Borrowing Wisely

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This module deals with borrowing.
Borrowing money gives us the opportunity to make purchases in advance, without first having to set aside enough resources over the years. We may need some goods or services at specific stages of our lives, like a car, a holiday or even a house, when our income is still low and we don't have enough savings yet. To prevent the loan from becoming an unbearable burden, we need to consider the purchase carefully, evaluate the commitment we are taking on and the amount of instalments we'll have to pay periodically.
Let's start with an overview of the main types of loans:

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A mortgage is mostly used to buy property, usually the house where you live. However, it can also be used to build or renovate a property, or taken out to replace or refinance an existing mortgage for the same purpose. The mortgage, granted by the bank, is secured by a lien on the property.
The most important factors that may determine your choice are:
- the amount: the amount approved is generally at least 20 per cent lower than the cost of the property.
- the term: mortgages normally last between five and 30 years; a shorter-term mortgage's individual payments are higher, but the total interest paid is lower than a longer-term mortgage
- the rate: this is the main cost item of the loan; it can be a fixed rate, which remains the same as that indicated in the contract for the entire term of the mortgage, or a variable rate, which may be adjusted at pre-set intervals to follow fluctuations in a financial index. People used to prefer a variable rate because it was more economically advantageous, despite being riskier due to the possibility of upward fluctuations.

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Consumer credit is a loan granted for the purchase of goods and services required by the consumer or by the consumer's family. A loan may range from €200 to €75,000.
It is granted by a bank or by an authorized financial company, which can use agents and credit brokers.
Consumer credit includes different types of loans; the main distinction is between special purpose loans ('linked credit agreement') and non-specific loans, that is between loans that are linked to the purchase of specific goods or services and loans that are granted for general purposes.

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A consumer can often get a special purpose 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. In this case the loan contract and the purchase contract, while distinct, are linked. So, if the consumer has a complaint about the loan but the seller does not respond, they can turn directly to the bank or to the financial company.
Non-specific loans can take many forms, all of which are valid provided they are offered by authorized intermediaries. Each form has a different cost, and some are aimed at specific groups, such as loans against one fifth of salary or pension, which are available to employees and pensioners.
While the most widespread type is the personal loan, one of the most expensive to date is the loan

granted via a revolving credit card. Another one, which is extremely common among professionals and entrepreneurs, is the overdraft or current account credit facility.

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Let's now look at how to approach a loan. There are four important steps, but you don't need to take all of them, or take them in a certain order. They help us to be aware of the possible choices and pick the ones that are most convenient and consistent with our income.
We will start with careful planning, then continue by gathering information to be able to compare different offers. Once we have understood the cost of the loan, we need to check the figures to make sure we can sustain the loan; we'll check again over time to verify whether we need to renegotiate the loan contract.
Let's go into more detail.

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Plan! Planning helps us to rank our needs and stops us from being tempted by impulsive purchases, often influenced by adverts. Planning also helps us to save money with an eye to purchases, especially before taking out a mortgage, and before saving money to carry on paying the instalments even if something unexpected happens. The calculators available online on the Banca d'Italia, Consob and Financial Education Committee websites can help you out.

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When you decide to take out a loan…
Get information! You can start by acquiring information about the types of financing; for example, you might discover that to buy a car, you don't necessarily need to take out a loan from a dealership. You could prefer a personal loan if it turns out to be more convenient.
Remember to verify that the information comes from a reliable, impartial source, not from inexperienced people or those who might have an interest in influencing your decisions for their own gain.

The most important information concerns the costs of financing: learn to understand the TAN (Annual nominal interest rate) and the TAEG (Annual Percentage Rate, APR). Both are expressed as percentages and on an annual basis, but while the TAN refers to the pure interest rate, the APR is more comprehensive, integrating additional costs such as accessory fees.

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More detailed information about the APR can be found in a table included in the Banca d'Italia Guide called 'Consumer Credit Made Easy'. The APR is equal to the TAN plus fees, taxes and other expenses relating to services for obtaining or continuing to use credit under the conditions offered, such as insurance policies. However, not included in the APR are notary fees, costs relating to purchasing the asset (such as transport), optional services or potential late fees that are only paid if the repayment of instalments is delayed.

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Compare! It's useful and convenient to compare multiple offers from different intermediaries… How can you do this? Thanks to the information sheets that banks and financial companies are required to provide, which contain details about the terms of the contract, such as the TAN and the APR.
Anyone offering a loan is obliged to provide them to the client.
For mortgages, there is the ESIS (European Standardized Information Sheet).
For consumer credit, the comparison form is the SECCI.

