THE OVER-INDEBTEDNESS OF EUROPEAN HOUSEHOLDS: UPDATED MAPPING OF THE SITUATION, NATURE AND CAUSES, EFFECTS AND INITIATIVES FOR ALLEVIATING ITS IMPACT

Final Report

Part 1: Synthesis of findings

CIVIC
CONSULTING

Title of the study	The over-indebtedness of European households: updated mapping of the situation, nature and causes, effects and initiatives for alleviating its impact – Part 1: Synthesis of findings
Conducted for	Directorate General Health and Consumers (DG SANCO)
Prepared by	Civic Consulting of the Consumer Policy Evaluation Consortium (CPEC)
Reported by	Dr Frank Alleweldt and Dr Senda Kara *(directors),* Robert Graham, Prof Elaine Kempson and Sharon Collard *(Personal Finance Research Centre, University of Bristol),* Dr Stuart Stamp, Neva Nahtigal
Country reports	Dr Bernadette Kamleitner *(Austria)*, Michiel De Muynck *(Belgium)*, Dr Lubomir Christov and Bogomil Nikolov *(Bulgaria)*, Rémi Béteille *(Cyprus)*, François Lejeune and Dominique Spaey *(Van Dijk Management Consultants, Czech Republic, Romania)*, Nicholas McSpedden Brown *(Denmark)*, Prof Karsten Staehr and Merike Kukk *(Estonia)*, Robert Graham *(Finland, Germany, Latvia, Lithuania, Malta)*, Dr Georges Gloukoviezoff *(France)*, Prof Dimitris Georgarakos *(Germany)*, Melina Mouzouraki *(Greece)*, Aniko Bernat *(Hungary)*, Dr Stuart Stamp *(Ireland)*, Prof Daniela Vandone *(Italy)*, Anna Kaxira *(ICF GHK Consulting, Luxembourg, Poland)*, Prof Stefan Hochguertel *(Netherlands)*, Katarzyna Majkut *(ICF GHK Consulting, Poland)*, Prof Catarina Frade and Fernanda Jesus *(Portugal)*, Lenka Filipova *(Slovakia)*, Boštjan Krisper *(Slovenia)*, Julia Gumy *(Spain)*, Prof Annina Persson *(Sweden)*, Sharon Collard and Andrea Finney *(Personal Finance Research Centre, United Kingdom)*
Reviewed by	Dr Senda Kara, Dr Frank Alleweldt, Robert Graham, Neva Nahtigal, Arabel Luscombe
Support team	Arabel Luscombe, Lenka Filipova, Rémi Béteille, Donald Blondin, Nicholas McSpedden-Brown, Sahil Deo, Francis Murphy, Jeff Deutch and Lisa Manke (verification)
Report finalised on	18.2.2013 (Draft), 04.12.2013 (Final)

Civic Consulting
Potsdamer Strasse 150, D-10783 Berlin

www.civic-consulting.de

Contents

1 EXECUTIVE SUMMARY 3

2 INTRODUCTION 16

3 DEFINITION OF OVER-INDEBTEDNESS 19

3.1 Definitions of over-indebtedness in EU Member States 22

3.2 Perceived need for better definitions 26

3.3 Indicators or definition? 28

4 LEVEL OF OVER-INDEBTEDNESS 32

4.1 Overview of indicators and country clusters 34

4.2 Statistics on arrears 41

4.3 Statistics on debt settlement 57

4.4 Subjective assessments by households 58

4.5 Other assessments 69

4.6 Comparison of selected indicators 72

4.7 Changes since the financial crisis 75

5 TYPES OF HOUSEHOLDS IN FINANCIAL DIFFICULTIES 76

5.1 Low income/poverty 78

5.2 Age 80

5.3 Number of children or dependents 83

5.4 Marital and parental status 85

5.5 Housing tenure 86

5.6 Level of education 88

5.7 Migration and citizenship status 90

5.8 Changes since the financial crisis 90

6 CAUSES OF HOUSEHOLDS' OVER-INDEBTEDNESS 92

6.1 Macro-economic factors 96

6.2 Cost of living 138

6.3 Types of credit/loan taken out by households 150

6.4 Personal circumstances 156

6.5 Cultural attitude towards debt and actual level of households' (over-) indebtedness 165

7 CONSEQUENCES OF OVER-INDEBTEDNESS 172

7.1 Consequences of over-indebtedness for affected households 174

7.2 Summary of findings from the household interviews 191

7.3 Consequences of over-indebtedness for the financial services industry 195

7.4 Economic and social consequences of over-indebtedness for society 197

7.5 Changes in debt collection practices 200

8 MEASURES 204

8.1 Early identification of households at risk 206

8.2 Advice offered to over-indebted households 208

8.3 Formal and other key measures in place to alleviate the impact of over-indebtedness 221

8.4 Households' use and perception of available measures 226

8.5 Changes in response to over-indebtedness 231

8.6 Types of households of over-indebted consumers not reached by current measures 233

8.7 Best practices 235

9 MAIN MESSAGES AND LESSONS LEARNT 239

ANNEX 1. REFERENCES 253

ANNEX 2. STATISTICAL DATA ON DEBT ADVICE 257

ANNEX 3. SURVEY OF DEBT ADVICE SERVICE PROVIDERS 265

ANNEX 4. LIST OF STAKEHOLDERS INTERVIEWED 271

ANNEX 5. METHODOLOGICAL NOTE 278

ANNEX 6. LIST OF BEST PRACTICES 284

1 EXECUTIVE SUMMARY

This section provides a brief overview of the study, including the key findings relating to the definition, level, causes, and consequences of over-indebtedness, as well as profiling the types of households most often in financial distress, concluding with an overview of measures to alleviate over-indebtedness and a snapshot of current best practices in the sector.

The aim of this study is to provide a systematic and comparable snapshot of the situation of households' over-indebtedness in all EU Member States. It analyses the causes and nature of over-indebtedness and its effects on citizens' daily lives and financial institutions, as well as its wider socio-economic consequences. Finally, it covers the measures in place across the European Union to alleviate the effects of over-indebtedness and the organisations that are active in this field. The study was conducted by Civic Consulting of the Consumer Policy Evaluation Consortium, in cooperation with the University of Bristol's Personal Finance Research Centre.[1]

The study is based on the analysis of 277 stakeholder interviews in all Member States (covering financial industry, civil society organisations, public authorities, and independent experts), a total of 120 face-to-face interviews with over-indebted households in six countries (France, Hungary, Germany, Slovenia, Spain, and the UK), desk research and analysis of available statistical data, an analysis of specific aspects in selected Member States through country experts, and an EU27 survey of organisations active in addressing instances of over-indebtedness, debt counselling and guidance services.

1.1.1 Definition of over-indebtedness

A common European operational definition of household over-indebtedness does not exist.[2] A specific definition was composed for the present study, which was provided to interviewees in advance as a reference for the discussion about their own specific definitions of over-indebtedness. According to this definition, households are considered over-indebted if they are having – on an on-going basis – difficulties

---

1 Input for selected country analyses was provided by consortium partners ICF GHK and Van Dijk Management Consultants.

2 This study uses a 2008 study conducted for the European Commission as the key reference in attempting to define household over-indebtedness. The study identified a number of common elements in the definitions used across Member States, which attempt to capture the multi-dimensional nature of over-indebtedness. These dimensions included the economic dimension of being over-burdened with commitments, a time dimension emphasising long-term structural problems versus short-term commitments, a social dimension highlighting financial or social exclusion, as well as a psychological dimension in terms of severe stress and impacts on health that over-indebtedness can trigger in affected persons. The study elaborated elements of a common European operational definition, however, these were not distilled into a definition. See: European Commission, *Towards a common operational European definition of over-indebtedness*, European Commission: Directorate-General for Employment, Social Affairs and Equal Opportunities, 2008, hereafter referred to as '2008 EMPL study'.

meeting (or falling behind with) their commitments, whether these relate to servicing secured[3] 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.

Fewer than half of stakeholders who participated in this study said that they used a specific definition for households or individuals being over-indebted. Of those who did use a definition, a plurality of stakeholders stated that the definition they used was based on national law or legislation. Nevertheless, from comments it was clear that most definitions in use referred to on-going financial difficulties across all types of household commitments and many of them had a lot in common with the definition used for this study. Despite the lack of definitional clarity, there was surprisingly little support among stakeholders for a better definition of over-indebtedness, including at the stakeholder workshop conducted to present preliminary findings on the study.[4] A number of stakeholders said that there was a need for better quantitative indicators, as opposed to a better definition – similarly to the 2008 report for the European Commission, which also drew a distinction between a definition of over-indebtedness and indicators to measure it.

The difficulty of reliably integrating a wide array of indicators, and the general lack of interest expressed by stakeholders in a better definition of the term 'over-indebtedness', suggests that the time may have come to abandon the attempt to precisely define a term that many people seem to find unhelpful, while bearing in mind that the common element of the existing definitions of "over-indebtedness" is that households suffer on-going difficulties to meet financial commitments of any nature. Instead, the focus could be on identifying the key policy concerns that exist and developing reliable indicators to help to track them. In doing this, it is useful to deconstruct 'over-indebtedness' in two dimensions.

These are: the type of financial commitment, and the nature of the concern (level of commitments or inability to meet them when they fall due). In any case, there is a broad agreement among stakeholders that was also expressed during the stakeholder workshop that definitional issues should not stand in the way of tackling the problem, as over-indebtedness in practice consists of people finding themselves in difficult and traumatic situations.

Following the definition adopted for this study, the EU income, social inclusion and living conditions survey (EU-SILC) was primarily used along with others to compare over-indebtedness of households at the European level in this study.

[3] Secured borrowing refers to a loan that is backed with an asset held by the borrower; often their home.

[4] The stakeholder workshop took place in Brussels on 24 January 2013.

1.1.2 Level of over-indebtedness

EU-SILC survey data shows that, in 2011 and across the EU area as a whole, one in almost nine of those surveyed (11.4%) had been in arrears with payments over the previous 12 months on rent/mortgage, utility bills and/or hire-purchase/loan agreements due to financial difficulties. These averages conceal a wide variation in the levels and nature of the financial difficulties being faced by households in individual Member States. At one extreme, in 2011 more than three in ten of those surveyed in Bulgaria, Greece and Romania had been in arrears in the previous 12 months. A further four Member States had overall arrears levels that were at least one and a half times the EU average: Cyprus, Latvia, Hungary and Slovenia. At the other extreme, in four Member States 6% or fewer of those surveyed were in arrears (Sweden, Germany, the Netherlands and Luxembourg).

Breaking down overall arrears into specific categories, the proportion of people in arrears on utility bills in the EU (at 8.8%) was the highest among the overall arrears on key commitments. The highest frequencies of arrears on utility bills, however, tend to be in the EU12 (the Member States that acceded to the EU in 2004 and 2007). Data on debt-write offs by creditors is limited and presented for only some Member States in this study in regards mortgage default rates. The total value for arrears for this period was increasing for several Member States; in Ireland, for example, the ratio of existing arrears to total outstanding residential loans nearly doubled between 2009 and 2010.

Regarding subjective assessments of household over-indebtedness, that is households' ability to make ends meet with its combined total income, respondents to the EU-SILC survey agree that this is possible only with difficulty or great difficulty in Bulgaria, Greece, Latvia, and Hungary, all with levels approaching or exceeding 60%. At the lower end of the scale are Finland, Sweden, Luxembourg, Denmark, and Germany, all with figures of less than 10%, again in concordance with earlier measures.

When considering the development of the overall level of arrears between 2005 and 2011, the majority of Member States had experienced an increase in overall levels of arrears, for the most part since the onset of the financial crisis. This worsening situation is reflected in the reported debt counselling figures collected as part of the present study from debt advice/counselling agencies. Trends show a clear increase over the time period for number of people counselled on debt issues in the EU. Face-to-face counselling remained the most popular, while telephone based counselling increased less rapidly. The trend for email/online chat, while lower than the others, is shown to be constantly increasing.

In correspondence with the data presented there was a general consensus among stakeholders interviewed for this study that the situation had significantly worsened in the past five years in most countries, with the exception of Germany. 49% stated that the numbers of households that are over-indebted or have on-going difficulties in meeting their financial commitments had increased significantly in the last five years, with a further 23% saying that it had increased moderately.

Combining the key indicators reviewed (frequency of arrears, and perceived inability to make ends meet), a very high level of household arrears combined with a very high inability to make ends meet leads to a *first cluster* of six Member States: Greece, Romania, Cyprus, Latvia, Hungary and Bulgaria. These are mostly non-Eurozone Member States that have acceded to the EU in 2004 or 2007 (with the exception of Greece).

The *second cluster* of Member States identified combines a high level of household arrears with a mostly very high to moderate inability to make ends meet. These are Italy, Lithuania, Ireland, Poland, Slovenia and Estonia. Four of these six Member States belong to the Eurozone.

The *third cluster* of Member States combines a moderate level of household arrears with an inability to make ends meet ranging from very high, to low, however the majority report moderate levels. Eight out of the nine Member States in this group are part of the Eurozone.

The final *fourth cluster* of Member States identified - the Czech Republic, Denmark, the Netherlands, Sweden, Luxembourg, and Germany - are defined by a low proportion of people in arrears and mostly low proportion of those unable to make ends meet. Only half of these Member States are part of the Eurozone, but are with only one exception (Czech Republic) EU15 members located in northern Europe.

1.1.3 Types of households in financial difficulties

While over-indebtedness is not restricted to any social group, the picture that emerges through review of the data shows that the types of individuals and households at greatest risk of having on-going difficulties with meeting their financial commitments are predominantly young families with children, who are living on low incomes and with at least one unemployed person. It includes tenants as well as families buying a home on a mortgage. But there are also signs of new groups of people being affected, with nearly half of all stakeholders interviewed noting a significant change over the past five years. Most notably, they reported an increase in the levels of financial difficulties being experienced by people on middle incomes and those buying a home on a mortgage.

Previous research finds income to be one of the strongest predictors of over-indebtedness - the lower the income, the greater the risk, even after controlling for other factors. This analysis was supported by analysis of EU-SILC and Eurobarometer data, and results from consumer interviews. This was also the view of stakeholders, who households with disposable incomes of less than 60% of the national median as among the most common types of over-indebted households. Since the crisis, growing numbers of middle income households are reported to have also fallen into financial difficulties.

Research also shows a strong link between financial difficulties and age, with younger people being at greatest risk. These findings were supported through analysis of EU-SILC and Eurobarometer data, as well as consumer interviews carried out for this study. The link between age group and over-indebtedness was repeated in the interviews with stakeholders, over half of whom said that people aged between 25 and 39 were among the groups most likely to be experiencing on-going difficulties meeting their financial commitments.

However, changes have been recorded due to the financial crisis, with some evidence of increasing household over-indebtedness in older age groups. Recent statistics on users of debt advice agencies in the UK record rapidly growing demand among older age groups, while several stakeholders in multiple countries commented on recent increases in both the amount of younger (under 25) and older (over 40 or retired) people experiencing financial difficulties.

Research that found that the number of children in a household significantly increases the risk of being in financial difficulties was supported through analyses performed in the present study. Using EU-SILC data, it was found that respondents with no dependents had consistently less than half the level of total arrears than respondents with dependents.

Previous research has also found that lone parents are at greater risk than two parent families. They are particularly disadvantaged, since they face the same (childcare) costs as two-person families but can only rely on their own income, perhaps with some level of social transfers. Stakeholders in the present study also emphasised the frequency of lone parent households that are over-indebted.

According to previous research, over-indebtedness has been more concentrated among people renting their home. By contrast, owner-occupied housing seems to be linked with a lower risk of over-indebtedness, though this is more pronounced for those who own their home outright than those with mortgages. However, in certain countries this relation is reversed - for example in Ireland and Spain, where home owners face increasing levels of financial difficulties due to income shocks and declines in house prices.

Consistent with previous research, level of education is also related to over-indebtedness, but the effect is weaker and more complex when other factors are taken into account. Previous research also finds that though migrants and non-EU citizens are a small part of the population, they face greater risk of being over-indebted.

1.1.4 Causes of over-indebtedness

This study reviews evidence and stakeholder assessments concerning several possible drivers of households over-indebtedness. These include macro-economic factors, cost of living, types of credit taken out by households, level of borrowing, and personal circumstances.

Statistical analysis conducted for this study is consistent with the view of nine in ten of the stakeholders interviewed that macro-economic factors are among the most important causes of financial difficulties. Research carried out for this study found that for arrears over time, higher unemployment levels as well as increases in unemployment were associated with an increase in all types of arrears. Increases in real adjusted gross disposable income of households were also strongly and significantly associated with lower frequencies of arrears.

Research carried out for this study confirmed that a minority of countries have seen increases in the cost of living well above the EU average. These include Latvia, Romania, Bulgaria, Hungary, Lithuania, Estonia, and Greece. Almost all of these have very low average incomes. Results from analysis of key indicators of income and living costs showed that from the pre to post crisis periods, increases in cost of living outstripped income by several percentage points. In a second step, these increases were found to be strongly correlated with increased arrears in 2011, in particular arrears on utilities.

Overall, the costs of living that were referred to most frequently by consumer interviewees as causes of their financial difficulties were utility costs, the general costs of living, housing costs and childcare or child related costs (in descending order). Rises in the cost of living were also mentioned as a significant cause of financial difficulties by eight in ten stakeholders. The main areas of concern were utility bills, followed by housing costs, and other costs including food, and transport. Other areas of expenditure were seen as less important.

Previous research finds that the use of unsecured credit is positively associated with the likelihood of arrears. The greater the number of credit commitments households had, and the larger proportion of their income they spent on repaying them, the more serious was the level of arrears. In contrast, the total amount of money borrowed had a much less pronounced effect. Looking at macroeconomic data on debt outstanding, it is hard to discern a simple direct relationship between levels of mortgage borrowing and levels of arrears. In the field of consumer credit the relationship appears to be clearer: a significant positive correlation was found between the level of consumer debt outstanding at the aggregate level and the frequency of arrears on hire purchase or other loans. An even stronger correlation was found between the level of consumer debt and the frequency of arrears on utility bills.

Evidence from previous research supports the hypothesis that higher levels of consumer credit outstanding may put households in a riskier financial position, that is, that they are more likely to have arrears on hire purchase or other loans, and arrears on utility bills. Alternatively, it may be the case that consumers with lower incomes are more likely to take out loans in order to pay arrears on utility bills or housing costs, but there was insufficient data available to verify either of these hypotheses in this study.

Almost nine in ten of the stakeholders interviewed reported that specific types of credit or loans taken out by households were among the most important causes of household's over-indebtedness in their country, although other causes were also considered to be important as multiple answers were possible. The largest proportion mentioned some form of high interest rate credit from regulated lenders as being amongst the most important causes of households financial difficulties; nearly the same amount chose home loans or mortgages, and a little under half considered that the level of consumer credit borrowing at average interest rates was problematic.

Across the EU, fewer stakeholders saw predatory or usurious types of credit as amongst the most important causes of over-indebtedness (mentioned by about three in ten stakeholders), followed by other easy to obtain financial products (such as payday or SMS loans), and non-usurious credit from unregulated lenders. Only a small minority of stakeholders considered informal credit or loans from family members, friends, or employers to be one of the most important causes of over-indebtedness. However, stakeholders in several Member States reported a rise in the use of high-cost short-term credit in the form of SMS loans, payday loans or unregulated lending.

In terms of personal circumstances, interviewed stakeholders considered drops in income caused by unemployment or business failure to be among the most important causes of household over-indebtedness. In consumer interviews, a drop in income as the result of unemployment or illness was the personal circumstance most commonly referred to by interviewees. Approaches to money management and financial decisions can play an important role whether or not individuals of households experience financial difficulties. There is a growing body of research to support this conclusion and either 'incapacity to deal with financial products' or 'lack of money management skills' (or both) were chosen as being among the most important causes of over-indebtedness by nearly two-thirds of all stakeholders.

A majority of stakeholders believe that there is a relationship between the cultural attitude towards debt and the actual level of household over-indebtedness. While attitudes vary between Member States, stakeholders who observed a change in cultural attitudes noted that historically a lot of significance used to be attributed to being debt-free. This attitude has changed recently with the development of financial sector and the introduction of a variety of new financial products accompanied by cultural valorisation of consumption. However, there is a tendency among stakeholders from some countries to believe that consumers are becoming more careful in terms of willingness to take credits in the wake of the financial crisis.

Concerning the psychological approach to the debt, overall, what emerged was a picture of a considerable group of over-indebted consumers who clearly wanted to pay their debts, but were suffering in various ways through not having the resources at their disposal to do so.

1.1.5 Consequences of over-indebtedness

Households' over-indebtedness has severe consequences for the affected households and for the financial industry, as well as broader economic and social implications.

Research has shown there to be a strong association between over-indebtedness and what might be termed deprivation, that is going without basic necessities as a consequence of inadequate disposable income after the repayment of debts. Deteriorating health and well-being can be both a cause and a consequence of financial difficulty. Several studies have identified an association between the onset of over-indebtedness and ill-health, and there can be negative effects on physical health, on mental health and on well-being - in some cases, these can be very serious indeed. However, research also highlighted social exclusion, exclusion from basic banking services, and a range of social sanctions as among of the most serious consequences.

This general picture is confirmed by the households interviews conducted for the study in six countries: the consequences most frequently mentioned were reduced standard of living and a deterioration of well-being and/or mental health. Interviewees commonly indicated that they had cut down on all non-essential items, such as holidays or eating out. In addition, several interviewees indicated that they had problems finding money for essential needs, such as food or healthcare. Generally, many interviewees were upset about the effect of their reduced standard of living on their children. In terms of well-being and mental health, households interviewed frequently referred to depression, anxiety and stress. In some cases this was extreme enough that they sought medical attention. Several interviewees reported that they had been forced to give up working or looking for a job, or that the stress had led to arguments with their partners.

According to stakeholders, the consequence for over-indebted households judged as being of greatest relative importance was also reduced standard of living followed closely by deteriorating well-being. The next most highly rated consequence was that of financial exclusion, followed by the categories of deteriorating mental health, family breakdown, and home repossession. Reduced labour market activity and utility disconnection were considered to be slightly less important.

Regarding effects on the financial industry, theory predicts that when a negative income or wealth shock occurs, particularly in an environment characterised by high level of household indebtedness, debtors may find it difficult to meet their commitments. This causes an increase in non-performing loans, weakening bank balance sheets. This in turn leads to a reduction in credit availability, as financial institutions become more wary about lending. This is not just a theoretical possibility; in the example of Ireland, the bursting of the massive property bubble which developed from 2000 to 2006 led to heavy losses for over-leveraged Irish banks and the effective nationalisation of large parts of the banking system.

According to stakeholders, costs of defaults for creditors were seen as most important overall consequence of over-indebtedness for the financial services industry. Other consequences, such as costs of arrears, more restrictive lending practices, and increased costs for financial service providers were all seen as more or less equally important.

The consequences of household over-indebtedness are not limited to households and the financial industry. Research has found that there are consequences of household over-indebtedness for the overall health of the economy in terms of aggregate demand, employment, and growth. For example, IMF research found that housing busts and recessions preceded by large increases in household debt to income ratios tend to be associated with significantly larger contractions in economic activity. Consistent with this, the highest scoring item chosen by stakeholders as the most important consequence of over-indebtedness overall was that of "other effects on society". Specific comments for this item indicated that these were mainly social concerns, including negative impact on public morale, rising crime, emigration, frustration with the political system, and reduced social cohesion. Negative macroeconomic effects due to reduced aggregate demand and deleveraging were also mentioned by the stakeholders.

Finally, stakeholders from Member States among the EU15 and those in economically stronger positions were more likely to find debt collection practices stable over the last five years. Though scores were largely consistent between stakeholder groups, there were some differences. Significantly more civil society stakeholders saw a significant increase in debt collection practices, compared to financial industry stakeholders.

1.1.6 Measures to alleviate household over-indebtedness

When considering preventative measures, only in some Member States did most stakeholders consider measures to identify households at risk of becoming over-indebted at an early stage to be common. The most commonly reported preventive measure is to require lenders to comply with responsible lending provisions in order to assess the creditworthiness of prospective borrowers. These provisions are set out in the Consumer Credit Directive and also national guidance. Credit Registers are used in many Member States to help lenders assess creditworthiness, although their systematic use is questioned by some consumer representatives due to privacy concerns (such as when 'positive data' about repayment ratios or income are collected). In addition, ratios of loan service burden to income, ensuring that arrears are prevented and households are still able to make ends meet, have been recommended or enforced in some markets, especially when granting mortgage credit.

Concerning measures to alleviate the impact of households' over-indebtedness, previous research commissioned by the European Commission found that debt counselling was common in Member States, although better developed in some countries than others. The picture appears relatively unchanged in this respect, with debt advice services better developed and more widely available in EU15 than EU12 Member States. Research conducted for this study also confirmed that debt counselling is available from different types of organisations, representing the public and the private sector (including both non-profit and for-profit organisations).

Previous research published at the outset of the financial crisis noted the need for adequate (public) funding of debt advice services in order to meet demand in a timely manner and to provide the comprehensive geographical coverage that many Member States lacked. Several years on, and the funding of debt advice continues to be a major concern among stakeholders across Member States. Indeed, it was unusual for stakeholders to mention any significant or sustained increase in funding for advice services in order to meet the additional demand that has (at least in part) been created by the financial crisis. In the context of high and rising demand for debt advice, it was rare for stakeholders to think that debt advice funding was sufficient. About half of stakeholders considered funding for debt advice to be insufficient.

In the consumer interviews, interviewees tended to report positive outcomes as a result of seeking advice or taking measures to alleviate their difficulties, supporting the finding that most consumers find the experience of over-indebtedness distressing, want to repay their debts, and if they are unable to, want to find an equitable solution to their debt problems. In the interviews with stakeholders it was assessed that in most Member States informally brokered arrangements were available to help people sort out their debt problems. Formal out-of-court debt settlement procedures were somewhat less common. Court-based consumer insolvency procedures were reported to be available in most Member States, but some seem to lack any legal procedures for dealing with consumer debt. Financial support for households in debt was reported to be relatively rare.

The most commonly reported changes in response to over-indebtedness related to legislative steps to make insolvency proceedings more readily available to consumers in financial difficulty. This involved changes to the eligibility criteria and/or improvements to make the process quicker and more efficient. Best practices identified by stakeholders and through complementary research in the framework of this study include:

- Financial education;
- Resource/income adequacy;
- Responsible lending;
- Good practice guidance for lenders/creditors;
- Early engagement of creditors/lenders;
- Debt advice;
- Preventing evictions;
- Out-of-court procedures for debt settlement;
- Collective debt settlement;
- Legal procedures for the discharge of debts;
- Responsible debt collection;
- Prevention of financial exclusion.

For more details regarding best practices, including a ranking by typology, refer to Section 8 of this study. Moreover, for the prevention aspects, please refer to sub-sections 7.1.4 and 7.1.5, concerning the role of social welfare in this field.

An important question when considering best practices is whether measures can be implemented effectively in isolation from one other, or whether such measures are more likely to be successful if they are co-ordinated or joined up in some way. The 2008 EMPL study stressed the importance of addressing the multi-dimensional problem of over-indebtedness by way of a combination of complimentary preventative, curative and rehabilitative policy measures. In this context, it has been proposed that the creation of a policy framework, incorporating a national strategy, is the best way of ensuring the implementation of an effective, co-ordinated policy response within a Member State. This finding has been reconfirmed by research conducted for the present study.

1.1.7 Key messages and lessons learnt

There are five key messages and lessons for policymakers emerging from the study, and these are summarised below.

1. Over-indebtedness is a complex, multi-faceted, social phenomenon, caused and compounded by a combination of economic, social, institutional, individual and cultural factors. Its incidence has increased significantly overall across Europe since the financial crisis of 2007-2008, but the extent, characteristics and nature of the problem vary between Member States. National policy measures should address both of these aspects (i.e. the causal/compounding factors and the extent/nature/characteristics of the problem as it manifests itself within the Member State in question).
2. More timely data and robust evidence is needed to facilitate informed policymaking within Member States. Many need to be more proactive, creative and pragmatic in gathering such evidence, provided that it is focused on the definition of household's over-indebtedness as having on an on-going basis difficulties meeting (or falling behind with) their financial commitments. A range of bodies, both public and private, could play a bigger and more cohesive role in data gathering, and there is a particular role for academia both in terms of specific research and independent evaluation of policy measures. EU wide measures of arrears and financial stress, such as the European Union Statistics on Income and Living Conditions (EU-SILC) could also be revised to provide more consistent and detailed indicators.
3. There are social and economic benefits to Member States associated with preventing and addressing over-indebtedness; these benefits can accrue to the State itself, to the economy and to financial institutions – the latter should, therefore, be required to contribute towards prevention and resolution measures in conjunction with the State.
4. Over-indebtedness is a crosscutting issue for national governments. A multi-dimensional and integrated government policy response is, therefore, required. It has been proposed that the creation of a policy framework, incorporating a national strategy, is the best way of ensuring the implementation of an effective, co-ordinated policy response within a Member State. This finding has been reconfirmed by research conducted for the present study. It would be important that such a policy framework is grounded on a set of basic principles, such as: equality, inclusion, empowerment, dignity to live, and fresh start.
5. The twin aims of policy development should be to prevent and resolve over-indebtedness, and not just to alleviate or manage it. The EU has an important facilitative role in enabling national policymakers to have access to information on best practice experiences in other countries towards these ends. Stakeholder consultation and impact evaluation is key to balanced policy development.

2 INTRODUCTION

This report presents findings of the study on the over-indebtedness of European households, commissioned by the Directorate General for Health and Consumers of the European Commission. In this section, we outline key features of our research, providing context for the subsequent presentation of the findings.

Objectives and scope of the study

The study aims at providing a systematic and comparable snapshot of the situation of households' over-indebtedness in all EU Member States. It analyses the causes and nature of over-indebtedness and its effects on citizens' daily lives and financial institutions, as well as its wider socio-economic consequences. Finally, it covers the measures in place across the European Union to alleviate the effects of over-indebtedness, such as debt advice services and debt management schemes, and the organisations that are active in this field. Preventive measures such as financial education are out of the scope of the study.

The study is conducted by Civic Consulting of the Consumer Policy Evaluation Consortium, in cooperation with the University of Bristol's Personal Finance Research Centre.[5]

Approach

The research for the study has been conducted in all 27 Member States of the European Union, and was comprised of the following methodological tools:

- A total of 277 stakeholder and expert interviews in all Member States covering financial industry, civil society organisations, public authorities, and independent experts, according to a pre-defined distribution;
- A total of 120 interviews in six Member States (France, Hungary, Germany, Slovenia, Spain, and the UK) with over-indebted households, covering different socio-economic groups, gender, age, etc.;[6]
- Desk research and collection of available information on over-indebtedness;
- An analysis of specific aspects of interest in selected Member States through country experts;
- An EU27 survey of organisations active in addressing instances of over-indebtedness, debt counselling and guidance services, to collect detailed

[5] Input for selected country analyses was provided by consortium partners ICF-GHK and Van Dijk Management Consultants.

[6] While the majority of interviews involved currently over-indebted households, the interviews included in each country a sub-group of 'at risk' households, as well as a sub-group of 'formerly over-indebted' households.

information on their activities and target groups and form the basis for the mapping of these organisations across the EU.

Structure of the report

Part 1 of this report presents the main findings from the study and is structured as follows:

- *Section 2* (this section) contains an introduction and brief methodological overview;
- *Section 3* discusses the debate around and feasibility of defining household over-indebtedness;
- *Section 4* describes the indicators used to measure household over-indebtedness in this study and reports their levels;
- *Section 5* distinguishes the different types of households in financial difficulties;
- *Section 6* analyses the causes of households' over-indebtedness, and considers macro-economic factors, types and levels of credit taken out by households, cost of living, and personal circumstances;
- *Section 7* is dedicated to the consequences of over-indebtedness for households, the financial industry, and the wider economic and social consequences;
- *Section 8* presents measures to alleviate the impacts of over-indebtedness and lists organisations which are active in this field.
- *Section 9* comprises the study's main messages and lessons learned;
- Six *Annexes* are also provided and they contain, respectively, the references, data on debt advice provided, results of the mapping of debt advice providers, list of stakeholders interviewed, a detailed methodological note, and a detailed list of best practices identified.

Part 2 of this report presents the country reports for each of the 27 Member States of the European Union.

Part 3 of this report presents the detailed results of the consumer interviews.

Acknowledgements

We would like to express our gratitude to all supporters, without whom this study would not have been possible. In particular, we would like to thank those consumers who agreed to being interviewed regarding their experiences of debt and over-indebtedness, at a particularly difficult period in their lives. We would also like to thank all organisations and experts who provided valuable input through interviews and who responded to our surveys. They provided invaluable insights, data and comments, and contributed to the clarification of a variety of issues relevant for this report, including at the stakeholder workshop in Brussels on the 24th of January, 2013.

In addition, we are very grateful for the support of EU stakeholder associations and bodies, including the European Consumer Debt Network, Eurofound and others, who helped us in identifying suitable organisations at national level, or kindly distributed the survey of debt advice organisations to relevant bodies.

Finally, we thank the Directorate-General for Health and Consumers of the European Commission for their support throughout the study.

3 DEFINITION OF OVER-INDEBTEDNESS

This section presents the findings regarding the definition of over-indebted households and households at risk of over-indebtedness across the EU, as well as regarding the perceived need for better definitions.

Key findings of the study concerning definitions of households' over-indebtedness in the EU are:

1. This study uses the 2008 study conducted for the European Commission ('Towards a common operational European definition of over-indebtedness') as the key reference in attempting to define household over-indebtedness. The study identified a number of common elements that help identify indicators capable of measuring over-indebtedness.
2. A specific definition was composed for this study, defining over-indebted households as having on an on-going 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 household bills.
3. Fewer than half of stakeholders who participated in this study said that they used a specific definition for households or individuals being over-indebted. Even fewer used a specific definition of households at risk of becoming over-indebted.
4. A plurality of stakeholders stated that the definition they used was based on national law or legislation. Nevertheless, from comments it was clear that most definitions in use referred to on-going financial difficulties across all types of household commitments and many of them had a lot in common with the definition used for this study.
5. Despite the lack of definitional clarity, there was surprisingly little support among stakeholders for a better definition of over-indebtedness.
6. A number of stakeholders said that there was a need for better quantitative indicators, as opposed to a better definition – similarly to the 2008 report for the European Commission, which also drew a distinction between a definition of over-indebtedness and indicators to measure it.
7. In doing so, it is useful to deconstruct 'over-indebtedness' in two dimensions. These are: the type of financial commitment, and the nature of the concern (level of commitments or inability to meet them when they fall due).
8. Following the definition adopted for this study, the EU income, social inclusion and living conditions survey (EU-SILC) was primarily used along with others to compare over-indebtedness of households at the European level in this study.

It is clear from stakeholder interviews that the situation with regard to a common definition of over-indebtedness is little improved since 2008 - when a study conducted for the European Commission[7] and considered by the TOR to be a key reference for the present study showed that none of the 27 EU Member States had a single official way of defining and measuring over-indebtedness and many had no definition at all. Among those that did, there was some variation, albeit with a trend towards a definition based on arrears on household commitments (including consumer credit). A description of the project is found in the box below:

Towards a common operational European definition of over-indebtedness (2008)

This project was launched in 2007 by the Directorate-General for Employment, Social Affairs and Equal Opportunities (DG EMPL) and prepared in collaboration by the Observatoire de l'Epargne Européenne (OEE), the Centre for European Policy Studies (CEPS), and the University of Bristol Personal Finance Research Centre. The project covered 19 countries and had three interrelated objectives: to lay a foundation of a common definition of over-indebtedness on a Europe-wide scale, to produce an overview of the political, administrative and legal approaches to over-indebtedness in Europe, and to provide policy makers in EU Member States with a handbook summarizing operational factors for an efficient policy to tackle over-indebtedness.

There was some confusion around the term 'over-indebtedness' at that time, between using it to mean high levels of borrowing or to refer to an inability to meet commitments – including household bills as well as home loans and other forms of borrowing. In the EU12 (and previously the EU10),[8] borrowing was not a big problem, but rising costs of utility bills were creating difficulties, especially in the east of Europe. In contrast, other Member States (hereafter the EU15) were more concerned about rapid growth in consumer borrowing – both in the form of mortgages and other consumer borrowing.

Despite the lack of clarity, the report was able to identify some common elements in the definitions used across Member States, which attempt to capture the multi-dimensional nature of over-indebtedness. These dimensions included the economic dimension of being over-burdened with commitments, a time dimension emphasising long-term structural problems versus short-term commitments, a social dimension highlighting financial or social exclusion, as well as a psychological

[7] European Commission, *Towards a common operational European definition of over-indebtedness*, European Commission: Directorate-General for Employment, Social Affairs and Equal Opportunities, 2008.

[8] By the EU12 we refer to the group of Member States which acceded the EU in 2004 and 2007, namely: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia, Romania. The reference to EU10 (which denotes just listed countries except Bulgaria and Romania which acceded in 2007) is made here because of the time period covered by the study that is referred to in the text (published in 2008).

dimension in terms of severe stress and impacts on health that over-indebtedness can trigger in affected persons. The common elements derived from these considerations were:

Elements of a common European operational definition[9]

Focus on household level finances. Households are small groups of persons (or one person) who share the same living accommodation, who pool some, or all, of their income and wealth. This is important as it is intended to work with EU-SILC data where the unit of measurement is a household.

Contracted financial commitments: All contracted financial commitments are included here, among them mortgage and consumer credit commitments, utility and telephone bills as well as rent payments (recurring expenses). Informal commitments entered within families, for instance, are excluded, as no data exists on them.

Payment capacity: The capacity to meet the expenses associated with the contracted financial commitments. Over-indebtedness implies an inability to meet recurring expenses.

Structural basis: This is the time dimension, which holds that the definition must capture persistent and on-going financial problems and exclude one-off occurrences that arise due to forgetfulness, for instance.

Standard of living: The household must be unable to meet contracted commitments without reducing its minimum standard of living expenses.

Illiquidity: The household is unable to remedy the situation by recourse to (financial and nonfinancial) assets and other financial sources such as credit.

However, these common elements, while comprehensive, do not lend themselves to a simple definition that could be applied as a reference in research. Indeed, no specific definition was distilled from these common elements in the 2008 study. Therefore, a definition encompassing the above elements was composed for the purposes of this study:

> *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*[10] *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.*

[9] Text from European Commission, *Towards a common operational European definition of over-indebtedness*, European Commission: Directorate-General for Employment, Social Affairs and Equal Opportunities, 2008, p.37.

[10] Secured borrowing refers to a loan that is backed with an asset held by the borrower; often their home.

This definition was provided to interviewees in advance as a reference for the discussion about their own specific definitions. In a significant portion of interviews, this was the main reference throughout the conversation - because the interviewees did not report using a specific definition of their own. The discussion of the relative importance of a specific definition, versus using several relevant indicators, is continued in Section 3.3, below.

3.1 DEFINITIONS OF OVER-INDEBTEDNESS IN EU MEMBER STATES

Fewer than half of stakeholders who participated in this study (47%) said that they used a specific definition for households or individuals being over-indebted. In general, independent experts and civil society stakeholders were the most likely to use one (61% and 51% respectively); while public authorities (36%) and the financial industry (41%) were the least likely to do so (see Table 1 below).

Table 1. *Do you use a specific definition for households or individuals being over-indebted?(by stakeholder group)*

Answer	Financial industry	Civil society	Public authorities	Independent experts	Total
Yes	41%	51%	36%	61%	47%
No	55%	48%	61%	39%	51%
Don't know/no answer	4%	1%	3%	0%	2%

Source: Stakeholder interviews, Q2a (N=277).

The origins of the definitions used by stakeholders differed widely. Though the majority (53%) did not answer this question, of those who did a third (34%) said that they used a definition based on national legislation and a fifth used (20%) a definition that was in general use. Other origins were cited by even fewer stakeholders and included definitions developed by their organisation (13%) or by another organisation (8%), and ones based on scientific literature (15%) or personal knowledge and experience (5%). There was wide variation across Member States in terms of specific definitions that stakeholders reported as definitions of over-indebtedness. As noted in the 2008 EMPL study, some governments in Europe use specific definitions but they often apply different approaches. These are mostly based on two types of measures - legal/administrative measures (such as debt settlement, bankruptcy or consumer insolvency) and measures based on arrears in payments.[11] A selection of these legal definitions can be seen in the table below:

[11] For a detailed comparison of consumer bankruptcy procedures in the US and the six Member States (UK, Germany, France, Spain, Ireland, and Italy), see Gerhardt, M., 'Consumer bankruptcy regimes and credit default in the US and Europe: a comparative study', *CEPS Working Document No. 318*, Centre for European Policy Studies, Brussels, 2009.

***Table 2.** Legal definitions of over-indebtedness in the EU based on consumer insolvency legislation*

Source: Civic Consulting, country reports and desk research.

MS	Definition	Legislation	Introduced
CZ	A debtor is considered bankrupt if "he/she has several creditors, if he/she has financial obligations that have not been met even upon the lapse of 30 days after maturity and if he/she is unable to settle these obligations".	Section 3 of the Insolvency Act (182/2006 Coll).	2006
DK	The bankruptcy court may, at the debtor's request, issue a ruling on debt relief if the defendant proves that the debtor is not able to and within the next few years has no prospect to meet their debt obligations, and it is assumed that debt relief will lead to a lasting improvement of the debtor's financial circumstances.	Danish Bankruptcy Code, (Konkurslov), Part IV, 'Gældssanering', § 197.	1984
DE	The debtor shall be deemed illiquid if he is unable to meet his mature obligations to pay. Insolvency shall be presumed as a rule if the debtor has stopped payments.	Insolvenzordnung (InsO), §17, Zahlungsunfähigkeit	1999
EL	Protection is granted to "individuals (natural persons), who are excluded from resorting to commercial bankruptcy law, who - without intention - are in permanent inability to serve their debts".	Law 3869/2010 on "Debt adjustment of over-indebted individuals', Article 1.	2010
ES	The Law states that debtors are declared insolvent if they cannot meet, on an on-going basis, their financial commitments.	Ley 22-2003, de 9 de julio, Concursal.	2003
FR	The over-indebtedness of a natural person is characterised by the obvious inability for the debtor in good faith to face the whole of his/her due or falling due debts.	Code de la consommation, 330.1 (as amended)	1989/1998
IE	Depends on the exact relief mechanism specified (Personal Insolvency Arrangement, Debt Settlement Arrangement, or Debt Relief Notice), but all stipulate that the debtor must be insolvent/unable to pay their debts.	Personal Insolvency Bill, 2012.	2012
IT	Over-indebtedness is "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 meet regularly its obligations".	Law n.3 2012 as amended by d.l. n.179 2012 and converted by Law n.221 2012.	2012
NL	A debtor qualifies if "a) the debtor will not be able to continue paying his debts; b) the debtor has acted in good faith regarding the creation or unpaid leave of his debts in the five years prior to the date the petition was filed."	Article 288, Wet schuldsanering natuurlijke personen (Wsnp).	1998
UK	A debtor's petition may be presented to the court only on the grounds that the debtor is unable to pay his debts.	Part IX of the Insolvency Act 1986 (as amended) and by the Insolvency Rules 1986 (as amended).	1986/2004

The table above gives a brief overview of legal definitions as defined in consumer insolvency or bankruptcy legislation in various Member States, with attention given to the larger economies (France, Spain, Italy, Germany, and the UK), as well as Member States where legislation has been recently introduced. This overview is not intended to be exhaustive and is aimed only at providing an indicative overview of the specific consumer insolvency definitions as found through research performed during this study.

As mentioned, a plurality (34%) of stakeholders stated that the definition they used was based on national law or legislation. In some Member States, as in France and Belgium, there is a de facto national definition, based on their insolvency and debt resettlement legislation. This type of definition was used by a majority of stakeholders in those Member States. However, this type of definition was not chosen by any stakeholders in a majority of Member States, of which most were EU12 Member States, which often had only limited or very recent consumer insolvency legislation. For example, no stakeholders in Bulgaria stated that their definition in use was based on national law or legislation, and indeed, there is no personal/consumer insolvency procedure currently available in Bulgaria.[12]

In some other Member States (such as Austria, Czech Republic, Germany, Greece and Italy), the majority of stakeholders said that they used a specific definition but the origins of the definitions used varied. In Austria, however, these did have a good deal in common, with the common denominator being the sustained inability to meet financial obligations that are due.[13] As in France and Belgium, this is also in line with the national insolvency legislation. In contrast, not only is there no nationally agreed definition in some other Member States (such as Bulgaria and Slovenia), but the majority of the stakeholders interviewed did not have a working definition either. Most Member States came somewhere between, with a variety of different definitions in use across the EU.

For example, interviewees in the Czech Republic noted that there is no single, official definition of over-indebtedness, but two specific ones were reported in the interviews. The first, developed by the Czech National Bank, considers the ratio of a household's repayments to its income, reduced by essential expenditures on food, housing, energy, health and transport. If this ratio is over 50% the household is considered over-indebted. The second definition cited by stakeholders concerns insolvency and is provided by the Insolvency Act 182/2006 Coll. Under this definition, a debtor goes bankrupt if "he/she has several creditors, if he/she has financial obligations that have not been met even upon the lapse of 30 days after maturity, and if he/she is unable to settle these obligations" (see table above).

[12] See Country Report Bulgaria for further details.

[13] See Country Report Austria.

Most of the stakeholders with a specific definition (85%) said that it differed in some way from the one adopted for this study (see above).[14] About a quarter of those using a definition (24%) said that their definition was broader and a similar number (29%) that it was narrower. Three in ten (30%) said that their definition referred to the individuals not to the household and a small number (6%) that their definition lacked a temporal dimension.

Nevertheless, from subsequent comments it was clear that most definitions in use referred to on-going financial difficulties across all types of household commitments and many of them had a lot in common with the definition used for this study. A number of stakeholders said that they used a slightly narrower definition that referred specifically to arrears or to an inability to meet commitments, rather than the broader definition used for this study that refers to people who are 'having difficulties meeting (or are falling behind with) their commitments'.

Creditors, in particular, tended to refer to payments being a set number of days (30, 60, 90) overdue when reporting on their specific definitions of over-indebtedness. From their comments, it was also clear that a minority of stakeholders used the term over-indebtedness to refer to borrowing only. In some other cases a very different definition was being used relating to potentially problematic levels of borrowing, expressed either as a proportion of income spent on loan or mortgage repayments or sums borrowed as a proportion of annual income. A number of policy makers, in particular, pointed out that they were interested in the macro-economic picture, rather than a micro-economic one relating to individual households.

The principal reason given by those stakeholders that did not use a definition was the lack of a common national one (40% of those not using a definition, equivalent to 20% of all stakeholders). Other reasons included: that they decided whether someone was over-indebted on a case-by-case basis (28%) and that existing definitions were not relevant for their purposes (13%). In one out of six cases (16%) it was because over-indebtedness as such was not a relevant concept for them. Civil society stakeholders (many of whom provided debt advice) were particularly likely to say that they decided whether someone was over-indebted on a case-by-case basis (46%).

The situation with regard to advancing a common definition of being *at risk* of over-indebtedness is even less positive. Only 16% of stakeholders said that they used a specific definition in the course of their work, and in no Member State was this even half of the stakeholders interviewed. Public authorities were the least and independent expert stakeholders the most likely to use such a definition (see table below).

[14] More than one answer could be indicated by stakeholders in the questionnaire (Q2d) which was filled out and submitted prior to the interviews.

***Table 3.** Do you use a specific definition for households at risk of being over-indebted? (by stakeholder group)*

Source: Stakeholder interviews, Q3 (N=277).

Answer	Financial industry	Civil society	Public authorities	Independent experts	Total
Yes	17%	19%	9%	20%	16%
No	77%	73%	88%	77%	79%
Don't know/no answer	6%	8%	3%	3%	5%

The details given by those who said that they did use a definition of people at risk of over-indebtedness indicated a wide range of definitions with little in common. They included, in descending order of frequency:

- Credit repayments above a set proportion (typically 30% to 50%) of income;
- People who say they are experiencing financial difficulties or have become unemployed but have not yet fallen into arrears;
- People with disposable incomes, which after meeting their payments falls below a set minimum;
- People who rely on credit (including overdrafts) to meet the cost of essentials;
- People with an above-average number of loans;
- A macro-economic measure of the ratio of the average amount of outstanding credit to average income.

3.2 PERCEIVED NEED FOR BETTER DEFINITIONS

Despite the lack of definitional clarity, there was surprisingly little support among stakeholders for a better definition of over-indebtedness – expressed by just 36% of those interviewed, corresponding to 48% of those who answered the question, since 24% did not know or declined to answer.

In terms of stakeholder groups (see table below) it was the independent experts who were most supportive of a better definition (45%) and civil society stakeholders who expressed least support; just under one third (32%) said that a better definition was needed.

Table 4. *In your view is there a need for a better definition for households being over-indebted? (by stakeholder groups)*

Source: Stakeholder interviews, Q4a (N=277).

	Financial industry	Civil society	Public authorities	Independent experts	Total
Yes	32%	32%	38%	45%	36%
No	42%	45%	38%	32%	39%
Don't know/no answer	26%	23%	25%	23%	24%

Many stakeholders said that an agreed definition would be particularly valuable for comparing the situation across Member States; others stressed the need to have at least a legal definition, in order to identify the people who could benefit from specific legislation, but many also pointed out the difficulties that could be encountered in trying to arrive at agreement on the wording.

Some of the more specific comments made in this context related to the definition of a household – with people rightly pointing out that, for example, a young adult in a household could be in financial difficulty when his/her parents are not.[15] This is an important point and suggests that the definition should refer to separate economic units within a household. Others expressed concerns about using subjective measures – such as 'facing difficulties'. Yet others cautioned against explicitly labelling people as 'over-indebted' as it could restrict their access to credit. A range of representative stakeholder comments on this topic can be seen in the box below:

Stakeholders about the use of definitions

"Over-indebtedness is a longer-term negative balance between income and expenditures in which after deduction of the current basic living costs the remaining available income is not sufficient to cover the existing payment obligations. Within the EU the definitions vary a lot - so it's very hard to arrive at a common definition. This is partly due to the fact that the data used for measuring over-indebtedness are different in different Member States and the causes are different as well. For example, on the continent there are no door-money lenders as in the UK. Nor are there utility regulations as they exist in the UK and Ireland. So the definitions take into account the specific national situations." *(EU level stakeholder interview)*

"We use our own definition in our research, but we don't use the term over-indebtedness. Our key word is debt problems, and we look at individuals and not households. The idea of debt problems includes paying debts with new loans, for example." *(Stakeholder interview Finland)*

[15] For example, one over-indebted consumer from the UK who gave an interview for this study lived together with his parents but kept his financial affairs completely separate. He indicated that the other members of the household were not even aware of the full extent of his difficulties.

"Definitions of over-indebtedness are useful in an academic sense to underpin a strong understanding of the scale of the problem. However, to define in a uniform way and to gain agreement for the definition could be very difficult to achieve and costly relative to the benefits for reducing the problem that such a definition would have. With limited resources, it would be better to establish and tackle the drivers of over-indebtedness rather than focus on defining what over-indebtedness is." *(Stakeholder interview UK)*

Again, there were differences between Member States. In Member States as diverse economically as Spain, Sweden and Romania there was a clear consensus among the interviewed stakeholders in favour of the need for a better definition – both for domestic purposes and for Europe-wide comparisons and policy.

In other Member States, however, the consensus was against the need for a better definition. This was especially the case in Belgium (where most organisations use the definition based on insolvency legislation) and in Germany (where many stakeholders used a definition according to which households are over-indebted if they are not able to meet their payments without compromising the basic living standards).[16]

The need for a better definition for households *at risk* of being over-indebted was perceived to exist to a similar extent as the need for a better definition of over-indebtedness. The majority view, expressed by 46% of those who provided an answer, was that this was not needed. Nearly one-fifth of stakeholders (18%) did not provide an answer or said they did not know.

3.3 INDICATORS OR DEFINITION?

Reflecting the terminological and conceptual confusion that existed in 2008, several stakeholders interviewed for this study indicated that they found the word 'over-indebtedness' unhelpful, preferring, instead, to use a more concrete and pragmatic definition – which for the most part refers to people who are unable to meet their commitments as they fall due. A number of stakeholders said that there was a need for better quantitative *indicators*, as opposed to a better *definition* – similarly to the 2008 report for the European Commission, which also drew a distinction between a definition of over-indebtedness and indicators to measure it.

[16] In Germany, 12 of the 15 interviewed stakeholders said there was no need for a better definition, and in Belgium 7 out of 10. A majority of stakeholders in France, where an official definition is provided in legislation, also saw no need for a better definition.

A 2010 research note from the European Commission[17] concluded that the definition of an over-indebted household developed in the 2008 EMPL study was widely accepted in principle, but was difficult to apply in practice, and that "empirical studies have tended to adopt more practical definitions".

The difficulty of reliably integrating a wide array of indicators, and the general lack of interest expressed by stakeholders in a better definition than the one proposed in 2008, suggests that the time may have come to abandon the attempt to precisely define a term that many people seem to find unhelpful, while bearing in mind that the common element of the existing definitions of 'over-indebtedness' is that households suffer on-going difficulties to meet financial commitments of any nature.

Instead, the focus could be on identifying the key policy concerns that exist and developing indicators to help to track them. In doing this, it is useful to deconstruct 'over-indebtedness' in two dimensions which are brought together in Table 5 below. These two dimensions are:

- The type of financial commitment: consumer borrowing; other household commitments (such as utility bills or rents), or both of these.
- The nature of the concern: principally either a high level of those commitments (in absolute terms or as a proportion of income or assets) indicating a risk of over-indebtedness, or an inability to meet scheduled commitments when they fall due (i.e. arrears).

Table 5. *Deconstructing 'over-indebtedness': Main areas of concern to different stakeholder groups*

Source: Civic Consulting.

Type of commitment	Level of commitment	Inability to pay as debt falls due
Borrowing	A	B
Other commitments (e.g. utility bills)	C	D
Both	E	F

The cells of this table above broadly reflect the variety of definitions in use by different types of stakeholders. From the comments made in the interviews it is apparent that some policymakers tend to be most interested in cell A or, occasionally, cell C – with the focus of interest varying between Member States depending on the domestic situation. Often the definition they were using related to the ratio between the level of borrowing and either income or assets held, with a high level of indebtedness relative to income and/or assets indicating a higher risk of being, or

[17] Fondeville, N., Ozdemir, E. and Ward, T., Over-indebtedness: New evidence from the EU-SILC social module, European Commission, Diectorate-General for Employment, Social Affairs and Equal Opportunities, Research Note 4/2010, 2010.

becoming, over-indebted. In addition, a number of them were working with aggregate data at the macro-economic level.

Most practitioners, on the other hand, seem more concerned with cells B, D and F. Individual creditors were most interested in either cell B or cell D, depending on the service they provide and usually expressed as the number of days the person had been in arrears. In contrast, debt advisers and other civic society bodies tended to focus on cell F. The definition adopted for this study (see above) focuses on cell F, departing from a simple focus on the level of commitments that a household may have.

Keeping these definitional issues in mind, the term 'over-indebtedness' is understood broadly in this report, and is used interchangeably with those households 'having on-going difficulties with meeting their financial commitments'.

Following the definition adopted for this study, a comprehensive data source was primarily used along with others to compare over-indebtedness of households at the European level in this study as measured by level of over-commitment, and the inability to pay as debt falls due. This was the EU income, social inclusion and living conditions survey (EU-SILC).

The EU-SILC dataset collects yearly data on income and living conditions through a panel survey. The full implementation of all Member States into this project was achieved in 2005, and the survey enables cross-sectional and longitudinal comparisons.

Relevant indicators include measures of arrears on mortgage, rent, hire-purchase, and utility payments, the capacity to face unexpected financial expenses, and perceived ability to make ends meet. In addition, the survey enables comparisons at the household level.[18] A comparison of some of these key indicators is also proposed in the context of this study.

However, this study is not limited to EU-SILC data. In the 2008 EMPL study, a review mapped out four general categories of indicators that can be used to assess whether those surveyed are over-indebted, or at risk of becoming over-indebted:

- Statistics on arrears (such as on mortgages, financial commitments, unsecured credit/loans);
- Statistics on debt settlement (court-arranged solutions to debt, people assisted with repayment plans by debt advice agencies, debt write-offs by creditors);

[18] The minimum size of the cross-sectional sample of the overall population which is surveyed every year is about 130,000 households and 270,000 persons in the European Union countries. The reference population in EU-SILC includes all private households and their current members residing in the territory of the countries at the time of data collection. All household members are surveyed, but only those aged 16 and more are interviewed.

- Surveys with assessments by households of their financial burden (with regard to over-indebtedness as such or in terms of the amount they owe);
- Other indicators, not necessarily measuring over-indebtedness as such (debt to income ratio, debt service burden, users of debt advice agencies).

Therefore, additional indicators were examined for this study, including national datasets for country reports, Eurobarometer data, data from the European Social Survey, number of users of debt advice agencies, as well as macro-economic indicators. The relevance and limitations of the EU-SILC methodology, followed by a typology of all indicators used will be presented and discussed in detail in the following chapter.

4 LEVEL OF OVER-INDEBTEDNESS

In this section we look at the level of households' financial difficulties across the EU27, over several different categories. Levels of arrears across a range of household commitments, statistics on debt settlement, subjective assessments of households of their levels of financial difficulty, and other relevant data sources are presented. We also look at the narrower proportion of the population with especially high levels of arrears and review both the temporal trend and geographic prevalence of debt levels across the EU. Finally, we present the stakeholders' perception of changes in the level of over-indebtedness over the past five years.

Key findings of the study concerning the levels of households' over-indebtedness in the EU are:

1. EU-SILC survey data shows that, in 2011 and across the EU area as a whole, one in almost nine of those surveyed (11.4%) had been in arrears with payments over the previous 12 months on rent/mortgage, utility bills and/or hire-purchase/loan agreements due to financial difficulties. These averages conceal a wide variation in the levels and nature of the financial difficulties being faced by households in individual Member States.
2. At one extreme, in 2011 more than three in ten of those surveyed in Bulgaria, Greece and Romania had been in arrears in the previous 12 months. A further four Member States had overall arrears levels that were at least one and a half times the EU average: Cyprus, Latvia, Hungary and Slovenia. At the other extreme, in four Member States 6% or fewer of those surveyed were in arrears (Sweden, Germany, the Netherlands and Luxembourg).
3. The proportion of people in arrears on utility bills in the EU (at 8.8%) was the highest among the overall arrears on key commitments. The highest frequencies of arrears on utility bills, however, tend to be in the EU12 (the Member States that acceded to the EU in 2004 and 2007).
4. Data on debt-write offs by creditors is limited and presented for only some Member States in this study in regards mortgage default rates. The total value for arrears for this period was increasing for several Member States; in Ireland, for example, the ratio of existing arrears to total outstanding residential loans nearly doubled between 2009 and 2010.
5. Regarding households' ability to make ends meet with its combined total income, respondents to the EU-SILC agree that this is only with difficulty or great difficulty in Bulgaria, Greece, Latvia, and Hungary, all with levels approaching or exceeding 60%. At the lower end of the scale are Finland, Sweden, Luxembourg, Denmark,

and Germany, all with figures of less than 10%, again in concordance with earlier measures.

6. When considering the development of the overall level of arrears between 2005 and 2011, the majority of Member States had experienced an increase in overall levels of arrears, for the most part since the onset of the financial crisis.
7. This worsening situation is reflected in the reported debt counselling figures collected as part of the present study from debt advice/counselling agencies. Trends show a clear increase over the time period for number of people counselled on debt issues in the EU. Face-to-face counselling remained the most popular, while telephone based counselling increased less rapidly. The trend for email/online chat, while lower than the others, is shown to be constantly increasing.
8. In correspondence with the data presented there was a general consensus among stakeholders interviewed for this study that the situation had significantly worsened in the past five years in most countries, with the exception of Germany. 49% stated that the numbers of households that are over-indebted or have on-going difficulties in meeting their financial commitments had increased significantly in the last five years, with a further 23% saying that it had increased moderately.
9. Combining the key indicators reviewed (frequency of arrears, and perceived inability to make ends meet), a very high level of household arrears combined with a very high inability to make ends meet leads to a cluster of six Member States: Greece, Romania, Cyprus, Latvia, Hungary and Bulgaria. These are mostly non-Eurozone Member States that have acceded to the EU in 2004 or 2007 (with the exception of Greece).
10. The second cluster of Member States identified combines a high level of household arrears with a mostly very high to moderate inability to make ends meet. These are Italy, Lithuania, Ireland, Poland, Slovenia and Estonia. Four of these six Member States belong to the Eurozone.
11. The third cluster of Member States combines a moderate level of household arrears with an inability to make ends meet ranging from very high, to low, however the majority report moderate levels. Eight out of the nine Member States in this group are part of the Eurozone.
12. The final fourth cluster of Member States identified - the Czech Republic, Denmark, the Netherlands, Sweden, Luxembourg, and Germany - are defined by a low proportion of people in arrears and mostly low proportion of those unable to make ends meet. Only half of these Member States are part of the Eurozone, but are with only one exception (Czech Republic) EU15 members located in northern Europe.[19]

[19] As can be seen in section 6.1.7, these clusters are not correlated with household debt to income ratios (i.e. level of indebtedness). In contrast, a significant positive correlation ($r=.52$, $p<.01$) was found between the level of consumer debt outstanding at the

4.1 OVERVIEW OF INDICATORS AND COUNTRY CLUSTERS

As agreed by the Working Group "Statistics on Living Conditions" and by the study commissioned for the European Commission in 2008,[20] over-indebtedness is complex and multi-dimensional, and therefore cannot be reduced to a single indicator. Rather, data from multiple indicators must be assessed, collected, and analysed in order to display the full picture of those households over-indebted, and those at risk of becoming over-indebted. There are a wide variety of indicators available, but not all indicators are available for all Member States or time periods, while the underlying concepts may be very different.

For this report, we have adopted and expanded the indicators mapped out in the 2008 EMPL study, which have been grouped into the following categories:

- Statistics on arrears (all relevant types);
- Statistics on debt settlement (court-arranged solutions to debt, mortgage defaults, personal insolvencies);
- Surveys with subjective assessments by households of their financial burden;
- Other (users of debt advice agencies, other surveys).

Because of the key nature of the EU-SILC statistics on arrears and subjective assessments of financial difficulty, which only have complete data from 2005 onwards, we generally present data for the 2005-2011 time period with focused comparisons covering the period before (2007), and after the financial crisis (generally 2011 or last year for which data is available).[21] In the case of EU-SILC, each EU27 Member State for which data is available is analysed, and a weighted figure used for the overall EU27 figure. An overview of each indicator presented in this section can be seen in the table below and are described in detail thereafter.

aggregate level (for 2009) and the frequency of arrears on hire purchase or other loans. An even stronger correlation (r=.67, p<.01) was found between the level of consumer debt and the frequency of arrears on utility bills.

[20] Davydoff, D., et al, *Towards a Common Operational European Definition of Over-indebtedness*, European Commission (DG EMPL), 2008.

[21] The problem of data availability for certain time periods has been noted in previous research and limits comparability in this study as well. Specifically, the period of 2002 to 2006 is one of serious gaps in the availability of household survey data at EU level, since it coincides with the transition from the European Community Household Panel (ECHP) to EU-SILC. As noted by Fondeville et al (2010, p.14), the former survey came to an end in 2001, while the EU-SILC data did not cover all Member States until 2005. Accordingly, there are at least three years (2002-2004) for which there are no harmonised survey data available for most countries. Moreover, it is not possible to reliably compare the change between the ECHP data for 2001 and the EU-SILC data for 2005 because of changes in the survey and in the specific questions asked.

Table 6. *Overview of analysed indicators relevant for over-indebtedness*

Source: Civic Consulting.

Indicator group	Indicator
Statistics on arrears	EU-SILC: total arrears
	EU-SILC: utilities
	EU-SILC: mortgage/rent arrears
	EU-SILC: hire-purchase and other arrears
	EU-SILC Special module: high levels of debt (2008)
Statistics on debt settlement	Data on debt write-offs
Subjective assessments	EU-SILC: burden of housing costs
	EU-SILC: burden of hire purchase or other debt repayments
	EU-SILC: unable to meet an unexpected major expense
	EU-SILC: inability to make ends meet
	Eurobarometer Poverty & Social Exclusion reports (74.1)
	European Social Survey 2010
	European Social Survey Core questions
Other indicators	Debt advice / counselling users
	Consumer Financial Vulnerability Index (Genworth)

Statistics on arrears

Statistics on arrears refer to payments whereby payment has been missed for a relatively short time period (30-90 days) – longer periods typically denote defaults, where creditors attempt to recover these arrears through court action, for example. In this study, statistics on arrears from the on-going EU Statistics on Income and Living Conditions (EU-SILC) survey are presented and analysed.

The EU-SILC survey is a pan-European micro-data panel survey which interviews a nationally representative probability sample of the population residing in private households each year, and collects statistics concerning a wide variety of social topics, such as standard of living, unemployment, financial exclusion, and other socio-demographic data.[22] The survey originated in a meeting of European Heads of State in 2001, where it was decided to collect common indicators on poverty and social exclusion. The survey was introduced in 13 Member States in 2004, while the full implementation in all Member States took place in 2005.

The study enables both cross-sectional (observations that refer to a specific point in time) and longitudinal (observation of changes over time) analysis. Some questions can be classified as factual (e.g. has your household been in arrears over the last 12

[22] See Atkinson, A., and Marlier, E., Income and living conditions in Europe, Eurostat, Publications Office of the European Union, Luxembourg, 2010.

months due to financial difficulties) whereas other questions are subjective (e.g. do you find it difficult to make ends meet). Ad-hoc modules are also included depending on year to investigate a specific topic in greater detail; a relevant module for this study is the 2008 module on over-indebtedness and financial exclusion, which asked detailed questions regarding overdrafts, sources of credit, arrears, drops in income, and future expectations; this module was already extensively analysed for the European Commission in 2010.[23]

For this study, we report and analyse the three groups of arrears available in the EU-SILC data: arrears on mortgage or rent payments, arrears on utility bills, arrears on hire purchase instalments or other loan payments, and total levels of arrears. These variables are specifically defined and are presented in the report as a percentage of the total household population.[24]

The variable on *arrears on mortgage or rent payments* (HS010/11) asks the respondent whether their household has been in arrears in the last 12 months that is, unable to pay on time the rent and/or the mortgage payment for the main dwelling due to financial difficulties. If the household manages to pay through borrowing (for example from bank, relatives, or friends) it is considered in the same way as if the household manages to pay through their own resources. This variable allows three responses, namely of "yes (once)", yes "(twice or more)", and "no". In this study we combine the two yes categories to calculate a simple percentage rate. It does not cover other types of housing loan, for example relating to secondary dwellings or property investments.[25]

Regarding *arrears on utility bills* (HS020/21), this variable asks respondents whether their household has been in arrears in the last 12 months regarding utility bills, due to financial difficulties. These bills include heating, electricity, gas, sewage, and rubbish bills. This item explicitly excludes telecom bills, however.[26] This variable allows three responses, namely of "yes (once)", "yes (twice or more)", and "no". In this study we combine the two yes categories to calculate a simple percentage rate.

---

[23] Fondeville, N., Ozdemir, E. and Ward, T., *Over-indebtedness: New evidence from the EU-SILC social module*, European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, Research Note 4/2010, 2010.

[24] It should also be noted with items in the EU-SILC survey dealing with arrears, that they ask only if a household has been in arrears (failed to pay on schedule) in the last 12 months, but does not indicate for how long the payment was in arrears. This means that respondents include those who missed a payment by a couple of days with those which may be in arrears for 90 days, for example. This is a weakness of the items in the survey as phrased and should be an item for consideration in future revisions of the EU-SILC. However, the item does ask whether the household has been in arrears *due to financial difficulties*, therefore limiting this problem to some extent.

[25] It is important to note that this item does not distinguish between arrears from mortgage and arrears from rent as such. Therefore, this statistic should be examined together with the general distribution of mortgage holders and tenants in the population of each Member State. Consideration for revision of EU-SILC data collection and methodology is on-going at time of writing, however.

[26] This is a further limitation of the EU-SILC dataset and should be explicitly considered when revising this item in the future, given the increasing importance of these services (home broadband, mobile telephony, and mobile data networks) for consumers, and the increasing number of consumers reporting arrears with them (see also section 6.2.1).

The variable measuring *arrears on hire purchase instalments or other loan payments* (HS030/31), asks respondents whether their household has been unable to pay on time repayments for hire purchase or other-non-housing loans due to financial difficulties, within the last 12 months. "Other loans" include all type of commercial credits, for instance for decoration, maintenance, refurbishment, credit cards/store cards, catalogue mail order, loans of any kind for technical equipment (i.e. cars, motorcycles), housing equipment, education loans, or holidays. As before, the variable allows three responses, "yes (once)", "yes (twice or more)", and "no" and in this study we combine the two yes categories for a simple percentage rate.

The *total frequency of arrears per household* combines the variables on arrears discussed above and represents the percentage of the total population with arrears on at least one credit type (mortgage or rent payments, utility bills, arrears on hire purchase instalments or other loan payments). Finally, utilising the EU SILC special module of data, collected in 2008, a report from 2010[27] created a variable that was more focused on *very severe levels of debt*. This was the proportion of those surveyed where the money owed in arrears on household commitments and either overdrafts or credit card balances that could not be paid off as a result of financial difficulties was 100% or more of monthly disposable income. Data for this variable however, was available only for the year 2008.

Statistics on debt settlement

Data on debt-write offs by creditors is presented for only some Member States in this study in regards mortgage default rates; that is, Belgium, Denmark, Hungary, Ireland, Italy, and Portugal. This data was collected by the European Mortgage Federation for the years 2005-2010. However, comparability between Member States is limited, given different practices and methods of reporting.

Subjective assessments by households

In this section we present three EU-wide sources of survey data: the Eurobarometer survey, the EU-SILC survey, and the European Social Survey. These all attempt to measure the level of financial strain on households and their ability to pay back debt. The EU-SILC survey has been discussed in greater detail above. The specific variables presented in this section cover burden of housing costs, burden of hire purchase or other debt repayments, inability of household to meet an unexpected financial expense, and the ability of the household to make ends meet.

Regarding the *financial burden of total housing costs*, this variable (HS140) asks respondents to what extent total housing costs (mortgage repayment or rent, insurance, and service charges) are a financial burden for the household. The variable covers only really paid housing costs, and does not consider prior arrears for the

[27] Supra.

assessment. Valid answers include "a heavy burden", "a slight burden", and "not at all". For the purposes of this study, the percentage of those surveyed responding "a heavy burden" is reported.

Similarly, the variable assessing *the financial burden of the repayment of debts from hire purchase or loans* (HS150) asks respondents whether anyone in the household who has to repay debts from any credit card, hire purchase or other loan, and to what extent the repayment of such loans is a burden for the household. As before, valid answers include "a heavy burden", "a slight burden", and "not at all", and for the purposes of this study, the percentage of those surveyed responding "a heavy burden" is reported.

These two variables were also combined to enable comparison with other key indicators.

The *capacity of the household to meet an unexpected financial expense* was also assessed. This variable (HS060) asked respondents if they could afford an unexpected required expense (exact amount determined per country) through its own resources. Own resources was defined here as where the household did not need to ask for financial help from anybody, that the account was debited within the required period, and that the situation regarding potential debts had not deteriorated. This variable adds value because studies of over-indebtedness commonly utilize the concept of illiquidity as evidence of over-indebtedness, which means that the household is unable to remedy the situation by recourse to assets.

To assess the level of financial strain, a further variable (HS120*) measured the ability of households to make ends meet*. This question asks whether the household is, with its combined total income, able to make ends meet, namely by paying for its usual necessary expenses. The answers form a Likert-type scale from 1 (with great difficulty) to 6 (very easily). In this study the combined percentage of answers 1 (with great difficulty) and 2 (with difficulty) are presented.

A Eurobarometer measure is also presented in this study. The Eurobarometer survey is one of the main instruments at the European level that collects information relevant to the financial circumstances of households. The Standard Eurobarometer is conducted at least two times a year in EU Member States and is primarily used to reflect attitudes towards European Institutions and the Common Market. For the purpose of mapping political and social attitudes, different groups of individuals are inter viewed each time the survey is conducted; this is not the case in the EU-SILC survey, which is panel-based. The survey presented in this study is that reported in the Special Eurobarometer 321 and 355, on poverty and social exclusion.[28] This survey was conducted twice – in August-September 2009, and 2010. The variable reported in this study was specifically where respondents were asked to assess how much *they*

[28] Eurobarometer 355, *Poverty and Social Exclusion*. 2010.

personally felt at risk of being over-indebted. The answers available were "very at risk", "fairly at risk", "not very at risk", "not at all at risk", and "don't know". For the purposes of this study, the first two categories were combined and compared for each country and year. Note however that we have reported this data in spite of a possible ambiguity in the way the questions was asked – we discuss this further in Section 4.4.1.

Finally in this section, three questions from the European Social Survey (ESS) were analysed. The European Social Survey is a biennial multi-country survey covering over 30 countries. The first round was fielded in 2002/2003, the fifth in 2010/2011. The questionnaire includes two main sections, each consisting of approximately 120 items; a 'core' module which remains relatively constant from round to round, plus two or more 'rotating' modules, repeated at intervals. The core module aims to monitor change and continuity in a wide range of social variables, including media use; social and public trust; political interest and participation; socio-political orientations; governance and efficacy; moral; political and social values; social exclusion, national, ethnic and religious allegiances; well-being; health and security; human values; demographics and socio-economics. In this study, two indicators were used; one measuring levels of financial difficulty, and the other measuring whether the respondents had to go into debt to cover essential living expenses. The advantages of this survey are its wide scope, time period covered, and availability of data; however, it does not cover every Member State, and in particular, earlier rounds cover fewer countries.

The ESS indicator on *financial difficulties* asked respondents how they felt about their household's income – whether it was "Living comfortably" (1) to "Very difficult" (4) on a Likert type scale. This question was asked in all survey rounds from 2002 to 2010 and provides a complement to the indicator from the EU-SILC dataset. The indicator on *getting into debt to cover living expenses* was however restricted to the 2010 round and asked participants if they "had to draw on my savings or get into debt to cover ordinary living expenses", with responses forming a Likert type scale from 0 (not at all) to 6 (a great deal). Both these indicators were analysed using SPSS and the last value of each summarised and presented in this section.

Other indicators

The *Genworth Consumer Financial Vulnerability Index* is an index of consumer financial vulnerability that takes into account current and recent experiences and future expectations. The index reports levels of financial vulnerability in a population, representing the proportion of people within a population who are currently feeling vulnerable financially relative to those who are feeling secure financially. The index takes as its starting point combinations of responses to one survey question about current financial difficulties and one about expectation of the future financial circumstances of the household, which are then underpinned by the totality of a person's financial situation, drawn from a number of self-report measures. Data on these are collected in 10 European countries by representative polling. Data is available for the years 2007 to 2010.

Data on *people that contact debt advice agencies* was also collected for this study through the debt advice survey questionnaire. This data attempted to measure the total number of people contacting debt advice agencies in each Member State, grouped where possible by type of advice offered (face to face, telephone, email, etc.). However, this data is presented for EU-27 only, since data is generally non-comparable across Member States, due to differences in funding, systems, data collection, and reporting.

