Study on European consumers' over-indebtedness and its implications

Final Report

Ipsos, VVA, Centerdata
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Executive summary

The overall purpose of this study was to obtain a clear and updated analysis of over-indebtedness among European households and consumers, in particular from the perspective of debtors. The concrete aims of the study, broken into five distinct tasks, were to:

- obtain a granular and updated mapping of the situation of over-indebtedness among European households and consumers in all 27 EU Member States (Task 1 objective)
- gather improved knowledge of the perspectives, perceptions and challenges of EU consumers in relation to over-indebtedness, including in light of whether or not they have personally experienced it and their knowledge of financial matters (Task 2 objectives)
- collect more, and more precise, information about the macro-economic drivers of over-indebtedness and their short-, medium- and long-term impact, including an analysis of the impact of the COVID-19 pandemic, as well as recent energy price shocks and rising inflation (Task 3 objectives)
- provide an in-depth legal analysis of concrete interactions between EU and national rules and provisions covering consumer credit, mortgage credit and other contiguous matters (Task 4 objectives)
- conduct a behavioural experiment focused on assessing the capacity of households and consumers to make informed and optimal credit choices (Task 5 objective)

Task 1 was conducted via desk research and an online survey of, and follow-up interviews with, debt advisors. Task 2 involved focus group research among both debtors and non-debtors across 18 Member States. Task 3 and 4 took the form of desk research and stakeholder/expert consultations. Task 5 involved a literature review and a behavioural experiment.

Task 1: Mapping of the situation of over-indebtedness

In total 8.8% of households across the European Union were in arrears with their key financial commitments in 2020. Based on this measure, over-indebtedness affects 17.2 million households and almost 40 million people across the Union. Between 2013 and 2020, there was an overall decrease in the share of the population in arrears of around 32% (from 12.9% to 8.8%). However, starting in 2019, the COVID-19 pandemic reversed this decline and by 2020, all indicators of over-indebtedness used in this study increased for the first time since at least 2014. We estimate that, in 2020, at least 1,170,000 households (ca 2.7 million people) across Europe became over-indebted as a result of the pandemic.

There is no clear **geographic pattern of over-indebtedness**, with arrears varying across and within the different regions of the EU (North, South, East and West). Greece and Bulgaria present the highest levels of over-indebtedness while Luxembourg, the Netherlands, Sweden and Czechia have the lowest levels.

From a **sociodemographic perspective**, over-indebtedness is closely related to income, employment status, household size, and level of education. The picture is more complex (and sometimes modulated by other factors) for age, gender, and geographic location. More specifically:

- Low-income groups are significantly more likely to be in arrears than higher income households

- Unemployed households are considerably more likely to be in arrears than those in employment
- In terms of household size/structure, single persons with dependent children (the majority of which are led by women), and two adults with three or more dependent children are the most likely to be over-indebted
- Households with a lower level of education tend to be significantly more over-indebted than higher education households
- The middle-aged (35- to 54-year-olds) are the most likely age group to be over-indebted
- Single males are slightly more likely to be over-indebted than single females
- The link between over-indebtedness and geographic location (urban versus rural) is complex and varies greatly across Member States

When it comes to **types of credit**, while there is a strong link between over-indebtedness and arrears in utility bills and between over-indebtedness and arrears on hire purchases and other loan payments, there is no such association when it comes to mortgages and rent payments. This indicates that consumer loans and credit card debts are key sources of consumer over-indebtedness in the EU.

Regarding the **size of the debt**, the study findings indicate that households with higher debt-to-income, debt service-to-income, and debt-to-asset ratios are generally more likely to be in arrears.

In terms of **financial management**, even though exogenous drivers (e.g. macro-economic factors) are better at explaining differences in over-indebtedness over time, there is a strong link between inadequate financial literacy and over-indebtedness. Moreover, countries, where debt advice networks are well-developed and free (or cheap), can also mitigate the prevalence of over-indebtedness.

Lastly, the Task 1 research found a very strong correlation between the subjective perception of financial fragility (i.e. households stating that they are unable to make ends meet and households unable to face unexpected financial expenses) and objective statistics on arrears. Similarly, the study has found a relatively strong correlation between the share of persons at risk of poverty or social exclusion and statistics on arrears.

Task 2: Focus groups exploring consumer perspectives

To complement the findings of Task 1, focus group research was undertaken across 18 Member States to gather improved knowledge about consumers' perspectives regarding over-indebtedness. The Task 2 research also sought to obtain an objective assessment of the participants' financial literacy and financial resilience (via a short questionnaire), to provide context for their views and experiences.

Sixty percent of the focus group participants were financially literate, though the figure was slightly lower among those with past experience of over-indebtedness, at 56%. Almost half of the participants had no savings (33%) or less than one month's pay worth of savings (15%). The proportion with no savings rose to 42% among those with past experience of over-indebtedness, and 48% among those who were financially non-literate.

Asked what came to mind on hearing the term **debt**, participants often began by emphasising **adverse emotional impacts**, including fear/worry, unease, stress and anxiety. Such emotions were most commonly mentioned, and described with particular intensity, by participants with experience of over-indebtedness. In several countries participants both with and without experience of over-indebtedness referred spontaneously to a **social stigma** surrounding debt which, they believed, meant that those affected often felt a sense of shame about their situation and/or were reluctant to talk about it or seek help.

Alongside emotional associations, the term debt also prompted participants to think of different types of loan and different types of lenders – both traditional (banks, credit unions) and alternative (for example, quick loan companies and online lenders). In several countries participants drew a **distinction between "good" or "necessary" types of debt and bad or "dangerous" types**. The former were defined as debts incurred in meeting "life needs" or investing for the future (mortgages, student loans and car loans were mentioned). Bad types of debt were defined as those resulting from the habitual use of quick consumer loans or credit for "unnecessary" purchases. Still, in several Eastern and Southern European countries especially, loans and credit were also commonly seen as something people relied upon to be able to afford regular payments like food, energy and medical bills.

There was broad recognition that **the term over-indebted referred to a much more severe situation than having debt** per se. Participants commonly described it as a situation of having multiple debts simultaneously, or a high level of accumulated debt, and being unable to repay it. **Numerous participants across the countries said they were *currently* over-indebted** (or close to becoming so) and suffering extreme stress, despair or depression as a result. Some of them also described other, more practical consequences they were facing, such as problems accessing credit, or potential bankruptcy.

In almost all of the countries, participants agreed that over-indebtedness was relatively common and also increasing. Perceived reasons for this included economic impacts of the COVID-19 pandemic; rapidly increasing prices combined with low or stagnating wages and unemployment; a proliferation of different short-term loan and credit options (often with high rates of interest), and also individual-level factors, especially intensifying consumerism.

Across the 18 countries, participants appeared cognisant of a range of coping strategies they might pursue to avoid or recover from over-indebtedness. It was notable, however, that the **most commonly mentioned strategies focused predominantly on individual-level behavioural adaptations** (working more, cutting back on spending etc.) or seeking support from friends or family. Outside of Northern, Western and a minority of East European countries, there was limited mention of formal external support mechanisms available for the over-indebted, such as direct financial assistance or debt advice. Indeed, in a few countries, participants had no concept at all of what debt advice was.

In term of potential levers for tackling over-indebtedness a common theme of the discussions was a desire for **measures that would directly address perceived structural underpinnings of over-indebtedness or that would have an *immediate* impact**, especially for those currently in difficulty. Thus, there was support for measure to address rising prices and low wages, and to promote more responsible lending practices, as well as for financial education. In contrast, the idea of trying to encourage people to save more or provide them with digital tools to manage their finances often met with irritation or derision.

At the same time though, **views on potential measures to tackle over-indebtedness were also often very context-dependent**. Reaction to the idea of no- or low- interest state loans provides a case in point. While there was strong support for the idea in some countries, there was considerable opposition in others, which in several cases appeared to reflect a broader distrust of government and government-sponsored initiatives in those countries. Such findings potentially underscore the need for carefully tailored, national strategies to tackle over-indebtedness, within the context of the broader EU-level agenda. Part of such an agenda going forward might be the sharing of innovative approaches and best practices between countries. The research identified various national initiatives that, from participants' perspectives at least, offered an important lifeline or source of support to people experiencing debt problems. Particularly stand out examples were municipal debt advice services in the Scandinavian countries and the Money Advice and Budgeting Service (MABS) in Ireland. Such initiatives (or variations thereof) may be transferrable to other national (or local) contexts, following the identification of the relevant success factors and requirements.

Task 3: Assessment of the long-term impact of COVID-19

The study finds that the share of **over-indebted households in the EU** is expected to increase from 8.8% in 2020 (17.2 million households) to 11.3% in 2032 (22.1 million) resulting in an overall 28% increase in this period.

The projected increase varies significantly within the EU, as Member States with a higher prevalence of over-indebtedness are estimated to face a greater increase in the medium and long term.

It is estimated that the **sociodemographic groups** most impacted by the increase in over-indebtedness in 2032 will be:

- low-income households
- unemployed households
- single females
- households living in urban areas
- single parents with children
- households with a basic level of education
- young households

The **key macro-economic factors** behind the increase in household over-indebtedness will be:

- an expected increase in the cost of living (contributing 54% to the increase in over-indebtedness),
- an expected decrease in income (contributing 24% to the increase in over-indebtedness),
- an increase in demand for credit (contributing 13% to the increase in over-indebtedness),
- an increase in the cost of debt (contributing 7% to the increase in over-indebtedness).

In the medium and long term, the **impact of COVID-19** on all four drivers will have less relevance. However, when it comes to the cost of living, the impact will still be important due to its contribution to inflation and the removal of some of the financial measures put in place in the aftermath of the pandemic to support the most vulnerable households.

Given the magnitude of the problem, the report provides a number of measures to **prevent** the impact of the projected increase in over-indebtedness (i.e. limiting irresponsible lending practices, increased social protection and financial education) or to **remediate that impact** (i.e. debt advice, and debt settlement procedures).

Task 4: Legal analysis of issues faced by consumers

A mapping of the rules and most relevant issues faced by consumers in the field of credit agreements and mortgages was undertaken. Twelve Member States were selected for the study, namely Bulgaria, Denmark, Estonia, France, Germany, Greece, Italy, Ireland, the

Netherlands, Poland, Slovakia and Spain. An assessment of their legislative frameworks regarding consumer credits and mortgages, their interaction with the EU legal framework and the behaviours they encourage was developed.

On the scope of the EU rules, several financial products that may contribute to consumer over-indebtedness are excluded from these rules, including micro-credits and 'Buy Now Pay Later schemes' (BNPL). These products also remain largely unregulated at national level in the 12 Member States covered. Further, lenders often either fail to conduct or poorly conduct creditworthiness assessments of consumers before issuing credit agreements notwithstanding the EU legal obligation to do so. Given that this assessment is crucial to prevent over-indebtedness, there is a clear need to address this issue and the additions of the new Consumer Credit Directive (CCD) in this respect are to be welcomed.

On the Standard European Consumer Credit Information sheet (SECCI) mentioned in the CCD and the European Standardised Information sheet (ESIS) mentioned in the MCD, concerns arose on (i) the transparency of information, and (ii) the level of financial literacy. Importantly, the SECCI/ESIS is not always distributed by lenders before the contract is signed and the document is rarely used effectively by consumers to make an informed decision. A risk of information 'bombarding' exists and is exacerbated by the low level of financial literacy identified in some Member States examined. Few national rules that address the specific needs of, and that are targeted towards, vulnerable consumers were identified in the 12 Member States.

Predatory lending and misleading advertising practices remain in some Member States notwithstanding existing laws to address these. The national rules on the level of flexibility of loans were assessed, and the need for a framework to prevent lenders from unilaterally modifying contracts is underlined. In terms of early repayment, the CCD sets out a maximum threshold. However, in practice credit providers can use this to avoid carrying out specific calculations of the actual damage caused to the creditor. The practice whereby lenders charge excessive fees to consumers for overrunning or for overdrafts was found in several Member States despite the information obligations incumbent on lenders in this respect. The recent Non-performing Loan (NPL) Directive sets standards for investors of NPLs and credit servicers in the development of the secondary NPL market. Its potential unintended effects on over-indebted consumers are explored. In most Member States examined, no definition of 'over-indebtedness' was found. Insolvency and bankruptcy proceedings are currently regulated at national level hence, heterogeneities exist as to the applicable rules. Among the competent authorities designated by the Member States to supervise and ensure compliance with EU law of the financial sector, some lack sufficient powers to fulfill their supervisory duties adequately. In addition, the fines imposed on lenders for breaches of the legislation are too low to function as effective deterrents. An excessive reliance on private individual enforcement was found to potentially harm vulnerable consumers who lack the resources to enforce their rights before a national court.

Task 5: Behavioural experiment concerning the capacity of EU consumers to evaluate a credit offer

The aim of Task 5 was to provide for an increased understanding of the **capacity of EU consumers to evaluate a credit offer proposed by a credit provider**. It covered both a qualitative meta-analysis of the behavioural literature in the field, as well as a multi-country online behavioural experiment.

In the **behavioural experiment,** we created realistic scenarios in which respondents were repeatedly invited to choose between credit offers of varying levels of advantageousness. The respondents varied in terms of their **financial situation** and were assigned to experimental conditions in which the **honesty** of information provided in the marketing materials and on the credit provider's website, the loan **amount**, and the availability of a simple, visually salient credit label summarizing key aspects of the loan in an attached information form were manipulated. After the experiment, we asked respondents to review an example of a **SECCI form** and assessed their objective and subjective understanding of information, as well as their evaluation of the form.

The results give rise to the following key conclusions:

- Choices between credit offers are influenced by the level of honesty of information provided in marketing materials and on the website: when the total amount payable is presented in a more salient manner, consumers are **more inclined to choose the most advantageous offer**. It could therefore also be used as part of a mitigation strategy
- Differences between consumers' financial situations influence their choices between credit offers. **Consumers struggling to make ends meet seem to be more vulnerable to sub-optimal decisions**: they tend to choose the most advantageous offer less often overall, but specifically in the event that the offer involves a higher loan amount. Findings suggest that this might be related to lower financial literacy or higher financial stress among these consumers
- When not explicitly told to do so, only very few consumers view SECCI forms to inform their decision. However, **when their attention is directed to these forms, consumers evaluate SECCI forms quite positively**. This suggests that it might be helpful to make consumers more aware of the added value of SECCI forms so they will be more inclined to view them.
- Given that SECCI forms often present relatively large amounts of complex information and that consumers might experience limitations in terms of their cognitive resources, summarizing information in **a simple, visually salient credit label might be helpful**. The findings show that although forms with and without credit labels are generally evaluated similarly, SECCI forms with credit labels are somewhat preferred by consumers and seem to help them find and understand information about the APR
- Given the low number of respondents who chose to read the SECCI carefully, adding a credit label to SECCI forms may aid decision-making in real-life situations only under the condition that consumers are made better aware of the importance of the SECCI and the information presented in this form
- Alternatively, it might be helpful to present standardised credit labels (or at least standardised information about the total amount payable) separate from SECCI forms, for instance in advertisements and/or on providers' websites. Increasing their visibility early in the decision-making process might increase the chance that they will help consumers make better decisions. More research is needed to assess the effectiveness of such a mitigation strategy

1. Introduction

This report presents the findings of a study of European consumers' over-indebtedness and its implications. The study was conducted by a research consortium comprising Ipsos, VVA and Centerdata, on behalf of the European Innovation Council and Small and Medium-sized Enterprises Agency (EISMEA), acting under the mandate from the European Commission.

1.1. Study purpose and aims

The overall purpose of the study was to obtain a clear and updated analysis of over-indebtedness among European households and consumers, including from the perspective of debtors.

The concrete aims of the study were to:

- obtain a granular and updated mapping of the situation of over-indebtedness among European households and consumers in all 27 EU Member States (MS). The mapping covered the different regions and (where applicable) communities forming the 27 EU MSs, as well as the distribution of over-indebtedness in the various economic and social categories, and the evolution of the level of over-indebtedness in EU Member States since 2013
- gather improved knowledge of the perspectives, perceptions and challenges of EU consumers in relation to over-indebtedness, including in light of whether or not they have personally experienced it and their knowledge of financial matters
- collect more, and more precise, information about the impact of macro-economic drivers of over-indebtedness, including an analysis of the current state of affairs, the impact of the COVID-19 pandemic (influenced by financial help exceptionally provided by Member States and by the asymmetric impact of the crisis between those who have a stable income and those who do not), and also taking a longer-term perspective
- provide an in-depth legal analysis of the concrete interactions of the EU and certain national rules and provisions covering consumer credit, mortgage credit and other contiguous matters (in particular, insolvency, foreclosures and forbearances)
- conduct a behavioural experiment focused on assessing the capacity of households and consumers to make informed and optimal credit choices

Reflecting the aforementioned aims, the study was designed and implemented around five distinct tasks, summarised below.

1.1.1. Task 1

The objective of this task was to conduct a granular and updated mapping of the situation of over-indebtedness of European households and consumers in all the 27 EU Member States (MS). The task involved desk research to collect EU- and national-level statistics and consultations among debt advisory service providers. The deliverables include factsheets for each Member State and an EU-level analysis.

1.1.2. Task 2

The activities of this task were aimed at collecting data on the perspectives, perceptions, and wider challenges of EU consumers on over-indebtedness, linked to their financial knowledge. It comprised online roundtable discussions (focus groups) in 18 Member States, including the administration of a short survey among the participants to obtain an objective assessment of their financial knowledge (as well as their broader financial resilience). The deliverables produced for this task include one detailed report per Member State and an overview analysis summarising the findings for all of the countries collectively.

1.1.3. Task 3

The objective of Task 3 was to identify the key macro-economic drivers of over-indebtedness, and assess their impact in the short, medium and long term, by providing a forecast analysis of over-indebtedness. The Task also analysed the real impact of COVID-19 on households' over-indebtedness in the short, medium and long-term perspective. The analysis also provides an additional scenario which takes into account the energy price shock and the rise in inflation. The activities carried out to achieve this objective included desk research to collect primary and secondary data and a consultation among stakeholders/experts (survey). The output of the task is an exhaustive analysis incorporating relevant graphs and tables.

1.1.4. Task 4

Task 4 of the project entailed an in-depth legal analysis to inspect the concrete interactions of the EU and certain national rules and provisions covering consumer credit, mortgage credit and other contiguous matters. This analysis started with the development of a typology of practices among financial product providers, which were used to conduct a legal mapping and analysis at the EU- and national-level, as well as to produce an analysis of interactions between practices and legal frameworks. On completion of this task the project team produced an exhaustive report on the findings.

1.1.5. Task 5

The final task of the project comprised a behavioural experiment focusing on the capacity of households and consumers to make informed and optimal credit choices. It was launched in four Member States. The project team conducted a literature review on other recent relevant experimental research to ground and compare the experiment's results. Two outputs were produced as a result of these activities – one report detailing the findings of the experiment and another report that compares the experiment findings with the recent relevant literature.

1.1.6. Task sequence and provision of outputs

Task 1 (Mapping of the household over-indebtedness situation in the EU) and Task 3 (Analysis of the macro-economic drivers of over-indebtedness) were conducted first and ran in parallel given they were strongly inter-related. The activities and outputs of these two tasks were used to inform the design of Task 2 (Consumer perceptions of over-indebtedness) and Task 4 (Legal analysis). Task 5 similarly drew on the findings of earlier tasks to ensure a grounded approach.

The results from all tasks are included in this Final Report, which serves as a comprehensive output for the study in its entirety.

1.2. Structure of the report

The next chapter of this report presents the mapping of the over-indebtedness situation of EU households (Task 1 results). Chapter 3 sets out the findings of the qualitative focus group research undertaken to gather improved knowledge of the perspectives and wider challenges of consumers as regards over-indebtedness – with a particular focus on identifying how they would respond (or have responded) to finding themselves in this situation. The chapter also summarises the results of the survey conducted among the focus group participants, aimed at assessing their financial literacy and financial vulnerability. Chapter 4 provides an analysis of macro-economic drivers of over-indebtedness (Task 3 results). Chapter 5 provides the legal analysis of issues faced by consumers (Task 4 objectives). Chapter 6 provides the results of the behavioural experiment concerning the capacity of EU consumers to evalute different credit offers (Task 5 objectives). The methodology used for each of the tasks is summarised or referred to in Annex A. Country factsheets produced as part of Task 1 are attached in Annex B. Country reports produced as part of Task 2 are provided in Annex C. The final focus group discussion guide and the financial vulnerability questionnaire for Task 2 are provided in Annex D. Country reports for Task 4 are presented in Annex E. The qualitative meta-analysis of relevant literature for Task 5 is provided in Annex F while the experiment protocol for this task is detailed in Annex G. Minutes to the interim and final report review meetings are presented in Annex H and I respectively.

2. Task 1: Mapping of the household over-indebtedness situation in the EU

2.1. Summary

Task 1 provides an updated mapping of the situation of consumers' over-indebtedness between 2013 and 2021 and an analysis of the underlying trends and drivers. The report builds on the previous study on the over-indebtedness of European households carried out in 2012-2013[1]. It is based on the analysis of statistical indicators related to the concept of over-indebtedness from EU and national level data sources, an academic literature review, and the findings from the debt advisors survey which collected 101 responses from public authorities, NGOs, companies and private individuals providing debt advice services in the EU Member States.

Defining over-indebtedness

This study follows the definition of over-indebtedness from the 2013 study, namely, "Households are considered over-indebted if they are having – on an on-going basis – difficulties meeting (or are falling behind with) their commitments, whether these relate to servicing secured or unsecured borrowing or to payment of rent, utility or other household bills. This may be indicated by, for example, credit arrears, credit defaults, utility/rent arrears or the use of administrative procedures such as consumer insolvency proceedings."[2]

Prevalence of over-indebtedness across Europe

Across the European Union, 8.8% of households were in arrears with their key financial commitments in 2020. Based on this measure, over-indebtedness affects 17.2m households and almost 40 million people across the Union.

At the same time, there is a very wide difference in the prevalence of over-indebtedness across the EU. While there is no clear geographical pattern with arrears varying across and within the different regions of the EU (North, South, East and West), Greece and Bulgaria present the highest levels of over-indebtedness while Luxembourg, Netherlands, Sweden and Czechia have the lowest levels.

While there is a strong link between over-indebtedness and arrears in utility bills and between over-indebtedness and arrears on hire purchases and other loan payments, there is no such association when it comes to mortgages and rent payments.

From a sociodemographic perspective, over-indebtedness is closely related to income, employment status, household size, and level of education. The picture is more complex (and sometimes modulated by other factors) for age, gender, and geographic location.

More specifically:

- Low-income groups are significantly more likely to be in arrears than higher income households.

[1] CIVIC Consulting (2013). The over-indebtedness of European Households: Updated Mapping of the Situation, Nature and Causes, Effects and Initiatives for Alleviation its Impacts, Final Report. Part 1: Synthesis of findings, 22 ff. Available at: https://ec.europa.eu/info/sites/info/files/final-report-on-over-indebtedness-of-european-households-synthesis-of-findings_december2013_en.pdf

[2] CIVIC (2013), p. 21

- Unemployed households are considerably more likely to be in arrears than those in employment.
- In terms of household size/structure, single persons with dependent children (the majority of which are led by women), and two adults with three or more dependent children are the most likely to be over-indebted.
- Households with a lower level of education tend to be significantly more over-indebted than higher education households.
- The middle-aged (35- to 54-year-olds) are the most likely age group to be over-indebted.
- Single males are slightly more likely to be over-indebted than single females.
- The link between over-indebtedness and geographic location (urban versus rural) is complex and varies greatly across Member States.

Evolution of over-indebtedness across Europe

In terms of trends, between 2013 and 2020, there was an overall decrease in the share of the population in arrears of around 32% (from 12.9% to 8.8%). The indicator hit a low of 8.2% at the EU level in 2019, which is a 36% decrease when compared with 2013.

Over this time period, there were considerable differences among Member States in terms of the evolution of total arrears. Specifically, Member States with a high share of households in arrears on key commitments in 2013 did not necessarily have the highest decrease in this indicator between 2013 and 2020. There are four Member States which experienced an increase in total arrears during the period 2013 to 2020.

However, starting in 2019, COVID-19 reversed this decline in the levels of over-indebtedness. In 2020, all of the indicators used in this study increased for the first time since at least 2014. We estimate that, in 2020, at least 1,170,000 households (ca 2.7m people) across Europe became over-indebted as a result of the pandemic.

To counteract this crisis, Member States adopted a series of relief measures that seek to alleviate the financial burden of citizens and households, such as loan repayment moratoria for mortgage and consumer credit[3], while the European Commission adopted a list of 'best practices' agreed by the financial sector, and consumer and business organisations, to help further mitigate the impact of the coronavirus pandemic[4].

Despite these efforts, the most recent data indicate that:

- COVID-19 has so far had a particularly strong impact on households in terms of dealing with housing costs and this is most marked in Ireland and Spain.
- Ireland and Spain have seen the most dramatic increases in arrears on hire purchase instalments or other loan payments since 2019.
- The share of EU households in arrears on utility bills is very likely to have increased recently. In addition, over-indebtedness is likely to increase further in the future as a

[3] European Commission (2021). Proposal for a Directive of the European Parliament and of the Council on Consumer Credits. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2021:347:FIN

[4] European Commission (2020). Coronavirus Response: Commission welcomes 'Best Practices' to provide relief for consumers and businesses. Available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1281

result of increased energy prices, the longer-term impacts of the pandemic and the war in Ukraine[5].

Drivers of over-indebtedness in Europe

An increase in the ratio of indebtedness to income is often associated with higher levels of arrears. But the debt-to-income ratio, on its own, is more closely linked to credit-worthiness than it is to the likelihood of arrears or over-indebtedness. This ambiguous relation may produce several misunderstandings and wrong financial evaluation. For instance, people with lower incomes have more difficulty getting access to mortgage credit and their debt profile is therefore more likely to be dominated by unsecured debt (credit cards, loans etc) – which put them at higher risk of over-indebtedness but in the same time limit the absolute level of their debts. In contrast, households with higher incomes may take out loans (mortgages, in particular) secured against an asset, which, however, may have the unexpected effect to increase the absolute amounts of debts, with the consequence that their debt-to-income ratio may arrive to an unaffordable level.

In general, households with a higher share of consumer loans and credit card debt are more likely to be in arrears compared with households with a higher share of mortgages. In other words, consumer loans and credit card debts are key sources of consumer over-indebtedness in the EU.

In addition, households with higher debt-to-income, debt service-to-income, and debt-to-assets ratios are generally more likely to be in arrears due to the inflated size of their debt.

Countries where debt advice networks are well-developed and free (or cheap) can prevent the prevalence of over-indebtedness.

Over-indebtedness and other measures of financial fragility

Financial fragility examines how "close to the edge" households are or how financially (un)stable they perceive themselves to be.

In 2020, almost one in three Europeans felt unable to meet an unexpected financial expense and one in five felt unable to make ends meet. More specifically there was a 35% decrease in people feeling unable to make ends meet between 2013 to 2020, down to a level of 18.5%. However, between 2019 and 2020 the indicator increased by 7% in a single year.

There is a very strong (r=0.89) correlation between the subjective perception of financial fragility (i.e. households stating that they are unable to make ends meet and households unable to face unexpected financial expenses) and objective statistics on arrears which lends further credibility to the analysis.

The analysis of the subjective measures of financial fragility confirms that the most affected Member States during the recession were not always able to improve their situation significantly over the 2010s.

Finally, there is also a relatively strong (r=0.56) correlation between the share of persons at risk of poverty or social exclusion and statistics on arrears. Over the period 2015-2020, poverty has dropped less quickly than the share of people who are over-indebted. The reason behind the discrepancy could be that poverty and social exclusion are more related to the overall socioeconomic context and the level of inequality in the Member State than indicators of over-indebtedness.

[5] Eurofund, 2022, Fifth round of the living, working and Covid-19 e-survey: living in a new era of uncertainty. Available at: https://www.eurofound.europa.eu/publications/report/2022/fifth-round-of-the-living-working-and-covid-19-e-survey-living-in-a-new-era-of-uncertainty)

COVID-19 has had a particularly strong impact on households facing energy poverty and this is likely to accentuate in the near future in view of ongoing energy price inflation.

Limitations of the analysis and implications for other tasks of the study

While the study has provided a comprehensive mapping of the current level, trends and drivers of over-indebtedness, financial fragility and poverty across Europe, there are some limitations to the data that should be taken into account when interpreting the results and planning further research, namely:

- Lack of publicly available data from 2021 onwards limits the impact analysis of COVID-19 on the over-indebtedness of European households;
- The study is limited to cross-country comparison and it does not take into account micro-level data which could provide further insight into differences across socio-demographic groups;
- The study is based on correlational analysis. Causal effects between the indicators are not examined.

2.2. Introduction

This chapter outlines the key features of the research and it sets the stage for the subsequent presentation of the findings.

Objectives of Task 1

This task presents the findings of the "Study of European Consumers' Over-indebtedness and its Implications" commissioned by the European Innovation Council and SMEs Executive Agency (EISMEA), and specifically "Task 1: Mapping of the situation of the over-indebtedness of the European households and consumers in all the 27 EU Member States".

The task defines and maps over-indebtedness in Europe, it analyses some of the drivers behind over-indebtedness and it compares examines the relationship between over-indebtedness and different aspects of financial fragility.

The research for the study was conducted in all 27 Member States of the European Union. EU and national level data sources are complemented by a literature review and the findings of a pan European survey of debt advisors to provide a comprehensive mapping of over-indebtedness in Europe.

Structure of the Task 1

Part 1 of Task 1 presents the main findings of the study and it is structured as follows:

- Introduction (this section) defines the concept of over-indebtedness adopted in this study;
- Section 2 examines the prevalence of over-indebtedness across Europe based on the most recent available data;
- Section 3 analyses trends in over-indebtedness over time;

- Section 4 looks at the drivers of over-indebtedness including debt levels, debt service costs, different types of debt and financial management;
- Section 5 compares the level of over-indebtedness with different measures of financial fragility;
- Section 6 presents the key conclusions of the Task 1;
- Overview of the methodology and different indicators and data sources used throughout the report is available in Annex A: Methodology for Tasks 1-3.

Part 2 of the report presents the country reports for each of the 27 Member States of the European Union, and it is available in Annex B: Country Fact Sheets for Task 1.

Defining over-indebtedness

A generally accepted definition of over-indebtedness does not exist.[6] However, **a 2008 European Commission study[7] proposed criteria to determine whether a household is over-indebted,** including the household's inability to meet its payment commitments on an ongoing basis and to cover borrowings (mortgages, consumer loans, etc.), but also others such as rent, utility and other payment commitments.

Building on this, a 2013 study by Civic Consulting developed an operational definition: *"Households are considered over-indebted if they are having – on an on-going basis – difficulties meeting (or are falling behind with) their commitments, whether these relate to servicing secured or unsecured borrowing or to payment of rent, utility or other household bills. This may be indicated by, for example, credit arrears, credit defaults, utility/rent arrears or the use of administrative procedures such as consumer insolvency proceedings."*[8]

Beyond this European level definition, the country research carried out for this study also identified a set of (slightly different) definitions that are applied at the national level. For example:

- According to **Austrian** insolvency procedures, over-indebtedness in Austria is associated with an inability to pay off (some) due debt[9]. Hence, the main indicators of private over-debt that are available are the number of private insolvencies and the average debt.
- In **Belgium**, a definition of the over-indebtedness is included in the chapter on personal insolvency schemes of the Code of Civil Procedure[10] stating that a consumer (that is, a natural person) can be considered over-indebted, thus, be eligible for a personal insolvency procedure, if they are unable to pay his or her debts for a significant period of time.

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[6] A common definition does not exist, see: CIVIC Consulting (2013). The over-indebtedness of European Households: Updated Mapping of the Situation, Nature and Causes, Effects and Initiatives for Alleviation its Impacts, Final Report. Part 1: Synthesis of findings, 22 ff. Available at: https://ec.europa.eu/info/sites/info/files/final-report-on-over-indebtedness-of-european-households-synthesis-of-findings_december2013_en.pdf

[7] European Commission (2008), Towards a common operational European definition of over-indebtedness, Publication Office of the European Union, Luxembourg. Available at: https://op.europa.eu/en/publication-detail/-/publication/6a109c57-e618-422b-bb5c-d931ad47e976.

[8] CIVIC (2013), p. 21

[9] Insolvenzordnung, Articles 66 and 67.

[10] The Belgian Code of Civil Procedure (Article 1675/2).

- Over-indebtedness in **France** is defined by article L330.1269 of the French Consumer Code (Code de la consommation) which states that: Over-indebtedness of a natural person is characterised by the manifest inability of the debtor in good faith to repay the whole of his/her non-professional debts due now and in the future.
- The definition of over-indebtedness in **Germany** is based on the law on insolvency (Insolvenzordnung or InsO). In particular, the inability to pay is defined as when the debtor is not in the position to fulfil their payment obligations. This is usually presumed if the debtor has suspended their payments. Over-indebtedness is then strictly defined as when the income and property of the debtor no longer cover their payment obligations[11].
- In **Italy**, over-indebtedness is defined as "A situation of persistent imbalance between obligations and assets that can be promptly liquidated to meet them, and the definitive inability of the obligor to regularly meet its obligations"[12].
- Over-indebted persons in **Luxembourg** are defined in national legislation by Article 2 of the law of 8 December 2000 as those who have lasting difficulties meeting the totality of their existing non-professional debts[13].

In line with these slight variations in definitions, there is also no universally accepted indicator to measure over-indebtedness. Indeed, alongside the definition itself, empirical research into over-indebtedness also needs to take into account the availability of data to measure the phenomenon. Based on the results of the literature, the most used indicators are:

- Measures based on arrears;
- Proportion of households perceiving themselves to be in difficulty (financial fragility);
- Proportion of households at risk of poverty or social exclusion.

To facilitate comparability, this study adopts the definition of over-indebtedness in the 2013 Civic Study[14]**.** Following the academic literature[15,16], this can be measured by the level of over-commitment and the inability to pay as a debt falls due. For this reason, and similarly to the 2013 study, **arrears on mortgages, rent, hire-purchase, and utility payments in the Member States are the key indicators of over-indebtedness** in this report.

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[11] "Überschuldung liegt vor, wenn das Vermögen des Schuldners die bestehenden Verbindlichkeiten nicht mehr deckt, es sei denn, die

Fortführung des Unternehmens ist nach den Umständen überwiegend wahrscheinlich.". Source: § 19 Insolvenzordnung vom 5.

Oktober 1994 (BGBl. I S. 2866).

[12] Law no. 3 of January 27, 2012 "Disposizioni in materia di usura ed estorsione, nonché di composizione delle crisi da

sovraindebitamento" [Provisions on usury and extortion, and provisions for the settlement of over-indebtedness crisis].

[13] "La procédure de règlement collectif des dettes est ouverte à toute personne physique, autorisée à résider sur le territoire du GrandDuché de Luxembourg, éprouvant des difficultés financières durables pour faire face à l'ensemble de ses dettes non professionnelles

exigibles et à échoir.". See: http://www.legilux.public.lu/leg/a/archives/2000/0136/a136.pdf

[14] CIVIC Consulting (2013). The over-indebtedness of European Households: Updated Mapping of the Situation, Nature and Causes, Effects and Initiatives for Alleviation its Impacts, Final Report. Part 1: Synthesis of findings, 22 ff. Available at: https://ec.europa.eu/info/sites/info/files/final-report-on-over-indebtedness-of-european-households-synthesis-of-findings_december2013_en.pdf

[15] Korczak, D. (2019) Debt Advice and Over-Indebtedness in Europe, in: Money Matters No. 16/2019, 13. Available at: https://www.researchgate.net/publication/334494621_Debt_Advice_and_Over-Indebtedness_in_Europe.

[16] Eurodiaconia (2015) Policy Paper: Household Over-Indebtedness in the European Union, 5.

However, to ensure a comprehensive mapping of different aspects of over-indebtedness, these indicators are triangulated against other indicators from the EU SILC database that indicate financial fragility, namely:

- Inability to make ends meet, and
- Inability to face unexpected financial expenses.

In addition, since some of the indicators used in the 2013 study have not been updated recently, **new data on poverty was added to this report**.

Finally, **to understand the drivers of over-indebtedness**, the study also analyses the correlation between the level of arrears and:

- Income;
- Indebtedness (e.g. median debt-to-income and median debt service-to-income ratios of indebted households); and
- Financial literacy (the capacity of the consumer to deal with financial resources and financial tools).

2.3. Prevalence of over-indebtedness across Europe

This chapter provides an overview of the pattern of over-indebtedness across Europe by country and for different sociodemographic groups.

2.3.1. Summary

Across the European Union an average of 8.8% of households (ca 17m households, or ca 40m people) were in arrears with their key financial commitments in 2020.

There is a wide very difference in the prevalence of over-indebtedness across the EU.

There is no clear geographical pattern with arrears varying widely across and within the different regions of the EU (North, South, East and West) but Greece and Bulgaria present the highest levels of over-indebtedness while Luxembourg, Netherlands, Sweden and Czechia have the lowest levels.

While there is a strong link between over-indebtedness and arrears in utility bills and between over-indebtedness and arrears on hire purchases and other loan payments, there is no such association when it comes to mortgages and rent payments.

From a sociodemographic perspective, over-indebtedness is closely related to income, employment status, household size, and level of education.

The picture is more complex (and sometimes modulated by other factors) for age, gender, and geographic location.

More specifically:

Low-income groups are significantly more likely to be in arrears than higher income households.

Unemployed households are considerably more likely to be in arrears.

In terms of household size/structure, single persons with dependent children (the majority of which are led by women), and two adults with three or more dependent children are the most likely to be over-indebted.

Households with a lower level of education tend to be significantly more over-indebted than higher education households.

The middle-aged (35 to 54 year olds) are the most likely age group to be over-indebted.

Single males are slightly more likely to be over-indebted than single females.

The link between over-indebtedness and geographic location (urban versus rural) is complex and varies greatly across Member States.

2.3.2. Patterns of over-indebtedness across countries

This section provides an overview of the distribution of over-indebtedness across the EU based on the most recent available data.

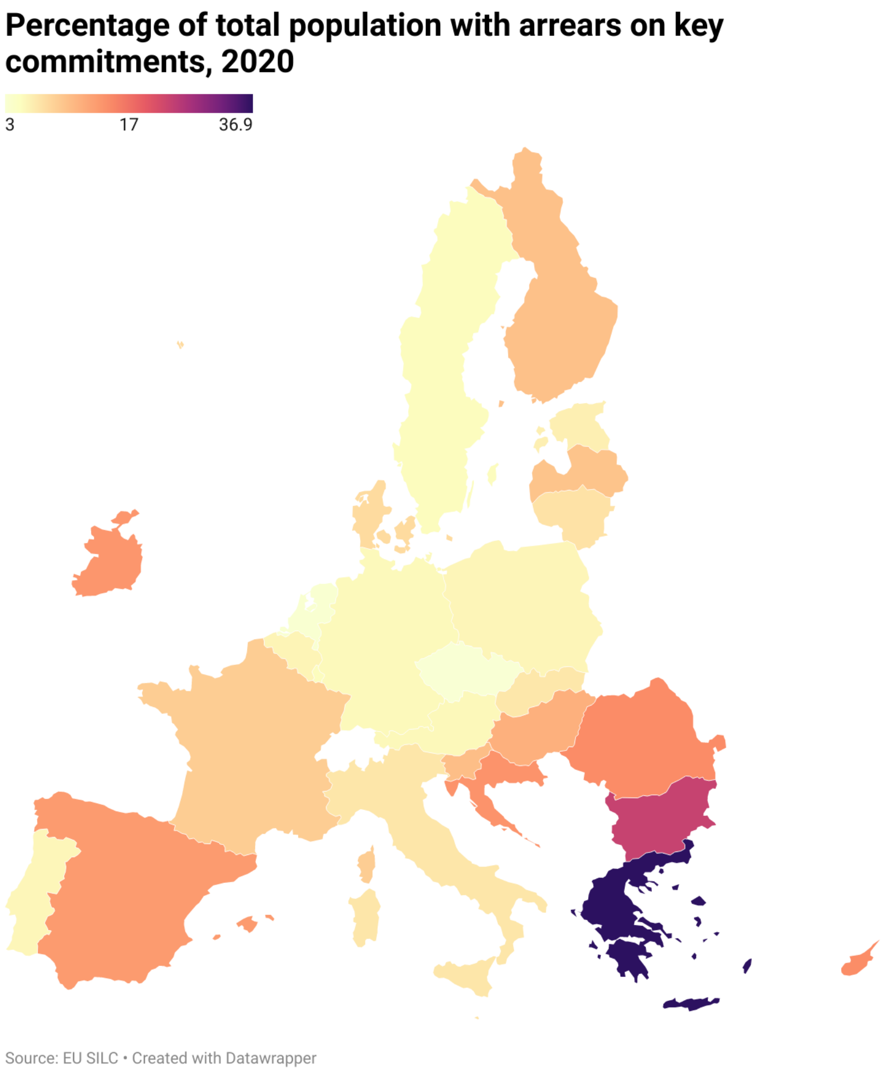
Across the European Union an average of 8.8% of households were in arrears with their key financial commitments in 2020. Out of a total population of 447m people, 195m households and average EU household size of 2.3 persons, this means that – based on this measure - over-indebtedness affects 17.2m households and almost 40 million people across the Union.

At the same time, there is a wide very difference in the prevalence of over-indebtedness across the EU. Comparing the situation in 2020, the share of people in arrears was highest in Greece (36.9%) and Bulgaria (23.6%). On the other extreme, in four Member States, less than

5% of the population were in arrears (Sweden and Luxembourg: 4.9%, Netherlands: 3.2%, Czechia 3%).

The figure below shows the distribution of over-indebtedness across EU member states in 2020. There is no clear geographical pattern with arrears varying widely across and within the different regions of the EU (North, South, East and West).

Figure 2.1: Distribution of arrears on key commitments: mortgage or rent, utility bills or hire purchase (2020, by country)



Source: Eurostat

The figure below shows Member States grouped into clusters depending on the share of households in arrears in 2020. Following the methodology adopted in the 2013 study to enable cross-comparisons, countries with over 20% of their population in arrears are categorised as having a "very high" prevalence. Countries with a share of population in arrears below 20%, yet, above the EU average (8.8%) are clustered as having a "high" prevalence of arrears. Countries with a share of the population in arrears below the EU average, yet, higher than 5% of the population have "moderate" prevalence and countries with less than 5% of the population in arrears have a "low" prevalence.

Based on this clustering, Greece and Bulgaria are the only countries in the very high cluster with Luxembourg, Netherlands, Sweden and Czechia in the low cluster. All country clusters include members of the eurozone as well as countries that have not adopted the euro which suggests that there is no link between patterns of over-indebtedness and the common currency. The final column of the figure indicates the change in the share of persons in arrears between 2013 and 2020. While these changes over time (described further in the next Chapter) are very significant in some cases, there is no clear geographical pattern in the size of the change.

Table 2.1: Member State groups according to prevalence of household arrears (percentage of total population with arrears)

Member State	Prevalence of household arrears	Eurozone	Total arrears in 2013 (%)	Total arrears in 2020 (%)	Change %
Greece	Very high	Yes	33.6%	36.9%	10
Bulgaria	Very high	No	36.1%	23.6%	-35
Romania	High	No	31.5%	14.8%	-53
Cyprus	High	Yes	33.6%	14.7%	-56
Croatia	High	No	31.4%	14.2%	-55
Ireland	High	Yes	22.5%	13.9%	-38
Spain	High	Yes	11.9%	13.5%	13
Hungary	High	No	26.7%	11.6%	-57
Slovenia	High	Yes	21.2%	10.3%	-51
Finland	High	Yes	11.2%	10.0%	-11
Latvia	High	Yes	22.4%	9.7%	-57
France	High	Yes	9.1%	8.9%	-2
Denmark	Moderate	No	6.8%	7.7%	13
Lithuania	Moderate	Yes	13.8%	7.1%	-49
Malta	Moderate	Yes	12.5%	7.0%	-44
Italy	Moderate	Yes	14.2%	6.8%	-52
Slovakia	Moderate	Yes	8.1%	6.7%	-17
Estonia	Moderate	Yes	12.5%	6.0%	-52
Belgium	Moderate	Yes	6.5%	5.6%	-14
Poland	Moderate	No	15.1%	5.5%	-64
Portugal	Moderate	Yes	11.8%	5.4%	-54
Austria	Moderate	Yes	7.0%	5.3%	-24
Germany	Moderate	Yes	5.1%	5.2%	2
Luxembourg	Low	Yes	5.2%	4.9%	-6
Sweden	Low	No	6.8%	4.9%	-28
Netherlands	Low	Yes	5.0%	3.2%	-36
Czechia	Low	No	5.4%	3.0%	-44

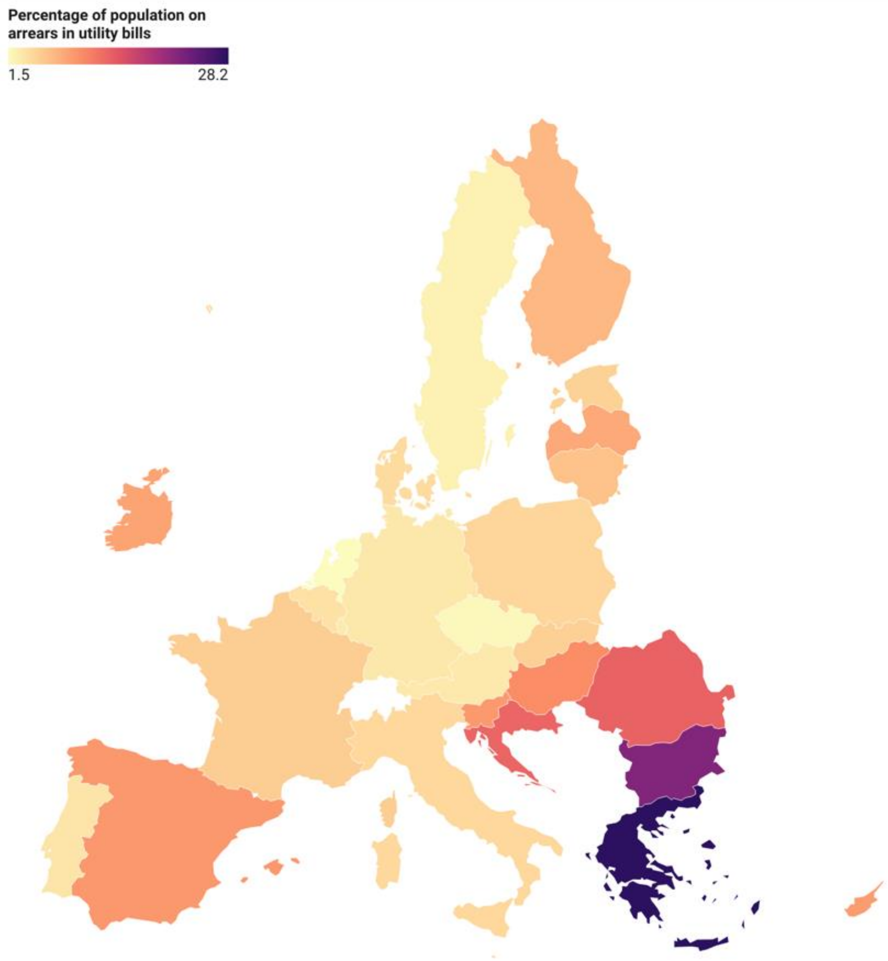
Source: Eurostat

The next three sections break down the concept of arrears further into its component parts: a) utility bills, b) mortgages and rent payments and c) hire purchases and other loan payments.

Patterns in arrears on utility bills

The Member States with the highest arrears on utility bills are almost identical to the Member States with a large share of total arrears. Indeed, at EU level, arrears on utility bills are the strongest contributor to total arrears. The only notable exception seems to be France which is close to the EU average in total arrears (France 8.9% to EU 8.8%), but lower than the EU average when it comes to arrears on utility bills (France 5.4% to EU 6.3%).

Figure 2.2: Percentage of total population with arrears on utility bills (2020)[17]



Source: Eurostat

Patterns in arrears on mortgages and rent payments

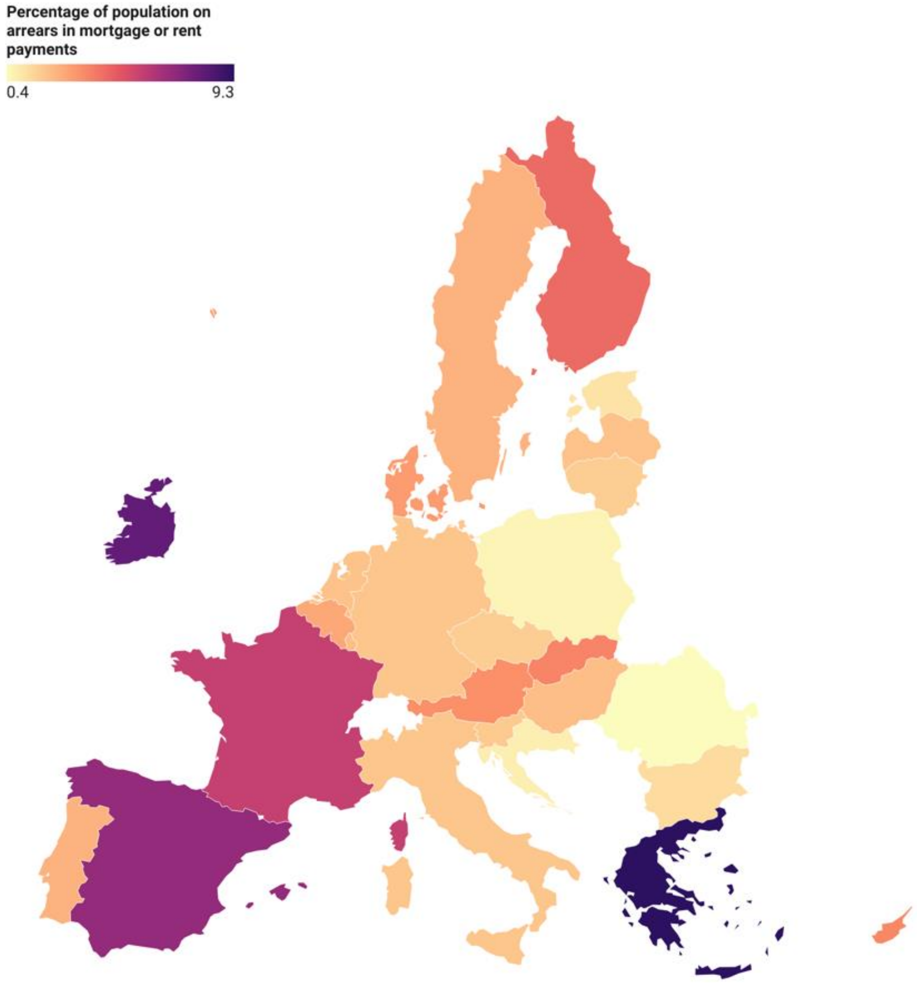
In contrast, there is a rather weak correlation (r=0.51) between arrears on mortgage or rent payments and total arrears. For example, Romania (0.4%), Croatia (0.8%), Bulgaria (1.3%), Slovenia (1.8%), and Hungary (2.1%) had relatively low shares of households with arrears on mortgage and rent payments, yet, overall, these countries have a high share of households in total arrears (Romania: 14.8%, Croatia 14.2%, Bulgaria: 23.6%, Slovenia: 10.3%, and Hungary: 11.6%). On the other hand, Austria (3.3%), Slovakia (3.6%), and France (5.7%) had a high share of households with arrears in mortgage and rent payments, even though these countries had a relatively low share of their households in total arrears (Austria: 5.3%, Slovakia: 6.7%, and France: 8.9%).

While countries with a higher share of mortgages (both HMR and mortgages and other properties) tend to have higher median debt-to-income ratios and hence, can be considered more indebted than countries with a higher share of consumer loans and credit card debts, this does not mean that households in these countries are also more *over*-indebted. Indeed, there is a negative association between mortgages on households' main residence and total arrears (see also the section on the drivers of over-indebtedness)

[17] In Figures 2.2 to 2.4 data from Italy for 2020 was unavailable and therefore substituted with the latest available data from 2019.

indicating that mortgage debt seems, in general, to be less problematic when compared with, for example, consumer loans and credit card debt.

Figure 2.3: Percentage of total population with arrears on mortgage or rent payments (2020)

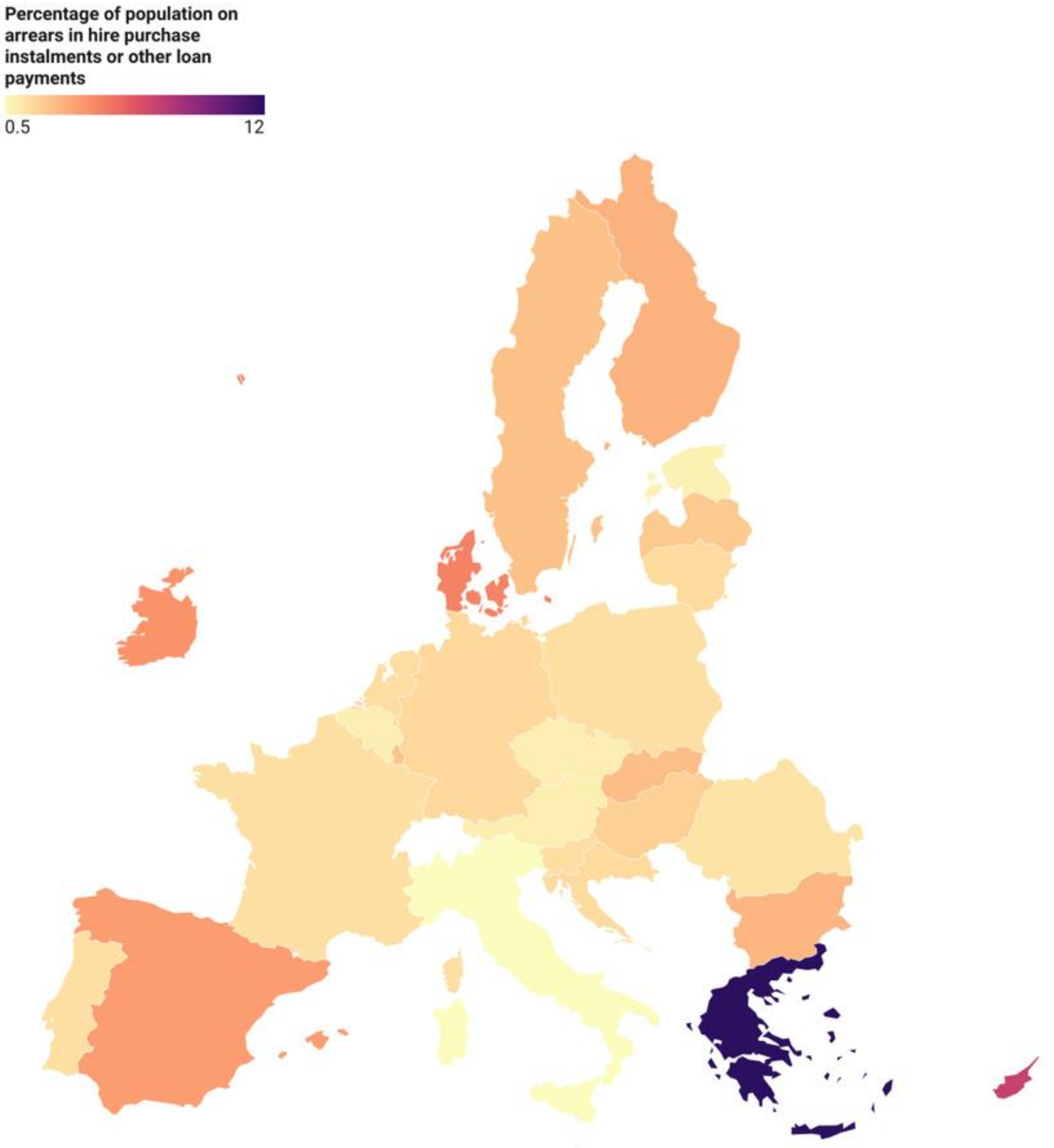


Source: Eurostat.

Patterns in arrears on hire purchases and other loan payments

The correlation between arrears on hire purchase instalments or other loan payments and total arrears is rather strong (r=0.78). At the same time, there are some notable differences at the country level. For example, Romania (1.4%), Slovenia (1.6%), and Croatia (1.7%) had relatively low shares of households with arrears on hire purchase instalments or other loan payments, yet, overall, these countries have high shares of households in total arrears (Romania: 14.8%, Slovenia: 10.3%, Croatia 14.2%). On the other hand, Luxembourg (2.5%), Sweden (2.6%), Slovakia (2.7%), and Denmark (4.7%) had a high share of households with arrears on hire purchase instalments or other loan payments, even though these countries had a relatively low share of their households in total arrears (Luxembourg and Sweden: 4.9%, Slovakia: 6.7%, and Denmark: 7.7%).

Figure 2.4: Percentage of total population with arrears on mortgage or hire purchase instalments or other loan payments (2020)



Source: Eurostat.

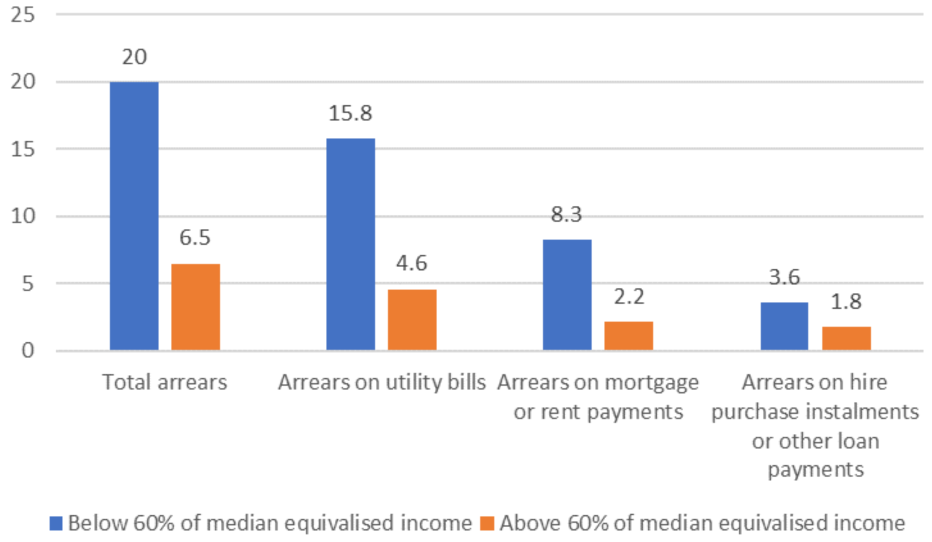
2.3.3. Patterns of over-indebtedness across sociodemographic groups

This section completes the overview by analysing the prevalence of over-indebtedness across different sociodemographic groups.

Income

The figure below shows that **households below 60% of median equivalised income[18] were significantly more likely to be in arrears throughout the period between 2007 and 2020**. Indeed, lower-income households are more than three times as likely to be in arrears on utility bills, mortgage and rent payments. Income seems to have a lesser impact on arrears with hire purchase instalments or other loan payments. Being in arrears is typically associated with households with lower income who struggle to cover their expenses[19] and the probability of households being over-indebted is higher if they are materially deprived[20].

Figure 2.5: Percentage of population on arrears by level of income (2007-2020)



Source: Eurostat

This finding is confirmed by the debt advisors consulted for this study who indicated that, **compared with other sociodemographic factors[21], the level of a household's income is the most important in explaining over-indebtedness**: the lower the household's income, the higher the higher chance of being over-indebted.[22]

The ECB HCF survey also confirms that, **at lower income levels, the financial management challenge is directly related to covering regular expenses**[23]. There is an almost linear relationship between income and the ability to manage regular outgoings. In the lowest income bracket, 76,1% (i.e. more than 3 in 4) of households have regular expenses that exceed their income whole while this is the case only for 38,7% in the highest income brackets.

[18] The median equivalised disposable income is the statistical measure used as the indicator of living standards in EU statistics. It is calculated on a yearly basis, allowing us to examine the annual change each year. Source: Eurostat. Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Archive:Living_standard_statistics_-_median_equivalised_disposable_income&oldid=250634#:~:text=It%20is%20calculated%20on%20a,the%20other%20half%20earn%20more.

[19] Disney R., Bridges S., Gathergood J. (2008). Drivers of Over-indebtedness.

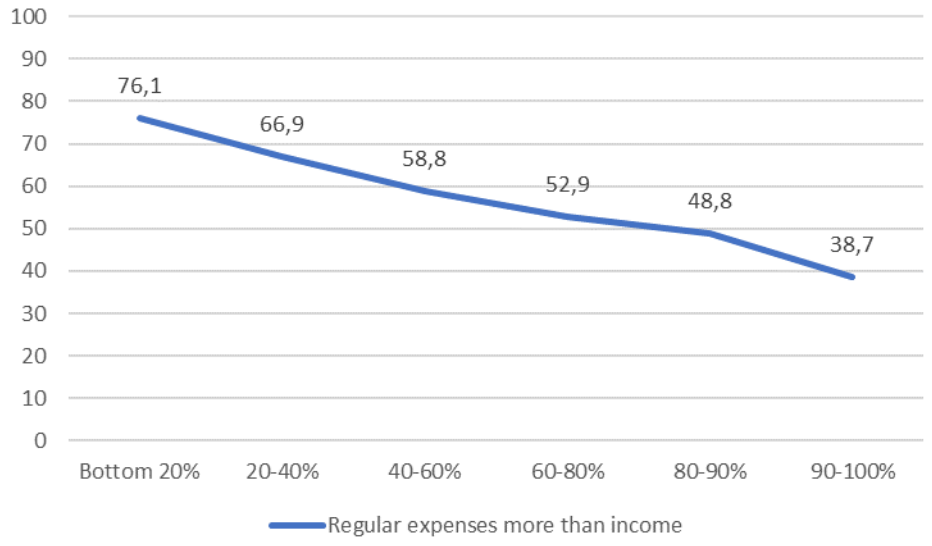
[20] Fondeville N., Őzdemir E., Ward T. (2010). Over-indebtedness New evidence from the EU-SILC special module.

[21] In the survey, debt advisors were asked to rate each sociodemographic factor from 1 to 5. Level of income has received a highest average of 3.6, followed by employment status (3.5), level of education (3.4), age and household size (2.9), geographic location (2.6), and gender (2.4).

[22] Share of debt advice beneficiaries by their level of income: Bottom 20% - 35%; 20-39% - 27%; 40-59% - 19%; 50-79% - 12%; 80-100% - 7%

[23] Disney R., Bridges S., Gathergood J. (2008). Drivers of Over-indebtedness.

Figure 2.6: Household regular expenses less than income by level of income (2017)



Source: ECB.

Employment status

Available data from Eurostat, ECB, and/or other sources do not allow for a comparison in levels of over-indebtedness by employment status. Therefore, this section gathers national level data on (over)indebtedness and findings from the debt advisor survey carried out for this study to assess the association between employment status and over-indebtedness.

National level data from multiple Member States indicate that **unemployment is one of the most significant indicators impacting over-indebtedness**:

- In **France**, in 2020, unemployed households constituted 26% of the total nation's over-indebted population, even though only 5.1% of households were unemployed[24].
- Similarly, in **Austria**, in 2021, unemployed households constituted 36.7% of households facing insolvencies, even though only 9% of households in Austria were unemployed[25.]
- In **Germany**, in 2020, unemployment was the main trigger of over-indebtedness (19.7%) followed by illness, addiction (16.5%), financial management (14.5%), and separation, divorce, death of a partner (12%)[26].

The survey carried out for this study confirms that employment status is one of the main factors in relation to over-indebtedness[27], together with income. According to the survey about half of

[24] Banque de France (2021). Les surendettement des ménages : enquête typologique 2020. Available at: https://particuliers.banque-france.fr/sites/default/files/media/2021/02/10/suren_2020.pdf

[25] ASB Schuldnerberatungen (2022), Schuldenreport 2022, pp. 18-20. Available at: https://www.schuldenberatung.at/downloads/infodatenbank/schuldenreport/asb_Schuldenreport2022_EndV.pdf?m=1651146306&.

[26] Statistisches Bundesamt (2022). Einkommen, Konsum und Lebensbedingungen - Vermögen und Schulden Available at: https://www.destatis.de/DE/Themen/Gesellschaft-Umwelt/Einkommen-Konsum-Lebensbedingungen/Vermoegen-Schulden/_inhalt.html

[27] In the survey, debt advisors were asked to rate each sociodemographic factor from 1 to 5. Employment status has received the second highest average of 3.5.

debt advice beneficiaries in the Member States are unemployed which means this group is significantly over-represented compared to the overall population (7% EU unemployment rate[28]).

Education

Available data from Eurostat, ECB, and/or other sources do not allow for the comparison of levels of over-indebtedness by a household's education level. Therefore, this section gathers national level data on (over)indebtedness and findings from the survey carried out for this study to assess the association between education and over-indebtedness:

National level data indicates that **education is one of the key factors impacting over-indebtedness**:

- In the **Netherlands**, households with low and mid-level education are considerably more likely to have problematic debts compared with households with high level of education[29].[30]
- 79% of the consumers who seek debt advice in **Portugal** had basic (44%) or middle level (35%) education compared with the remaining 21% of the consumers with higher level education[31].

The findings of the survey confirm that the level of education is a very significant sociodemographic factor when it comes to over-indebtedness. Indeed, consulted debt advisors estimated that households with no education or basic education (i.e. primary education, lower secondary education) are considerably more likely (68%) to be debt advice beneficiaries compared with households with intermediate[32] (20%) or advanced education[33] (12%)[34].

Age

Available data from Eurostat, ECB, and/or other sources do not allow for the comparison of levels of over-indebtedness (measured as arrears on key commitments) by age group. Therefore, this section looks at the share of households with regular expenses less than income, national level data on (over)indebtedness and findings from the survey to assess the association between age and over-indebtedness.

First of all, when it comes to the management of regular expenses, ECB HCF data show that households in the early middle age bracket (and those in the oldest bracket) are most at risk of having regular expenses that exceed income. For the elderly, the challenge is likely to be due to a drop in income (due to retirement) and it is not necessarily problematic, if sufficient savings have been collected over earlier life years. For those in early middle age, the financial management challenge is also likely due to changing life circumstances (i.e.

[28] Based on Eurostat. Indicator: TPS00203.

[29] Lower and middle level education households constitute 41%, and 44% of households with registered problematic debts, while higher education households constitute only 15.3% of households with registered problematic debts.

[30] Centraal Bureau voor de Statistiek (CBS) (2020). Schuldenproblematiek in beeld. Available at: https://dashboards.cbs.nl/v3/SchuldenproblematiekInBeeld/

[31] Associação para a defesa do consumidor (2020). Boletim Estatístico O sobre-endividamento, os rendimentos e as despesas das famílias. Available at: https://gasdeco.net/activeapp/wp-content/uploads/2020/01/Boletim-Estat%C3%ADstico-GPFDECO-2019.pdf

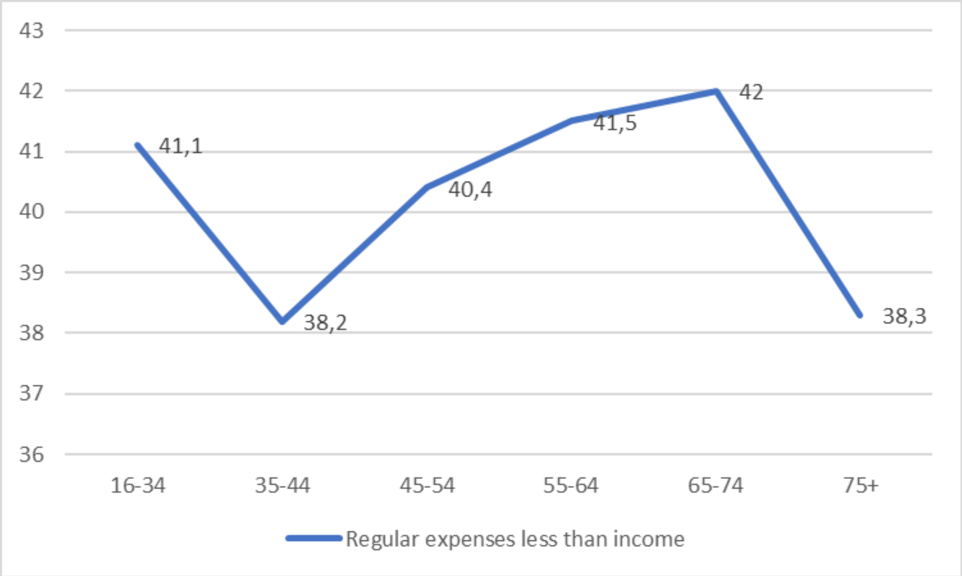
[32] Upper secondary education, Post-secondary non-tertiary education

[33] Short-cycle tertiary education, Bachelor or equivalent level, Masters or equivalent level, Doctoral or equivalent level

[34] Based on 75 responses from the debt advisors.

increased housing costs as a result of a mortgage or rent, childbirth, etc). At this stage of life, where savings might still be more limited and where incomes reflect early career salaries, a persistent pattern of expenses that exceed income can become problematic and lead to over-indebtedness.

Figure 2.7: Share of the population with regular expenses less than income, by age group (2017)



Source: ECB

This risk is confirmed in national level data from multiple Member States which shows that **households belonging to the middle-aged group (35 to 54) are the most over-indebted**, for example:

- In **Belgium**, 35–44-year-olds constitute the highest share of households using collective debt settlements[35].[36]
- In **Portugal**, 41% of consumers seeking debt advice are between 40 and 45 years old[37].
- In **France**, in 2020, the highest share of over-indebted households was 45- to 54-year-old (25.8%), followed by 35- to 44-year-olds (23.6%)[38].
- In the **Netherlands**, in 2021, the highest share of households with problematic debts were 44- to 55-year-olds (24.1%), and 35- to 44-year-olds (22.7%)[39].

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[35] 35-44 year olds have 21.1% of debt settlements in Belgium, followed by 20.2% from the 45-54 year olds, 13.7% by 25-34 year olds, 12.8% by 55-64 year olds, 5.9% by 65+ year old, and 1% by 18-24 year olds.

[36] Federal Planning Bureau (2021). Surendettement des ménages. Available at : https://indicators.be/fr/i/G01_OIH/Surendettement_des_m%C3%A9nages.

[37] Associação para a defesa do consumidor (2020). Boletim Estatístico O sobre-endividamento, os rendimentos e as despesas das famílias. Available at: https://gasdeco.net/activeapp/wp-content/uploads/2020/01/Boletim-Estat%C3%ADstico-GPFDECO-2019.pdf

[38] Banque de France (2021). Les surendettement des ménages : enquête typologique 2020. Available at: https://particuliers.banque-france.fr/sites/default/files/media/2021/02/10/suren_2020.pdf

[39] Centraal Bureau voor de Statistiek (CBS) (2020). Schuldenproblematiek in beeld. Available at: https://dashboards.cbs.nl/v3/SchuldenproblematiekInBeeld/

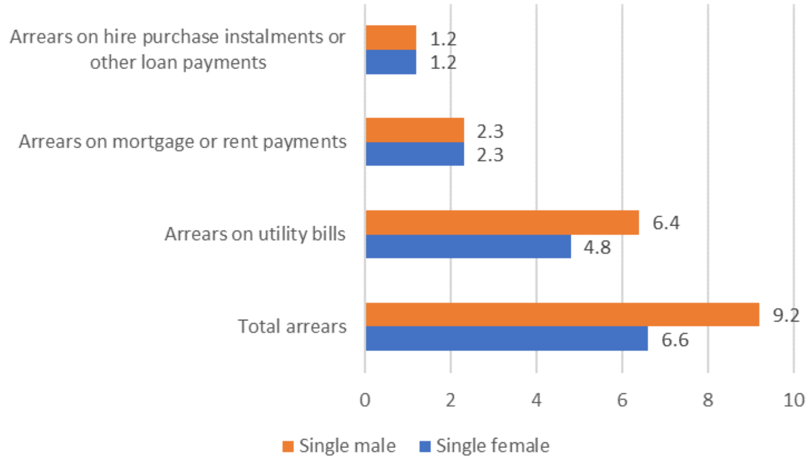
- In **Finland**, in 2021, 30–34-year-old households were most likely to be on arrears as they were the age group with the most arrears (13.3% of total households on arrears)[40].
- In **Ireland**, 73.5% of 35–44-year-olds are indebted[41].
- In **Denmark**, 40–49-year-olds have the highest mean debt-to-income ratio (184) and the highest share of indebted households (25.4%)[42].

However, it is important to note that, while the share of households that report expenses in excess of income is very high (up to 61,8% of all households), differences between age groups should not be overstated (the maximum difference between the groups is 4% points). Indeed, the debt advisor survey carried out for this study suggests that **age is a less significant sociodemographic factor in terms of its relation to over-indebtedness compared with income, employment status, and level of education** [43]. The consulted debt advisors estimated that around 46% of debt advice beneficiaries are between 45- and 54-year-olds, and 19% are 35 to 44 year old[44].

Gender

Singe males are more likely overall to be in arrears compared with single females. Comparing different categories of arrears, utility bills are the key source of the higher level of arrears for single males compared to females.

Figure 2.8: Percentage of population in arrears by gender (single male/single female households, 2020)



Source: Eurostat

National level data in multiple Member States further supports these findings:

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[40] Asiakastieto (2022). Maksuhäiriöisten suomalaisten määrä pysyy loivassa laskussa. Available at: https://www.asiakastieto.fi/web/fi/asiakastieto-media/uutiset/2022/04/maksuhairioisten-suomalaisten-maara-pysyy-loivassa-laskussa.html

[41] Central Statistics Office (2018) Household Finance and Consumption Survey 2018. Available at: Introduction - CSO - Central Statistics Office

[42] Statistics Denmark (2022). INDKF101: Familiernes indkomster efter område, enhed, ejer/lejer af bolig og indkomsttype. Available at: https://statistikbanken.dk/indkf101

[43] In the survey, debt advisors were asked to rate each sociodemographic factor from 1 to 5. household size was rated as fourth and fifth most important factor out of seven factors with the average of 2.9.

[44] Based on 81 responses from debt advisors.

- In **Estonia**, in 2020, 64.4% of single households in arrears were headed by men[45.]
- In **Finland**, in 2020, 64.7% of single households in arrears headed by men[46.]
- In **Sweden**, 62.5% of insolvent single households are headed by men[47].
- In **Poland**, 59.2% of single households with over-due debt are headed by men[48].

While these statistics suggest that gender plays a role in over-indebtedness, certainly when it comes to single person households, the debt advisor survey found **gender to be the least important socio-demographic factor** and the advisors indicated that females and males constitute an equal share of debt advice beneficiaries in the EU (50% each)[49].

It should be noted, however, that **statistics on single households only paint a partial picture of overall gender differences and these results can therefore not be generalised across all men or women**. Indeed, the relationship between gender and over-indebtedness is modulated by other gender inequalities, including the prevalence of single women households with dependent children. Indeed, according to a 2020 study from the European Parliament, the majority of single-parent households were headed by women (11% of the total households with children in 2019), against 3% of single men[50] and this is likely to affect the overall prevalence of over-indebtedness between men and women.

Household size

Single persons with dependent children and two adults with three or more dependent children are considerably more likely to be in arrears compared with other households (single person, two adults, and two adults with one or two children). The trend is very similar across all types of arrears.

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[45] Julianus Inkasso (2022). Statistika: eestlase keskmine võlasumma kasvab aasta-aastalt. Available at: https://julianus.ee/statistika-eestlase-keskmine-volasumma-kasvab-aasta-aastalt/

[46]Asiakastieto (2022). Maksuhäiriöisten suomalaisten määrä pysyy loivassa laskussa. Available at: https://www.asiakastieto.fi/web/fi/asiakastieto-media/uutiset/2022/04/maksuhairioisten-suomalaisten-maara-pysyy-loivassa-laskussa.html

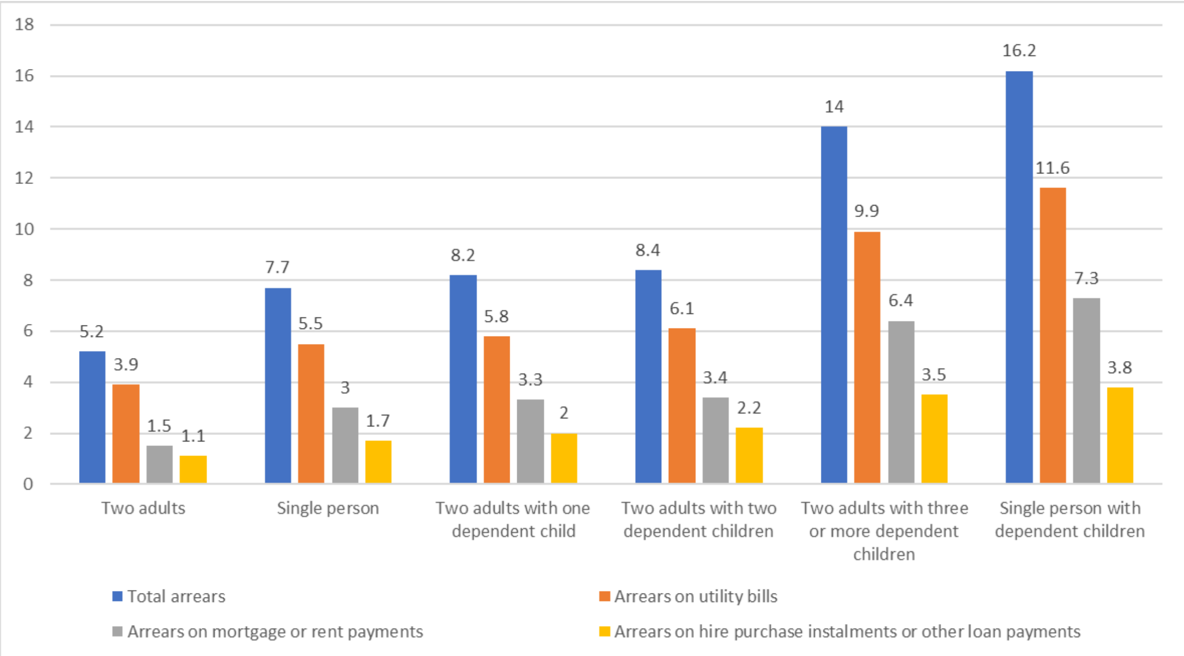
[47] Swedish Enforcement Authority (Kronofogden) (2020). Antal fysiska personer med skulder hos Kronofogden 2020. Available at: https://www.government.se/government-agencies/swedish-enforcement-authority-kronofogden/

[48] G.Wałęga, A. Wałęga, Over-indebted Households in Poland: Classification Tree Analysis, in: Social Indicators Research (2021) 153:561–584. Available at: https://link.springer.com/article/10.1007/s11205-020-02505-6

[49] Based on 84 responses from debt advisors.

[50] European Parliament (2020). The situation of single parents in the EU. Available at: https://www.europarl.europa.eu/RegData/etudes/STUD/2020/659870/IPOL_STU(2020)659870_EN.pdf

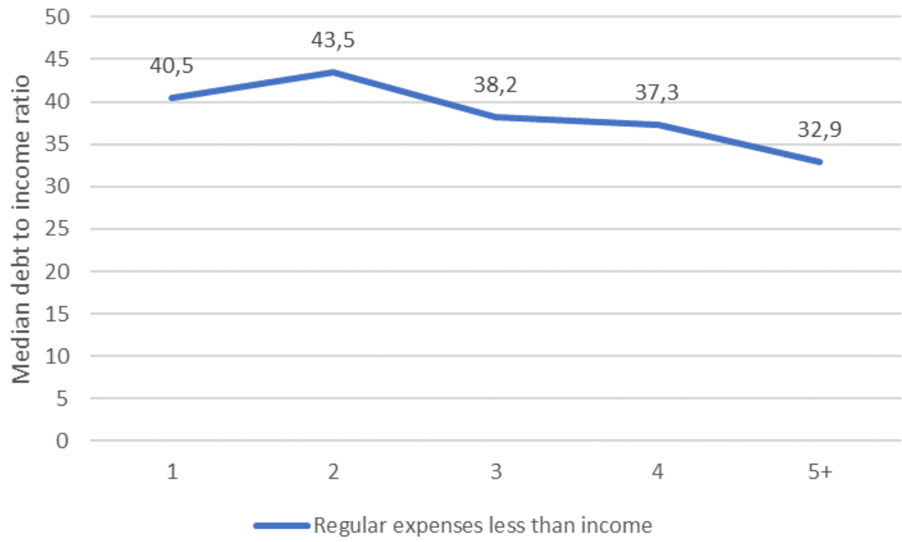
Figure 2.9: Percentage of population in arrears (total, utility bills, mortgages or rent payments, hire purchase instalments or other loan payments) by household size (2020)



Source: Eurostat

This is also confirmed by the ECB HCF data which finds that households with 5+ persons have the highest prevalence of regular expenses exceeding income while this proportion is lowest for 2 person households.

Figure 2.10: Percentage of households with regular expenses less than income and median debt-to-income ratio by household size (2017)



Source: ECB.

National level data further supports the finding that single parent households and two adult households with three children or more are more over-indebted than other households:

- In **France**, in 2020, single-parent households constituted 20.4% of the over-indebted population, even though, in total, only 9.4% of the total population of France fit this specific category[51].
- In **Lithuania**, in 2020, two adults with dependent children (13.1%) and single parents (10.8%) were the most likely groups unable to pay their bills on time[52].
- In **Croatia**, in 2020, single parent households (29%) and two adults with dependent children (18.7%) were the most likely groups to be on arrears[53].

Finally, the debt advisor survey confirms the over-representation of single parent households with children (29%), single person household with no children (27%), and two person households with children (26%) among debt advice beneficiaries.

Geographic location

National level data on over-indebtedness does not provide a clear indication of what kind of regions (urban or rural) tend to have higher shares of households that are over-indebted. This is because, first of all, a low share of Member States has data on (over) indebtedness per region. Secondly, it seems that the Member States have generally different trends in terms of the level of (over) indebtedness in urban and rural areas.

[51] Banque de France (2021). Les surendettement des ménages : enquête typologique 2020. Available at: https://particuliers.banque-france.fr/sites/default/files/media/2021/02/10/suren_2020.pdf

[52] Lietuvos statistikos departamentas (2021). Namų ūkių per didelis įsiskolinimas, vartojimas ir turtas 2020 m. Available at: https://osp.stat.gov.lt/pajamos-vartojimo-islaidos-gyvenimo-salygos

[53] Croatian Bureau of Statistics, Income and Living Conditions Survey Results, 2020, available at: https://podaci.dzs.hr/media/wt3lyxzw/si-1693-rezultati-ankete-o-dohotku-stanovnistva-u-2020.pdf

On one side, national level data in some Member States indicate that households living in rural areas are more likely to be over-indebted.

- For example, in **Lithuania**, 7.5% of households living in rural areas have not been able to pay non-housing bills on time (for education, treatment, telephone, internet, etc.) compared with 4.3% of households living in urban areas, and 3.7% of households living in big cities (population over 100 thousand)[54].
- In **Poland**, a small majority of over-indebted households (54.4%) live in rural areas or towns with a population of less than 50 thousand inhabitants, while, in the big cities (population over 500 thousand inhabitants) this share is only 13.6%[55].
- In **Sweden**, the least populated regions (with a population density of fewer than 20 people per km2) seem to, on average, have the highest share of situations of insolvency at 100 thousand inhabitants[56][57].
- In the **Netherlands**, there seems to be no direct correlation between population density and the share of households with problematic debts, however, the regions of Groningen (9%) and Flevoland (8.6%) seem to have significantly higher shares of population with problematic debt and they are also regions with relatively low population density[58].

In other Member States, there is some evidence that over-indebtedness is higher in more urban settings:

- In **Spain**, even if regions with a higher number of inhabitants (5 million or more) constitute around 58% of total Spanish population, households living in these regions compose 71% of households with foreclosure procedure (insolvency) initiated[59].
- Although there seems to be no direct correlation between population density and the share of households with private bankruptcies per 100,000 inhabitants, Vienna (the most populated region in **Austria**) seems to have a considerably higher share of private bankruptcies compared with other regions in Austria (137 cases in Vienna to 78 cases per 100 thousand inhabitants on average)[60].

[54] Lietuvos statistikos departamentas (2021). Namų ūkių per didelis įsiskolinimas, vartojimas ir turtas 2020 m. Available at: https://osp.stat.gov.lt/pajamos-vartojimo-islaidos-gyvenimo-salygos

[55] G.Wałęga, A. Wałęga, Over-indebted Households in Poland: Classification Tree Analysis, in: Social Indicators Research (2021) 153:561–584. Available at: https://link.springer.com/article/10.1007/s11205-020-02505-6

[56] 3146 cases of insolvency per 100 thousand inhabitants in the regions of with population density of less than 20 people per km2 to 2956 cases of insolvency per 100 thousand inhabitants in the regions of with population density of more than 20 people per km2

[57] Swedish Enforcement Authority (Kronofogden) (2020). Antal fysiska personer med skulder hos Kronofogden 2020. Available at: https://www.government.se/government-agencies/swedish-enforcement-authority-kronofogden/

[58] Centraal Bureau voor de Statistiek (CBS) (2020). Schuldenproblematiek in beeld. Available at: https://dashboards.cbs.nl/v3/SchuldenproblematiekInBeeld/

[59] Spanish National Institute of Statistics (2021). Bankruptcy Proceedings Statistics. Available at: https://www.ine.es/dyngs/INEbase/en/operacion.htm?c=Estadistica_C&cid=1254736177018&menu=ultiDatos&idp=1254735576550

[60] ASB Schuldnerberatungen (2022), Schuldenreport 2022, pp. 18-20. Available at: https://www.schuldenberatung.at/downloads/infodatenbank/schuldenreport/asb_Schuldenreport2022_EndV.pdf?m=1651146306&.

- In **Finland**, there is a correlation between the size of a region's population and its share of households in arrears. It seems that regions with higher populations tend to be in arrears somewhat more frequently.[61,62]

Finally, national statistics from **Belgium**, **France**, and **Germany** do not suggest any correlation between the population density of a region and its level of over-indebtedness.

The debt advisor survey confirms this **complex picture when it comes to the link between the urban/rural divide and over-indebtedness**. Across the EU this factor was rated less important than other sociodemographic factors and across the entire sample of debt advisors, households living in urban areas (57%) constituted a higher share of debt advice beneficiaries. However, these results vary greatly across Member States. For example, according to the consulted debt advisors, 86% of debt advice beneficiaries in Romania are based in rural areas, while, in Spain, 83% of debt advice beneficiaries live in urban areas. It should be noted that the survey results regarding this topic should also be interpreted with care because it may be influenced by the geographic location of the responding debt advisor (debt advisors from rural areas might indicate a higher share of beneficiaries from a rural area, and vice versa).

[61] Asiakastieto (2022). Maksuhäiriöisten suomalaisten määrä pysyy loivassa laskussa. Available at: https://www.asiakastieto.fi/web/fi/asiakastieto-media/uutiset/2022/04/maksuhairioisten-suomalaisten-maara-pysyy-loivassa-laskussa.html

[62] .4% of households living in regions with population less than 200 thousand inhabitants are on arrears compared with 7.7% of households living in regions with population more than 200 thousand inhabitants

2.4. Evolution of over-indebtedness across Europe

2.4.1. Summary

There was an overall decrease in over-indebtedness (measured as the share of the population in arrears) between 2013 and 2020 of around 32%, from 12.9% to 8.8% of households.

Over-indebtedness reached a low in 2019 (8.2% of households in arrears) but it started to increase in 2020 (i.e. by 0.6% points).

The increase in total arrears in 2020 is most likely related to the economic and financial hardship caused by the outbreak of COVID-19 and we can estimate that, in 2020, at least 1,170,000 households (ca 2.7m people) across Europe became over-indebted as a result of the pandemic.

There were considerable differences among Member States in terms of the evolution of total arrears between 2013 and 2020. Specifically:

Member States with a high share of households in arrears on key commitments in 2013 did not necessarily have the highest decrease in this indicator between 2013 and 2020.

There are four Member States which experienced an increase in total arrears during the period 2013 to 2020.

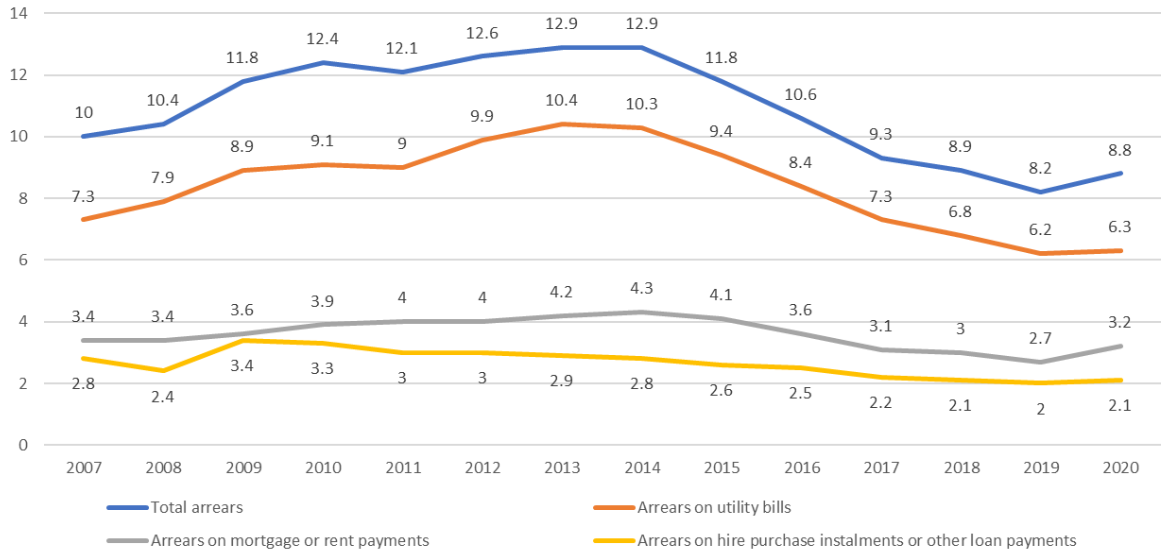
When it comes to utility bills, the trend in arrears between 2013 to 2020 is somewhat more positive than for total arrears during the same period. In addition, from 2019 to 2020, the share of households in arrears at the EU level increased only by 0.1% points which indicates that the increased share of households in total arrears was not due to problems with settling utility bills. However, a high increase in energy costs in 2022 means that the share of households in arrears with their utility bills is likely to have increased more recently and this should be reflected in future statistical updates.

For mortgages and rent payments, arrears increased more in 2020 than for other types of costs. This indicates that, in the short term, Covid-19 had a particularly strong impact on dealing with housing costs and this is most marked in Ireland and Spain.

The trend in arrears on hire purchase instalments or other loan payments between 2013 to 2020 is similar to the trend in total arrears (a significant decrease until 2019 and then an increase as a result of the COVID-19 pandemic). Like for housing related costs, Ireland and Spain saw the most dramatic increases in 2020.

As a result of the recession, **total arrears increased between 2008 and 2013 followed by a gradual decrease since then to a low in 2019**. In 2020, the level of total arrears increased again for the first time since 2012 (by 0.6% points).

Figure 2.11: Arrears on key commitments (mortgage or rent, utility bills or hire purchase) in the EU (2005-2011)



Source: Eurostat

The increase in total arrears in 2020 is most likely related to the economic and financial hardship caused by the outbreak of COVID-19. Based on a 0.6% point increase in total arrears in that year, in 2020, at least 1,170,000 households (ca 2.7m people) across Europe became over-indebted as a result of the pandemic. Due to a lack of data for some of the indicators used in this study from 2020 onwards, it is difficult to estimate how much over-indebtedness levels increased in 2021 and in the first half of 2022.

Nonetheless, based on the available data, it is safe to say that **the short-term impact of COVID-19 on over-indebtedness has been significant**. Indeed, all of the indicators of over-indebtedness and financial hardship monitored in this study for which sufficiently recent data are available, have increased since the outbreak of the pandemic.

To be more precise:

- From 2014 to 2019 the share of EU households in arrears on key commitments decreased by 5% points (from 13.2% to 8.2%). However, there was a 0.6% point increase overall in the population in arrears from 2019 to 2020. This has been driven by arrears on mortgage and rent payments which saw a 0.5% point increase at the EU level.

- From 2013 to 2020, the share of households unable to make ends meet decreased by 11.5% points (from 30% to 18.5%), at the same time, the share of households unable to face unexpected financial expenses decreased by 8.8% points (from 39.7% to 30.9%). However, in 2020, these shares increased again by 1.3% points (from 18.5% to 19.8%), and by 1.9% points (from 30.9% to 32.8%) respectively. (see Chapter 6 for further details).

- From 2015 to 2020, the share of persons at risk of poverty and exclusion decreased by 3% points (from 24% to 21%) and at the same time, the share of households unable to keep their home adequately warm decreased by 2.7% points (from 9.6% to 6.9%). Yet, in 2020, these rates increased by 0.5% points (from 21% to 21.5%) and 0.5% points (from 6.9% to 7.4%) respectively (see Chapter 6 for further details).

The COVID-19 crisis and the resulting confinement measures clearly disrupted the EU economy and had a major impact on the credit market and on consumers, making many

EU households more financially vulnerable[63]. This increase comes despite Member States' relief measures to alleviate the financial impact of COVID-19 on citizens and households, such as loan repayment moratoria that were generally extended to mortgage and consumer credit[64], while the European Commission adopted a list of 'best practices' agreed by the financial sector, and consumer and business organisations, to help further mitigate the impact of the coronavirus pandemic[65]. Task 3 of this study "Macroeconomic drivers of over-indebtedness" looks at the impact of COVID-19 on the over-indebtedness of EU households including the future long-term effect of the pandemic (and other exogenous factors).

Going back to longer term trends, Table 2.2 below shows that **there was an overall decrease in the share of the population in arrears between 2013 and 2020 of around 32%** (from 12.9% to 8.8%). The indicator hit a low of 8.2% at the EU level in 2019, which was a 36% decrease when compared with 2013. As mentioned previously the 7% increase overall in the population in arrears from 2019 to 2020 can most likely be attributed to COVID-19. 12 Member States saw an overall increase in the share of households in arrears between these two years, while in 15 Member States the share of households in arrears continued the decreasing longer-term trend.

At the same time, Table 2.2 also shows considerable differences among Member States in terms of their trends.

- **Member States with high share of households in arrears on key commitments in 2013 did not necessarily have the highest decrease in this indicator between 2013 and 2020**. For example, Portugal (11.8%), Estonia and Malta (12.5%), and Poland (15.1%) had already relatively low shares of households in arrears in 2013, yet, in these countries the situation has improved considerably since then (drops in the share of households in arrears: Portugal: 54%, Estonia 52%, Malta: 44%, and Poland: 64%). On the other hand, Greece (33.6%) had a high share of households in arrears 2013 and this has further increased by 10% since then.
- **There are four Member States which experienced an increase in total arrears during the period 2013 to 2020** (Germany: 2%, Greece: 10%, Denmark and Spain: 13%). Germany and Denmark had a relatively low increase in the level of households in arrears throughout this period, however, Spain and, especially, Greece had a high share of their population in arrears. In Spain, the share of the population in arrears from 2019 to 2020 increased by 67% which is the highest change in the EU. This indicates that households in Spain were particularly affected by the financial shock caused by the outbreak of COVID-19.

[63] European Commission (2021). Proposal for a Directive of the European Parliament and of the Council on Consumer Credits. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2021:347:FIN

[64] Ibid.

