



Finance Watch

Making finance serve society

What makes credit so risky? A consumer perspective

A paper on the development of consumer credit markets
from ancient times to the present



June 2019

Debt is a social and ideological construct, not a simple economic fact.

Noam Chomsky

Author: Olivier Jérusalmy

Editors: Paul Fox, Marc Fovargue-Davies, Greg Ford

Acknowledgements: Many thanks to Prof. Federico Ferretti and Yves Mathieu amongst others for their invaluable input. Any errors and omissions are the sole responsibility of the author.

Cover photo: Photo by Jan's Archive on Unsplash, © Finance Watch 2019

The contents of this report may be freely used or reproduced without permission provided the original meaning and context are not altered in any way. Where third party copyright has been acknowledged, permission must be sought from the third party directly. For enquiries relating to this report, please email contact@finance-watch.org

Finance Watch has received funding from the European Union to implement its work programme. There is no implied endorsement by the EU or the European Commission of Finance Watch's work, which remains the sole responsibility of Finance Watch.



Table of contents

What makes credit so risky? A consumer perspective	4
Introduction	5
Some key principles	5
• The origin of credit regulation: combatting usury and its societal consequences	5
• Impact of economic and industrial developments on credit regulation	7
• Industrial consumer credit supply and its link to over-indebtedness	9
Summary of Section 1	10
What are the key elements identified as contributing to risky consumer credit?	11
 The risks of consumer credit today: an EU vision	 12
The EU's Consumer Credit Directive: an overview of current concerns	12
A significant change in context	12
Are all risks related to consumer credit covered by current EU regulation?	14
 Focus on two persistent risks throughout the history of credit	 16
Usury: the high cost credit used by vulnerable customers	16
Credit contracts with variable interest rates or conditions	17
 Current trends that challenge the efficiency of credit regulation	 18
Consumer's capacity to exert their free will	18
Pressure on consumers to consume more	18
Limits to consumer purchasing power	18
Could a new regulatory approach be better at fixing these issues?	19
 Toxicity: a useful concept to describe risky credit?	 19
What makes a substance toxic?	19
Toxicity characteristics: an experimental transposition from chemicals to consumer credit	19
Can the toxicity concept improve consumer credit regulation?	23
 Conclusion	 25
References	26

What makes credit so risky?

A consumer perspective

This paper explores the kinds of risks that consumers might be exposed to when using credit. The origin of these risks is in both the nature of credit itself (its terms and conditions) and the asymmetry of power between creditors and borrowers.

These risks have been studied for more than 4,500 years, by politicians, theologians and philosophers, many of whom have set out what – if any – protective measures should be put in place to curb unfair or exploitative lending activity.

As a result, the paper starts with the origin of credit regulation; since so many authors have written on this subject, this first section is necessarily based on a small and subjective selection. What were the problems they faced, and what solutions were applied when trying to overcome them? Interesting lessons emerge from the consistency of both the difficulties themselves and the laws and policies used to address them over the last four thousand years or so.

The second section analyses the current situation, through the lens of the 2008 Consumer Credit Directive recitals. What are the problems encountered today, given the development of the consumer credit industry? The analysis sets out the broad understanding of the risks associated with consumer credit, as well as the somewhat limited parts that the Directive directly addresses.

The third section offers a deeper analysis of the two main risks identified in the previous sections.

The fourth section looks at some of the factors limiting the effectiveness of current credit regulation.

The final section suggests that there might be parallels with the concept of toxicity, when evaluating the risks of credit use – and explores how consumer credit regulation might benefit from similar precautionary principles to those already used for chemicals or drugs.

Introduction

This paper aims to identify, clarify and document the various dimensions that make credit risky, or even toxic. It does not cover the risk inherent in credit activity as such, since with all credit arrangements, there is a possibility that the loan may not be paid off in the way planned – or indeed, not paid off at all. Consumer credit is especially vulnerable to this risk, as it allows consumers to spend money they do not have in ways that do not create an income stream or future value.

The aim of this paper is to identify mechanisms that increase the risk of arrears or default for consumers, by looking at how credit is designed (terms and conditions) and how it is sold on the market.

The study looks at the work of a subjective selection of influential authors who have contributed to a comprehensive understanding of credit issues and how to tackle them; credit seems to have attracted much interest since its early development and the authors are numerous and diverse.

An interesting conclusion from this review, is the consistency not only of the nature of the problems identified but also of the solutions designed over time in an attempt to deal with them.

Some key principles

The origin of credit regulation: combatting usury and its societal consequences

In any society with a developed level of trade and production, the use of credit emerges naturally. Ancient texts confirm that the practice dates back to the beginnings of urbanisation during the Mesopotamian era, around 2050 BC. Even then, these texts included strong regulation on the practice of providing loans.¹ Capital reduction calculations in the case of partial reimbursement, levels of interest and concerns over interest calculated on interest (compound interest) are all carefully studied and documented throughout history.

During this early period, authors put strong emphasis on the reasons for forbidding the earning of interest on loans. Indeed, the payment of interest for credit was so common between citizens, for both private and professional purposes, that any attempt to forbid this practice would require very solid justification indeed. Ege concluded from his readings that a key reason for forbidding the earning of interest on loans, is the question of the asymmetry of power that might exist between creditors and borrowers. Another conclusion is that our ancestors focused more on the prohibition of usury, in the sense of making excessive gains from lending, rather than on the payment of interest *per se*.²

1 Ege, R., 2014, "La question de l'interdiction de l'intérêt dans l'histoire européenne Un essai d'analyse institutionnelle", *Revue Economique* 2014/2 (Vol 65), pp. 391 - 417

2 The Oxford English Dictionary 2nd ed (1989) defines usury as "The practice of charging, taking, or contracting to receive excessive or illegal rates of interest for money on loan".

The three monotheist religions have all developed a significant number of rules and views related to credit. Here again, although usury was clearly forbidden, the payment of interest for a loan remained possible most of the time. Where usury has been prohibited, different approaches have been designed to circumvent the rules: even in the ancient world, theologians were confronted with significant levels of trade and exchange that required the intensive use of credits and loans. Therefore, some pragmatism was unavoidable.

In Jewish, as well as in medieval Christian or Islamic traditions, forms of partnership between creditors and debtors (entrepreneurs, traders and so on) were authorised. These partnerships looked more like an investment, which allowed not only the sharing of risk between the creditor and debtor but also the sharing of the profit generated, if any (profit making was not prohibited).

Although on the one hand, there was general agreement between the intellectuals of these religions on the need for interest-bearing loans, the question remains over the real reason for interest prohibition: what was it really all about? Ege, in his investigation, identified two possible institutional reasons for banning interest on loans.

Limit the risk of slavery

The first relates to a generally accepted practice in Ancient Mesopotamia: temporary slave status for insolvent debtors. The Hammurabic code,³ as well as the Old Testament set out rules to avoid abuse of this and protect debtors, since a family member could be enslaved for many years to resolve a debt. When such penalties were possible, limiting the interest level reduced the risk of borrowers becoming insolvent and therefore being exposed to slavery.

