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Changes to the Regulation and the Declaration of Unfair Terms in Mortgage Agreements: An Event Study Approach to the Spanish Banking Industry

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Abstract

This paper investigates how the European Union and Spanish changes to the regulation and the declaration of some unfair terms in mortgage loan agreements have affected the valuation of the Spanish banking industry. This paper has a dual legal and economic focus, and could consequently be of interest not only to financial institutions but also to the administrator of justice, which oversees the correct functioning of the financial system and the protection of consumer rights, in this case, mortgage holders. The empirical analysis was carried out using a sample of Spanish companies composed of 11 financial institutions that are listed, or have been listed, on the Madrid stock exchange and 24 non-financial companies listed on the IBEX-35 index. The period analysed was from December 2009 to March 2019. One of the main conclusions was the observation that, in general, the abnormal negative returns of financial institutions are greater when dealing with a decision from the Court of Justice of the European Union rather than from the Spanish Supreme Court. The events referred to as unfair terms that have had the most impact as a whole on the returns of shareholders were, because of their impact of the valuation of financial institutions, in order of importance, those relating to default interest charges, followed by rounding up, and, in last place, the unfair terms of floor clauses, mortgage constitution expenses and multi-currency loans.

Keywords: Mortgage loans - unfair terms - housing crisis - event studies - Spanish banking industry

JEL Classification: G21- G14 - G21

1. Introduction

After the bursting of the real estate bubble, which was a consequence of the financial crash that affected, among others, countries in the European Union, Spain entered a long period of defaults on mortgages, which left thousands of mortgage holders without homes and with a mortgage debt for life¹. These victims began a process of claims that were unprecedented in Spain and that grew exponentially. In the beginning, these were individual claims, but then became mass claims made before the Spanish Supreme Court (SSC) and the Court of Justice of the European Union (CJEU). The claims brought by defaulting mortgage holders were in response, among other things, to: i) the general success achieved by the first claims before the CJEU about floor clauses, ii) the existence of a greater willingness of mortgage holders to make claims, in many cases through the Spanish consumer association and platforms for victims, such as the *Platform of Mortgage Victims (PAH)* (Weerdt and García, 2016), and iii) the arrival on the market of legal firms that began to specialise in these matters and that, as well as only charging if a claim were successful, found a new business model in these proceedings (El País newspaper, 11-3-2019). According to a report by Oliver Wyman (2019), it is estimated that around 10 million customers have been affected as a consequence of the imposition of unfair terms (UTs) by Spanish financial institutions (FIs).

According to Article 3 of Directive 93/13/EEC², an unfair term (UT) is defined as *contrary to the requirement of good faith, it causes a significant imbalance in the parties' rights and obligations arising under the contract, to the detriment of the consumer*. UTs are also those included on the annexed list of terms, which have been expanded, after some initial doubts, by the Member States (MSs) of the EU, both in their content and their force.³

The Judgment dated September 9, 2004, issued by the CJEU, highlighted the failure of Spain to comply with its obligations under Directive 93/13 /EEC of the Council, of April 5, 1993, on UTs in contracts with consumers. This led Spain to incorporate the aforementioned European Directive into its internal regulations, through Law 7/1998, of April 13, on General Contracting

¹ The financial crisis was especially important in the Spanish banking system since it affected our economy at a time when it was accumulating significant imbalances, coinciding with the crisis of the banking public debt and a deep recession. At that time, Spain had a clearly oversized banking system, excessively concentrated in lending resources for real estate and residential activities, and highly dependent on international wholesale financing. These important vulnerabilities made the cost of the crisis, in terms of GDP and of unemployment, very high and much higher than that of our main trading partners. Moreover, in recent years, the legal risk, linked to legal litigation, affecting Spanish banks has increased significantly. The entities have been involved in a large number of judicial processes in which certain contractual conditions of their mortgage operations were questioned. The cost of these processes for entities has already been made effective in many cases (for example, in the floor clauses, with more than 2,200 million euros returned to clients until January 2019), but there are still very relevant legal proceedings pending resolution. Beyond the costs that these litigations may represent for entities, there is a more general implication, which is the loss of reputation that it means for the banking sector.

² Directive 93/13/EEC –EDL 1993/15910 (5/4/2013) chooses to establish a dual mechanism: i) of formal control (of inclusion), Art. 5) refers to the clarity and intelligibility of terms, establishing that where there is doubt about the meaning of a term, the interpretation most favourable to the consumer shall prevail, and ii) material control (of content), with Arts. 2, 3, 4. and 6, affecting the validity of terms and defining their unfairness.

³ The Directive included an Annex with a list of UTs, which operated as a kind of “grey list”, allowing MSs to introduce “black lists” of UTs (Pérez-Benítez, 2017). This legislation entered into force on 1st January 1995, and MSs should have implemented measures in accordance with the European standard, something that they did not do. This means that, based on the opinion of some specialists, the evictions and foreclosure proceedings carried out after this date might have been unlawful.

Conditions (thus modifying General Law 26/1984 for the consumers and users' defense). Finally, and with the aim of reinforcing the protection of consumers and users, and covering the legislative insufficiency, the reform, Legislative Decree 1/2007 of November 16, was born, which sought, among other things, to establish a clear legal notion of UTs and determine the possible consequences of its practice, as well as create a list of UTs to complete the list already created by the Annex to Directive 93/13 / EEC.

According to the latest *Annual Claims Report of the Bank of Spain* (31/12/2018), the number of claims made against FIs is shown in Graph 1. Of these claims, on average 80% are claims related to mortgage contracts. Graph 2 shows us the value of claims (in euros), according to the same source.

[INSERT GRAPH 1 ABOUT HERE]

[INSERT GRAPH 2 ABOUT HERE]

As we can see, the level of claims against FIs began to increase significantly from 2009, reaching a historic high for claims in 2017. In 2018, claims began to fall by 50%. Regarding FIs, concerning those where data is available, many of them are listed (or have been listed) on the Madrid stock exchange and have been affected by various national and European rulings. Banco Popular, the bank most strongly affected by the payment of compensations, has been owned by Banco Santander since September 2018⁴.

This paper investigates how the European Union and Spanish changes to the regulation and the declaration of some mortgage loan contracts terms as UTs have affected the valuation of the Spanish banking industry. This paper has a dual legal and economic focus and consequently could be of interest not only to FIs but also to the administrator of justice, which oversees the correct functioning of the financial system and the protection of consumer rights, especially when dealing with a subject that is so sensitive from a social point of view, as is the case with the purchase of a home.

The main contributions of this paper are: i) the fact that it is an original study, to the extent that, as far as we know, it is the first to analyse the economic impact on the stock market of the various legal decisions made regarding changes in legislation and the declaration of UTs regarding mortgage loans, ii) it analyses the impact of said decisions with regard to their significance depending on whether they come from the Spanish judiciary or from the European Union and finally, iii) the available literature to date on the subject has basically focused on the legal aspect of said decisions, whereas in this study we analyse both aspects, the legal and the economic.

The paper is organised as follows. Section 2 presents specific cases of UTs that were the subject of claims made successively by mortgage holders. Section 3 describes the data and methodology used. Section 4 discusses the main results. Section 5 concludes the paper.

2 Changes to the regulation and declaration of the unfair terms

⁴ Banco Santander bought Banco Popular in June 2017. It then took over its operation in September 2018.

In this Section, we will comment on the main changes to the regulation and declaration of the main clauses defined as UTs in mortgage loans taken out in Spain from 2009. The dates of the legal decisions (judgments, orders and rulings) issued by the CJEU, whether binding for Spain or mere interpretations, along with the dates of decisions regarding the same matters issued by the SSC, are the event dates analysed in this study.

