New Actors in the French Mortgage Market

by Thierry Dufour and Claude Taffin

The continual deterioration of the refinancing terms of the French banks—which has been reflected in a substantial drop in their rating and the lethargy of the markets in terms of primary issue volumes, combined with a low forecasting power and insufficient liquidity—has made it necessary to substantially reform the French mortgage market.

This reform has multiple purposes. The first is to offer issuers a new high-quality product enabling them to refinance themselves at the best possible cost. Since the formation of the European Monetary Union, the German mortgage banks have had an important advantage, particularly in the financing of local communities. Thus, they have been able to enter other European markets at the expense of the traditional domestic lenders. Investors, made more selective and more cautious by the recent bond crises, are also looking for a liquid product that offers a higher yield than that of the state bonds for an equivalent risk. Lastly, confidence had to be restored in the financial solidity of the Crédit Foncier which was the only national actor issuing mortgage bonds. A victim of the property crisis of the early 1990s and weakened by the loss in 1995 of the monopoly of the distribution of state-subsidized loans for home ownership, the Crédit Foncier was sold and acquired by the Caisse d'Epargne Group in 1999.

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The new French system, introduced in June 1999 under the law on "financial security," substantially renovates the mortgage law which dated back to 1852. It aims to provide investors with a high level of security and, therefore, of transparency. This article describes the main provisions covering mortgage bonds ("obligations foncières") and the companies especially responsible for issuing them, the "Sociétés de Crédit Foncier."

THE ISSUES OF THE REFORM

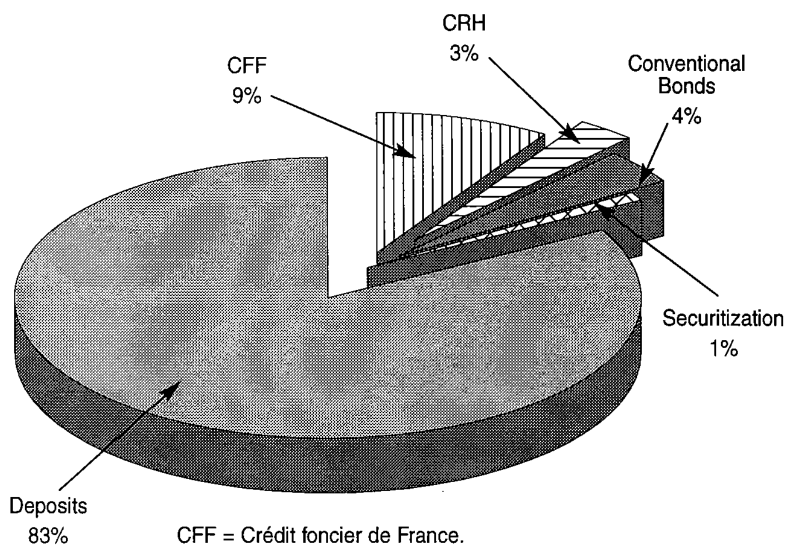
Until now, investors in the property financing market had only three market mechanisms available to them: resorting to the mortgage market, securitization and mortgage bonds. However:

- The mortgage market has not developed as expected by its promoters.
- The securitization market has had problems developing in France while it plays a major part in certain other countries, particularly the United States.
- The mortgage bonds regime is limited by law, with only two institutions—the Crédit Foncier de France and the Crédit Foncier et Communal d'Alsace et de Lorraine—entitled to issue bonds of this type.

The French mortgage market represents only 20% of the gross domestic product, as opposed to more than 60% in Germany. Most of the housing finance in France is through bank deposits (Figure 1). The weight of regulated savings, and in particular of the housing contract savings, explains this special situation of "over-liquidity" of the French market. Related to outstanding housing credits, the contribution of the housing contract savings ("épargne-logement") represents 48%, and the savings passbook ("Livret A"), 17%.[1] It is questionable how long this situation will last, either in terms of the conditions of matching of uses or of the remuneration of regulated savings.