[65] European Commission (2020). Coronavirus Response: Commission welcomes 'Best Practices' to provide relief for consumers and businesses. Available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1281

Table 2.2: Percentage of total population with arrears on key commitments (mortgage or rent, utility bills or hire purchase/other loan payment), by Member State (2013-2020)

Member State	2013	2014	2015	2016	2017	2018	2019	2020	Change %
Poland	15.1%	15.4%	11.0%	11.0%	10.3%	7.7%	7.4%	5.5%	-64.0%
Latvia	22.4%	21.4%	18.0%	14.9%	14.0%	13.8%	9.9%	9.7%	-57.0%
Hungary	26.7%	24.5%	21.7%	19.0%	15.7%	12.8%	11.2%	11.6%	-57.0%
Cyprus	33.6%	34.2%	31.6%	26.6%	24.8%	21.6%	17.6%	14.7%	-56.0%
Croatia	31.4%	30.1%	29.9%	26.4%	21.9%	18.6%	15.7%	14.2%	-55.0%
Portugal	11.8%	12.0%	10.2%	9.3%	7.7%	6.6%	5.8%	5.4%	-54.0%
Romania	31.5%	23.9%	19.6%	19.7%	17.3%	16.5%	15.4%	14.8%	-53.0%
Italy	14.2%	14.3%	14.9%	10.7%	6.1%	6.0%	5.9%	6.8%	-52.0%
Estonia	12.5%	12.0%	9.3%	8.9%	7.3%	8.0%	8.5%	6.0%	-52.0%
Slovenia	21.2%	22.5%	19.2%	17.4%	15.2%	13.6%	12.2%	10.3%	-51.0%
Lithuania	13.8%	11.3%	9.8%	10.7%	8.7%	10.3%	8.2%	7.1%	-49.0%
Czechia	5.4%	6.1%	4.5%	4.4%	3.2%	3.0%	2.8%	3.0%	-44.0%
Malta	12.5%	15.5%	10.9%	10.4%	6.5%	8.1%	7.8%	7.0%	-44.0%
Ireland	22.5%	22.4%	18.9%	15.4%	13.0%	11.2%	11.9%	13.9%	-38.0%
Netherlands	5.0%	6.3%	5.7%	5.0%	4.6%	3.8%	4.0%	3.2%	-36.0%
Bulgaria	36.1%	35.3%	33.6%	34.2%	33.3%	31.9%	29.3%	23.6%	-35.0%
European Union	12.9%	12.9%	11.8%	10.6%	9.3%	8.9%	8.2%	8.8%	-32.0%
Sweden	6.8%	6.4%	6.0%	5.4%	5.1%	4.7%	4.8%	4.9%	-28.0%
Austria	7.0%	6.1%	6.4%	6.5%	5.9%	4.9%	4.3%	5.3%	-24.0%
Slovakia	8.1%	8.3%	7.5%	7.5%	7.4%	9.9%	10.2%	6.7%	-17.0%
Belgium	6.5%	7.6%	6.9%	7.0%	5.4%	6.1%	5.5%	5.6%	-14.0%
Finland	11.2%	10.7%	10.3%	10.9%	10.8%	10.7%	10.5%	10.0%	-11.0%
Luxembourg	5.2%	4.9%	5.2%	6.6%	3.0%			4.9%	-6.0%
France	9.1%	9.8%	8.9%	8.8%	9.1%	9.1%	8.4%	8.9%	-2.0%
Germany	5.1%	5.6%	5.2%	4.2%	4.4%	4.6%	3.7%	5.2%	2.0%
Greece	33.6%	46.4%	49.3%	47.9%	44.9%	43.0%	41.4%	36.9%	10.0%
Denmark	6.8%	7.9%	6.3%	5.8%	6.0%	8.7%	7.3%	7.7%	13.0%
Spain	11.9%	12.5%	11.7%	10.6%	9.3%	9.4%	8.1%	13.5%	13.0%

Source: Eurostat

Trends in arrears on utility bills

The trend in utility bills arrears between 2013 to 2020 (see Table 2.3) seems to be somewhat more positive than for total arrears over the same period with an overall decrease from 2013 to 2020 of around 39% (compared with 32% for total arrears). Furthermore, the EU level graph in the previous section shows that this indicator hit an all-time low of 6.2% at the EU level in 2019, which is a 57% decrease when compared with 2013.

Furthermore, from 2019 to 2020, the share of households on arrears at the EU level increased only by 0.1% points which indicates that the increased share of households in total arrears was not due to problems with settling utility bills.

However, a high increase in energy costs in 2022 means that the share of households in arrears with their utility bills is likely to have increased recently. While no comparable data is yet available to confirm this, a recent study by Eurofound states that a large number of financially vulnerable households were at risk of energy poverty in 2022. In particular, 28% of respondents indicated that they are behind with their utility bills and that they have difficulties making ends meet, while 45% of this group were worried to not be able to pay their utility bills over the next three months[66].

Table 2.3: Percentage of total population with arrears on key commitments (utility bills), by Member State (2013-2020)

Member State	2013	2014	2015	2016	2017	2018	2019	2020	Change %
Greece	35.2%	37.3%	42.0%	42.2%	38.5%	35.6%	32.5%	28.2%	-20.0%
Bulgaria	34.0%	32.9%	31.4%	31.7%	31.1%	30.1%	27.6%	22.2%	-35.0%
Romania	29.7%	21.5%	17.4%	18.0%	15.9%	14.4%	13.7%	13.9%	-53.0%
Croatia	30.4%	29.1%	28.7%	25.3%	21.0%	17.5%	14.8%	13.6%	-55.0%
Hungary	25.0%	22.3%	19.4%	16.2%	13.9%	11.1%	10.2%	10.4%	-58.0%
Spain	8.3%	9.2%	8.8%	7.8%	7.4%	7.2%	6.5%	9.6%	16.0%
Slovenia	19.7%	20.3%	17.5%	15.9%	14.3%	12.5%	11.2%	9.4%	-52.0%
Cyprus	21.9%	20.5%	20.1%	15.4%	13.7%	12.2%	10.4%	9.2%	-58.0%
Ireland	17.9%	18.1%	15.2%	11.9%	9.9%	8.6%	8.9%	8.7%	-51.0%
Latvia	20.7%	19.6%	16.7%	13.2%	11.9%	11.6%	8.7%	8.3%	-60.0%
Finland	8.4%	7.9%	7.5%	7.7%	7.8%	7.7%	7.8%	7.1%	-15.0%
Lithuania	13.2%	10.4%	8.4%	9.7%	7.9%	9.2%	7.5%	6.3%	-52.0%
Malta	11.6%	14.6%	10.2%	9.5%	5.6%	6.9%	6.5%	6.3%	-46.0%
European Union	**10.4%**	**10.3%**	**9.4%**	**8.4%**	**7.3%**	**6.8%**	**6.2%**	**6.3%**	**-39.0%**
France	6.2%	6.3%	5.9%	6.1%	6.1%	6.4%	5.6%	5.4%	-13.0%
Slovakia	5.9%	6.1%	5.7%	5.7%	5.5%	7.9%	8.4%	5.2%	-12.0%
Estonia	10.4%	10.0%	7.9%	7.9%	6.3%	6.5%	7.2%	5.0%	-52.0%
Poland	14.0%	14.4%	9.2%	9.5%	8.5%	6.3%	5.8%	4.7%	-66.0%
Italy	11.9%	12.2%	12.6%	8.9%	4.8%	4.5%	4.5%	:	-62.0%
Denmark	3.6%	4.6%	3.4%	2.5%	3.5%	5.1%	3.6%	4.2%	17.0%
Belgium	5.0%	5.8%	5.1%	5.0%	4.1%	4.5%	4.1%	3.8%	-24.0%
Portugal	8.2%	8.5%	7.8%	7.3%	5.6%	4.5%	4.3%	3.5%	-57.0%
Germany (until 1990 former territory of the FRG)	3.6%	4.2%	4.0%	3.0%	2.8%	3.0%	2.2%	3.2%	-11.0%
Austria	4.6%	3.5%	3.5%	4.2%	3.6%	2.4%	2.4%	3.1%	-33.0%
Luxembourg	3.1%	3.2%	2.4%	4.0%	1.7%	3.6%	2.4%	2.9%	-6.0%
Sweden	4.7%	3.6%	3.2%	2.6%	2.2%	2.2%	2.3%	2.4%	-49.0%
Czechia	4.0%	4.7%	3.0%	3.0%	2.1%	2.1%	1.8%	1.9%	-53.0%
Netherlands	2.4%	3.0%	2.7%	2.0%	2.1%	1.5%	1.5%	1.5%	-38.0%

Source: Eurostat and ECB

[66] Eurofund, 2022, Fifth round of the living, working and Covid-19 e-survey: living in a new era of uncertainty. Available at: https://www.eurofound.europa.eu/publications/report/2022/fifth-round-of-the-living-working-and-covid-19-e-survey-living-in-a-new-era-of-uncertainty

Trends in arrears on mortgages and rent payments

Between 2019 and 2020, at the EU level, arrears on mortgages and rent payments show a higher increase than other types of arrears (by 0.5% points at the EU level compared to 0.1 for the other arrears). This indicates that COVID-19 has had a particularly strong impact on households in terms of dealing with housing costs.

This is the case especially in Ireland (36% increase from 2019 to 2020) **and Spain** (82% increase from 2019 to 2020), where the share of households with arrears on mortgage and rent payments reached 8% and 6.9% respectively in 2020 (EU average: 3.2%). This is particularly interesting, given the link between the housing market and the previous economic recession in these two countries.[67]

Table 2.4: Percentage of total population with arrears on mortgage or rent payments, by Member State (2013-2020)

Member State	2013	2014	2015	2016	2017	2018	2019	2020	Change %
Greece	14.9%	14.6%	14.3%	15.3%	13.5%	11.2%	10.5%	9.3%	-38.0%
Ireland	12.0%	11.7%	9.7%	7.6%	6.7%	5.0%	5.9%	8.0%	-33.0%
Spain	6.4%	7.2%	6.2%	5.2%	3.8%	4.4%	3.8%	6.9%	8.0%
France	5.4%	5.8%	5.6%	5.2%	5.3%	5.2%	4.9%	5.7%	6.0%
Finland	5.1%	4.7%	4.6%	4.9%	4.6%	4.5%	4.5%	4.3%	-16.0%
Slovakia	4.1%	4.5%	3.9%	3.5%	3.8%	4.8%	5.0%	3.6%	-12.0%
Cyprus	8.8%	8.9%	8.0%	8.6%	7.6%	7.1%	4.4%	3.5%	-60.0%
Austria	4.0%	3.7%	3.4%	3.6%	3.5%	3.5%	2.5%	3.3%	-18.0%
European Union	4.2%	4.3%	4.1%	3.6%	3.1%	3.0%	2.7%	3.2%	-24.0%
Denmark	3.2%	3.2%	2.5%	2.0%	1.8%	2.9%	3.0%	3.0%	-6.0%
Belgium	3.0%	3.4%	3.1%	3.2%	2.6%	3.1%	2.4%	2.7%	-10.0%
Portugal	5.7%	5.8%	4.4%	3.6%	3.6%	2.8%	2.4%	2.4%	-58.0%
Sweden	2.7%	2.3%	2.4%	2.3%	2.2%	2.2%	2.4%	2.4%	-11.0%
Malta	2.4%	2.7%	2.4%	2.6%	1.9%	2.6%	2.4%	2.2%	-8.0%
Hungary	6.8%	7.3%	6.0%	5.1%	4.4%	2.9%	2.0%	2.1%	-69.0%
Luxembourg	2.9%	2.2%	3.2%	2.7%	1.5%	2.3%	1.9%	2.1%	-28.0%
Latvia	4.3%	3.8%	4.1%	2.7%	2.5%	2.6%	1.8%	2.0%	-53.0%
Netherlands	3.5%	4.5%	3.7%	3.2%	3.1%	2.5%	2.4%	2.0%	-43.0%
Germany	2.1%	2.1%	2.2%	1.6%	1.7%	1.7%	1.4%	1.9%	-10.0%
Italy	4.8%	4.9%	5.4%	4.2%	2.6%	2.5%	1.9%	:	-60.0%
Slovenia	3.7%	4.2%	4.0%	3.1%	3.0%	2.4%	2.0%	1.8%	-51.0%
Czechia	3.2%	3.7%	2.7%	2.4%	1.8%	1.9%	1.8%	1.7%	-47.0%
Lithuania	0.9%	0.9%	1.7%	1.4%	1.0%	1.2%	1.7%	1.7%	89.0%
Bulgaria	2.0%	2.2%	1.9%	2.1%	2.1%	1.7%	1.2%	1.3%	-35.0%
Estonia	2.8%	2.7%	2.0%	1.8%	1.4%	1.8%	2.0%	1.1%	-61.0%
Croatia	0.9%	1.0%	1.6%	1.3%	1.2%	0.9%	0.9%	0.8%	-11.0%
Poland	1.5%	1.4%	1.1%	1.3%	1.1%	0.8%	0.7%	0.6%	-60.0%
Romania	0.8%	0.7%	0.5%	0.9%	0.3%	0.4%	0.5%	0.4%	-50.0%

Source: Eurostat.

[67] Sebastian Dellepiane & Niamh Hardiman & Jon Las Heras, (2013). "Building on easy money: The political economy of housing bubbles in Ireland and Spain," Working Papers 201318, Geary Institute, University College Dublin.

Trends in arrears on hire purchase and other loan payments

The trend in arrears on hire purchase instalments or other loan payments between 2013 to 2020 is similar to the trend in total arrears.

Nonetheless, it is notable that some Member States experienced a relatively high increase in the share of households with these particular arrears in 2020. For instance, the share of households in arrears on hire purchase instalments or other loan payments has seen **dramatic increases in Ireland** (95% increase from 2019 to 2020) **and Spain** (138% increase from 2019 to 2020), the same countries that are also most affected by increases in arrears on mortgage and rent payments.

Table 2.5: Percentage of total population with arrears on hire purchase instalments or other loan payments, by Member State (2013-2020)

Member State	2013	2014	2015	2016	2017	2018	2019	2020	Change %
Greece	16.9%	14.4%	16.3%	15.8%	13.8%	13.2%	13.2%	12.0%	-29.0%
Cyprus	22.1%	22.5%	19.1%	15.6%	13.5%	11.1%	8.7%	7.3%	-67.0%
Denmark	3.6%	5.2%	3.7%	3.4%	3.0%	5.1%	4.5%	4.7%	31.0%
Ireland	6.6%	6.1%	4.8%	4.1%	2.7%	2.0%	2.1%	4.1%	-38.0%
Spain	3.1%	2.7%	2.4%	2.0%	2.0%	2.0%	1.6%	3.8%	23.0%
Finland	3.7%	3.4%	3.4%	3.9%	3.2%	3.5%	4.1%	3.1%	-16.0%
Bulgaria	5.8%	4.7%	5.1%	4.8%	5.1%	4.8%	4.7%	3.0%	-48.0%
Slovakia	3.0%	2.7%	2.6%	2.4%	2.3%	3.9%	3.5%	2.7%	-10.0%
Sweden	3.2%	3.0%	2.9%	3.1%	2.9%	2.9%	2.9%	2.6%	-19.0%
Luxembourg	2.1%	2.0%	1.8%	3.0%	0.7%	:	:	2.5%	19.0%
Latvia	3.3%	4.1%	2.3%	2.6%	3.4%	3.6%	2.4%	2.3%	-30.0%
Hungary	5.3%	5.1%	4.5%	4.6%	3.2%	2.5%	1.7%	2.1%	-60.0%
European Union	2.9%	2.8%	2.6%	2.5%	2.2%	2.1%	2.0%	2.1%	-28.0%
Germany	1.4%	1.2%	1.1%	1.2%	1.6%	1.5%	1.5%	1.8%	29.0%
Croatia	5.2%	4.7%	5.4%	4.5%	3.3%	3.0%	3.0%	1.7%	-67.0%
Lithuania	0.9%	0.9%	1.0%	2.2%	1.4%	2.6%	1.3%	1.7%	89.0%
Slovenia	4.1%	4.6%	3.8%	3.7%	2.6%	2.3%	2.0%	1.6%	-61.0%
Netherlands	1.3%	2.3%	2.0%	2.2%	1.9%	1.7%	2.0%	1.6%	23.0%
Poland	3.0%	2.7%	3.2%	3.0%	3.3%	2.4%	2.8%	1.5%	-50.0%
Portugal	2.9%	2.7%	2.4%	2.1%	1.7%	1.6%	1.2%	1.5%	-48.0%
France	2.2%	2.2%	2.1%	2.0%	1.8%	1.9%	1.5%	1.5%	-32.0%
Romania	4.7%	4.7%	3.8%	3.3%	2.7%	2.9%	2.3%	1.4%	-70.0%
Austria	1.8%	1.4%	2.2%	1.9%	1.5%	1.3%	1.3%	1.0%	-44.0%
Czechia	1.7%	1.6%	1.4%	1.2%	0.5%	0.9%	0.6%	1.0%	-41.0%
Belgium	1.2%	1.7%	1.3%	1.5%	1.0%	1.1%	1.0%	1.0%	-17.0%
Estonia	2.9%	3.1%	2.5%	1.7%	2.0%	1.8%	1.5%	0.9%	-69.0%
Malta	1.1%	1.0%	1.1%	1.2%	0.6%	1.4%	1.4%	0.8%	-27.0%
Italy	2.0%	2.0%	1.7%	1.2%	0.5%	0.4%	0.5%	:	-75.0%

Source: Eurostat.

2.5. Drivers of over-indebtedness

2.5.1. Summary

Households with higher debt-to-income, debt service-to-income, and debt-to-asset ratios are more likely to be in arrears. High debt-to-income ratio is an indicator of households taking out unsustainable long term loans (mortgages, in particular) which, although secured against an asset, may however have the unexpected effect of increasing excessively the absolute amounts of debts, with the consequence that their debt-to-income ratio may reach an unaffordable level.

The debt-to-asset ratio is an important indicator when assessing the financial resilience of household, and, in turn, household over-indebtedness, in particular, when it is caused by an inability to pay arrears linked to mortgage loans.

In addition, households with higher debt service payments compared to their monthly income are more likely to be in arrears as the costs of servicing debt short term fall disproportionately on lower income households (or, put differently, lower income households, on average, face higher interest rates than higher income households).

Households with a higher share of consumer loans and credit card debt are more likely to be in arrears compared with households with a higher share of mortgages. This suggests that consumer loans and credit card debts may be considered as key sources of consumer over-indebtedness in the EU.

Financial management is a multi-faceted concept including individual factors (such as financial literacy) and societal factors (e.g. cultural attitudes). Though exogenous drivers (e.g. cost of living and macro-economic factors) are better at explaining differences in over-indebtedness over time, there is a strong link between inadequate financial literacy (in broad sense) and over-indebtedness.

Countries where debt advice networks are well-developed and free (or cheap) can prevent the prevalence of over-indebtedness where it is caused by financial management issues. In addition, these services have resulted very useful everywhere for the remedy of the problem, ex post.

This section identifies some of the key drivers of the patterns and trends in over-indebtedness described in the previous chapters.

2.5.2. Debt levels, debt service and over-indebtedness

By definition, debt and over-indebtedness are closely associated in the sense that some level of debt is necessary for over-indebtedness to occur. At the same time, it is important to note that not all debt is problematic and, indeed, the ability to borrow fulfils an important social and economic function in that it allows people to smooth consumption over their life span. The accumulation of debt in itself does not inevitably give rise to growing financial problems among households unless triggered by the individual or structural financial instability and/or unexpected events[68].

[68] Fondeville N., Őzdemir E., Ward T. (2010). Over-indebtedness New evidence from the EU-SILC special module.

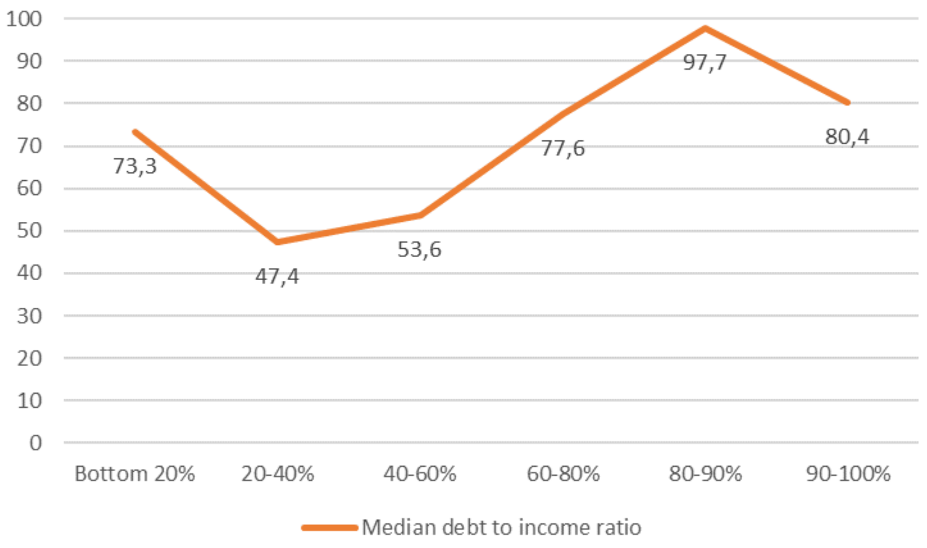
What is important from the perspective of the study is to identify those instances where a debt becomes unaffordable, either because it is too costly to service on a regular basis or because it leads to financial fragility, especially in case of unexpected events (personal, macro-economic, etc). In other words, while debt, income, assets and over-indebtedness are certainly closely linked, the relationship is complex and this section examines these relationships in greater depth.

Debt-to-income ratio

The debt-to-income ratio is defined as the ratio of total debt to gross household income[69]. As per the definition, debt-to-income refers to the total amount of the debts, thus, it is an important **long-term indicator** of debt repayment. Hence, **an increase in the debt-to-income ratio is often associated with higher levels of arrears**[70].

Higher unsecured debt-to-income ratio or higher mortgage income gearing can cause significant problems in servicing debts[71]. For instance, during a recession, households with high debt-to-income ratios are at increased risk of becoming over-indebted due to the increased possibility of income and expenditure shocks even if the same households had relatively high incomes prior to the crisis[72]. Based on the data from the ECB, households that have higher debt-to-income rations are, on average, higher income households (see Figure below), with the exception of the lowest income group.

Figure 2.12: Median debt-to-income ratio by income bracket (2017)



Source: ECB.

[69] ECB Household Finance and Consumption Survey (HFCS) (2017). Available at: https://www.ecb.europa.eu/stats/ecb_surveys/hfcs/html/index.en.html

[70] ECB (2006). household debt sustainability what explains household non-performing loans? An empirical analysis. Working paper series no. 570 / January 2006. Available at: https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp570.pdf

[71] Del-Rio, A. and Young, G. (2005). The Determinants of Unsecured Borrowing: Evidence from the British Household Panel Survey (May 2005). Bank of England Working Paper No. 263, Available at SSRN: https://ssrn.com/abstract=824164 or http://dx.doi.org/10.2139/ssrn.824164

[72] Eurofound (2020). Addressing household over-indebtedness, Available at: https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef19044en.pdf

A possible explanation lies in the type of debt taken out by different socio-economic groups. People with lower incomes have more difficulty getting access to, for instance, mortgage credit and their debt profile is therefore more likely to be dominated by unsecured debt (credit cards, loans etc). These credits are generally granted only at lower debt-to-income ratios, but they are easier to access (with fewer affordability checks) and they usually carry higher interest rates to cover the risk to the lender of a default.

Nonetheless, high debt-to-income ratio is an indicator of households taking out unsustainable long term loans (mortgages, in particular) which, although secured against an asset, may however have the unexpected effect to increase excessively the absolute amounts of debts, with the consequence that their debt-to-income ratio may arrive to an unaffordable level. The consequences of defaulting on e.g. mortgage debt can be very severe (i.e. foreclosure and loss of the secured asset e.g. a home by the debtor). This is particularly the case in times of financial crisis, as illustrated by previous housing crisis in 2009[73].

Debt service-to-income ratio

Compared with the debt-to-income ratio, which refers to the total amount of the debts, the debt services-to-income ratio refers to the specific amount of the instalments, so it is more relevant in short term lending and for low value credits. Both of the indicators, however, similarly capture the relationship between the amount of debt and the capacity of the consumer to repay them.

Debt service-to-income is calculated as the ratio between total monthly debt payments and household gross monthly income, among households with debt payments[74] and it compares scheduled loan payments with the income available to make those payments.

In other words, **it looks more directly at the likely short term repayment capacity** (i.e. the surplus income to cover the periodic payments on a loan)[75]. A typical "benchmark" to classify a household as a risky borrower in the sense that they are likely to face severe difficulties in servicing their debt in the future is a debt service-to-income ratio of between 30% to 40%[76,77,78.]

The debt service-to-income ratio has a relatively strong association with total arrears (r=0.28), arrears on mortgage or rent payments (r=0.37) and arrears on hire purchase instalments (r=0.47). These results suggest that:

- **households with higher debt service payments compared to their monthly income are more likely to be in arrears**;

[73] Dellepiane S., Hardiman N,. Las Heras J.(2009). Building on easy money: The political economy of housing bubbles in Ireland and Spain. Available at: https://strathprints.strath.ac.uk/48832/1/15cd51a5_d078_4e3c_835d_694c142fb824.pdf

[74] Total gross household income is calculated as the sum of the employee income, self-employment income, income from public pensions, income from private and occupational pensions and income from unemployment benefits (items collected for households members aged 16+) and income from social transfers other than unemployment benefits, regular private transfers (such as alimonies), rental income from real estate property, income from financial investments, income from private business or partnership and regular income from other sources (items collected at the household level).

[75] CGAP (Consultative Group to Assist the Poor) (2011). Too Much Microcredit? A Survey of the Evidence on Over-Indebtedness. Available at: https://www.cgap.org/sites/default/files/CGAP-Occasional-Paper-Too-Much-Microcredit-A-Survey-of-the-Evidence-on-Overindebtedness-Sep-2011.pdf

[76] Terraneo, M. (2018). Households' financial vulnerability in Southern Europe. Journal of Economic Studies, 45(3), 521–542. https://doi.org/10.1108/JES-08-2016-0162

[77] Sánchez-Martínez, M. T., Sanchez-Campillo, J., & Moreno-Herrero, D. (2016). Mortgage debt and household vulnerability: Evidence from Spain before and during the global financial crisis. International Journal of Housing Markets and Analysis, 9(3), 400–420. https://doi.org/10.1108/ IJHMA-07-2015-0038

[78] D'Alessio, G. and Iezzi, S. (2013). Household over-indebtedness: Definition and measurement with Italian data. Bank of Italy occasional paper, (149). https;// doi.org/10.2139/ssrn.2243578

- **the costs of servicing debt short term fall disproportionately on lower income households** (or, put differently, lower income households, on average, face higher interest rates than higher income households);

In addition, as will be illustrated in Section 2.5.3, the high correlation between debt service-to-income ratio and hire purchase instalments and other loan payments indicates that unsecured short-term loans have a significant effect on a household's short-term repayment capacity.

All of this suggests that, in addition to debt-to-income ratio, the debt service-to-income ratio is a significant indicator which provides valuable insights into over-indebtedness caused by short term and low-value credits.

Debt-to-asset ratio

The household debt-to-total-assets ratio is defined as households' total outstanding debt divided by their total assets. The total assets of households consist of both financial assets (saving deposits, shares and other equity, pension entitlements etc.) and non-financial assets (predominantly residential real estate, including both dwellings and land)[79].

The notion of debt-to-asset generally refers to the value of the collaterals (i.e. another source of resources for the creditor to recuperate its credit) that can be used to cover the non-paid instalments. As a result, it is an effective measure for creditworthiness assessment, mainly from the perspective of the creditor, but may have unexpected impacts, for example, leading to repossessions if not adequately coordinated with the debt-to-income ratio.

According to the OECD, a higher debt-to-total-assets ratio implicates a higher level of household leverage, yet, the weaker financial position of a household[80]. In particular, the increase in the debt-to-asset ratio over a continuous period can indicate the decreased financial resilience of the households in that country.

Although household financial resilience depends on multiple indicators, such as the distribution of assets, liabilities and income and the institutional factors prevailing in each country[81], in general, an increase in the debt-to-assets ratio indicates that households are becoming less resilient to economic shocks, hence, more vulnerable[82].

As illustrated in more detail in Section 2.6, the correlation between financial resilience[83] and over-indebtedness is indeed very strong. Thus, although indirect, the link between the debt-to-asset ratio and household over-indebtedness is evident.

In addition, given the financial significance of residential property to the average household and the fact that high debt-to-asset ratio is mostly driven by loans on purchasing non financial assets (predominantly residential real estate including both dwellings and land)[84], expectedly, this ratio has a relatively strong (r=0.28) correlation with the mortgages on arrears. This means that debt-to-asset ratio is a relevant indicator when analysing cases of household over-indebtedness linked to mortgage loans.

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[79] OECD (2017). Statistical Insights: What does household debt say about financial resilience? Available at: https://www.oecd.org/sdd/na/statisticalinsightswhatdoeshouseholddebtsayaboutfinancialresilience.htm

[80] Ibid.

[81] Some of which are explained in more detail in Section 2.6.

[82] OECD (2017). Statistical Insights: What does household debt say about financial resilience? Available at: https://www.oecd.org/sdd/na/statisticalinsightswhatdoeshouseholddebtsayaboutfinancialresilience.htm

[83] Or financial fragility.

[84] Ibid.

In conclusion, the debt-to-asset ratio is an important indicator when assessing the financial resilience of a household, and, in turn, household over-indebtedness, in particular, when it is caused due to an inability to pay arrears linked to mortgage loans.

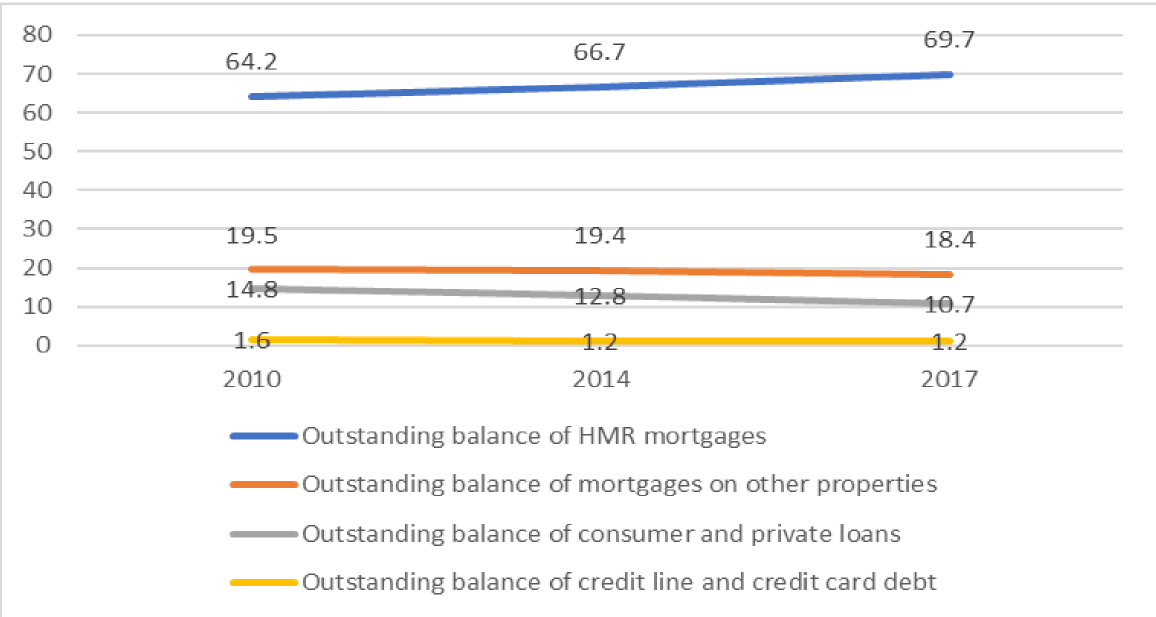
2.5.3. Contribution of different types of debt to over-indebtedness

This section examines the way in which different kinds of debt (mortgages, consumer and private loans and credit lines and credit card debt) affect over-indebtedness, measured in terms of total arrears.

Prevalence of different debt types

The figure below shows the evolution of different debt types as a share of total liabilities in the EU. **Mortgages (both main residences and others) make up by far the largest share of debt, followed by consumer and private loans and then credit lines and credit card debt with a very small share of overall liabilities**. While there has been some recalibration over time (the share of mortgages has increased compared to other types of debt), this picture has remained rather stable.

Figure 2.13: Share of debt types of total liabilities (2010-2017)

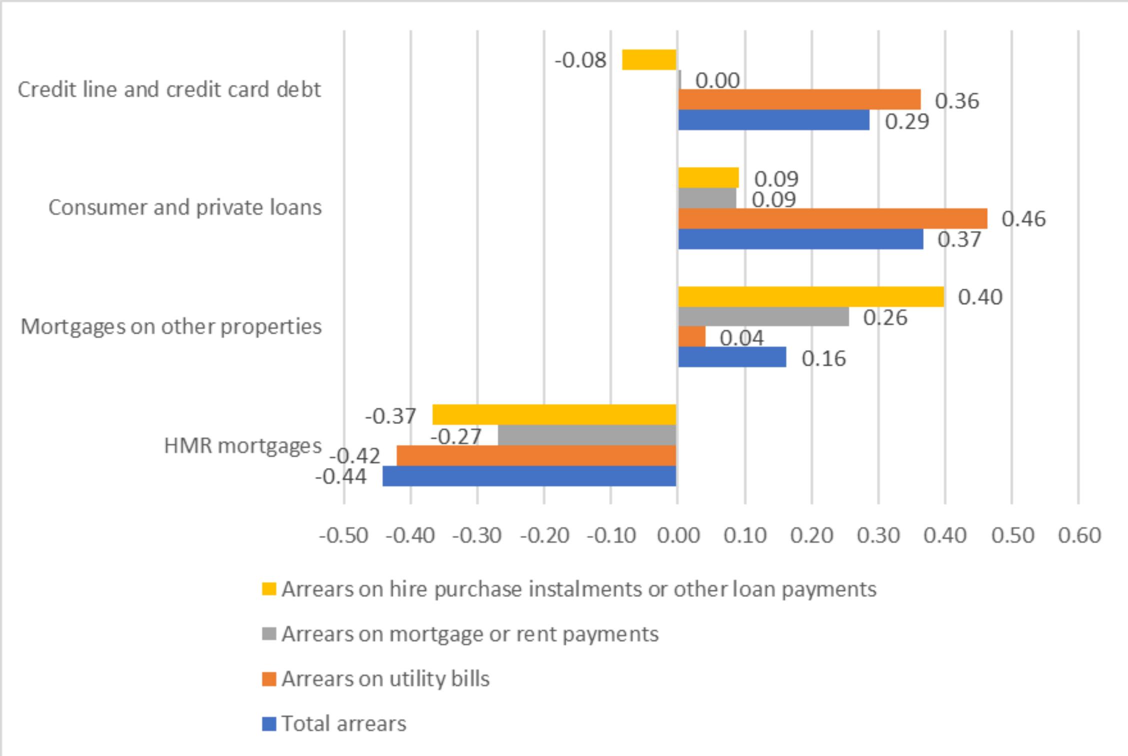


Source: ECB

Relation between debt type and arrears

Households with a higher share of consumer loans and credit card debt are more likely to be in arrears when compared with households with a higher share of mortgages (both household main residence mortgages and mortgages on other properties). Indeed, consumer loans and credit card debts have a positive association with arrears (especially arrears on utility bills (r=0.46 correlation for consumer loans, and r=0.36 correlation for credit card debts). On the other hand, there is a significant negative association (r=-0.44) between HMR mortgages and arrears.

Figure 2.14: Debt type correlated against arrears (total, utility bills, mortgages or rent payments, hire purchase instalments or other loan payments



Source: Eurostat and ECB

The academic literature also stresses the link between consumer loans and over-indebtedness. In general, consumer loans facilitate consumption rather than investment i.e. they do not create returns which could be used for repayment, which in turn makes them more prone to leading to over-indebtedness[85,86,87,88,89].

In addition, there are also significant differences in financing costs across these different debt types. Products such as store cards or even short-term consumer loans are characterized by a greater cost than long-term secured loans (such as mortgages) which are subject to stricter credit worthiness checks and which are secured against an asset, thus reducing the risk to the lender.[90]

The design of credit products has a critical influence on the level of risk borne by borrowers. Lower-income households are often viewed as high-risk by creditors and are exposed to poverty premiums meaning they are penalised with high interest rates due to their lack of assets or lack of a high & regular income, which means that they must pay a higher

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[85] Adler, M. (2009). Handreichung Responsible Finance in der Finanzsektorförderung. Kreditanstalt für Wideraufbau. Frankfurt.

[86] Bensoussan, P. (2009). Successes and limits of microfinance. Newsletter no. 4. PlaNet Finance. Saint-Ouen.

[87] Gonzalez, A. (2009). Consumption, Commercial or Mortgage Loans: Does It Matter for MFIs in LAC? Data Brief no. 3. Microfinance Information Exchange, Inc

[88] Vogelgesang, U. (2003). Microfinance in Times of Crisis: The Effects of Competition, Rising Indebtedness, and Economic Crisis on Repayment Behavior. World Development, 31(12): 2085–2114.

[89] Jessica Schicks (2010). Microfinance Over-Indebtedness: Understanding its drivers and challenging the common myths

[90] Kurowski, Łukasz. (2021). Household's Overindebtedness during the COVID-19 Crisis: The Role of Debt and Financial Literacy. Risks 9: 62. https://doi.org/10.3390/ risks9040062

proportion of this income to gain access to credit[91]. Products, such as payday loans - often the only option available for those on a limited income - are designed in a way to minimise risks and maximise profit for the lender, which can incentivize irresponsible lending and increased consumer over-indebtedness[92].

Moreover, the survey of debt advisors provides further support for the argument that consumer loans and credit card debts are key sources of consumer over-indebtedness in the EU. Debt advisors in the EU estimate that, on average, for around 42% of the debt advice beneficiaries in the EU, the main source of debt are consumer loans, followed by credit card debts and mortgage loans (22% each), and informal sources of funds (i.e. friends family, etc., 13.4%)[93]. Given the relatively small size of consumer loans and credit card debts (debt accumulated via interest rates and penalties when the consumer does not pay the company for the money they have spent i.e. overdraft) compared with mortgages, in terms of their total value (see Figure 2.13), these two financial sources of debt are clearly disproportionately represented among the over-indebted population.

All of this is not to say, however, that mortgages do not have any impact on household over-indebtedness. As Chapter 3 has shown arrears on mortgages have increased most between 2019 and 2020 as a result of the COVID-19 pandemic. As mortgages constitute by far the largest share of total liabilities, an unexpected external shock can turn indebtedness into over-indebtedness for a large share of the population.[94]

2.5.4. Financial management and financial literacy

Based on the 2013 study, financial management (or lack thereof) is one the key factors driving household over-indebtedness – though it was seen as less important than 'exogenous' factors (e.g. cost of living increases, macro-economic shocks, etc). In particular the "incapacity to deal with financial products" and the "lack of money management skills" are cited in that study as among the most important causes of over-indebtedness. **Both of these factors can be broadly captured by the term "financial literacy", i.e. a sufficient level of numeracy and an understanding of the design features and characteristics of financial products to make informed decisions.**

Beyond the 2013 study, previous research has confirmed that financial literacy is one of the major factors impacting over-indebtedness. For instance:

- Less financially knowledgeable people report their debt as excessive. Lower debt literacy, in particular, causes individuals to finance themselves at a greater cost[95];
- More financially literate people are twice as likely to have lower funding costs for both credit cards and mortgage loans[96];

[91] O.J. Haas (2006). "Overindebtedness in Germany," Working Paper No. 44, International Labor Organisation.

[92] Finance Watch (2021). At the Root of Household Over-indebtedness.

[93] Based on 93 responses from debt advisors.

[94] Eurofound (2020). Addressing household over-indebtedness, Available at: https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef19044en.pdf

[95] Lusardi, Annamaria, and Peter Tufano. 2015. Debt Literacy, Financial Experiences, and Overindebtedness. Journal of Pension Economics and Finance 14: 332–68.

[96] Huston, S.J. (2012), Financial literacy and the cost of borrowing. International Journal of Consumer Studies, 36: 566-572. https://doi.org/10.1111/j.1470-6431.2012.01122.x

- Lack of financial literacy is associated with a higher risk of consumer credit default[97];
- The frequency of using an easily accessible and relatively expensive consumer credit decreases with financial knowledge[98];
- Both mathematics and financial education improve repayment behaviour[99];
- Low-literacy students are more exposed to unexpected shocks to their repayment abilities[100];
- Mortgage borrowers who have a higher financial literacy experience less debt repayment problems and the effect of mortgage delinquency cannot be explained by other characteristics (e.g., income or property characteristics)[101];
- Numerical ability predicts mortgage default, and people with a lower financial literacy take on more expensive loans[102].

Beyond literacy itself, **financial management is also affected by a range of individual and societal factors:**

- **Cultural norms** can mean that less stigma is attached to defaulting on bills and financial commitments and this, in turn, can make it socially easier to declare bankruptcy and/or ask for help from debt advisors, family, public institutions and/or other organisations, hence, impacting overall over-indebtedness levels[103]. This can be further encouraged in countries with liberal insolvency regimes compared with more conservative insolvency regimes.[104]
- **Behavioural factors** are also important when analysing the relationship between financial management and over-indebtedness: payment of debts is dependent on both the ability to pay and the *commitment* to pay[105]. Unpaid bills and irregular payment may also relate to cases where people are disorganized in their approach to bill payment.[106].
- **Overconfidence bias, attitudes towards financial spending and budgeting, or habit (impulsiveness) persistence** can be contributory factors to over-

[97] Disney, Richard and Gathergood, John (2011), Financial Literacy ad Indebtedness: New Evidence for UK Consumers, Discussion Papers, University of Nottingham, Centre for Finance, Credit and Macroeconomics (CFCM).

[98] Jaroszek, Lena and Dick, Christian (2014), Knowing What Not To Do: Financial Literacy and Consumer Credit Choices, VfS Annual Conference 2014 (Hamburg): Evidence-based Economic Policy, Verein für Socialpolitik / German Economic Association.

[99] Brown, Meta, John Grigsby, Wilbert Van Der Klaauw, Jaya Wen, and Basit Zafar (2016). Financial Education and the Debt Behavior of the Young. The Review of Financial Studies 29: 2490–522. [CrossRef]

[100] Artavanis, Nikolaos, and Soumya Karra. 2020. Financial literacy and student debt. The European Journal of Finance 26: 382–401

[101] Lusardi, Annamaria, and Peter Tufano. 2015. Debt Literacy, Financial Experiences, and Overindebtedness. Journal of Pension Economics and Finance 14: 332–68.

[102] Moore, Danna L. 2003. Survey of Financial Literacy in Washington State: Knowledge, Behavior, Attitudes, and Experiences. Technical Report n. 03-39. Pullman: Social and Economic Sciences Research Center, Washington State University

[103] Souleles, Nicholas & Gross, David. (2002). Do Liquidity Constraints And Interest Rates Matter For Consumer Behavior? Evidence From Credit Card Data. The Quarterly Journal of Economics. 117. 149-185. 10.2139/ssrn.213011.

[104] Gerardi, Kristopher & Goette, Lorenz & Meier, Stephan. (2010). Financial Literacy and Subprime Mortgage Delinquency: Evidence from a Survey Matched to Administrative Data. SSRN Electronic Journal. 10.2139/ssrn.1600905.

[105] Dominy, N.J., & Kempson, H. (2003). Can't pay or won't pay: a review of creditor and debtor approaches to the non-payment of bills.

[106] Gulbrandsen, T. (2005). Flexibility in Norwegian Family-Owned Enterprises. Family Business Review, 18: 57-76. https://doi.org/10.1111/j.1741-6248.2005.00030.x

indebtedness[107]. For instance, a lack of financial control and impulsiveness can be associated with the deliberate choice to ask for more credit when this is not necessary and to privilege the use of available funds for new purchases rather than for the repayment of consumer credit (co-holding)[108] and with self-reported excessive financial burdens. In fact, co-holders perform above average when answering financial literacy questions, are mostly of working age, and have above average levels of education, employment and household income highlighting the importance of the behavioural factors impacting over-indebtedness[109].

While Task 2 of this study will include an in-depth qualitative analysis of some of the individual factors that can lead to over-indebtedness, this report takes a quantitative approach to examining this link based on comparative publicly available data. More specially, to examine the correlation between financial literacy and over-indebtedness we look at the financial literacy scores and arrears in the Member States. Two financial literacy indicators are used:

- Indicator from the OECD[110]
- Indicator from the Standard & Poor's Ratings Services Global Financial Literacy Survey[111]

OECD International Survey of Adult Financial Literacy

There is a strong negative correlation between the OECD financial literacy score and arrears (r=0.40) meaning that the Member States with higher financial literacy have a smaller share of households in arrears.

Nonetheless, there are some notable outliers in the datasets on both ends of the spectrum. For example, Italy has the lowest financial literacy score (11.2) among the 12 EU Member States[112] included in the 2020 OECD Financial Literacy Scoreboard, nonetheless, the share of households in arrears in Italy was relatively low in the same year (6.8%). This can be partly explained by a traditional prudent approach of Italians (and Portuguese) about the expenditures. On the other side, Slovenia has the highest financial literacy score among the EU Member States (14.7), yet the share of households in arrears in Slovenia is relatively high (10.3%)

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[107] Gathergood, John. (2012). Debt and Depression: Causal Links and Social Norm Effects. The Economic Journal. 122. 10.1111/j.1468-0297.2012.02519.x.

[108] Co-holding means not paying debts (mostly credit card related debts) even though a person has the means (e.g. savings, income, etc.) to do it, thus, incurring high(er) interest rates in the future when paying off the debt.

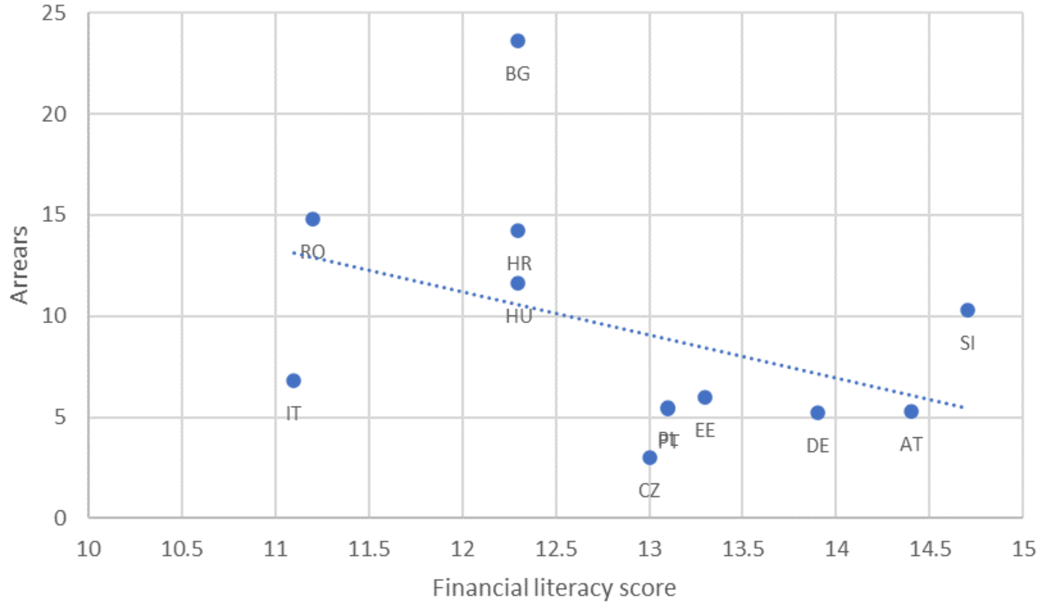
[109] Ibid.

[110] OECD (2020). Launch of the OECD/INFE 2020 International Survey of Adult Financial Literacy. Available at: https://www.oecd.org/financial/education/launchoftheoecdinfeglobalfinancialliteracysurveyreport.htm

[111] Global Financial Literacy Excellence Center (GFLEC) (2015). Standard & Poor's Ratings Services Global Financial Literacy Survey. Available at: https://gflec.org/initiatives/sp-global-finlit-survey/

[112] Austria, Bulgaria, Croatia, Czechia, Estonia, Germany, Hungary, Italy, Poland, Portugal, Romani, and Slovenia.

Figure 2.15:Share of the OECD financial literacy score correlated against total arrears (2020)



Source: Eurostat and OECD

Standard & Poor's Ratings Services Global Financial Literacy Survey

The GLFEC survey confirms the fairly strong correlation (r=0.46) between financial literacy and over-indebtedness at the Member State level. Though less recent than the OECD data (latest data are from 2015), the GLFEC survey includes all 27 EU Member States.

At the same time, there are also some notable outliers. For example, Portugal has the second highest share of the population in the EU with low financial literacy (74%), yet, in 2015, Portugal had a fairly low share of the population in arrears (10.2% i.e. 1.6% points lower than the EU average of 11.8%). On the other side, Hungary (45.8%) and Ireland (44.9%) had a relatively low share population with low financial literacy, yet the share of households in arrears, in 2015, was fairly high (Hungary: 21.7%, Ireland: 18.9%).

Figure 2.16: Share of population with low financial literacy correlated against total arrears (2015)

Source: Eurostat and GLFEC

As this discussion has shown, **financial management and literacy have an important role to play in explaining over-indebtedness.** Though exogenous drivers (e.g. cost of living and macro-economic factors) are better at explaining differences in over-indebtedness over time, a significant part of over-indebtedness is related to individual skills, attitudes and decisions.

This conclusion is further corroborated by other research that has found that countries where debt advice networks are well-developed and free (or cheap) can prevent the prevalence of over-indebtedness[113]. In 2020, Eurofound clustered all of the 27 EU Member States into three groups[114]:

- Member States where debt advice is relatively well-established[115],
- Member States where debt advice is considerable[116], and,
- Member States where debt advice is sporadic[117].

Member States with relatively well-established or considerable debt advice services have, on average, 6.4% of their households in arrears compared with 14.8% of households living in the Member States where debt advice is sporadic. Furthermore, the correlational analysis with the same data[118] indicates a fairly strong (r=0.48) correlation between the level of debt advice and arrears, even though the correlation between the level of

[113] European Commission (2022). Provision of actions to extend the availability and improve the quality of debt-advice services for European households. Available at: https://ec.europa.eu/info/sites/default/files/debtadvice_final_report.pdf

[114] Eurofound (2020). Addressing household over-indebtedness

[115] Austria. Belgium. Finland, France. Germany, Ireland, Luxembourg, Netherlands, Sweden/

[116] Czechia, Denmark. Estonia, Poland, Portugal.

[117] Bulgaria, Croatia, Cyprus, Greece, Hungary, Italy, Latvia, Lithuania, Malta, Romania, Slovakia, Slovenia ,Spain.

[118] Member States with relatively well-established debt advice given a number 1, Member States with considerable debt advice given number 2, and Member States with sporadic advice given number 3.

debt advice and financial literacy is fairly low (r=0.26) showing that two indicators capture different aspects.

2.6. Over-indebtedness and measures of financial fragility

2.6.1. Summary

Financial fragility examines how "close to the edge" households are or how financially stable they perceive themselves to be.

In 2020, almost one in three Europeans felt unable to meet an unexpected financial expense and one in five felt unable to make ends meet.

More specifically there was a 35% decrease in people feeling unable to make ends meet between 2013 to 2020, up to a level of 18.5%. However, an increase was particularly marked between 2019 and 2020 when the indicator raised by 7% in a single year.

There is a very strong (r=0.89) correlation between the subjective perception of financial fragility (i.e. households stating that they are unable to make ends meet and households unable to face unexpected financial expenses) and objective statistics on arrears which lends further credibility to the analysis.

The analysis of the subjective measures of financial fragility confirms that the most affected Member States during the recession were not always able to improve their situation significantly.

Finally, there is also a relatively strong (r=0.56) correlation between the share of persons at risk of poverty or social exclusion and statistics on arrears.

Over the period 2015-2020, poverty has dropped less quickly than the share of people who are over-indebted.

The reason behind the discrepancy could be that poverty and social exclusion is more related to the overall socioeconomic context and the level of inequality in the Member State than indicators of over-indebtedness.

COVID-19 has had a particularly strong impact on households facing energy poverty and this is likely to accentuate in the near future in view of ongoing energy price inflation.

The term "financial fragility" is based on Lusardi et al (2011) analysis of data collected in 2009, in the wake of the financial crisis in the United States[119]. The concept goes beyond assessing the level of assets and encompasses the state of household balance sheets, including indebtedness. Financial fragility reflects a lack of resources to cope with ongoing expenses (i.e. inability to make ends meet) and potential unexpected expenses (i.e. unexpected financial expenses)[120].

[119] Annamaria Lusardi, Daniel J. Schneider & Peter Tufano (2011). Financially Fragile Households: Evidence and Implications.

[120] Torricelli, Costanza & Brunetti, Marianna & Giarda, Elena. (2011). Is Financial Fragility a Matter of Illiquidity? An Appraisal for Italian Households. Review of Income and Wealth. 62. 10.2139/ssrn.1932660.

The concept examines how "close to the edge" households are or how financially stable they perceive themselves to be. Financial fragility is mostly measured by the ability to come up with resources in a time of need or access to liquid assets that can replace several months of lost income[121].

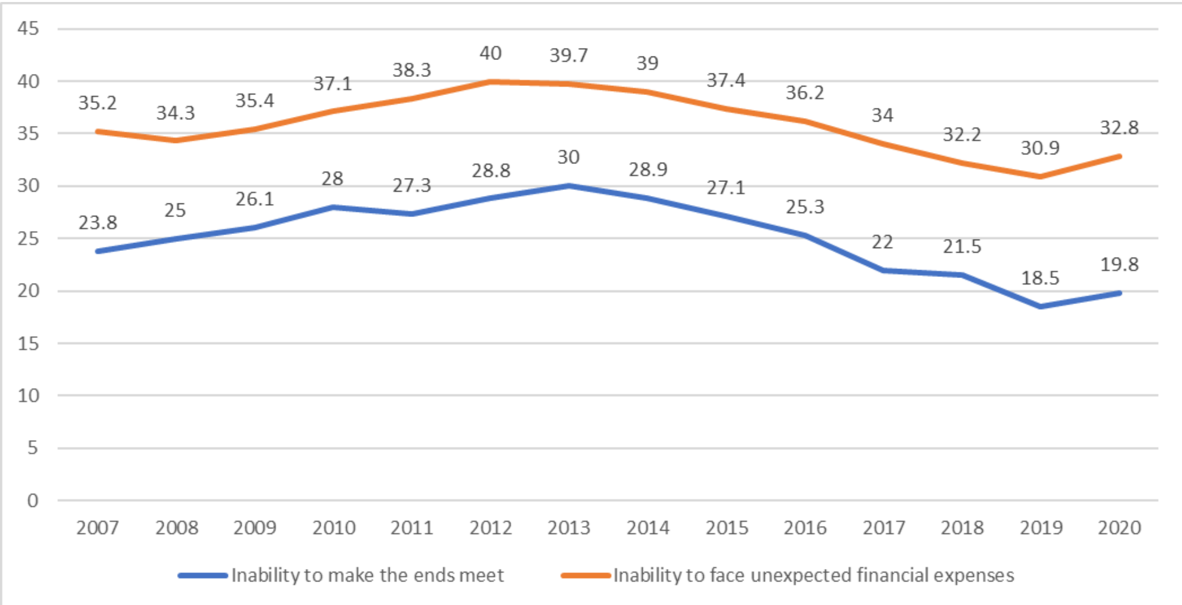
In this study, financial fragility is measured using two different EU-level indicators:

- Share of households that are unable to make ends meet
- Share of households that are unable to face an unexpected financial expense

For both of these indicators, the EU level analysis is presented for the years 2007 to 2020, and the cross-country analysis for the years 2013 to 2020.

In 2020, almost one in three Europeans felt unable to meet an unexpected financial expense and one in five felt unable to make ends meet. Quite similarly to arrears, at the EU level, there was a gradual increase in financial fragility from 2007 to 2013, a gradual decrease from 2013 to 2019, and, finally, an increase again in 2020 in the wake of COVID-19. Though there is not yet any conclusive data at this stage, it is quite likely that the financial impacts of COVID-19 will lead to a further increase in both of the indicators between 2020 and 2022.

Figure 2.17: Percentage of EU population unable to make ends meet, and face unexpected financial expenses (2007-2020)



Source: Eurostat.

2.6.2. Inability to make ends meet

When looking at the inability to make ends meet specifically, we see a 35% decrease in this indicator for the period 2013-2020 down to a level of 18.5%. While no Member State saw an increase in this indicator during this period, there were significant differences between countries in terms of trends. For example, the Netherlands (15.5%) and Estonia (23.4%) had already relatively low shares of households unable to make ends meet, yet, in these countries,

[121] Desai, H. and E. Forsberg (2020). Multidimensional fragility in 2020, OECD Development Co-operation Working Papers, No. 79, OECD Publishing, Paris, https://doi.org/10.1787/b4fbdd27-en.

this share decreased considerably by 52% and 61% respectively. On the other hand, Greece (78.3%), Bulgaria (65.2%), and Romania (51%) had a high share of households unable to make ends meet in 2013, yet the decrease since then has been less marked (Greece 11%, Bulgaria 33%, Romania 30%).

Like for arrears, the analysis of financial fragility confirms that the most affected Member States during the recession were not always able to improve their situation significantly. Despite a high starting point, Greece saw the fourth lowest decrease during the period of 2013 to 2020. Luxembourg (7%), Sweden (4%), and Finland (1%) had even slower drops but these Member States had much lower household financial fragility to begin with. Given the impact of COVID-19 on EU households, it is therefore likely that Greek households will continue to face disproportionate financial fragility and over-indebtedness in the near future.

On a more positive note, in some Member States, the situation has improved significantly since 2013. Portugal, Malta, Ireland, Slovenia, Lithuania, Poland, and Czechia all saw significant improvements and the situation in these countries has reverted to being closer or even better than the EU average.

Like for arrears, between 2019 and 2020, the share of EU households that are unable to make ends meet has increased by 7%. However, compared with changes in total arrears, the changes between 2019 to 2020 are distributed differently: four Member States had an increase of more than 10% (Germany and Romania: 12%, Luxembourg: 18%, Malta: 25%) and none of the Member States had an increase of more than 30%.

Table 2.6: Percentage of total population unable to make ends meet, by Member State (2013-2020)

Member State	2013	2014	2015	2016	2017	2018	2019	2020	Change %
Czechia	31.7%	30.7%	26.6%	23.2%	22%	16.2%	13.1%	12.1%	−62
Estonia	23.4%	19.7%	16.2%	15.4%	14.3%	13.9%	11.2%	9.1%	−61
Malta	37%	32.7%	21.6%	19.9%	16.1%	14.1%	12.3%	15.4%	−58
Portugal	46.9%	43.7%	40.4%	36.7%	33.6%	29.2%	25.8%	20.7%	−56
Ireland	36.8%	36.4%	31.8%	27.4%	23.6%	20.9%	18.7%	16.3%	−56
Latvia	54.4%	49.0%	42.7%	39.3%	40.5%	32.1%	25.0%	24.2%	−56
Cyprus	59.4%	60.4%	58.8%	59.8%	43.6%	46.4%	37.1%	26.7%	−55
Lithuania	32.9%	29.4%	28.9%	29.6%	28.2%	23.4%	19.0%	15.1%	−54
Netherlands	15.5%	15.0%	12.9%	12.6%	11.5%	10%	10.1%	7.5%	−52
Poland	32.5%	29.7%	29.4%	24.8%	22.1%	18.6%	15.7%	15.9%	−51
Hungary	54.9%	49.5%	46.6%	42.8%	41.2%	34.7%	28.0%	27.9%	−49
Slovenia	33.1%	30.6%	28.7%	25.9%	22.6%	20.5%	17.4%	17%	−49
Croatia	62.5%	60.9%	54.4%	51.4%	43.9%	42.7%	35.5%	33.5%	−46
Italy	41.5%	40.2%	37.9%	33.3%	28.1%	30.3%	22.9%	23.8%	−43
Spain	38.8%	39.1%	35.2%	35.6%	25.1%	27.1%	22.0%	22.8%	−41
Germany	9.1%	8.5%	7.6%	6.9%	6.1%	5.9%	5.1%	5.7%	−37
European Union	**30%**	**28.9%**	**27.1%**	**25.3%**	**22%**	**21.5%**	**18.5%**	**19.8%**	−34
Bulgaria	65.2%	63.2%	64.0%	61.7%	58.4%	55.9%	50.1%	43.7%	−33
Austria	14%	14.9%	13.4%	12.8%	11.5%	11.3%	10.7%	9.4%	−33
Romania	51%	48.5%	45.6%	44.1%	37.4%	36%	32.0%	35.9%	−30
Denmark	11.8%	11.8%	10.4%	10.0%	9.4%	9.3%	9.4%	8.5%	−28
Slovakia	36.6%	33.9%	32.7%	29.6%	26.2%	25.4%	28.3%	28.7%	−22
Belgium	21%	20.2%	20.5%	21.5%	20.9%	19.1%	19.2%	16.7%	−20
France	20.7%	20.7%	19.9%	19.2%	18.1%	18.3%	16.8%	18.3%	−12
Greece	78.3%	78.1%	77.7%	76.8%	77.2%	74.1%	71.0%	69.8%	−11
Luxembourg	13.4%	11.9%	12.4%	12.4%	12.6%	12.8%	10.5%	12.4%	−7
Sweden	7.7%	7.9%	7.1%	7.6%	7%	8%	7.6%	7.4%	−4
Finland	6.9%	7.4%	7.0%	6.9%	6.7%	6.1%	6.4%	6.8%	−1

Source: Eurostat.

The table below clusters Member States by the share of households unable to make ends meet in 2020. Countries with over one-third of their population unable to make their ends meet are categorised as having a "very high" frequency. Countries with a share of the population unable to make their ends meet are higher than the EU average (19.8%), yet, less than one-third of the population is clustered as having a "high" frequency. Countries with a share of the population under the EU average, yet, higher than 10% of the population unable to make their ends meet are clustered as having a "moderate" frequency. Lastly, countries with a share of the population of less than 10% that are unable to make their ends meet are clustered as having a "low" frequency.

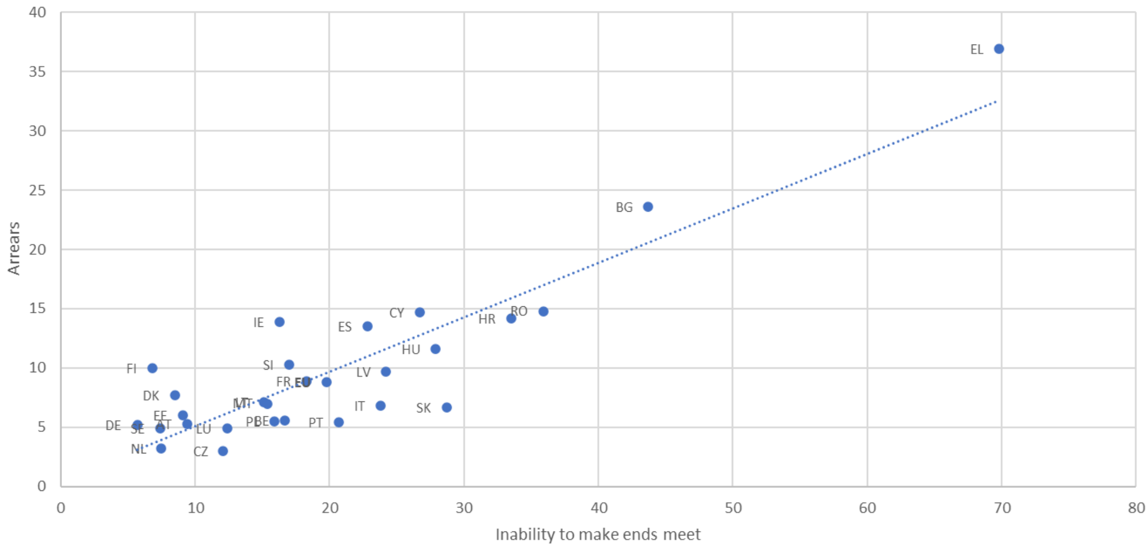
Table 2.7: Member State groups according to prevalence of households unable to make ends meet

Member State	Prevalence of households unable to make their ends meet	Eurozone	Inability to make ends meet in 2013 (%)	Inability to make ends meet in 2020 (%)	Change%
Greece	Very high	Yes	78.3%	69.8%	-11%
Bulgaria	Very high	No	65.2%	43.7%	-33%
Romania	Very high	No	51%	35.9%	-30%
Croatia	Very high	No	62.5%	33.5%	-46%
Average					**-30%**
Median					**-31%**
Slovakia	High	Yes	36.6%	28.7%	-22%
Hungary	High	No	54.9%	27.9%	-49%
Cyprus	High	Yes	59.4%	26.7%	-55%
Latvia	High	Yes	54.4%	24.2%	-56%
Italy	High	Yes	41.5%	23.8%	-43%
Spain	High	Yes	38.8%	22.8%	-41%
Portugal	High	Yes	46.9%	20.7%	-56%
Average					**-46%**
Median					**-49%**
France	Moderate	Yes	20.7%	18.3%	-12%
Slovenia	Moderate	Yes	33.1%	17%	-49%
Belgium	Moderate	Yes	21%	16.7%	-20%
Ireland	Moderate	Yes	36.8%	16.3%	-56%
Poland	Moderate	No	32.5%	15.9%	-51%
Malta	Moderate	Yes	37%	15.4%	-58%
Lithuania	Moderate	Yes	32.9%	15.1%	-54%
Luxembourg	Moderate	Yes	13.4%	12.4%	-7%
Czechia	Moderate	No	31.7%	12.1%	-62%
Average					**-41%**
Median					**-51%**
Austria	Low	Yes	14%	9.4%	-33%
Estonia	Low	Yes	23.4%	9.1%	-61%
Denmark	Low	No	11.8%	8.5%	-28%
Netherlands	Low	Yes	15.5%	7.5%	-52%
Sweden	Low	No	7.7%	7.4%	-4%
Finland	Low	Yes	6.9%	6.8%	-1%
Germany	Low	Yes	9.1%	5.7%	-37%
Average					**-31%**
Median					**-33%**

Source: Eurostat.

As these results indicate, **there is a very strong (r=0.89) correlation between the indicator on "households unable to make ends meet" and statistics on arrears which suggests that the objective measure (arrears) coincides with the subjective measure (households stating that they are unable to make ends meet) and it lends further credibility to the analysis in this report**.

Figure 2. 18: Inability to make ends correlated against total arrears (2020)



Source: Eurostat.

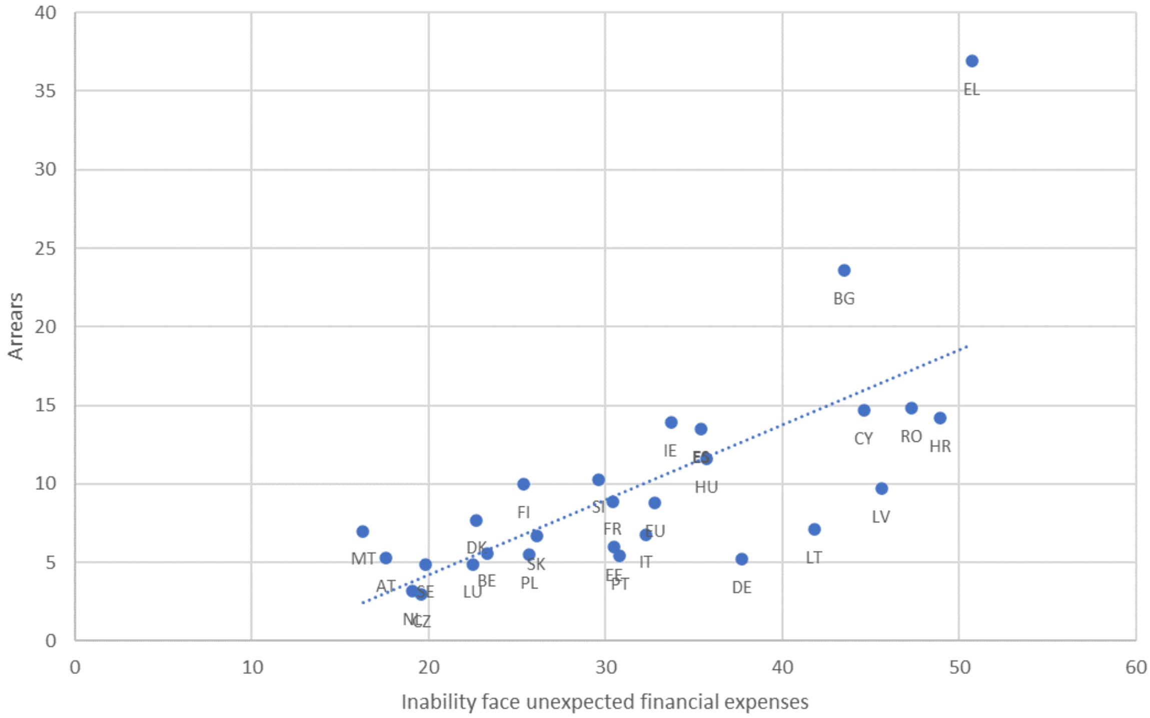
2.6.3. Inability to face unexpected financial expenses

Like for inability to make ends meet, **there is also a strong association between the inability to face financial expenses and statistics on arrears** (r=0.7) but this association is less strong than in the previous section. Indeed, according to the survey of debt advisors carried out for this study, the main driver behind the **need for debt** is an unexpected event (loss of job, divorce, sickness, or others)[122].

At the same time, in some Member States, the link between perceived financial fragility and actual over-indebtedness seems less clear. For example, a relatively high share of households in Germany (37.7%), Italy (32.3%), and Lithuania (41.8%) think that they would be unable to face unexpected financial outcomes, although a relatively small share of households in these Member States is actually in arrears (Germany 5.2%, Italy 6.8%, Lithuania 7.1%). On the other side, households in France (30.4%), Finland (25.4%), and Slovenia (29.6%) tend to be more optimistic about facing unexpected financial outcomes, yet, the actual share of households in arrears in these countries is quite high (France 8.9%, Finland 10%, and Slovenia 10.3%).

[122] Based on 100 responses from the debt advisors survey. When asked to rate the main drivers behind the need for debt from 1 to 5, debt advisors, on average, rated unexpected events as 4, followed by decrease in income (3.4), credit availability (type of credit, availability of credit, marketing practices) (3.2), increase in the cost of living (3.1), and increase in the cost of debt (2.9).

Figure 2.19: Inability to face unexpected financial expenses correlated against total arrears (2020)



Source: Eurostat.

As these results show, households sometimes underestimate or overestimate their ability to face unexpected financial expenses. This may be as a result of cultural factors and /or the financial management aspects discussed in the previous section or it may be due to differences in e.g. savings levels.[123]

Despite the differences between the two EU level indicators, however, **both indicators measuring financial fragility have an overall very strong correlation with arrears** and this confirms the findings of the previous study on over-indebtedness carried out in 2013[124] which also concluded that these two indicators had the strongest correlation with the level of arrears at the Member State level.

2.6.4. Poverty and social exclusion

There is a relatively strong (r=0.56) correlation between the share of persons at risk of poverty or social exclusion and statistics on arrears.

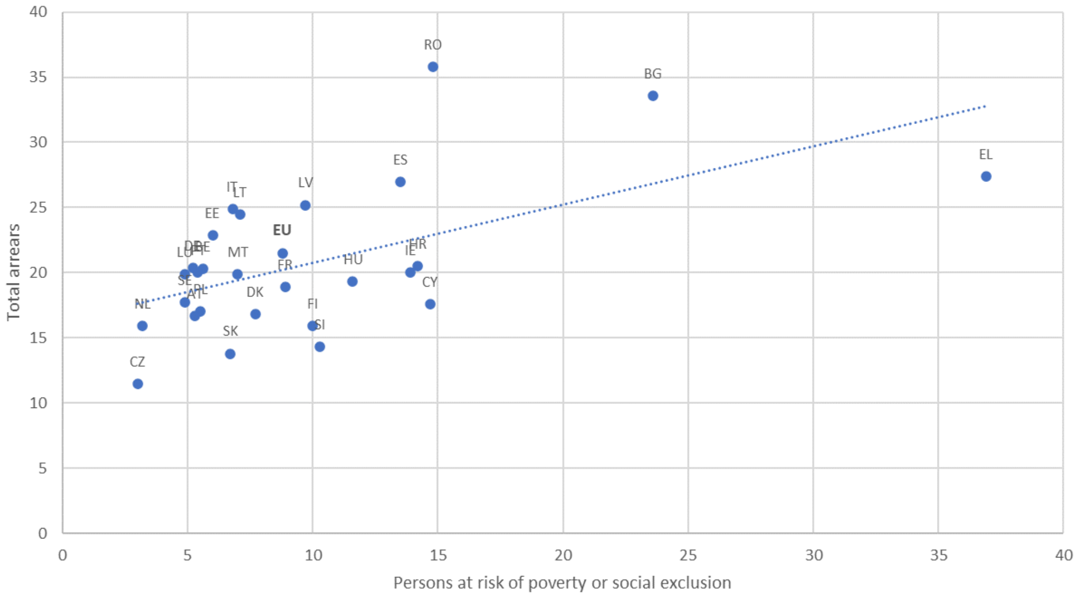
At the same time, looking at specific Member States, there are a number of notable outliers on both ends of the spectrum. Slovenia (14.3%), Finland (15.9%), and Cyprus (17.6%), for example, have considerably lower poverty and social exclusion rates than the EU average (21.5%), yet, the share of households in arrears in these Member States (Slovenia 10.3%, Finland 10%, Cyprus 14.7%) is also relatively higher than the EU average (8.8%). On

[123] European Consumer Debt Network (ECDN (2020). Debt Advice in Times of the COVID-19 Pandemic.

[124] CIVIC Consulting (2013). The over-indebtedness of European Households: Updated Mapping of the Situation, Nature and Causes, Effects and Initiatives for Alleviation its Impacts, Final Report. Part 1: Synthesis of findings, 22 ff. Available at: https://ec.europa.eu/info/sites/info/files/final-report-on-over-indebtedness-of-european-households-synthesis-of-findings_december2013_en.pdf

the other side of the spectrum, Estonia (22.9%), Lithuania (24.5%), and Italy (24.9%) have a fairly high share of households at risk of poverty and social exclusion, yet, a lower than average share of households in these countries are in arrears.

Figure 2.20: Persons at risk of poverty or social exclusion indicator correlated against total arrears 2020



Source: Eurostat.

Over the period 2015-2020, poverty has dropped less quickly than the share of people who are over-indebted. While there was a decrease in both indicators over this period, the share of EU households in arrears dropped by over one-third (34%), while the share of EU persons in poverty decreased only by 12%.

At the same time, for the initial stages of the pandemic for which data are available, the impact of COVID-19 is rather insignificant (+2%). The only Member State with a significant increase in the risk of poverty or social exclusion was Germany (+18%).

The reason behind the discrepancy could be that poverty and social exclusion is more related to the overall socioeconomic context and the level of inequality in the Member State than indicators of over-indebtedness.

In addition, there could be a time lag (which could differ between Member States) until over-indebtedness (measured as arrears) translates into increased poverty and social exclusion. Income distribution, incentives for the lowest income households to earn a higher wage and not be stuck in "poverty traps", general particularities of the welfare system, and the overall level of inequality, play a very important role in terms of poverty and social exclusion and these differences affect the extent to which over-indebtedness leads to poverty and social exclusion[125].

[125] Thomas Piketty (2015). The Economics of Inequality.

Table 2.8: Percentage of total population at risk of poverty or social exclusion against total arrears, by Member State (2015-2020)

	Persons at risk of poverty or social exclusion			Total level of arrears		
Member State	**2015 (%)**	**2020 (%)**	**Change%**	**2015 (%)**	**2020 (%)**	**Change%**
Hungary	30.6%	19.3%	-59%	21.7%	11.6%	-87%
Portugal	26.4%	20%	-32%	10.2%	5.4%	-89%
Poland	22.4%	17%	-32%	11%	5.5%	-100%
Cyprus	22.8%	17.6%	-30%	31.6%	14.7%	-115%
Bulgaria	43.4%	33.6%	-29%	33.6%	23.6%	-42%
Ireland	25.4%	20%	-27%	18.9%	13.9%	-36%
Slovakia	17.3%	13.8%	-25%	7.5%	6.7%	-12%
Romania	44.5%	35.8%	-24%	19.6%	14.8%	-32%
Slovenia	17.7%	14.3%	-24%	19.2%	10.3%	-86%
Lithuania	29.6%	24.5%	-21%	9.8%	7.1%	-38%
Croatia	24.4%	20.5%	-19%	29.9%	14.2%	-111%
Latvia	29.9%	25.2%	-19%	18%	9.7%	-86%
Greece	32.3%	27.4%	-18%	49.3%	36.9%	-34%
Italy	28.4%	24.9%	-14%	14.9%	6.8%	-119%
Czechia	13%	11.5%	-13%	4.5%	3%	-50%
Malta	22.3%	19.9%	-12%	10.9%	7%	-56%
European Union	**24%**	**21.5%**	**-12%**	**11.8%**	**8.8%**	**-34%**
Denmark	18.6%	16.8%	-11%	6.3%	7.7%	18%
Belgium	21.6%	20.3%	-6%	6.9%	5.6%	-23%
Spain	28.7%	27%	-6%	11.7%	13.5%	13%
Finland	16.9%	15.9%	-6%	10.3%	10%	-3%
Estonia	23.7%	22.9%	-3%	9.3%	6%	-55%
Netherlands	16.4%	15.9%	-3%	5.7%	3.2%	-78%
Sweden	18.1%	17.7%	-2%	6%	4.9%	-22%
Austria	16.9%	16.7%	-1%	6.4%	5.3%	-21%
Germany	20%	20.4%	2%	5.2%	5.2%	0%
France	18.4%	18.9%	3%	8.9%	8.9%	0%
Luxembourg	18.4%	19.9%	8%	5.2%	4.9%	-6%

Source: Eurostat.

Energy poverty

As part of the overall assessment of poverty and its relation to over-indebtedness, the study also investigates the link between energy poverty and over-indebtedness specifically. The reason for this special focus on energy poverty is because ongoing and planned sharp increases in energy prices[126] will affect poverty rates going forward and play an increasing role

[126] In the 12 months leading to March 2022, average home energy costs jumped by 41% in the European Union. Source: OECD ECOSCOPE (2022). Available at: https://oecdecoscope.blog/2022/05/10/surging-energy-prices-are-hitting-everyone-but-which-households-are-more-exposed/

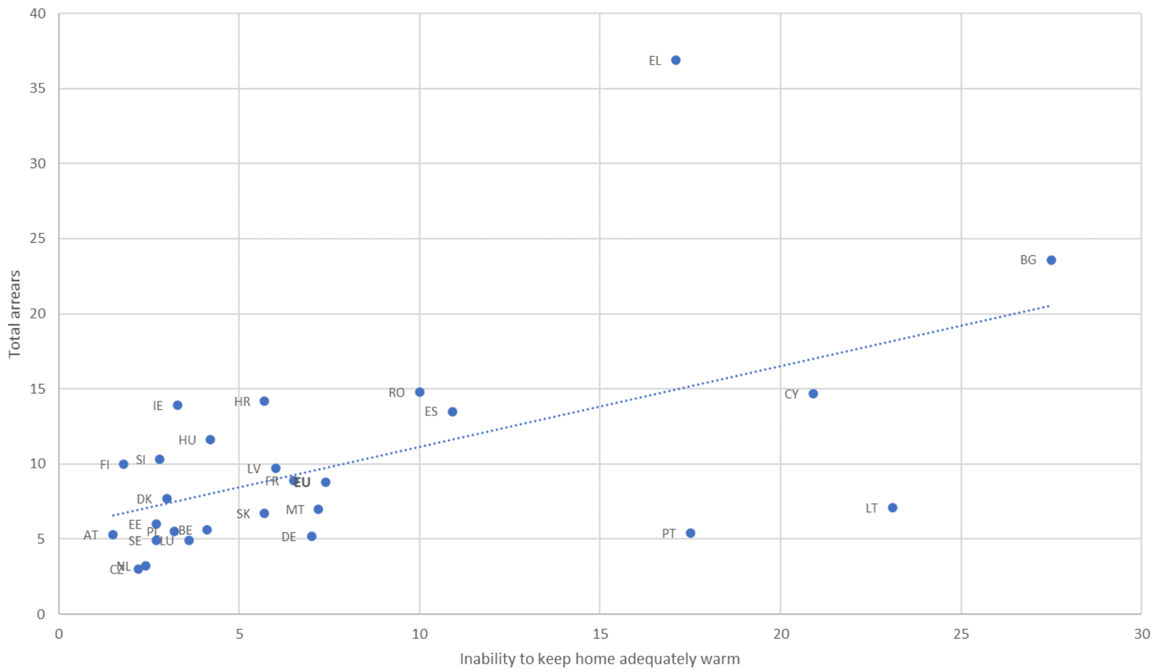
in terms of the development of over-indebtedness and household arrears in the EU, especially considering arrears on the utility bills. This is particularly important for Task 3 of the study which develops several forward looking scenarios on the evolution of over-indebtedness and its main drivers, including the cost of living and energy prices.

There are two indicators that help understand developments in energy poverty over time: arrears in utility bills (already discussed in 3 and 4) and the ability to keep one's home adequately warm.

Similar to the more general indicator on poverty and social exclusion, there is a close link between the inability to keep the home adequately warm and total arrears (r=0.54).

At the same time, although the correlation is quite strong, there are also a few outliers. For example, Finland (1.8%), Slovenia (2.8%), Ireland (3.3%), Hungary (4.2%), and Croatia (5.7%) have a considerably lower share of households that are unable to keep their house adequately warm when compared with the EU average (7.4%), yet, the share of households in arrears in these Member States (Finland 7.1%, Slovenia 9.4%, Ireland 8.7%, Hungary 10.4, Croatia 13.6%) is also relatively high. On the other side of the spectrum, Germany (7%), Portugal (17.5%), and Lithuania (23.1%) have a fairly high share of households unable to keep their house adequately warm, yet, households in these countries are less in arrears when compared with an average EU household.

Figure 2.21: Inability to keep home adequately warm compared against total arrears (2020)



Source: Eurostat.

Unlike the indicator on poverty and social exclusion, COVID-19 seem to have had a fairly strong impact on households facing energy poverty. At the EU level, the share of households unable to keep their house warm increased from 6.9% to 7.4%. Households in Germany (180% increase), Luxembourg (50% increase), Spain (45% increase), Sweden (42% increase) and Slovenia (22% increase) in particular, were facing difficulties in this regard (see Table 2.9).

Table 2.10: Inability to keep home adequately warm (2019-2020 change %)

	2019	2020	Change %
Ireland	5	3	−33
Slovakia	8	6	−27
Italy	11	8	−25
Latvia	8	6	−25
Poland	4	3	−24
Hungary	5	4	−22
Czechia	3	2	−21
Netherlands	3	2	−20
Austria	2	2	−17
Croatia	7	6	−14
Lithuania	27	23	−13
Bulgaria	30	28	−9
Malta	8	7	−8
Portugal	19	18	−7
Greece	18	17	−4
Cyprus	21	21	0
Finland	2	2	0
France	6	7	5
Belgium	4	4	5
Denmark	3	3	7
European Union	**7**	**7**	**7**
Romania	9	10	8
Estonia	3	3	8
Slovenia	2	3	22
Sweden	2	3	42
Spain	8	11	45
Luxembourg	2	4	50
Germany	3	7	180

Source: Eurostat.

2.7. Conclusions

This section summarises the main findings of the previous sections and present the conclusions of the cross analysis.

Prevalence of over-indebtedness across Europe

- Over-indebtedness has decreased steadily since the financial crisis to reach a low in 2019. Since Across the European Union an average of 8.8% of households (ca 17m households, or ca 40m people) were in arrears with their key financial commitments in 2020.
- At the same time, there is a wide very difference in the prevalence of over-indebtedness across the EU.
- There is no clear geographical pattern with arrears varying widely across and within the different regions of the EU (North, South, East and West) but Greece and Bulgaria present the highest levels of over-indebtedness while Luxembourg, Netherlands, Sweden and Czechia have the lowest levels.
- While there is a strong link between over-indebtedness and arrears in utility bills and between over-indebtedness and arrears on hire purchases and other loan payments, there is no such association when it comes to mortgages and rent payments and the picture.
- From a sociodemographic perspective, over-indebtedness is closely related to income, employment status, household size, and level of education.
- The picture is more complex (and sometimes modulated by other factors) for age, gender, and geographic location.

More specifically:

- Low-income groups are significantly more likely to be in arrears than higher income households.
- Unemployed households are considerably more likely to be in arrears.
- In terms of household size/structure, single persons with dependent children (the majority of which are led by women), and two adults with three or more dependent children are the most likely to be over-indebted.
- Households with a lower level of education tend to be significantly more over-indebted than higher education households.
- The middle-aged (35- to 54-year-olds) are the most likely age group to be over-indebted.
- Single males are slightly more likely to be over-indebted than single females.
- The link between over-indebtedness and geographic location (urban versus rural) is complex and varies greatly across Member States.

Evolution of over-indebtedness across Europe

- There was an overall decrease in over-indebtedness (measured as the share of the population in arrears) between 2013 and 2020 of around 32%, from 12.9% to 8.8% of households.
- Over-indebtedness reached a low in 2019 (8.2% of households in arrears) but since then it has started to increase again (i.e. by 0.6% points in 2020).
- The increase in total arrears in 2020 is most likely related to the economic and financial hardship caused by the outbreak of COVID-19 and we can therefore estimate that, in 2020, at least 1,170,000 households (ca 2.7m people) across Europe became over-indebted as a result of the pandemic.
- Over this time period, there were considerable differences among Member States in terms of the evolution of total arrears. Specifically:
  - Member States with a high share of households in arrears on key commitments in 2013 did not necessarily have the highest decrease in this indicator between 2013 and 2020.
  - There are four Member States which experienced an increase in total arrears during the period 2013 to 2020.
- When it comes to utility bills, the trend arrears between 2013 to 2020 is somewhat more positive when compared with total arrears during the same period. In addition, from 2019 to 2020, the share of households in arrears at the EU level increased only by 0.1% points which indicates that the increased share of households in total arrears was not due to problems with settling utility bills. However, a high increase of energy costs in 2022 means that the share of households in arrears with their utility bills is likely to have increased recently.
- For mortgages and rent payments, arrears increased more in 2020 than for other types of costs. This indicates that COVID-19 has had a particularly strong impact on households in terms of dealing with housing costs and this is most marked in Ireland and Spain.
- The trend in arrears on hire purchase instalments or other loan payments between 2013 to 2020 is similar to the trend in total arrears (a significant decrease until 2019 and then an increase as a result of the COVID-19 pandemic). Like for housing related costs, Ireland and Spain saw the most dramatic increases in 2020.

Drivers of over-indebtedness in Europe

- High debt-to-income ratio is an indicator of households taking out unsustainable long term loans (mortgages, in particular) which, although secured against an asset, may however have the unexpected effect to increase excessively the absolute amounts of debts, with the consequence that their debt-to-income ratio may arrive to an unaffordable level.
- The debt-to-asset ratio is an important indicator when assessing the financial resilience of the household, and, in turn, the household over-indebtedness, in particular, when it is caused due to the inability to pay arrears linked to mortgage loans.

- In addition, households with higher debt service payments compared to their monthly income are more likely to be in arrears as the costs of servicing debt short term fall disproportionately on lower income households (or, put differently, lower income households, on average, face higher interest rates than higher income households).
- In general, households with a higher share of consumer loans and credit card debt are more likely to be in arrears compared with households with a higher share of mortgages. Therefore, consumer loans and credit card debts may be considered as key sources of consumer over-indebtedness in the EU
- Financial management is a multi-faceted concept including individual (such as financial literacy) and societal factors. Though exogenous drivers (e.g. cost of living and macro-economic factors) are better at explaining differences in over-indebtedness over time, there is a strong link between financial literacy and over-indebtedness.
- Countries where debt advice networks are well-developed and free (or cheap) can prevent the prevalence of over-indebtedness.

Over-indebtedness and other measures of financial fragility

- Financial fragility examines how "close to the edge" households are or how financially stable they perceive themselves to be.
- In 2020, almost one in three Europeans felt unable to meet an unexpected financial expense and one in five felt unable to make ends meet.
- More specifically there was a 35% decrease in people feeling unable to make ends meet between 2013 to 2020, up to a level of 18.5%. However, between 2019 and 2020 the indicator increased by 7% in a single year.
- There is a very strong (r=0.89) correlation between the subjective perception of financial fragility (i.e. households stating that they are unable to make ends meet and households unable to face unexpected financial expenses) and objective statistics on arrears which lends further credibility to the analysis.
- The analysis of the subjective measures of financial fragility confirms that the most affected Member States during the recession were not always able to improve their situation significantly.
- Finally, there is also a relatively strong (r=0.56) correlation between the share of persons at risk of poverty or social exclusion and statistics on arrears
- Over the period 2015-2020, poverty has dropped less quickly than the share of people who are over-indebted.
- The reason behind the discrepancy could be that poverty and social exclusion is more related to the overall socioeconomic context and the level of inequality in the Member State than indicators of over-indebtedness.
- COVID-19 has had a particularly strong impact on households facing energy poverty and this is likely to accentuate in the near future in view of ongoing energy price inflation.

Limitations of the analysis and implications for other tasks of the study

While the study has provided a comprehensive mapping of the current level, trends and drivers of over-indebtedness, financial fragility and poverty across Europe, there are a number of limitations to the data that should be taken into account when interpreting the results and planning further research:

First of all, publicly available data is available only up until 2020 which means that the impact of COVID-19 is not fully picked up. While the study does show that longer term historical trends are positive (i.e. reduction in all the indicators of over-indebtedness and fragility) it is also clear that between 2019 and 2020, this trend has started to go into reverse. Many Member States have implemented significant mitigation measures to counteract the negative impact of the pandemic on people and businesses. The differences between these measures will constitute a great natural laboratory for assessing the effectiveness of different approaches across the Member States in the future (e.g. in 5 years' time when impacts are likely to have materialised).

Second, the analysis in this study is situated at the national and EU levels. While this is outside the scope of this particular study, it would be interesting to undertake an individual-level (e.g. econometric) analysis based on available micro-data for some of the indicators in the present report to understand the relative importance of different drivers of over-indebtedness and to understand linkages between the indicators across socio-demographic groups.

Third, the study is based on correlation analysis which shows the associations between different variables. Such an analysis does not, in principle, say anything about the direction of any causal effects. While causal effects can be logically inferred in many cases, they are not analysed systematically in the study. For instance, does financial fragility lead to over-indebtedness or is the relationship the other way round? What is the causal relationship between fragility and poverty? Further research, based on multivariate analysis and other sophisticated techniques, could help shed further light on causal relationships.

3. Task 2: Consumer perceptions and perspectives on over-indebtedness

3.1. Summary

Focus group research was undertaken across 18 Member States to gather improved knowledge about consumers' perspectives regarding over-indebtedness. The research also sought to obtain an objective assessment of the participants' financial literacy and financial resilience (via a short questionnaire), to provide context for their views and experiences.

Sixty percent of the participants were financially literate, though the figure was slightly lower among those with past experience of over-indebtedness, at 56%. Almost half of the participants had no savings (33%) or less than one month's pay worth of savings (15%). The proportion with no savings rose to 42% among those with past experience of over-indebtedness, and 48% among those who were financially non-literate.

Asked what came to mind on hearing the term debt, participants often began by emphasising adverse emotional impacts, including fear/worry, unease, stress and anxiety. At the same time, in several countries, they drew a distinction between "good" or "necessary" types of debt and bad or "dangerous" types. The former were defined as debts incurred in meeting "life needs" or investing for the future (mortgages, student loans and car loans were mentioned). Bad types of debt were defined as those resulting from the habitual use of quick consumer loans or credit for "unnecessary" purchases. Still, in several Eastern and Southern European countries especially, loans and credit were also commonly seen as something people relied upon to be able to afford regular payments like food, energy and medical bills.

There was broad recognition that the term over-indebted referred to a much more severe situation than having debt per se. Participants commonly described it as a situation of having multiple debts simultaneously, or a high level of accumulated debt, and being unable to repay it. Numerous participants across the 18 countries said they were *currently* over-indebted (or close to becoming so) and suffering extreme stress, despair or depression as a result – and/or facing practical repercussions, such as problems accessing credit, or potential bankruptcy. In almost all of the countries, participants agreed that over-indebtedness was relatively common and also increasing. Perceived reasons for this included economic impacts of the COVID-19 pandemic; rapidly increasing prices combined with low or stagnating wages and unemployment; a proliferation of different short-term loan and credit options (often with high rates of interest), and also individual-level factors, especially intensifying consumerism.

Across the 18 countries, participants appeared cognisant of a range of coping strategies they might pursue to avoid or recover from over-indebtedness. It was notable, however, that the most commonly mentioned strategies focused predominantly on individual-level behavioural adaptations (working more, cutting back on spending etc.) or seeking support from friends or family. Outside of Northern, Western and a small minority of East European countries, there was limited mention of formal external support mechanisms available for the over-indebted, such as direct financial assistance or debt advice. Indeed, in a few countries, participants had no concept at all of what debt advice was.

Overall, measures that participants tended to feel would be most effective for tacking over-indebtedness were financial education programmes and increasing the availability of debt advice services. Another relatively popular measure, especially among participants with experience of over-indebtedness, was that of encouraging more responsible lending practices.

3.2. Introduction

This chapter presents the findings of qualitative focus group research undertaken to gather improved knowledge of the perspectives and wider challenges of consumers as regards over-indebtedness – with a particular focus on identifying how they would respond (or have responded) to finding themselves in this situation. The research also sought to obtain an objective assessment of the focus group participants' levels of financial literacy and financial resilience (via the administration of a short, structured questionnaire), to provide context for their perspectives and experiences.

The research was conducted in 18 EU Member States: Bulgaria, Croatia, Czechia, Denmark, Estonia, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, the Netherlands, Poland, Romania, Slovakia, Spain and Sweden. Two groups we conducted in each country, one among consumers who had experienced over-indebtedness and the other among consumers who had not. Fuller details on the sample composition and the wider methodology adopted for the focus groups are presented in Annex A.

The analysis that follows is intended to provide a general overview of the research findings across the 18 Member States. It begins with a description of participants' levels of financial literacy and financial resilience, as measured through the structured questionnaire, before describing key themes and insights emerging from the focus groups discussions. Regarding the latter, findings for each of the individual Member States are summarised in table format at the end of each sub-section of the Chapter. In addition, a detailed report on the findings for each Member State is provided in Annex C.

3.2.1. Interpreting the data

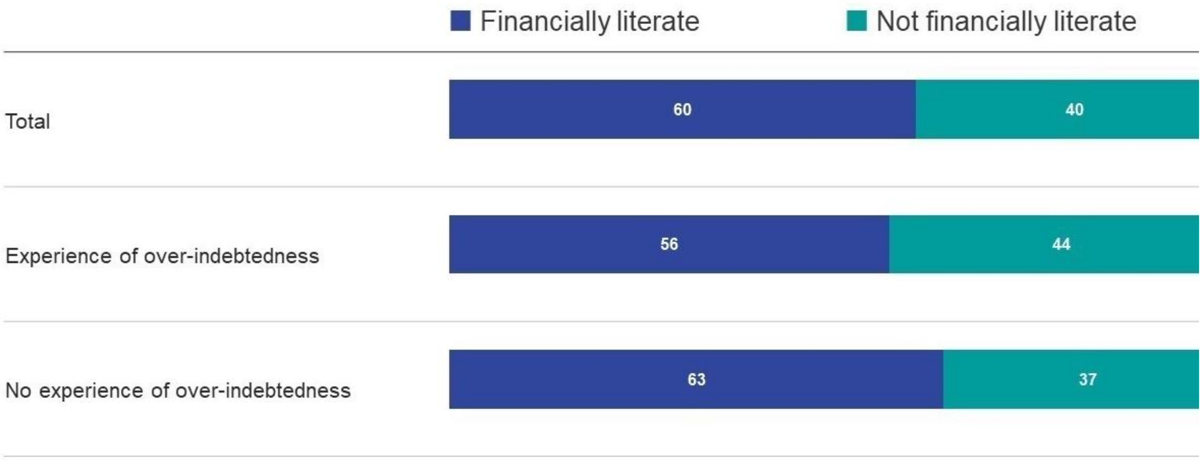
Qualitative research aims to identify and explore themes and issues relating to the subject being researched. The assumption is that themes and issues raised by participants reflect themes and issues in the wider population(s) concerned. The precise extent to which they apply to those wider population(s), or specific sub-groups thereof, cannot be quantified – for example, in terms of percentages – or generalised beyond participants in the study (as is possible with representative survey research). The value of qualitative research rather lies in identifying the range of relevant perspectives and experiences that exist, the considerations underpinning these, the ways in which people construct meanings and understand specific issues, and the potential impact or implications of all of this. In focus group research specifically, the dynamics of the discussions can reveal a rich tapestry of viewpoints and understandings among group participants, while at the same time disclosing group social norms and consensus.

3.3. Financial literacy of participants

The short questionnaire used to assess the focus group participants' level of financial literacy included a tried and tested set of questions designed to measure understanding of four concepts central to sound financial decision making: risk diversification, inflation, basic numeracy and interest compounding. An individual's responses to the set of question allow them to be classified as 'financially literate' or 'non-financially literate' (The questionnaire is provided in Annex D and details of the analysis schema applied to arrive at the binary classification are provided Annex A).

As Figure 3.1 shows, 60% of the focus group sample were financially literate, while 40% were not. The literacy figure was slightly lower among participants with past experience of over-indebtedness, at 56% (44% of this group were classified as non-literate), and slightly higher among those with no such experience, at 63% (37% were classified as non-literate).

Figure 3.1: Levels of financial literacy among the focus group participants



Base: All respondents (n=215)

Alongside the financial literacy question set, the survey included items focusing on other, related aspects of consumer vulnerability known to correlate with over-indebtedness, namely, financial resilience (level of savings), impacting life events and health status.

As Figure 3.2 shows, almost half of participants in total either had no savings (33%) or less than one month's pay worth of savings (15%). The proportion with no savings rose to 42% among those with past experience of over-indebtedness, and 48% among those classified as financially non-literate.

Figure 3.2: Levels of saving among focus group participants

Base: All respondents (n=215)

Participants' levels of financial resilience were assessed in terms of their ability to afford an unexpected bill of a) 100 euro or equivalent and b) 1,000 euro or equivalent. Around half of the participants said that if they were to receive an unexpected bill for 100 euro, they would be able to pay it without having to draw on savings or cut back on essentials. Around a third (34%), meanwhile, said they would be able to pay the bill *only* by drawing on savings, cutting back on essentials or selling personal belongings. Roughly half as many in total – 14% – said they would not be able to pay the bill or that they would have to rely on credit or a loan to be able to do so. The latter figure was higher among those with past experience of over-indebtedness and those classified as financially non-literate, at 21% and 20% respectively (Figure 3.3).

