9 July 2015: Real estate bank guarantees

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The Autorité recommends that consumers be better informed on bank guaranteerates in order to encourage banking institutions to choose the most competitive guarantee bodies. This transparency of rates could be planned for the transposition of the directive on real estate credit.



> Version française

In brief
Following a referral from French consumer organisation UFC-Que Choisir, the Autorité issued an opinion which recommends that more information on the guarantee rate be provided by real estate borrowers. However, separating credit offers and guarantee offers appears difficult to implement in practice

THE FRENCH GUARANTEE MARKET

A growing success in France

To grant real estate credit, lenders require a guarantee to face risks of non-payment that are not covered by credit insurance (death, disability or job loss). This guarantee can take the form of real security (mortgage) or personal security (guarantee).
Since the early 2000s, the market share for guarantees among all real estate-secured loans has continued to increase, and is now the number one type of guarantee in France, particularly due to its cost which is lower than that of a mortgage.

Varying rates are a reflection of the different services and ways of operating

Rate structures and methods of calculating commissions differ from one guarantee company to another. From one body to the next, commission rates can vary by 0.5 percentage points, which is equivalent to an absolute difference of €1,000 on a loan of €200,000.
The *Autorité* notes that the different guarantee bodies do not all operate in the same way and that they offer different types of service that allow them to justify the differences observed. This heterogeneity between offers makes it difficult to compare available rates simply and quickly, especially since different guarantee bodies do not employ the same risk policy.

A MARKET IN NEED OF GREATER TRANSPARENCY FOR CONSUMERS

A structurally limited choice for borrowers in terms of real estate credit guarantees

Currently, borrowers are not free to use the guarantee company of their choice to guarantee their credit. This choice is, in fact, structurally limited to the credit institution's only partner guarantee body or bodies, as credit institutions generally favour their own guarantee deposit subsidiaries.

Contrary to its recommendations regarding credit insurance[1], the *Autorité de la concurrence* has reservations about separating credit offers and guarantee offers.

Indeed, the range of guarantees on offer only benefits lending institutions, whose task it is to select the guarantee body on the basis, in particular, of its risk management, financial rating, methods of compensation and collection as well as the prices offered, which influence the competitiveness of the loans on offer.

Moreover, this separation appears impractical to implement.

It may finally prove unfavourable to consumers who want to get a foot on the property ladder by using a loan, if guarantee applications are rejected or if this extends the time required for obtaining a loan.

The need for comprehensive and transparent consumer information

The Autorité believes it essential that comprehensive rate information be provided as soon as a loan is offered, so consumers can better compare competitive rates between offers of loans accompanied by their guarantees. This transparency of rates could be planned for the transposition of the Directive on mortgage credit of 28 February 2014.

The Autorité's recommendations on rate information

Information on the nature of the guarantee, which is prescribed by the directive on mortgage credit, should be accompanied by clear information on rates. With credit offers, it would seem desirable to include not only information regarding the annual percentage rate (which is the best tool available to borrowers for comparing the overall costs of different credit offers) but also a breakdown of the overall cost, including the different cost items: credit interest, additional costs, insurance premiums and guarantee fees.

[1] Opinion 09-A-49 of 7 October 2009 on competition conditions in the credit insurance sector for real estate credit and its press release.

> See the opinion 15-A-09 of 9 July 2015 on competition conditions in the real estate bank guarantee sector.

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