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The Implications of the New Consumer Credit Directive for EU Credit Market Integration*

POSITION PAPER

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Abstract

European consumer credit markets are still highly segmented: they differ in credit culture, composition and regulation. The new Consumer Credit Directive is intended to establish a maximal harmonization within member states to further increase integration. But is the Directive in its proposed version an adequate instrument to achieve this goal? To approach this question, the present position paper provides an overview of consumer credit in European economies and the United States. It discusses research on integration in the U.S. and Europe and highlights characteristic aspects of consumer credit markets. It further proceeds in listing market barriers and reviewing the proposed Consumer Credit Directive according to these insights.

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I. Introduction

Despite several attempts by the European Commission to create a common credit market, especially the consumer credit market proved to be remarkably resistant against such attempts. The minimum harmonization approach codified in measures such as the first directive in 1986 (87/102/EEC) and its modifications in 1990 (90/88/EC) and 1998 (98/7/EC) seemed to be inadequate to increase cross-border credit or to reduce price differentials in financial services. A new directive, the Consumer Credit Directive, is now intended to bring further integration.¹ But is this directive and its new approach – maximum harmonization – a well designed instrument for achieving this goal?

In the following, this question will be discussed by referring to research on credit market integration and its characteristics. This will be done in a comparative perspective for the European Union and the United States. First, general differences of credit markets are reviewed and different credit cultures as well as levels of debt are compared. This discussion is followed by the review of the state of the art in research on credit market segmentation as well as integration in the European Union and the U.S. Both markets have been deregulated in the past, but they seem to take different development paths. The U.S. market is generally viewed as integrated, whereas the European market remains highly segmented. As will be shown, segmentation also exists in the U.S. Since market barriers are of major importance in this respect, selected important ones are listed and briefly discussed. The Consumer Credit Directive clearly targets policy-induced barriers, therefore, we also mention widespread differences in regulations that are observable across the member countries.

Upon this background, the design and regulatory approach of the Consumer Credit Directive is analyzed. This will be done in specific fields such as its implications for market integration, the application scope of the directive, the information framework which is established by it and overindebtedness. We conclude that the proposed directive is not adequately reflecting the characteristics and reality of the market. It incompletely harmonizes specific fields, therefore one may doubt its effects on integration. Lastly, it will not reduce indebtedness or overindebtedness, instead it increases bureaucracy, formalism and regulatory uncertainty. However, consumers may profit from increased protection, but as we will see, the maximum harmonization approach is quite controversial and draws a lot of attention from the banking industry as well as consumer protection associations.

¹ The complete title is “Directive of the European Parliament and of the Council on the harmonisation of the laws, regulations and administrative provisions of the Member States concerning credit for consumers.” Here, the short version “Consumer Credit Directive” is used.

II. Consumer Credit and Debt in the Economy

Consumer credit markets differ in various respects, but one of the most important ones is certainly credit culture. This culture encompasses different compositions and uses of credit. Table 1. in the Appendix presents consumer credit as percentage of gross domestic product (GDP). In the lowest group, we find Finland (FIN), Netherlands (NL), Italy (I), Belgium (BE) and Luxemburg (LU). Consumer credit is up to 6% of GDP. In the second group, Greece (EL), Portugal (P), Denmark (DK), France (F), Ireland (IRE) and Spain (ES) follow, these countries are below 10% of GDP. The next higher group encompasses Germany (D), Sweden (S) and Austria (A) with credit below 14% of GDP. At the upper end of the distribution, we find UK and the U.S. with credit between 14 – 16% of GDP. This already hints at the fact that any further attempt to integrate the market will have different impacts in the countries.

Another way to approach credit culture is summarized in Figure 1. in the Appendix. Here, credit is displayed as lending for consumer, housing or other purposes. In the majority of countries, housing credit plays the primary role. However, Austria, Greece, Germany and Sweden reach higher fractions of consumer credit to total credit. The level of the UK and the U.S. are again comparable. Moreover, the primary lending institutions are not always banks: in 1997, banks granted 93.3% of consumer credit to Germans, 74% to British citizens, whereas they granted only 50.5% to Italians and 44.3% to Americans (Diez Guardia 2000, A19). Therefore, especially the latter are more likely to use other institutions than banks for financing consumer needs. Such differences are also reflected in the use of credit cards: “There are 187 credit cards for 1000 people in Europe and 1.986 for 1000 people in the U.S.” (European Parliamentary Financial Services 2002: 1-2). Even within the European Union, we find remarkable differences with a distribution of 45 million credit cards in the UK compared to only 1.2 million in France.

The level of debt varies accordingly when measured as percentage of disposable income with the highest levels in Sweden, U.S., UK and Germany (Figure 2). The same holds for overindebtedness, a problem that will be discussed further below.

What kind of macroeconomic effects are observable in this respect? Do these levels lead to a strong propagation of shocks into the wider economy? High levels of debt have sparked a controversial discussion as to whether they will eventually result in a cut in household spending. Research conducted for the U.S. suggests otherwise. McCarthy (1997) correlates debt and spending by using household debt-service burden for the years 1962 – 1996. An increase of debt does *not* induce reduced consumption, but rather reflects optimism of the household concerning the stability of its future income.² Accordingly, when income falls, households tend to first reduce consumption spending and then they reduce their debt. This is corroborated by Maki (2000: 6), who finds that the household debt-

² For the median U.S. household, the primary income sources are wages (*not* stock holdings). Therefore, *job prospects* will be of major importance and not stock market development, even if there is an indirect effect on consumer confidence.

service burden does not have a significant effect on spending and the same holds for consumer loan delinquencies and per-capita bankruptcy filings.³ This line of argument is also confirmed by other researchers (Garner 1996, Ludvigson 1999).

III. Credit Market Integration: EU vs. U.S.

In the past, a number of studies revealed the differences in integration speed and depth depending on the kind of credit market. Moreover, these studies proved the remarkable resistance of some segments of consumer credit markets against attempts to integrate them. It has to be noted that these studies vary in several respects. First, to measure market integration they use different indicators such as real price and interest differentials, cross-border lending or market penetration by foreign banks. Second, they also differ in their coverage of countries, ranging from the whole Eurozone to only the largest economies. In the following, an overview of selected works on credit market integration is presented. Consumer credit markets are especially emphasized.

One of the first reports published on credit market integration was the Cecchini Report (1988) that highlighted price differentials for comparable financial services across European countries. These differentials were matched against the average of the four countries with the lowest prices in these services. One of the major results was that price differences over 100% existed in the member states. A follow-up study by the European Commission (1997) reiterated the comparisons and showed that these differences were still persistent in the second half of the 1990s. The Commission had to notice that almost no progress had been made.⁴

In a comprehensive survey conducted by Adam et al. (2002), the authors find that according to interest rate differentials convergence is achieved in the inter-bank market since 2001, whereas in the mortgage market, interest rate differentials persist as of the same year. The corporate loan market, on the other hand, seems to be one of the least integrated ones in terms of differentials in bank's charges. Moreover, indicators such as the number of foreign banks in domestic markets as well as the share of assets held by them do provide little evidence of increased banking market integration. The latter is confirmed by other surveys (European Central Bank 1999, 2000a).⁵

The picture does not look better for cross-border lending, as White (1998) notes. The author collects information on cross-border activities of banks in nine EU countries for 1996 and 1997.⁶ He shows that only a small fraction of credit granted to non-banks flows across borders. This varies from 2.3%

³ The econometric analysis shows that high debt growth tends to be associated with high future growth in spending. The explanation for this is positive future expectations as well as a possible rise in the optimism of financial institutions in the repayment ability of households (Maki 2000: 7).

⁴ While for some services such as credit cards, prices differences declined, they persisted for other ones such as commercial loans, current cheque accounts and cross-border payment transfers.

⁵ Focarelli and Pozzolo (2000) review bank expansion strategies and state that profit perspectives as well as increased economic growth are of major importance to banks in their expansion and not so much open markets and integration.

