

Online Expert Dialogue

New data for the Consumer Credit Directive review

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13:20 - 13:35

New data for the Consumer Credit Directive review

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Methodology

- **126** mystery shopping case studies from **FR - IT - DK - CZ**
- **5 qualitative questionnaires** filled out by experts in the field from **IT - DE - DK - CZ - NL**

Focus

- Issues currently deemed controversial
- For which currently a lack of data
- i.e. new and risky credit products not in scope of the CCD
- cost of credit, advertising rules, and
- creditworthiness assessment rules

Products

- Payday loans
- Car loans
- Car leasing
- Personal loans
- Revolving credit
- Peer-to-peer lending
- Buy Now Pay Later
- Deferred debit cards (FR)
- Overdrafts (IT)

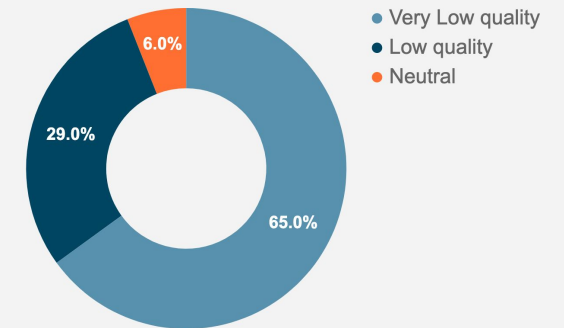
Key data findings

**Concerns regarding 6 credit products
currently not in scope of the CCD**

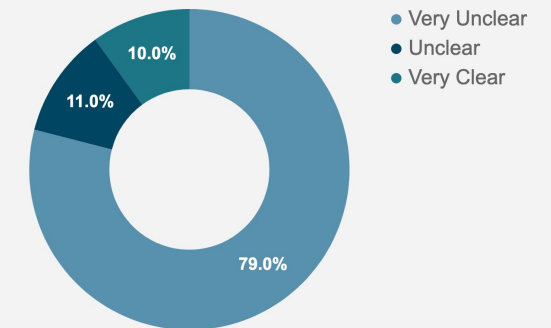
1. Interest-free credit : Buy Now Pay Later (BNPL) Schemes

- Unregulated credit **often purchased by consumers struggling financially** (vulnerable consumers).
- Often advertised as **zero-cost** (50%) while there are **high late payment fees and other hidden costs**.
- Consumers not adequately informed about the high costs and risks of BNPLs at the pre-contractual phase: **unclear pre-contractual information and unclear / misleading advertisements**.
- **Poor creditworthiness assessments** another source for mis-selling.

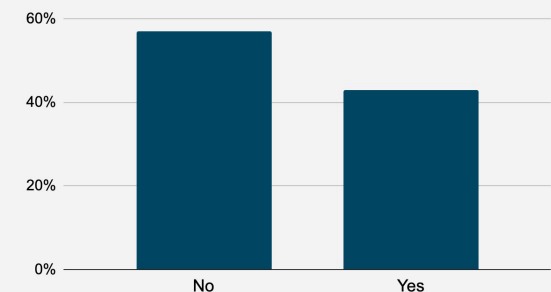
Rate the quality of the information on the key characteristics of the loan communicated in the advertisement (1= low quality, 5 = very high quality)



Question: Rate the clarity of pre-contractual information on the consequences in case of default and late payments (1 = very unclear, 5 = perfectly clear)



Has the credit provider assessed your creditworthiness?



2. Interest-free credit : Deferred debit cards

- Popular in **France**: unlike traditional debit card, card purchases not debited from bank account immediately but are consolidated and payment set on a **single date in the month**.
- Consumers need to have sufficient funds in their payment account on the date they have to make the card payments

Or : their account will be overdrawn and they will **have to pay high interests and fees to the bank**.

