Suitability and creditworthiness

Brussels, 3 September 2009

Jan Molenaar
Rabobank

Rabobank

Inherently unsuitable products?

No, but there are unsuitable engineered products

- Hidden costs and fees
- Non transparency (e.g. income protection)
- Lock in (e.g. break-up fees)

Rabobank

The main issue

Suitability for a given consumer

1. In the best interest of the individual consumer
2. Consumer understands the product
3. Long term affordability

In the best interest of the consumer

Dutch legislation 2007-2009

- Know your costumer principle
- Service document between financial service provider and client
- Certification of credit intermediaries and bank employees
- Lenders must always be able to prove to authority that the product was a suitable solution for this client

Good and effective framework
Interpretation discussions between authority and lenders

The client should understand the product Dutch legislation 2007-2009

- Product information protocol (precontractual), information on risks, costs and all other aspects of the product
- Full transparency on all fees, commissions and cost for the whole maturity of the loan (precontractual), bonus fees not allowed

We have a product with 151 pages of information

Fee transparency helps consumers to understand that advice is not free of costs

Rabobank

Long term affordability (1)

Voluntary code of conduct by the mortgage industry (1989 revised in 2007)

Main objective: minimise repayment problems through strict rules on loan to income and emphasis on stable long term interest rates

Based on:

- Standards from national institute for consumer budget (maximum: 30% gross income for housing)
- Strict rules on definition of income, no self certifying
- Standard reference rate (10 years interest +1%)

Long term affordability (2)

- Maximum LTI between 4 and 5 (interest is tax deductable up to 52%!)
- Maximum lending capacity independent of type of interest or product
- No competition between lenders on loan maximum
- Accepted by the financial authority as standard practice
- No sub prime!

Current situation

(Rabobank figures)

- 1 million mortgage clients
- Default rate in 2008 and first half of 2009: 0,3% p.a.
- Expected default rate in 2010: 0,4%

Why

- Strong emphasis on LTI and fixed interest rates (10 years or more)
- Local presence through local branches

Rabobank