The capacity of each party to exert their own free will

A key element in monotheistic theology is the definition of what makes a lawful contract. At the centre of this question is the capacity for each party to exert their own free will. In ancient times, the potential irregularity of food production and accessibility had a significant impact on prices, and, as a result, on money lenders, who benefitted from these fluctuations – which might explain the prohibition of “*ribā*” (usury or interest) in Muslim tradition.

This asymmetry between creditor and debtor has also been studied by Thomas Aquinas, who considered that: ‘*The borrower who pays interest is not absolutely free, he gives it under constraint and force, since, on the one hand, he needs to borrow money and, on the other hand, the lender who provides this sum does not want to lend it without levying interest*’.⁴ This protection against asymmetry-based exploitation is reinforced in the Bible: Exodus 22-25: “*If you lend money to any of my people with you who is poor, you shall not be like a moneylender to him, and you shall not exact interest from him.*”⁵

A growing distinction between consumer and business loans

Calvin and his reforms adopt a particularly open attitude to trade, exchanges and loans. In this respect, even if his position against usury remains traditional, the way he defines its

3 The Code of Hammurabi was one of the earliest and most complete written legal codes, proclaimed by the Babylonian king Hammurabi, who reigned from 1792 to 1750 B.C. Available at: <https://www.history.com/topics/ancient-history/hammurabi>

4 Somme Théologique, II-IIae, q.78, a.1, ad 7 –: ‘*L'emprunteur qui paie un intérêt n'est pas absolument libre, il le donne contraint et forcé, puisque, d'une part, il a besoin d'emprunter de l'argent et que, d'autre part, le prêteur qui dispose de cette somme ne veut pas la prêter sans percevoir un intérêt.*’ Available at: http://docteurangelique.free.fr/livresformatweb/sommes/3sommethéologique2a2ae.htm#_Toc476936996

5 <https://www.biblegateway.com/passage/?search=Exodus+22%3A25&version=ESV>

application is rather more innovative. For Calvin both earning interest on a loan and usury remained technically prohibited and the prohibition was universal, based on the supremacy of equity that everyone deserves, which is incompatible with usury. But the application of this rule depends on the circumstances. *“The emphasis on the fact that the poor are the usual recipients of the loan makes it possible to understand that, for Calvin, when the loan is for the rich,⁶ and that they intend to make their loan fruitful by production, the prohibition on interest loses its raison d’être.”⁷* In other words, the prohibition of interest only applied when the purpose was to protect vulnerable borrowers. When the credit is for business use, between potentially wealthy contractors, the prohibition of interest is meaningless, and would inhibit the development of trade. Another author⁸ highlights Calvin’s distinction between what could be described as a consumer loan, on which interest would be an abuse against the (often poor) borrower on the one hand and loans for production on the other, for which collecting interest would be entirely legitimate.

18th century: easily bankrupted debtors

Other times, however, brought other perspectives. In 1770, Turgot set out a situation where certain types of creditors and debtors enjoyed much more balanced relations, with a shared capacity to negotiate. In this particular circumstance, Turgot was one of the first to defend the position of creditors against easily bankrupted debtors.⁹ Indeed, in 1769, business in the city of Angoulême was paralyzed following lawsuits brought by traders against their creditors, accusing them of usury – having circulated papers of convenience¹⁰ – before going bankrupt. Turgot appeared to be a very modern author when he defended the creditors and explained how interest rates should be fixed on the capital market, which should take into account not only the risks of possible default but also the amount of money available in the market.¹¹

Nevertheless, Turgot saw a clear difference between interest and usury. Usury involves setting an abusive price for credit, based on a contract that is not made between free parties. This practice was particularly significant when debtors were looking for credit not for business purposes, but simply to survive. Under these conditions, the free consent of debtors is clearly an illusion. However, in the case of the Angoulême dispute, the level of business development allowed debtors in this situation to increase their negotiating power, which led to a more balanced relationship between them and creditors: free consent was therefore much more credible.

Impact of economic and industrial developments on credit regulation

Throughout the 19th century, the credit market had grown steadily in some European countries, driven by industrial development, innovation, trade and colonisation.

-
- 6 This means for business purpose, when a balance exists between the capacity of the two parties to negotiate.
- 7 BERTHOUD, Arnaud. “Calvin, le prêt et le taux d’intérêt”. In: “Calvin : Naissance d’une pensée [en ligne]”. Tours : Presses universitaires François-Rabelais, 2012 (généré le 28 novembre 2018). Available at: <http://books.openedition.org/pufr/7782>. ISBN : 9782869065260. DOI : 10.4000/books.pufr.7782.
- 8 Flament, Pierre. A. Biéler. “La pensée économique et sociale de Calvin”. In: “Revue de l’histoire des religions”, tome 158, n°1, 1960. pp. 114-116.
- 9 Turgot, “Mémoire sur les prêts d’argent - 1770”, 2014 Institut Coppet. Available at: <https://editions.institutcoppet.org/ebooks/Turgot-MemoirePretsArgent.pdf>
- 10 This can be understood as a bill of sale created and put into circulation for the sole purpose of fraudulently obtaining credit. Available at: <http://www.cours-de-droit.net/les-effets-de-complaisance-a121608648>
- 11 Cieply Sylvie, Le Pape Nicolas. “La théorie du rationnement du crédit a-t-elle négligé Anne Robert Jacques Turgot ?”, p.107, L’Harmattan | “Cahiers d’économie Politique / Papers in Political Economy” 2006/1, n°50.

In France, during this period, L. Fontaine nevertheless underlines the limited impact of these developments on consumer credit.¹² There is little or no data to illustrate the credit practices between the elites and their servants, farmers, or any other common men for that matter, which maintained the existing hierarchy. Usurers existed as well, who replaced these social bonds with strong financial ones, based on the regular payment of high interest rates.

The vulnerable consumer: a new concept, a growing political concern

During the same period, a new concept emerged in the United Kingdom. S.E. Brown,¹³ in her PhD study of Parliamentary activity related to credit regulation, noted the appearance of rather more modern concepts, such as the vulnerable consumer, bankruptcy and responsible borrowers.

According to Brown, in the early 19th century “*consumer credit existed in the form of pawnbroking and secured loans given to individuals*”. Consumer protection was rather weak, but the credit market was not very active. The development of new methods of providing credit to individuals sparked the interest of regulators in the idea of better consumer protection, in particular relating to vulnerable consumers. However, the available documents say nothing about the nature of the financial difficulties and issues that these consumers had to deal with.

The UK’s Usury Laws did cover this type of credit by the early 1800s, even if credit for private purposes generally attracted less attention than that used for business activities. Indeed, this regulation was designed to frame the credit used by a “*land-owner or merchant, who were more likely to borrow for commercial reasons*”.¹⁴ For the sake of trade and industrial growth, creditor protection also improved, particularly against fraudulent practices during a debtor’s bankruptcy. However, the often-harsh terms of the bills of sale used by money-lenders started to attract Parliament’s attention, in particular because it affected poorer borrowers “*who only required a small loan*”¹⁵. The role of freedom of contract is questioned once again in these credit circumstances, which is a key element in making a consumer vulnerable.