The norm known as “*La Nueva Ley Hipotecaria*”, Law 5/2019 has introduced some modifications regarding: i) registration aspects of the early maturity clause and ii) the new terms for its exercise (the imperative of establish the default interest in remunerative interest plus three points and the effects of the appraisal for the auction). The Law has transposed Directive 2014/17 / EU of the European Parliament and of the Council of February 4, 2014 on credit contracts concluded with consumers for real estate for residential use and by which Directives 2008/48/EC and 2013/36 / EU and Regulation (EU) 1093/2010. (Law 5/2019 regulating real estate credits: peculiarities regarding its transposition Directive and main novelties. Law 5/2019 compared to Directive 2014/17/EU has expanded the scope of application to all-natural persons and, in specifically, it wants to give protection to the self-employed.

Before comment the different UTs, we will comment some useful information about the Spanish mortgage’s loans market during the analysed period. According to the Bank of Spain’ *Indicadores del Mercado de la Vivienda* Report (2019), the average term of new mortgages during 2019 has fallen to 23.4 years, while in 2018, the term was just over 24 years. The maximum data in the series was reached in 2007, just before the bursting of the real estate bubble, where the average term of mortgages exceeded 28 years.

On the other hand, and according to information from the Judicial Power of Spain (8-6-2018), the number of matters resolved in the first quarter of 2018 by the Courts (specialized in individual actions on general conditions included in financing contracts with real estate collateral whose borrower is a person physical), was 16,988, which represents an increase of 60.5% compared to the 10,586 cases resolved in the last quarter of 2017. The increase in the number of cases resolved has been in parallel with the decrease in cases entered, which has assuming that the resolution rate at the national level in the first quarter of 2018 has reached 29.3%, compared to 13.4% in the last quarter of 2017. This rate is the ratio between the number of cases resolved and the number of matters entered in a given period. The data indicate that in the first quarter of 2018, the resolution rate was already higher than 50% in four Autonomous Communities: Asturias –where it reaches 94 percent-, Castilla y León, Navarra and La Rioja. Finally, it should be noted that in total since they came into operation (06-01-2017), these judicial bodies have handed down 22,899 sentences, of which 97.6 percent have been favourable to the client.

2.1 Rounding up

The rounding-up clause applies the rule that, if the sum of the agreed interest rate and the Euribor⁵ rate was equal to 4.459%, the FI could round up the interest rate to 4.5% (or even to 4.75%). This was a procedure that clearly benefitted the FI and was to the detriment of mortgage holders. Some mortgage contracts included this clause as follows: *if the sum of the reference interest rate and the margin or spread is not an exact multiple of one-eighth of a percentage point, the resulting*

⁵ The Euribor (*European Interbank Offered Rate*) is the reference European interbank offered rate for mortgage transactions and is published daily. It also shows the interest rate at which FIs lend money to each other on the interbank market.

interest rate will be rounded up to the multiple nearest to said one-eighth of a percentage point. At a European level, the judgment of the CJEU (Case C-484/08, June 2010) stopped the application by FIs of the rounding-up clause. A few months later (January 2011), the SSC declared the rounding up clause to be a UT.⁶

2.2 Floor clause

A floor clause is understood as a clause by virtue of which mortgage holders who in the past signed a mortgage agreement at a variable interest rate, assumed the payment of a minimum and maximum interest rate, irrespective of the variations in market interest rates. This clause was attractive in the event of rises in interest rates, but not in the event of rate reductions, which is what in fact happened⁷. The significant reductions in interest rates were not passed on to customers. Spanish consumer associations complained that almost 90% of mortgage holders were not informed by FIs of the inclusion of this clause in their agreements⁸. In May 2013, the SSC banned floor clauses without retroactive effect⁹. The SSC declared the floor clause applied by the banks BBVA, Novagalicia Banco, Cajas Rurales and Banco Popular to be UT. The main argument given by the SSC was the lack of transparency. Consumers were not informed of the presence of said clauses in the mortgage agreements that were signed, nor of the impact that they would have on the amount of their mortgage repayments in the event of a sharp drop in interest rates, as in fact occurred. This judgment by the SSC meant the provision of between 3 to 4 billion euros by FIs, plus the amount that they have themselves ceased to earn by not applying this clause in the future. In December 2016, the CJEU changed its opinion and ordered that payment of claims be retroactive. FIs were forced to refund the amounts overpaid from the beginning of mortgage loans. The CJEU stated that limiting the retroactive effect of the refund of amounts overpaid to May 2013 (the first judgment by the SSC on the matter) was not compatible with the European Union law.¹⁰

In January 2017, FIs such as Bankia and Banco Mare Nostrum (BMN) announced, voluntarily, that they would refund all the amounts received through the application of the floor clause to their mortgage holders. However, the following month, February 2017, for the first time

⁶ The Civil Division of the Supreme Court (of Spain) dismissed the appeal filed by a FI against the judgment of the Provincial Court of Barcelona that ruled in favour of the consumers association *Ausbanc*, and ordered that the rounding up clause be declared null and void.

⁷ https://elpais.com/economia/2018/09/28/actualidad/1538157306_884257.html

⁸ We should state that the successive judgments concerning this UT have followed a confusing path of interpretations related to when their retroactive effect should be applied, hence the existence of several relevant dates to be considered in the application of this event study.

⁹ That is, it was applied from the time of the publication of the judgment and not from when this clause appeared in the first signed mortgage agreements. The SSC ruled that the application of nullity of this UT with a retroactive effect could endanger the financial system, taking into account the large amount of money that FIs would have to refund to mortgage customers to whom said clause had been applied.

¹⁰ From 21st January 2017, FIs had to create, within one month, a specialised department to deal with claims made by customers on this subject, having to reply within a maximum period of three months from the submission of a claim. If no satisfactory agreement between the FI and the customer was reached by the end of said period, legal action could be taken.

the SSC forced a bank, in this case BBVA, to apply this retroactive effect to the payment of amounts overpaid due to the application of the floor clause from the beginning of mortgage loans.

Due to this judgment, the SSC was forced to modify its legal doctrine in April 2017. However, the judgment of the CJEU left open the possible exception of the principle of *res judicata*, that is, two different judgments cannot be applied to the same action. This leads to the following question: Can the judgments issued before December 2016 be understood as *res judicata*? In this regard, the SSC, through an order in April 2017 stated that it would not review the final judgments concerning UTs issued before the judgment of the CJEU (21st December 2016), which represented a victory for those FIs found guilty in final judgments (first BBVA, followed by Abanca, Cajamar and Banco Popular), who were exempted from having to refund the amounts overpaid before the date of the first judgment of the SSC, on 9th May 2013.

Finally, on 23rd November 2018, the Provincial Court of Madrid ordered the FIs to return the overpaid amounts to 9,000 customers affected by the application of the floor clause, including the default interest clause (as we will see in the following point). By March 2019, Spanish FIs had returned between 2.2 and 5 billion euros to customers affected by the floor clause (El País newspaper, 11th March 2019).

2.3 Default interest clause

When a mortgage holder failed to pay a mortgage repayment, many mortgage deeds applied the payment of default interest charges of approximately 20% to 25%, and the customer became a defaulting mortgage holder.