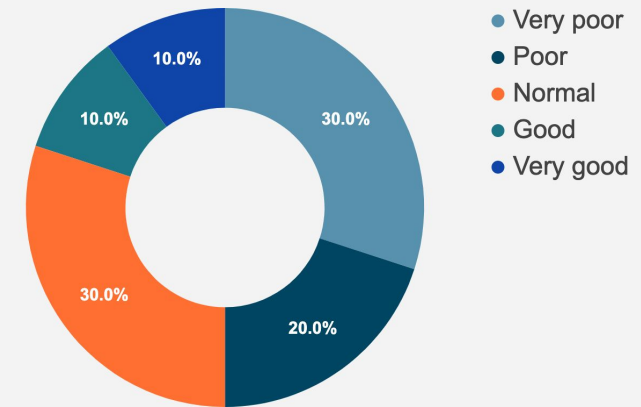
Risks

- **Encourages impulse purchases**: False impression that financial situation allows for more spending.
- **Consumers unaware** they can become indebted (with high fees) if they miss payment because of **poor and misleading pre-contractual information and advertising**.
- Can lead to **over-indebtedness**, in particular for vulnerable consumers.

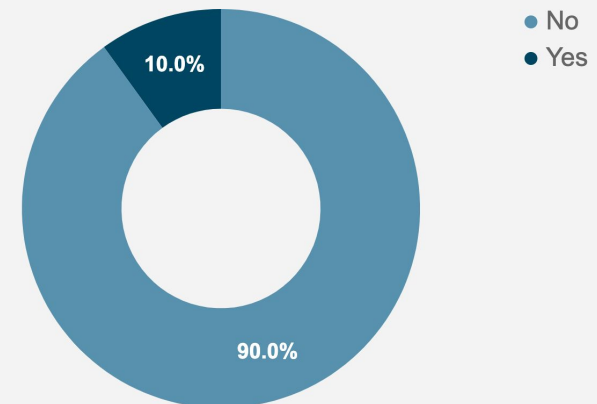
3. Payday loans

- Typically acquired by **lower-income consumers**, **often to repay other existing loans** and/or to cover late payment fees or interest payments on other existing debt.
- Very high **costs**: Average APR: **1,447%**, Max APR: **5,632%**; as well as high **late payment fees**, high **default fees** and high **rollover charges**.
- High risk of **mis-selling due to poor lending practices**: poor CWAs, lack of information on consequences of default and late payment fees.

How would you rate the overall quality of the CWA?
(1 = very poor, 5 = very good)



Was information on the consequences in case of default and late payments prominently displayed in the advertising material?

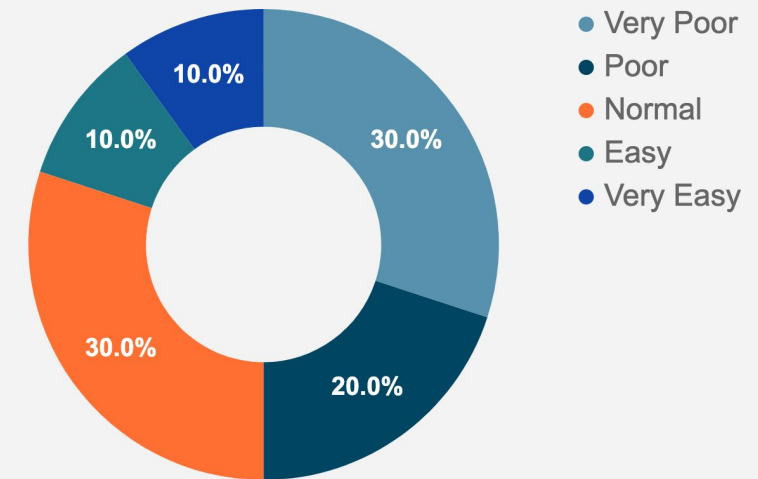


4. Peer-to-Peer (P2P) Lending

- Borrowers lack adequate information prior to borrowing via P2P lending platforms: **poor pre-contractual information, poor information on costs and misleading advertising material.**
- **Inadequate creditworthiness assessments also commonplace** and therefore a key source of mis-selling.
- Thus, there is **currently a high risk for mis-selling** of these loans (on the borrower-side).