A regulatory framework to encourage responsible risk taking

What emerged from the later 19th century was regulation that was better adapted to the new economic circumstances, including attitudes to both bankruptcy and debt enforcement. “*In terms of the borrower in debt and struggling with repayment, rather than simply discouraging debt and reinforcing the position of the aggrieved creditor, the ethos behind the Bankruptcy Act of 1883 allowed for honest failure – only punishing irresponsible, reckless or criminal behaviour.*”¹⁶

Interestingly, the emphasis is currently on the promotion of risk taking (in business related activities, at least) as long as it is done responsibly. The protection of debtors is therefore maintained as long as they have not carelessly contributed to their own misfortune.

12 Fontaine, Laurence. “L’économie morale. Pauvreté, crédit et confiance dans l’Europe pré-industrielle”, Gallimard, 2008.

13 Brown, Sarah Elizabeth. “Consumer Credit and Over-indebtedness: The Parliamentary Response: Past, Present and Future”. Submitted in accordance with the requirements for the degree of PhD. University of Leeds School of Law, June 2006.

14 Op-Cit p.286

15 Op-Cit p.287 (Acts of 1854 and 1878)

16 Op-Cit p.288

Industrial consumer credit supply and its link to over-indebtedness

Growing credit contract complexity increases consumer vulnerability

The development of the banking and financial sectors during the 20th century, combined with innovation in the use of information technology, statistics and algorithms have allowed the consumer credit market to grow at an unprecedented rate.

How has this impacted debtors? Poverty-related vulnerability remains a major issue, which has been worsened by the increasing complexity of credit contracts. The industrialisation of credit has also had an impact on the form of credit contracts. Terms and conditions have become ever more technical, designed by teams of lawyers who have to anticipate and reduce business risk.

This greater complexity can also be seen as a new form of consumer (debtor) vulnerability since this kind of contract for consumer credit can result in the reduction (or disappearance) of their bargaining power, if indeed they ever had any.

The growing consumer credit market in the 20th century

From the early 20th century, an entirely new function for consumer credit begins to appear; supporting the demand for high value consumer goods:

- To boost sales, in 1919, General Motors started to provide loans to customers for new cars.
- This market boomed, thanks to the industrialisation of the credit supply, and the use of risk analysis through the use of credit scoring.

From the later 20th century to the early 21st century, a growing number of people were using credit to support consumption, in some cases even for essential daily expenditures due to financial hardship. This trend is accompanied by a matching reduction in saving behaviours: consumer credit has now largely taken the place of savings for both consumption and “rainy day” emergency funding.¹⁷

The pressure borrowers feel when taking out a loan increases consumer vulnerability

The result can be pressure similar to that which “a captive customer” was exposed to by an “unscrupulous doorstep trader, selling goods on hire-purchase.”¹⁸

Dickens, Hugo or Dostoyevsky’s wonderful, dramatic characterisations of over-indebted people are not so different to those who face the similar pressures of our current highly consumerist society and the effects of this should not be under-estimated. Consumers today are not only under pressure to buy goods and services, but also to use credit to do so. Indeed, with offers of credit surrounding most of us throughout the day, a consumer’s capacity to express their free will can be considered as challenged, if not actually compromised.

17 Statistics on these data are available on the Eurostat and the European Central Bank online database.

18 Op-Cit p.91

Summary of Section 1

Some consistent trends can be identified, that go right back to the origins of credit. Costs such as interest have been calculated and charged to the borrower to cover operating costs, the risk of default and profit. These costs are in addition to those identified and conceptualized in 19th century monetary theories, which refer mainly to liquidity preferences (Keynes) and the effect of inflation which erodes the purchasing power of money.

1. As long as credit has existed, **the protection of vulnerable borrowers has been a key concern:**
 - a. Vulnerable people deserve “*support (benefits or charity)*” rather than “*costly credit*” to overcome hardship;
 - b. Borrowers who look for consumer credit for daily expenditures are not in a position to exert their own free will.
2. Since the emergence of trade and economic development, **a credit market to support business activity has been necessary:**
 - a. For commercial loans, there has generally been a better balance between creditors and borrowers;
 - b. For economic development, risk-taking but responsible entrepreneurs, are also necessary;
 - c. For these entrepreneurs, a bankruptcy scheme should be made available.

Other factors have substantially changed over time

1. **Credit use was discouraged** following its origins, but before the emergence of trade;
 - a. From the creditor's perspective: by a ban of usury;
 - b. From the debtor's perspective: by disproportionate penalties in the event of default.

The development of trade and industrialisation, however, fundamentally changed attitudes towards credit.

2. **Credit use for business purposes was tolerated, then actively encouraged and promoted.**
3. **Credit use for consumption, however, typically characterised by pawn-brokers and doorstep lenders, was still seen as a sign of economic distress until relatively recently**, before the development of hire-purchase agreements and early forms of modern consumer credit.
 - a. Vulnerable consumers became an area of concern for policy makers due to:
 - i. Asymmetry in the complexity in the terms and conditions of consumer credit complexity,
 - ii. Pressure to use credit
4. **Credit use to support the demand for expensive goods**

From the later 20th century to the early 21st century a growing number of people were using credit to support consumption, including daily expenditures, or to face financial hardship.

What are the key elements identified as contributing to risky consumer credit?

The dangers of over-indebtedness emerge from market failures rooted in the asymmetry of power between creditors and debtors – especially when the debtor is vulnerable and /or poor – and that allow:

- Exploitative, unscrupulous or irresponsible lending practices:
 - ➔ Terms and conditions that are significantly different from mainstream practices and to which the most vulnerable people have little alternative but to agree.
- High cost credit:
 - ➔ The costs are significantly higher than the average on the mainstream market.
- Complex Credit contract terms and conditions:
 - ➔ Borrowers do not understand their liabilities, or the way the product should be used to avoid penalties and extra-costs.
 - ➔ Misleading teaser rates apply for a short period of time.

A major factor in encouraging some providers to not play by the rules is the lack of a personal bankruptcy scheme, which has a direct impact on irresponsible lending practices. When such practices are identified by a judge during a personal bankruptcy proceeding, it often leads to a reduction in the payment of interest, and even the principal as well. This penalisation of irresponsible practices makes them rather less attractive.

The risks of consumer credit today: an EU vision

The EU's Consumer Credit Directive: an overview of current concerns

On 23 April 2008, the EU Commission published the Consumer Credit Directive 2008/48/CE, which established a common set of rules and principles among EU member states for the European consumer credit market.

This important piece of legislation is a synthesis of the European concerns relating to the consumer credit market. Due to its political nature, it can also be considered as a good proxy for the existing balance of power that prevailed in 2008 between stakeholders: industry, consumers, lawyers and policy makers, etc.

