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As the official UK publication of EuroCatalyst 2003 we are leading up to the October event in Lisbon with interviews focusing on the views of key players in the European mortgage market. We start with **Toni Moss**, the American in Amsterdam who is making it happen, and **Shirley Jackson**, who recently joined EuroCatalyst as full partner

MFG: Shirley, EuroCatalyst is driven by two people with very different backgrounds. While we are familiar with Toni and her role in the US and European mortgage markets, we know somewhat less about you and how you fit in with the company?

JACKSON: As a proud Canadian and member of the Commonwealth, I guess you could describe me as the quiet one in the company! Toni approached me with the idea of the EuroCatalyst event two and a half years ago while I was still in Tokyo working as the deputy managing editor of *The Japan Times*. The connection between my role there and Toni's vision for European mortgage markets was the concept of community. A newspaper is the communication tool that brings together and informs its

community of readers. Imagine the structure of a newspaper in 3D - that is what I saw where Toni was going with EuroCatalyst.

During my tenure at *The Japan Times* my role was also the business, political and technology editor during a period that spanned the rise and fall of Japan's bubble economy, so I've seen an entire evolutionary span from a quite unique perspective. The same issues and capital market trends that affect Japan also affect Europe. Thus the idea to discuss the European housing finance industry in the more accurate context of globalisation was the other connection. In the face of unrelenting pressure from the US over the last 25 years (or more), the overall Japanese culture and Japanese investors in particular have shown a strong affinity with Europe. Thus Japan is one of the largest investor bases for European mortgage bonds. As funding alternatives continue to widen, we hope to help drive Asian investment to wealth of investment opportunities in Europe as well as help position European players to benefit from it.

MFG: Toni, what did you learn from the EuroCatalyst event last year and did it change your perception of any

issues or the way things should be organised?

Moss: We learned two important lessons within an hour: First, at 18.30 on day one we realised that we should have had a chairman to keep the time and continuity between sessions because our time-keeping was awful! Then, an hour later, when people were STILL in the room talking to each other about the day's sessions, I realised that we were completely on the mark. Although the last session had ended, all of the delegates wanted to continue discussing the issues that had been brought up during the day. So much research and thought had gone into every single session, and in many of them excluding the UK, which the CML had put together, there were definitely struggles to get what we knew to be extremely important information out in the public domain. The volume of e-mail discussions before and after those sessions is unbelievable, which is why it is a year-round event and not just three days.

Organisational aspects are easily improved, and after EuroCatalyst 2002 we hired personnel with experience in event production to handle that aspect of the event. It's important

Executive Summary

- The aim of EuroCatalyst is to bring together and build a distinct European mortgage lending community that will lead to a pan-European industry that parallels or exceeds the size, scale and scope of the United States.
- The first EuroCatalyst event was held in Madrid last year. Toni Moss and Shirley Jackson are now building on that achievement, and this interview provides an insight to their current thinking.

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to understand that we never set out to be a conference organiser. We set out to expand the community of leaders and practitioners encompassing what should be an entire pan-European mortgage industry that includes not only national markets but market sectors as well - and that clearly was not happening. Thus it was extremely difficult to achieve for the first time.

A lot of important people recognised that they were part of something much larger than they had ever realised or had access to, and now take 'ownership' of it. It validated our focus on the connection between players through the convergence in funding which is led by globalisation. The most striking change in our own perception was realising the differences between trade organisations that drive vision and leadership and lobby groups that preserve the status quo. 'Capital Darwinism' will ultimately dictate any course, which is why our focus is on the commercial realities. We're not lobbying regulators - we're lobbying the players themselves to get more involved.

MFG: Shirley, EuroCatalyst 2002 was big in vision and numbers. Presumably scale was important because it was billed as a pan-European event but bearing in mind that you wanted it to be a think tank for the industry, is scale a good thing?

JACKSON: Yes, scale can be a good thing if you know how to manage it. On a basic level we are talking about a very simple solution to reduce unnecessary costs, avoid costly mistakes by learning from others, reduce the number of wheels that lenders reinvent across countries and provide a dialogue through which opportunities for growth or strategies for survival can be found. Our idea is to combine scale through economies of experience, economies of knowledge, economies of information, and economies of marketing (for the pan-European players) into one event.

