



**Contact:** Jim Murray, Dominique Forest  
**Date:** 10/10/2005  
**Reference:** PR 021/2005

## **Media Brief on Consumer Credit**

Today the European Commission released its (new) amended proposal for a directive on credit for consumers, three years after the original proposal, more than 15 months after the plenary vote in the European Parliament.

Following a difficult passage for the original proposal in the European Parliament, the new proposal is more limited in scope. Equity releases (raising a loan on the value of your home) will not be covered, but should in principle be covered in a new mortgage directive (but when?).

A light regime will apply to overdrafts and credit cards, although many abuses have been reported in these areas, such as lack of information, misleading information, and hefty charges. Some of these issues may be covered by future legislation on payment systems.

A very light regime would apply for small loans below 300 Euros, leaving it up to national legislation to protect the most vulnerable consumers who generally borrow more limited amounts.

Unfortunately the new proposal no longer contains any provisions on unsolicited door-to-door selling of credit. We never understood and never accepted the strong opposition to the original proposal on this point.

It will also now be left to member states to deal with problems of recovery and repossession, where psychological harassment, privacy infringement, unfair or misleading practices are rife, as well as protection of consumers' data from undue use and processing.

The Annual Percentage Rate of Charge (APRC) would include all costs known to the lender at the time of proposing a loan. Whilst the APRC should give consumers a fair picture of what would be the impact of the loan on their financial situation, everything depends on how the provision is implemented and applied in practice.

The notion of "responsible lending" (checking whether a consumer has the means to pay for a loan) is treated in a clearer way in the new proposal.

Member States will remain free to introduce/keep consumer-friendly provisions on joint and several liability (where the lender may share some or all of the seller's liability towards the consumer).

Consumers would enjoy a right of early repayment, but would have to pay fair and objective fees to compensate the loss. This should bring a number of benefits but may have a negative impact on those cases where consumers have a right to early repayment without penalty. The implementation of this provision in practice will need to be considered carefully.

According to Jim Murray, BEUC Director, "The new proposal is more modest than its predecessor. It should improve the current situation for many consumers but, with so much left to member states to regulate, it may not have a very large impact on building a single market in consumer credit".

END