BEUC The European Consumer Organisation

Press Release

Contact: **Andrew Canning: press@beuc.eu**
Date: **30/06/2021**
Reference: **BEUC-PR-2021-022**

Major Commission proposal to revamp Consumer Credit Directive to the benefit of consumers

Consumers are set to gain much-needed extra protections when they take out a loan, according to proposals the European Commission published today. With many consumers still feeling the financial effects of COVID-19, BEUC praises these added protections, which come just at the right time.

The current Consumer Credit Directive – the EU's rules governing the provision of consumer credit in the bloc – dates back to 2008. It originally focused on the need for lenders to provide appropriate information to consumers, to help them make an informed choice when taking out a loan. However, it has failed to keep pace with developments in financial services, like digitalisation and the rise of predatory products like short-term high-cost credit.

The revised rules significantly broaden the scope of products that will need to comply with stricter lending obligations. They will include small loans below €200, loans offered through crowd-lending platforms (online financing that connects people willing to loan money to others) and 'buy-now-pay-later' products increasingly offered to consumers online. Studies by our members show that buy-now-pay-later products, which are largely unregulated in Europe, risk promoting impulse buying and push consumers into debt.

The Commission also proposes to limit the sometimes egregious costs of consumer loans, by requiring countries to cap interest rates and/or the total cost of credit. This is already common practice in several EU countries, protecting consumers from unaffordable loans. But EU legislators should put a stricter cap on green loans to help consumers make sustainable purchases (e.g., solar panel, electric vehicle) and accelerate the green transition.

BEUC Director General Monique Goyens commented: "With many consumers still feeling the financial consequences of the COVID crisis, these plans come just at the right time. Consumers have for far too long been preyed upon by loan sharks aiming to exploit society's most vulnerable people with loans with extortionate rates.

"Today, getting into debt is a matter of a couple of clicks. The internet is rife with 'short-term high-cost credit' and 'buy-now-pay-later' schemes, with consumers often unaware of the potential financial consequences. COVID has accelerated these trends, with many people turning to credit to make ends meet and increasingly shopping online. These plans will bring much-needed extra safeguards for consumers relying on these products."

This press release is part of an activity which has received funding under an operating grant from the European Union's Consumer Programme (2014-2020).

BEUC is pleased to see many improvements to consumer protections granted in the initial Directive that it had advocated for in the Commission's ambitious proposal (which will now need to be approved by the European Parliament and Council), including:

- **Caps on interest rates and/or the total cost of the credit** to the consumer.
- The **Directive's scope has been significantly broadened.** Providers of small loans below €200, crowdlending platforms and buy-now-pay-later schemes will be required to comply with the provisions of the Consumer Credit Directive. Moreover, all credit agreements up until €100,000 will now be required to comply with the obligations under the Directive (up from €75,000).
- **Stricter consumer-centric creditworthiness assessments**, with a ban on lending to consumers if the assessment is negative, based on relevant and accurate information. Moreover, where such assessments involve profiling or automated processing of personal data, consumers will have a right to demand human intervention and to contest the decision.
- **A ban on tying practices**, e.g., where lenders require consumers to take out a specific payment protection insurance policy to obtain a loan. Tying practices have been a key driver of unsuitable advice and mis-selling.
- A **ban on unsolicited credit offers** and unauthorised credit limit increases, including practices like sending consumers unsolicited pre-approved credit cards.
- Lenders will be required to give **reasonable 'forbearance' measures** (e.g. loan extensions or payment deferrals) to consumers in financial difficulties, and countries must ensure that debt advisory services are made available to consumers.

ENDS

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