EEMI Trento Bauhaus Week

Sustainable and affordable mortgages in Italy

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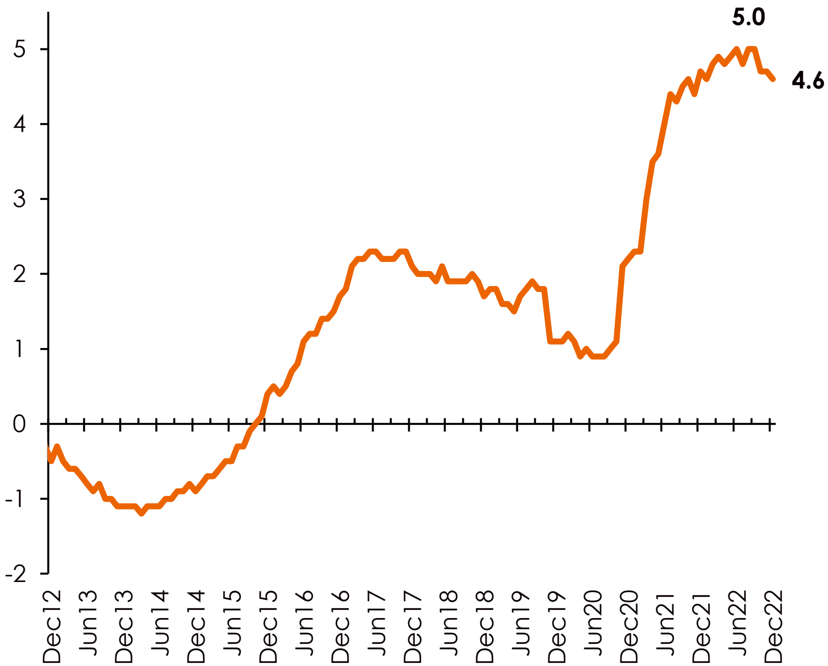
Home purchase loans reached a stock growth at ten-year highs in 2022 and started slowing in Q4 …

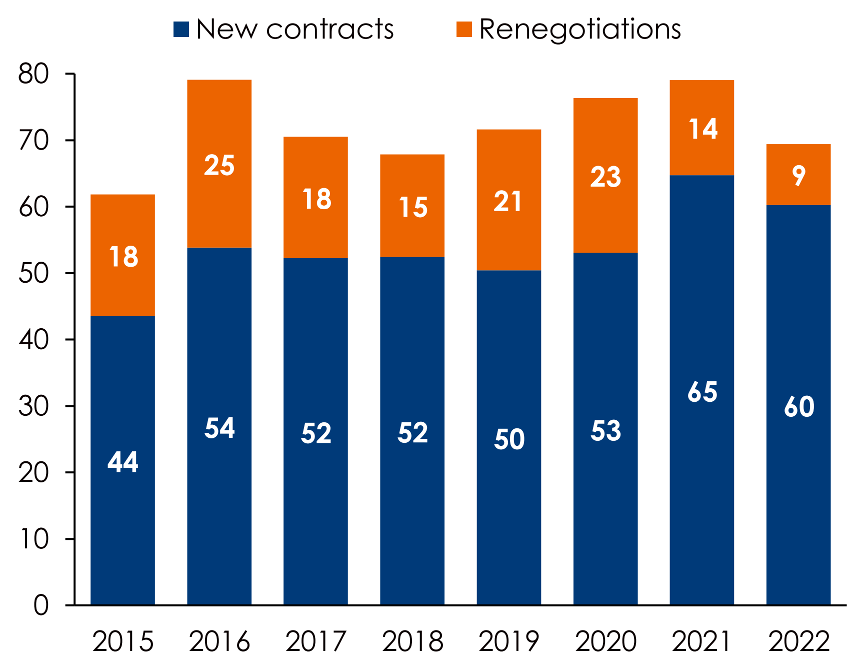
- **Stock growth remained strong along 2022**, **by 5.0% yoy** in August and September, and **slowed slightly** to 4.7% in the Autumn months and 4.6% at year-end.
- **New contract flows decreased from the record volume in 2021 but represented the 2nd highest amount ever**, equal to 60Bn in 2022, down by 6.9% yoy. New mortgage contracts totalled 65bn in 2021 (+22% compared to 2020 and +28% vs. 2019).

Trend in loans to households for house purchase
(yoy % change in stock)



Source: ECB

Monthly flows of new home loan contracts: three years in comparison (EUR million)



Source: ECB and Intesa Sanpaolo calculations

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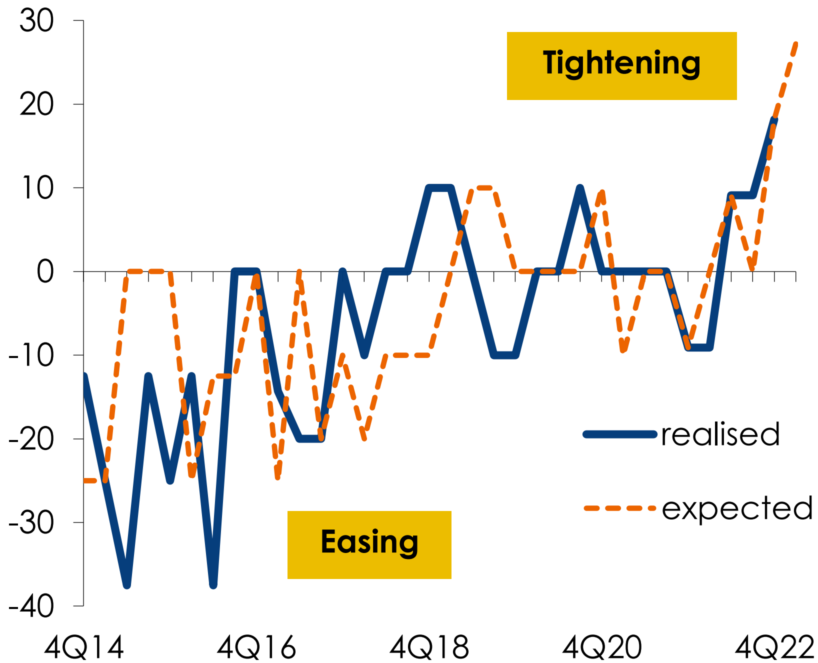
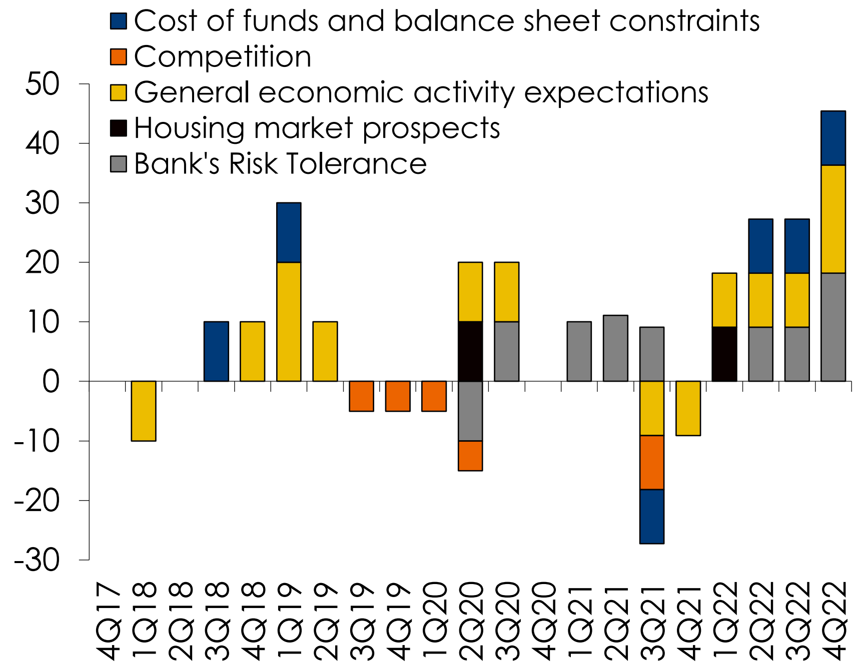
… due to slight tightening in home loan credit standards

