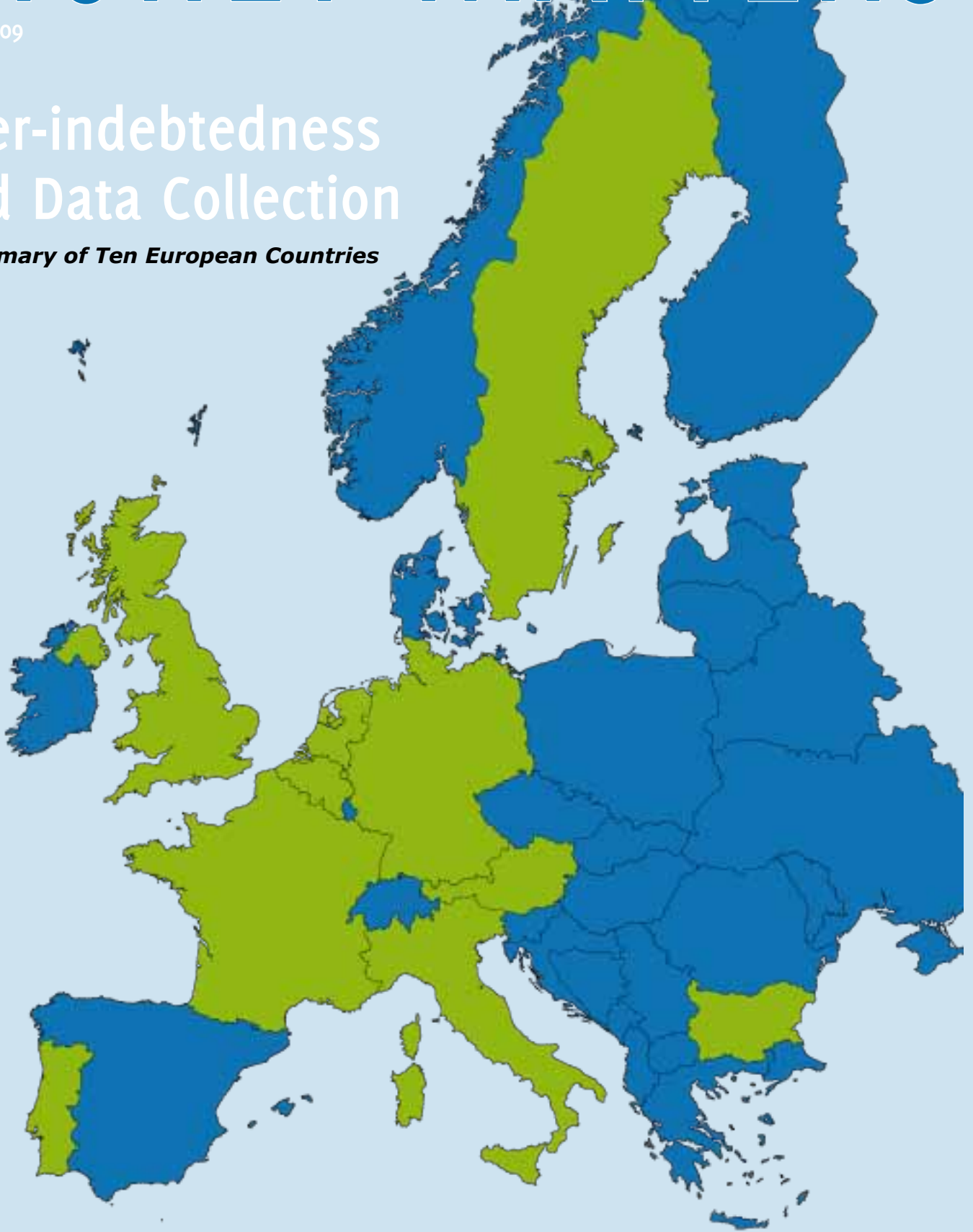


MONEY MATTERS

nº7 | 2009

Over-indebtedness and Data Collection

A Summary of Ten European Countries



Over-indebtedness and the financial meltdown

The news of the year 2009 is frightening. The insecure credit debts of European and North-American banks add up to already 2.7 trillion euros.

And the worst is yet to come. European banks are sitting on 18.2 trillion euros of toxic assets according to a confidential Brussels document. National leaders and EU officials share fears that a second bank bailout in Europe will raise government borrowing at a time when investors – particularly those who lend money to European governments – have growing doubts over the ability of countries such as Spain, Greece, Portugal, Ireland, Italy and Britain to pay it back.

'Estimates of total expected asset write-downs suggest that the budgetary costs – actual and contingent – of asset relief could be very large both in absolute terms and relative to GDP in member states', according to an EC document seen by 'The Daily Telegraph'.

This financial meltdown could happen because many banks were involved in irresponsible credit lending. They did not compare the real worth of the assets they were lent, but engaged in wishful thinking about future growth rates. The financial control boards and agencies were blind and did not realise their legal obligations.

Nearly all banks behaved in a way they would never accept concerning private households. If private households want to get a loan or a credit, their financial abilities and their capacities to manage the income and the expenditures of their own household are checked through scoring systems and other information sources.

A widely accepted core definition of over-indebtedness is the existence of a (longer-term) negative balance between income and expenditures. For years this negative balance was hidden in the books of the banks. They cry for help like private households do if they are in a situation where they cannot cover their actual and future expenditures on the basis of their income possibilities. But the reactions on the two cases are quite different. The banks are saved by a guarantee umbrella or even by cash flow. The private households have to undergo a difficult and long-winded procedure (lasting at least six to ten years) to become debt-free again.