When participants were asked about their ability to afford an unexpected bill for the larger amount of 1,000 euro, a notably different set of findings emerged. In this case, only around a quarter (27%) said they would be able to pay the bill without having to draw on savings or cut back on essentials, while 31% said they would only be able to pay it by drawing on savings, cutting back on essentials or selling personal belongings. More than a third (38%) said they would not be able to pay the bill or would have to rely on credit or a loan to do so – with this figure rising to 40% among those who were financially non-literate and to over half (52%) among those with past experience of over-indebtedness (Figure 3.4).

Figure 3.3: Ability of participants to afford an unexpected bill of 100 euro

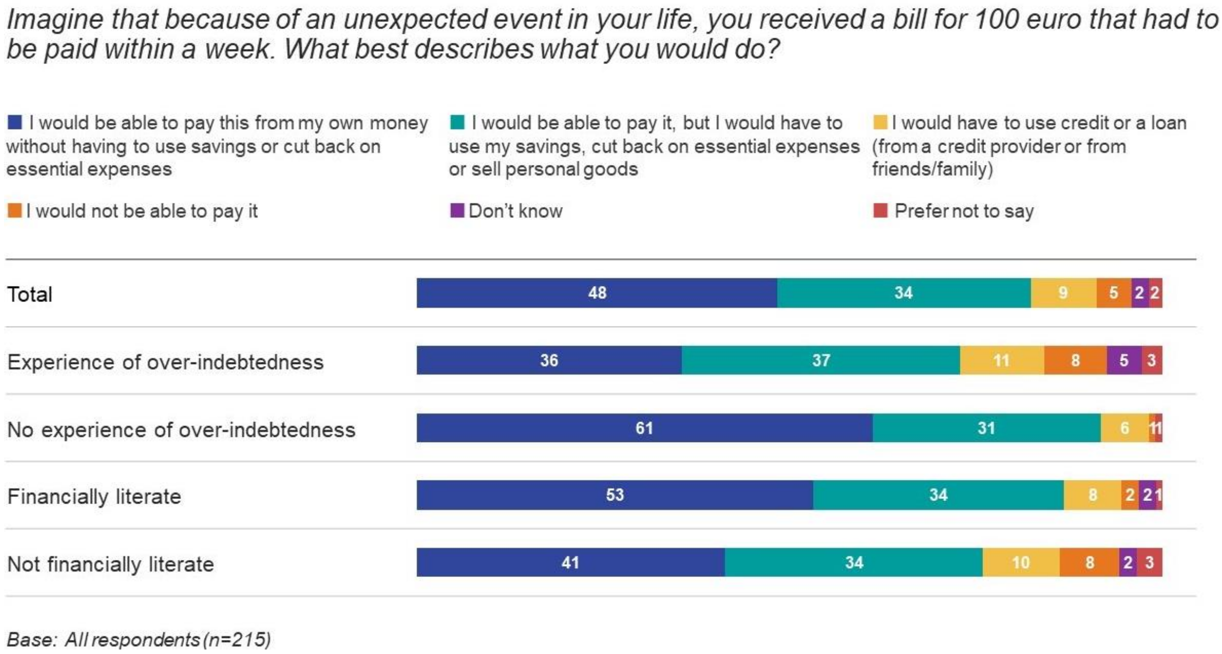
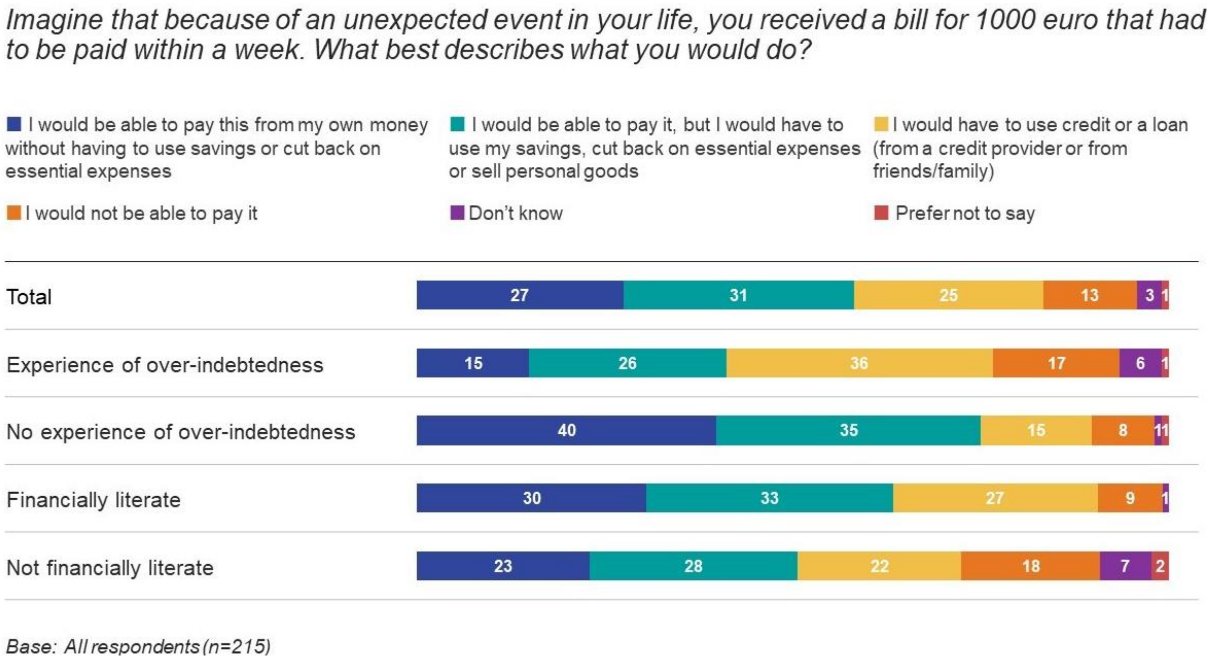
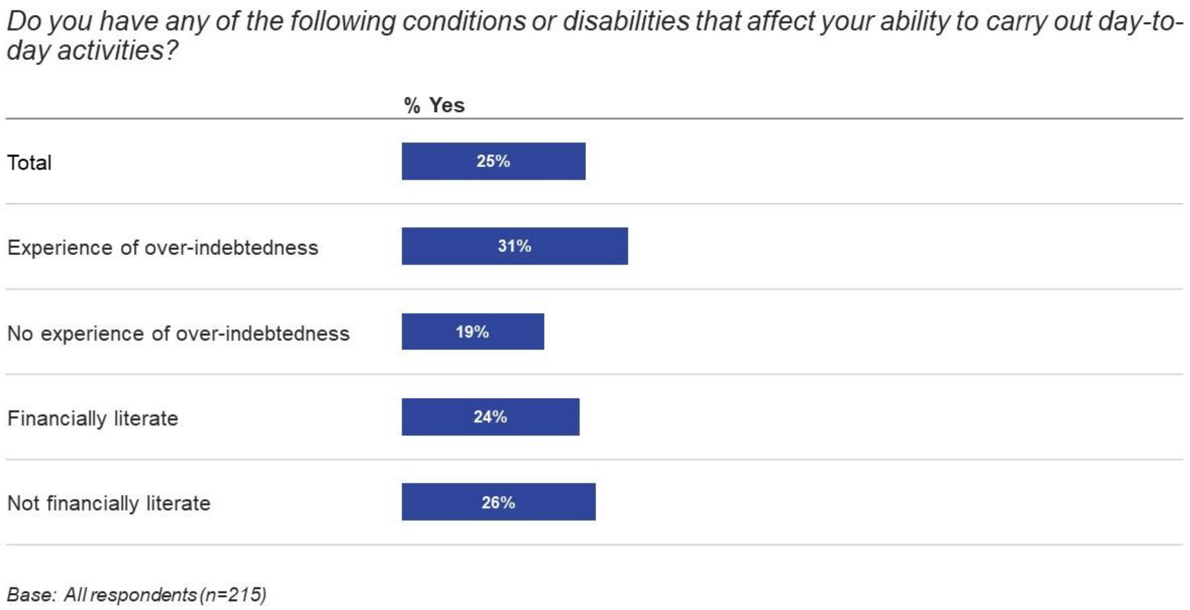


Figure 3.4: Ability of participants to afford an unexpected bill of 1,000 euro



A quarter of all respondents had a health condition or disability that affected their ability to carry out their day-to-day activities. The figure was similar among those classified as non-financially literate (26%) but slightly higher among those with past experience of over-indebtedness (31%) (Figure 3.5).

Figure 3.5: Health status of focus group participants



3.4. Awareness and perceptions of the problem of over-indebtedness

3.4.1. Conceptions of debt

Asked what came to mind on hearing the term **debt,** participants across the various countries mentioned a range of predominantly negative associations. In the first instance, they often emphasised **adverse emotional impacts** of debt, including fear/worry, unease, stress, anxiety, difficulties sleeping and lacking a sense of control. Such emotions were most commonly mentioned, and described with particular intensity, by participants with experience of over-indebtedness, some of whom recounted examples of their own financial challenges (past or ongoing) and the toll these had taken on their psychological wellbeing. In several countries (especially Denmark, Sweden, Ireland, Estonia and Slovakia) participants both with and without experience of over-indebtedness referred spontaneously to **a social stigma surrounding debt** which, they believed, meant that those affected often felt a sense of shame about their situation and/or were reluctant to talk about it or seek help.

Alongside emotional associations, the term debt also prompted participants to think of **different types of loan and different types of lenders** – both traditional (banks, credit unions) and alternative (for example, quick loan companies and online lenders). In some countries, including Denmark, Hungary, Poland, Sweden and Slovakia, participants drew a distinction between "good" or "necessary" types of loan/debt and bad or "dangerous" types. The former were defined as debts incurred in meeting "life needs" and investing for the future – mortgages, student loans and car loans received particular mention in this regard. Bad or "dangerous" types of debt were defined as those resulting from **wilful over-spending** and more especially from the **habitual use of quick consumer loans or credit** for "unnecessary" or "impulse" purchases. Participants observed that such behaviour was common as consumers often lacked self-control when it came to spending, or lived beyond their means, failing to distinguish between "needs" and "wants".

Still, in several Eastern and Southern European countries especially, loans and credit were also commonly seen as **something people relied upon to meet their regular (essential) payments**, including food, energy, transportation and medical bills. Some participants in these countries, particularly those with personal experience of over-indebtedness, reported that they were presently finding it difficult to afford their own bills without acquiring some form of debt. Others, though facing fewer immediate such difficulties, nonetheless expressed concern about being able afford their bills in the future, especially their winter energy bills.

> *"I cannot see light at the end of the tunnel. It is an endless struggle."*
>
> (Female, under 55 years old, experience of over-indebtedness, Greece)
>
> *"I am very concerned about what comes in the future, especially with the increasing costs of energy."*
>
> (Female, over 55 years old, experience of over-indebtedness, Czechia)
>
> *"We have gas that heats our hot water. It has become hopelessly expensive. It will be even worse this winter if the government does not subsidise the price of gas."*
>
> (Female, over 55 years old, experience of over-indebtedness, Sweden)

As is implicit in the foregoing, **there was a broad consensus that debt was a common**, if not a "normal" or "inevitable" feature of life – and one that was becoming more prevalent over time. Participants identified several reasons for this. Firstly, **the rising cost of living**, discussed above, but more especially the fact that this was taking place against a backdrop of **low or stagnating wages and unemployment**. The problem of low wages was a particularly prominent theme in Romania, Croatia, Bulgaria and Greece, where participants commented that it had contributed to debt being almost a way of life in their countries, and often the *only* means by which many people could afford their regular payments.

> *"Our salaries don't cover our bills anymore with the inflation, more and more people are in this situation."*
>
> (Female, under 55 years old, no experience of over-indebtedness, France)
>
> *"It's very hard to fit everything in 1800 lei. Don't ask me how I sleep at night, how much I worry."*
>
> (Female, over 55 years old, no experience of over-indebtedness, Romania)

Participants tended to feel that the growing prevalence of debt was also partly a function of **the proliferation and increasing availability of different credit options and quick loans** – not least in the online sphere – which had made the borrowing process easier and faster than ever before. They commonly observed that **such products were advertised extensively** and in ways that made them appear very tempting, especially to the most financially vulnerable groups of consumers. In confirmation of this, some participants with experience of over-indebtedness recounted occasions when they themselves had found the promises of loan advertisements impossible to resist.

> *"Now, you can easily go online and get a loan. So, on top of your credit card debt you have these other debts. It's only going to get worse."*
>
> (Female, under 55 years old, experience of over-indebtedness, Ireland)
>
> *"You see ads everywhere. Fast money at a higher interest rate, sometimes insanely high. It has been very difficult for us to repay the debts as we lost track of how much debt we really had, especially when using several different lenders."*
>
> (Female, under 55 years old, experience of over-indebtedness, Sweden)

Participants sometimes felt that debt was particularly common, and becoming more so, among **younger generations of consumers**, because these groups were often faced with expensive student loans and/or mortgages.

A country-by-country overview of the findings regarding conceptions of debt is provided in table 3.1 below.

Table 3.1: Conceptions of debt by Member State – summary overview

MS	
BG	Participants commonly associated the term debt with words like "obligation", "credit" and "bank". Those with experience of over-indebtedness also tended to associate it with regular or essential expenses (such as food, household bills, medicines and repairs), as well as with non-traditional lenders – using phrases like "a non-financial institution" and "fast credit". Participants with no experience of over-indebtedness, in contrast, were more inclined to mention definitions of debt, like "an obligation to something or someone" or "taking care of your family." These group differences notwithstanding, participants were in broad agreement that having debt (in both secured and unsecured form) was very common in Bulgaria and affected as many as 80% of people in their social circles.
CZ	The term debt had exclusively negative associations for participants. Among those with experience of over-indebtedness, the associations tended to be affective in nature and included "fear", "concern" and "problems." To an extent, this reflected the fact that several of these participants were currently finding it difficult to meet their regular payments and worried about what the future might hold in this regard. Among participants with no experience of over-indebtedness, common associations with debt more often centred on perceived causes or facilitators of the problem. In particular, they mentioned the use of credit cards and also of loans offered by non-traditional lenders like Home Credit, which were seen as almost synonymous with high rates of interest. The heavy advertising of such loans was felt to have contributed to the products becoming increasingly popular and, subsequently, to rising levels of debt. At the same time, some participants with no experience of over-indebtedness contended that a lack of self-discipline among consumers when it came to spending was also an important factor contributing to growing loan use.
DE	Common associations with the term debt, in Germany included specific types of debt – from that incurred purchasing a house or car, to payment arrears (rent and utilities/mobile phone bills were mentioned), late payment fees, and consumer debt resulting from "thoughtless" purchasing. Some participants were keen to point out that debt was not always a bad thing and that, for example, taking out a loan to invest in a home or a car could be a sensible financial decision. This perspective aside, most of the other associations discussed were more negative in nature and included losing control of one's finances, having to make sacrifices, as well as various emotional difficulties, such as feelings of unease, fear, anxiety, stress, despair and self-blame. Such negative emotions were most commonly mentioned (and, indeed, oftentimes felt) by people with personal experience of over-indebtedness, some of whom were facing significant difficulties at the time of the research. Participants tended to feel that it was difficult to assess how common debt was because people tended not to talk about it much. Still, their general sense was that between 20% and 50% of consumers were likely affected – and that the numbers were probably growing. Underpinning this perspective was a view that getting into debt was "easy" these days because "everything is too geared towards consumption and credit", with many low- or zero-interest options available.
DK	Participants in Demark often remarked that debt was a common or, indeed, "inevitable" part of life. To a large extent, this reflected their view that there were "good" and "bad" types of debt. Perceived good types of debt were mortgages (in other words, secured debt), and other types of loan that might be deemed "necessary" or "investments", including student loans and car loans. Perceived bad types of debt were quick consumer loans or, as some participants described them, "pleasure loans". Participants with no-experience of over-indebtedness remarked spontaneously that the practice of taking out quick consumer loans with high interest rates was best avoided as it was tantamount to throwing "money out the window". Those with experience of over-indebtedness, however, sometimes described occasions when they had had no choice but to rely on such loans in order to live a 'normal' life or buy essentials. Some of these participants went on to describe negative psychological impacts this had had on them, such as stress and feeling of powerlessness.

EE	Participants in Estonia most often linked the notion of debt to different types of debt – including loans, credits, and also informal borrowing from friends – and how acquiring such debt created an obligation to pay it back. To a lesser extent, they also immediately thought of negative impacts of debt on the lives of those affected, particularly in terms of how it could induce stress about managing the household budget. All participants were in agreement that, once acquired, debt was something one wanted to be free of as soon as possible. Nevertheless, there was also a consensus that, since any type of loan resulted in a debt, and since a large majority of people in Estonia took out some kind of loan in the course of their life, many people were inevitably in debt at any given time. Specific mention was made in this regard of young adults, for whom most participants believed it was very difficult to progress in life without taking out a loan (for instance to buy a house). There was a view that the number of people in debt was likely even higher than generally assumed, due to a stigma surrounding financial difficulties that resulted in people trying to hide their own difficulties.
EL	Having some form of unsecured debt was seen as extremely common or indeed the norm in Greece. Participants contended that most people could only afford their regular payments (for example, utility and tax bills) or larger one-off expenses by paying in instalments or borrowing money from family or friends. Participants with personal experience of debt spontaneously described how in the present climate of rising prices (which for them had begun with the 2009 Greek crisis) they were facing intense difficulties getting by on their income, which in turn was causing them to feel highly anxious or distressed. Those without personal experience of debt reported fewer such difficulties. Nonetheless, they commonly said that the current climate was leading them to strictly prioritise their spending or postpone specific plans (for example, travel) in an effort to maintain their financial security.
ES	For virtually all participants the term debt, whether relating to money owed to financial institutions or to family or friends, had exclusively negative connotations. There was particular mention of emotional connotations, including feelings of stress, overwhelm and being unable to sleep well. At the same time, participants agreed that having some sort of debt (both secured and unsecured) was extremely common among consumers in Spain and had become even more so over recent years, especially since the start of the COVID-19 pandemic. Underlying this perspective was a belief that the nature of debt was changing and that, whereas in the past it had been something acquired mainly only when buying 'big ticket' goods or services (for example, holidays), it was increasingly the only means by which most people could afford their regular payments (for example, utility bills).
FR	The term debt carried a range of associations for participants These included specific types of debt – from bank overdrafts and loans to payment arrears and mortgages – as well as a host of negative emotional connotations, such as "injustice", "unfairness" and feelings of fear or anger. These emotional connotations were for the most part a reflection of the fact that the participants were themselves finding it increasingly difficult to afford their regular payments against a backdrop of rising prices combined with stagnating salaries. Still, participants went on to comment that debt sometimes also resulted from factors other than poor economic conditions. Specifically, they mentioned the proliferation and growing accessibility of quick consumer loans, combined with individual-level behaviours such as poor financial management and over-consumption.
HR	Participants' spontaneous associations with the term debt primarily related to different types of borrowing – including loans, credits, money lent by family or friends and the use of credit cards. Immediate mention was also made of the fact that having debt often made people feel insecure and vulnerable. At the same time, participants were in agreement that debt was very common, and likely more so than typically assumed. They had differing views on the reasons for this depending on whether or not they had personal experience of over-indebtedness. Those with such experience stressed that being in debt was inevitable for a large proportion of Croatians simply because wages in the country were often too low to get by on without making use of loans or credit. Those with no experience of over-indebtedness, in contrast, linked debt to people's spending behaviour and especially to their over-use of credit cards. A few also pointed to other individual-level factors that they felt contributed to the problem, such as gambling and drug use.

HU	The term debt was commonly associated with the word "loan", along with more explicitly negative words like "burden" and "usury" – this reflecting participants' view that debt often signified dependency and obligation. As the discussion progressed, more positive associations also emerged. For example, some participants pointed out that certain types of secured debt were "a necessary evil," or even a good thing, because these enabled people (especially younger people) to own a home or achieve other important life goals. Problematic debt, in contrast, was generally seen as arising from unplanned circumstances, such as an unexpected job loss. Overall participants with experience of over-indebtedness tended to discuss debt in more negative terms than those without such experience, providing associations such as "garnishment", "debt collections", "a series of debts" and "circular debts." Notably, they were also unique in listing "unpaid utility bills" and "credit cards" as forms of debt. These group differences notwithstanding, participants generally agreed that having debt was common – there were estimates that around seven in ten people were likely affected – and especially so among younger generations in the form of mortgages.
IE	Asked what came to mind on hearing the term debt, participants in Ireland mentioned a range of exclusively negative associations. All of them associated debt with feelings of fear (for example, in relation to facing late payment penalties from the bank) or stress. Participants with experience of over-indebtedness also associated debt with general financial instability and lacking control over one's situation. All participants agreed that being in debt was very common and they identified a variety of underlying reasons for this. Firstly, they contended that the practice of taking out loans – from mortgages to loans for holidays or other leisure activities – was widespread to the point of normal. Secondly, they felt that the increasingly ready availability of online loans in particular made the borrowing process easier and faster than ever, resulting in some consumers having multiple loans simultaneously. Thirdly, they observed that the rising cost of living (specifically, rising energy, food and rent prices) combined with stagnating salaries meant that some people could no longer afford their regular bills and so were reliant on loans to get by. Finally, participants spoke about how social pressure often left people feeling that they had to own certain products or brands in order to 'fit in'.
IT	Participants' spontaneous associations with the word debt were uniformly negative and included words such as "anxiety", "anguish", "sleepless nights", "heaviness", "having no control" and "a black hole." Those with personal experience of over-indebtedness also mentioned a series of other more functional associations, including "interest", "expiring", "difficulties", and "lawyers." Generally, participants believed that having some form of debt, especially mortgage debt but also unsecured debt, was very common and becoming increasingly so.
LV	Participants in Latvia commonly associated the term debt with utilities or rent arrears and reliance on quick consumers loans. They referred to a "magic circle" of taking out new loans to cover existing ones, which created a sense of entrapment for the borrower and feelings of dependency on the lender. They also commonly mentioned perceived unethical marketing strategies employed by quick loan companies, giving examples of birthday promotions for short-term loans or a constant stream of other promotional messages like "you can borrow more now." Other types of debt participants mentioned ranged from mortgage debt and student loans to car loans, store credit, and medical-related debt owed to hospitals. While some of them saw debt as unavoidable, others (none of whom had personal experience of over-indebtedness) attributed it to ignorance and carelessness on the part of some consumers. These differences in perspective notwithstanding, there was general agreement that being in debt was very common. Indeed, participants tended to say that almost everybody they knew had some form of debt.
NL	In the Netherlands, participants had differing notions of what it meant to be in debt depending on whether or not they had experienced over-indebtedness. Those who had experienced it defined debt broadly, as any form of money that needed to be paid back, including mortgages, student loans, credit card payments and monthly bills such as mobile phone subscriptions. They therefore believed that debt was very common, with almost everyone owing some money to someone. Participants who had not experienced over-indebtedness tended to define debt more narrowly, reserving the concept mainly for situations where people could not pay their bills or repay money they owed. Indeed, they generally felt that debt was by definition problematic, and that people with debt needed help, such as debt

	counselling. Based on this narrower definition, these participants generally estimated that only a minority of people experienced debt. At the same time, however, they did think that the number was increasing due to worsening economic conditions and especially rising energy prices.
PL	Participants commonly associated the term debt with different types of lender (banks, credit providers and also informal sources like neighbours), but also with bankruptcy, bailiffs and emotions like "worry", "stress", "fear" and "unease". Some participants drew a distinction between "manageable" debt and more serious or, as one person put it, "terrifying" debt. Manageable debt was that which could be paid off over time without too much struggle. More serious debt was that which could not, due, for example, to a job loss or illness. A distinction was also drawn between "good" debt and "bad" debt, with good debt defined as that incurred in meeting "life needs" (such as buying a home or a car), and bad debt associated with living beyond one's means and relying on short term loans. Generally, participants felt that debt was common in Poland. Indeed, they estimated between 50% and 80% of the population were likely to be affected.
RO	All participants agreed that debt was extremely prevalent in Romanian society, and something that a significant proportion of the population, especially poorer but also middle-class people, experienced in the course of their lives. Most participants associated debt not so much with loans and credit, but rather with challenges paying for everyday expenses – in the first place, regular, fixed expenses such as rent and bills – but also basic necessities such as food, medicines and transportation. They commonly described how the ongoing presence of debt in a person´s life could result in their suffering considerable levels of stress. Participants with experience of over-indebtedness described debt and its impacts in particularly emotional as well as rather fatalistic terms, commenting that it was something many people were born with and also died with, without any choice.
SE	Participants tended to distinguish between "necessary" and "dangerous" types of debt. Perceived necessary types of debt were mortgages, student loans and car loans, while perceived dangerous or "negative" types of debt were loans for amounts that exceeded one's ability to comfortably repay them, or that became unaffordable due to a loss of income (for example, a job loss). Other free associations with the term debt were predominantly negative and included references to quick or SMS loans, "not living within what you get", a "debt trap", cost of living increases, unpaid credit cards, thoughtless online ordering, bailiffs, as well as emotions like shame and stress. While these sorts of associations were mentioned by both groups, those with experience of over-indebtedness spoke about debt in more personal terms, as something that was part of their own lives. Participants were in general agreement that debt was very common, and that almost all adults were likely in debt to some extent. They often felt that getting an unsecured loan with high interest rate had become too easy nowadays, while perceived beneficial loans, such as mortgages, were becoming more difficult to obtain, especially for certain groups of consumers like students, people on a low income, the unemployed and those on sick leave. They also observed that there was too much advertising for quick loans and other 'get-rich-fast' money traps, such as gambling sites and loans to invest in shares.
SK	Participants identified and discussed various forms of debt, ranging from small sums of money owed to friends/family, to monthly bills and credit card payments, as well as large, secured debts, such as mortgages. Among participants with experience of over-indebtedness particularly, debt was also strongly associated with negative mental health impacts, such as stress and nervousness, or even fear and panic. There was a view that such negative consequences of debt were not only reserved to low-income households but were also increasingly common among middle class ones as well – a trend that many felt was likely to accelerate in the current climate of rising prices. More so than older participants, younger participants tended to see debt as a natural and inevitable part of life, and indeed as *necessary* in order to establish themselves. At the same time, they did distinguish between "good" or "useful" debt taken on to pay for essentials such as a house, and "useless" debt incurred in making unnecessary luxury purchases.

3.4.2. Conceptions of over-indebtedness

Across the 18 countries, there was broad recognition that the term **over-indebted referred to a much more severe or "extreme" situation than having debt per se**. Participants commonly described it as a situation of having multiple debts simultaneously, or a high level of accumulated debt, and being unable to repay it. They also emphasised that those affected were often unable to meet their regular payments and/or took on new loans to cover existing ones, with the effect that their problems compounded exponentially over time – or "spiralled" to use participants' own descriptor – and became increasingly difficult to escape. A perceived aggravating factor in this dynamic was the specific types of loans in question. There was a common perception that these were often short-term, very high interest loans from non-traditional lenders, which quickly became a major financial burden in and of themselves.

Numerous participants across the different countries said they were *currently* over-indebted (or close to becoming so) and finding the situation very difficult. They often described the heavy psychological burden they were carrying as a result – references to extreme stress, despair and depression were common – as well as the shame they felt about their situation. Some also described other, more practical difficulties confronting them, such as problems accessing credit, having personal belongings or assets seized, or the possibility of bankruptcy. Similar experiences were recounted by participants who had been over-indebted in the past.

"[Over-indebtedness] happens when one loses control of everything."

(Female, under 55 years old, experience of over-indebtedness, Italy)

"Over-indebtedness is a debt that forces you to make a choice between either paying your debt or providing for your daily needs."

(Man, under 55 years old, experience of over-indebtedness, the Netherlands)

"[Being over-indebted] is shameful. You don't even talk to your partner about it. It contributes to not doing anything about the problem and the debts continue to grow."

(Female, over 55 years old, no experience of over-indebtedness, Sweden)

In almost all countries, participants were in agreement that **the problem of over-indebtedness, like debt generally, was relatively common, and also increasing**. Perceived reasons for this mirrored, to an extent, those identified during the discussion of debt, though additional factors were highlighted too. **The COVID-19 pandemic** was one such factor, with participants referring spontaneously to the business closures, jobs losses and reduced incomes it brought. In a few countries, especially Italy and Poland, participants with experience of over-indebtedness described how they themselves had lost a proportion of their income during the pandemic, either because they had become unemployed or been unable to work, or because they had lost rental income (and had been unable to evict the tenants). On the other hand, a small number of participants said that their financial difficulties had in fact *lessened* during the pandemic because bans or restrictions on travel and leisure activities had meant they spent less.

The problem of rapidly **increasing prices combined with low or stagnating wages and unemployment**, discussed above, was also highlighted as a factor contributing to growing over-indebtedness, as were **rising interest rates**. In a few countries participants reflected on the causes of rising prices, with the Russian invasion of Ukraine receiving particular mention in this regard. In most other countries, however, participants focused more on the likely impacts of price increases than on causes. Many, including both people who had and had not experienced over-indebtedness, expressed concern that they might fall into a debt spiral over coming months if their regular bills and payments continued to increase. Again, they expressed particular concern about the prospect of significantly increased energy bills during the winter months. Participants in Southern Europe (Greece, Italy and Spain) referred spontaneously to what they saw as a lack of government action to tackle such economic challenges affecting their countries. In particular, they pointed to a lack of effort to address low wages, and (in Italy) high taxation, so that consumers were better able to make ends meet.

> *"Over-indebtedness will be more common because of the current increase in the cost of living. It is my experience that if you are already on the limit, it is easy to be pushed over the border and take an extra loan."*
>
> (Male, under 55 years old, no experience of over-indebtedness, Denmark)
>
> *"And for retirees, it is probably even harder because, I take my mother's pension and see what is happening. After paying her electricity and other bills and buying her medications, there is no money left for food."*
>
> (Female, over 55 years old, experience of over-indebtedness, Bulgaria)

The proliferation of different short-term loan and credit options with high rates of interest, mentioned earlier, together with the intensive, targeted marketing of such products, was a further factor seen to underpin rising over-indebtedness. In Germany and Ireland, participants also made specific reference to the **growing popularity of 'buy now, pay later' apps** – Klarna, PayPal and Clearpay received specific mention – which they felt made the borrowing process easier and also gave borrowers the impression that they would be able to pay back the money easily – whereas, in reality, they may end up over-using the apps, potentially in combination with other loans, and thus struggle to meet the repayments alongside their regular bills.

In most of the countries, **individual-level factors were also seen to be contributing to rising** – specifically, relentless or intensifying consumerism and, related to this, a determination on the part of consumers to maintain their current standard of living even against the backdrop of rising prices. For some participants, this trend was a reflection of growing social pressure, not least on social media, to appear successful and keep up appearances. For others, it was more a reflection of low levels of financial education in society, as well as a general short-termism, or sense of denial, in people's thinking when it came to money.

> *"We are constantly tempted, more than before, to spend money on holidays or smartphones, we pay in instalments, or we can't afford to pay anything."*
>
> (Male, under 55 years old, experience of over-indebtedness, France)
>
> *"People fund everything with loans, and don't worry how they will pay it off – during the pandemic, during the insecurity, instead of limiting expenses they keep buying. So, it is heading to it all collapsing, like the big market crashes."*
>
> (Male, under 55 years old, no experience of over-indebtedness, Poland)
>
> *"[Over-indebtedness] is common. People are used to high standards and do not want to change it, so they take out loans."*
>
> (Female, under 55 years old, experience of over-indebtedness, Czechia)

Table 3.2: Conceptions of over-indebtedness by Member State – summary overview

MS	
BG	The term over-indebted was associated with having too much debt relative to one's income, and with various related difficulties, including being unable to meet regular payments. Participants with experience of over-indebtedness especially, provided specific, and sometimes personal, examples of over-indebtedness and its underlying causes. One participant, for example, described how becoming unemployed and losing his income had pushed him into such a situation. Another said that becoming sick or having a family member in this condition could lead to similar difficulties. At the same time, participants acknowledged that individual behaviour, and specifically over-spending, could lead to over-indebtedness too. There was a shared belief that over-indebtedness was very common and on the rise. The perceived main reasons for this were rising prices combined with low, stagnating wages and pensions; the COVID-19 pandemic (pandemic-related job losses and medical expenses); generally high levels of unemployment; and individual-level factors, especially the aforementioned over-spending.
CZ	Over-indebtedness was described as the situation of having multiple loans simultaneously and being unable to pay these back. Some participants also referred to it as a "debt trap" because people affected often found themselves having to take out new loans in order to repay existing ones, such that the situation became self-perpetuating. There was a strong consensus that, like debt generally, over-indebtedness was becoming increasingly common. This trend was attributed to the rising cost of living (rising energy bills received particular mention), combined with a determination on the part of consumers to maintain their existing standard of living regardless. Low levels of financial literacy among some consumers and aggressive advertising on the part of loan companies, were seen to be further fuelling the problem, increasing the likelihood of people making bad financial decisions in the face of challenging circumstances.
DE	The term over-indebted was understood to refer to the situation of having an accumulation of debt over an extended period and being unable to pay it off. Participants further noted that efforts to repay such debt – for example, through additional borrowing – could sometimes simply lead to a deepening of the situation, making it even more difficult to "escape". Several participants were themselves currently over-indebted and were clearly finding the situation very difficult. They expressed feelings of anxiety or despair, as well as describing other, more practical challenges they were facing, such as issues with their credit rating. Some participants felt that over-indebtedness was directly tied to a proliferation of loan options and the ready accessibility of these, as well a growth in consumer advertising highlighting possibilities to make purchases on credit. Other participants felt that the COVID-19 crisis has been an important contributory factor, especially among consumers who worked in the entertainment or service sectors, which were especially hard hit by containment measures. Participants generally assumed that over-indebtedness was less common that debt per se. At the same time, they tended to believe that the problem would become more widespread in the future due to the increasing and ready availability of loans and credit cards, together with the emergence and growing use of facilities like Klarna or PayPal, and also the rising cost of living.
DK	Participants tended to assume that the term over-indebted referred to a situation of having multiple quick loans simultaneously and being unable to pay these back. They went on to talk about what they saw as the likely main causes of over-indebtedness, with their perspectives tending to differ depending on whether or not they had themselves experienced the problem. Those who had experienced it typically regarded it as the product of external factors, specifically the general cost of living, which they felt left consumers feeling "pressured" to take out quick, high interest loans simply to make ends meet. In contrast, participants who had not personally experienced over-indebtedness tended to suggest that the problem was a consequence individual-level behaviour and choices, especially a failure to budget and prioritise appropriately. These differing perspectives notwithstanding, there was a consensus that over-indebtedness was likely a reasonably common phenomenon. There was also an assumption that it would become more common still in the future, owing to rapid and steep increases

	in prices over recent months, combined with stagnating wages and unemployment – all of which were attributed mainly to the COVID-19 pandemic and the war in Ukraine.
EE	Participants saw over-indebtedness as a situation where a person had acquired such large and problematic sums of debt that they no longer felt in control of their financial or personal life. The situation was associated with a range of other difficulties too, including stress and, in more extreme cases, depression and bankruptcy. Various possible causes of over-indebtedness were identified. There was a belief that many people overspent in response to perceived social pressure to appear successful and keep up appearances, even in times of financial headwinds. Some participants felt that a lack of financial knowledge or budgeting among consumers also contributed to the problem. Alongside such individual-level factors, participants felt that external factors likely contributed to, or worsened, over-indebtedness as well. They pointed, in particular, to what they saw as harmful commercial practices on the part of lenders and retailers, such as an abundance of options to make purchases on instalment or via credit; and offers of misleadingly cheap products with hidden costs. There was a consensus that over-indebtedness was probably more common than it may appear, because many of those affected may try to hide it. Most participants also considered the problem to be on the increase, which they attributed to the rising cost of living combined with a determination among consumers to maintain their current standard of living regardless. The COVID-19 pandemic was identified by some participants as another, separate factor that had contributed, due to the job losses it brought in some sectors.
EL	Participants understood the term over-indebted as referring to a situation of having multiple debts simultaneously and being unable to repay these, with the effect that the problem compounded exponentially over time and became increasingly difficult to "exit". There was specific reference to accumulated utility and tax arrears, as well as insurance arrears and different types of consumer credit or loans. The practice of borrowing to pay off other loans was also mentioned. In general over-indebtedness, like debt, was seen as relatively prevalent in Greece, with participants identifying several reasons for this. Those who had experienced it tended to regard it as a product of external factors and specifically high and rising prices combined with low wages and unemployment. Rising prices were commonly associated with unethical pricing practices and "profiteering" on the part of larger companies, together with a lack of government action to supress such practices. Participants who had not personally experienced over-indebtedness tended to regard the problem as resulting more from individual-level personality traits and choices. They contended that people who were over-indebted lacked self-control when it came to spending and habitually spent beyond their means.
ES	Participants tended to conceive of over-indebtedness as a situation of being unable to repay one's debts and having to take on new loans to repay existing ones, often short-term loans with very high rates of interest. Those with experience of over-indebtedness commented further that people affected were often no longer able to access credit from traditional lenders and had to rely exclusively on loan companies instead (which usually offered high interest loans). Overall, participants agreed that being over-indebted was less common than simply having some form of debt per se. At the same time, they felt instinctively that the problem, like debt generally, had become more common in recent years. In explaining this, they referred spontaneously to the changing macro-economic context and specifically to high and rising prices, which they felt had seen many households forced into over-indebtedness simply to be able to pay for basic goods (for example, food, electricity bills and transport). Some participants also felt that COVID-19 had contributed to the problem as it had resulted in business closures and subsequent unemployment. A few participants contended that the government was not doing enough to counter the effects of inflation, such as adjusting wages.
FR	The term over-indebted was understood to refer to the situation of having mounting debts of varying description and ending up in debt "spiral" that was hard to get out of. Relatedly, there was mention of the fact that the over-indebted may resort to taking out large loans to consolidate multiple smaller loans, which only served to compound their difficulties. Participants were unequivocal that over-indebtedness, like debt generally, was becoming increasingly common. They identified several factors contributing to this, placing particular emphasis on the rising cost of living and its underlying causes – there was mention of the war in

	Ukraine and its impact on the cost of commodities, and also to wider scarcity in commodities (petroleum and wheat). The COVID-19 pandemic was mentioned as another contributing factor, mainly on the basis that it had resulted in increased unemployment. Some participants felt that an intensification of consumerism over recent years, as well as a lack of financial education among consumers, were also to blame.
HR	Participants thought of over-indebtedness as a severe form of debt that was very difficult to overcome independently and that could have detrimental effects on a person's mental and even physical health. In terms of causes of the problem, they pointed in the first instance to the impact of events outside of an individual's control, especially societal-level events that impacted the general economic health of the country, such as the COVID-19 pandemic, and the rising cost of living combined with stagnating wages. All participants felt that such events had resulted in over-indebtedness becoming more common over recent years. Still, some participants also identified micro-level factors that they felt likely contributed to over-indebtedness, for instance, health problems that made it impossible to work or resulted in high medical bills; or a divorce or the death of a spouse that led to a significant drop in a household's income. There was reference to behavioural factors too and specifically a perceived tendency for some people to lack self-control when it came to spending or, to live beyond their means.
HU	Participants linked over-indebtedness to excessive borrowing, where the borrower was either unable, or found it very difficult, to repay their loans. Their views on the main causes of the problem differed depending on whether or not they had themselves experienced it. Those who had, typically regarded it mainly as a product of external factors, including rising prices and rates of interest, low wages, and unemployment. In contrast, participants who had not experienced over-indebtedness tended to view the problem more as a consequence of personal irresponsibility and excessive spending. While everyone thought that over-indebtedness was fairly common, those with personal experience of the problem tended to think it was more common than those without such experience. The former group felt that over-indebtedness was on the increase, which they explained with reference to the rising cost of living and, to a lesser extent, longer-term economic impacts of the COVID-19 pandemic. Participants with no experience of over-indebtedness, in contrast, did not always feel that over-indebtedness was increasing. They commented that obtaining credit had become more difficult over recent years, and that, in the current economic climate, people were more likely to simply stop paying for certain services, like utilities, rather than taking out loans to cover these.
IE	The term over-indebted was understood to refer to the situation of having an accumulation of debts and being unable to pay these off. Generally, over-indebtedness was seen as a very serious situation that was difficult to get out of. At the same time, all participants believed that the problem was on the increase. Their views on reasons for this tended to differ depending on whether or not they had themselves experienced the problem. Notably, both groups agreed that over-consumption and unemployment resulting from the COVID-19 pandemic were among the key causes. However, those with experience of over-indebtedness also emphasised the impact of general cost of living increases, as well as the growing use of online loans and apps that allowed consumers to pay later (such as Klarna or Clearpay). They contended that such debt repayment solutions made the borrowing process easier and also gave borrowers the impression that they would be able to pay back the money quickly – whereas, in reality, they may end up taking out too many loans and struggling to repay these alongside their other regular bills. Participants with no experience of over-indebtedness, meanwhile, attributed rising over-indebtedness to the impact of social media on consumerism and, specifically, the extent to which it left consumers feeling "obliged" to have the latest consumer goods.
IT	Participants' associations with the word over-indebted included having "many loans simultaneously", "too many credit cards", "extreme stress," and "a loss of control." They saw over-indebtedness as a much more severe situation than having debt per se, and one that was likely the culmination of problems that had been allowed to grow and persist for too long. Equally though, they felt that over-indebtedness was a relatively frequent occurrence and one that had become more prevalent over the last couple of years due to a series of both external and individual-level factors. Among the external factors mentioned were price increases, as well as the COVID-19 pandemic and the negative impacts of containment measures on people's incomes. Participants contended that the government was not doing enough to help people in the face of these challenges (for example, through a minimum wage) and, indeed, was levying high taxes

	on goods (such as petrol) but also on income, particularly for the self-employed. Individual-level causes of over-indebtedness identified included an unwillingness to make sacrifices when it came to spending, and a desire to impress others through one's possessions.
LV	Participants regarded over-indebtedness as a very serious problem that generated extreme levels of distress and despair in those affected. They associated it with words like "doomsday", "fear", "creditors", "bailiffs", "not answering calls from unknown numbers", "being on a list of debtors or blacklisted", "chain reactions in terms of losses" (like cars being taken away leading to a job loss), "regular borrowing" (taking out new loans to pay existing ones), "depression" and even "suicide" – two participants with experience of over-indebtedness mentioned having known someone who had killed themselves as a result of being in such a situation. Most of the participants saw over-indebtedness as both common and likely to get worse in the future. They attributed this predominantly to a series of external, structural factors, including the COVID-19 pandemic, general price increases and heavy marketing by the quick loan industry. All participants feared that energy cost increases in particular would make the problem of over-indebtedness more common than ever, to the point of threatening people's ability to sustain themselves. Nevertheless, a minority were also keen to point out that over-indebtedness was sometimes symptomatic of people simply behaving irresponsibly when it came to money and taking on loans just because they could.
NL	Participants who had experienced over-indebtedness associated the term with any situation where a person's income was not sufficient to cover their expenses and repayments. They talked spontaneously about consequences of such over-indebtedness for those affected – in particular, the fact that they may find themselves having to choose between paying bills and buying everyday essentials, which could also affect their mental health. Participants who had not experienced over-indebtedness thought of the concept in more general and less nuanced terms. Typically, they felt it involved having severe financial problems, where the amount of money owed was "extremely" high and would take years to pay back, leading to a "hopeless" situation. Despite these different conceptions of over-indebtedness, there was a general consensus that people could become over-indebted for a variety of reasons, and often a combination of circumstances beyond their control – including unexpected life events, such as a divorce or being laid-off at work, but also changing economic conditions, such as the current climate of rising prices. Indeed, participants tended to feel that rising prices would likely lead to more people becoming over-indebted in the near future. Still, those with no personal experience of over-indebtedness, felt that over-indebtedness could also be caused by individual-level factors and specifically an inability to manage one's personal finances.
PL	The term over-indebted was associated with having multiple loans – especially high interest loans – from banks, 'parabanks' and/or other types of lender. Moreover, it was seen as synonymous with "losing control" of one's finances or being in a debt "spiral" and carrying a heavy emotional burden as a consequence. There was a consensus that the COVID-19 pandemic had significantly contributed to over-indebtedness in recent years, as it had resulted in job and income losses, prompting higher reliance on loans. Equally, there was a shared belief that over-indebtedness was likely to increase in the near future, primarily due to the rapid and steep increase in the cost of living witnessed over recent months. There was specific reference to a dramatic rise in WIBOR rates, which was felt to have left many people unable to afford their (previously manageable) bank loan repayments and facing severe, mounting debt as a result. Some participants with experience of over-indebtedness expressed significant fears that they themselves would fall into a debt spiral again in the coming months, given the prospect of significantly increased energy bills during the winter. At the same time, there were also participants who were keen to reiterate that individual behaviour, not just macro-economic conditions, would remain a significant factor contributing to rising debt and over-indebtedness.
RO	Over-indebtedness was seen as something that happened when a person´s debts significantly exceeded their available income. Participants contended that people in this situation were often unable to see a way out, which in turn could have a severe negative impact on their mental health. At the same time, they felt the problem was very common among Romanians, to the extent that it could even be considered the norm, with only a small upper-class segment of the

	population (including public officials) left unaffected. The main perceived reason for this was that wages were often too low to keep pace with the rising cost of living, an issue that was seen to have been aggravated by the generally poor state of the Romanian economy, and high unemployment in many sectors following the COVID-19 pandemic.
SE	Participants agreed that the difference between having debt and being over-indebted was one of manageable versus unmanageable debt. They commented that having debt may sometimes be necessary (as when buying a home) but described over-indebtedness as an entirely undesirable and serious situation associated with having excessive debt relative to one's income and/or having to take on new loans to pay off existing ones. Over-indebtedness was also associated with feelings of powerlessness, shame and, relatedly, a desire to keep the problem secret. Those with experience of over-indebtedness commented that the problem sometimes resulted from people trying to maintain a lifestyle or self-image that their income could not support. Those without experience of over-indebtedness similarly associated it with over-consumption, but also with other individual-level factors, including addiction to gambling, and an inability to budget. Among both groups, there was general agreement that over-indebtedness was common and had become more so in recent years. They attributed this to the rising cost of living, as well as the growing availability of quick consumer loans with high rates of interest. Some participants observed that advertising for such loans was typically targeted at groups who were already in a difficult financial position and who had few other options available to them.
SK	Most participants perceived over-indebtedness as a situation where a person's debts had grown to such an extent that they were entirely unable to repay them – and in some cases to afford basic needs. They commonly felt that the problem was caused by combination of low income, a lack of financial education and reckless spending behaviour. Some went on to discuss how these different factors were often mutually reinforcing. For instance, they noted that stress resulting from socio-economic and wider contextual factors (for instance losing a job, pandemic fatigue, fear of war, etc.) led many people who were already facing financial difficulties to resort to compulsive spending to brighten their day-to-day lives. Some participants noted that there was a stigma associated with experiencing financial problems in Slovakia, or at least with talking about such experiences, especially among older people. They added that this made it difficult to estimate how common the problem was in the country. Still, they tended to feel that over-indebtedness had become more common over recent years due to rapidly rising costs for basic goods and services, as well as increasing interest rates for loans and credit.

3.5. Coping strategies for over-indebtedness

To stimulate discussion of, and gauge participants' perspectives on, possible coping strategies in the face of over-indebtedness, they were presented with two different vignettes, each describing people who were over-indebted, then asked what they felt these people could do to improve their situations. The vignettes are presented in Table 3.3 below.

Table 3.3: Over-indebtedness vignettes presented in the focus groups

Vignette 1	Vignette 2
Ivan and Maria are a married couple who live with their two school-age children in a house that they rent from their local commune. Maria works in a call centre part-time. She is reluctant to work more hours because she previously suffered from a stress-related mental health problem that left her unable to work for an extended period. Ivan does not work because the couple believe that if he did, they would be worse off financially due to a loss of benefits. The couple regularly struggles to afford the combined cost of their rent, utilities bills and food bills. They also regularly use credit cards and other short-term loans to afford things like new clothes, household items, leisure activities and holidays. As a result, they have accumulated a high level of debt and struggle to see how they will ever pay this off.	Dimitar is 59 years old and lives alone in a small house which he owns. He works full-time in a care home, where he earns a low wage. He has looked for another job with better wages but has been unable to find one for which he is qualified. Over the last year, he has been finding it increasingly difficult to afford the rising costs of his usual bills and payments and has sometimes had to draw on his savings to do so. However, he recently had a problem with his roof and had to spend all of his remaining savings to have it fixed. As a result, he has had to start drawing on credit to afford his monthly outgoings, and his debt is mounting. He worries about facing another major unexpected expense as he would not be able to afford to repay a further loan

3.5.1. Vignette 1

Participants' initial reactions to Vignette 1 were generally characterised by a sense of judgement and frustration, or even anger, towards the male partner for choosing to live on benefits instead of working. They sometimes described such behaviour as morally wrong and/or as inappropriate for a male head of household (the latter perspective was found predominantly in the Eastern and Southern European countries). Further, in most countries, there was scepticism that his getting a job could result in the household experiencing a net loss of income – indeed, in some countries, participants contended that benefits were in fact too low to live on.

> *"I believe that I, as a man, should support my family. If my wife were to fall sick or something, I will still be there to help her or be the one to support the family, not my wife having to go to work."*
>
> (Male, under 55 years old, experience of over-indebtedness, Hungary)
>
> *"It is not normal that with a part-time salary you can live like a prince."*
>
> (Male, over 55 years old, no experience of over-indebtedness, Spain)

Nearly all participants agreed that the couple's situation could have been avoided had they worked and/or exercised better control over their spending instead of using credit cards and short-term loans, which, it was felt, had only added to their difficulties. Reflecting this perspective, the most commonly suggested solution to their situation was for the male partner to **find a job**. Given he was healthy, most participants felt he should **work full-time** – though some went a step further, suggesting that he could also **work over-time, or in more than one job, or even relocate abroad to work**, where he may be able to earn a higher salary (the latter perspective came mainly from participants in Greece and a few Eastern European countries). There was also some suggestion that the man could **seek retraining opportunities** to improve his longer-term employment prospects. Views on the female partner's work situation were somewhat more muted – though some participants did suggest that she should try to **find a less stressful job** and/or **seek psychological help** for her mental health issues, potentially with a view to getting back into full time working again.

In all countries there was a consensus that, alongside working, the couple should seek to **minimise or eliminate all non-essential expenditure** (on leisure and travel in particular) and **reduce their expenditure on necessities as much as possible** (for example, by buying second-hand clothing or moving in with family, if possible, to avoid rent expenses). Equally, there was recurring suggestion that they should **stop using credit cards and short-term loans** and **seek ways to consolidate their debt or borrow from family and friends** if possible. Other less commonly suggested financial management-related solutions included **selling household items** to supplement their income and **applying for insolvency**.

> *"They have to tighten their belts if they don't know how to use credit cards - that's what got them into debt in the first place."*
>
> (Male, under 55 years old, no experience of over-indebtedness, Slovakia)
>
> *"They should cut the credit cards and start working. Luka could find at least 2 to 3 part-time jobs. They are a young family that does not want to give up on anything but rather work on other people`s backs. I cannot feel sorry for them."*
>
> (Female, under 55 years old, experience of over-indebtedness, Croatia)

In most countries, with the notable exception of those in the South of Europe and some in the East, participants also suggested that the couple should **seek external financial advice –** this, mainly to learn how to set up a household budget and manage their debt. Awareness of specific formal external sources of advice or support that the couple could turn to varied. In the Northern European countries of Sweden, Denmark and Ireland, participants cited various such sources, from local municipalities to dedicated debt or money advice services and charities, as well as church-related organisations or funds. Indeed, some participants in these countries recounted personal experiences of receiving help from such sources in the past to positive effect. In contrast, participants in the Southern European countries and most of the Eastern European ones (Czechia, Latvia, Romania and Slovakia) made almost no reference to any specific external sources of advice or support.

> *"The municipality came as a saving angel. An advisor helped me by getting all the credit card debt in order by consolidating it into one loan."*
>
> (Female, over 55 years old, experience of over-indebtedness, Sweden)
>
> *"I just had my second meeting with the financial advisor. It is free as long as you are on benefits. I have had a lot of help. She has revised my [tax] advance statement and made some calculations."*
>
> (Male, under 55 years old, no experience of over-indebtedness, Denmark)

"They need a third party […] to help them budget […], help them see where they are overspending or where they could be making cost savings […], so that they feel they are a part of [the solution]. That is really important from a mental health perspective as well."

(Female, under 55 years old, experience of over-indebtedness, Ireland)

Table 3.4: Vignette 1 – summary overview

MS	
BG	Initial reactions to Vignette 1 were characterised by a sense of judgement towards the male partner for not working and towards both him and his wife for failing to support their children appropriately. Reflecting this, the most commonly suggested solution to the couple's predicament was for the male partner to find a job instead of relying on state benefits – with the latter described as low and only intended to provide a temporary solution. Several participants recounted occasions when they or their household more generally had been able to solve financial challenges though working as much as possible. Other coping strategies suggested were for the female partner to seek psychological help to address her mental health problems and/or to simply find another job that was less stressful. There was also some suggestion that the male partner could take advantage of retraining courses available for the unemployed, presumably to qualify for better-paying jobs, and that, generally, the couple should minimise all non-essential expenditure, for example, on leisure and holidays.
CZ	There was a consensus that the couple's problems could have been avoided had they not used credit cards and loans to pay for things they could not afford, like holidays. Reflecting this, among the most commonly suggested solutions for the couple was for them to stop borrowing and to spend only on "basic needs." Participants were also in general agreement that the male partner should get a job. Some felt that the female partner should work too, at least part-time, and perhaps also claim some benefits given she had a mental health problem. Another suggestion was that the couple could consider taking advantage of the 'Gracious Summer' event, during which Czech citizens had the opportunity to pay back any debts they owed to public institutions and state or semi-state companies, minus interest or penalties. Participants with no experience of over-indebtedness suggested still other solutions, including consolidating their loans and seeking financial advice, either from a bank or debt advice company or via online searches. Participants with experience of over-indebtedness did not mention any of these options and rather spoke about turning to family and friends for support.
DE	Participants with no experience of over-indebtedness tended to say that the couple's problems were essentially "self-inflicted" because they were spending beyond their means and because the male partner was "unwilling" to work. Participants who were themselves over-indebted were more muted in their responses, perhaps because they were facing similar issues themselves. Still, both groups shared a view that the best solution for the couple would be for the male partner to get a job. Several participants were sceptical that he had correctly calculated the income differential between living on benefits versus working, and that he should seek professional advice on this matter as a first step. Participants with no experience of over-indebtedness suggested that the male partner could also consider embarking on vocational training to improve his qualifications with a view to applying for better paid jobs. There was recurring suggestion that the couple should reduce their costs by cutting out non-essential purchases and by being "more creative" in their day-to-day spending (e.g., buying second hand clothing or selling items they no longer needed). Some participants felt that the couple would benefit from getting professional advice on how to get their spending under control and reduce their debts. Participants with no experience of over-indebtedness suggested, in addition, that the couple could apply for private insolvency and seek professional mental health support for the female partner so that she would be able to work full time again.
DK	Initial reactions to the vignette were characterised by a sense of frustration, especially in relation to male partner's decision not to work. There was a consensus that unless he was unwell then it was "lazy" or "wrong" of him to live off benefits (some participants were doubtful whether benefits in Denmark could exceed wages earned through employment anyhow). There was also a view that the couple were "over-consuming" and spending money on unnecessary luxuries while taking out additional loans to cover such expenses, which only compounded their difficulties. The most commonly suggested solution to the couple's predicament was for the male partner to find a job and for the couple to change their consumption habits and spend less on non-essentials. Some also suggested that they should draw up a household budget and consider seeking professional financial support. On the latter point, it was noted that local municipalities in Denmark offered citizens free

	consultations with financial advisors to help them put together a budget and manage their debts. A few participants had themselves made use of this provision, or of other formal external sources of support, and had found it helpful. At the same time, however, there was a perception that access to such external support provision was often reserved for consumers in the most dire situations and that, for other consumers who have fallen into difficult times, provision was often comparatively lacking.
EE	Participants who had experienced over-indebtedness tended to feel that there was little the couple could have done to prevent their situation, besides avoiding excessive spending. They suggested that the couple should reduce their expenses, for instance, by not going on holiday, by looking for cost-free leisure activities, or by buying only second-hand clothes. They also suggested that the male partner could start working or that the female partner could find another part-time job with a higher wage, potentially, with support from a job counsellor who would be able to identify jobs that matched their competences. Some participants, however, seemed to share male partner's belief that taking a job could mean a net income reduction due to a loss of benefits. Participants who did *not* have experience of over-indebtedness took a different perspective on the couple's problems and how to solve them. They were very doubtful that the couple would take proactive steps of their own volition, pointing to their apparent lack of willingness to find solutions thus far. Reflecting this these participants tended to emphasise a need for the government to implement systemic preventive measures to reduce the likelihood of households accruing debts in the way the couple had. Three such types of measures were proposed: providing better financial education in schools; putting restrictive conditions on housing and monetary benefits; and developing a uniform and mandatory credit rating system that would flag over-indebted households to banks and other credit providers, preventing them from taking on further loans.
EL	There was a consensus that the situation described in Vignette 1 was highly unlikely to occur in Greece because state-provided benefits were insufficient to live on in the absence of any other form of income. This issue aside, an equally dominant perspective was that the couple was largely to blame for their situation, having made a series of bad financial choices, and that they should therefore take full responsibility for resolving it. The most commonly suggested strategy in this regard was that they should find suitable full-time employment as soon as possible, even if this meant working in more than one job. Other suggestions were that they should cut back on non-essential expenditure, such as holidays and leisure activities, stop using credit cards or loans and borrow money from friends or family if needed instead. There was almost no suggestion that the couple should seek support from other, more formal external sources. Indeed, participants appeared generally unaware of any such sources. The only exception was one working mother, who suggested that the couple could make use of a European Structural and Investment Fund programme that supported free childcare provision for working parents.
ES	There was a consensus that the situation described in the vignette was both highly avoidable and a direct result of poor financial decision-making by the couple. Participants felt frustrated by the fact that the male partner was living on state-provided benefits instead of looking for a job, describing this as "lazy" or "taking advantage" of the system. They were in agreement that state benefits should only ever be seen as a temporary solution, though some were also very doubtful that state benefits in Spain were sufficient to live on in any case. There was a consensus that the male partner should find full time employment, and that the female partner should also find additional sources of income, even if this meant working in more than one job. Other suggestions were that the couple should cut back on non-essential expenditure and adopt money-saving strategies, such as buying from second-hand shops or making use of food banks. Two participants reported having experienced a similar situation to the couple in the vignette and having eliminated unnecessary expenses and asked for help from friends and relatives in order to cope. Notably, one of them also reported having approached the social services office in their local commune for help, but no solutions had been offered, so the household had continued living on state benefits.
FR	There was a consensus that the couple were largely to blame for the difficulties they were facing. Participants were especially critical of the male partner's decision to rely on benefits instead of working and also of the fact that the couple appeared not to be managing their money well by spending on non-essential items. Reflecting this, they agreed that the male partner should start working as soon as possible. Several participants pointed out that, in working, the male partner would receive not only a salary but also other benefits, such as health insurance and meal vouchers, which would exceed his income from social security benefits alone.

	Other participants suggested that the female partner too could try to find a new job. Generally, participants felt strongly that the couple needed to develop a household budget, ideally in consultation with a professional advisor, whilst also stopping spending on holidays or other unnecessary "wants." Other suggestions were that they could seek to consolidate their existing loans and inform themselves about different types of social benefits available to working people.
HR	There was agreement that the situation of the couple could have been avoided had they engaged in more careful financial planning and exercised better control over their spending. Participants with experience of over-indebtedness were particularly vocal on these points, while those without such experience pointed also towards factors outside of the couple's control that may have played into the situation (such as the female partner's health problems and the extra expenses that came with having two school-age children). Participants generally felt that the most important step the couple could take towards solving their difficulties would be for the male partner to find a job. Generally, working rather than relying on benefits was seen as the morally right thing to do for someone who was in good health. Further, there was scepticism that getting a job could result in the household experiencing a net loss of income. Some participants commented that, even if that was the case, the male partner could work without declaring it, to maximise his 'take home' wage. Another commonly suggested step for the couple was to cut back on their expenses. Several participants also suggested that they should make a budget plan, possibly with the help of a professional budget counsellor. At the same time, there was a view that people like the couple would be reluctant to seek external support given the stigma that sometimes surrounded financial problems.
HU	Participants' initial reactions were characterised by a sense of judgement towards the male partner for 'failing' his family by not working. At the same time, they doubted that such a scenario would arise in Hungary as they thought that any benefits would be provided for only a limited duration and that parents could still get means-tested support even while working. Still, participants shared a view that the family's problems had been amplified by the fact that they were spending unnecessarily and using credit cards in the process. They generally felt that the most important step the couple could take towards solving their difficulties would be for the male partner to find a job. Given he was healthy, participants felt he should not only work full-time but also take on overtime or night shifts, even if only temporarily. There was also broad agreement that the couple should change their consumption habits, spend less on non-essentials, stop using credit cards, and try to get a consolidated loan that could be repaid over a longer timeframe – or consider borrowing from family if possible. Participants with no experience of over-indebtedness also emphasised the importance of budgeting and suggested that the couple could seek professional advice from someone at the bank or at the local municipality to draw up a debt repayment plan. They also recommended that the couple could consider retraining to improve their employment options, while those with experience of over-indebtedness suggested that the couple could sell or pawn some of their possessions.
IE	Participants agreed that the couple's situation could have been avoided through better financial decision-making. Suggested solutions to their predicament included getting back to work – participants were unequivocal that the male partner could earn an income that exceeded the benefits he received, and some also felt that the female partner could increase her working hours if she first sought treatment for her mental health issues. They further advised that the couple should be avoiding unnecessary expenses and exercising caution in the use of with credit cards and short-term loans. Finally, they suggested that the couple should contact their local council or a professional advisor to get help with budgeting and money management, as well as information on available benefits or other forms of support. The Money Advice and Budgeting Service (MABS) was mentioned spontaneously as a possible source of professional advice. Participants with experience of over-indebtedness were quicker than those without to suggest external sources of support and benefits, and more likely to think these would prove effective. Participants without experience of over-indebtedness were more inclined to talk about the need for the couple to go back to work and take personal responsibility for resolving their situation – in terms of exploring available options and cutting out unnecessary spending.
IT	Participants generally took a negative view of the couple (especially the male partner), deeming their situation as avoidable. Everyone agreed that the male partner should not be relying on government benefits instead of working. Indeed, his behaviour evoked considerable frustration in some participants, in part

	because it reminded them of wider examples of such behaviour taking place in their country. For example, one participant shared a story of a couple he knew of who had a restaurant in the South that they could not staff because potential employees were afraid of losing their Reddito di Cittadinanza benefit. Even more frustrating for these participants was their belief that such benefits were sometimes claimed by individuals who simply did not declare that they were working. Another reason participants reacted negatively to Vignette 1 was that they felt the couple were living beyond their means and spending a lot of money on goods and services that they could not afford. They also found it hard to relate to what they saw as the couple's lack of proactivity in seeking sustainable solutions. The most commonly suggested coping strategy for the couple was for the male partner to start earning an income. Participants also suggested that the couple should avoid spending on unnecessary items and identify ways of buying essentials for less (for example, going to street markets instead of regular stores). There were no references to any kind of external support or services that the couple could draw on.
LV	Participants generally shared a perspective that choosing not work was unacceptable and a sign of laziness, especially in a man. Still some participants went on to suggest that external factors may have also contributed to the couple's difficulties. Specifically, they commented that job opportunities were worse in some areas of Latvia than in others, and that levels of pay for less educated workers were low, which could affect their motivation to work. One participant commented, in addition, that whoever had given the couple their loans was also partly to blame for their predicament, having not exercised better judgement in this regard. The main coping strategy that participants felt was available to the couple was for the male partner to seek any available opportunity to work. Working unofficially (part-time or on a one-off basis, especially in the countryside) was generally seen as acceptable. Other coping strategies suggested were for the female partner to stay at home while the male partner worked full-time, or for the male partner to combine work with educational opportunities. There was also repeated suggestion that the couple should suspend any unnecessary expenses (for example holidays or recreational activities).
NL	Participants often found it difficult to assess whether the couple could have avoided their current financial problems. Nonetheless, they identified several actions that they felt the couple could take to resolve these problems. There was a consensus that the couple should reduce their expenses, stop using credit cards or other form of credit, and focus on repaying their debts. Additionally, participants felt that the male partner should get a job, preferably a full-time one. There was scepticism towards his belief that working would result in a net decrease in the household's income. On the contrary, all participants believed that a full-time job would bring in more money than the household could ever hope to earn in benefits, thus also enabling them to begin paying off their debts. Several participants emphasised that the couple should make it a priority to gather accurate information about the financial implications of the different options, and not base their decision-making on (possibly erroneous) assumptions. Several participants suggested that the couple should seek out other forms of external support, such as a budget coach, who could help them set up a budget plan aimed at eliminating their debt.
PL	Participants were in agreement that the couple should reduce their spending, including by stopping using credit cards, cutting back on non-essential purchases and generally maintaining a better overview of their outgoings. Relatedly, some participants suggested that the couple should educate themselves about financial planning via online blogs or vlogs. There was also a consensus that the couple should work as much as possible, even if this meant working in two jobs or, in the husband's case, going to work abroad for a period. Alongside such strategies, participants commonly pointed towards possible external sources of support for the couple, ranging from informal sources like family, friends and neighbours, to crowdsourcing channels (social media and newspapers were mentioned), debt charities, social services and their children's' school (for assistance in paying for school trips or meals). Several participants with experience of over-indebtedness had themselves successfully adopted one or more of these support-seeking strategies during times of need. By far the most commonly mentioned strategy in this regard was seeking help from family, which was deemed easier and less "shame[full]" than seeking assistance from other third parties.
RO	Participants almost unanimously agreed that the couple's difficulties were the result of poor decisions they had made – in particular, a perceived refusal to restrain their spending and a lack of work ethic on the male partner's part. Participants framed their rejection of the couple's behaviour in explicitly moral terms, labelling their failure to address their problems as "irresponsible". For some, these feelings were amplified by the fact that the couple used benefits to support what was

	generally seen as a rather comfortable lifestyle. There was a shared feeling that by staying at home the male partner was not fulfilling his role of head of the family. Reflecting this, they were unanimous that he should urgently find a job (even abroad if he was not able to find one in Romania) and that the household should reduce their expenditure including by spending significantly less on leisure and vacations.
SE	Participants' initial reactions to the vignette were characterised by a sense of disapproval, especially at what they saw as the couple's failure to make a budget and to live within their means. Those with no experience of over-indebtedness criticised the male partner's reliance on benefits instead of working. The perceived most important solutions to the couple's problems were for the male partner to find a job and for them to reduce their expenditure and stop using credit cards. Relatedly, and among those with no experience of over-indebtedness especially, there was suggestion that the couple should educate themselves on personal finances and draw up a budget to stick to, potentially with support from the bank or a municipal advisor. Participants identified various other potential external sources of support for the couple too. Those with personal experience of over-indebtedness mentioned support from friends and from more formal sources like the municipality, social services (for example, to obtain a debt reduction), or volunteers from the church or the City Mission. Those with no experience of over-indebtedness also mentioned the possibility of seeking financial support though various funds (there was mention of Majblomman or funds managed by the church), or in the form of social benefits such as housing allowance. They also raised the possibility of contacting the bank for better debt conditions. Despite participants reporting positive experiences of seeking such external advice or support, there was also a perception among some of them that more such provision needed to be made available and specifically more *free* advice.
SK	Participants almost unanimously took a strongly disapproving stance towards the couple, who they felt had brought their financial problems upon themselves. Generally, they directed particular indignation towards the male partner, whose perceived unwillingness to find a job was described as reckless and lazy. Notably, participants with personal experience of over-indebtedness emphatically stressed that they did not identify at all with the couple because their own debt problems were the result of a lack of income that made it difficult to cope with everyday costs of living, even with careful control over their spending. In contrast, the couple was seen as having built up debts mainly through a lack of self-restraint in their spending behaviour. Most participants felt that the couple would be able to resolve their situation without too much difficulty. Nearly everyone agreed that the male partner should get a job. The idea that doing so would result in a net loss of income for the household was received with considerable scepticism by most participants. A few participants suggested that the female partner could also look for a better job with a higher salary and/or a permanent contract. In addition to increasing their income from employment, participants felt that the couple should focus on paying off as much of their debts as possible and stop spending money on anything unnecessary, or at least try to find cheaper alternatives, until their debt was significantly reduced.

3.5.2. Vignette 2

Participants were universally more sympathetic towards the man described in Vignette 2 than towards the couple in Vignette 1, frequently describing him as a victim of unfortunate circumstances. Often participants felt that there was little else he could have done to avoid his financial problems, pointing out that he had a full-time job and had tried to set aside savings as a precautionary measure. Some of the participants with experience of over-indebtedness said they could relate to the older man directly as they themselves had faced similar difficulties in the past. Others commented that they too were fearful of facing large, unexpected expenses, especially in the context of rising prices and bills. Another common perspective was that the man's age had likely added to his challenges, making it more difficult for him to obtain a new, better-paying job.

> *"He did everything right, had savings, own house, job, so this is something unexpected that happened, he could not do anything."*
>
> (Female, under 55 years old, experience of over-indebtedness, Croatia)
>
> *"I [too] have been able to handle [my loans] up to now […] but now I've started to really worry how I will handle this winter. We all know that household bills have gone up. And, God forbid, I get sick and I need money for medication, I will have to take additional loans."*
>
> (Female, over 55 years old, experience of over-indebtedness, Bulgaria)

Despite the aforementioned sympathy towards the man, there were a few participants who felt that he could perhaps have done more to avoid his situation. Specifically, they pointed out that he had made a bad career choice by entering such a low-paid profession, or that he should have taken the opportunity to retrain for a better-paying job in due time. They also surmised that he had not set aside sufficient savings for house maintenance over his long working career. As far as the roof was concerned, some felt that he could have tried reaching out to his family or the local municipality for financial or practical support. Less commonly, in some Eastern European countries, there was suggestion that he could have made an effort to fix the roof himself, or at least to have sourced the materials for free (for example, via social media). Equally though, some participants in Latvia and Estonia suspected that he might have been too ashamed to ask for help from others.

> *"There are basic rules for a homeowner. After 20 years the heating is broken and after 30 years the roof is broken. For that I must have savings available."*
>
> (Male, over 55 years old, no experience of over-indebtedness, Germany)
>
> "*[The man's] problem is also my problem as I have a roof that very often leaks and needs repair. I try to maintain [and repair] it myself. If it was a woman in this situation, it would be different, maintenance of the house is a difficult job."*
>
> (Male, under 55 years old, no experience of over-indebtedness, Bulgaria)

In terms of possible coping strategies for the man, participants generally felt that the best thing would be for him to **find a second job or a better paying one**, although some reiterated the view that his opportunities in this regard may be limited given his age. Other strategies suggested were for him to **sell the house for a smaller apartment with lower maintenance costs, or to rent out part of the house** or have a companion move in, with whom he could share his living expenses. Participants also sometimes suggested that the man should **make**

a budget and try to cut out all unnecessary expenses, as well as sell some personal items or identify other ways of making extra money such as growing vegetables to sell.

Participants also commonly suggested that the man could **reach out to friends or family for support.** Those in Northern and Western European countries sometimes mentioned other more formal types of external support too. In particular, they suggested that he should **contact his local municipality or social services to find out about any financial support** that may be available to people in his situation (e.g., renovation grants, state-provided interest-free credit for homeowners, social benefits for working people). They also mentioned the option of his seeking budget coaching, or guidance from his bank on financing options, or **enrolling in job counselling or training** in order to improve his chances of being able to get a better-paying job.

> "*The municipality, even a little, helps in such situations. I know that because I have been through it."*
>
> (Female, under 55 years old, experience of over-indebtedness, Latvia)

> "*He can avoid taking out loans for the renovations and get help, he really needs to seek them out because they are available. I managed to renovate my outside windows this way."*
>
> (Male, under 55 years old, no experience of over-indebtedness, France)

> *"I would try to get an interest-free credit from the government for homeowners. It is a classic credit, which is provided for the repairs of a house to avoid homeowners losing their property."*
>
> (Male, under 55 years old, no experience of over-indebtedness, Germany)

Less commonly, participants identified other, finance-based solutions to the man's problem. Some suggested that he should consider **consolidating or restructuring his debt**, or increasing the amount borrowed so as to have 'savings' for any future unexpected expenses. Others suggested that he could **reach out to an insurance company** to see what they could cover should he face similar situations again in the future. Still others suggested that he could consider **crowdfunding** or **filing for bankruptcy** to get out of his problems.

> *"[He] should sell the house. At this age, many people can no longer afford to maintain a […] house on their own. They have to sell it."*
>
> (Female, over 55 years old, no experience of over-indebtedness, Hungary)

> *"He should talk to the bank and refinance the debt. It will help him. He can't stop buying water to pay his debt. He can talk to the bank to get a lower repayment."*
>
> (Male, over 55 years old, experience of over-indebtedness, Romania)

Table 3.5: Vignette 2 – summary overview

MS	
BG	Participants were sympathetic towards the man as they felt he was in a very difficult situation due to his age, which limited his employment options. Those with experience of over-indebtedness commented spontaneously that he had done everything he could to avoid facing difficulties and that they too were fearful of facing large, unexpected expenses. In contrast with these reactions, a participant with no experience of over-indebtedness implied that the man could have fixed the roof himself to avoid repair costs. In terms of possible coping strategies for the man, participants felt that the best thing would be for him to find additional work – though doing so could require "a bit of luck" at his age. Other strategies suggested were to sell the house for a smaller apartment with lower maintenance costs, to rent out part of the house, to get a companion with whom to share the expenses, or to enter into a property bequeathing agreement. Virtually no references were made to any kind of external organisations that the man could contact for support or advice.
CZ	In contrast with their reactions to Vignette 1, participants expressed more sympathy for the man described in Vignette 2, who they felt was less at personally at fault. Still there was some disagreement as to whether or not his situation could have been avoided. Some participants commented that he could have undertaken some retraining so that he could have applied for better-paying jobs. Indeed, they felt that this course of action remained one of the main strategies available to him to overcome the financial challenges he now faced. Other participants disagreed with this assessment, however, contending that it would be difficult for someone of the man's age to access training or employment opportunities. Despite these differing perspectives, participants were broadly aligned when it came to identifying other possible coping strategies for the man. They suggested that he could cut back on any unnecessary expenses (cigarettes and alcohol were specifically mentioned) and also rent out part of his home or else sell it and buy a (cheaper) flat instead. Participants with no experience of over-indebtedness further suggested the option of seeking "one time" financial assistance from social services.
DE	Participants who had experienced over-indebtedness tended to feel that the man's situation was a common type of difficulty faced by people on a low income and that it could not have been avoided. In contrast, participants with no experience of over-indebtedness tended to feel that the man was largely to blame for his situation. They believed that homeowners had a responsibility ensure they always had sufficient savings to deal with unexpected household expenses, and that a person who did not have savings, should not own a home. In terms of possible solutions to the man's predicament, a common suggestion was that he should sell his home and rent instead. A few participants disagreed, however, as they believed that renting could also be very expensive. As an alternative, they suggested that the man could rent out a room in his house, for example, via Airbnb. Another common suggestion was that the man should reduce his regular outgoings – including by ensuring he was on the cheapest available contracts (e.g. for his insurance and mobile phone) and by selling items he did not need. Less commonly, there was suggestion that he could look for a better job and/or work nightshifts to earn a wage supplement. This suggestion was countered by a couple of participants who felt that finding new work could be difficult for someone of the man's age. One participant pointed out that the man could get state-provided interest-free credit (via a job centre) for any similar repairs in the future. Generally, participants felt that solutions and help were available to someone like Hans but that many consumers did not make use of this provision, either due lack of information about such options or due to lack of personal proactivity.
DK	Participants' responses to this vignette were more sympathetic than in the case of Vignette 1. Indeed, several of them described how they could directly empathise with the man as they or someone they knew had found themselves in a comparable situation or feared that this might happen. Participants tended to feel that the best solution for the man would be to sell his home and either downsize to a cheaper property or rent instead. Two of the participants had themselves done this when they had found themselves in similar situations to the man. Retrospectively, they still felt that it had been the best, if not the only, solution for them. A minority of participants questioned whether selling was the right strategy for the man, however, commenting that it would depend on the level of equity in (or outstanding debt

	on) the property. Alternative solutions suggested instead were for him to rent out the house whilst living in another, cheaper rental property; or else stay in the house but rent out a room. Another commonly suggested coping strategy for the man was to sell any dispensable possessions (e.g. a car) and cut back on other expenditure. A few participants who had personally experienced over-indebtedness remarked that the man should also make use of free legal advice services to explore his options.
EE	Most participants felt that there was nothing that the man could have done to avoid his situation, and that he was not to blame for it. They agreed that the likely most effective solution for him would be to try to increase his income from employment, for example, by finding a job with a higher salary (potentially via job counselling, or after first pursuing continuing education to increase his skillset), taking on more work at his current job, or trying to negotiate a higher salary in his current position. Several participants also suggested that the man could adjust his current housing arrangement in order to reduce his costs – for instance, moving to a smaller residence or taking in subtenants. Some participants described how they, or someone they knew, had taken similar steps in response to their financial problems. For instance, one participant had taken over the house of his parents and bought them a smaller apartment instead. A further suggested solution for the man was that he could turn to his local municipality to see if there was any financial support available to him, such as subsidies for his heating or electricity costs. A few participants who had made use of such assistance in the past emphasised that some of it was precisely aimed at helping older people living alone. However, there was also a view that the stigma surrounding financial difficulties could keep the man from seeking help.
EL	Participants tended to express sympathy or sometimes empathy at the man's plight, regarding him as the victim of an unfortunate confluence of circumstances. Their suggestions for potential coping strategies he might pursue included: getting a better job or a second job; borrowing money from friends or family; and reducing his expenditure by getting a lodger, moving to a smaller/cheaper home or even selling his home. One participant further suggested that he could consider crowd-funding for financial support via social media. No other, more formal external sources of support were suggested. Indeed, participants repeatedly expressed frustration at what they saw as a lack of state-provided support in Greece for people experiencing over-indebtedness. There was specific mention of a lack of support to find employment, a lack of wage protection for employees, and the inadequacy of the minimum wage or other forms of financial support. Specific types of financial support mentioned included child support, other social security benefits and grants to help people cover the costs of essential household maintenance and repairs.
ES	Participants agreed that the situation described in Vignette 2 was due to unforeseen circumstances and misfortune. Thus, rather than blaming the man described (as they had the couple in Vignette 1) they tended to express sympathy for him. Their suggestions for potential coping strategies he might pursue included getting a second job, working more hours, borrowing money from friends or family and reducing his day-to-day expenditure. There was also suggestion that he could sell his house and move to another one that was in better condition, to reduce the likelihood of facing further repair expenses in the future. One participant who had previously faced a similar situation to the man described having been able to draw on savings to pay for the unexpected expenses. However, this put the household under financial strain to the point of having to borrow money to meet regular payments.
FR	Participants were sympathetic toward the man described in Vignette 2. They felt that his situation was a very difficult one as he was already maximising his income by working full time and was also close to retirement age. Those with personal experience of over-indebtedness described how they too had faced, or worried about facing, unexpected expenses like household repairs and not being able to afford these. A commonly suggested strategy for the man was for him to get professional advice to identify how he might reduce or manage his debt. There was also suggestion that he could consider selling his home and moving into a smaller one. Notably, participants generally did not think that he should consider renting instead of owning a home, as they believed that having the "security" of an asset was important. That said, one person suggested that he could perhaps consider selling "in viager", whereby the buyer would provide an initial down payment (the "bouquet") followed by regular cash instalments for a defined period, whilst allowing the man to continue living in the house for the remainder of his life. A less common suggestion was

	that the man could find an additional job to supplement his income. One participant went so far as to suggest that he could take such a second job without declaring it to the state. Others felt that it could be difficult for the man to find a new job, however, given his age.
HR	Participants broadly agreed that there was very little the man in Vignette 2 could have done to avoid his financial problems, which they attributed only to the unforeseen cost of his roofing repair. Some participants also reasoned that he had taken all the necessary precautions one could have expected of him to avoid facing difficulties, such as having a stable job and building savings. Participants agreed that there were several actions the man could take to improve his situation. In the first instance, they were almost unanimous that the likely most effective action would be for him to try to increase his income, either by getting a second job in addition to his current one, or by finding a different, better-paying job. Another commonly suggested action was for him to seek a roommate or get married, so that he could share his living costs. Less commonly, there was suggestion that the man could sell his current house and either move to a smaller, less expensive one or rent a place instead. There was also suggestion that he could seek financial support from friends or else simply take out a loan to cover any future expenses – this on the assumption that he had no children who would inherit his debt.
HU	Participants' responses to this vignette tended to differ depending on whether or not they had personally experienced over-indebtedness. Those who had saw the man as a victim of unfortunate circumstances, elaborating that his age limited his career options and his physical ability to take on extra work. Participants with no experience of over-indebtedness, on the other hand, thought that the man had been too content to live on a low salary earlier in life and had been remiss in failing to retrain for a better-paying career. As far as the roof was concerned, they felt that he could have maybe made an effort to fix it himself (if his health allowed) or tried reaching out for help from his family (to borrow money or to ask for assistance in making the repair). All participants agreed that, going forward, seeking help from others would be a sensible option for the man. Those with experience of over-indebtedness said they would ask *anyone* they could think of for this help, including both formal and informal sources (social services were mentioned), whereas those with no experience of over-indebtedness mainly mentioned the option of turning to family. Some participants had previously found themselves in circumstances similar to the man and described having coped mainly by being extra prudent when it came to spending. For example, one participant shared that when his income has become so low that he no longer qualified for credit, he had taken a variety of small jobs and set money aside over time to buy a washing machine.
IE	All participants expressed sympathy for the man in Vignette 2. Those with experience of over-indebtedness were especially sympathetic, describing the man's situation as difficult, especially due to his age, which they felt meant he had reduced employment and salary opportunities, as well as a higher chance of redundancy. Those with no experience of over-indebtedness thought that the man's situation was quite common, and that it pointed to the general importance of planning ahead and having sufficient savings. Suggested coping strategies for the man included looking for additional work or a job with better pay, and avoiding taking out multiple loans or short-term loans (there was suggestion that he should contact a credit union instead if he needed a loan). Other suggestions included applying for government grants for any future housing renovations; contacting an insurance company to see what they could cover for any future house repairs; getting professional help from social welfare or other organisations to access benefits and/or enrol in courses to improve his employability; and making a monthly budget. Participants with experience of over-indebtedness focused more than those without on the importance of the man managing his income through budgeting and seeking external help. Participants with no experience of over-indebtedness, on the other hand, focused more on the need for the man to work more to increase his income.
IT	Participants were generally sympathetic towards the man in Vignette 2. They agreed that his age was a limiting factor in enabling him to improve his situation, because it would make it harder for him to find other employment opportunities. Some participants also pointed out that the man had done his best by putting money aside but that, because salaries in Italy were often very low, such efforts sometimes resulted in only a modest nest egg. Based on all of this, some participants, especially older individuals and those with no experience of over-indebtedness, conceived of the man's situation as both unavoidable and common. On the other hand, some younger participants and those with experience of over-indebtedness contended that he had perhaps not put away sufficient savings over the course of his working years and

	had failed to change jobs earlier in life to ensure a sufficient income. They also pointed out that the man could possibly have averted his bad fortune had he avoided living alone. Participants generally struggled to identify potential coping strategies for the man, in part reflecting their view that he may be too old to find a new, higher-paying job easily. Nevertheless, they felt it was essential that he did try to increase his income, even if this meant taking an extra job for which he was over-qualified. Other suggested strategies included selling his house and living in a smaller flat instead and trying to reduce his living expenses by sharing his home with someone else. There was no mention of any potential external forms of support on which the man might draw.
LV	Participants generally saw the man's situation as unavoidable and, as such, were sympathetic towards him. Furthermore, they felt that his age had likely been a limiting factor in terms of his prospects of findings a better job, and that he may have felt too ashamed to reach out for help. Those who had experienced over-indebtedness tended to feel that the best solution would be for him to sell his house, though a couple of people countered that the expense would not be too high if the house was small and in the man's full-ownership. Meanwhile, participants with no experience of over-indebtedness thought that the best solution would be for the man to seek financial support at his local municipality. One participant with experience of over-indebtedness had done this herself when she had been in a similar situation and had received some assistance as a result. Someone else, however, commented that municipalities' processes could be very slow. Other coping strategies suggested for the man were to get a partner or a lodger with whom to share expenses, to turn to neighbours for help and to use any land around his house to grow food. The possibility of applying for housing insurance to mitigate the financial risks associated with any future repairs was also mentioned – though, notably, only by participants with no experience of over-indebtedness.
NL	There was broad agreement among participants that the man in the second vignette could not have avoided the financial problems he was facing and was not to blame for them. Participants with personal experience of over-indebtedness, moreover, commented that many people were at risk of encountering similar problems, as often a single unforeseen expense could have a big impact on one's ability to get by financially. Suggested solutions for the man tended to relate to seeking out external sources of help, such as inquiring with the relevant authorities as to whether he was eligible for some kind of financial support or relief, or debt restructuring. Several participants with personal experience of over-indebtedness stressed that this was a very important step, as a lack of knowledge about available support led to many people missing out on help they were entitled to. Other participants remarked that if they were to find themselves in the same situation as the man, they might attempt to minimise the cost of the roof repair by asking friends to help fix it, or by contacting many different contractors for quotations to identify the cheapest offer. Less commonly, there was suggestion that the man could consider selling his house, and use (part of) the resulting surplus value to repay his debts.
PL	Participants were generally sympathetic towards the man described in Vignette 2, commenting that he was in a very difficult situation and one for which there were few obvious solutions. They tended to believe that, for someone like him living alone, overcoming financial difficulties could be especially challenging – both because he may not have familial or other informal networks on which he could draw for help, and because social services did not offer assistance to men who were capable of working. At the same time, there were some participants who felt that the man could have perhaps spent less on his roof repair by sourcing free or low priced-materials via social media. In terms of possible coping strategies for the man, some participants felt that he should work extra hours in order to increase his income. Others disagreed, however, including a woman of a similar age to the man, who pointed out that long working hours could prove too physically challenging for some people in their later years. Other suggested strategies were to sell his house or rent out a room to lodgers. One participant also suggested that the man could claim bankruptcy (if he met the necessary conditions).
RO	Participants tended to agree that the man's financial issues were the result of circumstances beyond his control. That said, some of those without personal experience of over-indebtedness did comment that he had been unwise to remain in a low-paying job at his age and could perhaps have put more effort into finding a better one before his problems had the chance to escalate. Participants initially found it difficult to think of anything that the man could do to resolve his problems, with some of them characterising it as a rather desperate position to be in. Upon further discussion, however, a view emerged that his best option would be to try negotiating a debt restructuring with his bank, if possible. If that were not an option available to him, some thought that the best alternative would be for him to sell his house and

	move to a smaller, more affordable apartment. Another set of coping strategies suggested focused on increasing his income, including by finding a second job, renting out one of his rooms or growing and selling vegetables.
SE	Initial reactions to this vignette were often characterised by a sense of empathy for the man due to his age, which was see as limiting his employment options. At the same time, participants tended to feel that his situation was not particularly problematic because he was employed, did not have any major debts and was likely to qualify for support from his bank if required. The perceived best coping strategy for the man was thus for him to contact his bank in order to check whether he could obtain better conditions for his loan, and to enquire about options available to cover any further repair costs. Other suggested coping strategies for the man were selling his house in favour of an affordable rental apartment, renting out a room in the house, exploring the possibility of living in senior housing, and applying for a better paying job in the private sector. Two participants (both with no experience of over-indebtedness) admitted to having been in a similar situation to the man. One of them (a female, under 55 years old), had not taken any action to address her challenges and was thus effectively living in a state of limbo. The other (a male, over 55 years old) had chosen to sell his house.
SK	Participants generally felt that the man's situation was a typical case of "bad luck", and that he could not be blamed for it. On the contrary, they felt that injustice was at play, describing his situation as illustrative of how hard-working citizens could not always afford an acceptable standard of living. Perhaps reflecting this, participants found it difficult to make many suggestions as to what he could do to resolve his situation. The few suggestions that were made focused mostly on his house, which some participants saw as a burden and suggested he should sell. Other suggestions related more to ways in which he could increase his income - for instance, by taking on a new, better paying job or an additional part-time job, or by finding a tenant to live with him so he could charge rent. A few participants also wondered whether he might possibly have children, and, if so, whether he could ask them for financial support.

3.6. Measures to tackle over-indebtedness

Following on from the discussions summarised above, participants were presented with some measures that could be put in place to try to prevent people from becoming over-indebted, then asked for their views on these. The measures fell into three main types: measures to change people's attitudes and behaviours; measures aimed at improving the types of credit services available; and measures to help people get out of debt when they experience it (Table 3.6 below).

Table 3.6: Measures presented to participants in the focus groups

Measures to change people's attitudes and behaviours

- Financial education programmes – for example, in the workplace and in schools - on the importance of budgeting and saving
- Advertising campaigns to raise awareness of the risks linked with poor credit choices
- Policies that encourage people to save more for the future or for short term or unforeseen needs (e.g., tax relief on investments or pensions savings, tax-free savings accounts)

Measures aimed at improving the types of credit services available

- Measures to encourage responsible lending practices (e.g., checking and ensuring loan levels reflect borrowers' financial status and ability to repay the loan with their income; limiting interest rates on credit to a reasonable level; and limiting fees for early repayment)
- The introduction of state-provided low- or no-interest loans

Measures to help people get out of debt when they experience it

- Increased availability of debt advice services
- Digital tools provided by public authorities to help people budget and keep track of their spending

3.6.1. Measures to change attitudes and behaviours

Participants' reactions to the idea of financial education programmes were generally positive. They tended to feel that too many adults had an inadequate knowledge and understanding of such matters and that this was a major factor contributing to personal debt and, indeed, over-indebtedness. In discussing this, they referred to past mistakes they themselves had made with their own finances that could perhaps have been avoided had they been more financially aware. There was a general consensus that financial education programmes could have an especially beneficial impact on younger people, potentially reducing the likelihood of their getting into difficulties in the first place. Reflecting this, participants generally felt that such programmes would best be delivered in schools, so that entire future generations could be educated at the same time – albeit they recognised that this meant the impact of the programmes would likely be felt only in the longer term. Schools were also favoured on the basis that young people did not always see good financial management being modelled at home. Universities and vocational colleges were identified as other suitable settings for delivering the programmes to young people.

> *"Prevention is really important, we can show younger people types of scenarios and make them think about ways to better manage their money, avoid ending up like this."*
>
> (Male, under 55 years old, no experience of over-indebtedness, France)

"I can see with my young daughters that they have little knowledge and awareness of financial issues. They really need to learn to be able to make responsible decisions. Therefore, I think it could be very effective if financial education was offered in school at seventh or eighth grade."

(Female, under 55 years old, no experience of over-indebtedness, Germany)

While there was also considerable support for making financial education programmes available to adults, participants were generally unenthusiastic about the idea of these being delivered in the workplace. This reflected a contention that employers were not necessarily qualified to dispense such a service – as well as concerns about the potentially stigmatising, embarrassing or privacy-compromising effect of "being seen" to be in receipt of financial guidance at work. Various alternative settings were suggested for adult programmes, including banks, employment offices, local municipalities, social security or welfare offices, as well as the online sphere (with specific references made to social media and YouTube especially).

"I'm not going to discuss with a professional how much I earn and how I could save in front of my colleagues. So, I think I would rule out the workplace, but [offering these programmes] at the local government, it could be feasible."

(Female, under 55 years old, no experience of over-indebtedness, Hungary)

Specific themes that participants felt needed to be addressed in any financial education programmes fell into four broad types:

- how to make and follow a household budget. Relatedly, participants also sometimes suggested a focus on how to maintain control over one's spending (such as prioritising expenditure and differentiating between needs and wants), as well as how to cope with various financial challenges that may arise in life, such as those being experienced in the current context of rising prices.
- understanding and managing debt. Participants most frequently emphasised the importance of education on the risks associated with different types of loan. Some also advocated for a focus on financial terminology and concepts, including interest rates and loan conditions, to ensure that potential borrowers were able to make fully informed decisions.
- benefits and risks of financial investments, including how pension plans worked and how to access tax free savings accounts.
- how to protect ones-self from financial scams.

Views regarding policies aimed at encouraging people to save more were more mixed. Some participants recognised that having savings was a desirable goal and that government interventions in this regard could be very helpful. Nevertheless, most also pointed out that the underlying reason for low rates of saving was a combination of rising prices and low salaries, and that this therefore needed to be addressed in the first instance, before people could be expected to save. Participants with experience of over-indebtedness, in particular, were sometimes frustrated by the implication that saving might be an option for them, as they did not have any money left after meeting their regular payments. Reflecting this, the policies were criticised as only relevant to certain, less vulnerable groups of people (i.e. those who could afford to save or those who had a long savings horizon before them) and being of no help to those already in financial difficulty. Some participants from Eastern Europe further suggested that the policies were unlikely to have the desired effect, as the concepts involved – tax relief on investments or pensions savings, tax-free savings accounts, etc. – were too complicated for some people to understand and engage with. One participant also noted that having savings may jeopardise a person's entitlement to social assistance, which could further discourage people from having any.

> *"When I think of tax reliefs, I think it will benefit rich people because most people can't afford having a pension and adding money to it. Richer people can afford pensions and more."*
>
> (Female, under 55 years old, experience of over-indebtedness, Ireland)

> *"People are mostly illiterate in these fields. There are people who are not aware of tax benefits, pension funds, retirement accounts and simply do not have any financial culture and there is no one to explain to them."*
>
> (Female, under 55 years old, no experience of over-indebtedness, Bulgaria)

Participants' reactions to the idea of advertising campaigns to raise awareness of the consequences of poor credit choices were also mixed. Some participants, mainly from Western European countries, perceived such initiatives positively and saw them as a potentially useful complement to financial education programmes. Among these participants, there was specific suggestion that such campaigns could serve as an important counterbalance to the proliferation and ready availability of different types of loan and consumer credit.

> *"In the media there is a world shown in which people can continue spending and raising credits. Therefore, it definitely makes sense to raise the awareness of risks related to poor credit choices."*
>
> (Male, under 55 years old, no experience of over-indebtedness, Germany)

However, other participants felt that such campaigns would be mostly overlooked or ignored and, consequently, would have little effect on people's attitudes or behaviours. More specifically, they doubted that such advertising would be effective against the abundance of existing advertising encouraging people to borrow (advertising from quick loan companies was repeatedly mentioned) or spend more money in general. They also felt that the campaigns would effectively clash with the interests of large companies or banks and that this may serve as a barrier to their implementation.

