



Monitoring the uptake and the effectiveness of
the Voluntary Code of Conduct on Pre-contractual
Information for Home Loans

Country report
Finland

Anna-Riitta Lehtinen
Johanna Leskinen
13.6.2003

CONTENTS

Foreword.....	3
1 Brief introduction to Finnish Banking Industry	4
2 Legislation on consumer credits and loans.....	5
3 Additional issues to be considered	8
4 Description of the tests	9
5 Current national issues/problems with housing loans.....	11
6 Example for early repayment.....	13
Literature.....	14

Foreword

Supported by the European Community and coordinated by Institute for Financial Services (IFF, Germany), several EU countries, such as Austria, Belgium/Luxemburg, Finland, Germany, Greece, Ireland, Italy, Netherlands, Portugal and Sweden carried out the project “Monitoring the uptake and the effectiveness of the Voluntary Code of Conduct on Pre-contractual Information for Home Loans”. Final Report: http://europa.eu.int/comm/consumers/cons_int/fina_serv/loans/documents/survey_report.pdf. The project consisted of “silent shopper” tests in national banks and credit institutions focusing on the application of the Code, and filling of an standardized electronic questionnaire by the test persons (“silent shoppers”). Additionally, a national report should be written in every country . National report should involve a short description of the tests, requirements of the national law for prior information for consumers yet, which further contains the “voluntary Code of Conduct on prior information for consumers concerning home loans”. It should also include a short description about the national law in relation to early repayment, repayment vehicles, costs, etc. and current national problems of consumers with home loans.

National Consumer Research Centre was in charge of the project in Finland. The following working paper qualifies the national, Finnish report to the project. Altogether 30 “silent shopper” tests were carried out in Finland, in Helsinki and in Nurmijärvi followed by the filling of the electronic questionnaire by the test persons. Comparative analysis and results from the questionnaires will be provided and published by IFF.

Acknowledgements are gratefully extended to the test persons for their excellent contribution to the project, visits to banks and filling the questionnaire. The manuscript of the report was improved by the many amendments suggested by the experts from The Finnish Bankers’ Association, Ministry of Justice and Ministry of Finance. The report greatly benefited from their advice.

Helsinki, October 2003
Anna-Riitta Lehtinen & Johanna Leskinen

1 Brief introduction to Finnish Banking Industry

Toward the end of 2002 there were a total of 334 domestic deposit banks operating in Finland. The respective number includes 11 commercial banks, 243 co-operative banks belonging to OKOBANK Group, 42 local co-operatives and 40 savings banks. Additionally, there are 20 active branch offices of foreign credit institutions, of which seven receive deposits. Branch offices numbered 1572 and service units 195 at the end of the year (Kallonen 2002a). Structural development in the financial sector has had its effects on the market shares held by banks. The combined market share of the three largest bank groups, Nordea Bank, Sampo, and the OKO Bank Group, is approximately 85 per cent of both deposits and credits. The market shares (%) of credits and deposits by the bank groups as based on the latest statistics are as follows (see Kallonen 2002b):

Bank	% of credits	% of deposits
- Nordea	40,6	42,7
- OKO Bank Group	27,6	29,4
- Sampo	17,0	12,9
- Savings banks	5,7	7,8
- Local co-operatives	2,0	2,8
- Others	1,7	2,4
- Foreign	5,4	2,0
Altogether	100,0	100,0

Finland has been a pioneer in the use of technology in banking services, first through automation and later through telebanking. Electronic services, such as data network connections and telebanking services, have been replaced and completed the banking service network. Finnish banks have been forerunners internationally when it comes to the number of internet clients, the frequency of service usage and the number of kind of transactions (Kallonen 2002b). Telebanking between the banks and the customers has grown rapidly in Finland. By 2002 as many as 2.8 million agreements were signed (Banking year ...2001). From the consumer perspective increasing telebanking, on one hand, increases customers' flexibility in time-use and, on the other hand, "forces" into increasing self-service.