⁶ These countries are: A, BE, F, D, I, NL, ES, S, UK.

(A) to 9.9% (UK) – a number that includes credit to companies as well as individuals. The author concludes that these markets are still underdeveloped, see also Table 2 in the Appendix. This has not changed much in the past years. In 1998, 91.6% of credit to non-banks was granted within the borders of the home state and the trend remained virtually unchanged in 1999 (90.8%) and 2000 (90.2%) (European Central Bank 2000b).

Analysis that applies another approach also reveals the lack in integration. Centeno and Mello (1999) show via co-integration analysis that in six EU member countries, domestic banking markets remained highly segmented in the years 1985 – 1994.⁷ Their indicators for integration are commercial bank lending rates.⁸ The authors state that “spreads charged by banks on domestic loans do not appear to have a common link and can therefore move freely away from each other.” (Centeno and Mello 1999: 98) For them, this suggests a significant degree of segmentation in bank loan markets, even in an increasingly otherwise integrated Union. Possible explanations are observations such as the retaining of monopoly power by banks in local markets and geographical segmentation due to proximity preferences. The authors assume that the informational capturing of borrowers by banks also plays a role as well as high switching costs and differences in services provided by the bank.

The background to this study is the “*law of one price*,” which states that prices for homogenous services must converge. However, differences in risk, credit culture, bank-client relations and strategic behaviour of banks lead to heterogeneity among products. This could hinder market integration and preserve segmentation in the long-run. Another study conducted by Kleimeier and Sander (2002) confirms this. The authors critically discuss the “*law of one price*,” for homogenous products such as government bonds, this law holds, in consumer credit markets, however, they observe risk differences as well as cultural influences and differences in bank behaviour. Moreover, “banks are neither reaching out to all prospective Eurozone customers, nor are consumers shopping around for credit in the whole Eurozone, i.e. banking is still localized.” (Kleimeier and Sander 2002: 5). Hence, interest rates may not easily equalize. And even if they are – this may not even be a sign of an integrated market since the underlying characteristics of credits differ. Via co-integration analysis, the authors show that consumer credit markets are still not integrated in Europe.

A brief summary of the research shows that European consumer credit markets are far from being integrated, a fact that is derived from different integration indicators: interest differentials, price differentials, the provision of cross-border credit and the expansion behaviour of banks. The U.S., on the other hand, is generally regarded as an integrated market. In the following, the characteristics of its consumer credit market will be highlighted.

⁷ Concerned countries are: D, UK, F, IT, ES, P.

⁸ Germany is taken as reference point as in Adam et al. (2002). The reason for this is that German interest rates behave more exogenously.

The U.S. has a long record of federal legislation in banking as well as consumer credit regulation (an overview of acts is provided in Table 3, Panel A. and B.). On the federal level, generally a minimum approach is applied, states have the opportunity to implement further restrictions.

One of the most important acts is certainly the Truth in Lending Act of 1968 implemented via Regulation Z. This act is applied to consumer as well as mortgage credit (further discussed below). Since it includes state exemption it resulted in diverging regulatory regimes in the individual states, the Uniform Consumer Credit Code – an instrument to further harmonize state laws – proved mainly unsuccessful, revised in 1974, it was only adopted by 11 states (such as Colorado, Wisconsin and Wyoming). The primary purposes of this code was the simplification of consumer credit, a harmonization of usury laws and of the protection of the consumer in general. Especially usury rate ceilings differed across states until a wave of deregulation started after the Marquette decision of the Supreme Court in 1978.⁹

Considerable restrictions were also placed upon the banking industry in form of branching restrictions (McFadden Act 1927). This prompted a patchwork of regulatory measures, resulting in state-wide branching (30 states), limited area branching (20 states) and unit banking (30 states). Moreover, price measures (Regulation Q, Banking Act 1933), which lasted until the beginning of 1980 (Depository Institutions and Deregulation Monetary Control Act of 1980) also further biased competition. Despite the deregulation in the 1980s, when states started to reciprocally recognize each other's laws to interstate banking, the market remained fragmented. This was also a fact for different products, despite an erosion of price regulation due to innovations such as cash management accounts. Only recently, several reforms removed branching restrictions (Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994).

For the late 1980s, Elliehausen and Wolken (1992) showed that 50 percent of households lived or worked within 2 miles of the institution where they had their checking account, and 75 percent within 11 miles. Moreover, the majority of households tended to “cluster” their services at their primary institution where they had more than one account or loan. Since then the credit industry has changed remarkably due to progress in credit scoring, securitization and advertising. Recent evidence shows that U.S. credit markets are still segmented, especially for key banking services, although some integration is discernible.

Amel and Starr-McCluer (2001) look at the household's use of financial products between 1989 and 1998. The authors find that for certain types of loans such as mortgages, vehicle loans, student and personal loans, banks appear to be faced with increasing competition from non-depository institutions and non-local providers. Non-depository institutions are consumer finance as well as mortgage finance

⁹ Usury laws in the U.S. (and especially their exemption) resulted in different regulatory regimes in the states. The Marquette decision of the Supreme Court allowed a lender from Nebraska to charge his higher interest rates to customers in the state of Minnesota. This ushered a wave of deregulation by the states to attract banks and other lenders.

companies.¹⁰ There are two trends to point at. First, the percentage of households who use local institutions still remains high, as shown in Table 4. However, there is a growing trend of using institutions located at greater distances with a major increase in the use of non-local and non-depository institutions. Second, the share of depositories for bank-type loans such as vehicle loans and other consumer loans declined and shifted to consumer finance companies, “only for lines of credit (home equity and other) did depositories’ share remain above 80 percent.” (Amel and Starr-McCluer 2001: 11). As stated, despite the increasing competition from non-depositories, markets remain fragmented in key services such as transaction accounts and lines of credit. And the broadening of the geographical scope of credit markets is mainly due to competition from non-depositories.

Another study shows that for retail deposit markets, the 1990s did not expand the geographical scope either (Heitfield and Prager 2002). Also for checking and savings accounts, Kiser (2002) notes that the primary purpose for changing banks is a household’s relocation, while location and customer service are the primary reasons for staying with the local depository institution. This means that mobility is one of the major reasons to change a financial service provider at least for deposit accounts. Obviously, there is increasing competition in the U.S. among banks and finance companies. These institutions historically segmented markets also according to risk profiles of borrowers. While banks primarily served low-risk borrowers, finance companies served high-risk ones. This kind of market segmentation also changes. As Durkin and Elliehausen (2003) state, the differences in the risk profiles narrowed substantially, which suggests that there is greater competition among banks and finance companies. The geographical reach increases with the use of the latter.

In summary, one can conclude that U.S. markets remain segmented, but the degree varies from product to product segment. The majority of households still cluster their products at their primary institution and tend to favour local ones. However, due to the competition from finance companies, we also observe increasing integration. It is important to note that this holds for the U.S. – a country with a single language and a common credit culture. These preconditions are not generally given in Europe, where specific barriers might exist that might hinder such a development (the point is further discussed below).

Another important aspect is that we observe different degrees of non-integration of EU member markets, but also within the member states, where markets are also segmented along different products lines. The European Opinion Research Group (2001) showed that in 2001, 55% of consumers had a bank card and 42% a credit card, but 60% never had an account (current or savings) with any other institution.

This picture shows that one has to be careful in drawing quick conclusions about possible integration of consumer credit markets in general. In a next step, we turn to the possible origins of market segmentation.

¹⁰ This category also includes brokerages and real estate lenders.

