

Guidelines for Extra-Judicial Restructuring of Mortgage Loans

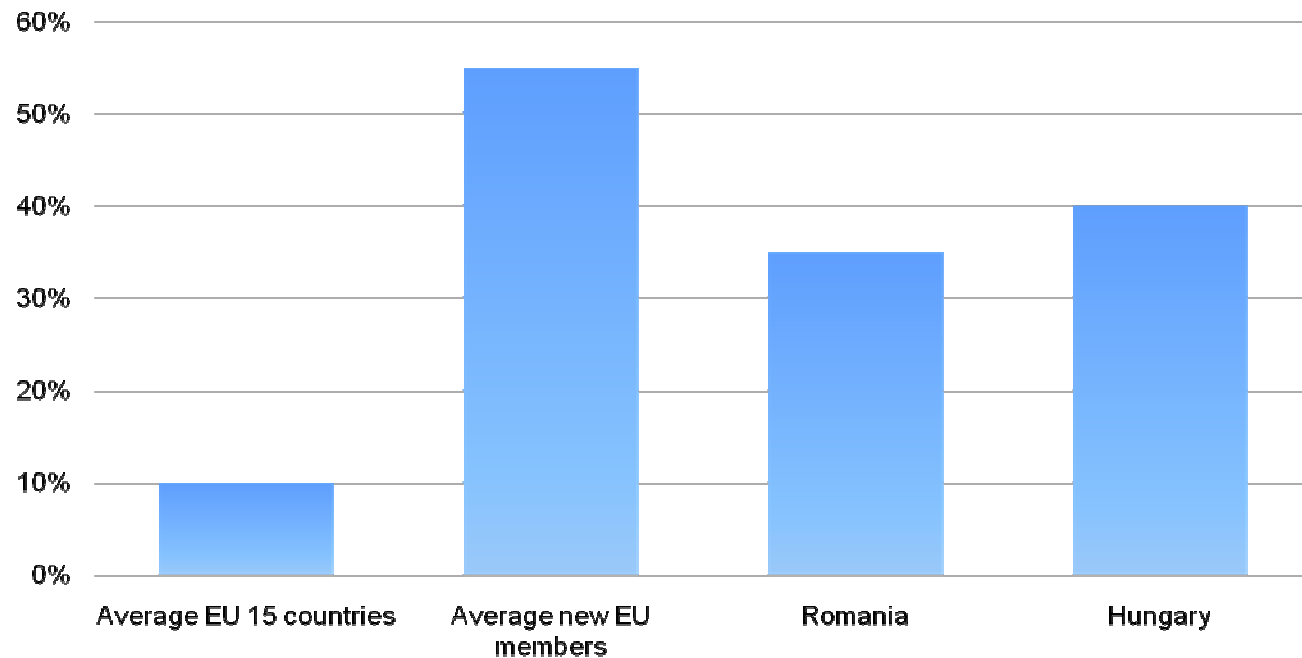
Helping Lenders to manage better
risks and consumers to make
more informed decisions

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Why is it advantageous to lenders to have better informed customers? (I)

