13 December 2005

M. Eric Ducoulombier,
DG Internal Market and Services
European Commission
Ave de Cortenbergh 107
B-1000 Bruxelles
Belgium

Dear Eric,

Response of the Royal Bank of Scotland Group to the Commission's Green Paper on Mortgage Credit in the EU (COM (2005) 327 Final)

The Royal Bank of Scotland Group ("RBSG") welcomes the opportunity to offer its views on the Commission's Green Paper.

As the Commission is aware, RBSG is Europe's second largest (and the world's fifth largest) banking group, with a market capitalisation of over £54 billion. The Group operates in thirteen EU States, serving over twenty seven million customers. Group companies are major mortgage providers within the EU (and in the USA), and seek to offer a varied and innovative range of mortgage products and services to customers. We have developed and launched a range of mortgage products, including flexible mortgages, current account mortgages (including The One Account, and The First Active Current Account Mortgage - the first of its kind in the Republic of Ireland) and Offset Accounts (allowing customers to offset current and savings account balances against a mortgage balance). As well as offering sales and customer service through traditional branch channels, our products are sold through financial intermediaries, over the telephone and the internet.

We very much welcome the Commission's continuing consultative process, which provides a good demonstration of the 'better regulation' approach. The Green Paper consultation is particularly important given DG Markt's welcome strengthened commitment to evidence-based policymaking and full cost/benefit assessments to inform decisions on whether to progress new legislation. In this context we would refer to Commissioner McCreevy's recent statement that the Commission "will propose measures if, and only if, the consultation demonstrates that there is a clear business case for action, and that it is the EU that is best placed to take this action. The benefits of any policy measure to improve the Internal Market for mortgages should outweigh the anticipated costs of the measure, and these benefits should be experienced by EU consumers and businesses alike". We fully support this statement, and, as we explain in this submission, our considered assessment of costs and benefits does not support new EU legislation in relation to mortgage credit.

RBSG strongly supports the principle of integrated EU markets where this benefits providers and consumers. We are also supporters of competition - our experience suggests that this drives innovation and choice, to the benefit of consumers. However, we would argue that national EU mortgage markets are already generally competitive and that consumers are not seeking direct, cross-border, access to a wider pool of EU lenders than is available. We consider there are four scenarios which could define cross-border transactions, against which the impact of the Commission's proposals may be assessed:

- First, the situation where an EU citizen (e.g. a Spanish resident) wishes to buy a property in the UK and contacts RBS in London to apply for a loan. At present, we receive no such approaches from citizens of other Member States (research into why might be interesting). If we were to receive such an approach, we would need to address a number of points – including for example, cross-border checks on the customer's identity, financial situation and credit status, and practical issues of property valuation, security, legal differences, tax etc. However, there is currently no *fundamental* legal or regulatory impediment to such a transaction, if a mutually acceptable commercial proposition exists. Furthermore, we do not believe that a Directive would resolve the specific practical points of difference we have mentioned – therefore it would not facilitate this model of cross-border borrowing/lending.

- Second, the situation where an EU citizen (e.g. the Spanish resident) wishes to buy a property in his own country (i.e. Spain) but contacts RBS in London to apply for a loan. Much as with the scenario above, this situation presents a number of practical and legal issues which might affect our commercial appetite to consider such a loan. However, we do not currently see a *fundamental* legal or regulatory impediment to such a transaction, and do not believe that a Directive would resolve the points of difference in order to facilitate the transaction.

- Third, the situation where an EU citizen (e.g. the Spanish resident) wishes to buy a property in his own country (i.e. Spain) and contacts a RBS branch or RBS agent in his own country (Spain) to apply for a loan from RBS. Whether the intermediary was a branch or a local domestic operation, the transaction would be conducted under applicable local laws and conditions, with minimal (if any) non-domestic considerations. In any case, our understanding is that the Directive is not necessarily seeking to address this scenario (depending on the legal structure of the deal) because it may not constitute cross-border lending.

