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ABSTRACTS

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THE REGULATION OF CREDIT AGREEMENT

High-interest consumer loans are making it simpler for Ukrainians to obtain big-ticket goods, but the easy credit may come at a high price for unprotected consumers. Although limited consumer loans did exist during Soviet times, Ukrainians have never been exposed to the kinds of credit now being offered.

Not more than ten years ago, shoppers who wanted to buy, a washing machine or a big-screen television had no choice but to pay in cash in full. That situation is rapidly changing, as finance companies, pawnshops and banks are rushing to provide consumer loans.

With the consumer credit market in its infancy, loans carry high interest rates, and some loan providers have been accused of using dubious tactics to attract customers. The market is growing so quickly, that credit has already made an impact on the way Ukrainians shop and retailers sell their goods.

But finance companies frequently use unethical tactics to attract borrowers. Companies often quote only a part of the overall interest rate that consumers will have to pay. That attracts unsuspecting borrowers, who learn at the last minute that the overall rate will be twice the amount originally quoted.

For example, the initial ad may state the annual rate of 16 percent to 19 percent annually for a hryvna-denominated loan, yet this quoted rate is only a base figure. When the customer is ready to sign a contract, he learns that the total rate will be around 45 percent annually.

Deceptive tactics, however, can backfire, scaring customers and destroying the small consumer credit market. As a result, finance companies have realized that deceiving customers is not the best way to build their business.