

EU moots a cooling-off period for home loans

Leah Milner - Last updated September 25 2010 12:01AM

The European Commission is considering introducing a ten-day cooling-off period on mortgage sales, according to the Council of Mortgage Lenders (CML). Consumer groups have welcomed the idea, claiming that it would give borrowers a better opportunity to stop and reflect on an important financial decision before they are locked in to a contract, but the CML is lobbying against the move.

Adam Scorer, the director of external affairs at Consumer Focus, said: "Giving consumers more time to make sure that they are getting the best deal is a good thing, particularly as mortgage choices have such big implications for people's monthly costs." Aaron Strutt, a mortgage broker at Trinity Financial Group, believes that the move would alleviate some of the pressure on borrowers to move quickly to get the best deal.

He said: "Many lenders now state that their mortgage rates can be withdrawn without notice and this does put pressure on borrowers to secure the rate. You could say that the banks' constant rate and criteria changes have led to this sort of rule being necessary. It would give borrowers more time to secure the best rate."

But David Hollingworth, of London & Country, another mortgage broker, is concerned that introducing a cooling-off clause could slow what is already a lengthy process. He said: "Consumer protection is always a good thing, but the lender is likely to have to wait until after the cooling-off period to instruct a valuer, which will slow the process. Buying a house is already a long process."

Bernard Clarke, of the CML, argues that the move is unnecessary. He said: "Many UK mortgages are arranged through brokers, who will have detailed discussions with borrowers about their needs and the suitability of particular products. A compulsory ten-day reflection period is not necessary when it is the broker's job to shop around for the customer, and the discussions between them provide a focal point for the borrower to reflect on whether he or she needs a mortgage and what type is suitable."

The move is understood to have been mooted in a European Commission working paper. It comes as part of European proposals for a mortgage credit directive which are likely to emerge next year. The directive would look to synchronise rules in different European countries to encourage cross-border lending and borrowing.