IV. Market Segmentation and Barriers

Several authors have mentioned reasons for lacking integration in the European Union (see Adam et al. 2002, Centeno and Mello 1999 and Kleimeier and Sander 2002). In this section, we compile a list of possible explanations of market segmentation. This list, of course, is only incomplete and serves the purpose of overview. The above considerations favour the view that the market will determine the degree of integration that is achievable. Barriers to competition may be of varying importance in different countries and lead to a variation in integration depth of market segments. As will be shown, regulatory measures may only target specific barriers and therefore produce unequal integration. We assume that there are three kinds of barriers for the demand and the supply side: 1) natural barriers, 2) policy-induced barriers; and 3) private barriers. They are presented in Table 5.

From this list, it can be derived that especially natural barriers are of great importance for a common European market. Differences in cultures, languages and the geographical distance are severe in Europe. It could be that integration is only possible for natural language zones such as Germany and Austria or UK and Ireland. As noted, consumers do not shop around in the whole Eurozone for credit. This is due to preferences of proximity and possibly a higher trust in national providers of retail services. Padoa-Schioppa (2000: 8) states: “Proximity is thus an intrinsic characteristic of the retail market with or without the emergence of a currency embracing a wider area.”

Since one of the major reasons for switching banks is relocation of the household, another barrier is certainly the rather limited mobility of European households compared to their U.S. counterparts. Moreover, any consumer faces a trade-off between search costs and price differentials in consumer credit. It has to be noted that search costs *rise* in the European market.¹¹ One common assumption of regulatory authorities is that “more information is better.” However, attention restrictions as well as limitation in information processing capacity on the side of consumers should not be underestimated. Instead of optimisation, bounded rationality based upon limited computational capacity leads to the choice of any aspiration level (not the optimal level). Different studies showed that up to a certain point, further information increases human performance, but then decreases it, eventually resulting in information overload (Davis and Olson 1985, Handzic 2001 and Paredes 2003).¹² Moreover, the theory of unused opportunities suggests that humans tend to appreciate highly the availability of opportunities (or information), without using them (Davis and Olson 1985: 256).

Hence, it is no wonder that a survey of the Truth in Lending Act, an act that mandates information disclosures by financial service providers, showed the following: since 1977, between 70 – 80% of consumers agree with the statement that such disclosures are complicated, in 2001 around 66% said the information was not very helpful and 77% said that the disclosures did not affect their decision to

¹¹ It may be put forward that due to the internet, search costs decrease. But still, they are higher in an integrated European market than in national or local markets.

¹² This point has been made by Simon (1971, 40 – 41): “What information consumes is rather obvious: it consumes the attention of its recipients. Hence a wealth of information creates a poverty of attention and a need to allocate that attention efficiently among the overabundance of information sources that might consume it.” Simon also notes that most of the cost of information is the cost incurred by the recipient.

use credit cards (Durkin 2002: 207 – 208). Even more interesting: only 7 – 19% think that these statements are read carefully. However, there was a constant increase of the public awareness of the APR.

In general, consumers criticize that disclosures are too complex and format as well as clarity could be improved. This is certainly not a request for more information, but rather for a reduction in complexity eventually resulting in less information! Hence in 2000, the Federal Reserve Board published further regulations mandating the disclosure of credit card rates in tabular form that is easily comparable.

Another barrier to a common market are certainly the different levels of consumer protection. Differences in consumer protection might further increase insecurity, especially if the actual preference for proximity is strong. This point is further discussed below.

On the supply side, we generally face similar natural barriers in Europe that are at least for language and culture largely absent in the U.S. Moreover, we face different legal traditions, also non-existent in the U.S.¹³ As noted by Adam et al. (2002: 46), the English laws derive from the common law tradition and the French laws from the civil tradition. These systems work in different ways.¹⁴ Therefore, they could produce different interpretations of the directives at the EU level.

Of major importance is certainly asymmetric information in credit markets. A large body of theoretical literature has elaborated on this problem (Dell’Ariccia 2001; Marquez 2002; Padilla and Pagano 1997, 2000; Stiglitz and Weiss 1981, 1983, 1992). With reference to the European Union, Dell’Ariccia (2001: 1959) states: “Different degrees of competition will prevail on different segments of the market, and the effects of financial deregulation will be different for different categories of borrowers.” The reason for this is the varying importance of asymmetric information. If credit reporting systems differ from country to country or the access to them differs, this certainly constitutes a further obstacle to a common market.¹⁵ This point is also further discussed below. Last, one has to take into consideration that the behaviour of banks may also create barriers to competition. Concentrated markets where banks exert considerable pricing power or increase switching costs are certainly one aspect of such behaviour. Pricing policies as well as expensive provision of cross-border services may also hinder further integration.¹⁶

¹³ Finland and Sweden or of Scandinavian origin, whereas UK and Ireland are of English origin. Netherlands, Italy and Portugal as well as France are of French origin to name just a few examples.

¹⁴ Civil law relies upon codified laws and professional judges, whereas common law relies on broader legal principles and case law. This might induce different efficiencies of the judicial systems (Adam et al.: 47).

¹⁵ Cross-border provision of information will only be a problem if the consumer demand is strong for consumer credit from other member states.

¹⁶For instance, the need to bring prices of cross-border credit transfers to the level of domestic ones was highlighted by a report of the European Central Bank (2001).

V. Different Regulatory Regimes in EU Member States

The Consumer Credit Directive is supposed to bring a harmonization of laws, regulations and administrative practices. As already mentioned, the former directives employed a minimum harmonization approach allowing member states to implement stricter regulations. This minimum harmonization is enshrined in Art. 153 of the EC treaty.

This kind of exemption was used by member states as shown in Table 6. Member states introduced different scopes of the directive 87/102/EEC, meaning that they differed in the inclusion of certain types of credit. Next, advertising and information provisioning by financial service providers also varied, some member states mandated extensive lists of particulars to be provided in the contract.¹⁷

Lender liability also shows variation across countries, with the majority of countries having subsidiary liability in case of pre-existing contracts between creditor and seller, for example. Other member states, such as UK and Ireland established joint and several liabilities of contracts which are subject to an agreement between seller and creditor.

Large variation is also shown in credit reporting systems and the creditworthiness information distributed in the market. A lot of countries do not have a public credit registry (only 8 out of 15) and information distribution varies from negative information only to both positive and negative information. The new directive correctly portrays this environment as the reason for distortions in the common market and as limitation for consumers to get credit in other member states.¹⁸ Further differences have also been highlighted by Science Pratique (2000: 12 - 20) concerning credit profiles, contract offers, certain contract clauses and the annual percentage rate of charge (APR) for five European members, that is Germany, Belgium, Spain, France and UK. The report also refers to the APR as calculated differently in those countries, including specific costs in some that are excluded in other member states.

VI. Overindebtedness and Bankruptcy

Since there is a growing concern with the level of debt and overindebtedness, the paper also briefly discusses the current research in this field. The level of consumer credit as percentage to disposable income was presented at the beginning of the paper, in Figure 2.

Comparisons of overindebtedness and bankruptcy are difficult due to the lack of statistical data in Europe. Moreover, there are not many studies, the European Commission has published to date.¹⁹ The Economic and Social Committee (2002) required that the problem of overindebtedness must be dealt with on community level, it stated that differences in its procedures increase barriers to cross-border credit, hence a common market needs to harmonize the legal aspects relating to overindebtedness.²⁰

¹⁷ Due to space consideration, we do not elaborate on these aspects in detail, see also Palumbo (2003) as well as European Commission (1995: 43 – 88).

¹⁸ European Commission (2002: 3).

¹⁹ A new study on the legal aspects of indebted consumers has now been commissioned to the IFF (Institut für Finanzdienstleistungen).

²⁰ The Committee also proposes a European Overindebtedness Observatory.

Quantitatively defined, overindebtedness is the surpassing of a certain fixed threshold of household debt-service burden with the consequence that the household suspends partially or totally the servicing of debts. Such a quantitative definition, when adjusted for different income levels, has the great advantage of being transparent and comparable across countries.²¹ In Europe, evidence is scattered and only general conclusions are possible. The literature (Adiconsum 1999, quoted in Betti et al. 2001: 49) has put forward the terms of (1) *active overindebtedness* (due to mismanagement of resources or overoptimistic future expectations), (2) *passive overindebtedness* (unpredictable life events); and (3) *potential overindebtedness* (consequence of an irreversible economic situation such as low pension payments).