- Which was mainly driven by **lower risk tolerance** and **worsening expectations on economic activity**, and to a lesser extent by higher funding costs and balance sheet constraints.

Change in credit standards applied to households for house purchase
(net %: tightening – easing)



Factors affecting credit conditions for residential mortgages
(net %: tightening – easing)

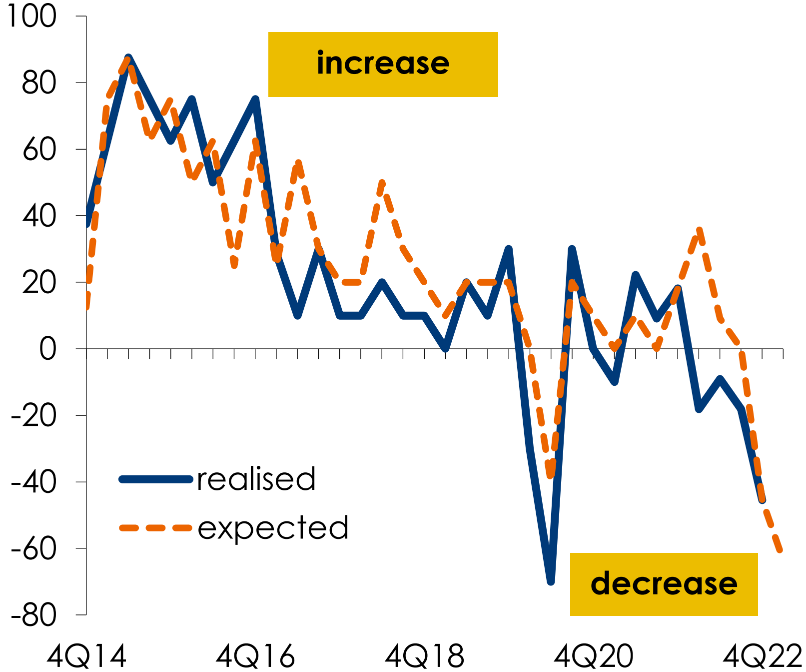


Source: Bank of Italy, Quarterly Bank Lending Survey (BLS)

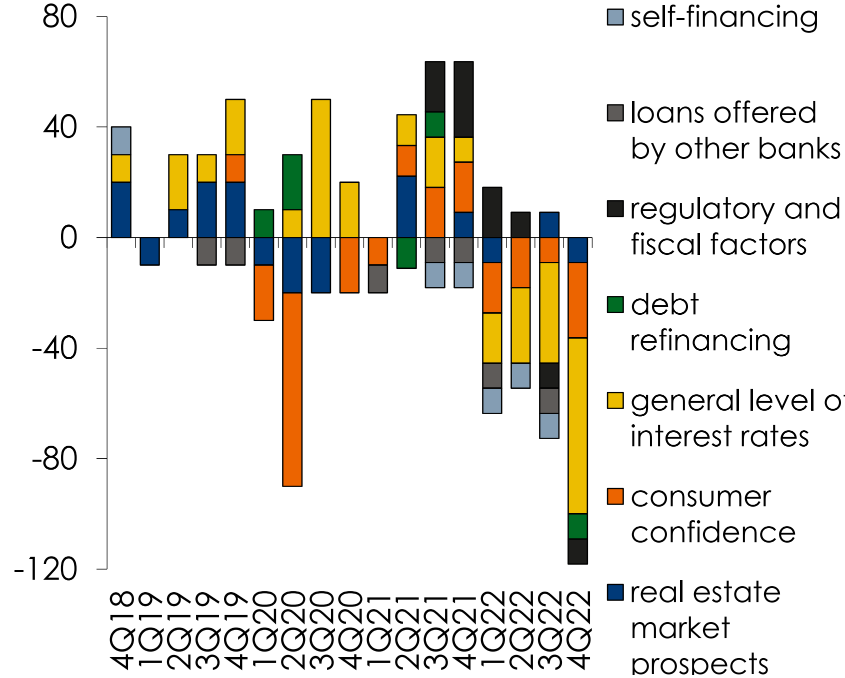
… and the decrease in demand for housing loans

- Mortgage applications was mainly affected by **rising interest rates and the drop in consumer confidence**.

Changes in demand for loans to households for house purchase
(net %: increasing – decreasing)



Factors contributing to changes in demand for loans to households for house purchase
(net %: increasing – decreasing)

