CHAPTER 8

Toward Soundness in Provision of Credits and Loans to Young Adults

Viktor Elliot and Ted Lindblom

1 Introduction

The previous chapters of this volume have focused on defining over-indebtedness, examining and elaborating on the causes and consequences of excessive debt reliance of young adults, as well as analyzing and discussing the demand- and supply-sides of indebtedness and possible over-indebtedness. In these chapters, less attention is paid to what is being done in order to mitigate problems related to over-indebtedness, let alone what needs to be done in order to achieve soundness in the provision of credits and loans to young adults. In this chapter, we emphasize these issues by discussing policy measures that can be implemented to reduce excessive debt reliance (as well as the potential implications of such policy measures). The policy measures discussed here include credit market regulation, consumer protection, early identification, and prevention of over-indebtedness.

V. Elliot (✉) · T. Lindblom
School of Business, Economics and Law,
University of Gothenburg, Göteborg, Sweden
e-mail: viktor.elliot@gu.se

T. Lindblom
e-mail: ted.lindblom@handels.gu.se

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In Chapter 2 of the book, we highlight and discuss, at some length, different definitions and operationalizations of over-indebtedness proposed in the academic literature. In theory, where it is free, or low cost, access to efficient financial markets, indebtedness is in many respects a matter of optimization. This suggests that over-indebtedness arises beyond the point where a greater degree of indebtedness will be value-destroying in terms of net present value (NPV). In practice, it is quite clear that over-indebtedness is a multi-dimensional concept covering at least the four dimensions commented upon by Davydoff et al. (2008: 37): (i) an economic dimension of over-commitments, (ii) a time-dimension where households or individuals experience long-term problems, (iii) a social dimension that includes issues of exclusion and stigma, and (iv) a psychological dimension of stress and health harm. A delicate problem is not having an agreed-upon definition, in combination with the multidimensional nature of the concept that makes it inherently difficult to translate into law, let alone into supranational law. This is emphasized as follows by Ferretti, Salomone, Sutschet, and Tsiafoutis (2016: 65) when they compare and analyze the regulatory framework regarding over-indebtedness of consumers in four Member States of the EU: 'Recent scholarship has acknowledged that the continuing vacuum of a clear content-based notion of over-indebtedness not only makes the comparison between Member States difficult but also a European response problematic'.

The brief overview in Chapter 3 of the financial environment in Sweden attracts attention to recent measures taken by Swedish regulatory authorities to reduce the rapidly increasing household indebtedness. It is important to bear in mind that the rationale for imposing higher amortization requirements and income related constraints on banks' mortgage lending is to strengthen financial system stability. This is also the main reason behind many other regulatory initiatives that has followed the global financial crisis. The most prominent of these is fitted within the umbrella-term Basel III and focuses on stricter capital adequacy requirements to promote soundness in banking. It is, however, questionable whether these regulatory measures are satisfactory and whether they are the most suitable for promoting soundness in the provision of credits and loans to young adults. Critics have expressed concerns about some potentially negative effects of implemented regulatory measures like these. In particular, many are emphasizing the risk that certain consumer groups, and among these young adults, will cease to be provided with credits and loans by banks and, thus, become financially excluded (see, e.g., Carbo, Gardener, & Molyneaux, 2007; Mehrotra & Yetman, 2015). A side effect can be the emergence of “less serious” actors, which are operating outside the control of the Swedish Financial Supervisory Authority (SFSA). Such actors are commonly referred to as shadow banks, which can take advantage of tighter regulations of ordinary banks by utilizing those who are subject to financial exclusion.

Clearly, young adults may be induced to over-borrow if there is too easy access to financial sources when buying their first home on a real estate market, which exhibits rocketing property prices. Eng Larsson, Hallsten, and Kilström (2018: 8) point out that: ‘[u]njustifiably inflated house prices and debts can, in a financial crisis, cause young households to fall into a debt trap early in life, which can take a long time to get out’.[1] At the same time, the authors document that from 2010 to 2016 the debt-to-income ratio did in fact increase the most among older age groups. Between these years, young adults tended to increase their borrowing less than others in relative terms both when it came to average debt and debt-to-income ratio, despite that there was a relative increase in the number of young adults borrowing for a new home. Surely, young adults would appreciate and probably benefit from a reduction in property prices, that is, if the imposed regulatory measures are shown to lead to lower prices, and young borrowers are not displaced from the market but can still buy the home they desire. To this point, Lennartz, Arundel, and Roland (2016) show that the Nordic countries (Sweden, Denmark, and Finland) have seen a significant drop in homeownership among young adults (18–34 years old) from 2007 to 2012. Danish homeownership has decreased the most (by 12.4%), but the young Danes seem to primarily (8.8%) reallocate to rental apartments. The same is not true for the Swedish young adults, where both homeownership (−6.6%) and rentals (−0.7) have decreased. The implication is that co-residence has increased with more than 7% among Swedish young adults, that is, they stay with their parents longer. The authors refer this result primarily to stricter policy mechanisms and stricter lending standards among the banks.

