

**Increasing consumer loan transparency.
The role of the annual percentage rate of charge
- Summary of results -**

Woldemar Walter
German Economic Team Moldova

Berlin/Chişinău, May 2018

Structure

1. Introduction
2. EU regulation on consumer loan transparency
3. The case of Germany
4. The case of Austria
5. Regulation and implementation in Moldova
6. Consumer loans and financial stability
7. Summary and recommendations for Moldova

1. Introduction

- Transparency in consumer lending important for consumer protection, financial stability and fair competition
- Borrowers should be able to compare the cost of credits in a simple way
- A widely used instrument to compare different loan offers is the annual percentage rate of charge (APR)
- The APR includes all the costs of the credit and expresses them as annual interest rate

Research question: Is APR used appropriately in Moldova to ensure consumer protection?

- Before looking at the specific situation in Moldova, we first take a look at the use of the APR in some EU member states – namely Germany and Austria
- These two countries had to implement the EU Directive that defines standards in consumer lending regulation
- Moldovan regulation also follows the EU Directive

2. EU regulation on consumer loan transparency

- Consumer credit agreements are regulated on EU-level by Directive 2008/48/EC
- According to this directive all EU countries have to fulfil certain minimum standards and to use the same definitions
- Advertisement, if costs of credit are indicated, it shall include standard information:
 - the nominal interest rate, plus any additional charges included in the total cost;
 - the total amount of credit;
 - the APR;
 - the duration of the credit agreement;
 - the total amount payable by the consumer;
 - the amount of the instalments

3. Regulation in Germany

- Germany fulfils the requirements demanded by the EU Directive, advertisement has to show:
 - the nominal interest rate, any additional charges included in the total cost; the total amount of credit; the APR; the duration of the credit agreement; the total amount payable by the consumer; the amount of instalments

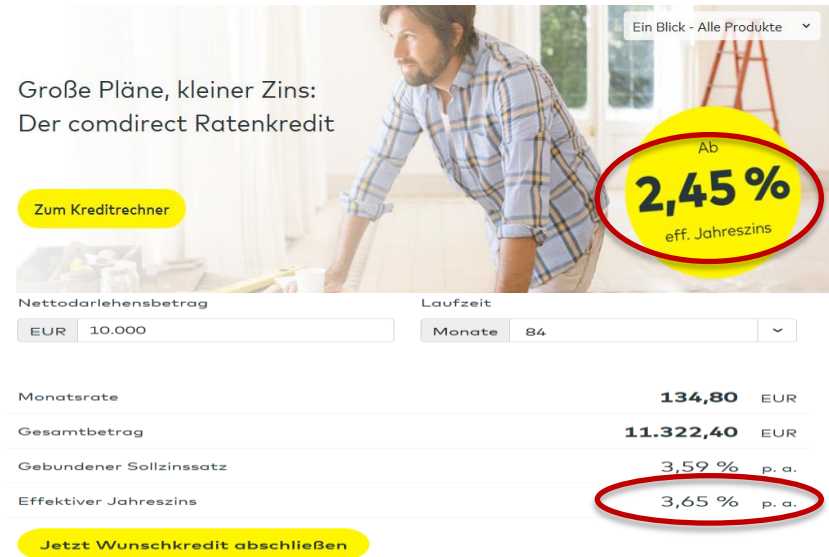
- But law formulates additional provisions:
 - Every communication concerning advertisement shall be fair, clear and not misleading
 - Formulations which lead to wrong expectations regarding costs of the credit are not allowed
 - The APR must be at least as stressed as any other rate
 - The advertisement has to include an example for the APR for which the lender expects that 2/3 of the contracts concluded on the basis of this advertising should have the advertised rate or a better one

Practical examples of advertisement in Germany

Nettodarlehensbetrag	8.000 EUR
Effektiver Jahreszins	3,99 %
Fester Sollzinssatz p. a.	3,92 %
Monatliche Rate	180,34 EUR
Laufzeit in Monaten / Anzahl Raten	48
Zu zahlender Gesamtbetrag	8.656,42 EUR

Der Zinssatz ist bonitätsabhängig. Darlehensgeber ist die Deutsche Bank Privat- und Geschäftskunden AG, Theodor-Heuss-Allee 72, 60486 Frankfurt am Main.

Standard-Konditionen: Nettodarlehensbetrag von 1.000 Euro bis 75.000 Euro; effektiver Jahreszins von 3,49% bis 7,49%; fester Sollzinssatz p.a. von 3,44% bis 7,24% ; Laufzeit von 12 bis 84 Monaten. Bonität vorausgesetzt.



