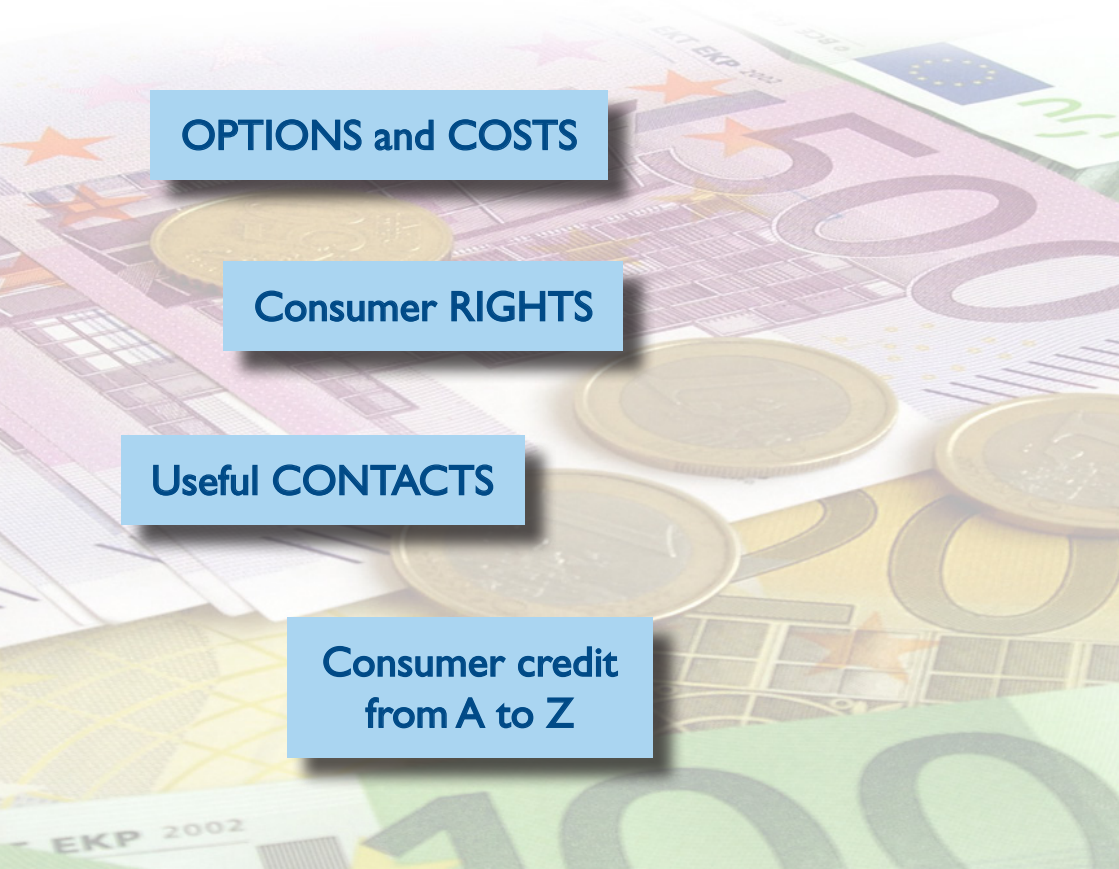
BANCA D'ITALIA
GUIDES

L'ECONOMIA PER TUTTI
BANCA D'ITALIA PER LA CULTURA FINANZIARIA

CONSUMER CREDIT

made easy



OPTIONS and COSTS

Consumer RIGHTS

Useful CONTACTS

Consumer credit from A to Z

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Consumer credit

Consumer credit is money lent for the purchase of goods and services required by the consumer or by the consumer's family – a car, a household appliance or a language course – or to deal with situations requiring you to have cash available. A 'consumer' is a person who purchases something for private rather than professional use.

A loan may range from €200 to €75,000 and is granted by a bank or by an authorized financial company, or also by a provider of goods and services such as a retailer or a car dealer.

A useful way to buy something important for you or your family.

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How to choose a loan?

Before I choose, I need to ask the following questions

What is a consumer loan?

It is a loan that can only be requested for personal needs, which are connected to your private, family life. When a loan is needed to purchase something – for example, a car, a television or a training course – it's called a special purpose loan or a 'linked credit agreement' and the lender usually pays the sum directly to the seller. However, if a loan is requested because cash is required, then it is called a non-specific loan.