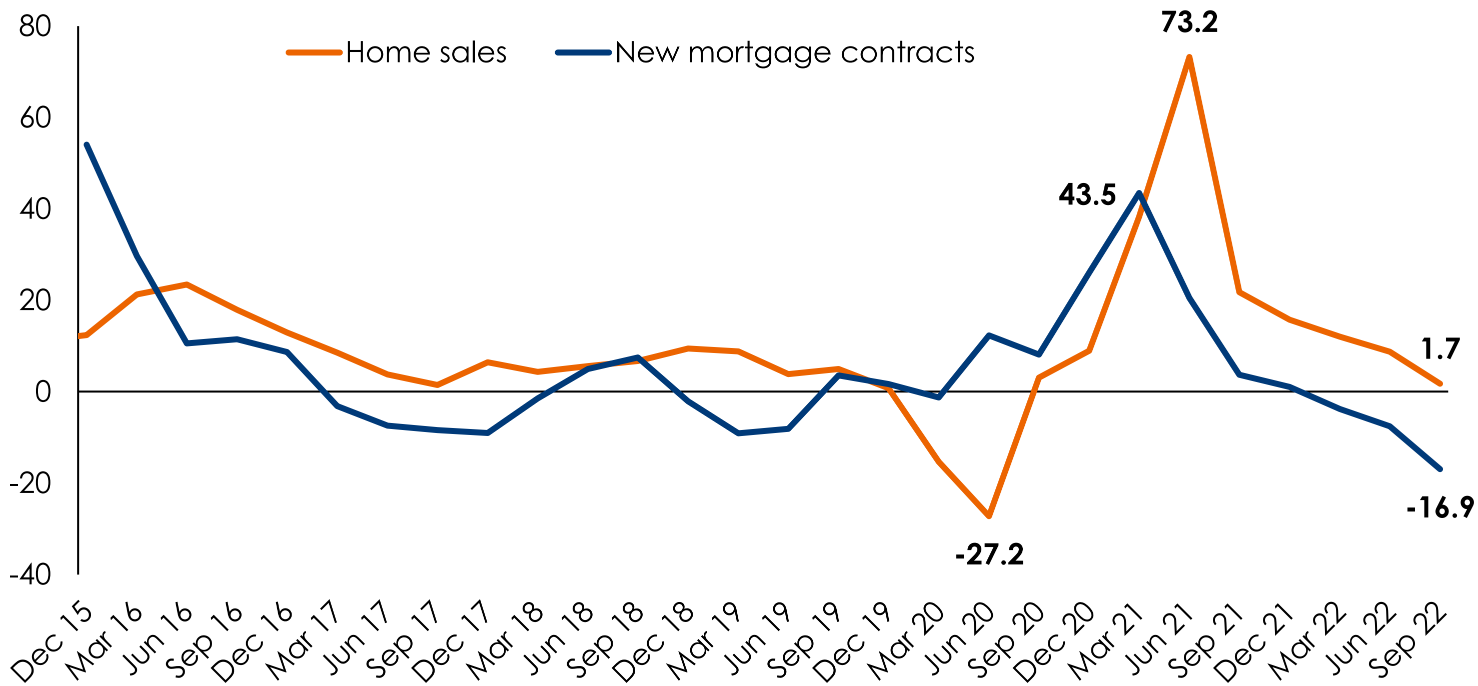


Source: Bank of Italy, Quarterly Bank Lending Survey (BLS)

Housing market definitely weakened in 3Q2022

- Following the strong growth in 2021, **transactions of residential properties slowed along 2022**, with an increase of 10% yoy in 1H2022 and **just 1.7% yoy in 3Q22**, but slightly dropped compared to the 2nd quarter (-1.6% qoq seasonally adjusted).
- Decreasing flows of new mortgages are consistent with the weakening of residential real estate market.

Trend in new mortgage contracts and transactions of residential properties
(yoy changes in mortgage volumes and number of transactions)

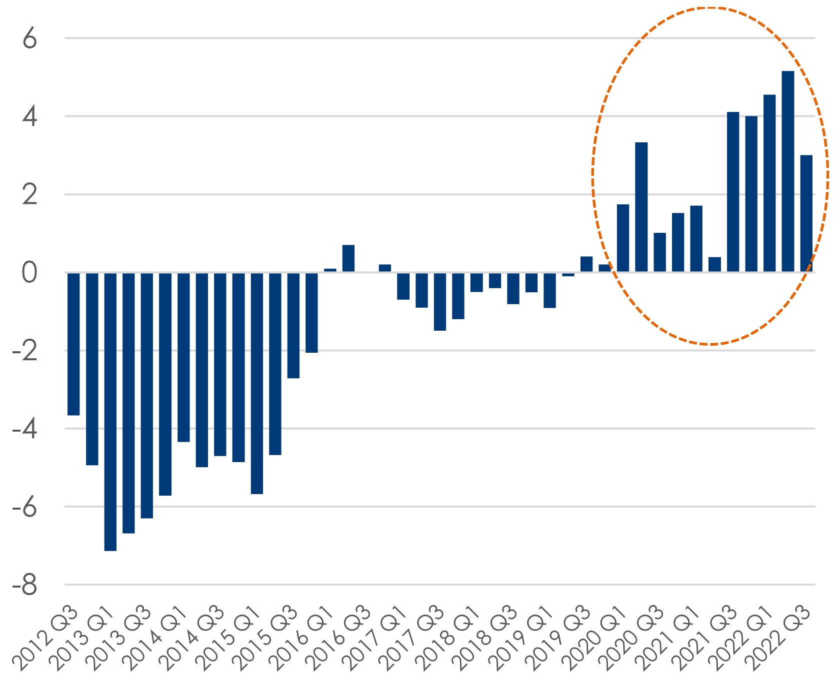


Source: Agenzia delle Entrate (Italian Revenue Agency), ECB and Intesa Sanpaolo calculations

House prices started feeling the effects of falling demand

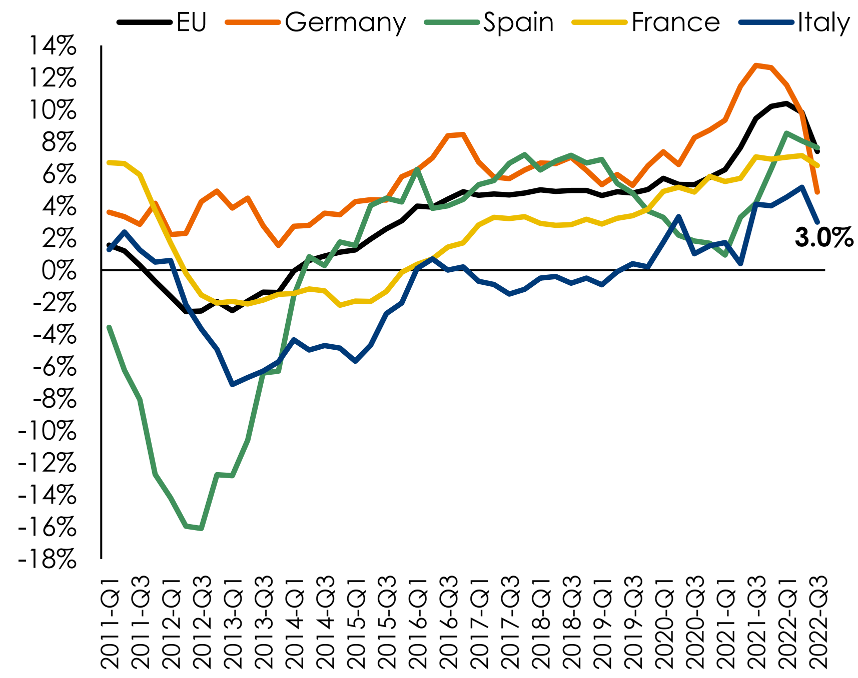
- **Prices of residential properties recorded a more moderate increase in 3Q, by 3%** yoy in nominal terms, but **dropped qoq after rising for seven quarters** (-1% on 2Q).
- The slowdown in 3Q followed four quarters of strong growth, by +4.5% yoy in 1Q2022 and +5.2% in 2Q, a record high (+2.5% on average in 2021).