The *1/2013 Spanish Mortgage Act*¹¹ (May 2013) established that default interest must not exceed three times the interest rate established in the mortgage agreement. The measure did not have a retroactive effect and was only applied from the entry into force of the aforementioned Act, being applicable to new mortgages that fell into default. That same month, the SSC (1916/2013), declared the nullity of default interest charges in mortgage loans because they were considered UTs. The CJEU ruled that FIs already had the guarantee of the property and therefore, in January 2015 declared that “*if the default interest is unfair, it may not be reduced or adjusted*”. In June 2016, the CJEU again stated and emphasised that the default interest clause that had been applied by FIs was a UT, and that “*default interest may no longer be adjusted*”. In November 2018, the SSC ruled that the solution of replacing default interest through the application of three times the statutory interest rate (considered in Article 114.3 of the Mortgage Act) as the limit for the default interest clauses of mortgage loans was not correct. Therefore, although it “*declares the nullity of the clause that establishes default interest, when the borrower falls into default the outstanding principal will continue to incur the same compensatory interest as established in the contract*”.

2.4 Early termination clause

The early termination clause allowed FIs to terminate a mortgage loan after the first non-payment of a mortgage repayment. At the same time, this non-payment also gave FIs the right to demand the payment of the total amount owed by customers and the right to initiate mortgage foreclosure

¹¹ See Weerdt and García (2016) on the development of Spanish mortgage legislation.

proceedings. In practice, FIs usually waited until the non-payment of several monthly repayments before initiating mortgage foreclosure proceedings. In the opinion of Navas & Cursi (2018), this was perhaps the most significant UT regarding mortgage foreclosure proceedings and evictions.¹²

As stated in Section 2.3 of the *1/2013 Act*, Article 693 of the *Civil Procedure Act* (CPA) was modified and the requirements for FIs to be able to initiate mortgage foreclosure proceedings were modified. After this reform, FIs *must wait for the non-payment of three monthly repayments - or a sum equivalent to three monthly repayments - before filing a petition for mortgage foreclosure*. In May of the same year, the SSC issued a significant judgment that benefitted those mortgage holders who had lost their homes through mortgage foreclosure, and declared that all cases could be retried. Until 2013 judges could not, at their own discretion, review the unfair nature of contractual clauses and consumers could not allege that they were unfair (said foreclosure proceedings, according to the SSC had no effect as *res judicata* concerning the UTs of agreements). However, the victims that had lost their homes and whose claims had been upheld by the courts could not recover their homes if they had then been acquired by a third party. In this case, the victims only had the right to compensation for damages and losses.

In June 2015, an order by the CJEU established that judges of courts of first instance could hear or consider the unfair nature of early termination clauses, even if a FI had not yet applied said clause. This decision of the CJEU represented a radical change in the control of the unfair nature of the clause, by amending national law. Consequently, the decision of the CJEU allowed national judges to act on their own initiative, that is, they could suspend a mortgage foreclosure if they considered that an agreement contained a UT (Iglesias-Sánchez, 2014).

In January 2017, the CJEU issued a judgment that resolved a preliminary ruling raised by the SSC, which requested a judgment on the declaration of nullity of the early termination clause as had been provided in the majority of mortgages, even if they were signed after the modification of Art. 693.2 of the CPA of May 2013. In September 2018, the CJEU responded to this request and stated that the nullity of the early termination clause could be declared even if a mortgage had been signed before May 2013.

The *5/2019 Spanish New Mortgage Act Regulating Real Estate Loan Contracts* (of 15th March and published on 16th March 2019) admits a delay in the period during which FIs can request the early termination of a mortgage and the repayment of a loan. The Act establishes that this may only occur when 12 months of non-payments have been reached. If over 50% of the loan has been repaid, the period is extended to 15 months of non-payments of mortgage repayments. Finally, in March 2019 the CJEU issued a judgment on mortgage foreclosures (by virtue of which 20,000 evictions have been suspended) that annulled the UT that established early termination after just one month's non-payment of mortgage repayments.

2.5 Securitised mortgage

¹² The Spanish judge who heard the *Aziz case* (Martorell, Barcelona), in which enforcement proceedings were used against the plaintiff for the non-payment of €453, ruled that the sum owed represented 0.328% of the total mortgage loan, which amounted to €139,746.70, and that the eviction was a disproportionate measure. The judge ruled that in response to the non-payment of a mortgage repayment, only a claim for the debt and the interest incurred was lawful (Iglesias-Sánchez, 2014).

A financial product such as a mortgage loan is understood to be securitised when a FI that has granted a mortgage loan sells (or assigns) said mortgage loan to a third party. Through this operation the FI recovers the sum of all (or part) of the granted loan; this eliminates the risk of having it in its portfolio of financial assets and the FI also obtains liquidity to grant new loans. On 16th December 2009, judgment 792/2009 of the SSC declared the securitised mortgage clause to be unfair. In the hope that the CJEU will resolve this preliminary ruling, there have been judges in Spain that have suspended mortgage foreclosures, ruling that the loan has been securitised and that, as the FI is not the owner of the loan, it does not have the legal standing to sue in order to demand the payment of the debt.¹³

2.6 Mortgage constitution expenses

Expenses associated with the constitution of a mortgage are understood to be the following: i) notary expenses, ii) the expenses of registering the mortgage in the Property Register, iii) administrative expenses, iv) the transfer tax and stamp duty¹⁴ and, v) expenses related to the valuation of the property to be mortgaged.

In December 2015, a judgment by the SSC determined that a FI is the main party interested in the constitution of the public mortgage deed and its registration in the Property Register, and therefore any expenses that this entails must be shared fairly between both parties, the FI and the customer.¹⁵ In November 2018, the SSC issued a decision that amended judgment 1505/2018 (16th October 2018) and established that customers must be the parties that pay the transfer tax and stamp duty. In March 2019, the *5/2019 New Mortgage Act* entered into force. The main aspects that it establishes in order to protect customers include: i) that FIs are responsible for the following expenses in the constitution of a mortgage: administrative, notary, registration and the payment of the transfer tax and stamp duty, and that customers are only responsible for the expenses related to the valuation of the property.

2.7 Multi-currency mortgage loan

These are mortgage loans taken out by customers in currencies other than the euro (the domestic currency of EU countries), the Swiss franc or Japanese yen for example. During the strong years of the euro, FIs started to market this financial product from 2006 onwards. Potential customers were attracted by this product because they thought that in the future they would pay lower mortgage repayments than if their mortgages were in euros, which is what happened from 2006 to 2009, the year when the euro started to lose its value compared to the currencies in question, while the Euribor dropped significantly. Consequently, this led to the increase, not only of

¹³ In April 2016, the CJEU was consulted regarding an eviction carried out by Banco Popular of a mortgage holder whose mortgage was securitised. A senior judge was asked: i) if the FI had sold said debt could begin foreclosure proceedings, ii) if it should not be the new owner of the debt who should begin mortgage foreclosure, and iii) if there was an obligation by the FI to inform the mortgage holder that said debt had been assigned to another lender.

¹⁴ An expense incurred for the execution of a mortgage in a public deed. This represents 70% of mortgage constitution expenses, and is the highest cost.

¹⁵ As of 28th February 2018, there was no consensus regarding which of these expenses should be refunded to customers by FIs. There are judges (of lower courts) that are forcing FIs to refund only the first three expenses, while other judges are forcing them to refund all expenses.

mortgage repayments, but also of the outstanding capital. In many cases, affected customers did not sufficiently understand the financial product and were significantly harmed.