The substantive measures in the Consumer Credit Directive, in other words those parts for which a political majority could be reached at that time, seek to provide solutions for some of the risks facing European consumers. However, an analysis of the recitals is more helpful for understanding the whole spectrum of perceived issues at that time.

A significant change in context

New consumer protection: a tool for credit market development

One of the main tasks of the European Commission is to develop a single market, which brings with it a new set of societal concerns.

The Directive is intended to facilitate a European consumer credit market, so the main driver is no longer consumer protection itself but the way this consumer protection should be designed to encourage consumers to trust – and use – the credit market, for example (emphasis added):

Recital (8): ***“It is important that the market should offer a sufficient degree of consumer protection to ensure consumer confidence. Thus, it should be possible for the free movement of credit offers to take place under optimum conditions for both those who offer credit and those who require it, with due regard to specific situations in the individual Members States”.***

Recital (9): ***“Full harmonisation is necessary in order to ensure that all consumers in the Community enjoy a high and equivalent level of protection of their interests and to create a genuine internal market.”***

Unfair and misleading practices: should be prohibited

Recital (18) starts with: ***“Consumers should be protected against unfair or misleading practices, in particular with respect to the disclosure of information by the creditor”.*** This part refers to the Unfair Commercial Practices Directive.

This recital also acknowledges the need for consumers to access appropriate information: *“However, this Directive should contain specific provisions on advertising concerning credit agreements as well as certain items of standard information to be provided to consumers in order to enable them, in particular, to compare different offers. Such information should be given in a clear, concise and prominent way by means of a representative example”.*

Consumers should not be pressured by credit providers: they should be empowered to make sound decisions

Recital (19) highlights the importance of a consumer’s capacity to give informed consent: *“In order to **enable consumers to make their decisions in full knowledge of the facts**, they should receive adequate information, which the consumer may take away and consider, prior to the conclusion of the credit agreement, on the **conditions and cost of the credit and on their obligations**.”* This is completed by a quite detailed explanation on the way the total cost of the credit should be presented to the consumer. Recital (20): *“The **total cost of the credit to the consumer should comprise all the costs**, including interest, commissions, taxes, fees for credit intermediaries and any other fees which the consumer has to pay in connection with the credit agreement, except for notarial costs.”*

These recitals, in reality, only partially address the issue: indeed, insights from behavioural economics have underlined the difference between knowing the facts and making the appropriate decision. Because of circumstances that limit access to alternatives, well informed distressed borrowers might take harmful decisions, with serious long-term consequences but that bring some short-term relief.

To limit the risk of creditors pressuring debtors (or at least to solve situations where this pressure might already have been applied), other recitals (34, 35, 36, 37 & 38) are dedicated to the right of withdrawal, without penalty and without the obligation to provide justification.

Creditworthiness assessment: a new concept to combat irresponsible lending

Recital (26) starts with: *“Member States should take appropriate measures to promote **responsible lending practices** during all phases of the credit relationship, taking into account the specific features of their credit market.”*

This should provide information to consumers including warnings of the associated risks of default as well as over-indebtedness.

This is key, as it makes a direct link between the expansion of the consumer credit market and the need **for creditors not to engage “in irresponsible lending or give credit without prior assessment of creditworthiness**, ... Member States should carry out the necessary supervision to avoid such behaviour and should determine the necessary means to sanction creditors in the event of their doing so.”

This recital brings a clear new dimension to credit market regulation: it gives an operational and objective way to define what is or is not responsible lending. It also underlines the key role of the creditor’s behaviour: credit should be refused where there is a lack of creditworthiness.

What makes credit so risky?

This recital takes into account the misleading practices that occur in an expanding credit market, where some types of consumer credit are still offered because of their high profitability, despite the risks of default (such as subprime).

This recital can also be seen to be balanced, because it ends by reminding consumers that they too have responsibilities, and that: “Consumers should also act with prudence and respect their contractual obligations.”

From this perspective, some other recitals (27, 31, 32, 43) are dedicated to guaranteeing that adequate information and advice are made available to consumers.

Protection of family and professional life: increased protection against over-indebtedness

Recital (45) underlines the link between the aim of the directive and the need to respect fundamental rights: “*This Directive respects fundamental rights and observes the principles recognised in particular by the Charter of Fundamental Rights of the European Union. In particular, this Directive seeks to ensure full respect for the rules on protection of personal data, the right to property, non-discrimination, **protection of family and professional life**, and consumer protection pursuant to the Charter of Fundamental Rights of the European Union.*”

This recital also highlights the risks and dangers of consumer credit use for debtors and the possible impact on family life. Financial distress aggravated by credit use and over-indebtedness can harm health and relations inside exposed households.

Are all risks related to consumer credit covered by current EU regulation?

The insights from the first section allow us to organise the risks associated with consumer credit (from the debtor's point of view), into the following categories;

- **Exploitative / unscrupulous / irresponsible lending practices;**
- **High cost credit;**
- **Complex credit contract terms and conditions.**

If these are properly addressed by efficiently enforced regulation, the number of avoidable instances of over-indebtedness should be reduced to a minimum.

In practice though, when these risks are addressed by EU and national regulators, they do not always receive the same regulatory response. Many of the risks identified were not included in the EU's core objectives, which has allowed different responses from the member states. This in turn, has led to varying outcomes in different countries. Some risks have effectively disappeared, whilst others have persisted, or even continued to develop, depending on the country. One of the most visible examples of this disparity is the size of the market for high cost credit, which is strongly linked to either usury itself – or the lack of efficient anti-usury laws.

Supply side responses to Consumer Credit Directive enforcement

Irresponsible lending practices have been characterised by a lack of proper creditworthiness assessment, but also by some fairly dubious consumer credit terms and conditions (such as high costs, changeable conditions, unfair selling practices) that in some cases have had a significant impact on the ratio of non-performing loans.

These problems must be addressed as long as society as a whole promotes the widespread use of consumer credit. The 2008 EU Consumer Credit Directive was therefore fully aligned with this “pro-credit” perspective.

As we have already seen, from the later 19th Century onwards, risk taking in business has been encouraged, as long as it is done in a responsible way. To achieve this goal, the concept of bankruptcy, which aimed at allowing honest business owners a second chance, was deliberately introduced in the regulatory framework.

The EU Consumer Credit Directive on the other hand, is designed to promote a safe and attractive EU credit market, but this regulatory framework does not yet allow responsible borrowers to access a second chance scheme in the same way as its 19th century predecessors. This lack of complementary regulation should be considered to be even more harmful when consumer credit is – as it has been for the last 4,500 years – at risk from the asymmetry of relations and treatment between different actors.

Taken together, the growing use of consumer credit, increasing uncertainty over the amount and regularity of borrowers’ incomes, and a reduction of welfare provision for citizens facing hardship, have sharply increased the risks associated with credit use.

Focus on two persistent risks throughout the history of credit

Usury: the high cost credit used by vulnerable customers

Since its origin, credit used by poor or vulnerable people to make ends meet has been seen as a major source of exploitation. In the worst cases this virtually amounts to slavery, since it traps borrowers who are then unable to free themselves from financial distress.