For a civil society it would be good if at least the board of the banks took liability for the mess they have made. Over-indebted private households have to give away all their private assets to pay back their debts. Instead of doing the same the management boards of the banks fight for their gratuity rates. As Barack Obama, the US president, said: 'This is a scandal and immoral.'

It is especially immoral and economically insane because the effects of the financial meltdown for private households will be grave. Up to now these effects are neither mentioned nor discussed in public. The concern of the governments goes only in the direction of big or global players. But once more the victims will be the families and private households. In all European countries, unemployment is the major reason for becoming over-indebted. The financial crisis will dramatically increase the number of unemployed people. In this process, the number of over-indebted people will increase as well. So far, nobody seems to care or be prepared for this development.

Therefore it is an urgent need to have a closer look on the actual situation concerning over-indebtedness.

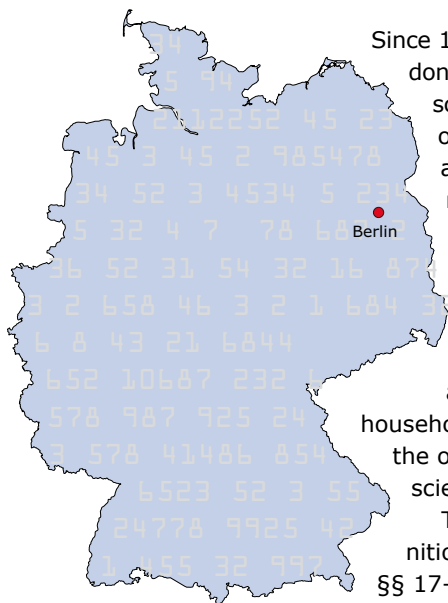
In view of the global situation and the financial meltdown it is not only a scientific approach that ecdn members try to find appropriate ways to measure the number of over-indebted people or households. It is rather a call for action undertaken by the European community to change the financial system in a way that leading bank managers cannot gamble in the worldwide casino with the money of depositors any more, as they did in the last few years. They should at least take the moral and financial liability for what they have caused. ::



Dieter Korczak, GP-Forschungsgruppe, Germany, is one of the co-founders of ecdn, a member of ecdn's management committee and edited this issue of 'Money Matters'

Germany

Dieter Korczak, GP-Forschungsgruppe, Institut für Grundlagen- und Programmforschung (GP-F)



Since 1990 research was done in Germany to describe the situation of over-indebted people and to estimate the number of over-indebted households.

In Germany, there are mainly two definitions used to define an over-indebted household: one is juridical, the other one is a social science one.

The juridical definition is regulated in §§ 17–19 of the Insolvency Act (Insolvenzordnung).

A person can claim for the procedure if they are not in the position to fulfil their current payment obligations (§ 17) or in case that their assets do not cover the existing liabilities (§ 19).

The juridical system conducts statistics on the number of cases that are in the private insolvency procedure. Since the opening of the private insolvency statistics in 1999, around 500 000 people have been put into the procedure. The annual rate of procedure openings is around 120 000 cases.

The social science definition defines over-indebtedness as a situation in which after deduction of the current basic living costs the remaining available

income is not sufficient to cover the existing payment obligations. For the estimation of the number of over-indebted households a methodological mathematical combination of different indicators is used:

- * number of unemployed people with attachment of wages
- * number of people with affirmations in lieu of oath
- * number of clients of debt counselling offices
- * number of cancellations of credit/loan payments
- * number of people registered in a debt register
- * number of people with rent arrears and/or utility debts
- * number of people who say in surveys that they live below the poverty level

We found out that it is not sufficient to use a single indicator like the EU-SILC module to estimate correctly the number of over-indebted households because for a long period they have been a hidden population. It is very unlikely that over-indebted people will participate in general population surveys. Therefore in our opinion a broader approach is needed.

The socio-economic distribution of over-indebted people has been the same for years. The current figures of 2007 show that 53% of the over-indebted persons are 25–44 years old and 37% of them have children. 41% have debts below 10 000 euros, the average amount of debts is 36 000 euros. 80% of the debtors have a monthly net income below 1 300 euros.

The two major reasons for becoming over-indebted are unemployment and divorce. ::

Table: Estimation of the total number of over-indebted households in Germany

Author	Study	No. of over-indebted households (mill./year)	percentage	Publication date
Korczak/Pfefferkorn	Überschuldungssituation und Schuldnerberatung in der Bundesrepublik Deutschland	1.30 (1990)	4.2%	1992
Korczak	Marktverhalten, Verschuldung und Überschuldung privater Haushalte in den neuen Bundesländern	1.96 (1994)	5.5%	1997
Korczak	Überschuldung in Deutschland	2.77 (1999)	7.3%	2001
Korczak	Überschuldungssituation in Deutschland im Jahr 2002	3.13 (2002)	8.3%	2004
Creditreform	Schuldneratlas 2007	3.50 (2007)	9.3%	2007

Source of the current figures: Jürgen Angele et al. (2008): *Überschuldung privater Personen und Verbraucherinsolvenzen*. Statistisches Bundesamt. *Wirtschaft und Statistik* 11/08, p. 963–973

The figures showed a constantly growing number of over-indebted households. It can be assumed that the number will further increase in 2009.

The Netherlands

Albert Luten, Nibud (National Institute for Budget Information)



In the Netherlands over-indebtedness is defined as a problematic debt situation. There is a serious debt situation when a household pays more for their debts than they should pay in a debt regulation. It is problematic when there are debts related to rent/mortgage, energy or health insurance, because severe measures could be taken, such as cutting off the energy. This definition has been used a long time by debt regulators to determine if a household should be admitted to a debt regulation, along with some other parameters.

