSA.

Housing built directly by the HDA is sold at the beginning of the project. In general, these units have a 18-to-24 month construction period and are sold with long financing terms, (i.e., 10 to 20 years with interest rates indexed to CPI and the rate of state sector wage increase). The principal and interest rates are also adjusted twice a year like other mortgage loans. Homebuyers make a down payment when they sign the purchase contract. The down payment is 15-25% of the sale price of housing. While a significant part of the HDA's revenues had consisted of special taxes on certain imported or domestically-produced goods and services, such as tobacco, alcoholic beverages and luxury goods consumed and used mainly by upper-income groups up to 1993, the activities the HDA came "on-budget" after 1992. Today, the revenues of the HDA come from government budgets and the selling of houses built by HDA. For the mortgage lending provided by the HDA, the annual interest rate was **8.1% in 2009**, while it was 8.4% in 2008 and 10.6% in 2007 (HDA, 2008).

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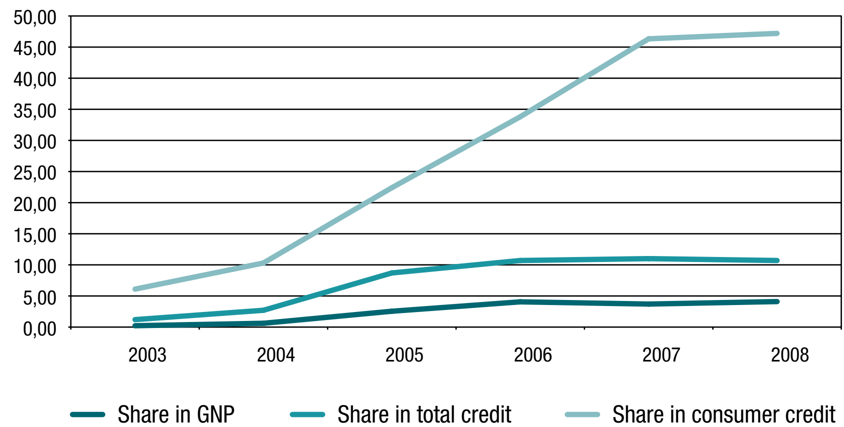
The banking sector, in charge of the Turkish financial system, is writing loans secured by mortgages, with terms extending up to 20 years and with market interest rates, with the assistance of commercial banks. The interest rates of these loans could only be fixed rates until the new regulation came into effect in 2007. Nowadays, they can give mortgage loans with variable mortgage rates. The interest rates of loans given by the banks varied between about **12%-16%** in 2009, while they were between 9.5%-19% in 2007 depending on the loans' maturity. Deposits in the banking sector finance these loans.

Recently the volume of mortgage credit has been increasing. The share of mortgage credit of overall consumer credit and also of total credit has increased rapidly, particularly since 2004. Similarly, the ratio of mortgage debt to the GNP reached 4.1% in 2008, while it was only 0.2% in 2002 (Figure 2).

Figure 2 Trends in residential mortgage credit in Turkey (%) (by Commecial Banks)



Source: BRSA, 2009.CBT, 2009.

In Turkey, financial sources funding of mortgage credit stem from savings deposits collected by commercial banks and government budget transferred to the HDA. However, the provision of funds based on the market has not yet developed. In fact, although the necessary legal regulations exist for financing through mortgages, the provision of funds based on the capital markets has either stayed limited in relation to several practices, such as housing certificates (for houses in Halkalı-İstanbul built by the HDA in 1989), asset-backed securities (ABS) (issued by commercial banks giving mortgage loan during 1994-1996) and real estate certificates (for houses in Ataköy-İstanbul built by Emlak Bank, which was a state bank in 1995), or has never been applied such as a bond issue for HDA. Also, some implementations which can be important tools to decrease the risks in the supply of lenders, such as HDA's buying of the residential mortgage loans given by commercial banks like Ginnie Mae in the USA, have never been started in spite of the presence of the necessary legal infrastructure.

