Asociación Hipotecaria Española

The Spanish Mortgage Market between 1982 and 2006

The modern Spanish mortgage market has its origins in Law 2/1981 which entered into force in March 1981, and which was further developed by Royal Decree 685/1982 in 1982.

Since then, total mortgage lending outstanding has experienced high and continuous growth, accelerating strongly from 1995 onwards. Over the past two decades it grew from representing € 12,921 million to around € 900 billion and the number of new mortgages subscribed each year rose from 135,000 to close to 1,700,000[1]. Mortgage debt as a proportion of GDP, which in the early 1980's was close to 12%, stood above 87% in 2006.

The strong growth in mortgage credit was driven by two key factors:

1) The increase in the number of mortgage lenders after the Law 2/81 entered into force. This law allowed universal banks and other specialised credit institutions to enter the market and to compete with public mortgage banks and savings banks, which before then were the only mortgage lenders. International analysts widely viewed this increased competition as what made the Spanish mortgage system one of the most efficient in Europe.

2) The evolution of interest rates. During that period, mortgage rates in Spain not only fell significantly, they did so by more than in others European countries.

The efforts made in Spain at economic and budget level in order to meet the Maastricht convergence criteria to join the EMU fostered an environment of strong economic growth, increased competition and a falling unemployment rate. The extraordinary rise in mortgage credit growth rates since the end of 1996 (reaching levels close to 20%) and the steady drop in mortgage-delinquency rates are testament to the positive consequences of these efforts on the Spanish mortgage market.

Cost-efficiency has also improved over the years in the Spanish mortgage market, as attested to in the 2003 Mercer Oliver Wyman *Study on the Financial Integration of European Mortgage Markets.* However, a number of international analysts, including Mercer Oliver Wyman, point out that one negative element of the Spanish mortgage market is its excessively rigid legislation, which prevents the development of new products. Such legislation, together specifically with prepayment penalty regulation, have led the mortgage credit market to be composed almost entirely of one-year Euribor referenced loans.

Although it is obvious that with the current mortgage legislation a brilliant phase of the mortgage market has been covered, it is also true that in the current cycle change situation which is expected to bring a more stable mortgage market, these legislation weaknesses have to be eliminated to solve some of the inherent risks of the high current volatility; and to wider the range of products and borrowers.

Against this background, the government is working on a Modernisation law for the Spanish mortgage market, expected to be passed in 2007. The Spanish Mortgage Association worked together with the Treasury Department and the Ministry of Justice during the drawing-up of the Draft Law by suggesting comments and proposals, a great number of which, but not all, had been included in the final bill that has been remitted to the Parliament last February. The passing of this draft law could mean the start of a new phase for the Spanish Mortgage Market.

[1] These figures include both residential and commercial lending.