



Sveriges Riksbank's reponse to the EU consultation on responsible lending and borrowing in the EU

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Sveriges Riksbank welcomes the opportunity to comment on the European Commission's public consultation on responsible lending and borrowing in the EU. Below please find answers to a number of questions posed in the consultation.

Question 1: Do you have evidence of misleading or unfair advertising or marketing practices with regard to mortgage and consumer credit?

Question 2: What are your views on the development of risk guidelines?

In Sweden simplified and opaque advertising and marketing of SMS loans have made it difficult for borrowers to understand the actual costs of the credit.

The content and quality on pre-contractual information is paramount for both responsible borrowing and lending. Knowledgeable and informed borrowers are a safeguard against irresponsible behaviour by lenders and credit intermediaries. The Riksbank supports regulatory efforts towards improving pre-contractual information and the borrowers' ability to assess such information. In this regard, lenders and credit intermediaries should be obliged to make borrowers aware of the risks inherent in the credit product, e.g. interest rate and exchange rate fluctuations. Developing risk guidelines may be useful in assisting the borrower's ability to assess the suitability of a product to its particular needs.

Question 3: In your view, are there certain (categories of) credit products that are inherently unsuitable for sale to retail borrowers? Would you welcome a set of standardised or certified credit products to be offered to consumers?

Question 4: Do you consider that mortgage lenders and credit intermediaries should always perform creditworthiness and/or suitability assessments before granting consumer and mortgage loans? For mortgage credit, what are your views on the criteria to be used in assessing suitability such as loan-to-income ratios or loan-to-value ratios?

Question 5: How should the lender or credit intermediary demonstrate or document the adequacy of the creditworthiness and suitability assessment?

Direct regulation of products, or set of products, should not be imposed. Direct product regulation implies that matching a particular borrower with a suitable product becomes less exact, since fewer products are available. Furthermore, direct regulation may hold back innovation and is vulnerable to regulatory arbitrage. A more efficient regulatory approach is to install incentives for responsible lending through prudential regulation, regulation of selling approaches and capital requirements.

Mortgage lenders and credit intermediaries involved in mortgage mediation should - as a general rule - perform creditworthiness assessments. Assessments should be made by people with sufficient skills, i.e. requirements on professional qualifications are warranted. The main criterion in a creditworthiness assessment should be the borrower's ability to respect the contractual obligations of the loan over its duration. However, detailed rules on the execution of the assessment process should be avoided, i.e. the use of quantitative criteria like LTI or LTV could be recommended but should not be required. It follows that appropriate regulatory demands on creditworthiness assessment will preclude the use of certain products like self-certification mortgages.

In order to demonstrate the adequacy of the creditworthiness and suitability assessment, the lender or credit intermediary should be obliged to document the assessments made. Such documentation is essential for the efficacy of supervision and legal (or quasi-legal) complaint and dispute resolution.

Question 6: Do you think that these advice standards would be appropriate in an EU context? Are there others that should be considered? What would be the most appropriate means to introduce and enforce the application of advice standards? Please explain.

Acting as an advisor to a borrower differs from a situation where a lender or credit intermediary just informs and explains a product. In the former situation the borrower is likely to place more trust and reliance on the advisor. Consequently, providing advice implies a wider responsibility to act objectively and in the interest of the borrower. Given this, the Riksbank supports the development of advice provisions with regard to mortgage credit on a European level. As a first step, advice standards can be introduced on a voluntary basis.

Question 7: Apart from a focus on financial education, are there any measures that could be taken to encourage responsible borrowing?

The Riksbank supports the focus on financial education to develop borrowers responsibility.

Question 8: Do you consider that the scope of the definition of Credit Intermediary as set out in the Consumer Credit Directive could also be applied to the mediation of credit not covered by that directive? Would it be appropriate to differentiate between full-time credit intermediaries and persons who offer credit intermediation on an incidental basis? Please explain why (not).

Question 9: Do you think policymakers should make distinctions between credit intermediaries in terms of the products they sell (mortgage, consumer credit, 'point of sale' credit)? Should credit intermediaries be treated differently in terms of the status of their relationship with lenders (tied versus untied intermediaries)? Please explain your answer.

The scope of the definition of Credit Intermediary as set out in the Consumer Credit Directive can usefully be applied for mediation of credit not covered by the directive. However, policymakers need to distinguish between credit intermediaries in terms of the products they sell. This may warrant further refinements in the definition of a Credit Intermediary regarding the mediated product.

A credit intermediary should be obliged to fully disclose their status as tied or untied to any lender.

Question 10: Could you give examples of cases of misconduct, mis-selling or any other instances of consumer detriment linked to credit intermediaries in your country?

Question 11: Does the regulatory patchwork for credit intermediaries present a problem, in your view?

Question 12: What would be the most appropriate way to address potential conflicts of interest, particularly with regard to fee/ bonus/ commission structures? Should any measures in this regard apply to bank client-facing staff as well as intermediaries?

Commissions and remuneration based on the signing of a loan contract can create incentives for imprudent behaviour on behalf of the client-facing staff of a lender or a credit intermediary. Consequently, remuneration structures should not be based upon short-term performance measures, e.g. volume of approved loans. The Riksbank encourages the establishment of clear guidelines for appropriate remuneration structures. Implementation of such guidelines should be addressed in the supervision of the lender.

Extending rules governing disclosure of the fees payable by the borrower to the credit intermediary should be extended to mortgage credit.

Question 13: What are your views on the registration and supervision of credit intermediaries?

Question 14: What are your views on prudential and professional requirements for credit intermediaries (such as minimum capital, professional indemnity insurance, educational or professional qualifications)?

Crucial for responsible lending is the decision to grant a loan (or not). This decision is made by the lender and not the credit intermediary. The lender will not approve mediated loan applications incompatible with its risk policy. It follows that i) regulatory focus should be on installing appropriate incentives for the lender to manage credit risk, which should primarily be done through relevant capital requirements; and ii) there is a considerable scope for self-regulation of credit intermediaries. Still, for some credit products the merits of a European regulatory framework cannot be ruled out. Consequently, the Riksbank encourages a careful evaluation of the cost



- and benefits of potential EU regulation of credit intermediaries, which accounts for the capacity of self-regulation.

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