

# **EUROPEAN AGREEMENT ON A VOLUNTARY CODE OF CONDUCT ON PRE-CONTRACTUAL INFORMATION FOR HOME LOANS ("AGREEMENT")**

This Agreement has been negotiated and adopted by European associations of consumers and the European Credit Sector Associations offering home loans (see below). The Agreement provides backing for a voluntary code of conduct ("Code") to be implemented by any institution offering home loans to the consumer.

A list of signatories to the Agreement is annexed to the Agreement.

The Agreement is divided in two parts:

- Part I: The terms of implementation and monitoring of the voluntary Code;
- Part II: the contents of the voluntary Code regarding pre-contractual information to be provided to consumers:
  - as general information about home loans on offer;
  - as personalised information at a pre-contractual stage to be presented in a "European Standardised Information Sheet".

The aim of the Code is to ensure transparency of information and comparability.

## **Coverage of the voluntary Code**

The Code covers consumer information for domestic and cross-border home loans.

## **Definition of a "home loan" for the purposes of the Code**

A "home loan" is a credit to a consumer for the purchase or transformation of the private immovable property he owns or aims to acquire, secured either by a mortgage on immovable property or by a surety commonly used in a Member State for that purpose.

Home loans covered by the Consumer Credit Directive(87/102) are excluded from the scope of the Code.

## PART I: TERMS OF IMPLEMENTATION

The voluntary Code will be implemented by means of the following procedure:

1. The European Credit Sector Associations subscribing to the Code will make an official public announcement of their commitment to it.
2. Each of the European Credit Sector Associations will send an official recommendation to its national members inviting them to:
  - 2.1. make an official public announcement that they subscribe to the Code;
  - 2.2. take all necessary measures with a view to the effective implementation of the Code, which means, *inter alia*, inviting those individual institutions that opt to adhere to the Code to:
    - 2.2.1. within 6 months of the ratification of the Agreement, announce their commitment to the Code; and
    - 2.2.2. publicise their subscription to the Code; and
    - 2.2.3. notify their commitment to apply the Code together with the date of implementation to the central register (see 7.2).

The date of implementation of the Code should be within 12 months from the date of notification of the commitment to apply the Code.

3. The Code will be publicised and copies made available in each branch of the individual institutions subscribing to the Code.
4. The copies of the Code made available will always contain the identification, address and telephone number of the competent body to which the consumers can refer if they face difficulties in relation to the application of the Code.
5. The consumers will be informed of the code's existence and availability by a special notice in the European Standardised Information Sheet.
6. The European Credit Sector Associations will publish an annual progress report on the implementation of the Code.
7. The European Commission has indicated that it will:
  - 7.1. monitor the uptake and effectiveness of the Code; and
  - 7.2. ensure that a central register is established indicating which institutions are offering home loans and, if so, which have and which have not adopted the Code;
  - 7.3. issue a Recommendation containing the voluntary Code as foreseen in COM (1999) 232, 11.05.99;
  - 7.4. within two years of its Recommendation, review the operation of the Code on the basis of the results of its monitoring activity, annual progress reports produced by the European Credit Sector Associations and any additional information available.

Immediately thereafter, and under the aegis of the European Commission, the Code will then be reviewed by all dialogue participants on the basis of the Commission's review findings.

8. Adherence to the Code will be open to other institutions which are not members of the European Credit Sector Associations having adopted it.

## **PART II: VOLUNTARY CODE OF CONDUCT ON PRE-CONTRACTUAL INFORMATION FOR HOME LOANS**

This is a voluntary Code of conduct (“Code”) , which deals with pre-contractual information to be provided to the consumer regarding home loans. The Code is the core of the European Agreement on a voluntary Code of conduct on pre-contractual information for home loans (as defined in the Agreement) negotiated and agreed between European associations of consumers and the European Credit Sector Associations.

Institutions subscribing to the Code undertake to provide to the consumer, in accordance with the agreed terms of implementation and in the form described below:

- general information about home loans on offer;
- personalised information at a pre-contractual stage to be presented in a “European Standardised Information Sheet”.

The final decision to accept a credit offer from a lender belongs to the consumer.

## **1. General Information to be provided to the consumer**

Initial information about home loans should include or be accompanied by the following information in the same format as that initial information is itself provided:

A – Lender:

1. Identification and address of the lender;
2. Where appropriate, identification and address of the intermediary.

B - Home Loan:

1. Purposes for which the home loan may be used;
2. Form of surety;
3. Description of the types of home loans available with short description of the differences between fixed and variable rate products, including related implications for the consumer;
4. Types of interest rate – fixed, variable, and combinations thereof;
5. An indication of the cost of a typical home loan for the consumer;
6. A list of related cost elements, such as, administrative costs, insurance costs, legal costs, intermediaries costs...;
7. The different options available for reimbursing the credit to the lender (including the number, frequency, amount of repayment instalments if any);
8. Whether there is a possibility of early repayment (if so, its conditions);
9. Whether a valuation of the property is necessary and, if so, by whom it has to be carried out;
10. General information on tax relief on home loan interest or other public subsidies prevailing, or information on where one can obtain further advice;
11. The duration of the reflection period, where relevant;
12. Confirmation that the institution subscribes to the Code, and indication that a copy of the Code is available in the institution .