The measurement of over-indebtedness in the Netherlands has a long story. For years different data circulated about the number of over-indebted households, and in 1992 a study was performed to measure over-indebtedness scientifically. A dataset of the Social and Economic Panel (now EU-SILC) of the Central Bureau of Statistics was used. A household was over-indebted problematically when:

- * it had financial problems, and
- * it had a debt.

There were financial problems when:

- * the household had problems to pay the rent or mortgage, and/or
- * it had problems to pay the energy bill, and/or
- * had to make debts because of the financial situation.

5.3% of the households had financial problems, 19.4% of the households had debts, while 2.3% of the population was over-indebted problematically. Lone parents and households with children were most likely to be over-indebted problematically.

In 1999 and 2003 new attempts were made to measure over-indebtedness. The 2003 study used more or less the same definition, but approached the problem in a quite different way: the definition of a problematic debt as stated above was used to determine whether a household had a problematic debt or not. There were two panels to get the data. The first was an Internet panel with more than 4 000 members. For households without Internet, more than 800 interviews were taken from a panel of households without Internet. The maximum monthly repayment capacity according to a legal debt regulation was calculated and when the payments on debts exceeded this

amount (together with one or two other conditions like the period of the arrears) we had a problematic debt situation. About 2–4% of the households with an income of less than 150% of the social minimum appeared to be over-indebted. Households that are over-indebted are more often lone parent households, households with two or more children, have a woman as head, have more often a non-Dutch as head, are young and do not work. At the moment a new study is undertaken. The results will be published in the course of this year. All the studies were ordered and financed by the Ministry of Social Affairs.

The biggest problem in all the studies undertaken so far is to get a representative sample. Households with debts are often not willing to participate in questionnaires, have no fixed-line telephone, have a secret number etc. They are thus difficult to reach and the question is whether this causes a bias. Moreover, the percentage of over-indebted households is quite low, so you need an enormous sample to get some in. In the Netherlands most studies measured over-indebtedness by calculating the legal repayment capacity, and when this exceeds the monthly payments on debts, the household is over-indebted. Calculating the repayment capacity is complicated and a lot of variables are needed. This means that the questionnaire is long and difficult, which results in missing values and people who give up before they are done. These variables are never included in regular surveys of for example statistical offices, so you need a special approach.

The sampling applied in the Netherlands in the last few studies is a multistage sample. In the first round some thousands of households (about 4 000 in the current study) are questioned very roughly. Households that might be over-indebted are asked to participate in a further study. In this second round detailed questions about the repayment capacity are asked. Sometimes two existing panels are combined to get the required amount of respondents.

In an ideal situation it should be possible to calculate the rate of over-indebted households with an existing survey of a statistical office, for example EU-SILC. The Dutch approach by calculating the repayment capacity does not permit this because the required data are not included. The required data are so detailed that they probably never will be included in any current survey as EU-SILC. Another solution is to use a different definition of over-indebtedness, for example a more subjective one. What do households think themselves on this item, did they get reminders from creditors, do they have arrears and so on. Such a definition of over-indebtedness is easier to measure. ❖❖



Literature

Tris Serail, *Schulden: een (on)dragelijke last*, The Hague, 2004.

H. Vermeulen, H.J. Dirven, A. Kersten, R. Euwals, *Financiële problemen, schulden en problematische schuldsituaties in Nederland*, The Hague, 1992.

IVA, *Problematische schulden: zicht op het onzichtbare*, Tilburg, 1999.

	Making ends meet		
	very difficult/ difficult	rather difficult/ rather easy	easy / very easy
	percentage of all households per category		
2003	12	32	56
2004	13	33	54
2005	17	32	51
2006	15	33	53

Data from the Netherlands

	Number of debt regulations
2003	10 597
2004	14 060
2005	14 666
2006	14 933
2007	14 944

Sources: Dutch CBS

	Arrears, last 12 months			
	rent or mortgage	energy	on bought articles	on at least one of the items
	percentage of all households per category			
2003	3	3	2	6
2004	4	3	2	5
2005	5	4	1	7
2006	4	4	1	6

Sweden

Vilhelm Nordenanckar, Swedish Consumer Agency (Konsumentverket)

According to the report 2008:1 'Alla vill göra rätt för sig' ('Everybody Wants to Pay Their Debts', publisher: the Swedish Enforcement Authority), 400 000 people in Sweden (6%) are more or less over-indebted. Over-indebtedness is estimated to cost the Swedish society approximately over 30 billions Swedish kronor (3 billions euros) each year. The Swedish Enforcement Authority chose the following definition of over-indebtedness in their report: 'A person is over-indebted if they constantly experience recurring payment problems (can't pay their bills).' The definition is based on the person's own experience and the payment problems must be constant or recurring. Notice that this definition is not a legal definition in Sweden. The Swedish Enforcement Authority chose a quantitative survey method and the results showed that '6% (approximately 400 000 people) stated that it will be impossible or difficult to pay their bills, interests and installments in the following two months.'

