Press release | 22.04.2013

Mortgage rules

Deal a breakthrough for consumer protection but bigger picture lacking

An agreement on new EU rules on mortgages was reached in negotiations between the European Parliament and Council this evening (directive on credit agreements relating to residential properties). The Greens welcomed the agreement, which will provide for greater protection for consumers but cautioned that the rules fail to deal with the macroeconomic risks of irresponsible lending. Commenting on the outcome, Green finance spokesperson **Sven Giegold** said:

"*The new rules agreed today represent a breakthrough for consumer protection in the crucial financial area of residential lending and mortgages. Irresponsible lending has played a prominent role in the current economic crisis, leading to property bubbles and massive, unsustainable indebtedness among millions of consumers, notably in Spain, Ireland, Latvia and Hungary. This legislation represents an important first step at addressing this by increasing consumer protection, notably by improving transparency on the costs of mortgages.*

"In future, all borrowers will receive a standardised information document (ESIS), setting out key data on the credit agreement in a comparable and transparent, before they sign for a mortgage. The full costs of loans in a foreign currency or with variable interest rates must now be presented clearly and transparently. Crucially, advertising on foreign currency loans must include a warning on the costs created by exchange rate fluctuations.

"The legislation includes an emergency brake on foreign currency loans. If the costs of these loans run out of control, mortgage-holders will have the possibility to break the debt spiral through exchange or other protection mechanisms. This will prevent consumers being duped into mortgages with hidden future costs. The agreed solution on early loan repayments will protect against the imposition of excessive fees on borrowers, whilst ensuring the business model of long-term and safer fixed-rate mortgages is not threatened.

"However, the legislation fails to address the bigger picture of residential lending. A major shortcoming of these EU rules is the failure to provide for any regulatory tools to deal with the huge macroeconomic risks posed by irresponsible lending. This is something that must be addressed as a priority at EU-level."

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Sven Giegold

Member

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