



LOAN AND LEASE CALCULATORS ON BANK HOMEPAGES

Advertising for credit products with calculation tools

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1. Outline of problem and objective of study

Bank advertising on the Internet about credit products often entails offering interested consumers the use of the bank's own interactive calculator to calculate loan or lease instalments for the desired amount of financing.

Einfach den Wunschbetrag und die Laufzeit wählen und wir zeigen Ihnen, wie hoch Ihre monatliche Rate sein wird. Los geht's ...

Berechnen Sie Ihre Leasingrate!

Simply select the desired amount and the term and we will show you how high your monthly instalment payment will be. And off we go...

Calculate your lease payment!

The ad messages to encourage consumers to use calculation tools are identical or similar to the ones above. The intention is to have consumers familiarize themselves with lending products with a few clicks and sometimes slide rules and find out how affordable a monthly payment or desired financing can be. However, this practice raises the question: Are the values and payment amounts indicated by the calculators realistic and can an average prospective borrower who often has a low credit rating obtain a loan at the payment rate or interest rate shown by the calculator. It is also questionable whether credit costs are figured in or depicted transparently and whether the annual percentage rate of charge is apparent.

Unlike the calculators themselves, the bank websites often include a usually inconspicuous caveat about their credit calculators to the effect that they serve as guides¹ and that fees are not taken into

¹ Bank Austria, BAWAG PSK, for example

account in the calculation². One can also read that the indicated values and examples do not necessarily correspond to the credit products of the bank³. One bank stated in justification that No annual percentage rate of charge could be calculated with the indicated parameters⁴.

Despite these explanations by banks on the non-binding nature of the calculations, it should be noted that the law does contain basic requirements for credit advertising. In other words, banks are not entitled to advertise any way they wish. Three years ago, the Consumer Credit Act set down stricter rules for cost transparency in credit advertising, a factor crucial to consumers. The aim of the new provisions is to prevent credit advertising and credit offers from containing low interest rates to lure consumers or monthly payments that appear to be favourable, thereby concealing the actual cost of the acquired credit arrangement. The law (English translation below) provides that every credit ad containing figures – including loan and lease calculators – must present the most important cost parameters along with the annual percentage rate of charge (total cost of the credit).

For this reason, the Chamber of Labour (also called by its German abbreviation “AK”) examined a total of 15 calculation tools for personal and housing loans and for car leases on eight bank websites to determine whether the tools comply with legally stipulated information duties and assure cost transparency.

2. Data collection method

In July 2013 AK examined a total of 15 calculation tools—ten loan calculators and five lease calculators—on the websites of the following banks:

- Bank Austria: Wohnkreditrechner, PKW Leasingkalkulator
- BAWAG PSK: Kreditrechner, Kreditbox Online Kreditrechner
- RLB NÖ Wien: Kreditrechner, Leasingrechner
- Erste Bank: Kreditrechner, Leasingrechner
- Volksbank Wien: Kreditrechner, Leasingrechner
- Santander Consumer Bank: JetztsofortKredit-Rechner
- Oberbank: Kreditrechner, Leasingrechner
- Hypo NÖ-Wien: Wohnbaurechner, Finanzierungsrechner

3. Legal basis for credit advertising

Article 5 Consumer Credit Act contains the most important legal provision for credit advertising:

² RLB NÖ Wien

³ Volksbank Wien

⁴ Oberbank

Advertising

Article 5. (1) *If an advertisement for credit agreements indicates interest rates or other figures connected to the cost of a credit for the consumer, **the advertisement must include the following items of standard information presented clearly, concisely and prominently in a representative example:***

1. *the fixed or variable **borrowing rate** or the fixed and variable borrowing rate, together with details on all costs incurred for the consumer in the total costs of the credit; in the case of a combination of fixed and variable borrowing rate, the term for the fixed borrowing rate,*
2. *the **total credit amount,***
3. *the **Annual Percentage Rate of charge (APR),***
4. *the **duration** of the credit agreement where applicable and*
5. ***the total amount to be paid** by the consumer where applicable and the **amount of the instalments.***

(2) *Where the **conclusion of a contract regarding an ancillary service** relating to the credit agreement, **in particular insurance, is specified by the creditor as a prerequisite** for obtaining the credit in the first place or for obtaining it on the terms and conditions marketed, and the cost of that service cannot be determined in advance, the obligation to enter into that contract shall also be stated in a clear, concise and prominent way, together with the annual percentage rate of charge.*

EU legislation provided for this special provision for credits to protect consumers from misleading business practices and to enable them to compare different offers based on the required items of standard information when making initial contacts regarding a credit and prior to concluding the contract⁵.

