

Contact: Johannes Kleis: +32 (0)2 789 24 01
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Mortgage credit: Key week for home owners

European homeowners feature twice on the EU agenda this week, as both the European Parliament and member state governments are expected to pave the way for Europe-wide mortgage rules for consumers buying or renovating a home. The law in question regulates among other things the advertising of credit, introduces a European Standardised Information Sheet on key features of loans and makes compulsory 'creditworthiness' assessments by lenders.

As mortgage debt weighs heavily on households' expenditures across Europe, BEUC calls on EU Parliamentarians and national governments not to miss this unique chance to stop irresponsible lending practices and increase consumer protection. In particular, BEUC asks to:

- Stop 'locking in' consumers to long contracts and make early repayment a right for every borrower. This would allow borrowers to profit from better offers when market conditions change;
- Ensure the Annual Percentage Rate of Charge (APRC) includes the cost of all additional services linked to the loan to fully inform the borrower about the real cost and allow easier mortgage comparison;
- Ban foreign currency loans: from Austria to Latvia, loans in Swiss francs or Euro have plunged millions of consumers who receive income in another currency into dire straits because of exchange rate fluctuations;
- Prevent unjustifiably excluding some types of home loan takers (e.g. property bought for the purpose to let) from the rights granted by this directive;
- Give a clear mandate to national regulators to stand up for consumers and more effectively punish malpractices such as misleading advertising, unfair commercial practices and superficial assessment of people's financial means.

Monique Goyens, Director General of BEUC, commented:

"Taking a mortgage is the most important financial decision in a consumer's life. No European household can afford a bad deal. Irresponsible lending practices which put people's homes at risk must be stopped.

"EU lawmakers should prevent the conclusion of unsuitable contracts which are likely or bound to fail. Assessing the creditworthiness of a future client is one thing, but it's also key to ensure the consumer can afford the loan for its full duration.

"Financial supervisors must ensure risk-taking by lenders' pursuit of profit is not resumed once the crisis blows over. Consumers expect their financial regulators to be real watchdogs."

ENDS

See annex for more info about some key aspects of the directive: scope, the annual percentage rate of charge, regulatory overview, early repayment and foreign currency loan.

Annex

Credit agreements – Key consumer issues

Exemptions (scope): The scope of the directive is very unfavourable for consumers. Several types of credit agreements are excluded, such as credit agreements where the credit is granted by an employer to his employee; credit agreements which are the outcome of a settlement reached in court; credit agreements in the form of an overdraft facility, where the consumer accepts to be exempted from the provisions of the directive. Member States would also be allowed to partially exclude credit agreements when the property is rented to a third party (so-called buy-to-let mortgages) or when the credit is due to be repaid within 12 months. BEUC thinks that all consumers who take home loans should enjoy the same rights and level of protection. There is for instance no reason why people who buy (and let) a house as an investment should not enjoy the same rights as consumers who buy the home to live in.

Regulatory supervision: The plans to establish national enforcement authorities responsible for implementing the directive are too weak. BEUC demands a detailed mandatory set of investigating and sanctioning powers (e.g. possibility to access all premises, request the notification of mortgage contracts, ESIS books, invoices and other professional documents, carry out mystery shopping to check the implementation of the directive, etc.) which all national competent authorities would have to comply with. Having good legislation alone does not protect consumers, rules must be properly enforced to make a difference to people's lives.

Annual Percentage Right of Charge (APRC): A harmonisation of the APRC is a step in the right direction but important problems persist. Comparability can only be ensured when all costs directly or indirectly linked to the loan are included (except for notary fees). This is especially relevant with respect to complex mortgage products where the credit is combined with an investment product used to repay the loan. If the APRC does not include all occurring costs, the full cost of a loan would vary from one lender to another depending on the additional products and services offered and sold to the borrower. This prevents the consumer to compare loans and shop around for the best deal.

Foreign currency loan: In some countries like Poland, Austria, Hungary, Latvia or Croatia foreign currency loans dominate the market. In Hungary for example around one million consumers purchased mortgages and consumer credits in Swiss francs. In France a collective complaint of around 4,000 victims of foreign currency loans has recently been filed with the court. These loans were initially perceived as low risk due to sound real estate market conditions and stable exchange rates. But the situation deteriorated due to the financial and Eurozone crisis as well as increased volatility in foreign exchange markets. As a result, consumers' monthly repayments have drastically increased (sometimes even doubled) heavily affecting their loan affordability. Such products are not adapted to retail borrowers as the vast majority of consumers do not understand foreign exchange risks and do not have any coverage against it, unlike institutional borrowers. We ask for an EU-ban of foreign currency loans to consumers who do not receive their income in this currency and enable the conversion of the existing ones at favourable exchange rates.

Early repayment: Our modern life asks for more flexible mortgages than today's home loans do foresee. At hand proposals to allow moving a contract to a new property or letting suitable buyers of one's home enter the running mortgage contract are steps in the right direction to make removals easier and more affordable. In markets like Germany with a preference for fixed interest rate mortgages, a compensation fee in case of early repayment is acceptable if applied in a transparent and fair way. However, early repayment needs to be an undeniable consumer right and should not depend on obscure conditions.