1.2 New Regulations in the Residential Mortgage Markets

New arrangements have been made concerning housing finance with "The Law Amending the Laws Related to the Housing Finance System," numbered 5582 and known as the "Mortgage Law" in public opinion. This legislation came into effect in February 2007. Preceding this law, the main problems in the financing of housing in Turkey were:

- Lack of an efficient system in the financing of housing (this is valid both for the lenders and borrowers as well as for both the builders and buyers).
- Few institutions were supplying funding support to the housing sector (there are two types of institutions: HAD,-which is a public entity, and commercial banks)
- The high cost of the funds used in the financing of housing (financial resources supplying borrowed funds to housing outside the State are made up of a large amount of deposits. Only about 60% of the deposits collected can be used to give mortgage loans, because of the additional provision and reserve requirement ratio; this leads to the high cost of funds to be lent, and thus is reflected in the terms to the borrowers.)
- Inadequacy in meeting the funding needs of low- and middle-income groups. (In particular, although the terms (payment period) lengthened to 20 years after 2004, it has been possible for only high-income groups to benefit from the expensive credit or for the middle sector to have the power to pay if they have savings equal to 50-60% of the value of the house).
- Unavailability of sufficient and low-cost funds for builders.
- Lack of incentives such as interest deduction, tax deduction, or exemption in repaying the loan which encourages and facilitates house owning, as there are in countries with higher rates of home ownership.

As can be seen, preceding the new law coming into effect in 2007, there was a lack of an efficient system which allowed the middle- and low-income home buyer to pay for a house in spite of low-interest rates and lengthening terms. There are no affordable conditions of the mortgage credit for allowing the middle-income group to be able to pay according to its financial situation.

As a result of the initiatives started in 2004, when the new law was put into effect, with the aim of solving most of the problems mentioned previously, the following objectives were established:

- Creating institutions for financing mortgages,
- Allowing mortgage financing institutions to accept residential mortgages to securitize the loans,
- Allowing new types of institutions (financial leasing companies, financial companies) to accept residential mortgages to securitize loans.

Then,

- Allowing commercial banks, which gave residential mortgage loans, to securitize these loans,
- Allowing public institutions, such as HDA which were giving residential mortgage loan, to securitize them,
- Providing the ability to securitize depending on a "cover pool",
- Ensuring the continuity of the new housing finance system with the "Housing Finance Fund and Asset Finance Fund".

Thus, it will be possible for consumers to obtain

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funds from financial institutions outside of the usual banks by forming a bridge between the ones who are in need of funds; those who are the buyers of housing, and those who have surplus funds.

The system envisaged by the new law is based on obtaining resources through the issue of mortgage securities, providing long-term funds to the residential mortgage markets by the intermediation of commercial banks and newly-established mortgage corporations, and giving mortgage loans by using this resource. In order for this system to develop and strengthen, a lot of changes have been made in the articles of a number of laws – with the Consumer Protection Law, Capital Markets Law, Execution and Bankruptcy Law, Civil Law, and Tax Law receiving the main priorities.

Innovations the new mortgage law brings to the mortgage markets are:

- Changes made in the related articles of a number of laws to the advantage of those who want to borrow funds and to those who supply funds and, especially lenders.
- Establishing alternative institutions to meet the funding needs of the home buyers other than banks by allowing mortgage finance corporations and financial leasing companies into the mortgage markets.
- Allowing banks and the newly-established institutions participating in the market to offer mortgage credit with variable interest rates (previously only HDA could lend with adjustable rates).
- Creation of new funds based on resources provisioned from the capital markets
- In case a problem arises in paying back the credit, shortening the execution period in favour of the lenders.
- Abolishing the Banking Insurance and Transactions Tax (BITT) for mortgage credit, which is at a rate of 5%.
- Exempting mortgage transactions by the residential finance companies and mortgage companies from charges.

As a result in Turkey, even if it is a desirable thing, it is evident that establishing a mortgage finance system dependent on a market able to provide the ability "to buy a house just like paying rent" for the middle-income group with the new law put into effect recently, and having the desired results, will take a long time to happen. The reasons mentioned above take into consideration the depth of the capital markets and the extent of the potential of institutional and individual investors which can supply funds and also the extent of the insurance markets. However, since the new regulation has been put into effect, there have not been any improvements, yet.

2. The Integration of European Union Residential Mortgage Markets

In the EU, the importance of residential mortgage debt has continuously increased because of the liberalization efforts made in the financial markets and decreasing interest rates over the last 10 years. It can be seen from the growing volume of the residential mortgage debt that mortgage lending is a growing industry. As of the end of 1999, mortgage debt was 3.1 trillion Euros (EMF, 2000). It reached 6.1 trillion Euros by the end of 2009 (Table 1). Thus, mortgage debt to GDP in the EU-27 increased up to 51.9% in 2009 from 35.6% in 1999. Also, this level is higher than that of 2008 (49.9%). However, this growth is due to the sharp decline in GDP in 2009 (4.2%) as a result of the global financial crisis, which was triggered by the subprime mortgage crisis in the U.S.