There are three basic requirements to be met if a credit advertisement refers to interest rates or figures connected to the costs of the credit for the consumer:

1. The items of standard information must be included as specified in law.
2. A representative example must be included in each case.
3. The information must be presented clearly, concisely and prominently.

This situation allows for different options for the design of credit calculators. The required items of standard information must be integrated directly in the calculation tool or a representative example can contain the items of standard information separately. The requirement in each case is the completeness of the information and its clear, concise and prominent presentation.

Annual Percentage Rate of charge (APR)

The most important cost parameter in this context is the Annual Percentage Rate of charge (APR). It indicates the total cost of the credit for the consumer expressed as an annual percentage of the total amount of credit.⁶

⁵ Consideration 18 in Directive 2008/48/EC on Consumer Credit Agreements

⁶ Article 2 para 7 Consumer Credit Act

Representative example

The representative example has no precise definition in the law and in the Consumer Credit Directive. The specified characteristics named are that the example should correspond to the average duration and total amount of credit granted for the type of credit agreement. Furthermore, the frequency of certain types of credit agreement in a specific market should also be taken into account.⁷

German lawmakers defined “representativeness” more concretely when transposing the directive into local law. The Annual Percentage Rate of charge (APR) that is indicated must be the one for which the creditor assumes that at least two thirds of the credit arrangements entered into on the basis of the advertisement will be concluded at this or a lower rate⁸.

This provision reflects the regulatory purpose of prohibiting low “door-buster” offers to lure consumers. It appears clear that the phrase “from x%” sometimes used in actual practice cannot be allowed in any event because the lowest rate is indicated in these cases. Representativeness should be understood to mean that a majority of the credit agreements one could expect to be concluded for the advertised credit product would be in the range of the advertised rate. This corresponds with the protective purpose of the law.

Clear, concise and prominent

The Consumer Credit Directive provides⁹ that information should be presented at a visually prominent place. Therefore, banks can certainly not be permitted in any case to put the information in small print or in a place that is hard to find or in a footnote referred to by an asterisk. It is also not admissible to highlight individual cost figures – such as the monthly instalment or a (favourable) borrowing rate – by putting them in a larger-point font than is used for the representative example.

Compulsory ancillary services

If the creditor requires another contract to be concluded, e.g. life insurance or comprehensive insurance, as a prerequisite for obtaining the credit or lease in the first place or on the terms and conditions marketed, then the premiums must also be figured into the annual percentage rate of charge. If the cost cannot be determined in advance, the obligation to take out the insurance policy shall also be stated in a concise manner¹⁰.

In actual practice, endowment or payment-protection insurance policies are often compulsory for credit agreements and comprehensive life insurance policies generally are for car leasing agreements¹¹.

4. Study criteria

The study determined whether **the items of standard information specified in the Consumer Credit Act were presented clearly, concisely and prominently by means of a representative example**. In addition to this central point, the following questions were investigated:

- Indication of the borrowing rate directly in the calculator

⁷ Consideration 19 for Directive 2008/48/EC on Consumer Credit Agreements

⁸ Article 6a para 2 sentence 2 of the German Price Information Regulation

⁹ Consideration 18 for Directive 2008/48/EC on Consumer Credit Agreements

¹⁰ Article 5 para 2 Consumer Credit Act

¹¹ Mystery Shopping AK Leasing Study, http://media.arbeiterkammer.at/PDF/Studie_Kfz-Leasing.pdf

- Indication of the annual percentage rate of charge directly in the calculator
- Estimation of whether the indicated rates are representative or, at best, average. Statistical values are lacking for the term “representativeness”, also owing to a lack of a legal definition. Therefore, one can only make a rough estimate or one has to resort to average interest rates:

The interest statistics of the Austrian National Bank can serve as a guidepost. The values for June 2013 were taken as references: 4.72% for consumer loans, 2.43% for home loans as well as 4.74% as an average for consumer loans on the AK bank calculator. The query was made on 4 September 2013.