- Finally, the situation where a UK resident wishes to purchase a property in France. At present, our commercial strategy would be to grant a loan secured on the individual's UK property (as long as there were sufficient equity). This type of lending represents a growing niche market. However, our understanding is again that the Directive is not seeking to address this scenario, because the Commission would not see this as cross-border lending.

We suggest that in none of the above situations would a Directive assist, if it were focused on the terms of the direct relationship between lender and borrower. The costs of such an approach would not justify the benefits, since it would create no new opportunities. To the extent that lenders wish to lend in other national EU markets, and borrowers wish to borrow from lenders based in other countries, this is already possible. The model for this is more likely to be face-to-face contact "on the ground" in a customer's locality, rather than contact via telephone or Internet. But lenders such as ourselves are willing to operate in this way if it reflects customer preferences.

The response by the British Bankers' Association also includes interesting evidence of how greater integration is being achieved within the existing legal and regulatory framework through cross-border joint ventures and mergers and acquisitions.

We agree with the UK Council of Mortgage Lenders that, in pure policy terms, the priority for any EU-level initiative should be on the integration of funding markets, promotion of the abolition of rate caps, and integration of the lending infrastructure; ahead of increasing regulation of the lender/borrower contact. However, creating a really integrated legal framework would require much more fundamental, widespread and very expensive change than may be realistic in the short to medium term. The costs of this approach are also likely

to be disproportionate, unless there is clear evidence of significant unrealised demand. We have not seen such evidence - we agree with the Council of Mortgage Lenders' view that the cost-benefit analysis in the report from London Economics is methodologically flawed and therefore fails to provide a convincing case that net benefits would flow from any policy package.

A central consideration in the whole policy debate must be to avoid increasing the existing costs of borrowing faced by all consumers in order to create a pan-European framework which will not benefit the majority of them. Yet this is precisely what we fear would happen. We believe that the costs resulting from EU legislation on such matters as 'Duty to Advise', early repayment fees, and cumulative smaller changes to existing practices, would far outweigh any hypothetical benefits of the exercise.

In the context of this overall position, the attached paper provides our responses to the specific questions posed in the course of the Green Paper. If there were to be any legislative initiative, there are certain key components that – in our view – must be correctly addressed if existing competitive markets are not to be damaged:

- There are some potential benefits, in principle, in harmonising a European **Annual Percentage Rate Charge** (APRC) for a limited set of mortgages- provided that the method of calculation is an appropriate one. A harmonised APRC should be defined simply in terms of its components, including only those costs raised by the lender and not those of third parties (e.g. lawyers, valuers) involved in the transaction. This ensures that the lender's competitive positioning is not affected by costs it cannot control and ensures that consumers get a clear idea of the actual cost of borrowing.

- We are not persuaded of a case for regulation of **early repayment fees**. Regulation would limit the scope for competition between mortgage providers and therefore limit the range of products available in the market – i.e. it would limit consumer choice. Transparency is the key to enabling consumers to make an informed choice, rather than an approach which seeks to restrict the elements of the product offering.

- A **standardised format for mortgage loan contracts** poses considerable practical and legal challenges. Given the differing legal environments across the EU governing elements of mortgage and secured lending activity, we believe that an effective standard contract format would be difficult to achieve, even in the medium term. In any event, we do not believe that a standard contract is necessary to achieve a more effective EU-wide mortgage market today. Furthermore, we believe that a move to a standardised format could inhibit some product offerings, particularly in relation to certain flexible products and repayment options currently offered. Any resulting restrictions on product choice would be to the consumer's detriment. This is a particular area where we would recommend a robust legal impact analysis before any further development – including taking account of differing state enforcement processes. An alternative to a standard contract might be a core list of points which should be covered, as standard, in a mortgage loan contract – such a list need not be prescribed though EU legislation.