Growth of mortgage debt between 2002 and 2005



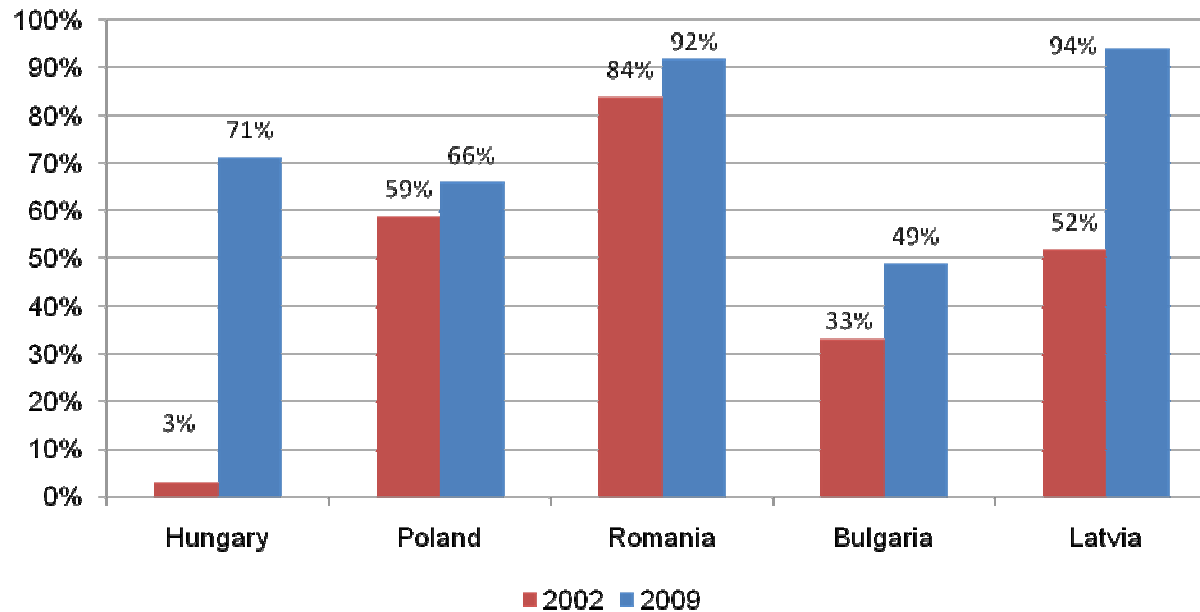
Source: EMF

Growth of mortgage markets in CEE countries has benefitted lenders and consumers alike



Why is it advantageous to lenders to have better informed customers? (II)

Mortgage loans in foreign currency to total mortgage loans in selected CEE countries



Source: Central Banks (data for Bulgaria and Romania, January 2007)

But, risk exposure of lenders and consumers dramatically increased
When crisis appeared, delinquency and default rates rose to high levels



Why is it advantageous to lenders to have better informed customers? (III)

For consumers/borrowers:

- Rising sophistication of financial products requires better understanding of financial issues
- Help consumers to budget and manage their incomes
- Raise financial capabilities of consumers

For lenders:

- Helping consumers to make informed decisions is critical to building trust and long-term relationships
- Transparent operations are a competitive advantage in long run
- Key tool for cross-selling



Good practices in mortgage lending (I)

Disclosure and sales practices

- Simple, easy to understand and comparable
- Key facts statement
- Regular statements and early notifications of changes (e.g. interest)
- Proper assessment of consumer's creditworthiness by well-trained staff

No abusive business practices

- Bundling and tying clauses
- Cooling-off period
- Abusive debt collection practices



Good practices in mortgage lending (II)

Easy, inexpensive and speedy method of resolving disputes

- Deal fairly and honestly with customers
- Customers who complain are most valuable customers
- Clear procedures for handling customer complaints (very common: third-party ombudsman)

Availability of financial education

- Helps consumers to understand financial products and make informed decisions
- Both responsibility of regulator and financial services industry
- What can we do as lenders?



Where is Romania?

Disclosure and sales practices

- Mortgage contracts printed in 6-font size
- Difficult to obtain contract and information about fees before signing contract

Dispute resolution

- No out-of court dispute resolution system

Availability of financial education

- Awareness campaigns for pensions only
- Some lenders have developed information brochures



Role of the Guidelines of Extra-Judicial Restructuring of mortgage loans

Objective:

- Principles aimed at avoiding enforcement of mortgage collateral and allowing borrowers in financial distress to fulfill their obligations
- Do not affect existing contractual obligations nor establish borrower's right to a restructuring of her/his loan agreement

Scope:

- Borrowers who have taken out loan secured by mortgage
- Applies to all lenders in Romania



The 12 principles of the Guidelines (I)

1. Borrower should contact lender in case of problems
2. Lender provides clear overview of borrower's outstanding obligations
3. Offer to restructure is a concession by lender
4. Good faith
5. Clear communication
6. Borrower should provide all relevant information to lender to allow for proper evaluation of her/his situation