However, the actual reasons for overindebtedness in European countries are rather blurred. Table 7. and 8. give an incomplete impression of causes of overindebtedness and the extent of it in selected European member states. What is at least discernable is that unemployment, bad financial management, illness and divorce are major reasons for overindebtedness in the reviewed countries. Apart from bad financial management, these are unexpected life events, a point that has also been made by San Jose (2002).

For the U.S., debt relative to household income has grown dramatically since the 1970s. Since the beginning of the 1990s, all indicators of financial stress of households, such as mortgage foreclosures, delinquencies and bankruptcies have been on the rise. The latter two are plotted in Figure 3. and 4. respectively. Economists, however, do not wonder why bankruptcy rates are so high, but rather why they are so *low* in the U.S. About 1% of households file for it, while 15% would financially benefit from doing so (see Pomykala 1997).²² The level of debt is likely to magnify economic recessions, if consumers are less capable of servicing their debt, lenders will be more reluctant to extend credit to them. Demand then falls more than it actually would with a lower level of indebtedness.

But what are the primary reasons for declaring bankruptcy in the U.S.? The main reason is credit card debt. Job loss and mismanagement of personal finances also rank very high (multiple reasons are also possible). Especially credit card debt has drawn the attention of policy makers to allegedly irresponsible lending and marketing techniques. Credit card debt moves in tandem with bankruptcy filings, moreover they show a counter-cyclical component, as Ausubel (1997: 4) stresses, “moving upward in recessions and downward in economic booms (...).” McCarthy (1997) states that in the case of rising delinquency rates, senior bank loan officers tighten credit. Therefore, credit availability will be reduced if delinquency rates increase. In an econometric analysis, Domowitz and Sartain (1999) study the probability of filing for bankruptcy in terms of disaggregated categories of secured and

²¹ However, to calculate the debt-service burden, further statistics are needed. Neither Eurostat nor the ECB provide complete time series on consumer credit interest rates and information on minimum payments is not collected at all.

²² This is attributed to the Chapter 7 filing system, chosen by app. 70% of filers in the U.S. The chapter contains no requirement to devote future income to creditors and certain assets are exempted from the obligation to sell them to pay the creditor. This exemption level changes from state to state.

unsecured debt including credit card debt, personal loans and medical debt. They find that small changes in the debt structure of the household do not largely impact the probability to file for bankruptcy. Again, credit card debt raises the probability to file for bankruptcy, but medical debt has also a very large impact on the financial condition of a household.²³ Other authors have pointed at bankruptcy stigma and its effects: increased filings may lead to a decrease in stigma that in turn increase filings only further. Fay, Hurst and White (1998) investigate this relationship. They find that the probability of filing increases with the economic benefit of filing and with the lagged variable on stigma.²⁴ In summary, credit card debt, unemployment, illness and declining stigma contribute to financial stress of households even during a prolonged economic boom.

Another reason is certainly the change in the risk composition of U.S. households. A survey by Black and Morgan (1998) reveals that increased access to credit worsened the mix of credit card holders and affected the risk of delinquency. New card holders tend to earn less, work in cyclical blue-collar jobs and are more willing to borrow. Hence with the increased access to credit also comes a potential worsening of credit risk – this is observable in the U.S., Germany, Great Britain and France (Jentzsch 2003). The latter analysis showed that consumer credit per GDP is positively correlated with indebtedness and that increasing information allocation is significantly and positively correlated with credit market breadth, increased indebtedness and increasing consumer credit risk.

VII. Evaluation of the Consumer Credit Directive: Policy and Implications

The new Consumer Credit Directive is intended to remedy some of the aforementioned problems. We will not discuss the directive in detail, but rather put a spotlight on specific points. First, let us reiterate the problem diagnosis stated in the proposal of the directive. It is stated that consumer credit markets are not integrated, because of technical problems of market entry, lacking harmonization and the developments in credit granting procedures across credit products. Further, it is noted that the directive has to be modified to account for new credit products, to re-balance the rights and duties of borrowers and creditors and to increase the level of consumer protection. There are six guidelines in this respect:

- (1) Redefinition of the scope of the directive;
- (2) Inclusion of new regulations for creditors, but also borrowers;
- (3) Structured information framework for creditworthiness information;
- (4) Specifications that require more information for the consumer and any guarantors;
- (5) A fairer sharing of responsibilities between the consumer and the professional;
- (6) The improvement of the arrangements and practices that determine how professionals deal with payment defaults.

²³The authors find little correlation of medical debt with other indicators of financial stress.

²⁴„Bankruptcy stigma“ is measured as aggregate filings in the debtor’s state over the past three years. The authors assume that the higher the bankruptcy rate, the lower the stigma.

The approach to integration is maximal harmonization (compared to the earlier minimal approach). And it is obvious that there is a strong emphasis on consumer protection. It is implicitly assumed that the directive improves the operation of the market and the scope for cross-border activities via increasing consumer protection. Consumers and guarantors are said to “feel more confident about credit that in some cases is unfamiliar and provided at rates or in forms that are very interesting and offered by creditors or intermediaries based in other Member States.” (European Commission 2002: 8). Consumer advocates repeat that point by stating that the directives in this field so far have targeted the supply side, while “(t)he demand side focused approach would facilitate cross border purchases for active consumers.” (BEUC 1998: 7)²⁵ In the following, the directive is evaluated in the light of the discussion of credit market characteristics. We emphasize: (1) implications for market integration; (2) scope of the directive; (3) information framework; and (4) recovery and overindebtedness.

7.1 Implications for market integration

The Consumer Credit Directive intends to increase the integration of consumer credit markets by updating the current directives and by the provisioning of more transparency and increased consumer protection. These goals are certainly appreciable. However, one may ask whether the proposal in its current form will live up to such goals. There are several different market barriers, as stated above, and any directive can primarily target only policy-induced ones.

Concerning consumer protection harmonization, European Opinion Research Group (2001: 22) showed that “53% (...) consider this a proper matter for full harmonisation throughout the European Union, against 19% who think such harmonisation should only be partial;”²⁶ When asked if there were barriers to using financial services anywhere in the EU, those who answered ‘yes’ confirmed the following barriers: “lack of information (32%); problems due to language (28%); too risky (22%); poor legal protection in the event of problems (19%); poor reporting (18%); difficulties due to distance (14%);” (European Opinion Research Group 2001: 37).²⁷ This reveals that perceived barriers are (1) information asymmetries, (2) language problems, (3) preferences for security/trust; and (4) legal protection.

Different credit cultures, language differences, geographic distance as well as limited mobility certainly contribute to the persistent segmentation of the markets. These aspects might decline, but they will *not* vanish, even when new technologies are adopted. The segmentation will be especially persistent for specific products such as key banking services (checking accounts and credit lines). However, in other segments, competition might increase, such as auto financing, credit cards other new financing products.

²⁵Consumer protection regulations as mandated by the new directive are applied to the *supply side*. Demand stimulation via consumer protection may be part of the story, but this side would be even more stimulated by increasing the income of households, for instance, or improving job prospects (see beginning of paper).

²⁶ 10% state that standards should not be harmonised at Community level and 18% have no opinion.

²⁷ 16% of Europeans see no obstacles and 24% no opinion (more than voted for legal protection).

