# Easy credits before crisis and their consequences on consumers

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# Macroeconomic conditions

- After the fall of communism, many people wanted to own their house and to buy all modern household electrical goods or even modern cars
- Almost 20 years of very high inflation compared to EU countries
- Romania – one of the lowest levels of monthly net wages in the EU
- Expectations for a spectacular increase of wages after joining the EU
- 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
- Huge fees for early repayment (up to 5%)

# Credits before crisis

- Loans with introductory interest rate – fixed for 3, 6 or 12 months and, after this period, variable starting from double or even more
- 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 high prices of goods/houses, the longest period was necessary to reach the maximum DTI (debt to income ratio)
- Overdraft loans on debit cards – 3 to 6 monthly salaries

# …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) - 4.28 (Feb 2009)

  CHF: 1.89 (Jul 2007) - 3.60 (Jul 2011)
- 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
- NBR (Central Bank) decided to introduce restrictions on lending (November 2008, but it was too late)

# Consequences for consumers

- Very sharp increase of monthly installments for credits in foreign currency
- Decrease of wages and increase of unemployment
- 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 for many people

# Challenges for consumers

- No personal insolvency/bankruptcy regime
- No institutional debt advice
- Insignificant level of government spending on consumer issues
- Problems with enforcement of the EU laws
- Banks are very rarely open to offer good deals to over-indebted consumers
- Very aggressive debt collection practices
- No cap for the cost of credit/APR

# Current APR for credits

- Banking consumer credits in RON: 9,5% - 19,5%
- Banking mortgages in RON: 4,9% - 7,9%
- Banking mortgages in EUR: 5,1% - 9,8%
- Car loans in EUR: 6,9% - 17%
- Small credits for less than 1 year in RON: up to 104% (if the banking transfer is chosen for repayment)
- Pay day loans in RON: the most active provider – between 3774% and 7678%

source: www.conso.ro, banks and credit providers

# What could be done?

- Better enforcement of the EU legislation
- Personal insolvency/bankrupcty law
- Restrictions for abusive practices of debt collectors and a specific regulation for their activity
- Framework and resources for an independent debt advice
- Capping the total cost of credit/APR
- Measures to improve responsible lending

# Contact

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