Consumer credit therefore does not include any kind of loan for any needs to do with professional activities, such as buying agricultural machinery or a printer for a shop.

What isn't a consumer loan?

Even if a consumer asks for the following loans for private needs, they are not considered 'consumer loans':

- loans of less than €200 and more than €75,000
- loans that don't involve interest payments or other costs
- loans to buy land or an existing or projected building
- loans with a duration of more than five years secured by a mortgage or lien on immovable property
- overruns, or rather the occasional authorized use of amounts greater than that of a **current account balance** or of an **overdraft** (> Consumer credit from A to Z) agreed for a current account.

The loans excluded from 'consumer credit' are listed in the Testo Unico Bancario (Consolidated Law on Banking), available on Banca d'Italia's website.[1]

Who can I ask for a loan?

1 www.bancaditalia.it/compiti/vigilanza/intermediari/Testo-Unico-Bancario.pdf

When a loan is covered under the definition of 'consumer credit', the law envisages particular consumer protection and rights compared with other types of loan.

A **lender**, i.e. banks and authorized **financial companies** (> Consumer credit from A to Z).

The lender can use agents and **credit brokers**, who are credit intermediaries (> Consumer credit from A to Z).

If the loan is for purchasing a good or service, you can often apply directly to the point of sale, such as hypermarkets or car dealers that prepare everything for the loan contract connected to the sale.

Who can ask for and get a loan?

Anyone can ask for a loan. However, to get a loan you have to prove that you can pay back the amount of the loan on the set deadlines. This is known as creditworthiness and is assessed by the lender before the loan is granted.

How is creditworthiness assessed?

Before concluding the contract or before agreeing to a significant increase in the amount to be lent, the lender has to collect information on the consumer's ability to pay back the loan, and can do so by consulting a data base. There are public and private data bases that collect information on loans obtained by individuals and also any negative information, such as a refused loan or the non-payment of instalments.

Beware!

Don't trust anyone who promises easy loans to everyone. Always carefully check the interest rates, the extra or ancillary expenses and the economic conditions provided for in the contract. That way you'll avoid getting caught out by high costs, which might prevent you from being able to repay the money you borrowed.

Types of loan

Consumer credit includes different types of loans. These are the most common ones:

- non-specific loan
- opening a current account credit facility
- revolving credit card
- special purpose loan or 'linked credit agreement'

Non-specific loan

Personal loan

A personal loan is usually granted for general cash needs. The lender pays a lump sum to the consumer who then pays it back in instalments. As protection against the risk of non-repayment, the lender can ask for **personal guarantees** such as a **surety** (> Consumer credit from A to Z) and/or an insurance policy.

Loans against one fifth of salary or pension and deduction of payments

The law allows employees (public and private) and pensioners to pay back loans granted by using up to one fifth of their salary or pension. In this case, the employer or pension fund withholds the instalment from the salary or pension and pays it to the lender.

Pensioners can only ask for the transfer of a fifth part because only one payment can be withheld from their pension, which cannot exceed one fifth of the monthly amount received. Employees, however, can ask for bigger loans and use a further fifth of their salary; in this case, as well as using one fifth of their salary, they must also enter into a '**deduction of payment**' contract with the lender (> Consumer credit from A to Z).

The employer is obliged to respect salary-backed loans but can decide whether or not to approve the deduction of a further fifth of a salary. Salary-backed loans are legally required to have an insurance policy to cover the risk of the debtor's death and/or loss of employment.

Anyone who requests a salary-backed loan enjoys all the rights and protections provided for by consumer credit regardless of the amount of the loan.

Opening a current account credit facility

The bank agrees to make a fixed maximum amount available on a client's current account. To access this money the client has to pay a fee to the bank, but only pays the interest indicated in the contract on the amounts used. When the client pays back part or all of the amount used, with interest, the amount will become available for use again.

Loan with a revolving credit card

With a revolving credit card, the cardholder not only has a payment instrument but also receives a real loan, which can be used to make purchases directly at retailers or to withdraw cash.

The loan is repaid in instalments and with interest at a rate that is usually variable. The card can be used until the maximum limit set by the lender is reached.

Every time the amount used (the principal), is paid back through instalments, this amount can be spent again by using the card. This is why it is called a 'revolving' card.

Beware!

Interest rates on loans granted with a revolving credit card may be higher than those for other types of consumer loans.