> *"Do you think that such an ad would have an effect? It will not be paid as much attention [as one saying] 'Come, we will give [money] to you quickly, in half an hour with only an ID card'."*
>
> (Male, over 55 years old, no experience of over-indebtedness, Bulgaria)

Table 3.7: Measures to change attitudes and behaviours – summary overview

MS	
BG	Participants' reactions to the idea of financial education programmes were mixed. While some felt that providing such programmes from an early school age could provide children with a good start when it came to managing their money, others, all of whom had experience of over-indebtedness, contended that a person's financial habits were shaped by their broader attitudes and values rather than education. Among those who were positive about the idea of financial education programmes, suggested topics for the programmes included how to reduce expenses and make a budget, as well as full and clear explanations of terms and conditions linked to loans. The idea of policies aimed at encouraging people to save was polarising. On the one hand participants with experience of over-indebtedness felt frustrated by the implication that saving might be an option for them, as they did not have any money left after meeting their regular payments. Those without experience of over-indebtedness, on the other hand, were more open to the idea, though one person suggested that many people lacked the financial knowledge necessary to understand what such saving policies entailed and therefore may not be receptive to them. Views on the idea of advertising campaigns aimed at raising awareness of the risks associated with poor credit choices were almost entirely negative. Participants doubted that such advertising would be effective against the abundance of existing advertising encouraging people to borrow more money. They also observed that the campaigns would effectively clash with the interests of large companies and that this may serve as a barrier to implementation.
CZ	Participants were highly supportive of the ideas of financial education programmes and of advertising campaigns to raise awareness of the risks associated with poor credit choices. Regarding the former they felt that such programmes should be made available to consumers of all ages and, as such, should be provided in a variety of settings, including schools, workplaces, banks and municipal offices. They also agreed that the programmes should major on the importance of having a household budget and on how to develop one. In terms of advertising campaigns to raise awareness of poor credit choices, participants were especially in favour of a multi-media approach being pursued – again, in order to reach a maximum number of people. Thus, they suggested adverts not only on television and other media but also in public places – for example, on posters or billboards. There was notably less support, and even some disdain, for the idea of policies aimed at encouraging people to save more. Participants typically remarked that many people, especially those at greatest risk of over-indebtedness, did not have any money they could save, so the policies would effectively be redundant.
DE	There was strong support for financial education programmes on the importance of budgeting and saving. Participants commonly felt that too many people had an inadequate knowledge and understanding of such matters and that this was a major factor contributing to over-indebtedness. There was a consensus that financial education programmes should be targeted at young people especially on the basis that this group had particularly limited financial awareness and/or that they were more heavily influenced by an advertising culture (for example, via social media) that encouraged constant consumption. Schools were widely seen as the best places to deliver financial education programmes to young people, along with vocational training centres and universities. People with experience of over-indebtedness felt that education programmes should not just focus on budgeting and saving but on the negative practical consequences of having mounting debts – for example, receiving a bad credit rating (SCHUFA score) and the restrictions this placed on one's ability to rent an apartment or obtain consumer contracts. The idea of advertising campaigns to raise awareness of the consequences of poor credit choices was also positively received and seen as a potentially useful complement to education programmes. There was suggestion that such campaigns could serve as an important counterbalance to the proliferation and ready

	availability of different forms of consumer credit. There was notably less enthusiasm for policy measures aimed at encouraging consumers to save, however, mainly reflecting a view that not everyone was in a position to save and especially not those who were most at risk of over-indebtedness.
DK	Participants commonly remarked that financial education programmes and advertising campaigns could have an especially beneficial impact on younger people, potentially reducing the likelihood of their getting into difficulties in the first place. They suggested that education programmes should cover basic information about household bills and how to budget for these, as well as the importance of having insurance and the risks associated with quick loans. There was broad agreement that schools would be the best setting for this information to be provided, especially if efforts were made to ensure the participation of pupils from disadvantaged backgrounds. Some participants felt that financial education programmes should also be offered to adults, including through social security or welfare agencies (for those in receipt of benefits or otherwise vulnerable), or consumers' 'E-boks' (an electronic mailbox via which Danish citizens receive communications from public authorities).There was somewhat less enthusiasm for the idea of financial education programmes being offered in the workplace. This reflected a contention that employers were not necessarily qualified to dispense such a service – as well as consideration of the potentially stigmatising effect of "being seen" to be in receipt of financial guidance at work. While some participants also welcomed the idea of policies to encourage saving, others felt that the specific policies described – tax relief on investments or pensions savings, tax-free savings accounts etc – were unlikely to have the desired effect as these concepts were too complicated for some people to understand and engage with. Participants with experience of over-indebtedness further felt that the policies, and, indeed any other measures to change attitudes and behaviours, needed to be supplemented with interventions to address supply side factors – for example, policies to address the availably or use of quick consumer loans, and a cap on loan interest rates.
EE	With regards to financial education programmes, several participants pointed out that these already existed in Estonian schools, and that a recent curriculum update was set to bring a further increase in provision. There was a consensus that schools provided an ideal setting for such programmes, with some participants commenting that increasing children's financial independence in the school context left them less reliant on their parents for financial knowledge. Participants also generally supported the idea of financial education programmes targeted at adults. Indeed, a few said that they would themselves welcome the opportunity to learn more about budgeting and about tools to help with this. Other suggested topics for the programmes included the benefits and risks of financial investments – with some participants explicitly referencing cryptocurrency investments – and how to establish a sustainable company. The idea of policies aimed at encouraging people to save more was also generally well-received. Participants were especially keen to see measures focused on teaching people to keep a small financial buffer to cover unexpected expenses. Some participants, however, feared that the effectiveness of such policies would be too contingent on economic as well as individual-level circumstances. At the same time there was suggestion that the effectiveness of the policies would be considerably increased if they focused not only on encouraging people to save more, but also on *investing* their money. With regards to the idea of advertising campaigns to raise awareness of the risks linked with poor credit choices, there was widespread doubt among participants that these would in any way be effective. In general, participants did not believe that any campaign would be able to counter the abundance of advertising promoting consumer loans and credit.
EL	Perspectives on these types of measures were mixed. Some participants viewed them in a very positive light on the basis that 'prevention was better than cure'. They commented that knowledge and awareness were vital prerequisites to minimising the likelihood of people making bad financial choices. Others were more sceptical, contending that the measures were only relevant for the next generation of consumers. More generally, they were unconvinced that the measures could have a significant effect in the current "extraordinary and unpredictable" economic circumstances. What was needed instead, they believed, were interventions that would be more immediately felt. Despite their differing perspectives, both groups of participants identified common types of information that they felt consumers

	needed to help them make better financial decisions, namely: understanding of financial terminology and relevant legal provision; how to plan financially in times where even the short-term economic outlook is unpredictable; how to maintain control over one's spending; and how loans and interest on loans work and are calculated. In terms of where or by whom this information might be provided, there was a consensus that schools, universities and other learning centres for children and young people (for example, ΚΔΑΠ) were the perfect places to inform the next generation of consumers. For the current generation of consumers, participants believed than online seminars could prove an effective resource, especially if participation in these was incentivised in some way. Comparatively few participants felt that the workplace was an appropriate place to provide financial education and awareness-raising. However, there was mention of the Manpower Employment Organisation (ΟΑΕΔ) as a potential provider.
ES	Overall, participants responded positively to the idea of financial education programmes, believing these could have an important impact on households' financial habits and behaviours. They tended to feel that such programmes would likely have the greatest chance of success if targeted at younger people rather than older groups of consumers, as older groups may already be set in their ways when it came to managing their finances, whereas younger groups may be more malleable in this regard. Specific types of information that participants felt needed to be covered in any financial education programmes were: how to manage debt responsibly and the risks associated with poor credit choices; how to plan financially; how loans and interest on loans worked and were calculated; how pension plans worked; and where/how to access tax-free saving accounts. In terms of where or by whom this information might be provided, there was a consensus that schools would be the perfect settings, providing opportunities to educate consumers from an early age. Workplaces, on the other hand, were generally not seen as appropriate settings for financial education programmes. Participants felt it was not an employers' place to get involved in such matters and that, in any case, some employers may not have the necessary expertise to do so. Some also felt that people would be uncomfortable sharing details of their financial behaviour in the workplace. Views on the idea of advertising campaigns to raise awareness of the risk of poor credit were more lukewarm than those on financial education programmes. Participants tended to associate personal finance-related advertising with adverts *promoting* the use of credit or micro-credit products, rather than discouraging it. Policies aimed at encouraging people to save received very little support. Participants reiterated their view that the principal cause of growing over-indebtedness was the current macro-economic situation, not simply a lack of financial planning. Against this backdrop, they felt consumers simply were not able to save.
FR	There was strong enthusiasm among participants for this sub-set of measures. They felt that prevention was key when it came to tackling over-indebtedness and that education and awareness-raising would serve as indispensable tools in this regard. Specific themes that they felt needed to be addressed through education and awareness-raising were how to budget; how to prioritise different types of expenses, including the importance of distinguishing between wants and needs; and the risks associated with loans. Views were somewhat divided on the idea of financial education programmes being provided in schools, however. Some participants were very supportive of this as they felt strongly that consumers needed to be taught about financial matters from an early stage in their lives, before they made mistakes – and because young people did not always see good financial management being modelled at home. Others questioned whether young people would pay attention to financial education, however. Views on providing financial education in the workplace were similarly divided. On the one hand, there were those who felt that the workplace was a very relevant setting as it was where people obtained the bulk of their income (i.e., their expenditure). On the other hand, there was suggestion that salaries, and finances in general, were somewhat taboo subjects in the workplace, meaning that people might be "shy" about discussing them there. Suggested alternative channels through which financial education and/or awareness-raising could be delivered were banks and social media. There was a consensus that the impact of any measures to change attitudes and behaviour would most likely be gradual rather than immediate, because people would take time to learn to manage their money better and alter their mindsets towards spending.
HR	Participants were generally supportive of the idea of financial education programmes, as they felt these would provide a much-needed improvement in levels of financial knowledge in Croatian society. They felt that the best place for such programmes to be delivered would be in schools, so that entire future generations could be educated at the same time – albeit they recognised that this meant the impact of the programmes would likely only be felt in the longer term. Some

	participants also supported the idea of financial education programmes being targeted at adults, including in the workplace. Specific topics that participants felt should be addressed in any financial education programmes broadly covered three main areas: learning how to make a household budget; understanding basic financial concepts such as interest rates and the risks of taking out credit; and tips on how to save money on a day-to-day basis Policies aimed at encouraging people to save were also generally seen as a good idea – though several participants pointed out that such measures would only really be useful for people who had enough disposable income to save in the first place, which, in Croatia, was not very many given that wages in the country were often low. The idea of advertising campaigns to raise awareness of the risks linked with poor credit choices got a more mixed reception: participants with experience of over-indebtedness contended that people would not pay any attention to such campaigns, while those without experience of over-indebtedness liked the idea better, but stressed that, in the end, it would be up to those facing over-indebtedness to act on the information provided. Notably both groups also tended to conceive of advertising campaigns as primarily a means for banks and credit providers to attract new clients, rather than as way to provide objective public information about financial matters. This in turn led them to feel that the campaigns would be widely distrusted.
HU	Participants were generally positive about the idea of financial education programmes. They felt these could be especially impactful if targeted at young people in school setting, as this might result in future generations making fewer financial mistakes. Much less popular was the idea of delivering financial education programmes in the workplace, based on a perception that work-based programmes would result in people having to disclose their salary in front of colleagues, potentially creating tension. Local municipalities and banks were identified as possible alternative settings for any programmes aimed at an adult audience. In terms of specific topics, participants were in favour of a focus on how to plan spending, save, avoid debt, and cope with various financial situations that may arise in life. In terms of advertising campaigns aimed at raising awareness of the risks associated with poor credit choices, participants commented that, while in theory these could be educational, in practice they would likely be drowned out by the abundance of existing advertising encouraging people to borrow more money. They also felt that the campaigns would effectively clash with the interests of banks, and therefore would be unlikely to be implemented. The idea of policies encouraging people to save tended to evoke more negative feelings still, especially among participants with experience of over-indebtedness. This group felt frustrated by the implication that saving might be an option for them, as they did not have any money left after meeting their regular payments. Equally, they inferred that the measure involved some form of requirement or obligation to save, which clashed with their desire to manage their money in their own way.
IE	Participants' reactions to this sub-set of measures were mixed. With regard to the idea of financial education programmes, on the one hand those with no experience of over-indebtedness viewed these mainly favourably, seeing them as a good preventative method. They felt that both schools and workplaces would be suitable settings within which to deliver such programmes, with the former providing an opportunity to educate children early on in life and the latter serving as an optional measure for those who felt they needed support during their earning years. They further suggested that the topic of budgeting should be a central focus for any education programmes. On other hand, participants with experience of over-indebtedness largely dismissed the idea of financial education programmes, on the basis that these would do nothing to address the key underlying cause of over-indebtedness, which they perceived to be the rising cost of living combined with stagnating salaries. The idea of advertising campaigns to raise awareness of the risks of poor credit choices, was generally dismissed by participants. In part this was because they felt such advertising would be unlikely to penetrate people's consciousness given the flood of other adverts they encountered every day. Participants with experience of over-indebtedness also commented that the measure, like education programmes, would not tackle the root causes of over-indebtedness. In terms of policies aimed at encouraging people to save, participants generally felt that these would only help certain groups, namely, the middle class and upwards, because people with lower wages either already did not pay much tax or could not afford to save.

IT	There was a consensus among participants that financial education programmes could have an important impact in terms of preventing over-indebtedness. Schools and some form of specialised regional offices were envisioned as possible places where any financial education programmes could be delivered. In terms of specific topics that might be covered, participants with experience of over-indebtedness especially, suggested a focus on general financial planning and budgeting, as well as learning how to protect oneself from financial scams and invest wisely. Views on the likely efficacy of advertising campaigns to raise awareness of risks linked with poor credit choices were more mixed. One participant remarked that such campaigns would be a "winning solution" because they would reach different audiences and thus likely have broad impact. Yet others doubted whether campaigns focusing on the risks linked with poor credit choices would be able to compete with the perceived plethora of consumer advertising encouraging people to spend money. Regarding policies aimed at encouraging people to save more, participants recognised that having savings was a desirable goal and that government interventions in this regard could be very helpful. Nevertheless, they also pointed out that the underlying reason for low rates of saving was a combination of rising prices and low salaries, and that this therefore needed to be addressed in the first instance, before people could be expected to save.
LV	Participants generally recognised that financial education was important, but they had differing opinions as to the most appropriate time and place for it. While they broadly agreed that financial education programmes would be best targeted at children and teenagers, some participants felt that this should be done in the school setting, whereas others saw the topic more as a "family matter" that children should learn about from, and alongside, their parents. Similarly, whereas some participants were in favour of financial education programmes for adults too, others were less sure, based on a view that identifying a suitable, trusted provider for such programmes could be very challenging – banks in particular were described as widely distrusted. In terms of the idea of advertising campaigns to raise awareness of the risks linked with poor credit choices, participants felt that these could be effective – but only if they could 'match' the advertising produced by quick loan companies in terms of volume, targeting and overall quality. Policies aimed at encouraging people to save more were viewed more critically. Participants felt that low levels of saving among consumers in Latvia were primarily a reflection of the fact that salaries were low, not simply of a lack of knowledge on the matter.
NL	Participants were broadly supportive of the idea of financial education programmes. They felt these would have a significant positive impact on the overall level of financial knowledge in society, which in turn could help decrease the risk of people facing financial difficulties. Some also felt that such education programmes could help to remove the perceived stigma surrounding over-indebtedness in the sense of providing a space in which to talk more openly about the experience and address common misunderstandings. There was general agreement that such programmes should be provided to young people in schools, to maximise reach and impact. Participants were much less enthusiastic about the idea of financial education programmes being provided in the workplace. They tended to feel that people would be reluctant to enrol in work-based programmes due to the sense of shame that often surrounded financial difficulties. Opinions differed on the likely effectiveness of advertising campaigns to raise awareness of the risks linked with poor credit choices. Participants with no experience of over-indebtedness tended to suggest that such campaigns would do no harm. In contrast, those with experience of over-indebtedness commented that the stigma surrounding financial problems often induced a sense of denial in those affected or at risk of becoming so, with the result that they may not be receptive to campaigns or even consider that the message was aimed at them. Participants with and without experience of over-indebtedness also had differing views on the likely impact of policies aimed at encouraging people to save more. Whereas the latter group felt that such measures would make people more aware of the importance and benefits of saving, those with experience with over-

	indebtedness reasoned that people with debt problems would not be able to save anyway. One participant further contended that a (perceived) risk of losing social benefits as a result of having savings could keep people in debt from starting a savings account.
PL	Participants were in agreement that changing people's attitudes and behaviours in relation to debt was crucial in order to try to prevent them from experiencing over-indebtedness. They were especially in favour of providing education on the importance of saving, the risks of relying on loans and how to understand the 'small print' in loan agreements. Young people were seen as the most important targets for financial education, with schools and universities identified as suitable settings for the programmes. That said, some participants were keen to see financial education programmes targeted at adults too, and especially at parents, who it was felt needed to be capable of setting a good example to their children when it came to financial management. The online sphere, including blogs and social media platforms like YouTube, were identified as potentially effective channels through which to deliver any adult education programmes. The workplace, in contrast, was generally not seen as appropriate, given the sensitive nature of the issues. Participants generally welcomed the idea of policies aimed at encouraging saving. They felt that these could be especially helpful in preventing people getting into the sorts of difficulties experienced by the man in Vignette 2. As an example of such a policy, one participant referenced the current Polish Employee Capital Plan system (PKKs), which he felt was working well in terms of enabling Poles to build some longer-term security. At the same time there was comment that such measures would only have a preventative effect and would do nothing to address any financial difficulties people might be experiencing in the here and now.
RO	In general, participants felt that these measures sounded helpful in theory but would do little in practice to tackle over-indebtedness in Romania, at least in the shorter term. This reflected their view that the root cause of the problem was low wages – something that measures to change attitudes and behaviours would not affect. They commented that people were not able to save money, and that many of them at some point had no choice but to rely on a loan or credit, even if that meant having to approach non-traditional lenders. In the course of the discussion a more positive perspective did emerge on the idea of financial education programmes. Several participants observed that children in Romania were implicitly taught from a young age that debt was inevitable and, indeed, necessary to survive. They felt that financial education programmes in schools could a potential counter to such perceived negative influences.
SE	Participants supported the idea of financial education programmes. Indeed, those with experience of over-indebtedness, in particular, said that they wished such programmes had been available when they were young, as this might have helped prevent them from getting into difficulties later on. Schools were seen as the ideal setting for financial education programmes, with some participants noting that this approach would also help address the fact that parents sometimes failed to teach their children these important skills in the home. Some participants were also in favour of financial education programmes for adults, which they felt could be offered through banks or municipalities. A couple of participants also proposed that new parents could be offered some training in household economics as part of their maternity care package. The workplace, on the other hand, was not seen as an appropriate setting for financial education programmes, on the grounds that attending such programmes at work may cause some embarrassment for people, as well as potentially compromise their privacy. Participants felt that the curriculum of any financial education programmes should major on the importance of avoiding too much debt, and how to make a budget and maintain control over household finances. They also favoured a focus on the importance of saving. In this regard they saw the idea of policies to encourage saving as 'part and parcel' of financial education programmes. The idea of advertising campaigns to raise awareness of the risks associated with poor credit choices received a more lukewarm reaction. This was mainly because participants associated advertising on financial matters with perceived untrustworthy lenders whom they felt targeted vulnerable households. They did go on to concede, however, that advertising sponsored by municipalities and other authorities may be more credible.

SK	Participants initially struggled to see how this subset of measures could address the significant challenge that over-indebtedness presented. Upon further discussion, however, they came to agree that financial education programmes held the potential to increase levels of financial knowledge in society and thereby could reduce levels of debt, if only in the longer term. Indeed, several participants commented that such a measure should have been implemented a long time ago, so that their own generation might have benefited from it. Participants tended to assume that financial education programmes would be delivered in schools to young people, with some commenting that children could share what they had learned with their parents. They were sceptical of the likely efficacy of financial education programmes targeted at adults, on the basis that people who might benefit the most from the programmes may experience the most difficulties accessing them (if, for instance, there were costs involved, or if the programmes were not sufficiently and appropriately publicised). Regardless of to whom any financial education programmes might be directed, participants felt that the content should focus primarily on how to avoid accumulating debt, how to apply sound budget management, and how to properly evaluate the risks of loans and credit. The idea of policies to encourage people to save more received limited support. This mainly reflected a perception that such policies, including tax relief on investments or pensions savings, would appear too technical and complex to those groups of consumers at whom they were particularly targeted, with the result that uptake might be low. Participants engaged to an even lesser extent with the idea of advertising campaigns to raise awareness of the risks linked with poor credit choices. They felt that such campaigns would be mostly overlooked or ignored and, consequently, would have little effect on attitudes or behaviours.

3.6.2. Measures aimed at improving the types of credit services available

Participants' perspectives on the idea of measures to encourage responsible lending practices were somewhat mixed, though overall more positive than negative. Many participants, especially those with no experience of over-indebtedness, felt that promoting responsible lending could help reduce the likelihood of people in difficulty being able to acquire further loans or credit, thereby making them less tempted to buy things they could not afford. Some added that keeping interest rates and fees to a reasonable level was a similarly important step towards preventing consumers getting into difficulties in the first place. Less commonly, there was suggestion that the measures would serve to curb the activities of non-traditional lenders especially, which were sometimes seen as partially responsible for the financial struggles of vulnerable households. In response to this sentiment, some participants went as far as to suggest that such lenders should be banned.

> *"It's too easy to take out a loan, like online banking, there are not enough checks. These measures are really needed."*
>
> (Female, under 55 years old, no experience of over-indebtedness, France)
>
> *"It should be a matter of course that lenders encourage responsible lending. Unfortunately, it looks different on the market today […] Unscrupulous players offer young adults quick loans at a sky-high interest rate."*
>
> (Male, over 55 years old, no experience of over-indebtedness, Sweden)
>
> *"My daughter got a loan in five minutes while on break between lessons at school. She doesn't even have any income! They should just be illegal and that's it.*
>
> (Female, under 55 years old, no experience of over-indebtedness, Latvia)

Participants who were less positive about the measures sometimes commented that these were not new ideas as, for example, checks on borrowers' financial status and ability to repay loans already existed. Paradoxically, others were sceptical that the measures would be implemented, sometimes pointing to perceived inadequacies in existing checks of this nature or to a likely unwillingness among banks and other providers to accept the measures. Still others, and especially those with experience of over-indebtedness, feared that the checks would serve to prevent the most financially vulnerable in society from being able to access much-needed finance. Some added that this could drive those people towards less reliable providers who charged high interest rates, thus increasing their risk of accruing further unmanageable debt. Another argument put forward against checks on borrowers' financial status was that, in the current unstable economic climate, people could lose their job very suddenly, meaning their financial status could change almost overnight.

> *"This is all very well, but I don't know if the banks and creditors would be willing for this to happen."*
>
> (Male, under 55 years old, experience of over-indebtedness, Spain)
>
> *"Sometimes you just need that money and that's it. If they will check everything then what will we do? We wouldn't have anything to live on."*
>
> (Female, under 55 years old, experience of over-indebtedness, Latvia)

The idea of state provided low- or no-interest loans was polarising. Those in favour of the idea thought that such loans could significantly increase the chances of financially vulnerable people being able to access credit with good conditions – and thereby reduce the likelihood of their being pushed into debt by having to make high interest repayments. The idea was further praised for offering a very *tangible* way to help those in need, and for its potential to have an *immediate* impact (in contrast with, for example, financial education programmes which participants often felt would take time to bear fruit).

> *"I like the introduction of state-provided low-interest loans. The other [measures] sound very good but seem unlikely to happen."*
>
> (Female, over 55 years old, no experience of over-indebtedness, Bulgaria)
>
> "*Being able to limit the lending rate and extend the repayment period in the event of a crisis would also reduce anxiety for those of us who are in a worse financial position."*
>
> (Male, over 55 years old, experience of over-indebtedness, Sweden)

Critics of the idea, however, often pointed out that, far from achieving its intended purpose, it may in fact merely serve as an incentive to borrow, thus potentially increasing levels of over-indebtedness rather than reducing these. Additionally, some participants from Eastern and Southern European countries expressed concerns about how access to the loans would be mediated and specifically about the potential for them to go to people who were not in the greatest need of them. Alongside and underpinning such views was a high level of distrust in government to act fairly and, by extension, in government-sponsored initiatives. Some participants also doubted that the state could afford to fund consumer loans, or believed that the initiative would place an undue burden on the state or even amount to inappropriate state intervention in the economy. Finally, there was also comment that the measure would not address underlying structural problems contributing to over-indebtedness (such as low salaries), and, as such, may only help the next generation of borrowers, not those currently experiencing difficulties.

> *"[Low- or no-interest financing] is deceptive because it encourages you to take out a loan without thinking. It's a self-exacerbating process."*
>
> (Male, over 55 years old, no experience of over-indebtedness, Hungary)
>
> *"Those state loans with no interest...you should be very careful with them, so they don't end up in the wrong hands, like with [European Union] funds."*
>
> (Female, over 55 years old, no experience of over-indebtedness, Romania)
>
> *"[Low- to no- interest loans] could be helpful too, but it seems a bit like the usual thing […] those who get it are the ones who get there first, who have acquaintances and not those who really have the need."*
>
> (Female, over 55 years old, experience of over-indebtedness, Italy)

Table 3.8: Measures aimed at improving the types of credit services available– summary overview

Country	
BG	Views on measures aimed at promoting more responsible lending practices were generally somewhat ambivalent. Participants shared a perception that such measures were necessary and that some, including requirements to checks borrowers' financial status, already existed. At the same time, they contended that lenders did not always apply the requisite checks, making it easy for even insolvent people to get credit. They also doubted that introducing stricter measures would be possible, both because banks were focused on protecting their profits and because borrowers were often so determined to get a loan that they would commit fraud to do so. A similar level of scepticism was expressed about the idea of setting limits on fees for early loan repayment. As one participant explained, having such limits would not make a significant difference because nobody explained to borrowers the benefits of paying off debt early in the first place – and because early repayment was not an option for those in financial difficulty. As for the idea of state-provided low- or no-interest loans, participants often struggled to believe that these could be possible. Those who reacted more positively to the idea highlighted the advantages of being able to repay only the original amount borrowed, especially for people in financial difficulties.
CZ	While participants generally supported these measures in principle, they tended to say that it would be very difficult, or nearly impossible, to implement them. In relation to measures to encourage responsible lending specifically, they were very sceptical that lenders, especially non-traditional lenders like loan firms, would be willing, or could be compelled, to conform to the requirements. In relation to the idea of state-provided low- or zero-interest loans participants doubted that the state could afford to fund these. One person also raised questions as to how eligibility for the loans would be established and by whom, to ensure a fair approach.
DE	Participants strongly supported the idea of measures aimed at encouraging responsible lending practices. (Indeed, several had suggested such measures spontaneously at earlier stages of the discussion). They felt that promoting responsible lending could reduce the likelihood of people in difficulty being able to acquire further loans or credit, thereby making them less tempted to buy things they could not afford. Participants expressed more negative views about the idea of state-provided low- or no-interest loans, as most were concerned that this could contribute to a "debt spiral". More specifically, they feared that the measure would simply serve to create yet another opportunity for borrowing and so potentially increase people's indebtedness. This view was expressed particularly strongly by participants with experience of over-indebtedness, who argued that the most important thing was to avoid getting into debt at all.
DK	Reaction to this sub-set of measures was often quite negative. Participants sometimes struggling to understand what the measures might mean in practice or what these might add to existing rules and requirements. For example, in relation to measures aimed at encouraging responsible lending practices, they noted that these sorts of rules were already in place. In relation to state-provided loans, participants questioned how these would constitute a solution for people who were already in difficulties because, ultimately, they would still have to pay back the money. A minority of respondents (none of whom had experience of over-indebtedness) expressed more positive views in relation to the idea of state-provided loans, however; this on account of their belief that banks did not offer a transparent, fair service to loan customers.
EE	The measures aimed at encouraging responsible lending practices were generally regarded not only as potentially effective, but necessary. The idea of limiting fees on the early repayment of loans received especially strong support, with some participants confirming that such fees had previously kept them from repaying their own debts early. In contrast, there was considerable opposition to the idea of state-provided low- or no-interest loans. At a general level, several participants took the position that the state was not a financial institution and therefore should not, as matter of principle, be involved in lending activities, either

	in terms of offering loan products itself using public funds or putting legal limits on private providers' interest rates. They felt that this would constitute an inappropriate intervention in the market economy and put undue pressure on banks – in turn possibly creating larger risks for the economy as a whole. Some participants also thought that if state-provided loans were issued to people already in financial peril, many of these people would have difficulties ever paying back the money, potentially creating financial detriment for the government.
EL	There was near universal and strong support for measures aimed at improving the types of credit services available. Participants felt that such measures would have both an important preventative effect and also help consumers who were already facing over-indebtedness, giving them a sense of hope. There was particularly strong support for the idea of state-provided low- or no-interest loans, reflecting participants' conviction that the state should play a great role in helping consumers in need. At the same time, a few participants were keen to point out that such a measure may have only limited success if incomes continue to be low vis a vis basic living expenses.
ES	Perspectives on measures to encourage responsible lending practices were somewhat mixed. While participants saw merit in the idea of limiting interest rates on credit and fees for early repayment, some of those with experience of over-indebtedness were sceptical that creditors and banks would be willing to conform to such measures. Others commented that the measures would make no difference to their own situations as they were already unable to meet the requirements for accessing credit from traditional lenders. Participants were generally sceptical about the idea of state-provided low- or no-interest loans. They believed that public institutions would be highly unlikely to lend to households and that, even if they did, any application requirements would probably be so strict as to make access difficult. On the other hand, and somewhat paradoxically, concern was also expressed that the loans could potentially serve to exacerbate income inequalities if not appropriately targeted at the most disadvantaged groups of consumers. Some also felt that the measure could be counterproductive as it may effectively increase demand for credit which, in turn, could lead to more people becoming over-indebted. Alongside and underpinning such views was a high level of distrust in government, and, by extension, in government-sponsored initiatives.
FR	This sub-set of measure was very well-received by participants. They reiterate their view that many types of loan – including some bank loans, quick loans and pay by instalment options – were much too easy to acquire, with the effect that people ended up with loans they could not afford and ultimately facing severe difficulties as a consequence. Measures to encourage responsible lending practices, together with state-provided loans, were seen as "real", "proactive" solutions to addressing this problem and promoting more sustainable borrowing. In relation to the idea of limiting interest rate on loans specifically, a participant with experience of over-indebtedness commented, that this may even help enable some borrowers to put away savings.
HR	Participants without personal experience of over-indebtedness were generally positive about the idea of measures to encourage responsible lending practices. They pointed out that at least one such measure – checks on borrowers' ability to repay a loan – already existed and, to their knowledge, seemed to be working well. Those with personal experience of over-indebtedness firmly disputed the positive impact of such checks, however. They argued that these served to prevent the most financially vulnerable in society from being able to access much-needed finance. Some added that this could drive those people towards less reliable credit providers who charged high interest rates, thus increasing their risk of accruing further unmanageable debt. Another argument put forward against checks on borrowers' financial status was that, in the current economic climate, people could lose their job very suddenly, meaning their financial status could change almost overnight. The idea of state-provided no- or low-interest loans was generally much better received by participants. Most agreed that such loans could significantly increase the chances of financially vulnerable people being able to access credit with good conditions. A smaller group of participants was more distrustful of the idea, mainly it seemed, because they lacked confidence in government and, by extension, government-sponsored initiatives.

HU	Participants were generally in favour of measures to encourage responsible lending practices. At the same time, many of them felt that credit checks in particular were not so new, and, in fact, more or less standard already. Others took a somewhat different perspective, however, contending that existing checks did not properly consider borrowers' abilities to repay the loan. On the idea of state-provided low- to no-interest loans, participants with no experience of over-indebtedness were against this. They felt that, far from achieving its intended purpose, the measure would in fact merely serve as an incentive to borrow. They also feared that introducing the loans may carry negative economic consequences in the form of tax and price increases. Here they drew parallels with available interest-free credit for construction, which was perceived as having raised prices in the industry. Participants with experience of over-indebtedness, tended to show more enthusiasm for state-provided low- or no-interest loans, however, seeing these as a tangible way of helping those in difficulty. Nevertheless, even among this group concerns were expressed about the *no*-interest option, with references again made to the impact of such loans in the construction industry.
IE	Reaction to this sub-set of measures was generally positive. The idea of state-provided low- or no-interest loans was particularly well-received, with participants viewing this as a sensible measure that would give people the welcome option of a loan that was easier to repay than products offered by other providers. The idea of measures aimed at encouraging responsible lending practices was especially popular among participants with experience of over-indebtedness, who felt that putting more responsibility on the shoulders of lenders would help counter the tendency for some consumers to lack self-control when it came to spending and take out loans they could not afford. At the same time, they commented that the implementation of the measure would need to be carefully monitored by government as there was a risk that lenders would remain more focused on their profits than on citizens' best interests.
IT	Perspectives on this set of measures were generally quite mixed. Regarding measures to encourage responsible lending practices specifically, one participant liked the idea as he thought it would help to ensure that people did not borrow more than they could repay. Others, however, observed that some of the measures, especially borrower checks, were already in place. In terms of the idea of low- or no-interest state loans, some participants thought that these would help ensure better access to credit for low-income consumers, reduce the anguish often associated with taking out high interest loans, and generally provide a fallback solution in emergencies. Others, however, expressed concerns about how access to the loans would be mediated and specifically about the potential for them to be directed to people who were not in the greatest need of them. They were also concerned that the loans might simply serve to facilitate more debt accumulation. Notably, the latter view was especially common among participants with experience of over-indebtedness.
LV	Most participants, and especially those with experience of over-indebtedness, welcomed the idea of state-provided low- or no-interest loans. They felt that these could prove particularly helpful in the current economic climate, when people were more in need of loans than ever but unable to afford the high rates of interest charged by other providers. Views on measures to encourage responsible lending practices were more mixed. On the one hand, participants often agreed that quick loans should be less readily available to people with no stable income or means to repay them on time, to protect these groups from getting into debt quickly – and also to make it difficult for some of the quick loan firms to remain in business. On the latter point, one participant with no experience of over-indebtedness went a step further, suggesting that such companies should be completely banned. Others, on the other hand, especially those with experience of over-indebtedness, commented that introducing such measures would take away their only financial lifeline in times of need.
NL	This sub-set of measures was particularly well received among participants with no personal experience of over-indebtedness. They saw the measures as more concrete than those aimed at changing attitudes and behaviours, and also more likely to have an immediate impact. Still, they went on to voice some reservations about the specific idea of state-provided low- or zero-interest loans, contending that these may only lead people in debt to take out yet another loan and thus to become further over-indebted. Participants with experience of over-indebtedness shared this concern and added that the notion of state-provided low- or no-interest loans also ran counter to the (legally obligatory) warning accompanying all loan advertisements that taking out a loan costs money. These participants also felt that the measures aimed at encouraging more responsible lending practices were too general and failed to take into account the

	fact that the financial difficulties individual faced were unique and so required tailored, personalised solutions accordingly. They favoured instead the idea of a central authority keeping track of people's credit and loans, so that an appropriate solution could be offered to them in the event they applied for a new loan.
PL	There was very strong support for measures aimed at promoting more responsible lending practices. Participants expressed outrage at what they saw as the current ability of banks – especially parabanks – to "do what they liked" when it came to charging commission and other "hidden" costs, as well as high rates of interest that borrowers struggled to afford. They called for a cap on such charges to try to reduce the likelihood of people getting into severe difficulties. Equally, they were keen to point out that people who could not afford loans should not be encouraged to take them in this first place. In this regard, they were heavily critical of loan companies' advertising practices, which they felt lured consumers with falsely tempting offers. In terms of the idea of state-provided no- or low-interest loans, participants saw merit in this. However, they were also keen to point out that such a measure would have only a preventative effect and would not serve to help those already experiencing difficulties.
RO	The discussion around this sub-set of measures tended to centre on the structural problems seen to underlie over-indebtedness in Romania (i.e., low wages and the poor state of the economy), and how these might limit the impact of any efforts to change people's relationship with credit. Most participants also found it difficult to understand how these measures would work in practice or how they personally might benefit from them. For example, one person pointed out that a reduction in early repayment fees would only be useful if one had enough money to make early repayments in the first place. The consensus was that this would not be the case for a large majority of people with outstanding loans. Some participants did support the idea of state-provided low- or no-interest loans, especially because they thought these could serve as an alternative to high interest loans offered by banks. However, most of these participants doubt that the government would be able to manage such a complex undertaking. Participants with no experience of over-indebtedness were also concerned that the loans might not always be granted to those most in need of them, but rather to people with sufficient financial means to secure a regular bank loan.
SE	Reaction to this subset of measures was generally positive. Participants thought that checking a borrower's financial status and their ability to repay a loan, along with keeping interest rates to a reasonable level and limiting fees for early repayment, were essential steps to helping avoid consumers getting into difficulties. At the same time, however, participants with experience of over-indebtedness expressed a view that some bigger and more reputable banks applied lending rules that were *too* strict and that made it difficult for some people to access finance, thus indirectly pushing them towards less responsible lenders. There was general agreement among the participants that some such "rogue" lenders operating in the market did not keep their interest rates and fees at a reasonable level and were thereby responsible for the financial struggles of many households. The idea of state-provided low- or no-interest loans was welcomed by everyone, but especially those with personal experience of over-indebtedness. They contended that such a measure would give financially vulnerable groups an alternative to relying on quick loans, and thereby reduce the misery they experienced when faced with high, mounting interest.
SK	The measures in this subset received only sparse reaction, with few participants appearing convinced of their likely efficacy. Regarding the idea of measures to promote more responsible lending practices specifically, some participants commented that there were already checks in place to evaluate loan applicants' financial status and ability to repay the loan, and that, as far as they knew, these checks had been reasonably successful in helping people avoid the type of "debt spiral" that could result from having multiple loans with high interest rates. Other participants raised concerns about such checks, however – in particular, that if these were applied by banks or other more establish lenders only, this might result in people who really needed or wanted money turning to non-traditional lenders instead. In terms of the idea of state-provided low- or no-interest loans, participants generally did not perceive a need for these. They pointed out that the main problem when choosing a loan was not so much finding one with an affordable rate of interest – on the contrary, there was agreement that many low interest options already existed in Slovakia – but rather obtaining a transparent overview of the different options available.

3.6.3. Measures to help people get out of debt

Across most countries, participants expressed strong support for the idea of increasing the availability of debt advice services, seeing this as an important step in tackling over-indebtedness. Specifically, they felt that people who were in financial difficulties could benefit greatly from receiving *personalised* support from a qualified professional – both in terms of different solutions available to them and optimal ways forward. They also pointed out that debt advice could help enable debtors to identify root causes of their problems, as well as generally making them safer, less alone, and encouraged to make changes. Some participants went as far as to argue that debt advice should be made obligatory for anyone who was experiencing over-indebtedness, while others felt it should be a core component of the pre-loan consultation process. The latter perspective spoke to a wider perceived need for clearer, more transparent information for borrowers on different loan options available to them, to enable them to make fully informed decisions. Participants who had personally received debt advice in the past generally reported having found the experience to be a positive and helpful one.

> *"I think [debt advice] would be a huge help because they didn't get into debt for no reason and if you have someone to share it with and whose good advice you can take, you can get ahead."*
>
> (Female, under 55 years old, no experience of over-indebtedness, Hungary)
>
> *"The municipality came as a saving angel. An advisor helped me by getting all the credit card debt in order by consolidating it into one loan. There were significantly better interest rates then."*
>
> (Female, over 55 years old, experience of over-indebtedness, Sweden)
>
> *"Debt counselling is very effective, especially if it is implemented when needed or sometimes preferably before the need exists. For this to happen, the service needs to become better known and available in the municipalities."*
>
> (Female, under 55 years old, no experience of over-indebtedness, Sweden)

The minority of participants who responded less enthusiastically to the idea of increasing the availability of debt advice services – principally people in Greece, Italy and Romania – tended to have little to no awareness of such services being offered in their respective countries and/or showed a lack of understanding of what such services did. Some also commented that increasing debt advice services would have at best a limited impact in the context of rising prices and stagnating wages; and/or that the measure would have a preventative effect only rather than helping those *currently* experiencing difficulties.

> *"People rarely have a concrete idea of what exactly those organisations do. People often think that a debt counselling service only seizes things."*
>
> (Man, under 55 years old, experience of over-indebtedness, Netherlands)

A number of participants from various Eastern European countries further pointed out that the existing stigma surrounding debt and financial issues in their societies would likely need to be addressed before people would feel comfortable admitting to themselves and others that they had a problem and needed advice. As an interim measure they suggested that banks could gently nudge their at-risk customers towards such services, thereby possibly reducing any sense of shame those customers might feel at having to proactively request help themselves. Another suggestion was that the word "debt" could be omitted from the name of such services in favour of more neutral or even positive labels such as "financial counselling service" or "money wisdom service."

> *"When a bank sees that someone has a problem with repaying their debt, they should call them and address the problem with the person. Then one will not be so ashamed."*
>
> (Female, over 55 years old, experience of over-indebtedness, Slovakia)

> *"The name of the debt advice service is really such that it sounds like a correction of errors intended for people in trouble. If it had another name, it could sound like something hip."*
>
> (Female, over 55 years old, experience of over-indebtedness, Estonia)

In some Western, Northern and Eastern European countries where awareness of debt advice organisations was higher, participants often commented that current provision was insufficient to meet demand, or of varying quality, which only reinforced their view that there was a need for more and better services. Some also observed that such services were not sufficiently publicised and may be under-used for that reason.

> *"Increased availability of debt advice services is helpful. In Berlin there are long waiting times and there is only one free debt advice service available per city district."*
>
> (Female, over 55 years old, experience of over-indebtedness, Germany)

> *"Debt counselling is very effective, especially if it is implemented when needed or sometimes preferably before the need exists. For this to happen, the service needs to become better known and available in the municipalities."*
>
> (Female, under 55 years old, no experience of over-indebtedness, Sweden)

Despite participants' often strong support for increasing debt advice services, they tended to respond negatively to the idea of publicly-provided digital tools to help people manage their finances. They raised several concerns about such tools. Firstly, that these would be of little help for those who were already over-indebted, failing to provide any relief or address the underlying causes of their problems. Secondly, that the tools would exclude some older people and those who might not be able to access or use digital technologies – groups that some noted were among those most likely to experience over-indebtedness. Thirdly, there was a perception that the tools were unlikely to be widely used, not least because similar such services were already available from banks or online. Participants in Eastern Europe added that state-run IT tools tended to be of poorer quality than those developed by commercial enterprises. Some also had specific concerns about the idea of entering their personal information into a publicly-owned tool, either because they were generally anxious about sharing personal data, or because they were reluctant to put their earnings 'on record' in case the National Tax and Customs office came to access the information.

> *How could digital tools help? It allows you to know some exact things, but how can it help when you have [an income of] 18 million [Lei] per month and you have to pay 15 million to the bank? What more could it tell you?"*
>
> (Female, under 55 years old, experience of over-indebtedness, Romania)

> *"If you are ill and cannot read and understand an entire website, it is important that you can also meet a person face-to-face"*
>
> (Female, over 55 years old, experience of over-indebtedness, Denmark)

"Then [the state] would, of course, see everything [in the digital tool] and be, like, 'Oh, he has this much income, actually'… I wouldn't trust it."

(Male, under 55 years old, experience of over-indebtedness, Latvia)

This criticism notwithstanding, some participants remarked that digital tools could better equip some consumers to maintain an overview of their finances and reconcile their spending with their income. A common view among these participants was that a combination of digital tools and personalised debt advice may provide the most optimal solution. Another suggestion was that the tools could be introduced and demonstrated to people as part of debt advice sessions, or financial education programmes.

"Both in combination would be effective. First the advice and then the tools to help control your expenses and income. I assume, when you get advice, they also expect you to better keep track of your financial situation."

(Female, under 55 years old, no experience of over-indebtedness, Germany)

"Digital tools can really be good as aids, but you need an overview of how they work. Otherwise, they will not be used, and their purpose will be lost."

(Female, over 55 years old, experience of over-indebtedness, Sweden)

Table 3.9: Measures to help people get out of debt – summary overview

MS	
BG	Reaction to the idea of increasing the availability of debt advice services varied depending on whether or not participants had personally experienced over-indebtedness. Those with no such experience were generally enthusiastic about the idea, as they felt advice services were lacking in Bulgaria at present, meaning that people often had nowhere to turn if they were struggling with their finances or with understanding financial matters. As if in testimony to this perspective, no participants were able to name any existing organisations that offered debt advice in Bulgaria (aside from banks and companies who provided refinancing and debt consolidation services). Participants with experience of over-indebtedness spoke more equivocally about debt advice services, however. While they could see significant potential value in such services, they were unsure that people would use them and felt this would depend on the reasons they had become over-indebted, as well as the value of their debt and the urgency of repayment. The idea of publicly-provided digital tools to help people manage their finances was generally welcomed by participants. That said, there was suggestion that an advisor-facilitated version of the tool should be made available for those who were older or less digitally literate.
CZ	There was very strong support for increasing the availability of debt advice services. Participants felt Czech consumers were very much in need of such services, but that provision was somewhat lacking at present – indeed they could name only one specific organisation that provided debt advice – 'People in Need' – albeit some were aware that debt companies also operated in this space. They felt strongly that, regardless of who provided it, debt advice should be free of charge. The idea of publicly-provided digital tools to help people manage their finances received a generally negative reception. Participants raised several concerns about such tools: Firstly, that these would be widely used in Czechia, partly because similar services were already available from banks. Secondly, that the tools would exclude some older people who might not be able to access or use digital technologies. Thirdly, that the tools would be much less effective than in-person advice. Some participants were also uncomfortable with the idea of entering information into a publicly-owned platform – either because they were generally anxious about sharing personal data, or because they lived in a town where "everybody knew everybody" and so feared that they might be identifiable from the information.
DE	There was universal support for this sub-set of measures. Debt advice services were seen as particularly important in enabling people to get the personalised, hands-on support necessary to turn around their finances. Indeed, there was suggestion that debt advice should be made compulsory for people who were over-indebted. Participants with experience of over-indebtedness appeared generally well-informed about different advice services, mentioning Caritas, Arbeiterwohlfahrt (AWO), Öffentliche Rechtsauskunft (ÖRA), Deutscher Familienverband, Diakonie, Rotes Kreuz and more general Consumer Advice Centres. Most of them had previously made use of such services and found the experience very helpful. At the same time, both those who had and had not experienced over-indebtedness noted that the services could be difficult to access in some towns and cities because they were limited in number and/or had long waiting lists. They also commented that the effectiveness of the services depended heavily on the quality of the advisor. The idea of publicly-provided digital tools to help people manage their finances was also viewed generally positively. Participants remarked that such tools could better equip consumers to maintain an overview of their finances and reconcile their spending with their income. There was suggestion that the tools could be introduced to young people during financial education programmes in schools. At the same time, some commented that digital tools may be less appropriate for older people. A common view therefore was that a combination of digital tools and personalised debt advice may provide the most optimal solution.
DK	Participants were strongly enthusiastic about these measures, reflecting their belief (or their direct personal experience) that advice and support could help people turn around their finances. They particularly favoured a combination of face-to-face advice sessions (organised through the municipality) and publicly-provided

	digital tools. On the one hand, they believed that face-to-face provision was indispensable as it gave advisees important opportunities to ask questions and receive tailored support, including people who were unable to go online or read information themselves. On the other hand they felt that the availability of digital tools would serve to widen access to support, as well as providing a constant reference source for users. A couple of participants suggested that debt advisors could play a role in introducing clients to any digital tools. Awareness of current debt advice provision in Denmark was somewhat mixed. Participants tended to think mainly about banks when asked if they could name any specific organisations, though one participant also mentioned some NGOs, namely, Mødrehjælpen" (Mothers Aid), women's shelters and "Foreningen Far" (Father's Association). Still, among participants with experience of over-indebtedness, there were enthusiastic references to a popular television programme called "Luxury Trap", in which consumers who were struggling financially were assisted in getting control of their debts.
EE	The idea of increasing the availability of debt advice services was applauded, based on a perception that high quality, impartial and accessible debt advice was an essential tool to help people resolve their difficulties. Most participants were aware that such services already existed, but they felt these were mostly active in cities, and that there was a lack of communication about them. Perhaps reflecting this, only some participants could name specific debt advice services. Those mentioned were the Unemployment Insurance Fund, the Social Insurance Board and Tallinn city government debt counselling. Several participants felt it would be useful if banks or authorities were to automatically refer people to the services if they had reason to believe this might be appropriate. Others took this idea a step further and proposed that debt advice counselling could be made a mandatory part of pre-loan consultations at banks, at least for particularly at-risk groups. At the same time, there was a view that the stigma surrounding debt and financial issues in Estonia would likely need to be addressed before people would feel comfortable seeking advice. In that respect, participants felt that rebranding such services and avoiding the word "debt" in favour of labels such as "financial counselling service" or "money wisdom service" could help. In terms of the idea of publicly-provided digital tools to help people manage their budget and track expenses, most participants commented that similar such tools already existed and that state-run IT tools were of poorer quality than those developed by commercial enterprises. They also observed that such tools might be challenging for elderly people, or those with lower levels of digital literacy.
EL	There was very little support for increasing the availability of debt advice services and providing digital tools to help people budget and keep track of their spending. Participants struggled to see how these measures could have a significant impact on the situations of consumers experiencing serious financial difficulties (albeit some felt that the measures could potentially prevent some people getting into such difficulties in the first place). Several participants went further, arguing that digital tools especially would be a waste of public money that could be better spent supplementing consumers' incomes. As the discussions progressed it became apparent that lukewarm views on the likely impact of debt advice services specifically to an extent reflected a lack of understanding about what such services might offer. This was especially the case among participants with experience of over-indebtedness, some of whom commented that what was needed instead of such services were opportunities to consult with personal finance experts, including on available benefits and grants, and how to create an effective repayment plan. They also called for psychological support for consumers experiencing challenging circumstances. There was very low awareness among participants of existing debt advice provision in Greece. The only organisation mentioned (by a participant with no previous experience of over-indebtedness) was 'Citizen's Advocate'.
ES	Some enthusiasm was expressed for the idea of increasing the availability of debt advice services. Participants felt that receiving guidance and advice from experts could be invaluable for those experiencing difficulties, not only in terms of helping them identify the range of options available to them, but in equipping them to make better, more informed financial decisions in the future. Still, there was some feeling that the scope of the measure was perhaps too limited given it was targeted specifically at consumers already experiencing debt, rather than to a wider constituency. There was low awareness among participants of existing debt advice provision in Spain. On prompting, only one participant said that they knew of an organisation active in this field, though they could not remember its name The idea of publicly-provided digital tools to help people manage their finances was roundly rejected. Participants tended to be against any measure that was explicitly associated with public institutions, based on their general distrust in government. They also observed that people in Spain tended to be very private when it came to their financial information and therefore would be unlikely to feel comfortable with the idea that their information might be recorded through digital tools.

FR	Increasing the availability of debt advice services was seen as an important step in tackling over-indebtedness. There was a consensus among participants that people who were in financial difficulties could benefit greatly from receiving personalised support from a qualified professional – both in terms of learning about different solutions available and identifying an optimal way forward. Such provision was seen to be lacking at present, however. Indeed, participants were unable to name any specific organisations that provided debt advice, beyond banks, social workers and social services ('assistance sociale'). That said, some commented that, if they needed to identify such an organisation, they would make enquiries at their local commune. Views on the idea of publicly-provided digital tools aimed at helping people better manage their finances were on the whole quite negative. Participants with experience of over-indebtedness especially, commented that they could not see how the tools would help people who were already in debt – particularly if their problems were due to the fact that their salary was too low to cover their regular payments. Some also commented that digital tools represented too "passive" an intervention, in the sense that these would not provide people with guidance on *how* to go about improving their situation or changing their relationship with money. Another concern raised was that digital tools may not be suitable for older, less digitally literate segments of society.
HR	Participants were generally supportive of the measures, agreeing that these could in principle help people resolve their debt problems. However, some expressed doubt that many people would actually make use of such provision, given that doing so would demand a level of personal proactivity and willingness to make changes. This observation also seemed to speak to a perceived stigma associated with seeking help for financial problems. When asked whether they themselves would use debt advice services or digital tools if they were to experience difficulties, a considerable proportion of participants stated that they would not need such help as they would be able to take care of things themselves. Still, others responded more positively, with one person adding that they would like to see debt advice and tools being made available at their own bank. At the same time, there was a shared feeling among participant that offline services and especially face-to-face advice, should be prioritised over digital solutions, to avoid discriminating against, and ensure the inclusion of, people with low levels of digital literacy. On a more general point, some participants commented that increased debt advice services and digital tools may have little impact if appropriate efforts were not made to raise awareness of this provision. As if in testimony to this, most participants were unable to name any existing debt advice organisations or services in Croatia, and, indeed, some had never heard of the concept of debt advice at all.
HU	Support for the idea of increasing the availability of debt advice services varied depending on whether or not participants had experienced over-indebtedness. Those who had tended to reject the utility of debt advice services for those already in debt – though they saw potential in making such services available at the point of loan issuance, as more of a preventative measure. Participants with no experience of over-indebtedness in contrast tended to feel debt advice could be useful as a recovery tool, especially in enabling debtors to identify root causes of their problems and receive valuable advice accordingly. Awareness of existing debt advice organisations in Hungary was low. On prompting, participants could name only one organisation that they felt fitted this description, which was the Chamber of Finance. The idea of digital tools to help people manage their finances was criticised for several reasons. To begin with, and as in the case of debt advice services, participants thought that such tools could serve only as a preventative measure and so would not change anything for those who were already over-indebted. They also pointed out that people would be reluctant to keep an accurate record of their income in the tools, in case this information came to the attention of the National Tax and Customs office. Finally, they commented that such tools were not new and already available via banking applications for example.
IE	Participants generally felt that these measures represented nothing new and so showed limited enthusiasm for them. They pointed out that good debt advice services already existed, with some referring to the Money Advice and Budgeting Service. Similarly, they noted that various budgeting apps were already easily accessible online. Aside from these points, there was comment that the measures, though potentially helpful for some people, would not address the key problems of stagnating wages and rising prices.

IT	Participants' initial reactions to this subset of measures were characterised by a strong sense of doubt that these would be of any help to people who were already over-indebted. Ultimately, they tended to feel that the measures would be 'too little, too late' for this group. On the idea of increasing the availability of debt advice services specifically, participants had a limited amount to say – which appeared to reflect the fact that they had very little, if any, a priori awareness of such services or understanding of what they did. Still, several of those with experience of over-indebtedness said they would be open to using such services, at least if they were faced with very serious difficulties. Specific types of support that they felt such services should provide were information on different types of loans and associated regulations, and recourse options in the event of experiencing financial difficulties. Participant engaged very little with the idea of publicly-provided digital tools to help people manage their finances. Besides criticising the idea as unhelp for those who were already over-indebted, some commented that the tools would only really be effective if accompanied by financial education programmes of the type discussed previously.
LV	Participants were generally sceptical of the idea of publicly-provided digital tools. Indeed, some of those with experience of over-indebtedness thought the idea was outright farcical because it completely missed the point that those most in need of help were already *in* debt. Others commented that government apps tended to be of low quality and therefore would not be used much. Still others were mistrustful of the idea because they thought that entering all of their financial information into the tool would enable the government to track any unofficial earnings they had. The idea of increasing the availability of debt advice services, on the other hand, was universally seen as a potentially helpful measure. Participants felt that such services were invaluable not only in practical terms but also mentally, helping those in debt to feel safer and less alone. That said, some participants commented that measures aimed at people already in debt may not necessarily be as impactful as they could be because some of those people may be inclined to deny their problems. Awareness of existing debt advice organisations in Latvia was very low. On prompting participants were able to mention only one organisation that they thought was active in the field – the State Social Insurance Agency (VSAA), which some participants mentioned as offering online lectures and courses about finances and getting out of debt.
NL	Participants agreed that increasing the availability of debt advice services was an important and necessary measure, reflecting their view that access to such services in the Netherlands was less than adequate at the moment. They pointed to long waiting lists for government-provided debt counselling specifically (one participant cited a waiting period of up to three years), as well as generally low awareness of such services and their functions. As if in testimony to this, participants themselves could name only one specific organisation that offered debt advice – the Nibud (Nationaal Instituut voor Budgetvoorlichting/National Institute for Family Finance Information – albeit some did make more general references to government debt counselling and restructuring agencies, as well as to social workers, with several of them having sought help from these sources in the past. Regarding the idea of digital tools to help people budget and keep track of their spending, most participants could see how these could be useful in theory. However, they were concerned that the tools would not be an effective solution for some groups thought to be most at risk of over-indebtedness, especially older people and those with a low level of education or digital skills.
PL	There was universal support for increasing the availably of debt advice services. Participants felt that such services were currently difficult to find, albeit they were aware some churches, charities and individual volunteers, along with debt management companies were active in this area. They felt strongly that debt advice services should be state-provided, free and widely available in both urban and rural areas – for example, in municipal centres, village administration centres or social service departments. A participant with experience of over-indebtedness remarked that the advice offered should include legal counsel for people who were facing difficulties with aggressive loan companies. While no participants reported having used debt advice services – perhaps reflecting the perceived shortage of provision – one person said that she had a friend who had done so and found the experience to be a helpful one.

	Enthusiasm for more debt advice services did not extend to the idea of state-provided digital tools to help people manage their finances. There was a feeling that such tools would exclude older people who were less digitally literate. Some participants were also distrustful of how the state might use any information entered into the tools. Further, there was comment that the state's current publicly-facing digital systems were of low quality, so often unreliable.
RO	There was widespread agreement that neither increased access to debt advice services nor digital tools would help people address their financial problems, against a backdrop of low wages and other economic challenges in Romania. Awareness of debt advice services was very low among the participants. Indeed, none of them could name any specific organisations offering such services. To the extent that they were able to form a general conception in their minds of what the services might do, their assumption tended to be that banks and other lending institutions must be behind them. This fuelled further negativity towards such services, with participants surmising, for example, that debt advice might simply be part of lenders' sales strategies. Based on this perspective, there was a view that making such services more available could actually serve to *increase* Romanian households' debt problems. In terms of the idea of publicly-provided digital tools to help people budget, participants appeared to have difficulty understanding how the tools would work, and how they would be relevant for them personally.
SE	Participants were positive about the idea of increasing the availability of debt advice and emphasised the importance of such advice being provided to debtors at an early stage, before their debt spiralled out of control. They were generally aware that debt advice was currently offered by municipalities, and some also believed it was available through banks in Sweden. While municipalities emerged as a particularly favoured source of debt advice, sometimes on the basis of people's own positive experiences of seeking their support in the past, there was a view that the services were not always sufficiently publicised and also tended to have long waiting lists. Various suggestions were put forward as to how these issues might be tacked, including improving sign-posting to the services on municipal websites, as well as via postal mailouts and social media. Participants also supported the idea of publicly-provided digital tools to help people manage their finances. However, they emphasised the importance of training being provided on the use of such tools, with one person suggesting that this could be incorporated into debt advice sessions.
SK	The idea of increasing the availability of debt advice services was generally welcomed, especially among participants with personal experience of over-indebtedness. Several such participants talked about their own past use of advice services, especially the Legal Aid Centre ('Centrum právnej pomoci'), which seemed to be a relatively well known and trusted service among the participants generally. Others described less positive experiences with debt advice services, however, such as advisors who had appeared insufficiently informed, which added to their conviction that there was a pressing need for more, higher quality services. There was a perception that public awareness of such services was low. Some participants therefore argued that any new services developed should be better publicised, while others suggested that banks could pro-actively flag the services to customers who they felt were at risk of becoming over-indebted. The latter approach, it was felt, would also help to circumvent any sense of shame the customer might feel about their difficulties and that might keep them from proactively seeking help themselves. Alongside these suggestions, participants felt that debt advice services should be free, understandable to all, and provided by independent organisations, not commercial operators such as banks. The idea of publicly-provided digital tools to help people manage their finances was met with considerable scepticism. While some participants contended that such tools might be attractive to younger people, a more common perspective was that the tools would not be useful for people with low digital skills. Some participants also raised data privacy concerns, especially since the tools would handle very sensitive information about people's finances.

3.6.4. Other measures suggested

In addition to the measures discussed above, participants suggested other actions that they felt would help prevent people becoming over-indebted (or enable them to recover from such a situation). These actions comprised three main types: macro-economic interventions: improvements to the loan and credit ecosystem; and improvements to consumer information and support.

Macro-economic interventions were mentioned mainly by participants in the Southern European countries, Croatia, Hungary, Poland and Romania. They perceived an urgent need for their respective governments to tackle low wages and inflation, which they felt underpinned, and perpetuated, many consumers' financial difficulties. Those in Greece also called for better public childcare, healthcare, and education provision, so that citizens could devote less of their income to paying for such services, or aspects thereof.

In terms of **improvements to the loan and credit ecosystem,** all of the suggestions put forward were concerned with making this 'safer' and more hospitable for consumers, especially those experiencing financial challenges. The suggestions included:

- the abolition of quick loans and/or high interest loans (or the introduction of a cap on these)
- a ban on the advertising of quick loans and of gaming and gambling websites
- more opportunities to defer loan and credit repayments, and to pay off interest only during particularly difficult times
- measures to tackle perceived unfair practices by banks – including in relation to charges and other conditions – and more thorough checks by banks on lenders' abilities to repay loans. There was also suggestion that banks could play a role in helping boost consumers' incomes, by rounding up their customers' transactions
- schemes enabling consumers to pay off debts owed to public institutions through working in state jobs
- government-provided information (a website) on the risks associated with different types of loan

As regards suggestions for **improving consumer information and support**, some of these were concerned with increasing levels of financial awareness – including in relation to the importance of economising, the availability of public subsidies, and the option of investing (rather than just saving). Other suggestions related to more direct forms of support that participants felt were currently lacking in their respective countries, including:

- independent loan advice services (Hungary, Slovakia). A specific suggestion put forward was for the appointment of independent 'consumer advocates' who could accompany prospective borrowers to banks to help them understand the options available to them, including associated terms and conditions. There was also suggestion that banks themselves should make such consumer advocates available in situ
- support in finding employment (Greece) and debt advice services with linkages to employment and training opportunities (Hungary)
- psychological support for those who spend compulsively (Italy)

- peer support groups for the over-indebted, where they could share their experiences and coping strategies (Germany, Poland, Croatia)
- greater efforts to raise awareness of existing support provision (the Netherlands)

From a broader perspective, some participants also emphasised a need for concerted efforts to tackle the stigma surrounding debt, so that those in the situation felt less ashamed and were more willing to seek support in the first place.

3.7. Summing up: Perceived most and least efficacious measures for preventing over-indebtedness

Towards the end of the focus groups, participants were asked to reflect on the various measures considered during the discussion and to indicate which of these they felt would be the most and least effective.

Overall, measures that participants tended to feel would be most effective (for reasons outlined above) were **financial education programmes** and **increasing the availability of debt advice services**. The latter measure received especially strong support in the Northern and Eastern European countries, potentially reflecting the fact that participants there tended to have the greatest awareness of such services and their potential, whilst at the same time sometimes feeling that provision was insufficient at present. Another relatively popular measure, more especially among participants with experience of over-indebtedness, was that of **encouraging more responsible lending practices**.

The idea of state provided low- or no-interest loans proved to be very polarising. On the one hand, it was voted the least, or one of the least, effective measures by participants in Denmark, Germany, the Netherlands, Spain and some participants in Ireland. On the other hand participants in several Eastern European countries (Croatia, Bulgaria, Hungary), as well as in Latvia, Greece and France viewed the measure as one of the likely most effective. Generally, participants with personal experience of over-indebtedness tended to rank the measure more highly those with no such experience.

Measures that participants commonly felt would be least effective were advertising campaigns to raise awareness of the risks associated with poor credit choices and publicly-provided digital tools to help people budget and track their spending.

3.8. Conclusion

The focus group research provided a range of new and important insights concerning consumer perspectives on over-indebtedness. At the most fundamental level, it confirmed the complex range of (and interplay between) both structural and individual-level factors feeding into over-indebtedness – including low wages, unemployment, rising prices, the increased availability of loans and credit, as well as unrestrained consumerism and sometimes low levels of financial literacy and education. Of these various factors, rising prices combined with low or stagnating wages were seen to be placing particular strain on households at present and increasing the likelihood of over-indebtedness becoming more common in the near future. That participants who had and had not experienced over-indebtedness expressed similar levels of concern (and oftentimes despair) about their own ability to make ends meet over coming months, only underscores the depth of the challenge facing consumers and the need for urgent measures to address these.

Alongside current macro-level economic conditions, the ubiquity of quick consumer loan offers was another factor seen as having particularly contributed to rising over-indebtedness over recent years – and as having the potential to do so still further in the future, given the aforementioned challenges facing consumers. It was notable that while some participants saw a clear case for the increased regulation (or even abolition) of the quick loan market, others (generally people with experience of over-indebtedness) stressed that quick loans were sometimes debtors' only available lifeline during difficult times – often because they were unable to meet the borrowing conditions of traditional lenders. This duality in perspectives will require careful navigation as part of any strategies aimed at addressing supply-side facilitators of over-indebtedness.

Across the 18 countries, participants appeared cognisant of a range of different coping strategies they might pursue if faced with over-indebtedness. It was notable, however, that outside of the Northern Europe countries (Ireland, Germany and the Scandinavian countries), the strategies mentioned predominantly took the form of individual-level behavioural adaptations (working more, cutting back on spending, selling assets) or seeking support from friends or family. There was very little mention of formal external support mechanisms available for the over-indebted, whether in the form of direct financial assistance (benefits, subsidies) or debt advice. Mention of debt advice services was particularly limited and, indeed, in a few countries, participants had no concept at all of what these were or what they did. This potentially reinforces the case, not only for increasing the availably of debt advice, but for better public promotion and signposting of such provision. Equally, to ensure consumers make use of the services, parallel efforts may be needed to tackle the stigma and shame surrounding debt, highlighted by the focus group participants.

In terms of other potential levers for tackling over-indebtedness, a common theme of these discussions was a desire for measures that would directly address perceived structural underpinnings of over-indebtedness or that would have an immediate impact, especially for those currently in difficulty. Thus, there was support for measure to address rising prices and low wages, and to promote more responsible lending practices, as well as for financial education – whereas the idea of trying to encourage people to save more or provide them with digital tools to manage their finances often met with irritation or derision.

These generalities notwithstanding, views on potential measures to tackle over-indebtedness were often also very context-dependent. Reaction to the idea of no- or low- interest state loans provides a case in point. While there was strong support for the idea in some countries, there was considerable opposition in others, which in several cases appeared to reflect a broader distrust of government and government-sponsored initiatives in those countries. Such findings potentially underscore the need for carefully tailored, national strategies to tackle over-indebtedness, within the context of the broader EU-level agenda. Part of such an agenda going forward might be the sharing of innovative approaches and best practices between countries. The research identified various national initiatives that, from participants' perspectives at least, offered an important lifeline or source of support to people experiencing debt problems. Particularly stand out examples were municipal debt advice services in the Scandinavian countries, the Money Advice and Budgeting Service (MABS) in Ireland, and the Gracious Summer initiative in Czechia. Such initiatives (or variations thereof) may be transferrable to other national (or local) contexts, following the identification of the relevant success factors and requirements.

4. Task 3: Macro-economic trends and over-indebtedness across Europe in light of the COVID-19 pandemic

4.1. Summary

Task 3 provides an analysis of the long-term impact of macro-economic factors that drive over-indebtedness across Europe in light of the COVID-19 pandemic.

The report identifies the macro-economic drivers of over-indebtedness and their distribution across-socio economic groups. More specifically, the four structural factors that impact on over-indebtedness are: an increase in the cost of debts, a decrease in income, an increase in cost of living and an increase in demand for credit.

An **increase in the cost of debt** can occur through accumulation of debt or when debt becomes more expensive[127]. Economic fluctuations triggering changes in interest rates and in inflation have the effect of increasing or decreasing the cost of debt. While consumer loans are not directly tied to the changes in the discount interest rate (the rate at which banks can borrow money from the central bank), they are still affected by it.

An **increase in the cost of living** plays an important role in any discussion of over-indebtedness because it constrains the capacity of indebted households to service their debt and therefore contributes to over-indebtedness. The main factors driving increases in the cost of living are utility costs, followed by housing costs, childcare and child-related costs and health care costs.

When it comes to a **decrease in income**, at an individual level, income shocks can result from job loss, divorce, health issues, etc., while at the macro level changes in the labour market or social protection systems have an impact on the nature and scale of individual income shocks. Unemployment, wage levels and welfare structure were considered by experts as key macro-economic drivers of over-indebtedness.

The **increase in demand for credit** has become an important factor driving over-indebtedness over the last decade. Digitalisation and the emergence and of new credit products and services have allowed consumers to take out credit without any physical interaction with the credit provider. In addition, new products such as *peer-to-peer lending, paydays loans*[128] *and revolving credit*[129] have become increasingly popular[130]. These practices seem more prevalent in the online credit market and they create a risk of increasing over-indebtedness levels among consumers.

COVID-19 impact on the drivers

In the aftermath of the COVID-19 health crisis and related confinement measures, the over-indebtedness situation in the European Union (EU) started to worsen again. Overall, the

[127] Hililamo H., 2018, Household debt and economic crises, causes, consequences and remedies, Elgar.

[128] Short term unsecure loans with very high interest.

[129] Open ended credit account that can be used and paid down repeatedly as ling as the account remains open (credit cards are an example of revolving credit used by consumers)

[130] Finance Watch, 2019, Consumer credit market study, available at: https://www.finance-watch.org/wp-content/uploads/2021/04/Consumer-credit-market-study-V13.pdf

results show that COVID-19 is expected to have a significant effect on each of the four drivers of over-indebtedness though there are differences across the drivers and over time.

In the **short term** the pandemic has had:

- a relatively **small impact** on the increase **in cost of debts**. The measures implemented to reduce debt interest payment and support household debt had the positive effect of supporting households and preventing them from defaulting on their financial obligations in the short term.
- a **significant impact** on household **expenditures**. At the same time, measures were undertaken by several EU Member States to protect the economic situation of the most vulnerable.
- a **major (negative) impact** on household **incomes**, aggravating the already existing wealth divide[131]. The self-employed and the youngest cohort of the population were most affected.
- a **significant impact** on **demand for credit**, especially among the younger segments of the population.

In the **medium and long term**, the impact of COVID-19 on all the four drivers will have a less relevance, however when it comes to cost of living, the impact will be still important, due its contribution to rising inflation and the interruption of some of the financial measures put in place in the aftermath of the pandemic to support the most vulnerable households. It is also important to stress that the worsening of the European economy has exacerbated existing inequalities. Moreover, there is a considerable risk that the pandemic has created a separation between those who can work predominantly from home and those who cannot. These inequalities will likely persist in the medium and long term, in case no targeted measures are put in place to face those challenges.

Socio-economic groups mostly affected by the four drivers

The findings show that **income** is the most relevant dimension to understand changes in over-indebtedness. In line with the literature review, the consulted experts stressed the disproportionate impact of the different drivers on people with low income, which are most at risk of becoming over-indebted. In particular:

- low-income groups (the first and second quintile) represent around 70% of over-indebted households due to an increase in cost of debts, cost of living, demand for credit and decrease in income.

The second most important dimension is **employment status**. While unemployment might not necessarily be coupled with high debt levels, the loss of a job, or becoming unemployed after being used to having a job might, nonetheless, produce an increase in debt levels.

- around 81% of the over-indebted households is unemployed, due to an increase in cost of debts, cost of living, demand for credit and decrease in income.

Age tends to be a fairly relevant dimension to consider when analysing the impact of an increase in cost of living:

[131] Bruegel, 2020, The fiscal response to the economic fallout from coronavirus. Available at: https://www.bruegel.org/publications/datasets/covid-national-dataset/#greece

- when an increase in cost of debts or a decrease in income occur, older segments of the population, i.e. cohort (55+ years old), represent around 38% of the overall over-indebted households, while middle and young cohorts are to a less extend affected.
- when there is an increase in cost of living or demand in credit, the most affected share of households is the younger cohorts (16-35 years old). Around 42% of over-indebted households are young, 33% are in the middle cohort (34-54 years old), and 25% belongs to older cohorts.

Household size, education, geography and **gender** are -to a less extent- relevant dimensions to be analysed when looking at the four drivers of over-indebtedness. However, within these four socio-economic groups, the most affected cohorts are the following:

- Single parents with children represent in average 53% of over-indebted households when an increase in cost of debts, cost of living, demand for credit or a decrease in income occur, while parent couple with children are to a less extend affected (29% of over-indebted households).
- Segments of the population with little or basic education represent respectively 50% and 35% of the over-indebted households.
- Households living in urban areas represent in average 57% of the over-indebted population due to an increase in cost of debts, living, demand for credit or decrease in income.
- Women represent in average 60% of over-indebted population, against 40% represented by men.

Future trends in the light of the COVID-19 crisis

In task 3, an overview of future trends in over-indebtedness over the next five and ten years was also presented. The study team designed a model to provide some estimation on over-indebtedness levels as a result of the four macro-economic drivers. The main findings of the model suggest that the share of **over-indebted households in the EU** is expected to increase from 8.8% in 2020 (17.2 million households) to 11.3% in 2032 (22.1 million) resulting in an overall 28% increase in this period[132].

While the overall increase in household over-indebtedness across the EU is expected to amount to 28% , the level of the increase and the shape of the curve vary significantly between Member States [133].

The sociodemographic groups most impacted by the increase in over-indebtedness in 2032 will be:

- **Low-income** households (**3.5** million additional households expected to be over-indebted which would result in a total of 15.9 million over-indebted households);
- **Unemployed** households (**3.7** million additional households expected to be over-indebted which would result in a total of 17 million over-indebted households);

[132] In the cases when the estimates for 2027 and 2032 are the same, we group the projections for these years together and are either shown as projection for 2027 and 2032, or projection for 2032.

[133] In the Task 1 of the Study, Member States were clustered based on the prevalence of household arrears in 2020. For more information, please see Section 2.3.

- **Females** (**3** million additional households expected to be over-indebted which would result in the total of 13.9 million over-indebted households);
- **Households living in urban areas** (**2.9** million additional households expected to be over-indebted which would result in a total of 13.2 million over-indebted households);
- **Single parents with children** (**2.6** million additional households expected to be over-indebted which would result in a total of 11.7 million over-indebted households);
- **Households with a basic level of education** (**2.4** million additional households expected to be over-indebted which would result in a total of 11 million over-indebted households);
- **Young households** (**1.8** million additional households expected to be over-indebted with a total of 8.2 million over-indebted households overall).

While, the driving forces behind the increase in household over-indebtedness are[134]:

- the expected **increase in cost of living** (contributing 54% to the increase in over-indebtedness),
- an expected **decrease in income** (contributing 24% to the increase in over-indebtedness),
- an **increase in demand of credit** (contributing 13% to the increase in over-indebtedness),
- an **increase in cost of debts** (contributing 7% to the increase in over-indebtedness).

Recent developments and the energy crisis

The projections of over-indebtedness levels in the analysis above were made before the impact of the recent energy crisis, partly stemming from the Russian war in Ukraine, became fully clear. Even without this additional driver, the projections show that an additional 4.9 million would likely be over-indebted by 2032. These calculations were based on cost-of-living estimations for June 2022, when inflation was running at 8.1% (EU average)[135] and the rise in energy prices due to the war in Ukraine was not fully factored in.

Considering the temporary shock in energy prices and the increase in inflation to 10% (EU average)[136] in September 2022, it is likely that the cost of living will play an important role in driving up over-indebtedness in the short to medium term.

- **In 2022, around 19,1m of households are in arrears with their key financial commitments, which is approximately 2 million more than in the base scenario.**

Additionally, longer term **inflation expectations have also changed since June 2022**[137]. There has been an increase in average inflation expectations over the next 5 years (from 3.68% to 4.38%).

[134] These percentages are calculated based on expert ranking of different macro-economic factor impact over-indebtedness.

[135] Eurostat, 2022, Flash estimate Euro area annual inflation up t 10%, available at: https://ec.europa.eu/eurostat/documents/2995521/14698140/2-30092022-AP-EN.pdf/727d4958-dd57-de9f-9965-99562e1286bf#:~:text=Euro%20area%20annual%20inflation%20is,office%20of%20the%20European%20Union

[136] https://ec.europa.eu/eurostat/documents/2995521/14698140/2-30092022-AP-EN.pdf/727d4958-dd57-de9f-9965-99562e1286bf#:~:text=Euro%20area%20annual%20inflation%20is,office%20of%20the%20European%20Union.

[137]Available at: https://www.ecb.europa.eu/pub/projections/html/ecb.projections202209_ecbstaff~3eafaaee1a.en.html#toc7; https://www.ecb.europa.eu/pub/pdf/other/ecb.projections202206_eurosystemstaff~2299e41f1e.en.pdf

Applying the higher inflation figures takes the expected evolution of the number of over-indebted households during the period of 2020 to 2032 to increase from 28% to 37.2% of the EU households[138]. With the updated starting point in the number of households that experience over-indebtedness in 2022 (19,1m) due to the rise in energy prices, this translates into an overall number of over-indebted households rises to **26m households by 2027**[139] (3.9 million additional over-indebted households due to the rise of energy prices and inflation).

- **In other words, the rise in energy prices and inflation will likely lead to an additional 3.9 million over-indebted households by 2027, on top of the 4.9 million increase expected in the base scenario.**

While the rise in inflation and specifically energy prices will take some time to fully filter through to over-indebtedness and geopolitical tensions are likely to persist for some time, **in the longer term (10 years) it is expected that price rises will stabilise** and return to a more sustainable equilibrium. This will be further supported by any policy measures that are put in place at EU or national levels to mitigate the effects of energy price rises and inflation (e.g. cap on energy bills, subsidies to support household income, increase in wages, etc). By 2032 we would therefore expect the number of over-indebted households to fall back to projection in the baseline scenario (22 m households).

Remedies

Given the magnitude of the problem, key measures that could be taken to mitigate the impact of this future evolution analysed were preventing and remedial measures.

Preventive measures include activities occurring before the appearance of symptoms, warning signs, and implications of over-indebtedness. The promotion of policies and initiatives to increase financial knowledge of EU households is an essential preventive measure to tackling over-indebtedness as it directs households towards a more sensible approach when it comes to the management of their personal finances. This is particularly relevant in the context of the ongoing digitalisation of financial services and the share of households purchasing complex financial products.

Although measures preventing households from becoming over-indebted, either by raising their financial awareness and/or limiting irresponsible lending, can be very effective, preventing over-indebtedness is not always possible. **Remedial measures** focus on alleviating the impact of, and eventually solving, over-indebtedness after it has already occurred. This can be done either by providing the over-indebted households with professional advice on how to solve financial, legal, and psychological problems of being over-indebted and/or providing certain legal procedures that can help with the re-structuring and in some cases (partially) alleviating the accumulated debt.

Debt advice can bring a variety of benefits to households that are already over-indebted. Nonetheless, despite its benefits, debt advice systems are relatively underdeveloped in almost half of the EU Member States. The European Commission has been addressing this issue with the recently completed[140] and ongoing initiatives[141] to increase the accessibility and

[138] A 33.3% increase.

[139] Or 13.3% of the EU households.

[140] European Commission (2022). Provision of actions to extend the availability and improve the quality of debt-advice services for European households. Available at: https://ec.europa.eu/info/sites/default/files/debtadvice_final_report.pdf

[141] European Commission (ongoing). Provision of an European Platform for the Prevention of Over-Indebtedness by the Increase of Accessibility and the Improvement of Effectiveness of Debt Advice for Citizens.

effectiveness of debt advice services for EU citizens. Nevertheless, a continuous effort focusing on building or improving necessary infrastructure with debt advice organisations and on the training of debt advisors is needed to improve the situation of the over-indebted households in the EU.

4.2. Introduction

The aim of this task is to provide an analysis of the long-term impact of macro-economic factors that drive over-indebtedness across Europe in light of the COVID-19 pandemic. Moreover, additional considerations about the recent energy crisis will be mentioned.

The report first identifies the macro-economic drivers of over-indebtedness and their distribution across-socio economic groups. The study provides a methodology framework to describe future trends in relation to over-indebtedness, taking into consideration how the COVID-19 pandemic (and other exogenous factors) might affect these macro-economic drivers. Additionally, the framework can be used to build future scenarios in case of changes in the underlying macro-economic drivers of over-indebtedness. Based on an expert consultation, each scenario is linked to a set of policy measures that can be taken to mitigate the negative impact of over-indebtedness of the most affected population groups.

From a methodological point of view, the potential drivers of over-indebtedness were identified through a literature review and an expert consultation (online survey). The findings were used to develop a model that projects over-indebtedness over the next 5 to 10 years, taking into account the impact of COVID-19. Annex A: Methodology for Tasks 1-3 to this report contains a full description of the methodology.

4.3. Macroeconomic drivers of over-indebtedness

As mentioned in Task 1 of this report, over-indebted households are defined as *having on an on-ongoing basis difficulties meeting (or falling behind with) their commitments, whether these relate to servicing secured or unsecured borrowing or to payment of rent, utility or other households bills.*

Following this definition, a conceptual framework was developed to identify macro-economic factors driving household over-indebtedness in the short and in the long term. It is important to mention that over-indebtedness is a result of a combination of structural and individual factors. For example, structural factors influencing over-indebtedness can be related to economic fluctuations, such as increasing interest rates which make debt more expensive. While individual factors, such as financial literacy or behavioural characteristics (e.g. attitudes to risk) can also have an impact on over-indebtedness, this report mainly focuses on structural factors, which are not related to individual behaviours or attitudes.

Based on the existing literature[142], the key structural factors that impact on over-indebtedness are grouped into four main categories:

[142] Hililamo H., 2018, Household debt and economic crises, causes, consequences and remedies, Elgar.

1. **Increase in cost of debts**: occurring through an accumulation of debt or when debt becomes more expensive. This is mostly caused by economic fluctuations (inflation and changes in exchange rates)
2. **Decrease in income**: occurring through loss of income, which can be caused by changes in unemployment rate, wage levels and welfare policies.
3. **Increase in cost of living:** depending on increase in utility, housing, childcare and child related expenditures, education, health and other costs such as food and transport.
4. **Increase in demand for credit**: occurring through an increase in the availability of credit and economic inequalities (i.e new types of credit loans and actors providing these loans especially in the online credit market, that can create a risk of increasing over-indebtedness levels among consumers)

The remainder of this section discusses each of these structural factors in greater depth.

4.3.1. Increase in cost of debts

An increase in the cost of debt can occurs through accumulation of debt or when debt becomes more expensive[143].

Economic fluctuations triggering changes in interest rates and in inflation have the effect of increasing or decreasing the cost of debt. While consumer loans are not directly tied to the changes in the discount interest rate (the rate at which banks can borrow money from the central bank), they are still affected by it. For example, an increase in the discount interest rate, is likely to increase the debtor's interest payment and also devaluate the asset. In this regard, economic contractions are often accompanied by a decline in asset prices. In particular, asset prices decrease, while the cost of the loans in relation to equity becomes more expensive. This results in a devaluation of assets (property or stock) while the cost of loans in relation to equity increases.[144]

Considering that housing loans have made up a large part of household debt in the last decade, mortgages were a significant source of the build-up of debt[145]. According to the European Mortgage Foundation, in 2019, mortgages accounted for 46,1% of the EU GDP.[146] In 2020, EU27 outstanding mortgage loans reached EUR 6.17 trillion, a 4.5% y-o-y increase and the largest since 2008. Furthermore, 25% of European households reported having a mortgage or similar financial product[147].

Moreover, highly indebted households are more sensitive to rising interest rates than other segments of the population[148]. When interest rates rise, households with higher debt-to-income ratio cut down their consumption more than households with lower debt. This phenomenon

[143] Hililamo H., 2018, Household debt and economic crises, causes, consequences and remedies, Elgar.

[144] Ibid.

[145] BIS Quarterly Review, 2017, Household debt: recent developments and challenges, Available at: https://www.bis.org/publ/qtrpdf/r_qt1712f.pdf

[146] European Mortgage Foundation, 2021, a review of Europe's mortgage and housing markets, Available at: https://eurodw.eu/wp-content/uploads/HYPOSTAT-2021_vdef.pdf

[147] Ibid.

[148] Riskbank, 2017, Household indebtedness and interest rate sensitivity, available at: https://www.riksbank.se/globalassets/media/rapporter/fsr/fordjupningar/engelska/2017/household-indebtedness-and-interest-rate-sensitivity-article-in-the-financial-stability-report-november-2017.pdf

could be exacerbated by an increase in inflation that raises the cost of living and reduces household purchasing power.

In the 2013 report on over-indebtedness, stakeholders ranging from civil society, public authorities' financial industry experts, mentioned credit from regulated lenders as one of the most important causes of household financial difficulties related to some form of high interest rate[149]. In contrast, movements in exchange rates related to economic fluctuations were considered as an important driver by only a small share of stakeholders (16%). In terms of consumer perception, this varied greatly by country: movements in exchange rates seemed to play a major role in countries where households were taking out loans in foreign currency. In those countries, such as Hungary, Austria, Bulgaria, Poland and Romania, a large share of consumers consulted cited movements in exchange rates as a key cause of their financial difficulties. Additionally, consumers from countries that are not part of the Eurozone tended to perceive themselves as more vulnerable to currency speculation than consumers in the Eurozone.

Expert opinion in 2022 tends to give more relevance to the increase in cost of debts compared to 2013. This could be explained by the continuing accumulation of debt, coupled with an increase in interest rates and inflation in recent months, which are starting to affect consumer debt and credit. The latest analysis of the European Central Bank highlights the challenge for Euro area households to service their debt, given the possible correction in residential real estate markets, higher interest rates and reduction of income[150].

It is also important to mention that in the last twenty years there has been an upward trend in consumer credit sales, which has been driven, at least in part, by historically low interest rates[151]. Between 1993 and 2017, household debt in Europe increased from 39.3% to 50% of nominal gross domestic product and in 2017 the outstanding amount of consumer credit in the EU-28 was around EUR 1,800 billion. In September 2019, overall credit grew by 10%, compared to 2018. In terms of market size, the biggest EU consumer credit markets are Germany, France, Italy, Spain and Poland[152].

Finally, the *COVID-19 pandemic* had an impact on household debt and related costs. On the one hand, the expansionary monetary policy of the European Central Bank has led to a reduction in debt interest payments, while on the fiscal front, a series of measures at national level were activated to support household income and debt. In several countries (including Hungary, Spain, Italy, Portugal, France) legal and sectorial moratoria were granted on both mortgages and consumer loans, to prevent households in difficulties from defaulting on their financial obligations. For example, in Spain, according to an analysis by CaixaBank, the median mortgage burden decreased in 2020[153]. This reduction was mostly due to the impact of mortgage moratoria, lower interest rates, and a slight increase in the median income of households with mortgage debt[154].

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[149] European Commission, 2013, Study on the over-indebtedness of European Households: updated mapping of the situation, nature and causes, effects and initiatives for alleviating its impact, available at: https://ec.europa.eu/info/sites/default/files/final-report-on-over-indebtedness-of-european-households-synthesis-of-findings_december2013_en.pdf

[150] European Central Bank, 2022, Financial Stability Review, Available at: https://www.ecb.europa.eu/pub/financial-stability/fsr/focus/2022/html/ecb.fsrbox202205_02~cc40a7cbda.en.html

[151] Finance Watch, 2021, Consumer credit market malpractices uncovered, an in depth study of consumer credit markets in Spain, Romania, and Ireland and what it means for the Consumer Credit Directive review, Available at: https://www.finance-watch.org/wp-content/uploads/2021/04/Consumer-credit-market-study-V13.pdf

[152] Ibid.

[153] CaixaBank, 2022, the financial situation of households during the Covid-19 crisis: this time it is different, Available at: https://www.caixabankresearch.com/en/sector-analysis/real-estate/financial-situation-households-during-covid-19-crisis-time-it-different

[154] Ibid.

4.3.2. Increase in costs of living

An increase in the cost of living plays an important role in any discussion of over-indebtedness because it constrains the capacity of indebted households to service their debt and therefore contributes to over-indebtedness. According to the expert survey conducted for this study in 2022, the main factors driving increases in the cost of living are utility costs, followed by housing costs, childcare and child-related costs and health care costs. Similar results were shown in the 2013 study where 68% of stakeholders mentioned expenditures related to utility bills as a key driver of over-indebtedness, followed by housing costs (59%), and other costs including food and transport (42%)[155].

The *low-income* segment of the population tends to be more vulnerable to changes in consumer prices, since they tend to spend -in relative terms- more money on utility bills and food than an average income household. As highlighted by Caritas, households become over-indebted often as a consequence of having small arrears in rent, gas, electricity and other essentials. These debts, relatively small and manageable at the beginning, can increase exponentially with interests on late payments, other sanctions and costs of bailiffs[156].

Inflation is the central measure of an increase in the cost of living. When the general level of prices of goods and services increases, the purchasing power of consumers falls, as they are no longer able to purchase the same amount of goods and services with the same amount of money and the price-to-income ratio rises. According to Eurostat, in 2021, the highest inflation rates among EU Member states were recorded in Poland, Hungary and Lithuania[157]. In terms of sectors, transport, housing, water and electricity and gas were the main contributors to inflation. The rise in prices has been exacerbated over recent months by the war in Ukraine. In April 2022, according to Eurostat, the annual inflation rate was around 7.8%, while in 2020 the rate was 2%[158].

Rampant inflation and energy prices may challenge the debt servicing capacity of households, particularly in countries with elevated debt levels and high debt servicing needs (Cyprus, the Netherlands, Luxembourg, Finland, Portugal and Belgium). The figure below ranks countries in terms of household debt-to-GDP ratios (i.e. total outstanding debt of households to banks and other financial institutions as a share =of GDP) and household debt service-to-income ratio (calculated as debt service cost divided by income) in Q4 2021[159]. The figure highlights an overall linear relation between households debt-to-GDP and the debt service-to-income ratio.

[155] European Commission, 2013, Study on the over-indebtedness of European Households: updated mapping of the situation, nature and causes, effects and initiatives for alleviating its impact, available at: https://ec.europa.eu/info/sites/default/files/final-report-on-over-indebtedness-of-european-households-synthesis-of-findings_december2013_en.pdf

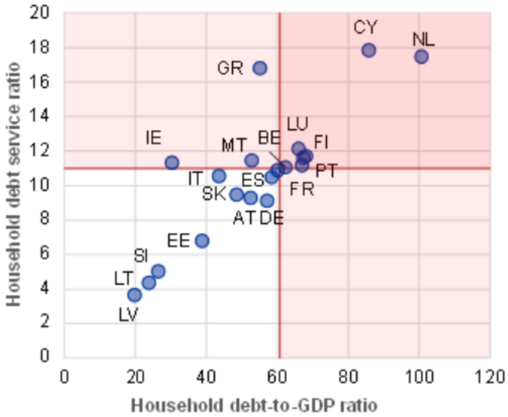
[156] Caritas Europa, 2019, Many doors into poverty, an overview on over-indebtedness. Available at: https://www.caritas.eu/an-overview-on-over-indebtedness/

[157] Eurostat, 2022, Consumer prices inflation, available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Consumer_prices_-_inflation#Inflation:_price_changes_over_time

[158] Eurostat, 2022, Euroindicators, available at: https://ec.europa.eu/eurostat/documents/2995521/14636041/2-18052022-AP-EN.pdf/9ac63755-4fec-2a70-c149-32edbda92849

[159] European Central Bank, 2022, Financial Stability Review. Available at: https://www.ecb.europa.eu/pub/financial-stability/fsr/html/ecb.fsr202205~f207f46ea0.en.html

Figure 4.1: Household debt-to-GDP and household debt service-to-income ratios



Source: Eurostat, ECB calculation

In terms of expenditures, **utility costs** represent one of the main areas of financial difficulties. According to stakeholders consulted in 2013, the main factors driving over-indebtedness related to utility bills, followed by housing costs, and other costs including food, and transport. Other areas of expenditure were seen as less important. For example, evidence from previous research found a significant positive correlation between the level of consumer debt and the frequency of arrears on utility bills. As also shown in task 1, consumer loans and credit card debts have a positive association with arrears (especially arrears on utility bills (r=0.46 correlation for consumer loans, and r=0.36 correlation for credit card debts).

Arrears in utility bills is an important indicator to measure not only over-indebtedness but also **energy poverty**. Energy poverty is broadly understood as the inability of households to maintain adequate levels of energy services at an affordable cost. It is caused by the interaction of low incomes, high energy needs (mostly due to energy inefficient housing) and high energy prices. The findings support the hypothesis of a positive correlation between energy poverty and over-indebtedness. As highlighted by some stakeholders, economically vulnerable or socially disadvantaged households often face a combination of low-level incomes, rising energy prices, and homes and technical appliances that are not energy-efficient[160]. Together with other individual problems (e.g. poor education, mental and/or physical health issues) and structural drivers (e.g. regulatory barriers to switch suppliers) this can lead to over-indebtedness and energy poverty.[161]

According to the recent study published by Eurofound, a large number of financially vulnerable households were at risk of energy poverty in 2022. In particular, 28% of the respondents mentioned to be behind on utility bills and to have difficulties making ends meet, while 45% of this group were worried to not be able to pay their utility bills over the next three months[162]. The analysis also sheds light on the impact of energy poverty on households and how it differs from country to country: the proportion of respondents reporting to be behind with their utility bills was 7% in Denmark and Sweden, while in Greece it amounted to 50% of respondents[163].

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[160] ENPOR, 2020,Report on Energy poverty in the PRS-Overview & Framework, Available at: https://www.enpor.eu/wp-content/uploads/2021/03/FINAL-Deliverable-2.1a_ENPOR.pdf

[161] Burbidge M et al, 2021, Structural factors impacting energy efficiency policy implementation in the European Private rented sector, available at: https://www.enpor.eu/wp-content/uploads/2021/06/Structural-Factors-Impacting-Energy-Efficiency-Policy-Implementation-in-the-European-Private-Rented-Sector_public-1.pdf

[162] Eurofund, 2022, Fifth round of the living, working and Covid-19 e-survey: living in a new era of uncertainty. Available at: https://www.eurofound.europa.eu/publications/report/2022/fifth-round-of-the-living-working-and-covid-19-e-survey-living-in-a-new-era-of-uncertainty

[163] Ibid.

According to the literature, living in rented accommodation tends to be associated with an increased probability of being in financial difficulties. This is mostly due to the relatively high housing costs that those paying rent are likely to face, as well as the fact that the people concerned tend disproportionately to have lower income levels than homeowners. As an example, in 2020, 7.8% of the European population lived in households that spent 40% or more of their equivalised disposable income on housing (a measure of housing cost overburden)[164]. In general, tenants, either in the private rental market or in the reduced-price market, were more affected by housing affordability than homeowners with a mortgage. In terms of geographical distribution, the housing cost overburden rate was higher in cities (11.9%) than in rural areas (6.8%)[165] and Greece, Germany and Denmark had the highest rate of households overburdened by housing costs. Despite the fact that house prices and rents have increased during the period 2010 to 2020**,** housing affordability steadily increased in the last ten years. In 2020, 7.8% of the European population spent 40% or more of their household disposable income on housing, against 11.5% in 2012[166]. Moreover, the percentage of the households with heavy financial burden due to total housing cost also declined: in 2020 the share in Europe amounted to 29%, a 10% decrease from 2012[167].

With the *pandemic outbreak*, measures were undertaken by many Member States to protect the housing situation of the most vulnerable. Moratoria on rent payments for tenants in a vulnerable economic situation were implemented in several Member States, including Spain, Austria, Germany and Portugal. In other countries, such as Ireland and Luxembourg, tenants unable to pay rent as a result of the crisis were financially supported. In Greece, a temporary reduction of rent payments for tents that lost their jobs during the pandemic was also set up[168].

Childcare and child related costs also appear to be significant drivers of the cost of living and, therefore, of over-indebtedness. The picture varies from country to country, depending on the institutional and welfare structure. For example, in countries where subsidies for childcare have been scaled down or limited, experts mentioned the rising in costs of childcare or child related expenditure as a key driver of over-indebtedness. According to Statista, Cyprus, Ireland and Czech Republic were the countries with the highest net cost of childcare as a share of net household income for couples in 2021[169]. For Cyprus and Ireland, it represented around 31%, followed by Czechia (29%), the Netherlands (18%)[170]. On the other hand, Germany, Denmark, Luxembourg and Poland were the countries with the highest share of social protection benefits intended to address the risks associated with children[171]. In this regard, *household composition* plays an important role, since single parents are at a greater

[164]Eurostat, 2022, Housing cost overburden rate, available at https://ec.europa.eu/eurostat/databrowser/view/ilc_lvho07a/default/table?lang=en

[165] Housing Europe, 2020, The socio-economic impact of Covid in 2021 European Semester Autumn package, available at: https://www.housingeurope.eu/resource-1477/the-socio-economic-impact-of-covid-in-the-2021-european-semester-autumn-package

[166]Eurostat, 2022, Housing cost overburden rate, available at https://ec.europa.eu/eurostat/databrowser/view/ilc_lvho07a/default/table?lang=en

[167]Eurostat, 2022, Financial burden of the total housing cost, available at: https://ec.europa.eu/eurostat/databrowser/view/ilc_mded04/default/table?lang=en

[168] Ibid.

[169] Statista, 2021, Net cost of childcare as a share of net household income for couples in selected countries worldwide, https://www.statista.com/statistics/1124321/net-cost-childcare-share-average-wage-couples-worldwide/

[170] Ibid.

[171] Eurostat, 2019, Social protection statistics-family and children benefits, Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Social_protection_statistics_-_family_and_children_benefits#Family.2Fchildren_expenditure_between_2000_and_2019

risk of incurring financial difficulties[172]. In particular, single parents face the same costs as two-person families but can rely only on one income. Considering that single parenthood is rising in the EU it is an important factor to be considered when analysing trends in over-indebtedness of European households[173]. According to a European Parliament study, over the last year, the situation of single parents has improved in the EU, with a decrease in the rates of severe housing deprivation and very low work intensity. However, the findings also suggest that at-risk-of-poverty rates did not improve. For an increasing number of single parents, work is not a guarantee against poverty: markets have become too precarious and unequal, and social security and in particular levels of minimum income protection were found to be inadequate and falling[174].

In this regard, the literature has also shed light on the **gender** dimension of over-indebtedness, since the majority of single-parent households (representing 14% of households in 2018) were headed by women (11%) against 3% of single men. For example, in France, over-indebtedness procedures have supported the most financially vulnerable individuals, notably women raising children on their own[175]. According to Banque de France, women are still more over-indebted than men: in 2019, single-parent mothers accounted for more than 26% of over-indebted women, while single-parent fathers represented less than 4% of over-indebted men[176]. Similar trends can be seen in every EU country, except Finland. According to Eurostat, EU-SILC, a greater percentage of single women are unable to meet unexpected expenses. In 2018, the countries with the highest shares of financially fragile women in comparison with men were Slovenia and Czech Republic (financially fragile single women were 50% more than single men in 2018)[177].