- As we have already indicated, we feel strongly that imposing any obligation for all mortgage credit to be sold with advice would unjustifiably increase many customers' costs to such an extent that these costs would outweigh any potential benefits in increased cross-border lending and customer choice. Where advice is sought and given, it should of course be suitable. We also recognise that some Member States (including the Irish Republic) do mandate advised sales. But we see no reason why this should become a European model. In the UK, where both advised and non-advised sales are permitted, our experience shows that many customers do not want

or need advice at all, and any requirement for “best advice” for all customers will lead to increased costs to lenders which, in turn, will mean increased costs to customers. It will also increase the time taken to process each individual application for a mortgage loan, which may not be welcomed by customers.

- We can see potential benefits in developing cross-border access to **credit databases** (private or public), provided that such access is strictly controlled to prevent abuse (such as predatory marketing) and subject to lenders having reciprocal access to comparable data across all Member States - not least to avoid an unlevel playing field where data were only available in some Member States but could be accessed by all EU lenders.

We would be pleased to discuss any of our comments in more detail, if this would be helpful.

We would also be grateful if you would treat this response as confidential.

Yours sincerely,

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Response of the Royal Bank of Scotland Group to the Commission's Green Paper on Mortgage Credit in the EU (COM (2005) 327 Final)

The Code of Conduct

- **Should the Code of Conduct be replaced by binding legislation or remain voluntary?**

We believe that the Code of Conduct should be maintained in its current form. The Code format is a more flexible regulatory tool, able to develop as the market changes. If there are concerns that the Code is not being properly promoted or adhered to, these concerns should be addressed separately - each Member State should ensure that the Code is introduced in their market, should promote it and oversee its operation (at a general, high, level). There are a variety of ways in which this can be done. The UK, for example, has essentially incorporated the Code standards into the FSA's new regulatory regime for the conduct of mortgage business. Though this approach departs from the 'voluntary' rationale of the Code, it is one way of embedding the standards. Unless there is evidence that the Code cannot be made to work, we do not believe there are grounds for turning it into EU legislation.

- **What information should be given to consumers? A careful balance must be found between information deficiency and information overload.**

We agree that a careful balance must be found. Information overload is always a risk – something the industry is mindful of in the UK following the recent introduction of FSA mortgage regulation which has greatly increased the amount of information provided. The effectiveness of this new information provision will be considered by the UK authorities as part of their forthcoming review of the new UK regime. We expect these conclusions to be made public.

We believe that it would be very helpful for research to be carried out at EU level into what information consumers actually find useful (and in what format). This will confirm (or not) whether the information currently provided in the European Standardised Information Sheet created by the Code of Conduct is appropriate. We have one specific comment on this. RBSG currently follows the Information Sheet, with the exception of amortisation tables. These tables are not currently mandatory in the UK and we have not been convinced that possible consumer benefits from this data would outweigh the costs involved in respect of systems development and documentation changes. Indeed, the UK FSA carried out research in 2001 indicating that these tables are not considered useful by consumers. If the Commission were to consider making this data mandatory, we would expect a clear cost-benefit justification.

The Forum Report's Recommendation 9 set out a sensible core list of pre-contractual information which could usefully become a common standard under the Code (with the deletion of amortisation tables for the reasons given above): commission charges, administration or handling charges, total amount borrowed and payable (including APRC, calculation rate, compound period, operation of variable interest rates and total interest payable), the cost of bundled products (direct and the impact on interest), form of product, the exposure period and cost of the Early Repayment Fee (including worked examples of the charge).

- **The Commission considers it fundamental that pre-contractual information is provided at a stage that enables the consumer to shop around and compare offers. Can such a common EU stage be identified, given the variations in Member States' traditions and legislations?**

As we have said, we agree with this in principle, and it is already provided for in the Code. We do not see the need to identify a common stage for these purposes, as long as information is provided before the contract becomes effective and before the consumer has had to commit to any expenditure such as product fees, valuation reports etc.