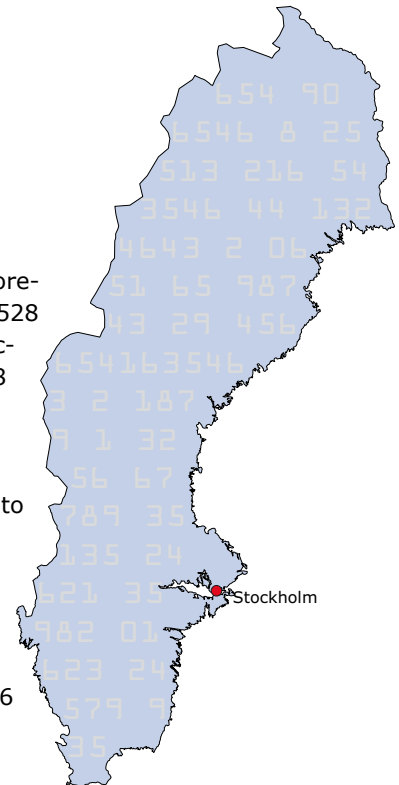
According to the report 18% of the adult population had payment difficulties during the last twelve months. These payment problems were often temporary. The concept of over-indebtedness should associate with a more prolonged payment inability than that. These 18% can therefore not be considered over-indebted.

The legal definition of over-indebtedness for debt restructuring according to the Debt Relief Act is when a person is so deeply in debt that he or she will not be

able to pay his or her debts in the foreseeable future. During 2008 only 6 528 persons applied for debt recovery according to the Debt Relief Act. 3 678 of these were allowed debt relief.

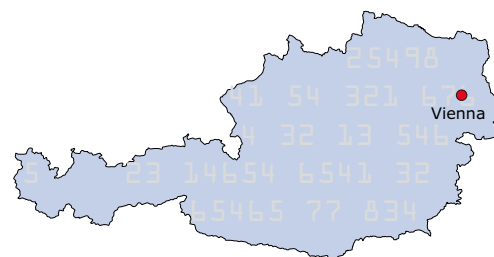
A new Debt Relief Act will probably come into force in Sweden during 2010 which will make it a bit easier to get debt relief and in a shorter time (three years). Approximately 5% of the Swedish population has debts registered according to a list published by the Swedish Enforcement Authority (474 710 of the total 9 256 350 inhabitants). Together with the Enforcement Authority, the Consumer Agency has recently made an investigation on over-indebtedness among young people (18–24 years): 'Överskuld-sättning och ekonomiska problem bland ungdomar' ('Over-indebtedness and economical problems among youngsters'), KFM Rapport 2008: 3 (only available in Swedish).

The number of applications to the Enforcement Authority for collecting unpaid debts increased by 20% during 2007 among young people. The increase is more than double than in other groups and it is especially worrying that the group of 18 to 19 years olds increases most. ❖❖



Austria

Maria Kemmetmüller, ASB Schuldnerberatungen GmbH



Data on the issue of over-indebtedness and people with financial problems on a general basis have hardly been available in Austria. Speaking about over-indebtedness is mainly based upon the information from the officially recognised debt advice centres. Their databases are quite extensive and professional, containing countless details about the clients and their personal and financial situation. Data gathering is standardised and based on strict QM principles. The umbrella organisation of the debt advice centres, ASB Schuldnerberatungen GmbH, merges these databases, edits, analyses and regularly publishes interesting key data¹.

In 2007 around 41 700 people were assisted by debt counsellors. Since 1995 around 54 400 debt settlement procedures have been opened in total in Austria, almost 7 600 of which in 2007. According to an estimation of the debt advice centres, about 300 000 households are over-indebted or close to over-indebtedness. In Austria over-indebtedness is often defined as inability to pay back debts due within an adequate period of time.

The biggest Austrian association for the protection of creditors, Kreditschutzverband von 1870 (KSV), extensively collects data about companies and private people through different information sources, analyses them and sells the information for good money. Their databases comprise information about commercial and consumer credits, defaults in payment, legal debt settlements etc. The methods used for data collection are controversial and therefore criticised by consumer protection organisations. The duty to supply information is not met; the period for deletion of data is not kept and faulty information is collected in a shady manner². Important business partners are banks, transmitting details about their clients and their financial situation and deciding the creditworthiness of people on basis of this given information. A claim for more transparency has been voiced.

Another institution collecting data is the Ministry of Justice. It runs a freely accessible database including all issues on debt settlement procedures, which is the only public announcement organ for these procedures³.

Within the usual EU-SILC survey (= Community Statistics on Income and Living Conditions) data on over-indebtedness of private households are rarely

gathered. However in the year 2008 the main focus of EU-SILC was on financial exclusion and over-indebtedness. This module covered in depth aspects of these problems such as outstanding payments, living costs, kind of credit, purpose of applying for credit, access to and use of financial services, access to basic bank account ...

Unfortunately this broad data collection on over-indebtedness throughout European countries has been conducted uniquely. It is questionable if this 'snapshot' is suitable for representing the complex problem of over-indebtedness. A survey on a longer and continual period of time would be preferable because possible effects of over-indebtedness could be reported and the development could be dynamically observed.

In Austria, a working group headed by representatives of the national office of statistics and including researchers, representatives of the anti-poverty network, the national bank and the Federal Ministry of Social Affairs was formed to discuss and refine the questionnaire to the module 2008. After some adaptations about 5 800 households were addressed. Results of the survey will be available at the beginning of 2010.