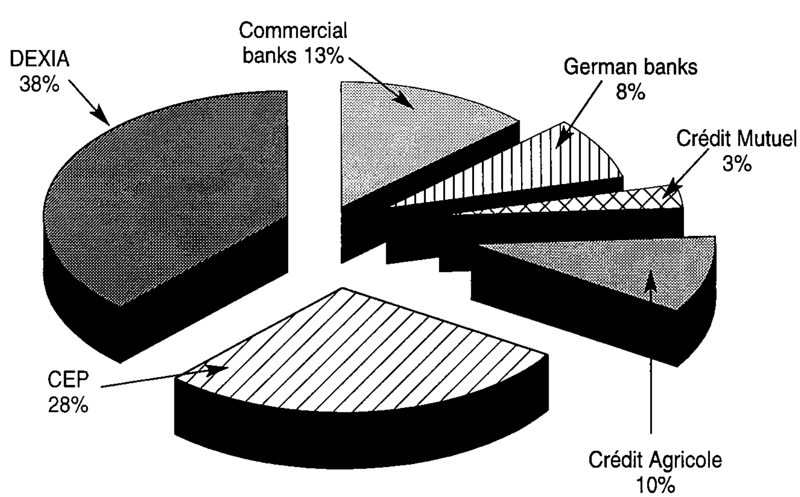
In addition, the French bond market features a large concentration of lenders in the housing and the local authorities markets (Figure 2). This concentration of the eligible assets among three or four banking groups is a

Figure 1. Refinancing of Housing in France



CFF = Crédit foncier de France.
CRH = Caisse de refinancement hypothécaire.

Figure 2. Lenders to French Local Communities (New Credit Market Shares)



CEP = Caisses d'épargne

basic difference from the situation in Germany, where the market is shared between some 30 private mortgage banks and some 10 Landesbanken.

The reform of the mortgage banks, and through it of the mortgage bond system, represents another major issue. The creation of a new type of financial instrument admitted as collateral by the system of European central banks, in fact, represents a considerable interest for the French banking sector. Since the implementation of the Euro, French banks have seen substantial growth in the volume of payments, particularly cross-border transactions representing market transactions between commercial banks in the different financial markets of the zone. The development of these exchanges has, consequently, increased the need of French banks for collateral with the Banque de France to secure inter-bank settlements. That need, in turn, has added to the instruments made available under the monetary policy transactions.

Because this trend promises to continue, the French banking system will have to generate an increased amount of securities. The French system is not lacking in securities today. But the French system, on this issue, is in a less comfortable position than the German banking system, which has with the Pfandbriefe market a very substantial volume of securities available to be pledged with the system of central banks.

The total amount of eligible bonds estimated by the European Central Bank (ECB) represents more than Euro 5,000 billion for the 11 countries of the zone. German bonds represent more than 40% and French bonds only 15%. The creation of mortgage bonds would, therefore, contribute to re-balancing the distribution of the guarantees between the banking systems of both countries.

Strict Instrument of Active Management of the Balance Sheet

From the early 1980s, bank balance sheets have been marked by an increase in risk, in particular in rate risk which result:

- From breaks in asset-liability matching because of early repayments and re-negotiations related to a drop in the long-term rates, which have reduced the volume of high-yield assets.
- From changes in "free" resources (excluding collection costs) consisting of sight deposits due to transfers of regulated products toward OPCVMs (mutual funds).

Generally speaking, the management of the balance sheet covers the assessment and the control of:

- Visible risks: risks of rate, exchange, liquidity, counterpart, etc.
- Hidden options: loan rights accumulated within housing savings, management of early repayments.
- The remuneration of the equity capital allocated to that activity.

The mortgage refinancing company is a banking vehicle that incorporates these constraints upstream. It represents a rather elaborate level of "split" management of the bank by acting between the production of debt through the bank network and the agent holding the refinancing capacity. The originating banking group transfers its debts to the company and the latter refinances them. This type of approach, therefore, opens the way for:

- Standardization of the primary eligible debt structures and of the secondary market.
- The end of alliances in services processing and bank transactions that exploit the complementarity of the commercial (the commercial network of one partner) and the technological (the back office of the other partner).

A Control and Pricing Instrument

Beyond the target of lowering the cost of finance, the "sociétés de crédit foncier" (SCF) encourages the development of control tools and detailed analysis of the margins. The transfer of debts to an SCF, in fact, imposes on the transferor a strict discipline of management of debts, reflected in particular by:

- The implementation of precise risk and margin indicators.
- The execution of a history of the flows showing any changes in the early repayments and in the re-negotiations.
- The evaluation of the cost of the hidden options.
- A detailed review and the validation of all the management procedures.

