Library Briefing
Library of the European Parliament 05/09/2013

New rules for responsible mortgage lending

A new Directive on credit agreements relating to residential property aims to facilitate cross-border lending, protect consumers, and prevent irresponsible lending.

The EU mortgage market

The total value of residential mortgages in the EU exceeded €6 trillion in 2009 – more than half of EU GDP. However, there are significant differences between Member States, due to different approaches (for example fixed rate vs. variable rate mortgages) and different national regulations. Because mortgage contracts must respect the laws of the country in which the residential property is located, cross-border lending is difficult. Lenders usually gain access to a foreign market by establishing operations in that country. An EP policy department study identified a number of barriers to competition in European mortgage markets. A voluntary code of conduct on pre-contractual information, drawn up by the European Commission (EC), was agreed in 2001.

The mortgage crisis

In 2007, bad mortgage loans in the US led to a global financial crisis. Subsequently, mortgage lending was central to the financial crisis in Spain and Ireland, where the banking sector had to be bailed out by governments. The UK faces a crisis in interest-only mortgages.

Proposal for a Directive

Commission proposal

In 2011, the Commission proposed a Directive on credit agreements relating to residential property, following up both a green paper (2005) and a white paper (2007).

The EC proposal focuses on creating an EU-wide market for mortgage credit, and improving consumer protection. The proposal includes a ban on misleading advertising, clearer information to consumers about conditions and risks, and the right for borrowers to repay their loan early. Consumers would have to provide full information about their financial situation, and lenders would have to refuse credit if borrowers are not deemed credit-worthy. Lenders or intermediaries would be able to operate throughout the EU after registering with national authorities.

European Parliament amendments

The Economic and Monetary Affairs Committee (rapporteur Antolín Sánchez Presedo, S&D, Spain) voted on the proposal in 2012. Its amendments include a reflection period to give consumers time to consider their decision, more flexibility for early repayments, some protection from the risks of foreign-currency loans, and provisions for lenders who fall behind with their payments. To assure responsible lending, lenders would be required to value residential properties and assess credit-worthiness in line with the principles for sound mortgage underwriting practices, issued by the Financial Stability Board in 2012.

Trilogue agreement

On 22 April 2013, EP and Council reached an agreement that leaves Member States some leeway to implement aspects of the Directive in line with national practices. The trilogue agreement also addresses a number of issues raised by stakeholders.

Stakeholder input

European banks welcomed the proposal but were concerned about some EP amendments regarding variable-rate loans. The UK financial services industry supported the proposal, but opposed restrictions on bundling of mortgages with other financial products.

The European consumer organisation BEUC welcomed the proposal and supported transparent rules for early repayment. CEP, a think tank, warned that early repayment rights may make fixed-rate mortgages more expensive.

The European Central Bank considered that consumers should be informed about the risks of foreign currency loans.

A representative of German lenders doubted that the Directive would prevent future mortgage crises and argued that barriers to competition obstruct a Europe-wide mortgage market.

Author: Gregor Erbach
Contact: gregor.erbach@ep.europa.eu

130611REV1

Disclaimer and Copyright: This briefing is a summary of published information and does not necessarily represent the views of the author or the European Parliament. The document is exclusively addressed to the Members and staff of the European Parliament for their parliamentary work. Links to information sources within this document may be inaccessible from locations outside the European Parliament network. © European Union, 2013. All rights reserved. http://www.library.ep.ec – http://libraryeuroparl.wordpress.com