Residential property prices in Italy …
(yoy changes)



Source: ISTAT

… and European comparison
(yoy changes)

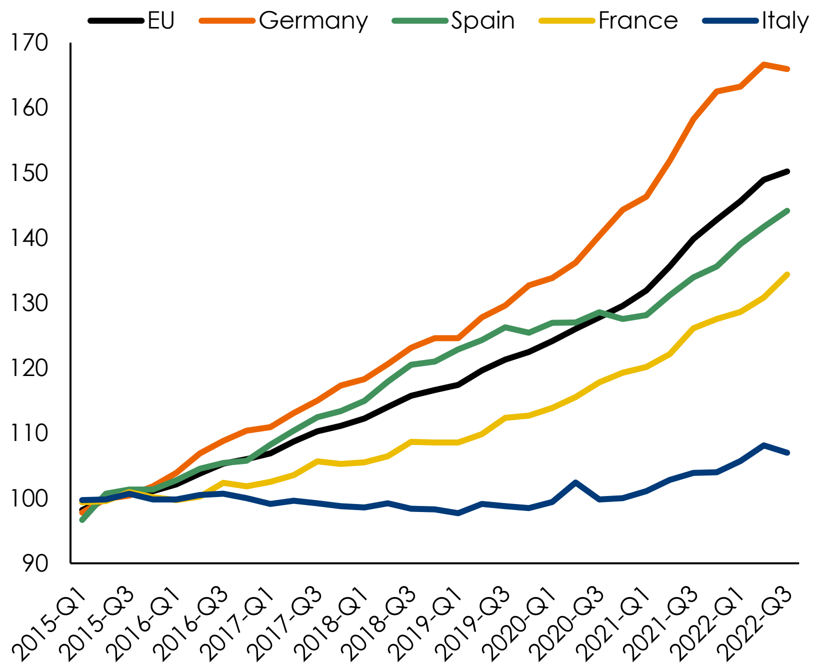


Source: Eurostat and Intesa Sanpaolo calculations

But the housing market does not appear overheated as in other European countries

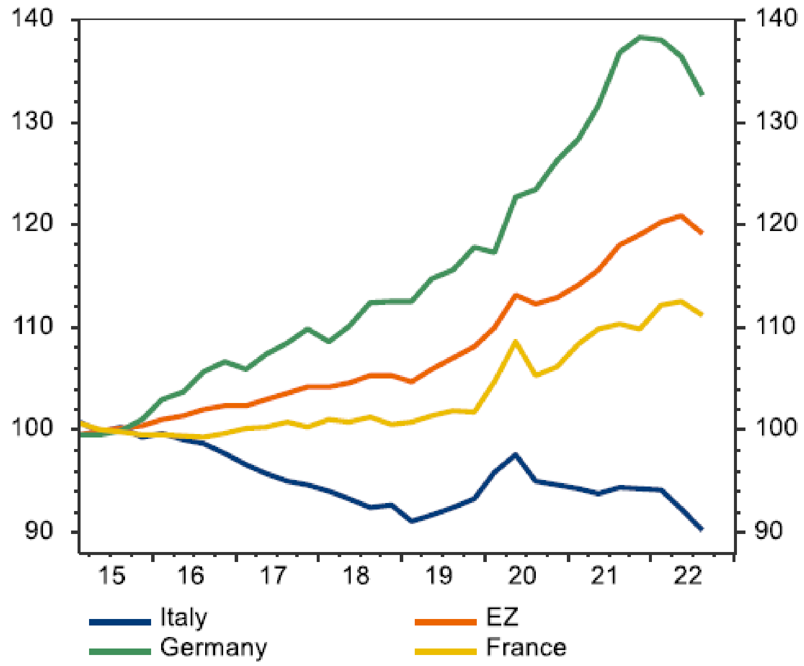
- Despite the recent recovery, house prices in Italy are only moderately higher than before the pandemic.
- **The ratio of real estate prices to income shows greater housing affordability** than in the rest of Europe

House price index, 2015 = 100



Source: Eurostat

Price to income ratio, 2015=100

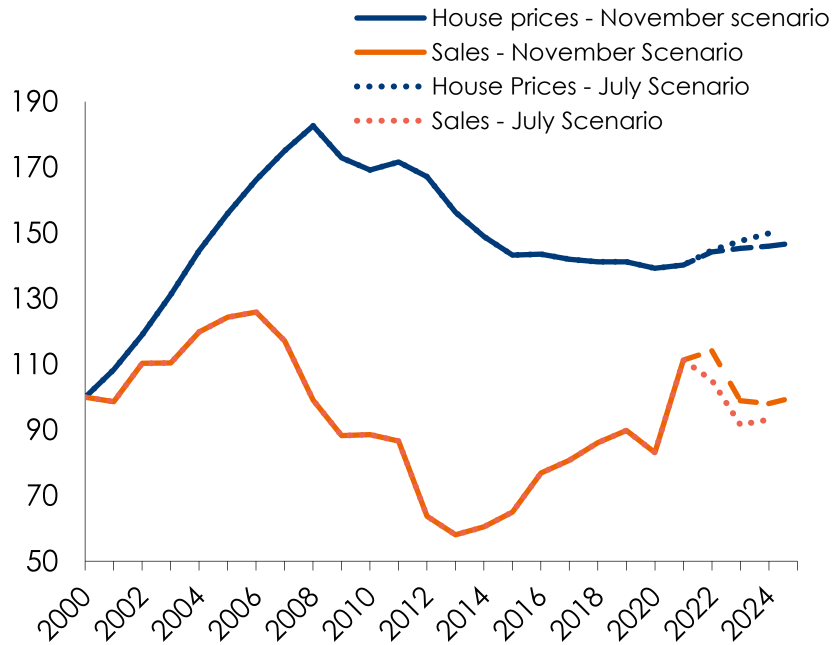


Source: OECD

Yet, the outlook on the housing market has worsened

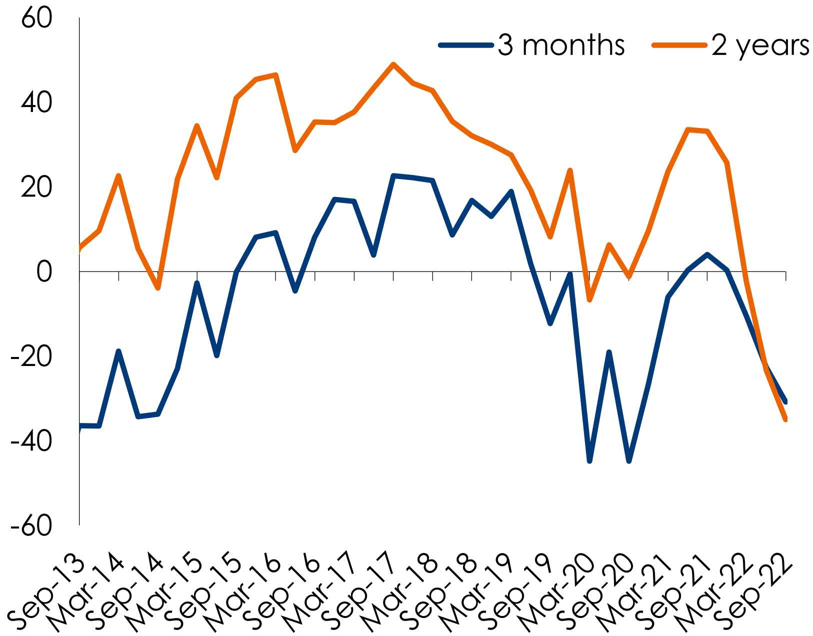
- According to the Survey of real estate agents, conducted between 21 Sep. and 21 Oct. 2022, **the outlook on the housing market deteriorated further,** both for 4Q2022 and, to a greater extent, over a two-year horizon.
- **House prices are forecast to remain slightly on the rise in 2023-25,** but much more subdued after the demand pressure in past months. Last November Nomisma estimated +0.7% in 2023, confirming the **expected double-digit drop in sales (-13.3%).**