On 20th September 2017, the CJEU declared that multi-currency loans were unfair, not very transparent and insufficiently explained to customers, especially regarding the risks they entailed. The CJEU used the same argument it had used to declare floor clauses UTs. On 15th November 2017, the SSC, in line with what had been declared by the CJEU, stated the partial nullity of multi-currency mortgage loans¹⁶ in cases in which there was a lack of transparency in the marketing process of the product by FIs (Judiciary of Spain, 2017). This declaration by the SSC represented another setback for the Spanish banking industry, as it faced claims from almost 70,000 affected customers.

2.8 Other clauses: The mortgage loan reference index (IRPH)¹⁷

The IRPH (the average rate of mortgage loans of a duration of more than three years granted by saving banks for the acquisition of a residential property), is a variable interest rate that many Spanish FIs used between 2006 and 2007 in mortgage loans. Some FIs saw it, and marketed it accordingly, as an index that was less volatile than the Euribor (El País newspaper, 19th January 2019). The drop in the Euribor around this time meant a rise in the IRPH, which was clearly to the detriment of mortgage holders.

In December 2017, the SSC published a judgment that stated that the use of the IRPH was not unfair and did not represent a lack of transparency. In September 2018, the CJEU ruled exactly the opposite: the IRPH did not offer any guarantee of transparency and might be unfair. Finally, on 2nd March 2020, the CJEU delegated the analysis of whether the use of the IRPH was a UT or not to the Spanish judiciary. That is, each case would be analysed individually by each judge. This way, the CJEU avoided declaring the nullity of the IRPH, in line with what had been established by the SSC in November 2017.

As we can see, the consideration of whether the IRPH was an unfair interest rate or not has been inconsistent, especially considering the final decision by the CJEU, as we have stated above. This circumstance means that the impact that the various events related to the use of the IRPH might have had on the market valuation of the various affected FIs has not been included in this paper.

Although we have commented on the main terms declared to be unfair by the CJEU and by the SSC in this Section, we should clarify that not all of them have had the same economic consequences for FIs. The declaration of the nullity of some UTs means the repayment by FIs (to their customers) of the amounts overpaid (floor clause, mortgage constitution expenses, early termination clause) or represent a lack of future earnings as a consequence of the declaration of their nullity (rounding up, default interest rates, reference indexes). Other UTs do not have immediate economic consequences for FIs, but mean a change in the management and marketing of certain financial products, as is the case with securitised mortgages and multi-currency mortgage loans.

3 Data and Methodology

¹⁶ The total nullity of the agreement would have been strongly detrimental to the mortgage holder “*who would have been forced to repay all the outstanding principal in one go*”, which explains the partial nullity of the mortgage agreement.

¹⁷ In Spanish: *Interés de referencia para préstamos hipotecarios (IRPH)*

3.1 Data

The empirical analysis was carried out using a sample of companies that are listed on the Spanish stock exchange. Said sample was divided into two groups, according to whether they were financial institutions or non-financial companies. In the first case, we have data from 11 banks that are listed, or have been listed, on the Madrid stock exchange¹⁸ on one of the dates within the period of the study. Therefore, the number of banks considered varies between a maximum of 10 and a minimum of 7, depending on the date studied. We also worked with data from companies that comprised a control group, from the non-financial industry. This sample was composed of 24 companies included in the IBEX 35 index¹⁹ and that were listed during each of the studied events²⁰. Appendix 1 includes a list of the 35 companies included in both samples.

The period studied runs from December 2009 (the date of the judgment by the SSC that declared the nullity of the securitised mortgage UT) to March 2019 (the date of the entry into force of the New Mortgage Act in Spain). Day zero is the publication of the information, or the date of the entry into force of the legislation that modified aspects of mortgage loans. Starting from day zero, we analysed three event windows of 3, 7 and 11 days respectively from that date.

To identify the events, we used the same system as in previous studies, which is considering the event day, not when the reform began to be officially applied, but when the information is available on the market, e.g. by newspapers, for instance, (de Batz, 2020, among others). The data were manually collecting from newspapers.

The information was obtained from the *Thomson Reuters Eikon* database²¹. Table 1 shows the principal dates analysed related to changes in legislation and the declaration of UTs, as stated in the previous Section.

[INSERT TABLE 1 ABOUT HERE]

3.2 Methodology

With the aim of analysing the investors' response to the changes to the regulation and the declaration of UT, the event study methodology has been applied. This technique has been used mainly in the field of corporate finance with the aim of verifying whether there has been any extraordinary return for the company's shareholders because of the arrival of new information about a certain event (McKinlay, 1997). This method avoids the need to analyse accounting-based measures of profit, which may be subject to manipulation by insiders, by focusing the analysis on stock prices (McWilliams and Siegel, 1997). The underlying idea is that changes in the market value of companies around an event date can be interpreted as the net present value of future costs and benefits associated with that event.

¹⁸ <http://www.bolsamadrid.es/esp/asp/Mercados/Precios.aspx?indice=ESI100000000&punto=indice>

¹⁹ <http://www.bolsamadrid.es/esp/asp/Mercados/Precios.aspx?indice=ESI100000000&punto=indice>

²⁰ The power of the event study methodology improves as the number of companies in the sample increases and, accordingly, the probability of detecting abnormal return increases (Bhagat and Romano, 2017). However, as McWilliams and Siegel (1997) establish, different sample sizes have been used in event studies in the management literature (from 2 to 409) and it is possible to detect significant abnormal returns in small samples (Díaz-Díaz et al., 2017a), as is the case with this study.

²¹ <https://eikon.thomsonreuters.com/index.html>

The event study methodology is based on market efficiency hypothesis that assumes that the market's reaction is caused by a change in investors' expectations, e.g. when new regulatory measures are announced, not only when those measures are implemented. With this idea in mind, we could accurately estimate the response of the market to announcements of new regulations, or the application of existing legislation through judgments or orders, or other legal decisions (Schwert, 1981). In line with Bhagat and Romano (2007), we consider the event study methodology to be suitable as it offers a useful way of evaluating the implications of governmental actions on the well-being of society by analysing their impact on stock prices.

The change in stock prices is analysed by estimating abnormal returns, the difference between actual stock returns and the returns expected according to the market model, this model estimates each firm's returns relating to the return of a market portfolio, represented by a global, regional or local equity index which is used as a benchmark.

In order to determine the impact of these events, we estimated the market model for each bank's returns compared to the market portfolio return represented by a world equity index, the MSCI World Index²².

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it} \quad (1)$$

$$E(R_{it}) = \alpha_i + \beta_i R_{mt} \quad (2)$$

where R_{it} is the return of bank i security on day t , R_{mt} is the return of the market portfolio, α and β are the model parameters, and ε_{it} is the error term, with $E(\varepsilon_{it})=0$. $E(R_{it})$ is the return that the market model estimates for a certain bank on a certain date based on the market model.

We then estimated abnormal stock returns (AR) for each institution related to the events identified in Table 1. We calculated the AR as the difference between actual stock returns and the expected returns according to the market model (McKinlay, 1997). These abnormal returns are assumed to reflect the stock market's reaction to the arrival of new information. Positive values of AR imply that the stock prices "abnormally" increase following the event, and negative values indicate that the stock prices decrease. Next, we compute the average abnormal return (AAR) across all firms from our sample.

$$AR_{it} = R^*_{it} - E(R_{it}) \quad (3)$$

$$AAR_t = \frac{1}{N} \sum_{i=1}^N AR_{it} \quad (4)$$

Where R_{it}^* is the real return of the firm i on day t and N is the number of firms.

It is necessary to bear in mind the possibility that the market might react before an event, because of insider information for example, or that the reaction is not immediate but takes place over several days. We sum all the AR over an event window (t_1, t_2) around the event date in order to get the cumulative abnormal return (CAR). Next, we aggregate the average abnormal return across the event window (CAAR).