Große Pläne, kleiner Zins:
Der comdirect Ratenkredit

Zum Kreditrechner

Ab **2,45 %**
eff. Jahreszins

Nettodarlehensbetrag: EUR 10.000
Laufzeit: Monate 84

Monatsrate	134,80 EUR
Gesamtbetrag	11.322,40 EUR
Gebundener Sollzinssatz	3,59 % p. a.
Effektiver Jahreszins	3,65 % p. a.

Jetzt Wunschkredit abschließen

- APR (“effektiver Jahreszins”) usually stated before the nominal interest rate
- If only one interest rate is shown, it is the APR; if the nominal interest rate is shown, it is immediately followed by APR
- Very small difference between APR and nominal interest rate
- Advertisements focus on the APR, high transparency and comparability for consumers. The APR is used appropriately

4. Regulation in Austria

- Regulation in Austria fulfils requirements of the EU Directive, advertisement has to show:
 - the nominal interest rate, plus any additional charges included in the total cost
 - the total amount of credit;
 - the APR;
 - the duration of the credit agreement;
 - the total amount payable by the consumer;
 - the amount of the instalments

- No additional provisions are made

- Regulation weaker than in Germany

Practical examples of advertisement in Austria

Santander
CONSUMER BANK

UNSERE ANGEBOTE ÜBER UNS JOBS UND KARRIERE BUSINESS PARTNER

JetztSofort Kredit Budgetrechner

Vom Minus ins Plus

Wunschbetrag: € 8.000

Laufzeit: 60 Monate

Monatsrate¹⁾: € 143,84

SONDERKONDITIONEN NUR IM INTERNET

Unverbindlich anfragen

Schnelligkeit Maßgeschneiderte Lösungen Freier Verwendungszweck Zusätzliche Absicherungsmöglichkeiten

¹⁾ Sollzinssatz bonitätsabhängig ab 7,99 % p.a. (Sonderkondition gültig für Neukunden bei Onlineantrag); Repräsentatives Berechnungsbeispiel: 2,99 % p.a. Sollzins: 3,07 %; Effektivzinssatz: 5,5 %; Erhebungsgebühr, € 0,- Lohnvermerkgebühr, 0,00 % Bearbeitungsgebühr, € 0,00 monatliche Kontoführungsgebühr (bei Einziehungsauftrag); Laufzeit: 60 Monate, monatliche Rate: € 143,84, Gesamtkreditbetrag: € 8.000, zu zahlender Gesamtbetrag: € 8.630,40. Angebot gültig bis 31.03.2018. Erfüllung banküblicher Bonitätskriterien vorausgesetzt. Produktangaben: Laufzeit 24 - 120 Monate

Konto im Minus? Über Nacht im Plus.

Garantierte 4,25% p.a.*

easy kredit

garantierter Zinssatz 4,25% p.a.* variabel

kein Bearbeitungsentgelt

rasche Kreditauszahlung in 24h

4 Ratenpausen gratis

Kreditsumme von € 4.000,- bis € 50.000,-

flexible Laufzeit bis zu 7 Jahre oder kostenlose schnellere Rückzahlung

sofortige Online-Rückmeldung zu Ihrem Kreditwunsch rund um die Uhr

> Bestellung für easybank Kunden

> Bestellung für Neukunden

Bei einem Nettodarlehensbetrag von EUR 10.000,00 und einer Laufzeit von 84 Monaten erhalten Kunden der easybank AG einen Nominalzinssatz in Höhe von 4,25% p.a. variabel, kein Bearbeitungsentgelt, Kontoführungsentgelt gesamt EUR 390,60, Zinsen gesamt EUR 1.574,86, **Effektivzinssatz 5,5% p.a.** Gesamtrückzahlung EUR 11.964,86

- Advertisements focus either on the amount of monthly payment or on the nominal interest rate
- APR mostly hidden in the small print
- Use of APR less transparent, efforts and knowledge needed for consumers to compare and understand credit offers

5. Regulation in Moldova

- Moldova fulfils the requirements demanded by the EU Directive, advertisement has to show:
 - the nominal interest rate, any additional charges included in the total cost; the total amount of credit; the APR; the duration of the credit agreement; the total amount payable by the consumer; the of instalments
 - Law LPO202/2013 additionally states:
 - This information shall be provided in the same field of vision and with symbols of the same size
- Regulation is a bit stricter than in Austria but less strict than in Germany

Examples of advertisement in Moldova (1)

18.03.2018 17.04.2018 Plăți lunare egale 9.00

Calculează

Informații generale despre credit

Suma creditului solicitat	10000.00
Comision unic	200.00
Taxa administrativă	100.00
Suma dobânzii	494.80
Comision de administrare	232.00
Total spre plată	11026.80
DAE	19.00