Residential sector: number of sales and prices
(*) (2000=100)



(*) The Nomisma scenario was presented on Nov 23 2022. Source: ISTAT and OMI – Nomisma forecasts and Intesa Sanpaolo calculations

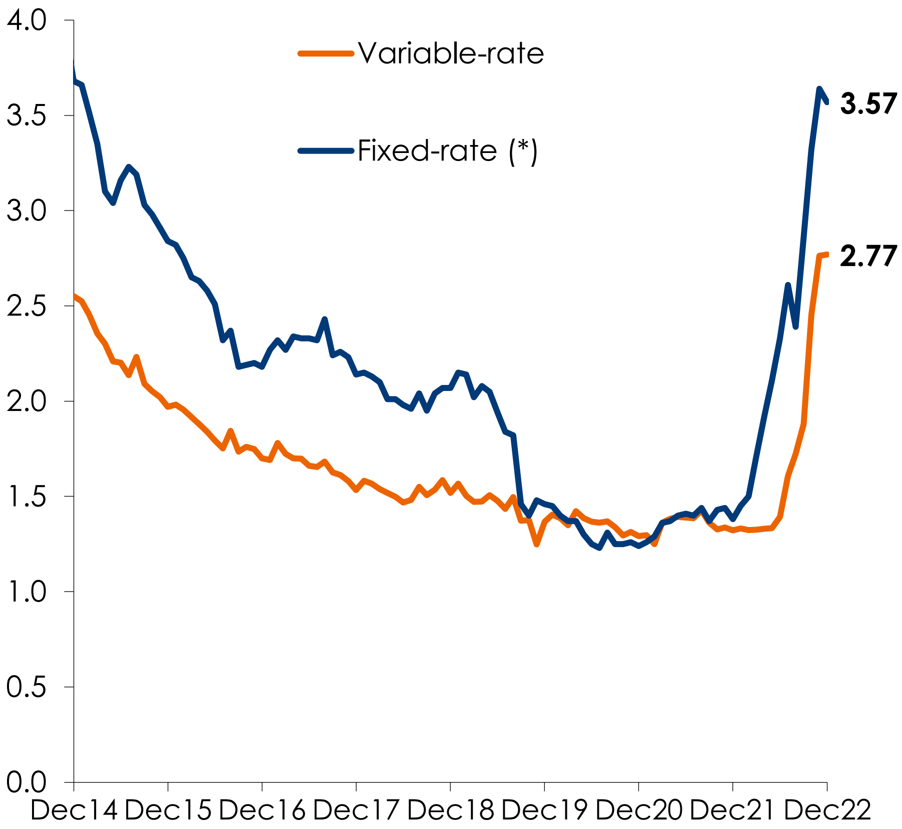
Expectations about the real estate market
(balances **)



*** Balance of positive and negative sentiment expressed by estate agents. Source: Bank of Italy*

Soaring interest rates on new home mortgages

Rates on new loans to households for house purchase (%)



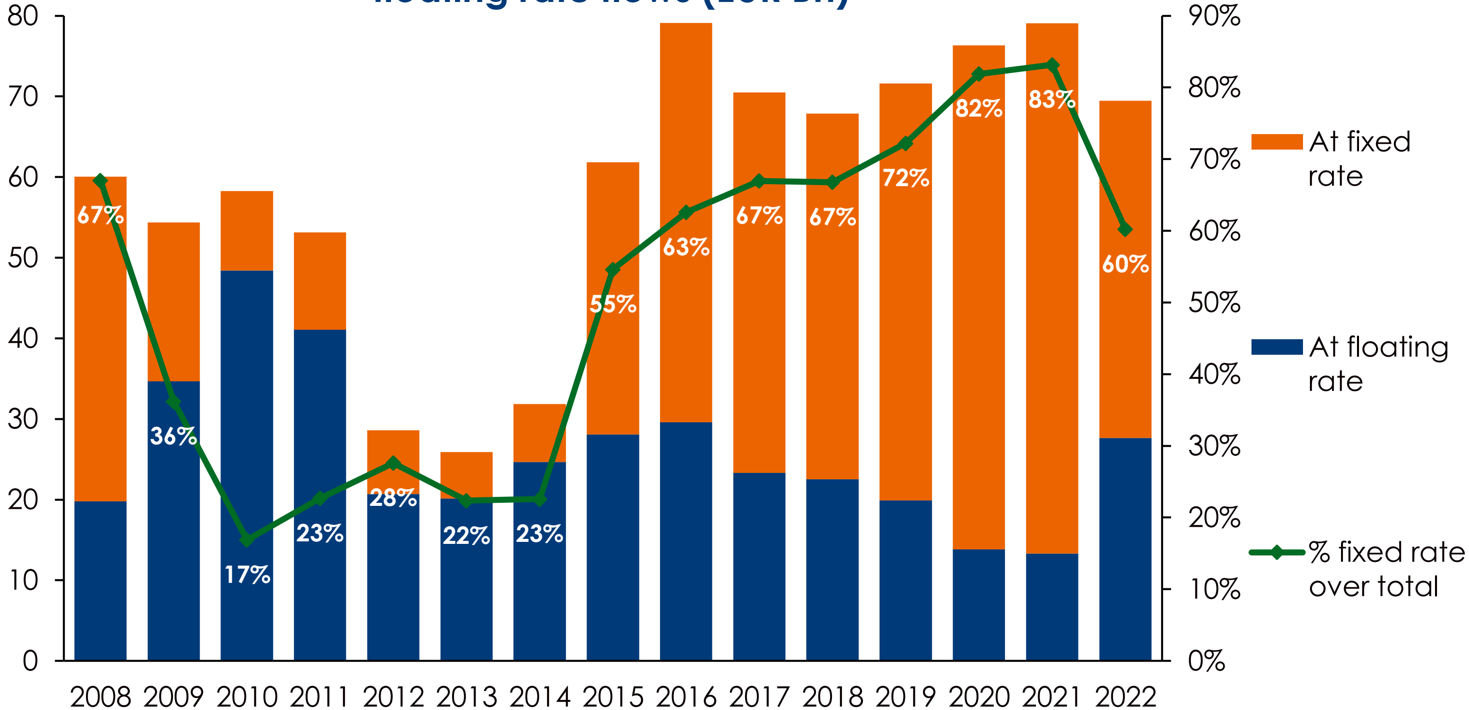
Note: (*) Initial rate fixation period over 10 years.
Source: Bank of Italy, ECB

- **Fixed rate on home loans rose 2.2pp in 2022**, to 3.6% and **settled at year-end**.
- **Floating rate rising as well since mid-22**, after a long stability, almost doubled to 2.8%.

