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**INFORMATION  
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CONSUMER CREDIT

The Commission has worked out new draft proposals concerning consumer credit. The individual consumer is in many respects in need of information, presented in a comprehensible form, about the various types of credit that are available to him. His remedies at law are not always the most suitable that could be constructed for his use. The new draft seeks to regulate consumer credit comprehensively, i.e. to regulate all the forms of credit that are available to consumers. The aim is to improve consumer protection and to contribute towards increased freedom of movement of goods and services by harmonising as far as practicable the law relating to consumer credit. It is hoped that the proposals will be ready to be adopted by the Commission at the beginning of next year.

Cost of credit facilities

The non-regulation of many types of credit has been responsible for a great deal of misunderstanding, on the part of consumers, of the law and practice relating to them. It is often the case that the consumer is not properly made aware of the precise cost of the credit facilities offered to him. For example, the interest on a loan may be stated as being 2% per month, on its face a relatively cheap rate. The uninformed consumer, however, will not bear in mind that there are a number of additional charges not included in this figure. These may include administration charges, a fee for opening the file, and a range of other obligations including for example a duty to insure goods purchased on credit during the period of repayment of the loan, or to maintain the goods properly during that period. In addition, the rate of 2% per month grosses up to almost 27% interest per year. The final cost of this credit may in the end work out at 2 or 3 times the stated rate.

A rapid expansion of credit

At the present time, the types of credit offered to the consumer and the total sums involved are increasing at an unparalleled rate. The number of credit cards in circulation in Belgium rose in six months from 857,000 to 987,561 at the end of 1973. In the U.K., more than 1,500 million pounds of credit was advanced in the first eight months of 1974.

The introduction of piecemeal legislation in different Member States has, moreover, altered the position, further confusing the consumer, and leading to a relative falling off in the volume of regulated forms of credit in comparison to those as yet not covered by law. For example, the volume of instalment sales (a regulated

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category) in Belgium fell from 13,340 million FB to less than 12,000 million FB in the second half of 1973, while the level of personal loans (comparatively unregulated) increased by 100% from 7,600 million FB to 15,000 million FB over the same period.

#### All types of credit to be harmonized

There is therefore a general consensus of agreement that the time is ripe for a complete overhaul (indeed, a modernisation) of the law in this sector, and that the opportunity to harmonise should be seized(1). Moreover, there is also substantial agreement that the proposed new regulations should cover the entire breadth of the subject, and in particular that it would be unsatisfactory to attempt to harmonise the law relating only to certain types of Consumer Credit (such as instalment credit sales, leasing agreements with option to purchase, credit cards or instalment repayment loans) if only because of the phenomenon of transfer from regulated to unregulated forms of credit already mentioned. This is a major step forward.

#### The Commission's draft proposals

The Commission's draft proposals have a two-fold purpose:

1. to improve consumer protection
2. to contribute towards increased freedom of movement of goods and services, by harmonising as far as practicable the law relating to Consumer Credit.

As regards the first of these purposes, useful progress has been made. There is general agreement, for instance, that consumers should be informed of (inter alia) the effective rate of charge that they pay for credit, and that maximum and minimum limits both as to amount and duration should be fixed beyond which the provisions of the proposals would not apply.

It is further suggested that agreements under which credit is granted at no charge, or at low charge, should be exempted. The Commission proposes to examine this suggestion carefully.

The bringing together of the rules on consumer credit can fulfil an important role in opening the market to the freer movement of goods and services. Ignorance of the terms on which credit is offered in other countries is clearly a factor which dissuades consumers from buying goods on credit in countries other than their own. Of course, other factors such as exchange control and variations in the exchange rates of the several Community currencies operate as a further blockage to trade which the proposed directive cannot itself remove. The liberation of the Community market will not be complete until agreement has been reached on a common Community approach in all of these related fields.

Nonetheless, the consumer credit proposals are an important addition to the process of interrelationship and a further step forward in the opening up of a single Community market. The greater availability of credit will moreover operate in itself as a stimulus to production, which together with the opening of the market, will give the consumer more effective access to a wider range of goods and services. So the Commission is encouraged by the support being given to this proposal, and looks forward to a development of general support for it during the following months.

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(1) The Commission wishes to draw attention to the forthcoming OECD report on Consumer Credit, the result of two years' work, which should repay careful study by all those interested in the subject.