At an attendance level of 300 the scale is not in numbers because beyond that we lose the interaction and reduce the dialogue to soundbites. How would you choose the most important 300 people that best represent so many different markets and industry sectors? Even worse, how would you choose the most important 75 speakers? The only way to do that is to fundamentally understand the issues and the motivation behind them, and then to offer a voice



Shirley Jackson



Toni Moss

to those who are in the audience as well.

This year we took the decision to make the event invitation-only to build on the calibre of dialogue started last year. We placed the currency in the hands of our sponsors and supportive organisations to ensure that important individuals and companies are there. EuroCatalyst itself issues invites, but the sponsored invites are either free or discounted so I guess that people will be disappointed to hear from us now!

Seriously, we hope that the invitation is considered an honour because they are extended to specific people for a very good reason and we all discuss who should be there. Limiting participation goes against our natural instincts but we have to differentiate between an event in which senior executives and decision-makers are surrounded by peers who actually have something to say versus the multitude of events that happen every day. We have to deliver a good return on investment for every delegate, speaker, sponsor and event partner, and the only way to do that is to deliver the highest calibre of people, information and overall atmosphere.

MFG: Last year it was suggested that EuroCatalyst participants would be able to build business relationships in Europe more rapidly than might otherwise have been possible. Can you cite any examples of this happening or is it just a case of the event being a good networking opportunity?

JACKSON: Without question we set the precedent for open and transparent discussion on issues facing single market integration for the European mortgage industry. Previously those discussions occurred behind closed doors amongst lobbyists, trade organisations and regulators, and although that will most likely continue to happen the doors were at least opened by everyone who was part of this event. So the single largest impact has already happened, and the results of that are all around us now. Last year we were trying to convince two opposite sides of the funding equation (the structured finance and covered bond communities) to understand the relevance of what was coming, and the best example of what we were talking about is the HBOS deal, which combines the complementary elements of both funding tools.

We are not casually repeating buzzwords to scare lenders into action or

fulfil our own prophecies, nor are we throwing a networking party. Last year we set the stage for the coming convergence in funding by placing the event in the context of globalisation. This year we are more blunt and direct - the theme is competition and convergence, localisation and globalisation in not just lending and funding but investment allocation as well. A shift in one side of the market causes a shift in others, and we follow those shifts through the evolution of the programme each year.

Moss: It has not even been a full year since the event thus many of the deals initiated as a result would not yet be completed nor do we specifically track them - that is not our intent. We are the catalysts pointing out the trends and opportunities, but as a player we are not exploiting them ourselves.

Perhaps the largest possible deal, involving a venture capital firm in a pan-European servicer 'roll-up', did not happen due to the closure of a key funding partner, although the one remaining in the deal hit the news and the concept of a pan-European Master Servicer is now in the open. There are now hedge funds that arbitrage differences between pan-European mortgage products and those players were there in the audience and on stage. The recent announcement between Egg and KfW is another good example of reaching beyond a national market for funding alternatives, and those are the exact type of issues that we discuss. Certainly the mortgage insurers finally had a chance to find their markets as lenders seriously concerned about risk management were able to understand what those players really do extremely well.

MFG: Last year you reflected on the importance of the mortgage product as a distinct European asset class, as opposed to national or domestic products. Why was that important and did you actually help the industry towards that objective?

Moss: By focusing an entire event around one particular asset class - which is mortgages - we are promoting the idea that one day European lenders will be able to issue a pan European product which investors would love to have. Although investors have allocation criteria, today there are too many differences between national market practices and products for investors to gain scale across the mortgage asset class.

As a result, they are picking and choosing winners in particular markets, which then drives the price up and is no longer attractive. In the end, it costs European issuers even more time and money to differentiate themselves among the same global investor base.

JACKSON: It is the understanding of the concept that is so important here. We believe that mortgages are the most stable and strongest investment over time from individuals buying their homes to banks lending against the collateral to governments stabilising economies to funds looking for solid returns. Once at the event, investors will make their own decisions about their investment allocation. The important thing for us is to provide a place where they can understand all aspects of that investment – the players, the products, the factors that affect them, the legal structures, and the vision behind their strategies. We hope that one day we will be talking about pan-European transactions but until then, we can only bring the point up when it is appropriate. For now, it is on a national market by national market basis ... but clearly the pace of change is now much faster today than even last year.