The minimum instalment payment is usually low, and this is why you need to check the loan documentation to see the share of the instalment (the principal) that contributes to reducing the amount of the residual debt. Otherwise there is the risk that the duration of the loan will be extended and it will take much longer to pay it back.

Special purpose loan

A special purpose loan or 'linked credit agreement', is a loan for the purchase of a particular good or service, to be paid back in instalments. A consumer

can get this type of loan directly from a seller that has an agreement with one or more banks or financial companies and usually manages the loan on their behalf.

The contract must include a detailed description of the goods or services and an indication of what they cost.



How much does it cost?

Getting a consumer loan involves costs: interest, fees and other expenses. Fees include, for example, the costs of starting and managing a loan; other expenses may be taxes or insurance.

Some fees and expenses are fixed, regardless of the amount of the loan, so they will have a greater impact if the amount of the loan requested is low, for example under €1,500.

These costs taken together are the 'total cost of financing' and these are the indicators for its evaluation:

TAN (in Italian Tasso annuo nominale)

The TAN or 'annual nominal interest rate' indicates the 'pure' interest rate, as a percentage of the loan granted and on an annual basis. 'Pure' means it doesn't include costs or fees and doesn't indicate the 'total cost of financing', which is instead expressed in the TAEG or Annual Percentage Rate of Charge (APR). So a loan with a TAN of zero could have an APR that's much higher than zero.

Advertisements and the documentation for the offer must always show the TAN and specify whether it's fixed or variable.

APR (in Italian TAEG - Tasso annuo effettivo globale)

The APR (Annual Percentage Rate of Charge), expressed as a percentage of the loan granted and on annual basis, includes all the costs, so it's very useful for understanding which loan is most suited to your needs and what you can afford.

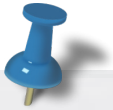
The APR is the main instrument for transparency in consumer loan contracts. As well as including all costs, it's also a harmonized index at European level. This makes it possible to compare all loans quickly and easily, including those offered by foreign operators on the Italian market.

Even so, the APR might not correspond exactly to the costs actually incurred. Opening a current account credit facility or having a revolving credit card, for example, might have costs that depend on unpredictable elements, such as fluctuations in interest rates and how frequently people

use and repay loans. In these cases the representative example that a lender is obliged to indicate in the loan documentation is particularly useful.

The APR includes	The APR doesn't include
• the TAN (or annual nominal interest rate)	• any penalties or default interest if the consumer doesn't pay the instalments or doesn't pay them on time
• fees, including those for credit intermediaries	• additional expenses paid in cash or by credit card at the time of purchase, for example for delivering the good purchased or for taking the old one away
• taxes	• notary fees
• other costs and expenses linked to extra services (for example, insurance policies) required by law or in any case necessary to get or continue use loans under the conditions offered, unless they cannot be quantified in any way when the APR is calculated (in this case extra services are indicated separately)	• expenses for optional extra services (for example, optional insurance policies)

By law, the APR must always be shown in advertisements, in the loan documentation and in the contract. The APR must be shown in the same way as all other costs and information in advertisements.



Here's an example of a non-specific personal loan

Amount granted	€10,000
Duration of loan	60 months
Monthly instalment	€216.9
No. of instalments	60
TAN	10.9%
APR*	11.6%

* The APR includes substitute tax (€25) and the cost of sending a periodic statement (€3).

The cost of the loan cannot be higher than the 'usury' ceiling, above which it becomes illegal.

The AOER and usury

The AOER (Average Overall Effective Rate) is the reference rate for calculating the **usury** ceiling (> Consumer credit from A to Z), above which a loan becomes illegal. It represents the quarterly average of the Overall Effective Rates (OER) applied by all lenders to individual types of loan (for example: opening a current account credit facility, personal loans or salary-backed loans). The AOER takes account of all the expenses connected with loans, excluding taxes and duties.

To make sure that the rate applied isn't illegal, you need to find out the 'ceiling rate' on the type of loan you're interested in and compare it with the rate actually applied to your loan. Lenders must display the ceiling rate table on their websites and in their offices, and it can also be consulted on Banca d'Italia's website.[2]

2 www.bancaditalia.it/compiti/vigilanza/compiti-vigilanza/tegm/index.html?com.dotmarketing.htmlpage.language=1



How to read advertisements

Promotional messages and advertisements give an initial idea of the loan deals offered to consumers. To make it easy for consumers to evaluate offers, the law requires that advertising is as clear and understandable as possible. If the advertisements of lenders and of sellers of goods and services show the TAN or other figures relating to loan costs (zero is a number too!), they must:

- show the important information in a clear, concise and prominent way compared with the other details: the annual interest rate, the expenses that determine the total cost of the loan or the maximum amount that can be made available, the duration of the contract, the total amount owed and the amount of the individual instalments (if that can be decided in advance)
- the APR must be shown in the same way as all the other information
- a clear example must be given which shows all the different features of the loan
- indicate any obligation to sign contracts for one or more extra services, unless the costs connected with the contract are already included in the APR.