Only vulnerable people really use these kinds of credit, mostly due to a lack of other options. Others might use 'short term' credit from time to time and use it in the way they "should" – for a very brief period and under specific circumstances – but these do not occur often.

The way societies have dealt with this issue differs over time and place but usually boils down to whether usury is banned or accepted. Is there a key element or principle that explains the way that societies choose between these two alternatives?

The 'ban usury' approach: being indebted can be a problem

Banning usury can, counterintuitively, actually result in vulnerable people being indebted for their whole life – sometimes with the debts being passed from one generation to the next. When people cannot make ends meet, even with a very low standard of living, they should look to develop strategies to increase their income, adjust their expenditures as much as possible, and look for support from society (benefits or charity) to increase their income, access basic goods and services such as food, health care, housing and heating. Otherwise, if their income does not match their budget, they cannot repay credit and are easily trapped in a never-ending debt spiral.

The rationale here can be summarized like this: credit is only appropriate where the financial capacity of the borrower allows them to pay back the loan within the expected time period. Where there is no capacity to do this, people need other types of support, such as benefits or charity.

The 'accept usury' approach: being indebted is less of a problem

Under this approach, market freedom and development are prioritised above all else. If, thanks to specific market conditions (for example, that allow high costs and high fees), lenders can develop a beneficial business model that responds to demand from vulnerable people, there is no reason to ban it. It is seen as legitimate and that there is no reason to adopt a normative approach to it. As such, being indebted for a never-ending period of time is not considered a problem.

This less normative approach is based on the idea that consumers, however weak their financial situation, are simply exerting their own free will. By this logic, banning high cost credit curbs a market opportunity as well as reinforcing financial exclusion.

Consumer credit price cap

Interestingly, anti-usury laws, when properly implemented – and when the cap covers not only the interest but all the other costs related to the loan – have been identified as one of the best regulatory tools for combatting high cost credit, such as payday loans.¹⁹

19 EFIN Working Group on Over-Indebtedness – Unfair Lending Practices and Toxic Loans – December 2016, p.9. Available at: <https://www.finance-watch.org/wp-content/uploads/2018/12/EFIN-Unfair-Lending-Practices-and-Toxic-Loans-VF-6Dec.pdf>

What makes credit so risky?

Depending on market structure and the nature of the credit providers (some might be specifically dedicated to financial inclusion), the cap should take into account the national situation to limit the potential for negative side effects.

Depending on their views on how a society should be organised, some countries have banned usury for decades whilst others have not. Some have also changed their position one way or the other during the course of history.

Well known and efficient tools are therefore available to combat usury, if regulators are willing to use them. Complementary measures are required for a credit price cap to be efficient: these are likely to include measures to limit illegal practices, enforce the rules, and to sue in cases of delinquency.

Credit contracts with variable interest rates or conditions

Risks attached to these types of credit relate less to poverty and the associated risk of lack of free will, but include other factors such as:

- Excessive complexity: are the credit rules and their possible impact properly understood by borrowers so they can take an informed decision?
- Subsequent cost increases: when changes are allowed in the contract, can they result in a monthly instalment that is no longer affordable, or lead to a significantly increased credit term?

Is the best answer to prioritise affordability?

Unlike usury, credit complexity and variable costs have only emerged relatively recently. Since their appearance, no rule has yet been identified as a silver bullet solution to this issue.

A complete ban on variable conditions does not seem to be either a proportionate or sound response. Some variable cost structures could allow part of the risk usually covered by the creditor to be transferred to the debtor with a corresponding opportunity for the borrower to access a better deal, for example through a lower interest rate.²⁰

However, recent examples of foreign currency loans²¹ have underlined the limits of these products. Indeed, these contracts have been designed to transfer the entire risk of change onto borrowers, which has led to huge numbers of these loans ending in default when increases in the costs charged became simply unaffordable for those borrowers.²²

In many ways, these practices can represent the polar opposite of the “responsible lending” principle, which seeks to ensure that lenders properly assess consumer creditworthiness and offer affordable credit. If variable conditions are to be included in credit contracts, they must be framed (limited) in such a way that the adjustments cannot be so substantial as to render the credit unaffordable, or result in indefinite indebtedness.

20 An “*Accordion credit*” allows the duration and interest rate to change but maintains the same monthly instalment. If the rate of interest happens to decline, the credit will be reimbursed in a shorter period. On the other hand, the credit will be prolonged if the rate increases but only to a maximum duration – therefore a maximum cost is already known at the signature: which is a key condition to assess the affordability.

21 A foreign currency loan is a credit agreement where the credit is (a) denominated in a currency other than that in which the consumer receives their income or holds assets from which the credit is to be repaid; or (b) is denominated in a currency other than that of the Member State in which the consumer is resident (Art 4 of Directive 2014/17/EU on credit agreements for consumers relating to residential immovable property (Mortgage Credit Directive)).

22 EFIN Working Group on Over-Indebtedness – Unfair Lending Practices and Toxic Loans – December 2016, p.3&4.

Current trends that challenge the efficiency of credit regulation

Consumer's capacity to exert their free will

Developments in marketing have increased the power of the financial sector to create consumer demand, including techniques that use the internet and big data to put pressure on citizens to consume. What are the products and services being offered? When, and under what circumstances are susceptible consumers being targeted? The use of data and analyses of metadata have an ever increasing capacity to alter consumer demand and behaviour.

Pressure on consumers to consume more

This trend is supported by innovations in goods and services that are progressively considered to be part of the basic basket of goods that each household should be able to access in order to live a decent life. Even if a complementary trend exists to make some goods and services obsolete, the overall trend still seems to steadily increase the size of that basket, **regardless of whether or not average income is keeping pace with this increased consumption.**²³ **This trend therefore increases the pressure on budgets** and might well become a strong incentive to consider additional consumer credit as a means to access these new goods and services, regardless of income constraints.

Limits to consumer purchasing power

Many studies have attempted to assess the financial distress of the working poor²⁴ and middle-classes which, together with observations of the upward trends in household expenditures such as health, housing and energy, highlight possible sources of financial tension. Measures of poverty remain challenging,²⁵ but EU statistics, using a mix of monetary²⁶ and non-monetary indicators²⁷ (material deprivation indicators) allow some valuable improvements in measuring this problem. For the purposes of this paper, the issue will not be examined in more detail, as doing so would necessitate including and assessing criteria such as gender, age, household composition, work intensity, efficiency of social transfers, and so on. The current situation, if we include political and economic perspectives, shows growing concerns related to increased economic inequalities, capital concentration and tax inequity that are driving social tensions in a growing number of countries.

These trends all point to the same thing: real or perceived deprivation is a powerful driver for consumers to use additional credit.