Mitigating factor: higher share of fixed-rate mortgages

- At September 2022, **floating-rate mortgages made up less than 40% of total outstanding mortgage loans**, a historic low. Prior to the financial crisis, their share hovered around 80%, then fell gradually.
- **In terms of flows, fixed-rate mortgages, including renegotiations, accounted for 83% of total disbursements in 2021** until 1Q22. In 2010, only 17% were fixed-rate.

Loans to households for house purchase, gross annual fixed and floating rate flows (EUR Bn)

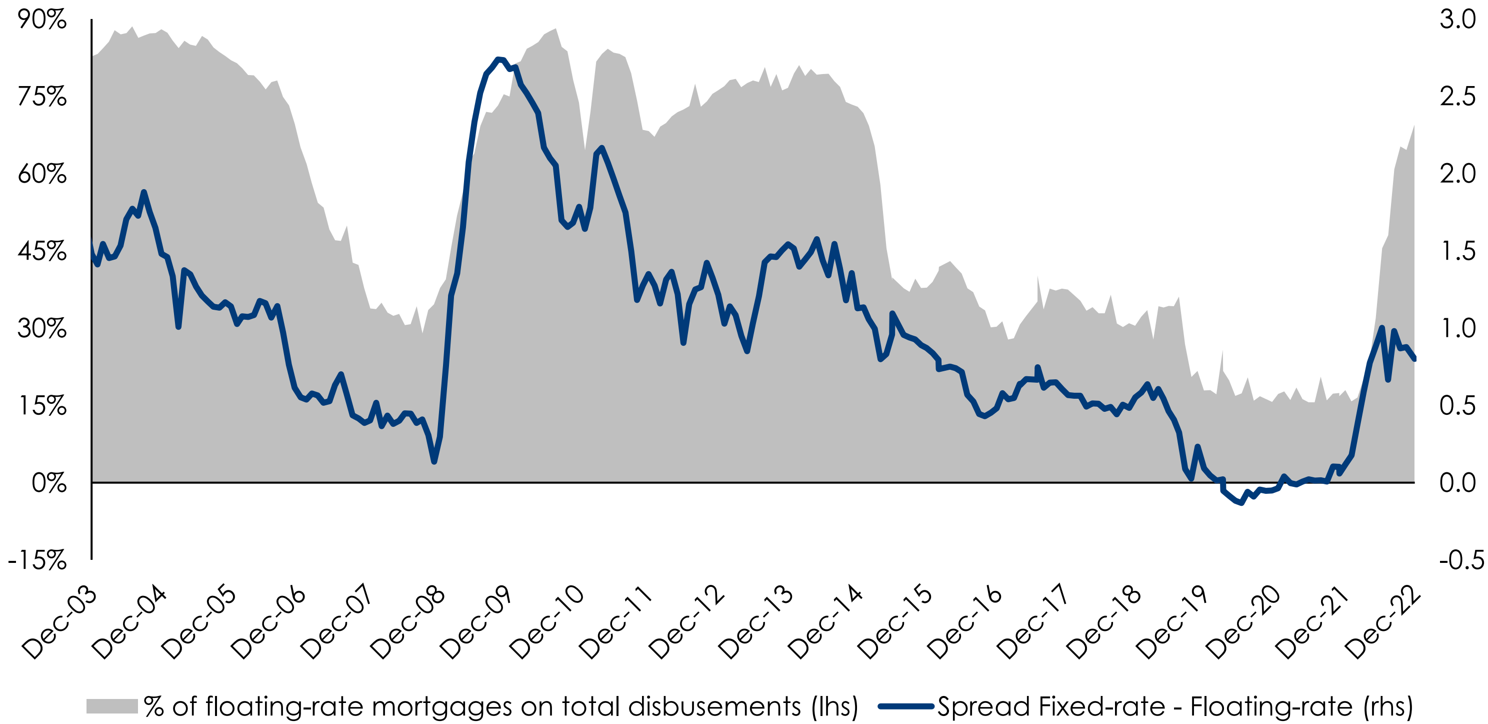


Source: Bank of Italy and Intesa Sanpaolo calculations

Exposure to the risk of an increase in the debt servicing costs for house purchase loans is moderate …

- Since 2015, **narrowing spread between fixed and floating rates, to zero** in 2020-21.
- This reflected the sharper fall in fixed-rates that, together with the protection they offer against the risk of future rate hikes, **led households to prefer fixed-rate loans**.
- With rising rates in 2022, **rapid reversal of rate preferences on mortgages, 69% of which were taken out at variable rates in December 2022**, up from 17% in Q1.

Spread between fixed-rate and floating-rate (%) and share of floating-rate mortgages over total mortgages