Beware of adverts that talk about 'zero-interest loans'!

You must check that not only the TAN but also the APR on the loan are zero.

The **TAN** (annual nominal interest rate) is the pure rate of interest that doesn't include costs or fees.

If the overall costs were zero then the monthly instalments would come to €138.9. However, in the example the amount shown for the instalments includes €3 of monthly costs.

Example

You buy a language course for your children at zero interest!

Amount granted	€5,000
Monthly instalments	36 instalments of €141.9
Fixed TAN	0
TAEG	5.6%

Costs included in the APR:
- monthly costs €3
- arrangement costs €300

The **APR** expresses the total cost of the loan because it includes expenses and fees. This means it might be a lot higher than the TAN. In the example the APR includes arrangement costs of €300 and monthly costs of €3.



How to apply for a loan

Who can I apply to?

A bank or an authorized financial company which can use credit intermediaries: financial agents and credit brokers, entered on the Lists kept by the **OAM** - Organismo degli Agenti e dei Mediatori (Agents and Brokers Organization) (> Consumer credit from A to Z).

Agents act directly on behalf of lenders and can conclude loan contracts. Credit brokers, on the other hand, are independent subjects who can promote loans but cannot conclude contracts; they request a fee for their activities which they agree with the consumer.

You should always check whether a credit broker is entered on the OAM Lists. The lists also contain information on correct business practices. If someone is found to operate in an irregular way, the OAM[3] should be informed.

Sometimes a bank or a financial company can be a credit broker because it proposes loans for other banks or companies.

If the loan is for purchasing a good or a service, you can apply directly to the point of sale, for example a supermarket or a car dealer. In this case the seller prepares everything for the loan contract linked with the sale.

How to choose the most suitable loan

The lender or the credit intermediary must provide the consumer with all the information necessary to assess its offer and compare it with other offers on the market. In this phase consumers set out their needs and express their preferences.

The lender or intermediary must supply a **SECCI form** (Standard European Consumer Credit Information) free of charge (> Consumer credit from A to Z). This must be done before the consumer signs a loan contract or makes an irrevocable commitment, so that they have plenty of time to think it over. As part of its standardized format, the form must indicate the contractual conditions

3 www.organismo-am.it

according to the customer's characteristics and needs; any information that is not covered by the SECCI should be provided in a separate document.

The SECCI form must indicate:

- the main features of the loan, for example: the type of contract, the amount, the duration, the instalments, the good or service and the price if it's a special purpose loan, and the guarantees
- information on the loan costs: interest rate and APR with details of the costs included and not included and a representative example
- other legal aspects, such as: consultation of a data base, the right to receive a copy of the contract before signing it, the right of withdrawal, early repayment and the consequences of non-payment of instalments
- additional information if the products are marketed from a distance (online or by phone).

If the information received is insufficient or difficult to understand, the consumer can contact the lender for help.

The lender has to provide assistance, at least during normal office hours and by means of individual, face-to face or phone meetings. The consumer has the right to receive assistance from credit intermediaries as well.

Before concluding the contract and for the entire period in which the right to withdraw can be exercised, the lender is obliged to provide the consumer, free of charge, with complete explanations of the loan's basic features, the contractual conditions, the obligations arising from the contract and the consequences of non-payment of instalments.

Consumers have the right to request a copy free of charge of the contract ready to be signed, so that they can take their time and look at it at home.

Suggestions

In order to assess the interest rate offered and look for the cheapest product on the market, it's a good idea to compare the SECCI forms for the proposals of one or more intermediaries, using the APR as a benchmark.

Information is available on intermediaries' websites where you can often get free and personalized quotes.

For comparisons to be useful, the characteristics of the loan requested (for example type, amount, length of time and number of instalments) need to be the same for all intermediaries under consideration.

