

# Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Direct line: 020 7066 9346

Local fax: 020 7066 9728

Email: [enquiries@fs-cp.org.uk](mailto:enquiries@fs-cp.org.uk)

Eric Ducoulombier  
Deputy Head of Unit  
Retail Issues, Consumer Policy and  
Payment Systems  
European Commission, DG Markt  
Financial Institutions  
107 Avenue de Cortenbourg  
B-1049 Bruxelles  
Belgium

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Our ref: EUMortgages/KW

Dear Mr Ducoulombier

## **Mortgage Industry and Consumer Expert Group Final Report**

The Financial Services Consumer Panel has read with interest the reports published by the Commission presenting the views of the Mortgage Finance and Consumer Expert Groups on the possibility of EU intervention into the mortgage market across Europe. The Panel has followed the on-going debate in this area, and presented a response to the EU Green Paper on mortgage credit in November 2005. I felt this was an appropriate time to reinforce some of the points made at that time, and to present the Panel's comment on the reports published recently.

Essentially, the Panel has not changed its position over EU intervention in the mortgage market since submitting its response to the Green Paper. The Panel understands there is little appetite amongst lenders for cross-border sales of mortgage products and that consumer demand for mortgages is likely to remain at local level for some time. Therefore, the debate over introducing any EU consumer protection measures to assist the creation of an integrated market is premature.

The Panel stated in its response to the Green Paper that it did not see any merit in translating the existing European Code of Conduct onto a statutory footing and there has been no evidence presented since then that this view should be changed. The mortgage regime in the UK was implemented only after consumer research was undertaken and following considerable consumer testing of the proposed disclosure documents. Should the Commission feel this move was warranted, it should only be done once a full review is conducted of the extent to which the Code has been implemented across Europe and how well it is achieving its stated objectives. This should incorporate a full review of the extent to which the Code is enforced at local level. The Panel is also of the view that there needs to be a proper assessment of the level of consumer detriment in order to be able to determine what – if anything – would be a suitable regulatory framework designed to address key issues.

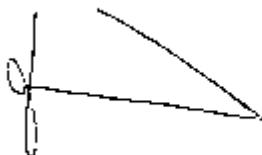
Whatever the Commission decides to do, the outcome should not reduce the levels of consumer protection that already exist in some member states where the mortgage market is well-functioning, and well-regulated, including the UK. It is clear that some of the issues debated by the Consumer and Industry Expert Group would result in a retrograde step for UK consumers. The Panel is particularly concerned over the debate on what should and should not be included in the APR calculation. The UK has implemented a sensible approach towards this and requires all obligatory costs for obtaining the mortgage to form part of the APR. Any move to amend this approach would seriously undermine the value of a standard cost comparator for the UK mortgage market and could give rise to the potential for UK consumers to be misled over the true cost of a mortgage. The ESIS is also not as comprehensive a document as the current Key Facts Illustration (KFI) required in the UK. The KFI, for example, clearly demonstrates the effect of stepped payments where there may be a special offer applying to the loan for a period of time; includes prominent risk warnings; outlines product specific and broker fees; and early repayment charges must be shown as cash examples. All these provisions and many more would be lost if the ESIS were required instead. This would be a backwards step for UK consumers, and the Panel would not support it.

It comes as no surprise that little agreement was reached by the Dialogue Group over the exact nature of the measures that could be introduced. The Panel sees this as an indication of the difficulty most member states would face if an EU Directive were to be introduced requiring a common approach to mortgage sales. The individual markets are quite diverse – for example in the extent to which sales are effected through an intermediary channel – and the Panel believes intervention over consumer protection measures at this stage would not be in the best interest of mortgage consumers generally.

The Panel stated in its response to the Green Paper that one issue which would help align European mortgage markets in a positive way would be for funding arrangements to become more flexible. The Panel is therefore pleased with the positive developments illustrated in the Expert Funding Group Report. Greater flexibility for lenders funding arrangements should lead to greater choice for consumers and possibly lower prices.

I hope the above comments are helpful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Howard'. The signature is written in a cursive style with a large initial 'J' and 'H'.

John Howard  
Chairman  
Financial Services Consumer Panel

cc FSA, HMT