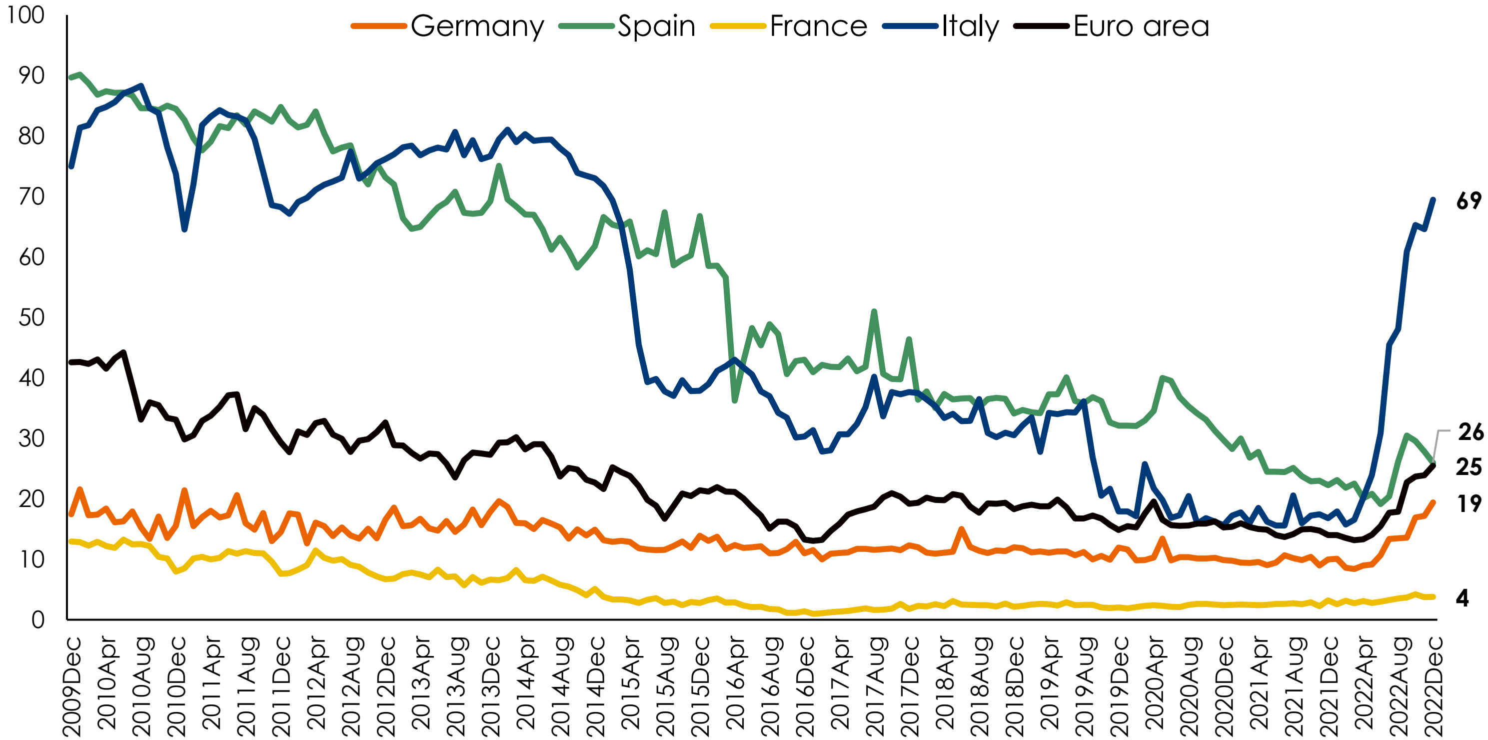


Source: Bank of Italy and Intesa Sanpaolo calculations

… despite the recent reversal of preferences in favour of the variable rate, mitigated by the cap

- Similar developments have not been reported **in other major euro-area countries**, where **the granting of new floating-rate loans has remained limited**.
- Yet, the risk of future increases in debt servicing costs is mitigated by **wide-scale use of interest rate cap**, applied to around 40% of new floating-rate loans in 3Q22.

Share of floating-rate mortgages over total mortgages in major Euro Area countries

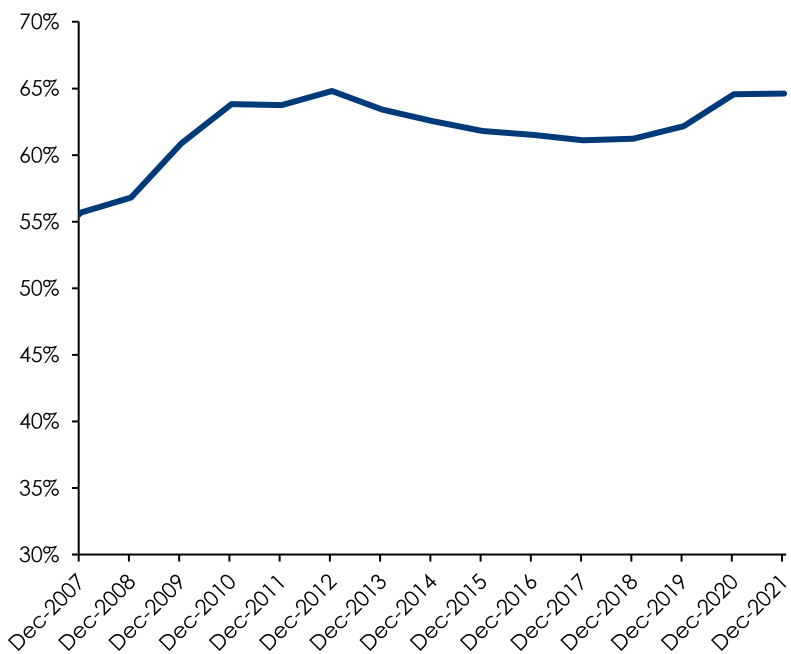


Source: ECB

The impact of rising interest rates on Italian households: low debt ratio and the liquidity shield

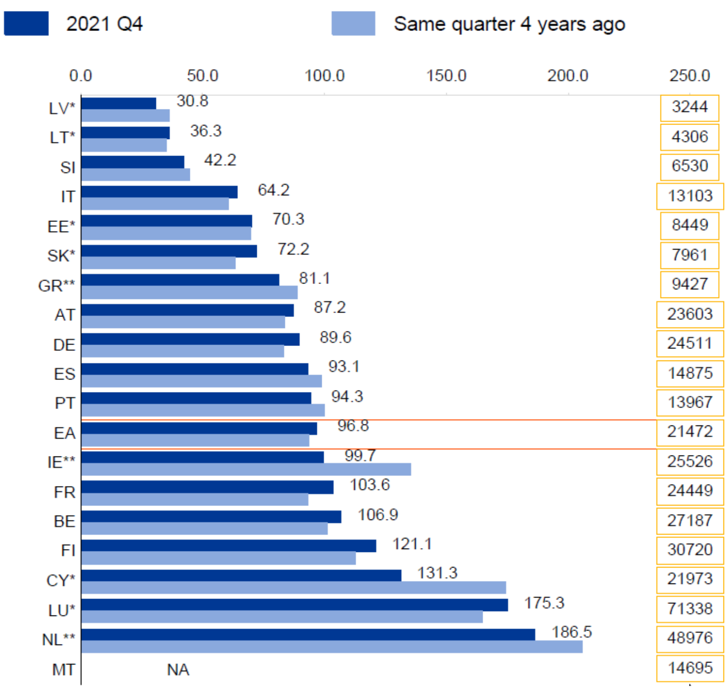
- The liabilities of Italian households are very low in the European comparison.
- On the asset side, they hold **high bank deposit balances**: for consumer households the **amount of deposits is twice the volume of loans**; the ratio of **cash and deposits over disposable income is equal to about 100%.**

Debt to income ratio for households (IT)



Source: ECB

Debt ratio (outstanding debt over disposable income and outstanding debt per capita)



Source: ECB

Mortgage products are designed to support the borrower's ability to pay

In recent years, the banking offer has adapted to changes in the economic and social environment and mortgages have become more and more **flexible, sustainable, affordable**, especially for young people.