Two special features characterize financial intermediation in Finland. They also distinguish Finnish financial systems from those of other countries. In Finland, most housing finance comes from the deposit banks acting as universal banks. Interest rates on the credits and deposits are determined as based on reference rates, such as the Euribor or the prime rate and a client-specific margin and, **fixed-rate credit is rarely used**. Additionally, payments are handled effectively through a giro system where all banks are included

(Financial ... 2003/<http://www.pankkiyhdistys.fi/>).

2 Legislation on consumer credits and loans

Consumer credits and loans are regulated in several acts in Finnish legislation. **Consumer Protection Act (Act 38/1978)**, repeatedly amended, provides, in Chapter seven, the foundation for the regulation on the pre-contractual information for consumer credit, study loans and housing loans. The Act applies to the offering, selling and other marketing of consumer goods and services by businesses to consumers. The Act applies also where a business acts as an intermediary in the transfer of goods or services to consumers.

Before the conclusion of a consumer credit agreement the consumer shall be notified of the contract terms and any other information referred to in section 11 below. Additionally, he/she shall be provided with an opportunity to peruse them in writing. According to section 11 (85/1993)) the consumer credit agreement shall state:

- 1) the amount or limit of the credit, if any
- 2) the payments, interest and other credit costs relating to the granting and use of credit
- 3) the due date of the credit or, if the credit is to be paid in installments, the amount and due date of each installment or the other repayment conditions
- 4) the credit price, any down payment and the cash price if the agreement relates to a goods-or-services-related credit
- 5) other terms of the contract
- 6) the right, based on section 12, to pay credit before maturity and the determination of the compensation therefore, if any, as well as
- 7) the annual percentage rate of charge.

Consumer credit agreement shall be concluded in writing and the consumer shall be given a copy of the agreement (section 10, 85/1993). Additionally, the consumer shall not be charged any payment, interest, fee or compensation that is not included in the terms of the agreement.

However, **Act on Provision of Information Society Services (458/2002)** states that if a contract must be concluded in writing according to the law, this requirement is also met by an electronic contract with contents that cannot be unilaterally altered, and which remain accessible to the parties (section 12, 458/2002).

The Act on Credit Institutions (1607/1993), Chapter 10, includes provisions for the security of a customer. In marketing, the credit institution has to give the customer all the information which might be meaningful in the decision-making concerning the product under marketing. Misleading information or any information against the *code of good conduct* are forbidden and the information which does not include necessary information in relation to the economic safety of the customer is considered inappropriate. Credit institution may not use provisions which are unjust to the customer. Code of good conduct has been constructed in the Finnish Bankers' Association and counts for self-regulation in banking business (<http://www.rahoitustarkastus.fi>).

As based on Consumer Protection Act, the terms of a consumer credit agreement may stipulate that the interest rate payable on the credit shall vary in accordance with the basic rate of interest charged by the Bank of Finland or other reference interest rate detailed in the agreement. The reference interest rate shall be public and based on matters not dependent on the unilateral decisions of the creditor. The reference interest rate of a credit in a foreign currency may also be in the currency of the credit or, if the credit has been granted in units calculated from several currencies (basket credit), a rate calculated in the same manner from said currencies. The consumer shall be notified of changes in the interest rate either in the account statements or otherwise in writing.

According to section 12 the consumer shall have the right to pay the consumer credit before it matures. If the consumer pays the credit before maturity, a deduction shall be made from the remaining receivables of the creditor for the portion of the credit costs that concerns the period of credit that shall not be used. If the costs arising from the establishment of the credit relationship have been specified in the agreement and they are not unreasonable, the creditor may collect them in full.

If the consumer pays a credit payable in installments on another date than the due date, the period of credit that shall not be used shall be calculated as from the first due date following the payment.

The creditor may charge a compensation for premature payment of the credit if the amount of the credit granted exceeds 16818, 60 euros (FIM 100 000) and if the interest rate on the credit is fixed or if the period for the determination of the reference interest rate is at least three years and if the interest rate of a corresponding new credit offered by the same creditor at the time of repayment is lower than the interest rate agreed upon. The maximum compensation that may be collected shall be the difference between the interest agreed upon and the corresponding credit with fixed interest for the remaining credit period or the period for the determination of the reference interest rate (85/1993)(Unofficial translation from Consumer Protection Act, <http://www.finlex.fi/>).