This increase in the total mortgage debt reflects the credit dynamics strengthened by

Table 1: Residential Mortgage Markets in the EU-2009

Country	Value of Mortgage Debt (€ Million)	Residential Debt to GDP Ratio (%)
Austria	72.487	26.2%
Belgium	146.329	43.3%
Denmark	231.263	103.8%
France	737.600	0,4
Finland	71.860	0,6
Germany	1.146.969	47.6%
Greece	80.559	33.9%
Ireland	147.654	90.3%
Italy	330.585	21.7%
Luxembourg	15.842	0,4
Netherlands	602.192	105.6%
Portugal	110.685	0,7
Spain	678.872	64.6%
Sweden	236.062	0,8
UK	1.372.659	87.6%
New Members		
Bulgaria	4.268	12.6%
Czech Republic	16.975	19.4%
Estonia	6.111	44.5%
Hungary	15.543	16.7%
Latvia	6.866	36.6%
Lithuania	6.032	22.2%
Malta	2.458	0,4
Poland	56.569	18.2%
Romania	5.700	4.9%
Slovenia	3.972	11.4%
Slovakia	9.226	14.6%
South Cyprus	3	61.3%
EU-27	**6.125.727**	**51.9%**
Turkey	19.386	4.6%

Source: EMF (2010), **Hypostat 2009**, pp.79,82.

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the declining interest rates in the Euro area, to a great extent, after the application of a single monetary policy (ECB, 2006). Mortgage rates have declined substantially over the past ten years and reached historically low levels in 2005. Since the end of 2005, although they started increasing again, due to several interest rate hikes by the ECB and other European central banks (EMF, 2008), the interest rates have decreased as a result of the global financial crisis, which started at the end of July 2007 (EMF, 2010).

Besides, with increasing financial liberalization, the increasing efficiency of some of the EU countries in the mortgage markets and a recovering competitive environment have all been effective in increasing the demand for housing. Today, it is known that EU retail financial markets and, as a result, mortgage markets have not integrated fully yet. As a matter of fact, in EU member countries, most consumers receive services from the national institutions in the retail markets, and the 'beyond the border' activities of the firms in these markets are sparse with the product range supplied being different to an important extent among the member countries. The differences between the mortgage markets of the EU member countries stem from the structural characteristics of the markets peculiar to these countries. These characteristics can be listed as follows (Wyman, 2003. EC, 2011a).

- The demand for housing depends on the countries' demographic characteristics and their national traditions. For example, the house-buying age in these countries is from the beginning of the 30s to the middle of the 40s. The ratio of this age group to the total population is a factor determining the demand for housing. Other factors affecting the demand for housing are the size of the household, the percentage of home ownership, the income level of the household and the loan-to-value (LTV) ratio. A high LTV ratio means higher credit. While in some countries, the structure of the family and transfers coming from the family for buying a house are effective in changing the demand for housing, in some countries, the presence of social housing stock at a high level decreases the ratio of owner occupation and the borrowing level of the household for the housing.
- The differences in the ratio of mortgage credit reflect the specific differences in the housing markets. For example, the cost of a house and the differences in a house's average price reflect the structural differences between mortgage markets. A house with a high price makes it difficult for the household to save enough from the budget and requires a longer time to save a bigger amount. Besides, the price of the house and its cost is measured by the income per capita and the level of mortgage debt and also is related to the country's level of development.
- The differences in the household debt may be related to the country's financial structure and the easy access to the funds the household has. The foregoing factors affecting this are the broadness of the appropriate product range, maximum credit limit, credit term and the differences in the credit worthiness of the people asking for credit. The duration of residential mortgage credit in the Southern European countries is shorter than in other European countries (duration in Southern Europe is generally 15 years, and in other countries is 20-30 years). Similarly, the amount of credit opened is higher in the countries with higher LTV ratios. The positive correlation between the LTV ratio and mortgage debt is confirmed at the macroeconomic level.
- The difference in the indebtedness of the households among the members of the European Union countries may stem from the different financial policies put into effect within each country, and the incentives put into effect (tax deduction for interest payments, taxes applied to the income obtained from housing etc.) For example, in some countries, an interest reduction in the residential mortgage credit is the issue or in some others, the structure of the marginal tax ratios may affect the attractiveness of mortgage-secured interest payments. Differentiated tax implementation in the buying of houses and other financial assets influences the willingness of the household to be a homeowner an investment.

