



EUROPEAN COMMISSION

Internal Market and Services DG

FINANCIAL INSTITUTIONS

Retail issues, consumer policy and payment systems

SUMMARY

CONSUMER TESTING OF A POSSIBLE NEW FORMAT AND CONTENT FOR THE EUROPEAN STANDARDISED INFORMATION SHEET FOR HOME LOANS (ESIS)

STAKEHOLDERS' WORKSHOP – 13 MAY 2009

Background to the consumer testing

Pre-contractual information on home loans is covered by the pan-European 'Voluntary Code of Conduct on Pre-contractual Information for Home Loans' (the Code), which was negotiated between European consumer associations and the European mortgage lending industry in 2001. The objective of this Code was to introduce transparent and comparable pre-contractual information for consumers looking for mortgage loans. The Commission has endorsed the agreement on the Code between industry and consumer representatives with a Recommendation.

The agreement on the Code foresaw two monitoring mechanisms. First, the European Credit Sector Associations agreed to publish an annual progress report on the implementation of the Code. Second, the Commission agreed to monitor the uptake and effectiveness of the Code. In addition, the Commission has held consultations with Member States, consumer representatives and representatives of the mortgage lending industry on the effectiveness of the Code.

Evidence collected by the Commission during this consultation process indicated that the information currently provided to European consumers via the Code is insufficient in two ways: consumers do not necessarily have all the information that they need in order to make a decision and, even if consumers received the relevant information, they do not necessarily understand it.

In 2006, the Mortgage Industry and Consumer Dialogue already considered possible improvements. Although a final agreement on a revised European Standardised Information Sheet (ESIS) was not reached, progress was made on certain items.

Based on the evidence collected during the consultation and taking into account the results of the Mortgage Dialogue, the Commission is currently conducting a consumer testing on the content and the form of the ESIS in order to improve its effectiveness. This consumer testing was announced in the 2007 White Paper on the Integration of EU Mortgage Credit Markets.

The consumer testing

The testing is currently being carried out by Optem and its 26 partners in all Member States. The fieldwork is divided in two phases. The first phase of the testing, which has just been completed, aimed at better understanding the behaviour of consumers looking for a mortgage loan and the information they need. During the second phase, two variants of a revised ESIS will be tested with consumers. Optem will assess the effectiveness of these variants in:

- conveying information in a way that is useful to and well-understood by consumers;
- encouraging the consumer to read the ESIS before taking a decision;
- enhancing consumer confidence.

Presentation of phase 1 results

Optem presented the main results of the first phase of the testing regarding four main themes:

- consumers' information search process;
- consumers' understanding of the current ESIS information titles;
- consumers' preferences regarding some content options for a number of ESIS information items;
- consumers' assessment of the usefulness of the ESIS.

The interviews showed that most consumers consult several sources, being financial institutions (and often their own bank) their main information source. The information typically looked for is the size and duration of the loan, the interest rate and the amount of the instalments.

Regarding their reaction to the current ESIS information titles, consumers frequently show a lack of knowledge about their possible content and often interpretations are erroneous.

The testing of content options for some ESIS items provided the richest set of results. Consumers showed a preference for the more detailed options and provided suggestions to improve the clarity of certain information titles or terms. Understanding of key information items, such as the APRC, is generally low. Interviewees are favourable to the idea of including warnings in the ESIS.

Finally, consumers unanimously agreed on the usefulness/necessity of such an information document. They also said to prefer a relatively short document (3–5 pages).

During the floor discussion, industry stakeholders consider the results interesting, although the samples were small. Consumers' representatives found the results to be in line with consumers' needs and preferences. Some participants concluded that the results showed the need for more financial education.

The phase 1 results are summarised in a slideshow that can be downloaded from: http://ec.europa.eu/internal_market/finservices-retail/credit/mortgage_en.htm#studies

Discussion on the ESIS variants to be used in Phase 2

Optem presented the ESIS variants that had been put together on the basis of the conclusions of phase 1. Some participants stressed the importance of having a good sequence of the sections. Some suggestions in that sense were made. Ideas were also provided as to how improve the clarity and understanding of some sections. Consumers' representatives considered that more details on the loan costs and some interest rate change scenarios should be provided in the 'repayment table' section. The loan in foreign currency illustration should also, according to consumers' representatives, be adapted to reflect real exchange rate fluctuation (e.g. historical averages).

A number of the interventions referred to the importance of using plain wording in order to effectively pass messages to the consumer. Other participants considered however that certain coherence between the terms in the information sheet and those in the loan contract would better assist consumers to make the link.

While an industry representative considered that sections such as 'early repayment' or 'consequences in case of non-compliance with the loan contract obligations' were not needed at the beginning of the search for a home loan, many workshop participants agreed on the need to include the section 'internal complaint scheme'. Industry representatives appeared to support the addition of a 'warnings' section.

The workshop participants also pointed out that the content of some information items was not in line with the legislation/commercial practices in certain Member States. The EMF representative offered to provide Optem with the information available by Member State on early repayment and right of withdrawal.