



CONSUMER CREDIT

HELPING EUROPEAN HOUSEHOLDS
FINANCE THEIR TOMORROW

eurofinas 

SPECIALISED CONSUMER CREDIT PROVIDERS IN EUROPE

CONSUMER CREDIT

Helping European households finance their tomorrow

This leaflet aims to briefly explain what consumer credit is, showcase who provides credit and how, draw attention to market trends, and clarify the regulatory framework that governs the industry.

WHAT IS CONSUMER CREDIT?

Consumer credit enables people to purchase goods or services for personal or household purposes. Consumer credit products are either instalment or revolving loans.

An **instalment loan** provides the borrower with a specific amount of money to be repaid over a given period of time and with a fixed number of payments. These are called instalments. The repayment of the capital owed as well as interest charges are paid at agreed periods during the life of the loan.

A **revolving loan** consists of a pre-approved line of credit. Instead of borrowing a fixed amount as in instalment credit, the borrower may withdraw funds up to a pre-approved credit limit. Payments of capital and interest charges are based on the amount of credit used by the borrower.

? *Is consumer credit really useful? Yes*

What is consumer credit used for? Consumer credit facilitates access to assets and services as diverse and essential as:



Motor vehicles



White goods



Brown goods



Home improvements



Education

Consumer credit is a vital tool to finance individuals or households' needs and projects. Vehicles, higher education, home repairs are examples of assets and services financed by consumer credit.

Consumer credit is granted through a variety of agreements. In fact, consumer credit covers various types of finance options that differ widely with regards to value, characteristics and methods of repayment:

- The value of credit can substantially vary depending on assets or services financed.
- The credit agreement can be secured against the asset being financed by the credit agreement.
- Repayments can differ according to the asset or service financed, the duration of the loan and the profile of the borrower.

Motor Finance
Retail Loans
Personal Loans
Overdrafts
Credit Cards
Store Cards

In 2012, the average amount of a loan taken out at the point of sale was €1,052¹

In 2012, the average amount of a motor finance agreement was €14,565 for new consumer cars²

WHO ARE CONSUMER CREDIT PROVIDERS?

In Europe, consumer credit providers can be banks, bank-owned subsidiaries, independent firms or financing arms of manufacturing companies (known as captive companies).

Finance House

Specialised consumer credit provider not taking deposits.

Captive company

Financing arm of a manufacturing parent company (e.g. in the automotive sector). Captives may or may not be authorised to take deposits.

Specialised bank

Institution authorised to take deposits. Activity focused on the provision of consumer credit.

Universal bank

Bank providing all kinds of products, e.g. retail and corporate lending, etc.

1. See Eurofinas 2012 Annual Statistical Enquiry | 2. Ibid

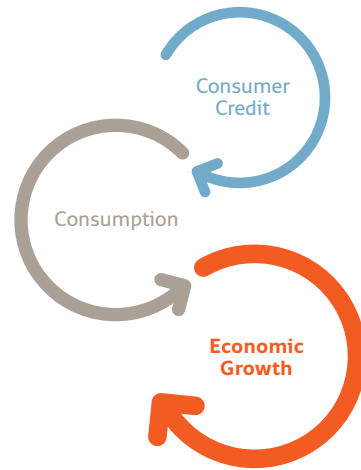
WHAT IS THE CONTRIBUTION OF CONSUMER CREDIT?

Supporting Economic Growth

By providing access to finance to individuals and households, consumer credit supports the social and economic well-being of millions of consumers across Europe. It also benefits manufacturers, motor dealers and retailers as a key tool for their sales.

In 2012, more than €257 billion of goods, services and consumer vehicles were financed by Eurofinas members.³ This figure shows the importance of consumer credit in Europe and its influence on overall consumption within EU countries.

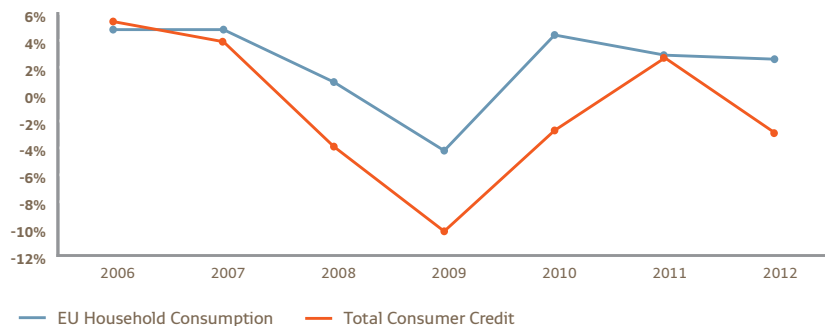
Recent research confirms the integral role consumer credit plays in financing the real economy⁴.



? *Is consumer credit used more in times of financial distress? No*

Consumer credit lending is procyclical and is highly positively correlated with households' disposable income⁵.