Education and health care costs are considered as a minor driver of over-indebtedness by experts in both the 2013 and 2022 surveys. This can partly be explained by welfare state measures in the field of education and health care. However, the heterogeneity of EU Member State welfare regimes and health systems has an impact on the level of over-indebtedness. For example, out-of-pocket expenditures[178] represent a relevant share of household income in southern and eastern European countries. In 2019 private households' out-of-pocket expenditures as a proportion of total health expenditures were the highest in Bulgaria (38% of total expenditure), Cyprus (30%), Latvia (35%), Lithuania (33%), Greece (35%)[179]. This trend can partly be explained with the lower level of public spending on health as a share of total government spending and higher presence of private health providers in total funding[180]. However, the rise of out-of-pocket expenditure has been identified also in countries with higher level of government spending. For example, in Spain, due to co-payments for prescribed

[172] European Parliament, 2020, the situation of single parents in the EU. Available at: https://www.europarl.europa.eu/RegData/etudes/STUD/2020/659870/IPOL_STU(2020)659870_EN.pdf

[173] Ibid.

[174] Ibid.

[175] Banque de France, 2020, Overindebtedness, women and single parenthood. Available at: https://blocnotesdeleco.banque-france.fr/en/blog-entry/overindebtedness-women-and-single-parenthood

[176] Ibid.

[177] Eurostat, 2018, EU0SIlc, Household inability to meet an unexpected expense by category of households, percentage shares.

[178] Private households' out-of-pocket expenditures relate to direct payments for healthcare goods and services from the household's primary income or savings, where the payment is made by the user at the time of the purchase of good or the use of the service

[179] Eurostat, 2022, Out of pocket expenditure on healthcare. Available at : https://www.oecd-ilibrary.org/sites/53f66e20-en/index.html?itemId=/content/component/53f66e20-en
https://ec.europa.eu/eurostat/databrowser/view/tepsr_sp310/default/table?lang=en

[180] World Health Organisation, 2022, Spending on health in Europe: entering a new era. Available at: https://apps.who.int/iris/bitstream/handle/10665/340910/9789289055079-eng.pdf

medicines, dental and optical care, out-of-pocket expenditures have been increasing since 2009, reaching 24% in 2014. The Spanish health barometer also highlighted that 4.4% of the Spanish population reported having stopped taking prescribed medications because these were too expensive[181].

Previous research has found a positive correlation between the share of out-of-pocket spending and the proportion of the population facing catastrophic health spending in Europe[182,183]. The literature has also identified a positive correlation between the likelihood of reporting unmet needs and out-of-pocket payments as a share of total health expenditures. This correlation has also been seen as a factor exacerbating inequalities since unmet needs for medical care by income groups generate inequalities[184]. For example, despite the full coverage of medical services of the Italian national health service, in 2016 5.5% of Italians reported unmet medical needs. In addition, people in the lowest consumption quintile spent proportionally more on health than those in the highest consumption quintile (12.6% in 2016, compared to 1.1% among people in the highest income group)[185]. This is valid across all EU countries, where poorer households are most likely to experience catastrophic health spending, even though many countries have put in place policies to safeguard financial protection.

Education expenditures play a relevant role in over-indebtedness levels of specific segments of the population. Households with dependent children and with an income below the poverty line seem to be the most affected by education expenditures. In 2016 almost 1 out of 5 households with dependent children had great or moderate difficulties to pay for formal education[186]. The picture differs greatly across the EU: Greece, Cyprus, Romania, Croatia and Hungary were the countries with the highest share of households facing affordability problems related to education, while in Finland, Germany and Sweden less than 5% of the households reported difficulties to pay for formal education[187].

4.3.3. Decrease in income

A decrease in income is a core driver of over-indebtedness. At an individual level, income shocks can result from job loss, divorce, health issues, etc., while at the macro level changes in the labour market or social protection systems have an impact on the nature and scale of individual income shocks. According to the 2013 survey, 88% of the stakeholders interviewed mentioned unemployment as the main factor, followed by wage levels and social welfare[188]. Similar results were highlighted by stakeholders in the 2022 survey: unemployment, wage

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[181] Lopez-Lopez S. et al, 2021, Catastrophic household expenditure associated with out-of pocket healthcare payments in spain,

[182] Catastrophic health spending is an indicator of financial protection, it is defines as OOP payments that exceed a predefine percentage of the resources available to a household to pay for health care.

[183] OECD, 2018, Affordability and financial protection: insights from Europe. Available at:

[184] Forster T. et al, 2018, Health inequalities in Europe: setting the stage for progressive policy action. Available at: https://feps-europe.eu/wp-content/uploads/downloads/publications/1845-6%20health%20inequalities%20inner-hr.pdf

[185] Ibid.

[186] Eurostat, 2018, Can you afford to pay for education?. Available at: https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20180221-1

[187] Penne T, et al, 2021, An exploration of key factors that determine the affordability of compulsory education in Europe, working paper No 21/08. Available at: https://medialibrary.uantwerpen.be/files/6663/98f3a118-7dcb-465c-a821-926044f33122.pdf

[188] European Commission, 2013, Study on the over-indebtedness of European Households: updated mapping of the situation, nature and causes, effects and initiatives for alleviating its impact, available at: https://ec.europa.eu/info/sites/default/files/final-report-on-over-indebtedness-of-european-households-synthesis-of-findings_december2013_en.pdf

levels and welfare structure were considered by experts as key macro-economic drivers of over-indebtedness.

In terms of socio-economic groups, those with low incomes are considered especially vulnerable to experiencing over-indebtedness. The analysis of the data collected by EU-SILC shows that a larger proportion of low-income households have excessive debt than higher income households in all EU countries.

While **unemployment** might not necessarily be coupled with high debt levels, the loss of a job, or becoming unemployed after being used to having a job might, nonetheless, produce an increase in debt levels. The literature has highlighted the extent to which households affected by job losses might run into over-indebtedness to maintain the same level of expenditures[189]. During the economic crisis in the euro area in 2010-2011, the share of over-indebtedness increased by more than 10% as a result of unemployment shocks[190]. In particular, countries with a low level of over-indebted households before the economic shock were more severely impacted, with a higher increase in over-indebted households.

In terms of age groups, the impacts of employment shocks on 65+ households seem to be negligible, mainly due to the fact that most of those households are already out of the labour market. On the other hand, younger households were especially vulnerable to financial distress after unemployment shocks. At a national level, the age group between 55-64 was particularly fragile in Austria, Italy and Luxembourg with an increase of around 25%, 33%, and 35% respectively in the percentage of over-indebted households[191] in 2012.

Similar effects were recorded during the *COVID-19 pandemic*: the younger segment of the population was much more affected by the economic downturn than older cohorts. In particular, while overall unemployment increased by one percentage point, youth unemployment rose by almost 4 percentage points, reaching 19%[192]. This is the result of the young generations entering a labour market in deep recession, being more likely to hold temporary jobs and being more likely to work in the strongly affected services sector[193].

One of the main effects of COVID-19 has been in the short term the fall in household incomes, aggravating the already existing divide among richer and less rich areas[194]. At the same time, COVID-19 has also triggered measures from Member States aimed at safeguarding income levels[195]. For example, in Ireland median household income fell by only 1.7% year-on-year in the second quarter of 2020, whereas without unemployment support policies, median incomes would have fallen by 20%[196]. Income support was given through the "Pandemic Unemployment Payment'' (up to EUR 350 per week) and through the Employment Wage subsidy Scheme

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[189] Disney et al., 2008, Drivers of over-indebtedness, Report to the department for business, entreprise and regulatory reform. Available at: http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.514.9586&rep=rep1&type=pdf

[190] Du Caju, P. et all, 2015, Unemployment risk and over-indebtedness: a micro-econometric perspective, IZA Discussion papers, N. 9572, Available at: https://www.econstor.eu/bitstream/10419/126670/1/dp9572.pdf

[191] Du Caju, P. et all, 2015, Unemployment risk and over-indebtedness: a micro-econometric perspective, European Central Bank Working Paper Series: https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp1908.en.pdf

[192] Eurostat, Unemployment rate by age in the EU-27.Available at: https://ec.europa.eu/eurostat/documents/2995521/14636259/3-01062022-AP-EN.pdf/85134828-9c7a-898b-1636-00c24ddca735#:~:text=The%20EU%20unemployment%20rate%20was,office%20of%20the%20European%20Union .

[193] European Parliament, 2021, the impact of Covid-19 on the Internal Market, available at: https://www.europarl.europa.eu/RegData/etudes/STUD/2021/658219/IPOL_STU(2021)658219_EN.pdf

[194] Bruegel, 2020, The fiscal response to the economic fallout from coronavirus. Available at: https://www.bruegel.org/publications/datasets/covid-national-dataset/#greece

[195] European Central bank, 2021,ECB Economic Buleltin, Issue 4/2021. Available at: https://www.ecb.europa.eu/pub/economic-bulletin/focus/2021/html/ecb.ebbox202104_04~686c89e9bb.en.html

[196] Cahill, B. and Lydon, R., 2021, The Impact of COVID-19 on the incomes and debt sustainability of Irish households, Economic Letter, Vol. 2021, No 2.

(namely, wage subsidy for those retained in employment)[197]. In Italy, a fiscal impulse was deployed to keep people employed and to support the unemployed, including freezing the layoff of all workers for two months, extensions of unemployment insurance mechanisms and a bonus for the self-employed. In Denmark and Germany direct fiscal impulse was provided to support the income of self-employed workers who lost their income, and covering wage costs of those who were partially employed due to the crisis, together with an extension of unemployment benefits to a larger group of people. In France, the Netherlands and Portugal fiscal impulses were largely spent on keeping people employed with reduced hours or no hours of work[198].

As these examples show **modern welfare systems can have an impact on over-indebtedness**, since they reduce dependency on work income[199]. In particular, in the event of unemployment shocks, households are supported and become more resilient to income shocks and debt problems. Recent literature has analysed the role played by welfare regimes on indebtedness levels, by targeting different socio-economic population groups and by pursuing different redistributive goals[200]. This emerging literature focuses on the importance of the "directionality" of welfare states in order to explain how generous welfare states like Denmark, Austria and Italy show different households indebtedness levels. More specifically, welfare systems focusing on younger age groups and a more precarious workforce seem to have favoured household propensity to borrow, without increasing the level of household over-indebtedness. For example, in Nordic European countries, households tend to have higher debt ratios, but the level of over-indebtedness appears to be lower, with fewer arrears and fewer people with difficulties making ends meet. This is most notably the case in some high-income Member States with elevated levels of household indebtedness: Denmark (household debt was 128% of GDP in 2017), the Netherlands (106%), Sweden (88%)[201]. On the other hand, welfare states that traditionally concentrate their spending on pension schemes and the elderly, tend to expose workers to new social risks, reduce their ability to plan ahead and make them rely more on families or resort to consumer credit. This pattern is particularly marked in continental countries—where welfare benefits tend to target those who are already employed and the elderly. In those countries debt ratios are smaller, while the level of over-indebtedness is higher.

Considering the increasing number of temporary contracts over the last 30 years, reaching 22.2 million of people among the EU population aged 20-64 in 2019[202], the cleavage in labour markets between those with stable employment and precarious workers has been strengthened. The polarization has been particularly evident in southern countries (such as Spain, Portugal and Italy) where welfare systems have traditionally focused on pension schemes and the elderly. This has created a defined group of "insiders" entitled to social rights and benefits and a group of outsiders that do not enjoy the same benefits, mainly based on their age and/or their precarious job situation[203]. Linking this trend with over-indebtedness

[197] European System Risk Board, 2022, The economics of debt relief during a pandemic: lessons from the experience in Iralnd, Occasional Paper Series, available at: https://www.esrb.europa.eu/pub/pdf/occasional/esrb.op20~7c6395147e.en.pdf

[198] Bruegel, 2020, The fiscal response to the economic fallout from coronavirus. Available at: https://www.bruegel.org/publications/datasets/covid-national-dataset/#greece

[199] Hililamo H., 2018, Household debt and economic crises, causes, consequences and remedies, Elgar.

[200] Comelli, M. ,2021, The impact of welfare on household debt, Sociological Spectrum, 41:2, 154-176, DOI: 10.1080/02732173.2021.1875088

[201] Eurostat, 2020, Household debt, consolidated including Non-profit institutions serving households – % of GDP/

[202] Eurostat, 2020, Over 80% of job losses affected temporary contract, news. Available at: https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20201113-1

[203] Comelli, M. ,2021, The impact of welfare on household debt, Sociological Spectrum, 41:2, 154-176, DOI: 10.1080/02732173.2021.1875088

levels, the literature has found a positive correlation between levels of over-indebtedness and precarious workers. Job polarization is taking place across Europe, with an overall decline in the share of jobs in the middle range, and an increase in jobs with high or a low pay[204]. This polarisation has had the effect of increasing **wage inequalities** and contributing to income inequalities.

4.3.4. Increase in demand for credit

The final driver of over-indebtedness is the increase in demand for credit. The consumer credit market has significantly changed in the last decade. One of the main factors behind growing credit volumes is the development of financial products that allow consumer to pay for consumption through borrowing. According to the European Banking Authority Consumer trends report[205] consumer credit has increased in volume by 14% between 2015 and 2019. Increased digitalisation and the emergence and of new credit products and services have increased the relevance of online credit markets, allowing consumers to take out credit without any physical interaction with the credit provider. In addition, new products such as *peer-to-peer lending, paydays loans*[206] *and revolving credit*[207] have become increasingly popular[208]. These trends have raised concerns related to consumer protection, in particular about the poor quality of pre-contractual information provided to consumers and a perceived increase in mis-selling practices. These practices seem more prevalent in the online credit market, and they create a risk of increasing over-indebtedness levels among consumers[209]. For example, the use of credit with very high interest rates (usually through payday loans and revolving credit cards) has increased the refinancing of small amounts of credit and led to higher levels of indebtedness[210]. According to Finance Watch, payday loans are typically acquired by lower income consumers to repay other loans or cover late payment fees or interest payments on other debts[211].

The literature review has also highlighted the links between the **availability of credit**, in particular, loan offers and credit card opportunities and the increase in debt burdens among the more vulnerable segment of the population. Households already under financial strain are pressured into taking on more high interest credit from regulated lenders and may not be able to pay back especially when unexpected drops in income or other problems occur[212].

This is also very relevant considering that for certain loans (especially payday loans sold to vulnerable consumers) poor performance in repayment is considered to be part of the creditor's

[204] FEPS, 2019, Job Polarisation has increased inequalities across Western Europe, Policy Brief

[205] EBA, 2021, Consumer Trends report 2020/2021, EBA/REP/2021/04

[206] Short term unsecure loans with very high interest.

[207] Open ended credit account that can be used and paid down repeatedly as ling as the account remains open (credit cards are an example of revolving credit used by consumers)

[208] Finance Watch, 2019, Consumer credit market study, available at: https://www.finance-watch.org/wp-content/uploads/2021/04/Consumer-credit-market-study-V13.pdf

[209] EBA, 2021, Consumer Trends report 2020/2021, EBA/REP/2021/04

[210] Ibid.

[211] Finance Watch, 2022, Tackling causes of over-indebtedness in the EU consumer credit Market, and in-depth study of the key topics that need to be addressed by the Consumer Credit Directive Review, Available at: https://www.finance-watch.org/wp-content/uploads/2022/03/CDD-consumer-credit-directive-rootcause-overindebtedness.pdf

[212] Caplovitz D., 1979, Making ends meet: how families cope with inflation and recession, Beverly hills: sage.

business model as the failure to repay is compensated by extremely high interest rates[213]. *Buy-now-pay later (BNPL) schemes* have also become popular as a short-term financing alternative, especially among the younger segments of the population. With the surge of online commerce, young consumers with limited incomes are more likely to opt for this financing scheme. Provided with alternative digital payment and lending options with flexible instalment plans, young consumers are enabled to easily purchase big and small ticket items. This trend has raised concerns about the risk of unsustainable levels of consumer debt. For example, in the UK around 41% of consumers having used BNPL have struggled with repayment[214].

Another trend pointed out by competent authorities relates to the *increasing offers from non-bank providers* to clients free of charge, speculating on their ability to pay back on time, and having to pay additional interest to the provider for delayed payments[215]. According to a mystery shopping study conducted in Spain, Romania and Ireland, mis-selling and irresponsible lending are significantly higher amongst non-bank loan providers than among banks. The findings suggest that these entities are less likely to verify the suitability of credit products, they charge more than bank providers for consumer credit, and the quality of their creditworthiness assessment are poorer[216].

Lastly, **creditor misbehaviour and predatory lending practices** are often part of the process leading to over-indebtedness. In these situations, debtors may not have access to less costly options or more respectable lenders, or they lack financial literacy to use such options[217]. In this regard, loose lending procedures may exacerbate the so-called poverty penalty, namely the poor segments of the population paying more for credit than those who are better off. Among creditor misbehaviour and aggressive marketing techniques, the literature has highlighted the following main practices: offering products that are not appropriate to the borrower's situations, lax up-front evaluation of repayment capacity, opaque terms and conditions and aggressive sales techniques, or marketing practices that exploit psychological biases of borrowers[218].

According to the 2013 study, around nine in ten of the stakeholders consulted reported that **specific types of credit**/loans were among the most important causes of over-indebtedness. The majority mentioned credit or loans from regulated lenders with high interest rates, followed by home loans or mortgages and consumer credit borrowing at average interest rate. Lastly, a minority of stakeholders mentioned predatory or usurious types of credit/loans[219].

[213] Attaité. M, 2015, Pay-day lenders: why can we consider them as being bad players on the credit market? When credit use difficulties of the clients are a good business for lenders. Available at: https://www.finance-watch.org/wp-content/uploads/2018/12/Pay-day-lenders-M-Attaite%CC%81.pdf

[214] BEUC, 2022, Buy Now Pay Later products, Available at: https://www.beuc.eu/publications/beuc-x-2022-017_buy_now_pay_later_products.pdf

[215] EBA, 2021, Consumer Trends report 2020/2021, EBA/REP/2021/04, available at: https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Reports/2021/963816/EBA%20Consumer%20trend%20report.pdf

[216] Finance Watch, 2021, Consumer credit market malpractices uncovered, in depth study of consumer credit markets in Spain, Romania and Ireland and what it means for the Consumer Credit Directive review, Available at: https://www.finance-watch.org/wp-content/uploads/2021/04/Consumer-credit-market-study-V13.pdf

[217] Hililamo H., 2018, Household debt and economic crises, causes, consequences and remedies, Elgar.

[218] Schicks, 2010, Microfinance over-indebtedness: understanding its drivers and challenging the common myths, Working Paper CEB, ULB. Available at: https://econpapers.repec.org/paper/solwpaper/2013_2f64675.htm

[219] European Commission, 2013, Study on the over-indebtedness of European Households: updated mapping of the situation, nature and causes, effects and initiatives for alleviating its impact, available at: https://ec.europa.eu/info/sites/default/files/final-report-on-over-indebtedness-of-european-households-synthesis-of-findings_december2013_en.pdf

4.3.5. Expert perception of changes in the relevance of macro-economic drivers over the last ten years

To conclude the section on the drivers of over-indebtedness, the study team analysed how expert perceptions of the relevance of each macro-economic driver have changed compared with the 2013 study. Expert opinions of the relevance of the different drivers gathered in 2013 were analysed and converted into a 5 point index to make them comparable with feedback from 2022. The aim was to understand the change in expert perception from 2013 and 2022.

Three main takeaways were identified:

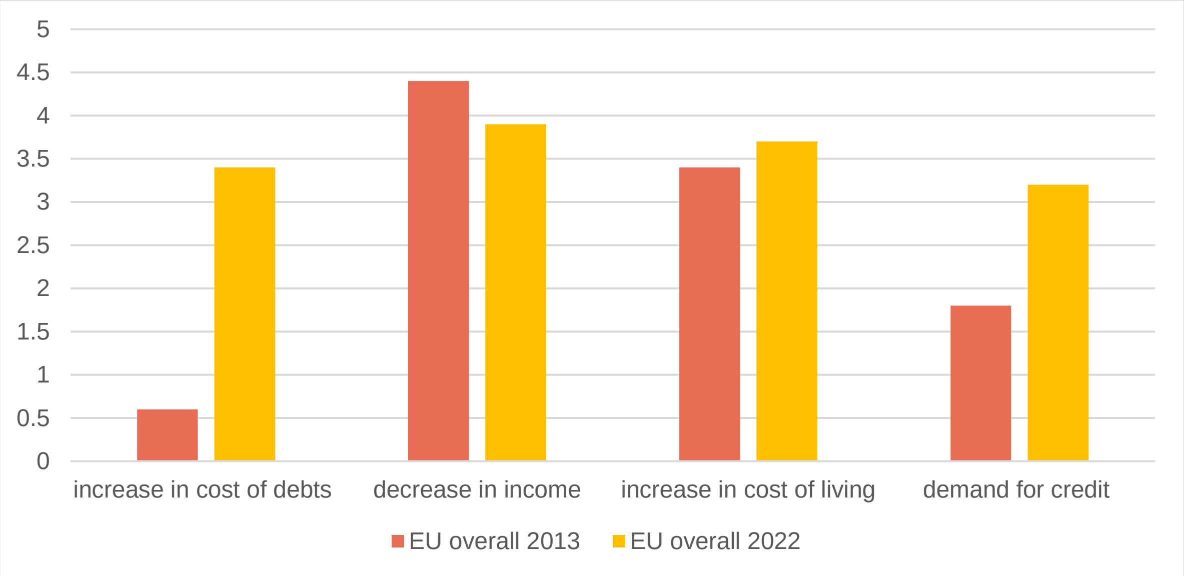
Firstly, in 2013 experts perceived decreases in income as the main factor driving over-indebtedness while less importance was given to increases in cost of living, demand for credit and increases in the cost of debt.

Almost ten years later, the four drivers are perceived as more equally important when describing the macro-economic causes of over-indebtedness. While decreases in income are still the main factor impacting over-indebtedness (rated 3.9 out of 5), increases in the cost of living appear to be almost equally relevant (3.7 out of 5).

When it comes to the role played by an increase in the cost of debt and demand for credit, the perception has varied greatly over the time. Compared to ten years ago experts today considered changes in interest rates and inflation, the type of credit and the availability of credit as more relevant to over-indebtedness

The graph below shows the change in expert perceptions of the drivers of over-indebtedness.

Figure 4.2: Expert perception of the relevance of drivers of over-indebtedness (2013 and 2022)



Source: VVA adaptation of expert feedback in 2013 Study on over-indebtedness and expert Survey findings in 2022.

4.4. COVID-19 impact on the drivers of over-indebtedness

Household over-indebtedness is a long-term problem that reflects the underlying economic and social situation.

As stressed in Task 1, over-indebtedness grew substantially as a result of the global financial crisis of 2007-2008 and returned to less heavy levels during the recovery of the successive years.

However, in the aftermath of the COVID-19 health crisis and related confinement measures, the over-indebtedness situation in the European Union (EU) started to worsen again. As Task 1 has shown, the immediate impact of COVID-19 led to:

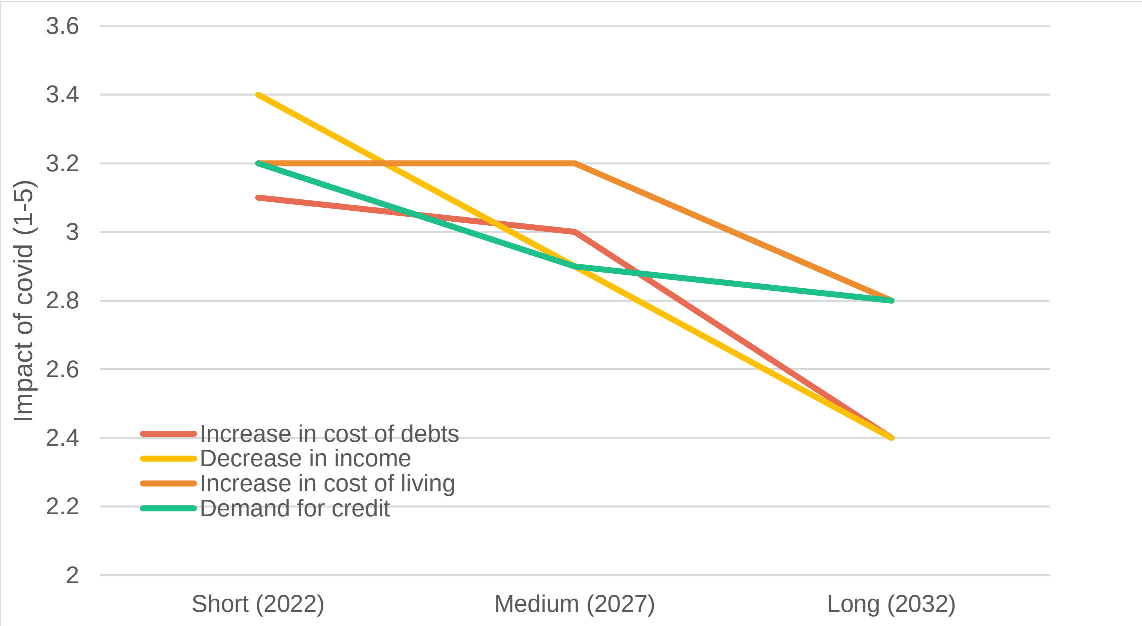
- An overall increase of the total arrears levels in 2020 for the first time since at least 2014. We estimate that, in 2020, at least 1,170,000 households (ca 2.7m people) across Europe became over-indebted as a result of the pandemic.
- An increase in households' inability in dealing with housing costs and utility bills, which made households more financially vulnerable.
- An increase in 2020 of the shares of households unable to make ends meet and to face unexpected financial expenses by 1.3% points (from 18.5% to 19.8%), and by 1.9% points (from 30.9% to 32.8%) respectively.

While the longer-term impact of COVID-19 on over-indebtedness is not clear yet and there is no agreement among experts, there is a significant risk that this short term worsening of household over-indebtedness will continue.

To better capture the medium to long term impact of COVID-19 on over-indebtedness, the study asked a pool of experts to rate the impact of COVID-19 on the different macro-economic drivers of over-indebtedness in the short, medium and long term. Starting from the expert assessment, the study team then analysed the different ways in which the pandemic might influence over-indebtedness trends in the next five to ten years.

The graph below shows the result of the expert survey to the question "to what extent will COVID-19 have an impact on each of the four drivers in the short, medium and long term in Europe, from 1 to 5 (1 meaning not very significant and 5 very significant)."

Figure 4.3: Impact of COVID-19 on the main drivers of over-indebtedness



Source: VVA team Expert Survey's results 2022

Overall, the results show that COVID-19 is expected to have a significant effect on each of the four drivers of over-indebtedness though there are differences across the drivers and over time.

Increase in cost of debts: according to experts, in the short term the pandemic had a relatively small impact on this driver. Indeed, the very fast response of the European Central Bank to the pandemic consisted in implementing an expansionary monetary policy to reduce debt interest payments. At the same time, on the fiscal front, a series of measures at national and pan-European level were activated to support household income and debt. In several countries, legal and sectorial moratoria were granted on both mortgages and consumer loans. These measures had the positive effect of supporting households and preventing them from defaulting on their financial obligations in the short term. As a result, according to the experts consulted for the study, the impact of COVID-19 on the cost of debt will be more minor in the next five to ten years (medium and long term).

Increase in costs of living: in the short term, the pandemic had a significant impact on household expenditures. At the same time, measures were undertaken by several EU Member States to protect the economic situation of the most vulnerable. For example, moratoria on rent payments for tenants in vulnerable economic situation were implemented in several countries. According to experts, in the medium term, the pandemic will still play a prominent role when it comes to the cost of living, due its contribution to rising inflation and the interruption of some of the financial measures put in place in the aftermath of the pandemic to support the most vulnerable households. In the longer term, the effects of COVID-19 will decline but they will remain noticeable in the cost of living.

Decrease in income levels**:** according to the experts consulted for this study, the main effect of COVID-19 was the short-term fall in household incomes, aggravating the already existing wealth divide[220].

According to several studies, the self-employed and the youngest cohort of the population were most affected. While overall unemployment increased by only one percentage point, youth unemployment rose by almost 4 percentage points, reaching 19%[221]. This is the result of the young generations entering a labour market in deep recession, being more likely to hold temporary jobs and being more likely to work in the strongly affected services sector[222].

At the same time, COVID-19 has also triggered measures from Member States aimed at safeguarding income levels[223].

According to experts, the effects of COVID-19 on decreases in medium- and long-term income will be less relevant. However, it is important to stress that the worsening of the European economy has exacerbated existing inequalities: vulnerable people are more likely to be made redundant; young people entering a job market in a recession face lower wages and higher unemployment for up to a decade; and private renters are more likely to have lost income and therefore their ability to pay rent. Moreover, there is a considerable risk that the pandemic has created a separation between those who can work predominantly from home and those who cannot. These inequalities will likely persist in the medium and long term, in case no targeted measures are put in place to face those challenges.

Increase in demand for credit**:** according to experts, COVID-19 had a significant impact on demand for credit, especially among the younger segments of the population in the short and medium term. As mentioned in the previous chapter, households affected by job losses might have run into over-indebtedness to maintain their level of expenditure[224]. Moreover, households already under financial strain might have been pressured into taking on more high interest credit which they may not be able to pay back especially when unexpected drops in income or other problems occur[225].

According to experts, while the impact of the pandemic on this driver will be less important in the next ten years, it will remain relevant. It is important to highlight that the pandemic has accelerated digital adoption in the economy as a whole, as well as among finance providers and borrowers, and this has led to the emergence of new credit products and services. With the surge of online commerce, young consumers with limited incomes are more likely to opt for new financing schemes with alternative digital payments and flexible instalment plans. This, in turn, might lead to a risk of unsustainable levels of consumer debt.

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[220] Bruegel, 2020, The fiscal response to the economic fallout from coronavirus. Available at: https://www.bruegel.org/publications/datasets/covid-national-dataset/#greece

[221] Eurostat, Unemployment rate by age in the EU-27.Available at: https://ec.europa.eu/eurostat/documents/2995521/14636259/3-01062022-AP-EN.pdf/85134828-9c7a-898b-1636-00c24ddca735#:~:text=The%20EU%20unemployment%20rate%20was,office%20of%20the%20European%20Union .

[222] European Parliament, 2021, the impact of Covid-19 on the Internal Market, available at: https://www.europarl.europa.eu/RegData/etudes/STUD/2021/658219/IPOL_STU(2021)658219_EN.pdf

[223] European Central bank, 2021,ECB Economic Bulletin, Issue 4/2021. Available at: https://www.ecb.europa.eu/pub/economic-bulletin/focus/2021/html/ecb.ebbox202104_04~686c89e9bb.en.html

[224] Disney et al., 2008, Drivers of over-indebtedness, Report to the department for business, entreprise and regulatory reform. Available at: http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.514.9586&rep=rep1&type=pdf

[225] Caplovitz D., 1979, Making ends meet: how families cope with inflation and recession, Beverly hills: sage.

4.5. The impact of macro-economic drivers of over-indebtedness on different socio-economic groups

As highlighted in 5.3 chapter, different socio-economic groups are affected differently by the macro-economic drivers of over-indebtedness. Differently from task 1, where the study team looked at the impact of over-indebtedness on socio-economic groups, in task 3, we analysed the way macro-economic drivers of over-indebtedness impact on different socio-economic groups. This chapter analyses these differences based on literature findings and expert feedback to build a "heatmap" of the main drivers of over-indebtedness for different socio-economic groups at EU level.

The analysis considers seven socio-economic dimensions, namely income, age, household size, education, geography, and gender. 139 experts were asked to rate the relevance of these dimensions in relation to a change in one of the four key drivers of over-indebtedness discussed in the previous chapter: cost of debt, cost of living, decrease in income, and demand for credit.

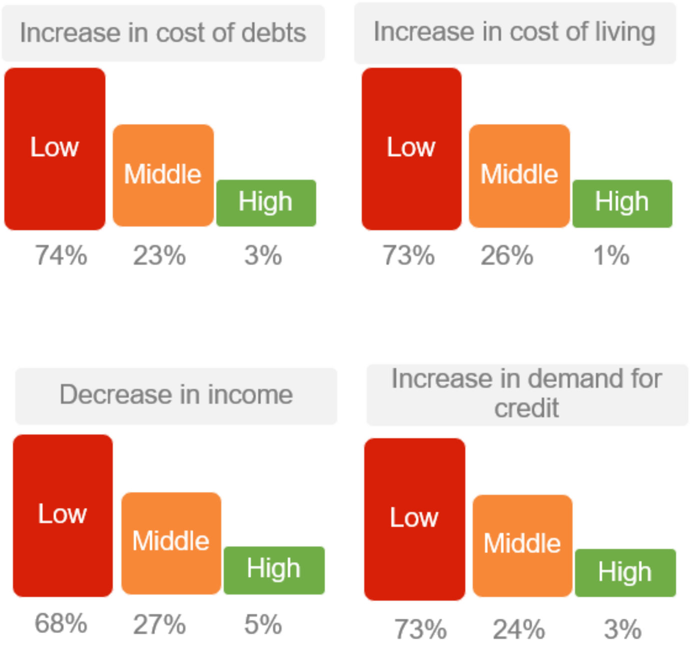
The findings show that **income** is the most relevant dimension (**red colour**) to understand changes in over-indebtedness caused by three of the four main drivers that were analysed: increase in cost of debt, increase in cost of living and decrease in income. When it comes to an increase in demand for credit, this dimension seem to be only fairly relevant (**orange colour**). In line with the literature review, the consulted experts stressed the disproportionate impact of the different drivers on people with low income, which are most at risk of becoming over-indebted. The low-income segment of the population tends to be more vulnerable to changes in consumer prices, since they tend to spend -in relative terms- more money on utility bills and food than an average income household. Moreover, the findings suggested that there is positive correlation between levels of over-indebtedness and precarious work. Job polarization is taking place across Europe, with an overall decline in the share of jobs in the middle range, and an increase in jobs with high or low pay[226]. This polarisation has had the effect of increasing wage inequalities and contributing to income inequalities and the risk for low-income households to become over-indebted. Lastly, households that are already under financial strain are pressured into taking on more high interest credit which they may not be able to pay back especially when this is compounded with an unexpected drop in income or other problems occur. [227] In this regard, loose lending procedures may exacerbate the so-called poverty penalty, namely the poor segments of the population paying more for credit than those who are better off. The figure below shows the different shares of over-indebted households by income groups:

- the low-income group (the first and second quintile) represents around 70% of over-indebted households due to an increase in cost of debts, cost of living, demand for credit and decrease in income;
- the middle-income group (i.e. third and fourth quintile) represents around 25% of over-indebted households when changes in macro-economic drivers occur;
- the high-income group, (i.e. fifth quintile) represent around 3% of over-indebted households when a change in macro-economic trends occurs.

[226] FEPS, 2019, Job Polarisation has increased inequalities across Western Europe, Policy Brief

[227] Hililamo H., 2018, Household debt and economic crises, causes, consequences and remedies, Elgar.

Figure 4.4: Shares of over-indebted households by income groups affected by OI drivers



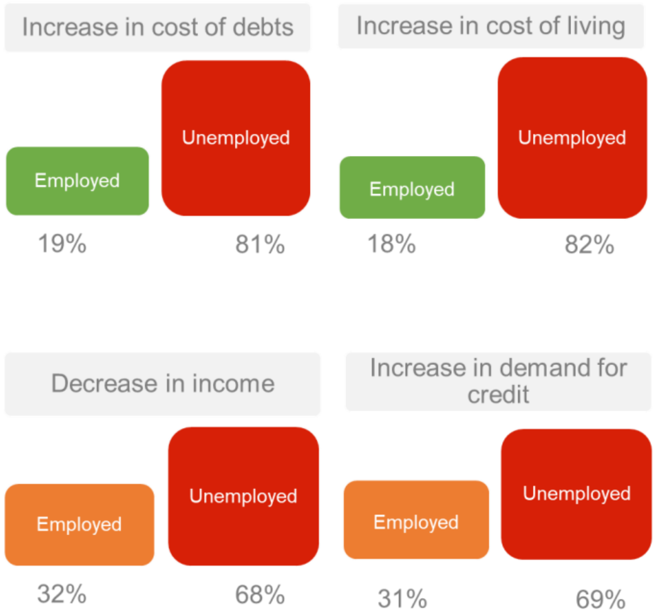
Source: VVA team Expert Survey's findings 2022

The second most important dimension is **employment status** (orange colour). In particular, when there is an increase in the cost of debt and a decrease in income, unemployed households are most affected and at highest risk of becoming over-indebted. For example, an increase in interest rates or accumulation of debts might put households into financial strain and impact their ability to pay back debts, especially in the event of job loss. Literature has highlighted the extent to which households affected by job losses might run into over-indebtedness to maintain the same level of expenditure[228]. This trend is exacerbated in case the cost of living also rises. While unemployment might not necessarily be coupled with high debt levels, the loss of a job, or becoming unemployed after being used to having a job might, nonetheless, produce an increase in debt levels. The literature review has also highlighted the links between the availability of credit, in particular, loan offers and credit card opportunities might increase the debt burdens among the more vulnerable segment of the population, including unemployed households. The figure below shows the different shares of over-indebted households by employment status:

- when there is an increase in cost of debts or cost of living, around 81% of the over-indebted households is unemployed, while around 18% of the overall over-indebted households are employed.
- When it comes to a decrease in income or an increase in demand for credit, out of the overall over-indebted population, around 68% is unemployed and 31% employed.

[228] Disney et al., 2008, Drivers of over-indebtedness, Report to the department for business, enterprise and regulatory reform. Available at: http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.514.9586&rep=rep1&type=pdf

Figure 4.5: Shares of over-indebted households by employment status affected by OI drivers

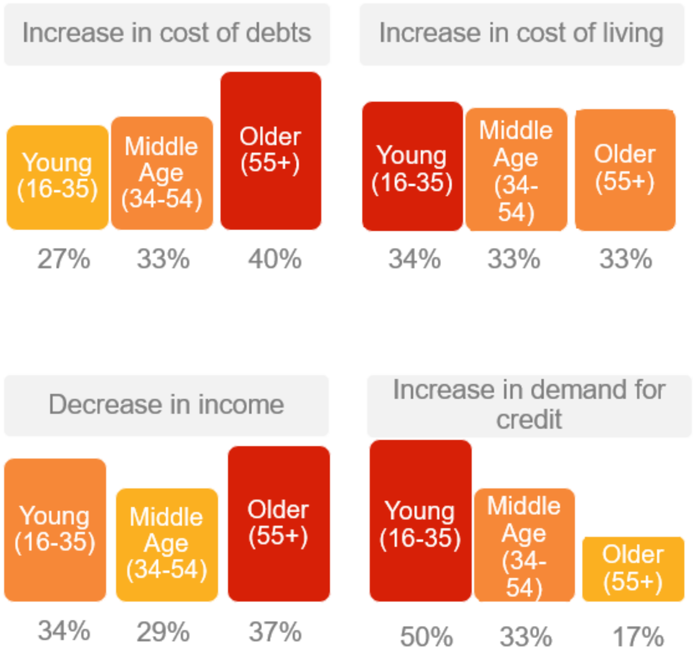


Source: VVA team Expert Survey's findings 2022

Age tends to be a fairly relevant dimension (**orange colour**) to consider when analysing the impact of an increase in cost of living. Age has less relevance when it comes to changes in the cost of debt and to decreases in income (**yellow colour**) and little relevance when there is an increase in demand for credit (green colour). According to the expert's consultation, older cohorts (55+) and middle-aged households (35 to 54 year old) seem to be more indebted, having higher share of debt-to-income ratio. This segment of the population is likely to be affected by an increase in cost of debts. When interest rates rise, households with higher debt-to-income ratio cut down their consumption more than households with lower debt. When it comes to an increase in cost of living, different age groups tend to be impacted in a similar extend. Experts highlighted that young (16-35) seem to be slightly more affected by an increase in expenditures, while middle (35-54) and older cohorts (65+) tend to be more at risk of over-indebtedness in the same extend. On the other hand, the young segment and older cohort of the population is much more affected by the economic downturn than older cohorts. This is the result of young generations entering a labour market in recession and therefore being more likely to hold temporary jobs and wage inequalities. While, concerning an increase in the demand for credit, young consumers with limited incomes are more likely to opt for short-term financing alternatives. Alternative digital payment and lending options with flexible instalment plans can lead younger consumers to purchase big and small ticket items that they would not otherwise have bought. Literature review and expert findings have stressed that young cohorts are more likely to be affected and then to be at risk of over-indebtedness. A graph showing the age distribution is presented below. In particular:

- when an increase in cost of debts or a decrease in income occurs, older segments of the population, i.e. cohort (55+ years old), represent around 38% of the overall over-indebted households, while middle and young cohorts are to a less extend affected.
- when there is an increase in cost of living or demand in credit, the most affected share of households is the younger cohorts (16-35 years old). Around 42% of over-indebted households are young, 33% are in the middle cohort (34-54 years old), and 25% belongs to older cohorts.

Figure 4.6: Share of over-indebted population by age cohorts affected by OI drivers

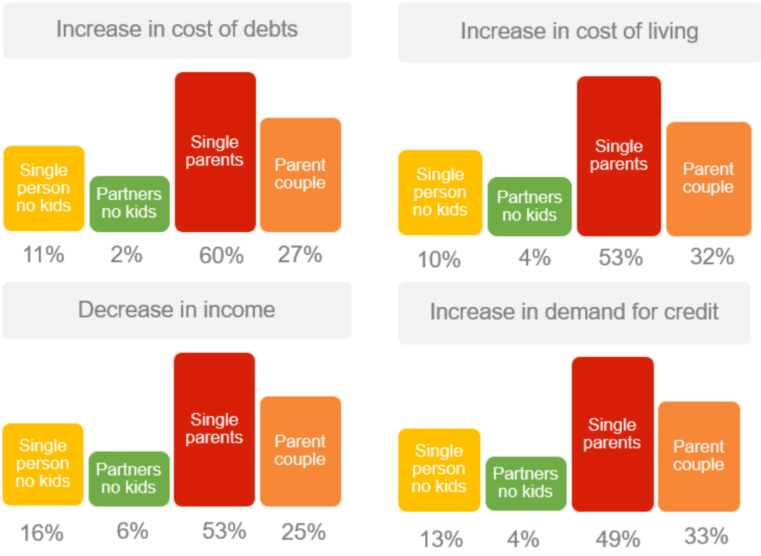


Source: VVA team Expert Survey's findings 2022

Household size is a relevant dimension (yellow colour) to be analysed for all four drivers of over-indebtedness. As also highlighted by literature review single parents face many of the same costs as two-person families but they can rely only on a single income. The experts consulted also highlighted that single parents together with partner households with three or more dependent children are considerably more likely to be in arrears compared with other household groups (single person, two adults, and two adults with one or two children). The figure below highlights that:

- Single parents with children represent in average 53% of over-indebted households when an increase in cost of debts, cost of living, demand for credit or a decrease in income occur, while parent couple with children are to a less extend affected (29% of over-indebted households)
- Both single person and partners with no children are less affected by changes in over-indebtedness drivers, representing in average 12% and 4% of over-indebted households respectively.

Figure 4.7: Share of over-indebted population by households composition affected by OI drivers



Source: VVA team Expert Survey's findings 2022

Education is also a relevant dimension (**yellow colour**). The literature and survey results highlighted how households with no education or basic education (i.e. primary education, lower secondary education) seem to be considerably more likely (68%) to be debt advice beneficiaries when compared with households with intermediate[229] (20%) or advanced education[230] (12%)[231].This is valid for all the drivers of over-indebtedness, namely increase in cost of debts, cost of living, decrease in income and increase in demand of credit. In particular:

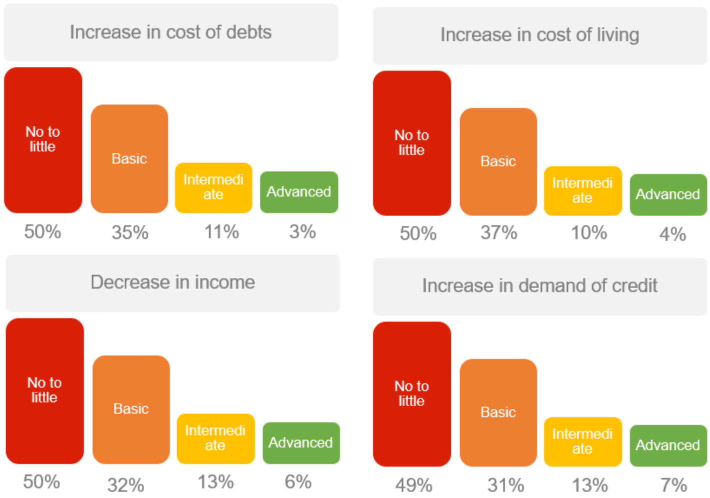
- Segments of the population with little or basic education represent respectively 50% and 35% of the over-indebted households.
- While households with intermediate or advanced education are less likely to be over-indebted, namely only 11% and 4% of the overall over-indebted population have intermediate or advance education.

[229] Upper secondary education, Post-secondary non-tertiary education

[230] Short-cycle tertiary education, Bachelor or equivalent level, Masters or equivalent level, Doctoral or equivalent level

[231] Based on 75 responses from the debt advisors.

Figure 4.8:Share of over-indebted population by households' education level affected by OI drivers

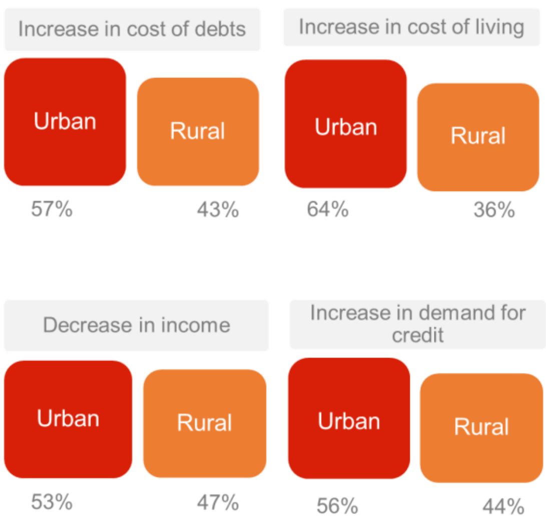


Source: VVA team Expert Survey's findings 2022

Geography seems to be relevant (yellow colour) when an increase in cost of debts arise, however less relevant for all the other drivers (**green colour**), namely increase in cost of living, decrease in income and increase in demand of credit. At the EU level, households living in urban areas (57%) constitute a higher share of debt advice beneficiaries. Moreover, when it comes to over-indebtedness drivers:

- Households living in urban areas represent in average 57% of the over-indebted population due to an increase in cost of debts, living, demand for credit or decrease in income.
- While households living in rural areas represent in average 43% of the over-indebted population.

Figure 4.9:Share of over-indebted population by geographical location affected by OI drivers

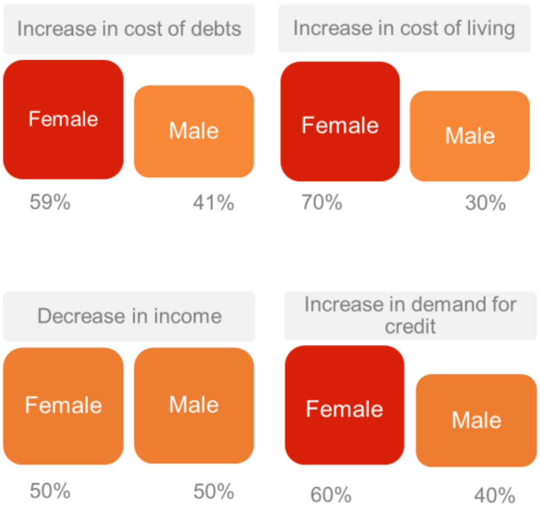


Source: VVA team Expert Survey's findings 2022

Gender seems to be relevant (yellow colour) when an increase in cost of debts arise, however less relevant for all the other drivers (green colour), namely increase in cost of living, decrease in income and increase in demand of credit. Literature findings highlight the gender dimension of over-indebtedness, since the majority of single-parent households (representing 14% of households in 2018) were headed by women (11%) against 3% of single men. According to Eurostat, EU-SILC, a greater percentage of single women are unable to meet unexpected expenses. According to experts surveyed:

- When it comes to an increase in cost of debts, living, demand for credit, or decrease in income, women represent in average 60% of over-indebted population, against 40% represented by men.

Figure 4.10: Share of over-indebted population by gender groups affected by OI drivers



Source: VVA team Expert Survey's findings 2022

To summarise, when analysing the impact of the four main drivers on over-indebtedness, the relevance of different socio-economics groups varies, being income and employment status the most relevant population groups. Looking at the different socio-economic groups, specific cohorts are impacted heterogeneously, as shown in Table 4.1.

Table 4.1: Overview of the relevance of different socio-economic groups and the segments of households mostly affected by changes in drivers of over-indebtedness

Macro-economic factors	Population groups						
	Age	**Income**	**Gender**	**Geography**	**Education**	**Household size**	**Employment status**
Increase in cost of debts	Older 55+ and middle age (35-55)	Low income	Female	Urban	No little education	Single parents with child	Unemployed
Decrease in income	Older 55+ and Young (15-35)	Low income	No difference	urban	No little education	Single parents with child	Unemployed
Increase in cost of living	Young (15-35)	Low income	Female	Urban	No little education	Single parents with child	Unemployed
Increase in demand for credit	Young	Low income	Female	urban	No little education	Single parents with children	Unemployed

4.6. The future evolution of over-indebtedness: a scenario based on projections to 2032

This chapter presents future trends in over-indebtedness over the next ten years.

4.6.1. Building the scenario

To build the future scenario for the next ten years the study relies on indicators from publicly available data sources as well as the Experts Survey, namely:

- the total number of households in the EU Member States[232];
- the share of over-indebted households in the EU Member States (in total and by the sociodemographic groups)[233].

On the basis of this data, in the expert survey, we have asked the experts to provide their estimates regarding:

- the overall projections of household over-indebtedness levels in their respective Member States in the next five and ten years, and;
- the impact of macro-economic drivers of over-indebtedness on different socio-economic groups (see Section 4.5).

By combining these data, we have built a 10-year scenario to project:

- the total and additional number of households in the EU expected to be over-indebted in the ten years;
- the level of household over-indebtedness among Member States, and;
- the sociodemographic groups most likely to be over-indebted in the next ten years.

The projections of household over-indebtedness levels also take into account forecast demographic changes[234] over the next ten years[235]. The results of the projections are presented in the sub-sections below.

As seen in Task 1, across the European Union, an average of 8.8% of households were in arrears on key financial commitments (mortgage or rent, utility bills or hire purchase) in 2020 i.e. around 17.2 million EU households.

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[232] Eurostat (2020). Number of households by household composition, number of children and age of youngest child. Indicator: [lfst_hhnhtych]. Available at: https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfst_hhnhtych&lang=en

[233] Eurostat (2020). Arrears (mortgage or rent, utility bills or hire purchase) from 2003 onwards - EU-SILC survey. Indicator: [ilc_mdes05]. Available at: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_mdes05&lang=en

ECB (2017). Household Finance and Consumption Survey (HFCS). Available at: https://www.ecb.europa.eu/stats/ecb_surveys/hfcs/html/index.en.html

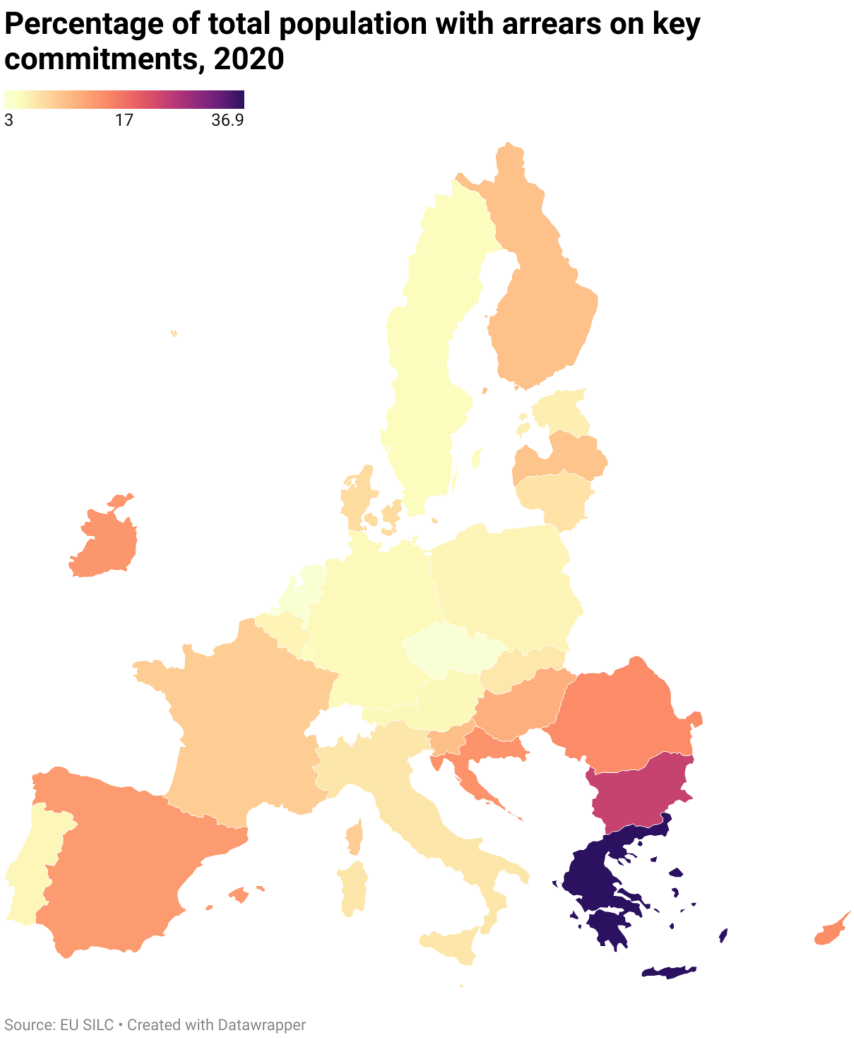
Debt Advisors Survey (2022).

[234] In 2021, the estimated number of households was 195.4 million households. For 2027, it is forecasted that this number will be 196.1 million while, for 2032, the forecasted number is 195.9 million. Source: Eurostat: Population on 1st January by age, sex and type of projection.

[235] Eurostat (2022). Population on 1st January by age, sex and type of projection. Indicator: [PROJ_19NP]. Available at: https://ec.europa.eu/eurostat/databrowser/view/PROJ_19NP__custom_3015424/default/table?lang=en

The level of household over-indebtedness, however, is not the same throughout the EU. As shown in Task 1 (see Section 2.3), in 2020, there was a very wide difference in the level of household over-indebtedness across Member States.

Figure 4.11: Distribution of arrears on key commitments: mortgage or rent, utility bills or hire purchase (2020, by country)



Source: Eurostat 2022.

Similarly, there are wide differences in terms of the sociodemographic groups most impacted by over-indebtedness in 2020 based on statistical data available from Eurostat[236], ECB[237], and the Task 1 debt advisor survey[238].

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[236] Statistics on arrears available for **income** (below 60% of median equivalised income, and above 60% of median equivalised income); **gender** (male and female households); and **household size** (single person no children, partner household with no children, single parents with children, partner household with children).

[237] Statistics on regular expenses less than income available for **age** (young (16-34), middle age (34-54), and older (55+)). As illustrated in the Task 1 part of the report (see Section 2.3.3), regular expenses less than income has a high correlation with level of arrears, hence, in this context, it has been used as a substitute indicator to the level of arrears.

[238] In the debt advisors survey, debt advisors were asked to indicate the **current share(s)** of debt advice beneficiaries by the sociodemographic group (age, income, gender, education, employment status, households' size, and geographic location). Since the share of the over-indebted households for some of the sociodemographic groups is (partially) covered by the statistics from the Eurostat, and ECB, the data from the debt advisors survey was used to determine the current share of the over-indebted

According to the study team's analysis, in 2020 the socio-economic groups most affected by over-indebtedness were:

- Young households (5.8 million over-indebted households overall, or 34% of the over-indebted population)
- Households with below 60% of the median equivalised income (13 million over-indebted households overall, or 76% of the over-indebted population)
- Males (10 million over-indebted households overall, or 58% of the over-indebted population)
- Households with basic level of education (8.4 million over-indebted households overall, or 49% of the over-indebted population)
- Employed households (8.7 million over-indebted households overall, or 50.4% of the over-indebted population)
- Single parents with children (7.1 million over-indebted households overall, or 41.2% of the over-indebted population)
- Households living in urban regions (9.8 million over-indebted households overall, or 57% of the over-indebted population)

households by their level of **education**, **employment status and geographic location**. It is important to highlight that the findings from the debt advisors survey should be taken cautiously when compared with the data from the Eurostat and ECB as this is an indication of the debt advice beneficiaries and not the over-indebted households overall.

Table 4.2: Number of over-indebted households in the baseline scenario

Sociodemographic group	Number of over-indebted households in 2020	Share
Total	**17.2M**	**100.0%**
Age		
Young (16-34)	5.84M	34.0%
Middle age (34-54)	5.58M	32.5%
Older (55+)	5.77M	33.6%
Income		
Below 60% of median equivilised income	12.98M	75.5%
Above 60% of median equivilised income	4.22M	24.5%
Gender		**0.0%**
Female	7.18M	41.8%
Male	10.01M	58.2%
Education		
No to little	3.33M	19.4%
Basic	8.37M	48.7%
Intermediate	3.38M	19.7%
Advanced	2.11M	12.3%
Employment status		
Employed	8.67M	50.4%
Unemployed	8.52M	49.6%
Household size		
Single person no children	3.37M	19.6%
Partner household with no children	2.28M	13.2%
Single parents with children	7.09M	41.2%
Partner household with children	4.46M	26.0%
Geographic location		
Urban	9.8M	57.0%
Rural	7.39M	43.0%

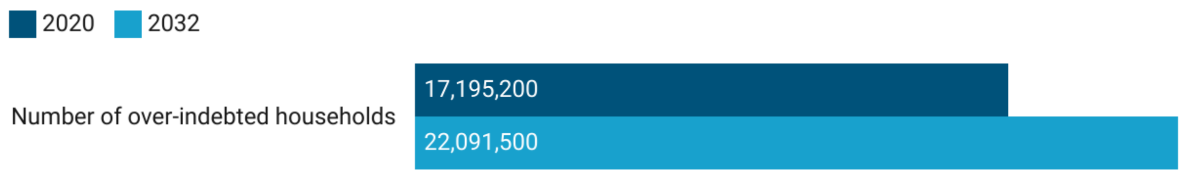
Sources: VVA's estimation based on statistics provided by Eurostat 2020, ECB 2017, and the Debt Advisors Survey 2022.

4.6.2. Overall evolution of over-indebtedness until 2032

The table below shows the study team's projected evolution of over-indebtedness from 2020 to 2032 based on the model. The share of **over-indebted households in the EU** is expected to increase from 8.8% in 2020 (17.2 million households) to 11.3% in 2032 (22.1 million) resulting in an overall 28% increase in this period[239](see Figure 4.12).

[239] In the cases when the estimates for 2027 and 2032 are the same, we group the projections for these years together and are either shown as projection for 2027 and 2032, or projection for 2032.

Figure 4.12: Total number of over-indebted households in the EU



Source: VVA's estimation based Experts Survey 2022 and Eurostat 2022.

4.6.3. Projected distribution of over-indebtedness across the Member States by 2027 and 2032

While the share of **over-indebted households in the EU** is expected to increase from 8.8% in 2020 (17.2 million households) to 11.3% in 2032 (22.1 million) resulting in an overall 28% increase in this period, the level of the increase and the shape of the curve vary significantly between Member States [240]. For example, experts from countries with a high prevalence of household over-indebtedness in 2020[241] projected a 50% (2027) and 47% (2032) increase in 2027 and 2032, while experts from countries with lower prevalence of household over-indebtedness[242] only projected an overall increase of 11% and 15% in 2027 and 2032 (see Table 4.3). Interestingly, only countries with currently low prevalence of over-indebtedness saw the situation deteriorating gradually in both 2027 and 2032 while Members States with higher over-indebtedness expect to reach a peak in 2027.

Table 4.3: Projected increase in households in arrears in 2027 and 2032 by country clusters

Prevalence of household arrears	Projected increase in 2027 (% change)	Projected increase in 2032 (% change)
Very High	50	47
High	15	20
Moderate	36	30
Low	11	15
Average	**28**	**28**

Source: VVA's Experts Survey 2022

The above country variations have significant implications for individual Member States. For instance, it is estimated that more than half of households in Greece, and more than one-third of households in Bulgaria will be in arrears by 2027, while in countries with low frequency of households in arrears, the changes should be less dramatic. The table below provides the projection of share of households (%) that are expected to be over-indebted in 2027 and 2032

[240] In the Task 1 of the Study, Member States were clustered based on the prevalence of household arrears in 2020. For more information, please see Section 2.3.

[241] Greece and Bulgaria.

[242] Czech Republic, Luxembourg, the Netherlands, and Sweden.

in each Member State. The projection is based on the experts' estimations of the evolution of household over-indebtedness by country cluster (see Table 4.3)

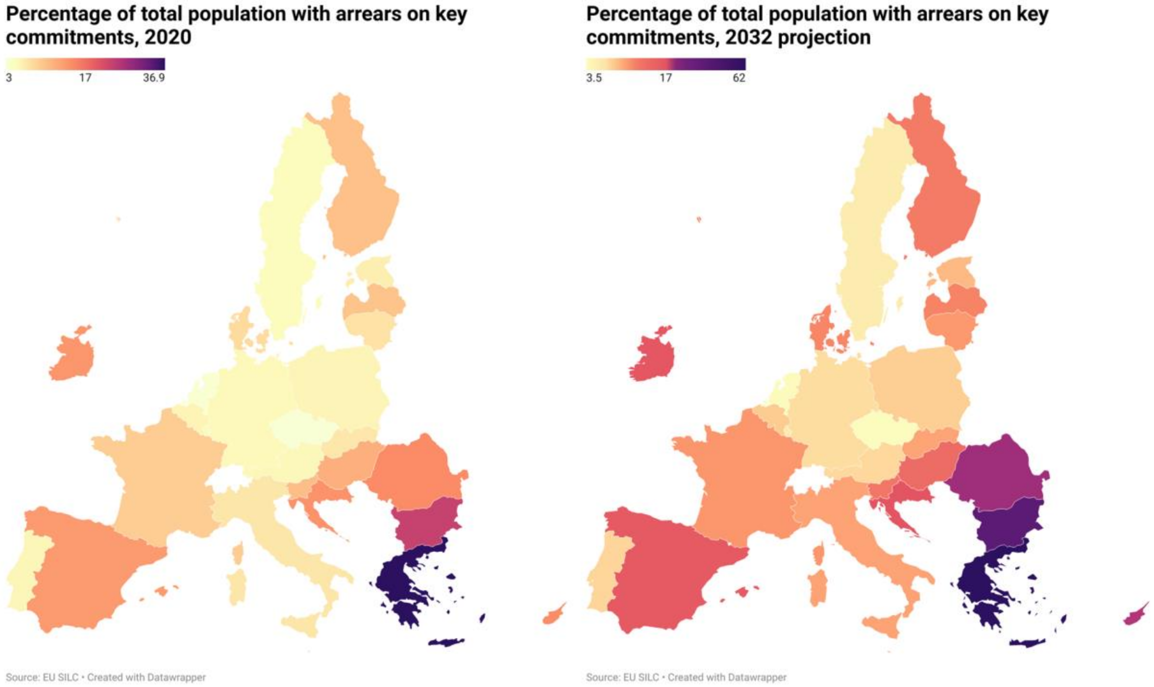
Table 4.4: Evolution of households in arrears per Member State under the expert scenario

Member State	Prevalence of household over-indebtedness	Arrears 2020	2027 projection	2032 projection
Greece	Very high	36.9%	55.4%	54.2%
Bulgaria	Very high	23.6%	35.4%	34.7%
Romania	High	14.8%	17.0%	17.8%
Cyprus	High	14.7%	16.9%	17.6%
Croatia	High	14.2%	16.3%	17.0%
Ireland	High	13.9%	16.0%	16.7%
Spain	High	13.5%	15.5%	16.2%
Hungary	High	11.6%	13.3%	13.9%
Slovenia	High	10.3%	11.8%	12.4%
Finland	High	10.0%	11.5%	12.0%
Latvia	High	9.7%	11.2%	11.6%
France	High	8.9%	10.2%	10.7%
Denmark	Moderate	7.7%	10.5%	10.0%
Lithuania	Moderate	7.1%	9.7%	9.2%
Malta	Moderate	7.0%	9.5%	9.1%
Italy	Moderate	6.8%	9.2%	8.8%
Slovakia	Moderate	6.7%	9.1%	8.7%
Estonia	Moderate	6.0%	8.2%	7.8%
Belgium	Moderate	5.6%	7.6%	7.3%
Poland	Moderate	5.5%	7.5%	7.2%
Portugal	Moderate	5.4%	7.3%	7.0%
Austria	Moderate	5.3%	7.2%	6.9%
Germany	Moderate	5.2%	7.1%	6.8%
Luxembourg	Low	4.9%	5.4%	5.6%
Sweden	Low	4.9%	5.4%	5.6%
Netherlands	Low	3.2%	3.6%	3.7%
Czech Republic	Low	3.0%	3.3%	3.5%

Source: VVA estimations based on Eurostat 2020 and VVA's Experts Survey 2022

The maps below visualise the geographical distribution of the evolution of over-indebtedness, comparing 2020 with 2032.

Figure 4.13: Evolution of households in arrears per Member State under the expert scenario



Source: VVA's estimations based on VVA's Experts Survey 2022 and Eurostat 2020.

4.6.4. Projected over-indebtedness by sociodemographic group in 2032

Based on the model built for this report, the study team expects the sociodemographic groups most impacted by the increase in over-indebtedness in 2032 will be[243]:

- **Low-income** households (**3.5** million additional households expected to be over-indebted which would result in a total of 15.9 million over-indebted low-income households);
- **Unemployed** households (**3.7** million additional households expected to be over-indebted which would result in a total of 17 million over-indebted unemployed households);
- **Females** (**3** million additional households expected to be over-indebted which would result in the total of 13.9 million over-indebted female households);
- **Households living in urban areas** (**2.9** million additional households expected to be over-indebted which would result in a total of 13.2 million over-indebted households living in urban areas);
- **Single parents with children** (**2.6** million additional households expected to be over-indebted which would result in a total of 11.7 million over-indebted single parents with children households);

[243] Each sociodemographic category (age, income, gender, education, employment status, household size, geographic location) amounts to the total number of over-indebted households (4.83 million and 22.1 million) and is divided by the number from sub-categories (e.g. young, middle aged, older).

- **Households with a basic level of education** (**2.4** million additional households expected to be over-indebted which would result in a total of 11 million over-indebted households);
- **Young households** (**1.8** million additional households expected to be over-indebted with a total of 8.2 million over-indebted young households overall);

More information regarding the distribution of the additional households that are projected to be in arrears by 2032 is available in Table 5.4. It contains the data regarding:

- the projected additional number of households expected to be over-indebted by 2032[244];
- the total number of households in each group expected to be over-indebted by 2032[245], and;
- the share (%) of each sociodemographic group of the total over-indebted households (age, income, gender, education, employment status, household size, and geographic location).

The projection methodology is described in detail in in Annex A: Methodology for Tasks 1 and 3.

[244] In total, and per socio-demographic (sub)-group(s).

[245] Ibid.

Table 4.5: Number of households expected to be over-indebted by 2032 and share per socio-demographic group

Sociodemographic group	Additional number of households to be over-indebted in 2032	Total number of households to be over-indebted in 2032	Share %
Total	4.9M	22.1M	
Age			
Young (16-34)	1.81M	8.2M	37%
Middle age (34-54)	1.55M	7M	32%
Older (55+)	1.53M	6.9M	31%
Income			
Bottom (0%-33%)	3.53M	15.9M	72%
Middle (33%-66%)	1.24M	5.6M	25%
High (67%-100%)	118.07K	532.7K	2%
Gender			
Female	3.08M	13.9M	63%
Male	1.81M	8.2M	37%
Education			
No to little	2.43M	11M	50%
Basic	1.7M	7.7M	35%
Intermediate	532.4K	2.4M	11%
Advanced	231.94K	1M	5%
Employment status			
Employed	1.13M	5.1M	23%
Unemployed	3.76M	17M	77%
Household size			
Single person no children	598.67K	2.7M	12%
Partner household with no children	213.34K	962.6K	4%
Single parents with children	2.6M	11.7M	53%
Partner household with children	1.48M	6.7M	30%
Geographic location			
Urban	2.92M	13.2M	60%
Rural	1.98M	8.9M	40%

Source: VVA's calculations based on VVA's Experts Survey 2022 and Eurostat 2022.

4.6.5. Contribution of different macro-economic factors on over-indebtedness until 2032

As presented in Section 4.3.5, the driving forces behind the increase in household over-indebtedness, according to the experts consulted, are[246]:

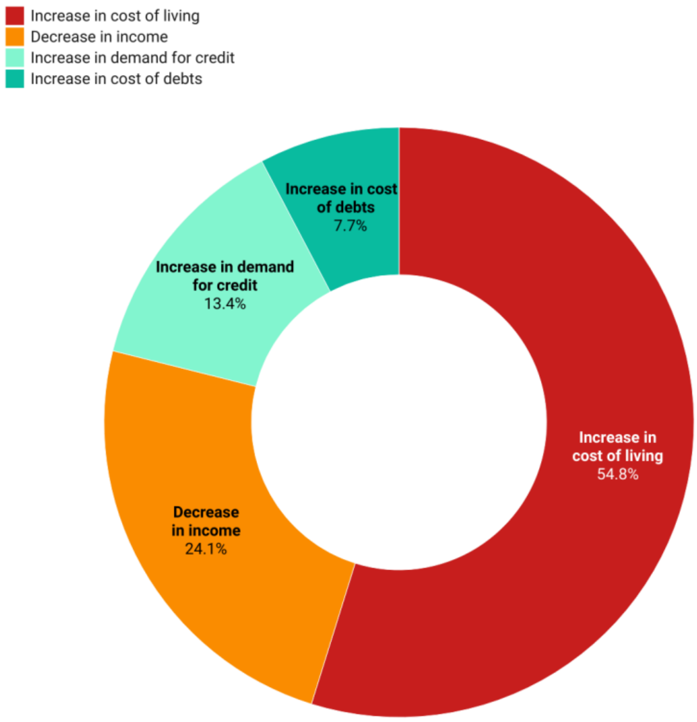
- the expected **increase in cost of living** (contributing 54% to the increase in over-indebtedness),

[246] These percentages are calculated based on expert ranking of different macro-economic factor impact over-indebtedness.

- an expected **decrease in income** (contributing 24% to the increase in over-indebtedness),
- an **increase in demand of credit** (contributing 13% to the increase in over-indebtedness),
- an **increase in cost of debts** (contributing 7% to the increase in over-indebtedness).

The figure below shows graphically the relevance of each macro-economic drivers for the future evolution of over-indebtedness

Figure 4.14: The impact of each macro-economic factor on overall over-indebtedness in the next 10 years



Source: VVA's Experts Survey 2022.

The section below breaks down the number of households that are expected to be over-indebted[247] by each of the four macro-economic factors, including:

- the additional number of households expected to be over-indebted in 2027 and 2032 due to the macro-economic factor[248];
- the total number of households to be over-indebted in 2027 and 2032 due to the macro-economic factor[249], and;
- the share (%) of each sociodemographic group of the total over-indebted population due to macro-economic factor.

The methodology behind the projections is available in Annex A: Methodology for Tasks 1 and 3.

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[247] In total, and per socio-demographic (sub)-group(s).

[248] Ibid.

[249] Ibid.

Contribution of cost of living to over-indebtedness in 2032

Based on expert assessment, the model built by the study team estimates that the **cost of living** will be responsible for **54.8% of over-indebtedness in the EU**. Hence, by 2032, changes in the cost of living will add an **additional 4.9 million households** (or 12.1 million households overall) across the EU. The projections of household over-indebtedness levels take into account forecast demographic changes[250] in the next ten years[251]. According to the study team, the sociodemographic groups most affected by an increase in the cost of living will be[252]:

- **Unemployed households** (2.2 million additional households to be over-indebted which would result in a total of 9.9 million households over-indebted overall due to the cost of living);
- **Low-income households** (2 million additional households to be over-indebted which would result in a total of 8.9 million households over-indebted overall due to the cost of living);
- **Females** (1.9 million additional households to be over-indebted which would result in a total of 8.5 million households to be over-indebted overall due to the cost of living);
- **Households living in urban areas** (1.7 million additional households to be over-indebted which would result in a total of 7.7 million households over-indebted overall due to the cost of living);
- **Single parents with children** (1.4 million additional households to be over-indebted which would result in a total of 6.5 million households over-indebted overall due to the cost of living);
- **Households with low level of education** (no to little or basic education) (1.3 million additional households to be over-indebted which would result in a total of 10.5 million households over-indebted overall due to the cost of living);
- **Young households** (1 million additional households to be over-indebted which would result in a total of 4.6 million households over-indebted overall due to the cost of living);

[250] In 2021, the estimated number of households was 195.4 million households. For 2027, it is forecasted that this number will be 196.1 million while, for 2032, the forecasted number is 195.9 million. Source: Eurostat: Population on 1st January by age, sex and type of projection.

[251] Eurostat (2022). Population on 1st January by age, sex and type of projection. Indicator: [PROJ_19NP]. Available at: https://ec.europa.eu/eurostat/databrowser/view/PROJ_19NP__custom_3015424/default/table?lang=en

[252] Each sociodemographic category (age, income, gender, education, employment status, household size, geographic location) amounts to the additional and the total number of over-indebted households and is divided by the number from the sub-categories (e.g. young, middle aged, older).

Table 4.6: Total number of over-indebted households and share per sociodemographic group due to the cost of living in 2032

Sociodemographic group	Additional number to be over-indebted in 2032	Total number of households to be over-indebted in 2032	Share
Total	**2.68M**	**12.1M**	
Age			
Young (16-34)	1.02M	4.6M	38%
Middle aged (34-54)	816.2K	3.68M	30%
Older (55+)	845.35K	3.81M	32%
Income			
Bottom (0%-33%)	1.97M	8.89M	73%
Middle (33%-66%)	684.13K	3.09M	26%
High (67%-100%)	27.37K	123.47K	1%
Gender			
Female	1.88M	8.47M	70%
Male	804.54K	3.63M	30%
Education			
No to little	1.33M	5.99M	50%
Basic	989.4K	4.46M	37%
Intermediate	260.37K	1.17M	10%
Advanced	104.15K	469.9K	4%
Employment status			
Employed	481.35K	2.17M	18%
Unemployed	2.2M	9.93M	82%
Household size			
Single with no children	280.95K	1.27M	10%
Partners with no children	102.16K	460.95K	4%
Single parents with children	1.43M	6.45M	53%
Partners with children	868.39K	3.92M	32%
Geographic location			
Urban	1.71M	7.73M	64%
Rural	968.42K	4.37M	36%

Source: VVA's calculations based on VVA's Experts Survey 2022 and Eurostat 2022.

Contribution of a decrease in income to over-indebtedness in 2032

The model built by the study team estimates that a **decrease in income** will be responsible for **24.1%** of over-indebtedness situations in the EU (both additional and overall). Hence, in 2032, a decrease in income will likely be responsible for the over-indebtedness of an **additional 1.2 million households** (or 5.3 million households overall) across the EU.

According to the study team, the sociodemographic groups that are most affected by a decrease in income are[253]:

- **Low-income households** (807 thousand additional households to be over-indebted which would result in a total of 3.6 million households to be over-indebted overall due to a decrease in income);
- **Unemployed households** (802 thousand additional households to be over-indebted which would result in a total of 3.6 million households to be over-indebted overall due to a decrease in income);
- **Households living in urban areas** (626 thousand additional households to be over-indebted which would result in a total of 2.8 million households to be over-indebted overall due to decrease in income);
- **Single parents with children** (623 thousand additional households to be over-indebted which would result in a total of 2.8 million households to be over-indebted overall due to a decrease in income);
- **Households with no to little level of education** (591 thousand additional households to be over-indebted which would result in a total of 2.7 million households to be over-indebted overall due to a decrease in income);
- Experts estimate that **females and males** will be equally impacted by the decrease in income (591 thousand additional households to be over-indebted which would result in a total of 2.7 million households overall each);
- **Older households** (437 thousand additional households to be over-indebted which would result in a total of 2 million households to be over-indebted overall due to a decrease in income).

[253] Each sociodemographic category (age, income, gender, education, employment status, household size, geographic location) amounts to the additional and the total number of over-indebted households and is divided by number from the sub-categories (e.g. young, middle aged, older).

Table 4.7: Total number of over-indebted households and share per sociodemographic group due to a decrease in income in 2032

Sociodemographic group	Additional number to be over-indebted in 2032	Total number of households to be over-indebted in 2032	Share
Total	1.18M	5.33M	
Age			
Young (16-34)	372.68K	1.68M	32%
Middle aged (34-54)	372.68K	1.68M	32%
Older (55+)	436.93K	1.97M	37%
Income			
Bottom (0%-33%)	804.44K	3.63M	68%
Middle (33%-66%)	316.9K	1.43M	27%
High (67%-100%)	60.94K	274.96K	5%
Gender			
Female	591.14K	2.67M	50%
Male	591.14K	2.67M	50%
Education			
No to little	591.14K	2.67M	50%
Basic	374.39K	1.69M	32%
Intermediate	147.79K	666.79K	13%
Advanced	68.97K	311.17K	6%
Employment status			
Employed	380.02K	1.71M	32%
Unemployed	802.26K	3.62M	68%
Household size			
Single with no children	190.01K	857.3K	16%
Partners with no children	73.89K	333.39K	6%
Single parents with children	622.81K	2.81M	53%
Partners with children	295.57K	1.33M	25%
Geographic location			
Urban	625.91K	2.82M	53%
Rural	556.37K	2.51M	47%

Source: VVA's calculations based on VVA's Experts Survey 2022 and Eurostat 2022.

Contribution of an increase in demand for credit to over-indebtedness by 2032

The model built by the study team estimates that the increase in **demand for credit** will be responsible for **13.4%** of the over-indebtedness situations in the EU. Hence, in 2032 an increase in demand for credit will likely be responsible for the over-indebtedness of an **additional 656 thousand households** (or 3 million households overall) across the EU.

According to the study team, the sociodemographic groups that are most affected by an increase in demand for credit will be[254]:

- **Low-income households** (480 thousand additional households to be over-indebted which would result in a total of 2.2 million households to be over-indebted overall due to an increase in demand for credit);

[254] Each sociodemographic category (age, income, gender, education, employment status, household size, geographic location) amounts to the additional and the total number of over-indebted households and is divided by number from the sub-categories (e.g. young, middle aged, older).

- **Unemployed households** (453 thousand additional households to be over-indebted which would result in a total of 2 million households to be over-indebted overall due to an increase in demand for credit);
- **Females** (393 thousand additional households to be over-indebted which would result in a total of 1.8 million households to be over-indebted overall due to an increase in demand for credit);
- **Households living in urban areas** (364 thousand additional households to be over-indebted which would result in a total of 1.6 million households to be over-indebted overall due to an increase in demand for credit);
- **Single parents with children** (323 thousand additional households to be over-indebted which would result in the total of 1.5 million households to be over-indebted overall due to the increase in demand of credit);
- **Households with no to little level of education** (322 thousand additional households to be over-indebted which would result in a total of 1.5 million households to be over-indebted overall due to an increase in demand for credit);
- **Young households** (303 thousand additional households to be over-indebted which would result in a total of 1.4 million households to be over-indebted overall due to an increase in demand for credit).

Table 4.8:Total number of over-indebted households and share per sociodemographic group due to an increase demand of credit in 2032

Sociodemographic group	Additional number to be over-indebted in 2032	Total number of households to be over-indebted in 2032	Share
Total	**655.59K**	**2.96M**	
Age			
Young (16-34)	302.58K	1.37M	46%
Middle aged (34-54)	239.54K	1.08M	37%
Older (55+)	113.47K	511.95K	17%
Income			
Bottom (0%-33%)	480.15K	2.17M	73%
Middle (33%-66%)	156.97K	708.24K	24%
High (67%-100%)	18.47K	83.32K	3%
Gender			
Female	393.36K	1.77M	60%
Male	262.24K	1.18M	40%
Education			
No to little	323.18K	1.46M	49%
Basic	203.14K	916.55K	31%
Intermediate	83.1K	374.95K	13%
Advanced	46.17K	208.31K	7%
Employment status			
Employed	202.64K	914.28K	31%
Unemployed	452.95K	2.04M	69%
Household size			
Single with no children	88.06K	397.34K	13%
Partners with no children	29.35K	132.45K	4%
Single parents with children	322.9K	1.46M	49%
Partners with children	215.27K	971.27K	33%
Geographic location			
Urban	364.22K	1.64M	56%
Rural	291.37K	1.31M	44%

Source: VVA's calculations based on VVA's Experts Survey 2022 and Eurostat 2022.

Contribution of an increase in the cost of debt to over-indebtedness by 2032

The model built by the study team estimates that an increase in cost of debt will be responsible for **7.7%** of the over-indebtedness situations in the EU. Hence, in 2032, the increase in cost of debt will likely be responsible for the over-indebtedness of the **additional 377 thousand households** (or 1.7 million households overall) across the EU.

According to the study team, the sociodemographic groups that are most affected by an increase in cost of debt will be[255]:

[255] Each sociodemographic category (age, income, gender, education, employment status, household size, geographic location) amounts to the additional and the total number of over-indebted households and is divided by number from the sub-categories (e.g. young, middle aged, older).

- Unemployed households (307 thousand additional households to be over-indebted which would result in a total of 1,4 million over-indebted households overall due to an increase in cost of debt);
- Low-income households (279 thousand additional households to be over-indebted which would result in a total of 1.3 million over-indebted households overall due to an increase in cost of debt);
- Single parents with children (226 thousand additional households to be over-indebted which would result in the total of 1 million over-indebted households overall due to an increase in cost of debt), and;
- Females (223 thousand additional households to be over-indebted which would result in a total of 1 million over-indebted households overall due to an increase in cost of debt);
- Households living in urban areas (215 thousand additional households to be over-indebted which would result in the total of 970 thousand over-indebted households overall due to an increase in cost of debt);
- Households with no to little level of education (190 thousand additional households to be over-indebted which would result in a total of 857 thousand over-indebted households overall due to an increase in cost of debt);
- Old households (139 thousand additional households to be over-indebted which would result in a total of 630 thousand over-indebted households overall due to an increase in cost of debt).

Table 4.9: Total number of over-indebted households and share per sociodemographic group due to an increase cost of debt in 2032

Sociodemographic group	Additional number of households to be over-indebted in 2032	Total number of households to be over-indebted in 2032	Share
Total	**376.64K**	**1.7M**	
Age			
Young (16-34)	118.72K	535.66K	32%
Middle aged (34-54)	118.72K	535.66K	32%
Older (55+)	139.19K	628.02K	37%
Income			
Bottom (0%-33%)	278.71K	1.26M	74%
Middle (33%-66%)	86.63K	390.85K	23%
High (67%-100%)	11.3K	50.98K	3%
Gender			
Female	222.56K	1M	59%
Male	154.08K	695.19K	41%
Education			
No to little	189.9K	856.81K	50%
Basic	132.93K	599.77K	35%
Intermediate	41.15K	185.64K	11%
Advanced	12.66K	57.12K	3%
Employment status			
Employed	69.75K	314.69K	19%
Unemployed	306.89K	1.38M	81%
Household size			
Single with no children	39.65K	178.88K	11%
Partners with no children	7.93K	35.78K	2%
Single parents with children	225.98K	1.02M	60%
Partners with children	103.08K	465.08K	27%
Geographic location			
Urban	215.22K	971.05K	57%
Rural	161.42K	728.29K	43%

Source: VVA's calculations based on VVA's Experts Survey 2022 and Eurostat 2022.

4.6.6. Recent developments and the energy crisis

The projection of over-indebtedness levels in the analysis above was made before the impact of the recent energy crisis, partly stemming from the Russian war in Ukraine, became fully clear. Even without this additional driver, the projections show that an additional 4.9 million would likely be over-indebted by 2032. These calculations were based on cost-of-living estimations for June 2022, when inflation was running at 8.1% (EU average)[256] and the rise in energy prices due to the war in Ukraine was not yet fully factored in. This sub-section provides an update to the projections to take these developments into account (as of September 2022).

[256] Eurostat, 2022, Flash estimate Euro area annual inflation up to 10%, available at: https://ec.europa.eu/eurostat/documents/2995521/14698140/2-30092022-AP-EN.pdf/727d4958-dd57-de9f-9965-99562e1286bf#:~:text=Euro%20area%20annual%20inflation%20is,office%20of%20the%20European%20Union

As mentioned in previous sections, **utility costs** represent one of the main areas of financial difficulty for households that can lead to over-indebtedness. As outlined in task 1, at EU level, arrears on utility bills are the strongest contributor to total arrears. In 2020, for example, 72% of households in arrears on key commitments[257] in the EU were also in arrears with their utility bills (i.e. 6.3% of all households were in arrears with utility bills out of a total of 8.8% of households who experienced arrears with any of their key commitments).

At the same time, the projections in task 3 show that 54% of the overall increase in over-indebtedness levels over the next 10 years is likely to be caused by an increase in cost of living and a significant share of the increase in the cost of living is represented by utility costs:

- according to the expert survey conducted for this study in 2022, the main factors driving increases in the cost of living are utility costs, followed by housing, childcare and child-related costs and health care costs.
- similar results were shown in the 2013 study where 68% of stakeholders mentioned expenditures related to utility bills as a key driver of over-indebtedness, followed by housing (59%), and other costs including food and transport (42%)[258].

Considering the temporary shock in energy prices and the increase in inflation to 10% (EU average)[259] in September 2022, it is likely that cost of living will play an important role in driving up over-indebtedness in the short to medium term.

Specifically, when it comes to the energy price shock:

- As mentioned before, 6.3% of EU households were in arrears with their utility bills in 2020 when average household energy prices were 0.21eur/ kwh for electricity and 0.07 eur/kwh for gas.
- By September 2022, average prices had risen to 0.3 eur/kwh for electricity and 0.2 eur/kwh for gas. This represents an increase of in consumer prices for electricity, gas and other fuels of 54.2%[260]
- Assuming that the relationship between prices and arrears remained stable this means that 9.7% of EU households were likely in arrears with their utility bills in 2022 (a 3.4% point increase from 2020)

[257] Mortgage or rent, utility bills or hire purchase

[258] European Commission, 2013, Study on the over-indebtedness of European Households: updated mapping of the situation, nature and causes, effects and initiatives for alleviating its impact, available at: https://ec.europa.eu/info/sites/default/files/final-report-on-over-indebtedness-of-european-households-synthesis-of-findings_december2013_en.pdf

[259] https://ec.europa.eu/eurostat/documents/2995521/14698140/2-30092022-AP-EN.pdf/727d4958-dd57-de9f-9965-99562e1286bf#:~:text=Euro%20area%20annual%20inflation%20is,office%20of%20the%20European%20Union.

[260] https://www.consilium.europa.eu/en/infographics/energy-prices-2021/

Table 4.10: Overview of average energy prices for households and arrears with utility bills

	2020	2022	Change
Average electricity price for households	0.21 eur/kwh	0.3 eur/kwh	42.8%
Average gas price for households	0.07 eur/kwh	0.2 eur/kwh	185.7%
Index of consumer prices for electricity, gas and other fuels (2015 =100)	102.38 (Dec '20)	157.87 (July '22)	54%
Arrears on utility bills	6.3%	9.7%	54%

Source: VVA's calculation based on Eurostat

Taking into account the recent energy price shocks VVA estimates that, **in 2022, around 19,1m of households are in arrears with their key financial commitments, which is approximately 2 million more than in the scenario presented in Section 4.6.2**.

Additionally, longer term **inflation expectations have also changed since June 2022**[261].As shown in the table below, there has been an increase in average inflation expectations over the next 5 years (from 3.68% to 4.38%).

Table 4.11: Long term inflation expectations June 22 versus September 22

	2022	2023	2024	2025	2026	2027	Average
HICP expectations (June 2022)	6.8%	3.5%	2.1%	2%	2%	2%	3.68%
HICP expectations (September 2022)	8.1%	5.5%	2.3%	2%	2%	2%	4.38%

Source: ECB projections 2022

This represents a 33,3% rise in average inflation expectations over the 5 year period which will affect the change in the number of over-indebted households projected in the scenario presented in Section 4.6.2.

Applying the higher inflation figures takes the expected evolution of the number of over-indebted households during the period of 2020 to 2032 to increase from 28% to 37.2%[262]. Combined with the updated starting point in the number of households that experience over-

[261]Available at: https://www.ecb.europa.eu/pub/projections/html/ecb.projections202209_ecbstaff~3eafaaee1a.en.html#toc7; https://www.ecb.europa.eu/pub/pdf/other/ecb.projections202206_eurosystemstaff~2299e41f1e.en.pdf

[262] A 33.3% increase.

indebtedness in 2022 (19,1m) due to the rise in energy prices, this translates into **study team's estimated overall number of over-indebted households of 26m households by 2027 (13.3% of the EU households)**.

While the rise in inflation and specifically energy prices will take some time to fully filter through to over-indebtedness and geopolitical tensions are likely to persist for some time, in the longer term (10 years) it is expected that price rises will return to a more sustainable level. This normalization will likely be further supported by policy measures that are put in place at EU or national levels to mitigate the effects of energy price rises and inflation (e.g. cap on energy bills, subsidies to support household income, wage increases to adjust for inflation, etc**). By 2032 the study team would therefore expect the number of over-indebted households not to differ significantly from the scenario presented in Section 4.6.2** (i.e. 22m over-indebted households, or 11.3% of the EU households).

To summarise, the figure below shows the change in over-indebted households based on expectations in June 2022 (when the expert survey was conducted) and the updated scenario accounting for the current energy price shock and inflation expectations as of September 2022.

The scenario based on June 2022 data and VVA's forecasts projected:

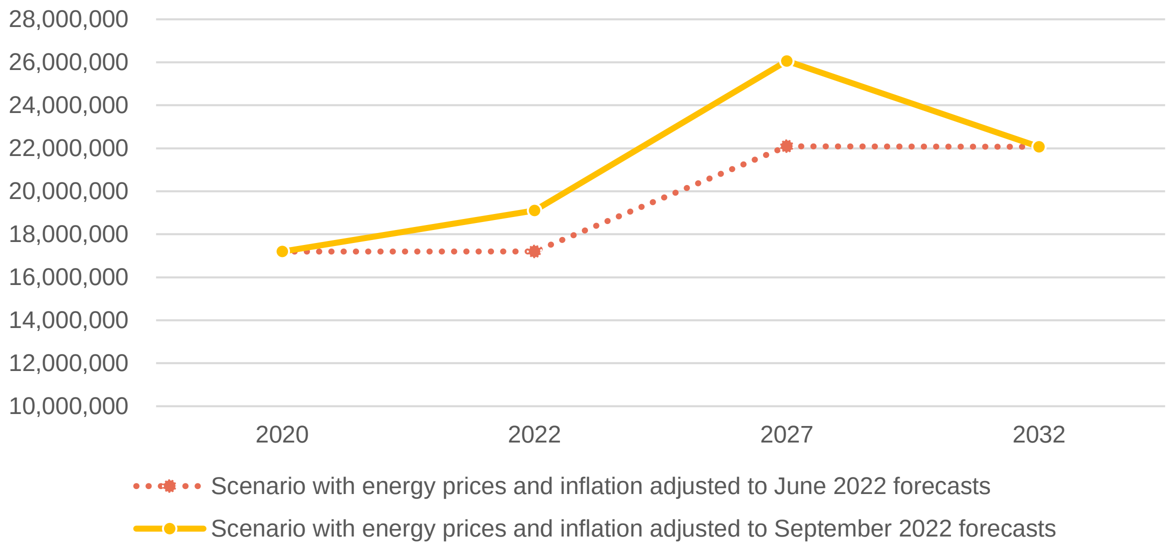
- 22.1 million over-indebted households in 2027;
- 22 million over-indebted households in 2032.

The scenario based on September 2022 data and VVA's forecasts projects:

- 26 million over-indebted households in 2027;
- 22 million over-indebted households in 2032.

In other words, according to the estimations by the study team, **the rise in energy prices and inflation will likely lead to an additional 3.9 million over-indebted households by 2027, on top of the 4.9 million increase expected in the base scenario**.

Figure 4.15: Comparison of two scenarios (households over-indebted)



According to the study team, the sociodemographic groups most impacted by rising inflation and energy prices in 2027 are expected to be[263]:

- **Low-income** households (**2.9** million additional households expected to be over-indebted);
- **Unemployed** households (**3.3** million additional households expected to be over-indebted);
- **Females** (**2.8** million additional households expected to be over-indebted);
- **Households living in urban areas** (**2.5** million additional households expected to be over-indebted);
- **Single parents with children** (**2.1** million additional households expected to be over-indebted);
- **Households with no or little level education** (**1.9** million additional households expected to be over-indebted);
- **Young households** (**1.5** million additional households expected to be over-indebted);

It should be noted again that the projection shows the situation in 2032 returning to the base case projection described in Section 4.6.3[264].

4.7. Dealing with the impact of over-indebtedness: an overview of preventive and remedial measures

The previous section has shown that household over-indebtedness across the EU is estimated to increase by 28% in the next ten years, resulting in an additional 4.8 million households becoming over-indebted, for a total of 22.1 million over-indebted households in the EU.

Given the magnitude of the problem, it is important to analyse which measures could be taken to mitigate the impact of this future evolution. The sub-sections below present the key measures tackling household over-indebtedness in relation to the macro-economic factors analysed in this study.

It is important to highlight, however, that measures addressing the macro-economic factor themselves are not included in the report. For example, measures combating the increase in the cost of living could involve fiscal and monetary policies to reduce inflation but such measures are out of the scope of this study. The presentation in this chapter categorises the measures tackling over-indebtedness into:

- Preventive measures; and
- Remedial measures

[263] Each sociodemographic category (age, income, gender, education, employment status, household size, geographic location) amounts to the total number of over-indebted households (4.83 million and 22.1 million) and is divided by the number from sub-categories (e.g. young, middle aged, older).

[264] ECB, 2022, Macroeconomic projections, Available at: https://www.ecb.europa.eu/pub/projections/html/ecb.projections202209_ecbstaff~3eafaaee1a.en.html

4.7.1. Preventive measures

Preventive measures include activities occurring before the appearance of symptoms, warning signs, and implications of over-indebtedness. Prevention can be carried out either by households, credit institutions or market enforcement and surveillance authorities[265]. Based on the academic literature, measures that can contribute to preventing over-indebtedness typically include **social protection, credit regulation and financial education**[266].

Social protection

Social protection involves a wide variety of measures that have the potential to tackle over-indebtedness, including policies aiming to reduce:

- (energy) poverty,
- income and expenditure shocks.

Social protection can also include:

- minimum income schemes,
- affordable housing, childcare, education, healthcare and other social benefits.

Adequate social protection without a doubt, can be very important, if not the most important factor, in preventing households from becoming over-indebted[267].

In the context of the macro-economic factors analysed in this study, social protection can be particularly important in regards to the increase in **the cost of living** and **decrease in income**. An efficient welfare system can prevent the debt situation of the most vulnerable segments of the population from spiralling out of control in times of market (e.g. recession) or personal (e.g. unemployment) financial instability.

The range of welfare policies is very broad, the most appropriate policies vary by country and region, and they are not only related to over-indebtedness but to (energy) poverty, inequality, and other issues that are out the scope of this study. Nonetheless, it is important to note that sound social policies protecting the most vulnerable segments of the population from becoming over-indebted can be considered the core measure of tackling household over-indebtedness[268].

Financial education

Financial literacy, according to the 2020 OECD Recommendation on Financial Literacy, refers to a combination of financial awareness, knowledge, skills, attitudes and behaviours necessary to make sound financial decisions and ultimately achieve individual financial well-being[269].

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[265] European Commission (2022). Provision of actions to extend the availability and improve the quality of debt-advice services for European households. Available at: https://ec.europa.eu/info/sites/default/files/debtadvice_final_report.pdf

[266] Eurofound (2020). Addressing household over-indebtedness. Available at: https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef19044en.pdf

[267] Angel, S., & Heitzmann, K. (2015). Over-indebtedness in Europe: The relevance of country-level variables for the over-indebtedness of private households. Journal of European Social Policy, 25(3), 331–351. https://doi.org/10.1177/0958928715588711

[268] SPC (Social Protection Committee) (2018). Annual Report 2018: Review of the social protection performance monitor and developments in social protection policies, Publications Office of the European Commission, Luxembourg.

[269] OECD (2020). Measuring Financial Literacy: Questionnaire and Guidance Notes for Conducting an Internationally Comparable Survey of Financial Literacy. Available at: https://www.oecd.org/daf/fin/financial-education/49319977.pdf

Financial education aims is to increase financial knowledge of the household so they can make efficient and sustainable financial choices, thus, avoiding the risks of becoming over-indebted. In the context household over-indebtedness, financial literacy can be helpful in tackling most (if not all) the macro-economic factors analysed in this study, for example:

- In light of the increasing digitalisation of financial services and an **increased demand for credit**, consumers without sufficient levels of financial literacy are at risk of making sub-optimal choices[270]. Findings from the academic literature indicate that the frequency of using easily accessible and relatively expensive consumer credit options decreases with financial knowledge[271]. This is a clear sign that financial education can be a very important measure in preventing households from taking on excessive credit with low probability of repayment.
- The academic literature also suggests that in regards to the **increase in cost of debt**, lower debt literacy, in particular, causes individuals to finance themselves at a greater cost and less financially knowledgeable people report their debt as excessive more frequently[272]. Furthermore, more financially literate people are twice as likely to have lower funding costs for both credit cards and mortgage loans[273]. The extended scope of financial education and increased awareness of the cost of debt can be key tools to tackle this issue.

