

Brussels, 30 November 2005

## EURO COOP'S POSITION ON THE GREEN PAPER ON MORTGAGE CREDIT IN THE E. U.

*EURO COOP is the European Community of Consumer Cooperatives. Its members are the national organisations of consumer cooperatives in 17 European countries. Euro Coop today represents over 3,200 local and regional cooperatives, the members of which amount to more than 22 million consumers across Europe.*

EUROCOOP welcomes the Green Paper on mortgage credit in the E. U. which opens a discussion on a very important issue for consumers. Buying a house with a mortgage backed credit is one if not the most important decision that consumers make, not only because of the amounts it usually involves but also because of the long periods of time it implies. The repayment of a mortgage credit is usually the main expense in consumers' budgets and therefore it affects the whole consumption pattern of families.

At the moment cross-border mortgage credit is very rare. Consumers do not benefit from equal opportunities across the E. U. and do not have the same degree of protection. The Single Market and its benefits for consumers do not exist as far as mortgage credit is concerned. EUROCOOP believes that consumers would have much to gain if they could get a mortgage credit in any member-state as easily as in their home country and with a common high degree of protection of their rights and interests. A real and effective Single Market would help them compare different offers and make better choices. EUROCOOP therefore believes that Community intervention in this domain is not only necessary but also urgent and justifiable.

### ♦ **CONSUMER PROTECTION.**

EUROCOOP supports the establishment of a common high level of consumer protection across the E. U. and this must be ensured not only by providing information to consumers and establishing certain rights but also through education.

The Voluntary Code of Conduct on Pre-contractual Information for Home Loans, which EUROCOOP subscribed, has been a major failure and disappointment<sup>1</sup>. We believe that financial institutions had a "golden opportunity" to prove that voluntary agreements could work instead of binding legislation. They showed otherwise. Therefore, **EUROCOOP believes that the Code of Conduct should be replaced by binding legislation.**

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<sup>1</sup> EUROCOOP's comments to the IFF report on the monitoring the update and effectiveness of the Code: <http://www.eurocoop.coop/publications/en/position/positionpdf/positioniff04.pdf>

Consumers must have all the relevant information before subscribing any mortgage credit agreement. It is necessary to ensure that information is given in a clear and concise manner and to ensure a balance to avoid an overload of information. EUROCOOP still believes that **the information referred in the Code of Conduct is very important and complete and it can be used as a starting point for the definition of what information should be given to consumers in a future legislative proposal.**

EUROCOOP agrees with the view that information should be given to consumers in an early stage so that they are able to compare and reflect on different offers. We feel it is possible to identify a moment in time, common across the E. U., up to when this information should be provided, namely by **recognising consumers right to that information up until the moment they are definitely bound by the credit agreement.**

Information is a key issue for consumers, therefore EUROCOOP believes that **obligations in this matter should be addressed to all players (including brokers) and should be mandatory.**

**Giving advice to consumers** is also an important issue. It helps them to make better choices and better avoid problems such as over-indebtedness. Nevertheless, we feel that, in this case, it **should not be a legally binding obligation for borrowers** because this may cause some legal problems and/or a negative effect on prices. This does not mean that there shouldn't be rules concerning advice to consumers. In other words, giving advice should not be mandatory but, in case that advice is given, it should be given accordingly to a legal framework that protects consumers (e. g. previous and comprehensive information about the service) EUROCOOP believes that it is **more important to seriously encourage and support programs of consumer education concerning financial services in general and credit in particular** to tackle issues such as over-indebtedness and budget managing.

Mortgage backed credit extends sometimes for very long periods of time<sup>2</sup>. The possibility of **early repayment is a fundamental right** for consumers and should be considered as such in European legislation. We do not agree that this right could be waived because there would be a danger of creating loopholes that would undermine an essential right for consumers. Also, early repayment should always cover capital and not interests. EUROCOOP understands that early repayment may negatively affect funding structures and therefore, indirectly, consumers themselves. So, we can **agree to the establishment of a fee in case of early repayment under certain conditions:** - a price cap should be set for these fees depending on the method of calculation (either a percentage or an absolute value); - there should be only one method of calculation across the E. U.<sup>3</sup>.

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<sup>2</sup> E. g. 50 years in Portugal

<sup>3</sup> Several methods are possible and acceptable as long as they are fair and transparent.

EUROCOOP believes that the APR is a valuable tool not only for the purposes of information about the costs of the credit but also comparison of different offers. Therefore, we believe that **the method of calculation of the APR should be set at the E. U. level**. The APR should include all costs of the credit. When this is not possible, then the costs not included in the APR should be transmitted to consumers. Also, EUROCOOP agrees with the view that the APR should be provided long with its effects in concrete terms, namely the cost per month of the credit.

Alternative dispute resolution (ADR) systems are a good mechanism to deal with consumer-related litigation because of their simplicity and celerity if compared with the traditional judicial systems. **EUROCOOP supports that the Commission should encourage Member States to establish ADR systems** concerning mortgage credit issues but preferably integrated with ADR already existing in the consumer protection area.

♦ **LEGAL ISSUES**

EUROCOOP supports the view that the Commission should, in a future Regulation, provide for a **specific regime for the law applicable to mortgage credit contracts aligning them with the rules of the "collateral" contract**, i.e. law of the country where the property is located applies.

For an internal market for mortgage credit to work properly there must be a common legal framework for valuation and values. This will bring transparency to the market and will also facilitate cross-border credit. EUROCOOP believes that this objective can be achieved either through common European rules or through a European system of mutual recognition of national systems.

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