23 Consommations 2000-2017, IDD, janvier 2019, Déf. Available at: <http://www.iddweb.be/> (in French).

24 https://www.eurofound.europa.eu/sites/default/files/ef_files/docs/ewco/tn0910026s/tn0910026s.pdf, <https://www.e-elgar.com/shop/the-working-poor-in-europe>

25 Jérusalmy, Olivier. October 2017, "Pauvreté : la délicate question de sa mesure", available on "Exemples d'indicateurs phares et de leurs limites", Réseau Financité, respectively available at: https://www.financite.be/sites/default/files/references/files/1_-_pauvrete-_la_difficile_question_de_la_mesure-_pap.pdf, https://www.financite.be/sites/default/files/references/files/2-_pauvrete_-_la_delicate_question_de_sa_mesure-v3post_def.pdf

26 At risk of poverty rate: 60% of national median income, see https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:At-risk-of-poverty_rate

27 Deprivation rate, see https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Severe_material_deprivation_rate

What makes credit so risky?

These three trends – around free will, pressure to consume, and purchasing power – exert strong pressure on consumers today not to act in a financially prudent manner. They may also have a direct impact on irresponsible borrowing. Can we consider that these circumstances weaken consumer's capacity to exercise their free will? Are they also lowering consumer vigilance in avoiding potentially dangerous credit products and/or misleading selling practices?

Could a new regulatory approach be better at fixing these issues?

As we can reasonably deduce from these trends, consumers are not always encouraged to manage their budgets rationally. It is worth asking when the last national campaign promoting saving was run? This is particularly significant if we take the view that consumers are in an increasingly weak position when confronted with credit offers and aggressive marketing.

This may well be a significant part of the reason why the demand for credit might not be as rational or responsible as it should be. It certainly impacts the capacity of consumers to avoid problems caused by the mis-use/extended use of credit. As a result, the daily issues that borrowers need to overcome when dealing with consumer credit arrears or going into default, are made even worse by further inappropriate strategies, aimed at dealing with existing short-term issues. It is unfortunately common to find a borrower that is already in difficulty, considering a new line of credit as an imagined solution to their situation, which is very unlikely to be the case.

Since these factors involve not only questions of rationality but also perception and, ultimately, psychology they will ultimately impact on mental health. In the last section of this paper, we will attempt a comparison between the effects of consumer credit on human health, with those of chemicals or drugs. This novel approach should help us to learn more about the possible benefits that might come from taking a toxicity prevention approach to credit regulation.

Toxicity: a useful concept to describe risky credit?

Over the last few decades, the word “*toxic*” has been increasingly applied to credit or debt. Is this actually a helpful description? Will it lead to a better understanding of the dangers of consumer credit and pave the way for a new strategy to prevent over-indebtedness?

What makes a substance toxic?

At a first sight, a toxic substance is simply one that represents a threat to “*human health and the environment*” because of the adverse effects it might have on them.²⁸

Toxicity characteristics: an experimental transposition from chemicals to consumer credit

To see if any insight emerges from the concept of toxicity to better understand the problems associated with consumer credit, the characteristics of toxicity need to be assessed individually.

²⁸ This first general definition is deducted from recitals 1 to 4 from the following EU regulation: (EC) No 1907/2006 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)

A comprehensive definition ²⁹ of toxicity in chemicals:	Attempt to transpose this definition to consumer credit
<p>"Toxicity is the ability of a substance to cause harmful health effects. These can strike a single cell, a group of cells, an organ system, or the entire body. A toxic effect may be visible damage, or a decrease in performance or function measurable only by a test...</p>	<p>"Toxicity is the ability of (a) consumer credit(s) to cause harmful health effects. These effects can strike a single-cell, a group of cells, an organ system (heart, stomach, brain, ...), or the entire body. A toxic effect may be visible damage, or a decrease in performance or function measurable only by a test...</p>
	<p>Evidence is available on the impact of over-indebtedness (excessive use of credit) on health,³⁰ in particular the mental health and on the working capacity³¹ of the borrower.</p>
<p>The toxicity of a substance depends on three factors: its chemical structure, the extent to which the substance is absorbed by the body, and the body's ability to detoxify the substance (change it into less toxic substances) and eliminate it from the body...</p>	<p>The toxicity of a consumer credit depends on three factors: its "terms and conditions" structure, the number and amount of consumer credit used by the debtor, and the debtor's ability to balance their budget (change it into a repayment capacity adjusted to debtor's real budget) and eliminate them from their life...</p>
<p>The toxicity of a substance is the potential of that substance to cause harm, and is only one factor in determining whether a hazard exists. The hazard of a chemical is the practical likelihood that the chemical will cause harm. A chemical is determined to be a hazard depending on the following factors:</p>	<p>The toxicity of a consumer credit is the potential of that consumer credit to cause harm, and is only one factor in determining whether a hazard exists. The hazard of a consumer credit is the practical likelihood that the consumer credit will cause harm. A consumer credit is determined to be a hazard depending on the following factors:</p>
<p>Toxicity: how much of the substance is required to cause harm,</p>	<p>How much consumer credit is required to cause harm? This can refer to:</p> <ul style="list-style-type: none"> - high interest rates; - variable interest rates; - unfair conditions - the excessive size

29 "Understanding Toxic Substances: An Introduction to Chemical Hazards in the Workplace", HESIS Occupational Health Branch California Department of Public Health (510) 620-5757CA. Available at www.cdph.ca.gov/hesis

30 M. Dackehag, L.M. Ellegård, U.G. Gerdtham, T. Nilsson, August 2016, "Day-to-Day Living Expenses and Mental Health", Working Paper 2016:19, Department of Economics School of Economics and Management, Lund University, Sweden;

R. Holmgren, E. Sundström, H. Levinson & R. Ahlström, 2019, "Coping and financial strain as predictors of mental illness in over- indebted individuals in Sweden". Scandinavian Journal of Psychology (In Press)

31 Richard Ahlström, 2016, "Over-indebtedness and effects on health and working ability – What are the costs to society? – A micro health-economical analysis". ECRI- The European Credit Research Institute. Newsletter, Spring edition 50 (2). Brussels: ECRI.

A comprehensive definition of toxicity in chemical:	Attempt to transpose this definition to consumer credit
Route of exposure: how the substance enters your body,	How the consumer credit is sold to the debtor This can refer to specific selling dimensions: <ul style="list-style-type: none"> - adjusted or not to the consumer budget: balance, surplus or deficit - circumstances prevailing during the contract proposal (place, hire-purchase, day or night time, digital/human interaction, ...) - level of information provided; - level of qualitative advice provided; - quality of the creditworthiness assessment to guarantee responsible lending; - features playing on behavioural biases (eg: temporary teaser rates)
Dose: how much enters your body,	How much of this consumer credit (amount, number) is currently used?
Duration: the length of time you are exposed,	How long this situation will prevail?
Multiple exposures: other chemicals you are exposed to, and	Is there other consumer credit or debt that the debtor is exposed to?
Individual susceptibility: how your body reacts to the substance , compared to other individuals.	How the debtor reacts to the consumer credit(s) , compared to other individuals?

To complete this transposition exercise, it is useful to go a step beyond the dimension referred in the last section, about the individual susceptibility.

Indeed, this dimension includes the particular exposure/fragility of some people when faced with addictive substances and/or to addictive behaviours.