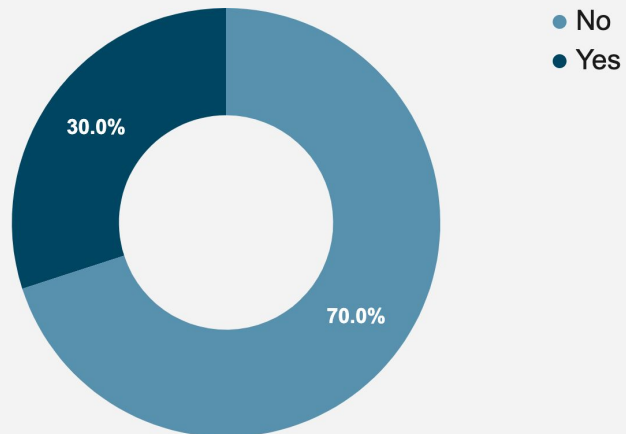
Question: Rate the clarity of the pre-contractual information on costs

(1 = very unclear, 5 = perfectly clear)

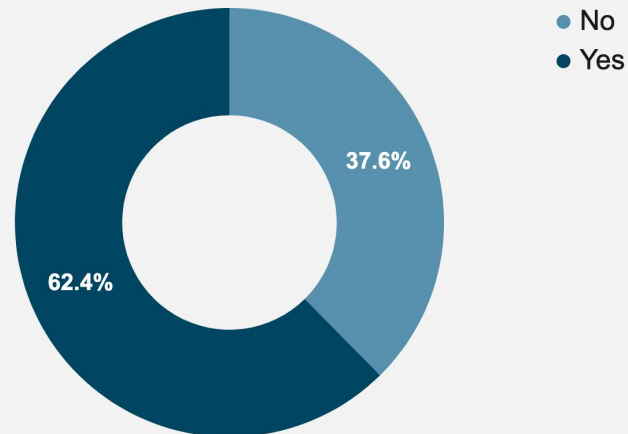


4. Peer-to-Peer (P2P) Lending

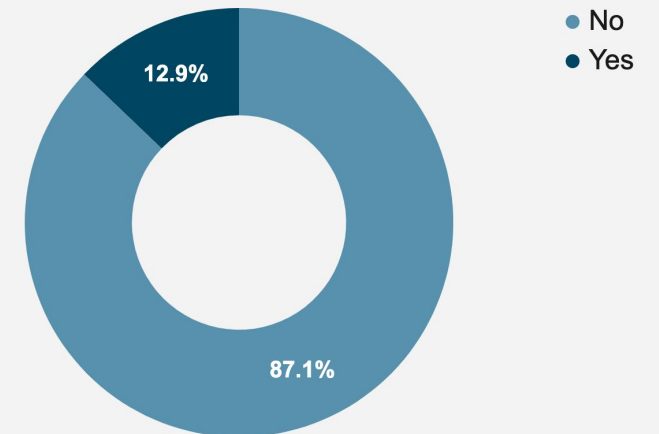
Do you believe the information presented is adequate for you to make an informed choice?



Question: Has the credit provider assessed your creditworthiness?



Was information on the consequences in case of default and late payments prominently displayed in the advertising material?

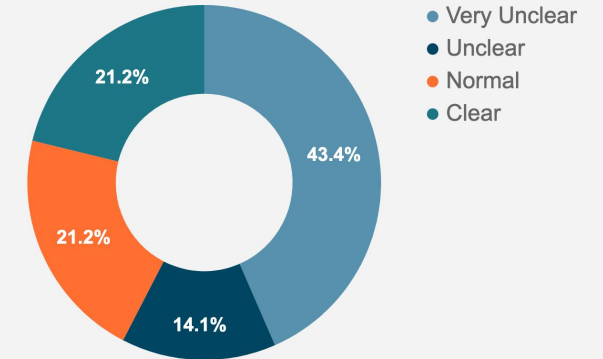


5. Car Leasing

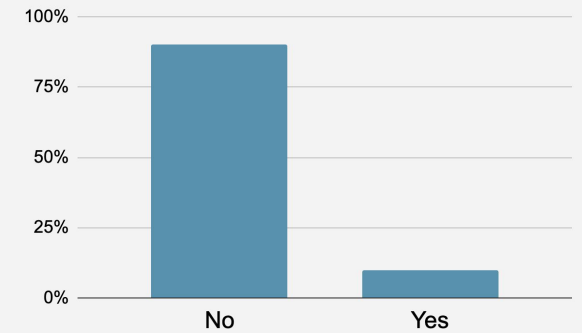
- **Car loan is a more suitable financial service** for many customers with regards to their situation and needs.
- Example of one mystery shopping case: Car lease cost for the consumer exceeds regular car loan cost by 569 €!
- Consumers often unable to make an informed choice and unclear pre-contractual information on costs.