Although shared tendencies in the EU member countries are observed in the EU mortgage markets, a lot of differences can be observed in these markets. There is growth in the volume of the mortgage debt as well as there is relative growth in the markets of the member countries which does not change. The product range in the market, the profile of the debtor, distribution structures of the funds, credit terms, funding mechanisms, and the rate of owner occupation vary considerably among the member countries.

These differences in the mortgage markets exhibit their conditions related to the member countries' legal procedures, economic history and cultural factors. This result is directly related to direct public intervention in the housing markets (such as financial incentives making home ownership appealing), market regulations (putting a limit on the amount of credit according to the value of the house to be bought, and on the LTV ratio), competitive conditions in the mortgage markets, and the conditions in the markets for rented houses.

The findings of the many studies on EU mortgage markets and the findings of the research carried out by the European Commission support the view that the EU mortgage markets do not integrate well over the range of mortgage products and cross-border activities. However, the price differences among the member countries are relatively low. In the mortgage bonds and mortgage-backed securities (MBSs) sectors in the primary and secondary mortgage markets of the EU member countries, the link among the national market participants is weak. The direct selling levels of mortgage securities cross-border is very low and is less than 1% of all the credit activities. These kinds of activities are concentrated in the purchase of holiday housing or to a greater extent in the border areas (EC, 2004).

In the EU, where the volume of outstanding mortgage credit reached 50.1% of the EU-27 GDP by the end of 2009, mortgage markets maintain their national characteristics and the importance of these markets changes from country to country. The biggest mortgage markets in terms of the volume of outstanding mortgage debt were England, Germany, France, Spain, and the Netherlands (Table 1). Similarly, the ratios of the residential mortgage credit of the member countries to GDP are seen to be changing in relation to the development level of the countries. In most of the old members of the EU which have more developed economies, the ratio of the residential mortgage credit-to-GDP is 50% or more.

When the data from 2009 is studied, the differences among the member countries of EU can be seen, to a great extent, from the view of the residential mortgage debt-to-GDP ratio (Table 1). For example, the older members of the EU, where the ratio of residential mortgage debt-to-GDP is the lowest, include Italy, Austria and Greece, while the countries having the highest ratio are Denmark and the Netherlands. Also, the new members of the EU are below the EU average, except Cyprus.[3]

While remaining at high levels in several EU countries in 2009, growth rates in the total volume of outstanding mortgage loans fell sharply in comparison with 2006 in a number of other countries. The overall picture was therefore quite mixed, with the new member states of

[3] New members of the EU are the countries that become member after 2003.

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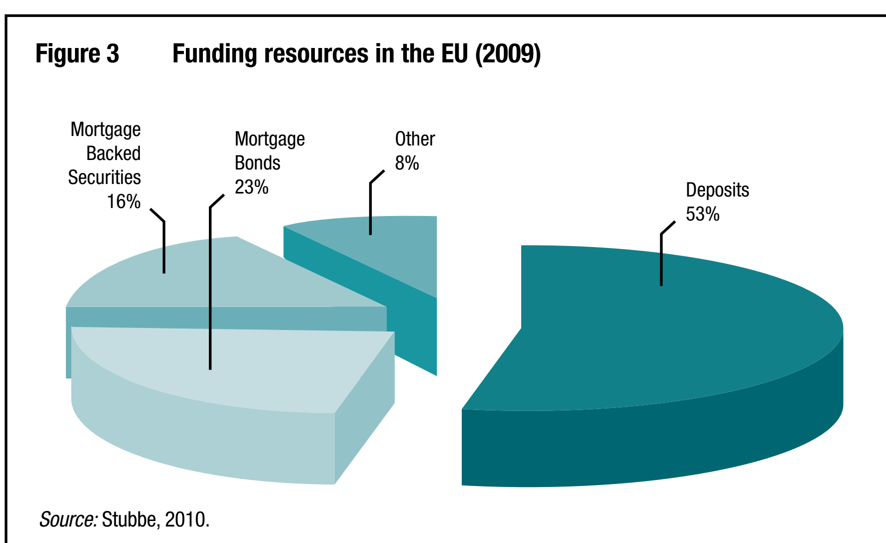
the EU-27 recording much higher annual growth rates than older EU member states. Only six of EU-27 member states experienced lower growth in the volume of outstanding residential loans in 2009 than in 2008, these were England, Estonia, Greece, Ireland, Latvia and Lithuania, (EMF, 2010). In general, the large differences between the mature markets of the EU-15 countries and that of the new members were confirmed by 2009 figures.