Before concluding a loan contract it's advisable to assess whether you really need to take out the loan and to make sure that your income is sufficient to pay the instalments over time. For this reason, you always need to consider that unexpected events may occur over the duration of the loan that might require new outgoings (medical expenses, spending on your house or your children) or that reduce your income (job loss, wage supplementation, illness).

When you have an ongoing loan, you must be careful about taking out other ones, as you run the risk of not being able to pay all the instalments.

You can ask lenders and credit intermediaries for help in these matters too.

What documents do I need?

The lender asks the consumer for certain paperwork and documents in order to set up the loan and assess their ability to repay it:

- a form of identification
- tax code
- *employee:* pay packet and CUD (your employee tax statement)
- *member of the professions or self-employed worker:* income tax returns (730 or 'modello unico')
- *pensioner:* pension payslip or National Social Security (INPS) certification
- documentation of any other ongoing loans.

Non-Italian consumers might be asked to provide documentation to prove that they are legally resident in Italy.

Bear in mind that:

- loans are usually granted to people between 18 and 70 years of age
- the lender may ask for a guarantee from a third person who agrees to pay in the event of the consumer's non-payment. In this case, the third person or guarantor must provide documentation demonstrating their ability to pay.

Main risks and issues

Creditworthiness

Before concluding a contract or granting a significant increase in the amount of the loan, the lender is obliged to assess the consumer's ability to repay the loan, both by requesting the information directly from the consumer and by consulting a data base: the **Central Credit Register** or a Credit reporting System (**CRS**) (> Consumer credit from A to Z).

If a loan application is refused on the basis of a data base consultation, the consumer has the right to be informed immediately and free of charge, with an indication of the data base used and the results of the consultation.

The first time that the lender reports negative information to a data base about a consumer (for example continuous non-payment of instalments), the latter, together with anyone else involved in the payments (for example the guarantor), must be informed in advance, so that they can challenge the report if they want to.

Consumers can also consult the data contained in the Central Credit Register and in the CRSs, and find out who made reports concerning them. If they think that the information concerning them is incorrect, they can challenge it and ask for it to be verified and corrected. To do so, they can directly contact the person who made the report on them or they can write to the data base manager.

Everyone is entitled to find out about any data in their name contained in the Central Credit Register. Access is free of charge and you can go online[4] quickly and securely.

Insurance cover

Insurance cover is the choice of the customer, even though many banks and financial companies request it as a protection against non-payment.

If the bank or financial company asks for a life insurance policy, it has to accept any policy that the customer presents or finds on the market,

4 www.bancaditalia.it/servizi-cittadino/servizi/accesso-cr/index.html?com.dotmarketing.htmlpage.language=1

without making any changes to the conditions of the loan provided, as long as the policy provides an equivalent level of protection to that proposed by the intermediary. If the customer accepts the insurance policy offered by the intermediary, they must be informed about the commission paid by the insurance company to the intermediary. You must be careful as to how much the policy costs, as the one proposed by the intermediary might be more expensive than others on offer on the market. For salary-backed loans, a policy to cover the risk of job loss and/or death is required by law. This kind of insurance cover may often be required by means of deduction of payments too. The law provides for the protection of insurance policies[5] as well.

Relationship with the seller

The seller can allow the consumer to pay in instalments ('deferred payment of the price of goods and services purchased'), but without asking for payment of interest or other costs.

However, if the seller promotes or concludes loan contracts, it can only be on behalf of a lender and only for the purchases of goods and services that the seller markets.

A seller cannot, for example, sell revolving credit cards. If this occurs, it should be formally reported to Banca d'Italia.

If the seller doesn't deliver the goods or doesn't provide the services purchased, or in certain cases if there is a serious defect, the consumer can contact the lender to terminate the loan agreement, but only after contacting the seller in writing to request repayment of the money owed and receiving no positive answer. If the loan agreement is terminated, the instalments and any other amounts paid to the seller must be refunded by the lender.

Right to withdraw

The consumer can withdraw from the agreement within 14 days of signing it by notifying the lender according to the procedure the latter stipulates. Consumers can withdraw without giving any reason. If the consumer has received the loan in the meantime, even only partially, within 30 days of communicating their withdrawal, he or she must repay the money received and pay the interest accrued up until the date of repayment.

5 www.ivass.it/homepage/index.html?com.dotmarketing.htmlpage.language=3

Withdrawing from the loan contract also means withdrawing from the related extra or ancillary services, provided by the lender or by third parties, unless the latter show that they provide these services independently, or rather outside any agreement with the lender.