In Finland, the **interests of housing loans** for the purchase of one's own dwelling **can be deducted in taxation**, mainly from capital income. If there is no capital income, deduction can be made from earned income under special conditions. Additional public subsidies include **interest benefit** and **state guarantee**. State guarantee is available for anyone for the construction or purchase of a detached house and related housing loan for a owner-occupied house.

ASP system is a savings and benefit system for young people who plan to buy their first own dwelling. In the beginning of the saving period one has to be 18-30 years old. ASP agreement is an agreement between the young consumer and the bank where the consumer commits him/herself to save and the bank commits itself to grant a loan once the savings goal has been reached
<http://www.vyh.fi/asuminen/oppaat/tuki/opas1.htm>).

It is also notable that the **Finnish Debt Adjustment Act** (Act 57/1993) was enacted in 1993. The law is aimed at remedying the economic position of private persons with severe debt problems (e.g. housing loans) without no fault of their own, to get their economy back in shape. A court may approve a repayment program for such people. The program may include adjustments to the repayment schedule and reduction of interest on the debt or the outstanding amount. In practice, such debt reorganization, as a rule, results in significant remission in the capital payable by the debtor.

3 Additional issues to be considered

In Finland, the protection system of bank customers is well covered and has several steps. **Consumer Ombudsman** can give her comments on the appropriateness of the provisions and assist the consumer in case of the court. **Consumer Counselors** may also assist the consumer, if needed. Additionally, **Consumer Complaint Board** and the court system are available for consumers if needed. Consumer protection in banking business is also supervised by **Financial Supervision Authority**.

It is essential from the consumer perspective that the terms of agreements applied by the banks are appropriate for each party and the rights and responsibilities of the customers and the banks are in balance. The terms of agreements of the banks have been lately amended from this perspective. General terms of consumer agreements have been worked out in co-operation between the banks and the Finnish Bankers' Association. While working with new provisions or renewing the available ones the banks previously consult Financial Supervision. Any terms in relation to consumers are also discussed with the Consumer Ombudsman.

The public consumer protection organization is also completed with **Advisory Office for Bank Customers** founded by the Finnish Bankers' Association, Consumer Agency and Financial Supervision Authority in which Board the customers can get advices and counseling due to possible problems as bank customers (Kontkanen 1999).

As to the available pre-information special issues must be further emphasized in the case of Finland. Firstly, all Finnish bank groups have wide and informative home pages including information about housing loans, interests, payments etc., to be brief, the information issued in the Code of Conduct. Among others, e.g. Nordea and Sampo publish general terms on credit for consumers as based on Finnish law. Most banks encourage consumers to visit their home pages and even to apply for credit through the internet (available home pages will be printed and mailed to IFF). Additionally, the Finnish Bankers' Association has extensive home pages for the banking information including the Code of Conduct by EU Commission for public use. They also publish quarterly banking review in internet including advisory issues for consumers.

4 Description of the tests

Selection of affiliates

Helsinki, the capital of Finland and Nurmijärvi municipality were chosen to be the test areas. Helsinki represents urban area and Nurmijärvi rural area which is, however, rapidly growing. Helsinki has 559 718 inhabitants and Nurmijärvi 34 029 inhabitants. We decided to make 21 tests in Helsinki and 9 tests in Nurmijärvi due to the division of population. In Finland, the selection of affiliates was based of the statistics by Financial Supervision Authority on the market shares of lending and deposits in the bank groups (see Kallonen 2002b). Consequently, 40 % of the tests would come from Nordea, 28 % from OKO Bank Group, 17 % from Sampo, 2 % from local cooperative banks and as to the rest 5 % of foreign banks, based on the date of implementation of the code of conduct, one test from a respective bank. It did mean the following visits in Helsinki and Nurmijärvi:

