Building Societies Association

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Briefing

MCD – For European consultation

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The mortgage market review (MMR) was a comprehensive review of the UK mortgage market resulting in the introduction of a substantially updated regime, specifically developed and tailored to the needs of UK consumers. Its aim was to ensure a sustainable market for all participants and a flexible market that works better for consumers. This transition was the result of extensive consultation and a huge investment for the industry in terms of cost and time dedicated to implement the regime. The MMR was clearly designed for the long term benefit of the UK mortgage industry and UK consumers and came into force in the UK in April 2014.

At a time when the UK Mortgage Market should be settling down after the new regime and utilising the breathing space to start to innovate for the changing demands of consumers post crisis, the market has had to once again redirect time, resource (both management time and money) to focus on regulatory change, this time in the form of the European Mortgage Credit Directive (MCD). A difficult message to convey to industry, particularly as for the UK there is no additional consumer protection offered and in fact in several areas MCD will actually be detrimental to UK consumers.

A clear example of this is the introduction of the European Standardised Information Sheet (ESIS). The UK already has a National disclosure document, the Key Facts Illustration (KFI), tailored for UK consumers using familiar, consumer friendly terminology. The language prescribed in the ESIS is not familiar to UK consumers and as such it adds complexity and confusion for consumers as well as imposing a significant cost on the industry. The KFI isn't a document used by consumers for shopping around and neither will the ESIS. We strongly believe that the KFI serves UK mortgage consumers well and moving to the ESIS was a completely unnecessary change,

In addition one of the fundamental objectives of MCD was "to create a Union-wide mortgage credit market with a high level of consumer protection". It is worth noting that historically cross border lending has been driven by supply (the desire of commercial organisations to enter new markets) rather than by consumer demand. We see little evidence that consumer demand for products from institutions domiciled in other member states will change anytime soon.

The fact that MCD will in fact impede cross border lending instead of promote it should be a clear sign that the approach taken isn't fit for purpose. An example of this is the definition of a foreign currency loan and the new rules imposed surrounding this, these are already having unintended consequences. The definition will capture those who are not subject to currency fluctuations such as an employee who owns a UK property, and is required to move from the

UK to work in Spain on a 2 year contract. They continue to be paid in sterling and their mortgage is also in sterling, therefore there is no currency risk, yet will be subject to foreign currency rules.

As a consequence of the rules imposed by the Directive many UK lenders have taken the decision not to offer foreign currency lending, limiting consumer choice.

A one size fits all approach to the regulation of EU Member States will have the effect of raising standards and increasing consumer protection for some states, whilst lowering standards for others. Surely the outcome of any regulation should be to raise standards and deliver better outcomes for all consumers.