- A reference to insurance being compulsory or insurance premiums being figured into the annual percentage rate of charge.

5. Case study from AK consumer consulting

A case handled by AK consumer consultants in Vienna shows just how greatly the interest and costs presented for a loan can change if all legal requirements are considered. It also illustrates that “typical” borrowers in need of a consumer loan because of their usually modest income have to pay a borrowing rate much higher than the average interest rate.

Mr. K. (age 26) wanted to borrow EUR 7,000 and took out a loan at Santander Consumer Bank in May 2012. The **borrowing rate was 8.49% according to the contract**. The **average** rate for consumer loans in 2012 was **4.77%** according to the statistics of the Austrian National Bank. The **contract has an annual percentage rate of charge** amounting to **11.94%**. An **insurance package** amounting to EUR 1,300.45 was “**sold along with the**” loan. The consumer was not advised of it prior to signing the contract. **If it had been included in the annual percentage rate of charge, the APR would have risen to 18.5%.**

The basic legal conditions have to be made stricter and more concrete to obtain half-way realistic values in advertisements on credit agreements. The survey showed that the credit calculators examined applied average rates, at best, or even the most favourable rates for the type of credit agreement marketed.

6. Summary of the findings¹²

The study findings were sobering, because they showed that the **legally compulsory items of information were not presented fully or prominently in any of the cases examined – as required in the Consumer Credit Act**. The legal intent of this standard information was to allow a pre-contractual comparison of costs. Consumers interested in a credit agreement cannot make this comparison because of the incomplete and fully inadequate information.

- **None of the bank homepages examined included a representative example in their calculation tool that met all the requirements in Article 5 Consumer Credit Act.**
- **Only three of the fifteen credit calculators examined even had an example.** Two of them¹³ could only be opened after the additional clicking of a link – not prominent enough as intended in the law. One calculation tool¹⁴ did present an example right next to the calculation area.

¹² Details in the table on pages 8 - 11

¹³ Bank Austria Wohnkreditrechner (housing loan calculator) and Santander Consumer Bank Jetztsofort Kreditrechner (loan calculator)

¹⁴ BAWAG PSK Kreditbox Online Rechner

However, contrary to the legal requirement of being the same size as the rate, it tends to be overshadowed by the rate, which is in large bold red font. Moreover, one cannot say that this example contains a representative interest rate because the phrase “from an interest rate of x%” means that the most favourable rate is depicted.

- **There were errors in the calculation in all three credit examples.** In two cases¹⁵ the account maintenance fee is not included in the indicated monthly payment. This omission makes the credit product appear more attractive than it actually is. In one case¹⁶ the indicated account maintenance fee was too high. The example assumes a term of ten years but the account maintenance fees were indicated for a term of twelve years.
- **The terms and conditions for the Santander Consumer Bank Jetztsofort Kreditrechner seem odd.** The borrowing rate of 2.89% is displayed only for the preset values in the calculator (EUR 3000, term of three years). Anytime the term and credit amount change, the borrowing rate always increases to 4.98%. That means, for example, that a loan of EUR 3000 would actually be more expensive if it were paid back within two years (total amount of EUR 3583) than within a three-year term (total amount of EUR 3171).
- **What was especially striking was that none of the five lease calculators included interest rates or the representative example.** There was also no reference to comprehensive insurance, which is usually compulsory for the conclusion of a car lease agreement. In one case¹⁷ a leasing rate – owing to a checkmark in the box in front of the item – was nonetheless only able to be calculated when information on third-party motor vehicle insurance and comprehensive insurance was entered.
- **In no case was a representative Annual Percentage Rate of charge indicated directly in the calculator.** Average interest rates were included in several cases. An annual percentage rate of charge¹⁸ is named in one case; there were contradictory items of information (in the calculator and in the legal notices) regarding the expenses included in the calculation¹⁹, so it is unclear whether the figure was actually the annual percentage rate of charge. In addition, the user was able to select the interest rate freely in this calculator, which of course is contrary to the purpose of indicating the APR.
- **Most banks indicate only the borrowing rate in the calculation tool, which the users even have to select themselves in eight calculators.** For some inexplicable reason, one bank²⁰ does not limit the interest rate and even allows completely unrealistic values to be selected as the borrowing rate (e.g. 0.5% or 50%).