* Calculul estimativ realizat prin intermediul calculatorului de rate online este orientativ si nu are valoare contractuala

CREDIT

LIFESAVER

COMISION LA ACORDAREA ORICĂRUI CREDIT

OFERTA VALABILĂ DOAR LA FILIALA

0%

PENTRU UN CREDIT ÎN SUMA DE 500 000 MDL, ACORDAT PE UN TERMEN DE - 240 LUNI
RATA DOBÂNZII: PRIMELE 12 LUNI - RATA FIXĂ 6,95%, DUPĂ 12 LUNI - RATA FLOTANTĂ - 9,9% ANUAL,
COMISION DE ADMINISTRARE LUNARĂ DIN SOLD - 0,15%;
DAE - 11,86%

PENTRU UN CREDIT ÎN SUMA DE 500 000 MDL, ACORDAT PE UN TERMEN DE - 240 LUNI
RATA DOBÂNZII: PRIMELE 12 LUNI - RATA FIXĂ 6,95%, DUPĂ 12 LUNI - RATA FLOTANTĂ - 9,9% ANUAL,
COMISION DE ADMINISTRARE LUNARĂ DIN SOLD - 0,15%;
DAE - 11,86%

- All necessary information shown
- No focus on APR and only shown as abbreviation
- In left example “%” is missing; in the right “0%” is misleading
- Legally ok, but both cases would not be possible in Germany

Examples of advertisement in Moldova (2)

Условия кредита

- ✔ Условия кредита
 - 2 000 - 30 000 MDL
- ✔ Срок кредита
 - от 1 до 12 месяцев
- ✔ **Переплата и проценты**
 - 12% годовых + ежемесичный комиссион

Необходимые документы

- ✔ Работающие официально
 - Булетин (вместе с вкладышем)
- ✔ Работающие неофициально
 - Булетин (вместе с вкладышем)
- ✔ Пенсионеры
 - Булетин (вместе с вкладышем)
 - Пенсионное удостоверение

APR is missing

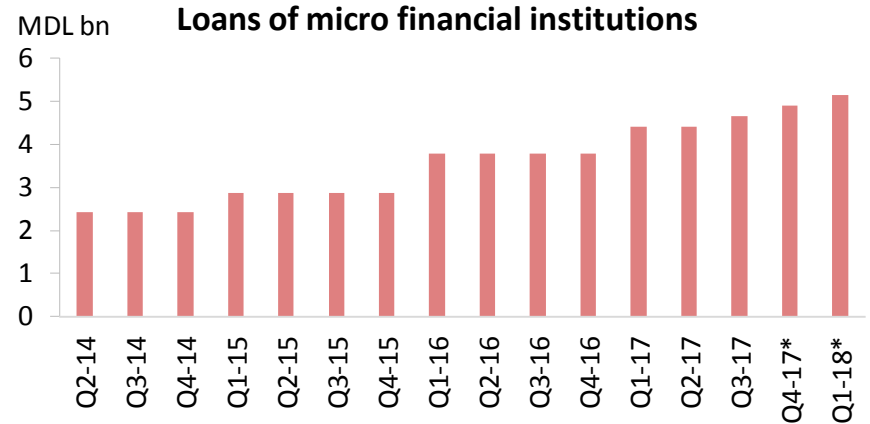
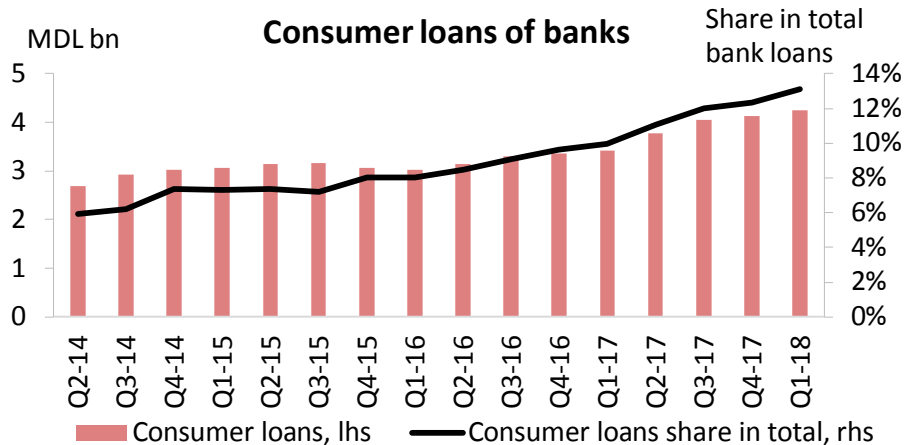


