



Consumers at the risk of unfair or exploitative lending

NGOs propose measures to strengthen
the Consumer Credit Directive

November 2021



The *iff* is engaged with various other actors in the Coalition for a fair and responsible credit market. Consumer credit is an important instrument and/or necessity for almost all consumers for implementing personal plans or overcoming temporary financial difficulties. Therefore, the needs of consumers should have priority for the product of “consumer credit” which should provide responsible and fair solutions. The Proposal is a very important step towards achieving this goal and, therefore, its advances and shortcomings should be addressed.

On 10th November 2021, a large coalition of NGOS active in social, economic and poverty fields published an Opinion paper on ways EU policymakers could help to reduce irresponsible consumer lending and prevent unnecessary over-indebtedness, together with broadening access to credit for creditworthy consumers.

The wide impacts of credit on the daily lives of citizens means that a broad range of civil society organisations are mobilised to raise their voices, concerns, and recommendations to achieve some key objectives for a safe and fair credit market.

The current proposal for a revision of the Consumer Credit Directive made by the EU Commission is now being discussed at the EU Parliament. The Commission’s revised proposal, although substantially improved, still suffers from shortcomings. The objective of tackling bad debt and over-indebtedness is not fully addressed.

Therefore, it is very important to mobilise civil society organisations to advocate for a safe and fair consumer credit market as the EU regulation (CCD) is currently on the table of the EU institutions.

KEY POINTS:

- ➔ There is no EU-wide ban on usury and no capping of excessive interest rates and consumer credit costs
- ➔ Lenders can grant credit even when borrowers do not have the capacity to repay it
- ➔ The creditworthiness assessment does not consider possible negative scenarios, such as possible increases in interest rates during the contract performance
- ➔ Consumers are not able to easily contest decisions based on credit scoring models and are not aware of the types of information used to feed such models



- ➔ With digitalization and big data, it becomes increasingly easy to exploit consumers' behavioural biases to make them sign a consumer credit contract that is not suited to their individual and financial circumstances
- ➔ Consumer credit products are increasingly complex, personalised, and sold online without necessarily being adapted to the consumer's financial and personal situation



Opinion paper: <https://financialinclusion europe.eu/wp-content/uploads/2021/11/CCD-COALITION-OPINION-PAPER-FV-Nov.pdf>

QUOTES FROM SOME SIGNATORIES:

Age Platform Europe

"The digitalisation of selling techniques and distance-selling, as well as the packaging of consumer credit with the sale of certain goods and services, often obstruct the view of the fine-print and the real costs involved, especially for older consumers who might have difficulty to access documents after the sale has happened. Sound safeguards, such as interest rate caps, the right to withdraw and the right to receive understandable information documents in time, and if needed on paper or in a format accessible to persons with disability, as well as protective assessment of creditworthiness following transparent criteria is important to avoid aggressive practices, to which too often older people fall prey. The Coalition, bringing together financial expertise of consumer organisations and the experience of social inclusion organisations is an important forum to underline these points."

BEUC

"BEUC is the umbrella group for 46 independent consumer organisations from 32 countries. Our main role is to represent them to the EU institutions and defend the interests of European consumers. Our acronym originates from our French name, 'Bureau Européen des Unions de Consommateurs'. Our daily work involves making sure the EU takes policy decisions that improve the lives of consumers, including in the consumer credit area."



COFACE Families Europe

“COFACE-Families Europe has joined the Financial Inclusion Europe coalition to ensure that all families have access to affordable and quality credit. Access to credit is an important element in financial inclusion and allows families to smooth out their expenditure for costly goods such as a car or appliances, as well as make investments for the future (education, renovations etc).

Our main points of focus include : creditworthiness checks, interest rates caps, advertising and marketing, and algorithms, AI and big data in credit markets, as well as fintech and innovation in credit (Decentralized Finance, peer-to-peer lending etc).”

DECO

“DECO, the Portuguese Consumer Protection Association, supports the Coalition on the revision of the Consumer Credit Directive (CCD). Consumer credit is a very important product for consumers and its provision must be disciplined and overseen thoroughly, ensuring, among other issues, that: consumers’ interests and rights are guaranteed; pricing is capped, fair and transparent; affordability assessments are based on sufficient and adequate data only; and information is provided on time and is understandable. The revision of the CCD must be drawn in the best interest of consumers.”

FEANTSA

“FEANSTA joins the Coalition for a safe EU consumer credit market because we want to join forces with experts’ organizations in making sure that the provisions adequately protect vulnerable consumers. We would like to raise awareness about the need for responsible lending. Consumer over-indebtedness is an issue among homeless people in some countries. High loan instalments can eat up most of a person’s income, posing a serious risk of poverty and homelessness.”

Financial Inclusion Europe

“Creating bridges between different key actors of civil society organisations on this important file was a priority for our newly created international association. Indeed, a positive impact from an improved access to safe and fair credit for consumers can be expected from appropriate amendments. It is possible via innovation and inclusion centred use of digitalisation.”



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“The reason why Institut für Finanzdienstleistungen has joined the Coalition: consumer credit is an important instrument and/or necessity for almost all consumers for implementing personal plans or overcoming temporary financial difficulties. Therefore, the needs of consumers should have priority for the product of “consumer credit” which should provide responsible and fair solutions. The Proposal is a very important step towards achieving this goal and, therefore, its advances and shortcomings should be addressed.”

COALITION SIGNATORIES

Among the wide range of signatories of this common position, the first mentioned have developed even more detailed policy recommendations, available to anyone interested.