²² We carried out the event study using an international portfolio, such as that represented by the MSCI World Index (<https://www.msci.com/developed-markets>) as a reference for the market portfolio to avoid any possible bias of the national index. The MSCI World Index is a broad global equity index that represents large and mid-cap equity performance across all 23 developed market countries.

$$CAR_i(t_1, t_2) = \sum_{t=t_1}^{t_2} AR_{it} \quad (5)$$

$$CAAR(t_1, t_2) = \sum_{t=t_1}^{t_2} AAR_t \quad (6)$$

The model was estimated from the daily returns calculated based on the closing prices of each security and index listed on the Thomson Reuters Eikon database over a period of 240 trading days, ending 20 days before the date of an announcement to avoid the influence of confounding events. Following other papers on the subject (McWilliams and Siegel, 1997; Carboni et al., 2017; García-Olalla and Luna, 2020)), we analysed event windows of different lengths, short enough to avoid the problems of overlapping events and long enough to capture the effect of the analysed event. The longest one was 11 days, while the shortest one covered 3 days. In this respect, we focused on the event windows (-5,+5), (-3,+3) and (-1,+1) to analyse the reaction around the event date.

The statistical significance of the CAAR was verified by means of parametric tests such as the T-test, and the standardised cross-sectional test developed by Boehmer et al. (1991), and nonparametric tests such as the generalized sign test.

4 Main findings

4.1 Market reaction on each date: Financial institutions

Our analysis of the reaction of the market to the judgments issued by the CJEU and the SSC, made in response to claims by Spanish consumers relating to mortgage loan agreements, began with the study of the CAAR calculated in each window around each date of the events. As shown in Table 2, we can see that the market reacts significantly to each of the selected events.

[INSERT TABLE 2 ABOUT HERE]

In general, we can see major and strong negative reactions from shareholders around the key dates, both regarding the nullity of some clauses and changes in legislation concerning mortgage agreements. We should highlight the presence of abnormal negative returns in most of the analysed event windows in response to each of the judgments by the SSC or the CJEU.

The judgment of the CJEU (2010) that stopped the application by FIs of the rounding up clause is followed by negative returns in three event windows analysed, amounting to -4.67% in the 7-day window²³. The declaration of the nullity of the floor clause by the SSC (2013), together with the requirement by the CJEU of the retroactive nature of its application (2016), also produced negative reactions in all the event windows, including abnormal returns, especially returns of -5.13% and -3.16% respectively in the long 7-day window around each date.

The strongest reactions occurred on the dates related to the declaration of the nullity of the default interest rate. Investors assumed that the limitation to three times the statutory interest rate and the later nullity of default interest rates would have a negative impact on the profits of FIs, which led to them having a lower price on the stock exchange. The passing, in May 2013, of the 1/2013 *Mortgage Act* that limited default interest was followed by abnormal negative returns for bank shares that reached -13.87% in the 11-day window around that date. The declarations in this regard by the CJEU in 2015 and the SSC in Spain in 2016 led to abnormal returns in the same

²³ 7 days is the sum of 3 days before the event date, plus 3 days after the event date. 11 days is the sum of 5 days before the event date, plus 5 days after the event date.

event window of -5.41% and -9.01% respectively. The definitive declaration by the SSC of the nullity of default interest rates in 2018 was followed by more negative returns of close to -2%. Regarding the early termination clause, the judgment of the CJEU, in 2015, stating that the courts of first instance could rule on whether this term was unfair, was followed by abnormal negative returns in all the analysed windows. However, the reaction of the market became positive in 2018 in response to the judgment of the CJEU on the retroactive effect of said judgment before 2013. The CJEU resolution was not as bad as the banks had anticipated and, furthermore, it must be borne in mind that the market had already reacted very negatively in year 2015, considering this clause as an UT, so in part that reaction has been corrected.

An interesting reaction is the one regarding mortgage constitution expenses. In this regard, there were two contradictory judgments by the SSC, in addition to another change in opinion with the entry into force of the *New Mortgage Act*. The first judgment, of 2015, determined that the expenses must be divided fairly between FIs and mortgage holders. This decision caused negative returns of -4.46% and -4.91 in the 11 and 7-day windows, respectively. However, the SSC itself (2018) amended the 2015 judgment. This second decision was seen by investors as good news for FIs and they reacted positively, with abnormal returns of 4.22% in the 7 days around the date. The entry into force of the *New Mortgage Act* (March 2019) established that it was FIs that had to pay all mortgage constitution expenses, including the IAJD. Investors reacted to the news and again there were negative returns of -2.64% and -1.43% in the 11 and 7-day windows, respectively. The decision stating that the property valuation expenses would be at the expense of customers took place after the date for the analysis of events in this study.

Regarding securitised mortgages, declared to be a UT by the SSC in 2009, the reaction of the market was negative but not significant in the event window (-5, +5). In the case of multi-currency mortgage loans, the declaration by the CJEU (9/2017) that this product was a UT, followed by the partial nullity in cases with a lack of transparency (something very difficult to assess) declared by the SSC in the same year (11/2017), also caused negative abnormal returns of -2.82% in the 7-day window and -1.64% in the 11-day window respectively.

4.2 Market reaction on each date: Non-financial companies

In this section, we analyse the reaction of the market to each event studied for a sample of non-financial companies, as control group. As we can see in Table 3, the shareholders of these companies reacted strongly and significantly in response to them. However, their reactions were different to those seen for FIs; in contrast, they were positive on many of the analysed dates or less negative on others.

The declaration of a UT and its limitation in all events related to the interest rates for loans generated positive expectations for investors, who anticipated lower financial costs for companies, which translated into positive abnormal returns. Therefore, the declaration of rounding up as a UT meant returns of 3.55% in the 11-day window, while the nullity of the floor clause for interest charges in 2013 and the requirement by the CJEU for retroactive application in 2016 were followed by returns of 3.23% and 4.18% respectively.

Regarding the default interest clause, it was observed that its limitation and later nullity caused strong, positive market reactions. Both the passing in 2013 of the *Mortgage Act*, which limits default interest, and the declarations by the CJEU and the SSC on its nullity in 2013 and 2015, generated positive expectations that translated into positive abnormal returns of 2.65% and 3.73% respectively.

[INSERT TABLE 3 ABOUT HERE]

We should also note that there were strong reactions by investors in response to the 2009 judgment of the SSC that declared the securitised mortgage clause to be a UT, which led to positive abnormal returns in all the event windows analysed and that amounted to 3.61% and 3.64% in the 11 and 7 days around the date, respectively. Regarding the other UTs analysed, the reaction was more disparate. For example, the division of mortgage constitution expenses caused positive returns in the shorter windows, 3 days around the event date.

In Graph 3, we can see the CAARs for some of the events analysed, from 5 days before to 5 days after each date of said event, differentiating between FIs and non-financial companies.

[INSERT GRAPH 3 ABOUT HERE]

4.3 Overall market reaction for each unfair term

In this Section, we set out the reaction of the market in the case of FIs, focusing on the reaction to UTs. The results show an overall negative reaction by investors to each of them, as we can see in Table 4. The events concerning UTs that had the most impact as a whole on the returns of shareholders were, in order of importance: i) those regarding the default interest clause, which as a whole caused negative abnormal returns of 7.44% in the 11 days around the relevant dates, ii) the declaration of rounding up as a UT, causing negative returns of 3%, iii) the floor clause, mortgage constitution expenses, and multi-currency mortgage loans, causing negative reactions by investors that amounted to 1.70% in the first two cases and almost 1.5% in the last case.