With its disclosure regulations, the directive only targets part of this problem. But it mandates the calculation of three different kinds of interest rates (Art. 12, 13 and 14), which will not greatly improve price transparency. Generally, “more information is better” does not guarantee rational and informed consumer choices, as noted. The “active consumer” will still have to compare the APRs, lengths of loans, monthly payments and the total of payments – across 15 EU member states. It is already time consuming to compare contract terms for just one country.²⁸ Therefore, one may ask how large the price differentials for credit contracts have to be to engage consumers in such a time-consuming comparison, especially if the credit financing is a second-level decision.²⁹

European policymakers also seem to believe that the “law of one price” holds and that more information leads to rational consumer choices. As explained, prices do not have to converge in consumer credit markets and information overload as well as the theory of unused opportunities do not suggest optimising behaviour by consumers.

That is not to say that consumer credit markets cannot be integrated at least partially. However, as price differentials decrease, the trade-off of “search costs vs. price reduction payoff” worsens. Furthermore, banking is also characterized by competition in the quality dimension (not only the price dimension), further comparisons increase complexity and proximity may become more important again. In Europe, natural barriers hinder increasing integration, therefore, the removal of policy-induced obstacles will only lead to partial success.

7.2 Scope of the Directive and New Credit Products

The new directive in its proposed version greatly expands the scope of the former one by including all forms of consumer credit, such as hire purchase, overdrafts or financial leasing. Moreover, agreements such as mortgage-backed credit are also included. Some of the exemptions as mandated in Art. 2 of the directive 87/102/EEC are to be dropped to bring them into the scope of the directive.³⁰

New credit instruments such as credit cards and revolving credit have been on a constant rise in the 1980s on both sides of the Atlantic. This trend, however, decreased in most of Europe in the 1990s, but persisted in the Anglo-Saxon countries (Diez Guardia 2000). The variation largely reflects economic growth trends and future perspectives of households. In the second half of the 1990s, revolving credit reached up to 20% of the overall consumer credit volume in European countries (compared to app. 40% in the U.S.), while mortgage credit more or less seemed to oscillate around certain levels in the member countries. The European Opinion Research Group (2001) showed that in

²⁸ To take another example, in the UK more than 1.500 different credit cards are available from 60 different issuers (National Consumer Council 2003). Certainly not all of those products will be targeted at the specific consumer, but even if only 20% are, why should the consumer look for *more offers* somewhere else?

²⁹ UK’s National Consumer Council observed that where credit was linked to a major purchase, consumers invested efforts in researching the product/service: “By the time they came to discuss the credit agreement they had little energy or capacity to take in the details.” (National Consumer Council 2002: 5).

³⁰ However, mortgages that constitute the major part of lending to households in the majority of EU members (see, again, Figure 1) remain excluded. In this field a “code of conduct” exists.

2001, 55% of EU consumers had a bank card, 42% a credit card and 30% an account with overdraft option, while 22% had a mortgage credit.

The application to new credit products is justified by referring to the former directive that was drawn up in an environment of the “cash society” (Consumer Voice 2002). The new credit instruments are provided by non-banks as well as banks. Such products encompass various cards, equity releases and leasing contracts among others, which the former directive only partially included.

It is in general appreciable to design consumer protection regulations in a way that they can be applied to new products, since this reduces uncertainty on the side of the consumer and might increase the banking industry’s chance in marketing those products. New credit products are in many cases more complex, hence information asymmetries will increase and consumers will have a special need for protection, since they are unfamiliar with these products. At the same time, European policy makers should refrain from disrupting the dynamic development of such products by placing an inadequate regulatory burden upon the industry and by increasing uncertainty as to whether new products are within or outside the scope of the directive. It seems like the European Union currently applies a one-fits-all approach of maximum harmonization also to the new credit products.

Experience from the U.S. shows that it is possible to include new products by mandating a *minimum standard* of protection on the federal level. The Truth in Lending Act applies to all forms of credit such as overdrafts, credit cards and mortgages, but it places great emphasis on disclosure rules.³¹ The act does not include any obligations for “responsible lending” or the duty to request information from a credit registry. Moreover, the U.S. experience shows that even a rough differentiation in open-end and closed-end credit does not prevent legislators from mandating different kinds of APR calculation and disclosure regulations. A one-fits-all approach that cannot be applied fully to many of the new products. The new regulation would have to be designed in a more detailed way for the different kinds of credit. A further problem is posed by the clarity of the scope. For instance, a clear separation into “consumer credit” and mortgages is not always possible as well as it is not always possible to tell if the consumer will use the credit for other purposes. However, as stated, minimum standards should also be extended to such cases.

It is observable that competition increases especially in the field of new credit products: finance companies and other non-banks are the major new competitors for banks, although they have relatively little market impact in Europe so far (except for UK). This kind of competition bears the potential for a more integrated market, if one draws upon U.S. experience (which is, as stated, a more homogenous market). Hence, European policy makers should adopt a minimum harmonization approach that takes into account the differences of such products.

³¹ There is a threshold of US-\$ 25.000 for consumer credit plus consumer credit transactions of any size when backed by mortgages.

7.3 Information framework

The directive employs a maximal harmonization approach – member states are not allowed to implement any other regulations. However, there are two exemptions (Art. 8 and Art. 33). Member countries must establish a negative register, but may also establish a positive one. This is seen as means to partially remedy overindebtedness. Still, in the individual member states the information sharing regimes will differ. Some of them (especially France) may still not allow positive information distribution which creates considerable problems for cross-border data transfers. The technical implementation of this requirement is largely mysterious, and it will take some time to built up complete data bases with all consumers in the member states' area, since coverage rates still largely differ from country to country (Jentzsch 2003, Appendix).

If we further include that there are no provisions of a general standardization of information collection (this is of utmost importance for information exchange!) and take into account that even the major public credit registries are still working on the technical problems of data exchange, it maybe highly doubtful that the current proposal is improving this situation. The standardization (of information collected, thresholds, etc.) across countries should have been of major concern. Instead there are new proposals for *still another* directive that explicitly deals with creditworthiness information.³² To face the facts: there is an unequally transposed Data Protection Directive, the Consumer Credit Directive deals only rudimentary with the issue and is *not even implemented yet*. The last thing that is needed in such a distorted legal environment is yet another directive that further increases the complexity of regulations.

In fact, a harmonized information framework and the Data Protection Directive would fully serve the purpose of dealing with that issue, no exemptions should be made for specific kinds of information. Therefore, all sections implicitly dealing with the issue of data protection/credit information should be totally left out of the scope of the proposed directive.³³ If negative registers are to be mandated, they should be standardized across countries with a central one located at the ECB. This registry could collect information from the national registries for bank supervision purposes.³⁴ An overall picture of changing financial stress of households in the individual member states will be a great step forward to a better understanding of the trends in the individual countries. Moreover, the new directive should clarify how negative data exchange versus positive data exchange can work across borders. Creditors, moreover, are obliged to request information from the central registry. However, there are no regulations which kind of data should be delivered to the registry. Moreover, it

³²This aspect was mentioned by Johan van Lysebettens from the Health and Consumer Protection Directorate General of the European Commission at the ECRI Seminar, June 12, 2002.

³³ This is especially the case if they run counter to elements of the Data Protection Directive as Art. 7, where there is no room for the consumer to decide as to whether his data could be used for other purposes. If regulations are mandated, then policy makers should make sure that the consumer in fact has this right to opt-in.

³⁴ The central public data bases in Europe differ due to varying thresholds, for instance. Therefore, not all of them not provide a clear picture on household financial stress.

is highly doubtful how the obligation to request information may be achieved technically. Major investments in registries as well as data collection will be necessary, as stated.

7.4 Recovery and overindebtedness

It is also intended to improve the arrangements that determine how professionals deal with defaults. At the same time it is stated that “(t)he intention is not to regulate the profession of the ‘collection agencies’ or ‘debt counsellors’ but to prohibit certain practices in connection with the non-performance of credit agreements.” (Art. 27). Bankruptcy and collection procedures still differ from country to country – a fact that is certainly not remedied by forbidding certain practices in the field of defaults. The European Union does not even have common definitions of overindebtedness and bankruptcy. Europe needs a harmonized debt recovery and management framework, moreover, it should ensure that debt is quickly recovered, something that is of major importance for a positive development of credit markets in general. For creditors, it will be of utmost importance to know *how* to recover a loan granted across borders. Dealing with 15 different regulatory regimes that state (in a harmonized manner, of course) what is forbidden in dealing with defaults is – again – of not much help.

