

# WHAT TO DO BEFORE SIGNING A FINANCING CONTRACT

Consumer credit: what information should you have before signing a credit agreement?

Before signing the contract, the consumer should look in detail at the **SECCI - Standard European Consumer Credit Information - form**, which contains all the information that is important for **assessing the financing proposal**, and must be handed over by the lender or intermediary with whom one comes into contact.

All the information found online, in advertisements or on documents in the lender's branch is **standard information** that may be **very different from the information that will later be applied to the loan actually requested**. In fact, the SECCI form briefly describes **all the specific characteristics of the loan** the consumer needs:

- the amount of the loan
- the way the loan will be used
- all the costs applied and the total cost of the loan
- the number and amount of the instalment
- the duration of the repayment plan
- the total amount due
- the TAN and APR (in Italian: TAEG)
- the ancillary services
- compulsory insurance policies
- all consumer rights.

Under the heading '**total cost of the loan**' one finds, expressed in euros, the sum of all costs applied to the loan and interest. If the value seems high, especially for loans of long duration and large amounts, it must be remembered that this is a cost for a financial service lasting several years.

## TAEG = APR - Annual Percentage Rate of Charge

In order to understand the cost of a loan, the consumer should look at the **APR - Annual Percentage Rate of Charge**, which expresses **in percentage terms the total cost of the credit to be borne by the consumer**, including interest and all other charges to be incurred in using the credit. For example, if the APR is 6%, all the annual costs linked to the loan (with the exception of any notary fees) will be 6% of the sum received, also taking into account the duration of the loan. Thanks to the APR, the consumer can evaluate the most convenient loan (i.e. the one with the lowest APR).

## TAN - Annual Percentage Rate

The other indicator that the consumer must take into account is the **TAN - Annual Nominal Rate**, which exclusively indicates **the interest rate, again as a percentage and on an annual basis, that the consumer will pay to the lender for the amount of the loan**. Unlike the APR, it does not express the overall cost of the loan, so **a loan with a zero APR could have a higher APR than zero**, for example for ancillary fees, charges and commissions. So a comparison looking only at the TAN could be misleading.

**WARNING!** When people talk about interest-only loans, they often only refer to the TAN, because it is almost impossible to have no costs at all since taxes are also included in the APR. Therefore, you should check both TAN and APR and, when talking about interest-free loans, pay attention to which one you are referring to.

In addition to costs, **the information in the SECCI form describes the loan exactly**. The consumer, in order to understand whether the loan is suitable for his or her needs, should check that:

- the sum received is sufficient **to cover one's needs**, because some loans require payment of costs in advance;
- **the monthly instalment is less than one's monthly salary**, excluding monthly household expenses or instalments from other purchases or loans;
- **the manner in which the loan will be used is consistent** with the expenses to be financed and **the auxiliary services** useful to one's needs
- the insurance policies requested or offered are actually **useful to cover possible future risks** for one's family.

To learn more, you can watch the video "[Eye on Choices. 3° episodio - Il credito al consumo](#)", on the [web platform](#) L'Economia per tutti, Banca d'Italia per l'Educazione Finanziaria.