



Mailing list Consumer Protection/ Data Protection

Brussels, 1 December 2014

JP

Study: The Over-Indebtedness of European Households

Dear Madam, dear Sir,

On 30 October 2014 the European Commission has published the study "The Over-Indebtedness of European Households", drafted by the German based business consultancy Civic Consulting. The aim of this study is to provide a systematic and comparable overview of the situation of households' over-indebtedness in all 28 EU Member States. It analyses the causes and nature of over-indebtedness and its effects on citizens' daily lives. Finally, it covers the measures in place across the European Union to alleviate the effects of over-indebtedness and proposes future actions.

The study is based on the analysis of more than 270 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. The EU income, social inclusion and living conditions survey (EU-SILC) was primarily used for statistical data.

Indicators of over-indebtedness

In 2011 and across the EU area as a whole, the level of over-indebtedness measured in arrears with payments for different types of credit had been 11.4 percent. Thereof, arrears on rent and mortgages had been at 4 percent. Figures separating in arrears on rent and arrears on mortgages were unfortunately not available, though.

Socio-economic analyses have shown that young families with only one low-level income are exposed to a special high risk of over-indebtedness. In the first instance this holds true irrespective of having a mortgage or paying a rent. Still, there is a tendency that people who rent a home are exposed to a higher risk of over-indebtedness than home owners, who effect their mortgage payments. During the last five years' time however, more and more problems arose for people with mid-level incomes and those, who have to serve mortgage credit payments. This holds especially true for people living in those member states most seriously hit by the economic crisis, e.g. Spain or Ireland.

Assessment of the risk of over-indebtedness caused by mortgage credits

A survey among stakeholders showed that 57 percent of the interviewees suppose that a mortgage is the type of credit that bears a major risk of over-indebtedness. This ranks mortgage credit on second place. Splitting up the replies by stakeholder groups the following allocation occurs: 42 percent of representatives of the financial industry see a major risk of over-indebtedness caused by mortgage credits. Civil society organisations voted for it in 62 percent of the cases, public authorities in 55 percent of the cases and independent experts in 70 percent of the cases.

From a survey among EU-citizens it emerged that 35.1 percent of them perceived their housing costs (mortgage repayment or rent, insurance, and service charges) as a heavy financial burden. Still, the study states that it is not possible to identify a strong direct link between arrears and high levels of mortgage borrowing.

Measures to alleviate over-indebtedness

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 – partially by making use of credit registers. In addition, ratios of loan service burden to income are recommended or enforced in some markets, especially when granting mortgage credit.

The study states five main findings. First, over-indebtedness is a complex subject. To facilitate informed policymaking there is a need for more timely and robust data. There are real social and economic benefits to Member States associated with preventing and addressing over-indebtedness. Therefore, there is a need for a multi-dimensional and integrated government policy response. Finally, the aim of policy development should be to prevent and resolve over-indebtedness, and not just to alleviate or manage it.

If you have further questions, please do not hesitate to contact us.

Yours sincerely



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