Sven Giegold MEP – www.sven-giegold.de

Responsible Mortgage Credit Directive

Green positions in bullet points

On 31st of March 2011 the European Commission published its proposal for a directive on responsible mortgage credit. Mortgage credit was unfortunately excluded from the consumer credit directive. Therefore, we appreciate the Commission's attempt to close this gap in existing legislation concerning credit agreements. Especially on mortgage credit we see the need for balanced rules, which avoid further artificial fuelling of property bubbles. Moreover, we have to ensure that credit is provided not only to the wealthy. Young people who start their career or who want to buy property to lay a secure base of wealth for their families should have access to good credit to further their development.

Increasing information requirements

- The proposal sets general rules for advertising of mortgage credit in **Article 7,** which we welcome.

- In **Article 8** several special rules for advertising are foreseen. According to the proposal, the offering creditor has to disclose already in his advertising:
    - the creditors and the intermediaries identity (if applicable)
    - o demanded guarantees and securities
    - o full description of the credit offer including the effective interest rate, the duration of the agreement and the annual percentage rate of charge
    - o the amount of the instalments
    - o the total amount payable by the consumer

  Even if this is already a step in the right direction, we are of the opinion, that additional information could be useful for lenders. Therefore, we suggest obliging creditors to provide the following additional information:
    - the amount of aggregated charges the consumer has to pay besides his repayments to the creditor
    - the possibility and the costs of early repayment

    - the currency of the credit and if it is a credit in foreign currencies a explicit warning concerning the exchange rate risk
    - the creditor should be obliged to present worst case scenarios if variable interest rates or duration are part of the advertised agreement.

- **Article 9** sets rules for pre-contractual information. Beyond the obligations for disclosure of Article 8 the creditor has to inform the customer before the agreement is signed about the following:
    - purposes for which the credit may be used;
    - forms of surety;
    - the duration of the credit agreements;
    - descriptions of the types of credit available, with a short description of the characteristics of fixed and variable rate products, including related implications for the consumer
    - indication of the currency or currencies in which credits are available, including an explanation of the implications for the consumer where the credit is denominated in a foreign currency
    - an indicative example of the total cost of credit for the consumer and annual percentage rate of charge
    - the different options available for reimbursing the credit to the creditor (including the number, frequency and amount of the regular repayment instalments)
    - whether there is a possibility of early repayment and, where applicable, a description of the conditions attached to early repayment
    - whether a valuation of the property is necessary and, where applicable, by whom it should be carried out
    - details on how to obtain information on tax relief on credit agreement interest or other public subsidies
    - the creditor has to hand over a standardised information sheet (ESIS), as set out in Annex II
    - upon request of the consumer, the creditor has to provide the consumer with a copy of the draft credit agreement

  Apart from that we think there should be additional information provided to the lender:
    - the lender should be informed if the creditor will securitize and/or sell the credit.

- the amount payable by the consumer shall be split in to interest, repayment and charges. If variable interest rates or duration are applicable, the lender should be provided with examples for the best and the worst case.
- The lender should receive a binding offer, which should be valid at least two weeks. Since only if he receives the full agreement in advance, he will be really able to compare different offers.

Reviewing the calculation of annual percentage rate of charge

- the rules for the calculation of the annual percentage rate of charge are set in **Article 12** and the **Annex I**. Concerning credit agreements with variable interest rates the calculation may be misleading as it is proposed by the commission. The creditor has to calculate the annual percentage rate of charge on base of the actual interest rates at the time of the agreement. In periods of low interest rates, the consumer gets the impression to sign an agreement at a very low rate without realizing that this is very likely to change in the future.

Register

- **Article 20** sets the rules for registration of credit intermediaries. We think those registers should be standardized in Europe and there should be the possibility to access all registers from a single access point. Information about revocations of admissions of intermediaries shall be visible in those registers.

Limiting securitization

- Yet there is no rule in the proposal about securitization of consumer credits in the proposal. To improve a prudent assessment of credit risks, we think consumer credits should stay at least partially in possession of the creditor.

Limiting VLT

- Many consumers became overindepted because the value of their securities was assessed to optimistically or the received credits, which were not covered by their securities. Therefore we demand a European Standard for a "Value to Loan Rate" (VTL).

Banning usury

- At a certain level of interest rates one cannot assume anymore that a credit agreement was concluded in a fair manner and between equal partners. Therefore, we would like to introduce a cap on interest rates. In our opinion, an agreement about an interest rate of twice the base interest rate shall be seen as usury and should be banned.

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