

Brussels, 4 November 2004

Questions and answers on the Commission's revised proposal for a new EU consumer credit law

The European Commission has made a number of significant changes to its proposal for a new EU law on consumer credit. The revised proposal incorporates many of the amendments called for by the European Parliament when it voted on the draft law in April this year. This is expected to enable the Council of Ministers to reach a common position early in 2005.

1) Why does the EU need a new law on consumer credit?

The purpose of the proposal is to create a single market for consumer credit. It will make it easier for financial institutions to offer credit across borders or for consumers to take out a loan with a bank in another country, while at the same time ensuring a high level of consumer protection. The current EU law on consumer credit was passed in 1987 and has become rather outdated. It has not kept pace with innovation in the financial services sector and it has not sufficiently fostered greater cross border lending in the EU.

The Commission's objective in revising the 1987 consumer credit law is to establish a set of modern rules that guarantee consumers a good level of protection no matter where in the EU they take out credit. This will give consumers confidence to sign up for credit products across borders and so help make an EU internal market for financial services more of a reality.

2) Why has the Commission revised its proposal?

In order for an EU law to be passed it needs to be approved by both the European Parliament and the Council of Ministers. During the normal course of the EU's legislative process, therefore, the Commission practically always revises its original proposal. In the case of the new consumer credit law, Parliament held its first vote on 20 April this year and passed some 150 amendments. The Commission's revised proposal incorporates over 100 of these amendments, either in whole or in part.

3) What are the main changes?

The Commission has reduced the scope of its original proposal while retaining a high level of consumer protection. In particular:

- A number of types of credit agreements - for example, loans above € 100,000 and credit agreements where the consumer is required to repay within 3 months free of charge - are no longer covered by the law.

- A simplified set of “light rules” is introduced to regulate, for example, overdraft arrangements on bank accounts, credit agreements concluded with credit unions and small loans (under € 300). These rules are based on simplified requirements for pre-contractual and contractual information.
- The detailed rules stipulating how Member States should register and regulate credit intermediaries have been removed from the proposal. The law still requires that all intermediaries be regulated. However, Member States can decide how best to do this according to the economic and social realities of their country.
- The revised proposal no longer obliges EU Member States to set up national “consumer credit” databases enabling lenders to identify consumers who are already financially overstretched. Instead, proposal would require all existing databases on consumer credit to be opened up to all credit companies from around the EU on a non-discriminatory basis.
- Advertisements for consumer credit products will have to feature a box giving certain standardised information such as the annual percentage interest rate (APR), the cost of the monthly payments and any fees applied.

4) Which of Parliament’s amendments did the Commission reject?

The Commission rejected a set of amendments that sought to base the new law on the principle of minimum harmonisation, thus allowing Member States to top up the EU rules at national level. This would mean maintaining differences between national consumer protection laws. Consumer credit would therefore continue to be largely a national and local market, depriving consumers of all the advantages an EU-wide market for credit would offer them.

5) How does the right of withdrawal work under the revised proposal?

Consumers have the right to cancel a credit agreement within 14 days of making the agreement, in line with the Directive on distance marketing of financial services.

If the credit agreement is closely linked to the purchase agreement, then any right of withdrawal granted by national law concerning the purchase contract triggers also a right of withdrawal from the credit agreement. However, the right to withdraw from a credit agreement does not imply a right to withdraw from the purchase of goods or services financed by the agreement. In other words, the Commission rejected the idea that if consumers sign a credit agreement with a shop in order to purchase a television set they can cancel the purchase of the television if they exercise their right to withdraw from the credit agreement.

6) Does the consumer still have the right to repay early under the revised proposal?

Yes, the revised proposal confirms the right of early repayment. In addition, the proposal makes it clear that the creditor may claim only a fair and objective indemnity if the consumer exercises this right.

7) What does the revised proposal do to address the problem of consumers who take on more debt than they can afford to repay?

The revised proposal requires lenders to give standardised information about important elements such as APR, fees and monthly repayments when advertising consumer credit products. It will also oblige lenders to give consumers comprehensive information about a credit agreement in good time before they sign the contract, to document the agreement properly and keep the consumers properly informed about their respective rights and obligations under the agreement throughout their credit relationship. These information requirements, coupled with the right to cancel a credit agreement within 14 days of signing it (see answer to Question 5), will help consumers to avoid taking on more debt than they can afford.

In addition, the revised law requires lenders to check a consumer's creditworthiness before concluding a credit agreement with him or her. Any lender offering a range of credit products will have a duty to advise the consumer on which product (among those they offer) is most appropriate to the consumer's needs. So, for example, if a consumer was trying to arrange credit with their bank in order to purchase a car, the bank would be under a duty to advise them to use one of its personal loans rather than just extending their overdraft, if that would work out cheaper for the consumer.

8) What happens next?

The revised proposal will be examined in the Council of Ministers. The Commission hopes that the Council will be able to reach a common position on the new law early in 2005. This would open the way for Parliament and Council to finalise the law rapidly.

The text of the revised proposal is available at:

http://europa.eu.int/comm/consumers/cons_int/fina_serv/cons_directive/index_en.htm