Financial literacy is increasingly considered to be an essential life skill, and as early as 2005, the OECD Recommendation advised that "financial education should start at school. People should be educated about financial matters as early as possible in their lives"[274]. Nevertheless, in 2020, 17 Member States[275] had national strategies in place for financial education, and 13 Member States[276] had financial literacy as a compulsory (sub)subject at school (either as a separate subject or integrated into other subjects such as mathematics or other subjects)[277].

These results indicate that there are still a relatively large number of Member States without any national programmes for financial education, and financial education remains absent or only a voluntary subject in school curriculums in more than half of the EU which shows that further efforts are needed to bring courses on financial education into the schools across the EU.

Besides education programmes, there is also a range of initiatives promoting sustainable financial choices among the general public:

- Most of the financial surveillance authorities in the EU have sections on financial literacy available on their websites and/or are organising seminars and workshops

270 European Banking Authority (EBA) (2020). EBA Report on Financial Education 2019/2020. Available at: https://www.eba.europa.eu/sites/default/documents/files/document_library/Consumer%20Corner/Financial%20education/EBA%20Financial%20Education%20Report%202019-2020%20-%20FINAL%20-%20Combined.pdf

271 Jaroszek, Lena and Dick, Christian (2014), Knowing What Not To Do: Financial Literacy and Consumer Credit Choices, VfS Annual Conference 2014 (Hamburg): Evidence-based Economic Policy, Verein für Socialpolitik / German Economic Association.

272 Lusardi, Annamaria, and Peter Tufano. 2015. Debt Literacy, Financial Experiences, and Overindebtedness. Journal of Pension Economics and Finance 14: 332–68.

273 Huston, S.J. (2012), Financial literacy and the cost of borrowing. International Journal of Consumer Studies, 36: 566-572. https://doi.org/10.1111/j.1470-6431.2012.01122.x

274 OECD (2005). Improving Financial Literacy: Analysis of Issues and Policies.

275 Croatia, Czechia, Estonia, Finland, France, Hungary, Italy, Latvia, Luxembourg, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden.

276 Belgium (Flanders Region), Croatia, Czechia, Denmark, Finland, Germany (in 3 out of 16 federal states), Greece, Malta, Poland, Portugal, Romania, Slovenia, Sweden.

277 European Banking Federation (EBF) (2020). Financial Literacy Playbook for Europe. Available at: https://www.ebf.eu/wp-content/uploads/2020/11/EBF-Financial-Literacy-Playbook-for-Europe.pdf

available to consumers regarding personal finance management, financial services available, FinTech, etc.

- In Czechia[278], the Netherlands[279], and Spain[280] households are able to simulate their monthly or annual budgets and compared them with the reference budgets to observe what kind of expenditure is sustainable for different types of households. The reference budget includes such variables as household composition, disposable income, and other characteristics (like housing and the possession of a car).
- In 2020, the Bank of Spain introduced bank customer portal calculators. The calculators include credit card debt, the Annual Percentage Rate (APR) of a personal loan, mortgages or personal loan instalments, tranche-deposit calculators, loan instalments if there is an interest-only period, loan instalments in the case of early partial repayment, effective interest rates and spread applied to the index replacing banks and savings banks[281].

Promotion of similar types of initiatives could work as complementary measures in developing the financial awareness of EU households.

To conclude, the promotion of policies and initiatives to increase financial knowledge of EU households is an essential preventive measure to tackling over-indebtedness as it directs households towards a more sensible approach when it comes to the management of their personal finances. This is particularly relevant in the context of the ongoing digitalisation of financial services and the share of households purchasing complex financial products.

Measures tackling irresponsible lending

Unlike the first measure which aims to make households more financially knowledgeable, thus, more prone to taking sustainable financial decisions, the goal of the second pre-emptive measure is to prevent credit institutions from irresponsible lending practices and to ensure that the creditworthiness of the household is adequately assessed when taking out (further) loans[282].

The idea behind the concept of responsible lending is that lenders should not act solely in their own interests but that they should also take into account the borrowers' interests and needs throughout the relationship in order to prevent consumer detriment, but also prevent social, societal and economic detriment, at macro-level, when indebtedness reaches high levels[283].

This refers to both pre-contractual and post-contractual stages of relationships between lenders/intermediaries and borrowers and encompasses the whole life cycle of credit products, from their inception through marketing until the borrower has repaid the loan. With regard to the macro-economic factors driving the incidence of household over-indebtedness, credit regulation is particularly important when tackling **the increase in demand for credit and increase in cost of debt**:

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[278] Česká národní banka (ČNB) (2022). Rozpočet už máte, stačí ho umět ovládat. Available at: https://www.penizenauteku.cz/

[279] Nibud (2022). Buffer Calculator. Available at: https://www.nibud.nl/

[280] Finanzas Para Todos (2022). Herramientas. Available at: https://www.finanzasparatodos.es/herramientas-list

[281] Banco de España (2022). Tipos de interés y comisiones aplicados a los servicios bancarios. Available at: https://app.bde.es/csfwciu/faces/csfwciuias/jsp/op/InicioSesion/PantallaInicioSesion.jsp

[282] Financial Services Users Group (FSUG) (2019). Responsible consumer credit lending FSUG opinion and recommendations for the review of the Consumer Credit Directive. Available at: https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/fsug-opinions-190408-responsible-consumer-credit-lending_en.pdf

[283] Ibid.

- Academic literature suggests that the **increased demand for and the availability of credit** (especially from non-bank financial providers) has had an effect on loose lending procedures which in turn has decreased the importance of assessing the **credit-worthiness of the borrower**. Offering products that are not appropriate to the borrower's situation and lax up-front evaluation of the borrower's financial status and repayment capacity can often lead to situations where households take out unaffordable high-interest loans with low possibility of repayment. [284,285]
- In the case of an **increased cost of debt,** for certain loans (especially payday loans sold to vulnerable consumers), poor performance in repayment is considered to be part of the creditor's business model as the failure to repay is compensated by extremely high interest rates[286]. *Buy-now-pay later (BNPL) schemes* have also become popular as a short-term financing alternative, especially among the younger segments of the population. Provided with alternative digital payment and lending options with flexible instalment plans, young consumers are enabled to easily purchase big and small ticket items. This trend has raised concerns over the risk of unsustainable levels of consumer debt. For example, in the UK around 41% of the consumer having used BNPL struggled with repayment[287].

To tackle these issues, Member States can employ a variety of measures[288], for example:

- In regards to the **increased demand for and availability of credit**, several Member States have put in place regulations for ensuring certain quality standards when it comes to the **assessment of borrower's creditworthiness**. In Belgium, lenders are required to ask relevant questions to potential borrowers and request supporting documents (account statements, salary slips, tax returns) in order to assess their creditworthiness[289]. Besides that, lenders have the obligation to consult the credit register run by the Belgian central bank, which contains only data on defaulted credit agreements (negative credit data), as well as running credit contracts (positive data). In the Netherlands, creditors are obliged to deny granting credit to borrowers that didn't pass the credit-worthiness assessment[290].
- As for the **high cost of debt**, most Member States have interest rate caps[291] (most commonly on default interest rates) or other forms of limitation of the costs of the debts. In Finland, for instance, since 2019, consumer loans under 200 EUR cannot exceed a 20% rate cap[292]. In addition to interest rates, in Finland, consumers taking out payday

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284 Hililamo H., 2018, Household debt and economic crises, causes, consequences and remedies, Elgar.

285 Schicks, 2010, Microfinance over-indebtedness: understanding its drivers and challenging the common myths, Working Paper CEB, ULB. Available at: https://econpapers.repec.org/paper/solwpaper/2013_2f64675.htm

286 Attaité. M, 2015, Pay-day lenders: why can we consider them as being bad players on the credit market? When credit use difficulties of the clients are a good business for lenders. Available at: https://www.finance-watch.org/wp-content/uploads/2018/12/Pay-day-lenders-M-Attaite%CC%81.pdf

287 BEUC, 2022, Buy Now Pay Later products, Available at: https://www.beuc.eu/publications/beuc-x-2022-017_buy_now_pay_later_products.pdf

288 A brief sample of these measures are provided in the text below, however, for more detailed overview of the legislative measures involving credit regulation please go to Task 4 of the report (see Chapter 5).

289 SPF Economie (2019). Droits et obligations du prêteur. Available at: https://economie.fgov.be/fr/themes/services-financiers/credit-la-consommation/droits-et-obligations/droits-et-obligations-du-0

290 De Autoriteit Financiële Markten (2006). Wet op het financieel toezicht. Available at: https://wetten.overheid.nl/BWBR0020368/2022-09-03

291 I.e. Belgium, Finland, France, Germany, Italy, the Netherlands and Poland.

292 Eurofound (2020). Addressing household over-indebtedness. Available at: https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef19044en.pdf

loans under 200 EUR need to sign a written legal agreement with the lender which in some other countries (e.g. Germany) is not required by national legislation. Measures like that not only provide increased consumer protection when it comes to paying high-interest rates when taking out such loans but also impose certain administrative requirements that potentially limit the growth of such financial products from the business perspective as well as prevents easy access to impulsive loans (SMS loans) for the consumer[293].

In conclusion, adequate credit regulation in combination with a proper regulatory framework together with effective supervision and enforcement by the surveillance authorities are key measures in ensuring that the credit services available do not pose high financial risks to consumers. Financial conduct regulation and supervision of credit services contribute directly to transparency and sustainability of financial products and, consequently, to a more limited prevalence of household over-indebtedness caused by irresponsible lending practices.

4.7.2. Remedial measures

Although measures preventing households from becoming over-indebted, either by raising their financial awareness and/or limiting irresponsible lending, can be very effective, preventing over-indebtedness is not always possible. For instance, some life events and unanticipated income and expenditure shocks cannot be avoided. For people with low incomes, even small shocks can disrupt the fragile balance between income and expenditure.

Remedial measures focus on alleviating the impact of, and eventually solving, over-indebtedness after it has already occurred. This can be done either by providing the over-indebted households with **professional advice** on how to solve financial, legal, and psychological problems of being over-indebted and/or providing certain **legal procedures** that can help with the re-structuring and in some cases (partially) alleviating the accumulated debt. The key remedial measures in alleviating or solving household over-indebtedness are:

- Debt advice services,
- Debt settlement procedures.

Debt advice

Debt-advice services can combine various services to beneficiaries depending on the provider of the services and the legal framework. The services can be divided into three broad categories, which can be further divided into various subcategories:

- **Legal counselling[294]:**
    - Verification of legality of legal claims;
    - Settle disputes between debtor and creditor;
    - Support to debt settlement procedures (information about the process, assist in getting access and getting through the process).

293 Ibid.

294 European Commission (2022). Provision of actions to extend the availability and improve the quality of debt-advice services for European households. Available at: https://ec.europa.eu/info/sites/default/files/debtadvice_final_report.pdf

- **Money and debt management[295]:**
    - Create structure in financial administration;
    - Prioritisation of payments;
    - Respond to payment requests (letters from creditors);
    - Restructuring of debt (e.g. pass from expensive overdrafts/credit card loans to consumer loans);
    - Renegotiate the payment terms and amounts.
- **Social and psychological assistance[296]:**
    - Refer to social services such as mental healthcare, employment and welfare services;
    - Contact point for social services concerning the financial matters.

The provision of debt advice provides several benefits, including:

- **Improved mental and physical health:** leaving non-mortgage debt was linked to an improvement of +0.35 for the quality-of-life index and a decrease of -0.06 for depressive symptoms. Debt advice has beneficial impacts on the incidence of depression, anxiety and panic attacks, which in turn decreases the costs of the healthcare system through avoidance of psychological or psychiatric treatments amongst others[297].
- **Improved productivity:** financial distress often leads to lower productivity such as through absenteeism or presenteeism-based effects. While the effects of resolving financial difficulties on the recovery of productivity are less clear, an improvement in well-being due to debt advice potentially contributes to an increase in productivity[298].
- **Improvements in family relationships:** Literature has shown a link between financial difficulties and relationship breakdowns, though empirical and quantitative evidence of how debt advice helps to resolve relationship difficulties is overall less available[299].
- **Impacts on experiencing homelessness:** Unmanageable debt often increases the chance of losing their homes, either directly through repossession or indirectly through the unexpected loss of income leading to a lack of resources to cover expenses. Here, the direct effects of debt advice are difficult to isolate from other factors[300].

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[295] Ibid.

[296] Ibid.

[297] Turunen, E. & Hiilamo H. (2014). Health effects of indebtedness: a systematic review, BMC Public Health, Vol. 14, No. 1, p. 489.

[298] Atfield, G., Robert Lindley and Michael Orton (2016) "Living with debt after advice: A longitudinal study of people on low incomes. York: Friends Provident Foundation. Available from https://warwick.ac.uk/fac/soc/ier/publications/2016/atfield_et_al_2016_fp.pdf. Accessed 31/10/2020

[299] Ceballos Pena, D. (2013). Foreclosure mediation: a new phenomenon of coping with conflicts in an environment of social crisis. Available at: https://revistademediacion.com/en/articulos/foreclosure-mediation-a-newphenomenon-of-coping-with-conflicts-in-an-environment-of-social-crisis/

[300] Atfield, G., Robert Lindley and Michael Orton (2016) "Living with debt after advice: A longitudinal study of people on low incomes. York: Friends Provident Foundation. Available from https://warwick.ac.uk/fac/soc/ier/publications/2016/atfield_et_al_2016_fp.pdf. Accessed 31/10/2020

- **Monetary benefit**: It is estimated that the benefits of a universally available and freely accessible system of debt advice in every country would create between EUR 1.4 - 5.3 for every EUR spent[301]. In general, debt advice is more relevant for the households that are at risk of over-indebtedness or are already over-indebted, therefore, in the context of the macro-economic factors analysed in Task 3 of this study, debt advice is suitable for addressing the issues of the **increased in cost of living, decrease in income, and increase in cost of debt**. The benefits of debt advice in this regard, include:
- **Impact on the risk of further debt cycles:** Debt advice is found to reduce the risk of debtors entering further debt cycles[302]. Similarly to financial education, debt advice has the potential to provide necessary knowledge to the household on dealing with the income and expenditure shocks caused by the **increase in cost of living and decrease in income**.
- **Impact on creditor recovery:** It is estimated that debt advice can have a positive impact on creditors by improving the recovery rate and **lowering the costs for debt collection**. The full impact and relationship of debt advice on benefits to the creditor are however less clear[303].
- **Impacts on credit access:** While debt advice could lead to an initial negative impact of a reduction of a credit score compared to those who do not receive advice, it might lead to an improved post-advice recovery[304]. In this situation, such households would be available to **take low cost debts** and avoid high cost and low rewards types of loans.

Despite the obvious benefits of debt advice, the availability and level of development of debt advice vary widely across the EU. There are about 14 countries[305] that offer debt advice in a more developed manner, while in the other 13 countries[306] debt advice is only provided sporadically or non-existent[307].Data from Task 1 of the study, shows that Member States with relatively well-established debt advice have, on average, 6.4% of their households in arrears compared with 14.8% of households living in Member States where debt advice is more sporadic.

In the majority of countries, debt advice relies on NGOs, charities, other social organisations, consumer organisations and private professionals, which often experience challenges to deliver their services to large groups due, primarily to limited resources[308]. To a lesser extent, resource constraints also limit the ability of public authorities and organisations that are funded by public organisations to deliver debt advice to over-indebted households. There are also

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301 Eurofound (2020). Addressing household over-indebtedness. Available at: https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef19044en.pdf

302 Tinella, M., McDaid, D., Knapp, M., & Guy, D. (2019). Providing debt advice: Economic evidence.

303 Europe Economics for the Money Advice Service (2018). The Economic Impact of Debt Advice. Available at: https://www.moneyadviceservice.org.uk/en/corporate/economicimpactdebtadvice

304 Europe Economics for the Money Advice Service (2018). The Economic Impact of Debt Advice. Available at: https://www.moneyadviceservice.org.uk/en/corporate/economicimpactdebtadvice

305 Austria, Belgium, Czechia, Denmark, Estonia, Finland, France, Germany, Ireland, Luxembourg, Netherlands,

Poland, Portugal, and Sweden.

306 Bulgaria, Cyprus, Croatia, Greece, Hungary, Italy, Latvia, Lithuania, Malta, Romania, Slovenia, Slovakia, and

Spain.

307 Eurofound (2020). Addressing household over-indebtedness. Available at: https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef19044en.pdf

308 European Commission (2022). Provision of actions to extend the availability and improve the quality of debt-advice services for European households. Available at: https://ec.europa.eu/info/sites/default/files/debtadvice_final_report.pdf

large differences in the services provided. In the countries in which debt advice is most developed, debt advisors offer legal counselling, financial advice and social assistance. However, in many countries, debt advisors do not deliver social assistance or financial advice.

Out of 17.2 million over-indebted households in the EU (representing about 8.8% of the total households), there are in total around 1.5 million households that receive debt advice. This means that over 90% of the over-indebted households or about 15.7 million households in the EU currently do not receive debt advice, even though this could be helpful for them.

In conclusion, debt advice can bring a variety of benefits to households that are already over-indebted. Nonetheless, despite its benefits, debt advice systems are relatively underdeveloped in almost half of the EU Member States. The European Commission has been addressing this issue with the recently completed[309] and ongoing initiatives[310] to increase the accessibility and effectiveness of debt advice services for EU citizens. Nevertheless, a continuous effort focusing on building or improving necessary infrastructure with debt advice organisations and on the training of debt advisors is needed to improve the situation of the over-indebted households in the EU.

Debt settlements

While debt advice can be very helpful in alleviating impacts caused the over-indebtedness, a debt settlement procedure is another key policy instrument with a principal focus on financial rehabilitation. In the context of the macro-economic factors analysed in Task 3 of this study, debt advice is suitable for addressing the issues of the **increased in cost of living, decrease in income, and increase in cost of debt**. When these macro-economic factors lead to excessive debt, debt settlement can be considered a last resort measure to tackle over-indebtedness.

In general, these procedures seek to clear people of their debt problems (to varying extents), on the condition that they successfully go through the procedure[311]. These procedures often comprise a payment plan, with a set period during which the debtor needs to make certain payments, usually from the sale of specified assets and all income above a mandated threshold[312]. Normally, the remaining debt is only waived after that period. In some cases, the remaining debt is waived at the start of the procedure, followed by a payment plan or by a period during which the financial situation of the debtor is monitored[313].

Technically speaking, debt settlement facilitates a transfer from creditors (or taxpayers) to debtors[314]. This transfer has a potentially positive outcome for households by providing them with a safety net or insurance against costly adverse events such as job loss or illness. By allowing households to reduce debt payments, debt relief can dampen the impact of these events – providing an implicit form of insurance[315]. In addition, it can potentially reduce the

[309] European Commission (2022). Provision of actions to extend the availability and improve the quality of debt-advice services for European households. Available at: https://ec.europa.eu/info/sites/default/files/debtadvice_final_report.pdf

[310] European Commission (ongoing). Provision of an European Platform for the Prevention of Over-Indebtedness by the Increase of Accessibility and the Improvement of Effectiveness of Debt Advice for Citizens.

[311] Eurofound (2020). Addressing household over-indebtedness. Available at: https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef19044en.pdf

[312] Ibid.

[313] Ibid.

[314] Sasha Indarte (2022). The Costs and Benefits of Household Debt Relief. Available at: https://sashaindarte.github.io/research/si_INET_debt_relief.pdf

[315] Ibid.

debt owed by a consumer who is otherwise ineligible for debt management or liquidation bankruptcy[316].

While completion of a debt settlement program has the potential to bring certain financial and psychological benefits to the household, it is also important to highlight that debt relief imposes costs on creditors (in the case of bankruptcy or delinquency) or taxpayers (in the case of government-sponsored debt relief)[317]. As a result, in designing optimal debt settlement procedures, it is important to seek a good balance on issues such as the risk of abuse by the debtor[318].

The academic literature, however, suggests that widespread abuse of debt settlement procedures is highly unlikely, and there is increasing consensus among experts that over-indebted people have rarely become over-indebted on purpose[319]. This view has strengthened in the aftermath of the global financial crisis, which began in 2007 and left many people over-indebted, including many who would not generally be considered to be in a vulnerable situation[320].

Debt settlement procedures are typically very complex and depend on the national legal specificities, hence, there are significant number of differences between the Member States in their debt settlement procedures. Nonetheless, the key differences between the Member States lie in **access criteria, duration of procedures, and threshold for repayments**.

Criteria for entering the debt settlement procedure mostly concern the amount of debt and fees required to start the debt settlement procedure.

With respect to the amount of debt required to start the procedure, Member States have different rules for setting such an amount. Several Member States (e.g. Latvia, Lithuania, and Romania) have a specific minimum amount of debt to start a debt settlement procedure (e.g. 5 thousand EUR in Latvia, 25 national minimum wages in Lithuania, and 15 national minimum wages in Romania)[321]. In Spain, there are rules only concerning a maximum amount of household debt (5 million EUR in Spain), while in Hungary there are requirements for both minimal and maximum amounts of debt (6 thousand EUR and 180 thousand EUR)[322].

In regards to the fees, in some countries, no fees or administrative/procedural costs are charged to households who go through debt settlement procedures (Croatia, the Netherlands, Norway), while households in other countries have to pay fees either as a lump sum: (Denmark (for bankruptcy only), Germany, Hungary, Ireland, Latvia, Lithuania, Poland, Slovakia; or from the sale of assets: Austria, Belgium, Cyprus (for bankruptcy), Czechia, Estonia, Finland, Ireland (for repayment plans), Latvia (for bankruptcy)[323]. The way fees are implemented, and their magnitude, differ between countries and, when countries have more than one debt

[316] Andrew P. MacArthur (2008). Pay to Play: The Poor's Problems in the BAPCPA.

[317] Andrew T. Schwenk (2011). Debt Settlement: A Beast of Burden Without Any Reins. Available at: https://brooklynworks.brooklaw.edu/cgi/viewcontent.cgi?article=1200&context=blr

[318] European Commission (2019). 2019 European Semester: Country Specific Recommendations / Commission Recommendations. Available at: https://ec.europa.eu/info/publications/2019-european-semester-country-specific-recommendations-commission-recommendations_en

[319] Ramsay, I. (2017). Towards an international paradigm of personal insolvency law? A critical view. QUT Law Review, Vol. 17, No. 1, pp. 15–39

[320] Ibid.

[321] Eurofound (2020). Addressing household over-indebtedness. Available at: https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef19044en.pdf

[322] Ibid.

[323] Ibid.

settlement procedure, between procedures. While in some cases (e.g. Slovenia) the fees can be paid by the entity that makes the request, in most cases, debtors have to cover these fees.

In addition to the requirements mentioned above, there are other multiple access criteria for starting a debt settlement procedure among which the most prevalent are the requirements on the evidence concerning good faith of the debtor (debtor's behaviour when running into debt and solving the debt problem), and the requirement for the registered out of court attempts to settle the debt. The precise formulation and interpretation of such criteria differ across countries[324].

With regard to the **duration of the procedures**, depending on the circumstances, the maximum length of most procedures lies in the range from 6 months (Latvia, and bankruptcy in the Netherlands) to up to 10 years (Estonia, Finland). Most commonly, though, debt settlement procedures last between three and five years. Sometimes the duration is fixed; sometimes it depends on the specific situation. The long duration of the procedures can negatively affect the physical, mental and social situation of the over-indebted person and may have deteriorated too much for debt relief to be rehabilitative[325]. It is understandable that countries do not want to invite abuse by shortening the periods too much. However, long periods of debt settlement can be devastating, with possible long-term negative impacts when people cannot live decently during these periods, and when they lack a future perspective and the incentive to take up employment[326].

In terms of the **threshold for repayments**, in most procedures, debtors face an income threshold above which they need to hand over income, either forming the basis of a pre-set payment schedule or on an ongoing basis[327]. Payments are used to pay off parts of the debt and contribute towards administrative costs. The income considered may be from work or from benefits. Typically, income thresholds are individually tailored case by case, however, there are general differences between the Member States in how these limits are set and what kind of protections households have. For example, in terms of protection of the home, in Denmark, mortgage payments are considered expenses that are exempt from confiscation[328], while in Slovenia, the debtor's dwelling is not exempted, so the administrator of the procedure must sell it if necessary, and the household must leave the home within three months of the administrator's notice[329].

Besides certain protections involving the home, dependants, essential goods and other objects of the insolvent household, debt settlement procedures also differ in the incentives for the insolvent household to maximise their income. Several countries' debt settlement procedures usually require inactive or unemployed debtors of working age to search for work (Austria, Belgium, Germany, bankruptcy in Estonia, Hungary, Slovenia, and Sweden)[330]. In Spain, for example, up to four years prior to the request for the procedure, the debtor should not have rejected an offer of employment 'adequate to its capacity[331]. Moreover, few countries (Czechia,

[324] Niemi, J. (2018). Personal insolvency, in Howells, G., Ramsay, I. and Wilhelmsson, T. (eds.), Handbook of research on international consumer law, Edward Elgar Publishing Limited, Cheltenham, pp. 409–430.

[325] Konsumentverket (2014). Is debt relief rehabilitative? An evaluation of debt relieved persons' health, life quality and personal finances three years after conducted debt relief.

[326] Eurofound (2020). Addressing household over-indebtedness. Available at: https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef19044en.pdf

[327] Ibid.

[328] Løper, S. J. (2019b), 'The debt situation in Denmark', Money Matters, Vol. 16, pp. 6–7.

[329] Eurofound (2020). Addressing household over-indebtedness. Available at: https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef19044en.pdf

[330] Ibid.

[331] Ibid.

Germany, Sweden) have systems in place which provide financial incentives for over-indebted people in debt settlement procedures to maximise their income among which the most prevalent are additional payments to shorten the procedure's duration, and retention of part of additionally earned income. In Czechia, for example, the five-year period is shortened to three years if at least 60% of the initial outstanding debt has been paid off[332], while, in Germany, the debtor can be discharged of residual debts after three years (instead of six years' normal duration of proceedings) if at least 35% of debts have been paid off[333].

In conclusion, a combination of these characteristics can make a significant difference in the availability and efficiency of debt settlement mechanisms. Statistics indicate that, in 2018, around 21 persons in Czechia, and 13 to 14 persons in Latvia, Sweden, Slovenia, Belgium have entered into the debt settlement procedure per 10 thousand inhabitants[334], while in Spain, Lithuania, and Poland there were only 1 to 2 persons entering debt settlement procedure per 10 thousand inhabitants[335]. In line with this data, in Lithuania, for example, due to difficult access to debt settlement procedures, there are reports suggesting that Lithuanian households turn to Latvia to go through the procedure there[336].

This is a clear indication that the differences in the availability and the efficiency of the debt settlement procedures between the EU Member States are indeed immense. As a result, policies ensuring the increased availability of debt settlement procedures (including access criteria), adequate duration of the debt settlement procedures, guaranteed level of well-being for people undergoing such procedures (including some level of protection), and financial incentives to conclude the procedures faster are all necessary tools to alleviate the situation of over-indebted households in the EU.

4.8. Conclusion

Task 3 has provided an analysis of the long-term impact of macro-economic factors that drive over-indebtedness across Europe in light of the COVID-19 pandemic. The main four drivers are:

- **Increase in cost of debts**: occurring through an accumulation of debt or when debt becomes more expensive. This is mostly caused by economic fluctuations (inflation and changes in exchange rates);
- **Decrease in income**: occurring through loss of income, which can be caused by changes in unemployment rate, wage levels and welfare policies;
- **Increase in cost of living:** depending on increase in utility, housing, childcare and child related expenditures, education, health and other costs such as food and transport;

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332 Paseková, M., Fišerová, Z. and Bařinová, D. (2016). Bankruptcy in Czech Republic: From the perspectives of debtors, creditors, and the judiciary, 2008–2013, Journal of International Studies, Vol. 9, No. 1, pp. 180–191.

333 BMJV (Bundesministeriums der Justiz und für Verbraucherschutz) (2018). Bericht: der Bundesregierung über die Wirkungen des Gesetzes zur Verkürzung des Restschuldbefreiungsverfahrens und zur Stärkung der Gläubigerrechte.

334 Based on statistics on the debt settlement procedures available in 2018 from Eurofound, and on 2018 population (18+) data from Eurostat

335 Ibid.

336 15 min (2016). Skolų skandinamiems lietuviams ranką tiesia palankūs Latvijos įstatymai. Available at: https://www.15min.lt/verslas/naujiena/finansai/skolu-skandinamiems-lietuviams-ranka-tiesia-palankus-latvijos-istatymai-662-618749

- **Increase in demand for credit**: occurring through an increase in the availability of credit and economic inequalities(i.e new types of credit loans and actors providing these loans especially in the online credit market, that can create a risk of increasing over-indebtedness levels among consumers).

COVID-19 impact on the drivers

Overall, the results show that COVID-19 is expected to have a significant effect on each of the four drivers of over-indebtedness though there are differences across the drivers and over time.

In the **short term** the pandemic has had:

- a relatively **small impact** on the increase **in cost of debts**, the measures implemented to reduce debt interest payment and support household debt had the positive effect of supporting households and preventing them from defaulting on their financial obligations in the short term.
- a **significant impact** on household **expenditures**. At the same time, measures were undertaken by several EU Member States to protect the economic situation of the most vulnerable.
- a **major impact** on household **incomes**, aggravating the already existing wealth divide[337]. The self-employed and the youngest cohort of the population were most affected.
- a **significant impact** on **demand for credit**, especially among the younger segments of the population.

In the **medium and long term**, the impact of COVID-19 on all the four drivers will have a less relevance, however when it comes to cost of living, the impact will be still important, due its contribution to rising inflation and the interruption of some of the financial measures put in place in the aftermath of the pandemic to support the most vulnerable households. It is also important to stress that the worsening of the European economy has exacerbated existing inequalities. Moreover, there is a considerable risk that the pandemic has created a separation between those who can work predominantly from home and those who cannot. These inequalities will likely persist in the medium and long term, in case no targeted measures are put in place to face those challenges.

Socio-economic groups mostly affected by the four drivers

The findings show that

- low-income groups (the first and second quintile) represent around 70% of over-indebted households due to an increase in cost of debts, cost of living, demand for credit and decrease in income;
- around 81% of the over-indebted households is unemployed, due to an increase in cost of debts, cost of living, demand for credit and decrease in income,

[337] Bruegel, 2020, The fiscal response to the economic fallout from coronavirus. Available at: https://www.bruegel.org/publications/datasets/covid-national-dataset/#greece

- when an increase in cost of debts or a decrease in income occur, older segments of the population, i.e. cohort (55+ years old), represent around 38% of the overall over-indebted households, while middle and young cohorts are to a less extend affected.
- when there is an increase in cost of living or demand in credit, the most affected share of households is the younger cohorts (16-35 years old). Around 42% of over-indebted households are young, 33% are in the middle cohort (34-54 years old), and 25% belongs to older cohorts.
- Single parents with children represent in average 53% of over-indebted households when an increase in cost of debts, cost of living, demand for credit or a decrease in income occur, while parent couple with children are to a less extend affected (29% of over-indebted households)
- Segments of the population with little or basic education represent respectively 50% and 35% of the over-indebted households.
- Households living in urban areas represent in average 57% of the over-indebted population due to an increase in cost of debts, living, demand for credit or decrease in income.
- Women represent in average 60% of over-indebted population, against 40% represented by men

Future trends in the light of the COVID-19 crisis and further considerations on the energy crisis

An overview of future trends in over-indebtedness over the next five and ten years was also presented, concerning two different perspectives, namely the impact of the COVID-19 itself and the recent developments of the energy crisis. The study team designed a model to provide some estimation on over-indebtedness levels as a result of the four macro-economic drivers. The main findings of the model suggest that :

- the **change in over-indebtedness level**, on average, is expected to increase by **28% at the EU level in the next ten years**[338], from 17.2 million to **22.1 million EU households** (4.9 million increase overall) by 2032.
- While the overall increase in household over-indebtedness across the EU is expected to amount to 28% , the level of the increase and the shape of the curve vary significantly between Member States [339].

The sociodemographic groups most impacted by the increase in over-indebtedness in 2032 will be:

- **Low-income** households (**3.5** million additional households expected to be over-indebted which would result in a total of 15.9 million over-indebted households);
- **Unemployed** households (**3.7** million additional households expected to be over-indebted which would result in a total of 17 million over-indebted households);
- **Females** (**3** million additional households expected to be over-indebted which would result in the total of 13.9 million over-indebted households);

[338] In the cases when the estimates for 2027 and 2032 are the same, we group the projections for these years together and are either shown as projection for 2027 and 2032, or projection for 2032.

[339] In the Task 1 of the Study, Member States were clustered based on the prevalence of household arrears in 2020. For more information, please see Section 2.3.

- **Households living in urban areas** (**2.9** million additional households expected to be over-indebted which would result in a total of 13.2 million over-indebted households);
- **Single parents with children** (**2.6** million additional households expected to be over-indebted which would result in a total of 11.7 million over-indebted households);
- **Households with a basic level of education** (**2.4** million additional households expected to be over-indebted which would result in a total of 11 million over-indebted households);
- **Young households** (**1.8** million additional households expected to be over-indebted with a total of 8.2 million over-indebted households overall).

While the driving forces behind the increase in household over-indebtedness are[340]:

- the expected **increase in cost of living** (contributing 54% to the increase in over-indebtedness);
- an expected **decrease in income** (contributing 24% to the increase in over-indebtedness),
- an **increase in demand of credit** (contributing 13% to the increase in over-indebtedness),
- an **increase in cost of debts** (contributing 7% to the increase in over-indebtedness).

Recent developments and the energy crisis

The projections of over-indebtedness levels in the analysis above were made before the impact of the recent energy crisis, partly stemming from the Russian war in Ukraine, became fully clear. Even without this additional driver, the projections show that an additional 4.9 million would likley be over-indebted by 2032. These calculations were based on cost-of-living estimations for June 2022, when inflation was running at 8.1% (EU average)[341] and the rise in energy prices due to the war in Ukraine was not fully factored in.

Considering the temporary shock in energy prices and the increase in inflation to 10% (EU average)[342] in September 2022, it is likely that the cost of living will play an important role in driving up over-indebtedness in the short to medium term.

- **In 2022, around 19,1m of households are in arrears with their key financial commitments, which is approximately 2 million more than in the base scenario.**

Additionally, longer term **inflation expectations have also changed since June 2022**[343].As shown in the table below, there has been an increase in average inflation expectations over the next 5 years (from 3.68% to 4.38%).

Applying the higher inflation figures takes the expected evolution of the number of over-indebted households from 28% to 37,24% (a 33,3% rise). With the updated starting point in

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[340] These percentages are calculated based on expert ranking of different macro-economic factor impact over-indebtedness.

[341] Eurostat, 2022, Flash estimate Euro area annual inflation up t 10%, available at: https://ec.europa.eu/eurostat/documents/2995521/14698140/2-30092022-AP-EN.pdf/727d4958-dd57-de9f-9965-99562e1286bf#:~:text=Euro%20area%20annual%20inflation%20is,office%20of%20the%20European%20Union

[342] https://ec.europa.eu/eurostat/documents/2995521/14698140/2-30092022-AP-EN.pdf/727d4958-dd57-de9f-9965-99562e1286bf#:~:text=Euro%20area%20annual%20inflation%20is,office%20of%20the%20European%20Union.

[343]Available at: https://www.ecb.europa.eu/pub/projections/html/ecb.projections202209_ecbstaff~3eafaaee1a.en.html#toc7; https://www.ecb.europa.eu/pub/pdf/other/ecb.projections202206_eurosystemstaff~2299e41f1e.en.pdf

the number of households that experience over-indebtedness in 2022 (19,1m) due to the rise in energy prices, this translates into an overall number of over-indebted households rises to **26m households by 2027** (3.9 million additional over-indebted households due to the rise of energy prices and inflation).

- **In other words, the rise in energy prices and inflation will likely lead to an additional 3.9 million over-indebted households by 2027, on top of the 4.9 million increase expected in the base scenario.**

While the rise in inflation and specifically energy prices will take some time to fully filter through to over-indebtedness and geopolitical tensions are likely to persist for some time, **in the longer term (10 years) it is expected that price rises will stabilise** and return to a more sustainable equilibrium. This will be further supported by any policy measures that are put in place at EU or national levels to mitigate the effects of energy price rises and inflation (e.g. cap on energy bills, subsidies to support household income, increase in wages, etc). By 2032 we would therefore expect the number of over-indebted households to fall back to projection in the baseline scenario (22 m households).

Remedies

Given the magnitude of the problem, key measures that could be taken to mitigate the impact of this future evolution analysed were preventing and remedial measures.

- **Preventive measures** include activities occurring before the appearance of symptoms, warning signs, and implications of over-indebtedness. The promotion of policies and initiatives to increase financial knowledge of EU households is an essential preventive measure to tackling over-indebtedness as it directs households towards a more sensible approach when it comes to the management of their personal finances. This is particularly relevant in the context of the ongoing digitalisation of financial services and the share of households purchasing complex financial products.
- **Remedial measures** focus on alleviating the impact of, and eventually solving, over-indebtedness after it has already occurred. This can be done either by providing the over-indebted households with professional advice on how to solve financial, legal, and psychological problems of being over-indebted and/or providing certain legal procedures that can help with the re-structuring and in some cases (partially) alleviating the accumulated debt.
- In this context, debt advice can bring a variety of benefits to households that are already over-indebted. Nonetheless, despite its benefits, debt advice systems are relatively underdeveloped in almost half of the EU Member States. The European Commission has been addressing this issue with the recently completed[344] and ongoing initiatives[345] to increase the accessibility and effectiveness of debt advice services for EU citizens.
- Nevertheless, a continuous effort focusing on building or improving necessary infrastructure with debt advice organisations and on the training of debt advisors is needed to improve the situation of the over-indebted households in the EU.

[344] European Commission (2022). Provision of actions to extend the availability and improve the quality of debt-advice services for European households. Available at: https://ec.europa.eu/info/sites/default/files/debtadvice_final_report.pdf

[345] European Commission (ongoing). Provision of an European Platform for the Prevention of Over-Indebtedness by the Increase of Accessibility and the Improvement of Effectiveness of Debt Advice for Citizens.

5. Task 4: Legal Analysis

5.1. Summary

A mapping of the rules and most relevant issues faced by consumers in the field of credit agreements and mortgages was undertaken. Twelve Member States were selected for the study, namely Bulgaria, Denmark, Estonia, France, Germany, Greece, Italy, Ireland, the Netherlands, Poland, Slovakia and Spain. An assessment of their legislative frameworks regarding consumer credits and mortgages, their interaction with the EU legal framework and the behaviours they encourage was developed.

On the scope of the EU rules, several financial products that may contribute to over-indebtedness of consumers are excluded from these rules, including micro-credits and 'Buy Now Pay Later schemes' (BNPL). These products also remain largely unregulated at national level in the 12 Member States covered. Further, lenders often either fail to conduct or poorly conduct creditworthiness assessments of consumers before issuing credit agreements notwithstanding the EU legal obligation to do so. Given that this assessment is crucial to prevent over-indebtedness, there is a clear need to address this issue and the additions of the new Consumer Credit Directive (CCD) repealing and replacing the Consumer Credit Directive (CCD) in this respect are to be welcomed. Indeed, the new CCD has a broader material scope of application, it introduces stronger requirements in relation to the assessment of credit worthiness and measures to prevent and remedy over-indebtedness such as caps, forbearance measures and debt advisory services.

On the Standard European Consumer Credit Information sheet (SECCI) mentioned in the CCD and the European Standardised Information sheet (ESIS) mentioned in the MCD, concerns arose on (i) the transparency of information, and (ii) the level of financial literacy. Importantly, the SECCI/ESIS is not always distributed by lenders before the contract is signed and the document is rarely used effectively by consumers to make an informed decision. A risk of information 'bombarding' exists and is exacerbated by the low level of financial literacy identified in some Member States examined. Few national rules that address the specific needs of, and are targeted towards, vulnerable consumers were identified in the 12 Member States.

Predatory lending and misleading advertising practices remain in some Member States notwithstanding existing laws to address these. The national rules on the level of flexibility of loans were assessed, and the need for a framework to prevent lenders from unilaterally modifying contracts is underlined. In terms of early repayment, the CCD sets out a maximum threshold. However, credit providers can use this in practice to avoid carrying out specific calculations of the actual damage caused to the creditor. The practice whereby lenders charge excessive fees to consumers for overrunning or for overdrafts was found in several Member States despite the information obligations incumbent on lenders in this respect. The recent Non-performing Loan (NPL) Directive sets standards for investors of NPL's and credit servicers. Its potential unintended effects on over-indebted consumers are explored. In most Member States examined, no definition of 'over-indebtedness' was found. Insolvency and bankruptcy proceedings are currently regulated at national level hence, heterogeneities exist as to the applicable rules. Among the competent authorities designated by the Member States to supervise and ensure compliance with EU law of the financial sector, some lack sufficient powers to fill their supervisory duties adequately. In addition, the fines imposed on lenders for breaches of the legislation are too low to function as effective deterrents. An excessive reliance on private individual enforcement was found to potentially harm vulnerable consumers who lack the resources to enforce their rights before a national court.

5.2. Introduction

In order to analyse in detail, the rules at EU level and national level covering the area of consumer credits and mortgages, the following 12 Member States have been selected for the conduct of in-depth desk research and interviews with relevant national stakeholders: **Bulgaria**, **Denmark**, **Estonia**, **France**, **Germany**, **Greece**, **Italy**, **Ireland** the **Netherlands**, **Poland**, **Slovakia** and **Spain**.

An exhaustive analysis of the rules in place at EU and national level and the behaviours they encourage is developed based on desk research and interviews conducted in the 12 Member States selected for Task 4. In line with this exhaustive analysis, the shortcomings that play a role in contributing to the over-indebtedness of consumers were identified and possible remedies/suggestions to correct the 'wrong' behaviours of lenders and borrowers were developed. Subsequently, a workshop was held with the national legal experts in order to validate and further develop the suggestions elaborated by the Study team and collect information on the prospective impact of the NPL Directive on over-indebted consumers.

The legal analysis conducted in this report focusses on the most relevant issues impacting the over-indebtedness of (vulnerable) consumers in the 12 Member States. For this purpose, the first chapter explores the general EU legal framework and scope established by the Consumer Credit Directive[346] and the Mortgage Credit Directive[347]; within this chapter, the legal analysis is conducted and for each issue the EU legal framework and the national rules in place are assessed. The last chapter entitled 'Concluding remarks' sets forth suggestions to address the shortcomings identified throughout the report.

[346] Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC EUR-Lex - 32008L0048 - EN - EUR-Lex (europa.eu).

[347] Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010 Text with EEA relevance EUR-Lex - 32014L0017 - EN - EUR-Lex (europa.eu).

5.3. Legal analysis

5.3.1. Material scope of the Consumer Credit Directive (CCD) and the Mortgage Credit Directive (MCD)

The **current Consumer Credit Directive**[348] (Hereinafter: the CCD) is the cornerstone of consumer protection in the consumer credit sector in the national legal frameworks covered by the Study. Article 2 (1) of the Directive provides a general material scope to "all credit agreements" whilst Article 2 (2) lists a number of exceptions, such as: (c) credit agreements with an amount below EUR 200 or over EUR 75.000; (e) credit agreements in the form of an overdraft facility and where the credit has to be repaid within one month; and (f) credit agreements where the credit is granted free of interest and without any other charges and credit agreements under the terms of which the credit must be repaid within three months and only insignificant charges are payable.

Importantly, the newly revised Consumer Credit Directive[349] (hereafter also "the new CCD") is going to modify several elements of the current CCD[350]. Among the exemptions set forth in Article 2(2), those concerning minimum amounts (EUR 200), leasing agreements with an option to purchase goods or services, overdraft facilities, free interest rate credit without charges or credit to be repaid within 3 months with only insignificant charges will be removed.[351]

Regarding the scope of the Mortgage Credit Directive[352] (hereinafter: the MCD), Article 3(a) provides that it applies to "credit agreements which are secured either by a mortgage or by another comparable security commonly used in a Member State on residential immovable property or secured by a right related to residential immovable property; and (b) credit agreements the purpose of which is to acquire or retain property rights in land or in an existing or projected building." Importantly, for credits above EUR 75 000 which are not related to an immovable property[353], and certain types of credits such as equity releases, there exists a legislative vacuum at EU level (neither the MCD nor the CCD applies). Such loans are therefore currently regulated by national legislators of the Member States. Nevertheless, the new CCD will partly address this legislative gap by extending the scope of application of the CCD to credit agreements involving a total amount equal or below EUR 100 000 under Article 2(2)(c).

[348] Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC EUR-Lex - 32008L0048 - EN - EUR-Lex (europa.eu).

[349] Proposal for a Directive of the Parliament and of the Council on consumer credits COM/2021/347 final EUR-Lex - 52021PC0347 - EN - EUR-Lex (europa.eu).

[350] At the time of writing (June 2023), the political agreement on the new CCD has been reached among the three European Institutions (Commission, Parliament and Council). As a result, the final text of the new CCD is practically definitive and has been sent for translation. It is highly unlikely, at this so advanced stage, that the text will change. Therefore, where needed, the study refers to the newly revised CCD as "the new CCD".

[351] See the previous footnote.

[352] Directive 2014/17/EU of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and Regulation (EU) No 1093/2010 Text with EEA relevance EUR-Lex - 32014L0017 - EN - EUR-Lex (europa.eu).

[353] It is worth noting that under Article 2(2a) of the current CCD, unsecured credit agreements the purpose of which is the renovation of a residential immovable property involving a total amount of credit above EUR 75 000 are included in the scope of the Directive.

5.3.2. Level of harmonisation of the Directives (CCD and MCD)

Under Article 22 of the CCD, insofar as the Directive contains "harmonised provisions, Member States may not maintain or introduce in their national law provisions diverging from those laid down in this Directive." Consequently, the CCD leaves little discretion to Member States regarding the transposition of its provisions in domestic legal systems. Nevertheless, in areas outside its scope, the Directive does provide some policy options[354]. For instance, recital (10) of the CCD's preamble states that MS may maintain or introduce national legislation that correspond to the provisions of the Directive in their legal systems. It allows MS to expand the scope of the provisions to credit agreements involving amounts below EUR 200 or above EUR 75 000; thereby opening the possibility for domestic legislation to go beyond the threshold of protection currently enshrined in the CCD. Thus, limited discretion exists as regards the transposition in national legislation of the CCD's in areas covered by its material scope, in the sense that they may not introduce or maintain diverging provisions from those laid in the core of the text of the CCD. Notwithstanding, the EU law framework confers upon MS a level of policy discretion to expand the protection offered by the CCD to other related area of the domestic legislation.

The MCD states in preamble (7) that "in order to create a genuine internal market with a high and equivalent level of consumer protection, this Directive lays down provisions subject to maximum harmonisation in relation to the provision of pre-contractual information through the European Standardised Information Sheet (ESIS) standardised format and the calculation of the Annual Percentage Rate of Charge (APRC)." Accordingly, Article 2(1) of the Directive specifies that it "shall not preclude Member States from maintaining or introducing more stringent provisions in order to protect consumers, provided that such provisions are consistent with their obligations under Union law." Article 2(2) complements the preamble by clarifying that "Member States shall not maintain or introduce in their national law provisions diverging from those laid down in Article 14(2) and Annex II Part A with regard to standard pre-contractual information through a European Standardised Information Sheet (ESIS) and Article 17(1) to (5), (7) and (8) and Annex I with regard to a common, consistent Union standard for the calculation of the annual percentage rate of charge (APRC)."

5.3.3. Types of loans excluded from the scope of the CCD

In line with Article 2(2) of the CCD, small loans (below EUR 200) and credit agreements granted free of interest and without any other charges, agreements under the terms of which the credit must be repaid within three months and only insignificant charges are payable, are, at the time of writing of this report, excluded from the scope of protection offered by the CCD. Hence, loans providing the possibility for consumers to fraction their payment for a particular purchase and pay for it in future instalments, usually free of charge, commonly known as "Buy Now Pay Later" schemes (BNPL) along with "mini-credits" (below EUR 200) fall outside the scope of the CCD. Notably, online available "mini-credits" have known increasing popularity due to the phenomenon of digitalization of commerce and the COVID-19 pandemic in recent years.[355] Mini credits may have high costs and interest rates and they are often used by vulnerable consumers who cannot access normal credit. Although they may alleviate the consumer's financial situation for one or two months, they are usually not a long-term solution.

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[354] An example of a policy option in the areas covered by the CCD can be found *inter alia* in Article 4(2)(c) which enables MS to exempt from the obligation of providing the annual percentage rate of charge in the standard information to be included in advertising for certain types of credits such as overdraft facilities and where the credit has to be repaid on demand or within 3 months.

[355] This information was provided by the French General Direction of Consumption, Competition, and Repression of Frauds (DGCCRF) during the interview with the national legal expert.

It seems, that "mini-credits" increase the risk of 'losing control' over the personal finances and the risk of over-indebtedness in general.

Regarding BNPL schemes they usually present the following characteristics: they are short-term financing options, often interest free and with a fixed repayment schedule (usually several weeks or months) and easily available at the moment of purchase. Generally, the consumer is required to make a payment upfront (for instance 20% of the price of the product or service) and the rest is paid in the form of pre-determined instalments. Due to their accessibility and *prima facie* equitable nature (usually interest free), BNPL schemes are attractive to consumers. Nevertheless, they may also have harmful effects, in particular in relation to vulnerable consumers who at the time of purchase may have underestimated the extent of their current debts, expenses and the weight of the monthly instalments on their financial situation, further exacerbated by the high late payment fees often entailed by these products. This is exacerbated by the high availability -often on the place of purchase (physically or online)- of the BNPL schemes which may stimulate "impulse purchases" on the side of consumers and irresponsible lending on the side of creditors.

Thus, the exemptions contained in Article 2 of the current CCD leave outside of its scope several specific loans, namely BNPL and micro-credits/small loans as reflected in the national research conducted for 12 Member States[356] in the scope of the legal task of this Study (Task 4). Indeed, eight Member States covered (**BG**, **DE, EL, ES, FR, IE, NL, SK)** have little to no rules for loans below EUR 200 and certain BNPL credits, notwithstanding their increasing number in the last few years. On the other hand, in four of the Member States, namely, **Denmark**, **Estonia**, **Italy** and **Poland**, there exists a normative framework that applies to these types of loans.

Indeed, there are no specific rules that apply to small loans or BNPL schemes in **Greece**. In the **Netherlands**, BNPL schemes, "flash loans" and private leases were reported as falling outside the scope of rules on consumer protection and hence remain unregulated and authorized in practice. Moreover, in **Spain**, it was reported that creditors that lend loans such as "express loans" or BNPL schemes fall outside the scope of supervision of the Bank of Spain.

Nonetheless, it is worth mentioning that in **Denmark,** an amendment was made to the Danish Consumer Loan Business Act, the Marketing Act and the Financial Business Act.[4] This amendment, entitled "confronting express loans" contains key measures aimed at limiting express loans[357] due to national political considerations. Additionally, in **Estonia** these loans are subject to the same rules as other credit agreements[358]. In **Italy**, "express loans" are subject to rules on the Annual Percentage Rate of Charge (APRC), and in practice, consumers are usually required to provide proof of their income (preferably from a permanent profession) and creditors verify they have not been reported in the payment "blacklisting." Similarly, in **Poland,** BNPL schemes are governed by the consumer credit regime because of their parameters (requiring payment of interest or charges in the event of non-payment in the first period). In addition, in the Polish Consumer Credit Act, no lower limit was set regarding the loans covered and thence micro-credits are regulated by the general consumer credit rules.

As mentioned in the above section, the scope of the new CCD[359] will remove certain exemptions and therefore include micro-credits and free interest credit such as BNPL schemes thereby ensuring these financial products are regulated in all the Member States. This new

[356] The 12 Member States covered by the Study in Task 4 are: Bulgaria, Denmark, Germany, Estonia, Greece, Spain, France, Ireland, Italy, the Netherlands, Poland and Slovakia.

[357] Express loans are short term loans of a usually low amount which are granted and processed rapidly. Express loans are often characterized by high costs.

[358] The relevant Act is the Estonian Law of Obligations Act - Riigi Teataja.

[359] See footnote 350.

scope would address the issues developed in this section by preventing certain types of loans (in particular BNPL and small credits) from falling outside the legislation on consumer credits. In turn, responsible lending and borrowing will be stimulated by this extended legal framework.

5.3.4. Creditworthiness assessment

5.3.4.1. The obligation to assess creditworthiness of the consumers under EU law

The current EU legal framework addressing the conduct of creditworthiness assessment (CWA) by lenders in the context of credit agreements is enshrined in Article 8 of the CCD and Articles 18 and 20 of the MCD.

Regarding the CCD, Article 8 titled "obligation to assess creditworthiness of the consumer," under (1) of the directive states that "Member States shall ensure that, before the conclusion of the credit agreement, the creditor assesses the consumer's creditworthiness on the basis of sufficient information, where appropriate obtained from the consumer and, where necessary, on the basis of a consultation of the relevant database. Member States whose legislation requires creditors to assess the creditworthiness of consumers on the basis of a consultation of the relevant database may retain this requirement". In addition, Article 8(2) provides that "if the parties agree to change the total amount of credit after the conclusion of the credit agreement, the creditor updates the financial information at his disposal concerning the consumer and assesses the consumer's creditworthiness before any significant increase in the total amount of credit". Finally, regarding access to the results of the CWA by the creditors, Article 9 on database access specifies that where a credit application is rejected on the basis of consultation of a database, the creditor "shall inform the consumer immediately and without charge of the result of such consultation and of the particulars of the database consulted." Lastly, it is worth noting that under Article 5(1)(q) of the CCD the Standard European Consumer Credit Information (SECCI) includes information about the consumers right to be informed 'immediately and free of charge' of the results of a database consultation to assess his credit worthiness.

Similarly, the MCD also contains Article 18, a provision dedicated to the "obligation to assess credit worthiness of the consumer." Under Article 18(1) of the MCD, Member States must ensure that "before the conclusion of a credit agreement, the creditor makes a thorough assessment of the consumers creditworthiness." Further, it specifies that the CWA shall take all "appropriate account of factors relevant to verifying the prospect of the consumer to meet his obligations under the credit agreement." In addition, Article 20(1) of the MCD details that the credit worthiness assessment "shall be carried out on the basis of information on the consumer's income and expenses and other financial and economic circumstances which is necessary, sufficient and proportionate." The information shall be obtained by the creditor from relevant internal or external sources, including the consumer, and including information provided to the credit intermediary or appointed representative during the credit application process. The information shall be "appropriately verified, including through reference to independently verifiable documentation when necessary."

Hence, it is clear from these provisions and their wording that the MCD implements a more rigorous approach to CWA than the CCD by inter alia, ensuring it is "thorough" and reflects realistically the prospect of the consumer to meet, or not, his obligations under the credit agreement. Article 20 also mentions specific information that must be considered when assessing creditworthiness of consumers such as the consumers' income and expenses. The provisions of Article 18 articulated with Article 20 therefore create a clear framework and high standard on the conduct of credit worthiness assessment before the granting of a mortgage credit agreement. In contrast, the CCD sets forth an obligation to assess credit worthiness of consumers based on "sufficient information" and based on the consultation of the relevant database "where necessary."

Further, the second paragraph of Article 18 of the MCD provides that (2) "Member States shall ensure that the procedures and information on which the assessment is based are established, documented and maintained." Thereby ensuring a concrete way to verify whether a credit worthiness assessment was conducted and on which basis. Importantly, Article 18(5)(a) conditions the granting of a mortgage credit agreement to the result of the CWA: "the creditor only makes the credit available to the consumer where the result of the creditworthiness assessment indicates that the obligations resulting from the credit agreement are likely to be met in the manner required under that agreement" in contrast with the CCD.

Regarding access to the results of the CWA, paragraph (5)(c) echoes the CCD by stipulating that, where a mortgage credit is rejected based on the result of a database consultation, "the creditor shall inform the consumer of the result of the database consultation and of the particulars of the database consulted."

It is worth mentioning that two diverging approaches when assessing creditworthiness of consumers in the context of mortgage credits exist. On the one hand, lenders may consider the income of the consumer as a principal factor testifying creditworthiness whilst on the other, weight can be given predominantly to the value of the immovable property. In this respect, Article 18(3) of the MCD provides that 'the assessment of creditworthiness shall not rely predominantly on the value of the residential immovable property exceeding the amount of the credit or the assumption that the residential immovable property will increase in value unless the purpose of the credit agreement is to construct or renovate the residential immovable property'. Hence, although lenders may consider the value of the residential immovable property (exceeding the amount of the credit) as a relevant factor when assessing creditworthiness, this should not be the sole or predominant element in the assessment except in the case of a credit agreement relating to the construction or renovation of an immovable property. Article 18(3) could therefore be interpreted as requiring creditors to apply a debt-to-income approach in the sense that the income or other sources of revenue of the consumer should be taken as a predominant factor in the context of CWA. This provision promotes an assessment of creditworthiness based on consumers' needs by prohibiting creditors from relying principally on the eventual sale of the immovable residential property to repay the credit. Rather, the plurality of factors considered and the potential predominance of the income of consumers, promote the issuing of credits that are more likely to be repaid on the long term and without selling the immovable property, ultimately benefitting consumers. Whilst both directives enshrine an obligation to assess creditworthiness before the granting of a credit agreement, the MCD sets a stricter framework in terms of method, depth and relevant documentation required than the CCD. This is because for mortgages, the repayment must be secured in the long-term thereby justifying a higher collection obligation on the lender in the context of assessing creditworthiness. In addition, the MCD expressly prohibits the granting of a mortgage credit where the result of the CWA indicates that the obligations stemming from the agreement are unlikely to be met in the manner required under that agreement. This contrasts with the CCD which does not explicitly subordinate the granting of a credit to a positive result of the CWA but merely requires the assessment to be conducted by the creditor prior to the conclusion of the credit agreement. Importantly, the new CCD in its Article 18(4) would, similarly to the current MCD, require MS to ensure lenders 'only make the credit available to consumers where the result of the CWA indicates that the obligations resulting from the credit agreement are likely to be met in a manner required under that agreement.'

In this context, the European Banking Authority (EBA) has issued guidelines on 'loan origination and monitoring'[360] which aim, *inter alia*, in ensuring that credit granting practices are aligned with consumer protection rules. At the core of these guidelines, the requirements for assessing creditworthiness of borrowers and the relevant documentation that creditors must collect and verify for this purpose is set out. The material scope of the section on the conduct of CWA contained in the guidelines encompasses all loans covered by the scope of both the MCD and the CCD[361]. Section 5.1 of the guidelines titled 'information and documentation', provides an extensive list of the elements that creditors should consider when conducting the assessment of creditworthiness of a consumer[362]. This information includes the purpose of the loan, the employment (of the consumer); the source of repayment capacity; the composition of the household and dependents; any financial commitments and expenses for their servicing; regular expenses; collateral (for secured lending); and finally, other risk mitigants such as guarantees, when available[363]. Moreover, for each of these elements, lenders must ensure that the information is supported by 'necessary and proportionate evidence'. It is worth noting that, in order to ensure the integrity of the consumers' right to personal data protection, lenders must comply with the GDPR when using the available information and/or collecting data on the borrower from third parties[364].

Annex 2 of the EBA guidelines further specifies the data items and evidence to be collected and considered by lenders for the purpose of assessing adequately the creditworthiness of consumers. The second Annex develops a list of 19 data items including, for example, (6) evidence of income and other sources of repayment (including annual bonus, commission, overtime where applicable) covering a reasonable period, including payslips, current bank account statements, and audited or professionally verified accounts (for self-employed persons). Other examples comprise (7) information on financial assets and liabilities, (e.g. savings account statements and loan statements indicating outstanding loan balances); (8) Information on other financial commitments, such as child maintenance, education fees and alimonies, if relevant; and (9) information on household composition and dependents. It follows that clear and detailed guidance is provided to creditors to ensure the CWA is conducted appropriately and on the basis of sufficient and relevant information that conveys with accuracy the financial situation of the consumer. In addition to the data items to be used and collected for the purpose of conducting the CWA, section 5.2 of the guidelines addresses the 'assessment of borrower's creditworthiness'. Under this section, regarding both consumer credits, and, mortgage credits, lenders must take into account other 'relevant factors[365] that could influence the present and future repayment capacity of the borrower, and should avoid inducing undue hardship and over-indebtedness'. These factors include among others, servicing obligations, their remaining duration, their interest rate and remaining amount, and repayment behaviour[366].

Regarding Articles 18(1) and 20(1) of the MCD, the guidelines specify the factors relevant to assess creditworthiness related to immovable property. *Inter alia*, creditors should make enquiries and take the steps necessary to verify and update the information (in particular for

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[360] Guidelines on loan origination and monitoring | European Banking Authority EBA GL 2020 06 Final Report BA/GL/2020/06 29th of May 2020; available at: https://www.eba.europa.eu/

[361] Point 6 of the EBA Guidelines on loan origination and monitoring.

[362] It is worth mentioning that section 5 of the guidelines concerning the documentation relevant for CWA distinguishes the situation where the borrower is a consumer (point 85) and where the borrower is a 'micro, small, medium-sized and large enterprises' (point 86).

[363] See point 85 of the EBA guidelines on loan origination and monitoring.

[364] See point 87 and 88 of the EBA guidelines on loan origination and monitoring.

[365] Point 98 of the EBA guidelines on loan origination and monitoring.

[366] E.g. 'evidence of any missed payment and their circumstances, relevant taxes and insurance if known'.

self-employed borrowers)[367]; if the duration of the mortgage extends beyond the borrower's expected retirement age, the adequacy of the consumers ability to meet his obligations under the loan agreements in retirement must be appropriately taken into account. In addition to these factors (whether the consumer is self-employed, or will retire during the life of the credit), creditors should also carry out sensitivity analyses to reflect potential negative events in the future (i.e. a reduction of income or, in the case of a variable rate, an increase in the interest rate)[368]. Concerning the CCD, and Article 8 concerning CWA, section 5.2.4 develops similar but less extensive factors that must be accounted for including the carrying out of analyses to reflect negative events specific to the type of loan that may occur in the future.

It follows that the EBA guidelines recognise the CWA as a core step to a comprehensive approach regarding loan origination and monitoring. The specific documentation and information to be used and collected by lenders, along with the factors to take into account are set out. Thus, the CWA related provisions of the CCD and the MCD are densely substantiated thereby establishing clear guidance for creditors to ensure a high level of consumer protection and lending standards when issuing credit agreements. The new CCDin its recital (47) refers to the EBA guidelines in the context of CWA and to ensure it is based on the financial and economic situation, including income and expenses, of the consumer.

5.3.4.2. National rules and practices on creditworthiness assessment

Based on the national research conducted, the 12 Member States have transposed in their domestic legal systems the provisions from both the CCD and the MCD regarding the obligation to assess creditworthiness and the right of consumers to access the information in the relevant databases in certain circumstances.

Nevertheless, certain potentially harmful practices regarding the issuing of consumer credits falling in the scope of the CCD were identified in some Member States and should be mentioned. In **Bulgaria** for instance, it was reported that lenders, in practice, impose requirements to provide a guarantee in order to circumvent their obligation to assess creditworthiness of the consumer. Nevertheless, Bulgarian Courts have ruled that the penalty clause for non-fulfilment of the obligations to provide a guarantee is contrary to the obligation in Bulgarian law to assess creditworthiness. An analogy can be drawn with **Poland** where some lenders that conduct CWA in a very liberal way compensate by transferring all the risk on the consumer for example by requesting additional collateral such as a bill of exchange[369]. Another practice identified which may undermine the effectiveness of the obligation to assess creditworthiness thereby stimulating irresponsible lending/borrowing, is the deliberate multiplication of smaller credits for certain goods or products towards different lending institution. To illustrate, national investigators in **France** have reported a frequent practice whereby a borrower takes out several lower credits (instead of a single, more important credit) with several lending institutions to facilitate the creditworthiness assessment and obtain credits more easily, often to the detriment of the borrower's concrete financial situation.

Moreover, national research underlines issues relating to the unreliability of the information used to assess creditworthiness, the failure of creditors to assess creditworthiness or poorly performed assessments regarding, in particular, consumer credits covered. An interview with the Consumer Ombudsman in **Denmark** revealed that, between 2010 and 2016, in over 120

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367 Point 103 of the EBA guidelines on loan origination and monitoring.

368 See pint 107 of the EBA guidelines on loan origination and monitoring.

369 A bill of exchange is a binding agreement between buyer and seller where the former agrees to pay a certain amount of cash at a predetermined date or upon demand from the seller. Bills of exchange are usually relied on to 'protect' a transaction.

cases, creditworthiness assessments were conducted poorly or not performed at all by creditors before issuing consumer credits. The Financial Banking Arbitrator in **Italy** has also affirmed the responsibility of lenders in Italy for poorly performed CWA.

Similarly, it was reported that in **Spain** many lenders do not carry out creditworthiness assessments adequately, in particular vehicle retailers; further some creditors deliberately fail to conduct CWA properly and apply higher costs and higher interest rates and commissions as a result.[370] In this respect, the new CCD will remove leasing agreements with an option to purchase goods or services from the current exemptions under Article 2(2)(d) of the CCD. Thus, all leasing agreements would be covered by the EU consumer credit rules, including on CWA.

Article 8 of the CCD provides that the creditor should access the relevant CWA relevant database "where necessary" thereby leaving a margin of appreciation to the lender as to whether, in each case, they should consult the register. Additionally, and due to the wording of Article 8(1) and (2) of the CCD, the standard, depth, relevant documentation, and method to assess creditworthiness is left at the lender's discretion. In contrast with the provisions of the MCD which sets a more stringent framework on the methodology and standard of the CWA which must be "thorough". Further, the consequences where the result of an assessment indicates that the obligations resulting from the credit agreement are not likely to be met in the manner required under that agreement are expressed under the MCD (in this case, the creditor shall not make the credit available to the consumer). It follows that the general obligation to assess creditworthiness of consumers enshrined in Article 8 of the CCD, due to its lack of precision as to the relevant documentation to be relied upon, the specific circumstances where consultation of the relevant CWA register is compulsory, and the consequences of a negative outcome of the assessment, leave a large margin of discretion on the lender.

In practice, this is reflected by heterogeneously performed CWA across and within Member States concerning mainly the issuing of consumer credits. Although since the entry into force of the CCD, lenders are obliged to assess creditworthiness before the granting of a credit in all Member States, national research shows that, lenders do not systematically comply with this obligation or only in a non-satisfactory manner, relying on inaccurate information or failing to consult the relevant CWA register (as reported in **Bulgaria**, **Denmark**, **France**, **Italy, Poland**, and **Spain**). Further, the lack of a standardised/harmonised approach causes discrepancies in the CWA conducted by different lenders across and within Member States. Hence, in practice, consumers may circumvent a refusal from a lender based on the results of his CWA by simply turning towards a credit institution that conducts CWA in a less restrictive, more liberal manner. In turn, the lack of a stringent legal framework on CWA across the EU for consumer credits may lead to some creditors adopting an irresponsible approach to lending on the one hand, and consumers entering into credit agreements even though their financial situation have resulted in a negative CWA[371].

Nonetheless, it is worth mentioning that several countries (**EE, NL, ES, SK**) have adopted measures going beyond the requirements set forth under Article 8 of the CCD regarding CWA[372]. In **Estonia**, the legislation provides some guidance on the data to be verified in the course of the CWA to comply with the 'responsible lending' requirements[373]. Further, the **Dutch**

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[370] Often resulting in multiplication of Non-Performing Loans.

[371] As mentioned in the above section, Article 8 of the CCD on CWA does not explicitly prohibit the issuing of a consumer credit to a consumer where the CWA is negative. It merely requires the lender to 'the creditor assesses the consumer's creditworthiness on the basis of sufficient information, where appropriate obtained from the consumer and, where necessary, on the basis of a consultation of the relevant database' prior to the conclusion of the credit agreement.

[372] mapping_national_approaches_creditworthiness_assessment.pdf (europa.eu).

[373] Estonian Law of Obligations Act and Creditors and Credit Intermediaries Act.

legislation obliges lenders to have sufficient written information on the financial position of the consumer to prevent excessive lending; and for the issuing of consumer credits exceeding EUR 250, the lender must verify the information on the credits that have been granted to the borrower in the system of credit registration in which he participates. In **Spain**, creditors must rely on specific written procedures to document the CWA[374]. Lastly, under the **Slovak** law, the 'exact formula' to be followed by lenders and the parameters they must take into account is developed[375]. Moreover, certain MS (**DE, DK, EE, PL**) have complemented the legislation with guidelines and codes of conduct in the area of CWA for consumer credits[376].

5.3.4.3. Sanctions for non-compliance with the obligation to assess creditworthiness of consumers

The obligation to assess creditworthiness before granting a credit agreement to consumers is effective to the extent that adequate sanctions are implemented in the Member States in cases of a failure by the lenders to comply with their obligation to conduct the assessment.

It appears from the national findings that notwithstanding the general obligation to assess consumers solvability there remains differences as to the severity of the legal consequences of a violation of this obligation in the context of private individual enforcement. Sanctions include *inter alia* declaring the credit agreement void, imposing administrative sanctions (i.e., fines) and declaring forfeiture of interest for the creditor.

For example, in **Denmark**, case law has shown that poorly performed or non-performance of the CWA may justify the setting aside of a credit agreement fully or partially based on the Contractual General Clause. Similarly in **Estonia**, the Tallinn County Court held that a creditor had failed to comply with the principle of responsible lending and his legal obligation to assess creditworthiness (it was not taken into account by the lender that the consumer was receiving social support and the creditor did not ask the relevant questions whilst conducting the assessment and before issuing the credit). As a result of this failure of the creditor, the agreement was declared void. In **France**, a failure to assess creditworthiness leads to the possible forfeiture of the creditor's rights in full or in the proportion set by the judge, and a fine of up to EUR 30 000 with the possible application of complementary penalties such as a ban from practicing. Moreover, in **Germany**, the legal consequences of a violation to perform CWA are enshrined in the German Civil Code[377] and may lead to a reduction of the interest rate sometimes up to 0%. In practice the only case published in the German central data bank for jurisdiction "juris.de"[378] on the failure to assess creditworthiness showed that the burden of proof supporting the failure to conduct the assessment rests on the consumer as the borrower. Here, the consumer lost the case as he could not prove any errors in the credit check performed by the creditor. Other sanctions include, for instance in **Greece**, releasing the consumer from his obligation to pay the total credit cost, including rates, and instead requiring him to repay only the capital received. Lastly in **Poland**, although the Supreme Court was faced with the question of the consequences of a failure to comply with the creditworthiness assessment, no resolution was adopted on this matter and their remains doubts as to the legal consequences in practice.

[374] mapping_national_approaches_creditworthiness_assessment.pdf (europa.eu).

[375] Act No. 129/2010 Coll. on consumer credits.

[376] mapping_national_approaches_creditworthiness_assessment.pdf (europa.eu).

[377] in Section §§ 505 of the German Civil Code (BGB).

[378] Landgericht Bonn, Urteil vom 17.06.2021, Az.: 19 O 216/20.

5.3.4.4. Exclusion of the obligation to assess creditworthiness for certain types of consumer loans

As discussed above, certain types of loans are excluded from the scope of the CCD, where the general obligation to assess creditworthiness is established under Article 8. These include micro-credits (small loans below EUR 200); BNPL schemes which are cost and interest free and usually must be paid within several weeks. It follows that for these types of loans, the lender is under no legal obligation to assess creditworthiness of consumers and is not obliged to register these loans in the relevant register.

The issue here is twofold, on the one hand micro-credits and BNPL schemes may present certain advantages for consumers due to their easy access and rapid availability. Moreover, BNPL schemes appear to have an equitable dimension as consumers do not have to pay any interest on credit. At the same time, these products seem to respond to a financial need often (but not only) found among, vulnerable consumers. Small loans may be a response to the need to "make ends meet" and BNPL schemes enable consumers to purchase products or services without always having the necessary finance at the time of the purchase. Because these loans fall outside the scope of the current CCD and are often, based on national research, not covered by any specific legal/ normative act, lenders are not obliged to assess creditworthiness in practice. Hence there is a risk of aggravating the financial situation of an (over)indebted consumer for whom the lender may issue credit rapidly and without prior evaluation of solvability. In addition, the multiplication of these types of credit agreements with different lenders can amount to serious harm on a vulnerable consumers finance.

The second dimension of the issue resides in the non-obligation of lenders to register these loans in relevant databases since, in most of the 12 Member States covered, they are not governed by the general rules on consumer credits. Indeed, in France it was reported[379] that small loans or existing debts that need to be paid in instalments are not mentioned to other lending institutions and thus cannot be taken into account when assessing creditworthiness – even though in practice, they may be significant to assess the solvency of consumers. Moreover, in France, only 'negative' data such as payment incidents are reported in the relevant database (i.e. the 'National Register of Household Credit Repayment Incidents-FICP). These incidents include for example, arrears with loan repayment or an application to the over-indebtedness Commission. Consequently, the effective and realistic conduct of the assessment of creditworthiness of consumers is made even more difficult in practice, as these loans (small loans, exisiting debts to be repaid in instalments) will remain "hidden" to the other lenders, consistently with the findings in **France, Germany** and **Ireland**. Desk research in **Germany** supports this finding by pointing to the fact that small loans and certain BNPL schemes are often left out of the databases of credit reporting agencies as there is no legal obligation on these agencies to report every credit. Likewise, in the **Netherlands**, national research revealed that certain financial products, such as operational leases[380] (often used for home improvement products such as solar panels and water boilers) and BNPL schemes are not considered by lenders when assessing creditworthiness as they do not fall in the scope of EU or Dutch consumer credit rules.

As developed in the above section, of this report on the 'Material scope of the Consumer Credit Directive (CCD) and the Mortgage Credit Directive (MCD)', the new CCD addresses this issue by removing several exemptions from its scope and hence including additional financial products. Among them, *inter alia*, there are credits below EUR 200, free interest rate credits without charges and credits to be repaid within 3 months with only insignificant charges, means

[379] This information was provided by the French DGCCRF during the interview with the national legal expert.

[380] Operational leases enable the use of an asset without any option or obligation to purchase it.

that micro-credits and BNPL schemes would be covered by the EU rules on credit agreements - including with respect to the general obligation to assess creditworthiness of consumers.

5.3.4.5. Identification of good examples regarding CWA

Particular attention should be given to the national research findings in **Denmark**, **Estonia** and the **Netherlands** as they may amount to good practices on CWA. In **Denmark**, on the 6th of April 2021, the Financial Supervisory Authority and the Consumer Ombudsman published "Guidance on creditworthiness assessment"[381], that reflects their interpretation of the applicable law and is based on the jurisprudence from the Court of Justice of the European Union (CJEU) of the 18th of December 2014 in the case C-449/13, CA Consumer Finance.[382] Although a "soft-law" instrument, these guidelines elaborate on the obligation to assess creditworthiness and currently serve to harmonise at a national level and in compliance with EU law, such assessments of the consumers creditworthiness. *Inter alia*, the Danish guidelines provide that creditors should obtain information about the consumers' household and personal situation to have an overview of his financial situation. In addition, detailed data regarding the documentation of the consumers income is developed, the net income should be taken into account and adequate documentation (for example electronic taxation data or a copy of pay slips) should be obtained. The Danish guidelines further require lenders to obtain sufficient information and evidence about the consumers' debts (for example via a copy of the latest tax assessment notice). Lastly, data on the borrowers must be collected such as actual fixed expenses and evidence of expenses if the consumer has provided mere declarations. The guidelines list in detail what amounts to 'fixed expenses' (i.e. expenses for main residence, joint expenses, heating, water, electricity, transport expenses, personal expenses such as private pensions schemes etc.).

Additionally, the **Estonian** Financial Supervision Authority recommended that guidelines "on requirements for responsible lending" include a list of the appropriate sources of information that should be used to assess creditworthiness such as information provided by the consumer, the creditor's own internal database and public databases such as the land register, information disclosed by bailiffs, payment default register etc.

Another relevant example, in the **Netherlands**, is the "lending standard" ("leennormen") which includes guidelines for lenders when assessing creditworthiness. These lending standards are developed by two sector organisations (the Dutch Banking Association and the Association of Finance Enterprises in the Netherlands) with the help of the National Institute for Budget Advice and in consultation with the National Competent Authority. Importantly, the Dutch Competent Authority supervises the compliance of lenders with these guidelines when they assess the creditworthiness of consumers.

It is worth mentioning that the new CCD refers to the European Banking Authority's Guidelines on loan origination and monitoring[383] in its preamble (47) "the European Banking Authority Guidelines (…) provide guidelines on what categories of data may be used for the processing of personal data for creditworthiness purposes, which include evidence of income or other sources of repayment, information on financial assets and liabilities, or information on other financial commitments."[384]

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[381] Guidelines on creditworthiness assessment (consumerombudsman.dk).

[382] *C-449/13 CA Consumer Finance SA v Ingrid Bakkaus, Charline Bonato, née Savary, Florian Bonato,* (2014).

[383] Guidelines on loan origination and monitoring | European Banking Authority EBA GL 2020 06 Final Report BA/GL/2020/06 29th of May 2020; available at: https://www.eba.europa.eu/. ; these Guidelines are expanded in section 5.3.4.1 above.

[384] The EBA Guidelines are developed further under section 5.3.4.1 'The obligation to assess creditworthiness of the consumers under EU law'.

Furthermore, Article 18(1) of the proposal sets forth a more stringent legal framework on the assessment of creditworthiness than the current CCD and expressly mentions that the "assessment shall be done in the interest of the consumer, to prevent irresponsible lending practices and over-indebtedness, and shall take appropriate account of factors relevant to verifying the prospect of the consumer to meet his or her obligations under the credit agreement or the agreement for the provision of crowdfunding credit services." Further, and in line with the MCD, solely information on the economic and financial circumstances of the consumer should be relied on by lenders. Under Article 18(5) of the proposal, where the result of the creditworthiness assessment indicates "that the obligations resulting from the credit agreement or the agreement for the provision of crowdfunding credit services are not likely to be met in the manner required under that agreement, the creditor or the provider of crowdfunding credit services may exceptionally make credit available to the consumer in specific and well justified circumstances." Hence, Article 18 of the proposal articulates the consequence of a negative creditworthiness assessment and provides for the possibility to grant a credit only in exceptional cases, if the CWA result is negative. This new version of Article 18 would ensure lenders conduct the creditworthiness assessment in the interest of consumers thereby contributing to facilitating responsible transactions concerning consumer credit agreements.

5.3.4.6. Conclusions

Notwithstanding the existence of an obligation for lenders to assess creditworthiness of consumers before the issuing of a credit agreement enshrined in both the MCD and the CCD, issues in this respect persist. Indeed, the level and method to conduct the assessment varies according to Member States and lenders. However, the establishment of guidelines to provide a more stringent normative framework on the principles and methods to assess creditworthiness may prove useful in increasing the depth of the assessments conducted by lenders. This is all the truer since CWA is key to ensure responsible lending on the side of creditors and borrowing on the side of consumers. On a brighter note, it is worth mentioning that, in recent years, arrears in mortgages appear to have decreased perhaps indicating the positive impact of the obligation to conduct CWA in relation to mortgage credits enshrined in Articles 18 and 20 of the MCD.[385]

Importantly, for certain products (BNPL schemes and micro-credits) there is no obligation to assess creditworthiness of consumers nor to register them in the relevant database. This may lead to irresponsible borrowing due to the easy access of these products and the absence of a credit worthiness assessment. In turn, lenders may lack sufficient information from the relevant database to conduct adequately the assessment as these loans are not registered.

Lastly, it is worth mentioning that, although the creation of a positive credit file at EU level could support the effective and harmonious conduct of creditworthiness across the EU, national research in **France** and the interview with the **Danish** National Enforcement Authority explicitly mention the risk of such a file regarding the protection of privacy and consumers data.

385 REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL on the review of the Directive 2014/17/EU of the European Parliament and of the Council on credit agreements for consumers relating to residential immovable property COM/2021/229 final

5.3.5. Standard European Consumer Credit Information (SECCI) and European Standardisation Information Sheet (ESIS)

5.3.5.1. EU legal framework

The obligation to provide the Standard European Consumer Credit Information (SECCI) and the European Standardised Information Sheet (ESIS) is set out in Article 5(1) of CCD and Article 14 of MCD respectively. Article 5(1) of CCD implements an obligation for the creditor to provide the SECCI in good time before the conclusion of a credit agreement, although the Evaluation of CCD carried out in 2020 found that in practice it may be received by the consumer on the same day when they sign the contract[386]. The Article stipulates that the information to be comprised in SECCI should include, inter alia, the type of credit, information on the creditor, the total amount of credit and intermediary involved, the duration of the credit agreement, etc. Article 14 of MCD stipulates that pre-contractual information for mortgage credit shall be personalised and provided by means of an ESIS, which is set out in Annex II of the Directive. In comparison with "the 'extensive catalogue of information' to be provided through" the SECCI, "the ESIS contains 'only' 15 mandatory items to be disclosed."[387] With regard to ESIS, the MCD has adopted a full harmonisation approach, which is argued to be facilitating for "the pre-contractual assistance of consumers by (untied) intermediaries in comparing credit offers from creditors based in different Member States."[388]

To alleviate the problem of information overload, the Commission's CCD Proposal introduced a summary, the SECCO, which stipulated that the most important information should be summarised upfront and displayed in maximum one page (Articles 10-11). In addition, according to Article 10(1) of the Proposal, "pre-contractual information shall be provided to the consumer at least one day before he or she is bound by any credit agreement or offer." If the information is provided less than one day in advance, a reminder should be sent to the consumer about "the possibility to withdraw from the credit agreement or crowdfunding credit services and of the procedure to follow for withdrawing" (Article 10(1)). The provision on the reminder is agreed upon also by the European Parliament in its position, with the caveat of specifying not merely "at the latest, one day after the conclusion of the credit agreement" but rather as "between one and seven days after the conclusion of the credit agreement."[389]

It should be noted, however, that following the amendments made by the European Parliament to the Commission's Proposal on a Consumer Credit Directive, in , Recital 31 of the Proposal stipulated that at the beginning of the SECCI Form "all the key elements of the credit" should be included, in order to help consumers "understand and compare offers."[390] Through this presentation of the key elements, "consumers should see all essential information at a glance, even on the screen of a mobile telephone."[391] Article 10(4) further clarified that this information should be "noticeably separated from the rest of the pre-contractual information provided on

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[386] European Commission, 'Evaluation of Directive 2008/48/EC on credit agreement for consumers' COM (2020) 963 final, https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/1844-Evaluation-of-the-Consumer-Credit-Directive_en, 34.

[387] D Bruloot, E Callens, M De Muynck, 'Credit intermediation and the European internal market for mortgage credit' (2019) 13 Law and Financial Markets Review 41, 47.

[388] Ibid, 48.

[389] Report on the proposal for a directive of the European Parliament and of the Council on consumer credits, 25 August 2022, https://www.europarl.europa.eu/doceo/document/A-9-2022-0212_EN.html.

[390] Report on the proposal for a directive of the European Parliament and of the Council on consumer credits, 25 August 2022, https://www.europarl.europa.eu/doceo/document/A-9-2022-0212_EN.html.

[391] Ibid.

the same form."[392] The introduction of this measure can ensure that the consumer clearly sees the crucial points of the credit agreement. It should be also noted that the position of the Council in this regard is to ensure that the "key information" is displayed in the beginning or on the first page of the SECCI, without it being repeated.[393]

5.3.5.2. National rules

The obligation to provide the SECCI and/or the ESIS as pre-contractual information is set out in all Member States. Its coverage, however, somewhat varies across the Member States. No particular derivations from the CCD and MCD provisions were found, and SECCI/ESIS is applicable to all credits in four Member States (**BG, DE, EL, ES**). For instance, in **Germany**, the ***obligation to provide SECCI/ESIS applies to*** credits, short-term credit agreements in an overdraft facility and credit agreements relating to residential immovable property. The SECCI/ESIS ***form is not subject to change***, according to national laws of the Member States (as transposed by CCD and MCD), and some specifically state that any additional information can only be included in annexes (**EE, NL**). In terms of the practical enforcement, there is a general lack of information on the usage of the SECCI/ESIS in one Member State (**BG**). It was observed, during the validation workshop, that the main issue in Bulgaria is the lack of enforcement on the obligation of information provision, where even the existence of penalties for non-compliance do not necessarily prevent violations.

However, two Member States (**ES**, **PL**) have particular provisions related to pre-contractual information presented in the form of SECCI/ESIS. Notably, in **Poland** the validity of the information contained in ESIS in relation to mortgages is ***at least 14 days***, whereas for consumer credits it has a validity of a minimum of 1 day.[394] This may be deemed contrary to the principle of maximum harmonisation set out in Article 22(1) of the CCD, as the latter does not impose any limitation on the validity period of the information form. However, it should be noted that a similar rule exists in **Spain**. Particularly, according to the national legislation concerning pre-contractual information,[395] ***before signing the contract*** the lender is obliged to deliver, if the consumer so requests, ***a document with all the conditions of the credit*** in identical terms to what is stipulated in the relevant provisions of the Law, as a binding offer. This offer must be maintained for a minimum period of ***14 calendar days*** from its delivery, unless there are extraordinary circumstances. It can be argued that such provisions on the validity of the information in the SECCI/ESIS are aimed at ensuring that the consumer is given sufficient time to review it before signing the contract.

In terms of the obligations on pre-contractual information, in **Denmark** ***stronger obligations aimed at consumer protection are available for mortgage credit providers*** compared to consumer credit providers. Particularly, the mortgage credit providers are bound by a Duty of Guidance, which does not apply to consumer credit providers.[396]

With regard to the **content** of ESIS, a lack of order of importance within the provided information has been observed in **Italy.** This may prevent consumers from recognising information of primary importance. It was pointed out during the validation workshop that this situation can undermine the effectiveness of the information provision. Furthermore, several

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[392] Ibid.

[393] https://www.consilium.europa.eu/en/press/press-releases/2022/06/09/consumer-protection-council-adopts-its-position-on-new-rules-for-consumer-credits/.

[394] The information referred to in the provision in question is individualised and is prepared by the creditor (intermediary, agent) for the designated consumer in each case. In any event, the information form must be provided to the consumer no later than he/she submits his/her credit application.

[395] Article 10 of the Law 16/2011 on Consumption Credit Contracts.

[396] Nonetheless, adequate explanations at the pre-contractual stage should, of course, be provided also for consumer credits.

stakeholders have pointed out the necessity of minimising the quantity of information and of conducting regular checks on the enforcement in order to give a substantive meaning to the obligation of information provision.[397] In **Poland,** credit agreements often continue to be formulated in an illegible language for the consumer. Moreover, it was noted during the validation workshop that the formatting of the information given to the consumer also needs to be taken into consideration, as it is often in very small font and generally, in hard-to-read formatting in Poland, which can be discouraging for the consumer. However, such an agreement may be deemed compliant with the legal requirements. Generally, while a standardised form for conveying information to the consumer contributes to a better understanding of the agreement, it is not certain whether one can expect the average consumer to be able to read and understand all the information contained on the information sheet and to make an informed decision whether to enter into a credit loan agreement."[398] In this light, the importance of adequate explanations comes into play, which is discussed below under Section 2.6.2.2. The potential "information overload" of SECCI/ESIS may weaken the effectiveness of this tool.[399]

What comes to the consequences of not fulfilling the obligations on pre-contractual information, it should be noted that the **Polish** legislation does not contain any ***consequences of deeming the mortgage credit agreement invalid***, even if there has been a breach of the creditor's (or intermediary's or agent's) obligations on the provision of pre-contractual information. Unlike the Consumer Credit Act, the Mortgage Credit Act does not contain any provision allowing the consumer to repay the credit without interest or other costs in the event of a breach by the creditor. Moreover, Article 8(1) of the Reverse Mortgage Credit Act (unlike the Consumer Credit Act and the Mortgage Credit Act) does not include a requirement that the electronic information form be provided to the borrower in a durable medium. Although this can be filled in by analogy, it remains a gap to be filled in, as this and other gaps put the consumers in a weaker position compared to the lenders. In addition to the legal or practical shortcomings related to pre-contractual information, the issue of consumers themselves understanding SECCI/ESIS persists, which is tightly intertwined with the issue of financial literacy.

Limited ***case law*** was found in **France** and **Poland** to be dealing with the issue of SECCI/ESIS (with no case law found in the remaining Member States).[400] Particularly, the highest French court had the opportunity to specify, as of 2019, that it is ***up to the lender to prove that it has fulfilled its information obligation.*** The court found that the presence of a ***standard clause*** attesting to the delivery of the pre-contractual information sheet, which is not corroborated by evidential documents, is not sufficient in itself to justify such delivery: this clause can therefore only be considered as a mere indication that is not likely to prove the lender's fulfilment of its information obligation.

In **Poland**, the Supreme Court held that the delivery of the form to the consumer and the conclusion of the agreement ***should not take place immediately after each other***, almost simultaneously. The court also found that handing the information form to consumers only ***after the consumer's creditworthiness has been verified*** and assessed is ***too late***, as it contradicts the purpose served by the obligation to submit the information form. In another case, the Supreme Administrative Court of Poland held that the parties (in practice, the trader)

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[397] It was also noted that, perhaps, detailed references to the legislation are often unnecessary.

[398] T Josipović, 'Consumer Protection in EU Residential Mortgage Markets: Common EU Rules on Mortgage Credit in the Mortgage Credit Directive' (2014) 16 Cambridge Yearbook of European Legal Studies 223, 243.

[399] J Luzak, M Junuzović, 'Blurred Lines: Between Formal and Substantive Transparency in Consumer Credit Contracts' (2019) 8 Journal of European Consumer and Market Law 97, 114.

[400] It was noted by a stakeholder involved in the Study that the reason for the lack of court decisions on this issue is that consumers do not derived any rights from the provision of ESIS.

may not disregard the additional statutory restrictions on contractual freedom arising from the Civil Code.

In addition, the timing of the provision of pre-contractual information was found to be problematic also in **Germany**. According to one of the stakeholders, consumers in **Germany** ***do not make much use of the SECCI/ESIS in practice***, as it is printed and handed out to the consumer ***at the end*** with the contract itself. By this time, the consumer has most probably already made his/her decision on the credit. This situation potentially indicates a need for a more precise wording on the timing of the distribution of the ESIS, as compared to the expression "in good time."[401]

5.3.5.3. Conclusions

To ensure information is collected on the usage of the SECCI/ESIS, attention could be paid to the implementation of precise rules on the enforcement and regular checks on whether the SECCI/ESIS is put into practical use.

In cases where the obligations for consumer credit providers are significantly less strict than those for mortgage credit providers, the obligations of the former could be tightened similar to the obligations of mortgage credit providers.

In terms of the delivery of the SECCI/ESIS to consumers, consumers could benefit from hard-law obligations or soft-law guidelines ensuring that, in practice, there is a sufficient amount of time between the delivery of the form and the conclusion of the agreement, as well as that the SECCI/ESIS is provided to the consumer before carrying out a CWA.

Finally, during the desk research, it was observed in three Member States (**DE, IT, PL**) that the ESIS, despite the value it clearly adds to consumer protection in the field of borrowing, nonetheless, is predominantly aimed at the consumer "receiving as much information as possible and making a supposedly informed decision on the basis of this information, even though solely the extent of information is not necessarily a sufficient basis for an informed decision."[402] In other words, the intelligibility of consumer credit information can certainly be increased by standardisation, however it "does not in any way guarantee consumers will be given understandable information."[403] Therefore, the issue of consumers not reading and/or understanding the SECCI/ESIS (as observed, e.g., in **France** and **Germany**) could be addressed more fundamentally and effectively. This issue could be addressed by relying less on information requirements and more on advisory requirements or advisory offer obligations. These could be used as an addition to these information obligations in order to provide the necessary protection to vulnerable consumers. Such a duty to offer advice[404] is regulated in German national law, for example, for overdraft facilities in the case of sustained high usage, indicating incorrect use of overdraft facilities or specific risks of over-indebtedness among consumers.[405] This issue could be addressed by relying less on information requirements and more on advisory requirements or advisory offer obligations. These could be used as an

[401] Moreover, it was mentioned by the stakeholder that consumers do not read the pre-contractual information, as they are given it in the bank and do not have time there to familiarise with it. As noted, the ESIS usually is presented at the same time as the contract. The bank employee would usually present a long contract, which the consumer simply signs after being told where the place for the signature is.

[402] This was observed through the German desk research.

[403] M Junuzović, 'Transparency of (Pre-)Contractual Information in Consumer Credit Agreements: Is Consistency the Missing Key?' (208) 14 Croatian Yearbook of European Law & Policy 69, 84.

[404] It should be noted that the new CCD contains provisions on adequate explanations (Article 12).

[405] Sentence 1 and line 11 of Section 504a (2) of Bürgerliches Gesetzbuch (BGB), Federal Data Protection Act (in English available in an outdated version at: https://www.gesetze-im-internet.de/eng+B13lisch_bdsg/; in German available in the current version at: https://www.gesetze-im-internet.de/bdsg/).

addition to these information obligations in order to provide the necessary protection to vulnerable consumers.

5.3.6. Relations between disclosures, advice and responsible lending, in the light of the low financial literacy of consumers

5.3.6.1. EU legal framework

The components of the notion of literacy are briefly mentioned in Recital 26 of CCD, which states that Member States should take measures to "promote responsible practices during all phases of the credit relationship" and that such measures may include, for instance, "the provision of information to, and the education of, consumers." Similarly, Recital 29 of MCD stipulates that "Member States should promote measures to support the education of consumers in relation to responsible borrowing and debt management in particular relating to mortgage credit agreements." Moreover, according to Recital 42, "Member States should be free to maintain or introduce national law where no harmonised provisions exist, for instance […] information which might be useful for the purposes of financial education." In fact, MCD deals with the topic of financial education in a separate Chapter (which, however, contains only one Article). Article 6(1) of MCD repeats the wording of Recital 29 mentioned above, with the difference of using the word "shall" and thereby imposing a clear obligation on the Member States in this field. The new CCD extends this obligation to consumer credit agreements.[406]

It should be also noted that Recital 4 of the MCD mentions that "Some problems […] are driven by market and regulatory failures as well as other factors such as the general economic climate and *low levels of financial literacy*."[407] However, no definition of (low) financial literacy is provided in the mentioned legislative acts. A definition of financial literacy can be found in the Financial Competence Framework for Adults in the European Union produced by EU and OECD. According to this, financial literacy is "a combination of financial awareness, knowledge, skills, attitudes and behaviours necessary to make sound financial decisions and ultimately achieve individual financial well-being."[408]

5.3.6.2. National rules

Overall, financial literacy per se is dealt with by state agencies/bodies who set out the school curricula. However, this may not necessarily imply a uniformity in application. For instance, in Germany, this obligation lies with the federal states and, therefore, no uniform treatment of consumer financial education is observed. In **France**, Budget Advice Points (PCB) have the objective to prevent over-indebtedness and to promote budget education. In **Greece,** The General Directorate for Market and Consumer Protection cooperates with the Special Secretariat for Private Debt, the Bank of Greece, the Consumer's Ombudsman, the banks unions, the consumers organizations that are accredited as per the legislation and the Investment Services Ombudsman, to educate consumers on the fields of responsible lending and private debt management, and regarding mortgage contracts, and to provide concise and specific information about the granting of credits. However, it should be noted that, arguably, consumers may still remain unfamiliar to even basic notions, such as the concept of interest

[406] Article 34 of the new CCD.

[407] Emphasis added.

[408] EU/OECD, 'Financial competence framework for adults in the European Union' (2022), https://www.oecd.org/daf/fin/financial-education/financial-competence-framework-for-adults-in-the-European-Union.pdf, point I; OECD, 'Recommendation of the Council on OECD Legal Instruments Financial Literacy' (29 October 2020), https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0461.

rates. This low level of financial literacy could be effectively addressed through specific education programmes implemented in schools.[409] Overall, general legal education and education about enforcement proceedings could also prove helpful.[410] Positive examples of initiatives to improve financial literacy

It should be noted that initiatives aimed at increasing the consumer awareness and financial literacy have been conducted across the Member States. Certain notable examples are provided below.

A notable example is found in **Ireland**. The Competition and Consumer Protection Commission (CCPC) has a remit in terms of financial education.[411] An interesting example is providing financial education in workplaces through a specific programme, which targets consumers in the workplace. Another version of this programme is aimed broader at the community.[412] In addition, a number of school programmes are in place, currently for the second level (children of age 12+). However, CCPC is attempting to promote financial education across the curriculum in Ireland, including at primary level. There are considerations on how to include financial education also in early childhood education. Additionally, the notion of a national financial education and inclusion strategy for Ireland is currently being promoted. Public awareness campaigns are also organised to encourage and provide financial education.[413]

An interesting study[414] was carried out by CCPC, the Economic and Social Research Institute (ESRI) and one of the major banks in **Ireland** (Bank of Ireland), which focused on showing how financial institutions can use behavioural insights to encourage saving habits. It was conducted "in response to an identified need to encourage short-term saving habits among Irish consumers to increase financial resilience against unexpected financial shocks" and involved real consumers of the Bank.[415] The Study tested different interventions around active savings and how to help people deliver short-term savings to deal with unexpected expenses. The interventions were aimed at encouraging consumers to take up short-term savings accounts and to spread awareness about the necessity of having a savings buffer. The Study indicated that among around 160.000 consumers the use of savings accounts increased by 25%.