Compliance with these constraints is the price to be paid to obtain an optimum compromise between the desired rating and the necessary over-collateralization. The use of the SCF also makes it possible to improve the scrutiny of debts because of the obligation to collect data on the underlying assets. It also serves as a catalyst for the implementation of a management control and of an effective asset-liability management system.

In the groups accustomed to global standards of profitability, the analysis of the margin results in a rationalization of credit pricing.

THE "SOCIÉTÉS DE CRÉDIT FONCIER"

The new legislative framework for the issuing of mortgage bonds is mainly based on the German model of Pfandbriefe.[2] It therefore includes numerous points in common with the German legislation, in particular with regard to over-collateralization, balance sheet comparison and loan-to-value ratios. But it also has a number of innovations intended to strengthen the confidence of investors in this new class of assets, in particular by minimizing the risk of bankruptcy. It creates authorized consistency of the assets of "sociétés de crédit foncier" (SCF) and reaffirms the privileged nature of their debts, in particular by clarifying the law applicable in cases of bankruptcy proceedings concerning the SCF itself, its shareholders, or the company responsible for the management or collection of its debts and claims. To ensure the solvency and the solidity of the SCF, the law introduces a strict rule of prudence and provides for a reinforced control of the operation and of the activity of these companies by creating the function of specific controller.

Status, Objective and Resources of "Sociétés de Crédit Foncier"

Mortgage refinancing companies are defined as "credit institutions approved as a financial company." According to the banking law, financial companies cannot receive sight public funds or deposits of less than two years' term. Also, they can only perform bank transactions resulting either from the approval decision concerning them, or from the legislative and statutory provisions relating to them. For the SCFs, this legislative or statutory limitation has a special importance.

The objective of mortgage refinancing companies is defined restrictively: it is, exclusively, "to grant or acquire secured loans, loans to government agencies, and stocks and bonds. . . . ." This exclusive objective, which does not exist for the German mortgage banks, is related to the refusal to recognize the principle of the concept of allocation of heritage (trust) in French law. The French theory of heritage, derived from the person, leads to the conception of a single and indivisible heritage, in which the aptitude to having rights and obligations is not fragmented. One and the same person cannot split his heritage up into several separate parts. In fact, the system implemented is the equivalent of a "safety trust," which aims at attributing to the creditor, without any formality, the property of the item secured, i.e., the debt. This makes it possible to have assets dedicated to the priority payment of the bonds.

The distinction made between the verbs "to grant" and "to acquire" originates in the idea underlying all of the text, i.e., the separation between the activities of distributing credit and of refinancing. By their nature, SCFs should only be structures for refinancing mortgage loans, the implementation and management of which will continue to be provided by the institution(s) holding shares in the SCF, related to the latter by management agreements.

The resources that the SCFs can collect are divided into two classes, according to whether or not they have the privilege defined by the new law.

The resources are long-term resources, i.e., bonds known as "mortgage bonds" or other resources. Thus, mortgage bonds are not the only resources benefiting from the privilege. In fact, the law authorizes SCFs to collect other resources of various natures (negotiable claim bonds, medium-term instruments, banking loans or credit facilities, etc.), for which they will be able to specify the application of the privilege. This specification must be stated expressly in the contract of issue or of subscription of these other non-bond resources. The diversification of the resources of the SCFs naturally meets a need of flexibility in order to enable these companies to optimally manage their balance sheets.

This concern, attached to the need to be able to allow for any cash imbalances, also justifies the authorization given to the SCFs to issue loans or to collect resources which do not have the privilege. This will enable them to increase their over-collateralization (see below).

Assets of "Sociétés de Crédit Foncier"

Mortgage refinancing companies will be able to grant or acquire two kinds of loans: "secured loans" and "loans to government agencies." They will also be able to hold two other classes of assets: mortgage-backed securities and "sufficiently certain and liquid" stocks and bonds. In the latter case, the law provides for determining the types of eligible assets and reserves the right to impose certain rules for dispersal of the risks. The maximum share that these stocks and bonds may represent in the assets of the SCF is set at 20%. The objective is to give the SCF the flexibility needed to allow them to satisfy the obligation of over-collateralization of their assets while ensuring themselves of the quality of the other permitted assets.

