

# COMMISSION

## COMMISSION RECOMMENDATION

of 1 March 2001

on pre-contractual information to be given to consumers by lenders offering home loans

(notified under document number C(2001) 477)

(Text with EEA relevance)

(2001/193/EC)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community, and in particular the second indent of Article 211 thereof,

Whereas:

- (1) Achieving a single market for financial services offering consumers a high level of protection is a priority for the Community. Signing a home loan contract is often the most important financial commitment that a consumer enters into. Home lending is an area of financial services where consumers could gain substantial benefit from increased cross-border activity provided that adequate protective measures are in place.
- (2) It is essential in that context that the pre-contractual information as to the terms and conditions on which home loans are offered throughout the Community are transparent and comparable. To that end, lenders should be invited to provide consumers with two sets of harmonised information, namely one containing general information and the other containing personalised information. The personalised information should be provided in a standard written format, known as a European Standardised Information Sheet.
- (3) The elements of information — both general and personalised — to be given to consumers by lenders, have been negotiated under the auspices of the Commission by the associations and federations representing lenders, on the one hand, and consumers, on the other. These negotiations have resulted in a Voluntary Code of

Conduct on pre-contractual information for home loans (the 'Code'), a copy of which can be obtained from the adhering lenders. Adherence to the Code is open to all home loan lenders, regardless of whether they are members of one of the negotiating associations and federations.

- (4) In certain Member States national requirements on additional pre-contractual consumer information for home loans already exist. It is desirable that these additional information elements be merged with those in the European Standardised Information Sheet and that this be done in a manner that ensures comparability across borders for the consumer at European level. Where a Member State imposes on lenders from other Member States an obligation to give additional pre-contractual information to consumers above and beyond what is set out in the Annexes, it is invited to ensure that this information is in conformity with Community law.
- (5) Both domestic and cross-border home loans should be subject to this recommendation, excluding credit agreements which are covered by Council Directive 87/102/EEC of 22 December 1986 on the approximation of laws, regulations and administrative provisions of the Member States concerning consumer credit<sup>(1)</sup>, as last amended by Directive 98/7/EC of the European Parliament and of the Council<sup>(2)</sup>.
- (6) The Commission will establish a central register of lenders offering home loans, indicating whether or not those lenders adhere to the Code, as well as the date on which those lenders notified their adherence to the Commission. The Commission will, by all appropriate means, ensure that the public at large can consult this central register.
- (7) The Commission will monitor compliance with this recommendation and assess its effectiveness. The Commission will consider presenting binding legislation, should the terms of this recommendation not be fully complied with,

<sup>(1)</sup> OJ L 42, 12.2.1987, p. 48.

<sup>(2)</sup> OJ L 101, 1.4.1998, p. 17.

HEREBY RECOMMENDS:

*Article 1*

**Scope**

This recommendation covers pre-contractual consumer information for domestic and cross-border home loans.

Credit agreements covered by Directive 87/102/EEC are excluded from the scope of this recommendation.

*Article 2*

**Definition**

For the purposes of this recommendation, a home loan means 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.

*Article 3*

**Principles**

The lender should supply to the consumer in the course of the pre-contractual phase:

- (a) general information as set out in Annex I;
- (b) personalised information to be presented in a European Standardised Information Sheet as set out in Annex II.

In addition, the lender should supply to the consumer information on the identification, address and telephone number of the competent body to which the consumer can refer in the event of difficulties in relation to the application of the Code on pre-contractual information for home loans.

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

*Article 4*

**National requirements on additional pre-contractual consumer information**

Should pre-existing national requirements provide that additional pre-contractual consumer information is to be given to the consumer, Member States are invited to take all necessary steps in order that this additional information may be merged with the information included in the European Standardised Information Sheet in a manner that does not impair comparability across borders.

Each Member State is moreover invited to ensure that those additional nation requirements are imposed on lenders from other Member States offering home loans in the territory of that Member State only if those additional requirements are in conformity with Community law.

In this case, the host Member State is invited to notify the requirements to the Commission so that the latter can consider them in the framework of its monitoring activity set out in Article 6.

*Article 5*

**Establishment of a register by the Commission**

The Commission will establish a central register of lenders offering home loans, indicating whether or not those lenders adhere to the Code.

*Article 6*

**Monitoring by the Commission**

The Commission will monitor compliance with this recommendation.

Two years after adoption of this recommendation, the Commission will assess its effectiveness: the assessment will be based on its own monitoring, on annual progress reports to be drawn up by the European Credit Sector Associations, and on any other information available.

*Article 7*

**Final provision**

Member States and lenders offering home loans in the Community, regardless of whether they are members of the associations and federations who negotiated the Code, are invited to comply with this recommendation by no later than 30 September 2002.

*Article 8*

**Addressees**

This recommendation is addressed to the Member States.

Done at Brussels, 1 March 2001.

*For the Commission*

Frederik BOLKESTEIN

*Member of the Commission*

## ANNEX I

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 combination 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.
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## ANNEX II

## 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
<b>Up front text</b>	<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 (i.e. that it involves servicing the debt with a lump sum payment at the end) or a repayment home loan (i.e. 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 dependent 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 conditions 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	Where a national figure for APRC is not set in legislation, the equivalent effective rate should be used.
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> <ul style="list-style-type: none"> <li>(a) the amount of each regular interest repayment in accordance with the frequency of the payments (see point 7);</li> <li>(b) the amount of each regular payment towards the repayment vehicle, in accordance with the frequency of the payments (see point 7).</li> </ul> <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>

Item	Description
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 point 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 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 be 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	