

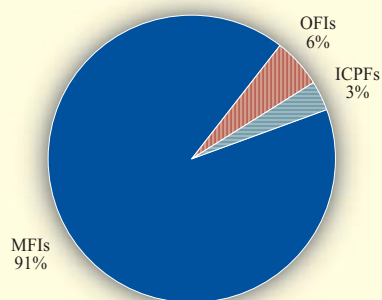
Box 6

DEVELOPMENT AND NATURE OF NON-MFI LOANS TO HOUSEHOLDS

Loans from monetary financial institutions (MFIs) as reported in the main text represent the most important source of financing for households. According to the quarterly Monetary Union financial accounts, loans from MFIs constitute slightly more than 90% of total outstanding amounts (see Chart A), with loans from non-monetary financial institutions (non-MFIs) accounting for the remainder.¹ Non-MFI loans comprise loans granted by other financial intermediaries (OFIs) and insurance corporations and pension funds (ICPFs). While non-MFI loans represent a minor share of household loans, their dynamics in the past couple of years have been much stronger than those of MFI loans and have thus had a noticeable impact on the strength of growth in total household loans, contributing up to 1.0 percentage point to the annual growth rate (see Chart B). Against this background, this box reviews developments in the dynamics of non-MFIs' loans to households and provides some information on the nature of these loans. The data are available only up until the third quarter of 2005 (data for the fourth quarter of 2005 will become available in early May 2006).

Chart A Total loans to households

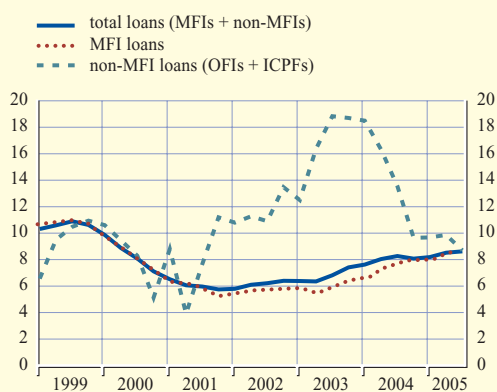
(shares of total outstanding amounts; Q3 2005; end of quarter)



Source: ECB.

Chart B Total loans granted to households

(annual percentage changes; end of quarter)



Source: ECB.

Currently around 65% of the outstanding loans from non-MFIs are accounted for by loans from OFIs. The OFI sector consists of very different entities, such as investment funds, financial vehicle corporations and securities dealers. The remaining 35% are accounted for by loans from ICPFs. Chart C shows that the fact that growth in non-MFI loans has been much stronger than in MFI loans in recent years has been entirely due to the robust dynamics of loans from the OFI sector, given that growth in loans from ICPFs has been on a broad downward trend since end-2001 and has been uniformly lower than growth in MFI loans. Since mid-2004 growth in loans from ICPFs has even been negative.

¹ It should be noted that the data on non-MFI loans do not generally cover the entire population of institutions, which implies that a certain underestimation of loans is likely. As a result, these data should be assessed with some caution. Total loans do not include loans from non-euro area residents.

The bulk of non-MFI loans to households reflect long-term debt (around 97% in the case of OFIs and around 95% in the case of ICPFs). This feature has remained stable over the period for which data are available and suggests that non-MFI loans to households are predominantly (collateralised) loans for house purchase. This structure is generally similar across the euro area countries. As a comparison, loans from MFIs are also predominantly long-term debt (around 93%), reflecting in particular the fact that loans for house purchase account for around 70% of all MFI loans to households.

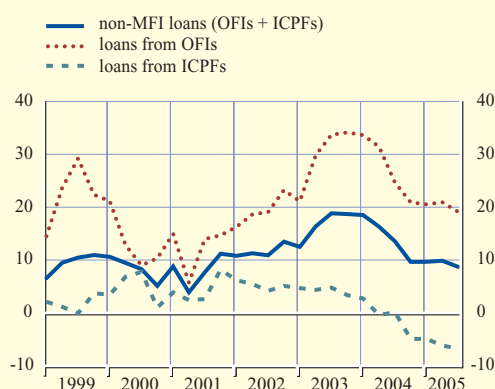
The strong growth in OFI loans is likely to reflect securitisation. For example, there is some evidence that several euro area countries witnessed a considerable volume of true-sale securitisation in 2004. True-sale loan securitisation typically involves transferring loans from the MFI balance sheet to the balance sheet of a financial vehicle corporation and thus reduces the amount of MFI loans (in terms of both stocks and flows), while at the same time increasing the amount of OFI loans.²

Comparing across countries, the largest share of OFI loans in total household debt can be observed in the Netherlands, followed by Spain and Italy. Spain and the Netherlands are also the countries where growth in OFI loans has on average been most significant over the past few years. For these countries, a large majority of these loans consisted of securitised residential mortgages in an environment where loans for house purchase have seen very strong growth. Loans from ICPFs, on the other hand, are relatively important as a source of household financing in Germany, the Netherlands and France. The slow growth in ICPF loans observed in recent years may be related to changes to tax systems in some euro area countries making ICPFs a less attractive source of external funding.

To conclude, the non-MFI sector has been important for overall household loan developments in recent years. Looking ahead, this importance is likely to continue. For instance, as the pay-as-you-go social security systems in a number of countries are complemented by funded systems, households will increasingly generate assets held with insurance corporations and pension funds against which they can borrow. Therefore, any analysis of household financing will need to look beyond MFI loans to incorporate an assessment of OFI and ICPF loans and would benefit from the provision of more timely and detailed data on OFIs' and ICPFs' balance sheets.

Chart C Non-MFI loans granted to households

(annual percentage changes; end of quarter)



Source: ECB.

² There are two main types of loan securitisation: true-sale securitisation and synthetic securitisation. While true-sale securitisation involves the actual transfer of loans off the original creditor's balance sheet, synthetic securitisation only transfers the associated credit risk, while the loans remain on the original creditor's balance sheet. See the box entitled "The impact of MFI loan securitisation on monetary analysis in the euro area" in the September 2005 issue of the Monthly Bulletin.