Country clusters

An objective of the study was to examine indicators relating to which groups of Member States are especially affected by over-indebtedness, and how this has changed over time, especially as a result of the financial crisis. To accomplish this goal, identifying country clusters was based for each relevant indicator on two criteria:

- Relative level of over-indebtedness compared to other Member States and the EU average;
- How this level has changed from before the financial crisis (baseline year of 2007) to the latest year in which statistics are available.

This analysis was performed for selected indicators only, namely overall levels of arrears, and ability to make ends meet. An overview of these indicators based on country clusters is provided in the final section of this chapter.

4.2 STATISTICS ON ARREARS

4.2.1 Overall frequency of arrears

The EU-SILC survey provides estimates of levels of over-indebtedness that are close to the definition adopted for this study. They correspond to cells B (borrowing & inability to pay as debt falls due), D (other commitments & inability to pay as debt falls due) and F (both types of commitments & inability to pay as debt falls due) in Table 5 in Section 3.3.

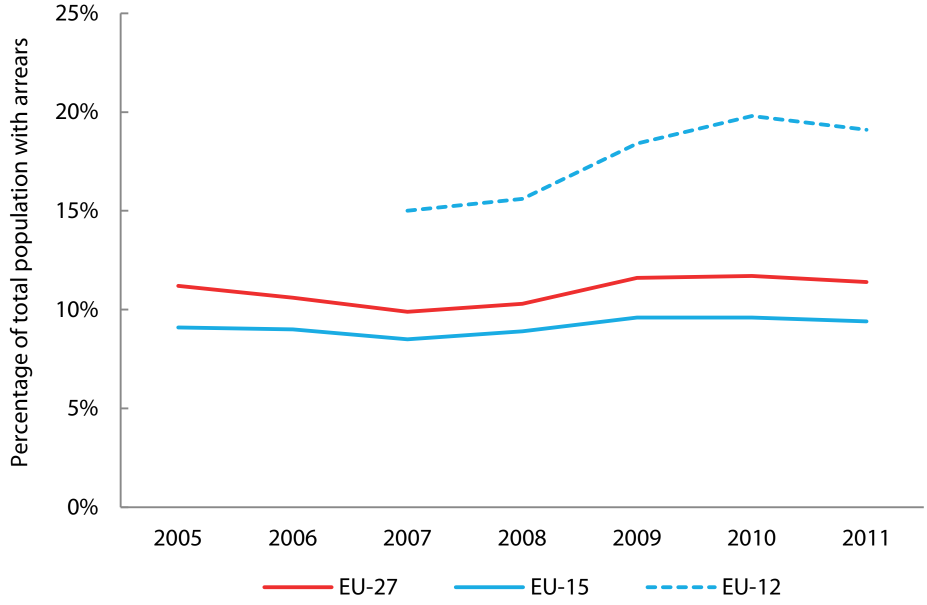
As this variable attempts to directly measure the overall frequency of arrears faced by consumers over time, it was considered a key indicator for this study. The data shows that, in 2011 and across the EU area as a whole, the proportion of people in arrears with payments on rent/mortgage, utility bills and/or hire-purchase/loan agreements was almost one in nine (11.4%).

The total arrears on these key commitments in the EU between 2005 and 2011 are depicted in the figure below.[29]

[29] As a point of comparison, a similar question is present in the European Quality of Life Survey (EQLS). This survey had rounds in 2003 and 2007, and fieldwork for the third round took place from the end of September 2011 to early February 2012 in the 27 European Union Member States. In the survey, respondents were asked "Has your household been in arrears at any time during the past 12 months, that is, unable to pay as scheduled any of the following? A) Rent or mortgage payments for accommodation. B) Utility bills, such as electricity, water, gas; C) Payments related to consumer loans, including credit card overdrafts (to buy electrical appliances, a car, furniture, etc.); D) Payments related to informal loans from friends or relatives not living in your household." While the observed proportions differ somewhat from the Eurostat results, probably as a result of a somewhat different question and answering categories, the observed trends are similar: utility arrears are most common, and went up between 2007 and 2011; arrears in rent/mortgage payments also increased. See: Eurofound, *Third European Quality of Life Survey - Quality of life in Europe: Impacts of the crisis*, Publications Office of the European Union, Luxembourg, 2012, p.109.

Figure 1. *Arrears on key commitments (mortgage or rent, utility bills or hire purchase) in the EU (2005-2011)*

Source: Civic Consulting based on Eurostat, EU-SILC data (code: ilc_mdes05).



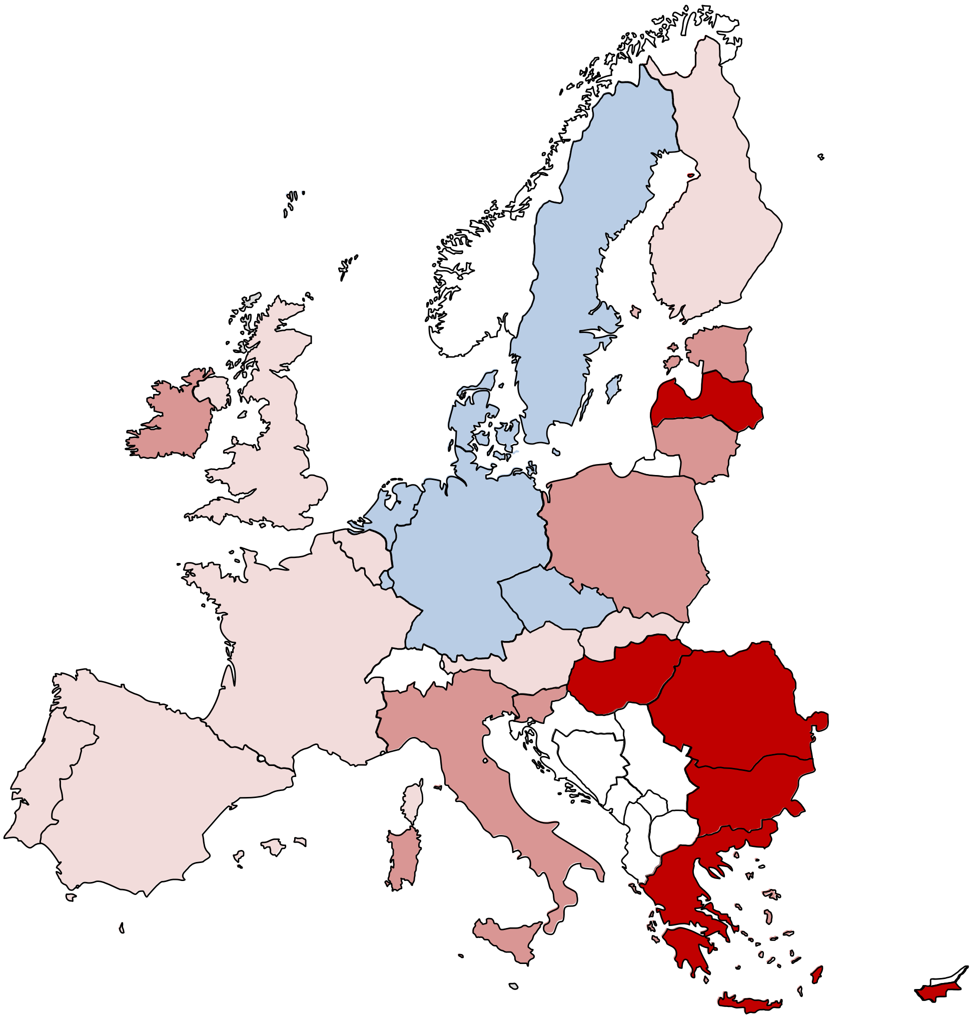
Comparing the situation in 2011 across the EU Member States, it can be noted that the 12 Member States which acceded in 2004 and 2007 (hereafter the EU12) had overall levels of arrears that were twice as high as those among the 15 longer-standing Member States (hereafter the EU15): almost 20% compared with 10%. These were mainly due to very much higher level of arrears on utility bills.

These averages disguise a wide variation in the levels and nature of the financial difficulties being faced by those surveyed in individual Member States (see figure below).

At one extreme, in 2011 the proportion of people in arrears in payment of rent or mortgage, utility bills, or hire purchase/other loan payments due to financial difficulties was more than three in ten in Bulgaria (30.9%), Greece (31.9%) and Romania (30.2%). A further four Member States had overall arrears levels that were at least one and a half times the EU average: Cyprus (26.9%), Latvia (26.1%), Hungary (24.7%) and Slovenia (19%). At the other extreme, in four Member States 6% or fewer of those surveyed were in arrears (Sweden: 5.9%; Germany: 5.2%; Netherlands: 4.9%; and Luxembourg; 3.9%).

Figure 2.
Percentage of total population with arrears on key commitments (mortgage or rent, utility bills or hire purchase, 2011)

Source: Civic Consulting based on Eurostat, SILC data (code: ilc_mdes05).
Note: Most recent year for which data is available. Dark red colour: total arrears over 21%; light red: arrears over EU average of 11%; pink: arrears above EU average; blue: arrears below 6% in 2011.



When considering the development of the overall level of arrears between 2005 and 2011, it becomes clear that most Member States experienced an increase in overall levels of arrears, for the most part since the onset of the financial crisis (see table below). Using the percentage change between figures from before the onset of the financial crisis (2007), and the most recent data available (2011), Member States where large changes in levels of arrears can be identified.[30]

[30] Please note that the rightmost column listing percentage change from 2007 to 2011 measures the relative percentage change, and not the absolute percentage change. This method is used in all other tables in this document, unless otherwise indicated.

***Table 7.** Percentage of total population with arrears on key commitments (mortgage or rent, utility bills or hire purchase/other loan payment), by Member State (2005-2011)*

Source: Civic Consulting based on Eurostat, SILC data (code: ilc_mdes05).

Member State	2005	2006	2007	2008	2009	2010	2011	2007-2011, change in %
EU27	11.2	10.6	9.9	10.3	11.6	11.7	11.4	15.2
BE	7.5	6.9	6.1	6.9	7.3	7.8	7.8	27.9
BG	22.1	22.1	31.0	35.5	34.8	33.8	30.9	-0.3
CZ	11.0	8.4	5.6	4.4	5.8	6.0	6.1	8.9
DK	6.7	5.3	4.4	3.9	5.8	6.2	6.7	52.3
DE	5.5	6.9	5.8	5.6	5.6	4.9	5.2	-10.3
EE	11.5	7.0	5.2	8.6	12.1	13.3	13.8	165.4
IE	9.4	8.3	8.4	10.8	14.0	16.7	n.a.	n.a.
EL	33.1	29.9	26.4	24.4	28.7	30.9	31.9	20.8
ES	6.0	6.1	6.8	7.0	9.5	10.1	7.7	13.2
FR	10.7	9.7	9.8	9.6	11.2	10.8	9.9	1.0
IT	12.7	12.9	12.5	15.8	12.7	12.8	14.2.	13.6
CY	21.8	22.0	23.0	14.0	23.0	26.6	26.9	17.0
LV	24.3	14.8	10.3	14.1	21.9	25.7	26.1	153.4
LT	21.5	14.5	9.4	8.1	9.9	12.2	13.1	39.4
LU	4.0	2.4	2.7	2.4	4.0	3.3	3.9	44.4
HU	17.6	16.6	19.1	16.5	22.2	24.3	24.7	29.3
MT	9.0	7.5	7.9	8.3	7.8	7.3	9.1	15.2
NL	5.7	4.9	4.3	4.1	4.1	4.9	4.9	14.0
AT	3.0	3.4	3.9	7.3	7.4	7.2	7.4	89.7
PL	26.7	22.4	18.2	11.3	14.1	15.3	14.2	-22.0
PT	7.1	6.5	7.0	6.4	8.7	8.6	10.2	45.7
RO	n.a.	n.a.	10.1	25.4	27.1	29.8	30.2	199.0
SI	15.4	13.8	14.2	16.1	18.4	19.5	19.0	33.8
SK	11.5	10.0	7.6	5.3	13.4	12.1	8.5	11.8
FI	11.4	9.7	9.2	10.4	10.6	10.3	11.0	19.6
SE	9.2	8.0	5.8	6.2	7.0	6.4	5.9	1.7
UK	9.4	8.7	8.5	7.4	n.a.	9.6	8.9	4.7

The largest relative increases were seen in Romania, Estonia, and Latvia, where the frequency of arrears almost tripled. Several other Member States experienced an increased frequency of arrears above the EU27 average, including (in order of severity), Austria, Denmark, Portugal, Luxembourg, Lithuania, Slovenia, Hungary, Belgium, Greece, Finland, and Cyprus.[31] Some other Member States saw very little change, such as the UK and Sweden, or even decreased.

***Table 8.** Member State groups according to frequency of household arrears (percentage of total population with arrears)*

Source: Civic Consulting based on Eurostat, SILC data (code ilc_mdes05).
Note: High level is value over EU average of 11% in 2011; Very high is above 21%; moderate is below EU average in 2011, low is below 7% in 2011.
Note: *Data from last year available.

Frequency of household arrears	Trend	Member State	Eurozone	Total arrears 2007 (%)	Total arrears 2011 (%)
Very high	Increasing	EL	Yes	26.4	31.9
	Increasing	RO	No	10.1	30.2
	Increasing	CY	Yes	23.0	26.9
	Increasing	LV	No	10.3	26.1
	Increasing	HU	No	19.1	24.7
	Decreasing	BG	No	31.0	30.9
High	Increasing	SI	Yes	14.2	19.0
	Increasing	IE*	Yes	8.4	16.7
	Increasing	IT	Yes	12.5	14.2
	Increasing	EE	Yes	5.2	13.8
	Increasing	LT	No	9.4	13.1
	Decreasing	PL	No	18.2	14.2
Moderate	Increasing	FI	Yes	9.2	11.0
	Increasing	PT	Yes	7.0	10.2
	Increasing	FR	Yes	9.8	9.9
	Increasing	MT	Yes	7.9	9.1
	Increasing	UK	No	8.5	8.9
	Increasing	SK	Yes	7.6	8.5
	Increasing	BE	Yes	6.1	7.8
	Increasing	ES	Yes	6.8	7.7
	Increasing	AT	Yes	3.9	7.4
Low	Increasing	DK	No	4.4	6.7
	Increasing	CZ	No	5.6	6.1
	Increasing	SE	No	5.8	5.9
	Increasing	NL	Yes	4.3	4.9
	Increasing	LU	Yes	2.7	3.9
	Decreasing	DE	Yes	5.8	5.2

[31] The temporary and dramatic drop for just one year (2008) is difficult to explain; it may be due to survey error. It should also be noted that Central Bank statistics on non-performing loans suggest that the EU SILC figure (8.1% in June 2011) may be inaccurate. If this is the case, then the overall level of arrears is likely to be lower too.

Comparing Member States across the dimensions of both absolute level of arrears and change over time, clear country clusters emerge despite the relatively stable (weighted) EU average. This can be seen clearly in the table above.

Firstly, Member States where (as of 2011) very high levels of arrears compared to the EU average are present. These are mostly crisis-hit countries, and all but one are in the EU12, while only two are in the Eurozone. All have experienced increases in the level of arrears with the exception of Bulgaria, which saw a minor decrease from an already high level.

The second cluster consists of Member States where levels are also high compared to the EU average, the majority of which are also from the EU12, with the exception of Ireland and Italy. The majority of these countries are in the Eurozone. Again, all experienced increases from 2007, with the exception of Poland.

The third and largest cluster contains Member States where levels are below the EU average in 2011, and which mainly contain EU15 countries who are in the Eurozone. Notable exceptions to this are Malta, Slovakia and the Czech Republic, with relatively low levels. All Member States in this category, however, experienced increases in the level of arrears since 2007.

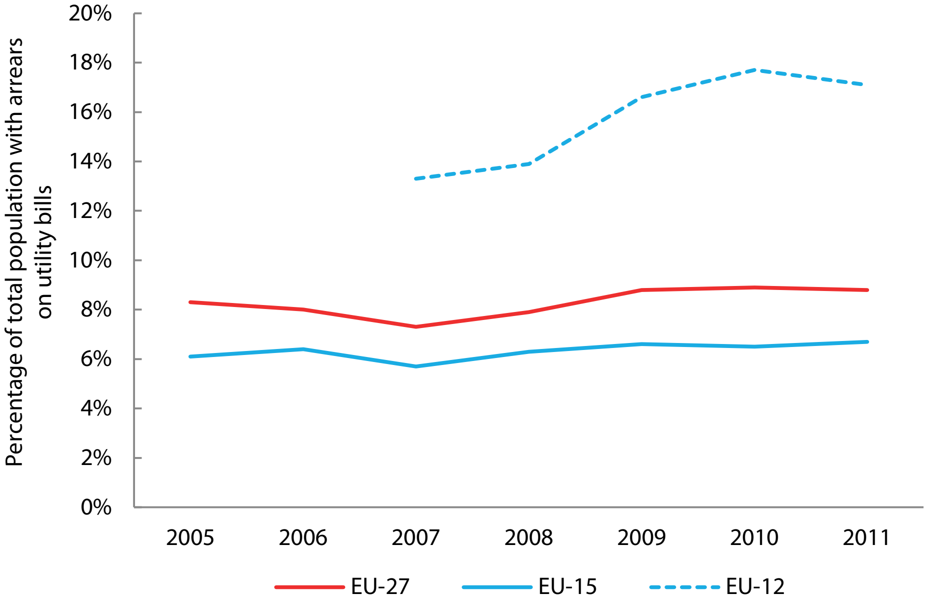
The final fourth cluster are those Member States where levels of arrears were considerably lower than the EU average. This group is composed of mostly EU15 and northern European Member States, with the exception of the Czech Republic. Interestingly, only half of this group are Eurozone countries, and in only one case (Germany) has the frequency of total arrears decreased since 2007.

4.2.2 Arrears on utility bills

Utility bills are one of the main areas of financial difficulty that can be examined on the basis of the EU SILC data. Indeed, the proportion of people in arrears on utility bills in the EU (at 8.8%) was the highest among the overall arrears on key commitments that were presented in Section 4.1. The levels of arrears on utility bills in the EU from 2005 until 2011 are presented in the figure below.

***Figure 3.** Arrears on utility bills in the EU (2005-2011)*

Source: Civic Consulting based on Eurostat, SILC data (code: ilc_mdes07).

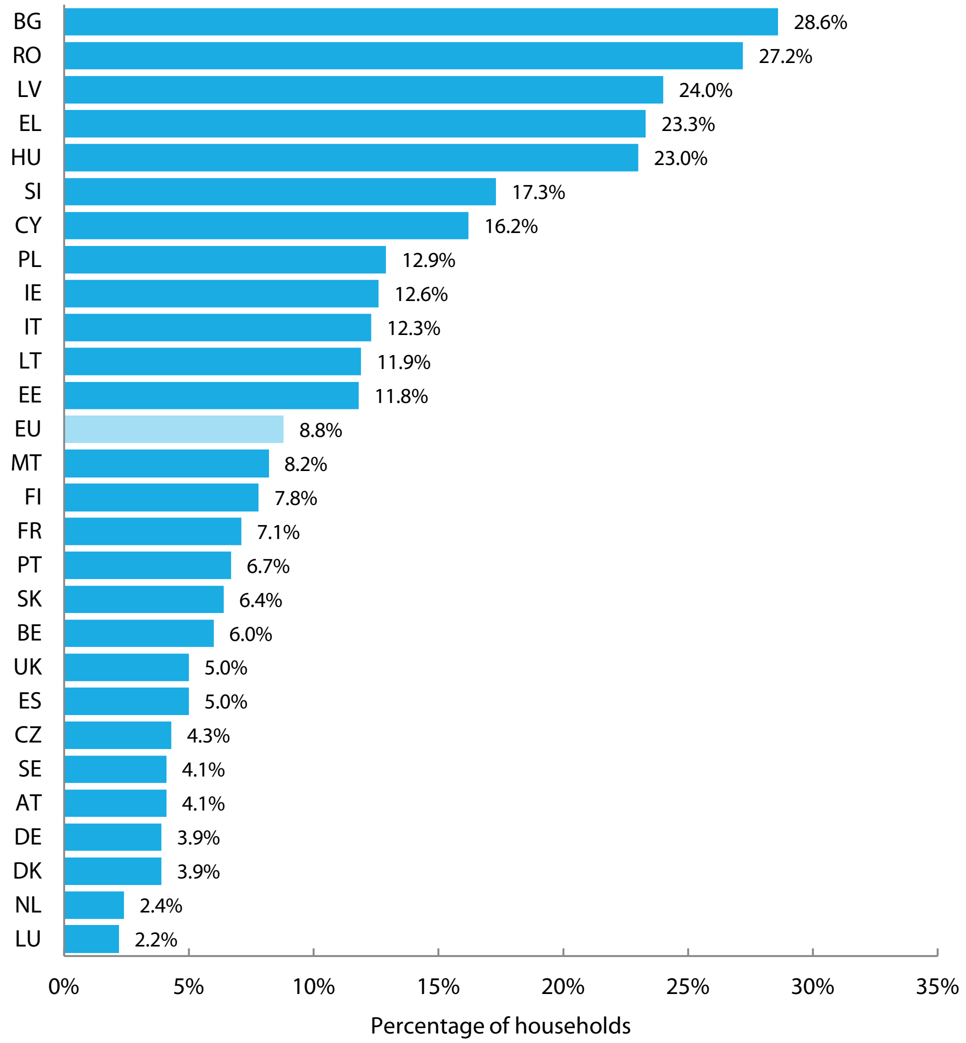


The next figure below demonstrates the relative rank of Member States in terms of utility arrears for the most recent data. The highest levels of arrears on utility bills, however, tend to be in the EU12. Notably Bulgaria, Romania, Latvia, and Hungary had levels that were more than double the EU average in 2011 (see Figure 4 below). All have had well above average levels over a sustained period, albeit with some up-turn in recent years.

An exception is Greece, where there has been an apparent decline from what were very high levels in the period from 2003 to 2006, albeit with an increase occurring in 2011. Other Member States where levels are notably above the EU average and increasing include Ireland, Cyprus, Slovenia, and Poland.

Figure 4 *Percentage of total population with arrears on utility bills, by Member State (2011)*

Source: Civic Consulting based on Eurostat, SILC data (code: ilc_mdes07). Note: 2010 figure used for Ireland as most recent data available.



The following table below demonstrates the detailed time series from 2005 to 2011 of the proportion of people in arrears. Overall in the EU, arrears on utility bills have increased by 20.6% from 2007 to 2011. Member States which have experienced the largest proportional increases include Romania, Estonia, Denmark, Latvia, and Austria, all with increases of over 100%.

However, other Member States, such as Poland, Germany, Bulgaria, Luxembourg, and the Netherlands, have all seen only very slight increases or even, as with Poland, decreases (of 22.8%).

Table 9. *Percentage of total population with arrears on key commitments (utility bills), by Member State (2005-2011)*

Source: Civic Consulting based on Eurostat, EU-SILC data (code: ilc_mdes07). This questions asks: "In the last twelve months, has the household been in arrears, i.e. has been unable to pay on time due to financial difficulties for utility bills (heating, electricity, gas, water, etc.) for the main dwelling?"

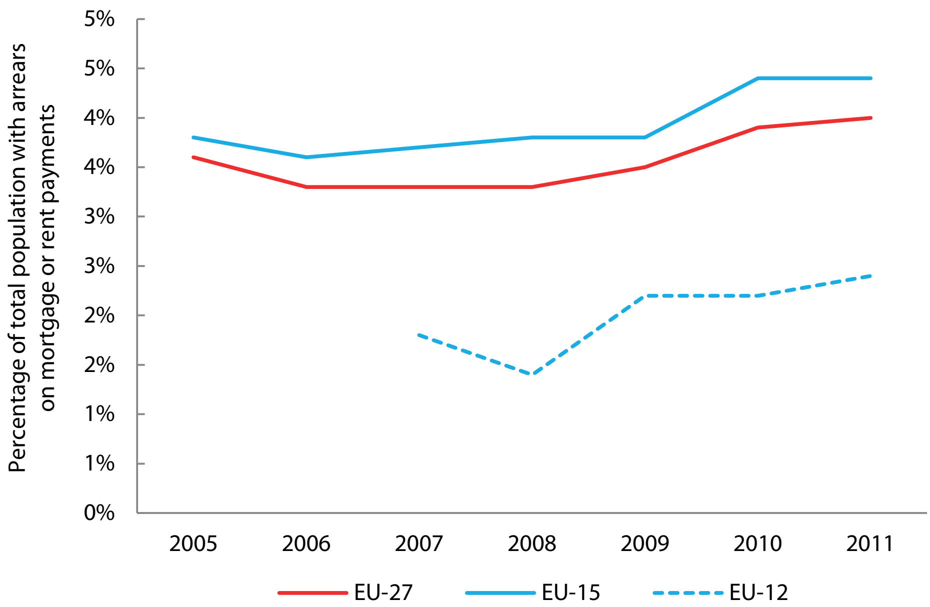
Member State	2005	2006	2007	2008	2009	2010	2011	2007-2011, % change
EU27	8.3	8.0	7.3	7.9	8.8	8.9	8.8	20.6
BE	5.7	5.1	4.7	5.1	5.9	5.8	6.0	27.7
BG	19.0	19.0	28.8	33.4	32.1	31.6	28.6	-0.7
CZ	7.2	5.8	3.8	2.6	4.0	4.2	4.3	13.2
DK	2.8	2.5	1.8	2.2	2.6	3.2	3.9	116.7
DE	2.8	4.8	3.9	3.9	3.6	3.5	3.9	0.0
EE	10.3	6.3	4.7	7.4	10.0	11.0	11.8	151.1
IE	6.9	6.8	6.1	8.3	11.2	12.6	n.a.	n.a.
EL	26.5	25.0	15.7	15.9	18.9	18.8	23.3	48.4
ES	3.7	3.9	4.0	3.8	5.5	6.6	5.0	25.0
FR	7.2	6.6	6.4	6.1	7.5	7.1	7.1	10.9
IT	10.5	10.9	10.4	13.6	11.0	10.5	12.3	18.3
CY	9.7	9.9	10.0	7.3	13.4	15.9	16.2	62.0
LV	18.5	13.3	8.8	12.0	18.2	23.2	24.0	172.7
LT	20.7	13.8	8.9	5.9	8.5	11.1	11.9	33.7
LU	3.2	1.6	2.1	1.1	2.3	2.1	2.2	4.8
HU	15.9	15.1	17.6	14.2	20.7	22.1	23.0	30.7
MT	7.8	6.4	7.0	7.3	7.4	6.4	8.2	17.1
NL	3.2	2.7	2.2	2.2	2.1	2.1	2.4	9.1
AT	1.7	1.8	1.9	3.6	4.2	4.6	4.1	115.8
PL	24.2	20.4	16.7	10.0	12.5	13.9	12.9	-22.8
PT	5.0	4.8	5.2	3.7	6.1	6.4	6.7	28.8
RO	n.a.	n.a.	8.3	23.8	25.2	27.0	27.2	227.7
SI	12.6	11.3	11.4	14.2	16.9	18.0	17.3	51.8
SK	8.3	6.5	5.7	3.8	11.3	9.6	6.4	12.3
FI	7.4	6.6	4.8	6.6	7.5	6.9	7.8	62.5
SE	5.0	4.7	3.2	5.6	4.7	4.3	4.1	28.1
UK	5.4	4.9	4.5	4.7	n.a.	5.6	5.0	11.1

4.2.3 Arrears on rents and mortgages

Arrears on rent and mortgages are among the arrears on key commitments presented in the previous section. According to the EU SILC data 4% of those surveyed in the EU had arrears on rents and mortgages in 2011, which is a slight increase compared to the previous years (see figure below).

Figure 5. *Arrears on mortgage or rent payments in the EU (2005-2011)*

Source: Civic Consulting based on Eurostat, SILC data (code: ilc_mdes06).

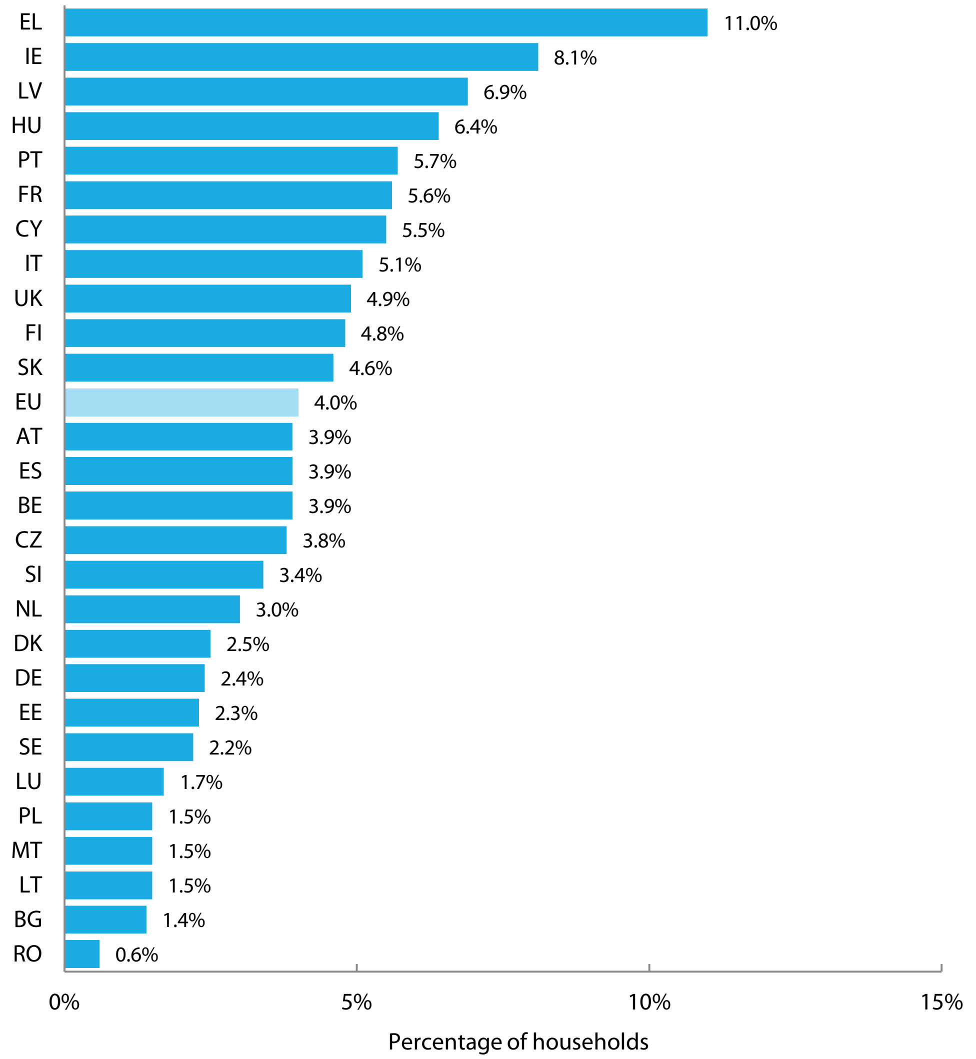


As can be seen from Figure 6 below, in 2011 levels of arrears on rent and mortgages were highest in Greece (11%) and Ireland (8.1%; for 2010) but also nearly double the EU average of 4% in Latvia (7%).

Other Member States with above average levels include France, Portugal and Hungary (around 6%) together with Cyprus, Italy, the UK, and Finland (all around 5%).

Figure 6. *Percentage of total population with arrears on mortgage or rent payments, by Member State (2011)*

Source: Civic Consulting based on Eurostat, SILC data (code: ilc_mdes06).
Note: For Ireland, most recent value available, as of 20-12-2012.



The majority of these Member States have seen a notable increase in the level of arrears on mortgage or rent payments since the beginning of the financial crisis, with levels increasing by 21.2% across the whole EU from 2007-2011 (weighted to account for population). The upturn is particularly marked for Estonia, Hungary, Austria, Portugal, with increases of at least 77% during the 2007-2011 period. However, some Member States recorded decreases, the standout figure being Bulgaria, where arrears on mortgage or rent payments declined by more than a half during this time. France, Cyprus, and Sweden also recorded absolute decreases during this time.

***Table 10.** Percentage of total population with arrears on mortgage or rent payments, by Member State*

Source: Civic Consulting based on Eurostat, SILC data (code: ilc_mdes06). This question asks: " In the last twelve months, has the household been in arrears, i.e. has been unable to pay on time due to financial difficulties for: (a) rent, (b) mortgage repayment for the main dwelling?"

Member State	2005	2006	2007	2008	2009	2010	2011	2007-2011, % change
EU27	3.6	3.3	3.3	3.3	3.5	3.9	4.0	21.2
BE	3.0	2.9	2.6	3.3	2.6	3.4	3.9	50.0
BG	2.6	2.6	2.9	1.5	4.1	1.7	1.4	-51.7
CZ	6.3	4.6	3.6	2.3	3.4	3.5	3.8	5.6
DK	3.1	1.8	1.8	1.1	2.1	2.7	2.5	38.9
DE	2.4	2.6	2.2	2.3	2.5	2.0	2.4	9.1
EE	1.4	0.8	1.1	1.1	2.0	2.7	2.3	109.1
IE	5.0	4.3	4.9	5.6	6.5	8.1	n.a.	n.a.
EL	6.6	4.5	7.4	5.5	8.6	10.2	11.0	48.6
ES	2.6	2.4	2.9	3.8	5.3	5.2	3.9	34.5
FR	6.2	5.7	5.8	5.8	6.7	6.1	5.6	-3.5
IT	3.4	3.5	3.8	4.3	2.9	4.2	5.1	34.2
CY	7.9	7.9	6.1	3.4	4.1	5.1	5.5	-9.8
LV	5.5	3.5	2.9	3.2	4.8	5.9	6.9	137.9
LT	1.4	0.6	1.1	0.5	1.8	1.5	1.5	36.4
LU	2.2	1.2	1.4	1.1	2.0	1.4	1.7	21.4
HU	2.8	2.2	3.5	3.8	3.9	5.6	6.4	82.9
MT	1.2	1.4	1.1	1.4	0.8	1.0	1.5	36.4
NL	3.8	2.8	2.8	2.4	2.7	3.1	3.0	7.1
AT	1.3	1.5	2.2	4.1	3.8	3.9	3.9	77.3
PL	2.3	1.9	1.2	0.6	0.9	1.0	1.5	25.0
PT	3.0	2.5	3.1	2.8	5.0	4.8	5.7	83.9
RO	n.a.	n.a.	0.4	0.6	0.7	0.6	0.6	50.0
SI	2.7	1.6	2.3	2.7	2.4	2.4	3.4	47.8
SK	4.2	5.4	3.5	3.0	6.9	6.8	4.6	31.4
FI	4.3	4.7	3.8	4.4	4.3	4.7	4.8	26.3
SE	5.1	3.8	2.4	1.7	2.5	2.3	2.2	-8.3
UK	4.8	4.3	4.7	3.7	2.1	4.8	4.9	4.3

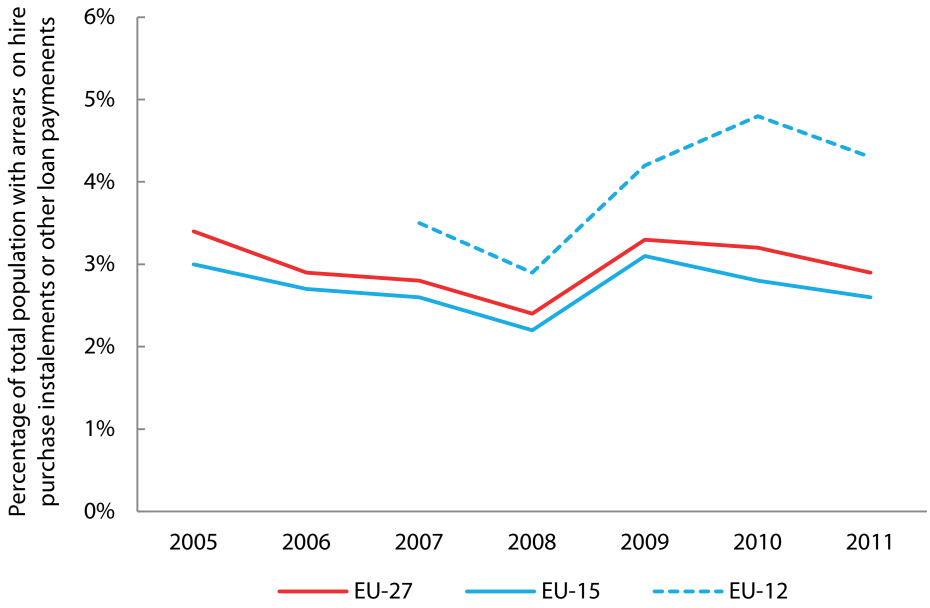
It is not possible to isolate mortgage arrears from those on rents in these figures, but it should be noted that a considerable number of stakeholders highlighted a growth in financial difficulties among mortgage holders, and one EU level civil society stakeholder emphasised rising rents as a result of privatisation. The growth in mortgage arrears, however, seems to be concentrated in Member States that have been hit hardest by the financial crisis. This is discussed in greater detail in Section 6.2.2.

4.2.4 Arrears on hire purchase and loan agreements

The third area of key commitments covered by the Eurostat SILC surveys is arrears on hire purchase and consumer loan agreements. In 2011, these were at 2.9% in the EU as a whole, which is a slight decrease from the previous year.

Figure 7. *Arrears on hire purchase instalments or other loan payments (2005-2010)*

Source: Civic Consulting based on Eurostat, SILC data (code: ilc_mdes08).

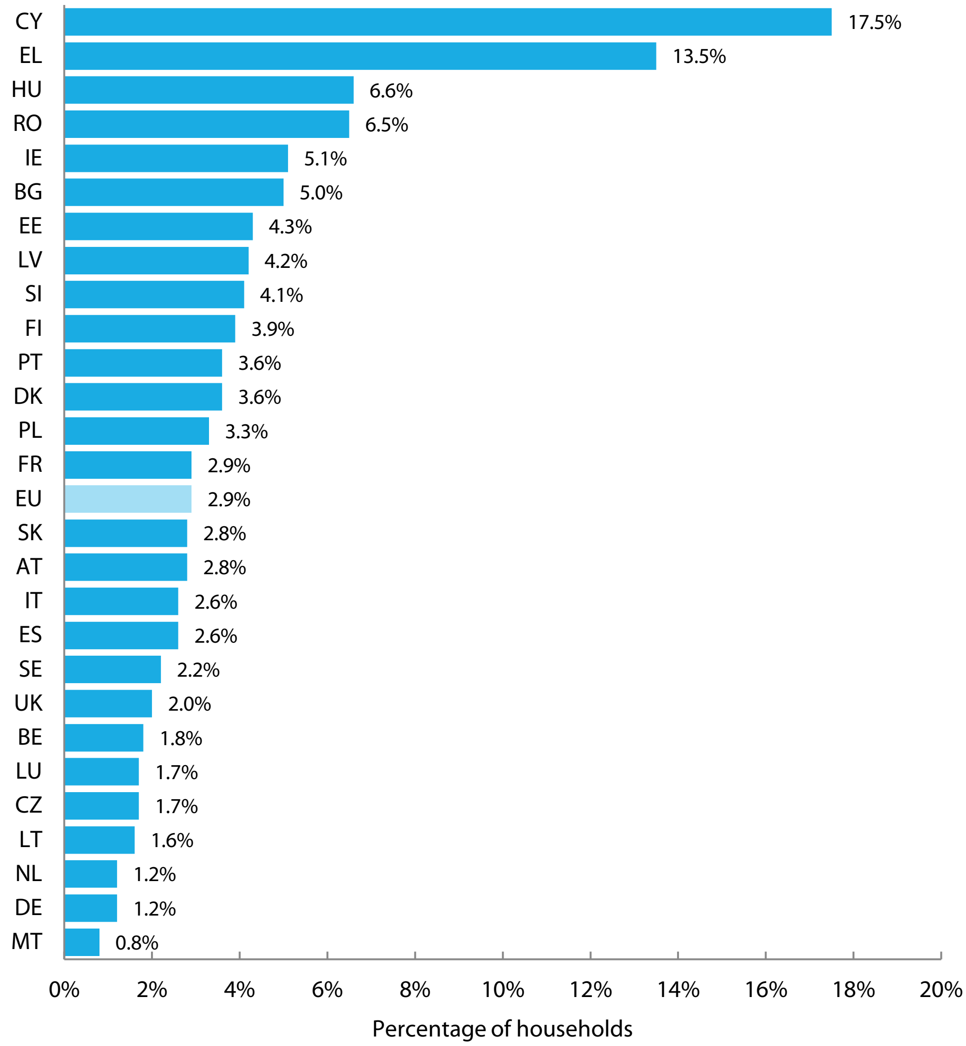


Cyprus and Greece stand out as the two Member States where the problems with arrears on hire purchase instalments or other loan payments are most acute (at 17.5% and 13.5% of those surveyed respectively).[32] In Bulgaria, Hungary, Romania and Slovakia the level is about twice the EU average. Again, the preponderance of the EU12 Member States is notable (see figure below).

[32] As previously noted, the Central Bank of Cyprus recorded lower levels of arrears: 8.1% of loans were recorded as 'non-performing' in June 2011.

Figure 8. *Percentage of total population with arrears on hire purchase instalments or other loan payments, by Member State (2011)*

Source: Civic Consulting based on Eurostat, SILC data (code: ilc_mdes08). Note: For Ireland, most recent value available, as of 20-12-2012.



With a small number of exceptions (Estonia, Luxembourg, Latvia, Austria, Portugal, Romania) there was no notable up-turn in the level of arrears on consumer loans either since the on-set of the financial crisis or over the longer term across the EU as a whole. So Member States with high levels of arrears in 2011 had had them for a sustained period of time. Conversely, Member States with low levels of arrears in 2011 had been in this position for a number of years (see table below). Some Member States even experienced a decrease in the level of loan arrears, such as in Germany, Italy, Poland, Sweden, Slovenia, the Netherlands, and the UK.

***Table 11.** Percentage of total population with arrears on hire purchase instalments or other loan payments, by Member State*

Source: Civic Consulting based on Eurostat, SILC data (code : ilc_mdes08). This question asks: " In the last twelve months, has the household been in arrears on hire purchase instalments or other loan payments, i.e. has been unable to pay on time due to financial difficulties?"

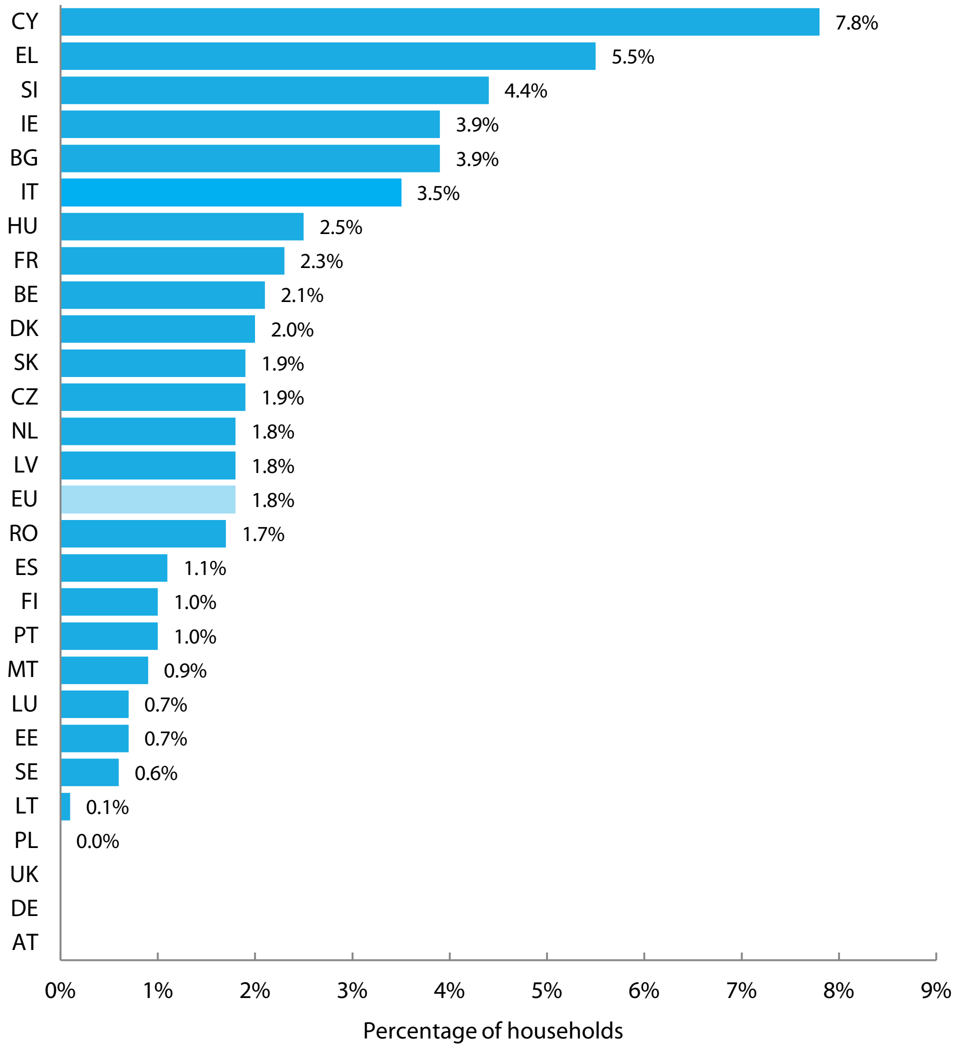
Member State	2005	2006	2007	2008	2009	2010	2011	2007-2011, % change
EU27	3.4	2.9	2.8	2.4	3.3	3.2	2.9	3.6
BE	2.1	2.0	1.2	1.2	1.4	2.1	1.8	50.0
BG	4.0	4.0	3.9	6.4	6.9	5.9	5.0	28.2
CZ	3.4	2.8	1.4	1.3	1.7	2.0	1.7	21.4
DK	3.8	3.3	3.1	1.9	3.5	3.7	3.6	16.1
DE	2.8	2.5	1.8	1.9	1.8	1.4	1.2	-33.3
EE	1.5	1.3	0.9	1.4	3.4	4.7	4.3	377.8
IE	3.2	2.9	2.4	2.8	5.0	5.1	n.a.	n.a.
EL	13.9	11.1	12.2	12.0	13.2	13.3	13.5	10.7
ES	2.1	1.8	2.1	2.5	3.8	3.5	2.6	23.8
FR	2.7	2.7	2.7	2.2	3.4	3.0	2.9	7.4
IT	3.2	2.7	3.2	1.9	3.0	2.6	2.6	-18.8
CY	12.8	13.3	15.3	6.4	14.8	17.0	17.5	14.4
LV	6.1	2.1	1.4	2.3	5.3	5.0	4.2	200.0
LT	2.7	1.8	1.0	2.6	1.8	2.1	1.6	60.0
LU	1.2	0.8	0.3	0.9	2.0	1.7	1.7	466.7
HU	3.3	2.8	5.5	4.9	6.9	6.9	6.6	20.0
MT	1.6	0.9	0.8	0.6	0.7	1.2	0.8	0.0
NL	0.9	1.4	1.3	1.2	1.3	1.6	1.2	-7.7
AT	1.1	1.4	1.3	2.4	2.5	2.2	2.8	115.4
PL	7.1	5.3	4.4	2.2	3.4	3.9	3.3	-25.0
PT	1.8	1.1	1.8	1.9	2.7	2.9	3.6	100.0
RO	n.a.	n.a.	2.6	3.1	4.1	6.3	6.5	150.0
SI	5.7	4.5	5.1	2.9	3.6	3.7	4.1	-19.6
SK	2.2	2.7	2.1	1.3	6.0	5.9	2.8	33.3
FI	3.7	2.4	2.5	4.0	3.9	3.9	3.9	56.0
SE	5.0	3.8	2.8	0.6	2.8	2.5	2.2	-21.4
UK	2.8	2.8	2.4	1.5	n.a.	2.6	2.0	-16.7

4.2.5 High levels of arrears

Using the EU SILC special module of data, collected in 2008, a report from 2010[33] attempted to create a variable that was more focused on very severe levels of debt. This was the proportion of people where the money owed in arrears on household commitments and either overdrafts or credit card balances that could not be paid off as a result of financial difficulties was 100% or more of monthly disposable income.

Figure 9. *Outstanding debt and/or arrears of over 100% of disposable income, by Member State (2008)*

Source: Civic Consulting based on Fondeville, Ozdemir, Ward, 2010 (Table 9). Note: a) Outstanding debts are the sum of overdrawn bank accounts, outstanding credit card balances and arrears on other credit or loans and on housing and other bills, b) UK, Austria and Germany are excluded for methodological reasons, see relevant footnote for details.



Following this rather stricter definition, just 1.8% of those surveyed in the EU[34] were considered to be in financial difficulty.

[33] Fondeville, N., Ozdemir, E. and Ward, T., *Over-indebtedness: New evidence from the EU-SILC social module*, European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, Research Note 4/2010, 2010.

[34] Data for the UK, Germany and Austria have been omitted (and the EU average recalculated for the remaining 24 EU Member States) due to the proportion of households with outstanding debts in these countries having been overstated. Namely, due to issues with wording of the question in these countries, a significant number of households in these countries have large amounts outstanding

4.3 STATISTICS ON DEBT SETTLEMENT

Data on debt-write offs by creditors is limited and presented for only some Member States in this study in regards mortgage default rates in the table below.

***Table 12.** Mortgages in arrears*

Source: Civic Consulting based on European Mortgage Federation, Study on Non-Performing Loans in the EU, 2011.
Notes: According to the European Mortgage Federation: (a) A mortgage is in arrears when a due instalment has not been paid either in part or in full three months following its due date, or when it has not been paid either in part or in full one month after formal notice ('delivery warning letter'), (b) Arrears are calculated as the amount of the instalment which remains unpaid at a date of 3½ months after the due date, (c) Loans are considered to be in arrears over 90 days as non-performing. (d) Section 3(a) of the Central Bank of Ireland's Code of Conduct on Mortgage Arrears states that "a mortgage arrears problem arises as soon as the borrower fails to make a mortgage repayment by the due date". It includes cases where only partial payments are made. The data relates only to residential or owner-occupied dwellings, (e) A mortgage is in arrears: past due 1 to 2 unpaid installments ('low arrear') past due 3 to 5 unpaid installments ('serious arrear'), (f) A mortgage is in arrears when it has overdue installments either in principal or in interest; principal overdue should exceed 30 days and interest overdue should exceed (or be equal to) 1 day.

Member State	Variable	2005	2006	2007	2008	2009	2010
BE	Total value of arrears[(a)] (millions of Euro)	607.7	568.8	538.3	552.1	683.0	825.6
	Ratio total value of arrears/total value of outstanding residential loans (%)	0.60	0.50	0.43	0.40	0.45	0.51
DK	Total value of arrears 3½ months[(b)] (millions of Euro)	7,531	6,711	11,032	26,106	54,636	35,978
	Ratio total value of arrears 3½ months/total outstanding mortgage lending (%)	0.10	0.08	0.12	0.26	0.55	0.43
HU	Total value of arrears over 90 days[(c)] (millions of Euro)	n.a.	n.a.	n.a.	n.a.	1141	2033
	Ratio of total arrears over 90 days /total value of existing residential mortgage loans (%)	n.a.	n.a.	n.a.	n.a.	5.25	8.42
IE	Total value of arrears over 90 days[(d)] (millions of Euro)	n.a.	n.a.	n.a.	n.a.	414	709
	Ratio of existing arrears/total outstanding residential loans (%)	n.a.	n.a.	n.a.	n.a.	0.35	0.61
IT	Total value of arrears(e) (millions of Euro)	7,172	6,219	8,136	10,039	9,899	10,560
	Ratio of total value of arrears/total outstanding residential loans, 1 to 2 months (%)	2.50	1.70	2.00	2.30	2.10	1.80
PT	Ratio of total credit private individuals overdue to total housing loans outstanding[(f)] (%)	n.a.	n.a.	n.a.	n.a.	1.70	1.90

on credit cards or overdrawn bank accounts, but may not have financial difficulties at all. The 2010 report analysed the role of the form of credit as a proportion of those severely over-indebted in detail, finding for example that the proportion of people with outstanding debts on the credit or store cards was only around half that of those with overdrawn bank accounts.

The total value for arrears for this period was increasing for several Member States; in Ireland, for example, the ratio of existing arrears to total outstanding residential loans nearly doubled from 2009-2010.

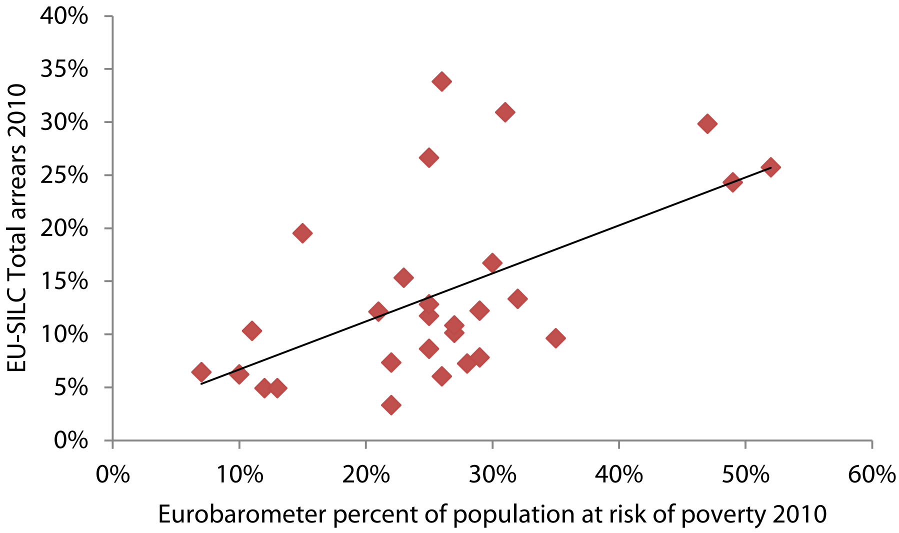
4.4 SUBJECTIVE ASSESSMENTS BY HOUSEHOLDS

4.4.1 Eurobarometer poverty and exclusion report

The survey presented in this study is that reported in the Special Eurobarometer 321 and 355, on poverty and social exclusion,[35] conducted in August-September 2009, and 2010. The variable reported in this study was specifically where respondents were asked to assess how much *they personally felt at risk of being over-indebted*. The answers available were "very at risk", "fairly at risk", "not very at risk", "not at all at risk", and "don't know". For the purposes of this study, the first two categories were combined and compared for each country and year.

Figure 10. *Eurobarometer poverty & social exclusion reports, asking "how much you feel you are at risk of being over-indebted" correlated against total arrears 2011*

Source: Civic Consulting based on European Commission, Special Eurobarometer 321 & 355, and EU-SILC (code ilc_mdes05).



The Eurobarometer figures are sometimes out of sync with levels of arrears as measured by the EU-SILC measure. For example, in Belgium where 8% of the population were in arrears with one or more of their commitments in 2010, 29% of people reported feeling at risk as according to the 2010 Eurobarometer data. In contrast, in Bulgaria 34% of the population were in arrears but only 26% said that they felt at risk of arrears. These differences may be due to the wording of the question in the Eurobarometer survey, where people in one country may have said that they did not feel at risk because they were already in arrears, while in another

[35] Eurobarometer 321and 355 (Poverty and Social Exclusion, February 2010 and December 2010, respectively).

country they may not have felt at risk because they were not in arrears.[36] Therefore, this table should be interpreted with caution. Nevertheless, there was a strong overall correlation between the two figures (*r*=.57), as can be seen in the scatter plot above.

Looking at the absolute rank of Member States however, as can be seen in the table below, those with the highest total "at risk" levels are Latvia, Hungary, Romania, all with levels approaching or greater than 50%. Groups with a moderately high level include Czech Republic, the UK, Greece, Ireland, and Estonia, with levels of about 30%, while the lowest percentages are seen in Germany, Denmark, Finland, and the Netherlands, consistent with earlier indicators.

As might be expected with only a two year sample, there was not much absolute change in the indicators between 2009 and 2010, and changes in "at risk" levels were moderately correlated with changes in overall levels in arrears (*r*=.25). However, one exception was Spain, where the percentage who felt themselves at risk nearly halved, although the frequency of households in arrears increased slightly. The highest rises in "at risk" levels were in Member States hit by the crisis – as in Greece, Romania, and Latvia.

[36] A similar issue was reported comparing EU-SILC data and Eurobarometer data from 2006 in the 2008 DG EMPL study, where the Eurobarometer question asked respondents to what extent they had difficulties paying all their bills at the end of the month, while the EU-SILC survey combined responses to the three separate questions on arrears. Consequently, the two questions were seen as likely to reflect different, but overlapping, social phenomena, and the different units of measurement (adults and households respectively) additionally make for limited comparisons.

Table 13. *Eurobarometer poverty & social exclusion reports, asking "how much you feel you are at risk of being over-indebted" (percentage of total respondents)*

Source: Civic Consulting based on European Commission, Special Eurobarometer 321 & 355, and EU-SILC (code: ilc_mdes05)
Note: *Denotes most recent year for which data is available.

Member State	Total at risk (%)			Overall level of arrears (EU-SILC)		
Year	2009	2010	2009-2010, absolute % difference	2009	2010	2009-2010, absolute % difference
EU27	27	25	-2	11.6	11.7	+0.1
BE	27	29	+2	7.3	7.8	+0.5
BG	25	26	+1	34.8	33.8	-1.0
CZ	22	26	+4	5.8	6.0	+0.2
DK	9	10	+1	5.8	6.2	+0.4
DE	12	12	=	5.6	4.9	-0.7
EE	30	32	+2	12.1	13.3	+1.2
IE	28	30	+2	14.0	16.7	+2.7
EL	23	31	+8	28.7	30.9	+2.2
ES	49	27	-22	9.5	10.1	+0.6
FR	29	27	-2	11.2	10.8	-0.4
IT	24	25	+1	12.7	12.8	+0.1
CY	25	25	=	23.0	26.6	+3.6
LV	51	52	+1	21.9	25.7	+3.8
LT	23	29	+6	9.9	12.2	+2.3
LU	27	22	-5	4.0	3.3	-0.7
HU	53	49	-4	22.2	24.3	+2.1
MT	21	22	+1	7.8	7.3	-0.5
NL	13	13	=	4.1	4.9	+0.8
AT	27	28	+1	7.4	7.2	-0.2
PL	21	23	+2	14.1	15.3	+1.2
PT	27	25	-2	8.7	8.6	-0.1
RO	40	47	+7	27.1	29.8	+2.7
SI	11	15	+4	18.4	19.5	+1.1
SK	20	21	+1	13.4	12.1	-1.3
FI	14	11	-3	10.6	10.3	-0.3
SE	10	7	-3	7.0	6.4	-0.6
UK	35	35	=	7.4*	9.6	+2.2

4.4.2 Households inability to make ends meet (SILC)

This question asks whether the household is, with its combined total income, able to make ends meet, namely by paying for its usual necessary expenses. The answers form a Likert-type scale from 1 (with great difficulty) to 6 (very easily). In this study the combined percentage of answers 1 (with great difficulty) and 2 (with difficulty) are presented, for the years 2005-2011. As this variable represents the effect of financial difficulties on the overall household budget, this was considered a key indicator for the study.

Overall, the Member States where respondents agree that this is most often the case in 2011 are Bulgaria, Greece, Latvia, and Hungary, all with levels approaching or exceeding 60%. At the lower end of the scale are Finland, Sweden, Luxembourg, Denmark, and Germany, all with figures of less than 10%, again in concordance with earlier measures.

In terms of changes since 2007, figures are presented in the table below. Member States which experienced the largest proportionate increases during 2007-2011 include Estonia, Lithuania, Slovenia, Germany, and Denmark. Only in Bulgaria, Poland, Romania, Finland, and Slovakia have levels decreased.

Table 14. *Percentage of total population with inability to make ends meet, by Member State (2005-2011)*

Source: Civic Consulting based on Eurostat, SILC data (code: ilc_mdes09). This question asks: "A household may have different sources of income and more than one household member may contribute to it. Thinking of your household's total income, is your household able to make ends meet namely, to pay for its usual necessary expenses?" The percentage of respondents answering "with difficulty" or "with great difficulty" are provided here.

Member State	2005	2006	2007	2008	2009	2010	2011	2007-2011, % change
EU27	25.4	24.8	23.6	24.8	25.9	26.0	25.6	8.5
BE	17.1	16.5	15.3	21.4	21.1	20.8	20.9	36.6
BG	71.2	71.2	68	63.8	63.1	65.0	62.4	-8.2
CZ	30.1	29.0	26.4	28.2	27.9	27.5	28.3	7.2
DK	6.8	8.2	6.5	7.9	9.2	8.7	9.6	47.7
DE	11.5	8.1	6.1	6.7	10.3	8.9	9.4	54.1
EE	12.3	15.4	11.0	11.2	20.5	25.5	24.3	120.9
IE	24.9	24.9	21.8	23.6	26.5	33.3	32.1	n.a.
EL	50.8	52.6	52.4	54.5	57.0	58.4	62.6	19.5
ES	26.6	29.5	26.9	29.9	31.5	31.5	27.3	1.5
FR	16.2	15.8	16.1	15.9	19.1	20.2	19.7	22.4
IT	34.6	35.2	37.1	38.6	37.2	37.1	38.1	2.7
CY	42.7	49.3	45.6	50.8	48.5	51.3	53.8	18.0
LV	51.7	46.7	41.8	39.2	48.0	55.9	56.3	34.7
LT	30.3	28.7	23.7	25.3	34.3	37.4	35.2	48.5
LU	6.3	5.5	6.6	7.3	7.6	8.3	9.3	40.9
HU	35.4	37.1	40.9	44.1	55.0	56.8	57.4	40.3
MT	36.4	40.8	36.5	37.2	48.2	47.2	37.6	3.0
NL	16.9	14.0	10.4	11.0	10.2	12.1	12.5	20.2
AT	8.8	7.8	10.9	14.7	15.7	14.5	14.3	31.2
PL	51.5	46.9	40.2	35.6	34.4	34.6	32.5	-19.2
PT	36.8	36.8	37.5	46.7	46.1	44.9	41.8	11.5
RO	n.a.	n.a.	49.3	48.1	49.0	48.9	48.5	-1.6
SI	27.2	24.3	20.2	26.1	25.7	28.6	29.5	46.0
SK	30.5	34.9	30.6	35.0	31.6	31.9	30.4	-0.7
FI	8.5	8.0	7.6	8.1	6.8	6.9	7.4	-2.6
SE	8.5	8.3	7.6	8.8	7.5	6.9	7.7	1.3
UK	13.1	13.7	13.6	17.0	16.8	16.4	16.5	21.3

Putting the temporal and geographical aspects together, the table below attempts to display typical country clusters.

Table 15. *Percentage of total population with inability to make ends meet, by Member State*

Source: Civic Consulting based on Eurostat, SILC data (code: ilc_mdes09).
Note: Very high is above 38%, High level is value over EU average of 26% in 2011; moderate is below EU average in 2011, low is below 13% in 2011.

Level of inability to make ends meet	Trend	Member State	Eurozone	Households making ends meet with great difficulty or difficulty 2007 (%)	Households making ends meet with great difficulty or difficulty 2011 (%)
Very high	Increasing	EL	Yes	52.4	62.6
	Increasing	HU	No	40.9	57.4
	Increasing	LV	No	41.8	56.3
	Increasing	CY	Yes	45.6	53.8
	Increasing	PT	Yes	37.5	41.8
	Increasing	IT	Yes	37.1	38.1
	Decreasing	BG	No	68.0	62.4
	Decreasing	RO	No	49.3	48.5
High	Increasing	LT	No	23.7	35.2
	Increasing	IE	Yes	21.8	33.3
	Increasing	SI	Yes	20.2	29.5
	Increasing	CZ	No	26.4	28.3
	Increasing	ES	Yes	26.9	27.3
	Decreasing	MT	Yes	36.5	37.6
	Decreasing	PL	No	40.2	32.5
	Decreasing	SK	Yes	30.6	30.4
Moderate	Increasing	EE	Yes	11.0	24.3
	Increasing	BE	Yes	15.3	20.9
	Increasing	FR	Yes	16.1	19.7
	Increasing	UK	No	13.6	16.5
	Increasing	AT	Yes	10.9	14.3
Low	Increasing	NL	Yes	10.4	12.5
	Increasing	DK	No	6.5	9.6
	Increasing	DE	Yes	6.1	9.4
	Increasing	LU	Yes	6.6	9.3
	Increasing	SE	No	7.6	7.7
	Decreasing	FI	Yes	7.6	7.4

The first cluster identified is that where the level of the inability of households to make ends meet is very high (i.e. that the household is able to pay for its usual necessary expenses only with difficulty or great difficulty). Consistent with findings on arrears, these are mostly crisis-hit countries, but include more EU15 Member States

(Greece, Portugal, and Italy). All have experienced increases in the level of arrears with the exception of Bulgaria and Romania, which have seen decreases.

The second cluster is that of Member States where levels are above the EU average but not classified as very high. These present a picture of mostly EU12 Member States, with the exception of Ireland and Spain, but three countries in this group saw a decrease of this figure since 2007 (Malta, Portugal, and Slovakia). Eurozone membership was, as with the 'Very high' group, somewhat mixed.

Thirdly, a further cluster was that of Member States with moderate (below the EU average) levels. These were, with only one exception (Estonia), EU15 Member States. However, all of them had seen increases in the levels of inability to make ends meet since 2007, and in the case of Estonia, significantly so.

Finally, the last cluster was those where levels were less than half the EU average. As with frequency of arrears, these Member States were concentrated in northern Europe and were all EU15 Member States. Only Finland had seen a decrease in levels of perceived inability to make ends meet, however, while others had seen their levels increase by almost a third between 2007 and 2011.

4.4.3 Households unable to meet a major expense (SILC)

In addition to asking about arrears on household commitments, the Eurostat SILC survey also includes a question regarding the ability to meet an unexpected expense should it occur.[37]

Across all 27 EU Member States more than a third (37.5%) of those surveyed said that they would be unable to do so. If we subtract from this figure the number of people already in arrears, we get a crude measure of the proportion of people exhibiting financial strain but not actually in arrears. For the EU, this is 26.1% of all respondents.

From the table below we can see that the Member States where there are large numbers of people unable to meet an unexpected expense include, perhaps unsurprisingly, many of the ones that had high level of arrears on key commitments.[38] But there are some notable exceptions.

Greece, for example, had very high levels of arrears (31.9%), yet the proportion of people unable to meet a major expense was below the EU average.

On the other hand, in Poland half of the population (51.2%) said that they could not meet an unexpected expense – well above the EU average – while levels of arrears (14.2%) were only slightly above the EU average.

[37] This indicator reflects the proportion of the population which cannot afford an unexpected required expense equal to 1/12 of the national at-risk-of poverty threshold with its own resources (see Eurostat, Statistics in Focus 9/2012).

[38] Indeed, the correlation coefficient between the two variables was quite strong, as r=0.72.

In terms of changes in the pre and post crisis periods, increases in perception of heavy burdens due to housing costs were highest in Estonia, Latvia, Malta, Lithuania, and Denmark. Levels decreased significantly in Bulgaria, and modestly in Germany, Italy, and the Netherlands.

Table 16. *Percentage of total population with an inability to face unexpected financial expenses, by Member State (2011)*

Source: (a) (b) Civic Consulting based on Eurostat, SILC data (codes: ilc_mdes04 and ilc_mdes05). The first questions asks: " Can your household afford an unexpected required expense (amount to be filled) and pay through its own resources?" Note: (c) calculated as the difference between the % of households unable to face unexpected financial expenses and the % of households in arrears. Note: *Denotes most recent value available, as of 20-12-2012.

MS	Percentage of total population unable to face unexpected financial expenses[(a)]	Percentage of total population in arrears on key commitments[(b)]	Percentage of total population under financial strain but not in arrears[(c)]
EU27	37.5	11.4	26.1
BE	26.1	7.8	18.3
BG	65.3	30.9	34.4
CZ	40.4	6.1	34.3
DK	24.9	6.7	18.2
DE	34.5	5.2	29.3
EE	44.7	13.8	30.9
IE	49.2*	16.7*	32.5
EL	34.4	31.9	2.5
ES	35.4	7.7	27.7
FR	33.0	9.9	23.1
IT	38.6	14.2	24.4
CY	51.3	26.9	24.4
LV	80.1	26.1	54.0
LT	60.4	13.1	47.3
LU	23.0	3.9	19.1
HU	74.0	24.7	49.3
MT	26.4	9.1	17.3
NL	21.7	4.9	16.8
AT	22.8	7.4	15.4
PL	51.2	14.2	37.0
PT	29.1	10.2	18.9
RO	50.3	30.2	20.1
SI	46.7	19.0	27.7
SK	35.8	8.5	27.3
FI	27.4	11.0	16.4
SE	16.6	5.9	10.7
UK	36.7	8.9	27.8

4.4.4 European Social Survey: Feeling about household income

This question asked respondents to describe how they felt about their household's present income. We present in the table below the percentage who chose to respond that their level of income made it "very difficult" to live on, as a complimentary indicator of financial strain. Overall data was available for 23 Member States, though not all consecutively.

***Table 17.** Percentage of respondents feeling that surviving on households' present income is "very difficult" nowadays*

Source: Civic Consulting based on European Social Survey, rounds 1-5 (code : hincfel). Note: * 2008 data used when 2006 data not available.

Member State	2002	2004	2006	2008	2010	2006-2010, % change*
AT	4.5	2.8	2.9	n.a.	n.a.	n.a.
BE	2.9	4.5	4.5	3.8	4.7	4.4
BG	n.a.	n.a.	36.7	31.9	36.4	-0.8
CY	n.a.	n.a.	2.4	4.5	9.9	312.5
CZ	6.4	12.2	n.a.	6.2	12.8	106.5
DE	2.7	3.9	4.5	3.6	3.3	-26.7
DK	1.5	1.2	1.4	0.8	1.3	-7.1
EE	n.a.	13.0	7.7	6.0	8.4	9.1
ES	3.8	3.0	2.7	4.5	5.6	107.4
FI	3.7	3.4	2.2	2.8	3.5	59.1
FR	n.a	n.a	1.4	1.5	2.1	50.0
UK	1.7	3.4	2.3	4.0	4.4	91.3
EL	15.8	13.4	n.a.	17.5	27.8	58.9
HU	11.6	10.2	12.1	14.4	16.0	32.2
IE	3.9	1.5	1.7	4.8	9.9	482.4
IT	2.4	4.9	n.a.	n.a.	n.a.	n.a.
LU	1.5	2.6	n.a.	n.a.	n.a.	n.a.
NL	1.2	3.1	2.9	1.8	2.5	-13.8
PL	5.7	5.2	3.1	2.7	3.4	9.7
PT	8.8	10.4	13.3	12.6	12.2	-8.3
SE	1.4	1.7	1.7	1.7	1.9	11.8
SI	2.7	3.0	2.5	3.5	4.5	80.0
SK	n.a.	18.1	12.1	6.7	10.5	-13.2

The results in terms of ranking were similar to that reported in the EU-SILC question households' ability to make ends meet. The highest levels for 2010 were reported in Bulgaria (36.4%), Greece (27.8%), Hungary (16.0%), the Czech Republic (12.8%), and Portugal (12.2%). The lowest levels were reported in Denmark (1.3%), Sweden (1.9%), France (2.1%), the Netherlands (2.5%) and Germany (3.3%).

There was considerable variation in scores from pre (2006) to post (2010) crisis periods. In some cases, like in Bulgaria, Belgium, and Poland only low (under 10%)

percentage increases were recorded, while Germany recorded an almost 27% decrease in the number of households who felt their level of income made it very difficult to survive. In Member States affected by the financial crisis however, large increases in self-reported financial difficulty were present. Outstanding here was the case of Ireland, where levels increased more than five-fold from 1.7% in 2006, to 9.9% in 2010, followed by Cyprus, Spain, the Czech Republic, and the UK.

4.4.5 European Social Survey: Extent of drawing on savings/incurring debt in last three years

A question on how much households drew on savings or incurred debt to cover living expenses was included in the 2010 rotating module on “Work, Family and Well-being: The Implications of Economic Recession”. The responses to this question are displayed below.

As can be seen, Member States displaying the highest level of households’ drawing on savings or debt “a great deal” to cover ordinary living expenses include Bulgaria (19.6%), Spain (14.9%), Greece (15.5%), Hungary (16.4%), Ireland (15.7%), Lithuania (16.4%), and Slovenia (14.1%). Conversely, Member States such as the Netherlands, Germany, and Sweden score less than 6% by this measure. This pattern broadly confirms that of the previous EU-SILC measures.

***Table 18.** Percentage of respondents: to what extent did you have to draw on savings/debt to cover ordinary living expenses in the last 3 years*

Source: Civic Consulting based on European Social Survey, Round 5 (code : dsdclve). This question asks "I have had to draw on my savings or get into debt to cover ordinary living expenses." Provided are proportion of respondents who replied in categories from "Not at all" to "A great deal".

Member State	Not at all (0)	1	2	3	4	5	A great deal (6)
BE	62.5	7.6	5.0	6.6	7.6	5.2	5.5
BG	27.0	11.8	9.6	14.7	10.3	7.0	19.6
CY	22.7	17.9	16.2	16.1	10.5	8.2	8.3
CZ	27.1	18.1	14.0	13.3	9.8	8.6	9.2
DE	61.5	8.2	5.7	7.7	6.2	5.3	5.5
DK	73.3	6.1	2.9	3.9	3.9	3.4	6.5
EE	42.2	12.9	9.5	11.2	8.5	6.8	8.9
ES	39.7	9.0	10.4	10.4	8.0	7.6	14.9
FI	52.2	12.2	6.6	7.3	7.1	7.3	7.3
FR	40.4	11.6	8.0	10.2	11.9	10.3	7.6
UK	41.3	10.8	8.7	8.0	8.9	10.7	11.6
EL	18.6	10.3	9.9	15.7	14.8	15.1	15.5
HU	34.3	9.3	8.0	11.1	9.2	11.7	16.4
IE	0.0	21.8	15.4	19.6	13.5	14.0	15.7
LT	21.9	11.7	12.8	14.3	13.3	9.7	16.4
NL	66.4	7.1	6.0	5.6	5.2	5.2	4.6
PL	44.0	11.3	9.5	11.6	7.8	7.9	7.8
PT	36.6	11.6	13.1	17.0	10.4	6.0	5.4
SE	68.7	6.2	3.2	4.7	6.0	5.3	5.9
SI	33.3	12.9	9.1	15.1	8.5	6.9	14.1
SK	30.2	15.2	13.0	17.3	7.2	6.9	10.2

4.5 OTHER ASSESSMENTS

4.5.1 Genworth financial vulnerability index

The Genworth index reports levels of financial vulnerability in a population, representing the proportion of people within a population who are currently feeling vulnerable financially relative to those who are feeling secure financially. The index takes as its starting point combinations of responses to one survey question about current financial difficulties and one about expectation of the future financial circumstances of the household, which are then underpinned by the totality of a person's financial situation, drawn from a number of self-report measures. Data on these are collected in 10 EU countries by representative polling. Data is available for the years 2007 to 2010.[39]

As can be seen in the table below, those categorised as financially vulnerable increased from 2007 to 2010 in all Member States, though there was in some a slight drop in 2010 from the 2009 figures. The highest levels of the financially vulnerable were seen in Greece (65), and Portugal (51), corresponding to previous indicators, while the rates for those in Germany and Ireland were lower, albeit with different dynamics over the period, with Ireland showing a large jump in vulnerability since the start of the survey.

