

Credit agreements: residential immovable property

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The Committee on Economic and Monetary Affairs adopted the report by Antolín SÁNCHEZ PRESEDO (S&D, ES) on the proposal for a directive of the European Parliament and of the Council on credit agreements relating to residential property.

The Committee on the Internal Market and Consumer Protection, in exercising its prerogatives as an associated committee in accordance with [Article 50 of Parliament's Rules of Procedure](#), was also consulted for an opinion on this report.

The committee recommends that the position of the European Parliament in first reading following the ordinary legislative procedure should amend the Commission proposal as follows:

A regulatory framework consistent with international principles: the financial crisis has entailed a lack of confidence in the financial system, in particular among consumers. As a result, the G20 has commissioned work from the **Financial Stability Board** to establish principles on sound underwriting standards in relation to residential immovable property. Members state that it should be ensured that the Union's regulatory framework in this area is robust, consistent with international principles.

The Directive should therefore develop a more transparent, efficient and competitive internal market, through **consistent, flexible and fair credit agreements** relating to residential immovable property, while promoting **sustainable lending and borrowing and financial inclusion** and hence providing a **high degree of consumer protection**.

It should provide: (i) a consistent Union standard for the calculation of the annual percentage rate of charge; (ii) the provision of pre-contractual information through a standardised European Standardised Information Sheet and (iii) the obligation to undertake an assessment of creditworthiness in relation to credit agreements.

Exclusions from the scope of the legislation: the directive does not apply to certain credit agreements where the creditor contributes a lump sum, periodic payments or other forms of credit disbursement in return for a sum deriving from the sale of a residential immovable property and whose primary objective is to facilitate consumption, such as equity release products or other equivalent specialised products.

In the same way, Member States are permitted under certain conditions to exclude certain other credit agreements, such as those which are granted to a restricted public on advantageous terms or which are provided by credit unions.

Better protection for consumers: in order to reflect the specificity of loans related to residential immovable property, the report stresses the need to:

- ensure that consumers have **adequate time for reflection** before committing themselves to taking out a loan;
- prevent practices which may induce consumers to enter into a credit agreement which is not in their best interests, such as tying of certain products;

- ensure that the residential immovable property is **appropriately valued** before the conclusion of the credit agreement and, where the valuation affects the residual obligation of the consumer, on default;
- regulate the **handling of arrears and defaults**;
- promote the **education of consumers** and ensure that assistance is available for vulnerable and less experienced consumers. Member States shall ensure that creditors and credit intermediaries require their staff to possess an appropriate level of knowledge and competence in relation to product design, the offering or intermediation of, advising on or granting of credit agreements.

Personalised information: Members want consumers to receive personalised information in good time prior to the conclusion of the credit agreement in order to enable them to compare and reflect on the characteristics of credit products.

In this regard, the **European Standardised Information Sheet (ESIS)** which provides information, personalised for the borrower, needs improvements. In particular, the wording should be more user-friendly, while sections, such as 'nominal rate' and 'annual percentage rate of charge', should be merged and new sections, such as 'risks and warnings', should be added.

Period of reflection: in order to allow the consumer to compare an offer with other offers, assess its implications and take an informed decision on whether to accept the offer regardless of the means of conclusion of the contract, Members consider that it is necessary to provide for a minimum period of reflection for consumers. Where consumers conclude a credit agreement before the end of the reflection period a **right of withdrawal** should be provided.

Ability to repay: Members state that it is essential that the consumer's ability and propensity to repay the credit is **assessed and verified before a credit agreement is concluded**. In line with the recommendations of the Financial Stability Board, creditors should require consumers to provide relevant information on their income and financial situation in order to facilitate the creditworthiness assessment, since failure to do so will result in refusal of the credit. The creditor should appropriately verify such information before granting the loan. Member States should therefore develop frameworks to allow for flexibility, for example by accepting **another property as equivalent collateral** for the loan.

Advice: the report notes that providing advice in the form of a personalised recommendation is a distinct activity, which may but need not be combined with other aspects of granting or intermediating credit. Member States shall ensure that the creditor, credit intermediary or appointed representative explicitly informs the consumer, in the context of a given transaction, whether advisory services are being or can be provided to the consumer.

Early repayment: consumers should have the right to repay early, under certain conditions. However, creditors should be entitled to fair and objectively justified compensation for the costs directly linked to the early repayment, taking into account also any savings thereby made by the creditor.

Arrears and foreclosure: Members consider that creditors should exercise **reasonable forbearance** and make all other reasonable attempts to resolve the position before initiating foreclosure proceedings. Any charges to compensate damages for default to be paid by the consumer should be proportionate to the costs incurred by the creditor.

General requirements: the report requires Member States to ensure that there is an effective framework of underwriting standards for credit agreements, incorporating the principles set out in the Directive and measures to prevent household over-indebtedness, which can be effectively supervised and monitored.

