ABI Associazione Bancaria Italiana

PRESS RELEASE

Home loans: ABI-Economy Agreement draft ready for families in difficulty

Mr. Faissola says this is the first confirmation of banks committing to support recovery.

The President of ABI, Mr. Corrado Faissola, made known that the ABI Executive Committee held a meeting today in Milan, where it approved, by common assent, the Agreement draft between the Ministry of Economy and the Italian Banking Association for the renegotiation of variable rate home loans taken out before 1 January 2007.

Mr. Faissola stated, "The initiative was taken in support of those families who found themselves in difficulty paying their monthly home loan instalments after the ECB decided to raise interest rates at the end of 2005." The President of ABI pointed out, "Ever since 2007, banks started working very seriously for the renegotiation of home loans. This innovative action will allow extending such renegotiation opportunity to a much broader number of families, who will be able to do so by following a single, straight forward, and simple procedure. Mr. Faissola concluded by saying, "This Agreement is the first confirmation of the factual commitment we announced to the Government in order to contribute to the recovery of our Country and its economy".

The Agreement could involve approximately 1,250,000 families. Considering a twenty-year loan of 80,000 Euros, the expected outlay would be lower by nearly 850 Euros on a yearly basis.

The Agreement defines the procedures for renegotiating variable rate home loans taken out before 1 January 2007, which will enable to reduce and stabilise the amount of the instalments to be paid until the original due date of the loan term. The Ministry of Economy and Finance will sign the Agreement with ABI within 30 days from the date of entry into force of the Decree Law that was passed today by the Government.

The following are the key points of the Agreement:
- Renegotiation entails reduction of the amount of the loan instalments starting from those whose due date falls after 90 days from the renegotiation date. The new rate is calculated by applying the 2006 average contract rate to the original amount of the loan.
- The difference between the amount of each instalment to be paid according to the original instalment repayment plan and the amount resulting after the renegotiation is charged on an additional funding account to which a ten-year IRS rate applies, referred to the date of renegotiation, plus a spread of 0.50 (therefore fixed rate).
- The customer will not need any further guarantees apart from the ones already required for the loan that is being renegotiated.

For parties who decide to enter renegotiation, thus:
- Home loans become fixed rate;
- Amount of (fixed) instalments is on average that paid in 2006;

- The loan period does not change initially, and potential extensions will depend upon interest rate trends.

During the loan period, customers will thus find themselves in one of the following situations:
- If during the time that goes from the renegotiation to the due date of the loan, interest rates have increased on average, or have not sufficiently decreased, the loan period will be automatically extended – at the same fixed rate – for a length of time sufficient to reimburse any additional financing;
- If during the loan period after the renegotiation, interest rates drop lower than the benefit already acquired by swapping to a fixed rate loan, any benefits linked to the new rate will be acknowledged by returning to a lower variable rate, as was provided for by the original loan.

Rome, Palazzo Altieri, 21 May 2008