

The Nature of Debt Problems and the Effects of the Law reform on Instant Loans. Institute of Criminology and Legal Policy, University of Helsinki. Report 9/2016.

SUMMARY

The present analysis considers the nature of debt problems and the effects of the Finnish Consumer Protection Act, amended in June 2013. One of the most significant changes of this act was the introduction of an interest rate cap on instant loans. The data consisted of 1 877 court sentences, which were collected as a random sample during the period from July 1, 2012 to June 30, 2014. Sentences covered all 27 district courts. Original creditors were classified into fifteen different creditor groups based on the type of the original debt. We analysed court sentences in two different ways: by sentences, i.e. by debtor (n = 1 877) and by single-debt capital (n = 3 309). In addition, we performed an analysis that included all court sentences during the entire period, and another that focused on temporal development. This is the first study of its kind and it is summarised here.

Court sentences / the whole period

- The court sentences encompassed an average of 1.8 debt capital, up to a maximum of 52 in one court sentence. Capital ranged from zero to EUR 117 000.
- Debtors were more likely men (53.9%) than women (46.1%).
- The mean age of debtors was 37.8 years. The youngest debtor was 18 years-old and the oldest 77 years-old. Most of the debtors were 25–34 years-of-age (26.0%), and the least number of debtors belonged to the over-55 age group (13.0%).
- The average debt per debtor was EUR 896: among men EUR 1 030 and among women EUR 740. The highest aggregate debt capital was amongst 45–54 year-olds (mean = 1 442 €) and the lowest amongst 18–24 year-olds (mean = 296 €).
- More than half of the court sentences were given in Southern Finland (53.2%).

Results by debtor/court sentence (n = 1 877):

- Instant loans were the most typical reason for the court sentence, whereas almost half of the debtors (47.3%) had at least one instant loan in their court sentence.
 - o Especially those under the age of 25 had at least one instant loan in their court sentence; almost two-thirds (64.3%) of 18–24 year-olds had at least one instant loan in their court sentence

- Those who belonged to the age group of the 45–54 year-olds had the lowest share of instant loans in their sentences (40.8%).
- Less than half of the debtors (both men and women) had at least one instant loan (approximately 47%).
- The average amount of instant-loan debt was EUR 493 and the median amount was EUR 249.
- The second and third largest numbers of debts in the court sentences were originally from remote selling firms (14.0%) and from telecommunications service companies (10.9%).
- The total sum of all capital was most related to lending firms (including those that provide instant loans), and debentures. Amounts of debt capital related to instant loans were quite small, but the number of these debts were high. In contrast, the number of individual debentures was small but the average amount of these types of debts was high.

Results by single debt capitals (n = 3 309):

- The mean value of all debt capital was EUR 626 and the median value was EUR 171.
 - Almost 90 per cent of all debt capital was less than EUR 1 000, and approximately 38 per cent was less than EUR 100.
- Men had higher mean values of debt capital than women (663 versus 577 €), but the result turned the other way around when the average amount of the capital was measured by the median value (158 versus 187 €).
- The highest single debt capital was found amongst the years-of-age groups 45–54 (mean = 910 €) and 35–44 (md = 211 €). The lowest debt capital was amongst those aged 18–24 (mean = 250 €; md = 125 €).
- When we considered the numbers of single debt capitals, the lending firms (including those that provide instant loans) ranked highest (31.6%), debts related to the housing was the second largest debt type (18.3%), and the third largest was the debts to the telecommunications service companies (17.7%).
 - The youngest debtors, i.e. those aged 18–24, had the lowest average debts related to lending firms (€ 211), while the largest debts were found amongst those aged +55 years (763 €).
 - Young debtors (aged 18–24) most often carried debts from lending firms (instant loans), telecommunications service companies, and remote-selling firms, whereas older debtors (aged over 45) carried debts related to lending firms and to housing.

The effects of the Finnish Consumer Protection Act / temporal analysis

- Before the temporal analysis, we examined public statistics related to summary court sentences that handled debt claims (default judgements), and the development of the granting of instant loans. Based on those statistics, we concluded that number of court sentences has reduced due to reduction of the granting of instant loans.

- The temporal analysis also suggested that the decline of the number of court sentences was largely due to the decreasing number of debt claims based on instant loans.
 - o Changes occurred especially in the youngest age group (18–24 year-olds): the number of instant loans decreased in absolute and relative terms. However, even if the number of instant loans also decreased among the oldest age group (at least 55 years old), the accumulation of these debts increased in relation to other types of debts during the period.
 - o The temporal analysis also suggests that the number of other types of debts (other than instant loans) remained steady or even rose during the period. The number of other types of debts increased especially among those aged 18 to 24 in the spring of 2014.
- The average amount of instant loans increased in all age groups but especially among those aged 25–34 and 35–44 years.
 - o During the two-year period, the share of debts over EUR 400 increased and the share of debts less than EUR 400 decreased. In contrast, amounts of other types of debts (other than instant loans) remained roughly at the same level.
- To summarize the above analysis: the Finnish Consumer Protection Act seems to have reduced the number of debt problems in all age groups, but at the same time it has increased the size of the average debt per debtor. No clear change was observed until the end of the two-year period, i.e. spring 2014. The results suggest that due to tightened lending terms, especially young adults may no longer obtain an instant loan as easily as previously. However, debt problems may have “moved” into to the older age groups, at least to some extent. In particular, debts related to instant loans have increased in relation to other types of loans among those who are at least 55 years-old.