---

39 Genworth Financial, *The Genworth Index: Measuring consumer financial vulnerability and security in 18 countries*, Volume 4 - 4th Quarter 2010.

Table 19. *Financial vulnerability, security, and Genworth index of selected EU Member States*

Source: Civic Consulting based on the Genworth Index: measuring consumer financial vulnerability and security in 18 countries. Volume 4 – 4th Quarter (www.genworth.co.uk). Note: Genworth index is derived from the ratio between households within a country that are financially vulnerable to ones that are financially secure.

MS	Category	2007	2008	2009	2010
DK	Financially vulnerable (%)	4	5	6	5
	Financially secure (%)	22	18	18	17
	Genworth index score	-37	-28	-25	-27
DE	Financially vulnerable (%)	15	29	19	25
	Financially secure (%)	7	3	4	4
	Genworth index	16	49	33	41
EL	Financially vulnerable (%)	n.a.	n.a	45	65
	Financially secure (%)	n.a.	n.a.	4	2
	Genworth index score	n.a.	n.a.	52	76
ES	Financially vulnerable (%)	17	37	27	32
	Financially secure (%)	8	4	6	7
	Genworth index	15	47	31	32
FR	Financially vulnerable (%)	16	22	21	19
	Financially secure (%)	12	7	7	7
	Genworth index score	7	24	24	22
IE	Financially vulnerable (%)	8	34	39	25
	Financially secure (%)	17	3	2	5
	Genworth index	-16	51	63	36
IT	Financially vulnerable (%)	29	38	25	36
	Financially secure (%)	5	3	4	3
	Genworth index score	39	58	40	52
PL	Financially vulnerable (%)	n.a.	27	46	36
	Financially secure (%)	n.a.	5	3	2
	Genworth index score	n.a.	38	60	65
PT	Financially vulnerable (%)	32	61	39	51
	Financially secure (%)	7	2	5	3
	Genworth index	34	70	45	66
FI	Financially vulnerable (%)	n.a.	8	8	10
	Financially secure (%)	n.a.	10	11	12
	Genworth index score	n.a.	-5	-7	-4
UK	Financially vulnerable (%)	7	22	14	20
	Financially secure (%)	17	8	9	8
	Genworth index score	-19	23	10	19

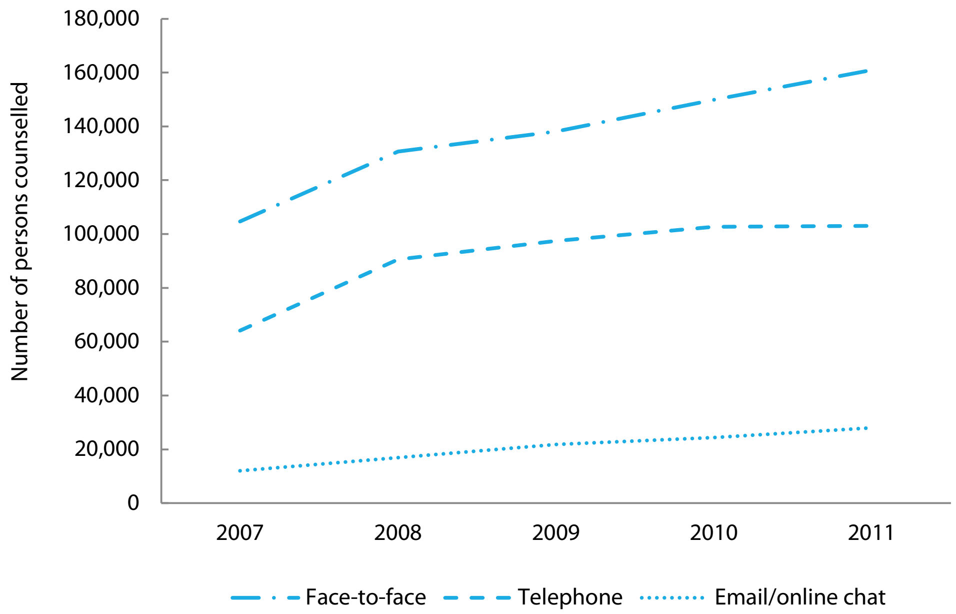
4.5.2 Level of debt advice and counselling

Some data on the level of debt advice take-up by consumers was collected as part of the present study. This data measured the number of persons counselled on issues of debt in the EU per year, and was collected by a survey of debt advice providers, stakeholder interviews, and desk research. However, data is not available for all organisations surveyed for the whole period, either because organisations did not record/provide the statistics, or because they were not yet active at the beginning of the observed period (2007). Therefore, this data should also be regarded with caution and no attempt has been made to compare Member States given the widely differing infrastructures in place.

However, a graph illustrating the general trends in the EU is shown in the figure below. Data was collected for three types of debt or money management advice services - face-to-face interviews, telephone, and email/online chat. Discounting the large increase in 2007, the trends show a clear increase over the time period as regards the number of persons counselled on issues of debt in the EU; face-to-face remaining the most popular and indeed increasing steadily in popularity, while telephone based counselling has increased less rapidly (and appears to be stable for the last two to three years as reported from the surveyed organisations). The trend for email/online chat however, while lower than the others, is shown to be constantly increasing.

Figure 11. *Number of persons counselled on issues of debt in the EU*

Source: Civic Consulting, survey of debt service providers, stakeholder interviews, and desk research. Note: This includes only specifically identified types of debt counselling services, from the debt advice survey, but not aggregated figures that do not provide details on type of service provided See Annex for more information.



4.6 COMPARISON OF SELECTED INDICATORS

Pulling the analysis together it is possible to categorise Member States according to the severity and nature of the problems they face. It should, however, be pointed out that this is based on survey data from 2005 to 2011, although it is updated to 2012 with the subjective views of the stakeholders surveyed and the reports written by the country teams.

Stakeholder interviews

There was a general consensus in most countries among stakeholders interviewed for this study that the situation had significantly worsened in the past five years. 49% stated that the numbers of households that are over-indebted or have on-going financial difficulties had increased significantly in the last five years, with a further 23% saying that it had increased moderately.

Another 21% did not know or had no answer; while only 7% of all stakeholders stated that in their view this level had remained the same or decreased. This worsening situation is reflected in the reported debt counselling figures reported above.

Country clusters

To compare this stakeholder assessment and the debt counselling figures with more objective data on the household situation, countries were classified into four clusters according to the following two indicators:

- *Level of arrears*: Overall level of arrears as measured by EU-SILC data;
- *Indication of financial difficulty*: As measured by level of ability to make ends meet on present income, from EU-SILC data.

Overall, Member States with a high overall level of arrears reported tended to also report high levels of difficulty making ends meet. For the 27 EU Member States in 2011, the correlation was very strong, as r=.87; consumers therefore suffer greater financial difficulty as levels of arrears increase.[40]

[40] Comparing difficulties in making ends meet and levels of arrears is important, because people may be over-indebted without having formal arrears. For example, they may have arrears on loans from family or friends, or telecom bills. Eurofound research (2012) found that 8% of Europeans have such informal arrears, allowing them to avoid the other formal types of arrears.

Table 20.
Correlations of key indicators (2011)

Sources: Civic Consulting based on Eurostat data (a) code: ilc_mdes05, (b) code: ilc_mdes09.
Notes: *Denotes a statistically significant correlation (p<.05).

	Level of household arrears[(a)]	Inability to make ends meet[(b)]
Level of household arrears	1.00	
Inability to make ends meet	0.87*	1.00

Combining the key indicators reviewed (frequency of arrears, perceived inability to make ends meet), a very high level of household arrears combined with a very high inability to make ends meet leads to a first cluster of six Member States: Greece, Romania, Cyprus, Latvia, Hungary and Bulgaria. These are mostly non-Eurozone Member States that have acceded to the EU in 2004 or 2007 (with the exception of Greece).

The second cluster of Member States identified combines a high level of household arrears with a mostly very high to moderate inability to make ends meet. These are Italy, Lithuania, Ireland, Poland, Slovenia and Estonia. Four of these six Member States belong to the Eurozone.

The third cluster of Member States combines a moderate level of household arrears with an inability to make ends meet ranging from very high, to low, however the majority report moderate levels. Eight out of the nine Member States in this group are part of the Eurozone.

The final fourth cluster of Member States identified - the Czech Republic, Denmark, the Netherlands, Sweden, Luxembourg, and Germany - are defined by a low proportion of people in arrears and mostly low proportion of those unable to make ends meet. Only half of these Member States are part of the Eurozone, but are with only one exception (Czech Republic) EU15 members located in northern Europe.[41]

[41] As can be seen in section 6.1.7, these clusters are not correlated with household debt to income ratios (i.e. level of indebtedness). In contrast, a significant positive correlation (r=.52, p<.01) was found between the level of consumer debt outstanding at the aggregate level (for 2009) and the frequency of arrears on hire purchase or other loans. An even stronger correlation (r=.67, p<.01) was found between the level of consumer debt and the frequency of arrears on utility bills.

***Table 21.** Overview of indicators for indebtedness and financial difficulty*

Source: Civic Consulting based on Eurostat, EU-SILC. Note: Level of household arrears: High is a value above EU average of 11% in 2011; very high is above 21%; moderate is below EU average in 2011, low is below 7% in 2011. Inability to make ends meet: High level is value over EU average of 26% in 2011; Very high is above 36%; moderate is below EU average in 2011, low is below 16% in 2011.

Level of household arrears	Inability to make ends meet	Member State	Eurozone
Very high	Very high	EL	Yes
	Very high	RO	No
	Very high	CY	Yes
	Very high	LV	No
	Very high	HU	No
	Very high	BG	No
High	Very high	IT	Yes
	Very high	LT	No
	High	IE	Yes
	High	PL	No
	High	SI	Yes
	Moderate	EE	Yes
Moderate	Very high	PT	Yes
	High	ES	Yes
	High	SK	Yes
	High	MT	Yes
	Moderate	UK	No
	Moderate	BE	Yes
	Moderate	FR	Yes
	Moderate	AT	Yes
	Low	FI	Yes
Low	High	CZ	No
	Low	DK	No
	Low	NL	Yes
	Low	SE	No
	Low	LU	Yes
	Low	DE	Yes

4.7 CHANGES SINCE THE FINANCIAL CRISIS

Comparing frequency of arrears on all key commitments, it is clear that most (24) Member States experienced an increase in overall levels of arrears. Since the onset of the financial crisis, the largest absolute increases were seen in Romania, Estonia, and Latvia, where the frequency of arrears almost tripled.

Several other Member States experienced an increased frequency of arrears above the EU27 average, including (in order of severity), Austria, Denmark, Portugal, Luxembourg, Lithuania, Slovenia, Hungary, Belgium, Greece, Finland, and Cyprus. Some other Member States saw very little change, such as the UK, Sweden, France, and Bulgaria. A few even saw a decrease, namely Poland, Germany, and Bulgaria.

As regards inability of households to make ends meet, Member States which experienced the largest proportionate increases during 2007-2011 include Estonia, Lithuania, Slovenia, Germany, and Denmark. Only in Poland, Romania, Finland, and Slovakia have levels decreased.

Other research found similar patterns, with the Genworth index showing increases in those categorised as financially vulnerable increasing from 2007 to 2010 in all Member States surveyed, while European Social Survey data found that perceived difficulty in surviving on household income increased sharply in a number of Member States, including Ireland, Cyprus, and Spain.

Finally, the survey of debt advice providers across Europe conducted for this study provides a similar picture of steadily increasing demand for these services from 2007 to 2010.

5 TYPES OF HOUSEHOLDS IN FINANCIAL DIFFICULTIES

In this section we examine the different types of households across the EU that experience difficulties in meeting their financial commitments. Specifically, we look at factors such as income, age, number of children, marital status, level of education, tenure status, and other relevant factors. We also present stakeholder views and their perception of changes in the types of households experiencing difficulties over the past five years.

Key findings of the study concerning types of households experiencing difficulties in meeting their financial commitments are:

1. Previous research finds income to be one of the strongest predictors of over-indebtedness - the lower the income, the greater the risk, even after controlling for other factors. This analysis was supported by analysis of EU-SILC and Eurobarometer data, and results from consumer interviews. This was also the view of stakeholders, who households with disposable incomes of less than 60% of the national median as among the most common types of over-indebted households. Since the crisis, growing numbers of middle income households are reported to have also fallen into financial difficulties.
2. Research also shows a strong link between financial difficulties and age, with younger people being at greatest risk. These findings were supported through analysis of EU-SILC and Eurobarometer data, as well as consumer interviews carried out for this study. The link between age group and over-indebtedness was repeated in the interviews with stakeholders, over half of whom said that people aged between 25 and 39 were among the groups most likely to be experiencing on-going difficulties meeting their financial commitments.
3. However, changes have been recorded due to the financial crisis, with some evidence of increasing household over-indebtedness in older age groups. Recent statistics on users of debt advice agencies in the UK record rapidly growing demand among older age groups, while several stakeholders in multiple countries commented on recent increases in both the amount of younger (under 25) and older (over 40 or retired) people experiencing financial difficulties.
4. Research that found that the number of children in a household significantly increases the risk of being in financial difficulties was supported through analyses performed in the present study. Using EU-SILC data, it was found that respondents with no dependents had consistently less than half the level of total arrears than respondents with dependents.
5. Previous research has also found that lone parents are at greater risk than two parent families. They are particularly disadvantaged, since they face the same

(childcare) costs as two-person families but can only rely on their own income, perhaps with some level of social transfers. Stakeholders in the present study also emphasised the frequency of lone parent households.

6. According to previous research, over-indebtedness has been more concentrated among people renting their home. By contrast, owner-occupied housing seems to be linked with a lower risk of over-indebtedness, though this is more pronounced for those who own their home outright than those with mortgages. However, in certain countries this relation is reversed - for example in Ireland and Spain, where home owners face increasing levels of financial difficulties due to income shocks and declines in house prices. Consistent with previous research, level of education is also related to over-indebtedness, but the effect is weaker and more complex when other factors are taken into account.
7. Previous research finds that though migrants and non-EU citizens are a small part of the population, they face greater risk of being over-indebted.

The results in this chapter are based on a combination of sources. Data from the present study includes the 277 stakeholder interviews and the 120 interviews with over-indebted consumers from the six selected countries. This is augmented by data from the standard EU-SILC time series up to 2011, and the 2008 special module on over-indebtedness and financial exclusion. Further data sources include Eurobarometer and European Quality of Life (EQLS) data, as well as research carried out at a national level.

The different characteristics revealed by survey data are of course related and are subject to often complex interactions - low income is associated with lower levels of education, and also housing tenure, migrant status, etc. Therefore, particular attention has been paid to previous research employing multivariate analysis, where factors are controlled for the influence of other variables.

While over-indebtedness is not restricted to any social group, the picture that emerges through review of the data shows that the types of individuals and households at greatest risk of having on-going difficulties with meeting their financial commitments are predominantly young families with children, who are living on low incomes and with at least one unemployed person. It includes tenants as well as families buying a home on a mortgage.

But there are also signs of new groups of people being affected, with nearly half of all stakeholders interviewed noting a significant change over the past five years. Most notably, they reported an increase in the levels of financial difficulties being experienced by people on middle incomes and those buying a home on a mortgage.

5.1 LOW INCOME/POVERTY

In general, previous research finds income to be one of the strongest predictors of over-indebtedness. Studies using multivariate analysis have found that household income has an independent effect on the risk of over-indebtedness and that the lower people's incomes, the greater the risk, even after controlling for other factors.[42] Analysing micro-level SILC data also found that households whose housing costs or debt servicing were in arrears were more likely to be found in the low-income groups, both for mortgage and consumer debt.[43]

Analysis of EU-SILC data in the 2008 EMPL study[44] demonstrated that both gross and disposable household income is related to the likelihood of being in arrears. The quintile of households with the lowest disposable incomes had the highest likelihood of being in arrears (18%), while the percentage dropped for each successive group. Those households with the highest income quintile only had a small likelihood of experiencing arrears (4%). This relationship remained even after other factors were accounted for using multiple regression.

A multinomial regression analysis on European Quality of Life Survey (EQLS) data[45] also found that higher levels of income were negatively associated with all types (but more strongly utilities) of arrears, holding other factors constant. More recent data analysed in the present study confirmed this distribution, since in 2011 nearly 25% of those below 60% of median equivalent household income had arrears going by the EU-SILC data, compared to only 9% of those above this income level.

Evidence from debt advice agencies is consistent with this, with CCCS research from the UK[46] finding that over-indebtedness is prevalent among low-income households, and that the income of those seeking debt advice was 20,958 Pound gross per year - significantly lower than the UK average of 26,200 Pound per year.[47] This was also the case elsewhere, for example in Germany, where a review of national statistical data found that the net income of over-indebted households was on average 39% lower than the general population.[48] Furthermore, Bank of Italy estimates that vulnerability (referring to those households with debt service payments greater than 30% of

[42] Berthoud, R. and Kempson, E., *Credit and debt: The PSI Report*, Policy Studies Institute, 1992; Kempson E., McKay, S., Wilitts, M., *Characteristics of famliles in debt and the nature of indebtedness*, Department for Work and Pensions, 2004.

[43] Gomez-Salvador, R., Lojschova, A., and Westermann, T., *Household sector borrowing in the Euro area: A micro data perspective*. European Central Bank, 2011.

[44] Davydoff, D., et al, *Towards a Common Operational European Definition of Over-indebtedness*, European Commission (DG EMPL), 2008.

[45] Eurofound, *Managing household debts: Social service provision in the EU (working paper*), 2010.

[46] Consumer Credit Counselling Service, *CCCS statistical yearbook 2011*, 2012.

[47] This amounts to 25,834 Euro and 32,296 Euro as of exchange rates on January 7th, 2013.

[48] IFF, *Überschuldungsreport*, 2012, p.52.

income) is greater among the lower-income households: 38% in the bottom income quintile and just 2% in the top quintile.[49]

Subjective assessment of over-indebtedness risk going by Eurobarometer did not break data down by income as such, but noted higher perceptions of being at risk amongst traditional low-income groups such as the unemployed (46%), manual workers (31%) and house persons (30%). Conversely, occupations with the lowest feelings of being at risk were those of managers (20%) and the retired (17%).[50]

In the consumer interviews carried out for the present study, 43% of interviewees were defined as being at risk of poverty going by the previously used median household income method, though the sample can only be considered indicative in nature.

Half (51%) of stakeholders interviewed said that households with disposable incomes of less than 60% of the national median were among the most common types of over-indebted households, i.e. those that most commonly have on-going difficulties meeting their financial commitments.

Nevertheless, a number of stakeholders noted that they had become aware of growing numbers of middle class households who had fallen into financial difficulties over the past five years, as a result of the financial crisis (see example from the stakeholder interviews in the following text box and the more detailed discussion in section 5.8).

Income levels and over-indebtedness

"We have statistical data from the Czech Credit Bureau. People from 25 to 39 are usually those with highest income and therefore also those who take credits and loans the most. This age group is consequently most vulnerable to drop of income or other macro-economic changes." (*Stakeholder interview Czech Republic*)

"The Bank of Italy estimates that vulnerability (referred to those households with debt service payments greater than 30% of income) is greater among the lower-income households: 37.9 per cent in the bottom income quintile and just 2.2 per cent in the top quintile. As micro data shows, households with lower income are those younger or those with lower educational level of household members and households having difficulties in the labour market." (*Stakeholder interview Italy*)

"The main determinant of the over-indebtedness is income: those segments that have low income, meet difficulties to pay debt if they have managed to take any debt. There are also some high income households that have taken too high risks (by

[49] Bank of Italy, *Supplements to the Statistical Bulletin: Household Income and Wealth in 2010*, 25 January 2012.

[50] Special Eurobarometer 355: *Poverty and Social Exclusion Report.* December 2010.

speculating on real estate market) but they have been aware of the risks and they can manage their problems." (*Stakeholder interview Estonia*)

"In my view those most affected are people who borrowed on the strength of good incomes but who have lost their jobs. Maybe six or seven years ago they had no problem with debts at all. House prices rose very rapidly and a lot of people were just able to borrow enough to buy their house but then they lost their job or their income decreased. These are people who would have looked like good prospects for banks with no real problem but now suddenly their income was halved." (*Stakeholder interview Ireland*)

5.2 AGE

Previous research[51] shows a strong link between financial difficulties and age, with younger people being at greatest risk. This research has found that younger people are at risk regardless of their income levels, as their need for financing expenditure on housing, furniture, white goods and providing for young children is acute, and they are less reluctant to use credit to finance this expenditure. Older people also tend to attach higher importance to keeping up with payments.[52]

A 2010 research note[53] using EU-SILC special module data on over-indebtedness and financial exclusion from 2008 found that for the EU as a whole, outstanding debts of over 100% of monthly total household income were negatively associated with age group. Those aged 65 or over with outstanding debts of over 100% of household income comprised only 1.5% of the full sample, compared to 5.4% for those households exclusively aged between 25 and 39, though this concealed some country variation.

51 See Atkinson A., McKay, S., Kempson, E., and Collard, S., *Levels of financial capability in the UK: results of a baseline survey*, Financial Services Authority, 2006; Berthoud, R. and Kempson, E., *Credit and debt: The PSI Report*, Policy Studies Institute, 1992; Bridges, S. and Disney, R., *Use of credit and arrears on debt among low-income families in the United Kingdom*, Fiscal Studies vol. 25, no.1, 2004; Kempson E., McKay, S., Wilitts, M., *Characteristics of famliles in debt and the nature of indebtedness*, Department for Work and Pensions, 2004; Tufte, P.A., *Vulnerable consumers in the financial market*, National Institute for Consumer Research, 1999; Webley and Nyhus, *Life-cycle and dspositional routes into problem debt*, British Journal of Psychology, 92, 2001.

More recent research includes: Angel, S., Einböck, M., Heitzmann, K., and Till-Tentschert, U., *Verschuldung, Überschuldung und finanzielle Ausgrenzung österreichischer Privathaushalte*, Ergebnisse aus EU-SILC 2008, Statistische Nachrichten, 12/2009, pp. 1104-1116. ASB Schuldnerberatungen, *Over-indebtedness report Austria 2012*, 2012. Banque de France, *Enquête typologique 2010 Sur le surendettement*, 2011. Stamp, S., *An Exploratory Analysis of Financial Difficulties among Those Living Below the Poverty Line in Ireland*, Combat Poverty Agency, Dublin, 2009. For a review of the literature see also Anderloni, L., and Vandone, D., *Households Over-Indebtedness in the Economic Literature*, Working paper n. 2008-46, State University of Milan, Department of Economics, Business and Statistics, 2008.

52 Berthoud, R. and Kempson, E., *Credit and debt: The PSI Report*, Policy Studies Institute, 1992.

53 Fondeville, N., Ozdemir, E. and Ward, T., *Over-indebtedness: New evidence from the EU-SILC social module*, European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, Research Note 4/2010, 2010. It should be noted that despite reviewing the methodological issues mentioned earlier, data for UK, Germany, and Austria were not excluded, therefore results should be interpreted accordingly.

This is supported by research using data from the European Quality of Life Survey (EQLS), where it was found through multinomial regression analysis that young adults are indeed more at risk of running into arrears than elderly people, but those households where the respondent was more than 50 years old rarely ran into arrears.[54]

These previous findings were supported by analysis in the present study of the standard EU-SILC data from 2007 to 2011. Examining the pre and post financial crisis time periods, the EU SILC data series displayed in the table below shows a clear difference between households composed of one adult under 65 years (10.9% have arrears for all types of credit in 2007) and over 65 years (4.5%). This difference is consistent between pre and post crisis periods.

Table 22. *Percentage of total population with arrears on key commitments (mortgage or rent, utility bills or hire purchase/other loan payment), by characteristic (2007-2011)*

Source: Civic Consulting based on Eurostat, SILC data (code: ilc_mdes05).

Household characteristic	2007	2008	2009	2010	2011
Total	9.9	10.3	11.6	11.7	11.4
Single Male	10.0	9.1	10.4	10.4	10.2
Single Female	7.0	7.1	7.3	7.1	7.2
Single person	8.2	7.9	8.6	8.5	8.5
One adult under 65 years	10.9	10.4	11.3	11.4	11.3
One adult over 65 years	4.5	4.4	4.7	4.5	4.4
Lone parent	20.9	22.1	23.2	22.7	22.5
No dependents	6.9	7.2	7.8	7.8	7.7
With dependents	12.7	13.4	15.3	15.6	15.0
Below 60% of median equivalent income	20.9	21.4	23.8	24.5	24.7
Above 60% of median equivalent income	7.7	8.2	9.2	9.2	8.7

Further evidence was provided by examining Eurobarometer data.[55] When asked whether they were personally at risk of being over-indebted, only 18% of those aged 55 and over agreed, compared to 34% for those aged 25-39. This ratio was unchanged between 2009 and 2010.[56]

Data from consumer interviews conducted for the present study are only illustrative in nature due to the sample size, but the largest group of interviewees were those where household members were aged 25-39 (39%), followed by those between 40-64 (36%), while only 4% were composed of those households where members were 64 or over.

[54] Eurofound, *Managing household debts: Social service provision in the EU (working paper)*, 2010.

[55] Special Eurobarometer 321: *Poverty and Social Exclusion Report.* February 2010, and Special Eurobarometer 355: *Poverty and Social Exclusion Report.* December 2010. Note that these results should be interpreted with caution given possible methodological issues: see Section 4.4.1 for details.

[56] Special Eurobarometer 355: *Poverty and Social Exclusion Report.* December 2010.

The link between age group and over-indebtedness was repeated in the interviews with stakeholders, over half of whom (53%) said that people aged between 25 and 39 were among the groups most likely to be experiencing on-going difficulties meeting their financial commitments. The next highest level was among those aged between the ages of 40 and 64 (40%). In contrast, only 11% of interviewees believed this to be the case for those aged over 64, and some 16% believed this to be the case for those under 25.

Several stakeholders in multiple countries commented on recent increases in both the amount of younger (under 25) and older (over 40 or retired) people experiencing financial difficulties. This was reported across the EU and not just in EU12 or EU15 Member States. Stakeholders attributed this to the wider use of credit among people in these age groups, but also to the pressures on pensioners' incomes because of the financial crisis and rises in the cost of living.

There is some recent empirical evidence to support these reported trends with regard to older people. Recent statistics on users of debt advice agencies in the UK record rapidly growing demand among older age groups, with a 15% increase in the number of people aged over 60 counselled by the organisation.[57] Official statistics on credit in Belgium also showed an increase of those aged 65 and over with at least one credit contract increasing from 8.6% in 2007 to 17.3% in 2011, though default rates for the same age group only increased from 4.7% to 5.1% during the same period.[58]

Changes in the age distribution of over-indebted households

"Young adults between 20 and 30 are increasingly getting into debts. They have problems with addiction to expensive life-style and it is easy for them to get a loan." (*Stakeholder interview Finland*)

"Specifically within the senior group there have been more cases of over-indebtedness. Older people took credits to help to younger members of their families. Mortgage credits for 30-35 years were taken out by young and senior groups together - banks offered credits to pay off until the age of 80. Within one year - August 2009 and August 2010 - the senior group over 60 years old increased by 75%. Because of the deteriorating economy, many young people do not pay credits off and therefore the senior group is over-indebted." (*Stakeholder interview Poland*)

57 Consumer Credit Counselling Service, *CCCS statistical yearbook 2011*, 2012.

58 Nationale Bank van België, *Statistieken Centrale voor kredieten aan particulieren*, 2011.

"Before the financial crisis, the weakest clients [of the stakeholder's debt advice agency] were young people, 21-25 years old. These were people who were easily changing jobs and were not so serious toward their obligations, whereas people aged 35-45 were very stable in meeting their financial obligations. Currently it is the opposite: debtors are mainly people over 40, even well-educated, middle management who used to have good positions and good salaries [...] They used to have a good job so they started buying more expensive flats, cars, etc., which they cannot afford at the moment but their loans are still there." (*Stakeholder interview Bulgaria)*

"Over the past 5 years more younger and older people are in debt. Many elderly people are supporting their families and giving loans to them. Also their disposable income has dropped due to savings having little interest which would have been used to support the household. Younger people are seeking advice and those who have left home and under 25 have problems with benefit entitlements etc. and find it difficult to sustain tenancies." *(Stakeholder interview UK)*

5.3 NUMBER OF CHILDREN OR DEPENDENTS

Research has found that the number of children in a household significantly increases the risk of being in financial difficulties.[59] Summarising the literature, the 2008 EMPL study noted that even after controlling for other factors, having dependent children in the household increases the odds of over-indebtedness. Families with children have a particularly high proportion of expenses that cannot be reduced, and the birth of a child is often accompanied by one parent facing a reduction or cessation in income.

Analysing data from the EU-SILC 2008 special module, more recent research confirmed[60] that in the EU more children per household are associated with more over-indebtedness, with 9.1% of those households with three or more children having outstanding debts of over 100% of household disposable income, compared to only 3.8% for those with no children.

This overall figure conceals country variation. For example, in Greece and Latvia having a large family resulted in lower levels of over-indebtedness than those who

[59] See Frade, C., Lopes, C., Nogueira, C., Magalhaes, S., Brinca, P., Marques, M.M.L., *Desemprego e sobreendividamento dos consumidores: contornos de uma "ligacao periogosa"*, CES, 2005; Kempson E., *Over-indebtedness in Britain*, 2002; Observatoire du Credit et de l'endettement, *Rapport general sur la consommation et le credit aux particulier,* 2005; Springeneer, H., et al, *Schuldenreport 2006*, Verbraucherzentrale Bundesverbandes zur Verbraucherpolitik, 2007, and Rädda Barnen, *Barnfattigdomen i Sverige*, Årsrapport, 2010.

[60] Fondeville, N., Ozdemir, E. and Ward, T., *Over-indebtedness: New evidence from the EU-SILC social module*, European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, Research Note 4/2010, 2010. It should be noted that despite reviewing the methodological issues mentioned earlier, data for UK, Germany, and Austria were not excluded, therefore results should be interpreted accordingly.

had no children, while in countries such as Bulgaria, Germany, Hungary and the UK moving from a childless household to a household with one child increased the levels of over-indebtedness significantly. Using European Quality of Life Survey (EQLS) data, the number of children was found to be independently and positively associated with levels of arrears using multinomial regression, i.e. having more children was associated with a greater likelihood of arrears.[61]

The EQLS research also found an interaction with level of income, where in some countries (like Spain and Slovenia) larger low-income families tended to be less at risk of over-indebtedness than smaller ones, while in other countries (such as the UK, Romania, and Sweden) the reverse was the case. In another study using micro level SILC data from 2007, household size was positively correlated with mortgage and consumer debt outstanding, as well as the interest-repayments-to-income ratio across Euro area countries.[62]

These results were supported through analyses performed in the present study. Using statistics from the standard SILC module over time, respondents with no dependents had consistently less than half the level of total arrears than those respondents with dependents over the time period (2007-2011). In terms of consumer interviews conducted in the framework of this study, families with children were well represented, with 50% of respondents living in a household with children.[63]

Consistent with this, stakeholders interviewed cited households with children as among the most common types of household experiencing on-going financial difficulties; half (53%) of them specifically citing lone parents (one person households with children) and four in ten (44%) two person households with children.

Number of children

"The risk of poverty increases with the number of children in the households and single parents are frequently affected by poverty. Therefore […] such households may frequently face the problem of over-indebtedness (e.g. they can't afford to pay heating, electricity etc.)" (*EU level stakeholder interview*)

"Children are a risk factor. They cost money and although there is childcare, it could be better. There are not enough places in childcare, so sometimes they have to use private childcare, which is quite expensive, particularly for people on a low income. Children are a risk factor both with one and two parent households. They get into over-indebtedness because they need to fulfil the children's' needs and expectations.

---

[61] Eurofound, *Managing household debts: Social service provision in the EU (working paper)*, 2010.

[62] Gomez-Salvador, R., Lojschova, A., and Westermann, T., *Household sector borrowing in the Euro area: A micro data perspective*. European Central Bank, 2011.

[63] According to EU-SILC data for 2007, the percentage of households where children under 18 are present is 27.9% (for the 25 Member States surveyed). See: Eurostat, *Household structure in the EU, Eurostat methodoligies and working papers*, 2010.

People have difficulties saying no to their children, often more than to themselves." *(Stakeholder interview Belgium)*

"What I know is that households in risk of being over-indebted are often consisting of people between 40 and 54. Those are families that are more active on the market, they have high level of consumption. They have children and thus a higher cost of education and other costs of living. And of course in Poland families which have more than one child are more common and in a bigger risk of getting into indebtedness because of much higher level of expenses." (*Stakeholder interview Poland*)

5.4 MARITAL AND PARENTAL STATUS

Previous research has found that lone parents are at greater risk than two parent families. They are particularly disadvantaged, since they face the same childcare costs as two-person families but can only rely on their own income, perhaps with some level of social transfers. Using data from the EU-SILC 2008 special module, it was found that in nearly all countries the risk of over-indebtedness is increased significantly if there is only one parent in households with children. Across the EU as a whole, just under 10% of those living in lone parent households were over-indebted,[64] twice the proportion of other types of households. This is in line with earlier research, as in Norway where it was found that being a lone parent increased the odds of experiencing problems repaying consumer debt, even when socio-demographic variables and debt-to-income ratio were controlled for.[65]

Regarding marital status, multivariate analysis of EU-SILC data reported in the 2008 EMPL study[66] found that once other characteristics such as the presence of children, income, and age were held constant, being separated or divorced was associated with the greatest odds of experiencing arrears.[67] Using EU-SILC 2008 special module data, the relatively high risk (twice that of those who were married and 50% greater than those who were single and never married) of over-indebtedness associated with marital break-up was found to be independent of income levels.

Stakeholders in the present study also emphasised the frequency of lone parent households. While multiple answers were possible, the majority (53%) of stakeholders mentioned one-person households with at least one child as being among the most common types of households that have on-going difficulties meeting their financial commitments; by way of comparison, 44% of stakeholder survey respondents rated two person households with children as being most commonly at risk.

[64] Defined as having outstanding debts of over 100% of household income.

[65] Tufte, P.A., *Vulnerable consumers in the financial market*, National Institute for Consumer Research, 1999.

[66] Supra, p.108.

[67] Davydoff, D., et al, *Towards a Common Operational European Definition of Over-indebtedness*, European Commission (DG EMPL), 2008.

Marital status and parental status

"One person households you see all over in the statistics on poverty, not just concerning over-indebtedness. You can see that single parents especially are having difficulties because they have only one income." (*Stakeholder interview Belgium*)

"Another example is lone parents. They make up only 16% of the over-indebted population, which is perhaps not so high, but they make up only 6% of the general population. So they have a high risk." (*Stakeholder interview Germany*)

"But one person households - I checked that - if for example the situation occurs because of divorce, and usually one woman ends up with the children, then there is a sudden increase of expenses of the household and at the same time there might be also a limitation in the potential income of the woman. If we are talking about the long run, in a steady state, I would estimate that things would normalise - provided that this woman has some potential to enter the work force. In some cases they relied so much on their husband's income that they are not capable of recovering." (*Stakeholder interview Greece*)

5.5 HOUSING TENURE

According to recent Eurostat figures,[68] over seven out of every ten (71%) persons in the EU lived in owner-occupied dwellings, while 18% were tenants with a market price rent, and 11% tenants in reduced-rent or free accommodation. Traditionally, financial difficulties have tended to be concentrated among people renting their home. This probably reflects the fact that those paying rent face relatively higher housing costs, and that renters tend to be more likely to have relatively low income levels; across the EU, 25% of renters are below the poverty line.[69] By contrast, owner-occupied housing seems to be linked with a lower risk of over-indebtedness, though this is more pronounced for those who own their home outright than those with mortgages, reflecting the fact that a housing asset is also an important part of the net wealth of a household.[70]

This was found to be the case across the EU in a study analysing the EU-SILC 2008 special module data.[71] In the EU as a whole, the proportion of those in households

---

[68] http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Housing_statistics#Housing_affordability

[69] Defined as people living in households where equivalised monthly disposable income per person was below 60% of the national median. (Eurostat)

[70] However, Keese (2009), analysing German socio-economic panel (SOEP) data, finds that when other factors are taken into account, possession of a home loan is the highest single predictor of over-indebtedness. See: Keese, M., *Triggers and Determinants of Severe Household Indebtedness in Germany*, Ruhr Economic Papers #150, Ruhr Graduate School in Economics, Universität Duisberg/Essen, 2009.

[71] Fondeville, N., Ozdemir, E. and Ward, T., *Over-indebtedness: New evidence from the EU-SILC social module*, European Commission, Diectorate-General for Employment, Social Affairs and Equal Opportunities, Research Note 4/2010, 2010. It should be noted that

with outstanding debts of over 100% of household disposable income was 3.2% for owner occupied households without a mortgage, compared to 6.3% for those with a mortgage, and 8.2% for those paying market rent.

This evidence was supported by various national analyses. A UK based study in 2004 found that the odds of being in arrears were 2.3 times higher for tenants compared with owner-occupiers.[72] This was also the case in Ireland, where private tenants were twice as likely to be at risk of over-indebtedness as home owners with a mortgage, and this association held even when controlling for other factors.[73] These figures are supported by the housing cost overburden rate statistics compiled by Eurostat, where this rate is 26% for households renting at market price versus 8.2% for owner-occupied with mortgage households.[74] There was also significant country variation, for example in the UK, where overall levels of over-indebtedness were actually lower overall for households in rented accommodation versus those with mortgages.[75]

Regarding stakeholder responses, 44% believed that homeowners with mortgages were among the most common types of households that were over-indebted or experiencing on-going difficulties meeting their financial commitments. Slightly more (46%) thought that tenants were among the most common types of households. Conversely, few people cited homeless households (12%) or home owners without a mortgage (5%). There are differences between Member States on the composition and relevance of housing tenure, however. For example, one EU level stakeholder highlighted how in some former Communist countries home ownership developed very strongly, and this had some specific side effects, such as a large proportion of those owning their home outright but subsisting in accommodation of a low standard and with a low state pension.

Meanwhile, in some countries affected by the financial crisis, such as Ireland and Spain, debtors with mortgages were more likely to be in danger of over-indebtedness due to income shocks and declines in house prices. This was in contrast to comments from stakeholders in other Member States, who considered households with mortgages to be less at risk, or those in social housing to be at greater risk (see box below). Concerning the risk of over-indebtedness as a result of insufficient or lacking public housing policies, the issue is analysed in detail in section 6.1.4, while the general issue of housing costs is analysed in section 6.2.2.

---

despite reviewing the methodological issues mentioned earlier, data for UK, Germany, and Austria were not excluded, therefore results should be interpreted accordingly.

72 Kempson E., McKay, S., Wilitts, M., *Characteristics of famliles in debt and the nature of indebtedness*, Department for Work and Pensions, 2004.

73 Donnelly et al., *Financial Exclusion and Over-indebtedness in Irish households*, ESRI, 2011.

74 See: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Housing_statistics

75 Fondeville, N., Ozdemir, E. and Ward, T., *Over-indebtedness: New evidence from the EU-SILC social module*, European Commission, Diectorate-General for Employment, Social Affairs and Equal Opportunities, Research Note 4/2010, 2010.

Regarding the consumer interviews, a majority (59%) of the interviewees lived in rented housing (either from a public owner or a private landlord), with 37% living in owner-occupied housing - the remainder living in alternative tenures, such as in shelters.

Housing tenure and over-indebtedness

"In Poland in 2011 7.6% of households have delays in paying the rents - 4.2% more than 3 months and 1.2% more than 1 year. In 2010 the delays were observed in relation to 23% of households living in social housing. The delays are growing also in flats maintained by the cooperatives (all flats owners are the members of housing cooperatives simultaneously), reaching 8-10% of all rents." (*Stakeholder interview Poland*)

"There has been a large increase in over-indebtedness for households in owner-occupied housing (with mortgages)." (*Stakeholder interview Ireland*)

"People who bought a house in 2008 - for example - at the top of the market, and subsequently lost their job because of the crisis now cannot pay their mortgage any more. Many of these people are rather high on a social scale but are now indebted for large sums of money." (*Stakeholder interview Netherlands*)

"Having a mortgage appears to be a kind of education. When you have to repay a mortgage, you get used to the case that you have to put aside some money. The link between a mortgage and your income is a bit stronger. If a person has to repay a mortgage, they tend to be stricter, save more and overall display a kind of more solid behaviour. In Austria and Germany people tend to buy their first house when they are a bit older (in their 40s or so), for that they need to save some money. They have to save 20% of the value of the house. So before they take the mortgage they have to learn how to save." (*Stakeholder interview Austria*)

5.6 LEVEL OF EDUCATION

There was also a reported link with low levels of education, consistent with previous research.[76] Eurobarometer data from 2010 subjectively assessed how respondents felt at risk of being over-indebted found that higher levels of education were associated with less feeling of being at risk, but using some objective models this association is less strong in measuring actual levels of over-indebtedness. Using a multivariate logistic regression model, research using EU-SILC data from Ireland found a nuanced scenario, where those with who left school at 16-17 were significantly more likely than other groups to become over-indebted when other factors were taken into

[76] Davydoff, D., et al, *Towards a Common Operational European Definition of Over-indebtedness*, European Commission (DG EMPL), 2008.

account, but this factor was of less importance than income, employment status and housing tenure.[77]

Regarding evidence from stakeholder interviews, four in ten (44%) of stakeholders said that people with elementary (primary school) education or lower were at high risk of facing on-going difficulty meeting their financial commitments, compared to 11% for those with a college level education or higher.

This was elaborated in comments by stakeholders. They noted that those with higher levels of education tended to have both higher levels of income but also easier access to credit, while those with lower levels of education were more likely to be unemployed or have irregular sources of income, making both groups more vulnerable to over-indebtedness (see also comments in box below).

In terms of the highest education level of consumer interviewee households, only 35% of households had a third level education, with the largest group being those who had achieved high school level (48%), the remainder (18%) being those with only an elementary or primary level of education.

Level of education

"Different types of debt problems for different groups. While the group of better-educated who have recently become unemployed is on the rise, the traditional group of people with low education and expensive loans still forms a significant part [of most common types of households that are over-indebted]." (*EU level stakeholder interview*)

"People with a very low salary, and this is often closely related to their low elementary education, hardly have access to loans and credits and cannot therefore become as over-indebted as often the other groups can." (*Stakeholder from Romania*)

"Low education level usually means low socio-economic position. People with lower level of education generally tend to have poor employment or have difficulties finding jobs and typically have more financial problems than people with higher education level." (*Stakeholder from UK*)

[77] Donnelly, N., Maitre, B., and Russell, H., *Financial Exclusion and Over-indebtedness in Irish households*, Social inclusion research report No.1, Economic and Social Research Institute, Department of Community, Equality and Gaeltacht Affairs, Dublin, 2011, p.108.

5.7 MIGRATION AND CITIZENSHIP STATUS

Finally, previous research has demonstrated a positive link between migrant status, poverty, and over-indebtedness. Using data from the European Quality of Life (EQLS) survey,[78] results showed migrants to be among Europeans most at risk of running into both mortgage/rent and utility arrears, even after correcting for other factors such as income, social networks, and number of children, and other socio-demographic variables. Data from Germany[79] also shows that though the proportion of non-German citizens in the population rose from 7.9% in 2006 to 8.7% in 2010, the proportion of over-indebted non-German citizens rose from 9.7% in 2006 to 15.0% in 2010, illustrating both a relative and absolute growth in over-indebtedness in this group. Research in the Netherlands also found that 25% of households with at least one parent born abroad suffered from some form of arrears, though this proportion decreased from 2010 to 2011.[80]

From research performed for the present study, an interviewee working for public authorities in Belgium reported that the poorer position of non-EU citizens is reflected in all poverty indicators (see also comments in box below).

Migration and citizenship status

"Immigration and unemployment are crucial. These two elements are obstacles for insertion or re-insertion in the labour market. Many immigrants have lost their jobs with the fall of the construction industry and services related to it and now have more difficulties for finding a job." (*Stakeholder from Spain*)

"Households with an immigrant background cannot always be reached by current measures, commonly because of language problems. There are immigrant households that are looking for help, but the debt advice centre does not have anyone who would be able to help them in their language." (*Stakeholder from Germany*)

5.8 CHANGES SINCE THE FINANCIAL CRISIS

The plurality (49%) of stakeholders in the present study reported a significant change in types of households affected by over-indebtedness, with only 17% saying they noticed hardly any or no change at all. (A significant portion, 34%, said they did not know or did not answer this question). Numerous comments emphasised that the risk of over-indebtedness had grown in previously middle-class households, who were

[78] Eurofound, *Managing household debts: Social service provision in the EU (working paper)*, 2010.

[79] IFF, *Überschuldungsreport*, 2012.

[80] Westhof, F., Tom, M. and Vroonhof, P., *Monitor Betalingsachterstanden (Arrears Monitor)*, Panteia, Zoetermeer, 2011.

affected by the freeze in credit due to the financial crisis combined with falling incomes and asset values.

The increase in difficulties faced by middle class people meant that the links with education and income levels were not as strong as they had been in the past. One of the aspects of the current financial crisis that many stakeholders commented on was that even people with higher levels of education and/or income have been hit by job cuts and unemployment over the past five years. This was particularly the case in countries hit by the crisis such as Greece and Ireland, as shown in the comment box below:

Changes in the types of over-indebted households

"Middle-class people are more and more affected by over-indebtedness, as a result of crisis and unemployment. Another factor for this situation could be the drop of middle-class families income and savings as a result of the crisis in the property sector. Due to the huge supply of flats for rental the potential for having an additional income from flats rented out has been diminished sharply." (*EU level stakeholder interview*)

"More middle and higher class clients. [Our] organisation has not been active for a very long time. It started in 2008, so observations are based on this period. In the first and second year of operation the majority of clients were those with a very low income. Recently, more and more clients with higher incomes have been noted (white-collar workers)." (*Stakeholder interview Czech Republic*)

"In my view, those most affected are people who borrowed on the strength of good incomes but who have lost their jobs. Maybe six or seven years ago they had no problem with debts at all. House prices rose very rapidly and a lot of people were just able to borrow enough to buy their house but then they lost their job or their income decreased. These are people who would have looked like good prospects for banks with no real problem but now suddenly their income was halved." (*Stakeholder interview Ireland*)

"Earlier banks were very reliant on people who had stable wages, particularly civil servants. It was very easy for them to get access to credit, there were special mortgages, types of loan offered for them. Right now these jobs are being cut in Greece, as are wages. These people are particularly vulnerable. What was an affordable amount of credit before is now unaffordable. My impression is that middle class is particularly affected and that a lot of it is 'attained middle-classness'. People who were upwardly mobile, whose parents do not have financial resources now to support them." *(Stakeholder interview Greece)*

"The number of households that have income from a paid job as opposed to welfare has significantly increased. The same applies to the number of households with mortgages. The 'middle-class' is increasingly indebted. *(Stakeholder interview the Netherlands)*

6 CAUSES OF HOUSEHOLDS' OVER-INDEBTEDNESS

This section summarizes the main causes of households' over-indebtedness. Relevant drivers analysed include macro-economic factors, cost of living, types of credit taken out by households, level of borrowing, and personal circumstances.

The key findings of the study concerning the causes of households' over-indebtedness are:

1. Statistical analysis conducted for this study is consistent with the view of over nine in ten of the stakeholders interviewed that macro-economic factors are among the most important causes of financial difficulties.
2. Research carried out for this study found that for arrears over time, higher unemployment levels as well as increases in unemployment were associated with an increase in all types of arrears. Increases in real adjusted gross disposable income of households were also strongly and significantly associated with lower frequencies of arrears.
3. Research carried out for this study confirmed that a minority of countries have seen increases in the cost of living well above the EU average. These include Latvia, Romania, Bulgaria, Hungary, Lithuania, Estonia, and Greece. Almost all of these have very low average incomes. Results from analysis of key indicators of income and living costs showed that from the pre to post crisis periods, increases in cost of living outstripped income by several percentage points. In a second step, these increases were found to be strongly correlated with increased arrears in 2011, in particular arrears on utilities.
4. Overall, the costs of living that were referred to most frequently by consumer interviewees as causes of their financial difficulties were utility costs, the general costs of living, housing costs and childcare or child related costs (in descending order). Rises in the cost of living were also mentioned as a significant cause of financial difficulties by eight in ten stakeholders. The main areas of concern were utility bills, followed by housing costs, and other costs including food, and transport. Other areas of expenditure were seen as less important.
5. Previous research finds that the use of unsecured credit is positively associated with the likelihood of arrears. The greater the number of credit commitments households had, and the larger proportion of their income they spent on repaying them, the more serious was the level of arrears. In contrast, the total amount of money borrowed had a much less pronounced effect. Looking at macroeconomic data on debt outstanding, it is hard to discern a simple direct relationship between levels of mortgage borrowing and levels of arrears. In the field of consumer credit the relationship appears to be clearer: a significant

positive correlation was found between the level of consumer debt outstanding at the aggregate level and the frequency of arrears on hire purchase or other loans. An even stronger correlation was found between the level of consumer debt and the frequency of arrears on utility bills.

6. Evidence from previous research supports the hypothesis that higher levels of consumer credit outstanding put households in a riskier financial position, that is, that they are more likely to have arrears on hire purchase or other loans, and arrears on utility bills. Alternatively, it may be the case that consumers with lower incomes may be more likely to take out loans in order to pay arrears on utility bills or housing costs, but there was insufficient data available to verify these hypotheses in this study.
7. Almost nine in ten of the stakeholders interviewed reported that specific types of credit or loans taken out by households were among the most important causes of household's over-indebtedness in their country, although other causes were also considered to be important as multiple answers were possible. The largest proportion mentioned some form of high interest rate credit from regulated lenders as being amongst the most important causes of households financial difficulties; nearly the same amount chose home loans or mortgages, and a little under half considered that the level of consumer credit borrowing at average interest rates was problematic.
8. Across the EU, fewer stakeholders saw predatory or usurious types of credit as amongst the most important causes of over-indebtedness (mentioned by about three in ten stakeholders), followed by other easy to obtain financial products (such as payday or SMS loans), and non-usurious credit from unregulated lenders. Only a small minority of stakeholders considered informal credit or loans from family members, friends, or employers to be one of the most important causes of over-indebtedness. However, stakeholders in several Member States reported a rise in the use of high-cost short-term credit in the form of SMS loans, payday loans or unregulated lending.
9. In terms of personal circumstances, interviewed stakeholders considered drops in income caused by unemployment or business failure to be among the most important causes of household over-indebtedness. In consumer interviews, a drop in income as the result of unemployment or illness was the personal circumstance most commonly referred to by interviewees.
10. Approaches to money management and financial decisions can play an important role whether or not individuals of households experience financial difficulties. There is a growing body of research to support this conclusion and either 'incapacity to deal with financial products' or 'lack of money management skills' (or both) were chosen as being among the most important causes of over-indebtedness by nearly two-thirds of all stakeholders.
11. A majority of stakeholders believe that there is a relationship between the cultural attitude towards debt and the actual level of household over-

indebtedness. While attitudes vary between Member States, stakeholders who observed a change in cultural attitudes noted that historically a lot of significance used to be attributed to being debt-free. This attitude has changed recently with the development of financial sector and the introduction of a variety of new financial products accompanied by cultural valorisation of consumption. However, there is a tendency among stakeholders from some countries to believe that consumers are becoming more careful in terms of willingness to take credits in the wake of the financial crisis.

This chapter is structured in terms of broad groups of causes, from exogenous factors to personal circumstances. Potential causes were identified at an early stage of the study through a review of literature and expert consultation, and are listed in the table below. They formed the conceptual framework for the fieldwork conducted for this study regarding this aspect, and are reflected in the interview questionnaires for the stakeholder and consumer interviews, as well as in the structure of this analysis (the order of categories does therefore not imply a ranking of their relative importance).

In the following sections, we explore the relevance of each cause on basis of statistical evidence, the results of the stakeholder interviews conducted in all 27 EU countries, and the consumer interviews conducted in six countries.

Section 6.1 deals with macro-economic factors such as unemployment rate, and section 6.2 deals with the levels of the cost of living. Section 6.3 deals with the different types of credit taken out by households. Section 6.4 analyses the role that personal circumstances, rather than exogenous factors, play in causing over-indebtedness. Finally, section 6.5 analyses the role that cultural factors play in influencing levels of over-indebtedness and how these have changed.

Table 23. *Potential causes of households' over-indebtedness*

Source: Civic Consulting.

Categories	Potential causes
Macro-economic factors	Unemployment rate Wage level Social welfare level Movements in exchange rates Movements in interest rates
Cost of living	Utility costs (electricity, water, gas, telecommunication, etc.) Housing costs Childcare and child related costs Education costs Healthcare costs Insurances and other financial services Other costs of living (food, transport, etc.)
Types of credit/loan taken out by households	Credit/loans from regulated lenders with average interest rates Other regulated consumer credit, with high interest rates Home loans/mortgages Non-usurious credit/loans from unregulated lenders Informal credit/loans from family members, friends, employers Predatory or usurious types of credits/loans Other specific practices or easy to obtain products in the financial services industry, such as doorstep or SMS loans, etc.
Personal circumstances	Poverty (e.g. low income) Support payments to family members Decreasing or stagnant income while costs of living steadily increase Drop in income caused by unemployment or business failure Drop in income caused by other reasons (e.g. illness, divorce/separation) Incapacity to deal with financial products Lack of money management skills (incl. excessive spending, lack of attention to budget) Addictive behaviours (e.g. drugs/alcohol, gambling) Behavioural biases (e.g. over-optimism) Other causes

6.1 MACRO-ECONOMIC FACTORS

Macro-economic factors analysed for this study include:

- Unemployment (level and change of total unemployment over time, as well as specific dimensions of youth unemployment, long-term unemployed and breakdown by gender);
- Wage levels (including minimum wage levels, and cuts in real income due to the financial crisis and austerity measures);
- Social welfare levels (cuts in social transfers, overall government expenditure as a financial stabiliser, and changes in eligibility for social transfers);
- Movements in exchange rates (relevant where debtors owe mortgages or other credit in a foreign currency);
- Level of overall household indebtedness (as indicated by the debt-to-income ratio);
- Movements in interest rates (which have followed a downward trajectory in recent years).

Macro-economic factors in general were mentioned as one of the important causes of financial difficulties by over nine in ten (92%) of the stakeholders interviewed. Macro-economic factors relevant for over-indebtedness were also seen by 73% of all stakeholders to have undergone significant change in the previous five years.

Preeminent among these was unemployment, where 88% of interviewees indicated it as one of the most important macro-economic causes of household over-indebtedness, followed by wage levels (59%), social welfare levels (37%), movements in interest rates (16%), and movements in exchange rates (10%). These factors are treated in detail in Sections 4.1.1 to 4.1.5, in order of frequency as rated by interviewees.

A similar picture emerges from the consumer interviews conducted in six countries. Overall, unemployment was the macro-economic factor mentioned most frequently by the 120 interviewees.[81] Households reported suffering from unemployment directly, but also indirectly (for example, as the result of reduced business revenue or because they were obliged to accept low paid jobs). Underemployment was also mentioned by some interviewees who were working fewer hours than they would wish.

Insufficiency of wage and social welfare levels were also frequently considered by the household interviewees to be causes of their financial difficulties. Because of

[81] In terms of household category, unemployment was more likely to mentioned by households that were actually over-indebted than those who were only at risk or had already recovered from their difficulties. Households who were at risk were somewhat more likely to mention wage level.

unemployment, retirement or illness, many households were living from social benefits, and some of these specified that their benefits or pensions were not high enough for their living expenses. In some cases, interviewees or their relatives did not receive any social benefits at all. Additionally, many interviewees who were employed also felt that their income was not high enough, in particular in combination with the rising costs of living. In Hungary, several interviewed households also mentioned exchange rates as a cause of their financial difficulties, as they had taken out loans in foreign currency.

This picture is entirely consistent with previous research, as reported in a 2008 report commissioned by the European Commission (the previously mentioned 2008 EMPL study).[82] However, there are indications of some important differences, deriving from the financial crisis and, in a minority of countries, from the austerity measures implemented because of it (see Sections 6.1.5 and 6.1.5 for more details). Moreover, it is clear that the precise balance of explanations of levels of financial difficulty varies markedly between the most and least affluent countries and between those most and least affected by the financial crisis. In many ways, therefore, the most affluent countries that have been relatively unaffected by the current economic crisis indicate a 'steady state' with regard to both the levels and causes of financial difficulties.

A summary of the results of the consumer interviews as regards interviewees' perception of the importance of the macroeconomic situation is presented in the table below.

[82] For a detailed overview of research to 2008 see Davydoff, D., et al, *Towards a Common Operational European Definition of Over-indebtedness*, European Commission (DG EMPL), 2008.

Table 24. *Household interviews - Macroeconomic situation*

Member State	Summary of household interviews
France	Unemployment was the macro-economic factor most frequently mentioned by the interviewees in France as a cause of their financial difficulties. Twelve households were affected by unemployment at the time of the interview, while a further two households had been affected by unemployment in the past. In addition to unemployment, a couple of interviewees also referred to underemployment as an issue. Wage level and social welfare level were also mentioned fairly frequently. For example, in relation to social welfare level, a few households indicated that they did not receive unemployment benefit, despite not having a job.
Germany	In terms of macro-economic factors, interviewees most frequently referred to unemployment as a cause their financial difficulties. Although only six households were affected by unemployment at the time of the interview,[(a)] half of interviewees referred to the unemployment rate as an issue. In some cases they had suffered from unemployment in the past, which had contributed to their over-indebtedness, for example by forcing them to accept work that was less well paid than their previous employment. In addition to unemployment rate, interviewees also frequently referred to wage level and, in a few cases, social welfare level.
Hungary	The macro-economic factor most frequently mentioned by the interviewed households in Hungary as a cause of their difficulties was exchange rates. More than half of households had taken out a loan in foreign currency (CHF or Euro) and had been negatively affected by the declining relative value of the Hungarian forint. For one household this had led to their monthly instalments increasing from the equivalent of 140 Euro to the equivalent of 540 Euro. In addition to exchange rates, households also referred to the unemployment rate and wage level.
Slovenia	Unemployment rate and social welfare level were the macro-economic factors most frequently referred to by the interviewees in Slovenia as causes of their financial difficulties. In over half of the interviewed households at least one person was unemployed. A couple of these linked their unemployment situation with their health problems, as they felt there were few jobs available for people with their conditions. In addition, several interviewees who were retired or receiving disability pension commented on the low level of the benefits they received.
Spain	Unemployment was the macro-economic factor most frequently mentioned by the interviewees in Spain as a cause of their financial difficulties. These households were either unemployed or their businesses had suffered severe negative effects from the general unemployment situation. In addition, half the respondents referred to wage and social welfare levels as causes of their financial difficulties. In almost half the cases, households suffered from meagre or complete lack of access to unemployment or other social benefits. Regarding movements in interest rates, some interviewees had acquired house loans with floating interest rates and paid high interests for other financial products.
United Kingdom	In terms of the general economic situation, unemployment rate, wage level and social welfare level were all mentioned as causes of over-indebtedness by the interviewed households. Four of the interviewed households were affected by unemployment at the time of the interview, while others had been affected by unemployment at some point in the past. In terms of wage level, some interviewees indicated that they had not received a pay rise for a long time, although the costs of living continued to increase. With regard to social welfare level, the interviewed households mentioned both the low level of the social benefits they received, as well as their lack of eligibility for certain benefits.

Source: Civic Consulting, household interviews (N=120). Notes: (a) Or during the period of financial difficulties, in the case of the previously over-indebted households. (b) In two cases because they had missed deadlines to apply for support and in one case because the interviewee did not have any citizenship status.

6.1.1 Unemployment

In July 2012, the unemployment rate across the European Union stood at 10.4%, showing an increase from the corresponding data of 2011, which is the latest year for which full data is available for the EU-SILC data analysed for this study. The table below therefore summarises the data on unemployment in the EU countries in the period 2007-2011.

Table 25. *Unemployment rates and change in unemployment (2007-2011)*

Sources: Civic Consulting based on Eurostat data (a) code: tsdec450, (b) code: tsdsc330, (c) code: tsdec460.

MS	Unemployment rate (%), 2011[(a)]	Long-term unemployment rate (%), 2011[(b)]	Youth unemployment rate (%), 2011[(c)]	Change in unemployment (%), 2007-2011[(a)]	Change in long-term unemployment (%), 2007-2011[(b)]	Change in youth unemployment (%), 2007-2011[(c)]
EU27	9.7	4.1	21.4	34.7	32.3	36.3
BE	7.2	3.5	18.7	-4.0	-7.9	-0.5
BG	11.3	6.3	25.0	63.8	53.7	77.3
CZ	6.7	2.7	18.1	26.4	-3.6	67.6
DK	7.6	1.8	14.2	100.0	200.0	89.3
DE	5.9	2.8	8.6	-32.2	-42.9	-27.7
EE	12.5	7.1	22.3	171.7	222.7	120.8
IE	14.7	8.6	29.1	212.7	561.5	219.8
EL	17.7	8.8	44.4	113.3	114.6	93.9
ES	21.7	9.0	46.4	161.5	429.4	155.0
FR	9.6	4.0	22.9	14.3	17.7	15.7
IT	8.4	4.4	29.1	37.7	51.7	43.4
CY	7.9	1.6	22.4	92.7	100.0	119.6
LV	16.2	8.8	31.0	149.2	417.7	160.5
LT	15.3	8.0	32.2	302.6	471.4	373.5
LU	4.8	1.4	16.4	14.3	16.7	5.1
HU	10.9	5.2	26.1	47.3	52.9	44.2
MT	6.5	3.0	13.8	0.0	11.1	-0.7
NL	4.4	1.5	7.6	22.2	7.1	8.6
AT	4.2	1.1	8.3	-4.6	-8.3	-4.6
PL	9.6	3.6	25.7	0.0	-26.5	19.0
PT	12.9	6.2	30.1	44.9	47.6	47.6
RO	7.4	3.1	23.7	15.6	-3.1	17.9
SI	8.2	3.6	15.7	67.4	63.6	55.5
SK	13.6	9.2	33.5	21.4	10.8	62.6
FI	7.8	1.7	20.1	13.0	6.3	21.8
SE	7.5	1.4	22.9	23.0	55.6	19.3
UK	8.0	2.7	21.1	50.9	107.7	47.6

The highest overall rates in 2011 were in Spain (21.7%) and Greece (17.7% in May 2012); the lowest in Austria (4.2%), Netherlands (4.4%), and Luxembourg (4.8%).[83] The most recent figures generally show a worsening of unemployment (in particular youth unemployment), but the timeframe of 2012-2013 is outside the scope of this study.

Historically, unemployment has tended to be higher among women than among men. Since 2008 male and female unemployment rates have been converging across the European Union as a whole. During 2011 the level of unemployment for men exceeded that for women in 12 of the 27 Member States; in four of these (Bulgaria, Ireland, Latvia and Lithuania) it exceeded it by more than two percentage points.[84] This has important implications for household budgets, as has recently been found in Greece, for example,[85] since in many households it is the man who is the main wage earner.

For arrears over time, as can be seen in the figure below, the uptick in unemployment in 2008 rises concurrently with an increase in all types of arrears except for mortgage or rent arrears, which remains broadly stable.

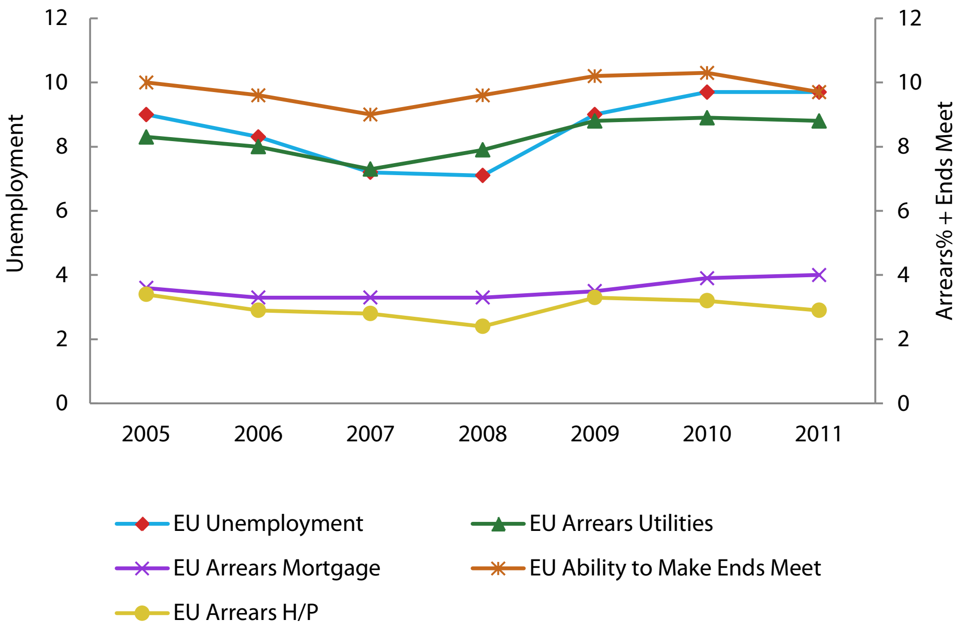
[83] Eurostat, News release 124, 31 August 2012. At: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-31082012-BP/EN/3-31082012-BP-EN.PDF

[84] Eurostat, 'Unemployment rate, by sex', (code: tsdec450).

[85] Zografakis, S. and Mitrakos, T. *The low-income risk in households with unemployed members during the current crisis*, Bank of Greece, May 2011.

Figure 3*. Total unemployment rate in the EU (2005-2011) and levels of arrears*

Source: Civic Consulting based on Eurostat (code: tsdec450) and EU-SILC data.



Using correlation procedures,[86] country levels of arrears and unemployment rates in 2011 were compared. As expected given previous research, total unemployment was positively associated with total arrears (*r*=.36), but especially inability to make ends meet (*r*=.49), and with arrears on mortgage or rent payments (*r*=.46). It was slightly less strongly correlated with arrears on utilities, and hire purchase or other loans.

This means that the higher the level of unemployment in a Member State, the higher the level of arrears. In particular, higher unemployment is associated with a greater perceived inability to make ends meet, according to EU-SILC respondents.

[86] Pearson correlation coefficient, two-tailed. Level of significance set to p<.05. With a sample size of 27 Member States, the minimum coefficient was *r*=.038 to reach significance. Based on EU-SILC data: (a) code: ilc_mdes06; (b) code: ilc_mdes07; (c) ilc_mdes08; (d) ilc_mdes05; (e) ilc_mdes09; (f) code: tsdec450; (g) code: tsdsc330; (h) code: tsdec460.

Table 26. *Correlations of unemployment rate, arrears and ability to make ends meet (2011)*

Sources: Civic Consulting based on Eurostat, EU-SILC data (see footnote).
Notes: *Denotes a statistically significant correlation (p<.05); Analysis for Ireland uses up to 2010 data.

	Arrears on hire purchase or other loans[(a)]	Arrears on utilities[(b)]	Arrears on mortgage or rent[(c)]	Total arrears[(d)]	Inability to make ends meet[(e)]
Unemployment (%)[(f)]	0.24	0.35	0.46*	0.36	0.49*
Long-term unemployment (%)[(g)]	0.13	0.40*	0.43*	0.37	0.53*
Youth unemployment (%)[(h)]	0.34	0.39*	0.48*	0.42*	0.55*

Important as the overall level is, *changes* in unemployment are also likely to create changes in the levels of financial difficulty, because sudden loss of employment creates income shocks that may not be easily compensated for by reducing consumption.[87] Levels of unemployment across the European Union as a whole remained relatively steady during the early 2000s and from mid-2005 there was a period of steadily declining unemployment (see figure above) This was reversed with the onset of the financial crisis, with a sharp rise from 6.7% in the first quarter of 2008 to 10.4% in July 2012.

Rises in unemployment was not distributed evenly across Member States. Eight Member States have seen an increase of around seven percentage points or more since 2008: Greece (15.4% increase), Spain (13.8%), Ireland (8.6% – but 9.3% since 2007); Latvia (7.9%); Lithuania (7.2% – but 9.4% since 2007); Bulgaria (6.8%) and Estonia (4.6% – but 7.0% by 2011, since when it has fallen). In contrast, other Member States have seen relatively little increase at all over this period and in Belgium, Germany and Austria unemployment rates fell between 2007 and 2011.

[87] Research has found that drops in income predict over-indebtedness independently of levels of income per se, and in fact may have a larger absolute importance than income. See Kempson E., McKay, S., Wilitts, M., *Characteristics of famliles in debt and the nature of indebtedness*, Department for Work and Pensions, 2004.

Table 27. *Correlation of percentage change of unemployment with change in arrears and ability to make ends meet (2007-2011)*

Sources: Civic Consulting based on Eurostat, EU-SILC data (see footnote).
Notes: *Denotes a statistically significant correlation (p<.05); Analysis for Ireland uses up to 2010 data.

	Arrears on hire purchase or other loans, change (%)	Arrears on utilities, change (%)	Arrears on mortgage or rent, change (%)	Total arrears, change (%)	Inability to make ends meet, change (%)
Unemployment change (%)	0.21	0.31	0.32	0.33	0.42*
Long-term unemployment change (%)	0.19	0.34	0.38*	0.36	0.34
Youth unemployment change (%)	0.11	0.22	0.22	0.24	0.28

In a second step, correlational analysis of the change in unemployment from 2007-2011 and the change in frequency of arrears from 2007-2011 found that the association of unemployment and arrears was positive for total arrears (*r*=.33) but especially for "inability to make ends meet" (*r*=.43). This implies that increases in unemployment are associated with increases in arrears and other indicators of financial difficulty. The table above displays all correlation coefficients for changes in unemployment and arrears over the period.[88]

Long-term unemployment also has important implications for levels of over-indebtedness and has been rising. Across the European Union 4.1% of the labour force had been out of work for more than 12 months. Countries where long-term unemployment is most prevalent include Greece, Ireland, Latvia, Lithuania, Slovakia and Spain.[89] As can be seen in the table above, changes in long-term unemployment tend to be more strongly associated with arrears than either overall unemployment, or youth unemployment.

The other trend of note is the rise in youth unemployment (age 15-24), which historically has been about twice the EU average for all age groups. The problem of youth unemployment (in 2011) is at its worst in Spain, Greece, Portugal, Slovakia, Lithuania, Latvia, and Ireland, whether it is expressed as an absolute rate or the proportion of the total unemployed who are young people. Interestingly, youth unemployment in 2011 was more highly correlated with all measures of arrears and financial difficulty than either the general or long-term unemployment rates. This

[88] EU-SILC data, (a) code: ilc_mdes06; (b) code: ilc_mdes07; (c) ilc_mdes08; (d) ilc_mdes05; (e) ilc_mdes09; (f) tsdec450; (f) code: tsdec450; (g) code: tsdsc330; (h) code: tsdec460.

[89] See 'Unemployment statistics' presented by Eurostat ('Statistics explained') at the following website: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics#Recent_developments_in_unemployment_at_a_European_and_Member_State_level.

may indicate that younger people are at greater risk of falling into financial difficulties because of unemployment, as they have less wealth, assets, or social security contributions built up over time than older people. However, *changes* in youth unemployment were not as strongly associated with these measures.

This is entirely consistent with previous economic literature. The links between unemployment and experiencing financial difficulty are well established[90] and a review of the literature in the 2008 EMPL study found that not being in employment has been found to be associated with an increased likelihood of over-indebtedness in countries such as the UK, Belgium, and the former East Germany.

Supporting evidence was provided by studies such as an analysis of data from Banque de France in 2004, which showed that three in ten were over-indebted through redundancy or unemployment.[91] Similarly, unemployment was given as an explanation by a quarter (23%) of those in the former West Germany who were facing over-indebtedness, and 46% of those in the former East Germany.[92]

There was less consensus as to whether there was a significant relationship between unemployment and financial difficulties once other factors are taken into account, though research in the 1990s found that long-term unemployment was found to be predictive of over-indebtedness in the UK and Norway even when controlled for income.[93] This was supported by research conducted for the 2008 EMPL study using regression analysis on EU SILC data, which found that households where the head of household was unemployed were most likely to report arrears when other factors were taken into account.[94]

More recently, comparing household work intensity with indebtedness of these households as measured by those households with outstanding debt of over 100% of disposable income, research on EU-SILC special module data[95] found that in some Member States there was evidence of a tendency for the level of over-indebtedness

---

[90] Davydoff, D., et al, *Towards a Common Operational European Definition of Over-indebtedness*, European Commission (DG EMPL), 2008.

[91] Gloukoviezoff, G., *Surendettement des particuliers en France*, Geneva: International Labour Office. 2006.

[92] Springeneer, H. *Schuldenreport 2005*, Berlin (unpublished) cited in Hass, O.J., *Over-indebtedness in Germany*, Geneva: International Labour Office, 2005.

[93] Berthoud and Kempson, *Credit and debt: The PSI report*. London Policy Studies Institute, 1992; Poppe, C., Risk Exposure to Payment Problems: Payment Problems Among Norwegians in the Nineties". In *Consumer Strategies in a Changing Financial Market*. 60th Anniversary Seminar, Oslo. 1999

[94] Table A3 in Davydoff, D., et al, *Towards a Common Operational European Definition of Over-indebtedness*, European Commission (DG EMPL), 2008.

[95] Fondeville, N., Ozdemir, E. and Ward, T., *Over-indebtedness: New evidence from the EU-SILC social module*, European Commission, Diectorate-General for Employment, Social Affairs and Equal Opportunities, Research Note 4/2010, 2010, p.42. It should be noted that despite reviewing the methodological issues mentioned earlier, data for UK, Germany, and Austria were not excluded; therefore, results should be interpreted accordingly.

(as defined in that study)[96] to be larger in households with low work intensity, as illustrated in the examples from stakeholder interviews below. On the other hand, in Germany and the UK, and to a lesser degree in Ireland, the proportion was smaller in households with low work intensity than in those with higher levels. This may reflect a tendency for those with living in higher work intensity households to have more access to credit, simply because they are working.

Therefore, it is not surprising that the cause of households over-indebtedness most frequently indicated by stakeholders was unemployment, where nearly nine in ten (88%) cited it as the one of the most important macro-economic causes. While stakeholders in Member States particularly affected by the crisis cited this as among the most important causes of over-indebtedness (as in Greece, Spain and Ireland), unemployment was also seen as amongst the most important causes of levels of over-indebtedness by interviewees even in Member States less affected by the crisis such as Germany, Sweden and Belgium.

In interviews with over-indebted consumers in six Member States, which were conducted for this study in the summer months of 2012, over 70% of consumers interviewed counted at least one unemployed person in the household. Unemployment was the macro-economic factor mentioned most frequently as an important cause of the household's financial difficulties (53% of consumers interviewed). Households reported suffering from unemployment directly, but also indirectly (for example, as the result of reduced business revenue or because they were obliged to accept low paid jobs). Underemployment was also mentioned by some interviewees who were working fewer hours than they would wish. This is consistent with the comments of stakeholders on unemployment, shown in the box below.

[96] In the context of the quoted study, over-indebtedness was considered to be signified by those households where outstanding debts were over 100% of disposable income, and should be distinguished from the definition used in this study.