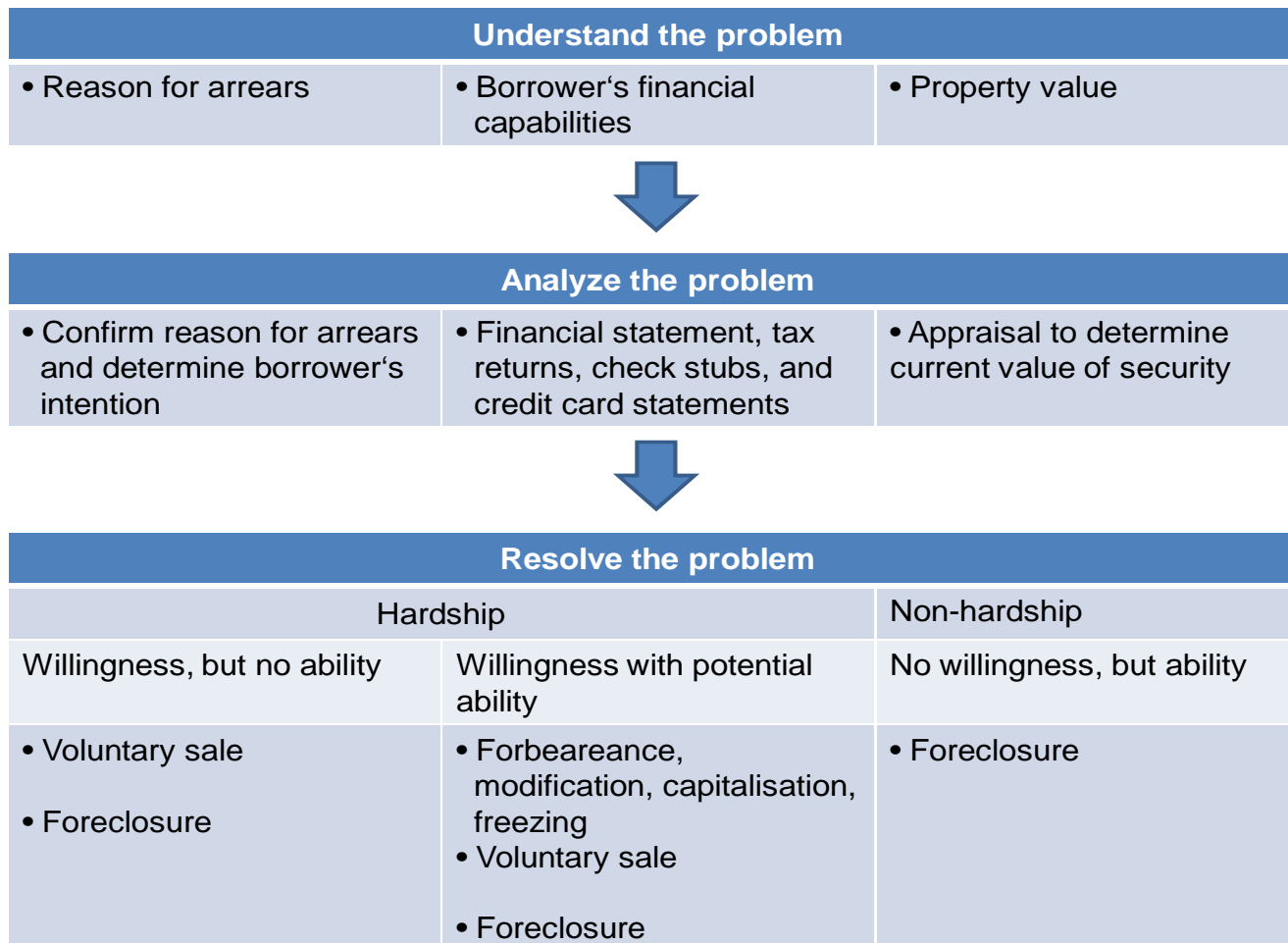


The 12 principles of the Guidelines (II)

7. Before enforcement, alternatives should be discussed
8. Lender should provide prompt response to borrower
9. Borrower has time to consider lender's proposal
10. Restructuring should be reasonable and achievable
11. No court proceedings as long as borrower complies with terms of loan restructuring
12. Confidentiality