On the other hand, SCFs are not allowed to hold equity shares of any kind. This prohibition is aimed at making their assets as secure as possible and neutralizing the risk of committing to transactions that involve financing building projects in ad hoc companies. Thus, most of the losses from investments in the real estate sector that occurred in France and in Germany in the 1990s concerned capital or loan commitments in structures that, in most cases, had invested in commercial buildings.

Secured Loans

Three kinds of rules have been laid down in order to make the activity of the SCFs as secure as possible; they concern the location of the property financed or secured, the securities which must cover the loans granted or acquired, and the loan-to-value ratio.

Whereas German mortgage banks may include loans to a number of countries outside the EU (for instance, in central and eastern Europe), the first rule is that the property financed or secured must be located in the European Economic Area[3]. This condition of location of the property is one of the innovations of the law. Previously, the geographical limitation of the loans granted by the Crédit Foncier was only indirect:

- The mortgage covering the loan had to impart a legal safety at least equivalent to the French mortgage.
- The security likely to replace the mortgage could only be granted by government agencies (states or public communities) belonging to member states of the Organization for European Co-operation and Development (OECD).

It is clear that the wider their intervention zone, the greater would be the difficulties resulting from different rules or legal securities or from different prudential standards. Contrary to the OECD, the number of whose members has increased in the last few years, the EEA is a widely unified legal area in which the principle of reciprocity is very applicable. The location of the property financed by the loan or brought in as a security is, in fact, an important item, in particular to judge the efficiency or effectiveness of the legal securities which the SCF has allocated to the loan granted.

The second rule is that the loans granted or acquired by the SCFs must be covered by one of two kinds of securities. Apart from the first mortgage, which is traditional with the SCFs, a third-party guarantee ("caution mutuelle") by a credit institution or an insurance company is also allowed from now on.

The SCF must be a priority creditor, which requires that the mortgage must be a first-rank mortgage. The phrase a "building security imparting a guarantee that is at least equivalent" refers to the securities or guarantees that might be offered by the laws of the states in which the secured properties are located. These securities or guarantees must be equivalent to those offered by French civil law, in particular with regard to the law continuation[4] and the privilege on the sale price.

The requirement of a mortgage does not limit the object of the loans granted to the real estate or to the housing sectors. First, French law recognizes the possibility of taking out a mortgage on vessels or aircraft. Second, a conventional multi-purpose loan can always be guaranteed by a mortgage on the borrower's property.

France acknowledges the growing importance of "caution mutuelle" in the matter of real estate loans, since it is estimated that such secured loans represent approximately 20% of the new credits to real estate and 15% of the outstanding. This is why the law stipulates that the mortgage can now be replaced by a "caution mutuelle" provided by a credit institution or an insurance company.[5] But two conditions apply: the company must not be engaged in consolidated accounts related to the SCF, and it must be adequately rated.

The quality of the security results, above all, from the solidity of the institution that granted it. By limiting the acceptance of securities to those granted by credit institutions or insurance companies, the law introduces a first safeguard, since these are institutions subjected to legislation and regulations offering strong guarantees. A second safeguard results, as has been seen, from the exclusion of securities issued by institutions belonging to the same group as the SCF. The law also limits "cautionnés" loans entering in the sole object of the SCF only to loans intended for the financing of a real estate property. This limitation, which reinforces the solidity of the security thanks to the existence of an underlying real estate assets side, will also make it possible to avoid the drift of the SCFs toward cautionnés consumer loans.

Several rules tend to guarantee the quality of secured assets: their share in the total assets is capped (it can not exceed 20%) and a minimum dispersal is imposed on them. Further, the "cautionnés" loan must be issued with a promise of mortgage registration. Lastly, those institutions which grant the security must comply with rating constraints (Figure 3).

The third rule concerns the loan-to-value (LTV) or loan-to-price (LTP) ratio; it depends on the purpose of the loan and the nature of its guarantee. The LTV or LTP ratio of the loans secured by a first mortgage may not exceed a level stipulated by decree. If it exceeds this level, the loans must be covered for the part exceeding the ratio, by:

- The guarantee of one or more legal entities of public law: states, local authorities or their groups belonging to the EEA, establishments or companies of the public sector.
- Or a "caution mutuelle" meeting the conditions set out above.
- Or the guarantee of the "Fonds de garantie de l'accession sociale" (FGAS)[6].