[INSERT TABLE 4 ABOUT HERE]

4.4 Robustness Check

In order to confirm that our main results are robust, this Section provides some checks to test their reliability.

First, to isolate the event of interest from other events that may substantially affect share prices, we have considered significant facts that, according to the literature (Del Brío et al., 2003; Díaz-Díaz et al., 2017), could affect prices, such as dividend announcements and dividend payoffs during the window (-5, +5) around the event date, for example. However, we confirmed that the obtained results did not vary noticeably if we eliminated the companies that had distributed dividends on the analysed dates.

In addition, in order to avoid any possible bias in the index used as a reference to represent the market portfolio, the MSCI World Index, we repeated the study replacing said index with a regional index such as the EUROSTOXX 50. The results obtained with the new index were consistent with our previous analysis.

We also selected a sample of nine European banks²⁴ that were included in two major indexes, the FTSE100 and the EUROSTOXX 50 (see Appendix 2). We then carried out an event study for those dates in Table 1 related to the judgments of the CJEU. It is necessary to consider that the events we have analysed in the case of foreign banks are exclusively those that refer to European regulations, and in particular to CJEU resolutions, which could affect European banks in the event of incurring any UTs on their mortgages. Logically, financial markets react by anticipating possible costs derived from this possibility. The results were similar to those obtained for the Spanish banking industry, and we generally observed

²⁴ The European banks selected in this case are those that are included in at least one of the two indexes (FTSE 100 and EUROSTOXX 50), excluding the two Spanish banks.

negative abnormal returns in response to judgments related to the analysed unfair terms, as can be seen in Table 5.

[INSERT TABLE 5 ABOUT HERE]

5 Main conclusions

The economic period analysed in this paper coincides with the beginning of the financial crisis of 2008 and with the bursting of the real estate bubble that affected Spain, amongst other countries. The aforementioned real estate bubble occurred due to many reasons: the existence of speculators in the real estate market, tax advantages for the purchase of homes, the interest rates of banks when granting mortgage loans, and principally, due to the inclusion in mortgage agreements of clauses that were later declared to be UTs and that made, in many cases, the fulfilment of said agreements impossible for mortgage holders, sometimes ending in evictions. The potential loss of their homes, which were the guarantees for their loans, motivated mortgage holders to bring claims against FIs for the application of the aforementioned UTs. As we have seen, the claims against FIs regarding mortgage loans rose significantly from 2013, in the middle of the financial crisis, reaching their historic high in 2017.

The application of Spanish and European rules caused contradictions on more than one occasion, this being the result of different interpretations made by their courts. For example, we could mention the interpretation made by both courts of Directive 93/13/EEC, in addition to the delayed effect that said interpretations had. While the decisions by the CJEU reflected a clear intention to protect consumers, the decisions taken by the SSC were less sensitive to consumers' problems (Arroyo Amayuela, 2017; Pérez-Benítez, 2017). For example, Spanish legislation did not permit judges to act on their own initiative in mortgage foreclosure proceedings to analyse whether there were UTs in mortgage loans or not. It was necessary to wait for judgments of the CJEU, in March 2013, for Spanish judges to be able to intervene in mortgage foreclosure proceedings. EU Directive 2014/17, on the protection of consumer rights, arrived quite late, if we bear in mind that the application of the previous legislation had already affected many consumers. Gerstenberg (2015) stated that *"As the judicial acquis demonstrates, the CJEU has significantly raised the level of consumer protection beyond the level of protection afforded to consumers by often recalcitrant and reluctant national legal systems"*.

Another example of this contradiction is the interpretation of certain financial products, as in the case of multi-currency loans when being considered (or not) as a financial instrument, and therefore being an instrument that can fall within the scope of MiFID (*Markets in Financial Instruments Directive*) regulations. According to the Bank of Spain (2012), a position shared by the CJEU (2015), the conversion carried out by FIs to calculate the amount of loans and repayment was not an investment service and therefore it was not a financial instrument. For its part, the SSC saw multi-currency loans as a financial product that contained an embedded derivative, by being the exchange rate in an underlying element upon which the value of a mortgage depended. Similarly, MiFID regulations imposed the obligation upon FIs to provide information to potential mortgage holders about the contracted product, in this case, the IRPH. In Spain, the SSC established that the breach of this obligation by FIs presumed the existence of a mistake that was excusable. This was a very general interpretation and favourable to investors, which could represent distortion and fragmentation within the single market for financial instruments.

The economic consequence of the high number of claims for FIs due to the declaration of UTs in mortgage loans seriously affected their reputation, which led them to take another risk, reputational risk, a risk that was created through the loss of trust in the lender-borrower relationship (El País newspaper, 11-3-19, Oliver Wyman, 2019).

One of our main conclusions is that, in general terms, negative abnormal returns are greater when resulting from a decision made by the CJEU, rather than by the SSC. The events referred to as UTs that have had the most impact as a whole on the returns of shareholders were, in order of the importance of their impact of the valuation of FIs, those relating to the default interest clause, followed by rounding up, and, in last place, the unfair terms of floor clauses, mortgage constitution expenses and multi-currency loans.

For future lines of research, we suggest analysing the strategy to be applied by FIs to cover mortgage constitution expenses that, as we have stated, are now at their expense. We also suggest analysing, within the scope of the EU banking industry, the impact that the aforementioned judgments of the CJEU might have on the market valuation of European banks.

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Table 1. Overview of event dates: Changes of regulations and declarations of UTs of the mortgage loan agreements.

EVENT DATE	DESCRIPTION
1.-Rounding-up	
June 3, 2010	The judgment of the CJEU stopped the application by FIs of the rounding-up clause.
January 27, 2011	The SSC declared the rounding up clause to be a UT.
2.- Floor clause	
May 9, 2013	The SSC banned floor clauses without retroactive effect.
December 21, 2016	The CJEU changed its opinion and the FIs were forced to refund the amounts overpaid from the beginning of mortgage loans. The CJEU stated that limiting the retroactive effect of the refund of amounts overpaid to May 2013 (the first judgment by the SSC on the matter) was not compatible with the European Union law.
January 30, 2017	FIs such as Bankia and Banco Mare Nostrum announced, voluntarily, that they would refund all the amounts received through the application of the floor clause to their mortgage holders.
February 15, 2017	The SSC forced a bank, in this case BBVA, to apply this retroactive effect to the payment of amounts overpaid due to the application of the floor clause from the beginning of mortgage loans.
November 23, 2018	The Provincial Court of Madrid ordered the FIs to return the overpaid amounts to 9,000 customers.
3.- Default interest clause	
May 14, 2013	The 1/2013 Spanish Mortgage Act (May 2013) established that default interest must not exceed three times the interest rate established in the mortgage agreement. The measure did not have a retroactive effect.
January 21, 2015	The CJEU declared that “ <i>if the default interest is unfair, it may not be reduced or adjusted</i> ”.
June 3, 2016	The CJEU again stated and emphasised that the default interest clause that had been applied by FIs was a UT, and that “ <i>default interest may no longer be adjusted</i> ”.
November 28, 2018	The SSC “declares the nullity of the clause that establishes default interest, when the borrower falls into default the outstanding principal will continue to incur the same compensatory interest as established in the contract”.
4.- Early termination clause	
June 11, 2015	An order by the CJEU established that judges of courts of first instance could hear or consider the unfair nature of early termination clauses, even if a FI had not yet applied said clause.
September 14, 2018	The CJEU responded to this request and stated that the nullity of the early termination clause could be declared even if a mortgage had been signed before May 2013.
February 21, 2019	The 5/2019 Spanish New Mortgage Act Regulating Real Estate Loan Contracts admits a delay in the period during which FIs can request the early termination of a mortgage and the repayment of a loan. The Act establishes that this may only occur when 12 months of non-payments have been reached. If over 50% of the loan.
March 16, 2019	The Spanish 5/2019 New Mortgage Act comes into force.