Example of restructuring process



Trends in the European Union

- The *acquis communautaire* entitles EU-Commission to ensure creation of integrated market for residential mortgages
- Objective of EU-Commission's intervention: competitive and efficient EU mortgage credit markets
 - Facilitating cross border supply and funding of mortgage credit
 - Increasing product diversity
 - Improving consumer confidence
 - Facilitating customer mobility
- A number of measures initiated, such as:
 - 2005: Green Paper: Mortgage Credit in the EU
 - 2007: White Paper on Mortgage Credit in the EU
 - European Agreement on Voluntary Code of Conduct of Pre-Contractual Information for Home Loans



Trends on national level in the EU - Examples

United Kingdom

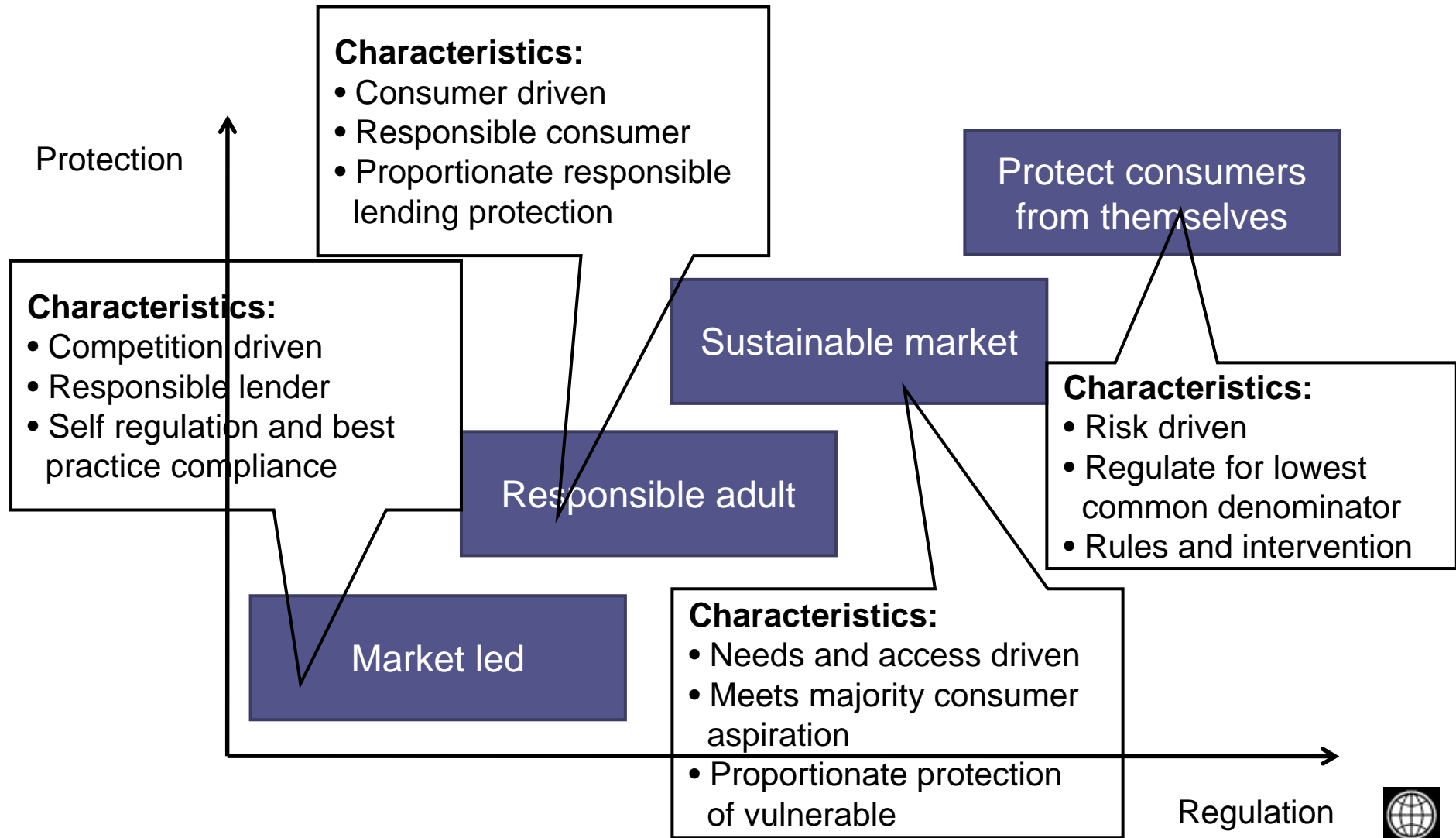
- Already existing: website of Financial Services Authority (FSA):
“Money made clear”
- Consumer Protection and Markets Authority
- FSA rules on income verification and affordability assessment