Bank	Area	Visits	Affiliate
Nordea	Helsinki	8	Hakaniemi, Itäkeskus, Kannelmäki, Laajasalo, Malmi, Meilahti, Pasila, Töölö
OKO Bank	Helsinki	6	Arkadia, Hakaniemi, Itäkeskus, Malmi, Oulunkylä, Pitäjänmäki
Sampo Bank	Helsinki	4	Itäkeskus, Kontula, Pitäjänmäki, Vuosaari
Aktia Savings Bank	Helsinki	1	Kannelmäki
Handelsbanken	Helsinki	1	Kamppi
Local cooperative bank	Helsinki	1	Suupohjan osuuspankki Helsinki
Nordea	Nurmijärvi	3	Klaukkala, Nurmijärvi, Rajamäki
OKO Bank	Nurmijärvi	3	Klaukkala, Nurmijärvi, Rajamäki
Savings Bank	Nurmijärvi	2	Klaukkala, Nurmijärvi
Sampo Bank	Nurmijärvi	1	Klaukkala

In Helsinki, Nordea, OKO and Sampo affiliates represent Helsinki centrum and Eastern, Western and Northern parts of the city; Aktia is located in Western Helsinki and Handelsbanken and local cooperative bank in the centrum. In Nurmijärvi area, Klaukkala, Nurmijärvi and Rajamäki represent local, rural centers where Klaukkala is rapidly growing in population and as a habitat. **It is important to notice that as based on the Act on Credit Institutions all the banks included in the study have a savings bank license provided by the Ministry of Finance. Consequently, the type of all credit institutions is savings bank (private).**

Choice of test persons

Two test persons were chosen to complete the tests in Helsinki and in Nurmijärvi. One of the test persons was chosen among the post-graduate students in Consumer Economics, University of Helsinki. A 27 years old male, who is saving for his own apartment and lives in Helsinki Metropolitan area accepted the offer of completing half of the tests. The other test person was chosen from the Consumer Panel of National Consumer Research Centre. A 33 years old female with a husband and three kids, living in rural area and having a housing loan and planning to buy a new house also accepted the offer of completing half of the tests.

Test persons were invited to National Consumer Research Centre *two times* to get instructions: before the tests started and after they had had a couple of visits to banks. During the first visit they were introduced to the research in general, and especially to the code of conduct and the questionnaire on the internet. They got instructions in detail, what to do in banks, how to behave, what to ask and what kind of documents they were supposed to receive for a successful test. All the points, items and questions related to the research were checked to be sure that the test persons had the same understanding.

Second meeting at National Consumer Research Centre included the test persons' feedback from the first tests. Electronic questionnaire was re-checked and unclear or vague issues were clarified. Additionally, test persons were in continuous contact (almost on daily base) by their mobile phones or e-mail to the researcher or coordinator.

Test persons carried out the tests and filled the electronic questionnaires, very effectively, on February 13 through February 26, 2003. They also wrote individual reports concerning their experiences and, the reports will be mailed to IFF.

5 Current national issues/problems with housing loans

Different bank groups have different policies and practices concerning the housing loan offers. Firstly, “binding offer” may mean a loan promise when the loan has been finally negotiated and the bank grants the loan. In case the test persons had confirmed a loan promise, they would not have received offers from any other affiliates belonging to the same bank group. This is because their personal data (ID inf.) *and the offer* already existed in the data base of the bank. Additionally, they should have identified the forms of security in detail and commit themselves to take the loan. It happened that the affiliate did not provide an offer because the test person had already received an offer from another affiliate of the same bank group. The affiliates of the same bank group do not compete against each other. Another policy to be considered is that a person fills an application at bank or in internet and, after that the bank makes the customer an offer. As based on the offer, the customer and the bank negotiate e.g. on the interest and repayment and, after the negotiation the bank makes the final loan decision. Loan offers are comparable, but loan promises involve client-specific “flexibility” in relation to interest, plans of payment and administrative costs.