While no legislation tackling the issue of financial literacy exists in the **Netherlands**, the government has launched a number of educative initiatives through a platform called *Wijzer in geldzaken*, the aim of which is to promote responsible financial behaviour of consumers. This programme is mainly funded through the government. In addition, the websites of the Dutch Authority for the Financial Markets (AFM) and the National Institute for Budget Education (NIBUD) can help consumers, as they provide extensive advice on different financial topics.

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[409] Observations from the validation workshop held on 17 February 2023.

[410] Ibid.

[411] Other organisations which play a role in this are Money Advice and Budgeting Service (MABS), banks themselves who at times provide financial education to consumers, as well as schools.

[412] The interviewees noted the difficulty to reach the community during the Covid-19 pandemic.

[413] An example of this is the campaign organised on the occasion of two Irish banks leaving the Irish market, the customers of which needed to switch their current accounts to a different bank. The campaign was aimed at providing the necessary information for these consumers. Another example, which was used in the past, is the informational campaign on Personal Contract Plan (PCP) car financing. Besides, PR campaigns on personal financing are organised through the national radio or TV. One of such campaigns was a TV series focused on financial issues.

[414] S Timmons, D Robertson, P Lunn, 'Combining nudges and boosts to increase precautionary

saving: A large-scale field experiment' (2022) Working Paper No. 722, https://www.esri.ie/publications/combining-nudges-and-boosts-to-increase-precautionary-saving-a-large-scale-field.

[415] ESRI, 'ESRI Behavioural Research Unit contributes to CCPC research which shows how financial institutions can use behavioural insights to encourage saving habits', 3 May 2022, https://www.esri.ie/news/esri-behavioural-research-unit-contributes-to-ccpc-research-which-shows-how-financial.

A notable example aimed at tackling low financial literacy can be found in **Poland**. On January 1, 2019, the Financial Education Fund was established to increase financial awareness among the Polish people. Its resources are used to fund financial education initiatives, in particular:

1) organisation of educational and information campaigns to increase the financial awareness of the public;
2) development of a financial education strategy and monitoring of its implementation;
3) development of educational programs and issuance of publications popularising knowledge on the functioning of the financial market, the risks in it and the entities operating in it;
4) cooperation with other entities, including entities of the financial market, in the development of documents on financial education;
5) cooperation with the minister responsible for education and upbringing with regard to the systemic approach to financial education, in particular with regard to the core curriculum set forth in the regulations issued pursuant to Article 47 paragraph 1 of the Law of December 14, 2016[416];
6) support of educational and promotional projects in the field of finance and the financial market.

In addition, as a separate initiative, the National Bank of Poland (NBP) Money Centre has introduced an interactive educational and exhibition facility, popularising economic knowledge using state-of-the-art multimedia techniques. The goal of the NBP Money Centre is "to reach a wide audience and to familiarize it with issues related to the development of economics and the monetary economy, the functions that money has served throughout history, as well as the history of the creation and evolution of the banking system and central banking."[417]

Finally, according to the Polish government's website, "On 11 October 2022, the Council of Ministers adopted a draft law amending the Act on the processing of complaints by financial market entities and the Financial Ombudsman and certain other acts."[418] The proposed legislation, inter alia, provides for the transformation of the Fund, the funds of which are currently at the disposal of the Financial Ombudsman, into a state purpose fund at the disposal of the Minister of Finance. It is envisaged that the proposed regulations will enter into force on 1 January 2023."

In collaboration with the Ministry of Economy and the Stocks Market National Commission, the Bank of **Spain** is in process of applying a training plan to improve financial literacy of society through collaborations with public and private entities, in particular to focus on the financial education of those who are most vulnerable (young, low literacy, rural environments, etc.). The stakeholder interviewed noted that the Bank of Spain also has a comprehensive website[419] very much focussed on information to financial customers with posts and plain explanations of banking market and products.

The abovementioned examples indicate several possibilities to address the issue of low financial literacy among consumers. They also indicate that the low financial literacy may be best tackled by allocating the necessary resources to organisations/agencies/other bodies which can undertake initiatives directly in the population. In this regard, the involvement of credit providers (e.g., banks) is discussed, with different opinions. This is due to the risk in involving entities which have their own interests in credit provision – but there are also

[416] Education Law (Journal of Laws of 2021, item 1082).

[417] Official website of the NBP Money Centre, https://www.cpnbp.pl/en/money-centre/about-us.

[418] https://www.gov.pl/web/finanse/zmiany-w-funduszu-edukacji-finansowej.

[419] Official website of the Bank of Spain, https://www.bde.es/bde/es/.

examples of good cooperation (e.g. in Austria or in Belgium).[420] As mentioned by one stakeholder, a discussion is in place in Germany on whether financial entities (such as banks, insurers or financial intermediaries) should be involved in offering to teach about financial literacy at schools, as their lectures could be product-linked. Therefore, the stakeholder suggests ensuring that any organisation involved in tackling financial literacy, for instance, through teaching at schools, meets certain requirements. Such criteria can be, for example, independence, a non-profit character, sustainability and continuity (i.e. will continue to teach educate about financial literacy, including in times of crises), evidence-based and free-of-advertising educational material, practical experience with real consumer problems in the field of financial products.

5.3.6.2.1. Adequate advice and responsible lending

The notion of responsible lending and provision of adequate advice[421] by the creditor become particularly crucial in cases of low financial literacy of the consumer. Explanations are potentially most effective when "they enable consumers to conduct an independent assessment of the credit's suitability for their needs and purposes," which can be achieved by requiring credit providers "to abandon 'one-size-fits-all' approaches and conduct an assessment of consumers' level of knowledge and experience with credit."[422] While such a requirement was included in Article 11 of the original Commission proposal for MCD, it is not explicitly included in the final text of the Directive.[423]

Generally, the desk research shows that the issue of (lack of) financial literacy is addressed in the national laws through emphasising and providing legal grounds for the concept of responsible lending (perhaps, similar to Article 6(1) of MCD). In six Member States (**DE, DK, EE, EL, ES, PL**) the lenders have an obligation to provide individual advice on the suitability of the credits in question to the given consumer's needs, interests and financial situation. As such, in **Denmark**, the pre-contractual disclosure obligation of the credit provider implies that the credit provider must put the consumer in a position to take an informed decision.[424] Additionally, credit providers are, generally, subject to substantive codes of conduct. Mortgage providers are subject to a Duty of Guidance. In other words, they shall provide guidance to the borrower on the proposed mortgage loan, as well as on ancillary services, so that the borrower can assess whether the proposed product is suitable for his/her needs and financial situation.

5.3.6.2.2. Clear information at advertising and pre-contractual stage

Furthermore, the provision of clear information by the creditor is also crucial particularly in cases of low financial literacy. According to Article 4(2) of the CCD and Article 11(2) of the MCD, the standard information included in advertising shall be specified in a "clear, concise and prominent way," and the credit agreement shall specify the required details "in a clear and concise manner" as per Article 10(2) of the CCD on contractual information. Moreover,

420 Although these countries were not in the geographical scope of Task 4, they were mentioned as good examples and are, therefore, included in the report.

421 It should be noted that the new CCD contains provisions on adequate explanations (Article 12).

422 M De Muynck, D Bruloot, 'Credit Intermediation under the 2014 European Mortgage Credit Directive: a Call for Targeted Rules on Intermediary Remuneration' (2017) 13 European Review of Contract Law 1, 21.

423 Ibid.

424 As per Credit Agreement Act, Article 7 a.

according to Article 20(3) of the MCD, obliges the Member States to ensure that "creditors specify in a clear and straightforward way" the necessary pre-contractual information.

In **Germany,** the **pre-contractual obligation** must be formulated in a **sufficiently clear, plain and comprehensible manner**[425] and should include, *inter alia*, the total financial burden and the APRC.[426]

Similarly, in **Spain**, the precontractual information obligations for mortgage credits are reinforced with the obligation of the intervening notaries to assist borrowers before the contract signing, whereby notaries shall inform borrowers on an individual basis and explain to them the specific clauses of the ESIS. Moreover, notaries shall ask borrowers to fill out a test to expressly identify the documents delivered and information provided to borrowers before signing the corresponding contract and mortgage deed.[427] This example can be argued to indicate that the involvement of public notaries (for instance, in mortgage credit contracting) can be useful particularly for consumers with low financial literacy.

5.3.6.2.3. Conclusions

The lack of financial literacy requirements is a serious issue. A mandatory requirement of consulting a consumer/financial advisor could be considered for consumers with low financial literacy, but there are no shared opinions on this point. Also, providing for a definition of "low financial literacy" and terms connected to it could prove useful in determining such consumers. However, any definition, if provided, should be formulated cautiously, so as not to base it on the formal education level of the individual. Therefore, it would be useful to first identify the goals of financial literacy. Based on that, the general concept of financial literacy could be defined and then the level of financial literacy (low/medium/high) could be defined.

Another suggestion can be to ensure that the information regarding the legal consequences of defaults, as well as information regarding legal proceedings relevant to the credit agreements, are listed either as one of the substantive pre-contractual disclosures that credit providers are obligated to provide to the consumers, or as one of the substantive requirements of contract. Although credit providers might be bound to provide such disclosures as a result of the code of conducts applicable, a hard law provision could prove useful to address the issue.

Furthermore, since the main way for Member States to tackle financial literacy is the use of school education, state funding could be provided to debt advisory providers to assist schools in this process.

5.3.7. Transparency of information and use of consumer data in a transparent manner

5.3.7.1. EU legal framework

The use of data for assessing consumers' CWA in a transparent manner is dealt with in several provisions of both CCD and MCD. According to Article 9(2) of CCD, where a credit application is rejected on the basis of consultation of a database, the consumer must be informed immediately and without charge of the result of the consultation and the particulars of the

[425] Sections 305c (2) and 307 (1) sentence 2 of Bürgerliches Gesetzbuch (BGB), Federal Data Protection Act (in English available in an outdated version at: https://www.gesetze-im-internet.de/eng+B13lisch_bdsg/; in German available in the current version at: https://www.gesetze-im-internet.de/bdsg/)..

[426] Article 247 § 3 (1) no. 3, § 6 (1) no. 1 of Einführungsgesetz zum Bürgerlichen Gesetzbuche, EGBGB (Introductory Act to the Civil Code (in German available the current version at: https://www.gesetze-im-internet.de/bgbeg/).

[427] Article 15(2) of Law 5/2019

database consulted. Moreover, upon his/her request, the consumer shall receive a copy of the draft credit agreement free of charge (Article 6(6)).

The consumer shall also be informed of any change in the borrowing rate (as per Article 11(1)). Article 8 of MCD also stipulates that the information provided to consumers should be free of charge. Furthermore, general information about credit agreements must be made available by creditors or credit intermediaries at all times (on paper or a durable medium or in electronic form), according to Article 13 of MCD.

5.3.7.2. In addition to the abovementioned, the General Data Protection Regulation (GDPR)[428] is also applicable. In relation to credit agreements, Articles 6 and 7 are particularly relevant. Article 6 sets out the conditions which shall be fulfilled for the processing of data to be considered lawful, and Article 7 stipulates the conditions of consent by the data subject (in this case, the consumer). Particularly, according to Article 7(3), "[P]rior to giving consent, the data subject shall be informed thereof." In the case of consumers and credit institutions, this implies that the consumer shall be properly informed about the fact that he/she is giving consent for the processing of his/her personal data.National rules

Generally, requirements of providing the consumers with specific information are set out in the national laws of all Member States. Some noteworthy examples are provided below.

For instance, the credit providers in **Denmark** must provide the consumer with sufficient information to put the consumer in a position to make an informed decision. In **Estonia,** at the request of the consumer, the creditor shall make available to the consumer an amortisation table, indicating the amounts owed and the due dates and conditions of repayment of these amounts. The transparency on the price of consumer credit insurance in **France** is rather high, obliging distributors to display the price of the insurance in euros per month, particularly in advertising. This provision can be a useful example to ensure transparency of information already from the time of the credit advertising. In **Italy,** the legislation states that information shall be provided on interest rates charged, prices and economic conditions, and where such an essential element is missing, the clause is considered as null, and void and the consumer will not have to pay any interests. The **Polish** legislator also explicitly stipulates that the provided information shall be presented in a visible, legible and audible manner. Similarly, the national legislation in **Slovakia** expressed the obligation to provide the necessary information in written form or in the form of a record on another durable medium available to the consumer. Moreover, comprehensible, brief and clear information about the annual percentage rate of costs for the relevant calendar quarter must be provided to the consumer in a separate document.

Nonetheless, issues related to the transparency of information remain. In **Estonia**, for instance, it may be considered an issue that the national legislation does not go beyond the minimum EU rules, while in **Greece** the existing legislation may require a more stringent monitoring by the regulatory bodies (even though it is confirmed that penalties have been imposed on banks in cases of non-compliance). A lack of order of importance within the provided information can be considered to be detrimental in relation to the transparency of information for consumers, as observed in **Italy**. Another issue is observed in **Spain**, where varying amounts of contractual information are provided on digital marketing channels: the information is either excessive or strongly lacking. However, such contracts may be compliant with the applicable legislation, even if they are not drafted in way to ensure the understanding

[428] Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC.

by customers of their main conditions. In **Poland,** despite the obligations imposed on lenders, the problem of formulating provisions of credit agreements in language that is illegible and convoluted for the consumer remains. This becomes particularly problematic when considering that as long as such an agreement is not misleading or does not contain prohibited contractual provisions, there are no grounds for questioning the legality of an agreement written in complicated, legalistic language.

When talking of transparency of information, an important aspect to consider is the transparency of the CWA. A lack of transparency of the latter can, unfortunately, contribute to consumer over-indebtedness, as credit providers may not fulfil their obligations and consumers may not understand the basis on which their loans are denied (or, for that matter, approved). In terms of **the transparency of CWA**, a lack thereof is observed in five Member States (**BG,**[429] **ES, FR, IT, PL**).

The case law in some Member States contains several notable findings. Particularly:

- A very small font size is deemed to lack transparency (**DK**);
- Even if the total amount to be repaid by the consumer is correctly stated in the contract, the incorrect declaration of the repayment schedule in a contract (including an appendix) is considered not to have met the Contractual Information Requirements (**DK**),
- If a creditor has not carried out his obligation to verify the information provided by the consumer, the creditor will not be assumed to have acted in good faith in the procedure, and in such a case, the burden of proof is reversed and put on the credit provider (**EE**).
- For the assessment of the abusiveness of a provision, the transparency of the provision, i.e., its unambiguity and intelligibility, is also of importance. Moreover, not only the formal and grammatical intelligibility is crucial but also the requirement that the contract presents the concrete operation of the mechanism to which the provision refers in a transparent manner, "so that a reasonably well-informed and reasonably observant and prudent average consumer is able to assess, based on unambiguous and intelligible criteria, the economic consequences for him arising from the contract." (**SK**).

5.3.7.3. Conclusions

As can be seen from the abovementioned national rules, consumers are usually entitled to get insight into the CWA only after their loan application and only if that application was denied. However, in practice this obligation is not always properly followed by credit providers, who may mention only that the credit request is denied due to the database search and refrain from providing further details. Coupled with the low financial literacy of consumers and lack of knowledge of their right to request more information from the credit providers, this can allow credit providers to make use of their stronger position and deny credit without proper justifications or provide credit even without an adequate CWA of the consumer. Specifying that the insights into the CWA are to be provided in writing could help to ensure that credit providers fulfil their obligations in this regard. Moreover, in order to maximize transparency in relation to the CWA, a pre-contractual obligation for credit providers to state their method of performing the CWA might be beneficial. Nonetheless, the more crucial aspect in this case remains the practical, real-life implementation of the legal obligations. Additionally, more stringent

[429] Regarding Bulgaria, it was pointed out during the validation workshop that in practice the transparency of disclosures is not always complied with. Furthermore, usually there is no clear methodology on the conducted CWA and there is no information provided on the grounds of refusal of credit.

requirements could be imposed for the gathering of information based on which the credit scoring is established.

Finally, the transparency of disclosures can also help avoid consumer over-indebtedness. To ensure such transparency, the introduction of a clear distinction between the substantive disclosures that must be provided and other information that could have been provided or should have been provided according to the applicable codes of conducts could help in ensuring that credit providers share all the required information with the consumer. Generally, the substantive requirements shall be as extensive as possible in order to minimize the grey zones of the disclosure obligations. It might be beneficial to incorporate legal information as one of the substantive disclosures.

5.3.8. Overdraft facilities and overrunning

5.3.8.1. EU legal Framework

Regarding overdraft facilities, the current Article 2(e) of the CCD excludes from its scope "credit agreements in the form of an overdraft facility and where the credit has to be repaid within one month." Moreover, Article 2(3) of the CCD stipulates that only certain provisions of the CCD apply to credit agreements in the form of an overdraft facility and where the credit has to be repaid on demand or within three months, thereby introducing a 'lighter' regime for such loans.

In addition, Article 3(d) of the Directive defines overdraft facility as "an explicit credit agreement whereby a creditor makes available to a consumer funds which exceed the current balance in the consumer's current account" and (e) defines overrunning as "a tacitly accepted overdraft whereby a creditor makes available to a consumer funds which exceed the current balance in the consumer's current account or the agreed overdraft facility."

Article 6 of the CCD entitled "the pre-contractual requirements for certain credit agreements in the form of an overdraft facility (…)" requires creditors, in "good time before the consumer becomes bound (…)" to provide consumers with "the information needed to compare different offers in order to take an informed decision on whether to conclude a credit agreement."' This information includes *inter alia,* (a) the type of credit (b) the identity and geographical address of the creditor as well as, if applicable, the identity and geographical address of the credit intermediary involved; (c) the total amount of the credit (d) the duration of the credit agreement (e) the borrowing rate; the conditions governing the application of that rate, any index or reference rate applicable to the initial borrowing rate, the charges applicable from the time the credit agreement is concluded, and, where applicable, the conditions under which those charges may be changed; (f) the annual percentage rate of charge, illustrated by means of representative examples mentioning all the assumptions used in order to calculate that rate; (g) the conditions and procedure for terminating the credit agreement (h) in the case of credit agreements as referred to in Article 2(3), where applicable, an indication that the consumer may be requested to repay the amount of credit in full at any time.

Notwithstanding the above-mentioned exclusions provided in Article 2(2)(e), Article 6 on pre-contractual information (4) provides that, Member States shall apply to credit agreements in the form of an overdraft facility and where the credit must be repaid within one month, the requirements set forth regarding cases of voice telephony communications and where the consumer requests that the overdraft facility be made available with immediate effect. These requirements include information on "the total amount of the credit, the borrowing rate, the annual percentage rate of charge and, in the case of credit agreements (…) where applicable, an indication that the consumer may be requested to repay the amount of credit in full at any time."' Moreover, Article 10(5) specifies that in the case of credit agreements "in the form of an overdraft facility and where the credit must be repaid on demand or within three months" the previously mentioned requirements apply. In addition, Article 12(1) provides that "the consumer shall be kept regularly informed by means of a statement of account, on paper or on another durable medium" of a number of particulars including (a) the precise period to which the statement of account relates;(b) the amounts and dates of drawdowns; (c) the balance from the previous statement and the date thereof; (d) the new balance; (e) the dates and amounts of payments made by the consumer; (f) the borrowing rate applied; (g) any charges that have been applied; (h) where applicable the minimum amount to be paid. Article 12(2) further stipulates that "the consumer shall be informed on paper or another durable medium of increases in the borrowing rate, or in any charges payable, before the change in question enters into force." Lastly it is worth mentioning that under Article 16(3)(b) compensation of the creditor for early repayment shall not be claimed in the case of overdraft facilities.

Further, the notion of overrunning is defined in Article 3(e) of the CCD as tacitly accepted overdrafts whereby a creditor makes available to the consumer funds exceeding the current balance in the consumers' account. In this context, Article 18 of the CCD stipulates that when an agreement to open a current account includes the possibility for the consumer to 'overrun', the pre-contractual information must contain the borrowing rate, the conditions governing the application of that rate and the conditions under which those charges may be changed. In addition, Article18(2) obliges lenders, in the event of a significant overrunning exceeding a period of one month to inform the consumer without delay of the overrunning, the amount involved, the borrowing rate and, and lastly, any penalties, charges or interests on arrears applicable.

It follows that the EU legal framework creates ongoing obligations to disclose information to the consumer regarding overdraft facilities and overrunning, including increases in the borrowing rate and any charges payable. Furthermore, pre-contractual requirements on the information to disclose to consumers before they are bound by any credit agreement or offer enables them to compare different offers to take an enlightened and informed decision on whether to enter a credit agreement. These pre-contractual and contractual requirements taken together ensure a high level of information is provided to consumers before they are bound by a credit agreement with an overdraft facility or before overrunning occurs. Thorough knowledge and understanding of the financial obligations stemming from an account with an overdraft facility or of the charges and fees applied in cases of overrunning is crucial to enable consumers to soundly manage their finance and find the credit agreements that meets their needs in the best way. In this light, the CCD contributes, to a certain extent to the encouragement of responsible borrowing and lending including in the context of overdraft facilities, though some preoccupations remain, as developed in the section below. Indeed, pre-contractual and contractual information requirements set forth in the CCD may not deploy their full protective effect as they are subordinated to the presumption of a significant level of financial literacy of consumers. In addition, there is currently no EU legal framework addressing the issue of excessive fees charged in cases of overdraft, overrunning and late payment which may significantly exacerbate a vulnerable consumers financial difficulty.

As developed in the section on Vulnerable Consumers and the sub-section titled 'consumers in financial difficulty', the notion of vulnerability is multi-faceted and includes, inter alia, consumers in financial difficulty. In this context, entering overdraft and overrunning may, in certain cases, be indicators of an imminent characterisation of vulnerability of consumers or concrete financial difficulties. It follows that, in order to prevent and address consumer over-indebtedness, overdraft agreements and occurrence of overrunning should be the subject of a particularly stringent normative framework. Notwithstanding the beneficial impact of the current CCD mentioned above, additional information/notification requirements on the side of lenders in conjunction with the establishment of a legal limit on charges that may be levied by creditors in such cases could significantly contribute in preventing and addressing over-indebtedness of consumers.

The new CCD will significantly increase the level of protection of consumers in cases of overdraft facilities by addressing existing lacunas in the current EU legislation. Indeed, the proposal would remove the exclusions and lighter regime comprised in Articles 2(2)(e) and (3) thereby expanding the protective scope of the CCD to cover all overdraft facilities. It would, moreover, include a prohibition for lenders to unilaterally raise the overdraft/credit card spending limit without prior or explicit agreement from the consumer under Article 17. Article 25 of the new proposal would further set out rules to address tacitly accepted overdrafts whereby creditors make funds available to a consumer in excess of the current balance contained in the current account ("overrunning") and emphasise the obligation of informing and alerting the consumer on conditions applicable in such cases. For instance, in the event of a significant overrunning exceeding a period of one month, the creditor will be obliged to inform the consumer, without delay of (a) the overrunning (b) the amount involved, (c) the borrowing rate and (d) any penalties, charges or interest on arrears applicable. In addition, Article 25(2) would create an obligation for creditors in the case of regular overrunning to offer to the consumer advisory services, where available, or redirect consumers towards debt advisory services. This Article, in conjunction with the existing and proposed information requirements may contribute in addressing ex-post issues of consumers entering in overdraft and encountering difficulties to meet their financial obligations.

5.3.8.2. National rules

Consistently with EU law, national legal frameworks of the Member States covered by the Study that apply to overdraft facilities include information and notification requirements to the consumer (for instance on the overdraft interest, the remaining amount, the relevant charges and fees etc.). Nevertheless, there exists heterogeneity in Member States on certain rules applicable to overdrafts and overrunning. In particular, some Member States (**DE**, **DK**, **FR**) have restricted the fees that creditors may charge consumers in cases of overdrafts. Moreover, a practice that is applied by certain creditors in some Member States consists in proposing a revolving credit to consumers in certain circumstances involving overdrafts (**FR**, **IT**, **SK**). In all the Member States covered and in compliance with the provisions of the CDD, lenders are subject to obligations of disclosure of information about key elements of the overdraft such as the overdraft interest rate and the relevant expenses.

For example, in **Bulgaria**, consistently with the CCD, when the contract to open an account provides for an overdraft facility the contract must also fulfil several information requirements including the interest rate on the credit, the conditions for its application, any index or reference interest rate related to the initial interest rate and the conditions under which those costs may be varied. The creditor is also required to provide up to date information on the overdraft interest rate, the remaining amount, expenses, fees already made payments etc. Consistently, in **Denmark**, the dispositions of the CCD have been transposed in the Danish Credit Agreement Act including both pre-contractual disclosure obligations and contractual information for contracts that include a bank overdraft facility. Similarly, in **Germany**, there are provisions that specify the information lenders must provide to borrowers, at regular intervals in a contractual relationship concerning a current account with overdraft facilities.[430] It is worth mentioning that under German law, an obligation to offer advice in certain circumstances involving overdrafts pursuant to the German Civil Code is established.[431] Interestingly, the Commission's new proposal would create a similar obligation under Article 25 as developed in section 2.8.1 whereby, in cases of regular overrunning, it will be incumbent on creditors to offer debt advice services or redirect consumers towards debt advice services. Further, under

[430] Section 504 (1) sentence 1 of the German Civil Code (BGB).

[431] Section 504a of the German Civil Code (BGB).

Article 247 section 17(1) of the introductory Act of the German Civil Code, the relevant information must be notified "to the consumer at regular intervals on a durable medium, if an entrepreneur agrees in a contract with a consumer on a current account for which no overdraft facility has been granted that a fee shall be payable in the event of his tolerating the overdrawing of the account"; and where a lender agrees with a borrower in a contract on a current account for which an overdraft facility has been granted, a fee shall be payable in the event of his tolerating the overdrawing of the account beyond the amount agreed contractually.

To illustrate further, in **Estonia**, where there is no agreement to provide an overdraft and if the creditor allows the consumer to overrun the payment account or if the creditor permits the consumer to overrun the upper overdraft limit previously agreed upon in the overdraft agreement, the creditor shall inform the consumer of the overrunning, interest rate and penalties or charges without delay on a durable medium in the event of a significant overrunning of the payment account exceeding the period of one month. In **Italy**, case law has clarified that a bank overdraft or a revolving credit can only be contractually binding if they are in the form of written agreements.[432] Regarding the **Netherlands**, any bank overdraft above EUR 250 must be registered in the relevant register (BKR which is the centrally managed and comprehensive national database for credit registration) for the purpose of CWA. Moreover, in the case of 3 months of arrears, the registration of the overdraft may prevent the consumer from applying for a consumer loan or a mortgage for the duration of the registration (5 years from the moment of repayment). In **Poland**, the legislator establishes a distinction between credits with a maturity of up to one month, credits with a maturity of up to three months or on demand and credits with a maturity of more than three months (i.e., credits subject to the general provisions of the Polish Consumer Credit Act); consistently with the CCD requirements regarding overdraft facilities. Lastly, in **Slovakia**, desk research shows that overdraft facilities are commonly part of "standard" bank accounts with commercial credit institutions although consumers still have the possibility to conclude overdraft agreements. Thus, bank accounts with overdraft facilities are usually governed by the general rules on credit.

Excessive fees charged in cases of overdrafts Among the Member States covered by the Study, in **Denmark**, **France** and **Germany** the legislator has intervened in order to restrict the fees lenders can charge consumers in cases of overdraft and overrunning.

In **Denmark** the legislator has established in the Danish Payment Act a framework on the fees which banks may legally charge consumers in cases of overdraft; further, the general provisions on contractual clauses and credit agreements along with Tort Law will apply where undue banking incidents require the imposition of costs on consumers.

Similarly, In **France,** the legal framework on banking incidents and charges that creditors may impose on consumers throughout their contractual relationship is comprised in the Monetary and Financial Code.[433] The latter specifies that such commissions may not exceed 8 euros per transaction and EUR 80 per month and per bank account (on the rejection of cheques, charges are capped to EUR 30 in relation to cheques equal or below EUR 50 and EUR 50 for cheques above EUR 50). These "capping" rules restrict creditors from applying overly high fees and charges on (vulnerable) consumers that, eventually, may contribute to their (over)indebtedness.

In **Germany** desk research reveals that often, the financial burden on consumers generated by the interest rates in cases of bank overdrafts is too high notwithstanding the existence in German law of a provision limiting these fees and charges. Indeed, in the judgement issued in

[432] Tribunal of Turin, 31st October 2014.

[433] Article L312-1-3 of the Monetary and Financial Code.

2016 by the German Federal Court of Justice[434] it was held that provisions in the general terms and conditions of a credit institution according to which charges of EUR 6.90 per statement of account at the end of a calendar quarter are incurred for overrunning -provided that the borrowing rate incurred does not exceed these charges, and borrowing rates are not charged in this case- are invalid in banking transactions with consumers.[435] Moreover, based on information from the debt advisory agencies obtained through research and stakeholder interview for Germany, notwithstanding the provision in Section 504a (2) of the German Civil Code regarding reference to suitable advisory agencies, such referrals remain extremely uncommon in practice. On this basis, a more independent counselling and closer cooperation between credit institutions and debt advisory agencies should be encouraged or even mandatory (in the latter case, the capacities of debt advisory agencies being limited, the responsible cities and districts would have to make a greater financial commitment in this regard).

Regarding **Germany**, a specific issue was raised during desk research concerning bank accounts of couples (typically known as 'ODER-konten') whereby both may withdraw/transfer money without the other partners consent, even after an eventual separation. Situations where the other partner may continue to overdraw the current account, creating debts after separation occurs even though the partner may not have withdrawn the money and may have tried unsuccessfully to close the account. Since divorce and separations may be triggers for financial difficulties and over-indebtedness of consumers, partners should perhaps be legally authorised to freeze or to split such bank accounts to ensure they are only liable for debts made up to the point of separation.

In **Italy**, national desk research suggests that, in practice, the fees charged in cases of overdraft facilities can reach an APR of over 20%. In addition, late payment fees applied to overdraft facilities can also exceed an exorbitant 20% of the total amount due to the lender.

In this respect, Article 25(1) and (2) of the proposal respectively ensure that, creditors include additional relevant information, without delay, on the overrunning allowance of an account on a regular basis and provide for an obligation to offer debt advice in cases of a significant overrunning exceeding a period of one month.

*Transformation of an overdraft facility into a revolving credit*The practice whereby lenders propose a revolving credit in cases of overdraft of consumers has been identified in three of the Member States covered by the Study, namely **France**, **Italy** and **Slovakia**.

For instance, in **France**, a practice exists whereby banks offer (easily accessible) revolving credits to cover excess overdrafts without thoroughly investigating whether the consumer has other bank accounts and what type of activity exists on these other bank accounts. This is also the case in **Italy** where consumers and their banks may agree to "transform" an overdraft into a revolving credit where the consumer is not able to pay back the overdraft in one single instalment. In the event of repayment by instalments the payment of interest is calculated at a pre-determined rate and applied to the portion of the credit line that is used from time to time and waiting to be repaid. With each instalment, a portion of the expenses incurred, and a portion of the interest accrued are therefore reimbursed. In line with the CDD requirements, the consumer may decide the amount of the monthly payment and change it over time as well as opting for a full repayment of the residual debt at any time. Lastly, in **Slovakia**, revolving credits are provided for an amount of up to two or three times higher than the consumers monthly income; these types of loans are among the most expensive loans provided by banks

[434] BGH, 25.10.2016 - XI ZR 9/15 und XI ZR 387/15.

[435] Pursuant to Section 307 (1) sentence 1 and (2) no. 1 of the German Civil Code.

and may have harmful effects on (over) indebted consumers whom, in practice may struggle to pay it off entirely.

Interestingly, the proposal of the Commission appears to acknowledge such national practices by providing under Article 25(3) titled 'overrunning' that this provision shall be without prejudice to 'any rule of national law requiring the creditor to offer another kind of credit product when the duration of the overrunning is significant'.

5.3.8.3. Conclusions

In all the Member States covered by the Study there are ongoing obligations of information related to overdraft and overrunning in compliance with EU law. By providing such up-to-date information to the consumer, these rules stimulate responsible borrowing and may help to prevent a situation where a borrower loses track of his finances and enters further into overdraft or overrunning unintentionally. Such an issue is exacerbated by the excessive fees that lenders charge in certain Member States. Moreover, the 'capping' rules identified in **France**, **Denmark**, and **Germany** play an essential role in preventing the 'spiralling' down of over-indebted consumers. Indeed, the overdraft or overrunning of an account occurs where there are insufficient funds which could, in certain cases, be a potential indicator of a risk of imminent or ongoing over-indebtedness. In this context, excessive fees charged by creditors may only aggravate the financial situation of the consumer. These 'ceilings' are therefore valuable norms to mitigate this aggravation.

Notwithstanding the current information obligations on lenders in relation to overdraft and overrunning facilities, additional 'alerting' mechanisms and reorientation towards debt advice services in cases of regular overrunning may further address the issue of consumer over-indebtedness as envisaged in the Commission's proposal on consumer credits repealing and replacing the Consumer Credit Directive. Given the particularities of products involving overdrafts and overrunning as potential indicators of characterised or imminent financial difficulties, a stringent normative framework to prevent irresponsible lending and borrowing is necessary. Despite their potentially preventive effect on over-indebtedness, the dispositions of the current CCD could be revised to address the specific needs of vulnerable consumers and include additional information on lenders as provided under Articles 24 and 25 of the Commission's proposal. In addition, the inclusion of an EU-level mechanism to limit the fees charged by creditors in cases of overdrafts and overrunning may be a useful instrument to alleviate over-indebted consumers.

5.3.9. Vulnerable consumers and consumers in financial difficulty

5.3.9.1. EU legal framework

Article 28 of MCD contains provisions which are indirectly aimed at protecting consumers facing financial difficulties. Particularly, Member States are required to adopt measures to encourage creditors to exercise reasonable forbearance before the initiation of foreclosure proceedings. If the creditors are allowed to impose additional charges on the consumer in the event of default, these charges shall be capped. These provisions enable the consumer to take steps before the initiation of forbearance proceedings. Nonetheless, it should be noted that while they refer to consumers encountering financial difficulties (which can occur for vulnerable consumers, among others), neither the CCD nor the MCD contain provisions specifically targeted at vulnerable consumers. In this light, the definition set out in Directive 2005/29 (Unfair Commercial Practices Directive, UCPD) could be noted, which mentions "a clearly identifiable group of consumers who are particularly vulnerable to the practice or the underlying product because of their mental or physical infirmity, age or credulity in a way which the trader could reasonably be expected to foresee" (Article 5(3)). However, there is no agreement on a single definition of vulnerable consumers, and it is acknowledged that the concept is wider than that one provided by the UCPD.[436] It should also be noted that the new CCD contains a provision in Article 36, stating that "Member States shall ensure that debt advisory services are made available to consumers."

The Financial Competence Framework for Adults in the European Union produced by EU and OECD provides for a suggestion that Adherents (Member States) take into account *the needs of other specific target groups* and lists several population groups in points (a)-(d), followed by the mention of "Other vulnerable groups" in point (e).[437] Based on this wording, it is safe to assume that the groups mentioned in points (a)-(d) – which includes women, micro and small entrepreneurs, migrants and refugees and older generations - may be financially vulnerable. Point (e) notes that other vulnerable groups can include, inter alia, "people with low levels of general literacy, people with low digital skills, people from lower socio-economic backgrounds, workers on a low or irregular income, the unemployed, indigenous populations, remote communities and those with physical or mental disabilities."

In light of the COVID-19 pandemic, the European Banking Authority (EBA) issued Guidelines on legislative and non-legislative moratoria on loan repayments.[438] It applied to a broad range of debtors, as it was "necessary to ensure that the change of the schedule of payment does not address specific financial difficulties of specific obligors" (Point 20). Moreover, it was ensured that the moratorium did not apply "only to obligors included on a watch list or those clients who experienced financial difficulties before the outbreak of the COVID-19 pandemic, as this would clearly lead to forbearance classification" (Point 21).

5.3.9.2. National rules

While neither CCD nor MCD address the protection of vulnerable consumers specifically, the national laws in the Member States, generally, contain more provisions which can directly or indirectly ensure the protection of vulnerable consumers. However, as can be seen below, an addition of provisions specifically targeting vulnerable consumers may be useful.

5.3.9.2.1. Vulnerable consumers

More precise provisions are set out, for instance, in the **Estonian** legislation, which stipulates that "[A] commercial practice likely to distort the economic behaviour only of groups of consumers which members are particularly vulnerable to the commercial practice or to the underlying goods or services due to their mental or physical infirmity, age or credulity in a way that the trader could be reasonably expected to foresee shall be assessed based on the effect of the commercial practice on the average member of that group of consumers."[439] In **Denmark**, when performing CWA, the financial characteristics of vulnerable consumers, e.g., single parents that are dependent on one income or SMEs whose liquidity might vary

[436] Šajn, N. (2021), Vulnerable consumers, Briefing, European Parliamentary Research Service; available at: https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/690619/EPRS_BRI(2021)690619_EN.pdf

[437] EU/OECD, 'Financial competence framework for adults in the European Union' (2022), https://finance.ec.europa.eu/system/files/2022-01/220111-financial-competence-framework-adults_en.pdf.

[438] European Banking Authority, 'Final report: Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis' (2 April 2020), https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Guidelines/2020/GL%20amending%20EBA-GL-2020-02%20on%20payment%20moratoria/960349/Final%20report%20on%20EBA-GL-2020-02%20Guidelines%20on%20payment%20moratoria%20-%20consolidated%20version.pdf.

[439] Article 15(3) of Consumer Protection Act.

substantially, should, generally, be included.[440] Such considerations should also be included when granting mortgage credits[441], and "mortgage credit providers must make an assessment of the debt ratio and credit risk that is justifiable to offer a consumer taking into account the consumer's income pattern."[442] Additionally, particular attention is paid also in the Marketing Act, which stipulates that when assessing whether the given marketing practice is aggressive, misleading or not complying with applicable codes of conduct, the average consumer must be used as reference (Article 8(1)) but if the marketing practice is aimed at a particularly vulnerable group, an average member of the particularly vulnerable group must be used as reference for the assessment (Article (8)2)). In **Slovakia**, the District Court of Prešov held in a case in 2019 that using a credit card requires a certain financial capacity and increased caution. Therefore, a vulnerable consumer cannot bear all the risks of using a credit card.

Further examples, which ensure an even stronger protection for vulnerable consumers, are discussed in detail below.

The recently adopted legislation in **France**[443] has harmonised the practices for detecting a fragile consumer with regard to incidents. However, differences in assessments may remain between institutions.[444] For example, some institutions consider that a situation of financial fragility (with regard to Articles L. 312-1-3 and R. 312-4-3 of the Monetary and Financial Code) is constituted when, in particular, the number of incident charges[445] is greater than or equal to 15 over the last three months, whereas for other institutions, the billing of 160 euros among 9 incident charges or the billing of at least 5 incident charges over one month characterises this situation. In any case, it has been observed that the banks were implementing real means to detect their customers' financial fragility. With regard to the categorisation of vulnerable consumers in France, it was noted during the validation workshop that the definition would preferably be broad and not limited to specific characteristics, such as age and income. For instance, self-employed persons fall outside of the scope of the current legislation, even though they are often in a vulnerable position.

In **Ireland**, according to the Consumer Protection Code of the Central Bank, a vulnerable consumer is a natural person who:

- has the capacity to make his or her own decisions but who, because of individual circumstances, may require assistance to do so (for example, hearing impaired or visually impaired persons); and/or
- has limited capacity to make his or her own decisions and who requires assistance to do so (for example, persons with intellectual disabilities or mental health difficulties).

Credit providers must gather and record sufficient information from the consumer prior to offering, recommending, arranging or providing a product or service appropriate to that consumer. The information must include details of the consumer's personal circumstances,

[440] The Financial Supervisory Authority and the Consumer Ombudsman's Guidance on creditworthiness assessment of 6th April 2021.

[441] The Guideline on Consolidation Act no. 1581 of 17th December 2018 on the Code of Conduct for Mortgage Credit

[442] Ibid.

[443] Decree No. 2020-889.

[444] For example, some institutions consider that a situation of financial fragility (with regard to Article s L. 312-1-3 and R. 312-4-3 of the Monetary and Financial Code) is constituted when, in particular, the number of incident charges is greater than or equal to 15 over the last three months, whereas for other institutions, the billing of 160 euros among 9 incident charges or the billing of at least 5 incident charges over one month characterises this situation.

[445] Incident charges or (*frais d'incidents bancaires* in French) are, in practice, any fees that banks charge consumers for going beyond their overdrafts or on other occasions (e.g. if the consumer pays with a cheque and there is not enough money on the account, for rejection of direct debit etc). These charges are excessively high and help banks to make a big margin. The legislator has set a framework to limit this but in practice it is very often circumvented.

including (where relevant) age, health, knowledge and experience of financial products, dependents, employment status, and known future changes to his/her circumstance health. If a credit provider identifies that a personal consumer is vulnerable, it "must ensure that the vulnerable consumer is provided with such reasonable arrangements and/or assistance that may be necessary to facilitate him or her in his or her dealings with the regulated entity."

One of the interviewees pointed out that the use of the broad term "health" in Section 5.1(b) of the Consumer Protection Code is too generic. The current definition of vulnerability in Ireland is very much focused on physical vulnerability. However, for instance, the capacity of an individual running a business can change over time. In case the set-up business is no longer viable and the business owner has provided personal guarantees on a business credit, it can have a serious impact on the capacity of the business owner as a result of the stress incurred. This can create a power imbalance between borrowers and lenders, not least because when the capacity of borrowers reduces, it makes them vulnerable. However, these circumstances are not necessarily covered by the current definition and other requirements related to vulnerable consumers set out in the Consumer Protection Code.

Furthermore, as per the Irish High Court, "there is a class of vulnerable people who currently fall outside the definition of 'consumer' in the Consumer Credit Act and associated legislation, yet who are in need of substantive legal protection."[446] The Court also pointed out that with regard to the numerous consumers in Ireland who are unable to pay their loans, judges have a duty to ensure that courts "are not hijacked as vehicles whereby unconscionable bargains are enforced."[447]

In **Spain**, Article 8 of Royal Legislative Decree 1/2007 sets out a broad obligation aimed at protecting vulnerable consumers from commercial practices. According to it, "traders (including creditors) must protect the rights of vulnerable consumers through effective procedures." Royal Decree-law 6/2012, in its turn, seeks to protect mortgage credit debtors with low resources and sets out a Good Practice Code to which credit entities can adhere, albeit voluntarily.[448] The Good Practice Code is focused on the protection of low-resource customers of mortgage credits. Via this Code, traders commit to avoiding aggressive practices with those low-resource debtors, in particular, to facilitate the restructuring of debts, forgiveness conditions, settling of debt with execution of the immoveable asset guarantee, facilitate social rentals in empty properties, etc. The use of soft law similar to the Spanish Good Practice Code can be useful to establish new notions or potential obligations slowly, in cases when the field of activity is not deemed ready for hard law regulations. Moreover, it can be useful for gaining an initial understanding of whether the new notions are effective in practice. However, caution is advised when introducing such codes, as the protection offered by them is weaker than by law. Vulnerable consumers are not necessarily bestowed any specific rights, and often no specific penalties or other consequences are foreseen.

5.3.9.2.2. Consumers in financial difficulty

A specific category of consumers is those who are in financial difficulty, which can include also vulnerable consumers. With regard to this issue, in **Greece**, new legislation was passed

[446] LSREF III Achill Investments Ltd -v- Corbett & anor [2015] IEHC 652, High Court, 22 October 2015, https://www.bailii.org/cgi-bin/format.cgi?doc=/ie/cases/IEHC/2015/H652.html&query=(vulnerable+consumer+loan), para 36.

[447] Ibid, para 37. The Court goes on to detailed what may be considered unconscionable: (i) the hopeless 'over-securing' of a loan, i.e. the initial taking of security the value of which was then greatly in excess of the amount(s) being loaned, (ii) invoking a personal guarantee sought and granted in circumstances where other initial security otherwise granted was, when granted, perfectly adequate, and (iii) the inclusion of a clause which offends against common fairness and whereby a strong party could 'push the weak to the wall', e.g., by unreasonably demanding ever further security without meaningful concession in return.

[448] However, it is believed that most of the market operators adhere to such voluntary measures.

recently,[449] which aims to protect, inter alia, consumers in cases of insolvency. Particularly, a special regime is introduced[450] in order to protect the primary residence of the debtor in financial difficulty by excluding it from the auction and transferring the ownership thereof to a special entity, while in the meantime the debtor pays monthly lease instalments. According to the Law, debtors at financial risk are those who have an income up to EUR 21,000, immovable property of a value up to EUR 180,000 or movable assets up to EUR 21,000 dependent on the size of their household.

Essentially, this is a sale and lease back scheme for primary residences and involves the establishment of a new organisation to implement the said process. Thus, if a debtor is declared insolvent or enforcement proceedings regarding their primary residence are initiated, they may submit a request under the new regime, which then acquires ownership right over the debtor's immovable property at market value price as determined by a certified valuator. In return, the new organisation shall lease the same property to the debtor for twelve years for a set amount of monthly rent (to be determined primarily based on the applicable housing loans' average interest rate). The debtor may be entitled to re-purchase the property at a price objectively determined under the provisions of the new Law upon fulfilment of their rental payment obligations. This new regime will be run by a private sector entity which will oversee the process with specific duties and requirements set in out in a concession contract agreed with the Greek State following selection via a public bidding process.

5.3.9.3. Conclusions

Generally, the addition of provisions addressed to specific groups of consumers or a clarification of the concept of a vulnerable consumer could be a helpful step towards the protection of vulnerable consumers. Additionally, the introduction of a definition of vulnerable consumers could help to incorporate some of the categories of such consumers, while remaining non-exhaustive. However, the interview with a representative from a German consumer organisation pointed out that it would be important to take into consideration that instead of forming categories of consumers, the "concept of consumer is modified as a whole by placing greater emphasis on its protective function across groups."[451] Categorising consumers may lead to discrimination and them being identified as less creditworthy, thereby blocking their access to the regular market or to pay higher interest rates up to usurious practices. Therefore, it is dangerous to classify different consumer groups because it allows providers to separate these groups t and to justify by law to charge them differently. A useful provision is set out in the **German** legislation, according to which consumers with a right to conclude a basic account agreement may not be discriminated.[452] Moreover, in situations where a consumer does not fall within the definition of a vulnerable consumer but is in need of substantive legal protection, the applicability of consumer rights aimed for protecting vulnerable consumers could be helpful.

With regard to high interest rates, particularly for vulnerable consumers, it is suggested that an alert system informing the consumers when e.g. there is a high amount of fractioned payments

[449] Law No. 4738/2020 (Government Gazette A' 207/27.10.2020) titled "Debt settlement and second-chance arrangement and other provisions."

[450] Ibid, Articles 215 – 224.

[451] Interview with a representative from a German consumer organisation.

[452] Section 32(1) of Gesetz über die Vergleichbarkeit von Zahlungskontoentgelten, den Wechsel von Zahlungskonten sowie den Zugang zu Zahlungskonten mit grundlegenden Funktionen (Zahlungskontengesetz, ZKG), Act on Comparability of Payment Account Charges, Switching of Payment Accounts, and Access to Payment Accounts with Basic Functions (Payment Accounts Act); in German available in the current version at: https://www.gesetze-im-internet.de/zkg/).

could be useful.[453] Furthermore, introducing harmonised practices for creditors for dealing with vulnerable consumers can be useful.

5.3.10. Predatory lending

5.3.10.1. EU legal framework

The EU-level rules on predatory lending are aimed at mitigating the risk of unfair or unprofessional practices that do not take into account the best interest of the consumers. According to Article 4 of CCD, any advertising of credit agreements which indicates an interest rate or any figure on the cost of the credit shall include standard information set out in the Directive, such as borrowing rate, total amount of credit, its duration etc. In addition, it should be noted that in its position to the CCD Proposal, the European Parliament added a provision, prohibiting advertising for specific consumer credit products.[454] Furthermore, if it is compulsory to conclude a contract regarding an ancillary service (i.e., insurance) to obtain the credit or to obtain it on the terms marketed, and the cost of the service cannot be determined in advance, this obligation must be clearly and concisely stated and in a prominent way, together with the APRC. Article 19 of CCD, in its turn, sets out methods of calculation of the APRC for consumer credits.

Further, the MCD stipulates that any advertising and marketing communications concerning credit agreements are fair, clear and not misleading. In particular, wording that may create false expectations for a consumer regarding the availability or the cost of a credit shall be prohibited (Article 10). Similarly to the CCD, it also states that standard information shall be provided in any advertising (Article 11). The method of calculation of APRC is set out in Article 17 of MCD. Finally, as per Article 19 of the CCD, standards for the valuation of residential immovable property for mortgage lending purposes shall be ensured (impartial and objective valuation requirements).

5.3.10.2. National rules

Specific rules in relation to advertising and marketing are set out in the national laws of all 12 Member States. While national legislation may be addressing in detail the issue of predatory lending, the lack of pre-emptive measures against it, as well as lack of strict rules on marketing on *all platforms* can continue to be problematic (e.g., in **Bulgaria**). However, on the other hand, tightening rules may have the potential to cause a market disruption. Generally, in terms of predatory lending, the issue seems to be more practical and enforcement-related rather than legal. In other words, the national laws have useful provisions which are not always enforced effectively. Examples of the national rules and their shortcomings, as well as of relevant case law of the national courts are provided below.

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[453] Interview with a French authority.

[454] This is set out in Article 8(3c), which prohibits "advertising for consumer credit products which:

(a) incites over-indebted consumers to seek credit;

(b) specifies that outstanding credit contracts or registered credit in databases have little or no influence on the assessment of a credit application;

(c) suggests that success or social achievement can be acquired by obtaining credit."

The national legislation in **Denmark** clearly defines the terms "aggressive marketing" and "misleading marketing."[455] Some restrictions are set out in Article 11 of the Consumer Loan Business Act, according to which the APRC cannot exceed 35%, and additional costs cannot be charged to a consumer who has already paid costs which in total amount to 100 % of the original amount of credit.

Estonian national legislation stipulates that advertisements of consumer credit shall be "responsible and balanced" and "may not suggest that taking consumer credit is a risk-free and simple opportunity to solve financial problems or induce consumers to ill-advised borrowing" (Advertising Act 29(7)). Besides, as part of the pre-contractual information the credit provider shall inform the consumer of all fees and charges, possible penalties and amount of compensation (or commission in case an intermediary is involved). Notably, if no information is provided on any other expenses owed by a consumer, the consumer does not owe such costs. However, a crucial issue in Estonia is the lack of a maximum interest threshold imposed by law, which can provide fruitful soil for predatory lending. In addition, as pointed out during the validation workshop, credit providers (which are not always banks) often refer to themselves as "banks" in advertisements. Moreover, they give themselves an international appearance, creating the image of being a bigger company than they are in reality. Both tactics are often employed by certain credit providers in order to portray themselves as legitimate and trustworthy companies. It was noted in the workshop that this is, essentially, a predatory practice.

French legislation also strictly defines what specific elements an advertisement should contain and what should be expressly mentioned. The Directorate-General for Consumer Affairs, Competition and Fraud Control (DGCCRF) ensures the conformity of advertisements for consumer credit transactions, and this control is done *a posteriori,* once the advertisements have been disseminated by the operators. Nonetheless, a definition of the term "predatory lending" is currently absent in the French legislation.[456]

In **Germany** advertisement with prices about consumer credits must be accompanied by a representative example (§ 17 IV PAngV): When selecting the example, the advertiser must assume an annual percentage rate of charge from which the advertiser may expect that at least two thirds of the contracts concluded on the basis of the advertisement will be concluded at the stated or a lower annual percentage rate of charge, to avoid misleading advertisement with very low interest rates. Nevertheless, the practice in Germany is still to advertise credits with very low interest rates and to hide the representative example in a text with very small letters. The German Federal Court of Justice decided that "up to …%" interest rates on a web site is misleading information. The information about interest rates for overdrafts on web sites was also not highlighted in a striking manner as required by Art. 247a § 2 II, III EGBGB.[457] Other problems occurred with missing information at advertisement on websites.[458] Still advertisement of banks do not highlight the obligatory representative example, defined in § 17 PAngV with higher interest rates but rather the very low interest rates.

In **Greece**, the Administrative Court of Appeal of Athens has held that a statement on a bank's website claiming that its mobile banking service does not charge any additional costs is misleading, as it is "responsible for the costs of performing the main banking operations, based on its current tariff." Even if the amount of the service charge is displayed on the screen before

[455] According to Articles 3-7 of the Marketing Act, misleading marketing refers to marketing practices in which information is absent, incorrect, unclear or ambiguous, whereas aggressive marketing refers to marketing practices where harassment, coercion, violence or other similar undue influence has been used against the consumers.

[456] Observation from the validation workshop held on 17 February 2023.

[457] German Federal Court of Justice Judgements from 29.06.2021 - XI ZR 46/20 and XI ZR 19/20.

[458] OLG Düsseldorf (20. Zivilsenat), Judgement from 22.09.2015 – 20 U 46/15.

the completion of the transaction, this information should have already been visible and known at the start of the transaction, rather than towards its end.[459]

In **the Netherlands**, effective national legislation is in place which, essentially, makes the provision of certain products (e.g., STHC or usury loans) impossible. However, its effectiveness diminishes in the face of credit providers operating in other Member States, which have fewer effective rules on the issue.

The **Polish** legislation sets out detailed provisions on misleading advertising, which, according to Article 5(1) of the Act on Counteracting Unfair Market Practices, can be, for instance, "an action which in any way causes or is likely to cause the average consumer to take a decision concerning a contract which he would not have taken otherwise." (Article 5(1) of the ACUMP). A misleading act may be not only the dissemination of false information, but also, for example, the dissemination of true information in a manner that is likely to mislead consumers. Polish case law has identified several examples of unfair market practices, such as suggesting in online advertisements for consumer credit that applicants could receive the amount borrowed within 15 minutes of sending the credit application, when this was not possible for borrowers who did not have an account with the same bank as the lender or a calculation of capital interest on the credit granted, incompatible with the terms and conditions of the consumer credit agreement, resulting in an overestimation of its amount, by calculating the interest due under individual instalments on the part of the credit repaid in previous instalments.[460]

Slovakian legislation states that advertising and marketing communications on housing loans must be "truthful, understandable and not misleading."[461]

In **Spain**, the advertising of consumer credits shall be made in clear, precise and highlighted terms. Furthermore, consumers are protected from unfair and abusive practices in general terms: the use of such practices can render the contract null and void and allow consumers to ask for an indemnity for losses and damages. Moreover, the Spanish Supreme Court held that "consumer credit/loan contracts without guarantees shall be deemed abusive and, therefore, null and void with regard to those clauses that are not negotiated between the parties, and which fix a late payment interest rate exceeding by 2 percentage points the interest rate applicable to the credit/loan agreed on by the parties."[462] Although the national legislation ensures a sufficient level of protection, some creditors engage in predatory lending practices (particularly, in relation to short-term loans for small amounts).

5.3.10.3. Conclusions

A specific and clear definition of terms related to predatory lending (such as "aggressive marketing" or "misleading marketing") can help in the implementation of the relevant rules. Furthermore, a specific obligation to avoid using certain expressions or words (such as "risk-free", "simple opportunity to solve financial problems") and for pricing ("from … APRC/%", "from … to …,") in advertisements can be useful, as in **Estonia**. The legal obligation to present a representative example with realistic interest rates in case of advertisement with interest rates are also helpful if controlled and punished by the national authorities.

In terms of predatory practices of foreign online providers of certain types of credits, it may be beneficial to clarify at the EU level that online providers operating abroad must abide by

[459] Decision No. 1191/2021 of the Administrative Court of Appeal of Athens.

[460] Judgment of the Regional Court - Court of Protection of Competition and Consumers of 7 December 2020, case number XVII AmA 24/18.

[461] Article 3(1)(2)(3) of the Act No. 90/2016 Coll. on Housing Loans.

[462] Judgements of the Supreme Court, STS Civil nº 265/2015, of 22/04/2015, and nº 364/2016, of 03/06/2016: https://www.poderjudicial.es/search/indexAN.jsp.

substantive credit rules of the host state to prevent forum shopping. Furthermore, in terms of online nudging, it would be useful to develop guidelines on the offering of credit in the online environment at the EU level, which would be based on behavioural insights.

5.3.11. Flexibility of loans and early repayment

5.3.11.1. EU legal framework

The EU provisions on the possible flexibility of the clauses on early repayment aim at giving consumers the possibility to face unexpected financial difficulties. In addition, other rules help consumers in financial difficulties by allowing them to terminate their obligation, if no repayment, even in a facilitated form, is possible any longer.

On the other side, other rules allow consumers to repay their loans earlier than established in the credit agreement when they are able to do so, with limited compensation for the creditor. Particularly, Article 13(1) of CCD stipulates that the consumer may terminate an open-end credit agreement free of charge at any time (unless parties have agreed on a period of notice which shall not exceed one month). In addition, Article 16 of CCD and Article 25 of MCD set out a right of early repayment of a mortgage credit, and an obligation to provide the consumer with a reduction in the total cost of the credit, consisting of the interest and the costs for the remaining duration of the contract.

In this light, a reference should be made to two judgments of the Court of Justice of the European Union (CJEU), ***Lexitor***[463] and ***UniCredit Bank Austria***[464]. In both cases, the Court considered **whether** the right of the consumer to a **reduction in the total cost of the credit in the event of early repayment** of that credit as referred to in Article 16(1) of Directive 2008/48 also concerns **costs which are not dependent on the duration of the contract**. However, the legislative piece in question in the first case was the CCD, while in the second case it was the MCD.

In ***Lexitor***,[465] the CJEU noted that the concept of the "total cost of the credit", as defined in Article 3(g) of the CCD, does not "contain any restriction relating to the duration of the credit agreement."[466] The CJEU reiterated its previous case law on the intention of the directive "to guarantee **a high level of consumer protection**" due to the consumer being in a weaker position.[467] The Court noted that such a protection implies that, in the reduction of costs based on consumer's early repayment, taking into account only costs which depend on the duration of the contract would decrease "the effectiveness of the right of the consumer to a reduction in the total cost of the credit."[468] This is furthermore justified by the fact that in practice it is very difficult "for a consumer or a court to determine which costs are objectively linked to the duration of the contract."[469] Finally, including such costs "in the reduction in the total cost of the credit is not likely to be disproportionately disadvantageous to the creditor."[470] The CJEU, therefore, concluded in *Lexitor* that, in light of **CCD provisions**, the right of the consumer to a

[463] Case C-383/18 *Lexitor* [2019] OJ C 294.

[464] Case C-555-21 *UniCredit Bank Austria* [2023] OJ C 513.

[465] Case C-383/18 *Lexitor* [2019] OJ C 294.

[466] Ibid, para 23.

[467] Ibid, para 29.

[468] Ibid, para 31.

[469] Ibid, para 33.

[470] Ibid, para 34.

reduction in the **total cost** of the credit in the event of early repayment of that credit **also concerns costs which are not dependent on the duration of the contract.**

Nonetheless, later in the case of ***UniCredit Bank Austria*** (which concerned the MCD),[471] while the Court did make several references to its judgment in *Lexitor*, it also noted that recital 22 of the MCD implied that "it is important to take into consideration **the specificities of credit agreements relating to residential immovable propert**y, which justify a differentiated approach."[472] The CJEU noted that the aim of providing the consumer a right to reduction of costs is "not to place the consumer in the situation in which he or she would have been" had the conditions of the credit been different.[473] The CJEU goes on to state that the right to the reduction of costs "cannot cover costs which, irrespective of the duration of the contract, are payable by the consumer to either the creditor or third parties for services previously rendered in their entirety at the time of early repayment."[474] The CJEU noted that the flexibility available to credit institutions, as discussed in *Lexitor*, is "significantly" reduced through the "standardised breakdown of charges payable by the consumer" in the form of ESIS.[475] Based on this reasoning, the Court concluded that, in light of **MCD provisions**, the right of the consumer to a reduction in the total cost of the credit in the event of early repayment of that credit **concerns only interest and costs which are dependent on the duration of the contract**.

Thus, based on the abovementioned case law of the Court of Justice, it can be concluded that the total cost that consumers can ask to reduce from the credit in case of early repayment varies depending on the Directive in question. Particularly, in cases where CCD provisions concerned, the Court's interpretation deems that costs which are not dependent on the duration of the contract can also be proportionately reduced in the event of early repayment, as they fall under the concept of "the total cost of the credit." Nonetheless, in relation to MCD provisions, the consumers are not considered to require the same level of normative protection.

5.3.11.2. National rules

5.3.11.2.1. Flexibility of loans

Generally, the freedom of contract principle seems to apply across the Member States. In most of the Member States in the scope of our research, the principle is seen in the lack of regulation of loan contract flexibility. The general rule applicable on this issue is that a consumer is entitled to an early repayment of the loan, in which case the creditor is entitled to a repayment of charges.

In **Bulgaria**, amendments to the APRC may be allowed singlehandedly in specific cases:

- the loan agreement expressly provides for the possibility of increasing and decreasing the total cost of the loan,

[471] Case C-555-21 *UniCredit Bank Austria* [2023] OJ C 513.

[472] Ibid, para 28.

[473] Ibid, para 30. The Court, particularly, notes the following conditions as potentially having been different: (i) the credit had originally been granted for a shorter period, (ii) the credit were for a smaller sum or, (iii) more generally, the credit had been granted under different conditions.

[474] Case C-555-21 *UniCredit Bank Austria* [2023] OJ C 513, para 31.

[475] Ibid, paras 34-35.

- the circumstances applicable to the change of the total cost of the loan are described in the contract, are objectively justified and do not depend on the creditor's will.[476]

However, there is no possibility for the consumer singlehandedly to amend the contract.

In **Denmark**, an **overall lack of flexibility in modifying loans** remains an issue. Moreover, there is **no right for the consumer to reduce the number of instalments** or to pay in instalments without a specific time limit. Finally, contracts are not amended by mutual agreement, but rather by indexes and schemes (which remain unclear to the consumer and lead to additional financial burdens), especially in relation to mortgages.[477]

In **Germany, a right of the consumer to reduce instalments in a credit agreement with fixed interest rates does not exist.**

The **Polish** legislator has introduced provisions aimed at ensuring that **flexibility of loans does not result in worse conditions for consumers**. Such provisions aim:

- to allow a consumer the **repayment of principal and interest instalments** directly in the **currency** in which the credit was taken (Article 30 (1) MLA), provided that creditors may not make this entitlement conditional on a consumer having to pay additional costs (Article 30 (3) MLA).
- to comply with the obligation to inform a consumer in certain circumstances of the **possibility of submitting an application for restructuring** (Article 33(1) MLA), an obligation to make efforts to bring about restructuring (where the consumer's financial situation allows this) (Article 33 (4) MLA) and, finally, an obligation to explain in detail the reasons for any rejection of such an application (where the consumer's financial situation does not allow restructuring) (Article 34 MLA),
- to allow a consumer to **sell the credited real estate within a period of no less than six months if the application for restructuring is rejected** by a creditor (Article 35 (1) MLA).to **inform** consumers about the **assignment of claims** and to **prohibit the limitation/exclusion of a consumer's objections** in the event of an assignment of creditor's receivables (Article 44 CCA)

[476] The Consumer Credit Act, Article 10, paras 2-4.

[477] Interview with a representative of the Consumer Ombudsman of Denmark.

5.3.11.2.2. Early repayment

While the goal of providing flexibility of loans for a credit agreement is a remedy to an already-occurred over-indebtedness, early repayment is aimed at consumers who have the possibility to terminate their credit early. In other words, the capacity of the consumer to repay is an inevitable part of it.

In **Denmark**, subject to the Credit Agreement Act (Article 26), a consumer has the right to terminate all or part of his obligations under a credit agreement at any time and shall then be entitled to a reduction in the total cost of the credits, consisting of interest and charges for the remaining duration of the credit agreement. On the other hand, in the event of early repayment of a credit, the creditor shall be entitled to compensation for any cost directly linked to the early repayment of the credit, if the early repayment falls within a period for which a fixed borrowing rate has been agreed. However, in terms of charges, it has been established in the case law that credit providers can only charge fees related to the administration of the terminate of credit agreement.[478] This constitutes "an important benchmark for the level of consumer protection provided by the provisions in the Credit Agreement."

In **Germany**, the borrower may demand from the lender at any time a repayment plan if a time has been determined for the repayment of the loan. But the repayment plan usually contains only payments and the residual debt in future. Thus, a consumer cannot control the progress of the loan to date. Additionally, if the consumer terminates the credit agreement or repays his/her liabilities under the credit agreement early, the costs are reduced but a compensation for early repayment may be incurred. For credits in the scope of the CCD early repayment fees are often the maximum allowed by the CCD (1 %, 0,5 % of the early repayment) without concrete calculation of actual damage. In case of secured home loans covered by the MCD consumers still pay ~~still~~ high early repayment fees sometimes higher than the interest a consumer would have paid until the end of the fixed interest period. Early repayment fees for consumers about EUR 20.000 are typical and increase sometimes also up to EUR 94.000 in Germany. Until now German civil courts do not accept that the previous and ongoing calculation of early repayment fees in Germany is not in accordance with the MCD and that consumers do not owe interest rates for the time after early repayment, penalties are forbidden and only the costs actually triggered by the early repayment are to be reimbursed (Art. 25 (1) and (3) MCD). Only in case of cancellation of the credit agreement through the lender, the German Federal Court of Justice has decided, that a lender has no right to get an early repayment fee.[479] A right of the consumer to reduce instalments in a credit agreement with fixed interest rates does not exist.

In addition to the general rule on the possibility of early repayment, **Italian** legislation stipulates that the compensation to the credit provider for early repayment cannot exceed 1% of the amount reimbursed if the residual duration of the contract is greater than 1 year, and 0.5% if it is the same or less than 1 year.

In **Poland**, creditors have the following obligations in terms of early repayment:

- to provide a consumer with the possibility of early repayment of credit in whole or in part and reducing the total cost of the mortgage credit by the interest and other mortgage credit costs accruing for the period by which the duration of the agreement is diminished, even if such consumer incurs them before that repayment (Articles 38 and 39 MLA).

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[478] Case no. 1994-2011/4-340.

[479] German Federal Court of Justice, Judgements from 19.01.2016 - XI ZR 103/15 and 22.11.2016 - XI ZR 187/14.

- to comply with provisions on the maximum amount of non-interest loan costs (Article 36a CCA) and subsequent loans granted before repayment of an earlier one (Article 36c CCA).

5.3.11.3. Conclusions

The imposition of strict rules on consumer consent and/or stricter rules on when a contract may be amended with use of indexes, schemes could be useful in ensuring no unilateral changes are made by credit providers which can cause serious obstacles for consumers. Moreover, it would be helpful to have specific provisions regulating the consequences of unforeseen circumstances on the consumers and to provide reasonable flexibility with the aim of consumer protection.

With regard to early repayment, while the setting of a maximum threshold by the CCD is very helpful, in practice it can be used by credit providers without carrying out specific calculations of the actual damage caused to the creditor by the early repayment of the consumer. Therefore, a specific obligation for credit providers to charge the percentage according to the actual damage could add an additional layer of consumer protection in relation to this issue.

5.3.12. Over-indebtedness and personal bankruptcy

5.3.12.1. National rules

Over-indebtedness is mentioned once in the preamble (26) of the CCD regarding measures Member States should take to promote responsible practices which include "the provision of information to, and the education of, consumers, including warnings about the risks attaching to default on payment and to over-indebtedness." Hence, as of today there is no autonomous EU law definition of the term "over-indebtedness." Notwithstanding the absence of such a definition, the new CCD under its Article 36 will require MS to ensure that debt advisory services are made available to consumers thereby promoting measures to support over-indebted consumers[480].

Nine out of twelve Member States covered by the Study do not have a definition of over-indebtedness in their legal systems (**BG**, **DK**, **EE**, **EL**, **ES**, **IE**, **NL**, **PL** and **SK**). In contrast, **France, Germany** and **Italy** have defined over-indebtedness in their legal systems (although in Germany solely legal entities are concerned).

In **France,** the Consumer Code defines over-indebtedness as "the manifest impossibility of meeting all of one's debts, both professional and non-professional, due and payable."[481] It further clarifies that "'the mere fact of owning one's main residence, the estimated value of which on the date the over-indebtedness application is filed is equal to or greater than the amount of all the business and non-business debts due and payable, does not prevent the person from being considered over-indebted."

In **Germany,** the legislator provides that "over-indebtedness exists if the debtor's assets no longer cover existing obligations to pay, unless it is highly likely, considering the circumstances, that the enterprise will continue to exist for the next twelve months"[482] Nevertheless, this

[480] The EU law provisions regarding arrears and forbearance are developed under section 5.3.12.4 on the Non-performing loan Directive.

[481] Article L711-1 of the French Consumer Code.

[482] German Insolvency Code Law section 19(2) sentence 1.

definition concerns solely legal entities and the over-indebtedness of consumers remains therefore undefined as such.

Lastly, in **Italy**, the Law 3/2012 defines over-indebtedness as a situation in which there is a persistent imbalance between obligations and assets that can be easily liquidated, as well as an inability to fulfil the obligations regularly. The law states that over-indebted persons can apply for a repayment plan to a specific agency and to a court of law, and, if accepted, the plan is also binding for the creditors; the court can also order a suspension of any executive action by the creditors against the debtors to allow the latter a 'fresh start'.

Both national desk research and stakeholder consultations from **Bulgaria**, **Germany**, **Estonia**, **Spain** and **Ireland** have pointed towards the desirability for the introduction of a legal definition of over-indebtedness of consumers. Such a provision should be combined with additional measures that target these cases and reinforce the protection of vulnerable consumers in situations of over-indebtedness. In contrast, during the interview with the **Danish** Consumer Ombudsman, doubts as to the benefits of introducing such a definition were expressed. The Ombudsman considers that one of the strengths of the current applicable law in Denmark lies in the scarcity of specific definitions (the only natural persons currently defined in the Danish Credit Agreement Act are "credit provider", "consumer" and "credit intermediaries"). In addition, the interviewee of the first stakeholder interview explained that having few broad definitions reduces the amount of legal loopholes and generally ensures the most comprehensive enforceability. Nonetheless the stakeholder clarified that perhaps a separate definition of over-indebtedness could be beneficial as a precursor of the introduction of other connected terms such as "insolvency" and "bankruptcy".

5.3.12.2. Personal bankruptcy and insolvency

Importantly, there is currently no harmonised framework at EU level regarding insolvency proceedings for consumers. The Regulation on insolvency proceedings[483] focusses mainly on determining jurisdictional competence, the applicable national law and the recognition of the court's decision when an individual becomes insolvent. Regarding substantial insolvency rules for consumers insolvency proceedings, they remain governed at national level. Albeit the Commission's proposal for a Directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures[484] would give the possibility and encourage Member States to extend these rules to consumer insolvencies by way of a non-binding provision.

It follows that heterogeneities exist among the Member States covered by the Study regarding personal bankruptcy and insolvency proceedings even though the objective of obtaining debt relief is usually at the core of the proceedings as developed below. Nonetheless, some similarities exist among the national rules in the scope of this Study, for example in both **Denmark** and **Greece**, the legislation creates a presumption of insolvency where it has not been possible to satisfy a claim within three months of the enforcement proceedings against the debtor due to a lack of assets or, where it has become evident during the proceedings that the assets of the debtors are insufficient to perform the obligations thereof. Despite discussions on the introduction of provisions on personal bankruptcy no rules currently govern insolvency regulation of consumers in **Bulgaria**.

[483] Regulation (EU) 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings (recast).

[484] Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures and amending Directive 2012/30/EU.

National rules on bankruptcy and insolvency proceedings include for example: in **Denmark,** under Article 17(1) of the Danish Bankruptcy Act, a debtor who is insolvent can be declared bankrupt. Article 17(2) of the same Act further provides that a debtor is insolvent if he is unable to meet his obligations as they fall due, unless the insolvency can be assumed to be merely temporary which is assessed on a case-by-case basis. Under Danish law, insolvency is presumed if it has not been possible within a period of three months as of commencement of enforcement proceedings to satisfy a claim in the enforcement proceedings conducted in respect of the debtor due to lack of assets or where it has become evident in the enforcement proceedings that the assets of the debtor are insufficient to perform the obligations thereof. Similarly, in **Estonia** the Estonian Bankruptcy Act defines both bankruptcy and insolvency for natural and legal persons along with the relevant procedures, rights obligations and claims, administration, formation and sale of bankruptcy estate. In **Germany**, the scope of consumer insolvency proceedings in principle includes debtors who are natural persons who are not self-employed and were not self-employed.[485] In addition, the reasons to open insolvency proceedings include not only insolvency[486] and imminent insolvency[487] but where a legal entity is concerned, also over-indebtedness.[488] Hence the definition of over-indebtedness is relied upon in the legal framework regarding insolvency proceedings for legal entities. The **Greek** Bankruptcy Act defines both Bankruptcy and insolvency along with the relevant procedures, rights, obligations, modalities of sale of bankruptcy estate for both natural and legal persons. In this context, where a bankruptcy petition is filed by either the debtor or the creditors, the debtors insolvency must be substantiated and demonstrated by relying on at least one of the following circumstances: 1) the debtor has failed to perform an obligation within thirty days after the obligation has fallen due and the creditor has cautioned the debtor in writing of the creditor's intention to file a bankruptcy petition (bankruptcy caution) and the debtor has thereafter failed to perform the obligation within ten days; 2) it has not been possible within a period of three months to satisfy a claim in execution proceedings conducted with respect to the debtor due to lack of assets or it has become evident in the execution proceedings that the assets of the debtor are insufficient for performing all the obligations thereof.

The **Irish** Personal Insolvency Act 2021 sets forth several criteria for the eligibility of a debtor to obtain a debt relief notice, Regulation 26(2) provides that the debtor must "have qualifying debts that amount to EUR 35,000 or less, has a net disposable income (…) of EUR 60 or less; has assets worth EUR 1,500 or less; is domiciliated in the State, is insolvent and has no likelihood of becoming solvent within the period of 3 years commencing on the application date," while also maintaining a reasonable standard of living for himself or herself and his or her dependents. Once the debt relief notice is obtained, section 34 of the same regulation states it shall remain in effect for 3 years from the date on which its issue is recorded (a period that may be extended for certain purposes). In addition, in the Irish legal system, the Debt Settlement Arrangement complements the Personal Insolvency Act along with the Bankruptcy Act of 1998. In **Italy,** commercial entrepreneurs are subject to bankruptcy procedures except for state entities and small businesses.

In **Poland**, bankruptcy of consumers is governed by the Bankruptcy Law on which the Supreme Court pronounced itself. In the case law reported, the Polish Supreme Court recognized that the primary objective of consumer bankruptcy is the debt relief of an individual, whilst preserving the legitimate rights of the creditors. Hence, the Court held that the cancellation of the consumer bankruptcy's liabilities should be preceded by an attempt to repay at least part of the debt. Only if it is established that the personal situation of the bankrupt

[485] According to Section 304 (1) sentence 1 of the German Insolvency Act.

[486] ibid section 17.

[487] Ibid section 18.

[488] ibid section 19.

consumer indicates clearly that he would not be able to make any repayments under the creditors' repayment plan, should the court write off his liabilities without establishing a repayment plan.[489] The Court continued by explaining that the abandonment of the stage of the bankruptcy proceedings constituting the repayment plan should be of an exceptional nature "by the bankrupt's state of health, his infirmity and lack of capacity to work - in a situation where the available sources of livelihood only allow the bankrupt and his dependents to cover their current needs, and there are no grounds to believe that this state of affairs could change in the longest possible period of implementation of the repayment plan." Interestingly, desk research depicts the risks of an overly liberal approach to the possibility for consumers to declare "bankruptcy" and obtain debt relief. In this light, the Polish Bankruptcy Law has been amended leading to a subsequent increase in applications among indebted consumers; prior to its amendment, the Polish Bankruptcy law was targeted at people who lost control of their finances through no "fault" of their own. Whereas currently, over-indebted consumers can immediately, after the discontinuation of the proceedings, reapply for consumer bankruptcy and demand debt relief regardless of the reasons for his over-indebtedness (prior to the legislative amendment, the consumer had to wait 10 years before reapplying for debt relief). Therefore, it should be considered whether the incentive of the debtor for increased diligence and sounder financial management in the future could be eroded where debt-relief mechanisms (through declaration of personal bankruptcy) are too easily accessible, and where the consequences associated with "deliberate over-indebtedness" are undermined by potential "debt abolition."

Lastly, in **Slovakia**, according to the "Centre of Legal Aid" (a centre operated by the state), "personal bankruptcy" is a colloquial term used to denote a legally regulated process by which a natural person, entrepreneur or a natural person non-entrepreneurs can "get rid" of their debts.

None of the twelve Member State covered has specific provisions regarding vulnerable consumers undergoing bankruptcy. Nonetheless, the **Polish** case discussed above does ensure that "the consumers state of health, his infirmity, lack of capacity to work" are considered during the bankruptcy proceedings. It follows that although no codified provisions that govern bankruptcy procedures address the particularities of "vulnerable consumers" the jurisprudential approach followed by the Polish Court does give weight to elements characterizing "vulnerable" consumers. Under this light, **German** national desk research shows there could be benefits in modifying the legal concept of consumer and thus the scope of consumer insolvency proceedings[490] in order to ensure that vulnerable consumers benefit from a set of rules that tackled more effectively their specific socio-economic and financial situation. Consideration should likewise be given to including self-employed consumers into the same legal framework and procedures of consumer insolvency as other consumers. Indeed, self-employed careers are likely to increase, a self-employed consumer is comparable to an employed consumer. However, under German law self-employed consumers are currently less protected in cases of over-indebtedness.

5.3.12.3. Obtaining credit after having undergone insolvency or bankruptcy proceedings

In two Member State covered by the present Study, issues regarding the difficult obtention of credits after the undergoing of insolvency or personal bankruptcy proceedings were reported (**DE, IE**). In the other ten Member States, despite the existence of certain rules prohibiting the granting of credit agreements to consumers in certain cases, for instance where the credit

[489] Article 49116(1) p.u.n.

[490] Section 304 (1) sentence 1 of the German Insolvency Code.

worthiness assessment results are negative, or where consumers are registered on a national file of repayment incidents for loans, no particular issue was underlined in that respect.

Indeed, as explored in the section regarding credit worthiness assessment, the negative outcome of such an assessment will result in the non-granting of a mortgage credit, in line with the transposition of the MCD in national legal systems. Hence, although having undergone personal bankruptcy is, in most Member States covered, not a basis, alone, to refuse the granting of a credit, a negative result of a creditworthiness assessment before the granting of a mortgage is a sufficient basis.

Based on the interview with the **Danish** Ombudsman, creditworthiness is the cornerstone of credit granting and the main assessment to determine whether a consumer is worthy of credit. Hence, the fact that a consumer has defaulted on credit agreements, or declared personal bankruptcy in the past should not, alone, prohibit the consumer from entering a credit agreement.

On the other hand, in **France,** the main consequences of being registered on the FICP (national file of repayment incidents for loans) include a ban on taking out credit until all outstanding debts have been repaid and a prohibition on being a guarantor for a loan. Similarly, in **Poland**, certain legal provisions limit the ability of consumers who have filed for or declared bankruptcy to incur further financial obligations that could worsen the consumers situation. For example, "during the period of execution of the creditors' repayment plan, the bankrupt may not perform legal acts, concerning his property, which could impair his ability to execute the creditors' repayment plan."[491] Additionally, under Polish law, consumers registered in the National register of debtors may struggle to take out further loans.

In **Germany**, data held by credit bureaus remains stored for up to three years after the discharge of residual debt. It follows that consumers who have undergone insolvency proceedings cannot always get a 'fresh start' as access to credit and even simple card payments and ordering online is made more difficult or even impossible for them. This stigmatization that may last three years through data storage by private companies such as SCHUFA Holding AG is therefore highly controversial among debt counsellors and lawyers in Germany. Comparably, in **Ireland** issues were expressed regarding the difficulty for individuals who have undergone bankruptcy or insolvency proceedings to receive credit again. Though certain circumstances could justify the preclusion for consumers to obtain credit, desk research revealed that, in some cases involving insolvency and bankruptcy proceedings, consumers struggled to obtain credit until years after the proceedings.

5.3.12.4. The Non-performing loans Directive[492]

Importantly and despite the absence of an EU legal framework addressing personal bankruptcy of consumers, the recent Directive on non-performing loans[493] (hereafter: NPL's) may have a significant impact on consumer over-indebtedness and the economy. In the context of the financial crisis and subsequent recessions, borrowers' inability to repay loans has resulted in a multiplication of NPL's in credit institutions' balance sheets. In turn, high levels of NPL's may reduce banks profitability and, *in extenso*, their ability to lend. Against this

[491] Act of 28 February 2003 the **Bankruptcy Law** (Journal of Laws 2003 No. 60, item 535, i.e., Journal of Laws 2022, item 1520) Article 491[16] (2c), Article 491[16] (2g) point 3, Article 491[18](1), Article 491[20](2) point 3; accessible: https://isap.sejm.gov.pl/isap.nsf/DocDetails.xsp?id=wdu20030600535.

[492] Directive (EU) 2021/2167 of the European Parliament and of the Council of 24 November 2021 on credit servicers and credit purchasers and amending Directives 2008/48/EC and 2014/17/EU (Text with EEA relevance).

[493] Directive (EU) 2021/2167 of the European Parliament and of the Council of 24 November 2021 on credit servicers and credit purchasers and amending Directives 2008/48/EC and 2014/17/EU (Text with EEA relevance).

background, non-performing loans are defined as loans with payments of interest or capital either more than ninety days past due, or, considered by the credit institution, unlikely to be repaid by the borrower[494]. While the material scope of the NPL Directive does not cover, directly, borrowers and consumers, they may nonetheless be impacted in various ways by this legislation, once it is fully transposed in domestic legal systems.

Where a borrower's loan is transferred by the creditor to a credit purchaser or other third party, though the terms and conditions of the loan remain in principle the same, the consumer sees a change in his creditor. The NPL Directive provides for certain measures to prevent a decrease in the level of protection of consumers while developing the secondary market for NPL's and facilitating debt collection. This is done, for instance, by setting up a certification process whereby credit servicers[495] must comply with certain requirements to obtain an authorisation to exercise their activity. These requirements on applicants include *inter alia* the presence of robust governance arrangements to ensure respect for borrowers' rights and a clean police record in relation to any offences regarding consumer protection laws. Moreover, the provisions establish an obligation for lenders and credit servicers to act in good faith in their relationship with borrowers, protect their privacy and communicate in a way that does not constitute harassment, coercion or undue influence[496].

In addition to the certification and 'good faith' requirements, the NPL Directive sets forth a mechanism aimed at preventing a decrease in the level of protection of borrowers in the process of developing the secondary NPL market and facilitating debt collection by encouraging the exercise of forbearance measures by creditors prior to initiating enforcement. It establishes an obligation, incumbent on lenders, to communicate information regarding the modification of the terms and conditions of a credit (which may amount to forbearance measures). Alongside, an obligation on creditors to make *efforts* to exercise 'reasonable forbearance measures' before the initiation of enforcement proceedings is set up.

Regarding the obligation of information, the NPL Directive amends both the MCD and the CCD by introducing an obligation on lenders to provide specific information to the borrower *prior* to the modification of the terms and conditions of the credit agreements (mortgages and consumer credits). The information which must be communicated to the borrower includes a clear description of the proposed changes and, where applicable, the need for consumer consent or of the changes introduced by operation of law; and the timescale for the implementation of these changes. In addition, the means for complaint including the time and period during which the consumer can lodge such a complaint and the details of the competent authority to whom it must be submitted must also be disclosed to the borrower[497]. This obligation is crucial from the consumers' perspective to be aware of and benefit from or oppose

[494] Combined reading of article 47a paragraph 3.a) and article 178 paragraph 1 of Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms, as amended.

[495] The notion of 'credit servicer' is defined under Art 3(8) as 'a legal person that, in the course of its business, manages and enforces the rights and obligations related to a creditor's rights under a non-performing credit agreement, or to the non-performing credit agreement itself, on behalf of a credit purchaser, and carries out at least one or more credit servicing activities'. Art 3(9) defined credit servicing activities as one or more of the following three activities: (a) collecting or recovering from the borrower, in accordance with national law, any payments due related to a creditor's rights under a credit agreement or to the credit agreement itself; (b) renegotiating with the borrower, in accordance with national law, any terms and conditions related to a creditor's rights under a credit agreement, or of the credit agreement itself, in line with the instructions given by the credit purchaser, where the credit servicer is not a credit intermediary as defined in Article 3, point (f), of Directive 2008/48/EC or in Article 4, point (5), of Directive 2014/17/EU ; (c) administering any complaints relating to a creditor's rights under a credit agreement or to the credit agreement itself; (d) informing the borrower of any changes in interest rates or charges or of any payments due related to a creditor's rights under a credit agreement or to the credit agreement itself.

[496] Article 10 of the NPL Directive.

[497] See Article 27 of the NPL Directive introducing Article 11a in the CCD - and Article 28(1) of the NPL Directive introducing Article 27a in the MCD.

themselves (where possible) to changes in the terms of their credit agreement – which may be due to the exercise of forbearance measures by creditors. Indeed, the obligation to provide borrowers with the modified terms and conditions of the credit agreement is key to enabling borrowers to take steps that may help their financial situation based on any forbearance measures exercised by the lender and, where the law allows it, oppose themselves to such changes or lodge a complaint to the competent authority to enforce their rights. Thus, the NPL Directive comprises safeguards to prevent the NPL secondary loan market from being developed to the detriment of consumers.

However, under the current Directive, although consumers must be informed of any change of creditor,[498] they do not have a right to 'veto' or oppose themselves to the transaction of their loan to another party. There is no obligation, enshrined in EU law, for lenders to obtain the borrower's consent before transferring a NPL to a third party. Arguably, possible reservations on the legitimacy of the credit in the eyes of the borrower could be raised in certain cases[499]. For instance, where consumers' have pro-actively selected a specific creditor, this modification could perhaps be perceived as an 'imbalance' in the contractual relation. This risk is nonetheless mitigated, to an extent, given that legally the terms and conditions of the loan remain the same[500]. Interestingly, the Spanish legal expert consulted for this Study has expressed doubts as to whether the NPL measures to inform consumers are sufficiently clear and transparent – and whether they will be appropriately applied in practice – to ensure borrowers (including borrowers with a low level of financial literacy) are fully aware, at all times, of their creditor's identity, the entity/person managing their credit and the relevant authority they should reach out to in cases of issues. In order to empower consumers' (particularly vulnerable consumers) to exercise/enforce their rights stemming from EU law and domestic law, information obligations can be valuable. Their effect *in concreto* remains to be examined once the Directive is transposed and deploys its full impact on existing practices in the banking sector.

Forbearance measures

Another crucial amendment regarding consumers' situation in the framework of NPL transactions is made to the CCD and the MCD under Articles 27 and 28 of the NPL Directive. The introduction of Article 16a titled 'arrears and enforcement' in the CCD (and its homologue in Article 28 of the MCD) provides that Member States shall require creditors' to 'have adequate policies and procedures so that they make efforts to exercise, where appropriate, reasonable forbearance before enforcement proceedings are initiated (…) taking into account the consumers circumstances'. The Article further provides a list of forbearance measures which may consist, among other things, of a total - or partial - refinancing or a modification of the existing terms and conditions of a credit agreement. Regarding the latter, the NPL Directive lists several examples of modifications which may be included as forbearance measures by lenders. For instance, extending the term or changing the type/interest rate of the credit agreement, deferring payment of all, or part of the instalment repayment for a period, offering a payment holiday, partial repayments, currency conversions and partial forgiveness or debt consolidation. Notwithstanding the protective dimension of these measures for indebted borrowers, it is worth noting that Member States are not obliged to provide for all of them in their national laws and the Directive cites them rather as indicative forbearance measures. The CCD Proposal in its Article 35 maintained the exisiting Article 16a of the CCD introduced by the NPL Directive. It should be mentioned that, the European Parliament has suggested an

[498] This relates to mortgage credits, see Article 28 NPL amending Directive 2014/17/EU.

[499] As developed by the Greek participant during the validation workshop.

[500] It is worth mentioning here that although legally the terms and conditions of the credit remain the same, the method/strategy to enforce debt collection may vary greatly from an entity to another.

amendment to Article 35 of the CCD Proposal to ensure MS require lenders to 'exercise, where appropriate, reasonable forbearance. Such forbearance measures shall take into account, among other elements, the consumer's circumstances'[501]. Such an amendment would render compulsory the exercise of forbearance measures by creditors, where appropriate, rather than merely requiring them to have adequate policies and procedures 'so that they make efforts to exercise, where appropriate, reasonable forbearance' before the initiation of enforcement proceedings as per the current Article 16a of the CCD and Article 35 of the new CCD. Furthermore, the NPL Directive gives the *possibility* for Member States to require, where applicable, that the charges imposed by lenders on consumers because of default, do not exceed what is 'necessary' to compensate the creditor for costs it has incurred as a result of this default'[502]. Where Member States allow creditors to impose additional charges on consumers in the event of default, they are obliged to place a 'cap' on those charges[503]; though the exact amount of this compulsory 'cap' is left to their own discretion.

These measures, may effectively prevent a decrease in the level of protection of over-indebted consumers' interests by encouraging lenders to seek alternative solutions before the initiation of enforcement proceedings or the intervention of a credit servicer. Moreover, the wording of the Directive could be interpreted so as to impede any excessive or abusive charges levied by creditors on consumers (including vulnerable consumers) as a result of default. For instance, through the requirement that these charges 'are not greater than is necessary to compensate the creditor' and the obligation to introduce a 'cap' where Member States allow this practice in their national law. It is worth noting that, the Directive leaves the definition of the quantum of the 'cap' to the discretion of national legislators. Therefore, the regulatory framework relating to the imposition of exorbitant charges on consumers by creditors as a result of default will be subordinated to domestic laws and may vary from one Member State to another (i.e. if a national law introduces a very high 'cap', the measure of the measure may be undermined in practice).

Moreover, the wording of Article 16a on forbearance measures could be interpreted as presenting a form of leniency. Indeed, on the one hand, it requires the presence of 'policies' to ensure creditors make 'efforts' 'where appropriate' to exercise forbearance measures. On the other, it also leaves some degree of discretion to Member States regarding the transposition of the provision. Hence, whether lenders will exercise reasonable forbearance (and what amounts to 'reasonable forbearance' in practice) before the initiation of enforcement proceedings, or the transfer of an NPL to another entity, is not fully harmonised at EU level and will therefore depend on the national transposing legislation enacted in the Member States. Especially in the case of vulnerable consumers whose debts may have increased by fees charged as a result of default.

In this respect, articulating measures stimulating the development of the NPL secondary market on the one hand, alongside instruments strengthening borrowers' protection on the other, is fundamental. Among possible safeguards to reap the benefits of developing the secondary market for NPL's while maintaining a high level of consumer protection, legal experts brought forth noteworthy elements during the validation workshop conducted in the context of this Study. For example, guaranteeing the right of repayment of consumers to the amount of the nominal value of the non-performing loan was explored[504]. Specifically, a measure offering - *ex-ante* the transfer of a NPL to a credit servicer - the possibility for the

[501] REPORT on the proposal for a directive of the European Parliament and of the Council on consumer credits | A9-0212/2022 | European Parliament (europa.eu). – see amendment 124.

[502] Article 16 a (3) of the CCD as amended by the NPL Directive.

[503] Article 16a (3) of the CCD introduced by Art 27 of the NPL Directive.

[504] Contribution made by the Greek national legal expert during the validation workshop.

consumer to repay an amount equal to the contractual consideration offered to the third party for the transaction of the NPL (analogous to a 'right of first order')[505]. Moreover, in the course of the validation workshop, a legal expert developed the idea that to prevent any unintentional effect of the NPL Directive on consumer protection, harmonised measures ensuring the possibility to relieve borrowers from their outstanding debt, subject to compliance with a defined repayment schedule is worth considering. According to the expert, in this light, the role of the judiciary would be crucial in defining this schedule, as mirrored in certain national legal frameworks regarding insolvency[506.] The enactment of such instruments and obligations could perhaps contribute to further striking a normative balance between protecting over-indebted consumers, and safeguarding lenders' right to see the financial obligation met. The Greek reality regarding debt restructuring and the existence of systemic banks classified as 'bad' and whose purpose is solely to acquire repayment of so called 'red loans' (NPL's) offers a particularly insightful approach to the regulatory possibilities addressing consumers' over-indebtedness whilst developing the NPL secondary market. This is testified by the suggestions developed above and emanating from the Greek expert during the validation workshop.

Interaction of the NPL directive with national legal frameworks

It is worth mentioning that the effect of the NPL Directive, overall - including on the exercise of forbearance measures by lenders - will be relative to the national landscapes already in place and the implementing measures enacted by domestic legislators. For example, in Spain, legal research revealed the existence of an obligation upon creditors to offer 'forbearance measures' to borrowers resulting from the Spanish wording of the directive (which refers to 'restructuring and refinancing measures') before the initiation of enforcement measures[507]. Here, the domestic implementing measure appears to offer some 'concession' regarding the original terms of the credit agreement where consumers are unable or encountering difficulties to repay their debts. Indeed, the restructuring or refinancing of a credit could, in certain cases, offer valuable alternatives to (over)indebted consumers' whilst also ensuring creditors' reimbursement.

On the other hand, in Bulgaria, the lack of regulatory measures tackling over-indebtedness of consumers, along with the prescription (expiration) of all civil obligations after 10 years, means the NPL Directive is likely to have a different impact on borrowers. In this regard, an interview with the Bulgarian legal experts has pointed towards little impact on over-indebted consumers. Currently, in practice, consumers in Bulgaria may be 'chased' by creditors who may initiate several legal proceedings against them[508]. Ultimately consumers may end up having to pay exorbitantly high amounts (which include tax and fees) exceeding 100% of the initial debt - thereby worsening their situation. In addition, according to the interviewee, the sale of NPL's to debt collectors (or credit servicers) is a frequent transaction on the Bulgarian credit market and hence the Directive is unlikely to have any significant impact (whether desirable or undesirable) on consumers' over-indebtedness.[509] Especially given that no real checks are in place to assess consumers' financial situations and safeguard their financial education in practice.[510] As developed throughout the report, information obligations (including the one enshrined in the NPL Directive developed above) may be partly emptied from meeting their protective objective/effect where consumers' financial literacy is not safeguarded and nurtured. This risk could therefore materialize in Member States such as Bulgaria (where low financial

[505] Ibid.

[506] Ibid.

[507] This information was provided in the course of an interview with a Spanish national legal expert on the NPL Directive.

[508] This information was provided in the course of an interview with a Bulgarian national legal expert on the NPL Directive.

[509] Ibid.

[510] Ibid.

literacy largely remains a pervasive issue) thereby jeopardising the effect of information obligations and the probabilities of indebted consumers enforcing their rights or seeking redress/compensation or judicial protection where applicable.

Lastly, the Italian legal expert depicted the existent risk of unintended impacts relating to consumers' privacy in the stimulation of NPL transactions and facilitation of debt collectors' activity. For instance, Article 15 provides for the right to information of prospective credit purchasers regarding a creditor's rights under a non-performing credit agreement. This may include information on the collateral and the likelihood of recovery. Notwithstanding the existence of specific legal obligations and standards to protect borrowers' rights, NPL transactions (from creditors to credit servicers or other entities) could *de facto*, create additional 'opportunities' and risks of violations of consumers' data protection and right to privacy – since a transfer of potentially sensitive information from one entity to (one or more) others are involved. In this respect, it is important to emphasise that the NPL Directive comprises data protection safeguards by referring to the EU data protection rules. Indeed, Article 25 provides that 'the processing of personal data (…) shall be carried out in accordance with the General Data Protection Regulation[511] (GDPR). Moreover, Article 5(1)(e) conditions the obtention of an authorisation to operate as credit servicers to the existence of adequate internal control mechanisms to ensure the respect for borrower rights, including under the GDPR.

Evidently, the above developments are speculative and only time will provide concrete evidence of the NPL's impact on over-indebted consumers. The Greek and Italian legal experts expressed some reservations about the legitimacy of such transactions (NPL's) that occur without the obligation to obtain consumers' consent. Nonetheless, it is important to note that all NPL transactions will require the transmission of information to the borrower, as reflected in the Directive. The effects on consumers' perception of a change in their creditor is also worth considering to prevent the credibility and stability of the agreement from being affected by such practices[512]. In this perspective, the development of the secondary NPL market will benefit the economy as a whole by increasing credit institutions' robustness and hence their ability to lend (thereby benefiting consumers). These benefits should be weighed against any possible unintentional effect on over-indebted consumers' situations. A regulatory framework excessively stimulating the transaction of NPL's without adequate safeguards could act as a deterrent for creditors to lend responsibly if the risk of non-repayment is easily transferrable to a third party without significantly affecting the bank's profitability. The risk of rendering the debt collection of borrowers overly simple (i.e. by reducing administrative burdens on credit institutions, removing impediments to the transfer of NPLs to credit purchasers, removing market barriers etc.), to the detriment of borrowers' rights (in particular regarding appropriate and reasonable forbearance measures) is, to an extent, addressed in the NPL Directive[513] as developed above. Nevertheless, the way the retail banking sector and other market actors (including debt collectors) will respond cannot yet be assessed. Ultimately, the NPL secondary market comprises benefits for the economy as a whole. Based on the workshop and research, safeguarding over-indebted consumers' interests and taking account of their financial circumstances in the process of developing this market is important. It follows that public policy is a core ingredient to meet the Directive's objective while protecting (over-indebted) consumers' interests.