Rate the clarity of the pre-contractual information on costs

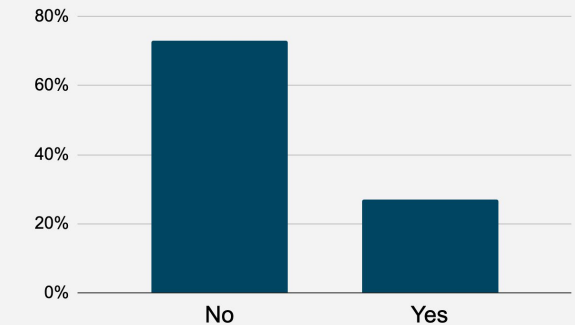
(1 = very unclear, 5 = perfectly clear)



Did the provider clearly explain the difference between a car loan and car leasing?



Do you believe the information presented is adequate for you to make an informed choice?



6. Overdrafts and overrunning

- **Mostly prevalent in Germany and Italy as substitute for payday loans;** often used by **lower income consumers**.
- **High cost and fees from perspective of lower income consumers:** APR exceeding 20%, late payment fees exceeding 20% of outstanding amount.
- High rollover probability as this type of loan is often used by vulnerable consumers which can lead to over-indebtedness.
- **Poor pre-contractual information and Creditworthiness assessment (CWAs) often lacking.**

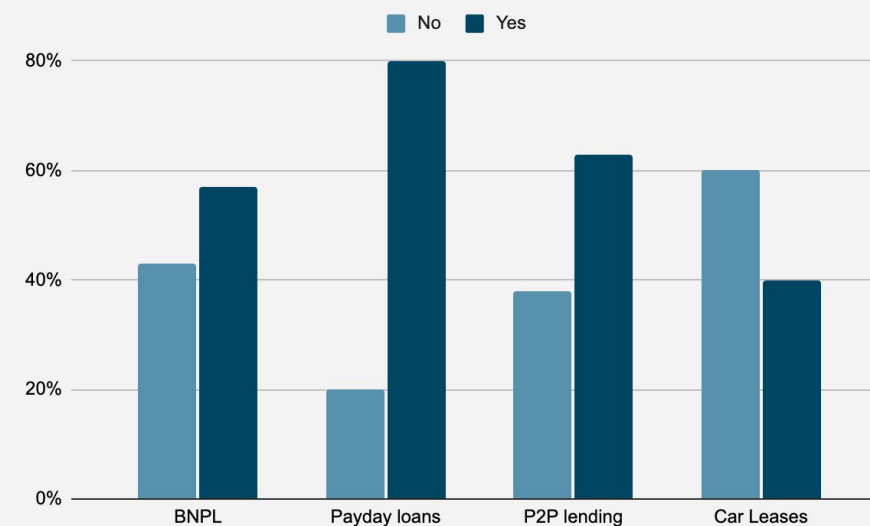
Key Findings: Two other concerns



7. Creditworthiness assessment practices (CWAs)

- Adequate CWAs one of the key tools to avoid mis-selling.
- **Good CWA assesses the consumer's household budget**, which entails an assessment of **consumers' income and expenses** as well as **outstanding credits and debts**.
- **Many poor CWA practices revealed:** lack of supporting documents, often no data on consumer's expenditures used.

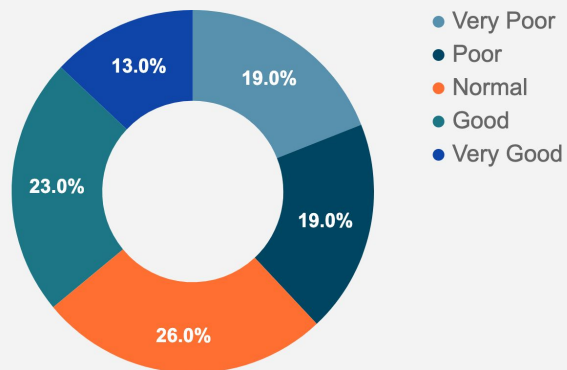
Has the credit provider assessed your creditworthiness?