MFG: With IT, Basel II, new international financial reporting standards, and the involvement of US and Asian players, particularly in relationship to outsourcing, isn't the real issue globalisation and isn't the idea of a homogeneous European identity a bit of a red herring?

MOSS: A homogenous European identity is definitely a red herring, but the point of creating a unified currency was not about cultural assimilation in the first place. Today the euro stands as the only global currency without a nation identified with it. For the housing finance industry it is a very fitting metaphor to understand that, in creating the euro, the EU has succeeded in building the roof first and is now struggling with how to build a house underneath it.

Globalisation refers to the free movement of capital and increasing domination of national economies by global financial markets. National and international institutions have not kept pace with the development of those markets and existing political structures lag behind the globalisation of the economy. The Basel Accords are an acknowledgement of the interconnectedness of banking

systems – what happens in one country affects what happens in others. Realising that things are out of control, now you see increasing regulation, particularly on behalf of consumers, or with Basel II, you see efforts to curb globalisation by localising capital adequacy and encouraging bank stability by keeping good assets on their balance sheets and transferring their 'risky' assets off of them.

The opposite of globalisation is localisation, and herein lies the fundamental challenge of housing finance in Europe – housing is local in nature, and funding is global. How will the requirements to maintain capital adequacy vs. the need for alternative funding sources at least shape, or in some cases force local changes? If I apply for a loan, I have to fit into some set of predefined criteria before I get approved, and going to global capital markets for funding is no different. The ultimate question is, what is the underwriting criteria for that capital?

MFG: What do think is the single most important issue for UK lenders in the context of what is happening in Europe, or should we be addressing a global agenda?

MOSS: There is no need to address a global agenda because it is already addressing all of us. The single most important issue for UK lenders is efficiency throughout their organisation – from their balance sheets (through the pursuit of alternative funding sources or lowering their costs of capital) to their operations (straight-through processing or outsourcing if it cannot be achieved in-house).

MFG: Does your concept of Europe include the countries about to join the fold and how do you see them influencing developments, or changing

EuroCatalyst 2003: RITZ FOUR SEASONS, LISBON, 22-24 OCTOBER 2003

The theme of this by invitation-only event is competition and convergence, localisation and globalisation in European housing finance and fixed-income investments. It will also feature an evening of jazz and blues with guitarist Larry Carlton.

The programme and all confirmed speakers are posted on the EuroCatalyst website, www.eurocatalyst.com. Invitations to the event can be requested from event sponsors or EuroCatalyst.



the European mortgage market?

JACKSON: Much of the opportunity in European markets is inherent in the new member states, although many are still developing models and frameworks for their national housing finance markets.

There is high risk and high rewards for those able to execute first. Theoretically new member states should be able to execute first since they have the most knowledge of their own markets, but in the larger context of the EU to what extent will they require outside help to share that risk to make the new markets efficient? We will have a Central European session at the event this year, which will be fascinating for everyone, including the panel I'm sure.

Whether or not we succeed in getting Nobel prize-winning economist Joseph Stiglitz to keynote EuroCatalyst 2003, I recommend his book, *Globalisation and its Discontents*. He has a lot to say about the situation of developing countries and outside influence, including Central and Eastern Europe. An economist's perspective is crucial because it addresses the 'underwriting criteria' for capital that Toni referred to earlier.

MFG: Presumably a reason for holding the first event in Madrid was the interest and support that you received from the Bank of Spain, the Spanish Mortgage Association, and the Association of Spanish Savings Banks. Is the same true of Portugal?

MOSS: I chose southern Europe because I believe that the region is somewhat disenfranchised from the north where most decisions that affect them are made.

Spain was natural because it's the fastest-growing mortgage market in Europe and historically quite insular. The reason for the location was not due to an initial warm reception, as everyone struggles with some of the concepts that we are advancing, including Portugal. One lender stated that he felt as though EuroCatalyst was more of a movement than an event, which is probably a fitting description. Realistically we would face the same uphill battle and inadvertently step on toes anywhere, including the US! But this event is only as strong as its content and the people who drive that dialogue, so we are very lucky to have support that grows every day. The new location of the event is Lisbon and we will most likely keep it there every year. **MFG**