Due to the lack of data about over-indebted households in Austria, researchers of the social policy department at the Vienna University of Economics and Business Administration have been devoted to the profound analysis of over-indebted households in Austria. This biennial research project funded by the Austrian national bank will investigate reasons and effects of over-indebtedness, characteristics and dimension of over-indebted Austrian households and the phases of over-indebtedness. It is expected to render a closer understanding of over-indebtedness and people with financial problems. ::

Some data

- * Personal credit (2007):
121 064 million euros (OeNB)
- * Negative registrations (2006):
commercial credit: 370 000 people
consumer loan: 190 000 people (KSV)
- * Payment defaults (2007):
average five days; reasons for payment defaults:
35% over-indebtedness

¹ Such as the annual report 'Schuldenreport' http://www.schuldnerberatung.at/schuldenreport_2008_End.pdf

² 'DATUM': 12/2008: Datendealer, p. 20-23

³ <http://www.edikte2.justiz.gv.at/>

France

Emmanuel Masset Denèvre, Institut National de la Consommation (INC)

In France, the treatment of over-indebtedness situations is dealt with by the household debt commissions. Those are public structures whose secretariat is administered by the Banque de France. The legal definition corresponds to the criteria required to be entitled to the procedure:

'The over-indebtedness of natural persons is characterised by the manifest impossibility of a well-intentioned debtor meeting either all of his personal debts due now and in the future or fulfilling an undertaking he has given to guarantee or jointly and severally settle the debt of an individual contractor or a company when he was not a de facto or de jure executive thereof.

The Banque de France provides monthly statistics on the cases submitted by the commission and the admissible cases.

	November 2008	January to November 2008
Cases submitted	15 525	171 339
Admissible cases	12 807	142 940

Since 2004, the commission can transfer a case to a judge in order to initiate a personal recovery procedure (PRP). This procedure is reserved for cases where the debtor's situation is 'irremediably compromised'. From January to November 2008, 29 942 cases were oriented to PRP.

To evaluate the number of over-indebted people, the government refers to data collected in the national register of household credit repayment incidents (FICP). The FICP is administered by the Banque de France. The register records established repayment incidents arising from credits granted to individuals for non-professional purposes, and situations of over-indebtedness (registered in household debt commissions).

In 2007, 2 351 879 persons were recorded in that register, including 927 774 for over-indebtedness.

As the FICP records persons, the number of households in over-indebtedness situations must be figured out. In September 2008, this number is estimated at 702 561 households, that is to say 2.5% of households.

The problem of that official measure is that it only concerns people who turn to commissions. If they do not, it is impossible to count them. In particular, some over-indebted households turn to brokers in order to

consolidate their debt (with lower repayment, but higher duration and higher total cost).

Other statistics can be used to approach the reality of over-indebtedness.

- ⇒ The FICP also included data on payment defaults. Registered are all the debtors with payment defaults totalling at least:
 - * twice the last instalment due, for loans repayable monthly;
 - * the equivalent of one instalment in other cases, if the sum is not paid within 60 days.

At the end of 2007, 1.8 million persons were registered in FICP for payment defaults.

- ⇒ In each French region, there is a public fund (solidarity fund for accommodation FSL) to help people who have difficulties to pay their rent. In 2006 (last available figures), 68 200 households were recipients of that fund.

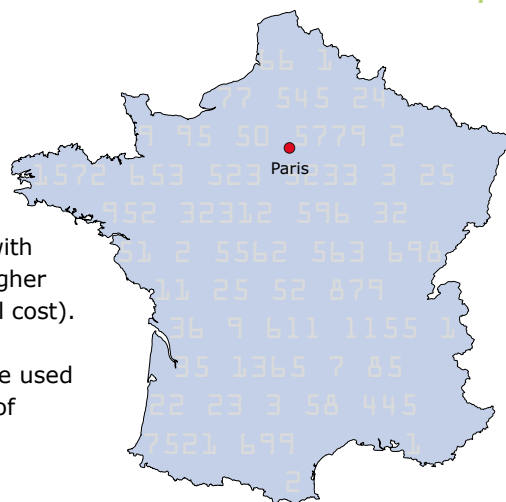
The same fund is also used to help people who have difficulties to pay their energy/water/telephone bills. In 2006, 382 200 households were recipients of that fund.

- ⇒ Every year, the household credit observatory, which is financed by banks, publishes a survey. Representative households (8 000) are notably asked the following question:

'In your opinion, for all your credits, the total amount of monthly repayments is presently ...'
Results (November 2007):

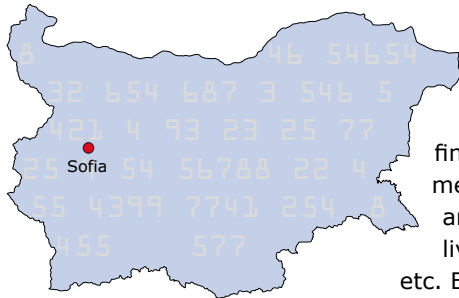
- * far too high 6.2%
- * too high 11.7%
- * high but affordable 33.3%
- * affordable 34.9%
- * very affordable 13.9%

From these results and assuming that people who answered that their repayments are far too high could be assimilated to over-indebted persons, we can estimate the number of over-indebted households at about 1.7 million, that is to say 1 million more than the official figure. ::



Bulgaria

Bistra Vassileva, E-marketing Association



After joining the EU much has been done in Bulgaria in the field of harmonising social practices, economic and financial indicators, terms and methodologies for gathering and analysing statistical data about living conditions and standards etc. But there is still a gap between the virtual (documents) and real (activities)

domains in many aspects of our life. One of it is the topic of social, incl. financial inclusion/exclusion and over-indebtedness.

One of the sources dealing with social inclusion/exclusion is the New Social Policy Strategy¹ developed by the Bulgarian Ministry of Labour and Social Policy. A precise search through the document shows that over-indebtedness as a term is not mentioned in the text. The only citation which has something common with the topic is that '... reliable welfare indicators are needed which will serve for strengthening the (inter)relation between the objectives of the economic growth and the state programs for reduction of poverty, inequality and economic uncertainty.' Over-indebtedness as a term usually can be found in literature alongside with the methods for estimating solvency of the households. Two definitions that have not been officially published are as follows:

'Over-indebtedness represents a condition when a certain person is not able to cover his/her repayment contributions and delays with the payments².'