If the contract is an open-ended one, the consumer can withdraw at any time, without any penalty or costs. In this case, the contract may require a notice period of no longer than one month. The lender can also withdraw, but must notify the consumer at least two months beforehand. The lender can also suspend the loan, but with just cause – for example, the suspected theft of the credit card – and must notify the consumer first.

Non-payment of instalments

If the loan is paid back in instalments, which are usually monthly, before asking for a loan it's important to assess your monthly resources, or rather how much money you have left after your bills and other instalments have been deducted from your salary.

In the event of non-payment of instalments, the lender can be reimbursed from the guarantee and resort to any of the measures provided for by law to collect payment, from sending formal payments to recourse to the courts.

The non-payment of even one instalment may mean higher costs for the consumer, starting with interest on arrears, which isn't included in the APR.

In more serious cases the lender can have the contract terminated, which obliges the consumer to repay the amount outstanding immediately.

Another consequence of non-payment of instalments is that the lender reports this negative information to the Central Credit Register or to the CRSs. This kind of report may make it difficult to get a loan in the future.

All the possible consequences of non-payment must be included in the loan documentation and in the contract.

Changes in contractual conditions

Some contractual conditions may change from the time when the contract is signed. Changes may depend on the client for example, as their financial situation may deteriorate, or they may be due to external circumstances,

such as the general economic situation. In such cases the lender can unilaterally change the initial contractual conditions only if:

- the contract expressly stipulates the right of the lender to change the contractual conditions and if the client has expressly approved this clause;
- there is a justified reason. It must be something that happened after the conclusion of the contract and must be well-documented. Under no circumstances can the lender introduce a condition that is entirely new compared with the initial ones.

Interest rates can only be changed for long-term contracts. In this case, the proposal must also show how the change will affect the amount owed and the instalment schedule.

Every time the lender wants to change one or more conditions, they must send a communication to the consumer entitled 'Proposal for a unilateral change to the contract'.

The proposal must clearly explain the reasons for the change, so that the consumer can decide if the change is justified, and it must be sent at least two months before the change comes into force.

If the consumer agrees with the reasons and accepts the change, they don't have to do anything. However, if they want to refuse the proposal, then they must notify the lender of their intention to terminate the contract before the change comes into force. No reason needs to be given for the decision and there are no costs, but the amount already received will have to be repaid with interest under the conditions prior to the proposed change.

Early repayment

The consumer may at any time make an early repayment of some or all of the amounts due. In this case the consumer is entitled to a reduction of the loan costs since the duration of the contract is also reduced. Apart from a few exceptions, the lender could ask for compensation for costs directly linked to the early repayment, which must be clearly justified. The compensation can't be more than 1% of the amount repaid if the contract has more than one year left to run, or 0.5% if it has one year or less to run.



My rights

A consumer that gets a 'consumer loan' has a series of rights guaranteed by law. It's important to know what these are to make the best choice and one that is most suited to your needs.

When choosing your loan

- You receive all the information you need to compare various offers free of charge from the lender or the credit intermediary.
- You can get a free copy of this Guide and keep it with you.
- You can get a SECCI form free of charge and keep it with you. If you open a current account credit facility, the SECCI information can also be found in the documents on transparency relating to the current account.
- The lender or the credit broker will explain everything to you free of charge.
- You can get a complete copy of the contract free of charge and keep it with you, also before the contract is concluded with no commitment on either side.
- You can also access the SECCI form and a complete copy of the contract on the lender's website in cases where a contract can be concluded online.
- You need to know what the APR is and what the total amount owed is.
- The lender has to inform you immediately and free of charge if your loan application is refused based on the consultation of a data base, and must specify which data base was used and the information that was provided.
- Ask the data base indicated by the lender for a copy of the result of the consultation.
- You have to be informed about the possibility and consequences of early repayment of your loan.
- You have to be informed about how to withdraw from a contract and what the deadlines are for withdrawal.

When signing the contract

- Don't accept contractual conditions that are less favourable than those shown on the SECCI form or in any other loan documentation.
- Choose how you want to receive communications, either in digital or paper format. Online communications required by law are always free of charge.
- Get a copy of the contract signed by the lender and keep it safe.