The standard LTV or LTP ratio is 60%, as in Germany. However, it can be exceeded for certain types of assets: it can be raised to 100% for loans with a guarantee of the state (for example a guarantee by the FGAS), or to 80% for loans granted to natural persons to finance the acquisition or the construction of housing provided that such loans constitute all the liability.

Figure 3. Summary Weighting of Assets: "Over-Collateralization"

		100 %	*95 %*	*50 %*	*0 %*
Any other eligible assets		XX			
Liquid and risk-free assets ('Tier 1' bonds of ECBS)			XX		
Repossessed real estate				XX	
FCC shares and loans secured by "caution mutuelle" companies (minimum rating)	Fitch IBCA	AA		A-	Other ratings
	Moody's	Aa3		A3	Other ratings
	Standard & Poor's	AA-		A-	Other ratings

The same maximum ratio is applicable to "cautionnés" loans. True, the situation is not totally comparable since the ratio, in the event of a mortgage, is intended to cover the possible devaluing of the mortgaged property, while the "cautionné" amount does not vary. In addition to a maximum LTV ratio, the eligibility of "cautionnés" loans is subjected to another condition: a minimum true personal contribution is required from the borrower. That is to say that it may not consist of another loan. All the surveys show that the importance of this contribution is a powerful factor in the reduction of credit risk. The level of the required personal contribution depends on this risk: it is lower for housing than for non-residential real estate (10% instead of 20%) and is also reduced to 5% for those savers who use their savings for housing.

Loans to Government Agencies

Loans totally secured by one or more government agencies listed in the preceding paragraph are assimilated to loans granted to government agencies. This provision has to be clearly differentiated from the previous case. Here, the government agency guarantee replaces in full the first mortgage or surety, instead of being added to it in order to make it possible to exceed the authorized LTV ratio by covering the part of the loan which exceeds it. The acceptance of a government agency guarantee instead of the mortgage is not new. First limited to the state guarantee, it was then extended to a guarantee by local communities, and then, in 1993, to all public establishments or companies of the public sector and to the OECD area.

Mortgage-Backed Securities

FCC ("fonds communs de créances") shares, the French equivalent of mortgage-backed securities[7], are limited to secured loans and to loans to government agencies described previously, and can thus be shown on the asset side of the balance sheet of SCFs. As they are not a legal entity, their sole objective is to acquire securitized debts and to issue shares representing them.

The law sets out two conditions for an SCF to hold FCC shares, the first being related to the nature of the assets of the fund, and the second to the nature of the shares held:

- First, the assets of FCCs must consist, at a level of 90% at least, of debts meeting the characteristics of secured loans and of loans to government agencies defined above. This strong constraint, linked to the consistency of the assets of the FCC, makes it possible to justify the legal inclusion of fund shares and the debts that SCFs can hold.
- Second, SCFs cannot hold the specific FCC shares which bear the risk of failure of the debtors of the securitized debts[8]. In fact, it appears that it is the company that securitizes its debts which itself acquires these specific shares.
- Lastly, as SCFs can hold debts on borrowers located in the EEA, the law stipulates that the assimilation also acts in favor of the shares or bonds of "entities similar" to the FCCs subject to the law of a state belonging to the EEA. The conditions set out, related to the consistency of the assets of these entities and to the nature of the shares or bonds held, are also applicable to them.

Like "cautionnés" loans, FCC shares are subject to eligibility conditions (Figure 3).

Prudential Rules Applicable to Mortgage Refinancing Companies

Mortgage refinancing companies must comply with an "over-collateralization" rule: the total amount of the items in their assets must be more than the amount of the items in the liabilities benefiting from the privilege. This rule is, with the privilege, one of the main elements contributing to the safety of mortgage bonds. It is applied globally: the sum of the assets must always exceed the sum of the liabilities; there is no direct link between a bond and a particular item in the assets. The rule applies a weighting factor, equivalent to a maximum of one, as a function of the risk presented by these assets (Figure 3).