¹⁵ Bank Austria and Santander Consumer Bank Jetztsofort Kreditrechner

¹⁶ BAWAG PSK Kreditbox Online Rechner

¹⁷ Erste Bank Leasingrechner

¹⁸ BAWAG PSK Kreditbox Online Rechner

¹⁹ RLB NÖ Wien Kreditrechner

²⁰ Kreditrechner der Oberbank

Demands from the AK

- **The practice of “hiding” the items of standard information for credit product advertising in the small print must be prohibited.** A clarification to that effect is needed in the law. Only then can the provision fulfil its intended purpose of pre-contractual transparency for credit costs already in advertised offers. This informational purpose cannot be met with small print.
- **The representativeness of the credit product example in items of standard information in advertising should be defined in concrete terms.** The **two-thirds rule** already applied in Germany and Great Britain can serve as a model. According to this rule, the Annual Percentage Rate of charge (APR) that is indicated must be the one for which the creditor assumes that at least two thirds of the credit arrangements entered into on the basis of the advertisement will be concluded at this or a lower rate. **This approach ensures that unrealistically low “door-buster” offers to lure consumers are prevented.**
- **Introduction of a legally standardised notice regarding the costs of credit arrangements in all credit product advertising.** A notice stating **that borrowing money costs money** is meant to heighten consumers’ awareness of costs and can help prevent indebtedness. This cost notice should be included for all credit arrangements, even ones not advertised with interest rates or monthly payments. A similar provision is already in place in the Netherlands. The mandatory notice must be in all media there, be they on the Internet or in credit product ads on the radio.
- To enable consumers to make a precontractual comparison of costs for individual credit product offers, the law must ensure that **the consumers interested in obtaining credit receive the precontractual items of standard information for credit agreements at each initial consulting session.** AK consumer consultants and AK surveys indicate that the information sheet is frequently not handed over until the signing of the contract, which is definitely too late.

8. Table

		Borrowing rate indicated in the calculator	Annual percentage rate of charge indicated in calculator	A representative example with all standard information is presented clearly, concisely and prominently	Estimation of whether interest rate is representative / average	Any compulsory insurance figured into APR or indication of an obligation to take out such insurance
Bank Austria	Housing loan calculator	Yes, between 1.875% and 6%, user selectable	No	No. Example was given but had to click again to open and therefore not presented clearly, concisely and prominently. Rate did not include account maintenance fee.	Borrowing rate of 2% in example; representative more likely than not	No
Bank Austria	Car lease calculator	No	No	No	No	No
BAWAG PSK	Loan calculator	Yes, selectable between 3 % and 12%	No	No	Not representative, because the lowest interest rate (=lowest rate) is displayed in the pre-selection. Much less than the average interest rate.	No
BAWAG PSK	Kreditbox online credit calculator	Yes, from 3.9%	Yes, from 4.3%	No. There are two calculators for the online Kreditbox. One is with a loan example, the other without (two different links). The example is not presented clearly, concisely and prominently compared to the rate in the calculator which is in large, red bold font. Indicated account fee too high.	Not representative, because the calculation was done at the lowest rate. Less than the average interest rate.	No

		Borrowing rate indicated in the calculator	Annual percentage rate of charge indicated in calculator	A representative example with all standard information is presented clearly, concisely and prominently	Estimation of whether interest rate is representative / average	Any compulsory insurance figured into APR Effektivzins or indication of an obligation to take out such insurance
RLB NÖ Wien	Loan calculator	Unclear. Contradictory information in calculator. Rate selectable between 0.125% and 10%.	Unclear. Contradictory information in calculator. Rate selectable between 0.125% and 10%.	No	No	No
RLB NÖ Wien	Lease calculator	No	No	No	No	No
Erste Bank	Loan calculator	Yes, selectable between 2 % and 10%	No	No	No	No
Erste Bank	Lease calculator	No	No	No	No	No. Lease rate only calculated if data on third-party motor vehicle insurance and comprehensive insurance is entered owing to a checkmark in the box in front of the item.