One point that we would make, though, is that it is important that it does not become a requirement for too much information to be provided at the advertising stage. It must remain possible for certain, general, advertisements to be issued without huge amounts of small print and detailed information which in most cases is neither useful nor read at the advertisement stage. Distinctions thus need to be made between different types of advertisement and the appropriate level of product information they should contain.

- **Should an information provision regime apply only to lenders or to others such as brokers too? How can compliance with any such regime (binding/voluntary) be ensured?**

In principle, any requirements should apply both to lenders and to brokers (while seeking to avoid unnecessary duplication).

Compliance can be promoted and monitored in a range of ways. Prior to the recent UK regulatory changes, the Mortgage Code Compliance Board monitored compliance.

<u>Advice Provision and Credit Intermediation</u>

- **Should the provision of advice to the borrower be made compulsory or be a matter of choice?**

- **Should conditions be applied to any advice actually provided, whether under a duty or by choice (e.g. standards for the advice, sanctions for non-compliance, advance disclosure of fees, of the adviser's role and recording on durable medium)?**

We strongly challenge any proposal for a blanket "duty to advise" (i.e. for lenders to give advice to all customers). Where advice is sought and given, it should of course be suitable, but it should not be mandatory to advise in all cases.

Although we know that some Member States favour a more advice-based approach to mortgage lending, our experience in the UK shows that a significant majority of customers do not want or need advice at all. By way of an example, the proportion of NatWest customers seeking advice on a mortgage sale varies within a range of around 5% -21%. With certain distribution channels, advice is not provided at all. Experience also suggests that the desire for advice is even less in the case of second/third time buyers and customers who are remortgaging (a large proportion of the UK lending market). These figures also indicate how big a change it would be to require advice to be provided in all cases, and how many customers would face the inevitable increase in costs and increased processing time that would result (arising from e.g. additional training, documentation and process requirements). Furthermore, there is no evidence of detriment to customers from the existing, varied, approach.

As we say, where advice is provided, it is appropriate for the regulators to lay down general standards and expectations, and to have appropriate redress mechanisms to allow consumers to challenge bad or misleading advice.

Early Repayment

- **Should early repayment be a legal right or a matter of choice? If it is to be a right, should it also be made possible for a consumer to waive this right? Under what conditions? Should this right be subject to a compensation in the form of fees?**

In the UK it is a legal right, though the precise terms for exercising this right are a matter of contractual agreement between the borrower and lender. For instance, it is lawful to impose a charge for early repayment.

- **How should such fees (whether under a right or through contractual choice) be calculated? Should there be caps, as is the case in some Member States?**

Our view is that lenders compete around a number of variables, one of which is early repayment fees. It should be left to the mortgage provider to set the level of the fee, as long as this is completely transparent to the consumer. Transparency is the key to enabling consumers to make an informed choice, rather than an approach which seeks to restrict the elements of the product offering. In a competitive market (and the Forum Group report recognises that domestic mortgage markets are indeed competitive) market forces should ensure that such fees are set at a reasonable level. Therefore, there should be no need to prescribe how such fees are set, in the same way that there is no need to prescribe the level of interest rate that a lender may charge.

In principle, we would like to see Member States remove any legally enforceable caps on Early Repayment Fees (EU legislation is not required to achieve this). A cap may lead to a situation where the mortgage provider suffers a loss because the consumer decides to terminate the contract - this cannot be reasonable. In addition, we do not believe that a case has been made for regulating the way such fees are set.

National implementation of the Directive on Unfair Terms in Consumer Contracts, together with more recent EU initiatives in the area of fair treatment of customers and fair dealing generally should be sufficient to prevent any unfair treatment in this area without further regulation specifically to deal with early repayment charges and interest rates.

We comment further below on the principle of rate caps.

- **How should the consumer be informed about early repayment? Is there scope for consumer education here?**

We see the most effective way to inform the customer as through essential information (termed “Key Facts” in the UK) at an early stage in the process.

Consumer education in financial services generally an area of public policy that could be improved, not specifically in relation to early repayment.

