European Federation of Building Societies
Fédération Européenne d'Epargne et de Crédit pour le Logement
Europäische Bausparkassenvereinigung

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Mortgage Credit Rules are Counterproductive

Brussels – The proposal for a Directive for the regulation of mortgage credit in Europe, published today, is counterproductive for the internal market, according to the European Federation of Building Societies (EFBS). "Instead of increasing product diversity for the consumer, the European Commission's concepts make it more difficult to compare cross-border financial offers", says **Andreas J. Zehnder,** the Federation's Managing Director**.**

The rules for calculating the annual percentage rate of charge (APRC) are the best example. Under the proposal for the Directive, the calculation will in future include the costs of collateral submission, such as the costs of registering the mortgage. However, these costs vary widely in the EU Member States. "This will distort the cross-border comparison of lending terms, which the European Commission is otherwise so keen on", says **Zehnder**. For the consumer, it means less, not more, transparency.

It seems that Commissioner Michel Barnier has taken the French legal system as his model for the proposed Directive. For example, the European Commission wants to introduce a compulsory reflection period prior to the conclusion of the credit agreement, which exists in French law. However, consumers who have made the decision to buy a property generally need access to funds quickly, says **Zehnder**, and even in this country, this rule is often circumvented by pre-dating the documents. By contrast, the 14-day right of withdrawal from mortgage credit agreements has proved its worth in Germany, for example.

What's more, the provisions on early repayment are likely to increase the price of fixed-interest loans in some countries. This is because the costs of the risk associated with early repayment have to be passed on to consumers. This trend can already be observed in Spain, where restrictions applying to the early repayment fee have led to more consumers switching to variable rate schemes. As **Zehnder** explains: "Consumers will thus be directly exposed to the risk of an interest rate rise in the capital market."