The Concept of Mortgage Value

It is thus necessary to re-examine at regular intervals the true market value of assets and liabilities. The "mortgage value" of the items brought in as a guarantee is defined as follows:

Buildings financed by eligible loans on the asset side of SCFs or brought in as a guarantee of such loans are the subject of a prudent evaluation excluding any element of a speculative nature. The evaluation must be carried out on the basis of durable long-term characteristics of the building, of normal and local market conditions, of the current usage of the property and of the other uses which it might have. This mortgage value must be determined in writing in a clear and transparent manner.

The French regulations include here the approach of a European directive issued in 1998.

The conditions of revision of the mortgage value of the security are also defined according to different procedures, depending on the amount of the acquisition cost and the use of the property. Only buildings for professional use whose purchase price or last estimated value is more than Euros 300,000 must be evaluated each year. If the property value is less than this threshold, a three-year assessment is sufficient, together with an annual statistic evaluation. The value of the housing may, in all cases, be estimated every year by a statistical method.

The evaluation is performed by an independent appraiser who can be an employee of the SCF, but who must not belong to the unit responsible for the examination and commitment of the loans. This system is the same as the German system, itself approved by the European association of real estate valuers (TEGoVA).

Privilege Recognized to Certain Creditors of Mortgage Refinancing Companies

The law recognizes a special privilege for holders of mortgage bonds and assimilated resources. It precisely determines the extent and the conditions of that special privilege in the "current life" of the SCF, and also in the possible case of bankruptcy or liquidation proceedings.

The privilege is reflected in the priority allocation to the payment of mortgage bonds and other assimilated resources of all sums resulting from:

- The loans, bonds and stocks mentioned above (secured loans, loans to public communities, FCC shares, bonds and stocks recognized to be reliable and liquid).
- Long-term financial instruments used to cover loan management transactions, mortgage bonds or other assimilated resources.
- Deposits made by the SCF with credit institutions.

These provisions aim to reinforce, as much as possible, the security of payments to holders of mortgage bonds since all the financial flows entering the SCF are allocated to them. They also protect the assets from any possible action by creditors of the SCF shareholder(s). In the case of bankruptcy or liquidation proceedings, the debts resulting from mortgage bonds and other assimilated resources "are paid when due and by priority to all the debts, whether with privileges or sureties." It is also stipulated that this priority is applicable until "the final paying-off" of the holders of these privileged debts, which, since they are bond debts, could last many years.

The debts of holders of mortgage bonds, thus, take priority over all the other debts, including the super privilege of salary-paid employees defined by the Labor Code and covering the last two months' salary, together with the privileges of the Public Treasury and of the Social Security.

In counterpart to this privilege, the liquidation of an SCF only has the effect of rendering payable the mortgage bonds, which continue to be paid at their normal contractual due date.

Lastly, the law stipulates that the management of loans and bonds can only be performed by an SCF or by a credit institution linked to it by a contract. This is to guarantee a certain professionalism in the management of the assets and liabilities of an SCF, a professionalism which is an additional guarantee of the security of mortgage bonds.

Non-Extension of Bankruptcy Proceedings to a Mortgage Refinancing Company

The law stipulates that, "notwithstanding any provisions to the contrary," the bankruptcy or liquidation proceedings of a company holding shares of an SCF may not be extended to such a company. It is a question of organizing the water-tightness between the SCF and its shareholders in the event of the opening of a bankruptcy proceeding affecting one or the other. This provision is one of the elements, and not the least important, implemented by the law to guarantee the legal security of mortgage bonds.

The objective is to directly impede the application of the law, which enables the court initially instructed to extend the procedure opened to one or more other persons. The objective is also to allow for a possible change of the jurisprudence in the matter. Thus, the courts sometimes tend, when the parent company or one of its subsidiaries is declared in a state of ceasing to pay, to declare the bankruptcy proceedings not only against the company concerned but also against other companies of the group, if not against the whole group. This extension may be based either on the fictional nature of the heritages of the companies concerned, or on their confusion.

Supervision of Mortgage Refinancing Companies

The law affirms the general competence of the Banking Commission, but renders compulsory the presence of a "specific controller" within each of these companies.