Another major concern among Swedish authorities, like the Swedish Consumer Agency (SCA) and the Swedish Enforcement Authority (SEA), is directed toward young adults’ increasing use of consumer credits such as unsecured instant loans (see SEA, 2007). To understand the mechanisms affecting young adults’ borrowing is considered crucial for being able to design adequate preventive measures in order to slow down the pace in their borrowing and, thus, reduce the risk of financial difficulties related to over-indebtedness. Our empirical studies reported in Chapters 4–7 contribute with pieces to the puzzle of understanding the driving factors behind the excessive debt reliance of young adults. Moreover, these chapters also discuss the financial behavior of young adults and, not least, financial knowledge and capability to accurately interpret financial information presented to them in different formats. The results are reported in each chapter, respectively. Let us conclude here that young adults are not a homogenous group. Even if this is of course true also for other age groups, there is greater uncertainty and far less information available when it comes to the single young borrower still at an early stage of the "life cycle". As a group, young borrowers are multidimensional and complex just like the over-indebtedness phenomenon.

In the remainder of this chapter, the definition and measurement of over-indebtedness will be adopted in accordance with the administrative approach. This follows by the fact that the chapter's focus is set on policy measures imposed by regulatory authorities aimed to reduce the risk of over-indebtedness. We will argue here that such measures are necessary in order to accomplish a reduction of excessive debt reliance and possible over-indebtedness among young adults. Our ambition is to map and analyze regulatory authorities with respect to their objectives and available tools, as well as the potential impact that such tools may have on indebtedness among young adults including the possible financial exclusion of some of them. The chapter is organized as follows. The next section offers a brief overview of policy measures taken by different regulatory authorities in the European Union (EU) to mitigate the problem of over-indebtedness. Thereafter, we zoom in on the situation in Sweden in Sect. 3. Finally, Sect. 4 concludes the chapter.

2 An EU-Perspective on Policy Measures Against Over-Indebtedness

Historically, over-indebtedness was a problem to be addressed at the nation-level across the EU. With the single market, and single banking license, implemented by the Maastricht Treaty in 1993 integration and adoption of common principles across the EU started its trajectory.

Still, joint preventive action and aggregated EU policy measures directly aimed at a more "responsible" credit market has been scarce.

According to Kilborn's (2010: 2) comprehensive review of policies to treat over-indebtedness: '[t]he first major examination of consumer over-indebtedness and collection of recommendations for legislative solutions was commissioned by the Directorate General of the Consumer Policy Services of the EC in November 1991'. The key outcome was a strong recommendation to develop a model for the discharging of unpaid debt, after the debtor had applied their best effort to pay off the debt. It was suggested that such a model should strive to keep debt settlements outside the court, with broad eligibility criteria and at low cost.

Kilborn (2010) continues by highlighting the INSOL's Consumer Debt Report from 2001, which is based on four key principles: each containing ten recommendations. The first three out of four principles deal with the treatment of over-indebtedness and the fourth focuses on prevention (INSOL, 2001: 11):

1. Fair and equitable allocation of consumer credit risks.
2. Provision of some form of discharge of indebtedness, rehabilitation or "fresh start" for the debtor.
3. Extra-judicial rather than judicial proceedings where there are equally effective options available.
4. Prevention to reduce the need for intervention.

Following the INSOL (2001) report, the Director General of Consumer Policy ordered another report, which was published under the acronym the iff (2003) report. The iff (2003) report largely mirrors the INSOL (2001) report but also reviews current practices within the EU of dealing with over-indebtedness. Kilborn (2010) highlights that while the iff (2003) report do not take a stance on best practice in Europe it does emphasize (i) the need for broad discharge that includes taxes, fines and damages, and (ii) that while the median length of payment plans in Europe seems to be five years three years would be preferable. Kilborn (2010) reviews a series of additional reports, but these are largely based on similar recommendations as the INSOL (2010) and iff (2003) reports. According to Valins (2004), literature that deals with the "coping with debt" issues tend to focus on two levels of institutional interventions, public policy and individual level aid.