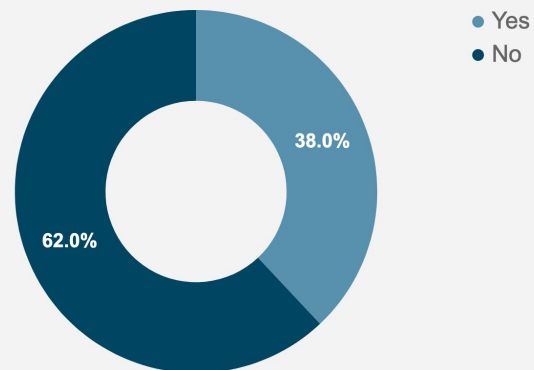
7. Creditworthiness assessment practices (CWAs)

How would you rate the overall quality of the CWA?

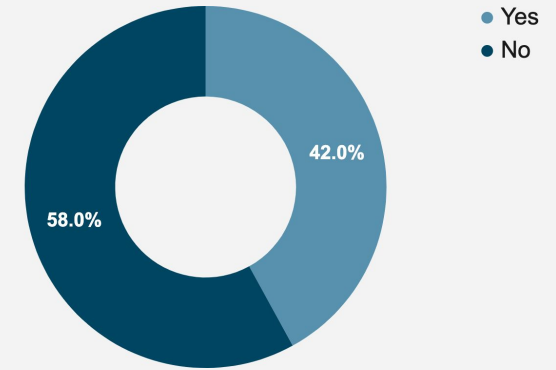
(1 = very poor, 5 = very good)



Were you asked to provide data/info about your budget balance (level of income / level of expenditures)?



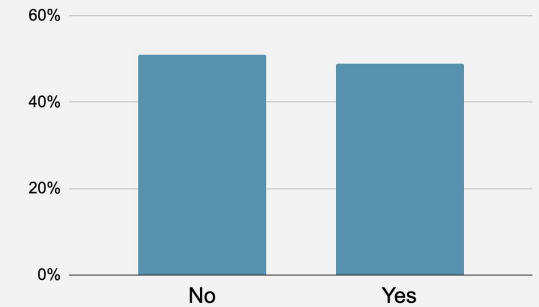
Have you been asked to provide supplementary documents (evidence) to prove the accuracy of the information/data you provided?



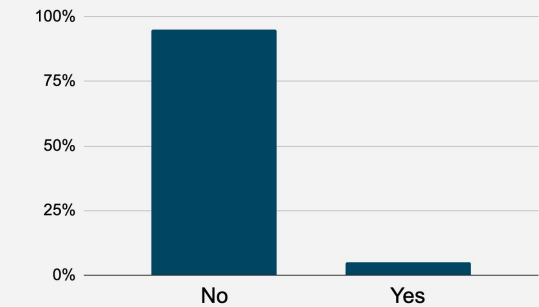
8. Advertising practices

- Key that credit advertisements provide clear, non-misleading and comprehensive information on the key aspects of consumer credit.
- However, **most advertisements fail to provide clear and non-misleading information about costs and risks of credit products.**

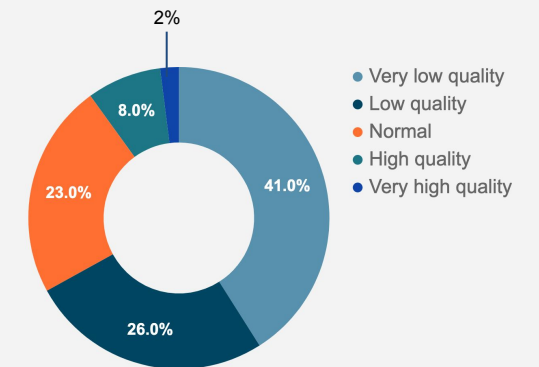
Was information on costs prominently displayed in the advertising material?