Annual Percentage Rate

- **What is the purpose of an APR? Information? Comparison? Both?**
- **Should there be an EU standard covering both the calculation method and the costs elements?**
- **If so, what kinds of cost elements should such an EU standard include?**
- **The Commission welcomes views on the merits of providing separately information on all costs not specified in the APR, and on the presentation of the effects of the APR in concrete terms such as the cost per month or the overall cost of the loan.**

In our view the purpose of an APR is both information and comparison. However, the APR is not a very useful tool in the area of mortgages. For example, APRs are of questionable value to consumers in the case of a mortgage that is repayable over 25 years. Frequently, a 25 year mortgage loan will be made up of a number of separate deals of, for example, 2 or 3 years each. The rates for future deals can not be included in the calculation at the outset, and the default, Standard Variable rate, does not provide a true indication of the rate that will be payable. In this case, what the consumer needs to know is the short-term interest rate (whether fixed or variable) and the amount of monthly repayment.

Therefore, we do not believe that there needs to be an EU standard covering this topic.

However, if EU mortgage legislation were to be proposed, that covered APRs, then the calculation method and components of the APR would need to be covered in some way.

In principle, there may be some potential 'level playing field' benefits in harmonising a basic approach to the calculation of APRs for mortgages with a fixed term and fixed repayment schedule, as the repayment pattern is set and therefore no artificial assumptions need to be made in order to arrive at an APR. On the other hand, we would not support the use of APRs for products such as current account mortgages, which include an element of revolving credit through an "overdraft" feature – precisely because there is no fixed repayment pattern and therefore artificial assumptions (which will not necessarily reflect the cardholder's actual behaviour) need to be made to arrive at an APR. This has been our position in the negotiations on the draft Consumer Credit Directive, where we have opposed the use of APRs as unsuitable for revolving credit products without a fixed repayment schedule, such as credit cards.

For the purposes of any EU mortgage legislation, it is clear that a very careful analysis would need to be undertaken as to the method and the basis of the calculation. If APRs are to assist in serving the purpose for which they are designed, namely to provide transparency for consumers that will enable them to shop around for the best deal, the APRs obviously need to be strictly comparable. This purpose will only be achieved if a consistent approach to calculating them is used across the EU, which in turn would require a maximum harmonisation approach to be adopted.

In our view, any harmonised APR should include only those costs raised by the lender (such as Higher Lending Charge and arrangement fees) rather than costs raised by third parties involved in the transaction (such as lawyers or valuers). Such third party costs are outside the lender's control and cannot be known with any certainty at the outset. It should be sufficient to draw such variable costs to the customer's attention before any costs are incurred, to give them an idea of the overall cost, but not to include them in the APR.

Usury Rules and Interest Rate Variation

- **What are the implications of usury rules [i.e. legally enforceable caps on interest rates] for market integration (including any relationship with products such as equity release and mortgage insurance)?**

- **Should this issue rather be examined in a broader, non-mortgage specific, context?**

We strongly oppose the principle of interest rate caps (including variation caps) and ideally would like to see them removed. We believe that encouraging increased competition is the best way of ensuring a healthy market with reasonable prices. Regulatory caps on the other hand introduce distortions of the market and are in the long run not beneficial for consumers.

The Commission may recall that the UK Government decided not to introduce an interest rate cap, after commissioning research which studied the effect of interest rate ceilings in France, Germany and the USA. That research[1] concluded that the effects of such caps include:

- discouraging credit for small loans repayable over a short period, thus excluding some low-income consumers from the market or leading others to take out larger loans than they need;
- reducing the choice of products and limiting competition;
- encouraging more vulnerable borrowers to use unregulated lenders under unfavourable conditions and charges.

We agree with these conclusions. If some Member States do retain caps, while others do not, this difference could impede market integration. However, the solution is less clear. As the Commission says, the issue raises fundamental social questions. However, we would oppose any solution based on harmonised interest rate caps – whether for mortgages or for any other product.