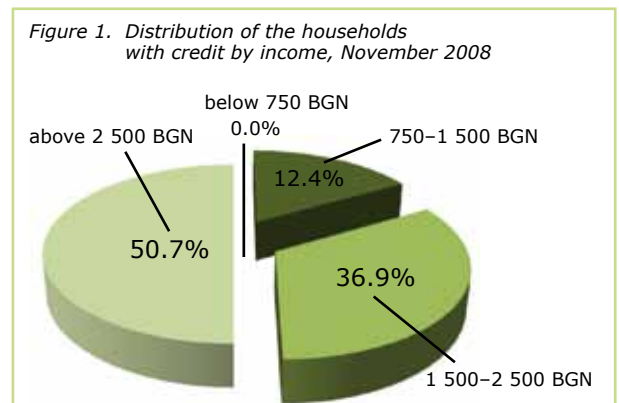
'Over-indebted people are those adults, whose ordinary monthly expenses exceed their income and there are no more possibilities for taking new loans³.'

Only one official source dealing with over-indebtedness was found which actually is a translation of the Commission Regulation (EC) No 215/2007 of 28 February 2007 on implementing Regulation (EC) No 1177/2003 of the European Parliament and of the Council concerning Community statistics on income and living conditions (EU-SILC) as regards the list of target secondary variables relating to over-indebtedness and financial exclusion. Nevertheless, it is possible to obtain information about the over-indebtedness situation in Bulgaria by the Bulgarian National Bank, the National Statistical Institute, the CreditCentre and Industry Watch. Despite the financial crisis the growth rate of the wealth of Bulgarian households is stable.

According to the data provided by Industry Watch the financial wealth of Bulgarian households during the third quarter of 2008 is estimated to be 33.5 billion Bulgarian leva (BGN, approx. 16 billion euros). The financial wealth comprises 23.3 billion leva net financial wealth and 10.2 billion leva of loans. Regardless of the fact that the size of bank loans to the households continues to increase it is considered that the so-called conservative saving model of Bulgarian households could diminish their losses during the financial crisis.

Loans to households and NPISHs⁴ during the period 2005–2008 are increasing both as numbers of loans and as a total size.

More than half of the credits are taken by households with income above 2 500 leva (Figure 1).



The average size of the credits for November 2008 according to the data provided by CreditCentre is 38 694 euros. The average ratio EUR/BGN for the country is 86/14.

Credits are taken mainly (89.13%) by young and middle-aged people (Table 1). The typical credit size varies from 10 000 to 50 000 leva (Table 2) and it tends to decrease. Roughly three quarters of all mortgages are financed between 40% and 70% by credit (Table 3).

Table 1. Distribution on clients by age groups

Age	From 01.11.2008 to 30.11.2008
18-25 years	4.35
26-35 years	50.10
36-45 years	39.03
above 45 years	6.52

¹ <http://www.mlsp.government.bg/en/docs/strategy/index.htm>

² <http://www.dolceta.eu/bulgaria/Mod4/spip.php?article222>

³ <http://www.segabg.com/fixed/vrpl.asp?id=2313727>

⁴ Non Profit Institutions Serving Households



We can conclude that there are data which can describe some aspects of the situation of over-indebtedness in Bulgaria but not the whole picture. There is neither a common definition about over-indebtedness nor a shared understanding about parameters for its measurement. ::

Table 2. Distribution of credits by size

Size, EUR	From 01.11.2008 to 30.11.
from 0 to 10 000	2.17
from 10 000 to 30 000	34.78
from 30 000 to 50 000	45.65
from 50 000 to 70 000	6.52
from 70 000 to 90 000	4.35
above 90 000	6.53

Table 3. Share of financing, November 2008

Share	%
below 40%	7.4
from 40 to 50%	22.6
from 50 to 60%	24.4
from 60 to 70%	31.2
from 70 to 80%	13.8
from 80 to 90%	0.6
from 90 to 100%	0.0

Portugal

Catarina Frade, University of Coimbra

In the last 15 years, Portuguese households have been taking advantage of favourable credit market conditions to resort to credit mostly to buy houses. In accordance, the indebtedness ratio is one of the highest in all Europe (134% of disposable income, in 2008). Mortgage credit absorbs 80% of total debt.

Since 2002 we have been facing a worsening of the financial situation of Portuguese families, especially in 2007, just before the global crisis become undeniable.

The Observatory of Consumers Indebtedness monitored the situation of over-indebted families through an empirical study. In this study we analysed 2 621 over-indebted consumers who sought help from the Consumer Defence Association in Portugal (DECO) between January 2005 and February 2009.

We collected socio-demographical data, financial characteristics (income, number and type of credits), socio-psychological variables (motivations for getting credit, reasons for default) and default characteristics (number and type of credits). Based on all these indicators we concluded that over-indebted households are primarily of middle class type (income, academic skills), employed but affected by a previous unemployment situation, with one or two children

and aged 39–49 years old. They have accumulated several debts, including mortgage credit, loans to buy cars, personal loans and credit cards. Personal loans and credit cards are often used to pay other debts.

In 2007, the numbers of consumers in financial stress requiring the support of DECO in the renegotiation of their debts with creditors doubled compared to 2006. In the last weeks the government announced some emergency measures to help families with mortgage credit affected by unemployment.

The unemployment rate has reached 7.9% and is expected to grow even further. The state will support half of the monthly instalment of mortgage credit to those unemployed for more than three months during a period of two years (moratorium).

By the end of that period, households will reimburse the amount at a favourable interest rate. The reimbursement can be made during the remaining time of the original credit.