Germany

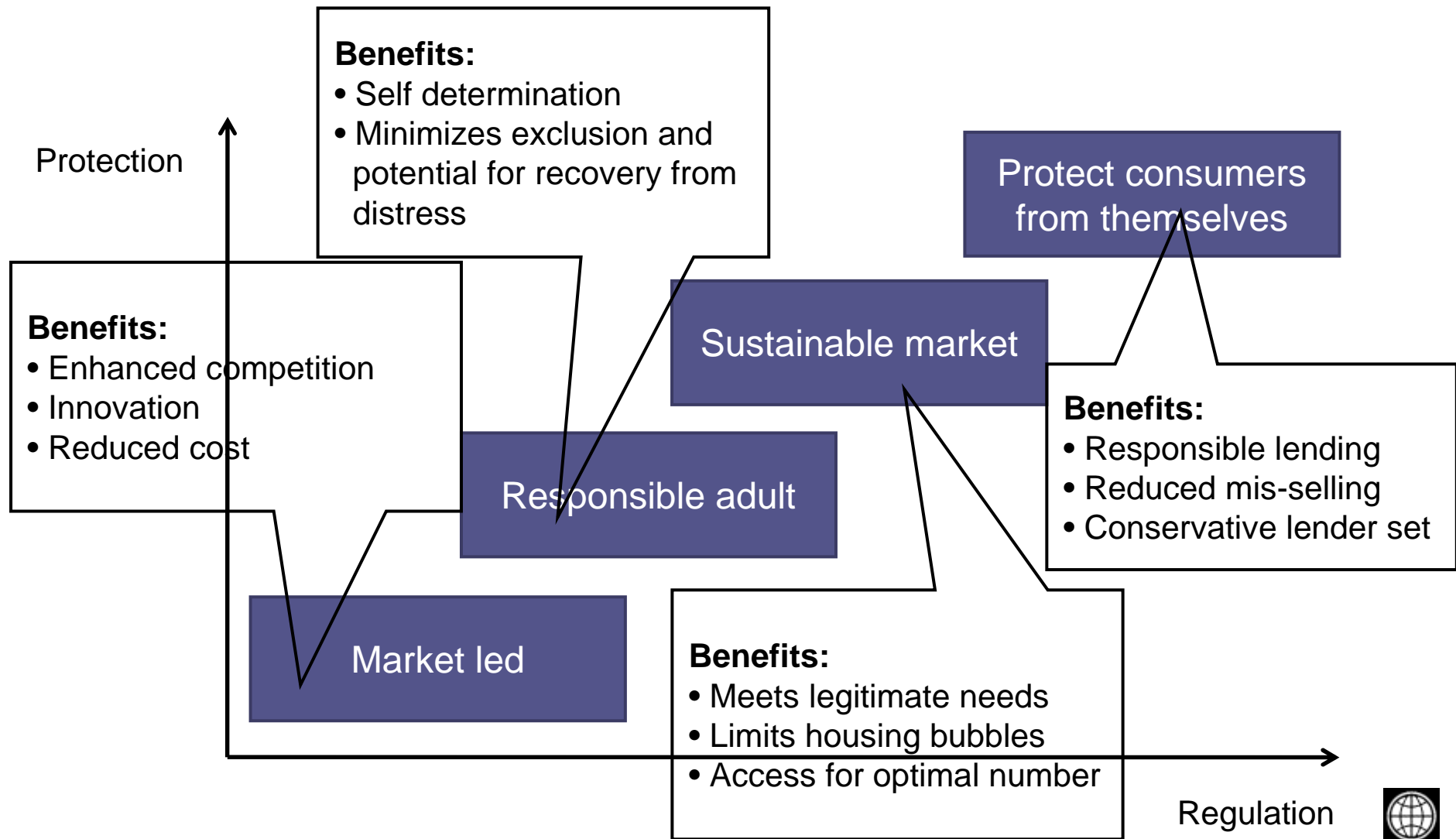
- New law to protect private investors (under discussion):
 - In case of wrong advice, advisors may not advise clients for up to two years
 - Mandatory key fact statements for every product