Unemployment and over-indebtedness

"We would prefer not to speak about other lenders but for our customers unemployment of course can impact [over-indebtedness]. Any of the factors above could have an impact. You could easily tick every box, but we find that for our customer group unemployment level is the key. Social security in our markets is relatively weak so if you lose your job, you will get some benefits but your income is much reduced and the benefits do not last long. That is part of why we do not loan to unemployed people." (*EU level stakeholder interview*)

"Causality is always difficult to state. Each debt-related problem is caused by (voluntary) loan-taking that does not match later development of income. Unemployment and changes in household composition can induce income changes (or changes in subsistence levels) which result in over-indebtedness as defined above.[97] The question is what is the cause. Loan taking is a voluntary decision. A cause can also be that you have an income shock (unemployment for example). If more people become unemployed the over-indebtedness level rises so in this sense - all other things remaining the same - unemployment level does have a causal effect in a way." (*Stakeholder interview Germany*)

"It is the event of unemployment that changes the financial possibilities of a household, no matter how solvent it was previously. If the mortgage was accepted under the assumption of two jobs (husband and wife), the loss of one job may alter deeply the financial situation." (*Stakeholder interview Spain*)

"Long-term unemployment in particular is a problem. In the first few months, the income is of course reduced, but not so dramatically. After a certain period, the support is reduced. Especially if both household members are unemployed, this can be a major problem. Long-term unemployment has increased during the crisis." (*Stakeholder interview Belgium*)

"The crisis had a severe impact on unemployment, which increased substantially. In turn this had an adverse impact on the ability of indebted households to repay loans. The high indebtedness of the [private] sector made it more vulnerable to a rise in unemployment and to a drop in income." *(Stakeholder interview Spain)*

[97] Stakeholders were provided with the following definition of over-indebtedness: "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."

6.1.2 Minimum wage levels

As mentioned in the previous section on household types, the links between borrowing and income are well established from various studies, while analysis *inter alia* of EU-SILC data in the 2008 EMPL study demonstrated that both gross and disposable household income is related to the likelihood of being in arrears. An important part of assessing income levels is the presence and level of minimum wage levels, due to their ability to provide an income floor to over-indebted households.

Minimum wage levels can differ greatly between countries. Some large Member States like Germany have no national minimum wage,[98] while others like France, the Netherlands, and Ireland, have a relatively high one. Analysing figures available from Eurostat (see table below), austerity measures in the forms of lowered minimum wages are not apparent from the pre to post crisis periods (i.e., 2007 to 2011). Instead, there is a clear geographic pattern.

Table 28. *Levels of statutory minimum wage*

Sources: Civic Consulting based on Eurostat, SILC data (codes: tps00155). Note: Minimum wage statistics published by Eurostat refer to monthly national minimum wages. In some countries, the basic national minimum wage is not fixed at a monthly rate but at an hourly or weekly rate. For these countries, the hourly or weekly rates are converted into monthly rates. Figures refer to gross rates.

MS	Minimum wage, Euro/month, 2007	Minimum wage, Euro/month, 2011	Percentage change (2007-2011)
BE	1,259	1,415	12.4%
BG	92	123	33.3%
CZ	291	319	9.7%
EE	230	278	20.8%
IE	1,403	1,462	18.2%
EL	730	863	18.2%
ES	666	748	12.3%
FR	1,254	1,365	8.9%
LV	172	282	64.0%
LT	174	232	33.4%
LU	1,570	1,758	11.9%
HU	260	281	8.1%
MT	602	665	10.5%
NL	1,301	1,424	9.5%
PL	244	349	42.7%
PT	470	566	20.4%
RO	115	157	36.4%
SI	522	748	43.4%
SK	221	317	43.6%
UK	1,315	1,136	-13.6%

[98] Countries with no national minimum wage in the EU are Denmark, Germany, Italy, Cyprus, Austria, Finland, and Sweden. (Eurostat minimum wage statistics)

Member States in eastern Europe (such as in Latvia, Slovenia, Slovakia, Poland, Romania, and Bulgaria) show large percentage increases (from a low level) during this period, while growth is much more subdued in the older part of the EU, often with only single digit growth. The UK is the only country to have recorded a decrease during this period (of 14%), though this has increased again in 2012.

Changes in minimum wage levels and levels of arrears / inability to make ends meet were correlated using Pearson's correlation procedure. The coefficients are reported below.[99] The analysis finds that the absolute level of minimum wage in the given year (2011) has a negative and significant overall correlation with frequency of total arrears (r=-.49), and perceived inability to make ends meet (r=-.49). That is, a higher minimum wage is associated with lower levels of arrears and inability to make ends meet, with the exception of arrears on mortgage or rent, where the relationship is inverted (but not significant statistically).

Table 29. *Correlations between minimum wage and arrears /inability to make ends meet*

Source: Civic Consulting based on EU-SILC data (see footnote)

	Arrears on hire purchase or other loans[(a)]	Arrears on utilities[(b)]	Arrears on mortgage or rent[(c)]	Total arrears[(d)]	Inability to make ends meet[(e)]
Minimum wage, 2011[(f)]	-0.20	-0.56*	0.23	-0.49*	-0.49*

As well as higher minimum wages reflecting higher incomes generally,[100] the correlations may be related to increased costs of living, which have increased significantly in the last five years (see section 6.2).[101] This was supported by stakeholder comments that emphasised increased costs of living, such as reported in the box below.

[99] Based on EU-SILC data, (a) code: ilc_mdes06; (b) code: ilc_mdes07; (c) ilc_mdes08; (d) ilc_mdes05; (e) ilc_mdes09; (f) tps00155. Notes: *Denotes a statistically significant correlation (p<.05).

[100] The correlation between GDP per capita in PPS and level of minimum wage for 2011 is r=.83. The correlation coefficients for GDP per capita and arrears/inability to make ends meet are very similar to those for the minimum wage, with only the coefficient for arrears on mortgage or rent changing sign from r=.23 to$r$= -.08.

[101] Indeed, the correlation between increases in cost of living (as measured by the HICP index change for 2005-2011) and the change in minimum wages during the same period is quite high (r=.68, p<.01), supporting this hypothesis.

Minimum income levels

"The most important cause for over-indebtedness is a low income. The minimum income is around 700 Euro, so 200 Euro less than the EU poverty level. This means that some people just don't have enough money to live on, even if they save. But of course there are always different factors, e.g. cost of living. The prices for basic needs have got much higher - sometimes even doubled or tripled - in the last years (water, energy, food) and people can't save money on these things." (*Stakeholder interview Belgium*)

"In Germany incomes are stagnating and prices are increasing. Inflation is eating up people's income. At the same time, it is still possible to take out loans. Although the banks are somewhat less willing to give as much money to people as they did before, they still give money to everybody. So people take out loans to cover their living standards. Unemployment is not such a problem but there are lots of poorly paid jobs. There is no minimum wage. The middle class also suffers from precarious jobs. They may be in the moment only indebted but when the project they are working on is over suddenly they have no income and their debts can become a problem." (*Stakeholder interview Germany*)

6.1.3 Changes in income levels

Austerity measures in response to the sovereign debt crisis in Member States have not only included cuts in social benefits and levels of the minimum wage, but also tax increases and reductions in wages of public sector employees. Combined, these have the effect of reducing the levels of real wages for many households, which is felt by indebted households as an income shock. This shock may push previously solvent households into over-indebtedness. Wage freezes have a similar but delayed effect, since cost of living increases over time (see also section 6.2 on cost of living).

Examining the policies put in place so far, as well as proposals to ensure compliance with the Fiscal Compact from 2013, research from May of 2012[102] noted at least the following types of measures to have been adopted since 2010 in the following countries:

- *Cyprus*: Two year freeze on public sector salaries;
- *Greece*: Reduction of wages for local political staff of 10%, reduction in public-sector salaries of 15%, increased taxes and reduction of tax exemptions;
- *Ireland*: Pay cuts of up to 10% for public service workers, reformed pension scheme and increased taxes;

[102] European Institute. Austerity and Reform – a country by country table. May 2012. Accessed at: http://www.europeaninstitute.org/April-2012/eu-austerity-and-reform-a-country-by-country-table-updated-may-3.html

- *Italy*: Salary freeze for public employees until 2014, increased taxes, property tax on primary residences reinstated;
- *Latvia*: Cuts of 1.42 billion Euro in government spending, mainly from severe reductions in public sector wages, as well as an introduction of a progressive tax system raising tax rates for high earners;
- *Poland*: Nominal wage freeze, increase in taxes
- *Portugal*: Suspension for two years of holiday and Christmas bonuses for public servants, pay cuts for senior public sector staff and politicians of 5%, increases in income tax.
- *Romania*: Public-sector wage cuts of 25%, increase in VAT rate;
- *Slovenia*: Reduction in salary for civil servants by 15%, reduction in public sector bonuses;
- *Spain*: Public sector wage freeze, increased measures to reduce tax evasion and sharply increased university fees.

As is apparent, these measures are concentrated on countries already affected by the financial crisis. When examining the changes in real disposable income of households[103] from the start of the financial crisis in 2007 to 2011 (see table below), decreases in real incomes were seen in Greece, Spain, Ireland, Italy, Latvia, the Netherlands, and the UK.

The association between changes in real adjusted gross disposable income of households, and changes in arrears on key commitments from 2007 to 2011, was not very strong, but consistently negative when going by a correlational analysis, with the strongest association seen with changes in mortgage or rental arrears (r=-0.18) for the 22 Member States analysed. This means that increases in real household income are associated with declining arrears, but this association was not statistically significant.

However, changes in real adjusted gross disposable income of households from 2007 to 2011 were more strongly and significantly associated with frequencies of arrears for all types of key commitments in the year 2011only (r=-0.50). When broken down by type of key commitment, and inability to make ends meet, similar results were found, with the correlation with arrears on mortgage or rent repayments being the strongest (r=-0.65). This seems to indicate that prior increases in real disposable income of households are associated with lower levels of arrears for a given year, and vice versa.

[103] Real adjusted gross disposable income of households per capita PPS (Purchasing Power Standard) is calculated as the adjusted gross disposable income of households and Non-Profit Institutions Serving Households (NPISH) divided by the purchasing power parities (PPP) of the actual individual consumption of households and by the total resident population. (Eurostat)

Table 30. *Levels of real household income (Euro) and change in arrears*

Sources: Civic Consulting based on Eurostat data (code: tec00113). Note: Real adjusted gross disposable income of households per capita in PPS is calculated as the adjusted gross disposable income of households and Non-Profit Institutions Serving Households (NPISH) divided by the purchasing power parities (PPP) of the actual individual consumption of households and by the total resident population. *Denotes figure for 2010 as 2011 figure is unavailable.

MS	2007 (Euro)	2008 (Euro)	2009 (Euro)	2010 (Euro)	2011 (Euro)	Change in real household income 2007-2011(%)	Change in overall arrears 2007-2011(%)
EU27	18,929	19,189	18,876	19,335	19,716	4.2	15.2
BE	21,036	21,602	21,537	21,885	22,291	6.0	27.9
BG	5,813	6,565	6,907	7,149	n.a.	n.a.	-0.3
CZ	13,679	13,090	13,510	13,703	13,855	1.3	8.9
DK	18,910	19,240	19,359	20,403	20,453	8.2	52.3
DE	22,671	23,017	22,447	23,707	24,698	8.9	-10.3
EE	10,709	11,143	10,694	10,459	10,920	2.0	165.4
IE	20,235	20,001	19,442	19,575	19,328	-4.5	98.8*
EL	18,468	18,623	18,133	16,873	15,715	-14.9	20.8
ES	18,894	19,456	19,157	18,744	18,604	-1.5	13.2
FR	22,180	22,293	22,089	22,678	23,232	4.7	1.0
IT	20,285	20,701	19,687	20,116	20,140	-0.7	13.6
CY	18,233	19,834	19,018	19,570	18,713	2.6	17.0
LV	10,246	11,107	9,516	9,340	10,078	-1.6	153.4
LT	11,495	12,532	11,753	12,363	12,636	9.9	39.4
LU	28,448	29,315	28,660	n.a.	n.a.	n.a.	44.4
HU	11,217	11,253	11,155	11,301	11,848	5.6	29.3
MT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	15.2
NL	21,611	21,583	20,910	20,966	21,264	-1.6	14.0
AT	22,861	23,014	22,576	23,490	23,806	4.1	89.7
PL	10,597	11,001	11,386	12,208	n.a.	n.a.	-22.0
PT	15,299	15,549	15,457	16,182	16,014	4.7	45.7
RO	7,052	8,520	7,711	7,669	n.a.	n.a.	199.0
SI	15,922	16,292	15,470	15,775	16,154	1.5	33.8
SK	11,794	12,677	12,718	13,550	13,557	14.9	11.8
FI	19,631	20,515	20,513	21,206	21,586	10.0	19.6
SE	20465	21069	20726	20864	21911	7.1	1.7
UK	22008	21394	21148	21717	21669	-1.5	4.7

6.1.4 Levels of social housing and over-indebtedness

This section presents an analysis of social housing levels in EU Member States and its relation to household over-indebtedness. Data from EU-SILC, Eurostat, European Parliament research, as well as from CECODHAS, a European network of public, cooperative and social housing federations[104] is presented. Figures cover the period from 2005 to 2010, the last year for which comprehensive data is available for all variables. This allows for an analysis of levels before and after the onset of the economic crisis.

It is difficult to find exact details on changes in social housing levels and social housing expenditures, given the widely varying systems of social housing in use in different Member States. However, research commissioned for the European Parliament has found that social housing tends to fit two categories.[105]

The first refers to all types of housing which receive some type of public subsidy or social assistance (directly or indirectly), which can include tax relief on mortgage interest, tax shelters for homeownership, subsidies to builders, depreciation allowances for investments in residential properties, or below-cost provision of collective public services (i.e. roads, electricity, sewers) for housing. This definition is very broad, referring to social housing as anytime the private housing stock receives public subsidies.

The second category refers more towards traditional public housing. That is, housing subsidized by the state and social housing, but also forms of not-for-profit housing such as cooperatives, rent-geared-to-income and limited-dividend housing.

Another study, highlights social housing programs in six Member States – Austria, France, Netherland, Hungary, Sweden, and England comparing origins, structure, target, and reach of programs in each country.[106] This study found that social housing as a percentage of the total housing stock has fallen over the last ten years, as the provision of social housing has not kept pace with overall housing construction. Additionally, some social housing in many Member States has been privatised (particularly in Central and Eastern Europe), or even demolished (in eastern Germany for instance).

Due to the widely varying costs and categories of social housing provision by Member State, research for this study identified housing expenditures (as a percentage of GDP) as being a good indicator of social housing support across Member States. Specifically, it measures the amount of monetary interventions by public authorities to help households meet the cost of housing. This can take the

---

104 See: www.housingeurope.eu

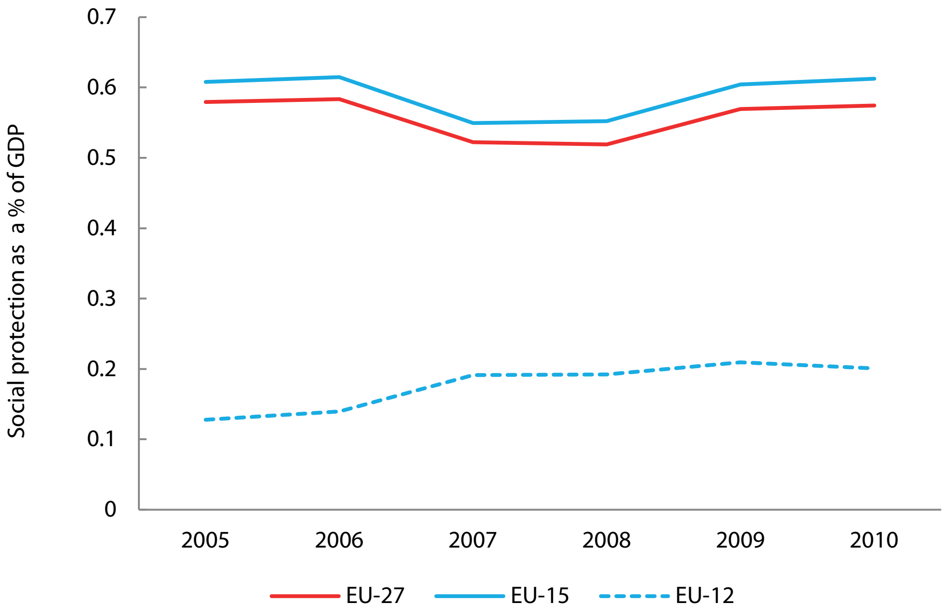
105 Braga, M. and Palvarini, P. *Social Housing in the EU*. Directorate-General for Internal Policies. 2013

106 *Social Housing in Europe II: A review of policies and outcomes*. London School of Economics and Political Science. 2008.

form of a rent benefit, social housing, or a benefit to owner-occupiers to alleviate current housing costs.[107]

***Figure 12** Housing expenditures as percent of GDP, 2005-2010*

Source: Civic Consulting based on Eurostat (code: spr_exp_sum).



The figure above shows that since 2005, housing expenditures as a percentage of GDP for EU-27 Member States has remained fairly stable, though overall expenditures declined in the period between 2005 and 2008, then increased between 2009 and 2010. The same pattern is true for EU-15 Member States. EU-12 Member States show an increase in housing expenditures relative to GDP in the period between 2005 and 2009. At this point, EU-12 Member States show a slight decrease in housing expenditures. However, overall figures for housing expenditures of EU-12 Member States are well below those of EU-15 and EU-27 averages.

The table below presents housing expenditures as a percentage of GDP in each Member State for 2010, the last year for which data is available. This figure allows for an analysis of how Member States changed funding after initial crisis measures were instituted. To allow for a comparison of over-indebtedness, data from the EU-SILC survey on arrears on mortgages and rents, and arrears on utilities, as well as the percentage of households experiencing heavy financial burdens as a result of housing costs are also presented.

[107] ESSPROS Manual: *The European System of integrated Social Protection Statistics (ESSPROS).* Eurostat Methodologies and Working papers. 2011.

Table 31. *Housing expenditures as percent of GDP, Home ownership without mortgage or loans, social housing stock rates, arrears on mortgages or rent payments, arrears on utility payments, and households with heavy financial burden as a result of housing costs (2010), by Member State*

Source Civic Consulting based on Eurostat, (a) code: spr_exp_sum, Eurostat SILC data, (b) code: ilc_lvho02, (c) Pittini, A. and Laino, E. Housing in Europe Review 2012: the nuts and bolts of the European social housing system. *CECODHAS Housing Europe's Observatory*, 2011, (d) Eurostat, code: ilc_mdes06, (e) Eurostat, code: ilc_mdes07,(f) Eurostat, code: ilc_mded04).

MS	Housing expenditure percentage GDP 2010 (%) [(a)]	Home ownership without mortgage or loan 2010 (%)[(b)]	Social housing as percentage total housing stock 2010 (%)[(c)]	Arrears on mortgage or rent payments 2010 (%)[(d)]	Arrears on utility payments 2010 (%)[(e)]	Households with heavy financial burden as a result of housing costs (%)[(f)]
EU27	0.57	50.7	8.0	3.9	10.9	34.1
BE	0.22	29.9	7.0	3.4	5.8	27.9
BG	0.01	85.2	3.1	1.7	31.6	48.3
CZ	0.11	61.3	17.0	3.5	4.2	26.1
DK	0.75	13.9	19.0	2.7	3.2	7.4
DE	0.63	25.4	4.6	2.0	3.5	18.2
EE	0.05	68.9	1.0	2.7	11.0	27.1
IE	0.33	38.8	8.7	8.1	12.6	34.1
EL	0.38	59.8	0.0	10.2	18.8	32.5
ES	0.22	47.5	2.0	5.2	6.6	51.4
FR	0.82	33.0	17.0	6.1	7.1	27.1
IT	0.02	56.4	5.3	4.2	10.5	54.8
CY	1.12	59.4	0.0	5.1	15.9	69.5
LV	0.14	76.5	0.4	5.9	23.2	41.1
LT	0.00	85.3	3.0	1.5	11.1	39.9
LU	0.30	28.7	2.0	1.4	2.1	39.3
HU	0.53	65.8	3.7	5.6	22.1	40.9
MT	0.16	64.1	6.0	1.0	6.4	61.4
NL	0.38	7.8	32.0	3.1	2.1	11.8
AT	0.12	32.4	23.0	3.9	4.6	14.4
PL	0.06	74.5	10.0	1.0	13.9	58.1
PT	0.00	42.4	3.3	4.8	6.4	30.1
RO	0.02	96.9	2.3	0.6	27.0	40.1
SI	0.01	70.5	6.0	2.4	18.0	35.5
SK	n.a.	82.4	2.6	6.8	9.6	31.5
FI	0.52	32.3	16.0	4.7	6.9	18.4
SE	0.46	2.8	18.0	2.3	4.3	7.1
UK	1.51	26.0	18.0	4.8	5.6	26.5

Member States which have the highest rate of home ownership without a mortgage or loan – Romania, Lithuania, and Bulgaria – tend to have the lowest rates of social housing stock. That many Central and Eastern European Member States indicate low shares of social housing stock and high shares of home ownership without a mortgage or loan is largely the result of massive regional housing privatization efforts which began in 1990.[108]

By contrast, Member States with the lowest rates of home ownership with no mortgage or loan – Sweden, the Netherlands, and Denmark, for example – tend to have the highest rates of home ownership with a mortgage or loan, as well as the highest rates of social housing. [109]

Greece and Cyprus are the only Member State in which social housing does not comprise any share of the total housing stock. In Greece, the only public organization assigned to provide public and affordable housing was dismantled with a package of austerity measures passed on 12 February 2012.[110] Cyprus does not have social housing stock, though assistance is provided in the form of low-interest loans, rent subsidies, grants, or tax benefits. Additionally, housing assistance is provided to refugees. [111]

More information on the rates of home ownership, mortgages and loans can be found in Sections 6.2.2 of this report.

To examine a possible association between social housing stocks and housing expenditures with arrears in mortgage, utility, and hire purchase payments, as well as difficulty making ends meet and heavy financial burden as a result of housing costs, correlations between the relevant variables were carried out. The results can be seen the following table.

[108] *Social Housing in Europe II: A review of policies and outcomes.* London School of Economics and Political Science. 2008.

[109] *Social Housing in the EU*. Directorate-General for Internal Policies. 2013.

[110] Pittini, A. and Laino, E. *Housing in Europe Review 2012: the nuts and bolts of the European social housing system.* CECODHAS Housing Europe's Observatory. 2011

[111] Ibid.

Table 32.
Correlations of home ownership rates, social housing rates, and mortgage and utility arrears rates (2010)

Source Civic Consulting based on Eurostat (code: ilc_mdes05, ilc_mdes06, ilc_mdes07).

Note: * denotes $p<0.05$

	Mortgage or rent arrears (%)	Utility arrears (%)	Hire purchase or other arrears (%)	Inability to make ends meet (%)	Heavy financial burden due to housing costs (%)
Social housing stock (%)	-0.098	-0.537*	-0.431*	-0.618*	-0.644*
Housing expenditures as % of GDP	0.305	-0.257	0.274	-0.257	-0.171

Going by the results of the correlational analysis, there is no clear relationship between the rate of social housing stock and the level of mortgage arrears in a given Member State. This means that households residing in Member States with a larger social housing stock are neither more nor less likely to have arrears in mortgage or rent repayments.

However, an inverse relationship exists between the rate of social housing stock and the level of utility arrears in a given Member State. This means that in Member States where the social housing stock as a percentage of the total housing stock is larger, households are less likely to have arrears on utilities. There is a similar relationship between the level of social housing stock and the percentage of households experiencing arrears in hire/purchase repayments.

A stronger inverse relationship exists between the rate of social housing stock and the percentage of households who are experiencing difficulty making ends meet, as well as experiencing a heavy burden as a result of housing costs. This means that in Member States with higher rates of social housing stock, households are less likely to experience difficulty making ends meet, as well as less likely to experience a heavy financial burden as a result of housing costs.[112] This seems to suggest that while consumers are more likely to continue paying their mortgages or rent repayments, at the risk of running into arrears with other forms of credit, higher levels of social housing decrease this risk by providing affordable housing.

The rate of housing expenditures as a percentage of GDP and the other variables is less clear, but correlations show a similar sign as social housing stock, with the exception of mortgage and hire purchase arrears. However, the results of these correlational analyses were non-significant.

[112] Using a simple regression analysis, the association between social housing stock and the variables measuring arrears and financial difficulties was controlled for GDP, as a proxy for income and wealth effects. The regression results confirmed the results of the correlational analysis, with higher levels of social housing stock strongly associated with lower levels of arrears and financial difficulties.

In interviews conducted for this study, a lack of affordable or social housing was identified by a number of stakeholders in Member States that had been badly hit by the financial crisis as an important cause of over-indebtedness in their country. Some comments are presented in the box below.

Lack of affordable or social housing

"In terms of accommodation type, the biggest problem is with people in rented accommodation. The rents are high and quality is low. Around 75% to 80% of people in Belgium own their own house. This is a good thing in a way, but there is almost no such thing as support for people who rent in the private market. The government mostly supports owners of houses. There is some social housing but this makes up only 7% or 8% of houses. This means that if you rent a house on the private market it can take up as much as half of your income." *(Stakeholder interview Belgium)*

"The government has capacity for offering more social housing than it currently does. […] Currently there are hundreds of thousand empty houses and hundreds of thousands of families with extreme difficulties affording a mortgage or a rent." *(Stakeholder interview Spain)*

"As there is no social housing in Hungary, the consequence of home repossession is to become homeless. This is the most important problem to be solved." *(Stakeholder interview Hungary)*

"Despite a high degree of home ownership, it is becoming more and more unaffordable for first time buyers and mortgages are increasingly prohibitive. Therefore, more social housing needs to be provided, private tenants should have more rights and rent controls should be introduced." *(Stakeholder interview United Kingdom)*

"Social housing provision is essentially unregulated in Ireland compared to surrounding Member States. It is a social policy issue, building quality and housing practice is very poor compared to other western countries." *(Stakeholder interview Ireland)*

In the consumer interviews, a lack of affordable or social housing was identified in 25% of cases as an important driver of over-indebtedness. Additionally, some consumers indicated that they needed to pay debts off to ensure that they were not removed from social housing.

For example, in France, 55% of consumers interviewed indicated that they had lived in housing rented from a housing association or a public owner. The costs of living most frequently mentioned in France were housing and childcare. One interviewee explained that her landlord decided to double her rent, from 530 Euro to 1,020 Euro. In Germany, interviewees most frequently mentioned housing costs when asked about costs of living. In Hungary, 10% of those interviewed lived in housing which belonged to a housing association or public owner.

In Slovenia, 60% of those interviewed lived in housing which belonged to a housing association or public owner. By comparison, data from CECODHAC has demonstrated that social housing comprises only 6% of the total housing stock in Slovenia. For example, one person interviewed for this study indicated that they owed roughly 300 Euro on utility bills. After not being able to pay, they went to court, and reached an out-of-court agreement whereby the individual agreed to repay the utility bill by the end of the year or face losing their social housing, and while anecdotal, this example is consistent with the analysis shown above, which show that households appear to try to pay their mortgages or rent first, but then get into difficulties with utility bills and other credits.

6.1.5 Social welfare level: cuts in benefits

Exact details on cuts in social welfare levels are difficult to find, given the widely varying systems of social benefits in use in different Member States. However, research by the European Institute[113] details cutbacks in social welfare levels in the majority of Member States. In response to the sovereign debt crisis, EU countries have adopted measures such as reduction of the level of social welfare benefits, and changes to their eligibility. Another study[114] examined austerity programmes in six Member States - Germany, Spain, Greece, Latvia, Romania, and the UK. This found that social welfare cutbacks as a percentage of the total savings envisaged by the austerity programmes ranged from 52% in Germany, to 85% in Romania.

Analysing data on levels of unemployment benefits per head of population, austerity measures have not protected some governments from having to increase unemployment benefit expenditure per head of population. The table below displays the levels of expenditure on unemployment benefits per head of population in each Member State. These benefits consist of transfers by social protection schemes to relieve individuals or households of risks or needs, in this case unemployment, and are measures of overall government expenditure on the unemployed, but not how much individuals actually receive. The percentage change from 2007 to 2010 (the last year for which data is available) is also presented and compared with the change in the general unemployment level during the same period.

In the EU as a whole (going by weighted averages), though unemployment has increased by over a third (35%) during this period, expenditure on unemployment benefits has lagged slightly behind (at 32%). Indeed, the correlation between the two figures is quite high (r=.65).

[113] Supra.

[114] Heise, A., and Lierse, H., Haushaltskonsolidierung und das Europäische Sozialmodell, Friedrich Ebert Stiftung, 2011.

However, increases in level of unemployment are not always proportionate to increased spending on unemployment benefits, for example in Ireland, where unemployment increased by 196% over the period, but spending on unemployment as measured by this type of social transfers increased by only 118%.

This pattern was also apparent in Cyprus, the Czech Republic, Spain, Latvia, Lithuania, and Portugal. However, some countries, such as Germany, increased their spending on this type of social transfer despite stable or decreasing unemployment, possibly reflecting their greater ability to increase minimum income levels for the unemployed in face of rising costs of living.

Table 33. *Expenditure on unemployment benefits per head of population and change in unemployment (2007-2010)*

Sources: Civic Consulting based on Eurostat data (a) code: tps00107; (b) code: tsdec450.
Note: Social benefits consist of transfers, in cash or in kind, by social protection schemes to households and individuals to relieve them of the burden of a defined set of risks or needs.
PPS: Purchasing Power Standard.

MS	Expenditure on unemployment benefits per head of population, 2007, € PPS[(a)]	Expenditure on unemployment benefits per head of population, 2010, € PPS[(a)]	Change in expenditure on unemployment benefits per head of population, 2007-2010(%)[(b)]	Change in unemployment 2007-2010 (%)[(b)]
EU27	315	415	32	35
BE	945	1102	17	11
BG	28	64	134	49
CZ	124	160	28	38
DK	484	751	55	97
DE	447	492	10	-18
EE	24	119	391	267
IE	502	1095	118	196
EL	245	366	50	52
ES	539	867	61	142
FR	515	578	12	15
IT	116	206	78	38
CY	210	250	19	56
LV	57	165	188	205
LT	57	113	97	374
LU	635	820	29	10
HU	118	143	21	51
MT	97	111	15	6
NL	376	509	35	25
AT	443	516	17	0
PL	54	64	18	0
PT	225	282	25	35
RO	28	64	130	14
SI	94	139	48	49
SK	95	166	74	29
FI	560	683	22	22
SE	339	412	22	38
UK	149	199	34	47

In interviews conducted for this study, well over a third (37%) of stakeholders indicated that the (insufficient) level of social welfare was an important cause of household over-indebtedness in their country. In comments, stakeholders in Member States that had been badly hit by the financial crisis, and where their government had imposed austerity measures, reported that cuts in social welfare payments (including, but not exclusively, in unemployment benefits) had delivered a double blow to many people. This was most marked in those EU Member States that have received an

EU/IMF financing package and included cuts in eligibility as well as cuts to the amounts paid. In these same Member States increases in taxation and particularly to taxes on goods and services were reported (see comments below).

Falling wages and social welfare cuts

"[Our organisation] has not yet conducted any detailed analysis of the phenomenon of over-indebtedness. However the common position of [our organisation] and all its members is that social welfare level is one of the most important causes of over-indebtedness. That is the only cause that all our members agreed on. (*EU level stakeholder*).

"There have been significant cuts in welfare rates in Ireland since the crash in 2008. To give but one example, a couple with one child would have received 166 Euro per month in universal child benefit in 2008; by 2012, this had been cut to 140 Euro per month (a reduction of 15%). There have also been tightened eligibility criteria for various entitlements." *(Country report Ireland)*

"If employment decreases, as in Greece now, and you have strong families, as is the case in Greece, then you might have problems if you rely partially on family support ... There is a strong possibility that some families have two or three unemployed people: mother, father, child, for example. There have been cuts in social security as well as in pensions, so in some cases where a mother and a father had a pension and they were supporting the rest of the family, they may have lost this capability to support them now." *(Stakeholder interview Greece)*

"The social welfare system's predictability is important for people's personal finances. Large and rapid changes in the rules create problems for individual supply e.g. loans, bills and utilities. The social welfare system in Sweden has deteriorated such that people's protection against illness and unemployment has become worse and more unpredictable. The pension system has also become worse and financial commitments can be more difficult to cope with less income [from the pension]." *(Stakeholder interview Sweden)*

"The unemployment level is the highest it has been in Cyprus since 1974. And wage level is also important - there have been no increases in the state sector in the last year. And with inflation that means that wages have effectively decreased." (*Stakeholder interview Cyprus*)

In the consumer interviews, low levels of social welfare were considered additional important drivers of over-indebtedness. Because of unemployment, retirement or illness, many households were living from social benefits, and some of these specified that their benefits or pensions were not high enough to cover their living expenses. Additionally, many interviewees who were employed also reported that their income was not high enough, in particular in combination with the rising costs of living.

6.1.6 Movements in interest and exchange rates

Only 16% of the stakeholders interviewed for this study indicated that movements in interest rates were among the most important causes of household over-indebtedness, with even less (10%) citing movements in exchange rates.

However, this concealed considerable country variation. Stakeholders in several Member States (including Austria, Bulgaria, Hungary, Poland, and Romania) reported that mortgages in Swiss Francs had been promoted in their country and this had a serious impact when the local currency fell substantially against the Swiss Franc. For example, up to half of outstanding mortgages in Austria were reported to have been in a foreign currency and most of these in Swiss Franc.[115] In Greece it was noted that Swiss Franc mortgages had been heavily marketed in 2007 when the exchange rate was about 1.65 Swiss Franc per Euro.[116] In contrast, in October 2012 the rate was 1.21 Swiss Franc per Euro,[117] increasing mortgage repayments in Euro by more than a third. Currencies which were not part of the Euro were particularly vulnerable to currency speculation (see box on next page).

A comparison of the changes in exchange rates of different currencies to Swiss Francs can be seen in the table below.

Table 34. *Exchange rates of selected currencies to Swiss Franc (2007-2012)*

Sources: Civic Consulting based on ECB data (Euro foreign exchange reference rates). Value on 1st January of respective year.

Currency	2007	2008	2009	2010	2011	2012
EUR (Euro)	0.62	0.60	0.67	0.67	0.80	0.82
BGN (Lev)	1.21	1.18	1.31	1.32	1.56	1.61
GBP (Pound)	0.41	0.45	0.64	0.60	0.69	0.69
HUF (Forint)	155.8	152.9	178.1	182.6	222.2	259.3
PLN (Zloty)	2.38	2.18	2.78	2.76	3.17	3.67
RON (Leu)	2.10	2.18	2.69	2.84	3.42	3.55

Consumer interviews partially reflected this development. In Hungary exchange rates played a major role, as more than half of the consumers interviewed had taken out loans in foreign currency and cited movements in exchange rates as a key cause of their financial difficulties.

The views on interest rates were more mixed: in Bulgaria, Hungary, and Greece it was reported that interest rate rises contributed to an increase in the level of financial difficulties in their countries. In Poland, for example, the Polish Financial Supervision Authority (KNF) curbed sales of new FX credits in Swiss CHF specifically in order to reduce foreign exchange rate losses. According to them, in the period 2008–2009 up

[115] See Brown, M., Peter, M., and Wehrmüller, S., *Swiss Franc Lending in Europe*, Swiss National Bank, February 2009, p.6.

[116] See Country report Greece.

[117] Euro foreign exchange reference rates as at 18 October 2012.

to 60 percent of newly sold mortgages were granted in CHF. Following restrictions in 2010 this share fell to below 10 percent.[118] Further restrictions have recently been imposed in order to limit risk in this sector.[119]

However, in countries such as Estonia, Ireland, Spain and the United Kingdom stakeholders reported that very low mortgage interest rates on variable rate and (especially) tracker mortgages had helped to moderate levels of financial difficulty. Indeed, research modelling the determinants of loan default in Spain concluded that "the increase in the unemployment rate was the main driver of the sharp rise in default ratios between 2007 and 2009 in Spain, and that the fall in interest rates since the end of 2008 contributed to moderating the upward path of default ratios in 2009."[120]

However, this does leave households vulnerable to future interest rate rises, as noted in the box below. Further analysis of the levels of mortgage borrowing as a factor in over-indebtedness is presented in section 6.1.7.

Movements in interest and exchange rates

"In Poland the story is very similar to Hungary and the Czech Republic. When taking loans in foreign currencies consumers in these countries very much relied on a favourable exchange rate. Once the currency got weaker against the foreign currency (often CHF), monthly instalments increased - which mechanically increased levels of over-indebtedness in these countries." (*EU level stakeholder*)

"Credits in foreign currencies were recommended by banks. These credits were very popular 3-4 years ago - and were mainly denominated in Swiss Francs, and because of changes in exchange rates people had to pay more to reimburse their credits. This is a main cause for the increase in the number of over-indebted households in Poland. […] Polish banks are now only allowed to grant credits in the local currency (zloty)." (*Stakeholder interview Poland*)[121]

"Foreign exchange lending was significant for the household sector, leading to an accumulation of 64% of total household loans (April 2012). Most of the loans were granted in foreign currency (mostly in Euro). In 2007-2008 there was a hike in Swiss Francs and Japanese Yen denominated loans (in small amounts). These loans behaved very badly as the foreign exchange rates changed significantly, in most cases doubling the debt service." (*Stakeholder interview Romania*)

[118] Godziszewski, B., and Kruszka, M., Stability of Banking System and Activity of the KNF - Polish Financial Superivsion Authority, CESifo Forum, 2013, p.33.

[119] See: http://blogs.ft.com/beyond-brics/2013/01/03/poland-clamping-down-on-forex-loans/?Authorised=true

[120] Blanco, R. and Gimeno, R., *Determinants of default ratios in the segment of loans to households in Spain*, Bank of Spain, 2012.

[121] While this is only the opinion of the stakeholder, evidence supporting this view is presented in the previous text regarding new restrictions on new FX lending. However, even during the pre-crisis period the percentage of those in the position to take out such loans was only a small part of the general population.

"Regarding movements in interest rates - that can be both positive and negative. For example, the base interest rates have come down so many UK citizens with mortgages are now paying less per month. So that can have a positive effect on the debt situation. However, other things can happen as well. For example a reduction in interest rates means a reduction in savings rates as well." (*Stakeholder interview UK*)

"Italians had and still have one of the highest savings rates but we were observing that an increasing share of consumption was financed by credit. […] And indeed as soon as interest rates started to go up that created problems because people were unable to repay their obligations. Because if you have a low wage and a large share of debt your financial situation is very sensitive to movements in interest rates. It takes just a few steps up in interest rates to make you over-indebted." (*Stakeholder interview Italy*)

6.1.7 Level of household indebtedness

That nearly half (46%) of stakeholders indicated that credit/loans from regulated lenders with average interest rates was among the most important causes of household over-indebtedness demands further elaboration, as regulated lenders would be expected to follow the best industry and regulatory practices in terms of making credit available. It would suggest that perhaps the amount of debt taken on, and the number of credit commitments, is important regardless of the type of lender or credit used. In this case, the average level of household debt to income is available for most Member States, and the relation between this ratio and financial difficulty experienced by consumers was examined.

The household debt-to-income ratio combines non-financial and financial accounts data. It is defined as the ratio of households' debt arising from loans, recorded at the end of a calendar year, to the gross disposable income earned by households in the course of that year.[122] It thereby constitutes a measure of the indebtedness of households, in relation with their ability to pay back their debt's principal sum. The debt-to-income ratio is calculated on the basis of gross debt – that is without taking account of any assets held by households.[123] As previously indicated, we present the data available from 2005-2011. The source for this indicator is from the national accounts (*nasa_ki*) compiled by Eurostat.

[122] The methodology of this indicator is defined by the European system of accounts (ESA95) specification. As regards the definition of loans, "The category loans (F.4) consists of all transactions in loans (AF.4) that is financial assets created when creditors lend funds to debtors, either directly or through brokers, which are either evidenced by non-negotiable documents or not evidenced by documents." See: FSA95, Section 5.69. Available at: http://circa.europa.eu/irc/dsis/nfaccount/info/data/esa95/en/een00245.htm

[123] For a review of household assets and liabilities in the EU, see Eurostat, 'Financial Assets and Liabilities of Households in the European Union', *Statistics in focus* Nr. 32/2009, 2009. Available at: http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-SF-09-032/EN/KS-SF-09-032-EN.PDF

This indicator has been used in previous research to describe the build-up of household credit.[124] This research has also noted that while an objective indicator, it is an aggregate one and does not necessarily reflect the financial position of individual households, or the distribution of outstanding debt. Indeed, some important financial commitments such as utility bills are not included. Furthermore, while an increase in outstanding debt might be accompanied by growing difficulties of servicing the borrowing concerned, it might equally be accompanied by an increase in the value of assets which are often the counterpart of debt.

However, research has found that highly leveraged homeowners have larger declines in spending during the most recent recession, even after controlling for wealth effects and other factors.[125] Also, this variable measures the ratio between debt to disposable income, not assets, thereby somewhat controlling for such wealth effects *ex ante*. Therefore, it is presented as a measure of households' risk in acquiring a 'debt overhang' that later leads to financial difficulty, and should not be regarded as an indicator of over-indebtedness as such.

Though not a measure of over-indebtedness *per se*, it provides relevant background information on the stage of development of credit to households in a given country, in relation to their ability to pay back their debt's principal sum, and their potential vulnerability to over-indebtedness should the values of their assets or incomes fall significantly. The household debt to disposable income data is presented by Member State in the table below.

---

[124] Fondeville, N., Ozdemir, E. and Ward, T., *Over-indebtedness: New evidence from the EU-SILC social module*, European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, Research Note 4/2010, 2010, pp.4-5.

[125] Dynan, K., *Is a Household Debt Overhang Holding Back Consumption*?, Brookings Institution, Brookings Papers on Economic Activity, Spring 2012.

Table 35.
Household debt to disposable income ratio of Member States

Source: Civic Consulting based on Eurostat data (code: tec00104)
Note: Data not available for Bulgaria, Greece, Cyprus, Malta, and Romania.

Country	2005	2006	2007	2008	2009	2010	2011	2007-2011, change in %
BE	71.1	74.2	76.7	78.9	80.0	84.3	88.3	15.1%
CZ	31.4	36.5	45.5	49.7	52.0	52.5	55.9	22.9%
DK	232.0	238.1	254.6	261.9	273.0	267.3	267.3	5.0%
DE	99.6	97.2	94.2	90.5	90.6	88.3	86.3	-8.4%
EE	60.5	81.1	88.3	92.4	95.5	96.9	n.a.	n.a
IE	169.7	190.2	204.1	202.2	211.8	208.1	206.4	1.1%
ES	111.0	123.8	129.9	126.6	125.6	128.7	125.4	-3.5%
FR	64.9	68.6	72.4	74.7	78.3	81.2	82.9	14.5%
IT	48.4	52.8	57.0	58.1	62.5	64.9	65.2	14.4%
LV	48.6	70.9	81.2	70.8	74.9	75.1	66.1	-18.6%
LT	21.2	31.6	44.1	45.5	46.0	44.3	40.8	-7.5%
LU	n.a.	118.5	126.2	126.7	132.2	n.a.	n.a.	n.a
HU	37.9	43.0	50.3	62.2	62.9	67.3	63.4	26.0%
NL	205.3	218.8	222.3	230.1	243.9	252.7	250.5	12.7%
AT	84.1	85.5	85.0	86.5	85.8	89.0	88.7	4.4%
PL	21.9	27.1	35.1	48.0	48.1	52.0	n.a.	n.a
PT	113.9	121.9	126.4	127.6	130.5	128.3	125.5	-0.7%
SI	29.1	34.1	40.0	42.0	44.3	46.8	46.6	16.5%
SK	20.4	23.7	30.6	35.4	37.1	39.2	42.3	38.2%
FI	85.1	92.4	96.8	97.9	100.0	102.2	104.1	7.5%
SE	124.0	130.6	132.7	136.6	142.2	149.1	148.8	12.1%
UK	138.6	147.3	153.4	155.3	150.1	143.7	139.2	-9.3%

Overall, indebtedness as measured by the debt to income ratio has been rising over the last several years. Focusing on the pre and post financial crisis periods, 13 out of the 22 Member States for which data is available experienced an increase in this ratio, with households in only six Member States experiencing a decrease in the ratio (i.e. deleveraging). This information was analysed in more detail to identify groups of Member States with similar trends and the results are presented below.

Table 36. *Member State groups according to household debt to income ratio*

Source: Civic Consulting based on Eurostat data (code: tec00104, ilc_mdes05).
Note: Very high household debt to disposable income ratio is value over 140% in 2011; high is a value between 100-140%, moderate is a value between 60-100%, low is value below 60%. *Most recent year for which data is available.

Household debt to disposable income ratio	Trend	Member State	Eurozone	Household debt to disposable income ratio, 2007	Household debt to disposable income ratio, 2011	Frequency of overall arrears, 2011
Very high	Increasing	DK	No	254.6	267.7	6.7
	Increasing	NL	Yes	222.3	250.0	4.9
	Increasing	IE	Yes	204.1	205.5	16.7
	Increasing	SE	No	132.7	148.5	5.9
High	Increasing	LU*	Yes	125.6	133.8	3.9
	Increasing	FI	Yes	96.8	104.0	11.0
	Increasing	PT	Yes	126.4	126.5	10.2
	Decreasing	UK	No	153.4	138.5	8.9
	Decreasing	ES	Yes	129.9	125.5	7.7
Moderate	Increasing	BE	Yes	76.7	88.3	7.8
	Increasing	AT	Yes	85.0	88.7	7.4
	Increasing	FR	Yes	72.4	82.7	9.9
	Increasing	IT	Yes	57.0	65.2	14.2
	Increasing	HU	No	50.3	63.4	24.7
	Decreasing	DE	Yes	94.2	86.3	5.2
	Decreasing	EE	Yes	88.3	88.1	13.8
	Decreasing	LV	No	81.2	66.1	26.1
Low	Increasing	CZ	No	45.5	56.2	6.1
	Increasing	PL	No	35.1	57.9	14.2
	Increasing	SI	Yes	40.0	46.6	19.0
	Increasing	SK	Yes	30.6	42.3	8.5
	Decreasing	LT	No	44.1	41.2	13.1

Generally, those in northern Europe less affected by the crisis showed the highest levels of household indebtedness, and this level also increased during the 2007-2011 time period. The EU12 showed evidence of a different trend, in that these Member States started from a low absolute level of indebtedness, but showed signs of convergence to higher levels.

Member States which experienced falling levels of household indebtedness (from various levels) included mostly crisis-hit Member States like Estonia, Spain, Latvia, and Lithuania undergoing a deleveraging process, while Germany was an exception in that levels have been falling consistently since the beginning of the 2000's. This is consistent with recent research, which has showed that episodes of deleveraging typically follow major financial crises.[126] However, there was no clear correlation of indebtedness and frequency of arrears; this aspect is analysed in greater detail below.

Background to higher levels of indebtedness

As has been shown in the previous section, levels of household debt vary significantly between Member States. Nevertheless, since the 2000's, levels of household indebtedness as measured by the debt to income ratio have increased steadily in most Member States, with high growth seen in EU12 countries. Previous research has found a link between levels of household indebtedness and household risk to falls in asset prices, as well as higher likelihoods of an economic downturn as households deleverage after a crisis.[127] This raises the question of whether the ratio of household debt to income (indebtedness) leads to household over-indebtedness (i.e. high levels of arrears, difficulty in making ends meet) as such. Therefore, this section examines whether the increase in consumer indebtedness is associated with a rise in over-indebtedness, or a rise in the risk of becoming over-indebted.

There are historical macro-economic factors that provide a background for increased levels of consumer borrowing.[128] These factors include, but are not limited to:

- Introduction of the Euro, leading to a sudden and large fall in interest rates, removal of the power to influence exchange rates by national central banks, and elimination of cross-border risk;
- Financial liberalisation and development of the Single Market in Financial Services, enabling greater cross-border capital flows and financial sophistication;[129]
- Rises in asset prices, particularly house prices both globally and in EU Member States such as Ireland, the UK, and Spain;[130]
- Integration of post-Communist countries into the global financial system and international institutions;
- The growth of emerging countries such as China, India, and others leading to expectations of sustained economic growth internationally.

[126] McKinsey, *Debt and deleveraging: The global credit bubble and its economic consequences*, McKinsey Global Institute, 2010.

[127] IMF, *Dealing with Household Debt*, 2012. Available at: http://www.imf.org/external/np/seminars/eng/2012/fincrises/pdf/ch18.pdf

[128] Lilico, A. *Household Indebtedness in the EU*. Briefing paper for Directorate General for Internal Policies, European Commission, 2010.

[129] Mügge, D. *Financial Liberalization and the European Integration of Financial Market Governance.* Paper presented for DVWP Sektionstagung 'Politik und Ökonomie', Köln, 3-4 Dezember 2004.

[130] Gerdesmeier, D., Reimers H-E., and Roffia, B., *Asset price misalignments and the role of money and credit*. Working paper series No 1068, European Central Bank. July 2009.

Analysing the effects of these historical, background factors is outside the scope of this report, but recent analysis[131] points out that these developments were accompanied from the 1990s by growing household debt, often enabled through use of leverage. Furthermore, most of the growth in debt was concentrated in household debt, and in particular, residential mortgages, rendering households vulnerable to income shocks. These effects should be considered when assessing the influence of other macro-economic and cultural factors on household borrowing, particularly for mortgages.

Factors influencing levels of borrowing

Age is strongly linked to indebtedness, with those between 25-39 borrowing most, while retirees are much less indebted. Going into specific detail about types of debts, an ECB study[132] found through analysing SILC data for the Eurozone in 2007 that the likelihood of holding mortgage debt first increases and then decreases with age, while for consumer debt the incidence decreases linearly with age.

These findings are in line with the life cycle hypothesis, according to which individuals tend to smooth consumption over their life time, subject to intertemporal budget constraints, and therefore borrow when young in the expectation that their future income will grow, then paying off debt when older leaving them with more substantial assets usually in the form of their homes.

The findings are also consistent with country level research, such as a study[133] employing Household Budget Survey data in the Czech Republic that found using regression models[134] that age was negatively associated with the probability of having a loan and overall debt burden.

The links between borrowing and income are also well established from various studies. A review of SILC microdata[135] from 2004 to 2007 found that the incidence of mortgage and consumer debt showed significant variation when assessed by level of income. In 2007, only 4.4% of households with an annual income below 10,000 Euro had a mortgage outstanding, compared to 42% for households with a high level of income (50,000-100,000 Euro). However, this correlation was less pronounced with

[131] McKinsey Global Institute, *Debt and deleveraging: The global credit bubble and its economic consequences*, 2010

[132] Gomez-Salvador, R., Lojschova, A., and Westermann, T., *Household sector borrowing in the Euro area: A micro data perspective*. European Central Bank, 2011.

[133] Bičáková A., Prelcová Z., and Pašaličová, R., *Who Borrows and Who May Not Repay?* Czech National Bank, 2010.

[134] A probit regression is used to model dichotomous or binary outcome variables (e.g. married or not married, having a loan versus no loan, etc.) A tobit regression model is designed to estimate linear relationships between explanatory variables and a censored outcome variable (i.e. where further data is not available above or below a certain value threshold).

[135] Gomez-Salvador, R., Lojschova, A., and Westermann, T., *Household sector borrowing in the Euro area: A micro data perspective*. European Central Bank, 2011.

consumer debt, where the proportion of households holding a consumer credit was 10.2% for the lowest income level and 17% for those with the highest level of income.

Research on the association of borrowing levels with likelihood of arrears

Research from EU-SILC has found that nearly one-third (30.7%) of respondents across the EU found repayments of debts from hire purchases or loans "a heavy burden" for their household in 2011, although this level had hardly increased from 2005, when it was 29%.[136] The extent to which the level of borrowing affects not only perceived burden, but the actual likelihood of arrears, is examined here.

The table below shows the levels of housing loans and consumer credit outstanding (as percentage of household disposable income), and frequency of arrears on mortgage/rent payments and hire purchase/other consumer loan agreements in 2009.

Looking at the data, it is hard to discern a simple direct relationship between general levels of borrowing and overall frequency of arrears. When comparing the total frequency of arrears in 2011, and the debt-to-income ratio in the same year, a negative correlation is seen (r=-.31). This negative relationship seems to indicate that a higher debt-to-income ratio is associated with lower levels of arrears. However, when controlled for GDP per capita as PPS, the correlation becomes weakly positive (r=.08).

This is also obvious in the field of mortgage debt: when looking at housing loans outstanding, of the eight Member States that had levels above the EU average, only three (Ireland, Spain, and Portugal) also had more frequent than average arrears on mortgage or rent payments, according to EU-SILC data.

Looking at individual Member States, in the field of consumer credit the relationship appears to be clearer: In seven out of the eight Member States that had higher levels of consumer debt outstanding than the EU average in 2009, the overall frequency of arrears was also higher than the average. In the case of utility arrears, all but one (Denmark) also had a higher rate of arrears on utility bills. However, the UK, the country with the second-highest amount of consumer credit outstanding as percentage of household disposable income, had a lower frequency of related arrears than the EU average. This highlights the need for a systematic analysis.

[136] The highest absolute levels were seen in Cyprus, Italy, Spain, and Bulgaria, where figures were all at least 50%. The lowest percentages were in Member States such as Finland (9.2%), Sweden (10.4%), and Denmark (13.5%). In terms of changes during the pre and post crisis periods, the largest percentage increases were recorded in Latvia, Estonia, Lithuania, Denmark, Romania, and Hungary. Decreases were recorded in Finland, Germany, Bulgaria, Austria, Sweden, and France.

Table 37. *Levels of housing loans and consumer credit outstanding and frequency of arrears*

Sources: Civic Consulting based on Euostat data, codes: (a) and (c) Tables 2 and 3 in Fondeville, Ozdemir, Ward 2010, based on data from European Credit Research Institute and Eurostat, figures partly involve estimation of disposable income, (b) and (d) Eurostat, EU-SILC (codes: ilc_mdes06 and ilc_mdes08). Note * 2008 data used.

MS	Housing loans outstanding, 2009 (% of household disposable income)[(a)]	Arrears on mortgage or rent payments, 2009 (% of total population)[(b)]	Consumer credit outstanding, 2009, (% of household disposable income)[(c)]	Arrears on hire purchase or other loans, 2009 (% of total population)[(d)]	Arrears on utility bills, 2009 (% of total population)[(e)]
EU27	67.9	3.5	14.4	3.3	8.8
BE	66.6	2.6	9.1	1.4	5.9
BG	22.7	4.1	26.5	6.9	32.1
CZ	33.2	3.4	9.0	1.7	4.0
DK	243.1	2.1	15.1	3.5	2.6
DE	46.8	2.5	13.5	1.8	3.6
EE	75.2	2.0	9.3	3.4	10.0
IE	120.6	6.5	18.6	5.0	11.2
EL	45.3	8.6	20.3	13.2	18.9
ES	90.4	5.3	12.9	3.8	5.5
FR	53.8	6.7	11.7	3.4	7.5
IT	25.4	2.9	10.2	3.0	11.0
CY	n.a	4.1	n.a	14.8	13.4
LV	47.9	4.8	7.1	5.3	18.2
LT	34.2	1.8	5.8	1.8	8.5
LU	n.a	2.0	n.a	2.0	2.3
HU	27.5	3.9	23.4	6.9	20.7
MT	n.a	0.8	n.a	0.7	7.4
NL	184.1	2.7	8.4	1.3	2.1
AT	39.1	3.8	12.6	2.5	4.2
PL	26.7	0.9	18.2	3.4	12.5
PT	93.0	5.0	13.3	2.7	6.1
RO	7.8	0.7	23.4	4.1	25.2
SI	17.0	2.4	12.6	3.6	16.9
SK	24.1	6.9	4.9	6.0	11.3
FI	67.7	4.3	11.7	3.9	7.5
SE	96.0	2.5	9.1	2.8	4.7
UK	135.3	2.1	24.8	1.5*	n.a

The differences in the relationship between levels of borrowing and frequency of arrears for different types of loans was reflected in further correlational analysis for this study.

For 2009, there was no significant correlation between levels of housing loans outstanding and frequency of mortgage or rent arrears (r=-.07), where change in per capita income seems to be a more important factor when using a multiple regression analysis. In contrast, a significant positive correlation (r=.52, p<.01) was found between the level of consumer debt outstanding at the aggregate level and the frequency of arrears on hire purchase or other loans.[137] An even stronger correlation (r=.67, p<.01) was found between the level of consumer debt and the frequency of arrears on utility bills.

This is consistent with research from the UK which has found that although there is no clear point at which debt becomes problematic, there is a link between both the ratio of unsecured debt to income and the level of mortgage income gearing leading to a higher probability of debt being a burden on households.[138]

This is also consistent with research published by the European Central Bank[139] from 2006, which analysed for seven euro area countries (Belgium, France, Finland, Ireland, Italy, Portugal and Spain) the determinants of non-performing loans from 1989 to 2004. Their model was found to suggest that in the long-run, an increase in the ratio of indebtedness to income is associated with higher levels of arrears. However, if the rise in the debt ratio is accompanied by a rise in real disposable income, the negative effect is offset; but all other things being equal, sharp rises in the debt ratio puts households in a riskier financial position.

More recent research,[140] using cross-country, EU-SILC, and time series data, supports this model. Analysis of the datasets revealed for the countries studied a one-way causality between debt and insolvencies, as well as between unemployment and insolvencies in both the US and the UK. They also found through panel analysis that European countries which experienced relatively fast debt growth, also featured larger increases in insolvency rates, and that the financial fragility of households is affected both by the level of indebtedness itself and by institutional variables - information sharing (e.g. through credit bureaus) and judicial efficiency attenuate the impact of economic shocks and indebtedness on arrears.

---

[137] To control for the influence of different levels of income and changes in income, several OLS regressions were run with changes in real adjusted household income over the previous three years as a control variable, and with level of arrears as the dependent variable. The independent variable was the level of housing loans or consumer debt as a percentage of household income, with a time lag of three years. Results were consistent with literature that found for mortgage or rent arrears, in that increases in real income were strongly associated with decreases in the rate of arrears, and that the level of mortgage debt outstanding did not play a significant role. However, when dealing with arrears on hire purchase or other loans, both consumer debt outstanding and changes in real household disposable income were strongly significant; increased consumer debt predicted increased arrears, even when controlled for changes in income during the time period. Both the model and beta coefficients were significant at the p<.05 level.

[138] Del Rio, A. and Young G. *Unsecured debt in BHPS: determinants and impact on financial distress*. Bank of England Working Paper 263. London: Bank of England, 2005.

[139] Rinaldi, L., and Sanchis-Arellano, A., *Household debt sustainability - what explains household non-performing loans*? Working paper series no. 570, European Central Bank, 2006.

[140] Jappelli, T., Pagano, M., Di Maggio, M., *Households' Indebtedness and Financial Fragility*, 2008.

On the EU level, it was found that the increase in levels of financial difficulties among mortgage holders has been most pronounced in countries that have been hardest hit by the financial crisis and rising unemployment, such as Ireland,[141] while other countries with high levels of mortgage borrowing, for example the Netherlands and the UK, do not report such increases.[142]

A further related measure noted by Fáykiss and Szigel (2012), is the household interest burden to disposable income ratio. They examined this measure in relation to households before and after the crisis, and observed that although the credit stock of households as a proportion of GDP did not decline in most European countries and even increased in some countries (Czech Republic, Slovakia, Poland), the ratio of interest payments by households to GDP decreased. The interest burden ratio used in that paper is similar to the debt service ratio proposed by Drehmann and Juselius (2012). This is defined as interest payments and debt repayments divided by income, and is considered by the authors to capture the burden imposed by debt more accurately than established leverage measures, such as the debt to GDP ratio.

This is because "the DSR [debt service ratio] explicitly accounts for factors such as changes in interest rates or maturities that affect borrowers' repayment capacity. This can easily be seen by considering a borrower with monthly disposable income of CHF 2,500 who takes out a 20-year mortgage of CHF 150,000 at a 2% variable annual interest rate. Assuming that the loan is paid off in equal shares per month, the borrower's debt servicing costs are approximately CHF 760 at the initial interest rate […] and his DSR is 30%. If the interest rate moves to 5%,the debt servicing costs rise to CHF 990 with a DSR of 40%. This clearly reduces the borrower's ability to consume and exposes him to possible future income shortfalls. Yet these effects cannot be deduced from the borrower's (annualised) debt-to-income ratio, which is 500% regardless of the interest rate."[143]

When moving from the macro-economic perspective to the household level, studies in Norway and the UK have shown that high credit repayment-to-income ratios were predictive of payment problems on consumer credit.[144] Indeed, as detailed in the

---

[141] Central Bank of Ireland, *Residential Mortgage Arrears and Repossessions Statistics: Q1 2012*, Dublin, 2012. Money Advice and Budgeting Service, *MABS Pre Budget Submission 2012*, 2012.

[142] As might be expected, changes in housing arrears levels (as measured by EU-SILC) are negatively associated with changes in the house price index from the 2008-2011 period. For all EU Member States, these values are significantly negatively correlated (r=-.40, p<.05). This suggests that in countries where there was a significant housing price drop, factors associated with a housing bust such as negative equity, income shocks and austerity measures increased the level of over-indebtedness in relation to mortgage or rent payments.

[143] For further details see: Drehmann, M., and Juselius, M., 'Do debt service costs affect macroeconomic and financial stability?', BIS Quarterly Review, September 2012, p.21-22, and also Fáykiss, P., and Szigel, G., 'The effect of indebtedness on the financial and income position of Hungarian households', MNB Bulletin, February 2012.

[144] Poppe, C., Risk Exposure to Payment Problems: Payment Problems Among Norwegians in the Nineties". In *Consumer Strategies in a Changing Financial Market*. 60th Anniversary Seminar, Oslo. 1999; Tufte, P.A., *Vulnerable consumers in the financial market*, National Institute for Consumer Research, 1999; Del-Rio and Young, *The impact of unsecured debt on financial distress among British households*, London: Bank of England working paper 262. 2005.

2008 EMPL study, the total amount of money borrowed – even when expressed as a proportion of income or assets – has a less pronounced effect on the likelihood of arrears than the use of unsecured credit,[145] and in particular, the number of credit commitments held by a household. Previous research[146] that count the number of credit commitments held have shown that the more credit commitments a household had, and the larger the proportion of their income that went towards repayment, the more serious the level of arrears.

Using regression models, these factors have been found to be independently predictive of over-indebtedness.[147] A UK study of families with children found that compared with non-users of credits, the odds of arrears for those with one credit commitment was increased by a factor of 1.6, rising to 3.7 for those with two commitments and 5.8 for those with three or more. This is probably because on the one hand, people find it difficult to be sufficiently organised to repay multiple creditors, but also because multiple smaller loans are an indicator of credit constraint, in that a household may hold these in lieu of a single larger one, because they would be refused access to one larger credit.

In line with the statistical evidence presented above, it appears very clear from stakeholder interviews that high levels of borrowing do not, in themselves, cause financial difficulties - but they are an important determinant of financial problems when an individual or household experiences an income fall. In other words, they increase household vulnerability to exogenous macro-economic shocks.

Assessing stakeholder views, in a minority of Member States levels of consumer borrowing were pointed out as being more problematic than mortgage borrowing (including Austria, Belgium, France and Italy), while in others (such as Cyprus, Netherlands and Slovenia) stakeholders singled out mortgage borrowing. In most Member States, however, these levels were either thought to be of equal importance or - in the case of Finland and Sweden - not mentioned as currently causing difficulties.

That said, it is not invariably the case that high levels of arrears ensue where levels of borrowing are high and unemployment is rising rapidly. In Ireland and Greece that has certainly been the experience - indeed in Ireland the level of mortgage arrears has soared - but not in Spain. Yet all three countries saw a steep rise in house prices before the crisis and an equally steep rise in unemployment after the crisis. In Greece rising interest rates have also been reported, whereas stakeholders in Ireland and

[145] Poppe, C., Risk Exposure to Payment Problems: Payment Problems Among Norwegians in the Nineties". In *Consumer Strategies in a Changing Financial Market*. 60th Anniversary Seminar, Oslo. 1999

[146] Berthoud, R. and Kempson, E., *Credit and debt: The PSI Report*, Policy Studies Institute, 1992; Kempson E., McKay, S., Wilitts, M., *Characteristics of famliles in debt and the nature of indebtedness*, Department for Work and Pensions, 2004.

[147] Supra.

Spain noted that falling and low mortgage interest rates have helped to contain the mortgage arrears problem.

6.1.8 Rise in non-performing loans

Bank non-performing loans to total gross loans are the value of non-performing loans divided by the total value of the loan portfolio (including non-performing loans before the deduction of specific loan-loss provisions). The loan amount recorded as non-performing should be the gross value of the loan as recorded on the balance sheet, not just the amount that is overdue.[148] The data source for this indicator is that of the International Monetary Fund (IMF) data warehouse.[149]

This indicator includes household, company, and other loans (e.g. to other financial institutions). Also, measurement methodologies and data quality varies significantly between Member States, making direct comparison difficult.[150] Therefore, this indicator is not a measure of household over-indebtedness as such. Rather, this indicator is presented in order to reflect the possible deterioration in overall credit conditions over time, from the viewpoint of the financial industry, and as a point of comparison with specifically household data on arrears (see below), and which acts as an indicator to financial sector health and willingness to lend.

That said, loans to households are usually a large contributor to non-performing loans. For example, one report found that the contribution of household loans to total non-performing loans varied between 35% for Lithuania, to about 55% for Poland.[151] This is consistent with, for example, the percentage of total loans represented by (in IMF statistics) the 'Other Domestic Sectors' category, which is defined as loans to individuals as opposed to companies or other organisations. This percentage ranged in 2012 (or most recent data available) from 17% in Ireland to 51% in Poland.[152]

The percentage of non-performing loans has increased substantially in the EU since the onset of the financial crisis, as can be seen in the table below.[153]

---

148 World Bank definition (code FB.AST.NPER.ZS).

149 IMF, 'Financial Soundness Indicators', (code: Non-performing Loans to Total Gross Loans), available at: http://fsi.imf.org/.

150 See Rinaldi, S., and Sanchis-Arellano, R., *Household debt sustainability: what explains household non-performing loans? An empirical analysis*. European Central Bank: Working paper 570, January 2006. This analyses *household* non-performing loans for only 7 countries: Belgium, Spain, France, Ireland, Italy, Portugal, and Finland.

151 EBCI, *Report on the Working Group on NPLs in Central, Eastern and South-eastern Europe*, European Banking Coordination 'Vienna' Initiative, 2012, p.13.

152 IMF, 'Financial Soundness Indicators', (code: Sectoral Distribution of Loans to Total Loans), available at: http://fsi.imf.org/.

153 Please note that the rightmost column listing percentage change from 2007 to 2011 measures the relative percentage change, and not the absolute change. Therefore, while for Ireland the absolute difference is 8.4% (9.2%-0.8%), the relative difference is much larger, as (9.2%-0.8% / 0.8%) is 1050%, meaning that in Ireland, for example, the percentage of non-performing loans increased by

As explained previously, this data give an impression of the extent of financial arrears from the perspective of the financial industry, though this does not include only household loans but also commercial ones. The Member States with the highest percentage (at least 10% of total gross loans as of 2010/2011) are concentrated in the crisis-hit Member States or those with a large exposure to the financial sector (e.g. Luxembourg).[154]

1050%, a very large relative increase compared to the absolute numbers. This method is used in all other tables in this document, unless otherwise indicated.

[154] In Luxembourg, the total value added by the financial sector to the Luxembourg economy was 38% of GDP as according to the Luxembourg Bankers' Association. See: http://www.abbl.lu/node/44033 for more details. In comparison, the share of nominal GDP accounted for by financial services in the UK was only 9% in 2008 according to the Bank of England (http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb110304.pdf).

Table 38. *Bank non-performing loans to total gross loans (%) for Member States (2005-2011)*

Source: Civic Consulting based on International Monetary Fund data. Note: * Most recent year for which data is available.

Member State	2005	2006	2007	2008	2009	2010	2011	2007-2011, change in %
EU	2.1	2.0	1.8	2.6	4.5	5.6	6.1	238.9
BE	2.0	1.3	1.2	1.7	3.1	2.8	n.a.	133.3*
BG	2.2	2.2	2.1	2.5	6.4	11.9	13.5	542.9
CZ	3.9	3.6	2.7	3.2	5.2	6.2	5.6	107.4
DK	0.4	n.a.	0.6	1.2	3.3	4.1	4.4	633.3
DE	4.0	3.4	2.7	2.9	3.3	n.a.	n.a.	22.2*
EE	0.2	0.2	0.5	1.9	5.2	5.4	5.2	940.0
IE	0.7	0.7	0.8	2.6	9.0	8.6	9.2	1050.0
EL	6.3	5.4	4.5	5.0	7.7	10.4	11.5	155.6
ES	0.8	0.7	0.9	2.8	4.1	4.6	n.a.	411.1*
FR	3.5	3.0	2.7	2.8	3.6	4.2	n.a.	55.6*
IT	5.3	4.9	4.6	4.9	7.0	7.8	n.a.	69.6*
CY	n.a.	n.a.	n.a.	3.6	4.5	5.6	6.1	69.4*
LV	0.7	0.5	0.8	3.6	16.4	19.0	18.4	2200.0
LT	0.6	1.0	1.0	4.6	19.3	19.7	19.1	1810.0
LU	0.2	0.1	0.4	0.6	0.7	0.2	0.3	-25.0
HU	2.3	2.6	2.3	3.0	6.7	9.7	10.4	352.2
MT	3.9	5.9	5.1	4.8	5.6	7.2	7.3	43.1
NL	1.2	n.a.	n.a.	1.7	3.2	2.8	2.7	58.8*
AT	2.6	2.7	2.2	1.9	2.3	2.8	2.7	22.7
PL	11.0	7.4	5.2	4.5	8.0	8.8	8.4	61.5
PT	1.5	1.3	1.4	1.8	2.8	3.3	3.2	128.6
RO	2.6	1.8	2.6	2.8	7.9	11.9	13.4	415.4
SI	2.5	2.5	1.8	1.8	2.3	3.6	n.a.	100.0*
SK	5.0	3.2	2.5	2.5	5.3	5.8	5.8	132.0
FI	0.3	0.2	0.3	0.4	0.6	0.6	0.5	66.7
SE	0.8	0.8	0.6	1.0	2.0	n.a.	n.a.	233.3*
UK	1.0	0.9	0.9	1.6	3.5	4.0	n.a.	344.4*

6.2 COST OF LIVING

Rises in the cost of living were mentioned as an important cause of financial difficulties by 80% of all stakeholders. As noted above, these have hit people living on low incomes the most. Across the EU as a whole, prices rose by just over 15% in the six years between 2005 and 2011 (Table 44). A minority of countries have seen increases well above this average. These include Latvia (43.7% increase) Romania (43.0%), Bulgaria (41.2%); Hungary (34.8%), Lithuania (33.9%), Estonia (33.4%) and Greece (21.4%). Almost all of these have very low average incomes. In Greece, falls in income both in and out of work have been compounded by high levels of inflation. It is notable that these include many of the countries where financial difficulties are severe.

The main areas of concern were utility bills (mentioned by 68% of stakeholders), followed by housing costs (59%), and other costs including food, and transport (42%). Other areas of expenditure were seen as less important. Childcare and child related costs were seen as an important cause of over-indebtedness by 29% of stakeholders, followed by healthcare costs (26%), education (15%), and insurance (12%).

Overall, the costs of living that were referred to most frequently by consumer interviewees as causes of their financial difficulties were utility costs, the general costs of living, housing costs and childcare or child related costs (in descending order). Several interviewees felt that the costs of living were rising, while their incomes decreased or remained stagnant. In addition to the aforementioned costs, some interviewees referred to healthcare and education costs.

In addition to stakeholder interviews, cost of living was a major topic for the consumer interviews. The overall results are presented in the table below.

Table 39. Costs of living

Member State	Summary of household interviews
France	The costs of living most frequently mentioned in France were housing and childcare or child related costs. For example, one interviewee explained that her landlord had decided to double her rent, from 530 Euros to 1020 Euros. In terms of childcare costs, one interviewee stressed the difficulties of providing her child with the type of education she would wish for him (music lessons, private school, etc.). A few interviewees indicated that they perceived the costs of living to be increasing.
Germany	In terms of the cost of living, interviewees most frequently referred to housing costs, followed by the general costs of living and childcare or child related costs. For example, in terms of childcare or child related costs, one interviewee stressed the difficulties of bringing up her daughter alone after separating from her partner. In a few cases, the interviewees also mentioned utility costs and healthcare costs. One interviewee reported that he had got into difficulties as a result of a dentist bill that he could not afford to pay.
Hungary	In Hungary households frequently referred to utility costs as a cause of their financial difficulties, as well as the general costs of living, such as food or transport. Several interviewees felt that the costs of living were increasing. Only two interviewees mentioned childcare or child related costs, although it should be noted that children were only present in around a quarter of the interviewed households. Two households indicated that the cost of funding their own education had caused them difficulties, while another two households mentioned healthcare costs as an issue.
Slovenia	Utility costs, housing costs and childcare or child related costs were most frequently mentioned by the interviewed households in Slovenia, as well as the general costs of living (food, transport, etc.). Several interviewees indicated that they perceived the costs of living to be steadily increasing, while their income decreased or stagnated. Almost all interviewees were in arrears with their rent or utility bills at the time of the interview, or had been at some point in the past. Other costs of living mentioned by interviewees in Slovenia were education and healthcare costs.
Spain	Around half of interviewees considered utility costs to be a cause of their financial difficulties. Some interviewees had difficulties paying for basic services such as water and electricity, in one case to the extent that the household had been forced to move out of their home because all utilities had been disconnected. Other costs, such as healthcare costs, were also mentioned. In some cases, the illness of one household member and the lack of access to healthcare subsidies were considered to be a cause of over-indebtedness.
United Kingdom	Almost half of the interviewed households in the UK considered the general costs of living to be a cause of their financial difficulties. Some of these felt that the costs of living were increasing, such as one interviewee, who explained that “four months ago my shopping bill was £50 and now it is £80”. In addition to everyday living costs such as food or transport, several interviewees also specified utility and childcare or child related costs as an issue. For example, one interviewee was forced to give up her job as she could not afford to pay for childcare.

Source: Civic Consulting, household interviews (N=120).

6.2.1 Utility costs (electricity, water, gas, fuels, telecommunications)

Data was collected for this study relating to key cost of living indicators relating to electricity, gas, water, fuels, and telecommunications prices, via the Harmonised Indices of Consumer Prices (HICP). In a second step, data was analysed and correlated with arrears for the 27 Member States.

The table below displays indicators for real income of households, cost of living, energy and fuel costs, and telecom costs for the most recent year available, by Member State and compared to the EU average.

As regards income, there is a wide range of real incomes,[155] associated with the differing levels of economic development in the European Union; this values are displayed in the first column of the table below. The lower incomes are associated with the EU12 Member States (Bulgaria, Romania, and Latvia showing the lowest levels), with Luxembourg, Germany, and Austria displaying the highest.