5.- Securitised mortgage		
December, 16, 2009	The judgment 792/2009 of the SSC declared the securitised mortgage clause to be unfair. In the hope that the CJEU will resolve this preliminary ruling, there have been judges in Spain that have suspended mortgage foreclosures, ruling that the loan has been securitised and that, as the FI is not the owner of the loan, it does not have the legal standing to sue in order to demand the payment of the debt.	
6.- Mortgage constitution expenses		
December 23, 2015	A judgment by the SSC determined that a FI is the main party interested in the constitution of the public mortgage deed and its registration in the Property Register, and therefore any expenses that this entails must be shared fairly between both parties, the FI and the customer.	
November 6, 2018	The SSC issued a decision that amended judgment 1505/2018 (16th October 2018) and established that customers must be the parties that pay the transfer tax and stamp duty.	
7.- Multi-currency mortgage loan		
September 20,2017	The CJEU declared that multi-currency loans were unfair, untransparent and insufficiently explained to customers, especially regarding the risks they entailed. The CJEU used the same argument it had used to declare floor clauses UTs.	
November 15, 2017	The SSC, in line with what had been declared by the CJEU, stated the partial nullity of multi-currency mortgage loans in cases in which there was a lack of transparency in the marketing process of the product by FIs.	
8.- Mortgage Law Reform		
February 21, 2019	The 5/2019 Spanish New Mortgage Act Regulating Real Estate Loan Contracts admits a delay in the period during which FIs can request the early termination of a mortgage and the repayment of a loan. The Act establishes that this may only occur when 12 months of non-payments have been reached. If over 50% of the loan.	
March 16, 2019	The Spanish 5/2019 New Mortgage Act comes into force.	
Source: Authors Elaboration.		

Table 2. Abnormal returns of banking firms according to the event dates (% CAAR)

UNFAIR TERMS	(-5,+5)	(-3,+3)	(-1,+1)
Rounding-up			
6/3/2010	-1.65**	-4.67***	-3.28***
1/27/2011	3.07	-1.46	2.51*
Floor clause			
5/9/2013	3.90	-5.13***	-0.42
12/21/2016	-2.71**	-3.16***	-1.13***
1/30/2017	-0.19	1.59	-1.22*
2/15/2017	-1.83***	-1.38**	0.95
11/23/2018	-1.27	-0.35	0.62*
Default interest clause			
5/14/2013	-13.87*	-0.49	-4.29
1/21/2015	-5.41***	-1.19	1.61
6/03/2016	-9.01***	-7.42***	-2.80***
11/28/2018	-1.35	0.22	-1.83***

Early termination clause			
6/11/2015	-2.50***	-2.72***	-0.89***
9/14/2018	1.89**	3.04***	2.21***
5.- Mortgage constitution expenses			
12/23/2015	-4.46***	-4.91***	-0.23
11/6/2018	4.22***	1.32	1.26***
Securitised mortgage			
12/16/2009	-0.52	0.34	0.86
Multi-currency loan mortgage			
9/20/2017	0.97	-2.82**	0.16
11/15/2017	-1.64***	-0.12	0.01
Mortgage Law Reform			
2/21/2019	4.91***	-0.70	0.92
3/16/2019	-2.64**	-1.43	0.72*

*** significant at 1%, **significant at 5%, *significant at 10%

Table 3. Abnormal returns of non-banking firms according to the event dates (% CAAR)

UNFAIR TERMS	(-5, +5)	(-3,+3)	(-1,+1)
Rounding-up			
6/6/2010	0.89	-1.62***	-0.43
1/27/2011	3.55***	0.56	1.67***
Floor clause			
5/9/2013	3.23**	0.96	1.63***
12/21/2016	4.18***	1.74**	1.34***
1/30/2017	-0.69	-0.2	-1.16***
2/15/2017	0.62	0.14	-0.49**
11/23/2018	-0.6	0.92	0.29
Default interest clause			
5/14/2013	-0.27	2.65***	0.96
1/21/2015	2.6***	3.73***	1.4***
6/3/2016	-1.65***	-2.13***	-1.56***
11/28/2018	0.13	-0.08**	-0.51
Early termination clause			
6/11/2015	-2.16***	-1.32***	-1.19***
9/14/2018	-1.28	-1.84***	-0.76*
Mortgage constitution expenses			
12/23/2015	2.92***	-2.93***	1.19**
11/6/2018	-0.17	0.27	1.56***
2/21/2019	-1.03	-0.94***	0.29
Securitised mortgage			
12/16/2009	3.61***	3.64***	1.95***
Multi-currency loan mortgage			
9/20/2017	-1.44	-1.95***	-1.00***
11/15/2017	-1.78**	-0.59*	0.21
Mortgage Law Reform			
2/21/2019	-1.03	-0.94***	0.29
3/16/2019	-2.11**	-0.78	0.44

*** significant at 1%, **significant at 5%, *significant at 10%

Table 4. The overall banking firm's reaction according to the event dates

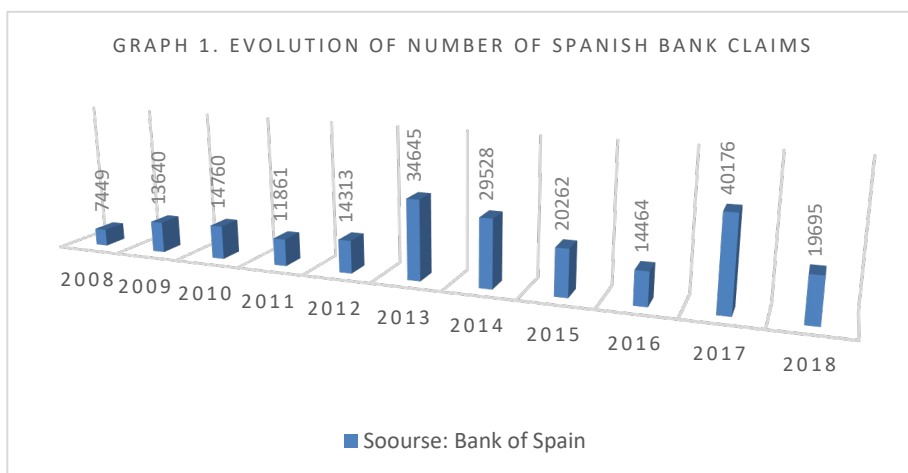
UNFAIR TERMS	(-5, +5)	(-3,+3)	(-1,+1)
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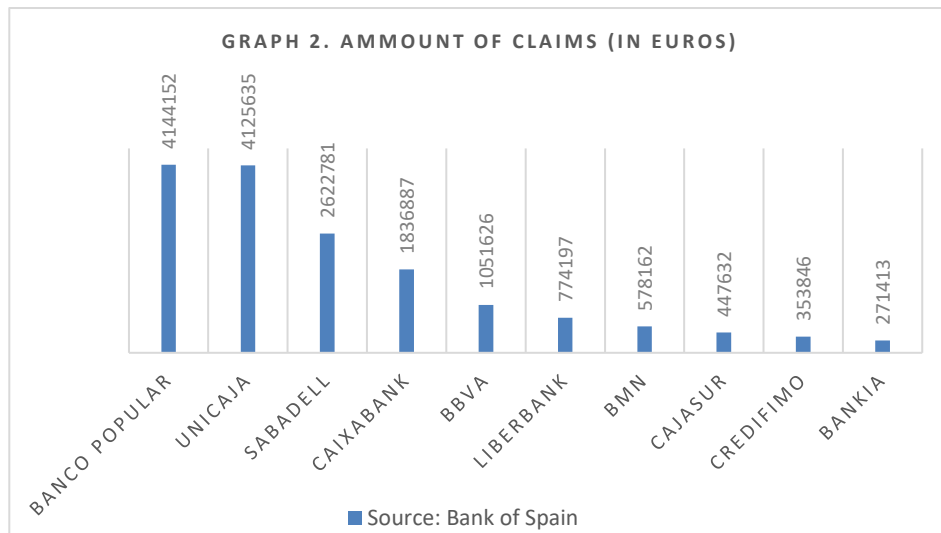
Rounding-up	0.71	-3.06**	-0.39
Floor clause	0.54	-1.71**	-0.03
Default interest clause	-7.44***	-1.95**	-1.67
Mortgage constitution expenses	1.09	-1.70**	0.58
Early termination clause	0.29	-0.25	0.84
Multi-currency loan mortgage	-0.34	-1.47***	0.08