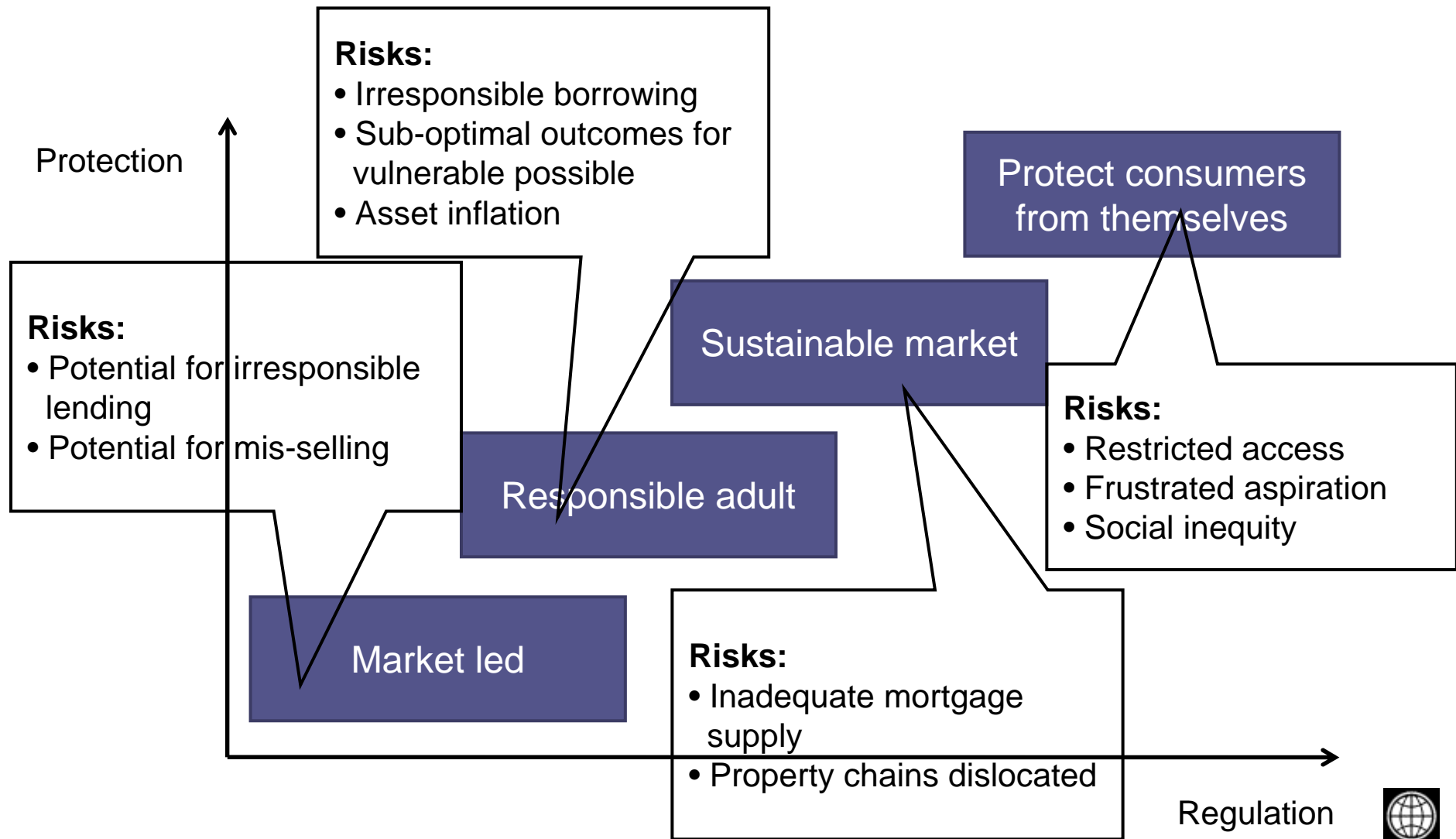
Development of framework for mortgage lending – options



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