## 2. Information to be presented in a “European Standardised Information Sheet”

The contents of the European Standardised Information Sheet are set out below.

### EUROPEAN STANDARDISED INFORMATION SHEET

This standardised information is an integral part of the “Voluntary Code of Conduct on Pre-contractual Information for Home Loans”, a copy of which can be obtained from your lender

Item	Description
<i>Up front text</i>	<p>“This document does not constitute a legally binding offer.</p> <p>The figures are provided in good faith and are an accurate representation of the offer that the lender would make under current market conditions based on the information that has been provided. It should be noted, however, that the figures could fluctuate with market conditions.</p> <p>The provision of this information does not oblige the lender to grant a credit.”</p>
1 Lender	
2 Description of product	<p>This section should provide a brief but clear description of the product.</p> <p>It should be made clear whether it is a mortgage on a property or another commonly used surety.</p> <p>It should be made clear whether the product on offer is an interest only home loan (ie. that it involves servicing the debt with a lump sum payment at the end) or a repayment home loan (ie. That it involves paying interest and capital over the lifetime of the home loan).</p> <p>It should be made clear whether the home loan terms are dependent on the consumer supplying a certain amount of capital (perhaps expressed as a percentage of house value).</p> <p>Where the home loan terms are dependant on a third party guarantee, this should be clearly stated.</p>
3 Nominal rate (indicate type of rate and duration of fixed period)	<p>This section should provide information on the key condition of the home loan – the interest rate. Where relevant, the description should include details of how the interest rate will vary including, for example, review periods, lock-in periods and related penalty clauses, collars and caps etc.</p> <p>The description should include:</p> <ul style="list-style-type: none"> <li>- whether or not a variable rate is indexed; and</li> <li>- provide details of indexation, where appropriate.</li> </ul>
4 Annual percentage rate of charge (APRC) based on national regulation or effective rate, where relevant	<p>Where a national figure for APRC is not set in legislation, the equivalent effective rate should be used.</p>

5 Amount of credit advanced and currency	
6 Duration of home loan agreement	
7 Number and frequency of payments (may vary)	
8 For repayment home loan, amount of each instalment (may vary)	
9 For interest only home loan: - amount of each regular interest payment; - amount of each regular payment to the repayment vehicle.	<p>The lender should provide an indication – real or illustrative - of:</p> <p>a) the amount of each regular interest repayment in accordance with the frequency of the payments ( see point 7);</p> <p>b) the amount of each regular payment towards the repayment vehicle, in accordance with the frequency of the payments ( see point 7).</p> <p>Where appropriate, a warning should be given that the repayment vehicle may not cover the amount borrowed.</p> <p>If the lender provides the repayment vehicle and has included this in part of the offer then it should be clear whether or not the offer is tied to the consumer’s agreement on that repayment vehicle.</p>
10 Additional non-recurring costs, where applicable	<p>A list of initial non-recurring costs which the consumer is expected to pay upon taking out the home loan must be provided.</p> <p>Where these costs are under the direct or indirect control of the lender, an estimate of the costs should be provided.</p> <p>Where relevant, it should be made clear if the cost is to be paid regardless of the outcome of the home loan application.</p> <p>Such costs might include, for example:</p> <ul style="list-style-type: none"> <li>- administrative costs;</li> <li>- legal fees;</li> <li>- property valuation.</li> </ul> <p>Where an offer would be dependent on the consumer’s receiving these services through the lender (provided this is permitted in national legislation), it should be clearly stated.</p>
11 Additional recurrent costs (not included in 8)	<p>This list should include, for example:</p> <ul style="list-style-type: none"> <li>- insurance against default on payments (unemployment/death)</li> <li>- fire insurance;</li> <li>- building and contents insurance.</li> </ul> <p>Where an offer would be dependent on the consumer’s receiving these services through the lender (provided this is permitted in national legislation), it should be clearly stated.</p>

12 Early repayment	<p>The lender should provide an indication of:</p> <ul style="list-style-type: none"> <li>- the possibility and terms of early repayment;</li> <li>- including an indication of any charges applicable.</li> </ul> <p>Where it is not possible to stipulate the charge at this stage, an indication should be provided that a sum sufficient to recoup the lender's costs in unwinding the transaction would be payable.</p>
13 Internal complaint schemes	Name, address and telephone number of contact point
14 Illustrative amortisation table	<p>The lender should provide an illustrative and summarised amortisation table which includes, at least:</p> <ul style="list-style-type: none"> <li>- monthly or quarterly payments ( if it the case) for the first year;</li> <li>- to be followed by yearly figures over the total duration of the loan.</li> </ul> <p>The table should contain figures on</p> <ul style="list-style-type: none"> <li>-amount of capital reimbursed;</li> <li>-amount of interest;</li> <li>-outstanding capital;</li> <li>-amount of each instalment;</li> <li>-sum of capital and interest.</li> </ul> <p>It should be clearly indicated that the table is illustrative only and contain a warning if the home loan proposed has a variable interest rate.</p>
15 Obligation to domicile bank account and salary with lender	