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Insights

FCG

Responsible consumer credit lending

The Swedish households' combined loans to financial companies are now more than SEK 4 200 billion. More than 80 per cent of the loans comprise mortgage loans. Debt is growing rapidly and has doubled in just over ten years. In recent years, non-collateral credits (commonly known as consumption loans) have grown fast, in particular the large consumption loans. Lending volume for consumption loans over SEK 250,000 was almost five times greater in 2018 than ten years earlier. The Swedish Financial Supervisory Authority (**"SFSA"**) has communicated, in the Consumer Protection Report 2020, that unaffordable lending will be in scope for the SFSA´s prioritized areas of supervision during 2020.

Background – Consumption loans

Consumption loans are loans that are not collateralized (i.e. unsecured loans), unlike mortgages that is collateralized (normally an apartment, private residence or house as collateral). Most consumption loans are small and have a high effective interest rate and a short maturity.

Before approving a loan application, credit providers must conduct a creditworthiness assessment based on sufficient information about the consumer's individual circumstances. The credit provider must, among other things, take into account income, liabilities and expenses and then make an assessment of whether the consumer has the financial condition to fulfill its commitment under the credit agreement.

Today there is currently no way for credit providers to check all of the outstanding credit commitments of a consumer. There is therefore a risk that consumers who already have high debt will borrow too much.

Actions from the SFSA

Over the past two years, the SFSA has mapped the risks associated with the rise in consumption loans. The rate of increase in consumption loans has been high for a long time, and the SFSA has identified a number of risks associated with the increase of this lending. Responsible lending procedures are important to prevent repayment problems and over-indebtedness.

For many years, the SFSA has investigated how lenders comply with the regulations for credit checks of mortgages. The SFSA has also introduced a number of regulations to increase the resilience of Swedish mortgage customers, including the mortgage ceiling in 2010 and amortization requirements in 2016, which have since been further regulated in 2018.

Where are we today?

The SFSA highlighted, in their 2019 report "Swedish Consumption Loans", that in the sample check more than 15 per cent of new consumption loans resulted in a collection notice as early as the first year. Collection notices was more common for loans taken from a sales financing company or a consumer credit institution.

According to the SFSA, such a high frequency within such a short period of time stands out and the authority will therefore take a closer look at the issue. How credit providers perform credit checks will therefore be a prioritized area in the SFSA´s supervision.

Although consumption loans constitute a minor part of household indebtedness, the fact that consumption loans are now

growing faster than mortgages means that the SFSA has come to prioritize this type of lending increasingly.

What´s coming next?

The SFSA has communicated that the authority already started several investigations where they examine whether the companies are doing sufficient credit checks.

Furthermore, the SFSA has proposed that the Government appoint an inquiry to make it possible for credit providers to access a comprehensive view of a consumer's outstanding credit commitments (i.e. a joint debt register). Such a debt register is already implemented in Norway and is under investigation in Finland. FCG is positive to the initiative and believes a register could raise the quality of the creditworthiness assessments, reduce the risk of over-indebtedness in the Swedish credit market and reduce credit risks and credit losses for credit providers.

The regulation states that credit providers must make sure that the credit checks are based on sufficient information about the consumer's financial conditions. But as stated above, there is currently no possibility of checking all the consumer's debts and credit providers therefore often rely on information provided directly from the consumer.

Credit providers use different credit information companies in order to perform a credit assessment of a potential customer. The information collected by the credit information companies, and later shared with the credit providers, varies widely. Sometimes there is no information on the consumer´s previous loans. Credit information companies often only provide information on credits and inquiries from the credit providers that the credit information company in question has as customers.

In summary, there is low transparency of the consumer's financial conditions and credit providers may grant credit to consumers that do not have the ability to carry the cost of the loan. This may hurt not only the consumers financial situation, but also the credit providers financial situation due to a higher number of defaults which could lead to an increase of credit loss.

FCG´s services

FCG can assist in various ways when it comes to projects regarding sound risk culture, credit granting and internal governance and control. We have previous experience from several institutions where FCG have conducted projects within the area (controls, GAP-analysis, drafting of internal governing documents etc.).

If you have any questions on how your company should approach the credit regulations or need assistance in coming projects, please contact us at FCG and let us discuss how we can assist you in the best way possible!

FCG is a leading Nordic advisory firm focusing primarily on the financial services industry. With in-depth expertise in areas such as risk management, compliance, financial mathematics and corporate governance, we help our clients manage their challenges and guide them in an ever-changing environment

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