A comprehensive definition ³² of addiction	Attempt to transpose this definition to consumer credit
<p>Addiction is synonymous with dependency: a powerful and permanent desire to continue to use a substance despite all the existing complications.</p> <p>The term addiction is commonly used. However, there are several types of behaviours in the consumption of a product, ranging from simple use to dependency. The use of the term “addictive practice” makes it possible to address this problem in its entirety, including its prevention.</p>	<p>Addiction is synonymous with dependency: a powerful and permanent desire to continue to use consumer credit despite all the existing complications.</p>

32 “Understanding Toxic Substances: An Introduction to Chemical Hazards in the Workplace”, HESIS Occupational Health Branch California Department of Public Health (510) 620-5757CA. Available at: www.cdph.ca.gov/hesis

	<p>Evidence³³ from vulnerable and financially distressed consumer credit users has shown that, even if the use of a new or rolled over credit is understood not to be a long-term solution, the incapacity to access an alternative creates a dependency.</p>
<p>Addictive practice³⁴</p> <p>It is all the practices of consumption of a psychoactive substance. Three modes are distinguished:</p> <ul style="list-style-type: none"> • use (or simple use): occasional or regular consumption that does not lead to health problems or other short-term damage. However, complications can occur in the medium or long term; • harmful use (or abuse): repeated consumption that is responsible for health complications (depression, cirrhosis, cancer ...), privacy (separation, violence, financial problems ...) and / or work (absenteeism), work accident...). This behaviour is pathological; • addiction (also called addiction): the subject feels a strong desire to continue their consumption despite all the existing complications. They cannot control this need and "lack" effects can be felt. The subject divests themselves of all family, social and professional activities. Their whole day is organized around the consumption of psychoactive substances. This behaviour is pathological. When stopping, withdrawal syndrome may occur. 	<p>Addictive practice</p> <p>It is all the practices of consumption of a consumer credit(s). Three modes are distinguished:</p> <ul style="list-style-type: none"> • use (or simple use): occasional or regular consumption that does not lead to health problems or other short-term damage. However, complications can occur in the medium or long term; • harmful use (or abuse): repeated consumption that is responsible for health complications (depression, cirrhosis, cancer ...), privacy (separation, violence, financial problems ...) and / or work (absenteeism), work accident...). This behaviour is pathological; • addiction (also called addiction): the subject feels a strong desire to continue their consumption despite all the existing complications. They cannot control this need and "lack" effects can be felt. The subject divests themselves of all family, social and professional activities. Their whole day is organized around the consumption, but also around the complex management of the reimbursement schemes, the reminders and penalties related to possible arrears of defaulted credit. This behaviour is pathological. When stopping, withdrawal syndrome may occur.
	<p>A key circumstance that allows a consumer credit to easily become addictive is an unbalanced budget.</p> <p>When a credit line, however big or small, is used to fill a structural gap between expenditures and income, finding the capacity to get rid of it can be challenging. Indeed, the costs associated with credit increase the structural imbalance and therefore limit debtors' capacity to reimburse it. This "cycle" is central to credit addiction. The use of a revolving credit by low income households can be seen as a short-term solution to face some small unexpected expenditures. But the lack of a financial buffer is often a reason to increase the use of the credit month after month, which increases consumer dependency. A second cause, statistically less present, is the credit use directly related to compulsive consumption. Compulsive behaviour has to be considered as a relevant vulnerability dimension that the people should be protected from.</p>

33 Olivier Jérusalmy, 2010, "Les ouvertures de crédit : pour quoi faire ?", Enquête commanditée par le SPP Intégration sociale à la demande de Philippe Courard, Secrétaire d'Etat à l'Intégration sociale et à la Lutte contre la pauvreté Marché public, MUIS 2010 06, (lot 2) – p.37. Available at: <https://www.financite.be/sites/default/files/references/files/1795.pdf>

34 Available on the website of the Institut national de recherche et de sécurité pour la prévention des accidents du travail et des maladies professionnelles (INRS): <http://www.inrs.fr/risques/addictions/donnees-generales.html>

Can the toxicity concept improve consumer credit regulation?

The toxicity concept and the link between consumer debt and health

Over the last few decades, the eruption of the mass-market for consumer credit has made it possible to better observe its impact – intended or otherwise. As it has expanded, it has facilitated both quantitative study and data collection – particularly when financial distress occurs, on the effects of credit problems on a debtor's health. The impact of arrears, debt management and debt collection practices on health has been highlighted by various studies in many countries, and in Scandinavia in particular.³⁵

Having identified this causal relationship between debt and health, it might be useful to identify which elements of consumer regulation could be helpful in avoiding toxic consumer credit.

To prevent credit use that is likely to lead to health issues, it could be useful to consider the following points, before credit offerings are authorised for sale on the market:

- Do the terms and conditions reflect principles of fair trading and safety?
 - ➔ This should prevent abusive and exploitative costs and fees: the total cost of the credit should not allow the provider to profit through unusually high default rates (when compared with default rates in the more heavily regulated banking sector, for example);
 - ➔ This should also prevent debtors from bearing the entire risk of variable conditions, which might render the debt unaffordable even when the debtor's budget is otherwise unchanged.
- The creditworthiness assessment carried out before signing a new contract, should guarantee that the customer's budget is balanced, with adequate capacity to service the new debt as well as any existing debts - and of course the cost of day-to-day living.
- The creditworthiness assessment should also result in the refusal of applications where a customer's budget is negative - or lead to an adjustment in the size, type or duration of the loan if this will then suit the financial capacity of the borrowers' budget.

Pre-authorization: a new prevention strategy better suited to current realities?

Considering the size of the current consumer credit market, how it is mass-marketed, the increased risk for borrowers, and the new social and economic circumstances which make it possible to become "*credit dependant*", it might be necessary to design a regulatory tool inspired by chemical and pharmaceutical regulation. Consumer credit has such a similar potential to impact a consumer's health (through over-use or misuse) that a pre-authorisation requirement similar to those used in the pharmaceutical sector might well have a positive impact. Again, as with chemicals and drugs, the national regulatory body could check the safety of each product and its associated business model, to guarantee a more appropriate credit market overall. This innovative approach could provide a more efficient solution by:

35 Ahlström, R. (2016), "Over-indebtedness and effects on health and working ability – What are the costs to society? – A micro health-economical analysis", ECRI – The European Credit Research Institute. Newsletter, Spring edition 50 (2). Brussels: ECRI; Holmgren, R., Sundström, E. N., Levinsson, H., & Ahlström, R. (2019), "Coping and financial strain as predictors of mental illness in over-indebted individuals in Sweden", in: Scandinavian Journal of Psychology, 60, 50–58.

What makes credit so risky?

- guaranteeing a trustworthy consumer credit market for consumers at the EU level, which remains a key condition for this market to grow;
- limiting the dangers related to the known risks of consumer credit, which should reduce the number of over-indebted people, with corresponding social, societal and macro-economic benefits;
- releasing at least part of the resources currently dedicated to address over-indebtedness issues and hopefully resulting in more efficient policy measures.

