

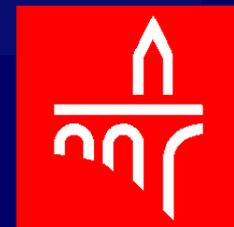


# Assessing Suitability and Creditworthiness

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# Assessing Suitability and Creditworthiness



- What could be done to strengthen lenders' assessment of the suitability of a given product for a given consumer? (1/2)
  - Banks have no incentive to sell unsuitable credit products, because lenders have no interest in non-performing loans
  - In principle, in EU retail credit products are designed to respond to consumers needs
  - Existing variety is beneficial for consumers

# Assessing Suitability and Creditworthiness



- What could be done to strengthen lenders' assessment of the suitability of a given product for a given consumer? (2/2)
  - Further standardisation to determine the suitable product for a certain lender profile would impede tailored products and make credits more expensive for consumers
  - Comprehensive, appropriate and correct information provided by the borrower determines the lenders' evaluation
  - Final assessment whether the credit is really suitable in the consumer's personal situation lies with himself, therefore awareness and financial education are key in this area

# Assessing Suitability and Creditworthiness



- Would suitability tests (à la MIFID), restrictions on loan to-value or loan-to-income ratios help ensure that borrowers get a suitable product? (1/4)  
Comparison of existing responsible lending (RL) patterns with MIFID principles:
  - **Focus**  
MiFID: Protection of integrity of clients' assets  
RL: Reimbursement of granted loans
  - **Appropriateness, Purpose of suitability check**  
MiFID: Client protection against themselves and inappropriate investments  
RL: Client protection **and** lenders protection from default and toxic loans
  - **Appropriateness, Scope of Check**  
MiFID: Knowledge/experience re investment products and related risks; client's financial situation and investment objectives  
RL: Loans to consumers less sophisticated; clients financial situation is a crucial criteria for lenders decision with a focus on repayment capacity (best practice rules: income to debt ratio, debt guarantee ratio), application of KYC rules; client's investment objective taken into account for granting credit

# Assessing Suitability and Creditworthiness



- Would suitability tests (à la MiFID), restrictions on loan-to-value or loan-to-income ratios help ensure that borrowers get a suitable product? (2/4)
- **Appropriateness, Risk**
  - MiFID: Loss of clients investments
  - RL: Risks are mainly supported by lenders (default of client – expensive debt recovery) and therefore, it is lenders' own interest to always check clients' creditworthiness and preserve clients from defaulting; checklists for creditworthiness are in place (strict criteria re repayment capacity of borrowers and enforcement of collateral)
- **Client Information**
  - MiFID: Conduct of business obligations; conditions applying to provisions of information; conditions with which information must comply to be fair, clear and not misleading; information about investment firm and its services
  - RL: General and specific legal/regulatory provisions or supervisory rules (funding, consumer protection, publicity etc) are covering sufficiently RL&B; General MiFID provisions on information rules apply already to banks (fair, clear, not misleading information, provision of information in an appropriate medium to the context in which business between the firm and the client is carried on, transparency rules, product information about costs and associated charges, reporting to client obligations)

# Assessing Suitability and Creditworthiness



- Would suitability tests (à la MiFID), restrictions on loan-to-value or loan-to-income ratios help ensure that borrowers get a suitable product? (3/4)
- **Client records** (rights and obligations)
  - MiFID: Obligation to establish a record that includes documents agreed between the firm and the client that set out the parties' rights and obligations as well as the other terms of investment services to the client.
  - RL: Loan contracts are submitted to severe legal provisions related to formalism and validity, especially mortgage loans; mortgage and consumer loan contracts are submitted to consumer protection rules.
- **Best execution, conflict of interest**
  - MiFID: New and updated rules introduced by MiFID are inherently **specific** to financial instruments
  - RL: Not applicable, or already sufficiently covered by general provisions.

# Assessing Suitability and Creditworthiness



- Would suitability tests (à la MIFID), restrictions on loan-to-value or loan-to-income ratios help ensure that borrowers get a suitable product? (4/4)
  - Criterias such as LTV or LTI ratios depend on business model and risk policy
  - Restriction on EU level would not reflect special national market situations and therefore, consumers could be treated not appropriately
  - LTV ratios are not necessarily adequate indicators to evaluate the wealth situation of borrowers (high LTV does not necessarily indicate that a borrower is more likely to default)
  - LTI ratios only reflect the current situation; personal circumstances can change quickly in a positive or negative manner and „suitable“ products are not suitable anymore