Banking Commission's Control

With regard to SCFs, the general mission of control of the credit institutions that the Banking Commission holds from the banking law of 1984, is confirmed. The Banking Commission, therefore, has the task of seeing to *"the compliance by the mortgage refinancing companies with the obligations they are subjected to in application of this section and (...) to sanction any failures observed."*

The prerogatives of the Banking Commission to perform this mission are listed by the 1984 law; they range from controlling documents and on the spot to the possibility of appointing a liquidator, or of instructing the court with a view to ordering the sale of the shares or the transfer of the voting rights.

Role of the Specific Controller

To this external control is added an internal control performed by a "specific controller." This function is similar to that performed by the censors present within the Crédit Foncier or by the trust administrator (or representing the holders of the security letters), provided for by the German law on mortgage banks.

The specific controller's status aims to guarantee his independence with regard to the SCF he is responsible for controlling. The aim is to have a status similar to that of an auditor. However, the method of appointment of the specific controller differs from that of an auditor. Thus, whereas the auditor is appointed by the general meeting of shareholders, the specific controller is appointed by the "statutory directors of the company," that is to say, according to the structure selected by the articles of association, the board of directors or the managing committee. The term of the mandate is also different, four years for the specific controller compared to six for the auditor.

Lastly, a sign of the importance of the specific controller's mission is that his appointment can only be intervened by a "certified opinion" by the Banking Commission.

The specific controller is responsible for making sure that the SCF complies with the legislative and statutory provisions governing its activity: the sole object of the company, the features of the items of the assets, the conditions for the use of the long-term financial instruments, the over-collateralization of the assets, the financial management rules (ALM), the privilege of creditors and the priority allocation of the financial flows toward the holders of privileged debts.

To complete his mission, the specific controller has some of the prerogatives related to auditors. Thus, he will be able, at any time of the year, to perform any verifications and controls that he will estimate to be appropriate and have communication on the spot of all the documents he considers to be useful for the exercise of his mission and in particular all contracts, ledgers, accounting documents and minutes registers. These investigations may be performed both at the SCF and at the shareholding companies. The specific controller may also collect any information useful for the exercise of his mission from any third parties which have conducted transactions on behalf of the company, among which, in the present case, the company responsible for management of the loans or of the privileged resources.

In order to comply with the principle of congruence of rates and of the term of the balance sheet on levels matching the protection of the interest of the privileged creditors, the specific controller has the information necessary to form an opinion on the matching of assets and liabilities. He must alert the public authorities, represented by the Banking Commission, if he considers the level of congruence to be insufficient.

CONCLUSION

The opening, or re-activation, of a secured banking debt market is a delicate operation. Now, five months after the opening of the market, the French mortgage bonds have reduced the value difference with regard to the Pfandbriefe and have a better performance than the debt of the credit institutions. Between October 1999 and February 2000, the volume of issues has reached Euros 12 billion.

The volume of new issues for the year 2000 will probably exceed Euros 20 billion, which will be added to the older mortgage bonds to which the law of June 25, 1999 has given the new status, to form a total of more than Euros 40 billion. As a result, the French mortgage bond market should, in all probability, rapidly acquire the critical weight and the liquidity to compete with the Pfandbriefe. The question of liquidity is, in fact, less important in France, where it can be estimated that the two main issuers will concentrate 80% of the issues, than in Germany, where there are more than 40 "Jumbo" issuers. Provided that the Euro stabilizes shortly, mortgage bonds will have the necessary qualities to attract investors on the five continents.

NOTES

[1] For more information on the French mortgage market and the housing contract savings (épargne logement) system, see the articles by C. Taffin in the March 1997 and March 1999 issues of *Housing Finance International.*

[2] For more detail see "The German Pfandbriefe and Its Issues," by Franz-Josef Arndt, *Housing Finance International,* March 1999.

[3] The European Economic Area (EEA) includes the 15 countries of the European Union, plus Iceland, Norway and Switzerland. It also includes the French Overseas Territories (T.O.M.).

[4] i.e., the possibility offered to the mortgage creditor to have the property seized by a third-party purchaser.

[5] A "caution mutuelle" is a form of mortgage insurance offered by specialist institutions in France.

[6] Guarantee fund for social ownership, jointly run by the state and participating lenders.

[7] Securitization was introduced in France in 1988.

[8] These specific shares, sometimes referred to as subordinate shares, are one of the conditions offered to common debt funds to cover the risks of failure of the debtor.