		Borrowing rate indicated in the calculator	Annual percentage rate of charge indicated in calculator	A representative example with all standard information is presented clearly, concisely and prominently	Estimation of whether interest rate is representative / average	Any compulsory insurance figured into APR Effektivzins or indication of an obligation to take out such insurance
Volksbank Wien	Loan calculator	Yes, selectable between 2 % and 18%	No	No	5% is set in preselection. Average interest rate rather than representative.	No. Only a vague statement in the small print on possible "ancillary services that incur costs".
Volksbank Wien	Lease calculator	No	No	No	No	No
Santander Consumer Bank	Jetztsofort Kredit (loan calculator)	No. Hidden (link or scroll down or click on loan inquiry)	No	No. Not presented clearly, concisely and prominently because it is hidden (link or scroll down or click on loan inquiry) and in small print and body of text. Rate without account maintenance fee.	Not representative, 2.89% borrowing rate and 3.71% annual percentage rate of charge for consumer loan appears to be too low and the borrowing rate rises to 4.98% whenever a different amount or term is entered.	No
Oberbank	Loan calculator	Yes, Freely selectable. Also completely unrealistic e.g. 0.5% or 50%. If user enters no interest amount, then the calculation is done at a rate of 4.75%.	No	No	Preset at 4.75%. Average interest rate rather than representative.	No

Oberbank	Lease calculator	No	No	No	No	No
		Borrowing rate indicated in the calculator	Annual percentage rate of charge indicated in calculator	A representative example with all standard information is presented clearly, concisely and prominently	Estimation of whether interest rate is representative / average	Any compulsory insurance figured into APR or indication of an obligation to take out such insurance
Hypo NÖ Wien	Housing loan calculator	Yes, selectable between 1.5% and 4.5%	No	No	Preset at 2.5%. Representative interest rate.	No
Hypo NÖ Wien	Financing calculator	Yes, selectable between 1.5% and 7%	No	No	Preset at 5%. Average interest rate rather than representative.	No

7. Links

Bank Austria Wohn-KreditRechner

<http://www.bankaustria.at/rechner-wohn-kreditrechner.jsp>

Bank Austria PKW Leasing-Kalkulator

<http://secure.ba-ca-leasing.com/eKalkulatorKfz/ba-ca.html>

BAWAG PSK Kreditrechner

<https://www.bawagpsk.com/saas.kredit.bawag/Kredit.html>

BAWAG PSK Kreditbox Online Rechner

<https://einfachonline.at/>

<https://www.bawagpsk.com/wizard/BAWAG/PK/KF/KreditBox-Online/107096/creditform.html?view=asOnlineCredit>

RLB NÖ Wien Kreditrechner

http://www.raiffeisenbank.at/eBusiness/01_template1/1015018521967-892929358920806717_892932135348730357-746090293660431009-NA-30-NA.html

RLB NÖ Wien Leasingrechner

http://www.raiffeisenbank.at/eBusiness/01_template1/1015018521967-892929358920806717_892932135348730357-746090299029140182-NA-30-NA.html

Erste Bank Kredit-Rechner

<http://www.sparkasse.at/erstebank/Privatkunden/Produkte/Finanzieren>

Erste Bank Leasing-Rechner

<http://www.weblea.at/ivt/websources/controller.jsp?rid=953665.9881717103&inst=1004>

Volksbank Wien Kreditrechner

<http://www.volksbankwien.at/private/finanzieren>

Volksbank Wien Leasingrechner

http://www.volksbankwien.at/private/finanzieren/kfz_leasing

Santander Consumer Bank Jetztsofort Kredit

<http://www.santanderconsumer.at/>

Oberbank Kreditrechner

http://www.oberbank.at/OBK_webp/OBK/Application/Rechner/AT/KreditRechner/KreditRechner/index.jsp

Oberbank Leasingrechner

http://www.oberbank.at/OBK_webp/OBK/Application/Flash/AT/Leasingrechner.htm

Hypo NÖ Wohnbaurechner

<http://www.wohnbaurechner.at/m029/at/de/calc/wohnbaurechner.shtml>

Hypo NÖ Finanzierungsrechner

<http://www.wohnbaurechner.at/m029/at/de/calc/finanzierungsrechner.shtml>