As we commented above, the Unfair Terms in Consumer Contracts Regulations and other EU initiatives on fair treatment of customers should adequately address any consumer protection issues, without further specific regulation.

Credit Contract

The Commission invites views on the merits of the standardisation of mortgage contracts, e.g. via a 26th regime instrument.

Given the differing legal environments across the EU governing elements of mortgage and secured lending activity, we believe that an effective standard contract format would be difficult to achieve, even in the medium term.

To help assess feasibility, we would recommend a legal impact analysis is undertaken – including taking account of differing Member State enforcement processes. In any event, we do not believe a standard contract is necessary to achieve a more effective EU-wide mortgage market today. We also have some reservations about the principle of standardisation. A move to a standardised format could inhibit some product offerings, particularly in relation to certain flexible products and repayment options currently offered. Any resulting restrictions on product choice would be to the consumer's detriment.

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[1] The research report is available at: ttp://www.dti.gov.uk/ccp/topics1/consumer_finance.htm#reports .

We have a number of questions about the practicalities of the "26th Regime" concept, and are not convinced that it is a practical option from a business perspective, across the board. We would be keen to be involved in discussions in relation to certain 'simple' products where it *may* be feasible – though doubt that mortgage products would be in this category.

Enforcement & Redress

- **Should the Commission consider imposing on Member States an obligation to ensure the existence of such alternative means of redress in the mortgage credit area?**
- **The Commission welcomes views on ways to reinforce the credibility of existing alternative redress systems, particularly in the mortgage credit area.**

In principle, we support the promotion of alternative (out-of-Court) redress mechanisms for all consumer financial services, including mortgage credit. At EU level, one option would be for this to be promoted through an extension of the existing FIN-NET initiative.

However, we do not see a need for the detail of individual mechanisms to be prescribed at EU level. As now, such detail is better left to the operators of national schemes and networks, who can better respond to local Law and consumer rights.

III LEGAL ISSUES

Applicable Law

We believe that the applicable (substantive) law for the mortgage deed and any related security agreement is the law of the Member State where the property is located (lex rei sitae). The applicable law for the mortgage loan contract should be defined by a general conflict of law rule based upon the principle of free choice. The scope for Member States to seek to impose additional national consumer protection rules to cross-border mortgage loan contracts should be minimised.

Client Credit-Worthiness

We agree with the general proposition that cross-border lending may be encouraged if lenders had fair and equal access to national data on consumer credit-worthiness. (In addition, it is likely that our ongoing IT and other operating costs would be lower the more standardised the various databases are.) Again, however, we do not believe that a Directive is required to achieve this.

As the European Mortgage Federation Annual Report 2004 confirms, not all Member States currently have a national credit register. We would like to see more established. Thereafter, lenders would need to be able to have confidence in the quality of the data held in the databases and their comparability. There would also need to be reciprocal access to comparable data across all Member States - not least to avoid an unlevel playing field where data were only available in some Member States (but could be accessed by all EU lenders).

RBS Group already shares positive data within the UK on a significant proportion of its mortgage business. This is only achievable because there are strict rules surrounding the use of such data – other providers are not allowed to identify the customers of competitors and use that information to target the market. Data sharing across EU States could not be progressed without analogous agreed controls, to ensure that credit databases were accessed only to assess credit worthiness and not used as prospecting tools or for predatory marketing. We are involved in the current UK pan-industry discussions to develop

data sharing and are interested in discussing new ways of improving data access that do not affect our competitive position in the pan-European market.

Property Valuation

- **What are the merits of a single EU standard, for both valuation processes and valuers?**

- **What are the merits of Commission action to ensure mutual recognition of national valuation standards?**

While we would support moves towards greater standardisation and comparability, we do not think this need necessarily imply one single standard. Different approaches may be appropriate in particular circumstances. For example, for low value low 'Loan To Value' remortgage applications in the UK, Automated Valuation Models are achieving greater prominence in the market. This is mainly due to the fact that they allow faster assessment of a property value, improving the speed and efficiency of the service on offer. Customers may prefer a different model in such circumstances, particularly if it enables them to manage costs.