The European Commission intends to integrate the consumer credit market and to increase competition. This is done without strengthening supervision and surveillance mechanisms. Europe does not have comprehensive statistics on overindebtedness, its causes and the reasons for filing bankruptcy in the member states. On this basis a directive is drawn up of which it is hoped that it also helps to prevent overindebtedness due to responsible lending requirements and the consultation of registries. This kind of approach will not be successful, increased information distribution will automatically lead to an expanded access to credit, higher levels of indebtedness and hence overindebtedness. Both go undeniably hand in hand. However, the Commission does not even observe overindebtedness and bankruptcy trends across countries.

Even sophisticated models based upon positive information are imperfect predictors of unexpected life events such as unemployment, divorce and illness. European policy makers should not put their hope in the directive and its incomplete regulation of the information sharing regime as remedy for overindebtedness and its not even rudimentary approach to recovery.

Harmonized bankruptcy procedures, better education for households in financial matters and the supervision of trends based upon proper statistical definitions would certainly be a major step in the right direction.

VIII. Conclusions

The present position paper introduced to the major differences of consumer credit markets and their integration on both sides of the Atlantic. It showed that the U.S. market is still segmented, but integration can certainly be observed for specific product segments. However, Europe is a different case. Here, we observe great differences in the credit volume and use, moreover, there are natural barriers existent that do not inhibit integration in the U.S. Countries with a common language and geographical proximity as well as the same legal tradition might be the first ones to integrate. Despite the different integration degrees on the supra-national level, we will also observe different degrees of segmentation and competition on the national level in different product segments. Key banking services may remain local, which is likely to be not the case for new financing services. Therefore, integration will have a varying impact on the national and international level.

A major lack that was detected is the neglect of supervision and the observation of bankruptcy and overindebtedness trends. Banking history certainly teaches that the liberalization and integration of credit markets should not be phased in without adequate surveillance mechanisms. An efficient dealing with bankruptcy and debt management are crucial to a healthy development of credit markets.

The economic effects of the directive are difficult to estimate, since it is not clear in which form it is finally enacted. However, all measures that increase insecurity of creditors concerning their legal environment are likely to reduce credit volume. This would be counterproductive and it would certainly not contribute positively to economic growth.

In summary, the directive may only partially lead to further integration of consumer credit markets in Europe. It harmonizes certain fields, but only incompletely regulates others that are also of major importance. Moreover, its application scope is extensively and it applies a one-fits-all approach also to new credit products. In its current form, the directive reflects little of the actual business practices in the financial services industry and even less of the reality of credit markets. Instead it mandates unnecessary regulations such as “responsible lending.”

Differing levels of consumer protection are certainly one obstacle to a common credit market, however, this is just one part of the story and maybe not the most important barrier as observed by consumers. As an instrument that remedies overindebtedness, the directive will be of not much use at all. Policy makers in Europe should further pursue a minimum approach, an inflexible maximum approach is certainly not justified.

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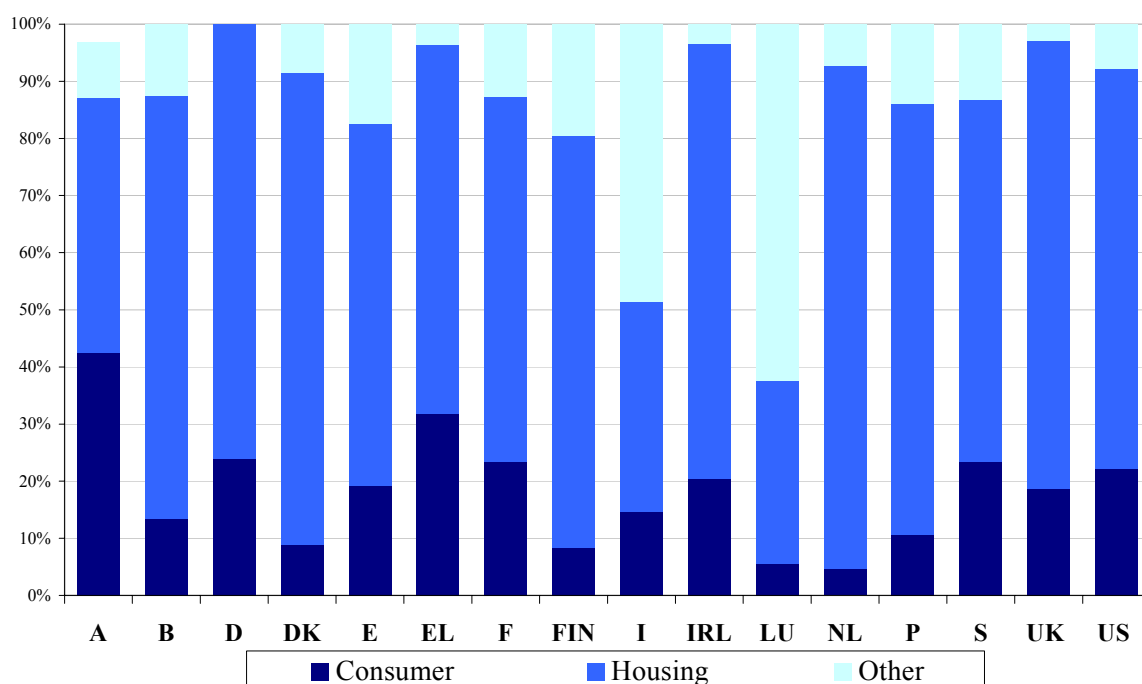
APPENDIX

Table 1. Consumer Credit as Percentage of GDP (1990 – 2001)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
A	-	-	-	-	-	-	-	-	9,10	8,40	11,68	12,26
B	5,32	5,44	5,43	5,45	4,73	4,84	4,74	4,72	4,98	5,19	5,13	5,16
D	10,76	10,49	10,66	11,32	11,18	11,23	11,08	10,96	11,29	11,06	10,99	10,78
DK	0,00	9,14	8,11	7,19	6,55	6,53	6,52	6,61	7,01	7,18	7,14	7,65
E	9,67	9,13	8,40	8,01	6,99	6,58	6,53	6,46	7,66	8,39	8,40	9,59
EL	0,83	0,69	0,71	0,77	1,05	1,77	2,16	2,23	2,83	3,44	4,54	6,02
F	5,33	5,03	5,17	5,35	6,09	6,00	6,34	6,48	6,97	7,51	7,90	8,02
FIN	-	-	-	4,58	3,88	3,39	3,11	3,07	2,88	2,55	2,33	2,30
I	3,23	3,16	2,79	2,21	2,15	1,79	1,89	2,37	2,56	2,77	3,13	3,37
IRL	-	-	-	-	-	-	-	5,70	6,55	7,65	7,49	8,06
LU	-	-	-	-	-	-	-	3,20	3,53	5,44	4,89	5,18
NL	2,91	3,04	3,43	3,59	3,59	3,52	3,48	3,44	2,89	2,97	3,46	3,05
P	-	-	-	-	-	-	5,80	5,39	6,12	6,30	7,09	6,54
S	27,74	22,92	20,99	14,77	13,25	12,02	11,87	10,76	10,84	11,35	12,14	11,40
UK	9,89	9,63	9,10	8,61	8,84	9,74	10,45	11,15	12,24	13,29	15,20	14,33
US	13,32	12,74	12,15	12,40	13,20	14,40	14,68	14,39	14,37	14,58	14,98	15,86