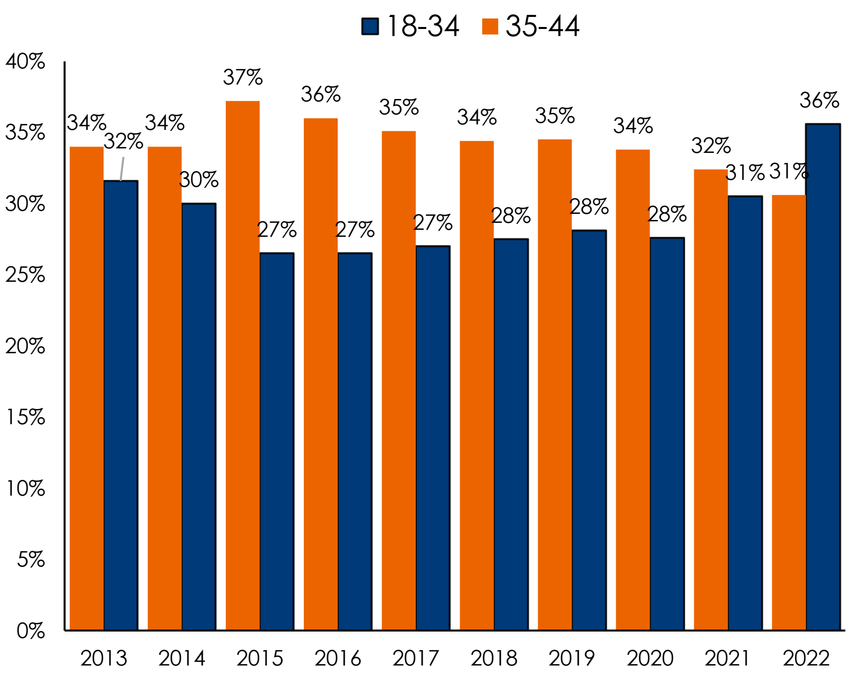
Flexible, Sustainable, Affordable

- specific formulas for atypical employment contracts, single-parent families
- suspension of mortgage instalment payment
- pre-amortisation: first interest-only instalments (up to 10 years)
- CONSAP guarantee
- amortisation plan rescheduling
- facilities and discounts for young people under 36
- duration up to 40 years
- *loan to value* up to 100%
- green mortgages

Increasing demand of mortgages by young people

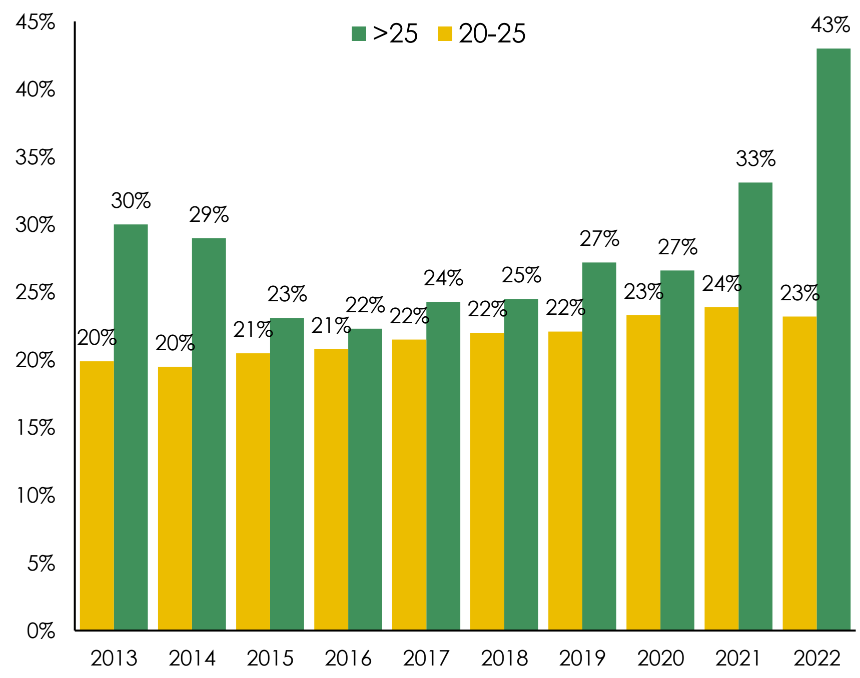
- In 2022 **mortgage applications from young people outnumbered those from the 35-44 age group**, opposite to the past.
- Younger customers have benefited from the **strengthening of the public guarantee for the purchase of a first home** (the guarantee from Consap).
- Young people prefer solutions that can weigh as little as possible on their budgets: in 2022, **66% of overall mortgage applications were for durations of over 20 years**.

Distribution of requested mortgages by age of applicant



Source: CRIF and Intesa Sanpaolo calculations

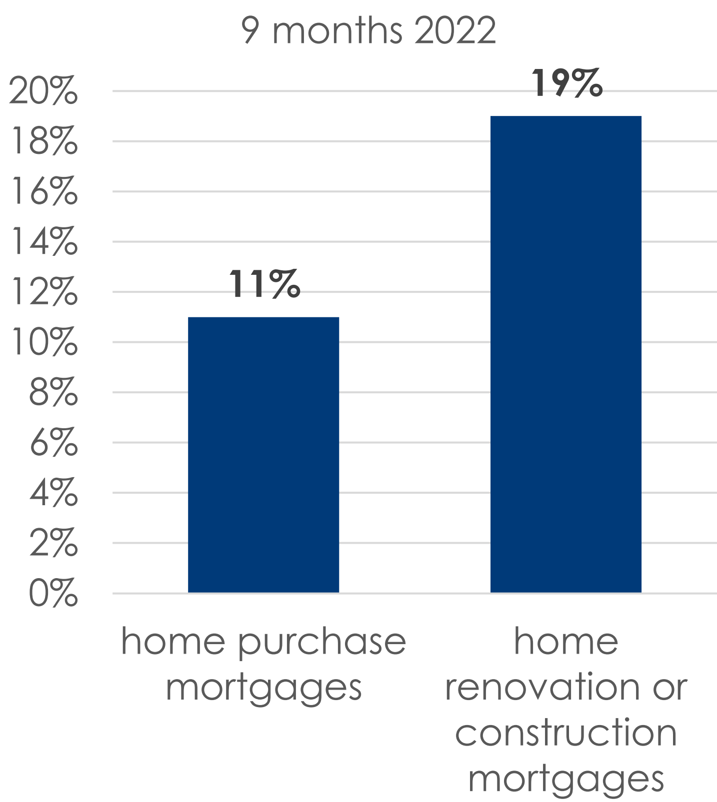
Distribution of requested mortgages by maturity range (year)



Source: CRIF and Intesa Sanpaolo calculations

Growing supply of green mortgages to meet the demand of more sustainability-conscious customers

Share of green mortgages over total mortgages



Source: Assofin

- Italian banks have updated their mortgage offer by adding special conditions linked to the energy efficiency of buildings and their upgrading.
- Green mortgages generally offer a **rate discount of 10pbs** for the purchase of class B or higher properties or for renovations that achieve a proven 30% improvement in energy performance.
- Customers' **interest in green mortgages is linked to the favourable conditions of the loan and the savings** resulting from increased energy efficiency.
- **Young people emerge as the segment most interested** in green mortgages.
- **Good perspectives** for green mortgages that may be able **to boost the renewal of Italy's housing stock.**

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