FMA

CONSUMER CREDIT

Consumer credit may take on many forms, such as an overdraft for an account, a credit card purchase, a vendor credit or purchase in instalments, as well as the classical personal loan. Consumer credit on the one hand offers simple and quick financing, but on the other hand also comes with risks and costs that should not be overlooked.

- Compare different, specific credit offers
- Maintain a clear overview of the credit you have
- Payment difficulties are associated with high costs

Check who your contractual partner is, and check whether its place of incorporation is. Lending is increasingly frequently being offered online and also on a cross-border basis. Consider the fact that in the case of there being problems that matters may become more difficult.

Inform yourself precisely about interest rates and costs

What may initially appear to be cheap, may become expensive at a later date. The interest rate stated in an example or in advertising often requires a borrower to have a good credit rating. However, if you do not have an excellent credit rating, your loan may be subject to a higher interest rate and be associated with higher costs.

A lot of consumer lending also makes use of variable interest rates, meaning that the interest rate may change across the maturity of the lending, in particularly the interest rate may also increase and the repayment of the loan becomes more expensive. You should therefore inform yourself in detail about the conditions relating to interest rates and charges, prior to taking out the loan or concluding a purchase to be paid in instalments.

Compare different offers

Banks are required to make information available to you about the credit, free of charge, prior to the conclusion of the contract. Gather comparable offers from several banks and compare the offers that have been drawn up specifically for you prior to signing a contractual credit agreement.

To be able to compare different offers you must receive a “European Standardised Information Sheet” (ESIS). This contains the most important contractual conditions, the borrowing rate and the effective annual rate of the credit.

Even where there is the same borrowing rate credits may have different effective annual rates, as banks also charge different fees in addition to the interest paid on borrowings. The effective annual rate consists of the interest paid on borrowings and the total costs of the loan. As a result you may also compare offers for credit for different amounts and with different maturity terms.

Then you can chose the loan that is the cheapest for you. Banks are also required to give you a complete pro forma copy of the loan agreement, which contains all the conditions regarding the loan.

Credit Insurance or Residual Credit-Debt Insurance

Often credit insurance is also required to be taken out when making use of consumer lending. In this case the costs of the credit insurance, where this amount is already known, must also be included in the effective annual rate. Where the costs of such credit insurance are as yet unknown, then you must in any case be informed that you are obliged to conclude some kind of insurance along with the credit.

Pay attention to the term of the credit

If you want to pay off the costs of a new smartphone over five years even though the smartphone will be broken after three years, you will still perhaps have to pay for a further two years, even though you no longer even have the smartphone. If you then want to finance a new smartphone, you will already have two loans running alongside one another for a "smartphone". This will affect your credit rating and is likely to also make the new loan more expensive.

You should therefore check the length of the loan ties in with the expected lifespan of the item being purchased using financing!

Maintain a clear overview of the consumer loans you have

If you conclude several credit agreements, it can be easy to lose the overview. In the case you have several vendor loans, or purchases made in instalments, as well as credit card purchases and an account overdraft, then the total financial burden might be higher than you expected. You should always retain an overview about all your repayment obligations.

Payment difficulties are frequently associated with high costs

When you have payment difficulties and payments are delayed, there are often high additional costs such as interest for late payment, and charges for payment reminders.

You should therefore already contact your bank before a payment is delayed and should try to reach a joint solution.