Was information on the consequences in case of default and late payments prominently displayed in the advertising material?



Rate the quality of the information on the key characteristics of the loan communicated in the advertisement
(1= low quality, 5 = very high quality)



Our 4 key conclusions

● 1. Credit products currently not in scope, despite low in value, are high risk and not really low in value

- These loans are mainly purchased by vulnerable (lower income) consumers.
- The size of a loan is proportionate to consumer's overall budget: these consumers have low income so for them, these loans are not low in value.
- High costs are associated with these products (high APRs, late payment fees, etc.) and many consumers take out multiple loans to repay them.

1. Credit products currently not in scope, despite low in value, are high risk and not really low in value

2. Overrunning facilities are high risk

- In some member states such as Italy, these products are high risk, in particular for vulnerable consumers who mainly use them.
- These products are often mis-sold due to sales malpractices in areas currently not regulated: poor pre-contractual information, no CWAs.
- Therefore, the lack of regulation in some areas is a problem.

1. Credit products currently not in scope, despite low in value, are high risk and not really low in value

2. Overrunning facilities are high risk

3. Creditworthiness assessments (CWAs) are poor for all types of loans

- The essential data to perform an adequate CWA, data on consumer's budget balance, often not requested.
- Therefore, CWA malpractices are a key factor in mis-selling loans to consumers not able to afford the loan.
- Thus, current CWA rules in the CCD not sufficient to protect consumers and prevent over-indebtedness.

1. Credit products currently not in scope, despite low in value, are high risk and not really low in value

2. Overrunning facilities are high risk

3. Creditworthiness assessments (CWAs) are poor for all types of loans

4. Consumer credit advertising is poor and misleading

- This is a problem because advertising nudges consumers towards purchasing a particular product.
- The current advertising rules in the CCD therefore seem to fall short.

Our 5 policy recommendations

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1. Need for an enlarged scope and more rules for overrunning

- Scope needs to be widened to loans under €200, buy-now-pay-later schemes, deferred debit cards, leasing, overdraft facilities and crowdfunding peer-to-peer lending.
- Regulation of the borrower-side of peer-to-peer lending cannot wait: sales malpractices too significant.
- Need for CWA, cost cap, and pre-contractual information requirements to apply to overrunning.

1. Need for an enlarged scope and more rules for overrunning

2. Full regime of the CCD needs to apply to new products brought into scope

- Any 'light regime' for these products not proportionate to:
 - actual value of these loans as a proportion to their consumers' income
 - the high risk of over-indebtedness these products pose to those consumers typically purchasing them.

1. Need for an enlarged scope and more rules for overrunning

2. Full regime of the CCD needs to apply to new products brought into scope

3. Annual Percentage Rate (APR) cost caps needed

- Cost cap must be applied to APR: the interest rate is just one possible price component of the loan.
- EU harmonization of cost calculation method needed to achieve equal level of protection for consumers and level-playing field for providers.
- Rules must also specify that APR should include cost of any insurance or other financial product purchased with the credit.

1. Need for an enlarged scope and more rules for overrunning

2. Full regime of the CCD needs to apply to new products brought into scope

3. Annual Percentage Rate (APR) cost caps needed

4. Need for prescriptive rules for data collected for creditworthiness assessments (CWAs)

- An adequate CWA assesses financial capacity of borrowers' budget, based on income and expenditures as well as credit and debt instalments.
- The European Banking Authority (EBA) Guidelines on loan origination and monitoring list all of the relevant data.
- Therefore, the CWA requirements of the EBA Guidelines should be introduced in the directive to make them a legal requirement.

1. Need for an enlarged scope and more rules for overrunning

2. Full regime of the CCD needs to apply to new products brought into scope

3. Annual Percentage Rate (APR) cost caps needed

4. Need for prescriptive rules for data collected for creditworthiness assessments (CWAs)

5. More prescriptive rules needed for advertising

- Rules must specify that all key information about a loan (including costs and risks) must be included and prominently displayed.
- Moreover, a warning is needed highlighting that borrowing costs money.

Thank you

Many thanks to our consultants:

Movimento Consumatori

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