In the mortgage markets of the EU member countries, various funding techniques are used and they differ from country to country. The technique chosen also depends upon the lenders. The most commonly-used instruments to fund the mortgage loans are saving deposits (53%). Also, they have been providing funds from the capital markets by issuing mortgage bonds and mortgage-backed securities (MBS); 39% of the mortgage credit is funded through the capital markets. Almost (23%) of this is obtained through the issue of mortgage bonds and the rest (16%) through the issue of MBS (Figure 3). Three countries (Germany, Denmark and Sweden) in the EU mortgage bond market have 90% of the market. In 1990s, reforms were made which make the issue of mortgage bonds appealing in France, Spain, Ireland and Finland". As a result, in the EU mortgage markets, funding through the issue of MBSs had a share of 1% in 1998, but it increased sıxteenfold in 2009 (to 16%). But, retail deposits still remain the predominant of mortgage finance in the majority of EU member countries, though the use of capital market products.

Figure 3 Funding resources in the EU (2009)



Source: Stubbe, 2010.

As the mortgage lenders, commercial banks are in a dominant position with a share of 39% in the EU mortgage markets. Mortgage banks playing an important role in Denmark and Sweden, and which have an important role in Germany, France, Greece, Austria and the Netherlands, are in second place in providing funds to the mortgage markets (20%), and the deposit banks are in third place (12%).

In the EU, where the total of the mortgage debt has increased threefold in the last 10 years, the growth rate of mortgage loan has been higher than the growth rate in the GDP. In 2009, the growth difference became even larger although occurring the latest global financial crisis (EMF, 2010). The driving factors of this strong growth were the procedures carried out to participate in a single currency since the beginning of the 1990s to meet the needs of the adjustment to financial liberalization and the falling interest rates. This environment has led to more competition in the housing markets and has caused the increase of the home buyers' affordability and as a result, has resulted in a rising demand for mortgage loan.

According to research done by the European Commission, the EU GDP is estimated to rise 7%, and the EU private consumption is estimated to rise 5% by 2015, as result of the full integration of the EU mortgage markets,. This means that with 2005 prices, EU GDP will rise to 85.8 billion Euros by 2015, and private consumption will rise to 38.7 billion Euros. As the differences in mortgage rates are small among the member countries,[4] this small influence will cause private consumption to rise 0.1% and GDP to rise 0.1%. The new projects to increase the integration of the EU mortgage markets will decrease the mortgage rates to 47 basis points in 2015 and this means that the interest rate repayment will be 470 Euros lower on a mortgage of 100,000 Euros. This 470 Euros of savings would be savings to the consumer only. As those who borrow new funds set aside a fixed amount of their incomes for the repayment of mortgages, the low interest rates may cause them to receive more funds through the mortgage loan and this will cause housing prices to rise. Besides, the decrease in the profit margins of the financial institutions giving mortgaged funds will cause their share values to decrease (London Economics, 2005). The estimated benefits, which could be slightly different today given the evaluation of market conditions, arise from the increased efficiency of mortgage lenders and availability of a wider range of products (CEC, 2007).

The European Commission, which realized the importance and effect of mortgage credit on the EU economy and its effect on the EU citizens, has put into effect a lot of measures and is still doing so in order to make the mortgage markets more influential and have a more competitive environment. For example, during the Financial Services Action Plan (FSAP) period (2000-2005), more importance was attached to the integration of retail financial services, but it was emphasized that the properties of the products, protection of the consumer, consumption culture, and the role of the structural subjects played a very important role in the financial services markets; for these reasons the integration in the markets would be difficult. In the new politics explained in the White Paper (2005-2010), it was emphasized that the factors impeding beyond-the-border activities and the risks for the consumers should be identified and measures should be taken in this respect. The Commission has determined the integration of mortgage markets to be a priority area in the next years (EC, 2004).

Also, the Commission, which published the White Paper on the Integration of EU Mortgage Credit Markets in December 2007, has set four objectives relating to cross-border supply and funding, product diversity, consumer confidence and consumer mobility. This identified a package of proportionate measures designed to enhance the competitiveness and the efficiency of EU

[4] In the EU, other interest rates other than the consumer credit interest rates are falling and they have converged in the member countries. This convergence of interest rates has grown more with the common currency coming into use. In fact, when German interest rates are taken as a criterion, the interest spreads in the consumer credits change more than 9% (5.02% in Finland, and 4.7% in England). Although it falls down to 5% in the short tem credits opened for the institutions, fluctuation is still very important. (-4.55% in Holland, 0.37% in Ireland). The fluctuation in the middle- and long-term credits fell down to 3% (-1.96% in Finland, 1.1% in Greece), in the mortgage ratios to 2% (-0.99% in Finland, 1.6% in Sweden) and the spread in the premiums of termed deposits fell down to 1%.(0% in Denmark, 1,4% in Holland). See EC, 2004. pp. 15-16.