The cost of living index is based on the Harmonised Index of Consumer Prices (HICP), which is compiled by Eurostat and national statistical institutes. It aims to be representative of the developments in the prices of all goods and services available for purchase within the Euro area for the purposes of directly satisfying consumer needs. It measures the average change over time in the prices paid by households for a specific, regularly updated basket of consumer goods and services.[156] Setting the baseline to 2005, the second column in the table below measures the price change of all goods and services to 2011. As mentioned previously, increases above the EU average were seen in Latvia, Romania, Bulgaria, Hungary, Estonia, Lithuania, and Greece.

Columns 3 and 4 of the following table compare price increases in specific areas of utility prices, namely concerning energy and telecommunications, with increases in the general cost of living. Across the EU there has been a rapid rise in utility prices compared to the general cost of living. Utility services are considered here in terms of electricity, heating, water supply, and telecommunication services.

Countries where electricity and heating costs were high compared to 2005 include some countries where financial difficulties are high (Bulgaria, Estonia, Hungary, Latvia, Lithuania, Malta, Romania, and Greece) in contrast with others such as the Netherlands and Germany where costs are relatively low (see table below comparing columns 2 and 3). Telecom services have seen a general decline in recent years, however (see column 4) this is not uniformly the case; in countries such as Romania,

[155] "Real adjusted gross disposable income of households per capita in PPS is calculated as the adjusted gross disposable income of households and Non-Profit Institutions Serving Households (NPISH) divided by the purchasing power parities (PPP) of the actual individual consumption of households and by the total resident population." (Eurostat, item description for code tec00113).

[156] For further details, see: http://www.ecb.int/stats/prices/hicp/html/index.en.html

Slovakia, Slovenia, and Cyprus they have actually increased, while significant decreases were seen in Latvia, Lithuania, Austria, Belgium, France and Germany.

Table 40. *Real disposable income per capita, cost of living, electricity, gas and other fuels index, and cost of telephone and telefax services*

Sources: Civic Consulting based on Eurostat data, codes: (a) tec00113, (b) prc_hicp_aind (c) prc_hicp_ind (d) prc_hicp_ind
Note: *Latest year for which figure is available.

MS	Real adjusted gross disposable income of households per capita, 2011 (Euro)[a]	Cost of living index (2005=100), 2011 [b]	Electricity, gas and other fuels index (2005=100), 2011[c]	Telephone and telefax services index (2005=100), 2011[d]
EU27	19,716	115.4	143.1	94.4
BE	22,291	115.3	150.8	89.6
BG	7,149*	141.2	130.0	93.9
CZ	13,855	116.2	151.0	96.7
DK	20,453	113.8	127.1	94.7
DE	24,698	111.1	136.8	88.6
EE	10,920	133.4	183.4	97.2
IE	19,328	106.6	134.4	n.a
EL	15,715	121.4	164.2	99.2
ES	18,604	116.4	149.2	100.3
FR	23,232	111.3	132.2	92.4
IT	20,140	113.8	124.1	92.8
CY	18,713	115.9	157.5	101.2
LV	10,078	143.7	216.5	77.5
LT	12,636	133.9	197.8	84.4
LU	28,660*	117.3	136.3	98.6
HU	11,848	134.8	180.8	98.2
MT	n.a	115.2	207.2	n.a
NL	21,264	110.2	115.6	n.a
AT	23,806	113.4	126.7	90.4
PL	12,208*	120.1	150.7	96.8
PT	16,014	112.7	132.1	96.6
RO	7,669*	143.0	156.4	120.5
SI	16,154	118.0	152.7	101.1
SK	13,557	116.8	133.6	101.3
FI	21,586	114.2	167.6	96.2
SE	21,911	112.3	129.6	n.a
UK	21,669	119.6	181.2	n.a

The following table provides a time series of more detailed indicators of income and utility costs, showing how in the 2007-2011 period the cost of living (as expressed in the HICP, which provides comparable measures of inflation in the EU for all items and services in addition to utilities) grew more than twice as fast as the real adjusted disposable household per capita.

***Table 41.** Income and living costs, by year, EU27*

Sources: Eurostat.

	2007	2008	2009	2010	2011	2007-2011, % change
Real adjusted gross disposable income	18,929	19,189	18,876	19,335	19,716	4.2
Gas price index (2005=100)	122.0	138.1	139.0	135.4	148.0	21.4
Electricity price index (2005=100)	111.7	119.5	125.1	127.4	136.2	21.9
Liquid fuels price index (2005=100)	110.0	141.0	99.9	123.3	153.5	39.6
Telephone and telefax services price index (2005=100)	96.7	96.0	95.9	95.2	94.4	-2.4
Water supply price index (2005=100)	108.4	112.3	116.9	120.5	124.4	14.8
Harmonised Index of Consumer Prices (HICP, 2005=100)	104.6	108.4	109.5	111.8	115.2	10.1
Arrears on utility bills	7.3	7.9	8.8	8.9	8.8	20.5

Results showed that from the pre to post crisis periods (2007 to 2011), increases in utility costs outstripped increases in income by several percentage points. For example, the electricity price index increased five times more than income per capita, while the liquid fuels index increased by nearly ten times more (see table above).

In a second step, these increases were correlated with increased arrears in 2011, in particular arrears on utilities (see table below). The analysis correlated frequency of arrears and inability to make ends meet with the various indices of utility costs for the 27 Member States. These results supported the hypothesis that increases in utility costs are associated with a higher frequency of arrears. The HICP data for all items shows an especially high and positive correlation with arrears on utilities, for example, which means that higher living costs in general are associated with higher frequencies of arrears on utility bills as measured by EU-SILC. However, these costs appeared to have less or little impact on mortgage or rent arrears.

Interestingly, though all utility price indices were positively correlated to arrears on utilities, correlations with arrears on mortgages or rent were mixed, indicating that consumers may prioritise repaying their mortgage or rental payments first, and then fall behind on utility bills. Alternatively, rises in the cost of utilities may make it harder for consumers to meet their mortgage or rent repayments. However, a full exploration of these hypotheses is outside the scope of this study.

***Table 42.** Income and living costs, correlations, EU27*

Note: Pearson's r correlation procedure used. * denotes p<.05 significance.
Source: Eurostat.

	Arrears on hire purchase or other loans (2011)	Arrears on utilities (2011)	Arrears on mortgage or rent (2011)	Total arrears (2011)	Inability to make ends meet (2011)
Gas price index (2011)	0.06	0.38	-0.08	0.31	0.33
Electricity price index (2011)	0.11	0.22	0.05	0.21	0.27
Liquid fuels price index (2011)	0.05	0.06	0.30	0.09	-0.09
Telephone and telefax services price index (2011)	0.34	0.21	-0.18	0.26	0.14
Water supply price index (2011)	0.10	0.43*	-0.29	0.45*	0.46*
Harmonised Index of Consumer Prices (HICP, 2011)	0.18	0.77*	-0.17	0.67*	0.58*

Altogether, 68% of stakeholders interviewed selected utility costs as an important cause of household over-indebtedness, and this was the option most frequently selected in the general 'Cost of living' category. The importance of utility costs as a cause of household over-indebtedness was frequently specifically mentioned by stakeholders (see text box below).

Utility costs

"Due to the deregulation of utility companies it is very hard to get the figures from utility companies; same with rental debt from rental companies. [...] Utilities have become more expensive across the EU, in particular telecommunications contracts. Utility costs cause problems because they are usually paid after consumption. [Over-indebtedness] also depends on energy prices." (*EU level stakeholder*)

"A lot of people have problems with utility bills, especially electricity and telecommunications. Sometimes they get disconnected. They can go to the social welfare providers and ask for their electricity bill etc. to be paid, and it will generally be paid. But they have to go there and apply for it, which a lot of people don't do because they are ashamed." (*Stakeholder interview Germany*)

"Regarding utility - for four or five years we have been seeing an increase of telecommunication debt. This is another topic, mainly because of mobile phones which are more expensive than regular ones. Many consumers near the borders have problems with French phones because they automatically switch to Belgian networks. Communication in France is overall quite cheap, it is when you are calling abroad that it gets expensive." (*Stakeholder interview France*)

"Costs of living - utility costs are the most important. Our consumers complain about the prices, especially for electricity and central heating. They are monopolistic prices. They are not so high, but compared to the average wages they appear to be very high. There are people who pay 60, 70, or 80% of their wages for utility costs. This is a very big problem for families who are over-indebted. Housing costs are important, but not as important as utility costs." (*Stakeholder interview Bulgaria*)

“Regarding utility costs - they are an underlying problem of over-indebtedness. The prices of utilities have not really gone up, but energy costs have to be paid every month and when people have financial problems, debts from unpaid energy costs can accumulate.”(*Stakeholder interview Czech Republic*)

6.2.2 Housing costs

There are a number of surveys that attempt to measure the importance of household costs for households in Europe, and several are presented here. The table below shows a breakdown of housing loans as a percentage of household income, the perceived financial burden due to housing costs, the housing costs overburden rate, and the arrears on mortgage or rent payments as measured by EU-SILC.

The first column shows the distribution of housing loans outstanding as a percentage of household income by Member State (for 2009, latest publicly available data). In this year, which was in the middle of the crisis period, highest levels were seen in Denmark, Ireland, the Netherlands, and the UK.

The EU-SILC survey asked respondents to what extent total housing costs (mortgage repayment or rent, insurance, and service charges) were a financial burden for the household. The variable covers only really paid housing costs, and does not consider prior arrears for the assessment. Valid answers include “a heavy burden”, “a slight burden”, and “not at all”. For the purposes of this study, the percentage of those households responding “a heavy burden” is reported.

The highest levels as of 2011 were concentrated in Cyprus, Hungary, Bulgaria, Poland, Spain, and Italy, with moderate levels (around 30%) elsewhere. Only Member States such as Denmark and Sweden scored under 10% for this measure. [157]

Eurostat also compiles a housing cost overburden indicator, which shows the percentage of households whose housing-related costs are 40% or more of their equivalised income. It does, however, include far more than direct housing costs (for example it includes utilities and insurances), so it is in many ways closer to a more general cost of living.

Even so, rents and mortgages are likely to be a substantial part of the overall sums of money involved. This indicator is broken down the second and third columns in the table below - the rate for those owners with a mortgage or home loan, and those living in private rented housing. The table below also compares these overburden indicators with the levels of mortgage/rent arrears by Member State.

[157] A similar question was asked in the EQLS survey mentioned previously. This asked respondents “How likely or unlikely do you think it is that you will need to leave your accommodation within the next six months because you can no longer afford it? Is it… 1) Very likely; 2) Quite likely; 3) Quite unlikely; 4) Very unlikely”. The rate of people who found it quite or very likely went up from 4% in 2007 to 6% in 2011. While by far highest among renters on the private market (12% in 2011, up from 11% in 2007), the recent increase largely came from people who own their dwellings with a mortgage, up from 3% in 2007 to 5% in 2011 (the percentage among this group of owners is now almost at the same level as people who rent on the non-private market, i.e. who live in social housing: stable at 6% in 2007 and 2011). See Eurofound, 2012 (figure 42, p. 110).

Table 43. *Levels of mortgage/rent arrears, financial burden due to housing costs and housing cost overburden rate, by Member State*

Sources: (a) Table 2 in Fondeville, Ozdemir, Ward, 2010; (b) (c) and (d) Eurostat, SILC (codes: ilc_mdes06, tessi164, ilc_lvho07e).
Note: The housing cost overburden rate is defined by Eurostat as the percentage of the population living in households where the total housing costs (net of housing allowances) represent more than 40% of the total disposable household income (net of housing allowances).*Denotes figure for 2010 as 2011 figures are unavailable.

MS	Housing loans outstanding as % of household income, 2009[a]	Heavy financial burden due to housing costs, 2011 (% of total population)[b]	Housing cost overburden rate (owner, with mortgage or loan), 2011 (% of total population)[c]	Housing cost overburden rate (rent), 2011 (% of total population)[d]	Arrears on mortgage or rent payments, 2011 (% of total population)[e]
EU-27	67.9	35.1	9.1	26.1	4.0
BE	66.6	30.2	3.3	38.1	3.9
BG	22.7	44.1	23.1	32.8	1.4
CZ	33.2	27.9	5.3	25.0	3.8
DK	243.1	8.5	12.2	36.9	2.5
DE	46.8	19.8	13.6	21.4	2.4
EE	75.2	30.3	12.7	28.1	2.3
IE	120.6	n.a.	4.7*	21.7*	8.1
EL	45.3	35.3	11.9	42.7	11.0
ES	90.4	51.2	13.8	48.1	3.9
FR	53.8	26.9	1.4	16.0	5.6
IT	25.4	54.8	6.3	33.3	5.1
CY	n.a.	73.1	3.6	17.5	5.4
LV	47.9	43.4	28.1	16.1	7.0
LT	34.2	39.2	20.6	66.5	1.5
LU	n.a.	39.2	0.6	13.7	1.7
HU	27.5	41.8	20.5	43.8	6.4
MT	n.a.	53.9	4.5	32.5	1.5
NL	184.1	11.7	14.0	18.2	3.0
AT	39.1	14.9	1.4	11.3	3.9
PL	26.7	61.2	10.0	27.2	1.5
PT	93.0	30.8	8.5	25.5	5.7
RO	7.8	44.9	13.5	65.3	0.6
SI	17.0	38.6	10.5	18.3	3.4
SK	24.1	32.9	23.6	12.9	4.6
FI	67.7	20.1	2.3	12.5	4.8
SE	96.0	8.9	3.1	17.5	2.2
UK	135.3	29.3	8.8	45.3	4.9

In terms of changes in the pre and post crisis periods, increases in perception of heavy burdens due to housing costs were highest in Estonia, Latvia, Malta, Lithuania, and Denmark. Levels decreased significantly in Bulgaria, and modestly in Germany, Italy, and the Netherlands.

This table identifies some Member States as having high housing cost overburden rates for the private rental market (Lithuania, Romania, Hungary, Spain, Greece, and the UK) – only three of which (Greece, Hungary and the UK) have high levels of financial difficulty, as expressed in higher levels of arrears on mortgage or rent repayments. Similarly, the link between housing cost overburden for owners with mortgages and home loans is weak, and both indicators show little correlation with the frequency of arrears.

The fact that it is not possible to identify a more direct link between arrears and this indicator may, in part, be attributed to the earlier finding that high levels of mortgage borrowing do not necessarily give rise to financial difficulties. It may also be because of the nature of the index itself. It is, for example, notable that Ireland has a below average proportion of households exhibiting housing burden, despite the very high levels of mortgage-holding there. This may be because of continuing low interest rates which benefit borrowers, and various government mortgage relief measures introduced before and after the crisis.[158]

Of course, increases in housing costs may be driven by multiple factors, such as asset price increases or changes in ownership structure. As one EU level stakeholder explained, "In some countries e.g. the issue of growing rents in properties that have been returned to their original owners (reprivatisation of the properties) should be tackled. Given the good location of such houses (old building in the centres of cities) the owners increase the rents significantly. This is especially relevant for ex-communist countries."

An Estonian stakeholder added that in Estonia, the vast majority of households lived in owner-occupied housing that had been privatised, but that these properties were in generally poor condition, and people required credit in order to renovate them. Changes in ownership structure was not restricted to EU12 countries, however. One German stakeholder explained that in the last ten years a privatisation of the rent market had occurred yet the local government had to pay the rents of those who could not afford the (now private) rent payments.

Finally, as shown earlier, poor social housing provision was mentioned as a problem in countries such as Belgium, Hungary, Spain, the UK, and Ireland. Section 6.1.4 specifically explores this area in detail.

[158] In particular, Mortgage interest relief before the onset of the financial crisis, and Central Bank measures afterwards, including a code of conduct on mortgage arrears (CCMA), the mortgage arrears resolution process (MARP), personal insolvency reform, and encouraging forbearance on the part of lenders. See: http://www.centralbank.ie/regulation/poldocs/consultation-papers/Documents/CP63%20Review%20of%20the%20Code%20of%20Conduct%20on%20Mortgage%20Arrears/Consultation%20Paper%20CP63%20FINAL.pdf

6.2.3 Healthcare and education costs

In most Member States neither healthcare nor education were mentioned by stakeholders as playing a significant role in levels of over-indebtedness, mainly because they are either free at the point of use or the costs are comparatively low. In a minority of countries, however, these were considered especially problematic. Health care costs were singled out as being important in Bulgaria, Greece, Ireland and the Netherlands; in Ireland, growing numbers of people cancelling healthcare plans because of the squeeze on household budgets were reported.

The high costs of education - including the level of loans students incur if they attend higher education courses - were mentioned by stakeholders in the UK, Cyprus, Greece and Denmark, among others. Indeed, in Cyprus the cost of educating children in university was given as one of the most important factors in explaining the high level of arrears.

In consumer interviews conducted in France, Germany, Hungary, Slovenia, Spain and the UK only some interviewees referred to healthcare and education costs, and the influence of these costs was also referenced by stakeholders (see box below).

Healthcare and education costs

"We have increases in general, for example the cost of education increases annually as well as healthcare cost in the public sector. We have more consumers turning to hospitals so we have high cost in hospitals and this is due to the economic crisis that we are facing now. People have no money to pay the doctor or to have cheaper healthcare. There is no tradition of insurance about hospitals. There are small fees of 10 to 20 Euro in order to go to the hospital. And you pay if you do not meet the economic criteria for this to be completely free. A regular doctor is going to ask for higher fees." (*Stakeholder interview Cyprus*)

"The most common type of over-indebted households consists of people between the ages of 40 and 64. These people come to us most often and are generally middle aged; they already have children and many commitments. They have several credits, a mortgage and educational bills. When one of them becomes unemployed, they struggle to pay off all their bills." (*Stakeholder interview Portugal*)

"Also, there are often cases of people above the age of 40 who suffer from chronic illnesses and cannot therefore be as productive at work as they would like to. They have children studying at university along with other financial commitments and can easily find themselves in a position in which they cannot any longer meet all their financial obligations." (*Stakeholder interview Cyprus*)

"Healthcare costs have been a cause as well - about half of the people have private health insurance which has increased by 10-20% per annum in the past years, so now it costs twice as much as it did five years ago. A lot of people have given it up and went back to public system. Education cost would be another problem: until three years ago, university was free for everyone. Now that has changed so it costs 1500 per annum and that will increase rapidly in the next few years." (*Stakeholder interview Ireland*)

6.3 TYPES OF CREDIT/LOAN TAKEN OUT BY HOUSEHOLDS

Almost nine in ten (87%) of the stakeholders interviewed reported that specific types of credit or loans taken out by households were among the most important causes of household's over-indebtedness in their country. The largest proportion (58%) mentioned some form of high interest rate credit from regulated lenders as being amongst the most important causes of households financial difficulties; nearly the same amount (57%) chose home loans or mortgages, and a little under half (46%) considered that the level of consumer credit borrowing at average interest rates was problematic. This ranking may indicate that those already under financial pressure are pressured into taking on more high interest rate credit from regulated lenders, credit that they may not be able to pay back especially when unexpected drops in income or other problems occur.

Across the EU, predatory or usurious types of credit were seen as one of the most important causes of over-indebtedness by only 29% of stakeholders, followed by other easy to obtain financial products (such as payday or SMS loans) at 23%, and non-usurious credit from unregulated lenders (20%). Only 8% considered informal credit or loans from family members, friends, or employers to be one of the most important causes of over-indebtedness. Breaking down responses by stakeholder type, some differences emerged (see table below).

***Table 44.** In your view, what are currently the most important causes of households' over-indebtedness/on-going difficulties meeting their financial commitments (by stakeholder group)*

	Financial industry	Civil society	Public authorities	Ind. experts	Total
Other regulated consumer credit, with high interest rates	49%	70%	52%	59%	58%
Home loans/mortgages	42%	62%	55%	70%	57%
Credit/loans from regulated lenders with average interest rates	42%	55%	45%	42%	46%
Predatory or usurious types of credits/loans	20%	38%	26%	31%	29%
Other specific practices or easy to obtain products	19%	32%	16%	24%	23%
Non-usurious credit/loans from unregulated lenders	23%	17%	15%	23%	20%
Informal credit/loans from family members, friends, employers	6%	8%	6%	11%	8%

Source: Stakeholder interviews, Q9 (N=277). Note: The percentage indicates the share of stakeholders that considered the specific type of credit/loan to be among the most important causes of over-indebtedness.

As can be seen, civil society stakeholders tended to rate regulated consumer credit with high interest rates as more important compared to others, while independent experts rated home loans/mortgages as relatively more important than other groups. Stakeholders from the financial industry rated predatory or usurious types of credit/loans as notably less important than the other stakeholder groups, particularly those interviewees from civil society.

In consumer interviews conducted for this study in six countries, interviewees most commonly reported difficulties as a result of credit cards, bank loans and overdrafts. Interviewees frequently stressed the ease with which these types of loans could be acquired. In a few cases, households also reported taking on loans that could be considered predatory or usurious. These were indicated in the UK, Slovenia, Hungary and Spain, but not in France or Germany. Mostly these were short-term loans with high interest rates from legal credit institutions, although two interviewees indicated that had taken on credit from illegal lenders.

In some countries, mortgages were also mentioned as a cause of over-indebtedness (particularly in Hungary and Spain). In the UK around half of the interviewed households had mortgages, but they did not consider these to be the primary cause of their difficulties. On most occasions the last loan taken out by the interviewed households was some type of regulated consumer credit, although some households in Hungary and Spain had also taken out mortgages, and a few households had taken out short-term, high interest loans.

The credit was normally taken to pay for large purchases, fund immediate day-to-day living costs or repay existing debt, indicating that poverty in general is a factor in accumulating credit. Generally, households took out loans from a creditor with whom they already had a relationship (for instance their bank), who was offering the best deal or who had been recommended to them (for example by the retailer where they made their purchase).

An overview by country of the consumer interviews is presented in the table below.

Table 45. Types of credit/loan taken out by households

Member State	Summary of household interviews
France	Regulated consumer credit was the type of credit most commonly seen as a cause of financial difficulties by the interviewed households in France. For example, interviewees mentioned having personal bank loans and car loans, although revolving credit cards appeared to be the biggest issue for the interviewed households. Sometimes these credit cards were with very high interest rates. For example, one interviewee specified that the interest on her credit card was as high as 20%. Predatory or usurious loans were not mentioned by any of the interviewed households.
Germany	Credit from regulated lenders was most frequently mentioned by interviewees in Germany as a cause of their financial difficulties, in terms of the type of credit/loans taken out. They most commonly indicated that they had taken out bank loans, credit cards and/or overdrafts. In a few of these cases, the households had taken out loans for the purpose of supporting their businesses. In other cases they used the credit to fund their daily living expenses or make large purchases, such as cars or furniture. A couple of households had taken out informal credit/loans from family members, friends or employers, but no households reported predatory or usurious types of credit.
Hungary	Mortgages or regulated consumer credit were most frequently considered to be causes of over-indebtedness by the interviewees in Hungary. Seven of the interviewed households lived in owner-occupied housing with mortgages at the time of the interview, or had done so in the past. All of these households reported that this had been problematic for them, particularly as these loans tended to have been taken out in foreign currency. Three households had got into difficulties with predatory or usurious loans. In two cases this was in relation to short term credit with very high interest rates from legal providers. Three households also indicated that they had taken on informal loans from their family, friends or employers.
Slovenia	Credit/loans from regulated lenders with average interest rates were most commonly seen by the interviewed households in Slovenia as a cause of their financial difficulties. Almost all households who had previously taken out a loan (rather than simply accumulating arrears) reported having overdrafts and/or bank loans. However, two interviewees had taken out loans from non-bank institutions when banks started to refuse them credit.
Spain	Half of interviewed households in Spain indicated that home loans or mortgages were a cause of their financial difficulties. One of the most common reasons for acquiring a mortgage or home loan were that the costs of renting a house were the same or even higher than the monthly repayment. In two cases, the interviewees mortgaged their house to start a new business. Many interviewees also saw regulated consumer credit as a cause of their difficulties, in particular bank loans and credit cards. Most of the interviewed households with these types of loans explained that they had found the process of acquiring the credit very easy. In five cases, predatory loans with high interest rates were mentioned as causes of over-indebtedness. These were easy to obtain loans with high interest rates from legal lenders.
United Kingdom	In the UK, regulated credit or loans with average interest rates were most frequently mentioned as causes of over-indebtedness, in terms of the type of credit/loans taken out by affected households. The most common types of credit among the interviewed households were credit cards, overdrafts and bank loans, as well as credit with shops/mail order catalogues. Two of the interviewed households also had problems related to payday loans. Some interviewees had renegotiated the terms of their mortgage in order to cope with their financial difficulties, for example by switching to interest-only payments, but only two of the interviewed households were actually in arrears with their mortgages at the time the interview took place.

Source: Civic Consulting, household interviews (N=120).

6.3.1 New types of credit and loans causing financial difficulties

Research in Finland shows that the use of SMS loans there accounted for a large increase in the number of judgements for non-payment of credit in the period between 2005 and 2008.[159] A similar situation was reported in Sweden. In Estonia SMS loans were reported as being very common among people seeking debt advice; research in the UK shows a sharp increase in the number of debt advice clients that have payday loans in recent years, with a more than six-fold increase between January 2009 and December 2011.[160]

All such lenders offer very short-term (a month or less) cash loans that are often used by people facing financial strain to help them make ends meet. Charges are high and when converted to an APR (Annual Percentage Rate) run into several hundred per cent.

Stakeholders in several Member States (such as Bulgaria, Czech Republic, Estonia, Greece, Finland, Latvia, Poland, and the UK) reported a rise in the use of high-cost short-term credit in the form of SMS loans, payday loans or unregulated lending.

SMS loans seemed to be the most prevalent type, and even in countries where there was an interest rate cap in place, such as in Belgium, where one stakeholder claimed that foreign SMS loan providers could enter the market and offer 'interest free' loans, but which entailed an 'administrative fee'.[161]

Short-term but high-cost loans

"Stakeholders also pointed to 'other specific practices/easy to obtain products in the financial services industry' as causes of over-indebtedness. Most explained that they referred to loans applied for via SMS (on a mobile phone) or via the Internet. These loans are offered up to a maximum amount of a few hundred Euro, over a loan period of a few weeks. An interviewee working for public authorities mentioned that there are around 80 quick loan providers and that they "do not check their customers' creditworthiness". A 2008 study from the Finnish National Research Institute of Legal Policy on the topic found that the average cost on an example loan of 50 Euro for 14 days was 12 Euro, meaning that real yearly interest rates could be as high as several hundred per cent.

---

[159] Valkama, E. and Muttilainen, V., 'Payment difficulties associated with SMS loans', *Research Report Summaries*, Research Communications no. 86, National Research Institute of Legal Policy, Helsinki, 2008, pp. 79-84.

[160] Consumer Credit Counselling Service, Response to OFT review of payday lenders' compliance with the irresponsible lending guidance, May 2012.

[161] See Belgian country report.

The outcome of this is a rising number of defaults for these types of loans. According to the National Legal Research Institute of Legal Policy they were largely responsible for the increase in judgements on demands for payment of consumer credits in District Courts. These increased from about 20,000 in 2005 to 58,000 in 2007. The large increase came at a time when most other debt judgments (e.g. rental payments, utilities) were decreasing slightly in number." (*Country report Finland*)

"You can look at these loans in different ways … These companies are providing astronomical [interest] rates while just giving people money for a short time. In practice, we find people, the same ones, using these companies again and again and it is not just until the end of the month. The challenge for policy makers is to not completely kill the market for short term lending - there might be important instances to cover short-term need, for example someone might need an expensive repair of their car which they need to go to work, so they need a loan until the end of the month. The problem is that these loans are in many cases helping people to sustain their debt beyond sustainability. There are also other arguments. One is that if this whole market is closed down, then the gangsters would take over and lend out of sight." *(Stakeholder interview UK)*

In Estonia research was cited showing that 3% of the population had used an SMS loan in 2008 and 2009 and that some of these loans had been taken out to meet mortgage repayments.[162] An Estonian stakeholder reported:

> *In Estonia, according to the law, if the APR of a consumer credit is three times higher than the average APR of the consumer credits granted by credit institutions (commercial banks), it can be considered as not in accordance with good practice and the court is entitled to reduce the sums due to the creditor. We do not have many court cases because debtors do not turn to the court (either they are not aware of the possibility or they do not have the money for paying court charges) and creditors know it. The legislation does not work properly in practice.*

Research commissioned by the UK government similarly indicates that payday loans were commonly used to meet household bills.[163]

In some countries, such as Greece and the Czech Republic (see also text box below on high cost and predatory lending), a range of different forms of predatory lending were described, perhaps demonstrating how there are people willing to take advantage of consumers under financial pressure. This ranges from reports of increases in outright illegal lending to novel forms of lending such as self-styled 'debt management bureaux' who buy goods for half of their retail price from people they have persuaded to purchase them on their credit cards.

[162] TNS Emor, *Annual survey on financial behaviour of Estonian households*, 2011.

[163] Personal Finance Research Centre, *The impact on business and consumers of a cap on the total cost of credit*, 2012, Forthcoming.

High cost or predatory lending

“Although there are no official statistical data on usury in Greece, reference can be made to police files on usury in the major cities of Greece as well as in other provincial cities. The Financial and Economic Crime Unit also reports an increase in complaints concerning usury, as well as an increase in organized groups of loan sharks acting in Attica and Volos. In addition, numerous pawnshops have emerged in recent years, many of them illegal, buying mostly gold but also any other items. The Hellenic Consumer Ombudsman noted in the latest annual report that several organisations which call themselves 'Debt management bureaus' have been asking people in need of money to use their credit cards to buy certain goods. The 'bureaus' keep the goods, and pay the consumers 50% of the total charge on the credit card.” (*Country Report Greece*)

"If you go outside on the street you will find advertisements on lamps, on dustbins, everywhere. 'Are you in a situation where a bank will not provide you with a loan? Call us! We will give you money.' It's hard not to come across such offers of alternative loans. And the conditions are sometimes really strict. You can have 500% interest. This is legal, as long as it is written somewhere in the contract. And most consumers don't read it. The first time they find out about it is when they get into problems […] People first go to normal banks, but if they cannot get any money from these they go to informal lenders with high interest. And these lenders operate differently. There can be no out-of-court settlements with them. They will get their money, even if it means taking money off you for the rest of your life." *(Stakeholder interview Czech Republic)*

It is clear from the stakeholder interviews that regulators have struggled to regulate this end of the credit market, although Slovenia has introduced a price cap for short-term credit, SMS loans are likely soon to be the subject of tighter regulation in Denmark and Finland, and the UK government is currently investigating whether a price cap or other regulatory controls are required in the short-term credit market.

Informal loans were seen less of a problem, and this may be because loans from family or friends are not seen as loans as such but more as a form of financial aid. This was the case in Spain (see text box below), where family support has historically been very high and was reported to have risen considerably during the current economic crisis.

Informal loans from family, friends, and employers

Spanish families have traditionally been regarded as a complementary source of financial support to social welfare. This support, in the shape of informal loans, is perceived by stakeholder interviewees to have increased. Data from the CIS *(Centro de Investigaciones Sociológicas)* barometer (September 2010) [...] revealed that 13% of Spanish individuals had received economic (monetary) support from a family member in 2010. Moreover, the percentage of individuals who believe that it is better to borrow from family and friends than from a bank increased from 40% in 2004 to 50% in 2010 [...] Economic support has predominantly been given to the youth (under 30s), who are considered to be the group most affected by the crisis. However, it was pointed out by the stakeholders that these loans are regarded as financial aid rather than credit and do not generate more over-indebtedness. *(Country report Spain)*

"You only can borrow money if there is someone else willing to lend you the money. […] It is quite possible that there are some subpopulations where informal lending is more common than in the Dutch population as a whole. For instance in the Turkish population it is more common to borrow money from your peers than with the majority population. So it is possible that there is informal lending within some ethnic groups but not a lot is known about that." (*Stakeholder interview the Netherlands*)

6.4 PERSONAL CIRCUMSTANCES

Over nine out of ten (93%) of all stakeholders considered personal circumstances endogenous or exogenous to the debtors to be important causes of household over-indebtedness. However, stakeholders differentiated between 'exogenous' factors (poverty, support payments to family members, decreasing or stagnant income, and sudden drops in income due to illness, unemployment, business failure or divorce) and 'endogenous' factors (incapacity to deal with financial products, lack of money management skills, addictive behaviours, and behavioural biases).[164] When grouped, 92% of all stakeholders considered 'exogenous' factors to be important causes of household over-indebtedness, but only 70% of all stakeholders considered 'endogenous' factors to be important.

In terms of specific factors, interviewed stakeholders ranked most frequently drops in income caused by unemployment or business failure among the most important causes of household over-indebtedness (83% of all stakeholders). This was followed by poverty/low income (63%), drops in income caused by reasons other than

[164] This point was also raised in the stakeholder workshop, where one stakeholder proposed to distinguish between "active over-indebtedness" and "passive over-indebtedness". The first is caused by excess debt on the part of an individual due to extensive use of credit in the belief of improved future economic and financial conditions. The second is due to the existence of exogenous factors over which the individual has no control (e.g. job loss, death, illness), which negatively impact repayment capacity and make what was once a manageable liability no longer sustainable.

unemployment (60%), and decreasing or stagnant income while costs of living increased (57%).

Lack of money management skills was also seen as important by 57% of stakeholders, followed by an incapacity to deal with financial products (44%). This suggests that financial education (or the lack of it) plays a key role. Indeed, other 'endogenous' or psychological factors were seen as much less important, including behavioural biases (27%), or problems with addiction (23%).

This is consistent with findings from literature which show that the most important causes of over-indebtedness are low income and the need to then borrow for consumption "to make ends meet", followed by lack of information or experience to correctly assess the myriad of financial products on offer.[165]

In consumer interviews, a drop in income as the result of unemployment or illness was the personal circumstance most commonly referred (47%) to by interviewees. Other causes for a drop in income, such as divorce, business failure or the death of a family member also came up frequently (37%).

Sometimes households experienced multiple causes for a drop in income (e.g. unemployment in combination with illness). Many households also referred to low income (34%), or an income that decreased or remained stagnant, while the costs of living steadily increased (28%). In total, nearly half (42%) of interviewed households were assessed to be at risk of poverty, though for 15% this was unclear. However, poverty was clearly more of an issue for the consumers included in this study in some countries than in others - for example, all households interviewed in Slovenia were assessed to be at risk of poverty, while in Germany this was only the case for two households.

In addition to factors related to income, a variety of other personal circumstances were mentioned by interviewees. Sometimes these were linked to divorce/separation, such as being held responsible for the debt of an ex-partner, or to support payments to family members. A lack of money management skills were mentioned by 18% of consumers interviewed, while incapacity to deal with financial products (13%) or behavioural biases (also 13%) were mentioned by some interviewees. Sometimes these came up in combination with another circumstance, such as unemployment, but in a few cases the interviewees felt that their problems were almost entirely of their own making. Most interviewees, however, did not consider such issues to be a major cause of their difficulties. An overview of the results is also presented below.

[165] See Kempson et al., 2004.

Table 46. Personal circumstances

MS	Summary of household interviews
France	Many of the interviewed households had been affected by a drop in income, for example as the result of unemployment or business failure, but also due to other factors such as illness or the death of a family member. A related issue that affected several households was that of poverty. For some households other personal circumstances were seen as causes of their over-indebtedness. However, other interviewees suggested that their lenders had been more to blame than themselves, because they had given them too much access to credit.
Germany	Around three quarters of interviewees indicated that their financial difficulties had been caused by a drop in income, as the result of unemployment, business failure, illness or separation. In some cases, interviewees described low income as a cause of their over-indebtedness, although only two of the households who gave clear information about their total income were assessed to be at risk of poverty. Several interviewees also mentioned lack of money management skills, behavioural biases or incapacity to deal with financial products.
Hungary	Several households indicated that their income had been reduced by unemployment, sickness or some other factor. Other households had not suffered from a sudden drop in income, but explained that their income remained stagnant or slowly decreased, while the costs of living steadily rose. Just over a quarter of interviewees were assessed to at risk of poverty (6 out of 20). Some interviewees did not feel that lack of income was the main cause of their difficulties, but rather some other factor, such as a lack of money management skills, behavioural biases or an incapacity to deal with financial products. For a couple of households the problems were not primarily caused by any particular personal circumstances, but by the increase in their repayments as a result of exchange rate fluctuations.
Slovenia	The personal circumstances most frequently mentioned by the interviewed households in Slovenia as a cause of their financial difficulties were poverty, a drop in income caused by unemployment or illness and a decreasing or stagnant real income. Several interviewees explained that they saw their low income as a long-term problem, as their disabilities or lack of education made it difficult for them to find work. All 20 interviewees from Slovenia were assessed to be at risk of poverty. However, none of the interviewed households considered lack of money management skills or incapacity to deal with financial products to be a cause of their difficulties.
Spain	A drop in income caused by unemployment or business failure was described as a cause of over-indebtedness in almost all the interviewed households. The income of these households had mostly decreased due to the unemployment of at least one household member, but some of these households had also been affected by the illness of another person living in the household. More than half of households that provided clear information about their income were assessed to be at risk of poverty (10 out of 17). Only in few cases did the households consider that issues such as lack of management skills or behavioural biases were a cause of their financial situation.
United Kingdom	In terms of personal circumstances, the cause most frequently mentioned by interviewees was a drop in income as the result of unemployment or illness. A few households reported a drop in income due to other factors, such as divorce/separation, the death of a partner or having to give up work to look after children In some cases the interviewees also referred to low income, or poverty, as a cause of their financial difficulties. Out of 15 cases in the UK where the interviewees gave clear information about the household's income, just under one third were determined to be at risk of poverty. In addition to these, some households also referred to a lack of money management skills or behavioural biases.

Source: Civic Consulting, household interviews (N=120).

6.4.1 Drop in income caused by unemployment or business failure

Unemployment was considered the most important single factor by stakeholders; the macro-economic analysis of this factor along with a descriptive report of the consumer and stakeholder interviews has already been reported in detail in section 6.1.1 above. As analysed previously, unemployment also affected households in higher income ranges, as is illustrated by the following example from our consumer interviews below:

Over-indebted households - an example from France

A French two-person household (between the ages of 25 and 39, without children) that participated in the study had never experienced any financial difficulties prior to the last six months before the interview. Both household members were employed and they had a total income of 4,000 Euro per month. However, their problems were initiated when the interviewee's wife lost her job, which reduced their income to 2,600 Euro per month. This was particularly problematic for them, as they had already taken on significant debt before the drop in income. In addition to a mortgage of over 100,000 Euro, the household had 40,000 Euro of other debt (including a car loan and a loan for the refurbishment of their house, as well as revolving credit cards with high interest rates). Their monthly payments amounted to 1,700 Euros. At the time of the interview, they also owed 1,300 Euro to their friends and families, which they considered to be in arrears.[166]

But unemployment due to redundancy was not the only factor mentioned by stakeholders. In multiple Member States, including Austria, Bulgaria, Cyprus, Ireland and Slovenia, (small) business failure was singled out as an important factor in the levels and gravity of financial difficulties. There is evidence reported in Austria that this was partly due to people being encouraged to set up a business who were ill-prepared to do so.[167]

6.4.2 Poverty and low income

As Figure 13 below shows, Member States with the highest proportion of their population at risk of poverty - defined as having equivalised incomes[168] below 60% of

[166] This is a formal procedure for over-indebted households. The application for the procedure stops all actions from creditors until a decision is made. The Bank of France can decide to grant the applicant a reduction or a rescheduling of their debt. It can also order a temporary moratorium.

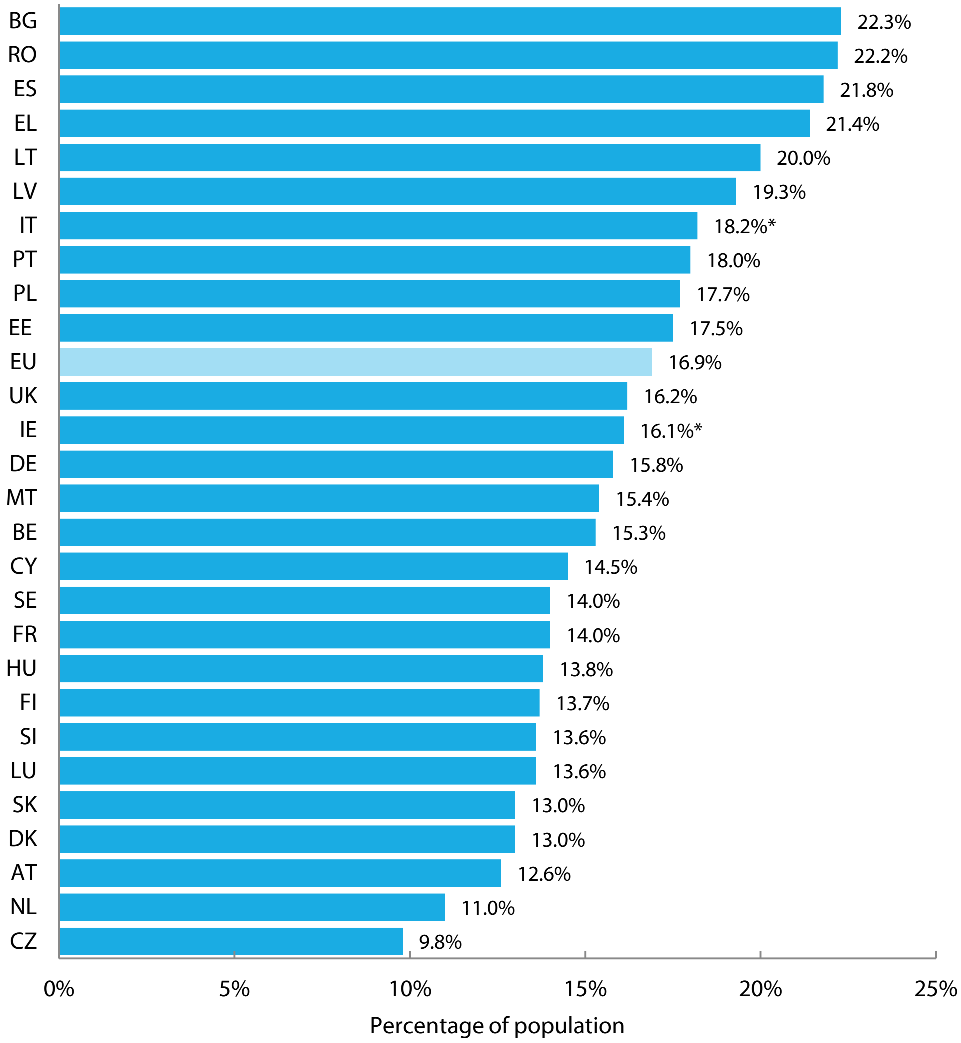
[167] KSV1870 Holding AG, 'Privatkonkurse: 2012 wird Zehntausendermarke überschritten werden, Insolvenzstatistik Private I. Halbjahr 2012', press release, 2012.

[168] "Equivalised income is a measure of household income that takes account of the differences in a household's size and composition, and thus is equivalised or made equivalent for all household sizes and compositions. It is used for the calculation of poverty and social exclusion indicators." (see http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Glossary:Equivalised_income).

the national median - included Bulgaria, Greece, Spain, Latvia, Lithuania and Romania (see figure below).

Figure 13. *People at risk of poverty (after social transfers), by Member State, 2011*

Source: Civic Consulting based on Eurostat data (code: ilc_li02). Note: Eurostat defines people at risk of poverty as those whose equivalised disposable income is below the risk-of-poverty threshold, which is set at 60% of the national median equivalised disposable income after social transfers. Note: * indicates use of most recent data available, from 2010.



Research shows a clear link between living on a persistent low income and being in financial difficulty.[169] This was mirrored in the views of stakeholders, 63% of whom said poverty was one of the most important causes of over-indebtedness. Moreover, only in one of the 27 countries covered was poverty not specifically mentioned by at least one of the stakeholders. The countries where stakeholders most commonly mentioned poverty as an important cause tended to be less affluent countries (Poland, Ireland, Estonia, Romania), although in Germany it was also cited by 80% of stakeholders. On the whole, in the poorest countries low incomes were usually mentioned in connection with rises in the cost of living.

[169] See earlier section on household types and over-indebtedness for an overview.

There is, then, some correlation between countries with higher levels of poverty and those with higher levels of financial difficulty, but it is not clear-cut. However, consumer interviews illustrate how permanent low income is a major problem not only in terms of over-indebtedness, but also in regards quality of life, as is illustrated by the example from the consumer interviews in the following box:

Households at risk of over-indebtedness - an example from Slovenia

A Slovenian interviewee who participated in the study (64 years old, living in a one-person household without children) saw the roots of her problems to be her low pension (550 Euro per month). She explained that her pension would have been higher if she had worked more during her life, but that she had not been able to find work. While the level of her pension remained stagnant, she perceived the costs of living to be constantly increasing. In particular, she was affected by utility and healthcare costs, as well as the general costs of living (food, transport, etc.). The low level of her income meant that any unexpected cost could lead to difficulties. The most recent example of this before the interview was a bill for 200 Euro, for maintenance costs in her apartment block. The interviewee had borrowed money from her family to pay this and needed several months to repay it.

At the time of the interview, the household was only considered to be at risk of over-indebtedness. The interviewee had debts amounting to 520 Euro, in the form of a credit card and an overdraft, for which she paid monthly instalments of 50 to 70 Euro. She had asked for an additional credit, for the purpose of renovating her flat, but this was refused due to her low income. The household did not have any arrears with utilities at the time of the interview, but the interviewee explained that she sometimes delayed her payments for a period in which she knew she would not be fined. In order to avoid getting into arrears, she paid the bills at the beginning of the month and reduced her spending on food.

Research over an extended period of time has shown a strong link between personal circumstances and being in financial difficulties. In addition to drops in income through unemployment or reductions in earned income (discussed above) there is also a strong link with other changes in circumstance such as separation, divorce and ill-health.[170]

[170] See for example: Disney, R., Bridges, S. and Gathergood, J., *Drivers of over-indebtedness*, Department for Business, Enterprise and Regulatory Reform, London, 2008. Duygan-Bump, B. and Grant, C., 'Household debt repayment behaviour: what role do institutions play?', *Economic Policy,* 24 (57), 2009, pp.107-140. Ferk, B., *Zadolževanje in prezadolženost prebivalstva*, Delovni zvezek 1/2007, UMAR, Ljubljana, 2007. Fondeville, Ozdemir, and Ward, 2010. For a detailed overview of research to 2008 see European Commission, 2008.

6.4.3 Financial education and behavioural biases

As the 2008 report on over-indebtedness showed, approaches to money management and financial decisions can play an important role whether or not individuals of households experience financial difficulties.[171] There is a growing body of research to support this conclusion and either 'incapacity to deal with financial products' or 'lack of money management skills' (or both) were chosen as being among the most important causes of over-indebtedness by 64% of all stakeholders.

There is recent research evidence, for example in Austria,[172] showing that individuals may over-state the extent to which drops in income alone cause their financial difficulties and that money management plays a much bigger role than they acknowledge.

There were several aspects to this. In several countries stakeholders referred to motivations and behavioural biases such as impulsivity and over-optimism in money management generally, with research in Italy supporting this.[173] Some others recounted a link with consumerism and the use of consumer credit to facilitate this.[174]

Recent research in the UK prepared for the StepChange Debt Charity using in-depth interviews of over-indebted households who were also clients of the service, analysed the overall process, where households borrowed when times were good, and increased spending on credit even when this outpaced any actual earnings growth that people experienced. This was then exacerbated by poor money management, such as using new credit to repay other credit, underestimating the amount of money owed, and not seeking advice at an early stage.[175]

A third important aspect was how individuals and households handled a drop in income. As the country report on the situation in Sweden points out: "Whether an individual becomes over-indebted or not depends also on that person's ability to deal with traumatic events." Qualitative research in the UK bears this out.[176] Finally, research using European Community Household Panel (ECHP) data has shown that arrears tend to be higher in countries where there is a strong belief that corruption is

[171] For a detailed overview of research to 2008 see European Commission, 2008.

[172] See Einböck, M. and Heitzmann, K., *Überschuldungsverläufe und Überschuldungstypen: Ergebnisse einer explorativen Untersuchung überschuldeter Personen in Wien*, Forschungsbericht 01/2011, Institut für Sozialpolitik/WU, Wien, 2011. Kamleitner, B., Hornung, B., and Kirchler, E., 'Over-indebtedness and the interplay of factual and mental money management: An interview study', *New Zealand Economic Papers*, 45(1), 2011, pp. 139-160.

[173] Bank of Italy, *SHIW - Survey on Household Income and Wealth*, 2012.

[174] See for example: Georgarakos, D., Haliassos, M., Pasini, G., 'Household Debt and Social Interactions', *Social Science Research Network*, 2012. Lux, M and Mikeszová, M., 'The Role of a Credit Trap on Paths to Homelessness in the Czech Republic', *Journal of European Social Policy*, In print.

[175] Collard, S., Finney, A., and Davies, S., *Working households' experiences of debt problems*. Personal Finance Research Centre, Bristol. 2012.

[176] Finney, A. and Davis, S., 'Facing the squeeze: a qualitative study of household finances and access to credit', University of Bristol and Money Advice Trust, 2011.

rife or a prevailing low level of trust in institutions.[177] Specifically, using a variety of indicators for social capital adjusted for historical regional variation, results showed significant and economically important effects of social capital indicators on household arrears. According to the authors, these effects are consistent with the hypothesis that households in higher social capital communities adhere to higher ethical standards and have a stronger incentive to reciprocate good behaviour, while facing a higher risk of losing social standing and access to positive externalities of social capital.

In many of the countries young people were singled out as being particularly likely to have poor money management skills. For example, the lack of experience in how to handle debt servicing problems was reported in Estonia - where widespread consumer borrowing was a relatively new phenomenon.

On the question of lack of money management skills or behavioural biases, the consumers interviewed for this study expressed a range of different views. Some interviewees felt that they had been responsible to take out loans, as their income had been higher at the point when they had taken out the loan, or, in some cases, because it had not proved problematic for them.

Only a few households reported difficulties in accessing credit (when asked about the last loan they took out), while many stressed the ease with which they gained access to the loan. They did tend to record that some type of credit or income check was done, but many interviewees did not consider this very thorough. In terms of the information provided by creditors, some interviewees did not feel well informed. However, others felt that they had been given all the necessary information.

Others were slightly more ambivalent about whether or not they acted responsibly in taking out credit, but stressed the urgent need they had had for the money. On the other hand, some interviewees clearly felt that they had been reckless to take out the loan, as they had not thought about the consequences or their ability to pay it back. An illustrative example of this from the consumer interviews is presented in the following box:

[177] Georgarakos, D. and Furth, S., 'Household Repayment Behaviour: the Role of Social Capital, Institutional, Political and Religious Belief', *Social Science Research Network*, 2012.

Over-indebted households - an example from the UK

One of the households in the UK is described as a one-person household (between the ages of 25 and 39) without children. It could also be considered as a six-person household with children, since it consisted of the interviewee, living together his parents, sister, sister's husband, adult niece and two young nieces. However, the household consisted of separate economic units that handled their finances separately.

The interviewee had been experiencing financial difficulties for a period of about three or four years. During this time his circumstances did not change: he was still living at home and working in the same job. However, he explained that his problems arose from "overspending, to be honest. Wanting to go out, wanting to spend more than I earn." Initially he started out with a credit card (with a limit of 2,000 Pound) and afterwards he "just got a taste for it". At the time of the interviewee he had accumulated 10,000 Pound worth of debt, in the form of credit cards, bank loans, credit from catalogue companies, payday loans and phone arrears. He began taking out payday loans when he started to struggle to meet the payments on his other loans. He also started taking out payday loans to pay back other payday loans, as he used his wages (1,450 Pound per month) to pay for living expenses. Sometimes he lied on application forms in order to receive credit, but sometimes he did not need to, as the lenders did not ask for much information.

The interviewee found his financial difficulties worrying. He considered that it had caused a "spiralling effect", in that he went out and drank alcohol in order to forget his problems. At a certain point he found that he could not meet the payments anymore and he sought help. He received it from a not-for-profit organisation specialising in the provision of free debt advice. They went through all his incomings and outgoings with him and suggested a reasonable figure that he could offer his creditors. At the time of the interview he had not yet got an agreement from all his creditors to halt interest and charges, but he felt much more in control of his financial situation. He also found it easier to only have to deal with one person from the debt advice organisation, rather than lots of different companies. He thought that he would need at least two years to clear all his debts.

The interviewee readily accepted responsibility for his debt, and he felt that it was largely the consequence of his own actions. However, he was concerned about the ease with which payday loans are given and thought that there should be some type of central register about the number payday loans each person has. He explained, "if you're taking out a payday loan, it means you're desperate, so you're going to lie to them".

6.5 CULTURAL ATTITUDE TOWARDS DEBT AND ACTUAL LEVEL OF HOUSEHOLDS' (OVER-)INDEBTEDNESS

Multiple aspects of over-indebtedness discussed in previous sections of this report have contained information about cultural attitudes, the roles they might play in consumers' attitudes and practices in their borrowing and taking on other financial commitments, as well as some changes that have been reported in this regard by the interviewed stakeholders across the EU27.

A majority (56%) of all stakeholders believe that there is a relationship between the cultural attitude towards debt and the actual level of household over-indebtedness. There was a difference in the way different categories of stakeholders perceived these relationships, with independent experts most likely to believe this to be the case, but stakeholders working for a public authority were also three times as likely to not give an answer than independent experts (see the following table).

Table 47. *Do you think there is a relationship in your country between the cultural attitude towards debt and the actual level of households' (over-) indebtedness? (by stakeholder group)*

Source: Stakeholder interviews, Q11 (N=277).

	Financial industry	Civil society	Public authorities	Independent experts	Total
Yes	61%	52%	42%	70%	56%
No	20%	22%	25%	20%	22%
Don't know/No answer	19%	26%	33%	11%	22%

Furthermore, one third of all stakeholders (32%) believe that there have been significant changes in cultural attitudes towards practices that could increase debt in the past five years. However, the same share of stakeholders (32%) say that they have observed hardly any or no such changes.

Stakeholders who observed a change in cultural attitudes noted that historically a lot of significance used to be attributed to being debt-free as restrained spending along with savings were generally considered desirable. This attitude has changed recently with the development of financial sector and the introduction of a variety of new financial products accompanied by cultural valorisation of consumption. One EU-level stakeholder expressed a view that "ever more value is attached to consumption, ownership and economic growth resulting in vulnerable people taking loans".

Several stakeholders from across the EU believe that the rise of consumption and consequent credit default is closely related to an individual's search for social recognition and acceptance in consumer society. One stakeholder from Sweden stated "the consumption society has made identity strongly associated with consumption - what clothes you wear, housing, and so on". Another stakeholder from the Czech Republic commented on the increase of consumption by saying: "The value of person tends to be defined by the amount and quality of consumed goods and services."

While there is a common understanding between stakeholders from the EU15 that the years of rapid economic growth before 2008 were the critical time for this kind of cultural development, stakeholders from the EU12 (see text box below for some examples) tend to associate this change in the attitude with the 1990s and the transition from planned to market economies, though this was not uniformly the case; in a few EU12 Member States, such as Poland and the Czech Republic, a more historically stable attitude to indebtedness was emphasised by stakeholders.

Cultural attitudes toward debt in Member States

"We have undertaken many surveys asking respondents how they felt about taking out a credit. The main result shows that people have been over many years very reluctant to take a credit. The majority indeed prefers to save money and not take credit, and this has not changed, it is stable. […] Also in general the image of banks has decreased - because there is little reassurance with regard to the future of the euro. As such some spend more while others invest more in housing while others invest in rare commodities- there has been a shift away from banks. But this only a small, potentially cultural change." (*EU level stakeholder*)

"Overall, the Czechs are still more conservative as to having debts than people in the Western countries, and they do not see debts as something good. However, the consumer lifestyle has quickly been and still is being adopted in the Czech Republic and people do buy products on consumer credits." *(Stakeholder interview Czech Republic)*

"No specific cultural changes, even though people are using more credit and debit cards. Financial services are becoming more and more popular and people use them more often also innovative electronic means of payment (both credit and debit). Though the number of over-indebted people has increased significantly, overall there have not been any cultural changes as to how debts are generally perceived." *(Stakeholder interview Poland)*

"Being debt-free is not considered significant by most of Bulgarians. People are not ashamed if they have a loan that they cannot afford to pay for. This has changed over the last decades. Twenty years ago nobody was suffering from over-indebtedness, because the necessary economic conditions - the free-market economy - didn't exist. After the transition from a planned economy to a free economy many families started using credit." *(Stakeholder interview Bulgaria)*

In contrast, the majority of stakeholders from Austria and Germany consider the cultural significance attributed to being debt-free very strong in their countries. A number of stakeholders from across the EU noted that older generations tend to be more conservative in terms of taking credits and loans, whereas younger generations show a higher propensity to consumption through debt. One stakeholder in Germany commented on the debt-averse nature of older generations in his country by saying that "older people put more value on being debt-free. They have learned to work and save and tend to buy new things with the money they have saved". Referring to the difference between older and younger generation, a stakeholder in Cyprus stated: "Older people tend to have a lot of deposits, while younger people tend to have more loans."

The growing significance attributed to consumption was seen by one Finnish stakeholder as a result of media-mediated encouragement. One stakeholder from Poland noted that "in general, saving is not promoted". Several stakeholders from Bulgaria, Czech Republic, Ireland and Romania stated that financial literacy and social awareness of the risks of becoming over-indebted in their countries were insufficient.

Some stakeholders, for example in Belgium and Sweden, also pointed to the problem of consumers feeling ashamed about their debts resulting in their reluctance to seek help in time. These stakeholders also mentioned that insufficient public awareness of the risks of becoming over-indebted constitutes a major barrier in an individual search for debt advice.

Stakeholders from Bulgaria, Cyprus, Greece, Finland, Italy, Ireland and Sweden pointed to the significance of attitude to home-ownership as being closely related to broader cultural context in their countries. One stakeholder from Bulgaria stated that "in Bulgaria, people tend to think 'my home is my castle'. For most people it is extremely important that they own their house or flat and they are able to do anything to have an agreement with banks to buy or save their houses".

6.5.1 Willingness of consumers to repay debt

The possibility of 'moral hazard' in relation to credit default is key concern for policy-makers, especially when considering the adoption of more robust consumer insolvency procedures where remaining debt is discharged after a period of time. Debtors may knowingly choose to take on more debt than they can repay, or debtors may engage in 'strategic default', where they can meet their obligations but choose not to. They may refuse to pay their debts in the hope of getting a better deal from a creditor, or hope that their debts may be cancelled altogether, either unilaterally by the lender or through a personal insolvency procedure.[178]

However, previous research indicates that fears of strategic default and moral hazard may be overstated in some contexts, in particular in relation to mortgage defaults. Indeed, some research indicates that the incidence of 'abuse' in existing personal insolvency systems is quite small, as most debtors struggle to meet their financial commitments. For example, in the US, with a comparatively very liberal insolvency regime, as few as 15% of mortgage defaults may be strategic, according to one study.[179] This low rate is consistent with the widespread use of debt advice and counselling services – because if many consumers were engaged in strategic default, they would not waste their time on such services, but rather engage with the consumer insolvency procedure or out of court settlement directly.

The literature is clear on why this may be the case.[180] Social stigma and shame around incurring debt often leads not only to keeping undeserving debtors out of a consumer insolvency system, but in many cases acts as a barrier to enticing honest over-indebted consumers into the system. The act of announcing one's inability to service financial commitments, either in writing or in person, is recognised as being a deeply embarrassing and stigmatizing event. Formal and informal surveys of debtors in many well-established insolvency systems reveal pervasive and profound feelings of guilt, shame, and stigma, and these feelings act as powerful disincentives to over-indebted consumers seeking relief. [181] Indeed, these emotional constraints may lead to individual consumers consistently ignoring market and legal norms in which bankruptcy or insolvency is not only a viable option, but also the wisest one with the fewest transaction costs for both creditor and debtor.[182] Another important factor is that access to future credit (including recurring utilities like mobile phone contracts) will be adversely affected if they seek advice and follow some type of formal debt resolution process.

Indeed, as presented in section 7.1 and 7.2 of this study, over-indebtedness has a number of negative effects on affected households which are consistent with previous literature. There was widespread reference in the consumer interviews conducted for this study to reduced standards of living, and in the majority of cases where reduced standards of living were described, it was evident that what was being

[178] Please refer to Section 8.3 and 8.4 of this study for a review of formal measures to alleviate consumer over-indebtedness and the reported effectiveness of these from the perspective of consumers interviewed.

[179] Gerardi, K., Herkenhoff, K., Ohanian, L., and Willen, P., 'Unemployment, Negative Equity and Strategic Default', 2013.

[180] Working Group on the Treatment of the Insolvency of Natural Persons (Insolvency and Creditor/Debtor Regimes Task Force), *Draft Report on the Treatment of the Insolvency of Natural Persons*, World Bank, September 2012.

[181] Ibid., p.42.

[182] White, B., 'Underwater and not walking away: Shame, fear and the social management of the housing crisis', *Arizona Legal Studies*, Discussion Paper No.09-35, University of Arizona, 2010.

articulated was enforced deprivation. Further effects included deteriorating physical and mental health, relationship difficulties, and breakdown.

As regards social shame, this was also pronounced and apparent from the consumer interviews. Respondents referred to isolating themselves, not letting others know about their problems, and there were frequent references in a number of countries to the "shame" of being seen to be in difficulties. When their over-indebtedness was not able to be concealed, respondents reported feeling humiliated, with negative effects on self-esteem and self-confidence. In some cases social stigma was noted as being explicitly externally reinforced, with neighbours shunning those who were over-indebted, especially in rural areas.[183]

Overall, however, what emerged here was a picture of a considerable group of over-indebted consumers who clearly wanted to pay their debts, but were suffering in various ways through not having the resources at their disposal to do so.

6.5.2 Recent changes in cultural attitudes toward incurring debt

There is a tendency among some stakeholders to believe that consumers are becoming more careful in terms of willingness to take credits since the financial crisis. One stakeholder from Ireland for example stated that "excessive consumption is now regarded with disdain by media and public". Another stakeholder from Romania expressed his view that "recession has made people more cautious". However, some stakeholders from EU12 are inclined to think that the current mental climate of consumer society encourages excessive consumption and expect its level to either remain stable or increase. A breakdown of the extent to which stakeholders had noted in cultural attitudes towards practices that could increase debt is shown in the table below.

***Table 48.** During the past five years, have you noted changes in cultural attitudes towards practices that could increase debt? (by stakeholder group)*

Source: Stakeholder interviews, Q10m (N=277).

	Financial industry	Civil society	Public authorities	Independent experts	Total
Yes, significant change	30%	40%	20%	39%	32%
Little or no change	37%	33%	36%	32%	34%
Don't know/No answer	33%	28%	44%	30%	34%

183 For further details, please see Section 7.1.2 of this study.

As can be seen above, one third of all stakeholders (32%) believe that there have been significant changes in cultural attitudes towards practices that could increase debt in the past five years. However, a similar share of stakeholders (34%) say that they have observed little or no such changes. Differences exist in terms of type of stakeholder: civil society and independent experts tend to notice stronger changes than those working for public authorities or the financial industry. A more cautious attitude towards taking on new debt was expressed by stakeholders in a number of different Member States:

Recent changes in attitudes towards taking on new debt

People try to repay old and abstain from new loans. During the bubble years people were more prone to get credit. We had the crisis during mid-1990s, with hyperinflation. In the beginning of the 21st century the economy took off somehow. During the bubble a lot of people just wanted to change their consumer goods, so they began to buy TVs, cars … It was like a normal replacement but happened at the time of the bubble. Now people are very cautious. (*Stakeholder interview Bulgaria*)

Cypriots are now trying to change the attitude. In the case of a house, for example, I would prefer to go and rent, not buy a house. Two, three years ago I would surely take a loan to build a house or buy a new one, now I would prefer to go on rent because it is easier and cheaper and this is why I am talking about cultural attitude changes. […] People are scared of spending their money, there is fear of unemployment. For us it is 11%, higher than what we are used to so people are more careful. (*Stakeholder interview Cyprus*)

Maybe the financial crisis has shown people that it is not a good idea to take up too much debt. Maybe a cultural change is going on. It is not seen as a good thing to lend and lend and borrow and borrow. This might be a good thing, that ordinary people are more aware that they have a responsibility. (*Stakeholder interview Denmark*)

Debt was seen as unproblematic during the boom time as it was not widely understood that the boom was unsustainable. Excessive consumption is now regarded with disdain by media, public etc. Lending practices of banks are now much more cautious. (*Stakeholder interview Ireland*)

Italian households have a historical critical attitude towards indebtedness. Since the mid-1990's we experienced a fair improvement in the attitude to take on debt (no more negative concepts of indebtedness), but level of financial education appears to be still low. Actually the financial crisis is altering households' behaviour with households being more prudent towards lending regardless of level of financial education. (*Stakeholder interview Italy*)

People are slightly less willing to borrow money. Not all of them, but some. Also, on mortgages, people realise that buying a house doesn't mean that you're increasing the money you've got. Before people thought of buying a house as an investment, but now people think the value might decrease. (*Stakeholder interview Netherlands*)

While consumer attitudes may play a role, it is difficult to state precisely the importance of these changes in attitudes, as well as the relation of such attitudes to other exogenous drivers. These drivers include a lack of willingness to lend from the side of credit institutions, declines in house prices, increased unemployment leading to consumers unable to borrow at the same rates as before, and a new emphasis on austerity from both governments and international institutions. A number of these factors have already been analysed in Sections 6.1 and 6.2 of this study, and the literature emphasises the important role that these exogenous factors play in determining whether households become over-indebted.

Indeed, there is little literature on the topic to robustly judge whether or not a cultural change in attitudes towards taking on new debt has taken place in any number of Member States. Historically, people tend to be over-optimistic about their ability to take on and repay credit.[184] While this may have been negatively impacted due to the effects of the financial crisis, historical precedent from the UK shows that this may only be a short-term impact, as after the last downturn (in the early 1990s), lending picked up again and reached record highs, even as borrowers seemed willing to take out credit at levels that had previously taken others into financial difficulties in the years before.

If, through macro-economic policies or an up-turn in the economic environment, house or asset prices would increase to previous levels, then it may be possible that willingness to borrow, and borrowing levels, may also increase proportionately.

[184] PFRC/Standard Life, *Easy come, easy go: borrowing over the life-cycle,* Personal Finance Research Centre / Standard Life Assurance Limited, 2008.

7 CONSEQUENCES OF OVER-INDEBTEDNESS

The following sections present the consequences of over-indebtedness for the affected households and for the financial industry, as well as broader economic and social consequences of over-indebtedness.

The key findings of the study regarding the consequences of households' over-indebtedness are:

1. Research has shown there to be a strong association between over-indebtedness and what might be termed deprivation, that is going without basic necessities as a consequence of inadequate disposable income after the repayment of debts. Deteriorating health and well-being can be both a cause and a consequence of financial difficulty. Several studies have identified an association between the onset of over-indebtedness and ill-health, and there can be negative effects on physical health, on mental health and on well-being - in some cases, these can be very serious indeed. However, research also highlighted exclusion from basic banking services, social exclusion, and a range of social sanctions as among of the most serious consequences.
2. This general picture is confirmed by the households interviews conducted for the study in six countries: the consequences most frequently mentioned were reduced standard of living and a deterioration of well-being and/or mental health.
3. Interviewees commonly indicated that they had cut down on all non-essential items, such as holidays or eating out. In addition, several interviewees indicated that they had problems finding money for essential needs, such as food or healthcare. Generally, many interviewees were upset about the effect of their reduced standard of living on their children.
4. In terms of well-being and mental health, households interviewed frequently referred to depression, anxiety and stress. In some cases this was extreme enough that they sought medical attention. Several interviewees reported that they had been forced to give up working or looking for a job, or that the stress had led to arguments with their partners.
5. According to stakeholders, the consequence for over-indebted households judged as being of greatest relative importance was also reduced standard of living followed closely by deteriorating well-being. The next most highly rated consequence was that of financial exclusion, followed by the categories of deteriorating mental health, family breakdown, and home repossession. Reduced labour market activity and utility disconnection were considered to be slightly less important.

6. Regarding effects on the financial industry, theory predicts that when a negative income or wealth shock occurs, particularly in an environment characterised by high level of household indebtedness, debtors may find it difficult to meet their commitments. This causes an increase in non-performing loans, weakening bank balance sheets. This in turn leads to a reduction in credit availability, as financial institutions become more wary about lending. This is not just a theoretical possibility; in the example of Ireland, the bursting of the massive property bubble which developed from 2000 to 2006 led to heavy losses for over-leveraged Irish banks and the effective nationalisation of large parts of the banking system.
7. According to stakeholders, costs of defaults for creditors were seen as most important overall consequence of over-indebtedness for the financial services industry. Other consequences, such as costs of arrears, more restrictive lending practices, and increased costs for financial service providers were all seen as more or less equally important.
8. According to stakeholders, loss of consumer confidence in the financial services industry was seen as the greatest consequence of over-indebtedness for society as a whole, followed by reduced productivity at work and legal costs associated with over-indebtedness.
9. The consequences of household over-indebtedness are not limited to households and the financial industry. Research has found that there are consequences of household over-indebtedness for the overall health of the economy in terms of aggregate demand, employment, and growth. For example, IMF research found that housing busts and recessions preceded by large increases in household debt to income ratios tend to be associated with significantly larger contractions in economic activity.
10. Consistent with this, the highest scoring item chosen by stakeholders as the most important consequence of over-indebtedness overall was that of "other effects on society". Specific comments for this item indicated that these were mainly social concerns, including negative impact on public morale, rising crime, emigration, frustration with the political system, and reduced social cohesion. Negative macroeconomic effects due to reduced aggregate demand and deleveraging were also mentioned by the stakeholders.
11. In general, stakeholders from Member States among the EU15 and those in economically stronger positions were more likely to find debt collection practices stable over the last five years. Though scores were largely consistent between stakeholder groups, there were some differences. Significantly more civil society stakeholders saw a significant increase in debt collection practices, compared to financial industry stakeholders.

The first consequence of over-indebtedness for households is that creditors will attempt to recover the debt, initially through reminders and attempts at amicable resolution, later by employing debt collecting agencies or seeking formal legal measures. These efforts have predictable effects on households as charges, interest, and legal threats accumulate.

The specific consequences explored in the consumer and stakeholder interviews can be distilled into two main dimensions:

- Consequences that affect personal welfare (reduced standard of living, social stigma and exclusion, deteriorating health and well-being, relationship difficulty or breakdown);
- Consequences that can be considered punitive or imposed by the wider society on households (sanctions for non-payment including housing exclusion,[185] financial exclusion, reduced labour market activity).

The following section presents the relevant research findings and data, as well as assessments by stakeholders of the most important consequences of over-indebtedness. The results of the household interviews as regards consequences personally experienced by the respondents are also presented.

7.1 CONSEQUENCES OF OVER-INDEBTEDNESS FOR AFFECTED HOUSEHOLDS

Identical categories to those used in the consumer questionnaires were incorporated into the stakeholder questionnaires for the sake of comparison. Stakeholders were asked to rate each of the above-listed specific consequences on a scale of 0 (not important at all) to 10 (very important). The relative importance of each is reviewed in the subsequent sections on the basis of stakeholder interviews.

As was indicated in the questionnaire used for the stakeholder interviews, 'importance' referred to both: how often certain consequences of over-indebtedness were observed and how severe they were. It is important to keep in mind while interpreting the (stakeholder) scores reported below that stakeholders pointed to an array of interpretations. To illustrate, some interviewees argued that it is not appropriate to assess consequences on such scales at all, because they are all very important and the assigned 'grade' (from 0 to 10) is influenced in some cases more by the frequency of a certain consequence occurring and in other cases by the seriousness of the consequence for the household. [186]

[185] Home repossession and homelessness.

[186] A typical example provided in the interviews was that of homelessness. Whereas many interviewees reported that the number of people who lose their homes due to over-indebtedness and thereafter remain homeless is not very high, they also emphasised that

In addition, stakeholders represented different groups with different interests in the area of over-indebtedness and those tended to influence individuals' views (which is, after all, the reasoning for quotas of stakeholders by groups). In sum, ratings reported in the subsequent sections (as well as in the country reports) should be interpreted with caution and not as indications of actual higher likelihood of a consequence occurring.

The consequence with the highest average score across all EU stakeholders was a reduced standard of living (with an average score of 7.8), followed closely by deteriorating well-being (7.4). The next most highly rated consequence was that of financial exclusion (7.2). Of moderate importance were the categories of deteriorating mental health, family breakdown (both 6.3), and home repossession (6.4). Reduced labour market activity (5.8) and utility disconnection (5.9) were considered to be slightly less important. The least important consequences as judged by respondents were those of homelessness (4.7), and regression to addictive behaviours (5.0). Some of the scores concealed wide variation across countries. The scores with greatest level of consistency between countries (as per the standard deviation) were those for reduced standard of living and deteriorating well-being, while lower levels of consistency were seen for homelessness, home repossession, and "other" consequences.

Taking each point in descending order of importance, answers were analysed by comparing average scores by country and by stakeholder group. The most highly rated consequence for over-indebted households - that of a reduced standard of living (average score 7.8) - showed the lowest variation at country level, indicating that respondents were consistent in judging this to be important across the EU.

Despite this, there were differences between countries. Stakeholders from Belgium, Ireland, and Romania rated this consequence quite highly, with an average score of 8.8 (or 8.9 in the case of Belgium).[187] Conversely, stakeholders from Denmark (6.9) and Slovakia (6.8) rated lower. The EU level stakeholders rated this factor relatively highly (8.1). Stakeholders from different groups (financial industry, civil society, public authorities, independent experts) rated reduced standard of living as equally important (± 0.6). When ranked, only civil society stakeholders did not consider this the most important consequence, but ranked it as the second most important one.

The second highest ranked consequence was deteriorating well-being in general (average score 7.4), which can be seen as linked to standard of living. Going by average scores, this was seen as a particular issue by respondents in Ireland, Portugal , and Romania (all 8.6). However, it was again seen as considerably less important by

the nature of this consequence is such that it had to be rated among or the highest. Some other interviewees attempted to rank the consequences in relation to one another (10th-9th-8th-7th-6th-...) and strictly apply the criterion of the frequency of certain occurrences so the numerical rate of importance of homelessness was assessed at notably lower levels.

[187] Member States with relatively few respondents (five or under) are not included in these calculations, as their mean scores are highly susceptible to outliers. These Member States are respectively Estonia, Cyprus, Latvia, Lithuania, Luxembourg, Malta, and Slovenia.

stakeholders in Hungary (5.6) and Denmark (6.5). This consequence shows some variation between stakeholder types. Civil society stakeholders rate this as the most important consequence overall (7.9), while financial industry stakeholders rate this as less important (6.6).[188]

We now turn to the details of the specific impacts themselves. These are divided into seven categories as follows: reduced standard of living and deprivation; social stigma; social exclusion; deteriorating health and well-being; relationship difficulties and breakdown; sanctions for non-payment; financial exclusion; and reduced labour market activity.

7.1.1 Reduced standard of living and deprivation

Research has shown there to be a strong association between over-indebtedness and what might be termed deprivation, that is going without basic necessities as a consequence of inadequate disposable income after the repayment of debts.[189] There was widespread reference in the consumer interviews to reduced standards of living, but in some cases this involved merely paring back expenses or cutting back on luxuries, such as for example, reducing the number of holidays taken or the frequency of eating out at restaurants.