Tracking the issues: the weakest link

When we want to know how many people are currently dealing with consumer credit problems, there is a deafening silence. The consumer credit market default rate is another very poorly documented issue. The lack of a clear simple consumer credit typology to distinguish, for example mortgage credit, unsecured credit with fixed amounts, durations and instalments, unsecured credit with variable amounts (credit lines/ revolving/ overdraft facilities), and hire-purchase agreements does not make analysis easy. On top of this, no centralised data collection is undertaken by each national authority and compiled by the ECB at EU level, either.

This lack of data does not give authorities a full picture of the problems with this market. How can the Consumer Credit Directive 2008 be properly assessed without this information? Authorities are also missing the opportunity to learn from other national credit market structures (who are the credit providers? Are they banks or non-banks? What products are on offer?) and differences in regulatory frameworks.

Given the numerous similarities between the consumer credit and chemical & drug markets, the implementation of a means of tracking the issues related to credit use would be the equivalent of that used by the medical profession for identifying and preventing potential epidemics. The credit problems and issues with non-performing loans with which both national and European authorities are grappling, might have been much easier to deal with, if the data had been available in advance.

Conclusion

The risks associated with consumer credit have been well known for more than 4,500 years. Consumer protection regulation has been designed, implemented, adjusted, reinforced or repealed, ever since, depending on the prevailing appetite for state involvement and whether the state takes a strictly liberal or welfare-based approach.

As international organisations such as the IMF and OECD find more links between income inequalities and social and economic development,³⁶ the EU's 10-year old regulatory framework for consumer credit is looking increasingly inadequate. The financial crisis and the subsequent economic recession have highlighted the fragility of some national consumer credit markets. The number of non-performing loans has reached worrying levels in some member states, due in no small part to irresponsible lending practices, including excessive complexity and possibly toxic credit with variable conditions.

This clearly underlines the gap that still exists between the problems that consumers face and our understanding of the risks associated with credit. They are described at length in the recitals of the Consumer Credit Directive 2008 but we have yet to see an adequate regulatory response to tackle them.

Should this be the role of a revised version of the Consumer Credit Directive? Should this new version include more binding rules targeted at resolving the key remaining issues? We think so.

36 <https://www.imf.org/external/np/fad/inequality/#4>

References

- Ahlström, R.**, *Over-indebtedness and effects on health and working ability – What are the costs to society? A micro health-economical analysis*. ECRI - The European Credit Research Institute. Newsletter, Spring edition 50 (2). Brussels: ECRI, 2016.
- Berthoud, A.**, *Calvin, le prêt et le taux d'intérêt*. In: *Calvin : Naissance d'une pensée*. Tours : Presses universitaires François-Rabelais, 2012 (as of 28 November 2018). Available at: <http://books.openedition.org/pufr/7782>. ISBN: 9782869065260. DOI: 10.4000/books.pufr.7782.
- Brown, S. E.** *Consumer Credit and Over-indebtedness: The Parliamentary Response: Past, Present and Future*, submitted in accordance with the requirements for the degree of PhD, University of Leeds School of Law, June 2006
- Cieply, S.**, *Le Pape Nicolas. La théorie du rationnement du crédit a-t-elle négligé Anne Robert Jacques Turgot ?*, p.107, L'Harmattan | Cahiers d'économie Politique / Papers in Political Economy, 2006/1, n°50.
- Cingano, F.**, *Trends in Income Inequality and its Impact on Economic Growth*, OECD Social, Employment and Migration Working Papers, No. 163, OECD Publishing, Paris, 2014. Available at: <https://doi.org/10.1787/5jxrnjncwvxvj-en>
- Dackehag, M. / Ellegård, L.M. / Gerdtham, U.G. / Nilsson, T.**, *Day-to-Day Living Expenses and Mental Health*, Working Paper 2016:19, August 2016, Department of Economics School of Economics and Management, Lund University, Sweden
- EFIN Working Group on Over-Indebtedness**, *Unfair Lending Practices and Toxic Loans*, December 2016, p.9. Available at: <http://www.fininc.eu/wp-content/uploads/2016/12/EFIN-Unfair-Lending-Practices-and-Toxic-Loans-VF-6Dec.pdf>
- Ege, R.**, *La question de l'interdiction de l'intérêt dans l'histoire européenne - Un essai d'analyse institutionnelle*, *Revue Economique* 2014/2 (Vol 65), pp. 391-417.
- Flament, P./ Biéler, A.**, *La pensée économique et sociale de Calvin*. In: *Revue de l'histoire des religions*, tome 158, n°1, 1960. pp. 114-116.
- Fontaine, L.**, *L'économie morale. Pauvreté, crédit et confiance dans l'Europe pré-industrielle*, Gallimard, 2008.
- HESIS Occupational Health Branch California Department of Public Health**, *Understanding Toxic Substances: An Introduction to Chemical Hazards in the Workplace*, (510) 620-5757CA. Available at: www.cdph.ca.gov/hesis
- Holmgren, R. / Sundström, E. / Levinson H. / Ahlström, R.**, *Coping and financial strain as predictors of mental illness in over-indebted individuals in Sweden*. *Scandinavian Journal of Psychology* (In Press), 2019.
- Jérusalmy, Olivier**, *Les ouvertures de crédit : pour quoi faire ?* Enquête commanditée par le SPP Intégration sociale à la demande de Philippe Courard, Secrétaire d'Etat à l'Intégration sociale et à la Lutte contre la pauvreté Marché public, MIIIS 2010 06, (lot 2), p.37. Available at: <https://www.financite.be/sites/default/files/references/files/1795.pdf>
- Jérusalmy, O.**, *Pauvreté : la délicate question de sa mesure and Exemples d'indicateurs phares et de leurs limites*, Réseau Financité, October 2017. Respectively available at: https://www.financite.be/sites/default/files/references/files/1_-_pauvrete- la difficile question de la mesure- pap.pdf, https://www.financite.be/sites/default/files/references/files/2_-_pauvrete - la delicate question de sa mesure-v3post_def.pdf
- Turgot**, *Mémoire sur les prêts d'argent - 1770*, Institut Coppet, 2014. Available at: <https://editions.institutcoppet.org/ebooks/Turgot-MemoirePretsArgent.pdf>

About Finance Watch

Finance Watch is an independently funded public interest association dedicated to making finance work for the good of society. Its mission is to strengthen the voice of society in the reform of the financial system by conducting advocacy and presenting public interest arguments to lawmakers and the public. Finance Watch's members include consumer groups, housing associations, trade unions, NGOs, financial experts, academics and other civil society groups that collectively represent a large number of European citizens. Finance Watch's founding principles state that finance is essential for society in bringing capital to productive use in a transparent and sustainable manner, but that the legitimate pursuit of private interests by the financial industry should not be conducted to the detriment of society. For further information, see www.finance-watch.org



Finance Watch

Finance Watch
Rue Ducale 67 b3
1000 Brussels
Tel: + 32 (0)2.880.0430

www.finance-watch.org