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mortgage markets which will benefit consumers, mortgage lenders and investors alike (CEC, 2007).

The proposal for a Directive on mortgage markets followed the White Paper. The Commission prepared the proposal for a Directive of the European Parliament and of the Council on Credit Agreements Relating to Residential Property in March 2011 (EC, 2011b). The twofold aims of this proposal, are indicators of the efforts to create an internal market for mortgage credit against the background of the financial crisis. First, it aims to create efficient and competitive single market for consumers, creditors and credit intermediaries with fostering consumer confidence, costumer mobility and cross border activity of creditors and credit intermediaries. Second, it seeks to promote financial stability by ensuring that mortgage credit markets operate in a responsible manner.

In fact, since the products of the mortgage markets include both the monetary markets and capital markets regarding the provision and transfer of funds, developments in the monetary markets and the integration of the capital markets will also enable the development in the integration of the mortgage markets. Indeed, the creation of common standards for institutions in these markets, and in their activities, in the mortgage products in the level of unity, and strengthening the monitoring and supervision of the markets will support the formation of a single EU mortgage market. For example, the new Capital Adequacy Directive (CAD-3) has been prepared to adjust to the existing Capital Adequacy Directive (CAD-2) Basel II to the new Capital Efficiency Accord, which is oriented towards banks operating in the international financial markets. In fact, although the Basel II accord concerns banks operating in the international financial markets, the EU has prepared CAD-3 to regulate all finance institutions. Therefore, mortgage banks operating in mortgage markets are specialized housing institutions that have to take into consideration many directives related to capital and money markets. By the same token, many directives concern the monetary markets, capital markets, mortgage markets, and the integration of the mortgage markets, such as the Prospectus Directive, the Market Abuse Directive, the Markets in Financial Instruments Directive (MiFID), the Transparency Directive, the Directive of Taxing the Deposits, the Directive related to the Undertakings for Collective Investment in Transferable Securities (UCITS), the Directive for the Protection of the Consumer, the Directive related to the Processing and Supervision of the Big Risks of the Credit Institution, the Council Directive Related to the Beyond the Border Money Orders and the Council Directive Related to the Carrying out of the Activities of the Credit Institutions and their Monitoring (EC, 2005a. EC, 2011b).

3. The Comparison of European Union and Turkish Residential Mortgage Markets

EU mortgage markets,[5] which are yet far from attaining the aim of a single market and where the member countries protect their national characteristics, and which take precautions for the integration of mortgage markets, demonstrate differences from the Turkish mortgage markets in various ways (in view of institutions which are active in the markets, product structure, funding resources, level of mortgage rates, LTV ratio, and the instruments used).

The first difference between the mortgage markets in EU and in Turkey comes from the variety of the institutions in these markets. In Turkey, one public institution (HDA) shows activity in the residential mortgage credit markets with commercial banks, which are in the first place. In the institutions operating in the EU in general, variety is an objective contrary to the situation in Turkey. In the EU mortgage markets, besides the commercial banks, savings banks, cooperative banks, mortgage banks, specialized institutions (building societies, Bausparkassen), insurance companies, and pension funds are active. With the new legal regulations in Turkey, this variety is expected to increase.

The second difference between the mortgage markets of Turkey and EU stems from the volume of the markets. Although the mortgage debt-to-GDP ratio had a significant increase of 4.6% in 2009, this is below the EU-27 average (51.9%). As of the end of 2009, Turkey has a lower ratio than all of EU-27 member countries. When the EU is regarded from the view of member countries, although the mortgage debt-to-GDP ratio in all of them increases with years, it is seen that in some of the old members this ratio is quite under the EU average (Austria, Belgium, Germany, France, Italy, Luxembourg and Greece); however, in some of them it is much above the EU average (Denmark and the Netherlands). In the new members of the EU, mortgage debt-to-GDP ratio is generally under the EU average. Also, level of per capita mortgage debt differs from one another. As of the end of 2009, Turkey,

