Over-indebtedness in Romania – causes and possible solutions

Madrid, 11 May 2015

Conference on **Accesible and fair financial services**

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Macroeconomic conditions

- After the fall of communism, many people wanted to own their house and to buy new cars and other goods
- Almost 20 years of very high inflation compared to EU countries (starting with 1992)
- Romania – one of the lowest levels of monthly net wages in the EU
- High expectations for a spectacular increase of wages after joining the EU (2007)
- A very good performance of the local currency in 2006-2007 and a strong economic growth

Credits before crisis

- Retail lending re-started only few years before crisis
- Consumers with a very low level of income were encouraged to increase their debt
- Contracts were made available to consumers only upon the signing
- The language used in contracts –almost impossible to be understood by consumers
- Responsible lending – just in theory

Credits before crisis

- Loans with introductory interest rate – fixed for 3, 6 or 12 months and, after this period, variable – in some cases much higher than the initial fixed rate
- Very high interest rates for local currency (RON)
- Consumers were tempted by banks to borrow money in foreign currencies (EUR or CHF)
- No restrictions on interest rates for banks – most contracts have had abusive clauses
- The most frequent abusive clause: the bank have the right to change the cost of credit (rate of interest) according to banking market developments

Credits before crisis

- Lots of offers for “credits just with your ID Card”
- Consumers were suggested to borrow money for the longest period possible:
  – official reason: for an affordable monthly installment
  – real reason: for a bigger proportion of interest in the monthly installment
- In some cases, due to low levels of income and the very high prices of houses (asset bubble), there were offered credits for 30 or even 40 years to allow consumers to get the loan

…and the crisis hit

- Fixed interest rates for limited periods becomes variable – high increase of monthly installments
- Exchange rate for RON vs EUR and CHF rose significantly – EUR: 3.13 (Jul 2007) - 4.45 (May 2015)

  CHF: 1.89 (Jul 2007) - 4.30 (May 2015)
- Government decided to cut all public wages with 25% and to increase VAT from 19% to 24% (2010)
- Very sharp decrease of the value of houses/flats

Consequences for consumers

- Very sharp increase of monthly installments for credits in foreign currency (especially for CHF)
- Decrease of capacity to pay installments in time
- Reduction in standard of living
- Deterioration of some fundamental rights
- Increase of financial exclusion
- Home repossession became reality

Swiss franc loans

- They were advertised in a very misleading way
- Banks didn't find any solution to convert them to local currencies/to EUR when became clear that the Swiss Franc will have a very high appreciation
- Swiss Franc – trick or reality?
- Consumers were attracted into a trap

Swiss franc loans

- The situation of tens of thousands of Romanian families is very tough
- Many banks are reluctant to offer a good deal to consumers...
- ...but in the same time, they are very generous with debt collectors
- What are we doing to help consumers?
- What about the next steps?

Possible solutions

- Personal insolvency/bankruptcy law
- Restrictions for abusive practices of debt collectors and a specific regulation for their activity
- Framework and resources for an independent debt advice
- Datio in Solutum for mortgages
- Measures to improve responsible lending
- Better enforcement of the EU laws

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