During the contractual relationship

- You should receive **regular communications** (> Consumer credit from A to Z) about this relationship at least once a year. Dispute individual transactions within the deadlines stipulated by law, i.e. 60 days from the date of receiving the communication.
- For short-term contracts, you can receive an amortization schedule with the loan repayment plan upon request and free of charge.
- You should receive written communication of the first report of negative information to a data base. Ask the lender to correct or cancel any wrong or imprecise data reported to a data base.
- You should receive written communication of any transfer of the loan or the contract to another party (except where the original lender continues to manage the loan) and make sure your rights are respected by the new lender too.
- You should receive any proposals for any changes to contractual conditions from the lender in writing, with at least two months' notice.
- You can refuse the proposal for changes without paying anything and withdraw from the contract.
- You can withdraw from the contract without providing any reasons within 14 days of its conclusion, and at any time if the contract is an open-ended one.
- If the supplier of the goods or services does not fulfil their obligations, despite receiving formal requests, you can ask for the contract to be terminated and get back any money you've already paid.
- You can make early repayments at any time, including partial ones, of the amount owed and get the loan costs reduced.

Explanations? Complaints? Useful contacts

Clients can ask lenders for all kinds of information and explanations. The lender's contact details are shown at the end of this Guide.

Complaints should be sent by registered post or email to the lender's Complaints Department, which must reply within 60 days.

If the Complaints Department doesn't answer or if the answer is unsatisfactory, the client can make an appeal to the Banking and Financial Ombudsman (Arbitro Bancario Finanziario, ABF).

The ABF is an out-of-court settlement scheme for disputes that offers a faster, simpler and cheaper alternative to going through the courts. The proceedings take place in written form and no lawyer is needed.

For further information, visit the ABF website,[6] which publishes, among other things, the Ombudsman's decisions, divided according to the subject matter of the appeal, and reports on the Ombudsman's activities.

A client that intends to report any irregular or improper behaviour on the part of a bank or financial company can also make a complaint to Banca d'Italia, free of charge and with no need for legal assistance.

Complaints are a source of information for Banca d'Italia in the exercise of its supervisory tasks. However, it doesn't make any decision on the contractual relations between banks and clients. Complaints can also be submitted online.[7]

For further information, visit Banca d'Italia's website.[8]

6 www.arbitrobancariofinanziario.it/homepage/index.html?com.dotmarketing.htmlpage.language=3
7 https://https://servizionline.bancaditalia.it/home
8 https://www.bancaditalia.it/servizi-cittadino/servizi/esposti/index.html?com.dotmarketing.htmlpage.language=1

Reference legislative texts for the topics covered in this Guide

- The Consolidated Law on Banking[1]
- Banca d'Italia's rules on 'Transparency in banking and financial operations and services. Fairness in relations between banks and clients'[2]

1 www.bancaditalia.it/compiti/vigilanza/intermediari/Testo-Unico-Bancario.pdf
2 www.bancaditalia.it/compiti/vigilanza/normativa/archivio-norme/disposizioni/trasparenza_operazioni/index.html

Consumer credit from A to Z

AOER – Average Overall Effective Rate

in Italian: *Tasso Effettivo Globale Medio* (TEGM)

The rate used for calculating the usury ceiling rate, usury being forbidden by law. It's published on a quarterly basis and indicates the average figure of the rate actually applied by the financial and banking system to similar categories of lending transactions (for example: opening a current account credit facility, personal loans, leasing, factoring and mortgages).

APR – Annual Percentage Rate of Charge

in Italian: *Tasso Annuo Effettivo Globale* (TAEG)

This indicates the total cost of the loan expressed as an annual percentage of the loan granted. It includes the interest and all other expenses and is calculated using procedures established by law and by Banca d'Italia's instructions.

To learn more, you can ask the intermediary for help or consult the following website: www.bancaditalia.it.

Central Credit Register

A data base that operates at Banca d'Italia which records the reports of all banks and financial companies on defaults, guarantees and the debts of clients that exceed set minimum thresholds.

When examining loan requests, lenders can ask the Central Credit Register for information on a loan applicant's total debt towards the entire banking system, i.e. they can find out if the client has taken out loans with other lenders. Every lender receives constant updates on their clients' indebtedness.

You can also ask to see the information recorded on you in the central Credit Register. Access is free and you can go online[9] quickly and securely

9 https://www.bancaditalia.it/servizi-cittadino/servizi/accesso-cr/index.html?com.dotmarketing.htmlpage.language=1

Credit broker

A subject that proposes loan agreements on behalf of a lender and deals with preparing the contract from the time when the proposal was presented. If the intermediary is a financial agent they can also conclude the contract.