In any case, families will suffer the bad consequences of this crisis for a long period, most certainly also after the recovery of banks and corporations. ::



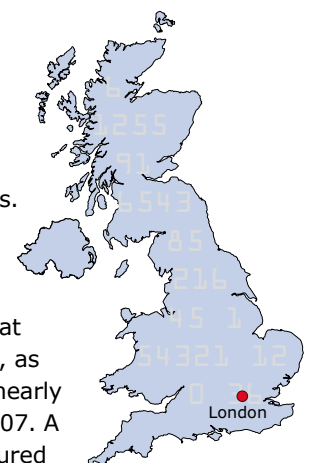
Great Britain

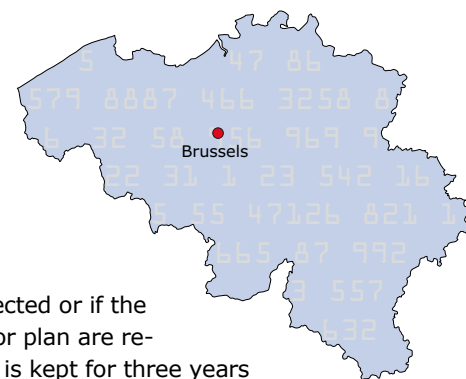
Mick McAteer, SSE – School for Social Entrepreneurs

About a quarter of the population hold at any one time credit commitments such as credit cards and overdraft facilities on which they owe nothing. Over one million adults are currently falling behind with payments and a further two million are constantly struggling (FSA 2007). 6% of the UK households were in arrears with contracted household commitments in 2005 (EU-SILC).

The amount of personal debt went up to 1.4 trillion pounds sterling. Much of the massive increase in personal total debt can be attributed to the housing mar-

ket. The average household debt including mortgages in May 2008 was 57 420 pounds. In 2006/07 Citizens Advice Bureaux in England and Wales received record numbers of debt enquiries – a total of 1.7 million. PriceWaterhouseCoopers estimates that total debt serving costs (including principal, as well as interest, payments) accounted for nearly 20% of disposable household income in 2007. A substantial increase in unsecured and secured debt, arrears and repossessions is predicted. ::





Belgium

Didier Noel, L'Observatoire du Crédit et de L'Endettement (OCE)

The law of 10 August 2001 on the Centre for Loans to Private Individuals created the Centre for Loans to Private Individuals¹. This replaces the database managed by the National Bank of Belgium (NBB) since 1985, which only recorded defaults in repayment of consumer loans governed by the law of 12 June 1991 and home loans guaranteed by a mortgage granted essentially for private purposes and governed by the law of 4 August 1992.

Since 1 June 2003, lenders and their insurers have been obliged not only to register the abovementioned defaults on payment, but also the contracts themselves within two working days of the contracts being signed. The defaults in payment that must be registered must be higher than 25 euros. In the context of consumer credit, they cover all sums that have remained totally or partially unpaid for at least three months, which have become immediately payable (regardless of the maturity date) or which entail at least three instalments that have been totally or partially unpaid. In the context of a home loan, they also cover all sums that have remained totally or partially unpaid at least one month after the transmission of a notice of default by registered letter.

By virtue of the law of 5 July 1998, which introduced collective debt settlement procedures into Belgian law, these are also registered in the Centre at the initiative of the court clerk of the court seized with these proceedings².

Management is undertaken by the NBB and is audited by a support committee comprising representatives from the market supervision authorities, lending institutions and consumers.

The data relating to registered contracts is kept for the entire period of their execution and for a further three months and eight working days after the end-of-contract date. The data on registered defaults of payment are kept for a maximum of ten years after the first registration of a default in payment. If the default is regularised, the data is kept for a further twelve months (provided that this period does not exceed the abovementioned ten years). The data relating to collective debt settlements is kept through the entire period of the proceedings and the settlement plan and also for twelve months after the end of this plan. If the request

for a plan is rejected or if the procedure and/or plan are revoked, the data is kept for three years after the rejection or revocation.

Following the law of 5th of July on the collective settlement of debts, the over-indebted person who is not, or not any more, a trader must be no longer capable of repaying payable debts, or those about to mature, on a durable basis without having not manifestly orchestrated their own insolvency. 0.84% of the adult population of Belgium (70 168) were concerned in 2008 by the procedure of collective settlement of debts. Two other indicators must be mentioned to evaluate the over-indebted people in Belgium: 4.06% of adult people in Belgium (344 072) have a default on payment concerning a consumer credit or a home credit guaranteed by a mortgage; in 2007 the records treated by the Walloon debt mediation services concerned 1.2% of the Walloon households (French speaking area) and the records treated by the Flemish debt mediation services concerned 2.9% of the Flemish households (Dutch speaking area).

We will finally remark that a Fund for the Treatment of Over-Indebtedness was created by virtue of the law of 5 July 1998 on the collective settlement of debts, amended by the law of 19 April 2002 (its operating procedures were defined in a Royal Decree of 9 August 2002) and that it is funded by an annual contribution paid by lending institutions which have granted 'mortgage' loans³ or consumer loans and which is calculated on the basis of arrears in payment recorded in the Centre for Loans to Private Individuals for each of these institutions on 31 December of the year prior to the year when the subscription is due. The subscription is set by a Royal Decree in the context of the maximums defined by the law. This fund was originally intended to pay the balance of the expenses and fees of debt mediators appointed in the context of collective debt settlements, i.e., the balance which the beneficiary of this procedure was unable to pay. A framework law of 22 December 2003 stated that, where applicable, the fund would pay the cost of prevention of over-indebtedness campaigns aimed at informing the public and raising its awareness of this subject. A Royal Decree of 23 June 2004 stipulated that this allocation could not exceed 25% of the contributions payable by lenders. ::

¹ The data to be recorded, the procedures for consulting and retaining them and the operation of the centre were stipulated in a Royal Decree of 7 July 2002.