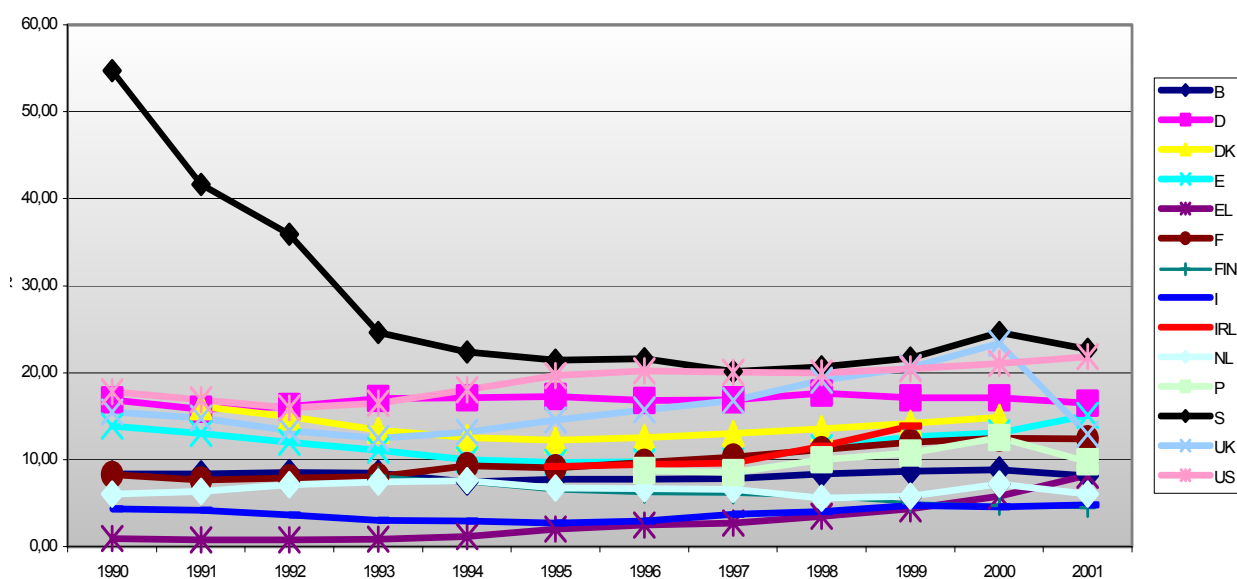
Source: European Credit Research Institute (2002)

Figure 1. Composition of Lending to Households: EU Member Countries (2001)



Source: European Credit Research Institute (2002)

Figure 2. Consumer Credit as Percentage of Disposable Income (1990 – 2001)



Source: European Credit Research Institute (2002)

Table 2. Cross-border Banking Penetration (1996 – 1997)

Countries	1996 loans to non-banks			1997 loans to non-banks	
	Domestic credit	Cross-border assets	Cross-border as % of total	Cross-border assets	% change 1997/1996
Austria	255.6	6.0	2.3	7.2	20.0
Belgium	365.1	39.8	9.8	44.0	10.6
France	2,074.1	72.6	3.4	85.1	17.2
Germany	3,075.5	79.8	2.5	102.6	28.6
Italy	930.8	34.6	3.6	28.8	-16.8
Netherlands	467.6	30.3	6.1	31.3	3.3
Spain	661.6	10.7	1.6	11.5	7.5
Switzerland	494.2	25.7	4.9	28.4	10.5
United Kingdom	1,324.3	145.1	9.9	151.4	4.3

Countries	1996 liabilities to non-banks			1997 liabilities to non-banks	
	Domestic money	Cross-border liabilities	Cross-border as % of total	Cross-border liabilities	% change 1997/1996
Austria	177.5	5.5	3.0	5.1	-7.3
Belgium	222.1	32.4	12.7	34.5	6.5
France	997.5	28.2	2.7	25.8	-8.5
Germany	1,355.3	98.5	6.8	103.2	4.8
Italy	565.3	10.3	1.8	13.0	26.2
Netherlands	295.4	31.3	9.6	25.3	-19.2
Spain	563.4	18.4	3.2	16.3	-11.4
Switzerland	337.6	79.6	19.1	79.6	0.0
United Kingdom	1,099.9	128.4	10.5	132.7	3.3

Source: BIS.

Source: White (1998)

Table 3. Banking and Consumer Credit Regulation in the U.S.**Panel A. Major Banking Acts in the U.S.**

1927 McFadden Act
1933 Banking Act (Glass-Steagall Act)
1934 Federal Home Loan Bank Act
1956 Bank Holding Act
1966 Bank Merger Act
1980 Depository Institution Deregulation and Monetary Control Act (DIDMCA)
1982 Garn-St.-Germain Act
1989 Financial Institutions Reform, Recovery and Enforcement Act
1994 Riegle-Neal Interstate Banking and Branching Efficiency Act
1999 Financial Services Modernization Act (Gramm-Leach-Bliley Act)

Panel B. Consumer Credit Regulation

1941 Regulation W
1969 Credit Control Act
1969 Truth in Lending Act
1970 Fair Credit Reporting Act
1971 Credit Card Issuance Act
1975 Equal Credit Opportunity Act
1978 Fair Debt Collection Act
1978 Electronic Fund Transfer Act
1980 Depository Institution Deregulation and Monetary Control Act (DIDMCA)
1988 Fair Credit and Charge Card Disclosure Act

Table 4. Percentage of Households using Local and Non-local FIs (1989 – 1998)

	<u>Percentage of households using:</u>							
	<u>Local institution</u>				<u>Non-local institution</u>			
	<u>1989</u>	<u>1992</u>	<u>1995</u>	<u>1998</u>	<u>1989</u>	<u>1992</u>	<u>1995</u>	<u>1998</u>
All institutions	99.1	98.4	98.2	98.4	23.7	39.9	46.4	54.2
Depositories	98.4	97.7	97.3	96.9	15.1	24.2	26.3	25.8
Commercial banks	76.5	82.0	81.7	79.8	7.4	13.9	16.3	16.3
Thrift institutions	40.5	27.7	21.7	20.3	4.0	4.8	4.4	4.5
Credit unions	26.4	29.1	31.5	30.6	5.4	9.0	9.5	8.2
Non-depositaries	18.9	26.3	30.7	35.2	11.4	23.6	30.5	42.4
Finance companies	5.7	7.9	9.5	9.9	2.3	5.8	9.9	15.1
Brokerages	10.3	14.7	18.8	20.7	5.8	10.6	13.2	19.9
Mortgage companies	3.0	5.0	4.4	6.2	3.4	9.6	11.4	15.7
Other	0.6	1.1	1.3	3.1	0.4	1.2	0.9	1.9

Source: Amel and Starr-McCluer (2001)

Table 5. Specific Barriers in the Consumer Credit Market

1. Demand Side	
Natural Barriers	
	Differences in culture
	Differences in languages
	Geographic distance
	Trust preferences
	Limited Mobility
	Preferences for proximity
	Human attention limitations
Policy-induced Barriers	
	Differences in consumer protection
	Differences in financial literacy
Private Barriers	
	Consumer boycotts
2. Supply Side	
Natural Barriers	
	Differences in culture
	Differences in languages
	Geographic distance
Policy-induced Barriers	
	Legal tradition
	Different tax systems
	Different consumer credit regulations
	Obstacles to access to consumer information
	Time lags in implementation of regulations (Directives)
Private Barriers	
	Concentrated markets and reduced contestability
	Pricing policy of incumbents
	Expansion strategies of banks
	Costs of cross-border service provision
	Switching costs

Table 6. Differences Consumer Credit and Credit Reporting Regulation in Member States*

Country	Scope	Information and Advertising	Lender Liability	Early Repayment	Cooling –off Periods (days)	Credit reporting system	IS
Austria	X	X	SUB	X	no	PCR, ^f PRCR	N-P ^g
Belgium	X ^a	X ^b	X ^c	X ^d	7 ^e	PCR, PRCR	N-P
Denmark	X	-	SUB	-	X	PRCR	N
Finland	X	-	SUB	-	no	PRCR	N
France	X	-	SUB	X	7	PCR	N
Germany	X	X	SUB	-	7	PCR, PRCR	N-P
Greece	-	-	-	X	no	-	-
Ireland	X	X	JSL	X	10	PRCR	N-P
Italy	X	X	SUB	X	no	PCR	N-P
Luxemburg	X	X	SUB	X	2	-	-
Netherlands	X	-	SUB	X	no	PRCR	N-P
Norway	X	X	SUB	-	no	PRCR	N
Portugal	X	-	SUB	X	7	PCR, PRCR	N-P
Spain	X	-	SUB	-	no	PCR, PRCR	N-P
Sweden	-	X	SUB	X	no	PRCR	N-P
UK	X	X	JSL	X	-	PRCR	N-P

*The list is only preliminary and therefore subject to change. It is partially derived from Palumbo (2003), which reviews that status after 1986.