*** significant at 1%, **significant at 5%, *significant at 10%

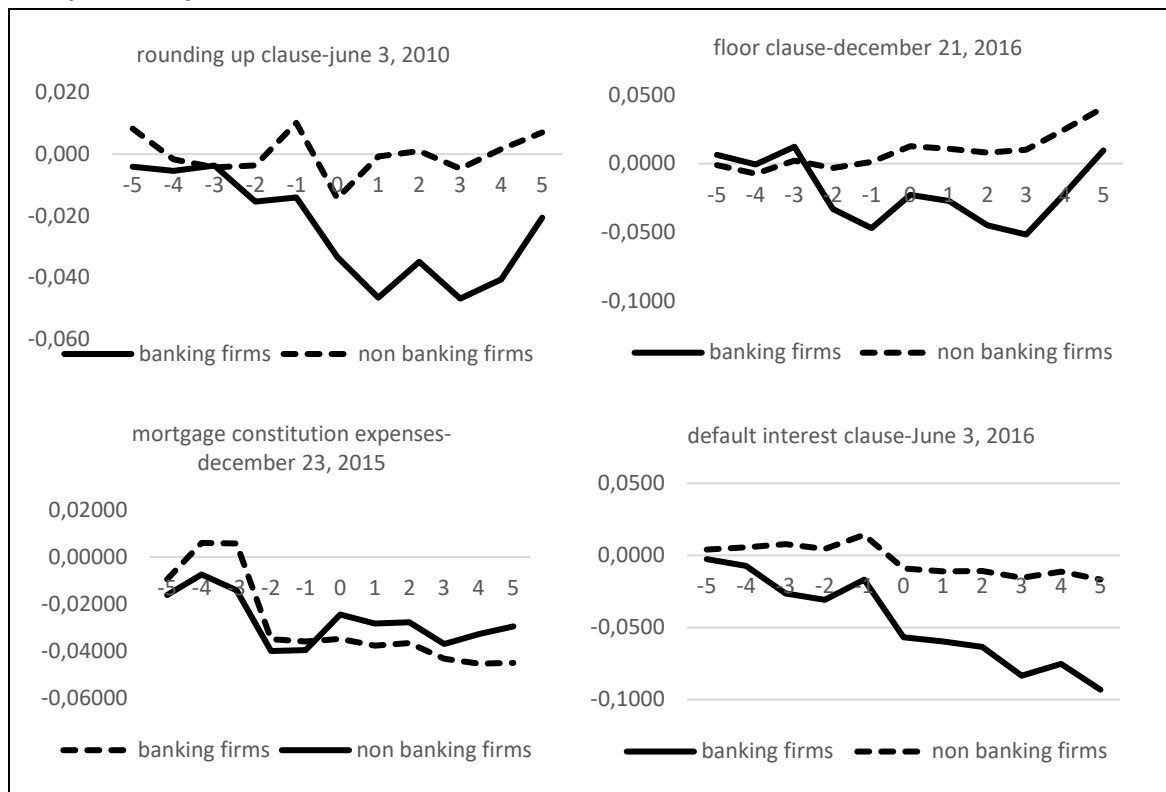
Table 5. Abnormal returns of European banking firms according to the event dates (% CAAR)

UNFAIR TERMS	(-5,+5)	(-3,+3)	(-1,+1)
<i>Rounding-up</i>			
6/3/2010	-3.11**	-3.67**	-3.19***
<i>Floor clause</i>			
12/21/2016	3.53	-1.83**	1.36
<i>Default interest clause</i>			
1/21/2015	-1.32	2.64***	3.29***
<i>Early termination clause</i>			
6/11/2015	-2.31***	-2.62***	-0.49
9/14/2018	1.46*	0.05	0.54
<i>Multi-currency loan mortgage</i>			
9/20/2017	1.49	-1.31	0.92





Graph 3. Daily cumulative abnormal returns around the event dates



Appendix 1. Sample composition

NAME	INDUSTRY
BANESTO	BANKING
BANKIA	BANKING
BANKINTER	BANKING
BBVA	BANKING
CAIXABANK	BANKING
LIBERBANK	BANKING
POPULAR	BANKING

SABADELL	BANKING
SANTANDER	BANKING
UNICAJA BANCO	BANKING
VALENCIA	BANKING
ACCIONA	NON BANKING
ACERINOX	NON BANKING
ACS ACTIV.CONSTR. Y SERV.	NON BANKING
AENA SME	NON BANKING
AMADEUS IT GROUP	NON BANKING
ARCELORMITTAL (MAD)	NON BANKING
CELLNEX TELECOM	NON BANKING
CIE AUTOMOTIVE	NON BANKING
ENAGAS	NON BANKING
ENCE ENERGIA Y CELULOSA	NON BANKING
ENDESA	NON BANKING
FERROVIAL	NON BANKING
GRIFOLS ORD CL A	NON BANKING
IBERDROLA	NON BANKING
INDITEX	NON BANKING
INDRA SISTEMAS	NON BANKING
INMOBILIARIA COLONIAL	NON BANKING
INTL.CONS.AIRL.GP. (MAD) (CDI)	NON BANKING
MAPFRE	NON BANKING
MASMOVIL IBERCOM	NON BANKING
MEDIASET ESPANA COMUNICACIÓN	NON BANKING
MELIA HOTELS INTL.	NON BANKING
MERLIN PROPERTIES REIT	NON BANKING
NATURGY ENERGY	NON BANKING
RED ELECTRICA	NON BANKING
REPSOL YPF	NON BANKING
SIEMENS GAMESA RENEWABLE ENERGY	NON BANKING
TELEFONICA	NON BANKING
VISCOFAN	NON BANKING

Appendix 2. Sample composition-European Banks

Name	Country
BARCLAYS	UK
BNP PARIBAS	FRANCE
HSBC HOLDINGS	UK
ING GROEP	NETHERLAND
INTESA SANPAOLO	ITALY
LLOYDS BANKING GROUP	UK
ROYAL BANK OF SCTL.GP.	UK
SOCIETE GENERALE	FRANCE
STANDARD CHARTERED	UK