



# Home loans: better protection for buyers

Committees Committee on Economic and Monetary Affairs [23-04-2013 - 10:47]

**Property buyers would be better informed about the costs and consequences of taking on a mortgage, better protected from market swings while the contract lasts and better protected if they cannot repay the loan, under a provisional deal struck by Economic and Monetary Affairs Committee MEPs and EU member state representatives on Monday. To become law, this deal must be approved by Parliament as a whole and endorsed by the member states.**

"Mortgages are so important because they are the biggest financial commitment made by European families and the market represents more than the 52% of EU GDP. The new legislation on mortgages will become a reference in terms of consumer protection, financial inclusion and economic stability. It will help to avoid the irresponsible lending and borrowing that were at the roots of the current crisis", said Parliament's rapporteur and chief negotiator Antolín Sánchez Presedo (S&D, Spain).

To curb irresponsible lending, mortgage sellers should be authorised, registered and supervised by national authorities so that they meet strict professional requirements, without encroaching upon their right to do business in other EU member states in line with the EU freedoms of establishment and to provide services.

## Well-founded decision

Anyone signing up for a mortgage should receive comparable information about the products available, and understand the total cost and long-run financial consequences of taking out the loan. The credit terms offered to borrowers must match their current financial situation and take account of their prospects and possible downturns. Moreover, to ensure that mortgages go only to those who can afford them, the rules on assessing the buyer's creditworthiness, to allow for risks during the lifetime of the loan, have been strengthened.

MEPs also sought for the first time to regulate "tying practices". For example, the legislation would prohibit lenders from making credit offers conditional upon buying insurance or other financial products from a specified provider. Banning "tied" products would make it easier for borrowers to switch providers. Products such as an insurance policy, if bought elsewhere, would have to have the same level of guarantee as required by the lender.

## Cooling-off period

There would be a mandatory 7-day reflection period for a buyer, before signing the loan, or a right of withdrawal for up to 7 days.

## Flexibility against market changes

MEPs inserted flexibility rules, including a right for the borrower to repay the loan early, subject to possible conditions to be decided by member states, and a right for the lender to receive a fair compensation for such early repayment. However, obliging borrowers to pay penalties for early repayment would be prohibited.

# Press release

Proposed rules for loans denominated in a foreign currency would allow the borrower, under certain conditions and at the exchange rate defined in the loan contract, to change the currency. If there is no possibility to convert such loan, then either the buyer should be warned, before signing the contract, that the instalments payable could increase, or the exchange rate risk should be capped..

## Protection against default

To protect borrowers better, MEPs added a new rule stipulating that the return of collateral such as the property itself will suffice to repay the loan, provided that the lender and borrower expressly agree to this in the contract.

Where a borrower defaults on a loan, MEPs want arrangements for selling the property for the "best effort" price and for facilitating the remaining debt repayments so as to protect consumers and prevent their becoming over-indebted for long periods.

The legislation will cover mortgages on residential property, property including an office space and building land. Some requirements of the legislation would be adapted to reflect differences among EU member states' national mortgage and property markets, but the basic rules would apply EU wide and information for buyers would have to be presented in a consistent format across the EU.

## Implementation

There is one issue which both Council and the European Parliament agreed to leave open. This is about the documents needed to check that the law has been properly implemented.

## Next steps

To take effect, the new rules must be approved by Parliament as a whole and endorsed by the member states.

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