Table 2: Housing Market Characteristics

	Home ownership Ratio (%) 2009	Typical LTV ratios of new loans (%)	Loan Term (years)	Mortgage Rate of new Loans (%) 2009
Austria	56,2	90-100	20-30	3,71
Belgium	78	80-85	20	4,43
Denmark	54	80	30	5,19
Germany	43,2	70-80	20-30	4,29
Greece	80	70	15	3,08
Finland	58	75-80	15-18	2,45
France	57,4	80	15	4,60
Ireland	74,5	70-100	20	2,61
Italy	80	50	10	4,52
Luxembourg	75	80	20	2,03
Netherlands	57,2	87	30	5,37
Portugal	76	75-90	30	2,25
Spain	85	80	15	2,52
Sweden	66,3	80-90	<30	1,43
United Kingdom	70	75	25	4,34
Turkey	69,5	75	5-20	14

Source: EMF, 2010.

[5] In comparision, it will take the EU-15.

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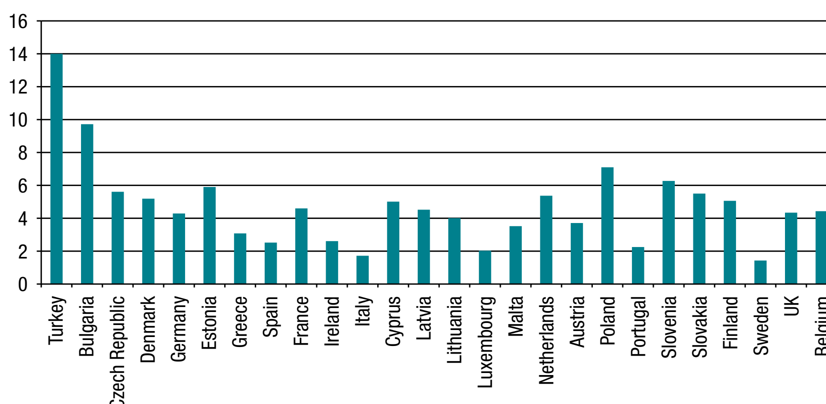
that had €0.28 per capita mortgage debt, has a lower ratio than all the EU-27 member countries in 2009– Turkey while the average of the EU-27 was €12,370 (EMF, 2010).

According to the term structure of the residential mortgage credit and LTV ratio, it can be observed that the long term in the EU is 15 years in general, or up to 30 years. Excluding Italy, the LTV ratio is generally over 80%. In Turkey, in recent years, the term has gotten longer (10-20 years) and although LTV ratio has increased to 75%, it is higher only than in Italy.

One of the important differences between the EU and Turkish mortgage markets is the level of mortgage rate. The annual average mortgage rate in Turkey (14% in 2009), in spite of the falling trend in recent years, is about five times the EU-27 figure (Figure 4).

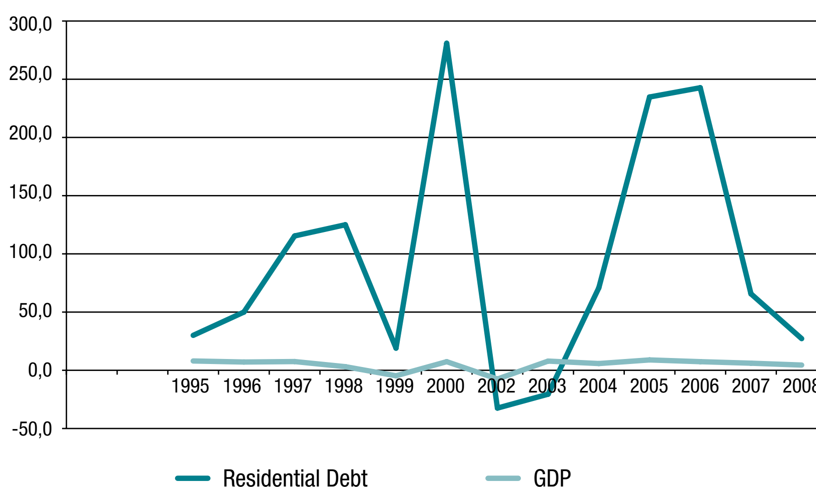
Figure 4 Representative Interest Rates on New Mortgage Loans (2009)



Source: EMF, 2010.

There are some similarities between the EU and Turkish mortgage markets. First, one similarity is in the growth trend of mortgage debt. While in the EU the residential mortgage debt grew 7.4% on average, this ratio has been well over the GDP growth rate. Like EU member countries, in Turkey the growth rate of outstanding residential mortgage debt, which has increased to a great extent in recent years, has been well over the growth rate of GDP, except in the economic crises years (1994, 2000 and 2001 crisis) (Figure 5).