National developments such as the UK's introduction of Home Information Packs, which alter responsibilities for obtaining valuations, would also need to be accommodated.

We agree with the Forum Group's recommendation (No. 24) that a financial institution which lends crossborder should be allowed to:

- accept valuations prepared according to internationally recognised valuation standards of its choice, without being subject to additional national conditions; and

- instruct any valuation practitioner who is a member of an internationally recognised valuation body to carry out the valuation, without being subject to additional national conditions.

However, in addition, it would be important that the right of redress against a valuer in cases of negligence, by both lenders and consumers, be clarified and standardised as far as possible.

Forced Sales Procedures

We can support an evaluation of comparative forced sale (repossession) procedures. However, this is another point where we do not believe that current national differences actually hinder cross-border activity – there is no market failure here. We have to accept national differences, and any evaluation will need to recognise that procedures will generally involve court proceedings, with different court processes, evidential rules, etc. The Commission's evaluation should also recognise that speed is not the only factor. Any recommendations should be guidelines only, since forced sale is always a last resort and the approach would always be flexible and be taken on a case by case basis.

IV MORTGAGE COLLATERAL

Land Registers

We are generally supportive of the Forum Group's Recommendations here (numbers 30-37).

In the UK all charges are registered in a public register. In addition to enhanced interconnectivity and access to national registers (which we understand the EULIS initiative will enhance) there may be benefits in adopting as common EU standards the rules on (for

example) priority, notice and public registration that currently apply in those Member States with a public register.

We believe that the European Land Information Service initiative is worth pursuing, on the assumption that it will not increase costs for consumers.

In the interests of market integration, it would be better for Member States not to maintain or institute additional 'legalisation'/'validation' requirements for authentic instruments formally drawn up in other Member States. Additional 'legislation'/validation requirements instituted by Member States could make the process more expensive for the consumer. We believe there should be mutual recognition by register operators of all valid charge/registration documents.

Euromortgage

Our view is that there is potential value in the Commission exploring further the concept of the Euromortgage, to assess its potential to promote EU mortgage credit markets integration. However, this should be as one element of any integration initiative, rather than its focus. If it did prove feasible to create a Euromortgage, this should never be the only product on offer, but one among a range.

The availability of such a "Euro" product may improve the flexibility for consumers to transfer their mortgages between lenders and possibly reduce the regulatory burdens on cross-border activity in relation to this product. It could also facilitate pooling – having a loan or several loans secured on a mortgage on several properties in several different EU countries.

We also think that the Commission could usefully explore the concept of pan-European Security Trust instruments to increase the transferability of mortgages.

V FUNDING OF MORTGAGE CREDIT

We can support the Commission's idea of a stakeholders working group to examine the potential and value of action on the funding aspects of mortgage credit.

We thought that the specific recommendations of the Forum Group here (numbers 45-48) warrant further consideration.

The Commission invites views on whether mortgage lending should necessarily be an activity which is restricted to credit institutions, or whether activity could be performed by institutions which do not take deposits or repayable sums, and therefore do not fall within the scope of the EU definition of a credit institution.

We do not have strong views on this, though do believe that it should be within the scope of (proportionate) national regulation.

Other points arising from Annex 1 to the Green Paper; the Commission's views on other issues addressed in the Forum Group Report

We would like to comment on only the following points from Annex 1:

Definition of cross-border lending: While we agree that it is not essential to have a legal "definition" (and the Commission's response is satisfactory in simple legal terms), we do think it is essential that research is undertaken to establish how much cross-border lending currently takes place, what practical form this takes, and what the prospects are for future development. A common understanding of the scope of the issue is an essential element in an evidence-based approach to policymaking.

On-line guide on mortgage lending: We agree with the Commission that this is not the Commission's role.

Exclusion of all secured loans from the Consumer Credit Directive proposal: We strongly welcome the revised Consumer Credit Directive proposal which achieves this.