CRS – Credit Reporting System

CSRs are private data bases that gather data on people's access to credit and on how their loans are proceeding. Banks and financial companies can consult CRSs before granting loans, and provide them with the data they collect over the lifetime of the loans they grant.

Current account balance

This indicates the difference between the payments into and out of a bank account on a given date and therefore the amount available on a current account.

If the balance is negative, it means that money was used that was not available. This means the account is overdrawn, i.e. it's 'in the red'.

Deduction of payments

This loan is very similar to a salary-backed loan because it allows borrowers to have another fifth of their salary deducted, so that they can get a bigger loan. Applicants for these loans irrevocably authorize their employers to withhold the instalments from their salary to repay loans granted by a bank or financial company.

An insurance policy may also be requested for this type of loan to cover the risk of the borrower dying and/or losing their job.

Financial company

A non-banking company authorized to grant loans: leasing, factoring, consumer credit and other types of loan.

Guarantee

A guarantee is designed to protect the lender if the customer can't repay the loan. Guarantees are divided into real and personal ones.

Real guarantees – liens and mortgages – are rights to certain things. A lien is for moveable property, such as jewellery, while a mortgage is for real estate, such as houses, or registered moveable property, such as boats

and cars. If the customer can't repay the loan, the lender can reclaim the amount by selling what was put up as collateral.

A personal guarantee is linked to the assets of the subject that provides it. The most common form is a surety.

Instalment

An amount that the customer regularly pays to a bank or financial company to repay a loan. It consists of a share of the principal, i.e. the repayment of the amount loaned, and the interest accrued on the loan. The frequency of payments is stipulated in the contract, although instalments are usually monthly.

Lender

A party authorized to grant loans in a professional capacity, which may be a bank or a financial company.

OAM - Organismo degli Agenti e dei Mediatori (Agents and Brokers Organization)

The OAM checks the requisites of financial agents and credit brokers and handles their registration on the official lists required by law. For further information and to consult the lists, visit: www.organismo-am.it.

Overdraft or credit facility

An amount that the bank makes available on a customer's current account, in response to their request. This is known as 'opening a current account credit facility'.

Regular communications

The client must receive a clear communication on their contractual relationship at least once a year and in any case when the contract terminates. Communications must be made on a regular basis for open-ended agreements.

The communication has to be on paper or in another durable medium, such as a file or an email and it has to include all the information on transactions and costs, even if it's in the form of a summary.

For the opening of a current account credit facility, this information can be put into the periodic statement of accounts.

SECCI form

The SECCI form (Standard European Consumer Credit Information) contains all the information that can help the consumer assess a loan offer in the most transparent way. It should be given to the consumer before they sign any loan contract.

Surety

A commitment to personally paying the debt of another party to the lender. The guarantee is personal because the lender can claim against all the guarantor's assets.

TAN – Annual Nominal Interest Rate

in Italian: *Tasso Annuo Nominale* (TAN)

This indicates the interest rate on the loan; it doesn't include fees or expenses.

Usury

A crime that consists of lending money at rates considered to be illegal since they are too high and make repayment either very difficult or impossible.

Checklist

- I check whether the lender is authorized to grant loans (I can consult the details of their registration on Banca d'Italia's Lists, which I can find on the lender's letterhead paper).
- I check whether the credit broker used by the lender is entered on the lists kept by the OAM (the intermediary's registration details are on their letterhead paper).
- I never pay anything until the loan contract has been concluded.
- I compare the offers for loans by referring to the APR and not to other indicators such as the TAN, which don't include all the expenses.
- I look carefully at the terms of the offer and the costs of any insurance policy required.
- I ask for the SECCI form and for a copy of the contract before signing it, and I read them carefully.
- I read the clause that envisages the possibility of the lender changing the economic conditions of the contract very carefully.
- I read the contract very carefully to understand the consequences of paying the instalments late.
- If I still have any doubts, I ask the lender for help.

Now I can sign

PS

- While the contract is ongoing, I check in my periodical statements that the expenses initially stipulated correspond to those actually charged.
- If I withdraw from the contract or pay the loan off early, I check that any subsequently charged expenses or costs correspond to those indicated in the contract.

Notes

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Banca d'Italia is the central bank of the Republic of Italy.

Its objectives include:
– ensuring the transparency of banking and financial services
– improving the public's understanding of financial topics
– helping the public understand the most common products and make informed decisions.

The *made easy* guides are part of this commitment.

www.bancaditalia.it

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