However, in the majority of cases where reduced standards of living were described, it was evident that what was being articulated was enforced deprivation.[190] There were references to inadequate means to make ends meet, to a cupboard being empty and to a son going hungry (French respondents); inability to afford dental care, to save any money at all, and a shortage of money to buy food (Hungarian respondents); inability to afford diabetic food needed, basic school costs, and the experience of occasional hunger (Slovenian respondents); and subsisting under the legal subsistence limit as a result of debt repayments, inability to afford a washing machine and having to ask children to make sacrifices (German respondents).

Some who did not report specific deprivation were, however, clearly struggling to keep their heads above water financially and were 'existing' as opposed to 'living'. There were a number of such responses from UK respondents: typical of these were the following: "Constantly, we're robbing Peter to pay Paul, we've lost all the luxuries, we just live now."

Whereas consumers tended to report the direct impacts of financial difficulty on reduced standards of day to day living, stakeholder respondents tended to see this issue more in terms of factors that were both causing and compounding it. So, in

---

188 The difference was significant (p<.001); using an independent-samples t test.

189 Cf. research from Ireland:. Russell, H. and Maitre, B., *Financial Exclusion and Over-indebtedness in Irish Households*, Economic and Social Research Institute, Dublin, 2011; Stamp, S., *An Exploratory Analysis of Financial Difficulties among Those Living Below the Poverty Line in Ireland*, Combat Poverty Agency, Dublin, 2009.

190 In other words, going without things generally considered the norm in society at a given point in time through lack of money.

terms of contributing 'causal' factors for example, stakeholder respondents pointed out that reduced standards of living could be due to being unable to take out new credits (as noted in the Czech Republic), or because (as noted by stakeholders in the Netherlands and Sweden), formal insolvency procedures obliged the over-indebted person to pay everything above an existential minimum back to the creditors. Respondents in Portugal and Sweden highlighted that the primary residence of insolvent persons could be seized, implying that those affected could be forced into rental or social housing.

As regards compounding factors, In Ireland, perhaps the most serious reduction in standard of living - imprisonment - remains a possibility, primarily associated with an inability to pay fines.[191] A stakeholder respondent in France noted that though a low standard of living is familiar to those who are already poor, many over-indebted people come from the middle classes, and suddenly adjusting to the lower standard of living can compound their difficulties and indeed be a source of mental distress. A number of stakeholder respondents linked reduced standards of living to both deteriorating mental health and to family discord (and sometimes breakup), as discussed below.

7.1.2 Social stigma

A social stigma can attach to financial difficulty in terms of feelings of being judged by others for being over-indebted,[192] and some respondents made reference to this issue. The "shame" of revealing that there are debt problems can lead to people isolating themselves, internalising their problems, and keeping them from even those closest to them, including their partners or children. One German respondent referred to "shutting herself away".

Respondents in France, Germany and Slovenia made references to the effects of such stigma. Several respondents referred to the "shame" of being seen to be in difficulties, and there were frequent references to people having had a reasonable (or even high) standard of living prior to becoming over-indebted; one French respondent for example referred to feeling "downgraded". Another interviewee, again from France, referred to being "ashamed" of her situation and that she tries to avoid to be seen in public: "At one stage, I was almost agoraphobic… I was not leaving the house anymore. I went only out to get food and to collect my children at school."

Sometimes, having to be visible was unavoidable. Feeling "humiliated" was mentioned by a Slovenian interviewee. Two French respondents also described being "humiliated" by having to seek help from charities, this humiliation being compounded by the way this help can be organised (queuing for assistance for example). Several respondents, from France and Germany, made reference to the

---

[191] For further details, see the Country report Ireland in Part 2 of this study.

[192] Hayes, T. (2000) Stigmatizing indebtedness: implications for labelling theory. *Symbolic Interaction*, 23, 29–46.

negative impact on their self-esteem and self-confidence. A German respondent for example viewed her financial difficulties as a “personal defeat”, and feelings of failure were apparent in responses from all countries. Among other things, this could have impacts on people’s employment situations (as discussed below).

The social stigma of being over-indebted was also noted by some stakeholder respondents as being externally reinforced. According to an independent expert from Hungary: "The neighbours do not see you as their equal and do not say hello to you." This phenomenon was seen as being more prevalent in rural areas by a Swedish expert, due to stronger social connections.[193]

7.1.3 Social exclusion

Social exclusion, or an inability to participate in activities conventionally regarded as the societal “norm” through lack of resources, is also closely associated with over-indebtedness.[194] A considerable number of respondents across countries made reference to this issue. Feeling stigmatised by their problems and thereby becoming isolated and withdrawing from social activity was one factor that could contribute to over-indebted people becoming socially excluded. One German respondent described feeling “cooped up”. Another factor was lack of money as a consequence of prioritising debt repayments and bills.

In a number of cases, social activities had been the first casualty of cut-backs, and this had resulted in various dimensions of social exclusion. The most commonly cited aspect was an inability to fund children to participate in social activities with their friends, or at school. Several respondents referred to making cut-backs here, such as curtailing extra-curricular activities outside of school, being unable to finance a teenage daughter to finish her education, not being able to give their children money to go out with their friends, and to being unable to take the children away for a weekend break or holiday. This was clearly making their parents feel bad: as one German respondent explained, “that ruins you psychologically”.

The second aspect of social exclusion reported was enforced isolation; that by cutting back on social activities, people had sometimes become largely confined to the home; or to put it another way, their worlds had shrunk. There were numerous examples of things that people had clearly decided to give up including eating out, social gatherings, meeting friends informally, holidays, sporting activities and trips to the cinema. This may have little impact where a person is indifferent to social activities; for many consumers interviewed for this study, however, the impact was

[194] Kempson, E., 2002. *Over-indebtedness in Britain – A Report to the Department of Trade and Industry*. London: Department of Trade and Industry.

considerable, an experience encapsulated by this UK respondent: “Living life has kind of come to a halt as you are not in the flow of being able to go out and spend.”

The issue of social exclusion also emerged from the interviews with stakeholders across Member States. As identified in the consumer interviews, social exclusion was also associated by stakeholders with two factors: the social stigma associated with being in debt, and simply lacking money to engage in everyday life. In Member States as economically diverse as Germany and Portugal stakeholders mentioned exclusion from cultural activities, while a civil society stakeholder in the Netherlands noted that the over-indebted could not afford to send their children to extracurricular activities, or even afford to buy everyday items such as the newspaper.

Seriousness of social exclusion

"And so it's clear to us - when you are unemployed long term and over-indebted, then there are huge consequences like exclusion from social activities, and for example appropriate healthcare possibilities because healthcare costs are increasing across Europe together with rental/housing costs (and they are more and more privatised). It is the very basic access to social protection and normal living conditions which are affected by over-indebtedness. And this leads to tensions in your family life. Consequences can be divorce and/or homelessness. These are the highest risks in my/our opinion." *(EU level stakeholder interview)*

"Often, another consequence of over-indebtedness is the social isolation of the affected person. The biggest concern in terms of over-indebtedness often underestimates the social repercussions - social cohesion is in jeopardy because of the dynamics that this phenomenon always triggers (e.g. divorce, separation, social exclusion). This aspect must be combined with the important economic and financial reverberations of this problem." *(Stakeholder interview Italy)*

"Social exclusion is a very serious matter. We know of numerous cases of people who are just sitting on their couch, with curtains closed so that nobody would know they are at home in case debt collectors appear. They remove their mailboxes so as not to receive any more notifications, and then they sit there all alone ... This has a lot to do with the shame people feel because of their over-indebtedness. This prohibits them from turning to state services to ask for help." *(Stakeholder interview the Netherlands)*

7.1.4 Deteriorating health and well-being

Deteriorating health and well-being can be both a cause and a consequence of financial difficulty. Several studies have identified an association between the onset of over-indebtedness and ill-health, and there can be negative effects on physical health, on mental health and on well-being - in some cases, these can be very serious indeed. There is clear consensus in the literature that problem debt can be a source of severe anxiety and psychological distress,[195] which can sometimes result in suicidal ideation.[196] An independent expert in Sweden observed that going by hospital admission records, about 30% of over-indebted people have severe depression from a clinical perspective; many score high for post-traumatic stress disorder, and about 30% are either planning to commit suicide or have already tried. A stakeholder in Germany cited research[197] that found higher debt levels to be strongly correlated with physical health, mental health, and obesity. One stakeholder in Austria said that among the consequences, "deteriorating mental health and well-being would probably be the most important".

A recent analysis based on a large panel dataset shows[198] that there is a positive association between high levels of debt and poor psychological health that is not readily explained by covariates such as demographic variables or existing health conditions. Using individual-level panel data from 1991 to 2008, Gathergood (2012a) found that people in the UK who have trouble paying their debts are more than twice as likely to have mental health problems or suffer severe anxiety compared with the general population. Furthermore, people with housing debt (arrears on mortgage or rent payments) had a rate of mental health problems three times higher than in the general population.

There were examples from all countries surveyed of how debt problems had, and were still, affecting people's health and well-being. Some impacts were reported relatively frequently, and others less so, but what emerges overall is a concerning picture of the state of health and well-being of this set of respondents, linked to their experience of over-indebtedness. The following table lists various impacts described in the consumer interviews:

[195] See for example Kempson, 2002 (ibid); also, Fitch, C, Chaplin, R, Trend C, and Collard, S. 2007. 'Debt and Mental Health: the Role of Psychiatrists'. *Advances in Psychiatric Treatment*, Vol. 13, 194–202

[196] Hintikka, J., Kontula, O., Saarinen, P., Tanskanen, A., Koskela, K., and Viinamaki, H. 1998. 'Debt and suicidal behaviour in the Finnish general population'. *Acta Psychiatrica Scandinavica*, 98 (6), p.493-496.

[197] Keese, M., and Schmitz H., 'Broke, Ill, and Obese: The Effect of Household Debt on Health', *SOEP papers on Multidisciplinary Panel Data Research 350*, DIW Berlin, The German Socio-Economic Panel (SOEP), Berlin, 2010.

[198] See Gathergood, J., 'Debt and Depression: Causal Links and Social Norm Effects', *The Economic Journal*, 122, 2012a, pp. 1094–1114.

Table 49. *Health and well-being impacts of over-indebtedness, as reported by consumer respondents*

Source: Civic Consulting, household interviews (N=120).

Type	Self-reported impacts
Psychological/well-being impacts related to the onset of debt problems	Depression (multiple responses) Stress (multiple responses) Pressure (constant) Worry (continual) Feeling "worn out" Fragility Anguish Needing "calm and rest" Being scared/living in fear Anxiety Being alone – having time to think Frustration Nervousness Helplessness Despair Vulnerability Hopelessness Loss of control Feeling of "betrayal" Guilt Feeling "discouraged"
Physical manifestations related to the onset of debt problems	Sleep deprivation (multiple responses) Medication/treatments/antidepressants (multiple responses) Crying Vomiting Increased alcohol consumption Ulcer Weight loss Weight gain (comfort eating) Circulatory problems Physical appearance (looking worse) Hunger Seeking professional help (doctor, psychiatrist, therapist) Admission to hospital Self-harm OCD Panic attacks Stomach aches Burn out Asthma/shortage of breath Suicidal ideation (Note: in some cases, existing conditions were reported to have deteriorated)

There are clearly potential consequences for health services here, as identified in a Swedish study.[199] Not all household interviewees reported health problems and some appeared to have more ‘resilience’ and/or ‘support’ than others, which appeared to be mitigating the impact of their problems in terms of their impact on health and well-being.

Stakeholders tended to focus primarily on the mental health and well-being aspect; this was judged by stakeholders to be of moderate importance, ranking fourth overall (average score 6.3). In some Member States, it was assessed to be of relatively high importance, especially by stakeholders in Ireland (8.2), and also in Sweden (7.8), and Greece (7.7). It was seen as less important by stakeholders in Spain (4.9). Stakeholders in the EU12 judged this to be less important (average score 5.7) than EU15 Member States (6.5).

Stakeholders from the financial industry rated worsening mental health as clearly less important (5.2). However, civil society stakeholders rated this as rather more important (7.2).[200]

Of least importance - measured by the stakeholders' ratings - were the recourse to addictive behaviours such as drugs or alcohol, and there were relatively few reports of such behaviours in the consumer interviews. Addictive behaviours were seen by some stakeholders as being more of a cause than a consequence of over-indebtedness.[201] There was little difference between types of organisation in terms of ranking. However, some country variation existed.

7.1.5 Relationship difficulties and breakdown

Relationship breakdown can be both a cause and a consequence of financial difficulty.[202] There were frequent references to adverse impacts on relationships and these responses illustrated that over-indebtedness could have a contrasting impact on a relationship. For example, it could bring a couple closer (as described by one respondent from France). However, generally, the impact was reported as *negative* in terms of the relationship between members of a couple, and there were a number of facets to this negativity. The first was tension, argument or ‘friction’, which was often described as ’regular’ or ’constant’; a French respondent summed this up concisely thus; “the climate is heavy”.

---

[199] Ahlstrom, R. 2009. *Over-indebtedness and its consequences on social economy –An example from Sweden.* Scandinavian Institute for Social Economy.

[200] The differences between the groups were significant (p<.001) going by a one-way analysis of variance (ANOVA) procedure.

[201] For example, an independent expert in Sweden said: "The deterioration of health is my own area of research. I am fairly sure that addictive behaviours are primarily the cause and not a consequence of over-indebtedness."

[202] Most studies focus on relationship breakdown as a cause or ‘driver’ of financial difficulty. See for example: Kempson, 2002 (ibid); also Orton, M. 2008. *The Long-term Impact of Debt Advice on Low income Households*. Warwick: Warwick Institute for Employment Research and Friends Provident Foundation.

There was evidence of relationship strain and in some cases relationship breakdown associated with the onset of financial difficulty. The assignment of blame to the other party for the incurring of individual debts, for over-spending, and for not doing enough to increase household income, were each referred to in consumer respondent interviews. One UK respondent explained that he had left the family home so his partner would be better off in terms of social welfare benefits; another described how his relationship had deteriorated as a result of him spending more hours at work for the purpose of raising extra income (by way of overtime) for the primary purpose of discharging household debts.

Relations with children were also affected by household over-indebtedness. Deteriorating relationships here (as discussed above) were generally tied up with inability to fund activities that may have been the norm prior to the onset of financial difficulties, and remained the norm for the friends of their children. As one respondent from Spain commented in respect of her daughters (9 and 12)- "they cannot do what their friends and schoolmates do". One UK respondent found it very stressful when she was really struggling: she reported having to send her daughter to stay with her mother, as she could not afford to feed her. A second described being short-tempered with his children:

> *That can affect your children you know, you're playing with them and you start shouting at them. You don't need to shout at them, it's just that you've got other things on your mind.*

Relationship difficulties were not just confined to within the family home, however: they could also relate to the wider family and 'social circle'. Two responses from Germany described a dwindling number or 'withdrawal' of friends as socialising became impossible through lack of money. Another German respondent described her family "turning their backs on her". A consumer from Hungary recounted having to ask for irregular loans from friends and acquaintances which she found 'distressing', and an interviewee from France had to ask for financial help from his parents "which is not an easy thing to do". A German respondent described a complete loss of contact with her parents as a result of her financial difficulties.

Stakeholder respondents also made reference to family breakdown or divorce being associated with the onset of financial difficulty (average score 6.3). This was seen as an important effect by stakeholders in Finland (7.9), France (7.8) and Portugal (8.0). It was seen as less important in Spain (4.7) and Poland (4.9). The different types of stakeholders ranked family breakdown or divorce slightly different, with civil society stakeholders judging this consequence as more important (score of 6.7) than financial industry stakeholders (5.8). In the EU12 this, again, was considered to be relatively less important (5.6) than in the EU15 (6.6).[203]

[203] The mean difference in scores (0.9) was also significant ($p<.05$) going by a t-test.

7.1.6 Sanctions for non-payment

Non-payment of debts carries with it the likelihood of associated societal 'sanctions'. One way of categorising these sanctions is to divide them into those associated with 'priority' debts, and those linked to 'secondary' debts. Priority debts are generally taken to refer to those where non-payment can lead directly to eviction, home repossession, disconnection of service, loss of essential goods or loss of liberty. Secondary debts are generally considered to be those where (civil) liabilities have been incurred by way of contractual credit arrangements, such as personal loans, credit cards and overdraft facilities; default here could lead to debt enforcement proceedings in the civil courts.

Priority debt: housing

There were several reports of fear, or threat of, eviction/ home repossession in the consumer interviews, but no accounts of this actually taking place. Two respondents in Hungary, however, were seriously contemplating selling their properties on account of financial difficulties, a situation sometimes referred to as "voluntary surrender".

Among stakeholders, the importance of home repossession as a consequence of over-indebtedness was ranked as moderate (on average 6.4). Again there were some strong differences between Member States. Home repossession was seen as most important by stakeholders in Portugal (8.4) and Spain (8.2) but of less importance by stakeholders in Hungary (5.6), and Belgium (4.3), but there was little difference between types of organisations. Average scores were the same between the EU15 and EU12, though the EU12 ranked home repossession slightly higher (6.4) compared to the EU15 Member States (6.2).

In Ireland, repossessions were low due to a forbearance policy (the Mortgage Arrears Resolution Process, or MARP) encouraged by the government,[204] but concerns were expressed that these measures may be effectively prolonging the agony for some Irish mortgage holders.[205] New personal insolvency legislation is being proposed[206] at the time of reporting and the Central Bank recorded an increase of 28% in the total number of properties taken into possession in the first quarter of 2012, compared with the final quarter of 2011.[207] Legislation suspending home repossession was also

[204] The Irish Country Report notes that "repossessions, however, have remained low, as a result of a combination of policy interventions (e.g. the MARP) and pragmatic considerations based on high levels of negative equity, a depressed housing market, a legal judgement, and (in the view of one respondent from a government agency), historical resonances of property repossession in Ireland."

[205] At the time of writing, lenders are currently rolling out more advanced forbearance strategies (principally so-called 'split mortgages' where part of the capital is 'parked' for a specified period) in response to government requirements.

[206] See http://www.oireachtas.ie/viewdoc.asp?DocID=21417&&CatID=59.

[207] Central Bank of Ireland, *Residential Mortgage Arrears and Repossessions Statistics: Q1 2012*, Dublin, 2012.

introduced in Greece during the crisis,[208] but is currently only valid until the end of 2012, which means increased foreclosure rates may be likely in the future as discussions between the Greek government and the Troika authorities are in progress at the time of writing. In Spain, the number of home repossessions more than doubled from 2008 to 2011,[209] and in Denmark, there has been a substantial increase in the number of home repossessions in recent years, although the numbers themselves remain small and appear to be stagnating.[210] Concerns about repossessions were also expressed in Estonia.[211]

Homelessness was seen as of high importance by stakeholders in the UK (7.1), as well as in Romania (6.9). Stakeholders in the UK emphasised that homelessness was relatively rare, but that the consequences for those who became homeless were very serious. As has been mentioned, this was sometimes used by the interviewees as an example of the difficulties they had with their assessments.

Some legal protection on the primary residence may be offered (for example in the Netherlands and Finland). In some of the EU12 Member States (such as Cyprus or Bulgaria), high home ownership and the ability of extended family to provide housing in case of need were cited as preventing wider levels of homelessness. One stakeholder said that in Cyprus:

> *(T)here is a lot of help from families for homeless people, so unless you are an immigrant with no family, you wouldn't be homeless. A member of your extended family will house you.*[212]

Priority debt: utilities

By far the most often cited sanction in the consumer interviews, and there were reports of this from respondents in all the surveyed countries, was the disconnection of a utility or service. There were reports of disconnection of gas and telecommunications (France), disconnection of electricity, gas, telecommunications, and water (Hungary), disconnection of electricity, water, and heating (Slovenia), disconnection of water, electricity and telecommunications (Spain), and withdrawal of telecommunications services (Germany). One UK respondent described what in

[208] Law 3869/2010 art.19 par.1, as amended by Law 3896/2011, as amended by Legislative Act published in Official Journal 262/16.12.2011.

[209] See Country report Spain.

[210] See Country report Denmark.

[211] See Country report Estonia.

[212] A report for FEANTSA in 2004 confirmed that: "Indeed, features of both developed and underdeveloped countries like street children or homeless people sleeping rough in the streets and parks, may be said to be unknown in Cyprus. This seems to be a result of strong social ties in the Cypriot society, the strong informal welfare and NGO network as well as the effectiveness of public welfare and housing policies." (Pancyprian Welfare Council, *National Report on Homelessness & Housing Exclusion in Cyprus*, European Federation of National Organisations Working with the Homeless, Brussels, 2004, p. 2).

effect was 'self-disconnection', where she sometimes just did not have the money to pay for her fuel.

Among stakeholders, utility disconnection was seen as of average importance in the EU overall (average score 5.9). Again, there was some variation by country. Stakeholders in Romania (6.9), Poland (6.5), and Ireland (6.4) rated this as of relatively high importance, while stakeholders in Finland rated this as slightly less important than the EU average. In EU12 Member States this was more highly rated by the stakeholders (average score 6.4) than in EU15 Member States (5.5),

In some Member States a minimum provision of utilities or extended repayment periods before disconnection is guaranteed by law and tends to ameliorate this problem. In France, it was noted that a social tariff existed for access to water, gas, and electricity.[213] This was also the case in Italy, where a minimal service of gas, water and electricity is always provided. However in some of the EU12 member States, such as Hungary, utility disconnection was noted as happening as soon as the customer had arrears. High rates of disconnection were also cited in Slovenia where high numbers of arrears in utility payments have been measured by the EU SILC data. In Ireland, experience of utility debt is strongly associated with those on lower incomes.[214]

Secondary debts

As regards secondary debts, there were reports of creditors 'harassing' people for non-payment (France), the garnishing of repayments by banks (Germany), and the use of civil court proceedings for the recovery of contractual debts in all consumer respondent countries. However, the most frequently discussed consequence of default and arrears in respect of secondary debt was exclusion from credit and banking services, or what is commonly termed 'financial exclusion'[215] as now discussed.

7.1.7 Financial exclusion

Financial exclusion can be both a cause and a consequence of financial difficulty; exclusion from regulated credit sources may cause some people to seek credit from unregulated or usurious lenders, while a bad credit rating can automatically exclude

[213] One civil society stakeholder in France related this to the public ownership of utilities in France: " Concerning utility disconnection: most public services (water, electricity and gas) have a special tariff for people with difficulties. I think they maintain the connection for people who do not pay (with limited capacity). Electricity and gas were public monopoly so they can practice social tariff and maintain connection."

[214] Russell and Maitre (supra).

[215] "Financial exclusion" has been defined by the European Commission as "a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong." (European Commission, 2008. *Financial Services Provision and Prevention of Financial Exclusion*. Brussels: European Commission).

people from access to further credit, even if the person involved is willing to pay a higher level of interest.[216] Among stakeholders, financial exclusion was rated as the third most important personal consequence for over-indebted households (average score 7.2), and variation was again minor. However, stakeholders from Hungary (4.2), and Belgium (5.1) did not consider financial exclusion an important consequence for over-indebted households. On the other hand, stakeholders in Poland (8.5), Austria (8.1), and Italy (8.6), all rated this higher than the EU average. Civil society stakeholders perceived this to be of greater importance (7.7) than stakeholders from public authorities (6.6), but overall scores were not significantly different between stakeholder groups.

There are different types of financial exclusion, such as exclusion from further credit and exclusion from basic banking services; there may also be exclusion from other services as a result of poor credit ratings.

Credit exclusion

Consumer respondents frequently mentioned the issue of impaired credit rating or credit exclusion as a consequence of defaulting on loan repayments to secondary creditors. References to credit exclusion invariably related to inability to take out mainstream loans and/or to access overdraft facilities. A UK respondent referred to having had no option but to borrow from a high-cost home credit company (such sometimes are sometimes described as 'doorstep lenders' or 'moneylenders') as a result of a "very bad credit rating".

Stakeholders frequently referred to the issue of credit exclusion. In most EU Member States there is a Public Credit Register and/or private Credit Bureaus, which at least record 'negative' credit events such as defaults.[217] When these records are unfavourable, households may be unable to access credit only at high premium or not at all. While it may be argued that this can help to prevent increased indebtedness (as an over-indebted household cannot accrue new debt), there are considerable negative effects of such exclusion. For example, households may have no option but to resort to sub-prime or unregulated lenders who make the situation worse by charging very high interest rates. Low income households, for whom credit can be their only means of survival, can thus be doubly penalised by having to depend both on low income and high cost credit which further reduces the limited income at their disposal.[218] A stakeholder in Estonia noted, for example, that:

[216] Gloukoviezoff, G., 2007. 'From Financial Exclusion to Over-indebtedness: the Paradox of Difficulties for People on Low Incomes?' In L., Anderloni, M., Braga and E., Carluccio, Eds. *New Frontiers in Banking Services*, Berlin: Springer.

[217] European Commission, *Report of the Expert Group on Credit Histories*, 2009.

[218] Gibbons, D., Vaid, L. and Gardiner, L. (2011). *Can consumer credit be affordable to households on low incomes?* London: Centre for Responsible Credit.

(T)here is no financial exclusion concerning access to bank accounts because of over-indebtedness. But of course when a person is in the situation of over-indebtedness, there is a very big difficulty to get access to credit from a credit institution, so they use the services of unregulated market.

Banking exclusion

Another key aspect of financial exclusion is *banking exclusion*, and there were also frequent references to this experience in the consumer interviews. Respondents in France for example reported the following: restricted access to a cheque book, the freezing of a current account, lack of access to a debit card, and closure of a current account. In Slovenia, some respondents reported not having a bank account, as there was insufficient money to put into it. In the UK, one interviewee reported having opened a "Basic Bank Account".[219]

Exclusion from basic banking services (such as a current account) was seen as the most serious consequence in the stakeholder interviews. One literature review[220] cites a Belgian study published in 2005, which found that 7.5% of people in a debt settlement procedure did not have any transaction bank account because the bank had closed their account, or because they were refused access. The study also finds that in Austria, Ireland, Germany, and the UK, a bad credit history can be used to prevent people from opening a bank account.[221]

This practice was also reflected in the stakeholder interviews. A German interviewee noted that operating bank accounts for those frequently in arrears was more expensive for banks and that "they don't want these people". An Austrian stakeholder stated: "In Austria, if you are over-indebted, you come on a black list and people cannot get banking services." This problem was seen as serious enough that some municipal and cooperative banks voluntarily provide accounts to over-indebted people (e.g. 'Zweite Sparkasse').[222] The perceived level of importance of banking exclusion showed wide country variation. At one extreme, countries such as Belgium and France have national legislation guaranteeing access to a bank account for every citizen. In the Netherlands, a public authority stakeholder went so far as to claim that "in essence there is no financial exclusion in Holland".

---

[219] Basic bank accounts do not generally provide a chequebook or overdraft.

[220] Gloukoviezoff, G., *L'exclusion bancaire. Le lien social à l'épreuve de la rentabilité*, Presses Universitaires de France, Paris, 2010.

[221] Ibid.

[222] This non-profit initiative was founded in 2006 and provides basic banking facilities (current account, bank card, standing order and money transfer, but no overdraft facility) to those in a financial crisis situation who have been denied access to a bank account with any of the other banks. They must first be recommended to the Zweite Sparkasse by debt counselling organisations. Free legal advice is provided free of charge available once per quarter, as well as free accident insurance. Affordable homeowner's insurance, and investment accounts to promote saving are also available, but the bank account is closed after three years or when the consumer opens a bank account elsewhere. See http://www.sparkasse.at/diezweitesparkasse/ and http://www.erstestiftung.org/zweite-sparkasse/files/2011/06/Booklet_ENG_2011.pdf.

At the other extreme, a stakeholder from Slovenia noted that every month approximately 0.5% of accounts of recipients of social assistance have been effectively closed by the bank and that indebted consumers are often forced to rotate their bank account among banks. Consistent with the stakeholder rankings, a World Bank database on global financial inclusion[223] reveals that in Bulgaria only 53% of adults have an account at a formal financial institution, while this figure is 70% in Poland, and 71% in Italy. An Irish study has found that in 2008, 20% of households in Ireland did not have a bank current account, and that exclusion is predominantly associated with those on lower incomes.[224]

Exclusion from other services

Further financial exclusion can occur when information from credit rating registers is used to deny access to other services. For example, a stakeholder in Sweden noted that it was difficult for households with serious financial difficulties to get a lease for an apartment, take out a phone or Internet subscription, subscribe for a pension, and so on. This problem was also noted by stakeholders in Germany, where negative ratings from the Schufa Credit Bureau excluded people from future service contracts, such as for mobile phones, car loans, or apartment leases.

7.1.8 Reduced labour market activity

The effects of feeling a failure (as described above in the section on ‘social stigma’) undermined the ability of some respondents to access employment. There were references to reluctance to look for work, to a lack of self-confidence resulting in a job applicant coming across badly at interviews (including becoming upset during them), and the de-motivation of knowing that whatever was earned would be required to go towards repaying debts, as opposed to being available for pleasurable activities. Being at work could have benefits other than the financial: one French respondent described how being busy took her mind off her problems for a while each day.

For those in employment, over-indebtedness could also impact on relations in the workplace; instances were cited of consumers’ taking time off work through stress, and of decreased productivity. One respondent from Hungary described how his financial problems were having serious effects on his work: “I simply can't concentrate on my job, these problems are continuously in my mind.”

Reduced labour market activity was seen as being of average importance by stakeholder respondents overall (average score 5.8). However, it was seen as relatively

[223] Demirguc-Kunt, A., and Klapper, L., 'Measuring Financial Inclusion: The Global Findex Database', *World Bank Policy Research Paper 6025*, 2012.

[224] Russell and Maitre (supra).

more important by stakeholders in Spain (7.8), Portugal (7.3) and Sweden (7.6) than, on the other extreme, in France (4.0).[225]

Reduced labour market activity

"I view reduced labour market activity more in a macroeconomic sense. If there is reduced labour market activity marginal people lose jobs, unemployment problems arise, and government assistance is needed." *(EU level stakeholder interview)*

"Regarding the reduced labour market activity - If a client cannot fulfil financial obligations and undergoes a court proceeding which results in a legally imposed execution of seizing the possessions and incomes, this means that the employee only retains a limited part of his or her salary, and such an employee is less motivated to perform well at work, strive for promotions, etc." *(Stakeholder interview Czech Republic)*

"Regarding reduced labour market activity, it should be noted that the high importance assigned to this issue is primarily due to the garnishing of wages, which was made very easy in Austria with the introduction of the "Drittschuldnerauskunft" in 1986 (this can be seen as a part of the reason why creditors were less cautious concerning the money they provide - knowing that they can get it from wages, as long as there were some). Garnishing makes it difficult for people to stay in employment or find a job." *(Stakeholder interview Austria)*

Stakeholders from multiple countries illustrated the process by which this was a consequence for over-indebted households, primarily by wage garnishment and seizure removing incentives to work. For example, in Austria creditors have comparably easy access to debtors' wages through a wage garnishment (*Lohnpfändung*) system.[226] From the perspective of the over-indebted person, this diminishes incentives to seek promotion or better paid employment, since all income above a minimum threshold is paid directly to creditors.[227]

This can be related to financial exclusion, as in Bulgaria, where it was highlighted how many of those who are over-indebted and who had their bank accounts blocked moved into the informal economy, or emigrated. Reduced labour market activity can also be tied to deteriorating mental health; a respondent in the Netherlands noted

[225] In terms of stakeholder groups, civil society stakeholders ranked reduced labour market activity as more important (6.5, 6th rank) than public authorities (5.4, 9th rank), however the differences between the groups were not significant overall.

[226] See http://www.schuldnerberatung-wien.at/beratung/Lohnpfaendung.html.

that over-indebted individuals may not lose their existing job, but are sick more often and overall less productive due to stress.

7.2 SUMMARY OF FINDINGS FROM THE HOUSEHOLD INTERVIEWS

In the interviews conducted in six countries, households in financial difficulties were asked to describe the specific impact(s) their difficulties had had on them and their household (if any), and further, whether their difficulties were precluding them or not from using products and services that they consider to be essential.

Open questions were used to facilitate consumer interviewees to describe the consequences of financial difficulties for them and their household members in their own words; these responses were then transcribed and coded in accordance with pre-defined categories. It should be noted that the sensitivities associated with discussing personal aspects of financial difficulty might result in under-reporting here.

7.2.1 Consequences of over-indebtedness for households (in general)

Across all countries, the consequences most frequently mentioned were reduced standard of living and a deterioration of well-being and/or mental health. Interviewees commonly indicated that they had cut down on all non-essential items, such as holidays or eating out. Some interviewees explained that this had had a negative impact on their social life. In addition, several interviewees indicated that they had problems finding money for essential needs, such as food or healthcare. Generally, many interviewees were upset about the effect of their reduced standard of living on their children.[228]

In terms of well-being and mental health, households frequently referred to depression, anxiety and stress. In some cases this was extreme enough that they sought medical attention. Several households reported that they had been forced to give up working or looking for a job, or that the stress had led to arguments with their partners. Some households explained that they felt humiliated or degraded by their situation.

Detailed results of the consumer interviews are presented in the following table by country:

[228] Households that were actually over-indebted or had previously been over-indebted were somewhat more likely to report a reduced standard of living, as well as deteriorating well-being and mental health.

Table 50. Household interviews - Consequences of financial difficulties (general)

MS	Summary of household interviews
UK	One of the consequences of financial difficulties most frequently mentioned in the UK was reduced standard of living. Several households reported that they had cut back on all luxuries, such as eating out or going on holiday. Other issues that came up frequently were deteriorating well-being and mental health. More than half of interviewees mentioned suffering from stress, while five interviewees described themselves or other household members as suffering from depression. Around a third of interviewees mentioned that the stress of their financial situation had placed serious strain on their relationships with their partners.
Slovenia	Almost all of the affected households indicated that their standard of living had been reduced as a result of their financial difficulties. Some on these specified that they sometimes had problems finding enough money for food. Several households reported that they had been forced to give up ownership of a car, which had a negative impact on their mobility and ability to find work. Other consequences mentioned frequently by the interviewed households were deteriorating well-being and mental health. In particular, the interviewed households referred to feelings of despair and depression, as well the as the stress of living with the threat of eviction or utility disconnection.
Hungary	Interviewees in Hungary most frequently indicated that their financial difficulties had led to a reduction of their standard of living. For example, interviewees described not being able to go on holiday or provide for their children, as they would like to. Several interviewees faced utility disconnection as result of late payments. Interviewees also frequently indicated that they suffered from deteriorating well-being or mental health. One interviewee pointed to the effects on her well-being of not being able to afford healthcare (especially dental care), while others referred to the stress of thinking about their financial problems all the time.
France	Most frequently, the interviewed households suffered from deteriorating well-being and mental health as a consequence of their financial difficulties. Many interviewees described themselves as suffering from depression or stress, in some cases to the extent that it seriously impacted their ability to work, or caused significant tension between themselves and their partners. In several cases, the interviewees reported that they felt humiliated and devalued by their situation.
Spain	The deterioration of well-being and/or mental health was the consequence most frequently mentioned by the interviewed households in Spain, followed by a reduction of living standards. Several households explained that they felt depressed, lonely and discouraged. Several interviewees explained that they had arguments with their partners, sometimes to the point of leading to a breakup in their relationship. Likewise, some interviewees had depression and anxiety disorders as well as being under some sort of medication or psychiatric treatment. The impact on childhood was also observed in one case, where the household was in arrears in payments to the school canteen of their children.
Germany	The consequences most frequently referred to by interviewees in Germany were reduced standard of living and deteriorating well-being/mental health. Several interviewees reported suffering from stress, anxiety and depression, in a few cases to the extent that they were receiving medical treatment or had become suicidal. Other health problems, such as sleeping disorders, stomach aches and obesity were also mentioned. Many interviewees also referred to other consequences, such as social exclusion or family breakdown. One interviewee explained that her child was bullied at school because of the family's financial situation.

Source: Civic Consulting, household interviews (N=120).

7.2.2 Consequences of over-indebtedness for households (financial exclusion)

Overall, 43 of the 120 interviewed households were excluded in some way from credit or a bank account as a result of their financial difficulties. Some households did not consider their exclusion from credit to be negative, but others found it very inconvenient (e.g. because they could not pay for sudden expenses). Fairly few households reported being excluded from other essential services, but in France several households did not have access to debit cards or cheque books, and almost half of interviewees in Spain did not have access to telephone or other telecommunication services.

Detailed results of the consumer interviews are presented in the following table by country:

Table 51. Household interviews - Consequences of financial difficulties (financial exclusion)

MS	Summary of household interviews
UK	Almost half of the interviewed households reported being excluded from credit as a result of their financial difficulties, but most of these did not consider this to be a problem. However, one interviewee specified that she was taking measures to improve her credit rating, by signing up for a credit card with a high interest rate. None of the interviewed households reported being excluded from a bank account or any other product or service that they considered to be essential.
Slovenia	More than a quarter of the interviewed households reported that they had no access to credit as a result of their financial situation, and two households were excluded from a bank account. In addition, one interviewee explained that he had no access to the Internet, which impeded his ability to look for a job. A further two households indicated that they had not yet been excluded from any essential services, but that they feared such exclusion in the future.
Hungary	Eight of the 20 households indicated that they were excluded from a bank account or credit. One interviewee explained that he would not want to take out credit anyway, but another interviewee found her exclusion from credit to be inconvenient as it made it harder refinance or rationalise her other debt, and because she did not have money available in case any sudden costs arose. One interviewee thought that he would not be able to get a contract for a mobile phone and that he would have to a buy a phone card from the supermarket.
France	Four households were excluded from credit as a result of their financial difficulties, and two from a bank account. Five interviewees reported that they were excluded from other financial services, namely cheque books and debit cards (two of these were among the four households who were excluded from credit). Two households had experienced exclusion from telecommunication services, while one household had faced gas disconnection for a period of nine months.
Spain	Regarding the exclusion of services, eight households were not excluded from any service. Slightly less than half of households were excluded from telephone and communication services. In three cases, the households only managed to avoid exclusion from basic services, such as water and electricity, through the help of friends, relatives or charity. One household could not live in their own house because all the services were disconnected and it would probably be repossessed. Seven households were excluded from credit or a bank account.
Germany	Eight interviewees reported that they had at least temporarily been excluded from a bank account. In one case, the interviewee had been unable to pay his rent for three months as a result. In addition, four households felt themselves to be excluded from credit. Three interviewees indicated that they had experienced difficulties with renting an apartment as a result of their negative Schufa entries.

Source: Civic Consulting, household interviews (N=120).

7.3 CONSEQUENCES OF OVER-INDEBTEDNESS FOR THE FINANCIAL SERVICES INDUSTRY

The effect of household over-indebtedness on the financial industry is an important question. Theory predicts that when a negative income or wealth shock occurs, particularly in an environment characterised by high level of household indebtedness, debtors may find it difficult to meet their commitments. This causes an increase in non-performing loans, weakening bank balance sheets. This in turn leads to a reduction in credit availability, as financial institutions become more wary about lending. In the case of decreasing asset prices (e.g. housing), bank balance sheets are further weakened. When borrowers fall behind on mortgage or other payments, non-performing loans are crystallised for creditors, and if creditors repossess, fire sales and the perception of further lowered asset prices reduce the net worth of creditors assets. This may lead to a decrease in trust from consumers (leading to 'bank runs'), or from other banks (causing a freeze in the interbank market).[229]

This is not just a theoretical possibility. For example, the bursting of the massive property bubble which developed from 2000 to 2006 led to heavy losses for over-leveraged Irish banks.[230] At the end of 2003, net indebtedness of Irish banks to the rest of the world was 10% of GDP; by early 2008 borrowing, mainly for property, had jumped to over 60% of GDP. Massive write-downs on the values of these loans during the financial crisis led to the insolvency and effective nationalisation of some of the major banks in the Irish system.[231]

For the EU as a whole, costs of defaults for creditors were seen as most important overall (average score 7.1) consequence of over-indebtedness for the financial services industry as going by stakeholder interviews. Other consequences, such as costs of arrears, more restrictive lending practices, and increased costs for financial service providers were all seen as more or less equally important (5.8-6.3). Lower demand for credits because of higher premiums was seen as the least important consequence (5.3).

Taking each aspect individually, costs of defaults for creditors were seen as highly important by stakeholders in Portugal (8.4), Spain (8.2), and Italy (8.8). In Member States where this was important, the impact of the financial crisis was frequently

[229] This section acknowledges the contributions made by Tom McDonnell from the independent research organisation TASC regarding the macro-economic aspects in the stakeholder conference.

[230] According to a report commissioned by the Irish government to look into the causes of the crash real residential property prices jumped to almost four times their historic norm by 2007, and bank lending to the property market soared. (Honohan, P., 'The Irish Banking Crisis Regulatory and Financial Stability Policy 2003-2008', *Commission of Investigation into the Banking Sector in Ireland*, Dublin, 2010).

[231] Nyberg, 2011. P., *Misjudging Risk: Causes of the System Banking Crisis in Ireland*, Commission of Investigation into the Banking Sector in Ireland, Dublin, 2011.

mentioned. In Estonia, financial industry stakeholders identified costs of default as substantial and leading to losses in the banking sector in 2009 and 2010. In Italy, the costs of bad debts were triple that of their 2000-2007 average in 2011, and the slow speed of the justice system in processing cases were seen as compounding this problem.

Loss of potential customers through more restrictive lending practices was perceived as the most important consequence for the financial industry by stakeholders from Portugal (7.9) and Romania (7.6). Respondents from Germany were among those who considered it the least important (3.7). In Ireland, mortgage over-indebtedness in particular was seen as resulting in reduced lending activities by Irish financial institutions; one respondent noted that: "(W)hat most banks are doing is that they are restricting credit; regulation is not affecting them anymore."

Increased costs for providers because of stricter regulation were also seen as moderately important overall. Respondents from Portugal rated highest on this measure (8.2), while those in Germany (3.4), Austria (3.5), Belgium and the Czech Republic (both 4.0) rated as the lowest. A UK stakeholder noted that though consequences for the financial industry (such as stricter regulation) could have initial costs, they could also reduce the incidence of defaults and save money in the long term.

Lower demand for credit because of higher risk premiums was seen as least important by stakeholders overall, possibly because of real interest rates being historically low[232] and because consumers would not be price-sensitive to moderate changes in risk premiums.

In a cluster of countries few consequences for the financial industry were considered very important. These were typically Member States less affected by the financial crisis. In Austria, low default rates covered the administrative costs of debt collection efforts. Default rates in the Netherlands were seen as stable and costs covered by existing credit pricing, while credit losses incurred by credit institutions remained at a very low level in Sweden and Finland. This was also the case in Germany and the Czech Republic, where interviewees noted that the average default rate was less than 3% and that any rises in costs relating to higher defaults would simply be passed on to new consumers. In Austria, one stakeholder, pointed to corporate credit default as a more serious threat to banking stability than consumer credit or household loans.

In some countries more strongly affected by the financial crisis (Ireland, Latvia, Greece, Estonia, Spain, Hungary, Italy) however, the situation was quite different. For

232 Mortgage rates in the EU track the EURIBOR inter-bank lending rates closely, and these have declined steeply since 2008 in line with Central Bank interest rates (see http://www.suomenpankki.fi/en/tilastot/korot/Pages/kuviot.aspx and http://www.euribor-rates.eu/euribor-mortgage.asp). Representative interest rates by year (to 2010) are available in a report from the European Mortgage Federation and show significant declines for every EU country during 2007-2010, with the exception of Hungary (see European Mortgage Federation, *A Review of Europe's Mortgage and Housing Markets*, 2010, p. 88).

example, in Hungary it was reported that an early repayment scheme of loans issued by private banks in foreign (mostly Swiss Franc) currency caused large losses for the banking system.

In Ireland, two respondents referred to 'internal' difficulties within banks resulting from the wave of over-indebtedness there since the crisis. The negative impact on the morale of front-line staff dealing with struggling borrowers, and the low size of their loan arrears teams were also reported. These problems were compounded by large scale job losses in the now-nationalised banks.[233]

7.4 ECONOMIC AND SOCIAL CONSEQUENCES OF OVER-INDEBTEDNESS FOR SOCIETY

The consequences of household over-indebtedness are not limited to households and the financial industry. Research has found that there are economic and social consequences for the overall health of the economy in terms of aggregate demand, employment, and growth. [234]

Considering only level of household indebtedness, recent research from the IMF analysed the effect of large increases in the household debt to income ratio on GDP and its components, unemployment, and house prices. The period chosen for increases in household debt was the three years before the start of a housing bust for a sample of 24 member countries of the Organization for Economic Cooperation and Development (OECD) and Taiwan from 1980 to 2011.[235] The analysis found that housing busts and recessions preceded by large increases in household debt to income ratios tend to be associated with significantly larger contractions in economic activity.

These results were successfully subjected to a variety of robustness tests. Moreover, household deleveraging (i.e. a decrease in the debt to income ratio) was found to be more pronounced following busts preceded by a larger run-up in household debt. In contrast, there was a small increase in the debt to income ratio following low-debt housing busts. And importantly, for the sub-sample of housing busts that were not preceded by a financial crisis, the larger accumulation of household debt was still

233 This refers to the nationalisation of Anglo Irish Bank (in early 2009), followed by INBS and AIB later that year and the recapitalisation of Bank of Ireland in 2010 and 2011 (Nyberg, 2011). In AIB 2,500 jobs are to be cut in order to save money (see 'AIB 'to seek' 2,500 redundancies' at http://www.irishtimes.com/newspaper/breaking/2012/0307/breaking34.html).

234 The analysis and research presented in this section is partially based on the helpful comments of Tom McDonnell from the independent research institute TASC during the stakeholder consultation workshop.

235 'Large' increases in debt were defined as the above the median of all busts. This value was an increase 6.7 percentage points of debt to household income over the three years leading up to the bust, and varied widely - from 17 percentage points during the period leading up to the UK housing bust of 1989 to 68 percentage points before the Irish housing bust of 2006. Housing busts were identified based on the turning points (peaks) in nominal house prices. See: IMF, 'Chapter 3: Dealing with household debt', World Economic Outlook April 2012, 2012, p.5.

followed by deeper and more prolonged downturns - indicating that the results are not simply a reflection of banking crises, but that higher debt to income ratios independently cause worse contractions in economic activity when house prices and growth fall.

The findings are broadly consistent with the other literature which finds that recessions preceded by economy-wide credit booms (which may or may not coincide with household credit booms) tend to be deeper and more protracted than other recessions.[236] This conclusion is also consistent with evidence that consumption volatility is positively correlated with household debt.[237] Also, analysing the impact of debt ratios on economic growth rates and adjusting for GDP and socio-demographic differences in 18 OECD countries, research published by the Bank of International Settlements (BIS) find that household debt becomes a drag on growth at above 84% of GDP, though their estimates lack statistical precision given the historical data available.[238]

In cases of households being over-indebted (i.e. already in arrears), high levels of indebtedness in relation to income becomes a serious problem during a recession. This is because accumulation of debt increases risk, and as household debt levels increase, the borrower's ability to repay becomes increasingly sensitive to income and wealth shocks. When this shock occurs, such as from loss of unemployment, these householders will tend to cut back more on their spending, reducing consumption and aggregate demand in the economy. This creates a feedback loop, where less demand for products and services means less employment, and incomes will fall further as unemployment continues to increase.

In this way, high levels of pre-bust household debt to income cause deeper falls in consumption and employment, compared to recessions preceded by low levels of pre-bust debt to income. Worsening economic conditions also put pressure on government finances, and this can lead to further income shocks in the form of austerity measures such as social welfare cuts and higher taxes, pushing more households into over-indebtedness and further increasing the effects of the recession.[239]

This makes an orderly process of deleveraging of households and reducing debt to income ratios especially important. This is recommended by research from McKinsey,

[236] See e.g. Claessens, S., Ayhan, K., and Terrones, M., 'Financial Cycles: What? How? When?' in *NBER International Seminar on Macroeconomics*, Chicago, University of Chicago Press, 2010, pp.303-43.

[237] Isaksen, J., Kramp, P., Sorenson, L., and Sorensen, S., 'Household balance sheets and debt - an international country study', *Monetary Review*, Denmarks Nationalbank, 2011.

[238] Cecchetti, S., Mohanty, M., and Zampolli, F., *The real effects of debt*, Bank of International Settlements, 2011.

[239] See also e.g. Chemelar, A., 'Household Debt in Europe's Periphery: the dangers of a prolonged recession', *ECRI Commentary No.12*, 2012.

who examined processes of deleveraging after a financial crisis.[240] This may be harder to achieve after debt-fuelled financial crises, however; BIS research using historical evidence from a large panel of countries finds evidence that countries become highly politically polarised following financial crises, resulting in legislative stalemate.[241]

In terms of stakeholder responses to this question, interviewees focused more on the a variety of specific social and economic consequences. In terms of specific items, loss of consumer confidence in the financial services industry was seen as the greatest consequence of over-indebtedness (average score 6.7), followed by reduced productivity at work (6.1) and legal costs associated with over-indebtedness (5.7). Costs for provision of debt advice services and cost of provision of housing due to home repossession were seen as least important (4.5 and 5.0 respectively). However, the highest scoring item overall was that of "other effects on society", with an average score of 6.9. Specific comments for this item indicated that these were mainly social concerns, including negative impact on public morale, rising crime, emigration, frustration with the political system, and reduced social cohesion. Negative macroeconomic effects due to reduced aggregate demand and deleveraging were also mentioned by the stakeholders.

The most important item choice (loss of consumer confidence in the financial industry) showed wide country variation. Stakeholders in Romania (9.2) scored this as the highest. Stakeholders in Austria (3.8) and the Czech Republic (3.9) were least concerned, but even some respondents in Austria explicitly mentioned the loss of confidence in the financial services industry. In other countries, like Bulgaria, cynicism and frustration with the political system were widespread: "People blame the politicians that they are serving the interests of the banks," was one response. This sentiment was not unusual across Member States, regardless of their affluence. A stakeholder in Greece noted that due to the crisis "the society has become very sceptical towards the financial industry". An interviewee in Germany noted the perception of unfairness, whereby insolvent banks were rescued by the state for billions of Euro, while "normal citizens" were "left high and dry" by the state. One respondent in Cyprus felt that this loss of trust hindered the development of financial literacy, since people "switched off" from attempting to understand these issues.

Reduced activity at work was also of above average importance for respondents across the EU. Between countries, stakeholders in Portugal (8.1) and Sweden (8.3) were most concerned about this effect, while stakeholders in Belgium (4.2), and Italy (4.6) were least concerned.

Legal costs associated with over-indebtedness, such as paying for free legal aid for insolvent persons, was next in importance for stakeholders across the EU. Scores were

240 McKinsey, *Debt and deleveraging: Uneven progress on the path to growth*, McKinsey Global Institute, 2012.

241 Mian, A., Sufi, A., and Trebbi, F., *Resolving Debt Overhang: Political Constraints in the Aftermath of Financial Crises*, NBER papers, 2012.

above the EU average for the respondents in Belgium (7.4), and Portugal (7.9). They were lowest going by the stakeholders in Denmark (4.0) and Hungary (3.1).

Increased use of health care services was especially an issue for stakeholders in Sweden (8.4) and Ireland (7.6), but not for those in Denmark (2.3), France (3.2), and Bulgaria (3.5).

Costs for providing houses for those who lost their homes through home repossession were considered to be most important for stakeholders from Portugal (8.2). It was rated lowest by those in Bulgaria (3.3), Denmark (3.0) and France (2.9).

Finally, costs for provision of debt advice services were considered to be below average importance overall, but particularly so for those stakeholders in Poland (1.6), Hungary (2.0), and Romania (3.1). Stakeholders in Portugal rated the cost for provision of debt advice as most important (6.3). Stakeholders emphasised the relatively good value for money and low cost to society arising from debt advice and restructuring.

In the UK it was noted that the average cost per debt problem to the public and in lost economic output has been estimated to be over 1,000 Pound,[242] with serious problems costing many times more.[243]

According to some Irish stakeholders, the negative impact on public morale due to austerity measures through the media was said to have a negative impact, along with weaker aggregate demand creating a self-reinforcing cycle. The issue of media publicity was echoed in Portugal, where one respondent noted the "general feeling of the population that everyone is in financial difficulties these days". Respondents in the Czech Republic were not overly concerned about over-indebtedness overall, but one stated that over-indebtedness contributed to income inequality, stimulating populism. Respondents in Greece were also concerned over increasing social unrest, rising unemployment, crime rates, and political instability.

7.5 CHANGES IN DEBT COLLECTION PRACTICES

A plurality of respondents (44%) stated that they had noticed more aggressive debt collection practices in the last five years, with one fifth of respondents (22%) seeing a very significant change. However, 23% did not know or failed to answer this question. Therefore, of those who answered, the majority (57%) noted increased aggressiveness on the part of debt collectors.

Certain debt collection practices that were noted by respondents as being aggressive could be operating on the edge of the law. The majority of these were practices such

[242] This Is 1,232 Euro (Euro foreign exchange reference rates as at 18 October 2012.

[243] Pleasence, P. et al., 'Mounting Problems: Further Evidence of the Social, Economic and Health Consequences of Civil Justice Problems', in Plaesence, P. et al. (eds), *Transforming Lives: Law and Social Process*, TSO, Norwich, 2007.

as repeated phone calls at inappropriate times, SMS messages, calls to the workplace, and threats of court action or seizure. More serious ones included (from an EU-level respondent) an example in Portugal of aggressive shaming where a van of a debt collection agency was parked in front of a person's house so that neighbours could see that the household was over-indebted. In Greece, although debt collection is a regulated market sector, there were cases where older people were threatened that their homes would be repossessed (despite a moratorium on home repossessions in place), or that they would go to jail (even though this is impossible for civil debt). Similar practices were noted elsewhere. In Greece, certain debt collection practices were seen as being countered by recent legislation[244] so consumers have a recourse. The negative reputational effects on creditors of using unscrupulous debt collection agencies were mentioned in countries as diverse economically as Germany and Bulgaria.

Aggressive debt collection as described by the stakeholders

"The debt collection agencies can be seen as aggressive because they have been attempting to make consumers pay debts even if they have very little money remaining. Debt collection agencies can impose rates of repayment of debt and make the over-indebted feel guilty about their debts, in particular by visiting them in person at home." *(Stakeholder interview Austria)*

"The bailiffs were very aggressive for some time and in fact we had to change the law to reduce this aggressiveness. The problem was that bailiffs were also active in the domain of collection of debts outside of court procedures, which was a bit of a trick because they used their legal function as bailiffs to do collection of debts outside of legal procedures. This was possible according to the law, they could do it, but they really did it too much so we had to adjust the law, saying they had to make it very clear that they were not acting as a bailiff to collect the debt." *(Stakeholder interview Belgium)*

"Debt collection agencies resort to all kinds of aggressive means of collecting debts. They contact employers and tell them about financial problems of their employees, they visit debtors in their homes to shame them in front of their neighbours, friends and families." *(Stakeholder interview Latvia)*

"Especially private corporations (not housing or health insurance) are much more aggressive. They sometimes even threat people that they will be evicted when they do not pay for the telephone bill (that is entirely impossible but when you tell this to people involved they are inclined to believe it)." *(Stakeholder interview the Netherlands)*

[244] General Secretariat for Consumer Affairs has passed law 3758/2009, amended by law 4038/2012, concerning "Debt Collection Agencies" in order to face problems arising between consumers and debt collection agencies.

"Debt collection agencies and the Law enforcement authority practice a very brutal way of debt collection nowadays. One example is stopping cars by police for checking possession of driver´s licences and at the same time checking driver and passengers for payment defaults by an online computer, thereby making it legally possible to collect assets like cash money, watches, jewellery directly on site!" *(Stakeholder interview Sweden)*

In general, stakeholders from Member States among the EU15 and those in economically stronger positions were more likely to find debt collection practices stable over the last five years. Indeed, 52% of all stakeholders in EU12 Member States stated that they had seen significant or very significant change in debt collection practices, compared to 43% of those in EU15 Member States.

For example, a respondent in Germany noted that though there had been changes with small debt collection agencies, the large majority of debt collection agencies were not overly aggressive. Another noted that debt collection practices were more moderate in the last five years, and that the debt collection bureau has a strong communication role. Sometimes the evidence was inconclusive. About one third of stakeholders interviewed in UK said that aggressive practices had increased, but the Financial Ombudsman reported an increase of 12.5% in complaints about debt collection in 2012 from 2011.[245] But in Latvia, multiple stakeholders complained about aggressive debt collection practices, and that these levels had increased recently with the rise in number of loans and utility payments in arrears, while in Hungary stakeholders the lack of regulation in this area was seen as highly problematic.

Though scores were largely consistent between stakeholders in the three groups other than financial services, there were some differences in perceptions. Over 59% of civil society stakeholders saw a significant increase in debt collection practices, compared to 32% of financial industry stakeholders.

Stakeholders in a diverse range of Member States - in Bulgaria, Ireland, Austria, Portugal, and Romania - noted a trend of creditors outsourcing their debt collection to debt collection agencies.[246] The effects of this were that it became harder for consumers and debt advisors to manage debt repayments as it is not always clear

[245] From 512 in year ending March 31st 2011, to 576 in year ending March 31st, 2012. See 'New cases by financial product or service' at http://www.financial-ombudsman.org.uk/publications/ar12/about.html#a4. However, the Financial Ombudsman in the UK does not distinguish in their statistics between complaints about the aggressiveness of practices, and other grievances, so it is possible the rise in complaints was due to another reason.

[246] However, as one stakeholder in the stakeholder workshop conducted for this study noted , in Bulgaria at least there is a trend whereby debt collection agencies increasingly provide financial education, debt advice, and provision of certain resolution mechanisms in the absence of publicly funded debt advice and consumer insolvency procedures. This approach was seen to have developed particularly after the financial crisis as large numbers of households found themselves unable to fulfil their financial commitments, especially in the areas of utilities and telecoms.

who consumers needed to deal with and for exactly what debt the debt collection agencies were representing. This could lead to aggressive practices; as one Romanian stakeholder put it, "[because] banks have a hard time dealing with the collection of debt, this activity was taken over by specialised collecting entities which have aggressive practices because there is no code of conduct in their relations with consumers."

8 MEASURES

This section summarises research results concerning the existence, use, reported effectiveness, and other aspects of the existing measures to alleviate the impact of households' over-indebtedness.

Key findings of the study regarding measures to alleviate the impact of households' over-indebtedness are:

1. When considering preventative measures, only in some Member States did most stakeholders consider measures to identify households at risk of becoming over-indebted at an early stage to be common. The most commonly reported preventive measure is to require lenders to comply with responsible lending provisions in order to assess the creditworthiness of prospective borrowers. These provisions are set out in the Consumer Credit Directive and also national guidance. Credit Registers are used in many Member States to help lenders assess creditworthiness, although their systematic use is questioned by some consumer representatives due to privacy concerns (such as when 'positive data' about repayment ratios or income are collected). In addition, ratios of loan service burden to income have been recommended or enforced in some markets, especially when granting mortgage credit.
2. Concerning measures to alleviate the impact of households' over-indebtedness, previous research for the European Commission found that debt counselling was common in Member States, although better developed in some countries than others. The picture appears relatively unchanged in this respect, with debt advice services better developed and more widely available in EU15 than EU12 Member States. Research conducted for this study also confirmed that debt counselling is available from different types of organisations, representing the public and the private sector (including both non-profit and for-profit organisations).
3. Previous research published at the outset of the financial crisis noted the need for adequate (public) funding of debt advice services in order to meet demand in a timely manner and to provide the comprehensive geographical coverage that many Member States lacked. Several years on, the situation does not appear to have improved and the funding of debt advice continues to be a major concern among stakeholders across Member States. Indeed, it was unusual for stakeholders to mention any significant or sustained increase in funding for advice services in order to meet the additional demand that has (at least in part) been created by the financial crisis. In the context of high and rising demand for debt advice, it was rare for stakeholders to think that debt advice funding was sufficient. About half of stakeholders considered funding for debt advice to be insufficient.

4. In the consumer interviews, interviewees tended to report positive outcomes as a result of seeking advice or taking measures to alleviate their difficulties, supporting the finding that most consumers find the experience of over-indebtedness distressing, want to repay their debts, and if they are unable to, want to find an equitable solution to their debt problems. In the interviews with stakeholders it was assessed that in most Member States informally brokered arrangements were available to help people sort out their debt problems. Formal out-of-court debt settlement procedures were somewhat less common. Court-based consumer insolvency procedures were reported to be available in most Member States, but some seem to lack any legal procedures for dealing with consumer debt. Financial support for households in debt was reported to be relatively rare.
5. The most commonly reported changes in response to over-indebtedness related to legislative steps to make insolvency proceedings more readily available to consumers in financial difficulty. This involved changes to the eligibility criteria and/or improvements to make the process quicker and more efficient.
6. Best practices identified by stakeholders and through complementary research in the framework of this study include: financial education; ensuring resource/income adequacy; responsible lending; good practice guidance; early engagement of creditors/lenders; debt advice; temporary suspension of debt servicing; preventing evictions; out-of-court procedures for debt settlement; collective debt settlement; legal procedures for the discharge of debts; responsible debt collection; and prevention of financial exclusion.
7. An important question when considering best practices is whether measures can be implemented effectively in isolation from one other, or whether such measures are more likely to be successful if they are co-ordinated or joined up in some way. The 2008 EMPL study stressed the importance of addressing the multi-dimensional problem of over-indebtedness by way of a combination of complimentary preventative, curative and rehabilitative policy measures. In this context, it has been proposed that the creation of a policy framework, incorporating a national strategy, is the best way of ensuring the implementation of an effective, co-ordinated policy response within a Member State. This finding has been reconfirmed by research conducted for the present study.

8.1 EARLY IDENTIFICATION OF HOUSEHOLDS AT RISK

Many households struggle to keep up with household bills and credit commitments even if they are not yet in arrears with these payments. The early identification of households at risk of financial difficulty may prevent the escalation of debt problems and avoid the costs of debt recovery. As has been argued elsewhere, early action may have wider social and economic benefits as well.[247]

Overall, less than one fifth of stakeholders (18%) consulted for the present study could not answer the question about how common measures were to identify households at risk of becoming over-indebted at an early stage.[248] The rest were evenly divided between those who thought measures of this kind were common (36%) and those who thought they were not (36%). There were some differences among stakeholder groups. Financial industry stakeholders were the most likely to report that such measures were very or fairly common. This was indicated by more than one-half (51%) of all financial industry stakeholders, compared to (the lowest share of) less than one-third (26%) of civil society stakeholders.

Looking at the stakeholder data by country, in a small number of Member States an absolute majority of stakeholders considered early identification measures to be common. These were mostly EU15 Member States such as Germany, Ireland, and the Netherlands, but also a couple of EU12 states (such as the Czech Republic). A similar pattern is evident for countries where most stakeholders found such measures not to be common (Austria, Bulgaria, Hungary, Portugal, and Slovenia).

The most commonly reported measures across the Member States relate to steps that lenders must take in order to lend responsibly, by assessing creditworthiness and affordability before advancing credit.

These provisions are set out in the Consumer Credit Directive and also national guidance. Credit Registers are used in many Member States to help lenders assess creditworthiness.[249] An EU-level stakeholder from the financial industry reported:

> *In most of EU countries there is now a consultation of data bases, negative and sometimes positive, on potential credit default and/or credit exposures. The assessment relies on the number of defaults and potentially commitments already taken and other elements important for banks to assess creditworthiness.*

---

[247] Collard, S., *Understanding financial difficulty: Exploring the opportunities for early intervention*, Barclays/Money Advice Trust, 2011.

[248] The share of stakeholders who did not know how common the measures were to identify households at risk of becoming over-indebted was the highest among interviewees working for public authorities (28%), followed by civil society (16%), independent experts (13%) and the financial industry (15%).

[249] In many EU Member States there is a Public Credit Register and/or private Credit Bureaus which at least record 'negative' credit events such as defaults. This is the terminology used in EU discourse. See for example European Commission, Report of the Expert Group on Credit Histories, 2009.

In a few countries (Denmark, Finland) where only 'negative' credit events are recorded, some stakeholders considered that 'positive' credit information would help prevent over-indebtedness by providing a better picture of an individual's financial situation. This is not always possible, however, due to data protection regulations, and the opposition of various stakeholders, including consumer associations.

In addition, ratios of debt service (or all financial payments due in a given period) to income have been recommended or enforced in some markets, especially for mortgage credit. This measure is better suited to the risk of over-indebtedness as defined in this study, than simply the value loan to income. These ratios are also used to assess creditworthiness and affordability. In Greece, stakeholders reported that some lenders had not respected central bank rules on loan repayment to income ratios in the period preceding the financial crisis. Lenders had since tightened up their lending practices, however. This demonstrates that compliance must be monitored and enforced for regulations and guidance to be effective.

Other than steps taken at the point of granting credit, there are very few examples of initiatives to proactively identify people at risk of financial difficulty.

In a few countries (including the UK, France and the Netherlands) stakeholders mentioned initiatives by lenders to proactively identify households at risk or in the early stages of financial difficulty, after credit has been granted. These initiatives are at the discretion of lenders and appear rare. Stakeholders in Greece and Italy reported that, since the financial crisis, lenders have responded more quickly when borrowers miss a credit repayment, and initiate contact quickly.

In Ireland and the UK guidance for housing providers has been produced, emphasising the importance of early engagement with tenants in rent arrears. In Germany, stakeholders raised the possibility of other organisations and agencies playing a role in the early identification of financial difficulties. For example, social welfare offices seem well-placed to identify people who may be at risk of financial difficulty, because they routinely examine people's income and expenditure in order to assess their eligibility for social welfare payments.

There are a few examples of information or tools for consumers to help them self-assess whether they are at risk of financial difficulty. One example is printed materials disseminated through consumer-facing organisations and the media to encourage consumers to contact their creditors at an early stage if they are worried about meeting their commitments. Another example is an online financial health check available free of charge.[250]

[250] It is provided in the UK by the non-departmental public body 'Money Advice Service' funded by the financial services industry through a statutory levy.

8.2 ADVICE OFFERED TO OVER-INDEBTED HOUSEHOLDS

Debt advice (also called money advice, debt counselling or credit counselling) generally refers to information and help for people who are unable to meet the contractual payments on their household bills, consumer credit or other financial agreements, or who are at risk of not being able to meet these payments.[251]

In a recent study Eurofound reported that debt advice services can help people get their finances (and often their lives) back on track. An absence of advice and help can result in costs for the household but also for society.[252]

Previous research for the European Commission found that debt counselling was common in Member States, although better developed in some countries than others.[253] The picture appears relatively unchanged in this respect, with debt advice services better developed and more widely available in EU15 than EU12 Member States. Research conducted for this study also confirmed that debt counselling is available from different types of organisations, representing the public and the private sector (including both non-profit and for-profit organisations).

The main categories of debt advice providers are presented in the table below. Note that individual organisations can belong to more than one category (for example, consumer organisations can operate as non-governmental organisations and be publicly funded).

[251] Although many types of advice services such as non-credit counselling, and advice regarding social assistance and employment may impact on the well-being of the general population and therefore also benefit over-indebted households, they are not targeted to alleviate the impact of households' over-indebtedness and are therefore not considered here.

[252] Eurofound, *Household debt advisory services in the European Union*, 2012.

[253] European Commission, 2008.

Table 52. *Main types of organisations providing debt advice*

Source: Civic Consulting based on Eurofound 2012, stakeholder interviews, debt advice mapping survey, and country reports.

Type of organisation	Description
Non-governmental organisations	Non-profit, non-governmental organisations, including religious charities. Some are specialised for debt advice provision (organisations as a whole or special departments) whereas others provide advice sporadically, in the context of their overall activities.
Consumer organisations	General consumer organisations (i.e. covering a broad range of consumer protection issues) as well as specialised ones (e.g. focusing on banking services or utilities), ranging from local or regional to national geographic scope of coverage.
Public services	In several countries (including Finland, Sweden, and the Netherlands) local authorities are legally bound to provide debt advice services. In some cases advice is provided by national-level public bodies. Debt advice can also be integrated under broader social welfare services.
Publicly funded organisations at some distance from public administration	Some debt advice providing organisations are detached from the public administration but they are completely or partially publicly funded. Such example is the Money Advice and Budgeting Service (MABS) in Ireland, where the statutory body Citizens Information Board has a statutory responsibility for these services and they are entirely publicly funded. In the UK the Citizens Advice Bureau, operating in England and Wales through a network of registered charities, is largely funded by government grants.
Private for-profit companies	In some countries, such as Ireland, the UK and Portugal, debt advice has been available from for-profit (fee-charging) companies. Multiple financial industry stakeholders participating in this study reported that they provide debt advice as well, although this is mostly focused on recovering debts from their clients.

8.2.1 Availability and costs of debt advice services[254]

As already noted, debt advice provision is not equally developed and organised in the same way across the EU. A summary of the provision of debt advice in individual EU Member States is presented in the table below.

The debt advice mapping carried out for this study indicated that (mostly) free-of-charge services delivered by not-for-profit organisations are most commonly provided at a local level. The national or regional provision of debt advice services was comparatively less common.[255]

[254] This study contained the mapping of debt advice providers across the European Union. This was partially conducted through the interviews with stakeholders in all 27 EU Member States. In addition, a shorter survey was sent to hundreds of contacts across the EU for which it was deemed likely or possible that they provide debt-related advice.

[255] It should be noted that, of the 148 respondents to the debt advice mapping, 45 were from Germany.

***Table 53.** Debt advice provision in EU Member States*

Sources: Civic Consulting (stakeholder interviews, debt advice mapping survey, country reports, desk research), Eurofound 2010, Eurofound 2012, Die Forschungs- und Dokumentationsstelle für Verbraucherinsolvenz und Schuldnerberatung.

MS	Provision of debt advice
AT	Debt advice is available through the country-wide network of state-funded debt advice organisations. In 2012, there were 10 such organisations with 20 additional regional offices, employing 123 full-time debt advisors (see www.schuldnerberatung.at). All these organisations are members of the umbrella organisation ASB (ARGE Schuldnerberatung) which has been active since early 1990s. Most of the debt advice agencies are non-profit associations under private law. Some of them are part of public institutions (such as town councils) or are organised as non-profit limited companies. They are mostly publicly financed and operate free of charge, whereas some private providers (mostly financial advisors and lawyers) charge clients for their services.
BE	Debt counselling is provided by social workers of the public social services (Openbaar Centrum voor Maatschappelijk Welzijn - OCMW in Flanders and the Centre Public d'Action Sociale - CPAS in the Walloon region) as a part of the broader social welfare provision. OCMW and CPAS are recognised as organisations which are entitled to negotiate with creditors. Debt advice is also provided by some private organisations which charge for their services.
BG	No official debt advice services could be identified. A consumer organisation included in this study reported to be the only one providing debt advice free of charge, but it has limited capacities for this type of assistance to consumers.
CY	No official debt advice services could be identified. A representative of a consumer organisation reported that this organisation provides information free of charge to members and non-members, but the resources are rather limited. Some relevant information can reportedly also be obtained from the Central Bank and a banking association. There are also some professional fee-charging advisors.
CZ	The main providers of debt advice are the non-governmental and non-profit public benefit organization Debt Advisory Centre – Counselling in Stringency (Poradna při finanční tísni), co-founded in 2007 by the Czech Consumer Association and Erste Holding (Česká spořitelna); local advice providers which are members of the association Citizens Advice Bureau (Asociace občanských poraden); as well as some other NGOs, such as the regional organisation SPES.
DE	Debt advice is provided by religious charities, consumer associations, other NGOs and municipalities. It has been an independent field of social work since late 1970s. In 1986, 134 advice facilities were in existence in Germany, mostly belonging to church umbrella organisations such as the Caritasverband and the Diakonische Werk. By 2005, 1094 charity-run debt advice offices had been established. Coordination for debt counselling takes place at a national level (Arbeitsgemeinschaft Schuldnerberatung der Verbände, AG SBV). Debt counselling is a municipal task explicitly mentioned in the Social Security Code but municipalities are only supposed to establish own advice agencies if the provision of advice by the charities is not sufficient.
DK	Denmark has been identified by Eurofound as one of the countries with less developed debt advisory services structures, with debt advice mainly being provided by consumer organisations.
EE	As was reported in the stakeholder interviews, free-of-charge personalised debt advice was introduced in Estonia in 2005 and is currently provided in Tallinn and some smaller cities in other regions (Viljandi, Haapsalu, Pärnu). It is not available in the countryside and in most other regions in Estonia. The state does not coordinate the debt advice network as it is the responsibility of municipalities.
EL	Free-of-charge debt advice is available from the members of the Assistance Network for the Over-indebted (mainly lawyers and consumers' associations) launched by the General Secretariat for Consumer Affairs in 2010 to support the obligatory phase of the out-of-court debt settlement. In addition, the Consumer Ombudsman and the Banking Ombudsman are designated by law to assist over-indebted consumers in drafting their out-of-court proposals for debt settlement and they provide this service for free. Advice is

	also available from a growing number of fee-charging financial consultants and lawyers.
ES	In 2008 Spain was identified as one of the countries without debt counselling services. No major subsequent developments have been reported and debt advice appears to be available only from some consumer organisations and financial services providers.
FI	Debt advice is a communal service and free access is guaranteed by legislation. The provision of these services was standardised in 2001 by a law on advice for households and debtors. Local authorities are among the most important debt advice providers. Typically one adviser is responsible for several municipalities. Funding is provided from the state budget. Other actors, such as the Guarantee Foundation, also provide debt advice free of charge.
FR	There is no centrally organised debt advice provision. The main sources of advice are social workers working for local authorities (typically lacking the resources to provide in-depth advice). Debt advice is also available from some consumer associations and other NGOs/charities (e.g. Crésus, Archime'd) and through programmes launched by some providers of financial services. These services are typically available free-of-charge.
HU	Debt advice is available from the local governments' debt advisory and management units, but only in larger settlements and only concerning arrears on social housing or utilities. The provision of such debt advice is required by law for towns with a population of over 40,000. Debt advice is also provided by some NGOs.
IE	The main provider of debt advice are state-funded Money Advice and Budgeting Services (MABS), first established in 1992. There are 51 of these services across the country (plus two national support services) operating as individual companies out of 60 offices nationwide. These services have a primary target group of 'social welfare recipients and other low-income households' and most operate a client account in conjunction with local credit unions. Services are free to the end user/client. In addition, over the last few years a number of private fee-charging debt management companies have established themselves. Advice is also available from a group of lawyers, financial and business persons called "New Beginning", which aims to help people facing legal action to repossess their homes. A recently established "Mortgage Arrears Information and Advice Service", funded by the banks, enables people to access free face-to-face advice from an accountant in relation to an 'advanced forbearance proposal' put forward by their mortgage lender.
IT	There are no organizations (public or private) that would offer advice to over-indebted households at the country level and on a regulated basis. There are a few social cooperatives, consumer associations and other NGOs/charities that offer personalised debt advice, such as Adiconsum (in relation to applications for financial support from the Usury Prevention Fund) and Caritas.
LT	Eurofound recently pointed out that Lithuania is one of the countries with less developed debt advisory services structures. The main providers of debt advice are legal advice centres. In the stakeholder interviews it was reported that one source of debt advice are financial services providers and that there are also some private, fee-charging providers of advice on credit management.
LU	Since 1993 debt advice has been provided by the public advice centre "Service d'information et de conseil en matière de surendettement", established as a result of a special commission set up in 1991 to analyse the heavy indebtedness of private households. The advice services are run by the "Ligue luxembourgeoise de Prévention et d'Action médico-sociales" in the northern and central area, and the private organisation "Inter-Action" (which established the first advice centre in Luxembourg in 1991) in the southern area.
LV	According to Eurofound the main providers of debt advice are the local government, NGOs, and private, for-profit debt collectors. Stakeholders interviewed for this study pointed out the Latvian association of borrowers, LAKRA, and an interactive website (http://www.paradukonsultants.lv) which appears to focus on situations of reduced income or unemployment.