Figure 5 Growth Rate in the Residentiak Debt and GDP (%)



Source: BRSA, CBT.

Second, there is a similarity in the main funding source for mortgaged loans. Although there is a big difference between the financial systems of Turkey and EU regarding their volume, the banking sector dominates in both of them. For this reason, in both of them, the savings accounts of the commercial banks are the most important source of funding. The share of the savings accounts in the EU mortgage markets was 53% and in Turkey it is 85.5%. However, in Turkey the second place is taken by budget-resourced funds which are transferred to the market by means of the HDA, a public institution, but in the EU, mortgage markets obtaining funds (23%) by means of the issue of mortgage bonds take second place. Obtaining funds by means of MBSs has increased considerably in the recent years. While in 1998, the share of MBS was 1%, it went up to 16% in 2009.[6] It can be seen that while the increase is provided in the funding of mortgage markets based on the capital market in EU, no development in Turkey has been achieved funding based on the capital market yet. But, with the recent regulations made in 2007, more resources are expected to be obtained from the capital markets.

Both Turkey's mortgage market and that of most of the EU member countries have been affected by the global financial crisis, which was triggered by the subprime mortgage crisis in the U.S. Also, the EU mortgage markets were continuously impacted by the worst macroeconomic recession in the EU since World War II. However, in 2009 both Turkey and the EU-27 mortgage market on aggregate experienced a slight recovery as growth in values of outstanding mortgage lending over the previous year returned to positive territory.

4. Conclusion

The Treaty Establishing the European Community[7] provided the basis for the creation of a single market and the abolition of obstacles to the free movement of goods, persons, services and capital. However, evidence shows that the single

[6] In fact, the volume of outstanding MBS has dropped back,in 2007 because of the subprime mortgage crisis. After this year, the volume of the MBS in the EU (27) experienced a slight recovery. But the volume of covered bond has contunied to increase during the crisis. See. EMF, 2010, pp.90-92.

[7] With Lisbon Reform Treaty, the title of this Treaty has been changed as Treaty on Functioning of European Union since December, 2009.

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market for residential mortgages is far from a reality in the EU. There are some obstacles that restrict the level of cross-border activity on the supply and demand sides, thus reducing competition and choice in the market. For this reason, it is apparent that the integration of mortgage markets will take time where national characteristics are strongly felt in the EU, which has been taking a lot of measures since 1990s to provide for the integration of financial markets. Mortgage markets in Turkey demonstrate many differences from EU markets but accomplish many functions from creating capital for real estate to increasing and distributing this capital.

In recent years, the EU has shown important progress in economic integration. However, in spite of the important developments made in the method of forming the single EU, financial market, retail markets and mortgage credit markets, which keep national characteristics, have shown the least integration. For this reason, it is apparent that the integration of mortgage markets will take time where national characteristics are strongly felt in the EU, although it has been implementing a number of measures since 1990s to integrate financial markets.

Currently, it is quite understandable for Turkey, who is negotiating to become a member of EU, to have economic differences with EU in the mortgage markets at this time. The EU, which has put the formation of a single EU financial market among its prioritized aims since the 1990s in order to enable the member countries' financial markets to converge and unify, has made standards determined by international institutions, such as the Bank of International Settlement (BIS) and International Organization of Securities Commission (IOSCO), a part of the Union's regulatory scheme through standards, regulations and directives. Since Turkey is a member of these institutions, of which the key countries of the EU are the founders, the Turkish banking system and capital markets are trying to keep pace with the established standards to a great extent. It is evident that this will make it easier for Turkey's mortgage markets to adapt to the standards set for the EU mortgage markets. In addition, important steps have been taken with the latest legal regulations, providing resources from the capital markets which have gained importance in providing funds in the recent years in almost all EU member countries.

As this is a new regulation, its results will be able to be seen in the middle- and long-term. However, mortgage markets which are still in their infancy, can be said to furnish Turkey with an advantageous position to integrate into the EU. It will be beneficial to take into consideration the White Paper on mortgage credit, which prepared a package of measures in order to increase efficiency and competition in the EU mortgage markets, and to establish some standards by benefiting from the experiences of the EU countries, such as pre-contractual information, annual percentage rate of charge, responsible lending, valuation, land registers, and foreclosure procedures etc.

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