² The data to be recorded, the modalities for their consultation and retention were stipulated in a Royal Decree of 22 April 1999.

³ Property loans, guaranteed by a mortgage and taken out essentially for private purposes.



Italy

Ernesto Fiorillo, Consumatori Associati

Over-indebtedness of Italian families is constantly increasing. Very often families are not able to meet due dates of mortgages or consumer credit instalments.

According to the recent speech of the Governor of the Bank of Italy, 'since the beginning of the year 2000, the increase of the loans to Italian families has developed as follows: 11.5% per year on average for general loans and over 15% for those relating to the purchase of houses.' At a certain point, the debt of Italian families accounted for 50 per cent of the disposable income (47% in 2006), a value still well below the average in Europe (equivalent to approximately 90%) and in the other major industrial countries.

Causes and possible remedies, recently introduced in Spain, for this issue are to be analysed with specific attention to the failure of the debtor. An overview of the economic and financial situation of Italian families shows that constant increase of the debt frequently leads to pathological stages of over-indebtedness and

also to insolvency problems. Insolvency in the private sector will become increasingly important for competition in the coming decades: on one hand there will be the expected constant increase in consumption financed by credit and a reduced network of social protection; and on the other, reduced protection in case of unemployment will lead to growing competition regarding the assistance for medical expenses and reduced pension expectations for those who no longer work. In today's social and economic context (characterised by a deregulation of the credit market, by increasing amounts of funding for consumption and by a lower level of welfare than in the past), Italy, together with Greece, is the only country in Europe that lacks procedures for non-entrepreneurs' bankruptcy. One of the possible reasons to protect the debt is the failure of the debtor. ::



The fight against over-indebtedness at EU level

Within the EU Lisbon process, the fight against over-indebtedness has high priority and has become one of the key objectives. In the past, several Directorates-General have initiated studies and initiatives in this area (see overview table).

Definition	Law	Access	Education
<ul style="list-style-type: none"> * 'Towards a Common Operational European Definition of Over-indebtedness' (DG Employ 2007) 	<ul style="list-style-type: none"> * 'Amnesty of Debts: Amicable Agreement and Statutory Solution', Peer Review (DG Employ 2006) * 'Over-indebtedness: Seeking Legal Solutions to Debt Problems' (Council of Europe 2005-2007) 	<ul style="list-style-type: none"> * FES Project (DG Employ 2005-2007) * 'Money Advice and Budgeting Service', Peer Review (DG Employ 2004) * 'European Coalition for Responsible Credit' (2006-2007) 	<ul style="list-style-type: none"> * FES Project (DG Employ 2005-2007) * Study on 'Financial Services Provision and Prevention of Financial Exclusion' (DG Employ 2007) * Study on 'Financial Literacy Schemes in the EU27' (DG Market 2007)

Graph: GP-Forschungsgruppe

Towards a European definition

The study by Davydoff, Jentsch, Kempson (2008) identified the following four core elements for a definition:

- * insufficient income or other resources (illiquidity)
- * fulfilment of recurring financial commitments (payment capacity)
- * actual and future payment ability (sustainability)
- * without reducing the standard of living below the poverty line (human living)

For further information consult: www.ecdn.eu

http://ec.europa.eu/employment_social/spsi/financial_exclusion_en.htm

Preventing over-indebtedness in a time of crisis

Providing access to high quality money and debt advice services is a key element in the fight against over-indebtedness, a problem which touches approximately 20 million people in the EU (according to a peer review on social inclusion 2004).

Tackling over-indebtedness is regarded as a major target of the Lisbon strategy. In the last few years DG Employ and DG Internal Market have already undertaken several initiatives and actions to improve the situation of over-indebted people. Examples are the studies 'Financial Education and Better Access to Financial Services' (2005–2007) and 'Towards a Common Operational European Definition of Over-indebtedness' (2007–2008), or the implementation of 'The European Database for Financial Education' (2009).

But the financial turmoil needs further engagement for, and support of, over-indebted people. The 200 billion Euro package of measures designed to help Europe tackle the current crisis does not provide money for debt advice, debt research or over-indebted people. The overall thrust of it is to strengthen the EU's strategy to stimulate growth and jobs, in both the short and the long term. Therefore measures have been put in place to help businesses access financing and cut red tape. These initiatives will help SMEs and other businesses survive the downturn and thus keep more people in work.

To keep people in work is one effective activity for the prevention of over-indebtedness. But it is not enough.

ecdn recommends:

- ★ To subsidise money and debt advice in a way that at least one debt adviser is available and guaranteed for 10 000 households, in all EU member states
- ★ To offer free debt regulation in all EU member states (see best practice model GKB municipal credit banks, The Netherlands)
- ★ To build up national task forces with clear responsibilities for the fight against over-indebtedness in each member state
- ★ To further develop the data collection procedures for the estimation of over-indebted persons
- ★ To deliver figures on over-indebted persons on a regular base
- ★ Financial support of the ecdn to improve the network's capabilities to function as early warning institution and clearing house for debt research, debt advice, debt regulation and debt prevention.

At least one key lesson should be learnt by the European experience. There is still no common approach to measure over-indebtedness. Furthermore, there seems to be no perfect way to measure and monitor over-indebtedness. The best way seems to be using an indicator system which combines information from different data sources.

For further information and recommendations go to
www.ecdn.eu

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