MT	No specialised debt advice providing organisations could be identified. According to stakeholder interviews such advice is provided by some charities, including Caritas, and by the creditors themselves.
NL	As of July 2012 municipalities have been obliged by law to offer debt counselling services. Several municipalities have piloted initiatives involving volunteers and integral debt counselling (including psycho-social attention) and prevention practices at a municipal, district and neighbourhood level. Volunteers predominantly help households administer their financial accounts.
PL	The provision of debt advice does not appear to be wide-spread. Stakeholders reported that personalised debt advice is provided by some NGOs, mostly in the framework of legal advice services, and by some debt collection companies.
PT	The main provider of debt advice is the national consumer association DECO, with multiple offices that specialise in debt advice (GAS – Gabinete de Apoio ao Sobre-endividado). Several for-profit debt advice providing organisations have also emerged in the (unregulated) market. A decree-law issued in October 2012 foresees a network of debt advice services certified by public authorities, but details are not known at the time of reporting.
RO	According to the interviewed stakeholders debt advice provision is not well developed. It has previously been reported that local social service offices are the main debt advice providers, whereas stakeholders pointed to some web-based tools and to financial services providers themselves.
SE	Budget and debt counselling is available free-of-charge throughout Sweden, as accessibility of such services is required by law.
SI	There are no official debt advice services. Debt advice provision appears to be limited to legal assistance to consumers regarding disputes related to consumer credit and to some printed or web-based information on issues such as debt or personal insolvency provided by the national consumer organisation.
SK	Debt advice provision does not appear to be well developed and wide-spread. The main provider of debt advice identified by Eurofound is the Association of Slovak Consumers.
UK	Free-of-charge debt advice is provided by a wide range of not-for-profit agencies. Some local authorities also employ debt advisers. Among the main providers of debt advice are StepChange Debt Charity (previously called the Consumer Credit Counselling Service), National Debtline (run by the Money Advice Trust) and the local branches of Citizens Advice Bureau. The Money Advice Service, funded through a levy on the financial services industry, took responsibility for the coordination of face-to-face debt advice services in 2012. There are also many private for-profit companies that provide debt advice and/or assist with debt management.

According to the debt advice mapping and stakeholder data, face-to-face debt advice is the type of help most available to people in debt: over five in ten stakeholders (55%) indicated that this was either widely or partly available. This represents 81% of stakeholders who provided an answer (190 in total). In most countries the majority of stakeholders agreed that face-to-face advice was available, even if it was not necessarily widespread.

Despite the convenience of debt advice over the telephone, only 41% of stakeholders considered telephone advice to be widely or partly available. This represents 67% of those who provided an answer (169 in total). In a number of EU12 countries, stakeholders reported a relative lack of telephone advice services. This was the case in Bulgaria, Malta, Poland, and Slovakia. There was a fairly similar picture in relation to printed information for people in debt. Email/online advice and web-based tools were reported by the stakeholders to be somewhat less common (45% of those who expressed an opinion stated that email/online advice was widely or partly available, compared to 53% for web based tools).

Overall, there seem to be three broad groups of countries in terms of the availability of debt advice. The first group comprises countries where municipalities have a legal obligation to provide debt advice (including the Netherlands, Sweden and Finland). As a result, face-to-face personalised debt advice is available to people in financial difficulties either free of charge or at low cost. The same is generally true of personalised telephone advice (which tends to be free except for the cost of the call). The fact that municipalities have an obligation to provide debt advice does not necessarily mean these services are easily accessible, however. The availability of face-to-face services can vary by region and there can also be long waiting times for appointments.[256] There is printed information available in these countries as well, but email/online advice and web-based tools are uncommon.

A second group of countries (including the UK, Austria, Belgium, Ireland,[257] Portugal and Germany) has a relatively mixed economy of debt advice. Personalised debt advice is delivered free-of-charge mainly by NGOs and public authorities (such as social welfare services). The availability of face-to-face advice can be variable, often concentrated in urban areas with larger populations. Some of the same organisations (for example in the UK and Ireland) deliver advice by email and offer web-based tools as well. There also exist organisations that provide services for a fee (other than fees charged for insolvency procedures such as bankruptcy). These range from professionals such as lawyers and financial advisers who tend to help particular socio-demographic groups (such as self-employed people) to debt management firms that specialise in providing specific debt solutions. Printed or online information is available from a wide range of sources, including NGOs, public authorities and firms that deliver debt advice as well as consumer organisations and financial services providers.

Compared to other countries, the third group has limited debt advice provision of any kind. In France, some NGOs and financial services firms provide debt advice services free-of-charge, but this help is not widely available. Social workers are a

[256] It should be noted that previous research and interviews conducted for this study pointed to some regional disparities in the provision of (generally considered widely available) debt advice. "In the countries with government provision, smaller local authorities often do not provide these services … They might not have faced demand and thus have not so far found it necessary to provide the service and/or they might lack the capacity to do so. " (Eurofound 2012, p. 20). A stakeholder in Sweden observed: "It is very different in different towns. Some local politicians are interested in having a good service and some others are not … In many places it works very well but in many not." In Hungary, the provision of debt advice is compulsory only for municipalities with a population of over 40,000.

[257] In Ireland specialist services have recently been set up to help homeowners with mortgage arrears (or at risk of arrears). The first of these was a free government-funded telephone mortgage arrears helpline. The second was a service set up to help homeowners facing repossession action, which had initially been free-of-charge but now charges for its service.

common source of free advice, but they do not specialise in debt problems. A similar picture exists in Spain and Italy, which at best have some regional or local services provided by consumer organisations or NGOs. In several countries (including Slovenia, Bulgaria, Lithuania, Slovakia, Poland and Romania) debt advice services are relatively uncommon and under-developed. Consumer organisations in some of these countries reportedly provide some debt advice, but their capacities in this regard are rather limited. Other than that, advice services are few and far between, provided by some fee-charging lawyers and private firms. As a general pattern, there seems to be less provision of debt advice in EU12 than in other EU Member States.

Regarding costs of debt advice services, 41% of all stakeholders stated that face to face debt advice was free of charge. However, 37% of all stakeholders did not know or did not provide an answer.[258] Civil society stakeholders were the most likely to provide an answer (one in five did not do so; 20%),[259] and almost every other one of them (47%) reported that debt advice was available generally free of charge.[260] That service was generally paid was indicated by much smaller percentages of stakeholders from each of the four main groups. Such assessment was provided by only 2% of interviewees from public authorities, up to 6% among independent experts.

8.2.2 Demand for debt advice as assessed by stakeholders

The most information that stakeholders provided on the demand for debt advice related to personalised face-to-face debt advice. Demand was observed to be high. Three in four stakeholders (77%) who assessed the demand for face-to-face advice (from a total of 140 stakeholders who expressed an opinion) indicated that it was very or fairly high (see table below).

As with other questions inquiring about debt advice, civil society stakeholders were the most likely to provide a definitive answer, although even among these interviewees knowledge significantly dropped with regard to web-based advice - one half of civil society stakeholders did not provide an assessment (and compared to about three quarters of the other groups). Civil society stakeholders were the most likely to assess that demand for face-to-face debt advice was very or fairly high (34% and 29% of all respondents, respectively); independent experts were the first to follow (with 23% and 24% indicating that demand was very or fairly high, respectively). Interviewees from public authorities and financial industry were notably less likely to provide such an answer.

[258] Public authorities and financial industry stakeholders were the least likely to provide an answer on the costs of face-to-face advice (48% and 39%, respectively).

[259] It may be the case that civil society stakeholders are on average better informed about the topic, as many of them were contacted specifically in connection to their own provision of debt advice.

[260] This was followed by the share of the same response - i.e. that face-to-face advice is generally available free of charge - among individual experts (41%), interviewees working for public authorities (38%) and financial industry (38%).

***Table 54.** Demand for debt advice by over-indebted households (by stakeholder group)*

Source: Civic Consulting, stakeholder interviews, Q15 (N=277).

Answer	Financial industry	Civil society	Public authorities	Independ-ent experts	Total
Face-to-face					
Very/fairly high	29%	63%	32%	47%	43%
Very/fairly low	25%	10%	9%	9%	13%
Don't know/no answer	46%	27%	59%	44%	44%
Telephone					
Very/fairly high	17%	43%	26%	26%	28%
Very/fairly low	22%	21%	7%	14%	16%
Don't know/no answer	61%	37%	67%	61%	56%
E-mail/chat					
Very/ fairly high	7%	23%	10%	8%	12%
Very/fairly low	25%	30%	14%	17%	22%
Don't know/no answer	68%	47%	75%	76%	66%
Web-based					
Very/fairly high	9%	30%	12%	11%	16%
Very/fairly low	17%	16%	12%	14%	15%
Don't know/no answer	74%	53%	77%	76%	70%

8.2.3 Changes in demand for debt advice as assessed by stakeholders

It has been recently noted by Eurofound that the financial crisis has generated increased demand for debt advice services in Member States at a time of cutbacks in public resources.[261] Stakeholders interviewed for this study also predominantly reported that demand has increased over the last five years.[262]

As well as the financial crisis, some stakeholders reported other explanations for increased demand in their countries: better consumer awareness of advice services (Germany), a growth in new forms of consumer credit such as SMS and payday loans (Finland, UK), and a greater need for debt advice arising from increased numbers of personal insolvencies (Latvia) or the complex nature of personal insolvency procedures (Germany).

More than three quarters (74%) of all interviewees from civil society and less than two thirds (61%) of independent experts indicated that demand has very much or fairly increased over the past five years; compared to the same assessment by 51% of

[261] See Eurofound, 2012.

[262] The changes in demand for debt advice in the last five years were assessed by 180 stakeholders. Among these, 83% indicated that demand has very much or fairly increased.

interviewees from the financial industry and by 44% among those working for public authorities.

In some Member States, notably those with less widespread advice services, increased demand was based on anecdotal evidence. In others which tended to have better coverage, this increase was evidenced in research or statistics (for example in Ireland, Austria and the UK).

Table 55. *How has demand for debt advice changed in the last five years? (by stakeholder group)*

Source: Civic Consulting, stakeholder interviews, Q16 (N=277).

Answer	Financial industry	Civil society	Public authorities	Independ-ent experts	Total
Very much increased	23%	38%	20%	24%	27%
Fairly increased	28%	36%	23%	36%	31%
Stable/decreased	16%	10%	14%	8%	12%
Don't know/no answer	33%	16%	42%	32%	31%

8.2.4 Effectiveness of debt-advice as assessed by the stakeholders

Similarly, information about the effectiveness of debt advice was limited. Many stakeholders emphasised a lack of concrete information on which to assess the effectiveness of debt advice services. In a few countries, stakeholders' views were informed by research studies or surveys of debt advice clients (as in Estonia, Finland, Germany, the Netherlands, and the UK).

For example, a respondent in France said:

> *Investing in debt relief is certainly a cost to society but it also leads to decreased costs on other fields. A study found that in the Netherlands every Euro invested in debt relief leads to 1.7-2.4 Euros of 'gains' in other fields, such as housing or welfare costs. The above questions suggest that debt relief is an expenditure, a burden only. That is not the case!*

In the Netherlands, a cost-benefit calculation from 2011 based on the data from five above-average sized municipalities[263] found that each Euro spent on debt counselling activities returned more than 2 Euro in social benefits. Similarly, another cost-benefit calculation from 2011 based on the data from three debt-advise projects suggests that each Euro spent on debt counselling returns between 1.30 Euro and 2.90 Euro in social benefits.[264]

[263] Van Geuns, R., Jungmann, N., Kruis, G., Calkoen, P, Anderson, M., *Schuldhulpverling loont!*, Regioplan, Amsterdam, 2011.

[264] Kruis, G. , Jungmann, N., and Blommesteijn, M. *Social Economic Benefit of Volunteer Projects Within Debt Aid,* Social Force and Regioplan, Amsterdam, 2011.

Where they expressed an opinion, the majority of stakeholders across the Member States who claimed that personalised debt advice, and face-to-face debt advice in particular, was effective in alleviating the impact of over-indebtedness. Face-to-face advice was felt to be preferable in cases where consumers have multiple or complex debt problems. It was also felt to provide an opportunity for financial education, e.g. through a discussion of budgeting or money management.

There was much less certainty about the effectiveness of other forms of advice, partly because they tended to be less common than personalised advice.

Table 56. *How effective is the measure in alleviating the impact of over-indebtedness? (by stakeholder group)*

Source: Civic Consulting, stakeholder interviews, Q15 (N=277).

Answer	Financial industry	Civil society	Public authorities	Independent experts	Total
Very/fairly effective	38%	59%	33%	36%	42%
Hardly/not at all effective	6%	10%	4%	9%	7%
Don't know/no answer	57%	32%	62%	55%	51%

A few stakeholders pointed to the fact that different types and channels of advice can serve different purposes. For example, printed materials may be an effective way of increasing awareness of the benefits of debt advice and providing basic information. As noted above, face-to-face advice may be preferable where consumers have more complex problems such as multiple debts to different creditors. In other words, understanding the strengths and weaknesses of different types and channels of debt advice can help inform the development of services to meet a range of consumer needs.

In Member States with at least some debt advice services, stakeholders often felt that the effectiveness of free-of-charge services was hampered because demand was so much greater than supply. As a result, some people who sought advice would not receive it. Others faced long waiting times before they could speak to a debt adviser, during which period their situation could deteriorate further. In Finland, for example, consumers could wait several months to see an advisor, but it could be much longer. In Germany, waiting times of up to four months were mentioned.

High levels of demand for advice in turn raised concerns about heavy workloads for advisers, and the possible negative impact on the quality of advice advisers were able to provide. There were also reports of dubious for-profit organisations setting up to fill the advice gap. In Germany, there was a reported increase in the number of illegal debt advice services. In Portugal, there were reports of suspected fraudulent activity among newly-established for-profit debt counselling services.

Several stakeholders pointed out that debtors often only sought advice once their problems were serious, which impacted on the effectiveness of advice services. Possible ways of providing timely access to advice have been explored in previous research by Eurofound and may include anonymous first-contact options, multiple language and media channels, targeted marketing and outreach services.[265] As noted above, high demand for free-of-charge advice services but no commensurate increase in supply can mean that debtors who seek help at an early stage do not receive it.

The stakeholder data suggested that in a significant number of Member States, lack of awareness of services was a barrier to accessing advice. This was true even in Member States that had comparatively well-developed advice services and where demand for advice services was already high. Exclusion criteria that in some way restrict the debtors who are eligible for help (for example depending on income or type of debts) is another barrier to accessing advice.[266]

Findings about the effectiveness of debt advice

Stakeholders judged the different delivery channels as having varying levels of effectiveness. […] Regarding debt counselling in general, one study analysed surveys of clients of the debt advice service and found that most clients considered that debt counselling had a positive effect on their economic position and their debt problems; satisfaction was highest amongst those with debt problems arising out of consumer credit. *(Country report Finland)*

The conclusions of stakeholders are broadly in line with academic research on the effectiveness of debt advice. For example, a study commissioned for the Federal Ministry of the Family, Elderly, Women, and Youth in 2004 found that the profile of clients after a year of debt of advice showed a marked increase in those in secure employment, rising incomes, and general improvement in standard of living. Other studies showed similar results, with debt advice also found to save money for public authorities in one Berlin-based cost-benefit analysis. *(Country report Germany)*

There was a general sense among respondents that the Money Advice and Budgeting Service (MABS) is playing a highly significant role in alleviating the impact of over-indebtedness and is making the best use of the resources available to it; media coverage of MABS is generally very positive and the service is highly regarded by politicians. A recent study in relation to the experience of mortgage arrears among MABS clients identified a number of specific impacts of MABS' interventions from the clients' perspective, including alleviation of stress and improved money management skills. *(Country report Ireland)*

265 Eurofound, 2012.

266 Ibid.

8.2.5 Funding of debt advice services

Previous research published at the outset of the financial crisis noted the need for adequate (public) funding of debt advice services in order to meet demand in a timely manner and to provide the comprehensive geographical coverage that many Member States lacked.[267] Several years on, the situation does not appear to have improved and the funding of debt advice continues to be a major concern among stakeholders across Member States. Indeed, it was unusual for stakeholders to mention any significant or sustained increase in funding for advice services in order to meet the additional demand that has (at least in part) been created by the financial crisis. In the debt advice mapping, most respondents reported that not-for-profit debt advice services received some public funding to deliver advice free-of-charge. Other sources, such as funding from a charity or voluntary organisation or funding from industry were mentioned much less often.[268]

In the context of high and rising demand for debt advice, it was rare for stakeholders to think that debt advice funding was sufficient (only 15% thought so). About half of stakeholders considered funding for debt advice to be insufficient (46%). The rest did not know or they did not wish to respond. Again, differences can be observed among the four main groups of stakeholders. For example, nearly half (48%) of stakeholders from the financial industry did not assess the sufficiency of funding, compared to 21% among civil society stakeholders (among whom many were providers of debt advice). Civil society interviewees and independent experts were much more likely to assess the funding as insufficient. This was the case with two thirds (63%) of civil society stakeholders and more than one half (57%) of independent experts, compared to 28% in the financial industry and 35% among public authorities (see table below).

***Table 57.** Is funding of debt advice services sufficient? (by stakeholder group)*

Source: Civic Consulting, stakeholder interviews, Q17, (N=277).

Answer	Financial industry	Civil society	Public authorities	Independent experts	Total
Very or fairly sufficient	25%	17%	16%	3%	15%
Rather not sufficient	16%	30%	26%	21%	24%
Not at all sufficient	12%	33%	9%	36%	22%
Don't know/no answer	48%	21%	49%	39%	39%

Looking at the stakeholder data by country, in 14 Member States, half or more of all stakeholders interviewed considered funding not to be sufficient. This spanned a

[267] European Commission, 2008.

[268] It should be again noted that, of the 148 respondents to the debt advice mapping, 45 were from Germany.

range of countries, from those with relatively widespread coverage of advice services to those with little or no provision. There were mixed views about the adequacy of funding among stakeholders in Austria, Cyprus, Germany, Luxembourg, France, Ireland and the Netherlands, which generally have at least some publically funded advice provision.

In Member States with limited debt advice services (for example in Bulgaria) very little or no public funding for debt advice was reported. Where debt advice services were more widely available, public funding was nonetheless considered barely sufficient or insufficient to meet the needs of people in financial difficulty. In Ireland, this was despite an injection of additional government funding for debt advice. In the UK, public funding for debt advice services was felt to be insufficient, and further cuts were due.

Stakeholders who commented on the solutions for the perceived insufficiency of funding predominantly referred to the need for more public funding (both national and EU), and there was strong support in a number of Member States (including Finland, Germany and Italy) for central governments to play a bigger role in funding advice services. In some Member States where municipalities were primarily responsible for service provision, it was reported that smaller municipalities struggled to co-ordinate and fund adequate debt advice services, especially at a time of public spending cuts.

There was also some support (for example in Austria, the UK, Ireland, and Romania) for creditors to play a greater role in funding debt advice services. As one stakeholder at EU-level commented:

> *One possibility is for the banks to finance debt advice, as indeed lending practices are one of the causes for bringing consumers into over-indebtedness. One proposal is for banks to give away 1% of interest rates to finance debt advice.*

Some stakeholders highlighted that it would be important for debt advice services financed or co-financed by the financial industry to retain their independence. For example, an interviewee in Ireland said:

> *There are different ways to do this. 'Polluter pays' is an interesting approach (similar to Belgium). I think there should be some creditor contribution to the services, considering that they also obtain benefit from them as debt advice is serving as a collection service as well to a certain degree. [...] funding by the industry should be one step removed from debt advice [...] creditor contributions could be collected through a levy imposed by the State on lenders, rather than through direct creditor payment.*

The model in Belgium was described by a national stakeholder:

The major funds for official debt counsellors come from credit providers and the way they provide the money is related to the default rate considering the market share. So the more arrears and defaults they have, the more they will contribute to this fund which should lead to more responsible practices by the lenders.

8.3 FORMAL AND OTHER KEY MEASURES IN PLACE TO ALLEVIATE THE IMPACT OF OVER-INDEBTEDNESS

In most Member States, a number of different measures are available to help alleviate consumer financial difficulties.

The measures taken by households who participated in the study (in the consumer interviews) varied significantly across the different countries. Informally brokered arrangements were present in all countries, although they took on different forms. For example, in the UK several interviewees reported having an informal agreement that had been brokered by a third party (debt advice organisation), while in other countries these tended to be negotiated directly with the creditor. Formal arrangements were particularly present in France, as well as, to a certain extent, in Hungary. In Slovenia and Spain several households received urgent financial support to pay some arrears and basic needs. Overall, few households made use of legal procedures. Only one household in the UK and two households in Slovenia had successfully applied for consumer insolvency. One household in Slovenia was unable to apply for insolvency as a result of the high application fee.

In the interviews with stakeholders (public authorities, financial industry, civil society and independent experts) it was assessed that:

- In most Member States informally brokered arrangements were available to help people sort out their debt problems.
- Legal court-based procedures such as personal insolvency or consumer bankruptcy are common in Member States. Some Member States seemed to lack court-based procedures for private debtors, however, including Bulgaria, Hungary, and Romania.
- Formal out-of-court debt settlement procedures were somewhat less common (mentioned by 44% of stakeholders as being widely or partly available). In 12 of the 27 EU Member States, most stakeholders agreed that formal out-of-court measures were available. That was the case in Austria, Belgium, Germany, Greece, Spain, Finland, France, Italy, Luxembourg, the Netherlands, and the UK. Court-based legal procedures were at least partly available according to most stakeholder across the EU (57%).
- Financial support for households in debt was relatively rare. Only 18% of interviewees indicated that this was at least partly available and very little was known about the cost or effectiveness of this type of support.

In addition, stakeholders in a number of Member States reported that, since the financial crisis, special measures had been introduced to help homeowners with mortgage arrears or at risk of arrears.

More details concerning each of these measures are presented in the following sub-sections.

8.3.1 Informally brokered arrangements

Informal arrangements were reported to be available in most Member States, with a majority of respondents (56%) reporting that they were widely or partly available (32% did not know or did not answer the question).

Debtors negotiated informal repayment arrangements with their creditors directly (at no cost), or with the help of a debt advice service. For the most part, debt advice services provided this help free-of-charge. In a few Member States, for example in Belgium and the UK, assistance in setting up and administering repayment plans was also offered by private firms on a fee-charging basis. There were examples of debtors being charged fees by creditors, for example where a credit contract was changed as a result of loan being rescheduled.

Some examples were provided by the stakeholders of tools to help debtors and debt advisers broker informal repayment arrangements. In Ireland, a voluntary protocol for informal arrangements had been agreed by advisers and creditors, and it was considered to be very successful. In the UK, an assisted self-help resource had been developed by the advice sector to help consumers negotiate more effectively with creditors. The use of a standardised income and expenditure statement to streamline negotiations between debt advisers and creditors was also mentioned.

Hard evidence on which to assess the effectiveness of informally brokered arrangements is generally lacking. This type of measure was mostly considered to be effective, particularly for debtors with only one or two debts or in the early stages of financial difficulty. Some concerns were raised regarding potential impediments to effectiveness, including:

- Scepticism about creditors' motives in agreeing informal repayment arrangements;
- Creditors being very unwilling to agree informal arrangements, preferring court-based debt solutions;
- Issues around the process of agreeing repayment plans and the level of repayment;
- Concerns about poor practice among private firms that charge debtors to set up and administer payment plans.

From the consumer interviews it would appear that informally brokered arrangements have the potential to be fairly effective. In all countries but Spain a share of the interviewees reported coming to some type of informal arrangement with their creditors that included a rescheduling or reduction of debt. For example, some interviewees indicated that they had reached an agreement with their utilities providers so that they could pay off their arrears in instalments, rather than all at once. Some interviewees were only able to reach an agreement with one or two of their creditors, but others were able to come to an arrangement with several or all of them. Particularly in the latter cases, some interviewees reported that they had reduced their total payments to a level that they could afford to pay and that they could hope to be debt free at some point in the future. Even where the agreements did not bring the perspective of an end to financial difficulties, they could be beneficial, for example because they allowed the interviewees to avoid utility disconnection or eviction.

8.3.2 Formal procedures for debt settlement that do not take place in court

A mixed picture emerges from stakeholder interviews regarding formal out-of-court debt settlement procedures. These types of measures are available in Member States such as Austria, Belgium, Finland, France, Germany, Greece, Netherlands, Portugal, Slovakia, and the UK. They are generally free-of-charge to people in financial difficulty, with a few exceptions, such as the UK. In some of these Member States, formal out-of-court measures are a mandatory precursor to legal court-based consumer insolvency procedures. These typically involve creditors and debtors voluntarily attempting to reach an agreement about reduced repayments.

Formal out-of-court measures in these Member States were generally considered to be effective. Over a third (34%) of respondents considered them fairly or very effective, compared to only 9% who thought they were hardly or not at all effective, while 56% did not know or answer. For example, it was estimated that, once a debt settlement arrangement was finalised, seven in ten debtors in the Netherlands went on to clear their debts. In Austria, Greece and Germany on the other hand, the reluctance of creditors to participate in these measures was a significant barrier to their effectiveness. In Germany it was estimated that only 10-20 per cent of negotiations were successful. In Greece, official statistics showed that creditors agreed less than one per cent of payment plans.[269]

Other factors that were cited by the stakeholders as potential obstacles to effectiveness were:

- The eligibility criteria for some formal measures, which limited their use by debtors;

[269] See relevant country reports for further details.

- A lack of resources to develop personalised repayment plans that were best-suited to the debtor's circumstances;
- A lack of support for debtors to maintain repayment arrangements once repayment plans were in place;
- A view that arrangements could fail because debtors were not prepared to accept the budget requirements.

In some other Member States, such as Ireland, Sweden, Bulgaria and Slovenia, it was assessed by stakeholders that formal out-of-court measures were not generally available. In at least one Member States (Ireland), there were plans for the introduction of such measures.

8.3.3 Legal court-based procedures

The majority of stakeholders (57%) stated that court-based consumer insolvency procedures were widely or partly available, while 13% did not know or did not provide an answer. In most Member States it was reported that court-based consumer insolvency procedures were available. However, some Member States seem to lack any legal procedures for dealing with consumer debt according to the stakeholders interviewed. These include Bulgaria, Hungary, Malta, and Romania.

Legal court-based procedures are generally available to debtors, although in some Member States (for example in Finland, France, Germany, Greece and the Netherlands) debtors are required to have first been through formal out-of-court debt settlement. In some countries, court-based procedures are free-of-charge to people in financial difficulty. In places where fees have to be paid, financial support is sometimes available, for example through public legal aid or from charitable organisations.

Court-based procedures were generally assessed to be effective.

Factors that could hamper effectiveness included:

- Complex procedures that were off-putting for debtors;
- Over-restrictive eligibility criteria that meant few debtors could apply;
- High fees that restricted access;[270]
- Waiting times and the length of the court process;
- The fact that bankrupts could be left with very restricted incomes or may not be entitled to have their debts discharged;
- A lack of debt advice services to support people through the legal process.

In Ireland, the court-based procedures that existed were considered by the interviewed stakeholders to be wholly ineffective because the stringent eligibility

[270] In Germany, it has been possible since 2001 to defer the costs of bankruptcy to help overcome this barrier.

criteria and punitive conditions made them very unattractive to people in financial difficulty. As a result, these procedures were rarely used. As part of a wider review of personal insolvency legislation however, reformed insolvency procedures have recently been introduced.[271]

8.3.4 Financial support for households to repay debts

Various types of financial support to help households in certain circumstances (e.g. on a low income or in a crisis situation) or with certain costs were reported by the stakeholders. Such support is often provided by the state (for example in Austria, Belgium, Ireland, the UK, Slovenia and Sweden). In some Member States (such as Ireland, the UK and Sweden) it is also available from charities and other NGOs. State support of this kind was reported to be discretionary and conditional in several Member States, including the UK, and Ireland.

Only a few Member States appear to have financial support specifically to help households repay debts, however. This support is typically targeted at low-income households and related to the repayment of particular types of debts, notably rent or utility arrears. Such measures were reported in the UK, France and Slovenia, being provided by the state or NGOs, such as charitable trusts in the UK. In Germany, some charities provide financial help in certain regions and to certain groups (such as people with addiction problems) so that debtors can settle their debts informally. Elsewhere, for example in Sweden, the state was considering various proposals to help people to repay debt, such as state loans, although none of these had been implemented.

There were also examples of state support to meet current housing costs, for households in receipt of particular social security payments. In Ireland this support is available to homeowners and private tenants.

8.3.5 Measures to alleviate over-indebtedness among mortgage borrowers

In the wake of the financial crisis, several Member States have introduced temporary measures to alleviate mortgage over-indebtedness and help homeowners to stay in their homes.

Most commonly, these measures involve restructuring mortgage debt. In Italy, for example, mortgage repayments can be suspended in certain circumstances, e.g. job loss or income drop. The mortgage term is extended to equal the period of the suspension. Provided they meet certain eligibility criteria, mortgage borrowers in England can take out an interest-only loan to help pay off some of the mortgage and reduce their mortgage payments to an affordable level. In Hungary, an exchange rate

[271] See country report Ireland for further details.

fixation programme has been introduced, to reduce the repayments faced by foreign exchange mortgage borrowers.

There are also examples of public schemes that allow mortgage borrowers to sell their home and then rent it back from an organisation such as an independent housing association or public body (in England and Ireland, and set up but not running in Hungary).

The governments in Hungary, Portugal, Greece and Spain have introduced measures to protect mortgage borrowers from repossession. In the UK and Ireland, government pressure on mortgage lenders to show forbearance to people in financial difficulty has been one of the principal measures to help mortgage borrowers. There are concerns about the effectiveness of this measure for households with longer-term difficulties, however.

One Member State (Spain) has introduced financial support to help unemployed pay their mortgage; this type of direct financial assistance is not mentioned elsewhere.

These measures are generally considered to be effective, or else it is felt too early to assess their effectiveness. One scheme (in Hungary) to help mortgage borrowers pay-back their mortgage debt to help them avoid mortgage arrears was considered to be ineffective. This is because it allowed better-off mortgage borrowers to repay a large part of their mortgage at preferential interest rates which resulted in losses for mortgage lenders.

8.3.6 Other measures

There was little mention of any other measures to alleviate over-indebtedness. Debt consolidation loans were mentioned as another possible measure in some circumstances, either provided by banks or, in Finland, by the Guarantee Foundation. In France, court-based processes to 'rest the debt' provide a short-term solution for people with temporary financial difficulties. It has been assessed, however, that lack of public awareness limits the effectiveness of this measure.

8.4 HOUSEHOLDS' USE AND PERCEPTION OF AVAILABLE MEASURES

In our consumer interviews, interviewees tended to report positive outcomes as a result of seeking advice or taking measures to alleviate their difficulties. The following sub-sections present the evidence collected from the six countries where consumer interviews took place in the framework of this study, differentiating between the use of debt advice services, the use of measures to alleviate the impact of financial difficulties, and the outcomes as a result of seeking advice or taking measures to alleviate their difficulties.

8.4.1 Use of debt advice services

The use of advice varied significantly across the six countries where consumer interviews took place in the framework of this study. In the UK, France and Germany at least half of households had sought personalised debt advice (in France and Germany all face-to-face, in the UK also on the telephone and online). In Slovenia over half of interviewees sought some type of help from their social workers, although these do not officially offer financial or debt advice.[272] In Hungary, those households who made use of advice were in the minority, and none of these received advice from a body specialising in the provision of debt advice. Rather they asked for help from private financial advisers, banks or friends.[273]

[272] There was a similar situation in Spain, where households sought help from social services or charitable organisations.

[273] Households that were only at risk of over-indebtedness were less likely to have sought any type of advice than households that were actually over-indebted. Households that were previously over-indebted were the most likely to have sought advice.

Table 58. Advice sought/received

MS	Summary of household interviews
France	Three quarters of the interviewed households had received personalised, face-to-face debt advice. Mostly they received this from social workers, but a few interviewees had received help from non-governmental organisations specialising in debt advice. A few households had only sought advice from their relatives or their banker, while one interviewee indicated that she had not sought any advice at all. Two households received help from relatives who had experienced over-indebtedness and recommended to apply to the over-indebtedness procedure of the Bank of France.
Germany	Almost all households had received personalized, face-to-face debt advice. In several of these cases, the interviewees only received this advice at a fairly late stage, for example when they decided to apply for personal insolvency. In some cases, the interviewees explained that they would have sought help earlier, but they had not known about the existence of debt counselling, they were afraid of being criticised or they felt that they could deal with their problems alone. Only two interviewees had not yet sought any advice, and one of these was planning to do so in the future.
Hungary	A quarter of interviewees reported seeking advice from their bank or a private financial adviser, while a few interviewees explained that they had asked for advice from their friends, or looked for information on the internet. However, several interviewees explained that they had not looked for advice at all. For example, one interviewee felt he could probably deal with the problems by himself, while another indicated that advice would be ineffective, as it would not change his irresponsible attitude towards money.
Slovenia	Almost all of the interviewed households sought advice or support for their financial difficulties. In most cases they asked for support from the social services or municipal offices, although six households also requested help from not-for-profit agencies. Generally, their main objective appears to have been to receive financial support. However, two interviewees indicated that social workers also gave them advice on how to deal with their creditors. Four households received free legal advice, in most cases to recover child support payments from former partners, but in one case to assist the household in its conflict with creditors. One interviewee called a consumer association to receive information on personal bankruptcy, while another household looked for this sort of information on the Internet.
Spain	Most households in Spain had received some type of support or advice. For example, a little under half of households had sought advice from lawyers, family or friends who were knowledgeable on the subject. A similar number of households had sought help from charitable organisations or their local social services, although this was mostly in order to receive financial support or help with finding a job. One interviewee contacted her bank manager for advice before falling into arrears and obtained a positive outcome.
United Kingdom	Just over half of interviewees had sought some type of personalised debt advice. Most frequently this was received face-to-face, but a few interviewees also received advice on the telephone or online. Mostly this help was provided by nationally organised, not-for-profit agencies that offer free debt advice. In one case the interviewee received help from a government agency and in another case from a local counselling centre. Most of the interviewees who had asked for advice explained that they only did this quite late, when they literally could not make the payments anymore or when they were being threatened with bailiffs or debt collection agencies. Eight of the interviewed households indicated that they had not sought any advice, or had only consulted their friends or family members. Most of these households explained that they would be able to sort out the situation by themselves, or that they would feel uncomfortable discussing their difficulties with people they did not know.

Source: Civic Consulting, household interviews (N=120).

8.4.2 Use of measures to alleviate the impact of financial difficulties

The measures taken by households also varied significantly across the six countries in which consumer interviews took place. Informally brokered arrangements were present in all countries, although they took on different forms. For example, in the UK several interviewees reported having an informal agreement that had been brokered by a third party (debt advice organisation), while in other countries these tended to be negotiated directly with the creditor.

Formal arrangements were particularly present in France, as well as, to a certain extent, in Hungary. In Slovenia and Spain several households received urgent financial support to pay their arrears and basic needs. In Germany, over half of households had made use of legal procedures, i.e. consumer insolvency. However, outside of Germany, only one household in the UK and two households in Slovenia had successfully applied for consumer insolvency. [274]

[274] No households who were at risk of over-indebtedness had made use of formal or legal procedures. However, some had made use of informal measures or received financial support. Generally, households who were over-indebted or had previously been over-indebted were more likely to have made use of measures to alleviate their financial difficulties (especially those who were previously over-indebted).

***Table 59**. Measures taken to alleviate the impact of financial difficulties*

MS	Summary of household interviews
France	Three quarters of interviewed households had made use of formal measures to alleviate their financial difficulties. These households had all used the official procedure of the Bank of France. Some had only recently submitted their applications, while others had already received debt moratoriums or repayment plans. Some had also made use of other measures, such as informal arrangements with their creditors or financial support from the state (in one case from social services to pay rent arrears). Three households had reached an agreement regarding the late payment of their rent.
Germany	Over half of interviewees had made use of consumer insolvency proceedings. Some had already been discharged, while others were still repaying their debts. Another four interviewees were planning to apply for consumer insolvency. Some households also attempted to reach informal arrangements with their creditors. For example, one interviewee had managed to negotiate a reduction of his debt from 8,000 to 4,000 Euro, and was expecting to achieve a further reduction. Some others reported that their attempts to negotiate informal arrangements had failed.
Hungary	Around three quarters of the interviewed households had made use of measures to alleviate the impact of their financial difficulties. Four used a formal procedure introduced by the Hungarian government to help people with foreign currency loans by allowing them to fix the exchange rate and repay the loan early. In addition, around half of the households came to an informal agreement with at least some of their creditors. For example, three reached an agreement with their utility providers to pay their arrears in instalments, while several rescheduled their loan payments.
Slovenia	Around a third of the interviewed households had managed to negotiate an informal arrangement with their creditors. In addition, two households had made use of personal bankruptcy proceedings, while another planned to file for bankruptcy within the following few weeks. One interviewee had attempted to apply for bankruptcy, but could not afford the 2000 Euro application fee. Several households received emergency financial support from the social services, for example to pay utility arrears.
Spain	The kinds of measures taken by the households in Spain were quite mixed. Only two households reached an informal agreement with their creditor. A few households received financial support from public authorities. Others received support from charity to buy food, pay basic expenses or find a job. Other answers were as varied as thinking about moving to another country to start over again, or entering literary contests to cancel debts with the money from the prizes. In some cases, indebted households had attempted to apply for an insolvency procedure, but had not been successful.
United Kingdom	The measures most frequently made use of by the interviewed households were informally brokered arrangements with their creditors, which involved either a rescheduling of their payments and/or a reduction of their total debt. Eight households had already come to such an arrangement with their creditors at the time of the interview, while another household was in the process of negotiating one. All of these households had received assistance from debt advice providers, who had helped them to negotiate with their creditors.[275] Only one interviewee indicated to have made use of legal measures to solve her financial difficulties, as she had been advised that personal insolvency was her only option.

Source: Civic Consulting, household interviews (N=120).

[275] In addition, three interviewees had come to some other type of informal agreement with individual creditors, for example to pay back their mortgages at a slower rate. In the UK such agreements have not been categorised as informal measures as they are not part of the established system of informal debt management plans that exists in the UK.

8.4.3 Outcome of seeking advice and/or making use of other measures to alleviate the impact of financial difficulties

The households that took part in an interview tended to report positive outcomes as a result of seeking advice or taking measures to alleviate their difficulties. Households who had made use of measures, such as informal agreements, often explained that they had achieved a reduction or rescheduling of their debt. In some of these cases, they were able to reach an agreement with several or all of their creditors, which had allowed them to reduce their total payments to a level they could afford. In other cases, they had only come to terms with one or two of their creditors. However, this could still be beneficial, for example because it allowed them to avoid utility disconnection or eviction. Other households were able to do this as a result of receiving financial support or because their application to a formal procedure had halted all actions from creditors.

Generally, the interviewed households tended to report that they felt more in control of their financial situation, and that they had benefited from an improvement in well-being and/or mental health. Some households also reported other improvements, such as better money management skills or an improved standard of living. However, most households did not feel that their financial difficulties had been solved. For some households the measures had opened up the perspective of being debt-free at some point in the future, for example because they had received a debt repayment plan that they could afford. But even many of these households felt that the process would last several years. Other households did not feel that they would recover from their difficulties until some other factor in their life improved, such as their employment situation.[276]

8.5 CHANGES IN RESPONSE TO OVER-INDEBTEDNESS

Most stakeholders either considered that measures to alleviate over-indebtedness had changed in the past five years (39%) or they could not provide an answer (25%).

Among the Member States with the least well-developed measures, no change was reported to have taken place during the preceding five years in Bulgaria. Nor did there seem to be any government policy in place or proposed to address consumer over-indebtedness. Similarly, in Slovakia there was reported to be little interest among the government or financial services industry to fund debt advice services, despite pressure from civil society organisations.

[276] Households who were at risk of over-indebtedness or actually over-indebted were more likely to say that receiving advice or making use of measures had not brought them any positive changes (or had even made the situation worse). Likewise, previously over-indebted households were more likely to report positive changes, such as improved well-being, mental health and/or standard of living. Households that were actually over-indebted were slightly more likely to feel they would need more than 2 years to sort out their financial difficulties. However, households at risk of over-indebtedness were more likely not to know how long it would take them.

In Greece, the most important change in the last five years was the introduction of legislation around debt adjustment and debt relief for debtors, where previously no such legislation had existed.

Elsewhere, the most commonly reported changes (including changes that were in progress) related to legislative steps to make insolvency proceedings more readily available to consumers in financial difficulty. This involved changes to the eligibility criteria and/or improvements to make the process quicker and more efficient, for example in Ireland, the UK, France and Sweden. Similar proposals were under discussion in Austria. One way of trying to make the insolvency process more efficient was to remove straightforward cases from court completely, as was the case in France. This approach was under consideration elsewhere as well, for example in the UK.

Other legislative or regulatory changes included greater restrictions on the advertising and sale of consumer credit; increased regulation of lenders; increased enforcement by regulators; and new codes of conduct to improve industry practice and strengthen consumer protection.

In a few Member States changes to debt advice services were reported, ranging from the introduction of new services to the legal obligation on municipalities to provide debt advice and cuts in public funding for debt advice. Notably, there was very little mention of any significant increase in public funding for debt advice services to meet the increasing demand for such services over the past five years.

As well as exerting pressure on mortgage lenders to demonstrate forbearance, some governments had introduced programmes to help people with serious or unsustainable mortgage arrears (see the example of Ireland in the box below).

At the same time, direct financial support for homeowners in receipt of social security payments in order to pay their mortgages had been cut. In some Member States (such as Italy, Portugal), non-mortgage creditors were reportedly more willing to agree informal repayment arrangements or debt consolidation with debtors since the onset of the financial crisis.

Other changes mentioned by the stakeholders included, but were not limited to: improvements in the public credit register; information campaigns to try and prevent over-indebtedness; and steps to improve access to financial services to financially excluded consumers.

Recent responses to over-indebtedness

"The Ministry of Finance has set up a working group to consider how systemic risks threatening the stability of the financial system and the economy as a whole could be identified and prevented in Finland. The work is guided, for example, by the forthcoming Basel III and […] the principles adopted in the Finnish Government programme and the recommendations issued by the European Systemic Risk Board on national macro-prudential arrangements." *(Stakeholder interview Finland)*

"The new investigation launched by the government is a rather big step that the government took and is on the political agenda. This will reveal the current situation and challenges." *(Stakeholder interview Sweden)*

The Central Bank has initiated a 'Mortgage Arrears Resolution Strategy' (MARS), which involves individual banks putting forward (to the government and to the Central Bank) proposals to address mortgages in serious, long-term arrears; it appears that this is still work in progress at the time of writing […] An additional measure, announced in June this year [2012] by the government, is a 'Mortgage to Rent Scheme' to facilitate people in 'unsustainable' mortgage situations to remain in the family home; this 'final option' will involve purchase of the family home by a housing association which will rent it back to the family at an 'affordable rent'. *(Country report Ireland)*

8.6 TYPES OF HOUSEHOLDS OF OVER-INDEBTED CONSUMERS NOT REACHED BY CURRENT MEASURES

Most stakeholders either considered that some categories of households were not reached by measures to alleviate over-indebtedness (38%) or they did not know (45%).

The picture on this issue is not particularly clear, partly because the nature of under-served households may vary depending on the measures available in each country. In broad terms, it was common for debtors to lack access to free-of-charge debt advice services because they lived in areas where such services did not operate, typically in rural areas or outside major population centres. It was also common for formal out-of-court measures and legal court-based measures to have rules which (implicitly or explicitly) excluded certain types of debtors.

Table 60. *Are there specific types of households of over-indebted consumers that are not reached by current measures? (by stakeholder group)*

Source: Civic Consulting, stakeholder interviews, Q20 (N=277).

Answer	Financial industry	Civil society	Public authorities	Independent experts	Total
Yes	19%	51%	39%	42%	38%
No	29%	14%	13%	14%	17%
Don't know/no answer	52%	36%	48%	44%	45%

In some cases, access to help was reported to be linked to income. Households with lower incomes, socially excluded or otherwise experiencing a range of social problems, were considered to lack access to measures aimed at alleviating the impact of over-indebtedness. This was the case, for example, in Austria, the UK and Belgium. At the same time, middle income households were also reported to be struggling because of the economic situation and were not always reached. In Portugal and Germany, for example, working people or those still employed were considered to lack access to formal or legal procedures. Regardless of income, households might be reluctant to access help because of the stigma of debt.

In several Member States it was mentioned that non-nationals and minority groups (such as Roma and Travellers) may not be reached, for example for reasons of culture or language.

There was a mixed picture regarding homeowners' access to help. In some cases, such as the UK, although there are some schemes to help homeowners struggling to repay their mortgage, mortgage borrowers generally were considered to have fairly limited options if they were in financial difficulty. Elsewhere, for example in Ireland, the predominant government focus on helping homeowners was considered to have been at the exclusion of households with other types of debt (such as unsecured consumer credit debt) and those with other types of housing arrangements.

Other types of household that might lack access to services were those living outside major population centres and in rural areas; and traders or people with business debts. As described previously, in some cases (such as Bulgaria, Estonia, Latvia, and Romania) there were few measures to help people in financial difficulty, and so the majority of households were without assistance.

8.7 BEST PRACTICES

It was more common among civil society stakeholders (62%) and independent experts (65%) than among other stakeholders to provide a definitive answer on whether there were best practices observed in terms of alleviating the impact of over-indebtedness. The majority of respondents in all groups who did provide an answer thought that there were such practices.

Table 61. *Are there specific measures in place to alleviate over-indebtedness that you would consider to represent best practices? (by stakeholder group)*

Answer	Financial industry	Civil society	Public authorities	Independent experts	Total
Yes	35%	40%	30%	39%	36%
No	19%	22%	17%	26%	21%
Don't know/no answer	46%	38%	52%	35%	43%

Source: Civic Consulting, stakeholder interviews, Q21(N=277).

In several cases existing systems (or at least elements of them) were highlighted as examples of best practice. Some stakeholders mentioned other factors that constituted best practice in their assessment, whether or not such practices were in place in their respective Member States. Furthermore, whereas preventive measures were not a focus of this study, numerous stakeholders stressed their importance and indicated that they could be considered best practice.

Feedback from the stakeholder workshop conducted for this study and further refined here ranked best practices according to three distinct categories: Practices aimed at preventing over-indebtedness, practices that aim at addressing market related problems, and practices intended to resolve over-indebtedness and rehabilitate consumers who have undergone a formal or informal resolution process. A fourth category includes best practices that can be considered cross-cutting in nature.

Best practices mentioned by stakeholders and identified through complementary research in the framework of this study are listed in the table below. More detailed information on the identified best practices is provided in Annex 6.

Table 62. *List of best practices in alleviating the impact of over-indebtedness*

Source: Civic Consulting

Category	Best practice	Description
Prevention	Financial education	The aim of this preventive measure is to improve financial literacy which is deemed to be lacking in many countries. Examples given by stakeholders ranged from consumer information on the use of credit, to teaching children and young people about money matters in school. It should be noted, however, that the impact of such a measure is contested within the literature; further, there is often disagreement around the meaning of terms such as financial literacy, financial education and money management education. The implementation of financial education initiatives would, therefore, need to be carefully designed and evaluated.
	Responsible lending	Responsible conduct - another preventive measure - has been identified as being important in all aspects of lending. These aspects include: creditors verifying credit/debt repayment capacity, supported by credit reporting (preferably, as some stakeholders pointed out, not only with negative but also with positive credit reference data); transparency in relation to the cost of credit; and restraint in terms of interest rates and fees. In some countries, 'budget standards', or 'minimum income standards' have been developed – these (reference) budgets are based on the amounts households of different compositions need to have at their disposal (for example, to spend on essential items and conventionally determined 'norm') in order to have an acceptable standard of living within the society in which they live. These standard budgets could be further developed (e.g. in Member States which do not have them), and used, amongst other things, in the context of loan applications to inform people's capacity to repay the credit involved.
	Early engagement of creditors/ lenders	Addressing (potential) debt problems at an early stage was stressed as important in the stakeholder interviews and is also recommended in various good practice guidelines. In the UK a stakeholder reported that "as part of good practice lenders have been writing to people who they think might have problems". Conveying a 'sympathetic' tone within such communications is clearly important, as is reference to where people can go to get independent advice if needed. Examples would include the contacting of renters or households in utility arrears as soon as payment-related problems arise.
Addressing market related problems	Good practice guidance	Guidance for lenders/creditors on issues such as arrears management, debt collection and dealing with people with mental health problems has been pointed out as a complementary measure. Such guidance has been issued by public authorities (as a form of regulation), by financial industry (as a self-regulatory measure) as well as by some other organisations or coalitions. Again, monitoring and evaluation of the effectiveness of such guidance/codes can be considered key; their express admissibility in legal proceedings would also be important.

	Preventing evictions	In some countries, such as Greece and Spain, temporary moratoria on home repossessions have been introduced in the past few years. In some other countries special schemes are in place (such as the 'Mortgage Rescue Scheme' in the UK) to assist those who cannot sustain their mortgage payment by enabling them to remain in their homes as renters. In Ireland, a similar scheme has proved slow to take off, and more policy emphasis has been placed on forbearance and (latterly) advanced forbearance measures, such as so-called 'split mortgages'.[277]
	Responsible debt collection	It has been noted as being important that approach to debt collection is personalised, that enough time is dedicated to understanding the individual debtor's circumstances and that debtor's dignity is respected. Licensing of debt collection and debt management companies, as well as regulatory monitoring and (where necessary) enforcement can also be important measures in this regard.
Resolution and Rehabilitati-on	Out-of-court procedures for debt settlement	Procedures for out-of-court debt settlement are considered an important aspect of alleviating the impact of over-indebtedness. They exist in many Member States, but their effectiveness largely depends on the way they are structured and on the lenders'/creditors' willingness (and incentives) to settle debts in such manner.
	Collective debt settlement	In Belgium it was noted that the law on collective debt settlement had a great impact. As one national stakeholder explained, the idea is that consumers with debts with different lenders can go to a debt mediator, who gets in contact with all lenders and tries to reach an agreement with all of them, based on an estimation of the real possibilities of the person who took the loan for repayment. Evaluation of such measures, both in terms of their social and economic impact, is again important. Debt mediation itself, providing it is carried out by suitably qualified and properly authorised/licensed mediators, was also cited in several interviews as best practice.
	Legal procedures for the discharge of debts	One of the most frequently named best practices in the stakeholder interviews are legal procedures for the discharge of chronic debts, such as personal insolvency procedures.[278] In some countries where such procedures exist, stakeholders pointed out that they could be improved by making them more accessible (e.g. by lowering the fees and/or relaxing the eligibility criteria), by establishing an independent body able to impose reasonable arrangements on creditors who may be intransigent, and by shortening the period of debt repayment/adjustment. Arguably, the most important social component of such procedures is to ensure that debtors have 'dignity to live' while complying with the terms of such arrangements. The development and application of standard reference budgets (discussed above) has been a feature in some Member States. Budget standards are a realistic and objective

[277] A split mortgage involves the mortgage lender agreeing to 'park' or 'warehouse' part of the principal (on an interest free basis in some cases) for a specified period of years; mortgage repayments in the interim are re-calculated (and lowered) with reference to the reduced principal amount. At the end of the agreed period, the 'warehoused' or 'parked' element of the principal becomes repayable, by which time it is hoped that the borrower's circumstances will have improved.

[278] Preventive measures and legal procedures for the discharge of debts were outside of the scope of this study and are listed here for reference purposes only.

		way of determining both the minimum amount of income people need to retain to live adequately, and (thereby) what they can realistically afford to repay towards the discharge of their debts.
	Prevention of financial exclusion	As one stakeholder in Germany pointed out, "it is necessary to have a current account to get a job, to rent a house … and generally get back on track". Access to a bank account and affordable credit are other important aspects of preventing financial exclusion.
Cross-cutting	Resource/ income adequacy	Several stakeholders made reference to the need to make sure that people in financial difficulty have access to adequate financial resources in the first instance. Notably, a large number of consumers interviewed referred to increasing their household resources as being fundamental to their chances of escaping and avoiding future over-indebtedness; finding a job was frequently cited as the means towards this end. Economic vulnerability and poverty are consistently associated with over-indebtedness, and it follows, therefore, that increasing the financial resources and opportunities available to over-indebted households or those most at risk of becoming so, is crucial to addressing and preventing over-indebtedness. Therefore, in addition to measures to tackle the debts themselves, measures designed to create employment opportunities, and to supplement people's income adequately in the absence of these, are also necessary.
	Debt advice	In terms of principles, many debt advice services base their approach on the provision of a service which is independent, holistic, non-judgmental and rights-based. As regards practice, it is important that debt advice is free, accessible, timely and customised to individual needs. Examples of such debt advice services include the publicly funded Money Advice and Budgeting Service in Ireland and debt advice organisations in Austria and Germany. In some countries, such as Finland and the Netherlands, there is a statutory obligation for local authorities to provide debt advice. Networking was another good practice mentioned in stakeholder interviews; the co-ordination of debt advice providers could be achieved through the development of umbrella/national organisations, as in Germany (AG SBV) and Austria (ASB). As regards funding, stakeholders were often strong advocates of greater public funding for free-of-charge debt advice services. There is also a persuasive argument that credit providers and other providers of services that are often linked to arrears (such as utilities or telecommunication providers) should contribute towards the resourcing of debt advice services, as resolution of debt problems can benefit both creditors and debtors. In order to maintain the independence of debt advice services, such funding is generally considered to be best channelled through some sort of independent body or 'trust'. Several stakeholders mentioned the Fund Against Over-Indebtedness which exists in Belgium as an example of best practices. Each lender contributes to the fund according to a calculation based on total arrears for credit contracts. This is used to repay fees and expenses for debt mediators who could not be paid by debtors.

9 MAIN MESSAGES AND LESSONS LEARNT

This section concludes the study and presents the main messages of the previous sections and lessons learnt.

There are five key messages and lessons for policymakers emerging from the study, and these are summarised below. In order of presentation, these involve recognising that:

- Over-indebtedness is a complex, multi-faceted, social phenomenon, caused and compounded by a combination of factors;
- There is a need for more timely and robust data to facilitate informed policymaking within Member States;
- There are real social and economic benefits to Member States associated with preventing and addressing over-indebtedness;
- There is a need for a multi-dimensional and integrated government policy response;
- The aim of policy development should be to prevent and resolve over-indebtedness, and not just to alleviate or manage it.

Complex nature and causes of over-indebtedness

Key messages from this study are:

1. EU-SILC survey data shows that, in 2011 and across the EU area as a whole, one in almost nine of those surveyed had been in arrears with payments over the previous 12 months on utility bills, rent/mortgage, and/or hire-purchase/loan agreements due to financial difficulties. These averages conceal a wide variation in the levels and nature of the financial difficulties being faced by households in individual Member States. However, when considering the development of the overall level of arrears between 2005 and 2011, the majority of Member States had experienced an increase in overall levels of arrears, for the most part since the onset of the financial crisis. In correspondence with the data presented there was a general consensus among stakeholders interviewed for this study that the situation had significantly worsened in the past five years in most countries, with the exception of Germany.
2. Statistical analysis conducted for this study is consistent with the view of nine in ten of the stakeholders interviewed that macro-economic factors are among the most important causes of financial difficulties. Rises in the cost of living were mentioned as a significant cause of financial difficulties by eight in ten

stakeholders. The main areas of concern were utility bills, followed by housing costs, and other costs including food, and transport.

3. Evidence from correlational analysis and previous research supports the hypothesis that higher levels of consumer credit outstanding put households in a riskier financial position, that is, that they are more likely to have arrears on hire purchase or other loans, and arrears on utility bills. Alternatively, it may be the case that consumers with lower incomes may be more likely to take out loans in order to pay arrears on utility bills or housing costs, but there was insufficient data available to verify either of these hypotheses in this study.
4. In terms of personal circumstances, interviewed stakeholders considered drops in income caused by unemployment or business failure to be among the most important causes of household over-indebtedness. In consumer interviews, a drop in income as the result of unemployment or illness was the personal circumstance most commonly referred to by interviewees.
5. Approaches to money management and financial decisions can play an important role as regards the extent to which individuals or households experience financial difficulties. There is a growing body of research to support this conclusion and it was specifically referred to by nearly two thirds of stakeholders.
6. A majority of stakeholders believe that there is a relationship between the cultural attitude towards incurring personal debt and the actual level of household over-indebtedness. Stakeholders who observed a change in cultural attitudes noted that historically a lot of significance used to be attributed to being debt-free. This attitude has changed recently as a result of a combination of developments within the financial sector including the introduction (and aggressive marketing) of a variety of new financial products accompanied by cultural valorisation of consumption.

Policy measures to prevent and tackle consumer over-indebtedness must first have regard to the range of factors that combine to cause and compound it at the household level. This study has identified these factors in general to be:

- Economic (e.g. market failure and unemployment);
- Social (e.g. inequality of opportunity, financial exclusion, and poverty);
- Institutional (e.g. irresponsible lending and credit crunch);
- Individual (e.g. money mismanagement and unexpected life events);
- Cultural (e.g. prevailing attitudes around standards of living and borrowing).

While relevant quantifiable data is not available for the pre and post crisis periods, exogenous causes of over-indebtedness such as adverse macroeconomic factors may have a greater impact on households during the crisis than before. Several of the potential causes of over-indebtedness analysed in this study, such as unemployment, have increased in most countries, sometimes substantially. Austerity measures in response to the sovereign debt crisis in Member States have not only included cuts in social benefits and levels of the minimum wage, but also tax increases and reductions in wages of public sector employees. Combined, these have the effect of reducing the levels of real wages for many households, which is felt by indebted households as an income shock. This shock may push previously solvent households into over-indebtedness or exacerbate the financial difficulties of those already in difficulty.

On the other hand, the ability to 'bridge' commitments or arrears with new credit is reduced due to stricter lending practices and rationing of credit. Indeed, some stakeholders claimed that consumers are becoming more careful in terms of willingness to take on new credit in the wake of the financial crisis.

The complex interplay between these factors, highlighted within this study, implies that there is no quick policy fix to over-indebtedness, nor is there a 'one-size fits all' solution. The findings of the study suggest that what is needed is a nuanced policy response which appropriately reflects the confluence of the factors in the particular Member State in question.

This study has also found that a majority of Member States have experienced an increase in levels of arrears since the onset of the financial crisis, and there has been a corresponding increase in the demand for debt counselling services over the same period.

Differences also emerged between clusters of countries, some of which had particularly high incidences of household arrears and others, which had relatively low incidences. Differences were also identified between groups of countries in terms of the nature of arrears, the characteristics of the households concerned and their perceived inabilities to make ends meet.

Policies must, therefore, further address the distinctive extent, nature and characteristics of the problem as it manifests itself within a particular Member State.

Key Lesson 1

Over-indebtedness is a complex, multi-faceted, social phenomenon, caused and compounded by a combination of economic, social, institutional, individual and cultural factors. Its incidence has increased significantly overall across Europe since the financial crisis of 2007-2008, but the extent, characteristics and nature of the problem vary between Member States. National policy measures must address both of these aspects (i.e. the causal/compounding factors and the extent/nature/characteristics of the problem as it manifests itself within the Member State in question).

Need for more timely and robust data

Key messages

1. A common European operational definition of household over-indebtedness does not exist. A working definition was therefore composed for the present study, which was provided to interviewees in advance as a reference for the discussion about their own specific definitions of over-indebtedness. According to this definition, households are considered over-indebted if they are having – on an on-going basis – difficulties meeting (or falling behind with) their commitments, whether these relate to utility or other household bills, servicing secured[279] or unsecured borrowing or to payment of rent. This may be indicated by, for example, utility/rent arrears, credit arrears, credit defaults, or the use of administrative procedures such as consumer insolvency proceedings.
2. Fewer than half of stakeholders who participated in this study said that they used a specific definition for households or individuals being over-indebted. Even fewer used a specific definition of households at risk of becoming over-indebted.
3. Despite the lack of definitional clarity, there was surprisingly little support among stakeholders for a better definition of over-indebtedness. A number of stakeholders said that there was a need for better quantitative indicators, as opposed to a better definition – similarly to the 2008 report for the European Commission, which also drew a distinction between a definition of over-indebtedness and indicators to measure it.
4. Over-indebtedness is complex and multi-dimensional, and therefore cannot be reduced to a single indicator. Rather, data from multiple indicators must be assessed, collected, and analysed in order to display the full picture of those households over-indebted, and those at risk of becoming over-indebted. There are a wide variety of indicators available, but not all indicators are available for all Member States or time periods, while the underlying concepts may be very different.

This study presents a snapshot of over-indebtedness across Member States based on data gathered from stakeholders and consumers at a point in time, namely 2012. Although other EU-wide collected data (such as those gathered through EU-SILC and Eurobarometer surveys) are also useful 'point in time' studies, the nature of these surveys means that there is often a considerable time-lag between data collection and their publication or availability for analysis.

[279] Secured borrowing refers to a loan that is backed with an asset held by the borrower; often their home.

A key finding from our research is that there is a real lack of timely or current data on over-indebtedness at national level within many Member States on an on-going basis to facilitate informed policy development and reflection.

This study has found stakeholders overall to be more pragmatic than dogmatic about the evidence issue. There appears to be little appetite for protracted discussions around consensual definitions or indeed around agreed indicators of over-indebtedness. Instead, we conclude that stakeholders have a preference for Member States to be more creative and practical around the collection of meaningful data, provided that it is focused on the definition of household's over-indebtedness as having on an on-going basis difficulties meeting (or falling behind with) their financial commitments.

Examples of data sources, identified through the research, that could be better utilised within Member States for the purpose of informing its policymakers are:

- Public bodies and departments (e.g. municipalities);
- Service providers (e.g. debt counselling services);
- Associate bodies (e.g. credit reference agencies);
- Regulatory authorities (e.g. financial regulators);
- Statistical bodies (e.g. central statistics agencies);
- Academic bodies (e.g. research institutes).

Informed policymaking also requires independently generated evidence as to the impact of policy measures that have been implemented, either nationally or in other jurisdictions. In some countries, a considerable body of such research and evaluation exists, whereas in others, little such evidence is available to policymakers – indeed we conclude that in most cases, policy development has not been matched by policy reflection.

This is a deficiency that is in need of attention, and academic bodies and research institutes could be resourced either by the EU, by national government, by the financial service sector, or indeed by a combination of these, to play a greater role in this regard.

The EU in particular could provide the lead by revising the EU-SILC indicators to provide more detailed and consistent information, for example by distinguishing between mortgage and rental arrears, or by clarifying the length of time the respondent's household was in arrears.

The findings on over-indebtedness as measured by EU-SILC could also be regularly publicised across all Member States, for example as part of national financial stability reports or by central statistics agencies.

Key Lesson 2

More timely data and robust evidence is needed to facilitate informed policymaking within Member States. Many need to be more proactive, creative and pragmatic in gathering such evidence, provided that it is focused on the definition of household's over-indebtedness as having on an on-going basis difficulties meeting (or falling behind with) their financial commitments. A range of bodies, both public and private, could play a bigger and more cohesive role in data gathering, and there is a particular role for academia both in terms of specific research and independent evaluation of policy measures. EU wide measures of arrears and financial stress, such as the European Union Statistics on Income and Living Conditions (EU-SILC) could also be revised to provide more consistent and detailed indicators.

Benefits from preventing and addressing over-indebtedness

Key messages

1. Deteriorating health and well-being can be both a cause and a consequence of financial difficulty. Several studies have identified an association between the onset of over-indebtedness and ill-health, and there can be negative effects on physical health, on mental health and on well-being - in some cases, these can be very serious indeed.
2. According to stakeholders, the consequence for over-indebted households judged as being of greatest relative importance was also reduced standard of living followed closely by deteriorating well-being. The next most highly rated consequence was that of financial exclusion, followed by the categories of deteriorating mental health, family breakdown, and home repossession. Reduced labour market activity and utility disconnection were considered to be slightly less important.
3. According to stakeholders, costs of defaults for creditors were seen as most important overall consequence of over-indebtedness for the financial services industry. Other consequences, such as costs of arrears, more restrictive lending practices, and increased costs for financial service providers were all seen as more or less equally important.
4. Regarding effects on the financial industry, theory predicts that when a negative income or wealth shock occurs, particularly in an environment characterised by high level of household indebtedness, debtors may find it difficult to meet their commitments. This causes an increase in non-performing loans, weakening bank balance sheets. This in turn leads to a reduction in credit availability, as financial institutions become more wary about lending. This is not just a theoretical possibility; in the example of Ireland, the bursting of the massive property bubble which developed from 2000 to 2006 led to heavy losses for over-leveraged Irish banks and the effective nationalisation of large parts of the banking system.
5. The consequences of household over-indebtedness are not limited to households and the financial industry. Research has found that there are consequences of household over-indebtedness for the overall health of the economy in terms of aggregate demand, employment, and growth. For example, IMF research found that housing busts and recessions preceded by large increases in household debt to income ratios tend to be associated with significantly larger contractions in economic activity. Consistent with this, the highest scoring item chosen by stakeholders as the most important consequence of over-indebtedness overall was that of "other effects on society". Specific comments for this item indicated that these were mainly social concerns, including negative impact on public morale, rising crime, emigration, frustration with the political system, and reduced social cohesion. Negative macroeconomic effects due to reduced aggregate demand and deleveraging were also mentioned by the stakeholders.

This study has highlighted a number of negative consequences of over-indebtedness. Consequences such as deprivation and deterioration in health and wellbeing for example, impact not just on the individuals and households concerned, but on the public (e.g. health and social welfare) services drawn upon as a consequence of these difficulties – addressing the problem can, therefore, result in positive impacts on these public services.

Some of the research in this study indicating the strong negative psychological impacts of being over-indebted on individuals may indicate that the threat of 'moral hazard' through effective and accessible consumer insolvency procedures or direct assistance is reduced due to the 'social shame' aspect experienced by these consumers. This conclusion would require however further research, such as by testing different practical support programmes for over-indebted consumers and validating results with the use of randomised control groups or other methodological tools.

There are also benefits to society as a whole from addressing over-indebtedness given its association with social exclusion, deteriorating family relationships and societal sanctions.

We also identified a number of adverse economic consequences of over-indebtedness. These included reduced aggregate demand, lower growth, and contractions in economic activity. Negative impacts were also identified in respect of decreased productivity whilst at work (through associated worry and stress) and the disincentive to access or even seek employment if associated increased income is likely to be taken up, either completely or in large part, by increased debt repayments. Those with the largest marginal propensity to consume – namely those on lower incomes - are those consistently identified within this study as the cohort most affected by over-indebtedness. Combating over-indebtedness, and thereby these negative impacts, can thus result in considerable benefits to the economy as a whole.

Financial institutions also benefit from reduced levels of over-indebtedness through among other things, positive impacts on non-performing loans, improved bank balance sheets and greater credit availability. Service providers, such as utilities, also benefit from reduced collection and enforcement costs. It follows, therefore, that institutions and service providers which benefit from reduced levels of over-indebtedness should contribute to its resolution along with the state – such contributions may also help towards repairing societal loss of confidence and trust in the financial services sector in general.

There are mechanisms identified or proposed within this report as to how such funding might be channelled in practice.[280] These include:

- Fixed annual levy on the financial services industry (as with the Money Advice Service in the UK);
- Direct funding by the financial services industry (as with the Mortgage Arrears Information and Advice Service in Ireland);
- 'Polluter pays' levy related to the default rate and market share of financial service providers, as in Belgium;
- Annual levy on interest rates charged (e.g. 1%) to finance debt advice.

Key Lesson 3

There are social and economic benefits to Member States associated with preventing and addressing over-indebtedness; these benefits can accrue to the State itself, to the economy and to financial institutions – the latter should, therefore, be required to contribute towards prevention and resolution measures in conjunction with the State.

[280] For a broader review of financial advice funding proposals in the UK, see also Gillespie, M., and Dobbie, L., *Funding Money Advice Services: Exploring sustainable models for the UK*, Friends Provident Foundation, 2009.

Need for multi-dimensional and integrated government policy response

Key messages

1. When considering preventative measures, only in some Member States did most stakeholders consider measures to identify households at risk of becoming over-indebted at an early stage to be common. The most commonly reported preventive measure is to require lenders to comply with responsible lending provisions in order to assess the creditworthiness of prospective borrowers. In addition, ratios of debt service (or all financial payments due in a given period) to income have been recommended or enforced in some markets, especially when granting mortgage credit.
2. The 2008 study on over-indebtedness, published at the outset of the financial crisis, noted the need for adequate (public) funding of debt advice services in order to meet demand in a timely manner and to provide the comprehensive geographical coverage that many Member States lacked. Several years on, the situation does not appear to have improved and the funding of debt advice continues to be a major concern among stakeholders across Member States. In the context of high and rising demand for debt advice, it was rare for stakeholders to think that debt advice funding was sufficient. Even in Member States where debt advice services were more widely available, public funding was considered only barely sufficient or insufficient to meet the needs of people in financial difficulty.
3. An important question when considering best practices is whether measures can be implemented effectively in isolation from one other, or whether such measures are more likely to be successful if they are co-ordinated or joined up in some way. The 2008 EMPL study stressed the importance of addressing the multi-dimensional problem of over-indebtedness by way of a combination of complimentary preventative, curative and rehabilitative policy measures. In this context, it has been proposed that the creation of a policy framework, incorporating a national strategy, is the best way of ensuring the implementation of an effective, co-ordinated policy response within a Member State. This finding has been reconfirmed by research conducted for the present study.

Over-indebtedness is a crosscutting policy issue for Member States, impacting on governmental departments and agencies with responsibility for such diverse areas as social welfare, justice, housing, consumer credit, health, employment, education, and personal social services. We conclude, as a consequence, that a policy response should take into account this complex background.

We further conclude that a national policy response, tailored both to address the extent, characteristics and nature of the problem, and to suit the particular societal, economic, institutional and cultural arrangements which exist in the Member State in question, would best develop from the following:

- The devising of an overall policy framework incorporating a national strategy for addressing over-indebtedness;
- The development of meaningful indicators for establishing and tracking the extent and nature of the problem in an on-going and timely manner;
- The setting of targets for reducing the incidence and extent of over-indebtedness over time;
- The establishment of a set of principles or values upon which measures to deal with and prevent consumer over-indebtedness would be grounded.

On the basis of the findings from this study, these principles could include:

- Equality (including equal access to, and use of, appropriate financial services, and to educational and labour market opportunities);
- Inclusion (including access to sufficient resources and to opportunities to enable people to participate fully in society);
- Empowerment (through the acquiring of skills and knowledge around issues of personal finance);
- Dignity to live (including protection from the loss of essential services, from the consequences of irresponsible lending and aggressive debt collection, and provision for reasonable living expenses);
- Fresh start (including the right to a discharge from debts within a reasonable period of time, and the opportunity to become a fully rehabilitated consumer upon discharge).

Key Lesson 4

Over-indebtedness is a crosscutting issue for national governments. A multi-dimensional and integrated government policy response is, therefore, required. It has been proposed that the creation of a policy framework, incorporating a national strategy, is the best way of ensuring the implementation of an effective, co-ordinated policy response within a Member State. This finding has been reconfirmed by research conducted for the present study. It would be important that such a policy framework is grounded on a set of basic principles, such as: equality, empowerment , inclusion, dignity to live, and fresh start.

Policy development to prevent and resolve over-indebtedness

Key messages:

1. The most commonly reported changes by stakeholders in response to over-indebtedness related to legislative steps to make insolvency proceedings more readily available to consumers in financial difficulty. This involved changes to the eligibility criteria and/or improvements to make the process quicker and more efficient.
2. Best practices identified by stakeholders and through complementary research in the framework of this study include: financial education; ensuring resource/income adequacy; responsible lending; good practice guidance; early engagement of creditors/lenders; debt advice; temporary suspension of debt servicing; preventing evictions; out-of-court procedures for debt settlement; collective debt settlement; legal procedures for the discharge of debts; responsible debt collection; and prevention of financial exclusion.
3. In the consumer interviews, interviewees tended to report positive outcomes as a result of seeking advice or taking measures to alleviate their difficulties, supporting the finding that most consumers find the experience of over-indebtedness distressing, want to repay their debts, and if they are unable to, want to find an equitable solution to their debt problems. In the interviews with stakeholders it was assessed that in most Member States informally brokered arrangements were available to help people sort out their debt problems. Formal out-of-court debt settlement procedures were somewhat less common. Court-based consumer insolvency procedures were reported to be available in most Member States, but some seem to lack any legal procedures for dealing with consumer debt. Financial support for households in debt was reported to be relatively rare.
4. Only in some Member States did most stakeholders consider measures to identify households at risk of becoming over-indebted at an early stage to be common. Research conducted for this study also confirmed that there seems to be less provision of debt advice in EU12 than in other EU Member States. The provision of debt counselling is available from different types of organisations depending on Member State, representing the public and the private sector (including both non-profit and for-profit organisations).

This study has identified a range of best practice examples for addressing the various aspects of over-indebtedness, such as measures to promote responsible lending and debt collection, financial education, debt advice and early creditor intervention, and systems which provide for debt settlement, housing security, personal insolvency and consumer bankruptcy when things have gone seriously wrong for households.

However, in terms of policy measures, there are considerable variances in terms of emphasis, scope and approach between Member States.

The findings of our study, taken together with several others, provide national policymakers with a range of international experience upon which to draw. The EU has an important role to play as a catalyst or facilitator to enable on-going and "in-depth" sharing of experiences between Member States, both positive and negative. Of particular interest should be how policy measures have been found to interact with one another and the extent to which unintended consequences may have occurred - Member States developing similar policies can thereby anticipate and address such potential consequences based on the experiences of others. For example, a Member State tightening regulation to prevent irresponsible lending (identified as a good practice measure), may need to also consider the potential impact on access to affordable credit for those on lower incomes (another good practice measure), and how these two important concerns can best be reconciled.

Stakeholder consultation – and this report highlights a range of key stakeholders - is crucial in ensuring that policy measures complement each other within the context of the Member State in question, and that marginalised groups are not unwittingly ignored in policy development. As previously noted, evaluating the effect of such policy measures is an important but often neglected tool in policymaking in the area of over-indebtedness. Evaluation should, therefore, be built-in to policy development, and should focus on outcomes and impacts, as opposed to merely outputs and numbers.