^a Cross marks exemptions or further inclusions in scope of national laws

^b Cross marks further specifications in national laws

^c Acronyms stand for the following: JSL (joint and several liability), Sub subsidiary liability

^d Cross marks further provisions in national laws and specific calculation methods

^e Days, cross marks cooling off for specific fields (such as doorstep selling)

^f Acronyms stand for PCR (public credit registry), PRCR (private credit registry)

^g IS = information sharing, N = negative information and P = positive information

Table 7. Survey on Reasons for Bankruptcy and Overindebtedness

Country	Survey	Reason	Percentage (%)
U.S.	Gallup Poll 1997 (reasons for bankruptcy filings)		
		Credit card bills	63
		Unemployment (cut in payments)	50
		Mismanagement of pers. finances	37
		Medical bills	28
France	Conseil Economique et Social (2000)		
		Unemployment	42
		Other (such bad fin. management)	23
		Divorce or death of partner	20
		Illness	11
		Reduction of social benefits	4
Belgium	ABB (1996)*		
		Unemployment	19
		Illness	7
		Divorce	8
		Decease	5
		Other	6
Austria	Grohs (1998)		
		Poor household management	26
		Unemployment	21
		Divorce and separated households	20
		Housing debts	16

* Survey is quoted in San Jose (2002), numbers are rounded.

Table 8. Overindebtedness: Overview (Percent of Total Population)*

Country	Consumer Credit (% GDP)	1992, 1994, 1996	2000
Austria	12.26	2.7	-
Belgium	5.16	3.4	2.5
France	8.02	-	2.0
Finland	2.3	3.7	-
Germany	10.78	6.05	7
Netherlands	3.05	4.0	2.9
Norway	-	5.5	-
Sweden	11.40	1.2	4.5
UK	14.33	11.0	-

*Table is only preliminary and for overview purposes. Numbers for 1992, 1994, 1996 are quote in Korczak (1998), numbers for 2000 from San Jose (2002).

Figure 3. Household Debt-Service Burden and Credit Risk in the U.S. (1980 – 2001)*

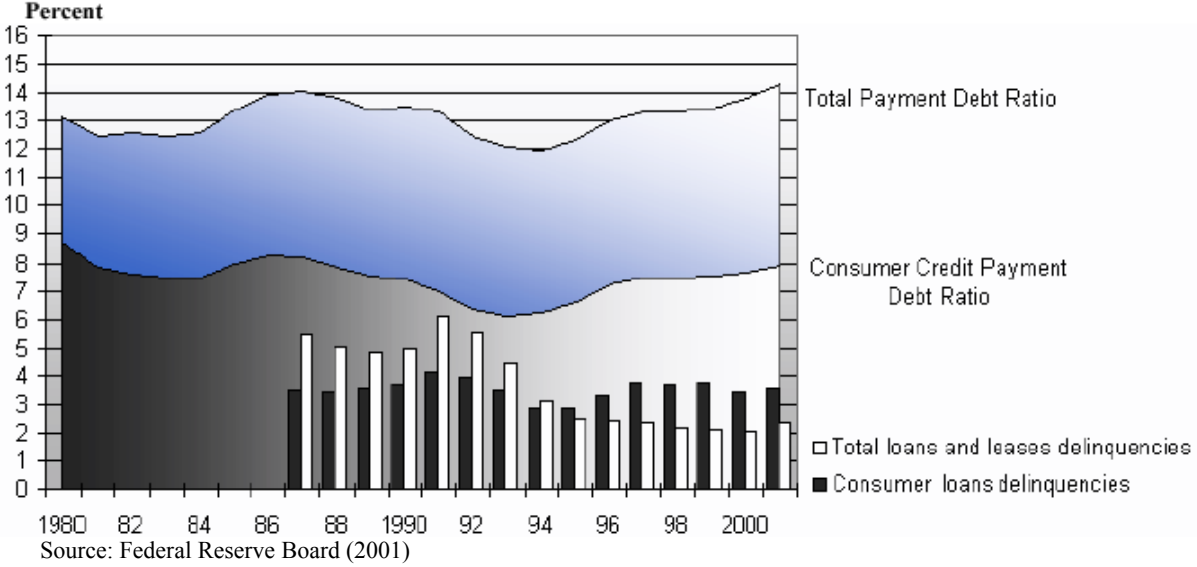
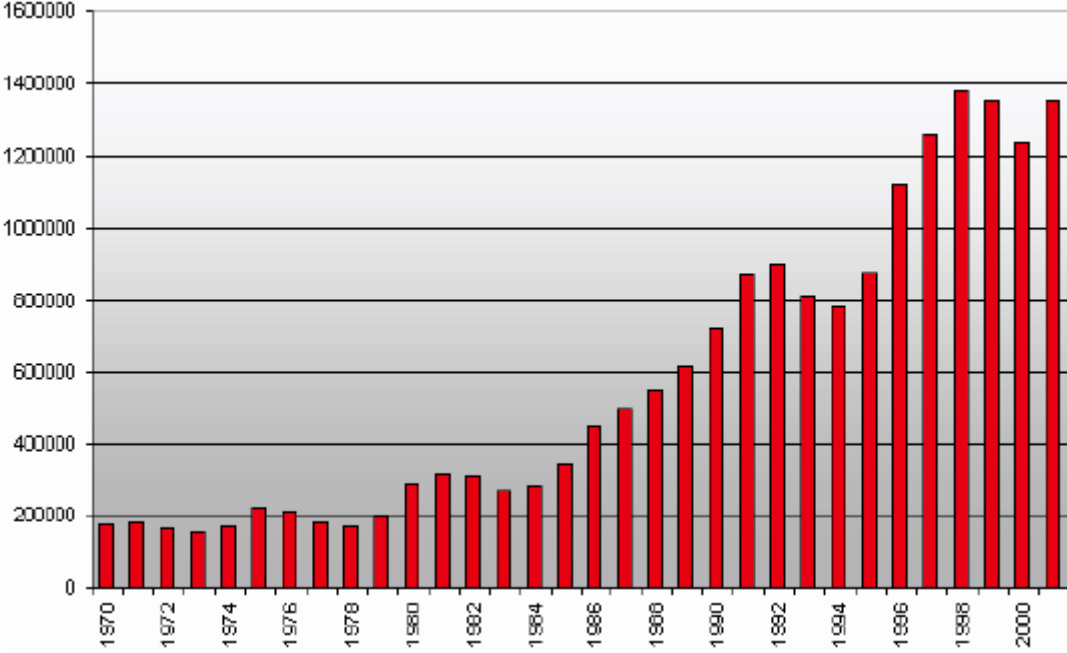


Figure 4. Consumer Bankruptcies Filings in the U.S. (1970 – 2001)*



* The numbers represent consumer bankruptcy filings as compiled by the Administrative Office of the U.S. Courts. For the years 1970 – 1996 as cited in McKinley (1997). Numbers for 1997 – 2001 refer to non-business filings as compiled by the Administrative Office of the U.S. Courts (2001).