In Finland, the creditor always demands a security for the loan. In the case of housing loans, the security usually counts for the dwelling under purchase or construction. Dwelling is accepted mainly up to the amount of 70 % of the price of the dwelling. If the amount of the loan exceeds 70 %, additional securities are needed (e.g. deposits, stocks, summer house/cottage, personal guarantees, state guarantee). It is also possible to get a state guarantee for the housing loan, max. 20 % of the amount of the loan.

Test persons received their loan offers after the negotiations of about 20 – 60 minutes with the bank officers. For the filling of loan offers and applications banks used their own computer programs and calculators. Banks also have quite uniform practices and directions in the context of loan negotiations. The official Code of Conduct, per se, is not well-known in Finnish banks. *However, it has been purposefully modified by the Finnish Bankers’ Association to be better implemented in Finnish banking industry and to be terminologically more familiar to Finnish consumers and, this was also the experience of our test persons. The modified sheet should be good enough for comparisons, even though it is not recognized as the Code of Conduct.*

Banks suppose that the customers become familiar with the “loan issues” in internet (www pages of banks). They also suppose that the customer knows about the level of interest and alternative interest rates. According to the test persons big bank groups gave lots of information. However, the expertise of the officer and the knowledge and activity of the consumer are essential in the context of the negotiation.

Customers are encouraged to apply loan through internet, because in some banks, they save in administrative costs. The www pages of banks provide lots of information about loans. They also provide tools for the application of loan, e.g. calculators. However, banks emphasize personal service, and the customer mainly deals with the same officer.

Today the housing loans have very good prices in Finland. We talk about “consumers’ market”. The competition between the bank groups is strong. Interest margins are low and the customers get more and more offers with long interests. However, low Euribor-interest is quite popular. Differences in prices between the bank groups are quite small, but the loan offers are often connected with other services such as different securities and investments. Some banks exercise aggressive marketing in these services.

6 Example for early repayment

As an example for early repayment and respective alternatives the following can be introduced:

Credit amounts 100 000 €, interest rate is 6 %, (real annual interest rate is 6,17 %, because the foundation costs of the credit amount 336 €). Credit and interests have been paid during five years altogether 66 612 € (42 574 € 24 038 € 1 110 € per installment; annuity).

The banks have different practices on how big expenses and/or rates they charge from customers:

Alternative 1: Outstanding capital (57 426 €) will be paid back, no expenses.

Alternative 2: Outstanding capital (57 426 €) will be paid back including additional interest of for example 3 % (1 723 €) for the capital. Interest rates depend of the type of interest (fixed) and the negotiations between the bank and the customer.

Premature payment of the credit as based on Consumer Protection Act was explained on the page 4 of the report. **In Finland it is not possible for a customer to raise a loan without paying installments.**

Literature

Act on Provision of Information Society Services (458/2002)

Banking year 2001 & Annual Report. The Finnish Bankers' Association.
<http://www.pankkiyhdistys.fi>

Consumer Protection Act. Act 38/1978.<http://www.finlex.fi/english/index.html>.

Credit Institutions Act. Act 1607/1993. <http://finlex1.edita.fi>

Debt Adjustment Act. Act 67/1993.

Financial intermediaries & special characteristics. <http://www.pankkiyhdistys.fi>

Kallonen, T. (2001a) Banks 31.12.2001. The Finnish Bankers' Association.
<http://www.pankkiyhdistys.fi>

Kallonen, T. (2001b) Banks 31.12.2001. The Finnish Bankers' Association.
<http://www.pankkiyhdistys.fi>

Kontkanen, E. (1999) Asiakkaansuoja pankkitoiminnassa.(Consumer security in banking)

Pankkikatsaus 3/1999. <http://www.pankkiyhdistys.fi>

<http://www.rahoitustarkastus.fi> (Financial Supervision Authority) 14.2.2003: Code of good conduct

<http://www.vyh.fi/asuminen/oppaat/tuki/opas1.htm>



NATIONAL CONSUMER RESEARCH CENTRE

P.O. Box 5 (Kaikukatu 3)
00531 Helsinki, Finland
Tel. +358 9 77 261
Telefax +358 9 7726 7715
www.ncrc.fi