- In left example the APR is missing
- Right example shows none of the information obligatory by law
- Clear violations of law
- Supervision seems to be a problem

Transparency during loan application

- Performance of field trials: asked bank and micro financial institutions for loans to assess the transparency during loan application
- According to law lenders are obliged to:
 - Provide pre-contractual information
 - provide adequate explanations to all costs
 - assess the consumer's creditworthiness on the basis of sufficient information
- Our experience
 - Lenders, especially micro finance institutions, often offer lending without explaining all the subtleties of a credit contract
 - Pre-contractual information is sometimes not provided
 - Pre-contractual information is often incomplete, and more details are provided only on request
 - Loans between MDL 1 to 8 thsd. are usually provided on the basis of the ID card, without any income statements
- Lending activity lacks the necessary transparency that is mandatory for ensuring consumer protection, especially in case of micro financial institutions

6. Consumer loans and financial stability



Source: National Commission for Financial Markets; *Estimate based on historical growth rate

- **Strong growth of consumer loans in past 4 years:**
 - For banks: from MDL 2.7 bn in Q2-2014 to MDL 4.2 bn in Q1-2018, an increase of 58%
 - For micro financial institutions: from MDL 2.4 bn in 2014 to estimated MDL 5.1 bn Q1-2018, an increase of 111%
- Bank consumer loans together with loans from micro financial institutions are now around 29% of total banks sector credit volume
- Increasing importance of consumer loans in connection with a non-transparent system of providing consumer loans can pose a potential threat for financial stability

7. Summary

- Despite EU Directive still differences between countries because regulation of some countries goes beyond directive requirements, e.g. in Germany
- Stricter regulation leads to better results: in Germany advertisement focuses on the APR and is more transparent than e.g. in Austria

Situation in Moldova

- Moldova fulfils standards by EU directive but has no substantial further provisions
- Advertisements not very transparent, APR is not used appropriately, consumers not very well protected
- Additionally, many violations of the law in advertisements and in consumer dialogue
- Need to strengthen regulation and supervision

Recommendations

Regulation (disclaimer: economic, no legal advise)

- One possibility, strengthen regulation based on German experience
- Include general provisions in regulation:
 - every communication concerning advertisement shall be fair, clear and not misleading
 - formulations are not allowed which lead to wrong expectations regarding costs of the credit
- Include specific provisions:
 - show the APR at least as prominent as any other rate
 - APR should be stated immediately before or after the nominal interest rate

Supervision

- Beyond our analysis, but the important question is: Does the supervisory body has the capacity to cover the area and what should be done to improve it?
- Topic for further research

Contact

Woldemar Walter

walter@berlin-economics.com

German Economic Team Moldova

c/o BE Berlin Economics GmbH

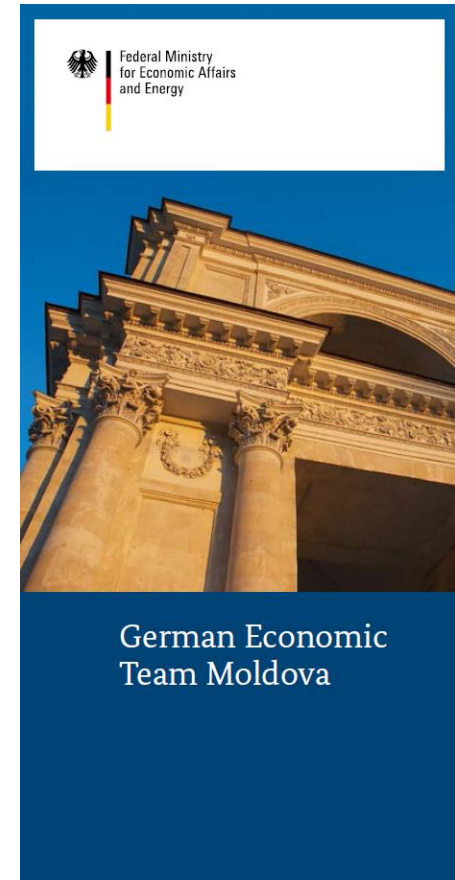
Schillerstr. 59, D-10627 Berlin

Tel: +49 30 / 20 61 34 64 0

Fax: +49 30 / 20 61 34 64 9

www.get-moldova.de

Twitter: @BerlinEconomics



 Berlin
Economics

The logo for Berlin Economics, consisting of two dark green squares stacked vertically to the left of the text 'Berlin Economics'.