

GENERAL PRINCIPLES/RECOMMENDATIONS FOR RESPONSIBLY MANAGING CREDIT

CARDS AND CUSTOMER CARDS WITH CREDIT OPTION

The KARTAC members who are active in the credit card and customer card business would like play an active part in helping people avoid excessive indebtedness. When it comes to managing money – and in particular when using the credit option offered by credit cards and customer cards – we recommend the following as ways of avoiding problems when using the credit facilities offered by our members:

- Get a clear overall picture of your incomings and outgoings.
- Draw up a personal monthly budget with all regular and sporadic expenses such as accommodation, tax, insurance, household, health, transport, leisure, etc. Calculate how much you have left at the end of each month. You could do this using an online budget calculator, for instance (available on the websites of various members).
- Check what changes to the budget can be expected during the term of the agreement and factor these into your planning.
- Make timely provisions for unexpected expenses such as dentist's fees, repairs, fines, rent increases and accidents. The best way to do this is by setting up an extra account with your bank.
- When planning your budget, take cashless payment methods into account.
- Automate your cash transactions, e.g. direct debits for health insurance premiums and telephone bills, standing orders for rent, etc.
- Don't make purchases without first budgeting for them and carefully reviewing your financial situation.
- Don't use the credit option to such an extent that you end up with problems meeting your periodic payment obligations.
- Choose the right kind of financing. For instance, contact your financing partner and take individual advice.

By taking these steps, you can make sure you still have enough financial leeway to maintain your usual standard of living once you have made your monthly repayments.

CREDIT CARD AND CUSTOMER CARD WITH CREDIT OPTION/

GENERAL PRINCIPLES OF RESPONSIBLE LENDING/

POSSIBLE RISKS IN THE EVENT OF AN UNEXPECTED CHANGE IN THE BORROWER'S SITUATION

WHAT IS A CREDIT CARD OR CUSTOMER CARD WITH CREDIT OPTION, AND HOW DOES THE CREDIT OPTION WORK?

Holders of credit cards and customer cards with credit option can decide for themselves whether they would like to settle in full the amount of a transaction made with the card in question or whether they wish to make use of the credit option. If the card holder decides to make use of the credit option, they settle only part of the amount of the invoice. The customer is then granted a consumer loan in the amount of the remaining balance and pays interest on that amount. Whether a credit card or customer card holder is given a credit option, and the amount of credit available, depends on their overall financial situation.

WHAT DOES RESPONSIBLE LENDING MEAN?

Consumer loans are tried and tested, modern financing instruments. The granting of consumer loans in Switzerland is subject to one of the strictest laws in Europe: the Federal Act on Consumer Credit (Bundesgesetz über den Konsumkredit, KKG). There's a good reason for this legislation being there: it's meant to protect borrowers from excessive indebtedness. That's why members of KARTAC attach great importance to running thorough checks on loan applications – based in part on information provided by the applicant – and identifying potential risks.

The key criterion for granting the credit option is the card holder's creditworthiness. The amount of the loan must not be beyond their individual financial capacity. That's why, when an application is assessed, the applicant's overall financial situation is comprehensively analysed and an individual risk profile is drawn up. For instance, a viable loan amount is calculated on the basis of their individual budget so that once the monthly instalments have been repaid, the borrower still has sufficient financial flexibility - and can therefore be as secure as possible in making use of the financial leeway that they have gained.

UNEXPECTED CHANGES IN THE BORROWER'S SITUATION SHOULD NOT LEAD TO DIFFICULTIES IN MAKING PAYMENTS.

The borrower must be aware that unforeseen events can occur during the term of a consumer loan agreement, such as the loss of a job, accident, illness or divorce, which could lead to an unfavourable change in the borrower's income or expenditure situation. The borrower can minimise this risk by taking appropriate measures. Recommendations and principles for responsibly managing credit cards and customer cards with credit option can be found on the KARTAC website (<http://kartac.ch>).

When adverse events occur, it's advisable to contact the lending institution. That way, a fair, viable solution can be found with respect to the repayment of the loan, helping to prevent a deterioration in the borrower's financial situation.

By taking out additional payment protection insurance – if the lending institution offers it – the borrower can help to protect themselves against the possibility of missing payments if they become unemployed through no fault of their own, are ill, or have an accident.

In any case, it is recommended that borrowers should take individual advice from their lending institution.