Another option for comparing costs is to use online simulators on specific websites that can give an indication of the lowest and highest costs.

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Assess sustainability! Make sure the instalments are compatible with your income! The total amount of all the instalments you'll pay for the loans taken out should not exceed 30 per cent of your income after taxes. This ensures that you have enough income left to cover other necessary expenses, including food and utility bills.
Over time, your income may change, making the instalment bigger or smaller, and market rates may change as well, i.e. the cost of new loans. If rates drop, for example, you can renegotiate the contract with your bank and save on future instalments. If you can't get better conditions from the bank where the mortgage was originally contracted, you can turn to another financial intermediary or another bank…

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In this case, we speak of mortgage portability (or transfer), which is an operation that allows a client to extinguish their mortgage through a new loan contracted with another intermediary for an amount equal to the remaining debt.
It is possible to move the mortgage multiple times without additional fees, choosing the financial institution that offers the most advantageous rates at a given moment, avoiding paying costs for the valuation, the processing of the application, or other fees. The law requires both the termination of the old mortgage contract and the granting of the new loan to be completely free of charge.
How much can you save by changing the rate through renegotiation or transfer? Try it out with the calculator at the link provided at the end of this presentation.

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You can find more information in the Banca d'Italia Guides. At the end of the Guides, there's also a helpful memo with the information you need to request and the steps to take when making a financial commitment, along with the necessary precautions.

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Now for some warnings. Here are some situations that might arise and that you should be aware of:
• Let's start with zero-interest offers: are they really zero? Does the rate refer to the TAN or the APR? Being cautious is always helpful!
• Look out for hidden fees before signing the contract, such as insurance policies associated with loans – if they're optional, they shouldn't be included in the APR, so it's important to check!
• Don't be talked into preferring instalment purchases when you have the cash available without first evaluating the costs you'll have to bear.
• Be cautious about 'easy' loans, accessible with a few clicks online, or signed in a hurry at a retailer's … You're committing yourself, and it's good to take your time to reflect and assess.
• And finally, the golden rule to apply to all contracts: don't sign anything you don't understand, whether at the bank, online or in a store.

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Remember that the consumer also:
has the right to reconsider, meaning they can withdraw from the contract without providing a reason within 14 days of signing, or at any time if the contract is open-ended, and can always repay the debt early, even partially, and get a reduction in credit costs.

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Is it really possible to foresee everything? For example, a pandemic?
Despite all the precautions you might take, unforeseen events can always happen. Of course, with good planning, we might have enough funds to manage/get through short periods of difficulty, but… what if the period becomes longer?

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One option, offered during prolonged economic crises, is moratoriums.
These allow you to suspend mortgage or consumer credit payments, through government aid or private agreements such as those signed with banking and financial associations.
At the end of the presentation, you'll find a Calculator to simulate suspending the mortgage payment. Even when you suspend payments, remember that interest continues to accrue on the debt, and it will need to be repaid.
When the financial situation is too difficult, and you can no longer regularly meet your debt obligations, you can resort to over-indebtedness crisis resolution procedures, which provide for debt restructuring, fulfilment of creditor claims and the cancellation of some or, in extreme cases, all debts.

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In conclusion, a brief mention of the Central Credit Register (CR), a database managed by Banca d'Italia, which provides an overview of any debts (including guarantees) and the credit history of anyone requesting or currently paying off loans. It is used by banks to assess creditworthiness, i.e. whether a person is reliable as a borrower. This determines whether the loan will be accepted and how much it will cost to obtain it.

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The CR records all loans, such as mortgages, personal loans, credit lines and so on, and all guarantees:

- €30,000 and over
- €250 and over if the client has significant payment difficulties.

The intermediary has some information obligations, including the requirement to inform the client before the first CR reports are submitted, in case there are prolonged delays or bad loans. These reports will remain visible to all financial intermediaries for 36 months, during which it might be difficult or very expensive to access a loan.

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To check your position in the CR, you can contact Banca d'Italia for free via the servizionline.it portal or by sending a request to one of the branches, by mail or in person.

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A Banca d'Italia Guide is also available for the Central Credit Register, which can be consulted when needed or simply if you want to learn more.

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You can find out about updates and get useful advice by visiting the 'L'Economiapertutti.it' or 'quellocheconta.gov.it' websites.