In terms of preventing over-indebtedness, some core measures could be undertaken as part of a general policy strategy in an individual Member State. However, the situations in different Member States differ very significantly, and so any measures adopted must be tailored to suit these conditions (or may not apply at all). Some of these core measures may include:

- Development of a national strategy to prevent and resolve household over-indebtedness, including an 'early-warning' system to monitor practical indicators concerning the level of over-indebtedness;
- Establishment of comprehensive and up-to-date consumer credit databases respecting personal data protection rules, functioning in a transparent manner together with drafting responsible lending guidelines for lenders that are focused on avoiding an excessive burden of financial commitments on the borrower;
- Duty for lenders and utility service providers to contact consumers in case of arrears early on with a pro-active and constructive approach, e.g. by referring consumers to debt advice providers;

- Ensuring that independent face-to-ace advice is easily accessible and of high quality, adequately financed, and provided independently on an independent basis;
- Specific measures that address the issue of mortgage arrears in the current crises environment, such as the 'Mortgage to Rent Scheme' to facilitate people in "unsustainable" mortgage situations to remain in the family home in Ireland, and related schemes in Italy, Spain, Portugal, and the UK.
- Provision of an accessible and effective legal procedure for personal insolvency;
- Implementation of broader social policies to combat poverty and exclusion.

Key Lesson 5

The twin aims of policy development should be to prevent and resolve over-indebtedness, and not just to alleviate or manage it. The EU has an important facilitative role in enabling national policymakers to have access to information on best practice experiences in other countries towards these ends. Stakeholder consultation and impact evaluation is key to balanced policy development.

ANNEX 1. REFERENCES

Angel, S., Einböck, M., Heitzmann, K., and Till-Tentschert, U., *Verschuldung, Überschuldung und finanzielle Ausgrenzung österreichischer Privathaushalte*, Ergebnisse aus EU-SILC 2008, Statistische Nachrichten, 12/2009, pp. 1104-1116.

ASB Schuldnerberatungen, *Over-indebtedness report Austria 2012*, 2012.

Banque de France, *Enquête typologique 2010 Sur le surendettement*, 2011.

Bank of Italy, *SHIW - Survey on Household Income and Wealth*, 2012.

Bicakova , A. and Nurcan, N.A., 'Self-control and debt: evidence from data on credit counselling', *Economics Series Working Papers 504*, University of Oxford, Department of Economics, 2010.

Blanco, R. and Gimeno, R., *Determinants of default ratios in the segment of loans to households in Spain*, Bank of Spain, 2012.

Central Bank of Ireland, *Residential Mortgage Arrears and Repossessions Statistics: Q1 2012*, Dublin, 2012.

Collard, S., *Understanding financial difficulty: Exploring the opportunities for early intervention*, Barclays/Money Advice Trust, 2011.

Consumer Credit Counselling Service, *CCCS statistical yearbook 2011*, 2012.

Demirguc-Kunt, A., and Klapper, L., 'Measuring Financial Inclusion: The Global Findex Database', *World Bank Policy Research Paper 6025*, 2012.

Disney, R., Bridges, S. and Gathergood, J., *Drivers of over-indebtedness*, Department for Business, Enterprise and Regulatory Reform, London, 2008.

Duygan-Bump, B. and Grant, C., 'Household debt repayment behaviour: what role do institutions play?', *Economic Policy,* 24 (57), 2009, pp.107-140.

Einböck, M. and Heitzmann, K., *Überschuldungsverläufe und Überschuldungstypen: Ergebnisse einer explorativen Untersuchung überschuldeter Personen in Wien*, Forschungsbericht 01/2011, Institut für Sozialpolitik/WU, Wien, 2011.

Eurofound, *Household debt advisory services in the European Union*, 2012.

European Commission, *Towards a common operational European definition of over-indebtedness*, European Commission: Directorate-General for Employment, Social Affairs and Equal Opportunities, 2008.

European Commission, *Report of the Expert Group on Credit Histories,* 2009.

European Commission and Eurostat, *Statistics explained*, 2012.

European Mortgage Federation, *A Review of Europe's Mortgage and Housing Markets*, 2010.

Ferk, B., *Zadolževanje in prezadolženost prebivalstva*, Delovni zvezek 1/2007, UMAR, Ljubljana, 2007.

Finney, A. and Davis, S., 'Facing the squeeze: a qualitative study of household finances and access to credit', University of Bristol and Money Advice Trust, 2011.

Fitch, C., Hamilton, S., Bassett, P. et al., *Debt and Mental Health. What do We Know? What Should we Do?*, Royal College of Psychiatrists & Rethink, 2009.

Fondeville, N., Ozdemir, E. and Ward, T., *Over-indebtedness: New evidence from the EU-SILC social module*, European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, Research Note 4/2010, 2010.

Gathergood, J., 'Debt and Depression: Causal Links and Social Norm Effects', *The Economic Journal*, 122, 2012a, pp. 1094–1114.

Gathergood, J., 'Self-control, financial literacy and consumer over-indebtedness', *Journal of Economic Psychology*, 33, 2012b, pp. 590-602.

Georgarakos, D., Haliassos, M., Pasini, G., 'Household Debt and Social Interactions', *Social Science Research Network*, 2012.

Georgarakos, D. and Furth, S., 'Household Repayment Behaviour: the Role of Social Capital, Institutional, Political and Religious Belief', *Social Science Research Network*, 2012.

Gloukoviezoff, G., *L'exclusion bancaire. Le lien social à l'épreuve de la rentabilité*, Presses Universitaires de France, Paris, 2010.

Honohan, P., 'The Irish Banking Crisis Regulatory and Financial Stability Policy 2003-2008', Commission of Investigation into the Banking Sector in Ireland, Dublin, 2010.

Jappelli, T., Pagano, M. and Di Maggio, M., *Household's indebtedness and financial fragility*, CSEF Working Paper no. 208, 2008.

Kamleitner, B., Hornung, B., and Kirchler, E., 'Over-indebtedness and the interplay of factual and mental money management: An interview study', *New Zealand Economic Papers*, 45(1), 2011, pp. 139-160.

Keese, M., and Schmitz H., 'Broke, Ill, and Obese: The Effect of Household Debt on Health', *SOEP papers on Multidisciplinary Panel Data Research 350*, DIW Berlin, The German Socio-Economic Panel (SOEP), Berlin, 2010.

Kempson, E., *Over-indebtedness in Britain*, Department of Trade and Industry, 2002.

Kessler, R. C., Chiu, W. T., Demler, O., and Walters, E. E., 'Prevalence, severity, and comorbidity of 12-month DSM–IV disorders in the National Comorbidity Survey Replication', *Archives of General Psychiatry*, 62, 2005, pp. 617–627.

Kishore, K. and Reinhold, K., 'The financial position of British households; evidence from the 2011 NMG consulting review', *Bank of England Quarterly Bulletin, Q4,* 2011.

KSV1870 Holding AG, 'Privatkonkurse: 2012 wird Zehntausendermarke überschritten werden, Insolvenzstatistik Private I. Halbjahr 2012', press release, 2012.

Law Reform Commission, *Personal debt management and debt enforcement,* 2010.

Lux, M and Mikeszová, M., 'The Role of a Credit Trap on Paths to Homelessness in the Czech Republic', *Journal of European Social Policy*, In print.

Money Advice and Budgeting Service, *MABS Pre Budget Submission 2012*, 2012.

Nationale Bank van België, *Statistieken Centrale voor kredieten aan particulieren*, 2011.

Nyberg, P., *Misjudging Risk: Causes of the System Banking Crisis in Ireland*, Commission of Investigation into the Banking Sector in Ireland, Dublin, 2011.

Pancyprian Welfare Council, *National Report on Homelessness & Housing Exclusion in Cyprus*, European Federation of National Organisations Working with the Homeless, Brussels, 2004.

Personal Finance Research Centre, *The impact on business and consumers of a cap on the total cost of credit*, 2012, Forthcoming.

Pleasence, P. et al., 'Mounting Problems: Further Evidence of the Social, Economic and Health Consequences of Civil Justice Problems', in Plaesence, P. et al. (eds), *Transforming Lives: Law and Social Process*, TSO, Norwich, 2007.

Rädda Barnen, *Barnfattigdomen i Sverige*, Årsrapport, 2010.

Russell, H. and Maitre, B., *Financial Exclusion and Over-indebtedness in Irish Households*, Economic and Social Research Institute, Dublin, 2011.

Stamp, S., *An Exploratory Analysis of Financial Difficulties among Those Living Below the Poverty Line in Ireland*, Combat Poverty Agency, Dublin, 2009.

TNS Emor, *Annual survey on financial behaviour of Estonian households*, 2011.

Valkama, E. and Muttilainen, V., 'Payment difficulties associated with SMS loans', *Research Report Summaries*, Research Communications no. 86, National Research Institute of Legal Policy, Helsinki, 2008, pp. 79-84.

Westhof, F., Tom, M. and Vroonhof, P., *Monitor Betalingsachterstanden (Arrears Monitor)*, Panteia, Zoetermeer, 2011.

Zografakis, S. and Mitrakos, T. *The low income risk in households with unemployed members during the current crisis*, Bank of Greece, May 2011.

ANNEX 2. STATISTICAL DATA ON DEBT ADVICE

Table A1. Advice sought/received

Country	Debt advice provider/Source of data	Type of advice	2007	2008	2009	2010	2011
AT	Schuldenberatung Salzburg	Face-to-face	n.a.	2,256	2,280	2,295	2,092[(a)]
	Schuldnerberatung Wien	Face-to-face	14,140	22,429	22,161	20,245	20,204
		Telephone	10,619	20,306	24,412	23,064	25,492
	Institut für Sozialdienste Vorarlberg	Face-to-face	2,539	2,769	2,830	2,622	2,590
		Telephone	261	189	126	188	159
		Email/online chat	49	30	34	29	20
	ASB Schuldnerberatungen[(b)]	Face-to-face	41,681	47,525	52,613	52,450	54,324
BE	Leger des heils VZW-armee du salut ASBL	Face-to-face	285	96	152	166	200
	Sociaal Huis Herent - OCMW	All types	54	127	173	205	156
	Verbraucherschutzzentrale asbl	All types	1,905	1,779	2,065	1,876	1,959
	CPAS Farciennes	Face-to-face	81	93	91	74	72
	OCMW Genk	Face-to-face	361	371	398	454	481
	OCMW Leuven	Face-to-face	218	446	447	383	429
	CPAS Soignies	Face-to-face	257	233	233	245	256
	OCMW Haacht	Face-to-face	118	112	90	85	92
	CPAS Uccle	Face-to-face	423	442	491	490	460
		Telephone	n.a.	n.a.	n.a.	75	109
	CPAS Wellin	Face-to-face	n.a.	30	32	35	30
	CPAS Charleroi	Face-to-face	1,095	1,098	1,249	1,238	1,247
BG	Bulgarian Financial Forum[(c)]	Face-to-face	10	10	10	25	30
		Email/online chat	40	50	60	100	140
CZ	Občanská poradna Plzeň	Face-to-face	95	82	259	344	361
		Telephone	36	16	74	98	125

Country	Debt advice provider/Source of data	Type of advice	2007	2008	2009	2010	2011
		Email/online chat	7	14	54	75	80
	Občanská poradna Praha	All types	344	344	459	526	343
	Slezská Diakonie	Face-to-face	n.a.	19	20	58	70
		Telephone	n.a.	1	2	6	5
		Email/online chat	n.a.	0	1	2	1
	Občanská poradna při o.s. Pod křídly	Face-to-face	n.a.	240	280	360	420
	"D" občanské sdružení - Občanská poradna Liberec	All types	n.a.	218	425	851	1018
	Debt Advisory Center - Counselling in Stringency	Face-to-face	n.a.	640	1,858	2,090	2,673
		Telephone	n.a.	2,379	7,504	6,954	7,109
		Email/online chat	n.a.	1,012	1,932	1,802	1,831
DE	Arbeit und Lernen Dresden	Face-to-face	441	336	475	447	635
		Telephone	201	317	244	239	240
		Email/online chat	n.a.	n.a.	n.a.	n.a.	13
	Caritasverband Giessen	Face-to-face	743	442	446	459	379(d)
		Telephone	372	345	386	465	513
	Stadt Darmstadt Schuldnerberatung	Face-to-face	1,480	1,638	1,592	1,438	1,363
		Telephone(e)	468	557	404	443	666
	Paritätischer Wohlfahrtsverband Niedersachsen	Face-to-face	147	143	143	141	139
	Schuldnerberatung des Caritasverbandes Wiesbaden-Rheingau-Taunus	Face-to-face	n.a.	n.a.	361	399	412
		Telephone(f)	n.a.	n.a.	200	200	200
		Email/online chat	n.a.	n.a.	35	39	73
	Caritasverband Konstanz	Telephone	176	184	175	191	181
		Email/online chat	n.a.	n.a.	18	16	20
	Caritasverband Memmingen - Unterallgäu	Face-to-face	431	603	721	722	756
	ASB Betreuungs- und Sozialdienste gemeinnützige	Face-to-face	n.a.	n.a.	n.a.	430 (for all	325

Country	Debt advice provider/Source of data	Type of advice	2007	2008	2009	2010	2011
		Telephone	n.a.	n.a.	n.a.	types)	99
		Email/online chat	n.a.	n.a.	n.a.		6
	Schuldner- und Insolvenzberatungsstelle des Saarpfalz-Kreises	Face-to-face	n.a.	395	439	391	365
	Stadt Karlsruhe, Sozial- und Jugendbehörde - Schuldnerberatung	Face-to-face	231	233	259	298	248
		Telephone	1891	419	523	674	595
	Caritasverband im Tauberkreis	Face-to-face	310	445	n.a.	534	557
		Email/online chat	n.a.	n.a.	n.a.	n.a.	28
	Diakonie-Hilfswerk Hamburg	Face-to-face	n.a.	n.a.	1,280	1,002	1,179
		Telephone	n.a.	n.a.	564	455	415
	AWO Kreisverband Gifhorn	Face-to-face	383	674	605	683	708
	Schuldner- Insolvenzberatungsstelle München	Face-to-face	n.a.	n.a.	n.a.	2,245	2,479
		Telephone	n.a.	n.a.	n.a.	1,570	1,890
		Email/online chat	n.a.	n.a.	n.a.	123	140
	Stadt Flensburg, Fachstelle für Wohnhilfen- und Schuldnerberatung	Face-to-face	743	874	941	846	1,043
	Arbeiterwohlfahrt Kreisverband Ansbach- Stadt	Face-to-face	481	464	476	482	454
		Telephone	n.a.	93	101	112	88
	Christophorus GmbH Wuerzburg	Face-to-face	n.a.	n.a.	n.a.	1,334	1,106
	Schuldnerhilfe Köln	Face-to-face	n.a.	3,563	3,855	4,547	4,825
		Telephone	n.a.	2,343	2,069	2,185	1,970
		Email/online chat	n.a.	639	534	315	251
	SKM Lingen	Face-to-face	354	410	463	486	496
	Freier Betreuungsverein Teltow-Fläming	Face-to-face	467	508	537	548	660
	Caritasvorband Offenburg-Kehl	Face-to-face	299	244	287	202	214
	Diakonisches Werk Offenbach-Dreieich-Rodgau,	All types	1,312	1,266	1,140	1,060	822

Country	Debt advice provider/Source of data	Type of advice	2007	2008	2009	2010	2011
	Schuldner- und Insolvenzberatung						
	Caritasverband Karlsruhe	Face-to-face(g)	276	277	237	241	277
		Email/online chat(h)	n.a.	n.a.	58	60	54
	Schuldner- und Insolvenzberatung Gafög	Face-to-face	1,262	1,256	1,341	1,304	1,256
	Lichtblick Schuldnerberatung	Face-to-face	164	161	187	164	191
		Email(i)	n.a.	n.a.	n.a.	n.a.	10
	Schuldner- und Insolvenzberatungsstelle Bad Segeberg	Face-to-face	247	244	269	321	406
		Telephone	195	182	81	58	55
	Verbraucherzentrale Nordrhein-Westfalen	Face-to-face(j)	n.a.	4,185	4,539	5,206	6,108
	AWO Schleswig-Holstein(k)	Face-to-face	4,129	3,956	5,273	5,795	6,268
		Telephone	1,751	2,601	2,650	4,299	4,445
	GAB Limburg – Weilburg mbH	All types	453	420	401	459	438
	Statistisches Bundesamt(l)	All types	n.a.	66,466	74,413	70,870	73,801
DK	Municipality of Copenhagen	Face-to-face	n.a.	n.a.	n.a.	396	456
		Telephone	n.a.	n.a.	n.a.	0	0
		Email/online chat	n.a.	n.a.	n.a.	0	0
EE	Tallinna Tarbijakaitse Nõuandla	Face-to-face	687	644	588	754	732
		Telephone	5,368	5,133	3,987	3,273	2,045
		Email/ online chat	811	917	684	440	264
EL	MOTEK(m)	Face-to-face	n.a.	n.a.	n.a.	50	100
		Telephone	n.a.	n.a.	n.a.	150	200
		Email/online chat	n.a.	n.a.	n.a.	50	50
	Consumers' Association of Volos & Thessalia	Face-to-face	n.a.	n.a.	n.a.	320	780
FI	City of Imatra	Face-to-face	103	124	137	117	123

Country	Debt advice provider/Source of data	Type of advice	2007	2008	2009	2010	2011
		Telephone	52	65	80	80	105
		Email/online chat	4	9	30	20	34
	Municipality of Tuusula[n]	Face-to-face	725	803	797	677	646
		Telephone	921	1,276	1,318	1,134	1,180
		Email/ online chat	170	183	212	227	166
	Turun kaupungin velkaneuvontatoimisto	Face-to-face	n.a.	n.a.	n.a.	945	1,009
		Telephone	n.a.	n.a.	n.a.	4,204	3,046
		Email/online chat	n.a.	n.a.	n.a.	585	976
	Town of Loviisa	Face-to-face	175	175	220	277	245
		Telephone	122	230	280	357	350
		Email/ online chat	6	87	105	163	210
	City of Riihimäkiy	Face-to-face	237	180	379	258	270
		Telephone	166	135	344	549	469
		Email/online chat	8	5	45	87	92
	Kainuun maakunta- kuntayhtymä	Face-to-face	3	3	3	3	3
		Telephone	3	3	3	3	3
		Email/online chat	3	3	3	3	3
	Kangasala Municipality, Money and Debt advice service	Face-to-face	n.a.	n.a.	204	230	247
		Telephone	n.a.	n.a.	306	262	215
		Email/ online chat	n.a.	n.a.	49	27	23
	Finance and Debt Counselling Unit of the City of Helsinki	Face-to-face[o]	5,346	4,520	4,336	4,576	4,240
	Consumer Agency[p]	Face-to-face	30,300	30,404	30,386	31,284	27,682
		Telephone	41,862	39,811	44,202	47,254	45,484

Country	Debt advice provider/Source of data	Type of advice	2007	2008	2009	2010	2011
		Email/online chat[q]	10,782	11,209	13,855	17,471	18,922
IE	Free Legal Advice Centres	Face-to-face	153	259	543	787	1,157
		Telephone	93	158	630	912	1,538
		Email/online chat	n.a.	n.a.	104	101	79
	MABS[r]	Face-to-face	15,108	19,041	19,094	21,653	22,462
IT	Caritas South Tyrol	Face-to-face	561	575	590	585	589
		Telephone	259	263	302	254	268
	Adiconsum, Associazione Difesa Consumatori e Ambiente	Face-to-face	105	120	146	122	180
		Telephone	302	420	612	583	745
		Email/online chat	280	305	422	488	622
	Fondazione Consumo sostenibile	Face-to-face	n.a.	4300	n.a.	n.a.	n.a.
		Telephone	n.a.	11,600	n.a.	n.a.	n.a.
LU	Ligue medico-sociale[s]	Face-to-face	456	568	545	639	681
	Service d'Information et de Conseil en matière de surendettement (Inter-Actions)	Face-to-face	113	116	129	117	86
		Telephone	307	386	501	493	384
PL	Society for Promotion of Financial Education	All types	n.a.	880	889	900	486
PT	Portuguese Association for Consumer's Protection (DECO)	Face-to-face	n.a.	1,186	2,152	2,825	9,884
		Telephone	n.a.	2,810	7,740	8,483	8,011
		Email/online chat	n.a.	2,728	4,022	3,227	5,423
	Fundação Agir Hoje[t]	Face-to-face	n.a.	n.a.	10	66	105
SE	Budget and Tenant Advisory Service Malmö	Face-to-face	n.a.	916	969	1,188	2,056
UK	Citizens Advice service[u]	All types	1,736,637	1,926,723	2,374,273	2,268,031	2,137,810
EU	All listed organisations[v]	Face-to-face	104,695	130,617	138,101	149,948	160,944

CIVIC CONSULTING

Country	Debt advice provider/Source of data	Type of advice	2007	2008	2009	2010	2011
		Telephone	64,161	90,513	97,489	10,2678	10,3031
		Email/online chat	11,969	16,904	21,813	24,338	28,027

Source: Civic Consulting, survey of debt service providers, stakeholder interviews, and desk research.

Notes: (a) The organisation had one less staff member in 2011, (b) These figures refer to the total number of persons counselled (face-to-face) on issues of debt in the country, and include the data provided by the other organisations in this country, (c) Approximate figures provided by the organisation, (d) According to the organisation, there were cuts in resources in 2011, (e) Figures include counselling by email, (f) Estimates provided by the organisation, (g) For each year, figures include files opened during the year as well as files opened in the previous year which are still open, (h) Online advice has been provided by the organisation since 2009, (i) Advice by email has been provided since 2011, (j) Figures refer to the number of persons who were provided with debt or insolvency counselling; the organisation also provided figures on short-term counselling, but these refer to the number of sessions rather than persons (11,064 in 2008, 11,350 in 2010, 11,220 in 2011), (k) Face-to-face figures refer to Pinneberg and Dithmarschen districts, whereas telephone figures refer to Pinneberg district only, (l) These national statistics are based on reporting from debt advice organisations, but not all of them provide the data, (m) Figures are estimates provided by the organisation, (n) Figures include all personal appointments, advisory telephone conversations and advisory e-mail messages, therefore they may include several contacts with the same person, (o) Number of face-to-face meetings per year, (p) Statistics of economic and debt advising; these figures refer to the total number of persons counselled on issues of debt in the country, and include the data provided by the local providers listed in the table, (q) Figures do not refer only to e-mails but to all advice provided in writing, (r) Figures include all new persons counselled in each respective year; in addition some clients may avail of MABS support over a period of more than one year, (s) For each year, figures include files opened during the year as well as files opened in the previous year which are still open, (t) The organisation was founded in 2009 and started its activities in October of that year, (u) Figures are the number of enquiries (the same person may have more than one debt enquiry), (v) For Austria and Finland only the figures reported by ASB Schuldnerberatungen and the Consumer Agency are included in the calculation to avoid double-counting, as these figures include the ones reported by the individual providers listed in the table.

ANNEX 3. SURVEY OF DEBT ADVICE SERVICE PROVIDERS

Name of organisation	Type of stakeholder	Services provided										Administrative level(s) of operation				Target groups						Costs of services			Sources of funding				
		Personalised debt advice face-to-face	Personalised debt advice by telephone	Personalised debt advice by email /online chat	Web-based tools	Printed information	Facilitating informally brokered arrangements between debtor and creditors	Facilitating formal procedures for debt settlement that do not take place in court	Facilitating legal procedures in court	Facilitating financial support for households to repay debts/arrears	Other services	National	Regional	Local	Other	Over-indebted households	Households at risk of becoming over-indebted	Households with specific debt problems	Specific age groups	Specific social groups	Other target group	All services free of charge	Partly free/partly paid services	All paid services	User fees	Public funding	Funding from industry	Funding from charity /other voluntary sources	Other
AUSTRIA																													
Schuldenberatung Salzburg	Consumer organisation	X					X	X	X	X			X			X	X					X				X			
Schuldnerberatung NÖ gGmbH	Other NGO/charity	X				X	X	X	X													X				X			
Schuldnerberatung Wien - gemeinnützige GmbH	Other NGO/charity	X	X	X	X	X		X	X		X			X		X	X					X				X			
IfS-Schuldenberatung gemGmbH Vorarlberg	Other NGO/charity	X	X	X									X	X		X	X		X			X				X			
ASB Schuldnerberatungen GmbH	Consumer organisation	X	X		X	X	X	X	X			X	X	X		X	X		X	X			X			X			X
Verein für Konsumenteninformation	Consumer organisation*						X				X	X					X	X								X			X
BELGIUM																													
Leger des Heils v.z.w. - Armée du Salut a.s.b.l.	Other NGO/charity	X				X	X		X							X	X						X		X				
CPAS de Farciennes	Other	X					X			X	X			X		X	X	X				X				X			X
OCMW Genk	Local authority	X	X				X	X	X	X				X		X	X	X				X				X			
OCMW (CPAS) Leuven	Local authority	X	X	X		X	X			X				X		X	X				X	X				X			
CPAS de Watermael-Boitsfort	Local authority	X	X			X	X	X	X					X		X	X					X				X			
CPAS de Soignies - Service de Médiation de Dettes	Local authority	X	X			X	X	X	X	X				X		X	X	X	X				X			X			
Openbaar centrum voor maachappelijk welzijn (OCMW) Haacht	Local authority	X				X	X	X		X				X		X	X					X				X			
Service Médiation de Dettes et Prévention	Local authority	X	X		X	X		X	X		X	X	X	X		X	X				X		X			X			
CPAS de et à Colfontaine	Other	X	X	X		X	X	X		X	X			X		X	X					X				X			
CPAS de Rouvroy	Local authority	X	X			X	X	X		X	X			X		X	X					X				X			
Centre Public d'Action Sociale, Wellin	Local authority	X					X	X	X					X		X		X				X				X			
Centre pulic d'action sociale (CPAS)	Local authority	X								X				X		X		X				X				X			
Centre Public d'Action Sociale de Châtelet	Local authority	X				X				X				X		X	X					X				X			
CPAS de Charleroi - Service de médiation de dettes	Local authority	X						X	X							X						X				X			
Service Médiation de dettes CPAS de Namur	Local authority	X	X	X		X	X	X	X					X		X	X					X				X			
Sociaal Huis Herent - OCMW	Local authority	X	X	X				X		X				X		X	X	X		X		X				X			
CPAS de Pepinster	Local authority	X	X	X		X	X	X		X	X			X		X	X					X				X			
asbl Verbraucherschutzzentrale	Consumer organisation	X	X	X	X	X	X	X	X				X			X	X	X					X			X			
CPAS de Houffalize	Other	X				X		X			X			X		X	X					X				X			
MEDENAM, Centre de référence en médiation de	Other		X		X	X					X			X							X		X			X			
OIVO - CRIOC	Consumer organisation*											X	X									X				X			
BULGARIA																													
Independent Union of Consumers in Bulgaria	Consumer organisation	X	X									X				X	X					X				X		X	
Bulgarian Financial Forum	Consumer organisation	X	X	X		X						X				X	X	X				X							X
CYPRUS																													
Cyprus Consumers' Association	Consumer organisation		X	X	X	X								X			X					X				X			X
CZECH REPUBLIC																													
Slezská diakonie, Občanská poradna Ostrava, odborné sociální poradenství	Other NGO/charity	X	X	X		X								X					X		X	X				X			
"D" občanské sdružení - Občanská poradna Liberec	Other NGO/charity	X	X	X			X		X				X		X						X	X							X
Oblastní charita Pelhřimov - KLÍČ - Centrum pro	Other NGO/charity	X	X	X		X	X	X	X				X			X	X			X		X				X		X	
Občanská poradna Třebíč + Občanská poradna Moravské Budějovice	Other NGO/charity	X	X	X		X							X			X	X	X	X	X		X				X			
Oblastní charita Pelhřimov - Občanská poradna	Other NGO/charity	X	X	X		X	X	X	X				X			X	X					X				X		X	
Občanská poradna Plzeň, o.s.	Other NGO/charity	X	X	X		X	X	X	X	X	X		X			X	X	X			X	X				X			

Name of organisation	Type of stakeholder	Services provided										Administrative level(s) of operation				Target groups						Costs of services			Sources of funding				
		Personalised debt advice face-to-face	Personalised debt advice by telephone	Personalised debt advice by email /online chat	Web-based tools	Printed information	Facilitating informally brokered arrangements between debtor and creditors	Facilitating formal procedures for debt settlement that do not take place in court	Facilitating legal procedures in court	Facilitating financial support for households to repay debts/arrears	Other services	National	Regional	Local	Other	Over-indebted households	Households at risk of becoming over-indebted	Households with specific debt problems	Specific age groups	Specific social groups	Other target group	All services free of charge	Partly free/partly paid services	All paid services	User fees	Public funding	Funding from industry	Funding from charity /other voluntary sources	Other
Občanská poradna Praha	Other NGO/charity	X	X	X		X		X	X	X		X	X	X		X	X	X	X	X	X	X				X			
Slezská Diakonie	Other NGO/charity	X	X	X		X	X	X	X				X			X	X		X	X		X				X			X
Občanská poradna Žďár nad Sázavou	Other NGO/charity	X	X	X		X								X		X	X					X				X			
Občanská poradna při o.s. Pod křídly	Other NGO/charity	X	X	X		X	X	X	X				X			X	X					X				X		X	
o.s. Společnou cestou	Other NGO/charity	X	X	X								X	X			X	X					X				X	X	X	
Debt Advisory Center - Counselling in Stringency	Other NGO/charity	X	X	X	X	X			X			X	X	X		X	X					X					X		
DENMARK																													
Forbrugerrådet / Danish Consumer Council	Consumer organisation	X				X	X	X					X			X				X		X				X			
The municipality of Copenhagen	Local authority	X												X						X		X				X			
YMCA Social Work, Denmark	Other NGO/charity	X					X	X				X				X				X		X				X			X
ESTONIA																													
Tallinna Tarbijakaitse Nõuandla (Gemeinnützige Organisation Verbraucherschutz-Beratungsstelle	Consumer organisation	X	X	X			X	X	X	X		X	X	X		X	X	X		X	X	X				X			X
MTÜ Võlanõustajad	Other NGO/charity	X	X			X	X					X				X	X					X				X			
FINLAND																													
Takuu-Säätiö (Guarantee Foundation)	Other NGO/charity		X	X	X	X					X	X			X	X	X					X				X		X	X
Consumer Agency	Other government agency	X	X	X	X	X	X	X	X			X				X	X					X				X			
Finance and Debt Counselling Unit of the City of	Local authority	X	X	X			X	X	X	X	X			X		X	X	X			X	X				X			
City of Imatra	Local authority	X	X	X		X		X	X					X		X	X					X				X			
The Municipality of Tuusula	Local authority	X	X	X	X	X	X	X	X	X	X			X		X	X				X	X				X			
Turun kaupungin velkaneuvontatoimisto	Ministry	X	X	X			X	X		X		X	X			X	X					X				X			
Town of Loviisa	Local authority	X	X	X	X	X	X	X	X				X			X	X					X				X			
City of Riihimäkiy	Local authority	X	X	X		X	X	X	X				X			X	X					X				X			
Kemin kaupunki - Talous- ja velkaneuvonta (City	Local authority	X	X	X									X	X		X	X	X				X				X			
Kainuun maakunta- kuntayhtymä	Local authority	X	X	X		X	X	X					X			X	X	X				X				X			
Money and Debt advicer service, Kangasala	Local authority	X	X	X		X	X	X	X				X	X		X	X	X				X				X			
FRANCE																													
Archime'd	Other NGO/charity	X	X				X	X		X							X					X				X	X		
Secours catholique	Other NGO/charity	X												X															
Emmaüs France	Other NGO/charity	X									X	X				X	X					X						X	
Cresus Alsace	Other NGO/charity	X	X				X	X	X			X										X				X	X	X	
Banque de France	Central bank	X	X	X		X		X			X	X				X						X				X			
UFC-Que Choisir	Consumer organisation	X	X			X			X			X				X	X						X		X				
GERMANY																													
Arbeit und Lernen Dresden e.V.	Other NGO/charity	X	X	X		X	X	X		X				X		X	X					X				X			
Ev. Schuldnerberatung - Diakonie Düsseldorf	Other NGO/charity	X	X	X		X	X	X	X		X			X		X	X					X				X	X	X	
ASB Betreuungs- und Sozialdienste gemeinnützige	Other NGO/charity	X	X	X			X	X						X		X	X			X		X				X			X
Schuldner- und Insolvenzberatungsstelle des Saarpfalz-Kreises	Local authority	X	X	X		X	X	X	X	X	X		X	X		X	X					X				X			X
Zentrale Schuldnerberatung Stuttgart	Other NGO/charity	X	X	X		X	X	X	X	X				X		X	X			X		X				X		X	
Stadt Karlsruhe, Sozial- und Jugendbehörde - Schuldnerberatung	Local authority	X	X			X	X	X	X					X				X		X	X	X				X			
Gesellschaft für Ausbildung und Beschäftigung gGmbH, Limburg	Other	X	X	X		X	X	X		X				X		X	X					X				X			

Name of organisation	Type of stakeholder	Services provided										Administrative level(s) of operation				Target groups						Costs of services			Sources of funding				
		Personalised debt advice face-to-face	Personalised debt advice by telephone	Personalised debt advice by email /online chat	Web-based tools	Printed information	Facilitating informally brokered arrangements between debtor and creditors	Facilitating formal procedures for debt settlement that do not take place in court	Facilitating legal procedures in court	Facilitating financial support for households to repay debts/arrears	Other services	National	Regional	Local	Other	Over-indebted households	Households at risk of becoming over-indebted	Households with specific debt problems	Specific age groups	Specific social groups	Other target group	All services free of charge	Partly free/partly paid services	All paid services	User fees	Public funding	Funding from industry	Funding from charity /other voluntary sources	Other
Caritasverband im Tauberkreis e. V.	Other NGO/charity	X	X	X		X	X	X	X	X			X			X	X					X				X		X	
Diakonie-Hilfswerk Hamburg e. V.,	Other NGO/charity	X	X	X		X	X	X	X	X			X	X		X	X			X			X			X			X
Stadt Troisdorf, Sozial- und Wohnungsamt, Schuldnerberatungsstelle	Local authority	X	X	X		X	X	X	X	X				X		X						X				X			
AWO Kreisberband Giforn e.V.	Other NGO/charity	X	X			X	X	X						X		X	X	X				X				X			X
Schuldner- und Insolvenzberatungsstelle	Other NGO/charity	X	X	X			X	X	X	X	X		X	X		X	X			X		X				X		X	X
Städtische Schuldner- Insolvenzberatungsstelle	Local authority	X	X	X		X	X	X	X		X			X		X	X				X	X				X			
Deutsches Rotes Kreuz Kreisverband Braunschweig-Salzgitter	Other NGO/charity	X	X			X	X	X		X				X		X	X				X	X				X		X	
Fachstelle für Wohnhilfen- und Schuldnerberatung, Flensburg	Local authority	X	X	X	X	X	X	X	X	X	X			X		X	X	X				X				X			
Arbeiterwohlfahrt Kreisverband Ansbach- Stadt e.	Other NGO/charity	X	X				X	X	X	X				X		X	X					X				X		X	
Christophorus GmbH Würzburg	Consumer organisation	X	X		X	X	X	X	X	X			X	X		X	X			X		X				X		X	
Schudlnerhilfe Köln e. V.	Other NGO/charity	X	X	X		X	X	X	X	X		X	X	X		X	X	X					X		X	X		X	X
SKM Lingen e. V.	Other NGO/charity	X	X	X		X	X	X	X	X	X			X		X	X	X				X				X		X	X
Freier Betreuungsverein Teltow-Fläming e.V.	Other NGO/charity	X	X	X		X	X	X	X	X	X		X	X		X	X		X	X		X				X			X
Diakonisches Werk Offenbach-Dreieich-Rodgau,	Other NGO/charity	X	X	X		X	X	X	X	X				X		X	X					X				X			
Caritasvorband Offenburg-Kehl e. V.	Other NGO/charity	X	X	X			X	X	X	X			X			X	X					X				X			X
Caritasverband Giessen e.V.	Other NGO/charity	X	X			X	X	X							X	X	X					X				X		X	
Caritasverband Leipzig e.V.	Other NGO/charity	X	X	X		X	X	X	X	X			X	X		X	X	X		X		X				X		X	
Stadtverwaltung Andernach, Schuldnerberatung	Local authority	X	X	X			X	X	X	X	X			X		X	X					X				X			X
SKFM e.V., Schuldner- und Insolvenzberatung,	Consumer organisation	X	X			X	X	X		X				X		X	X					X				X	X	X	
Caritasverband Karlsruhe e.V.	Other NGO/charity	X	X	X		X	X	X		X	X			X		X	X	X				X				X		X	
ADN Schuldner-und Insolvenzberatung e.V.	Other NGO/charity	X	X	X		X	X	X	X					X		X	X						X		X				
Caritasverband f. d. Bz. Limburg	Other NGO/charity	X	X	X			X			X	X		X			X	X					X						X	
Schuldner- und Insolvenzberatung Gafög GmbH	Other	X					X	X	X	X				X		X	X					X				X			
Sozialdienst katholischer Frauen e.V. Kölnn	Other NGO/charity	X	X	X			X	X	X	X	X		X	X		X	X			X		X				X			X
VerbraucherHilfe e.V., Nienburg	Other NGO/charity	X	X			X	X	X	X	X			X			X	X					X				X			
Lichtblick Schuldnerberatung e.V.	Other NGO/charity	X	X	X		X	X	X	X	X	X		X			X	X					X				X		X	X
Stadt Darmstadt Schuldnerberatung	Local authority	X	X	X		X	X	X	X	X	X			X		X	X					X				X			
Verbraucherzentrale Schleswig-Holstein e.V.	Consumer organisation	X	X			X	X	X	X	X	X	X	X	X		X	X					X				X			X
AWO Schleswig-Holstein gGmbH/AWO-Schuldner- und Verbraucherinsolvenzberatung Region	Other NGO/charity	X	X			X	X	X	X	X	X	X	X	X		X	X					X				X			X
Diakonisches Werk Weißenburg - Gunzenhausen	Other NGO/charity	X	X	X	X	X	X	X	X	X	X		X			X	X	X				X				X		X	
Paritätischer Wohlfahrtsverband Niedersachsen	Other NGO/charity	X	X	X		X	X	X	X	X			X	X		X	X					X				X			
Schuldnerberatung des Caritasverbandes Wiesbaden-Rheingau-Taunus e.V.	Other NGO/charity	X	X	X		X	X	X		X				X		X	X					X				X		X	
Caritasverband Konstanz e.V. - Schuldnerberatung	Other NGO/charity	X	X	X	X	X	X	X	X	X				X		X	X					X				X		X	
Caritasverband Memmingen - Unterallgäu e.V.	Other NGO/charity	X				X	X			X				X		X	X					X				X		X	
Verbraucherzentrale Nordrhein-Westfalen	Consumer organisation	X	X			X	X	X	X				X	X		X	X	X		X		X				X			
Landratsamt Main-Spessart, Schuldner- & Insolvenzberatung	Local authority	X	X			X	X	X	X				X	X		X	X					X				X			
Bundesarbeitsgemeinschaft Schuldnerberatung e.	Other NGO/charity		X	X	X							X				X	X	X				X				X	X	X	X
…	Other NGO/charity	X	X	X		X	X	X	X		X	X		X		X	X	X	X	X		X				X			

Name of organisation	Type of stakeholder	Services provided										Administrative level(s) of operation				Target groups						Costs of services			Sources of funding				
		Personalised debt advice face-to-face	Personalised debt advice by telephone	Personalised debt advice by email /online chat	Web-based tools	Printed information	Facilitating informally brokered arrangements between debtor and creditors	Facilitating formal procedures for debt settlement that do not take place in court	Facilitating legal procedures in court	Facilitating financial support for households to repay debts/arrears	Other services	National	Regional	Local	Other	Over-indebted households	Households at risk of becoming over-indebted	Households with specific debt problems	Specific age groups	Specific social groups	Other target group	All services free of charge	Partly free/partly paid services	All paid services	User fees	Public funding	Funding from industry	Funding from charity /other voluntary sources	Other
GREECE																													
ΕΝΩΣΗ ΚΑΤΑΝΑΛΩΤΩΝ ΒΟΛΟΥ & ΘΕΣΣΑΛΙΑΣ (Consumers' Association of Volos & Thessalia)	Consumer organisation	X	X			X	X	X					X			X						X							
Μοτοσυκλετιστική ένωση καταναλωτών (ΜΟΤΕΚ)	Consumer organisation	X	X	X	X	X	X	X	X			X	X	X		X	X			X	X		X			X		X	
ΙΝΚΑ ΚΡΗΤΗΣ ΙΝΣΤΙΤΟΥΤΟ ΚΑΤΑΝΑΛΩΤΩΝ	Consumer organisation	X	X	X	X	X	X	X				X				X	X	X											X
ΕΚΡΙΖΟ	Consumer organisation	X	X	X	X	X	X	X				X				X	X							X	X	X			
KEPKA- Consumers' Protection Center	Consumer organisation	X	X	X	X	X		X	X			X				X	X							X		X			X
Ministry of Development, Competitiveness, Infrastructure, Transport and Networks, General Secretariat for Consumer Affairs, Consumer Policy	Ministry	X	X	X	X	X						X				X	X					X				X			
HUNGARY																													
Habitat for Humanity	Other NGO/charity	X										X				X	X			X		X				X			X
Ökumenikus Segélyszervezet, Soroksári Önkormányzat (Local Minicipal Authority of Soroksár, Budapest XXIII District)	Local authority	X	X	X										X		X		X								X			
Széchenyi Hitelszövetség	Consumer organisation	X	X	X								X				X	X	X					X		X	X			
Hungarian Interchurch Aid	Other NGO/charity	X	X	X	X	X						X								X	X	X				X		X	X
IRELAND																													
Money Advice and Budgeting Service	Other government agency	X	X	X	X	X	X	X				X		X		X	X			X		X				X			
Free Legal Advice Centres, Dublin, Ireland	Consumer organisation	X	X	X	X	X					X	X				X	X	X				X				X		X	X
Society of St. Vincent de Paul	Other NGO/charity	X				X	X			X		X	X	X		X		X				X				X	X		X
ITALY																													
Caritas South Tyrol (Italy)	Other NGO/charity	X	X	X	X	X	X	X		X			X			X	X	X	X	X	X	X				X		X	X
Adiconsum, Associazione Difesa Consumatori e	Consumer organisation	X	X			X	X			X		X				X	X							X	X	X	X		
LUXEMBOURG																													
Service d'Information et de Conseil en matière de surendettement (Inter-Actions asbl)	Other	X	X	X	X	X	X	X	X			X	X	X		X	X					X				X			
Ligue Médico-Sociale	Other NGO/charity	X			X	X	X	X	X	X		X	X	X		X	X	X				X				X			
MALTA																													
Caritas Malta	Other NGO/charity	X	X									X		X		X	X	X				X						X	
NETHERLANDS																													
Kerk in Aktie / SchuldHulpMaatje (Protestant	Other NGO/charity	X	X	X	X	X	X			X		X	X	X		X	X					X				X	X	X	
NVVK- Dutch union for debt relief and social	Other	X	X	X	X	X	X	X	X	X	X	X	X	X		X	X	X	X				X						X
Nibud	Consumer organisation*				X	X					X	X					X						X			X	X	X	
POLAND																													
Society for Promotion of Financial Education	Other	X	X	X										X		X	X					X				X		X	
PORTUGAL																													
Portuguese Association for Consumer Protection	Consumer organisation	X	X	X	X	X	X	X				X				X	X					X							X
Fundação Agir Hoje	Other NGO/charity	X											X			X	X					X							X
Gabinete de Orientação ao Endividamento dos Consumidores	University/research institut	X	X	X		X	X				X	X				X	X	X				X				X			
Câmara Municipal de Palmela	Local authority	X	X	X			X							X		X	X			X		X				X			

Name of organisation	Type of stakeholder	Services provided										Administrative level(s) of operation				Target groups						Costs of services			Sources of funding				
		Personalised debt advice face-to-face	Personalised debt advice by telephone	Personalised debt advice by email /online chat	Web-based tools	Printed information	Facilitating informally brokered arrangements between debtor and creditors	Facilitating formal procedures for debt settlement that do not take place in court	Facilitating legal procedures in court	Facilitating financial support for households to repay debts/arrears	Other services	National	Regional	Local	Other	Over-indebted households	Households at risk of becoming over-indebted	Households with specific debt problems	Specific age groups	Specific social groups	Other target group	All services free of charge	Partly free/partly paid services	All paid services	User fees	Public funding	Funding from industry	Funding from charity /other voluntary sources	Other
SLOVAKIA																													
Spotrebiteľské Centrum - nezisková organizácia	Consumer organisation	X				X	X		X		X	X	X			X	X	X	X			X						X	
Association of Service Users	Consumer organisation	X	X	X	X	X	X			X		X										X				X			
Association of Slovak Consumers	Consumer organisation	X	X	X			X	X	X			X	X	X		X	X					X				X			X
SLOVENIA																													
Slovene Consumers' Association ZPS	Consumer organisation*				X	X					X	X									X			X	X	X			
SPAIN																													
Asociación Murciana de Consumidores y Usuarios,	Consumer organisation	X	X	X			X	X	X				X			X	X	X					X		X	X			
ASGECO	Consumer organisation	X	X	X			X	X																	X	X			
Plataforma de Afectados por la Hipoteca (PAH)	Other NGO/charity	X	X	X		X	X		X		X	X	X	X		X		X				X						X	
ADICAE, Asociación de Usuarios de Bancos, Cajas y Seguros de España	Consumer organisation	X	X	X	X	X	X					X				X	X	X	X	X			X		X	X			
SWEDEN																													
City of Malmö, Environment Department, Lifestyle and Consumer Affairs	Local authority	X	X	X		X	X	X	X					X		X	X	X	X		X	X				X			
Lomma kommun, socialförvaltningen / City of Lomma, department for social, elderly and	Local authority	X	X	X				X						X		X	X					X				X			
Municipality of Vänersborg	Local authority	X	X	X				X			X			X		X	X		X							X			
Botkyrka kommun	Local authority	X	X			X	X			X	X			X		X	X	X				X				X			
Örebro kommun	Local authority	X	X	X	X	X	X	X						X		X	X	X			X	X				X			
Professional association for financial and debt counselors in local service (Yrkesföreningen för	Other NGO/charity	X	X			X	X	X	X			X	X	X		X	X	X	X	X		X				X			
Insolvens	Other NGO/charity	X	X	X		X		X	X			X	X	X		X	X				X	X			X	X			
UNITED KINGDOM																													
Citizens Advice service	Other NGO/charity	X	X		X	X	X	X		X	X	X	X	X		X	X	X	X	X		X				X	X	X	X
Cosumer Credit Counselling Service	Consumer organisation		X		X	X	X	X	X			X				X	X						X				X		
Credit Action	Other NGO/charity	X			X	X					X	X									X		X				X	X	

Notes: This overview does not include financial industry stakeholders (banks/financial services providers or their associations, credit referencing agencies, etc.), which in a small number of cases indicated that they provide advice, mainly for clients.
*This organisation did not specifically indicate the provision of personalised debt advice in the questionnaire, but clarified in the comments that such advice is provided to a limited extent.

ANNEX 4. LIST OF STAKEHOLDERS INTERVIEWED

The following table lists stakeholders with whom interviews were conducted in the individual Member States and at the EU-level.

Table A3. *List of stakeholder interviews conducted*

Source: Civic Consulting.

MS	Name of organisation or expert
AT	Schuldnerberatung Wien - gemeinnützige GmbH
	Federal Ministry of Labour, Social Affairs and Consumer Protection
	Institute for Social Policy, Department of Socio-Economics
	Österreichischer Sparkassenverband
	National Bank
	IFS Schuldenberatung GmbH Vorarlberg
	Soll und Haberfellner
	ASB Schuldnerberatungen GmbH
	Inkassoverband Österreich
	Vienna University of Business and Economics
BE	Réseau Financement Alternatif (RFA)
	National Bank of Belgium
	Welzijnszorg VZW
	University College Ghent
	Test-Achats
	FPS Economy SMEs, Self-Employed and Energy
	Cabinet of the Vice minister-president of the Flemish Government and Flemish Minister for Innovation, Public Investment, Media and Poverty Reduction
	Febelfin / Union professionnelle du Crédit
	Vlaams Centrum Schuldenlast V.Z.W.
	Contentia International SA
BG	Bulgarian Ministry of Economy, Energy and Tourism
	Bulgarian Financial Forum
	Draftis
	Desislav Danov
	Ministry of Finance
	Dragomira Pavlova
	National Statistical Institute of Bulgaria (NSI)
	Economic Research Institute (ERI) / Bulgarian Academy of Science (BAS)
	Association of the Collection Agencies in Bulgaria (ACABG)
	Independent Union of Consumers in Bulgaria (IUCB)
CY	Housing Finance Corporation
	Cyprus Consumers' Association (CCA)

	University of Cyprus
	Social Welfare Services, Ministry of Labour and Social Insurance
	Association of Cyprus Banks
CZ	o.s. Společnou cestou
	Debt Advisory Center - Counselling in Stringency
	Czech National Bank
	Provident Financial s.r.o.
	Czech Satistical Office
	Charles University in Prague
	EEIP, a.s.
	Ministry of Finance
	Asociace inkasních agentur (AIA)
	University of Economics, Prague
DE	Evangelische Hochschule Berlin
	Association of German Banks
	Institut für Soziale und Kulturelle Arbeit (ISKA)
	Institut für Finanzdienstleistungen e.V. (IFF)
	Senatsverwaltung für Soziales, Kinder und Frauen Bremen
	Debt Advice Centre Rhineland-Palatine, Johannes Gutenberg-University Mainz
	Arvato Infoscore
	Ruhr Graduate School in Economics and University of Duisburg-Essen
	Ministerium für Arbeit und Soziales Sachsen-Anhalt
	Deutsche Bank AG
	Creditreform
	Verbraucherzentrale Nordrhein-Westfalen
	Landratsamt Main-Spessart, Schuldner- & Insolvenzberatung
	Schufa Holding AG
	Bundesarbeitsgemeinschaft Schuldnerberatung e. V. (BAG-SB)
DK	Forbrugerrådet / Danish Consumer Council
	Finans og Leasing
	Danish Mortgage Bankers' Federation (Realkreditforeningen)
	Debitor Registret
	YMCA Social Work in Denmark
	National Bank
	Danish FSA
	Bech-Bruun Law Firm
	Danish Mortgage Credit Complaint Board
EE	Tallinn City Social Welfare and Health Care Board
	Bank of Estonia
	Estonian Banking Association
	MTÜ Võlanõustajad

	Tallinn University of Technology
EL	EKPIZO, The Quality of Life
	KEPKA, Consumers' Protection Centre Greece
	Hellenic Consumers' Ombudsman
	Hellenic Bank Association
	International Center for Hellenic and Mediterranean Studies
	Ministry of Development, Infrastructure, Transport and Networks - General Secretariat for Consumer Affairs
	Tiresias SA
	Center of Planning and Economic Research
	Institute for Social Innovation
	Association of Cooperative Banks of Greece
ES	Spanish Banking Association
	University of Castilla-La Mancha
	Multigestion Iberia SAU
	University of Castilla-La Mancha
	University of Castilla-La Mancha
	Asociación Hipotecaria Española (Spanish Mortgage Association)
	Pere Brachfield & Morosólogos Asociados
	Catalan Consumer Agency
	Asociación de Usuarios de Bancos, Cajas y Seguros de España (ADICAE)
	Banco de España
	Asociación General de Consumidores (ASGECO)
	Asociación Murciana de Consumidores y Usuarios, Consumur
	Ministry of Health, Social Services and Equality General Direction of Family and Childhood Care
	Plataforma de Afectados por la Hipoteca (PAH)
	Red Acoge
FI	Takuu-Säätiö (Guarantee Foundation)
	Suomen Asiakastieto Oy
	National Consumer Research Centre
	The National Research Institute of Legal Policy in Finland
	Federation of Finnish Financial Services (FKL)
	Consumer Agency
	Bank of Finland
	Lutheran Church of Finland
	Finance and Debt Counselling Unit of the City of Helsinki
	University of Jyväskylä
FR	Archime'D
	Cresus Alsace
	Bank of France
	UFC-Que Choisir

	Ministry of Economy and Finance
	Association Française des sociétés financières (ASF)
	Finances & Pédagogie
	BNP Paribas Personal Finance
	French Banking Federation
	Tribunal de grande instance de Nanterre
	Secours catholique
	Université Paris Ouest
	Ministère de la Justice - Direction des affaires civiles et du sceau
	Université Lille 1 CNRS
HU	Hungarian Banking Association
	Consumer Protection Directorate, Hungarian Financial Supervisory Authority (HFSA)
	Hungarian National Bank
	Local Debt Management Service Budapest 23 District
	Independent bailiff
	Széchenyi Hitelszövetség
	György Molnár
	Hungarian Interchurch Aid
	Gergely Balint
	Habitat for Humanity
IE	Money Advice and Budgeting Service (MABS)
	Central Bank
	Centre for Co-operative Studies, University College Cork
	Irish League of Credit Unions
	Debt Management Association of Ireland
	University College London
	TASC (Think-Tank for Action on Social Change)
	National Consumer Agency
	Society of St. Vincent de Paul
	Free Legal Advice Centers
IT	University of Urbino
	Fondazione consumo sostenibile
	Associazione del Credito al Consumo ed Immobiliare (ASSOFIN)
	CRIF S.p.A.
	Prometeia S.p.A.
	Caritas debt advice
	Universita' di Modena e Regglio Emilia
	Adiconsum, Associazione Difesa Consumatori e Ambiente
	Proseguo
	Bank of Italy
	University of Milan

	Italian Banking Association (ABI)
	Senate of the Republic
	Istituto per la formazione e lo sviluppo dei lavoratori (ISFOL)
LU	Service d'Information et de Conseil en matière de surendettement (Inter-Actions asbl)
	Ministère de la Famille et de l'Intégration
	Ligue Médico-Sociale
	Raffeisen Bank
	Jan Nottrot
LT	Creditinfo
	Vytautas Magnus University
	Bank of Lithuania
	Lithuanian Department of Statistics
LV	Consumer Rights Protection Center of Latvia
	Ministry of Welfare of the Republic of Latvia
	SEB Banka
MT	Ghaqda tal-Konsumsumaturi (Consumers' Association)
	Central Bank of Malta
	Malta Association of Credit Management
NL	Nationaal Instituut voor Budgetvoorlichting (NIBUD)
	Kerk in Aktie / SchuldHulpMaatje
	Het Verenigingsbureau (NVVK)
	University of Applied Sciences Utrecht
	MOgroep
	Research Unit on Financial Inclusion and New Entrepreneurship
	Vereniging van Financieringsondernemingen in Nederland
	Ministry of Finance
	Regioplan Policy Research
	Dutch Banking Association (NVB)
PL	Society for Promotion of Financial Education (SKEF)
	Ministry of Finance
	National Bank of Poland
	Warsaw School of Economics
	Federacija Konsumentów
	Polish Bank Association (PBA)
	Krajowy Rejestr Długów Biuro Informacji Gospodarczej SA (KRD - International Cooperation Department)
	Economic Data Office - BIG InfoMonitor
	Warsaw School of Economics
	Association for Financial Security of the Citizens of the Polish Republic (STOB)
	Diakonia Kosciola Ewangelicko-Augsburgskiego w RP
PT	Lisbon Arbitration Centre for Consumer Complaints

	ASFAC
	Fundacao Agir Hoje
	Centre for Social Studies - University of Coimbra
	Instituto Politécnico do Cávado e do Ave
	Planoviável
	Gabinete de Orientação ao Endividamento dos Consumidores
	Câmara Municipal de Palmela
	Banco de Portugal
	Portuguese Association for Consumer's Protection (DECO)
	Mediador do Crédito
RO	Conso Media Group
	Banca Comerciala Romana
	National Bank of Romania
	Association of Financial Companies - ALB Romania
	Technical University Cluj Napoca, UCBM, Faculty of Sciences, Department of Economical Studies / Rodica Diana Apan Lawyer's office
	Raiffeisen Bank S.A.
	APC-România
	The Institute for Researching Quality of Life
	National Association of Citizen Advice Bureaux
SE	Konsumentverket
	Linaeus University
	Santander Consumer Bank and Association of Swedish Finance Houses
	Enforcement Authority
	Swedish Bankers' Association
	Malmö University
	BUS-föreningen
	Insolvens
	Member of the Swedish Parliament
	Department of Sociology and Work Science, University of Gothenburg
SI	Ministry of Labour, Family and Social Affairs
	Slovene Consumers' Association (ZPS)
	Institute of Macroeconomic Analysis and Development
	Creditreform
SK	Slovak Banking Association
	National Bank of Slovakia
	Association of Service Users
	Združenie slovenských spotrebiteľov (ZSS)
	Institute for Labour and Family Research
	University of Economics in Bratislava
	EOS KSI Slovensko, s.r.o.

UK	Citizens Advice
	The Financial Services Authority (FSA)
	Council of Mortgage Lenders (CML)
	Financial Ombudsman Services
	Office of Fair Trading (OFT)
	Credit Action
	Money Advice Scotland
	Finance and Leasing Association (FLA)
	University of Liverpool
	University of Cambridge
	Association of British Credit Unions Limited (ABCUL)
	Department for Business, Innovation and Skills
	Consumer Credit Counselling Service
	University of Hertfordshire Business School
	School of Applied Social Studies, Robert Gordon University
EU	Eurodiaconia
	Eurofound
	European Banking Federation
	Eurofinas
	International Personal Finance plc
	Visa Europe
	European Network of Credit Unions/World Council of Credit Unions (WOCCU)
	European Consumer Debt Network (ECDN)
	European Financial Inclusion Network
	European Credit Research Institute at the Centre for European Policy Studies
	Caritas Europa
	Observatoire du Crédit et de l'Endettement
	European Association for Evolutionary Political Economy

ANNEX 5. METHODOLOGICAL NOTE

This note introduces the main methodological tools employed in the study, and describes their application in formulating the final report.

The research for the study has been conducted in all 27 Member States of the European Union, and was comprised of the following methodological tools:

1. Desk research, collection of available information on over-indebtedness and selected analyses of data;
2. A total of 277 stakeholder and expert interviews in all Member States covering financial industry, civil society organisations, public authorities, and independent experts, according to a pre-defined distribution;
3. A total of 120 interviews in six Member States (France, Hungary, Germany, Slovenia, Spain, and the UK) with over-indebted households, covering different socio-economic groups, gender, age, etc.;[1]
4. An analysis of over-indebtedness in the 27 Member States through in-depth country reports;
5. An EU27 survey of organisations active in addressing instances of over-indebtedness, debt counselling and guidance services, to collect detailed information on their activities and target groups and form the basis for the mapping of these organisations across the EU.

1.1 IN-DEPTH DESK RESEARCH

We reviewed key documentation, including existing studies, analyses, reports, and policy documents to collect information relevant for the development of methodological tools and gain a detailed overview of the current state of over-indebtedness in the EU.

Early in the inception phase we initiated a process of desk research in order to review and extend the lists of relevant literature, reports and data included in the TOR and our offer. Following this, collection and organisation of relevant documents and data continued. The stakeholder/expert interview process yielded a number of wide ranging sources in response to specific queries for additional information. Throughout the study, we continued to examine and assemble data from key statistical sources, keeping in mind the need to incorporate, where possible, updated versions of the documents which served as sources for the 2008 EMPL study.

[1] While the majority of interviews involved currently over-indebted households, the interviews included in each country a sub-group of 'at risk' households, as well as a sub-group of 'formerly over-indebted' households.

In addition to synthesising and evaluating prior research, various statistical analyses were employed in this study. These analyses ranged from simple descriptive analysis to use of multiple regression techniques. Specifically, descriptive statistics were used to present the results of stakeholder interviews; an example would be calculating average scores of stakeholder ratings of various items on the questionnaire. Cross-tabulations and comparisons of means were also used, for example to compare responses on a question by stakeholder group.

More advanced techniques included the use of the independent *t*-test (to test for significant differences in mean scores between two independent groups) and the one-way analysis of variance (ANOVA) procedure, which tests for differences in mean scores between several different groups. Pearson's correlation was also used, for example to assess the relationship between levels of debt and frequency of arrears.

In addition, to control for the influence of different levels of income on debt to income ratios, several ordinary least square (OLS) regressions were run with level of loans outstanding as a percentage of household income as the independent variable, changes in real adjusted household income over the previous three years as a control variable and level of arrears as the dependent variable. For all statistical analyses, the critical level for significance was $p<.05$.

1.2 IN-DEPTH STAKEHOLDER INTERVIEWS

A total of 277 interviews were carried out with representatives of civil society, public authorities, financial industry and with independent experts from April to December 2012.

The selection of interviewees was structured primarily by the categorisation of stakeholder types defined in the TOR (i.e. financial industry, civil society, public authorities and independent experts). In most cases, these categories were sufficient to capture the professional background of the interviewees. However, there were also some cases where the divisions were not clear-cut, and final decisions about the categorisation of interviewees had to be made upon the consideration of different factors. Each case was given equal attention in trying to make the most appropriate decision for the purposes of the research. All of the 277 stakeholders interviewed are listed in Annex 4 of this study.

All interviewees were asked to fill in a questionnaire prior to the interview.[2] The final version of this questionnaire was divided into the following main sections:

- Identification data;

[2] The stakeholder questionnaire and the guide for consumer interviews were developed by Civic Consulting and the Personal Finance Research Centre in several stages, in close cooperation throughout the process with the Commission and selected experts and stakeholders, who provided valuable comments and suggestions.

- Definition of over-indebtedness;
- Level of over-indebtedness;
- Nature and drivers of over-indebtedness;
- Consequences of over-indebtedness;
- Measures to alleviate the impact of over-indebtedness;
- Future outlook and challenges for policy makers.

During the subsequent interview, points that were unclear in the interviewee's initial responses to the stakeholder questionnaire were clarified, which ensured a common understanding about the meaning of questions across countries and stakeholder groups. Furthermore, preparing for the interviews on the basis of the answers provided in the questionnaire enabled the adaptation of the interview questions to the national circumstances outlined in the questionnaire, as well as to each interviewee's areas of expertise, and to identify key areas for in-depth discussion. After the interview, notes were integrated into the questionnaire and circulated to each interviewee for their approval.

Because the definition of household over-indebtedness differed considerably between stakeholders, a definition encompassing the most important elements identified by the 2008 EMPL study was composed for the purposes of this study:

> *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*[3] *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.*

This definition was provided to interviewees in advance as a reference for the discussion about their own specific definitions. In a significant portion of interviews, this was the main reference throughout the conversation - because the interviewees did not report using a specific definition of their own.

1.3 CONSUMER INTERVIEWS

A total of 120 consumer interviews were conducted in the six Member States agreed upon with the European Commission (the UK, Slovenia, Hungary, France, Spain and Germany).

As was planned, they were conducted in co-operation with country experts and organisations, who had significant experience in reaching over-indebted consumers.

---

[3] Secured borrowing refers to a loan that is backed with an asset held by the borrower; often their home.

To safeguard a consistent approach, we defined the recruiting and interviewing process through documentation and applied additional quality control measures.

Already in the recruitment phase, households were identified to be at risk of over-indebtedness, over-indebted or previously over-indebted. Interviewees were selected to as to ensure that all three types of households were represented in each country where interviews took place.

After conducting the consumer interviews, the results were analysed, taking into account the results of the stakeholder interviews and the statistical data. This analysis is presented in Part 3 of this report.

1.4 COUNTRY REPORTS

The synthesis of findings at the EU level presented in Part 1 of this study are complemented with 27 country reports which aim to bring detailed insights into the situation in the individual EU Member States.

The process of data gathering was different in each Member State, largely depending on the prominence of over-indebtedness on the national policy agendas and the availability of official statistics and up to date academic or other research reports.[4] These differences are reflected in the scope of detail and the conclusiveness of findings contained in each country report, so some contain extensive references to external sources whereas others rely primarily on the information gathered in the stakeholder and consumer interviews.

Furthermore, although the basic structure and key information provided are similar across the reports, due to country specific contexts the emphasis on specific aspects differs. This is not only due to a lack of external sources but also because of the widely varying approaches to measuring and addressing household over-indebtedness in different Member States. Part 2 of this study presents the country reports.

1.5 SURVEY OF DEBT ADVICE PROVIDERS

A mapping of organisations in the European Union that provide personalised debt advice to over-indebted households was also conducted. For this purpose, a short questionnaire was developed and sent to organisations across the EU for which it was clear or at least possible that they offer advice and support to over-indebted households. The questionnaire asked for identification data about the organisation and the main features of the provision of services to over-indebted households. In

[4] For example, research in Germany on the topic is quite extensive, but this is not the case for small Member States such as Malta, Cyprus, or Slovenia.

order to increase the response rate, the questionnaire was translated into Czech, French, German, Greek, Italian and Spanish.

The organisations to whom the survey was sent were initially identified by a combination of web-based research and information provided by stakeholders during the interview phase. Stakeholders were asked in the questionnaire to list all organisations in their country that provided debt advice. In countries where it was possible to identify a central contact point for debt advice provision, we followed this up and asked for the further contact details.

In total, completed surveys were received from 148 debt advice organisations. This number includes those stakeholders who took part in an interview and indicated that they provided debt advice. The results of this survey are presented in Part 1 of this study.

ANNEX 6. LIST OF BEST PRACTICES

The following table lists the best practices cited by stakeholders and found through desk research in detail:

***Table 63.** Best practices*

Source: Civic Consulting, based on stakeholder interviews and complementary research.

Measure	Description of best practice
Financial education	A preventive measure that was frequently mentioned in stakeholder interviews, its aim being to improve financial literacy which is deemed to be lacking in many countries. The examples given by stakeholders ranged from consumer information on the use of credit, to teaching children and young people about money matters in school. It should be noted, however, that the impact of such a measure is contested within the literature; further, there is often disagreement around the meaning of terms such as financial literacy, financial education and money management education.[281] The implementation of financial education initiatives would, therefore, need to be carefully designed and evaluated.
Resource/income adequacy	Several stakeholders made reference to the need to make sure that people in financial difficulty have access to adequate financial resources in the first instance. Notably, a large number of consumers interviewed referred to increasing their household resources as being fundamental to their chances of escaping and avoiding future over-indebtedness; finding a job was frequently cited as the means towards this end. Economic vulnerability and poverty are consistently associated with over-indebtedness, and it follows, therefore, that increasing the financial resources and opportunities available to over-indebted households or those most at risk of becoming so, is crucial to addressing and preventing over-indebtedness. Therefore, in addition to measures to tackle the debts themselves, measures designed to create employment opportunities, and to supplement people's income adequately in the absence of these, are also necessary.
Responsible lending	Responsible conduct - another preventive measure - has been identified as being important in all aspects of lending, but particularly new forms of lending such as SMS and online loans. These aspects include: creditors verifying credit/debt repayment capacity, supported by credit reporting (possibly, as some stakeholders pointed out, not only with negative but also with positive credit reference data, bearing in mind concerns about privacy); transparency in relation to the cost of credit; and restraint in terms of interest rates and fees. In some countries, 'budget standards', or 'minimum income standards' have been developed – these (reference) budgets are based on the amounts households of different compositions need to have at their disposal (for example, to spend on essential items and conventionally

[281] See for example Baumann, C. and Hall, T. 2012. Getting Cinderella to the ball: putting education at the heart of financial education: A conceptual exploration of the potential role of education within financial education. *International Journal of Consumer Studies*, Vol 36 (5), pp. 508- 514.

	determined 'norm') in order to have an acceptable standard of living within the society in which they live.[282] These standard budgets could be further developed (e.g. in Member States which do not have them), and used, amongst other things, in the context of loan applications to inform people's capacity to repay the credit involved.
Good practice guidance	Guidance for lenders/creditors on issues such as arrears management, debt collection and dealing with people with mental health problems has been pointed out as a complementary measure. Such guidance has been issued by public authorities (as a form of regulation), by financial industry (as a self-regulatory measure) as well as by some other organisations or coalitions. Examples include: the statutory 'Code of Conduct on Mortgage Arrears' issued by the Central Bank of Ireland and a series of codes issued by the Office of Fair Trading in the UK; the 'Good Conduct Code' for banks in Spain, issued in 2012 by the Council of Ministers and aimed at prevention of evictions; guidance for the mortgage industry on mortgage arrears and possessions published by the Council of Mortgage Lenders in the UK; the non-binding 'Good Practice Awareness Guidelines for Consumers with Mental Health Problems and Debt' published by the Money Advice Liaison Group in the UK; 'How to do the right thing', published by the Addressing Financial Difficulties good practice working party in the UK (aimed at "any organisation that provides debt advice, acts as a creditor, a service provider and/or collects or enforces debts"). Again, monitoring and evaluation of the effectiveness of such guidance/codes can be considered key; their express admissibility in legal proceedings would also be important.
Early engagement of creditors/lenders	Addressing (potential) debt problems at an early stage was stressed as important in the stakeholder interviews and is also recommended in various good practice guidelines. In the UK a stakeholder reported that "as part of good practice lenders have been writing to people who they think might have problems". Conveying a 'sympathetic' tone within such communications is clearly important, as is reference to where people can go to get independent advice if needed. An example provided by a stakeholder in the Netherlands is the contacting of renters (in some cases) through money advice services as soon as payment-related problems arise.
Debt advice	As stakeholders pointed out (and was previously highlighted by Eurofound (2012), among others), it is important that debt advice adheres to certain principles (values) and practices. In terms of principles, many debt advice services base their approach on the provision of a service which is independent, holistic, non-judgmental and rights-based. As regards practice, it is important that debt advice is free, accessible, timely and customised to individual needs. Examples of such debt advice services include the publicly funded Money Advice and Budgeting Service in Ireland and debt advice organisations in Austria and Germany. In some countries, such as Finland and the Netherlands, there is a statutory obligation for local authorities to provide debt advice. Networking was another good practice mentioned in stakeholder interviews; the co-ordination of debt advice providers could be achieved through the development of umbrella/national organisations, as in Germany (AG SBV) and Austria (ASB). As regards funding, stakeholders were often strong advocates of greater public funding for free-of-charge debt advice services. There is also a persuasive argument that credit providers and other providers of services that are often linked to arrears (such as utilities

[282] See for example Fisher, G., *An Overview of Recent Work on Standard Budgets in the United States and Other Anglophone Countries*, US Department of Health and Human Services, Washington DC, 2007.

	or telecommunication providers) should contribute towards the resourcing of debt advice services, as resolution of debt problems can benefit both creditors and debtors. In order to maintain the independence of debt advice services, such funding is generally considered to be best channelled through some sort of independent body or 'trust'.
Temporary suspension of debt servicing	The Italian Banking Association and consumer associations have signed an agreement on the suspension of repayment of mortgage loan instalments to mitigate the effects of the financial crisis. In Spain one stakeholder noted that some banks have been offering the possibility of an insurance that allows for a temporary suspension of debt servicing in case of unemployment. It would be important that interest does not accrue on such suspensions, as such a practice would only serve to compound people's difficulties in the longer term.
Preventing evictions	In some countries, such as Greece and Spain, temporary moratoria on home repossessions have been introduced in the past few years. In some other countries special schemes are in place (such as the 'Mortgage Rescue Scheme' in the UK) to assist those who cannot sustain their mortgage payment by enabling them to remain in their homes as renters. In Ireland, a similar scheme has proved slow to take off, and more policy emphasis has been placed on forbearance and (latterly) advanced forbearance measures, such as so-called 'split mortgages'.[283]
Out-of-court procedures for debt settlement	Procedures for out-of-court debt settlement are considered an important aspect of alleviating the impact of over-indebtedness. They exist in many Member States, but their effectiveness largely depends on the way they are structured and on the lenders'/creditors' willingness (and incentives) to settle debts in such manner.[284]
Collective debt settlement	In Belgium it was noted that the law on collective debt settlement had a great impact. As one national stakeholder explained: "The idea is that consumers with a lot of debts with different lenders can go to a debt mediator. This person collects all outstanding debts, gets in contact with all lenders and tries to reach an agreement with all of them, so they are treated equally. The debt mediator tries to make an estimation of the real possibilities of the person who took the loan for repayment. This means that in some cases the mediators can come to an agreement with creditors: knowing this person has no means at all to ever be able to repay outstanding debts, an agreement is made to diminish the repayment or even decide the repayment ends after 5 years and the rest of the outstanding debt would not be recovered because the person would have to pay for the rest of their lives." Evaluation of such measures, both in terms of their social and economic impact, is again important. Debt mediation itself, providing it is carried out by suitably qualified and properly authorised/licensed mediators, was also cited in several interviews as best practice.
Legal procedures for the discharge of	One of the most frequently named best practices in the stakeholder interviews are legal procedures for the discharge of chronic debts, such as personal insolvency procedures. In some countries where such procedures

[283] A split mortgage involves the mortgage lender agreeing to 'park' or 'warehouse' part of the principal (on an interest free basis in some cases) for a specified period of years; mortgage repayments in the interim are re-calculated (and lowered) with reference to the reduced principal amount. At the end of the agreed period, the 'warehoused' or 'parked' element of the principal becomes repayable, by which time it is hoped that the borrower's circumstances will have improved.

[284] See Kilborn, J.J., 'Expert Recommendations and the Evolution of European Best Practices for the Treatment of Over-indebtedness, 1984-2010', 2010. Also see Free Legal Advice Centres, 'Essential principles of debt adjustment/settlement schemes across Europe: A summary of the Kilborn paper with an emphasis on how those principles can be incorporated into the forthcoming Irish Personal Insolvency Bill', January 2012.

debts	exist, stakeholders pointed out that they could be improved by making them more accessible (e.g. by lowering the fees and/or relaxing the eligibility criteria), by establishing an independent body able to impose reasonable arrangements on creditors who may be intransigent, and by shortening the period of debt repayment/adjustment. Arguably, the most important social component of such procedures is to ensure that debtors have 'dignity to live' while complying with the terms of such arrangements. The development and application of standard reference budgets (discussed above) has been a feature in some Member States. Budget standards are a realistic and objective way of determining both the minimum amount of income people need to retain to live adequately, and (thereby) what they can realistically afford to repay towards the discharge of their debts.
Responsible debt collection	It has been noted as being important that approach to debt collection is personalised, that enough time is dedicated to understanding the individual debtor's circumstances and that debtor's dignity is respected. Licensing of debt collection and debt management companies, as well as regulatory monitoring and (where necessary) enforcement can also be important measures in this regard.
Prevention of financial exclusion	As one stakeholder in Germany pointed out, "it is necessary to have a current account to get a job, to rent a house … and generally get back on track". The need for providing access to a bank account was pointed out by other stakeholders as well. Access to affordable credit is another important aspect of preventing financial exclusion.
Other practices and measures	The Dutch project 'Schuldhulpmaatje' (i.e. 'Budget buddy') was named as an example of best practice carried out in co-operation of public authorities and churches, and with a significant involvement of volunteers. Engagement of volunteers was noted as best practice in some other cases as well. Several stakeholders mentioned the Fund for the Fight Against Over-Indebtedness which exists in Belgium. Each lender contributes to the fund according to a calculation based on total arrears for credit contracts. This is used to repay fees and expenses for debt mediators who could not be paid by debtors. All stakeholders in Bulgaria who provided examples of best practice mentioned a financial ombudsman (as a suggestion for the future and not as an existing best practice in that country where there is currently no such ombudsman). In some countries, there are Consumer Ombudsmen for dealing with specific complaints concerning regulated financial service providers, such as the UK Financial Ombudsman Service and the Irish Financial Services Ombudsman, in others there are Banking Ombudsmen, for example in Germany and Greece. However, a particularly interesting example in the context of this study (although it comes from outside of the EU) is the Icelandic 'Debtors' Ombudsman', whose function is to "represent the interests of debtors".[285]

[285] See http://www.ums.is/english/.