In conclusion, various rules to ensure a fair treatment of consumers in the process of boosting and regulating the secondary market for NPL's are enshrined in the NPL Directive. At the

[511] Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation) (Text with EEA relevance)

[512] As stated during the interview on NPL with the Italian national legal expert.

[513] Specifically in its amendments to the CCD and the MCD under Articles 27 and 28 of the NPL Directive as developed in the above paragraph.

same time, the development of the secondary NPL market as a 'solution' to resolve NPL's from banks balance sheet should not occur to the detriment of consumers' interests'. Accordingly, and as set forth by the Greek national legal expert, it is worth considering combining such a regulatory effort with measures ensuring that the transfer of a NPL from the main creditor to a third party occurs after several forbearance measures have been exercised by creditors. From a legal perspective, the provisions do not currently oblige Member States to ensure creditors' exercise, in practice and in a systematic way forbearance measures before the initiation of enforcement proceedings. Nevertheless, these measures are encouraged and creditors must have policies in place to do so. This mitigates, to an extent, the risk of unintended effect on over-indebted consumers . Albeit, in substance it is not clear to what extent the increased possibility of the sale of NPLs to financial operators may impact consumers and given that Article 32(1) sets the deadline for the transposition of the NPL Directive in national legal systems of all the Member States on the 29th of December 2023, the final impact on the economy and on over-indebtedness of consumers cannot yet be assessed with certitude.

5.3.12.5. Conclusions

Most Member States covered do not have a definition of over-indebtedness in their legal framework. Perhaps the introduction of an EU level definition would enable vulnerable consumers to be targeted by protective legislation that addresses their financial needs. The rules and conditions to declare personal bankruptcy and regarding insolvency proceedings vary between Member States and the incentive for consumers to pursue sound management of their finance should not be undermined by an overly available debt relief mechanism -though this does not seem to be the case in practice. Furthermore, the issue of consumers struggling to obtain credit after insolvency proceedings exists and could be remedied by introducing certain guarantees for such consumers. It is worth mentioning that the NPL Directive may have a significant impact on consumers over-indebtedness and the economy of Member States, though only time will put us in condition to make an assessment. In this respect, the development of the NPL secondary market in order to render banks more profitable and facilitate debt collection should be carefully balanced and articulated with measures safeguarding over-indebted consumers' interests to prevent any unintended harmful consequences in the process.

5.3.13. Cross-selling of insurance and tying/bundling practices

5.3.13.1. EU legal framework

Importantly, the MCD sets forth under preamble (25) "the consumer should have the opportunity to choose his own insurance provider, provided that his insurance policy has an equivalent level of guarantee as the insurance policy proposed or offered by the creditor." Article 12(4) of the same Directive further clarifies that "Member States may allow creditors to require the consumer to hold a relevant insurance policy related to the credit agreement. In such cases Member States shall ensure that the creditor accepts the insurance policy from a supplier different to his preferred supplier where such policy has a level of guarantee equivalent to the one the creditor has proposed." These provisions enable consumers to choose their own insurance providers thereby widening their possibilities to find a product that matches their financial interest in the best way. In addition, these rules provide further incentives for insurance providers to innovate and offer a variety of competitive insurance products to consumers.

Moreover, bundling and tying are defined under Article 4 of the MCD. Article 4(26) provides that "tying practice" means "the offering or the selling of a credit agreement in a package with other distinct financial products or services where the credit agreement is not made available to the consumer separately." On the other hand, Article 4(27) defines bundling practice as "the offering or the selling of a credit agreement in a package with other distinct financial products or services where the credit agreement is also made available to the consumer separately but not necessarily on the same terms or conditions as when offered bundled with the ancillary services." In this context, Article 12(1) of the MCD requires Member States to prohibit tying practices but allow bundling practices. The rationale for this rule can be found in the preamble (24) where the EU legislator emphasizes that "it is important to prevent practices such as tying of certain products which may induce consumers to enter into credit agreements which are not in their best interest, without however restricting product bundling which can be beneficial to consumers. Member States should however continue monitoring retail financial services markets closely to ensure that bundling practices do not distort consumer choice and competition in the market." Hence, these EU rules facilitate responsible borrowing of consumers by preventing scenarios where the consumer is forced to purchase a product that does not meet his needs in order to obtain the other "tied" product.

In contrast with the MCD, under the CCD, no prohibition of tying practices is enshrined. The new CCD in its Article 14 will introduce the homologue of the MCD's Article 12 for consumer credits. Article 3(16) of the new CCD defines 'tying practice' as the offering or the selling of a credit agreement or crowdfunding credit services in a package with other distinct financial products or services where the credit agreement or crowdfunding credit services are not made available to the consumer separately. Similarly to the MCD, tying practices would be prohibited whilst bundling practices would by authorised and a derogation to this rule would be allowed where the lender can demonstrate to the competent authority that the tied products result in a clear benefit to the consumers. In addition, Recital (41) of the new CCD provides that as a general rule, tying practices should not be allowed unless the financial service or product offered together with the credit agreement or crowdfunding credit services could not be offered separately as it is a fully integrated part of the credit, for example in the event of an overdraft facility.

5.3.13.2. National rules

No specific shortcoming regarding cross-selling of insurance and tying/bundling practices has been found in the studied Member States except in **Germany** and **Spain**. Overall, the applicable EU rules seem to be effective in preventing tying of products, including insurances, by lenders.

For example, in **France,** the law of February 2022 gives the possibility to consumers to opt for another insurance company at any time during the credit agreement. In the **Netherlands**, cross-selling of insurance and bundling practices are generally quite strictly regulated. Tying sales concerning consumer credits since it is prohibited to link the sale of loan with the mandatory sale of another product such as insurance. Notwithstanding the freedom of the lender to offer other products, the consumer must preserve the possibility to purchase this other product elsewhere. Going further, under Dutch legislation, the lender is even obliged to point this out to the consumer.[514]

In **Slovakia** desk research and stakeholder interviews have shown that it is common in commercial banks for consumers to have a mortgage loan from a bank and an insurance from another insurance company even though the signing of both the mortgage agreement and the insurance agreements will occur on the premises of the bank. It follows that the freedom of choice left to consumers regarding the choice of their insurer is commonly exercised in practice.

[514] Relevant provision can be found under Article 5:16 of the Dutch Civil Code.

On the other hand, an issue arose regarding **Germany** where research and stakeholder interviews revealed that bundled products in the form of home loans with saving products are common especially from building societies, even though these products are much more expensive and less flexible than regular home loans. There is no protection for consumers against this practice from building societies in Germany. Another important problem with bundled products reported concerns overpriced payment protection insurances sold with consumer credits. Notwithstanding these reported issues, in Germany, when an insurance product is offered together with an ancillary product or service which is not an insurance, the insurer shall inform the policyholder whether the components can be purchased separately from one another, as a package, as part of a package, or as part of the same agreements. The Bank of **Spain** has also identified bad practices regarding the selling of bundled products, in particular in relation to insurances.

5.3.13.3. Conclusions

The current EU rules increase competitiveness among insurance providers and widen the choice of consumers to select the product that fits their financial needs in the best way. Furthermore, the prohibition for lenders to 'tie' products together may contribute in creating a stronger incentive for the lenders to propose quality products to consumers. On the borrower's end this prohibition enhances the range of products from which consumers can choose by precluding 'forced' purchases that may occur where a product is available solely in 'tied' formula with another product.

5.3.14. Usury loans

5.3.14.1. National rules

A usury rate is usually considered as an abnormally high rate in relation to either a maximum amount established by the legislator or in relation to certain principles such as reasonableness, good morals and fair practices. In addition, many Member States covered by the present Study include in their legislation concerning usury loans dispositions aiming in preventing the abuse of the potential 'vulnerability' (i.e. infirmity, inexperience or lack of understanding etc.) of one of the parties (**DE, DK, EE, EL, ES**, and **PL** . Importantly, there is currently no harmonised framework at EU level tackling usury loans. Consequently, heterogeneities exist among the legislation of Member States covered by the Study as to what amounts to a usury interest rate and the legal consequences that may arise as a result. For example, in **Italy** and **Greece**, the imposition of usury interest rates is partly dealt with by Criminal law and penalties include imprisonment. . In all the Member States covered except for **Bulgaria** there exists a legal framework to restrict usury interest rates on loans. Moreover, in several Member States covered by the Study, usury loans are addressed by the introduction of instruments assimilable to 'caps' on interest rates applicable to loans (**DE**, **EE**, **EL**, **ES**, **FR**, **IT**, **NL**, **PT**, **PL**, and **SK**). For instance, in the **Netherlands** the maximum interest rate on a loan is capped at 10% since 2020[515] whereas in **Ireland**, the *de facto* cap is currently as high as 188.45% APR (excluding collection charges) and 287,72 APR, including collection charges. In **Denmark**, the law provides that anyone who takes advantage of another person's considerable financial or personal difficulties, lack of understanding, recklessness or an existing relationship of dependence in order to obtain or require, in a contractual relationship, a benefit which is

[515] Wat is de maximale rente die ik betaal voor een lening? | Rijksoverheid.nl

substantially disproportionate to the consideration or for which no consideration is to be given, shall be punished for usury.[516]

In **Estonia**, the Parliament has passed a legislative reform in 2009 that redefines "good morals" in the context of credit agreements and the invalidity of transfers of usurious interest payments. In particular, section 86(3) of the General Part of the Civil Code Act[517] provides that 'In the case of consumer credit contracts, it is presumed that the value of mutual obligations arising for the parties is out of proportion contrary to good morals, inter alia, if the annual percentage rate subject to payment by a consumer exceeds, at the time of grant of the credit, the average annual percentage rate of consumer loans granted to private persons, which was last published by the Eesti Pank, more than three times. The monthly publication of the annual percentage rate specified in this subsection shall be organised by the Eesti Pank (the Estonian Central bank) on its webpage.

In **France,** the Consumer Code defines usury rates as "rates that are set at the end of each quarter for the following quarter by the Banque de France."[518]In addition, information on the French central Bank's website further explains that the usury rate corresponds to the maximum legal interest rate that credit institutions are authorized to charge when granting a loan. The usury rate is intended to protect borrowers and the Central Bank is in charge of the quarterly calculation of the usury rate, the calculation methods of which are defined in the various legal texts of French legislation. [519]In **Germany**, section 138(1) and (2) of the German Civil Code titled ' legal transaction contrary to public policy; usury' provides that 'a legal transaction contrary to public policy is void' and in particular, a transaction by which 'a person, by exploiting the predicament, inexperience, lack of sound judgement or considerable weakness of will of another, causes himself or a third party, in exchange for an act of performance, to be promised or granted pecuniary advantages which are clearly disproportionate to the performance'. In addition, established case law from the highest German civil court (Bundesgerichtshofgerichtshof) specifies the characteristics of usury rates where there is "a significant disproportion between performance and consideration if the annual percentage rate of charge of the individual credit agreement exceeds the annual percentage rate of charge of comparable market credit agreements by 100% in relative terms or by 12% points in absolute terms." Nevertheless, interest rates still exist in Germany which increase the market interest rates by 100% in relative terms and more. German banks claim for "special conditions" for vulnerable consumers to collect higher interest rates for all form of credits, including normal consumer credits, credit card credits, mini-credits and home loans. Another way to circumvent usury ceilings is to sell overpriced payment protection with consumer credits and to reschedule these credits every 1-2 years with increasing residual debts and increasing monthly instalments. However, in practice, it was found that vulnerable consumers still suffer from usury even with existing usury rules and ceilings. They obtain less credit, pay higher interest rates, and are more often trapped in overcharged products preventing them from building savings to face financially stressful situations. In turn, this promotes over-indebtedness especially for vulnerable consumers.

In **Greece**, usury loans are dealt with by Civil law and Criminal Law. Regarding Civil law, the Greek Civil Code[520] provides that any provision on interest rates that exceeds the legal threshold is null for the part of the excess. In the field of Criminal Law, the Greek Criminal Code

[516] Article 282 of the Danish Penalty Act

[517] [General Part of the Civil Code Act–Riigi Teataja.](#)

[518] This data is available on the website of the French Central Bank: [Taux d'usure | Banque de France (banque-france.fr).](#)

[520] Articles 293 and 294 of the Greek Civil Code.

states that any person who grants any credit, renews it or extends the payment deadline, by taking advantage of the financial needs, the mental weakness, or the inexperience of the one who receives the credit, and agrees or receives for himself or for a third party property benefits, which based on the special circumstances, are obviously disproportional to the provision of the lender's counter provision, or takes for itself or for the third party property benefits that exceed the legal interest rate, it is punishable by imprisonment for up to three years.[521] In contrast with the provision in the Greek Civil Code, from a criminal standpoint, it does not suffice to exceed the legal interest rates, the presence of a 'subjective' element must be established. In practice, criminal usury cases in Greece usually involve individuals rather than banks. In **Italy**, legislation on usury rate is laid in Article 644 of the Italian Criminal Code[522] and prohibits usury loans with penalties including imprisonment from one to six years and fines (from EUR 5000 to EUR 30,000). Italian Law sets forth a limit beyond which the interests are usurious and importantly, the calculation of the usurious interest rate must take into account commissions, remuneration for any reason and expenses. Furthermore, Law 108/1996 provides the 'cap' beyond which an interest rate is considered usurious (a different threshold is envisaged depending on the financing transaction). To establish the relevant legal threshold for usurious rates, Article 2(1) of the same law requires the Minister of the Treasury, after consulting the Bank of Italy and the Italian Foreign Exchange Office, to record the average global effective rate on a quarterly basis, including commissions, remuneration for any reason and expenses, excluding those for taxes and duties, referring to the year, of interest charged by banks and financial intermediaries during the previous quarter for transactions of the same nature.

Regarding usury loans in the **Netherlands**, an interview with the Dutch supervisory authority concluded that the rule prohibiting usury by capping the maximum interest on loans at 10% is, apparently, effective in practice.[523]It is worth noting that this maximum credit fee also applied to flash loans (loans with a term shorter than 3 months).

Concerning **Poland**, usury interest rates are also specified in the legislation regarding the applicable interest rates for delayed payment (Article 481 of the Polish Civil Code). Article 359(2) of the Polish Civil Code further stipulates that 'the maximum level of interest resulting from a legal transaction may not exceed twice the amount of statutory interest per annum (maximum interest). The statutory interest is determined as 'equal to the sum of the reference rate of the National Bank Polish and 3.5 percentage points' according to Article 359(2) of the same Code. On this basis, as of March 2021, the maximum interest rate on loans in Poland cannot exceed 7,2% per year[524]. In addition, Polish law stipulates that "if one of the parties, exploiting the other party's forced position, infirmity or inexperience, accepts or reserves for himself or for a third party in exchange for his benefit a benefit whose value at the time of the conclusion of the contract exceeds to a gross degree the value of his own benefit, the other party may demand a reduction of his benefit or an increase of the benefit due to him, and in the event that both would be excessively difficult, he may demand the cancellation of the contract". In **Slovakia**, an amendment to the Slovak Civil Code[525] which entered into force on the 1rst of June 2014 provides that the presence of a usury rate is sufficient to declare the absolute invalidity of a legal act. Furthermore, Section 53 of 40/1964 Coll. states that 'Where the subject of the consumer contract is the provision of funds, the remuneration shall not exceed the maximum permissible remuneration which the consumer may be required to pay

[521] Article 404 of the Greek Criminal Code.

[522] LEGGE 7 marzo 1996, n. 108 - Normattiva ; accessible : http://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:legge:1996-03-07;108!vig=2022-10-25

[523] Additional information on Dutch usury interest rates can be found at : Wat is de maximale rente die ik betaal voor een lening? | Rijksoverheid.nl.

[524] (Poland: Is 7.2% really the maximum interest deduction? | International Tax Review).

[525] Slovak national Civil Code No. 40/1964 Coll. [Občiansky zákonník č. 40/1964 Zb.].

when the funds are provided. The remuneration, the details of the determination of the remuneration, the criteria for its determination and the maximum permissible amount of remuneration shall be laid down in the implementing regulation'.

In **Spain,** the assessment of whether a loan is usury is made by the judge. In this respect, the law provides that any credit or loan agreement bearing an interest rate notably exceeding the normal interest and clearly disproportionate considering the concrete case and the circumstances of the borrower in a distressed situation (due to his inexperience, limited mental condition.) shall be deemed null and void. Further, the Spanish Supreme Court that the annual interest rate of 24,6% and 26,8% of revolving credits were usury and, therefore, null and void. Nevertheless, in a recent and controversial judgment of 4 May 2022, the Court determined that an annual interest rate of 24,5% was not usury, given the circumstances of the case and the market conditions of this type of credits, which brought confusion among academics and commentators on the position of the Supreme Court regarding revolving credits and its prior jurisprudence. The Court of First Instance, that 4 microcredits amounting to EUR 178,70 and EUR 300, with very short reimbursement periods (28-40 days) and annual interest rates of 2.441%, 2.498% and 2.805% were lawful and within market conditions, considering the risks and particular circumstances of those credits (including the granting costs for creditors which they rely on to justify such high interest rates).[526]

On the other hand, in **Ireland** there is currently no statutory 'cap' on interest rates that lenders may charge consumers. Nevertheless, under the Consumer Act of 1995, if the Central Bank considers, in its opinion that the cost of the credit to be charged is 'excessive'[527] or the terms and conditions of loans are unfair, it may refuse to grant the required licence to the lender. Nevertheless, it is important to note that there exists a *de facto* cap of 188.45% Annual percentage rate *de facto* cap of 188.45% Annual percentage rate including collection charges). excluding collection charges (and 287.72 including collection charges).

Tackling the existing lacunae in the EU law framework regarding usury loans, Article 31 of the new CCD will render compulsory the introduction of caps by MS on at least one of the following (a) interest rates applicable to credit agreements or to crowdfunding credit services;(b) the annual percentage rate of charge and (c) the total cost of the credit to the consumer. In addition, Article 31(2) would give the possibility for MS to enact caps for revolving credit facilities. The provision does not specify the quantum of the cap, leaving it to the discretion of the MS's. Nonetheless, Article 32 would undoubtedly raise the standards of protection of consumers and keep in check the excessive rates levied by certain lenders which can, in certain cases, trigger or aggravate the over-indebtedness of consumers.

5.3.14.2. Conclusions

Notwithstanding the existence of these national rules, it remains at times unclear, as conveyed by the Spanish case law on usury loans for example, where the threshold is situated regarding the interest rate to categorise a loan or a rate as "usury" and therefore usually void. Currently, the threshold beyond which a loan is considered to have a usurious interest rate and the relevant regulations applicable to such cases are defined, in some Member States covered by the Study, by national legal frameworks and therefore vary greatly from Member State to Member State as illustrated above. The possible introduction of EU rules would harmonise the legal framework on this matter and perhaps provide a high level of protection for consumers against this harmful practice.

[526] Judgment of Marbella Court nº 172/2021, of 30 July 2021.

[527] There is currently no definition of what amounts to an 'excessive'cost regarding credits in the Irish Consumer Credit Act of 1995.

5.3.15. Enforcement and sanctions

5.3.15.1. EU legal framework

The CCD leaves discretion to the Member States regarding the applicable sanctions pursuant to violations of the national transposing measures. Nevertheless, Article 23 entitled "Penalties" provides that such penalties must be "effective, proportionate and dissuasive" and that Member States should "take all the necessary measures to ensure" that the sanctions are implemented. In addition, Article 24 states that "Member States shall ensure that adequate and effective out-of-court dispute resolution procedures for the settlement of consumer disputes concerning credit agreements are put in place, using existing bodies where appropriate." Additionally, the second paragraph of Article 24 requires Member States to encourage those bodies to cooperate in order to also resolve cross-border disputes concerning credit agreements. Under Article 20, 'Member States shall ensure that creditors are supervised by a body or authority independent from financial institutions or regulated."

Regarding the MCD, the preamble (76) along with Articles 5 and 38 set forth a robust enforcement mechanism whilst leaving discretion on Member States regarding the penalties imposed for violations of the nationally transposed provisions of the Directive. Article 5(1) requires Member States to designate the national competent authorities "empowered to ensure the application and enforcement (…) and [the Member States] shall ensure that they are granted investigating and enforcement powers and adequate resources necessary for the efficient and effective performance of their duties." Comparably to the provisions of the CCD, Member States are left with the discretion of laying down the rules on sanctions applicable to infringements of the national provisions adopted based on the Directive, taking all the necessary measures to implement them and ensuring they are "effective, proportionate and dissuasive." Further, as in the CCD, Article 39 of the MCD, Member States "shall ensure that appropriate and effective complaints and redress procedures are established for the out-of-court settlement of consumer disputes with creditors, credit intermediaries and appointed representatives in relation to credit agreements." It is worth noting that the MCD further provides, under Article 34, that "'Member States shall ensure that credit intermediaries are subject to supervision of their ongoing activities by the competent authorities of the home Member State" and Article 33 establishes the possibility for Member States to withdraw the admission granted to a credit intermediary. Lastly, Article 35 of the MCD stipulates that "Member States shall ensure that non-credit institutions are subject to adequate admission process including entering the non-credit institution in a register and supervision arrangements by a competent authority."

It follows that both directives ensure the existence of independent supervisory bodies or authorities chosen by Member States in order to supervise compliance with the national transposing legislation. Lastly, discretion is left to the Member States to lay the relevant sanctions and penalties for violations of national rules transposing the directives provided they are "effective, proportionate and dissuasive" and that all the "measures necessary for their implementation" are taken.

Moreover, both the CCD and the MCD include provisions concerning the establishment of out-of-court dispute resolution mechanisms in the field of credit agreements. Indeed, Article 24 of the CCD obliges Member States to ensure that 'adequate and effective out-of-court dispute resolution procedures for the settlement of consumer disputes concerning credit agreements' are set up using existing bodies where appropriate. Further, the CCD stipulates that these bodies should cooperate where cross-border disputes concerning credit agreements arise. In addition, the CCD under Article 10(2)(t) provides that credit agreements must include information on whether there is an out-of-court complaint and redress mechanism for the consumer and the methods to access it. Importantly, the new CCD will require this information to be included in the pre-contractual documentation rather than solely in the credit agreement itself. In relation to the MCD, Article 39 obliges Member States to ensure that appropriate and effective complaints and redress procedures are established for the out-of-court settlement of consumer disputes with creditors, credit intermediaries and appointed representatives. Further the Article specifies that these procedures must be applicable to both creditors and credit intermediaries and cover the activities of appointed representatives. Similarly, to the CCD, the MCD states that Member States shall ensure cooperation of bodies involved in out-of-court dispute procedures in the context of the resolution of cross-border disputes. It is also worth noting that Recital (77) of the MCD's preamble encourages Member State's out-of-court procedures and complaint and redress bodies to participate in FIN-NET528, 'a financial dispute resolution network of national out-of-court schemes' responsible for handling disputes between consumers and financial providers. Lastly, the ESIS must indicate the name of the relevant external body for out-of-court complaints and redress consistently with Section 12 Annex II of the MCD regarding the 'European Standardised Information Sheet'. In addition to the provisions enshrined in the CCD and the MCD, the Directive on alternative dispute resolution for consumer disputes529 ('ADR Directive') covers disputes between credit institutions established in the Union and consumers residing in the Union, consistently with Article 2(1) of the ADR. Inter alia, it stipulates that Member States must ensure all contractual disputes arising from the sale of goods or provision of services between consumers and traders in the EU can be submitted to an ADR entity. The latter must be a recognised body, established on a durable basis, that offers independent, impartial, fast and fair alternative dispute resolution procedures consistently with Articles 1 and 4(1)(h) of the ADR Directive. ADR entities will involve neutral parties such as mediators and ombudsman or complaint boards to resolve the dispute by, for instance, proposing or imposing a solution or bringing the parties together to obtain an amicable solution. On this basis, the EU law framework through the CCD, the MCD and the ADR Directive allows consumers to have access to a simple and efficient avenue to resolve, out of court, domestic and cross-border disputes relating to their credit agreements whilst also guaranteeing the fairness and impartiality of the procedure.

5.3.15.2. National enforcement mechanisms

In accordance with the EU legal framework on enforcement of the MCD and the CCD, Member States have designated relevant supervisory authorities and laid rules on the sanctions and penalties imposed for violations of their national transposing rules. The competent national authorities are endowed with specific powers in order to fulfil their general mandate. The **French** ACPR's mandate, for instance provides it shall ensure "'the preservation of the stability of the financial system and the protection of the customers, policyholders, members and beneficiaries of the persons subject to its supervision" and guarantee that "the rules intended to ensure the protection of customers" as well as "the adequacy of the means and procedures they implement for this purpose" are complied with; **Germany's** BaFin must "protect collective consumer protection interests." It follows from the EU legal framework that the specific supervisory powers of each national competent authority are defined by the relevant national frameworks. In addition, the power of these authorities to impose sanctions and penalties and the nature of the sanctions themselves remain at Member State level since no harmonising measures have been taken at EU level so far.

Some of the powers national competent authorities have been endowed with for the purpose of ensuring compliance with the national provisions transposing both the MCD and the CCD include: in **Bulgaria**, the Consumer Protection Commission can *inter alia* carry out on-site

[528] More information regarding the FIN-NET network is available here: About FIN-NET (europa.eu).

[529] Directive 2013/11/EU of the European Parliament and of the Council of 21 May 2013 on alternative dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC (Directive on consumer ADR).

inspections, attract experts and draw up acts to establish violations; in **Denmark**, the financial supervisory authorities may issue reprimands and where the latter are not complied with, they may report the credit institution to the police as seen in the case with Ekspres Bank.; in **Estonia**, the Financial Supervisory Authority has the power to carry out on-sights inspections, impose fines, and file an action with the Court. In **France**, the DGCCRF investigators have a mandate to seek out and to investigate, record infringements and breaches of national rules transposing the MCD and the CCD and impose administrative sanctions and publish them in the press (*name* and *shame* deterrent method). Lastly, in **Germany**, the FinDAG may issue any orders that are suitable and necessary to prevent or remedy consumer protection-related abuses if a general clarification appears necessary in the interest of consumer protection as clarified in the case law.[530]

It is worth mentioning the specific case of **Poland**, where it was found that lending institutions are not, in practice, supervised by the Polish Financial Supervisory Authority. The latter has no power to demand information and explanations from credit institutions, nor to control their activities or assess their compliance with the relevant regulations including the Consumer Credit Act and the national provision transposing the MCD.

5.3.15.3. National sanctions

Among the Member States covered by the Study, sanctions for violations of the transposed provisions of EU law vary greatly and include declaring the contract null and void, fines and imprisonment. The severity of the fines and sanctions that may be imposed on lenders is highly heterogenous.

Among the countries where research has indicated applicable fines to lenders for breaches of the transposed EU provisions on credit agreements are **Bulgaria, Estonia, Greece, Ireland, the Netherlands, Slovakia, Spain** and **Poland**. On the other hand, in **France, Italy, Germany** and **Denmark** other sanctions have been emphasised through research, (notwithstanding the existence of fines for violations in these Member States as well) such as the declaration of the nullity of the contract or the intervention of the police.

Regarding the Member States that rely mainly on fines, in **Bulgaria**, non-conformity with the relevant Credit Consumer Act includes financial penalties from EUR 360 to 5100; in **Estonia** fines for such violations range from EUR 1,200 to 32,000; In **Greece**, penalties are imposed on Banks mainly for using unfair, or non-transparent contractual terms. Recently, the General Secretariat Directorate for Market and Consumer Protection at the General Secretariat for Commerce of the Ministry of Development and Investments imposed a fine of EUR 150.000 on a systemic bank because it had continued using as a preformulated general contractual term the provision that the interest rate would be based on a 360-day year[531]. In **Ireland**, fines may go up to EUR 100,000 and 3 years of imprisonment; in **Slovakia**, fines cannot go above EUR 1,000,000. In **Poland**, they may reach EUR 5,000,000 and 3 years of imprisonment; Lastly, regarding the **Netherlands**, the financial supervisory authority has the power to impose a variety of sanctions on lenders who breach their legal obligations yet in practice the financial penalties are the most common. These procedures are governed by the General Administrative Law Act. Interestingly, the AFM (Dutch financial supervisory authority) has the discretion to publish the intention and decision of a financial penalty it has imposed; and usually aims to publish all penalty notices.

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[530] the judgment of the VG* Frankfurt am Main of 24.6.2021 - 7 K 2237, BeckRS* 2021, 17307.

[531] Link to an article describing the decision is available here: https://www.mindev.gov.gr/%ce%b4%ce%b9%ce%bf%ce%b9%ce%ba%ce%b7%cf%84%ce%b9%ce%ba%cf%8c-%cf%80%cf%81%cf%8c%cf%83%cf%84%ce%b9%ce%bc%ce%bf-%cf%8d%cf%88%ce%bf%cf%85%cf%82-150-000-%ce%b5%cf%85%cf%81%cf%8e-%ce%b5%cf%80%ce%ad%ce%b2/

Regarding sanctions that are not fines imposed on lenders, but rather reductions on their right to interest, in **France**, regarding the calculation of the APCR for mortgages, the sanction is the deprivation by the lender of the right to interest in the proportion fixed by the judge (who will take into account harm and damages suffered by the consumer). Similarly, in **Italy**, when the indicator of the total cost of credit (APRC) applied is higher than the one indicated in the contract, the financial companies are not entitled to the interest indicated therein. In **Germany**, sanctions will vary according to the stipulation of the German Civil Code breached. For instance, a failure to assess creditworthiness will result in a reduction in the agreed borrowing rate.[532]

Lastly and concerning Member States where non-pecuniary sanctions were emphasised, in **Denmark**, noncompliance with certain provisions of the Credit Agreement Act may constitute a valid ground for the setting aside of the contract. In addition, where the financial supervisor has issued a reprimand against a credit institution and the latter has subsequently failed to comply with the issued reprimand, the business may be reported to the police. This was the case on the 10th of July 2019, when the Financial Supervisory Authority reported Ekspres Bank to the police for ongoing non-compliance with the issued reprimand. In **Spain**, the main sanctions include claiming the possible nullity of the contracts, enforcing cease and desist actions, claiming indemnities for losses and damages.

Importantly, based on the national research, it seems that the current fines in place are too low to effectively deter lenders from undertaking harmful practices towards consumers and breaching the relevant regulations. In turn, a lack of sufficiently dissuasive sanctions may prevent the transposed provisions from deploying their full effectiveness in protecting consumers and facilitating responsible lending/borrowing within the internal market. In the light of these main national findings, it is worth questioning whether the national sanctions are, in practice, "effective, proportionate and dissuasive" as required by EU legislation.

5.3.15.4. Role of private individual enforcement

The absence of harmonising measures regarding enforcement procedures and applicable sanctions means each Member States has discretion regarding the definition of sanctions and the designation of competent authorities to supervise compliance with the rules enshrined in the CCD and the MCD. Importantly, desk research shows a significant reliance on private individual enforcement. Indeed, national findings convey that private individual enforcement (i.e., actions brought by an appellant before a national court) remains the principle means of enforcement of consumer protection rules relating to the distribution of mortgages and credit agreements. On the other hand, public enforcement refers to the actions brought forth by national competent authorities, without consumers initiating proceedings, to supervise creditors and safeguard the application of the CCD dispositions or to enforce the provisions of the MCD, in line with Article 5 of the latter.

It stems from the research and interviews with stakeholders in **Bulgaria**, **Denmark, Germany** and **Estonia**, that excessive reliance on private individual enforcement may be detrimental to the protection of consumers. Among the concerns raised in this respect, desk research for **Bulgaria** has emphasized the ineffectiveness of such an enforcement mechanism due to the excessive length of judicial procedures for these types of cases. Indeed, no time constraints exists in Bulgarian law on such private individual enforcement procedures thereby affecting negatively consumers who may struggle in practice, to obtain redress or damages for infringements of their rights in the context of mortgage and credit agreements. In addition, this lack of effectiveness may discourage consumers to rely on the private individual enforcement mechanisms thence preventing courts from pronouncing themselves on infringements of

[532] Section 505e of the German Civil Code.

national transposing provisions. Nonetheless, it is worth mentioning that, out of court settlement of disputes are established and relied on.

Similarly, in **Denmark** provisions transposed from the MCD and the CCD are enforced mainly before national courts, where a high burden of proof is required and hence it will usually be the burden of the consumer to provide proof of the lender's infringements before the Court; for this reason, the Danish Consumer Ombudsman encourages the implementation of additional enforcement mechanisms in this regard.

In **Estonia**, research and interviews point to the fact that there is no efficient enforcement procedure in place since debtors rarely go to Court as they do not dare to do so and usually are not aware of their rights.

In **Germany**, national desk research revealed that public enforcement is almost non-existent in practice, and when it is in place, consumers are rarely entitled to damages. Moreover, it stems from desk research that in practice, German lenders often circumvent the rules protecting consumers, as developed in the section on usury loans for example. In this respect, vulnerable consumers do not have, in general, the financial resources and the knowledge to protect themselves with a specified lawyer or go to Court. This is all the more problematic since dispute resolution centers refuse to decide cases on usury consumer credits notwithstanding the existence of clear jurisprudence on the matter.

Excessive reliance on private individual enforcement for the rules protecting consumers and encouraging responsible lending from credit institutions in the field of credit agreements and mortgages raises some concerns. Firstly, the level of financial literacy in the Member States covered by the present Study is low and, thus, the provisions on the obligation to provide pre contractual information may be undermined by the lack of financial literacy across these Member States. Regarding private individual enforcement, a lack of financial literacy will often correlate with a lack of awareness from consumers of their rights in the context of purchasing a mortgage or a consumer credit. Against this background, it is unlikely that consumers will be able to identify infringements by the lenders and subsequently initiate legal proceedings if they have low financial literacy. This is all the truer regarding vulnerable consumers who will rarely have knowledge of their rights and of the banking practices that amount to legal infringements and would enable them to bring a case before a national court because of their limited resources and their general financial vulnerability.

Private individual enforcement mostly shifts the burden on consumers to initiate legal proceedings for infringements committed by lenders. Often, these legal proceedings may be lengthy in duration, they may require a high burden of proof from the consumer and be almost inaccessible to vulnerable consumers due to their costs and the required procedural steps. As previously mentioned, in **Bulgaria** and **Germany** for example, the duration of the legal proceedings was reported to undermine consumer rights transposed in national law. In addition, in **Germany** legal proceedings often last longer than insolvency processes, resulting in a very small number of vulnerable consumers litigating in practice.

Considering these observations, relying mainly on private individual enforcement could prevent several violations and infringements of the relevant rules from being detected effectively in Member States (for instance in **Estonia**, it was reported that consumers have a low awareness of unlawful practices and hence very few claims are filed before national courts). In addition, considering the lack of financial literacy across the Member States studied, the burden of enforcing consumer protection rights in the context of credit agreements and applications for mortgages should perhaps not rest principally on consumers. Moreover, *ex-post* infringements may enable redress for harm caused, yet a higher level of supervision and conferral of additional investigatory powers to the national competent authorities would prevent *ex-ante* the violations from occurring. The effectiveness in practice of EU law, and in particular the provisions in the MCD and the CCD, hinges upon the existence of robust national enforcement mechanisms to safeguard compliance by lenders with their legal obligations and the protection of consumers.

5.3.15.5. Good examples regarding enforcement and sanctions

In **France** the DGCCRF plans inspections each year to ensure compliance with the regulations relating to the distribution of consumer credit and property contracts, as well as the relations of credit institutions and payment service providers with consumers. Several hundred credit institutions, bank branches, bank headquarters and intermediaries are thus subject to controls in these sectors throughout France. The identification of the themes of the controls is closely coordinated with all the French regulatory authorities of the financial sectors, such as the Authority of Prudential Control and Resolution (ACPR), the Central Bank, the Authority of Financial Markets (AMF). To conduct their investigations, the administrative agents have the possibility to mobilise "mystery shopper" powers whereby they delay the disclosure of their status of investigator in order to supervise the discourse and information given by the various professionals of the sector to consumers. These effective investigatory measures enable French relevant authorities, each year, to highlight misleading commercial practices, which constitute a criminal offence punishable by financial penalties and prison sentences. The interview conducted with the DGCCRF has revealed that between 2018 and 2022, out of 859 institutions inspected, 126 were subject to administrative follow-up (educational, binding or sanctions) and/or criminal proceedings (criminal proceedings leading to the imposition of fines). A total of 24 sanction procedures, both administrative and criminal, were issued for non-compliance with consumer protection rules on consumer credit, and 24 companies were forced to change their practices that were detrimental to consumers and to comply with their obligations.

Moreover, in the **Netherlands**, the national competent authority (AFM) regularly publishes reports and guidelines that include the best practices on different topics. An example includes a report published in 2021[533] which outlines and explains the best practices in the market regarding arrears management and relevant behavioural insights. The report is based on an investigation into arrears management conducted between 2020 and 2021 and it is largely based on the guidelines that the AMF published on this topic in 2016.[534] Another relevant example is the "lending standard" ("leennormen") which includes guidelines for lenders when they assess credit worthiness of consumers before issuing credit or mortgage agreements. These lending standards are developed by two sector organisations (Dutch Banking Association (NVB) and the Association of Finance Enterprises in the Netherlands (VFN) with the help of National Institute for Budget Advice (NiBUD) and in consultation with the AMF who supervises compliance of consumer credit providers in this respect.

5.3.15.6. Conclusions

Enforcement and sanctions regarding breaches of the transposed provisions remain regulated at national level although EU law provides, they should be 'effective, proportionate and dissuasive'. Currently, research shows that fines are, at times, not high enough to constitute effective deterrents for lenders not to breach the law. In addition, excessive reliance on private individual enforcement may weaken the protection offered in practice by the Directives (CCD and MCD). Indeed, as discussed above, vulnerable consumers who need protection the most do not always have knowledge of their rights or the necessary resources and financial literacy

[533] Rapport Achterstandsbeheer bij consumptief krediet (available online: afm-rapport-achterstandsbeheer-consumptief-krediet.pdf).

[534] 'Leidraad Consumenten en Incassotrajecten' available online: https://www.afm.nl.

to enforce them before a national court. The creation of a robust harmonised EU-level enforcement mechanism could be therefore considered.

5.3.16. Concluding remarks

Drawing on the legal analysis of EU and national legislation regarding the 12 Member States covered by this Study, this section will provide suggestions to remedy identified shortcomings and further facilitate and encourage responsible borrowing by consumers and lending by creditors.

5.3.16.1. The scope of the CCD

Article 2(2) of the CCD which sets forth the exemptions from the material scope of the Directive could be amended in order to include currently excluded types of credits. Certain express loans such as "flash loans", "private lease", "BNPL schemes" and "micro-credits" (below EUR 200) could all be included in the material scope of the Directive. This would remedy the shortcoming observed in the national research whereby few rules are currently in place to regulate these types of loans despite their increasing popularity. Importantly, the new CCD [535] will address this shortcoming as it removes a number of exemptions from Article 2 including minimum amounts, leasing agreements with an option to purchase goods or services, overdraft facilities free interest rate credit without charges or credit to be repaid within 3 months with only insignificant charges.

The financial products mentioned above may contribute to the social phenomenon of over-indebtedness of consumers. Such an amendment would therefore increase the level of protection of consumers across the EU by ensuring that the protective provisions contained in the CCD govern the distribution and modalities of all consumer credits. For instance, creditworthiness assessment would also be compulsory for these loans thereby supporting responsible borrowing and lending. Another example concerns the right of early repayment enshrined in article 16 of the CCD which could also apply to these loans.

5.3.16.2. Creditworthiness assessment

Creditworthiness plays a crucial role in the normative framework aiming to prevent and address (over)indebtedness of consumers[536] In this context, the Article 8 of the CCD has been amended to establish a more detailed and stringent legal framework for the conduct of the creditworthiness assessment by lenders as provided in Article 18 of the new CCD. The standardisation of the method, the specific documentation on which it is based, and the depth of the credit worthiness assessments could be specified. Narrowing the margin of discretion of lenders in the process of assessing creditworthiness would reduce the risks of arbitrarily/poorly/non conducted assessments. In addition, it would prevent discrepancies among the standard for creditworthiness applied by credit institutions and ensure a high standard must be applied by all creditors.

In addition, and similarly to Article 18(5)(a) MCD a provision could be included to clarify that creditors may not grant a credit to a consumer when the result of the creditworthiness assessment reveals he is unlikely to be able to repay the credit. For example, Article 18(5)(a) of the MCD states "the creditor only makes the credit available to the consumer where the

[535] See footnote 350.

[536] As underlined for example by the Danish national enforcement authority during its interview.

result of the creditworthiness assessment indicates that the obligations resulting from the credit agreement are likely to be met in the manner required under that agreement."

Article 8(1) mentions creditors must consult the relevant database whilst assessing creditworthiness "where necessary". This last formula could be removed and the obligation to consult the relevant database could be systematic before the granting of all consumer credits in the scope of the Directive thereby increasing the standard for all CWA.

During the validation workshop a suggestion to establish an EU-level database (comprising the relevant information for lenders to adequately assess creditworthiness) arose. This would ensure even cross-border credit activity of consumers is considered by creditors. For instance, if a mortgage is applied for in one Member State and the consumer has entered into a mortgage agreement in another Member State, this information will currently not appear to creditors when they consult the 'relevant database'. This is due to the national nature of existing databases across Member States. This EU-level database could be extended also to all types of consumer credits thereby ensuring creditors have complete information to conduct adequately CWA of borrowers. However, careful considerations regarding compliance with the GDPR and other data protection rules will be crucial in this respect.

5.3.16.3. Standard European Consumer Credit Information (SECCI) and European standardized sheet of information (ESIS)

The research indicates that the SECCI-ESIS may be improved both in their form and in the way they are delivered. Both of them are either not properly read by consumers or not understood. Furthermore, they are not always provided to the consumer by the credit provider "in good time", as stipulated in the CCD and MCD. Finally, they can contain extensive information which is not necessarily helpful for the consumer, despite the good aim behind it. While the CCD Proposal seemed to tackle the latter issue, a need to ensure regular checks on the enforcement of the rules on these tools (or any other standard information sheet) exists. The timing of their provisions and the understanding by consumers may require a particular attention, which is now addressed in the new CCD. Transparency of information and use of consumer data in a transparent manner.

The transparency of information provided by the creditors, particularly in relation to CWA, may not always be fully adhered to by the credit providers. Moreover, the consumers do not have the right to receive insight into the CWA, unless it has been completed and the application has been subsequently denied. To ensure that credit providers do not abuse their stronger position and do not deny credit to consumers unless they have reasonable justifications, the CWA insights could be provided in writing. Moreover, the method of conducting the CWA can be included in the pre-contractual information which the creditors are obliged to provide. With regard to the transparency of disclosures, distinguishing between the substantive disclosures which must be provided and other information could help to ensure that all the required information is shared by the credit providers with the consumers.

5.3.16.4. Relations between disclosures, advice and responsible lending, in the light of the low financial literacy of consumers

The financial literacy includes several aspects, such as the undertaking of the improvement of the financial education among consumers, the adherence by credit providers to the principle of responsible lending and providing adequate advice, as well as their obligation to provide the consumer with a clear information on the credit product. Ensuring that these obligations of the creditors are set out in hard law provisions could be useful in this light, and in this regard it should be mentioned that the new CCDl contains provisions on adequate explanations. Furthermore, promoting educational initiatives at the national level both in schools and in communities through other ways can be particularly helpful for preventing consumer over-indebtedness. However, the more limited competence of the EU with regard to the field of education should be taken into account.

Overdraft facilities Further, provisions specifying the relationship between overdrafts and revolving credits could be considered in order to regulate and standardise the situations where banks offer revolving credits as a response to an overdraft. For example, an obligation to offer an alternative product, when overdrafts have been long-lasting could be envisaged.

In cases where overrunning is concerned, a provision whereby lenders must refer consumers to debt advisory services may be beneficial to prevent/address over-indebtedness before it aggravates. In addition, in such cases of overrunning, the lender could be under an obligation to assess the consumers creditworthiness in order to be able to offer him alternatives that meet his financial needs. Provisions articulating the mandatory cooperation between credit institutions and debt advisors for this purpose could also be included.

In the context of overdraft facilities and overrunning, mechanisms of cost limitations for the fees and charges incurred by consumers at EU level, to prevent exorbitant fees and the "spiralling" downwards of over-indebted (vulnerable) consumers, could be considered.

5.3.16.5. Overdraft facilities and overrunning

Further, provisions specifying the relationship between overdrafts and revolving credits could be considered in order to regulate and standardise the situations where banks offer revolving credits as a response to an overdraft. For example, an obligation to offer an alternative product, when overdrafts have been long-lasting could be envisaged.

In cases where overrunning is concerned, a provision whereby lenders must refer consumers to debt advisory services may be beneficial to prevent/address over indebtedness before it aggravates. In addition, in such cases of overrunning, the lender could be under an obligation to assess the consumers creditworthiness in order to be able to offer him alternatives that meet his financial needs. Provisions articulating the mandatory cooperation between credit institutions and debt advisors for this purpose could also be included. Importantly, the last sentence of Article 25(2) of the new CCD provides that the creditor shall offer to the consumer advisory services, where available, or redirect consumer towards debt advisory services.

In the context of overdraft facilities and overrunning, mechanisms of cost limitations for the fees and charges incurred by consumers at EU level, to prevent exorbitant fees and the "spiralling" downwards of over indebted (vulnerable) consumers, could be considered.

5.3.16.6. Vulnerable consumers and consumers in financial difficulty

The introduction of provisions aimed at the protection of a specific group of consumers can prove helpful for reaching this aim. Moreover, provisions could be introduced which would help to identify vulnerable groups of consumers in the population. If possible, the introduction of a common definition of the term "vulnerable consumers" or the adoption of an indicative (but non-exhaustive) list of such groups in hard law at national level, along with a specific obligation for credit providers to pay particular attention to these groups, can further help to ensure the protection of vulnerable consumers. The new CCD aims to tackle some aspects of the protection of vulnerable consumers through the addition of a provision making debt advisory services are available to consumers.

5.3.16.7. Predatory lending

Specific rules in relation to advertising and marketing are set out in the national laws of all 12 Member States. However, in some cases there is a lack of effective enforcement of such provisions. Specific and clearly defined terms related to predatory lending (such as "aggressive marketing" or "misleading marketing") could be helpful in ensuring an effective enforcement. Additionally, a specific obligation to avoid using certain expressions or words, or to show a representative example with realistic interest rates in advertisements can be useful. Moreover, banning specific types of advertisements can prove beneficial too, such as the list suggested by the European Parliament in the new CCD Proposal. Finally, it may be beneficial to clarify at the EU level that online providers operating abroad must abide by substantive credit rules of the host state to prevent forum shopping.

5.3.16.8. Flexibility of loans and early repayment

The national-level regulation of the flexibility of loans is rather strict and does not allow the consumer to have almost any say in the credit agreements. Rather, the latter are amended by using indexes and schemes. Therefore, imposing stricter rules on the circumstances when such indexes and schemes can be used and/or the requirement of consumer consent can help to protect consumers in this aspect.

In terms of early repayment, a specific obligation for credit providers to charge, in cases of early repayment by the consumer, the percentage according to the actual damage (rather than solely a set percentage) can be helpful to ensure the rights of consumers are protected and the rights of credit providers are not abused. However, the case law of the Court of Justice striking a specific difference between the interpretation of the provisions of CCD and MCD should be borne in mind.

5.3.16.9. Over-indebtedness, insolvency and usury loans

It is suggested to include a definition of "over-indebtedness" at EU level and accompanying measures to address such situations. Introducing a legal definition would enable the clear identification of the consumers in such situations and could be supplemented by accompanying measures to address this issue, including where vulnerable consumers are concerned.

Provisions that provide certain guarantees for consumers who have undergone insolvency proceedings or declared bankruptcy may help in preventing situations where these consumers struggle to receive credit again, even years after the proceedings preventing them to benefit from a "fresh start".

Moreover, it may prove useful to introduce a definition of "usury loan" and provide EU level measures protective of consumers in this regard. In addition, the criteria and conditions that should be considered to determine whether a specific loan is usury should be specified (for example risks taken by the creditor, duration of the credit, total amount etc). It is worth mentioning that the new CCD in its Article 31 would require MS to introduce caps on at least one of the following: interest rates, the APRC and/or the total cost of the credit to the consumer. Alongside, protection from overcharged payment protection insurances sold by lenders and financed with the credit and disadvantageous scheduling practices should be provided as these practices often lead to over-indebtedness of consumers. Further the legal consequences of the finding of such a rate/loan should be explicitly mentioned and include the nullity of the contract and perhaps compensation for the consumer. This provision could be accompanied by a disposition preventing credit institutions from introducing additional fees to compensate lower interest rates. As loans subject to late repayment or unlikely to be repaid without requiring the sale of collateral, NPL's are intimately related to the notion of over-indebtedness. The recent introduction of the NPL Directive, which aims in facilitating the recuperation of the unpaid credits and the sale of the NPLs in the secondary financial market will nevertheless set standards on credit servicers and purchasers; including in their relationship with borrowers. In addition, obtention of an authorisation by a prospective credit servicer will be subordinated to requirements relating to borrowers' rights and respect of consumer protection rules. As a result, the possible unintentional impact on consumers of certain practices may be reasonably limited.

Albeit, the facilitation of debt collection and the development of the NPL secondary market could have unintended detrimental impacts on over-indebted consumers (*inter alia* on credit legitimacy in the eyes of consumers and their right to privacy) if the safeguards are inadequate in practice or where discretionary implementing measures to transpose the Directive do not suffice. It could be combined with rules ensuring that the transfer of an NPL from the main creditor to a third party occurs solely after several forbearance measures have been exercised by creditors in practice. Furthermore, a measure offering - *ex-ante* the transfer of a NPL to a credit purchaser- the possibility for the consumer to repay an amount equal to the contractual consideration offered to the third party for the transaction of the NPL (analogous to a 'right of first order') is an interesting suggestion to help in the prevention of harmful consequences for over-indebted consumers.

Due to its recent introduction, an evidenced assessment of the impact on consumer (over)indebtedness and the economy of the NPL Directive will only be possible after the deadline of transposition has passed in the Member States.

5.3.16.10. Enforcement and sanctions

Dispositions regarding public enforcement and the relevant competent national authorities could specify with more details the powers with which Member States should endow the relevant authority in order to enable them to fulfil its duty of overseeing compliance with the provisions of the CCD and the MCD (i.e., investigatory, to impose sanctions such as fines etc). As suggested based on desk research in Germany, the establishment of clear guidelines for national regulators regarding situations where they should intervene and protect individual consumers from certain harmful practices (i.e., usury loans) could increase the effect and application in practice of consumer protection rules regarding credit agreements.

In addition, sanctions could be harmonised regarding noncompliance with key provisions of the Directives. For instance, the consequences of a failure to adequately assess credit worthiness of a consumer before the granting of a credit agreement could be harmonised and serve as an effective deterrent for potentially irresponsible lenders. This could remedy the numerous issues relating to badly/non performed creditworthiness assessments developed above and ensure sanctions are sufficiently dissuasive and act as effective deterrents. In specific cases and where infringements are recurrent, long-lasting and have severely detrimental effects on consumers, criminal liability could be engaged. This would remedy the situations in which lenders violate consumer protection laws recurrently as a result of the ineffectiveness of low fines to act as deterrents.

Provisions could be introduced in the Directives to establish a compensation regime for consumers who have suffered damage as result of a violation by the creditor of their provisions.

6. Task 5: Behavioural experiment on the capacity of consumers to evaluate a credit offer

6.1. Summary

The aim of Task 5 was to provide for an incrased understanding of the **capacity of EU consumers to evaluate a credit offer proposed by a credit provider**. It covered both a qualitative meta-analysis of the behavioural literature in the field as well as a multi-country online behavioural experiment.

In the **behavioural experiment,** we created realistic scenarios in which respondents were repeatedly invited to choose between credit offers of varying levels of advantageousness. The respondents varied in terms of their **financial situation** and were assigned to experimental conditions in which the **honesty** of information provided in the marketing materials and on the credit provider's website, the loan **amount**, and the availability of **a simple, visually salient credit label summarizing key aspects of the loan** in an attached information form were manipulated. After the experiment, we asked respondents to review an example of a **SECCI form** and assessed their objective and subjective understanding of information as well as their evaluation of the form.

The results give rise to the following key conclusions:

- Choices between credit offers are influenced by the level of honesty of information provided in marketing materials and on the website: **when the total amount payable is presented in a more salient manner, consumers are more inclined to choose the most advantageous offer.** It could therefore also be used as part of a mitigation strategy.
- Differences between consumers' financial situations influence their choices between credit offers. **Consumers struggling to make ends meet seem to be more vulnerable to sub-optimal decisions**: they tend to choose the most advantageous offer less often overall, but specifically in the event that the offer involves a higher loan amount. Findings suggest that this might be related to lower financial literacy or higher financial stress among these consumers.
- When not explicitly told to do so, only very few consumers view SECCI forms to inform their decision. However, **when their attention is directed to these forms, consumers evaluate SECCI forms quite positively**. This suggests that it might be helpful to make consumers more aware of the added value of SECCI forms so they will be more inclined to view them.
- Given that SECCI forms often present relatively large amounts of complex information and that consumers might experience limitations in terms of their cognitive resources, summarizing information in **a simple, visually salient credit label might be helpful**. The findings show that although forms with and without credit labels are generally evaluated similarly, SECCI forms with credit labels are liked a bit better by consumers and seem to help them find and understand information about the APR.
- Given the low number of respondents who chose to read the SECCI carefully, adding a credit label to SECCI forms may aid decision-making in real-life situations only under the condition that consumers are made better aware of the importance of the SECCI and the information presented in this form.

- Alternatively, it might be helpful to present standardised credit labels (or at least standardised information about the total amount payable) separate from SECCI forms, for instance in advertisements and/or on providers' websites. Increasing their visibility early in the decision-making process might increase the chance that they will help consumers make better decisions. More research is needed to assess the effectiveness of such a mitigation strategy.

6.2. Introduction

This chapter introduces the aims and structure of Task 5 and outlines the key features of the behavioural experiment. As such, it sets the stage for the subsequent explanation of the experiment's research design and methods, as well as the presentation of the results.

The overarching aim of Task 5 was to examine the capacity of EU consumers to evaluate a credit offer proposed by a credit provider. The task covered both a qualitative **meta-analysis** of the behavioural literature in the field as well as a multi-country **online behavioural experiment**.

The meta-analysis consists of an in-depth evaluation of the behavioural economics literature that examines the effects of marketing materials and techniques as well as relevant biases in consumer responses to different types of credit offers. It was used to inform the design of the behavioural experiment and helped us compare its results with findings from previous research. The insights arising from the meta-analysis are reported in Annex F. The remainder of the current chapter focuses on the objectives, methods and findings of the behavioural experiment.

6.2.1. Behavioural experiment

To examine EU consumers' capacity to evaluate credit offers, we conducted a realistic online experiment in which respondents repeatedly chose between credit offers of varying advantageousness after reviewing marketing materials and (if desired) the corresponding website of the credit provider. Respondents varied in terms of their financial situation and were randomly assigned to experimental conditions in which the amount (i.e., the honesty) of information provided in the marketing materials and on the credit provider's website, the loan amount, and the availability of a credit label in an attached information form were manipulated.

The selection and operationalisation of the conditions were informed by insights from the meta-analysis. Marketing materials and websites were considered less **honest** (or potentially deceiving) when the information provided saliently (in this case the interest rate) might steer consumers towards less advantageous credit offers with a higher total cost. On the other hand, these materials were considered more honest (or moderately correct) when information about the total costs of the loan was also provided in a salient manner. This manipulation was selected because findings from previous studies suggest that showing total costs more saliently might be an effective mitigation strategy to prevent consumers from choosing less advantageous offers.

Furthermore, a quasi-experimental approach was chosen to study the effect of consumers' **financial situation**. This means that respondents were not randomly allocated to experimental groups in which financial situation was manipulated, but that they were divided into two groups based on their *actual* financial situation. This decision was based on considerations explained in the meta-analysis and the fact that, in the context of the current study, it was deemed most interesting to investigate the effect of consumers' actual financial situation on their responses (i.e., the choice for a more or less advantageous credit offer) to the burden of a smaller or more serious financial problem, as this would increase the likelihood that the findings can be generalised to real-life situations. Previous research reviewed in the meta-analysis suggests that consumers in a more difficult financial situation might be more prone to suboptimal decision-making in case of larger financial challenges. To further investigate this, respondents from both groups were asked to imagine two scenarios: one scenario in which they wanted to apply for a loan to solve a relatively small financial problem and one scenario in which they wanted to apply for a loan to solve a larger financial problem. Comparing the choices of the two groups in these two scenarios with different **loan amounts** helps us assess whether consumers in more difficult financial situations are indeed more impacted by larger financial challenges.

Finally, as part of the overarching objective to investigate consumers' capacity to evaluate credit offers, we also aimed to study consumers' ability to find and understand standardised information forms, in this case the Standard European Consumer Credit Information (SECCI) form. As the behavioural experiment was part of a larger online survey, we could ask respondents to review the **SECCI form** afterwards and assess their understanding and evaluation of (several aspects of) this form. This form was provided on the websites that respondents could freely browse, allowing us to study whether consumers who were not explicitly made aware of the form or instructed to view it are inclined to do so.

Including this form also allowed us to test another mitigation strategy. SECCI forms are mandated disclosures, which in previous research (as reviewed in the meta-analysis) have been found to need some improvements. Due to their complexity and the amount of information provided in combination with a lack of financial or cognitive resources in consumers, the form may not reach its potential effectiveness. It might therefore be helpful to summarize the key points from the form in a simple, straightforward, and visually salient manner. We therefore added a small label showing a simple table presenting information on the annual percentage rate (APR), contract duration, monthly repayments, and the total amount payable in a standarised manner to (half of) the SECCI forms. We aimed to test whether such a credit label could help consumers make more responsible choices. Altogether, the manipulations and measurements in this experiment allow us to assess how respondents in different financial situations choose between credit offers and how this choice is influenced by the level of honesty of the information provided, the height of the credit, and the presence of a credit label summarising the SECCI form's key information in a simple, standardised and visually salient manner. They also allow us to gain more detailed insight into consumers' understanding and evaluation of the SECCI form, as well as the effectiveness of potential mitigation strategies.

6.2.2. Structure of this chapter

In the remainder of this chapter, we will first zoom in on the methodology of the behavioural experiment. We will do this by describing the study sample, explaining the experimental design, and outlining the methods for data analysis. We will then continue by describing the results of the experiment for each outcome measure. The chapter will conclude by summarizing the key insights and subsequent recommendations.

6.3. Methodology

6.3.1. Study sample

The online experiment covered the general population aged 18+ in four countries, representing a balanced geographical spread. It was conducted in **four EU Member States**: Germany, Italy, Poland and Sweden. These countries were selected to represent Western, Southern, Eastern and Northern Europe while also, due to their population size, representing a considerable portion of the total European population. Quotas were set to ensure that the sample was nationally representative on age and gender and that an adequate spread in financial situation was obtained. The sample was recruited from Ipsos' non-probability volunteer online access panels in all four countries.

At least 400 respondents completed the experiment in each Member State, with **N = 1,644** in total (see Table 6.1 for the unweighted sample characteristics and Table 6.2 for the weighted sample characteristics, which matched the quotas in place).

Table 6.1: Achieved sample characteristics, in % (unweighted)

		Country				
		Total	**DE**	**IT**	**PL**	**SE**
Sample size		1644	409	415	418	402
Gender	**Male**	49.3%	47.9%	49.4%	47.1%	53.0%
	Female	50.7%	52.1%	50.6%	52.9%	47.0%
Age category	**18-24**	9.3%	9.8%	8.2%	9.3%	10.0%
	25-34	15.2%	13.2%	13.0%	17.2%	17.4%
	35-44	17.6%	16.4%	17.8%	21.5%	14.7%
	45-54	18.9%	18.8%	21.9%	17.7%	17.2%
	55-64	18.0%	20.8%	17.8%	15.1%	18.4%
	>64	20.9%	21.0%	21.2%	19.1%	22.4%
ISCED Education recode	**Low**	15.0%	15.4%	38.1%	1.2%	5.0%
	Medium	54.4%	53.3%	43.1%	70.3%	50.5%
	High	30.7%	31.3%	18.8%	28.5%	44.5%

Table 6.2: Achieved weighted sample characteristics, in % (weighted distribution, quotas in place[537])

		Country				
		Total	**DE**	**IT**	**PL**	**SE**
Sample size		1,644	409	415	418	402
Gender	**Male**	49.6%	49.8%	49.2%	48.6%	50.7%
	Female	50.5%	50.2%	50.8%	51.4%	49.4%
Age category	**18-24**	9.5%	9.6%	8.9%	9.1%	10.4%
	25-34	16.6%	16.3%	13.7%	17.6%	18.9%
	35-44	17.5%	16.1%	16.3%	20.9%	16.8%
	45-54	18.2%	17.9%	20.7%	16.6%	17.3%
	55-64	17.7%	19.7%	18.7%	16.8%	15.7%
	>64	20.5%	20.5%	21.8%	19.0%	20.9%
ISCED Education recode	**Low**	16.3%	17.6%	40.7%	1.2%	5.3%
	Medium	55.3%	54.6%	42.0%	71.0%	53.7%
	High	28.4%	27.8%	17.3%	27.8%	41.0%

[537] The weighted sample distribution matched quotas in place during fieldwork.

6.3.2. Experiment design

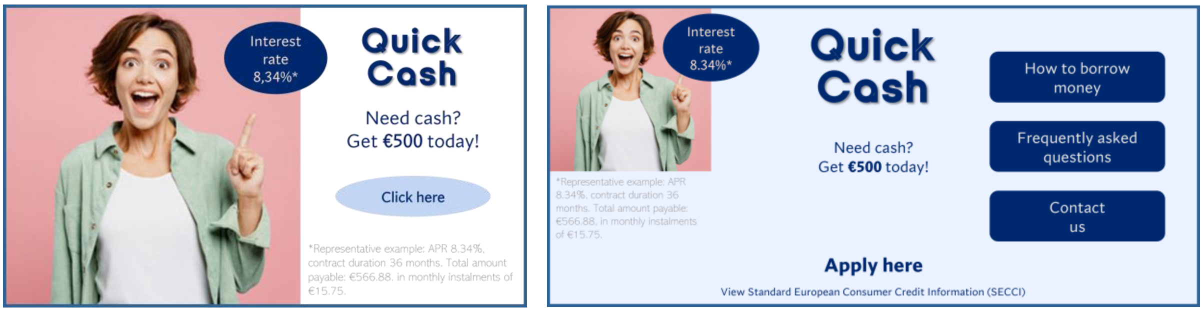
The 20-minute survey comprised two main parts. The first part consisted of a **hypothetical choice experiment**, in which respondents were confronted with credit offers and asked to choose one offer within each choice set. The second part was a **post-experiment survey**, which included evaluative questions about the SECCI form and (if applicable) credit label, as well as questions to assess background characteristics of respondents.

Choice tasks

Respondents completed two **choice tasks**. In each choice task, they were first asked to **imagine a certain scenario** in which they wanted to obtain a personal loan for a specific reason (to replace a car or pay for its repair in the first choice task and to pay for the repair of a leaking roof in the second choice task). They were asked to imagine that they currently did not have enough money to pay for the repair/replacement, but were able to afford each of the loans. In one of the choice tasks the loan amount was 500 EUR and in the other one the loan amount was 4500 EUR.

The choice set for each of the two tasks consisted of **three more or less advantageous credit offers**. The offers were presented in **marketing materials** (advertisements) that differed in terms of brand name, layout and image. Each advertisement included a "click here" button that directed respondents to a **simulated website** of the provider. This website matched the advertisements in terms of branding and style and provided additional information on the borrowing process and conditions. This additional information was the same for all providers or was randomised, to avoid that consumer choices would be driven by specific characteristics of or requirements related to the offer. Each website also included a link to a **SECCI form** (see Figure 6.1 for an example).

Figure 6.1: Example the style and branding of one credit provider, as implemented in the marketing materials (left) and on the corresponding website (right)



Each choice set consisted of credit offers with different interest rates (8.34%, 8.76%, or 9.17%) and durations (12, 24, or 36 months). In all cases, the offers with the highest interest rates were actually the most **advantageous**, as the total cost was lowest due to the relatively short duration of these loans (see Table 6.3 for examples of advertisements and characteristics of the offers for the low amount).

Table 6.3: Examples of credit offers and their characteristics

Credit offer	Advanta-geousness	Interest rate/APR[538]	Contract duration	Total amount payable
	High	9,17%	12 months	525.18 EUR
	Medium	8,76%	24 months	546.91 EUR
	High	8,34%	36 months	566.88 EUR

Branding and style were randomised between offers so that overall choice behaviour cannot be explained by the fact that respondents chose offers with a certain level of advantageousness simply because these were presented in a more attractive style.

Respondents were free to view the marketing materials and websites as they wished. They could freely browse the websites as long as they wanted, but they could also choose not to visit the websites and base their choice on the information available in the advertisements.

The choice tasks and some questions from the post-experiment survey were **incentivized**: respondents were able to earn points (later to be converted to rewards) if they chose the most advantageous offer and answered certain quiz questions correctly. The provision of performance-based incentives increases the external validity of the experiment as in real-life,

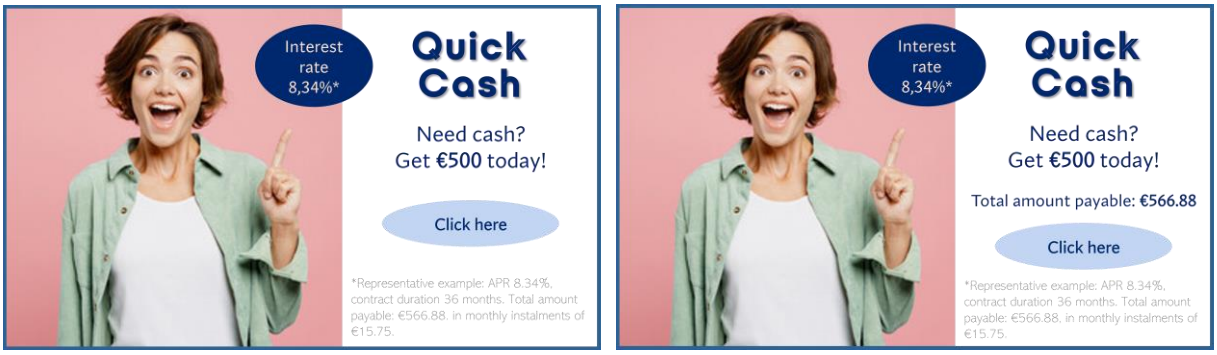
[538] Although the APR can be higher than the interest rate in real-life situations, we here used the same percentages in order to keep the experimental design as simple as possible.

consumers also obtain financial rewards (e.g., lower total costs) if they correctly understand, find and select the best credit offer.

Experimental conditions

Respondents were randomly assigned to one of two **honesty** conditions: they were exposed to either potentially deceiving or moderately correct materials in both choice tasks. In the *potentially deceiving* condition, only the interest rate and the loan amount (i.e., 500 or 4500 EUR) were presented saliently. Other relevant information, including the total amount payable, was presented in small print as part of a representative example. In the *moderately correct* condition, on the other hand, the total amount payable was also presented in a more salient manner (see Figure 6.2 below for an example of marketing materials used in the two conditions).

Figure 6.2: Examples of marketing materials in the potentially deceiving (left) and moderately correct (right) conditions



The **loan amount** was manipulated within subjects. This means that each respondent chose between offers with loan amounts of 500 EUR in one choice task and between offers with loan amounts of 4500 EUR in the other choice task (see Figure 6.3 below for an example of materials for the two amounts). The order in which these amounts were presented was randomised, which means that half of the respondents first considered offers with a low amount and half of the respondents first considered offers with a high amount.

Figure 6.3: Examples of marketing materials offering a 500 EUR credit (left) and 4500 EUR credit (right)

The simulated websites linked to SECCI forms. As in reality, these SECCI forms provided a wide range of information on the loan. The forms only differed on two aspects: (1) the information specific to the characteristics of the credit offered (e.g., the interest rate and contract duration) and (2) the availability of a **credit label**. This last aspect was manipulated between subjects, meaning that all SECCI forms a respondent could consult to inform their decision either included a credit label or did not include such a label. The credit labels were presented in colour at the top of the forms to make them visually salient. They provided a simplified overview of relevant characteristics of the loan: the annual percentage rate (APR), contract duration, monthly repayments, and the total amount payable. The formatting of the label was the same for all loans and providers and showed the information in a standarised table (see Figure 6.4 for an example).

Figure 6.4: Example of a credit label as presented in the SECCI forms

CREDIT LABEL			
APR	Duration	Monthly repayment	Total amount payable
9,87%	12 months	€43,93	€527,16

Respondents' **financial situation** was measured, but not manipulated. We asked them how difficult it was for them to make ends meet every month. There were six answer options, ranging from "very difficult" to "very easy". Answers to this question were used to split respondents into two groups: one group of respondents in a (relatively) good financial situation and one in a more difficult financial situation.[539]

Post-experiment survey

After the hypothetical choice experiment, respondents completed a post-experiment survey. This part started with a short introduction to the **SECCI form**. One of the forms they could have consulted before was presented and respondents who did not inspect it yet were asked to do so now. All respondents were then asked to answer questions assessing their objective as well as subjective understanding of information in the form and their evaluation of the form. **Objective understanding** was assessed by administering *true or false statements* about information provided in the form, concerning for instance the monthly repayment amount and specific terms and conditions.

Subjective understanding and evaluation of the information in the form were investigated by asking respondents several questions to assess to what extent they found specific information, or the form overall, clear and helpful. For instance, we asked them to rate on a scale from 1 (strongly disagree) to 7 (strongly agree) whether they agreed with statements like "The information in this form is easy to understand" and "I like this form". Respondents in the condition in which a credit label was included in the SECCI form during the choice tasks, were also asked to evaluate this label.

The post-experiment survey ended with questions regarding **background characteristics** of respondents. They were asked several questions, including questions to assess their **financial**

[539] This group was split in the middle: respondents who chose options "somewhat easy", "fairly easy", or "very easy" were considered to be in a (relatively) good financial situation, whereas respondents who chose options "very difficult", "fairly difficult", or "somewhat difficult" were considered to be in a more difficult financial situation.

literacy and experienced **financial stress**.[540] Financial literacy was assessed subjectively by asking how they would rate their financial knowledge and expertise compared to the average person in their country on a scale from 1 (much worse than average) to 7 (much better than average). It was also assessed objectively with three multiple-choice questions on loans and interest rates.[541]

Outcome measures

The main outcome measure for this experiment was whether or not respondents were able to **choose the best credit offer**. In addition, respondents were asked after each choice task how **confident** they felt that they had made the right decision and how **difficult** they found it to make this decision.

Furthermore, we assessed respondents' tendency to **review the SECCI form** in an objective manner, as we measured whether they clicked the link to this document.

Finally, **objective understanding** as well as **subjective understanding and evaluation** of (several aspects of) the SECCI form are important additional outcome measures in this study.

6.3.3. Data processing, weighting and data analysis

To ensure overall representativeness of the sample, allowing us to draw conclusions at the EU level, the data presented in the tables and figures in the results section were **weighted** to the universe proportions based on the population statistics of age, gender, geographical region and education for each target country. Given that **quotas** were set on these indicators, the deviations observed were limited. Only for education, agreement was found at fieldwork stage to merge the low and medium education categories in Sweden and Poland. In addition to the in-country weighting, a population weight was applied based on the countries' population size. Population weighting corrects for differences in population size between the target countries.

To analyse the data, **multilevel logit analyses** were performed for choice behaviour (which is a binary outcome measure), and **regression analyses** were performed for evaluations (which are continuous outcome measures). The models estimate the effects of the honesty of the marketing materials, the loan amount, the availability of a credit label, and respondents' financial situation, as well as interactions between these variables while controlling for differences in age, gender, and country.[542]

6.4. Results

This section describes the results of the experiment. It is structured along the outcome measures as presented in section 1.3.2. Each subsection **describes the data** in terms of, for instance, the percentage of respondents that were able to select the best credit offer and explains the results of **statistical analyses**. These analyses are performed to gain insight into whether differences in choice behaviour in different conditions or consumer groups (including their interactions) are statistically significant (i.e., unlikely to be due to chance).

[540] This scale was adjusted from: van Dijk, W. W., van der Werf, M. M., & van Dillen, L. F. (2022). The psychological inventory of financial scarcity (PIFS): A psychometric evaluation. *Journal of Behavioral and Experimental Economics*, 101, 101939.

[541] This scale was adjusted from: Gathergood, J. (2012). Self-control, financial literacy and consumer over-indebtedness. *Journal of Economic Psychology, 33*(3), 590-602.

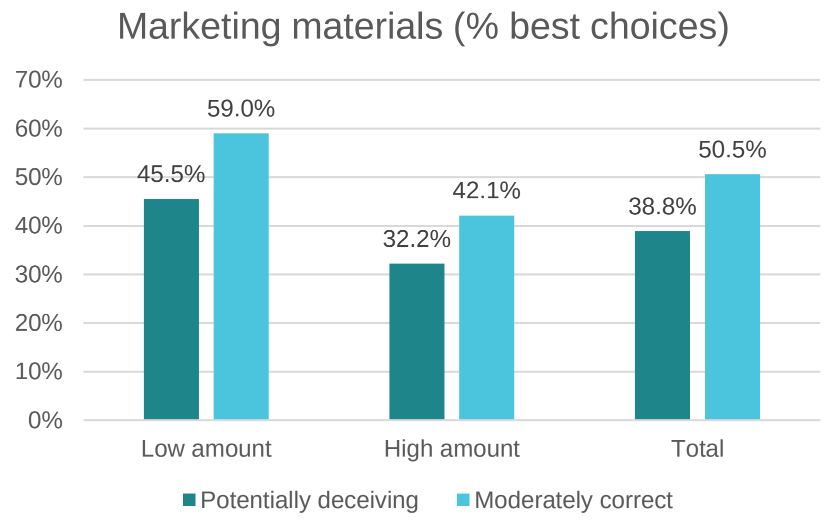
[542] In the analyses, no weighting was applied as this can lead to biased estimates; see for example: Winship, C., & Radbill, L. (1994). Sampling weights and regression analysis. *Sociological Methods & Research, 23*(2), 230-257.

6.4.1. Choosing the best offer

First, we analysed the percentages of respondents that were able to **select the best credit offer** in different conditions. Below we describe significant differences between conditions.[543]

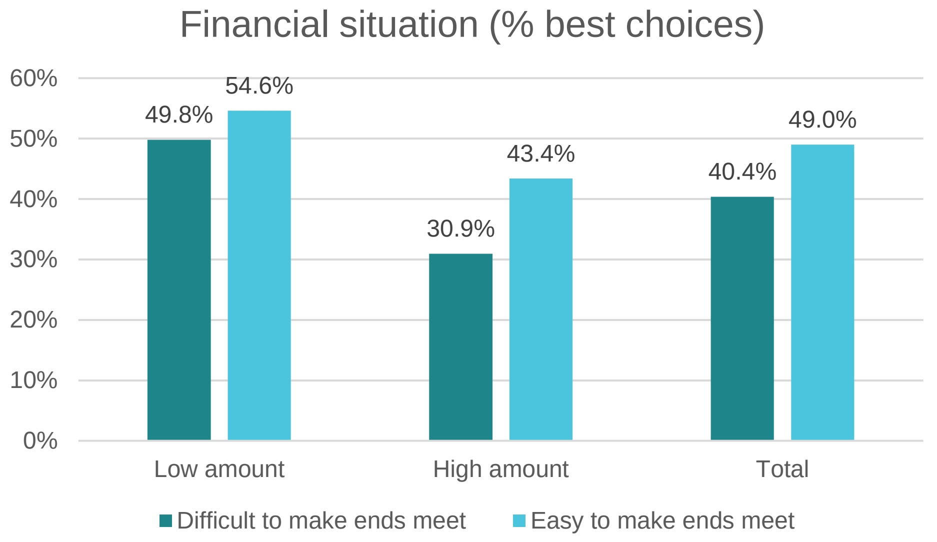
It was hypothesised that choices would be influenced by the level of **honesty** of the marketing materials and websites, in the sense that presenting the total costs of a loan in a salient manner would increase the percentage of advantageous choices. Figure 6.5 shows that this is indeed the case: respondents chose the most advantageous offer more often when the total amount payable was presented saliently (*moderately correct* condition; 51%) than when it was presented in small print (*potentially deceiving* condition; 39%), which supports the idea that salient information about the total amount payable helps consumers make better choices.

Figure 6.5: Percentages of choice tasks in which respondents chose the most advantageous credit offer deciding about low vs. high amounts in different honesty conditions (potentially deceiving vs. moderately correct)



[543] All *p*-values below .01.

Figure 6.6: Percentages of choice tasks in which respondents in easy vs. difficult financial situations chose the most advantageous credit offer deciding about low vs. high amounts



A second hypothesis was that respondents' **financial situation** would impact their ability to select the best offer. As expected, respondents who find it easier to make ends meet were better able to select the best offer (49%) than respondents who experience more difficulty making ends meet (40%; see Figure 6.6).

There is also a more unexpected, but not necessarily surprising, effect of the **loan amount**: respondents were more likely to choose the most advantageous offer in scenarios in which the loan amount is relatively low (52%) than in scenarios in which the loan amount is relatively high (37%).

Our last hypothesis on choice behaviour was that respondents' financial situation would influence their response to financial challenges (i.e., that there would be an **interaction between financial situation and loan amount**). Indeed, interestingly, although both respondents in a good financial situation as well as those in a more difficult situation make better choices regarding low loans than regarding high loans, the difference is larger for those in a more difficult situation. This finding supports the idea that consumers in more difficult financial situations tend to struggle more when selecting the best loan offer, especially when the decision process involves higher loan amounts.[544]

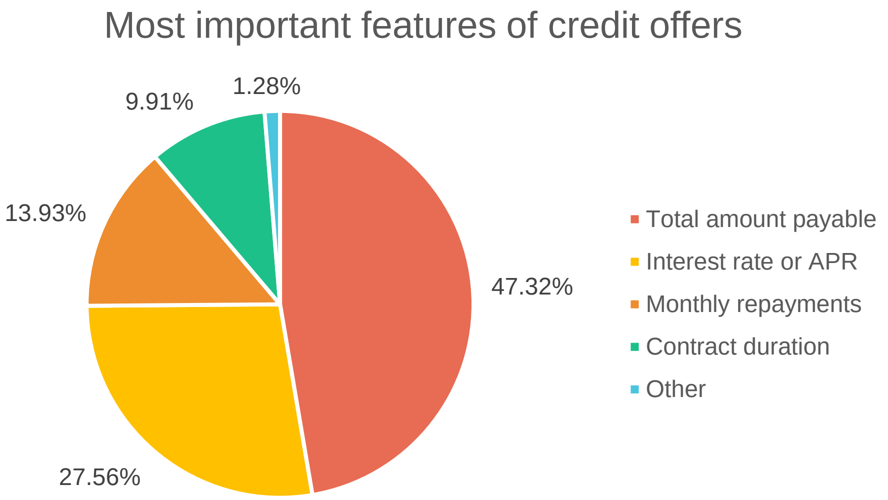
Additional insights

During the choice tasks, respondents could review the advertisements with credit offers and browse the website of each provider as they wished. The websites were used to increase the realism of the choice process and did not provide unique information relevant to the choice at hand. This means that respondents could (in theory) choose the most advantageous offer solely based on the information provided in the advertisements. Still, in a little over one-third (36%) of all choice tasks, respondents **browsed the websites** for more than 5 seconds.

[544] The influence of the manipulated factors (honesty, loan amount, and credit label) did not depend on respondents' educational level. This also suggests that the underrepresentation of respondents with the lowest educational level in Sweden and Poland did not negatively impact the generalisability of the findings.

After the choice tasks, we asked respondents which of the **features of the offers** was most important for their decision. As shown in Figure 6.7 below, almost half (49%) of the respondents considered the total amount payable to be the most important feature, while about a quarter (28%) considered interest rate or APR to be more relevant.

Figure 6.7: Features that respondents considered to be most important for their choice between credit offers



Finally, when interpreting the influence of financial situation on choices, it is important to note that the two groups differ on other aspects in addition to only financial situation. Analyses show, for instance, that the group struggling financially experiences more **financial stress** and is less **financially literate** (as measured subjectively as well as objectively). Moreover, both lower financial stress and higher objective financial literacy are predictive of better choices between credit offers.[545]

6.4.2. Difficulty and confidence regarding choices

To evaluate whether respondents found it more difficult to choose between credit offers or feel more confident they made the right decision after their choice in a certain context, we compared the reported difficulty and confidence in both groups (easy vs. difficult to make ends meet) and all conditions (honesty, loan amount, and credit label). It turns out that respondents who found it (relatively) easy to make ends meet experience less **difficulty** when deciding between credit offers than respondents struggling to make ends meet.[546] There were no differences between the other conditions. For **confidence**, we did not find any differences between groups or conditions.

[545] All $p < .01$.

[546] $p < .01$.

Table 6.4: Ratings of difficulty and confidence regarding choices between offers

Percentages of respondents who chose answers 1 to 3 vs. answers 5 to 7 on a scale from 1 (very doubtful/difficult) to 7 (very confident/not difficult at all).

Question	% (very) doubtful or (very) difficult	% (very) confident or not difficult (at all)
How confident are you that you chose the best loan offer?	35.1%	39.5%
How difficult was it to choose between the offers?	12.7%	67.3%

Overall ratings of difficulty and confidence presented in Table 6.4 above show that while respondents were divided about whether the choices were difficult or not, they were generally quite confident they made the right decision afterwards.

6.4.3. Reviewing SECCI forms

Next, it was investigated how many respondents **reviewed at least one SECCI form** before selecting a credit offer. As we have seen before, in about 36% of all choice tasks respondents visited at least one of the three websites. Only after clicking the link to the website, they were exposed to the link to the SECCI form. In total, about 4% of all respondents (including those who did not visit a website) opened a SECCI form on one of the websites. There was no significant difference between conditions (see Figure 6.8) or between respondents in different financial situations (see Figure 6.9).

Figure 6.8: Percentages of choice tasks in which respondents reviewed at least one SECCI form when deciding about low vs. high amounts in different honesty conditions (potentially deceiving vs. moderately correct)

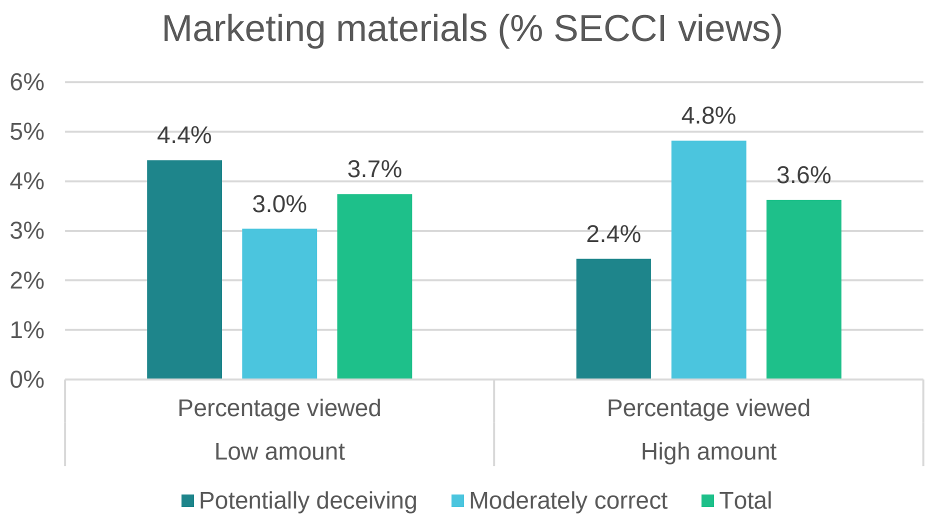
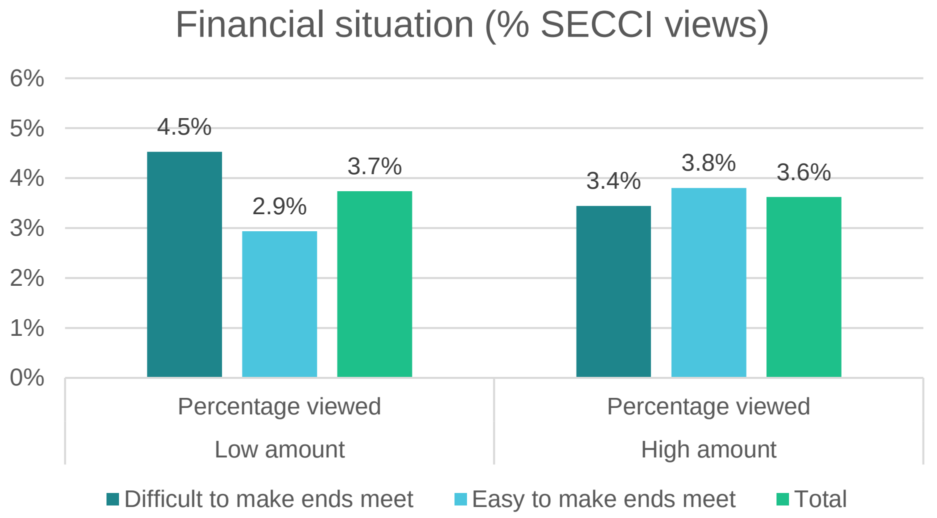


Figure 6.9: Percentages of choice tasks in which respondents from different groups (easy vs. difficult to make ends meet) reviewed at least one SECCI form when deciding about low vs. high amounts



6.4.4. Objective understanding of the SECCI form

After the choice tasks, all respondents were presented with one of the SECCI forms they could have viewed during these tasks. This means that half of the respondents were presented with a SECCI form with a credit label and half of the respondents were presented with a SECCI form without a credit label (see Figure 6.10 for an example of such a credit label).

Figure 6.10: Example of a credit label as presented in (half of) the SECCI forms

CREDIT LABEL			
APR	Duration	Monthly repayment	Total amount payable
9,87%	12 months	€43,93	€527,16

Respondents got the opportunity to review the form and answered **true or false quiz questions** to assess their objective understanding of the information in the form. When answering these questions, respondents could browse the form to look up the correct answers.

Respondents judged five statements such as "If you receive this loan, then you will have to pay back 45.85 EUR on top of the 500 EUR you borrowed" and "The additional charge that you need to pay if you miss a payment is a fixed amount". On average, respondents correctly judged 3.6 out of these five statements. Importantly, this number did not significantly differ between respondents who did or did not see a credit label.[547]

[547] $p > .05$

The statement "If you happen to receive a large amount of money during the loan period, you can repay the full loan amount at an additional charge" seemed to be the most difficult (53% correct), while the statement "If you receive this loan, then you will have to repay 43.77 EUR each month" seemed to be the easiest one for respondents (88% correct).

6.4.5. Subjective understanding and evaluation

In addition to objective understanding, we also assessed subjective understanding and evaluation of the SECCI form in general and the credit label more specifically in several steps. In the first step, we asked respondents to evaluate the **overall information in the SECCI form**. Table 6.5 shows the mean evaluations of several characteristics on a scale from 1 (strongly disagree) to 7 (strongly agree) as well as percentages of respondents who selected a certain answer.

Table 6.5: Evaluations of several characteristics of the SECCI forms

Mean evaluations on a scale from 1 (strongly disagree) to 7 (strongly agree) and percentages of respondents who chose answers 1 to 3 ((strongly) disagree) vs. answers 5 to 7 ((strongly) agree), per type of SECCI form.

The information in this form…	SECCI form	Mean on 7-point scale	% (strongly) disagree	% (strongly) agree
…is easy to understand	Without credit label	4.75	17.5%	58.0%
	With credit label	4.75	17.3%	59.6%
…takes too long to understand	Without credit label	4.20	31.8%	43.1%
	With credit label	4.11	34.3%	41.5%
…is clear	Without credit label	4.82	16.0%	60.2%
	With credit label	4.83	15.8%	60.6%
…is confusing	Without credit label	3.34	57.9%	25.0%
	With credit label	3.36	56.7%	26.0%

Overall, it seems that **respondents were quite positive about the SECCI form**. Most of them found it clear, easy to understand, and not (too) confusing. There were no significant differences between evaluations of SECCI forms with and without credit label.[548]

Responses on a scale measuring **information overload** further suggest that SECCI forms without and with a credit label trigger similar amounts of information overload. This scale consisted of four items, such as "I feel overwhelmed by the amount of information in this form".

[548] $p > .05$ for all statements

The mean of 3.4 on a 7-point scale for both types of forms suggests that the average respondent was not overly overwhelmed by the amount of information in the SECCI form.

When asked how easy or difficult it was to **find and understand specific information** (e.g., about interest rate or loan duration) in the SECCI forms, respondents found it equally easy to find and understand information about loan duration, monthly instalments, and interest rate in SECCI forms without and with credit labels. Respondents who were presented with the SECCI form with a **credit label**, however, found it both **easier to find and understand information about the APR**.[549] Table 6.6 shows the means and percentages for each characteristic evaluated by respondents.

Table 6.6: Evaluations of the ease of finding and understanding information in the SECCI forms

Mean judgements of how easy/difficult it was to find and understand the information on a scale from 1 (very easy) to 7 (very difficult) and percentages of respondents who chose answers 1 to 3 ((very) easy) vs. answers 5 to 7 ((very) difficult), per type of SECCI form.

		Finding information			Understanding information		
	SECCI form	Mean on 7-point scale	% (very) easy	% (very) difficult	Mean on 7-point scale	% (very) easy	% (very) difficult
Loan duration	Without credit label	2.74	64.8%	20.4%	2.72	66.1%	19.4%
	With credit label	2.65	67.6%	18.4%	2.69	66.4%	17.5%
Monthly instalment	Without credit label	2.69	67.2%	19.5%	2.68	66.8%	17.3%
	With credit label	2.63	68.2%	18.5%	2.62	68.9%	15.5%
Interest rate	Without credit label	2.85	63.1%	20.5%	2.94	60.0%	20.5%
	With credit label	2.90	62.8%	20.8%	2.91	63.4%	18.6%
Annual percentage rate (APR)	Without credit label	3.12	56.3%	24.8%	3.22	54.2%	25.1%
	With credit label	2.92	62.5%	20.6%	3.02	59.8%	22.0%

[549] *p* = .02 for both finding and understanding

After respondents had looked for specific information in the forms and had judged how easy or difficult they found this, we again asked them to evaluate the overall SECCI form. Table 6.7 below shows that a large majority of respondents thought **the form was important and useful**. Trust is slightly lower, but most respondents still seemed to trust the form. Furthermore, although liking was relatively low compared to the other measures, it was significantly higher for SECCI forms with a credit label.[550] In other words, **consumers like SECCI forms with a credit label better than SECCI forms without a credit label**.

Table 6.7: Evaluations of several characteristics of the SECCI forms (after review)

Mean evaluations on a scale from 1 (strongly disagree) to 7 (strongly agree) and percentages of respondents who chose answers 1 to 3 ((strongly) disagree) vs. answers 5 to 7 ((strongly) agree), per type of SECCI form.

	SECCI form	Mean on 7-point scale	% (strongly) disagree	% (strongly) agree
This form is important	Without credit label	5.62	5.2%	80.1%
	With credit label	5.57	7.4%	79.0%
This form is useful	Without credit label	5.55	5.5%	79.3%
	With credit label	5.58	6.0%	78.8%
I trust this form	Without credit label	5.10	12.7%	65.5%
	With credit label	5.12	12.0%	67.5%
I like this form	Without credit label	4.64	21.7%	52.7%
	With credit label	4.81	16.4%	58.5%

Respondents also answered questions about whether they felt any information was missing from the SECCI form, how frustrated they felt reading it and whether they considered reading it was worth their time. Responses are summarized in Table 6.8 below. It seems that most respondents felt that no (or only some) information was missing and that most did not feel frustrated reading it. A majority of respondents believed reading the form was worth their time. These perceptions do not significantly depend on the type of form (with or without credit label).

[550] $p = .02$

Table 6.8: Evaluation of additional aspects of the SECCI forms

Mean evaluations on a scale from 1 (not at all) to 7 (completely) or 1 (a complete waste of my time) to 7 (completely worth my time) and percentages of respondents who chose answers 1 to 3 vs. answers 5 to 7, per type of SECCI form.

	SECCI form	Mean on 7-point scale	% Not at all – not really	% A little bit – completely
To what extent, if at all, do you feel information is missing from the form?	Without credit label	3.22	56.7%	24.4%
	With credit label	3.19	58.6%	22.6%
To what extent, if at all, did you feel frustrated while reading the form?	Without credit label	3.24	54.0%	26.7%
	With credit label	3.30	54.5%	28.2%
	SECCI form	Mean on 7-point scale	% a (complete) waste of my time	% (completely) worth my time
I consider reading the form…	Without credit label	5.19	12.1%	70.9%
	With credit label	5.13	13.9%	68.3%

Finally, respondents who were presented with the SECCI form with a credit label were asked to evaluate this label separately. Table 9 below shows that, overall, **respondents found the credit label easy to understand and helpful** when comparing loan offers.

Table 6.9: Evaluations of several characteristics of the credit label

Mean evaluations on a scale from 1 (strongly disagree) to 7 (strongly agree) and percentages of respondents who chose answers 1 to 3 ((strongly) disagree) vs. answers 5 to 7 ((strongly) agree).

The label…	Mean on 7-point scale	% (strongly) disagree	% (strongly) agree
…is easy to understand	5.32	9.9%	72.2%
…takes too long to understand	3.12	59.5%	22.6%
…is clear	5.29	11.3%	72.0%

…is confusing	2.74	69.5%	16.6%
…helps me compare loan offers and choose the best one	5.29	9.5%	71.6%

In sum, the results presented in this section suggest that even though most respondents did not use the SECCI forms during the choice task, they were actually quite positive about them when explicitly asked to review them. Differences in evaluations of SECCI forms with and without credit label were generally small (and not statistically significant). However, the credit label does seem to help consumers find and understand information about the APR and increase their liking of the form. When explicitly asked about the credit label, respondents evaluated it as easy to understand and helpful.

6.5. Conclusions

This study investigated the **capacity of EU consumers to evaluate offers from credit providers**. A realistic online experiment was conducted in which respondents repeatedly chose between credit offers of varying advantageousness. The respondents were assigned to experimental conditions that differed in terms of the level of "**honesty**" of the information provided in the marketing materials and on the website (*potentially deceiving* vs. *moderately correct*), the **loan amount** (500 EUR or 4500 EUR), and the presence or absence of a **credit label** in an attached SECCI form. This allowed us to assess how respondents choose between credit offers, whether they are able to select the most advantageous one, and how this decision process is influenced by marketing techniques, the height of the credit, and the presence of a credit label summarising the SECCI form's key information in a simple, standardised and visually salient manner. Respondents varied in terms of their **financial situation**, so we could also compare choice behaviour between consumers who experience difficulty making ends meet and consumers who manage to get around without (significant) difficulty.

Furthermore, the study aimed to gain more insight into how consumers evaluate and how well they understand the information in SECCI forms. We therefore asked respondents to review an example of such a form and assessed their subjective understanding, objective understanding, and evaluation of the (specific elements of) the form.

The results give rise to the following key conclusions:

- Choices between credit offers are influenced by the level of honesty of information provided in marketing materials and on the website: **when the total amount payable is presented in a more salient manner, consumers are more inclined to choose the most advantageous offer**. It could therefore also be used as part of a mitigation strategy.
- Differences between consumers' financial situations influence their choices between credit offers. **Consumers struggling to make ends meet seem to be more vulnerable to suboptimal decisions**: they tend to choose the most advantageous offer less often overall, but specifically in case the offer involves a higher loan amount. Findings suggest that this might be related to lower financial literacy or higher financial stress among these consumers.
- When not explicitly told to do so, only very few consumers view SECCI forms to inform their decision. However, **when their attention is directed to these forms,**

consumers evaluate SECCI forms quite positively. This suggests that it might be helpful to make consumers more aware of the added value of SECCI forms so they will be more inclined to view them.

- Given that SECCI forms often present relatively large amounts of complex information and that consumers might experience limitations in terms of their cognitive resources, summarizing information in **a simple, visually salient credit label might be helpful**. The findings show that although forms with and without credit labels are generally evaluated similarly, SECCI forms with credit labels are liked a bit better by consumers and seem to help them find and understand information about the APR.
- Given the low number of respondents who chose to read the SECCI carefully, adding a credit label to SECCI forms may aid decision-making in real-life situations only under the condition that consumers are made better aware of the importance of the SECCI and the information presented in this form.

Alternatively, it might be helpful to present standardised credit labels (or at least standardised information about the total amount payable) separate from SECCI forms, for instance in advertisements and/or on providers' websites. Increasing their visibility early in the decision-making process might increase the chance that they will help consumers make better decisions. More research is needed to assess the effectiveness of such a mitigation strategy.

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