Eurofinas New Credit Growth vs Final Household Consumption



3. See Eurofinas 2012 Annual Statistical Enquiry. Based on a sample of 16 member associations. Eurofinas members also offer mortgage and industrial credit. In total, lending institutions represented through Eurofinas granted new loans worth €312 billion in 2012. | 4. See Nancy Huyghebaert, Study on the importance of consumer credit and mortgage credit for the Belgian economy, Faculty of Business and Economics, Department of Accountancy, Finance and Insurance of KU Leuven, 2011. See also for example Oxford Economics, Report on FLA members' contribution to the UK economy, August 2008 | 5. See for example Nancy Huyghebaert and Oxford Economics op.cit.

Impact of the Crisis on Consumer Credit

Evolution in new consumer credit lending is influenced by key economic indicators such as:



During the recent economic downturn, **new lending declined significantly** due to worsening macroeconomic conditions, weak consumer demand and a tightening of credit standards.

? *Has the recent crisis had a negative impact on consumer credit? Yes*

The situation varied across Europe, with some markets experiencing downturns of up to - 25%. With conditions now slowly stabilising, some consumer credit markets are beginning to see improvements.

HOW IS CONSUMER CREDIT DISTRIBUTED?

Consumer credit is distributed via several channels, including through bank networks, directly from consumer credit firms, online or through the manufacturers and dealers of vehicles and consumer goods.

This latter channel is often referred to as the "point of sale channel" (PoS) and is unique to the consumer credit industry. PoS provides a convenient one-stop-shop for clients who are seeking to purchase assets and helps European manufacturers and distributors of goods with their sales. Depending on the good/service and the nature of the point of sale, several types of finance solutions, such as a linked credit or a store/credit card, may be available to consumers.

KEY FACTS ON PoS

- Product offerings at the point of sale are tailored to the consumer's needs and budget as well as the characteristics of the asset being financed.
- When retailers and motor dealers are offering credit at the point of sale, they act under the full responsibility of the lender with whom they operate.
- Retailers and motor dealers act on behalf of credit providers and receive no fee from consumers.

? *At the point of sale, is it the retailer/motor dealer who decides to grant a credit? No*

Intermediaries are not involved in the decision to grant credit. At the point of sale, the intermediary collects information on the customer. This information is then checked by the lender before any credit decision is made. This can be done instantly via online systems or at a later date through other channels.

HOW IS CONSUMER CREDIT REGULATED?

The sale of consumer credit is governed by a comprehensive set of European and national legislative measures, the most important one being the Consumer Credit Directive (the CCD).

? *Are consumers protected? Yes*

➔ **The CCD** was adopted on 23 April 2008 after more than six years of negotiation⁶. The CCD is the European regulatory backbone for consumer credit. It covers all aspects of consumer credit lending transactions and was designed to i) ensure that all European consumers enjoy a high and equivalent level of protection and ii) facilitate the emergence of a well-functioning Internal Market in consumer credit.

The transposition of the CCD into Member States legislation brought substantial modifications to lenders' business practices.

COMPARABILITY & RESPONSIBILITY

SNAPSHOT OF KEY MEASURES

SECCI

The CCD requires the lender and, where applicable, the credit intermediary to provide the consumer with a Standard European Consumer Credit Information form, the SECCI. The SECCI provides the applicant borrower with an exhaustive list of information on the credit agreement. It provides him/her with the information needed to compare different offers and to take an informed decision on whether to conclude a credit agreement.

APRC

The Annual Percentage Rate of Charge (APRC) is the total cost of a credit expressed as an annual percentage of the total amount of credit. The CCD requires the disclosure of the APRC at all stages of the credit transaction – advertising, pre-contractual and contractual. It is a central point of the CCD's overarching objective of increased consumer protection and comparability of offers.

Responsible lending

When deciding on whether to grant a loan or a credit facility to a consumer, the lender must assess the creditworthiness of the applicant borrower. This assessment can take into account information supplied by the borrower himself, consultation of credit bureaus/credit risk agencies, public data sources, past business records, etc.

Change of mind?

Under the CCD, borrowers have a 14 calendar day period during which they may withdraw from the credit agreement without penalty and without giving any reason.

➔ In addition to the CCD, **other European legislation** directly applicable to consumer credit transactions includes the Unfair Commercial Practices Directive, the Unfair Contract Terms Directive and the Directive on the Distance Marketing of Financial Services⁷.

These rules are, where permitted, supplemented by additional national legislation as well as industry codes of conduct.

INDUSTRY STANDARDS

A high number of Eurofinas members have in recent years developed and implemented codes of good practice. These codes help promote a consistent, balanced and safe business environment where both consumers and credit providers' interests are taken into account. They provide flexible frameworks that come in addition to the regulatory provisions in force.

An overview of these self-regulatory codes of good practice that have been implemented by Eurofinas members in various European countries can be found in the Eurofinas brochure on national codes of conduct for consumer lending⁸.

6. See Directive 2008/48/EC on credit agreements for consumers, OJEU L 133

7. See Directive 2005/29/EC concerning unfair business-to-consumer commercial practices in the internal market, OJEU L 149, Directive 93/13/EEC on unfair terms in consumer contracts, OJEU L 95, Directive 2002/65/EC concerning the distance marketing of consumer financial services, OJEU L 271, Directive 2002/92/EC on insurance mediation, OJEU L 009 | 8. Eurofinas Brochure on national codes of conduct for consumer lending, 2012



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