2.1 Public Policy Intervention

Public Policy intervention refers to, for instance, credit market regulation, more transparent loan granting practices, government tracks for debt discharge, and mechanisms for early identification (Krumer-Nevo, Gorodzeisky, & Saar-Heiman, 2017; Ramsey, 2012). Throughout the 1990s and up until the financial crisis, western economies were characterized by policies promoting deregulation, floating exchange rates, international integration, strict inflation targets, and reduced dependence on the state. From a financial policy perspective this was reflected in: autonomous central banks targeting stable inflation through policy interest rates changes, fiscal policy focusing on distribution of resources, supervisory authorities that ensured financial institutions adhered to converging, risk sensitive capital requirements, and capital could flow freely across borders and between sectors so that a stable economic development would result (Elliot, 2015). By the early 2000s an international literature discussing "The Great Moderation" was emerging that these policy measures had in fact created a more stable economic environment (see Benati & Surico, 2009).

However, the financial crisi s revealed that what, on the surface, appeared to be stable and prominent economic growth concealed significant imbalances. Among the more salient of these imbalances was the substantial credit expansion mentioned above, which also meant great vulnerabilities both the individual economies and to the world (Breman & Wallin Johansson, n.d.).

In response to the failure of the great moderation, policy setters have developed the so called macro-prudential regulation/supervision, aimed at increasing stability in the financial system and preventing the build-up of imbalances in the economy. In most western economies, macro-prudential regulation and supervision has come to focus on sound lending practices and indebtedness among households and non-financial firms. This is not surprising considering that unsustainable debt accumulation can be linked to many of the financial crises throughout history (see, Reinhart & Rogoff, 2009, 2013).

Because the macro-prudential regulation and supervision is still a rather new phenomenon in public policy, best practice has yet to form. The European Systemic Risk Board (ESRB) was established in 2010 with the aim 'to oversee the financial system of the European Union (EU) and prevent and mitigate systemic risk'.[2] Among the first measures taken by the ESRB was to recommend each member state to establish a national agency responsible for macro-prudential regulation and supervision. ESRB emphasized that the Central Bank should take a front position in the monitoring of systemic risk, but no strict guidelines were offered in terms of how to organize this new agency. Accordingly, there is significant variation among EU-countries both in terms of how to organize and how to utilize the macro-prudential policy mechanisms. According to ESRB (2017), in 13 countries[3] the central bank is the responsible agency, 12 countries[4] have a dedicated committee (often with close ties to the central bank) and in two countries[5] it is SFSA that is responsible for macro-prudential regulation and supervision. Table 1 illustrates some of the variance based on a number of selected countries.

As shown in Table 1, all countries focus their macro-prudential policies on household indebtedness. However, Swedish authorities, like Swedish National Audit Office (SNAO) and, particularly, SFSA, have advanced their macro-prudential mandate significantly further than most other European countries (see Braconier & Palmqvist, 2017; SNAO, 2018).

As mentioned in Chapter 1 and discussed at some length in Chapter 3 of this volume, the macro-prudential measures include the 2010 loan-to-value cap, minimum risk-weights for mortgages set at 15% in 2013 and increased to 25% in 2014, and two amortization requirements implemented in 2016 and 2018. In addition, SFSA has also added liquidity requirements, stricter capital requirements for systemically important banks, and the countercyclical buffer requirement has gradually been increased from 1% to the maximum level of 2.5% between 2015 and 2018. The intensity with which these measures have followed testifies to concerns among Swedish authorities, but it also caters to the importance of a better understanding of the implications of such measures for household indebtedness and financial exclusion.

2.2 *Individual Level Aid*

Individual aid includes both motivational features such as financial education and literacy, and reactive solutions such as counseling and advice (see Orton, 2009; Stamp, 2012; Wolfe, Madge, & Kruse, 2004). As noted by Lusardi, Mitchell, and Curto (2010), financial literacy is particularly low among young adults (see also Lusardi & Mitchell, 2011), which indicates that more effort is needed to support this group making better financial decisions. According to Carlin and Robinson (2012:

Table 1 Macro-prudential organization and utilization in selected countries

Country	*Organization*	*Utilization*
Denmark	The macro-prudential agency is a committee (the Systemic Risk Board), which formally have an advisory role but can make recommendations based on "comply or explain" of systemic risks and appropriate macro-prudential measures. This committee includes representatives from the central bank (Danmarks Nationalbank), the micro-supervisory authority (Finanstilsynet) and the three departments that handle financial issues (the Ministry of Finance, the Ministry of Economic Affairs and the Ministry of the Interior and the Ministry of Industry). Committee meetings are held at least four times a year. The Ministry of Business Affairs is responsible for the capital adequacy regulations and has the final decision-making power over these macro-prudential tools. In addition, they are also responsible for macro-prudential tools based on national law. However, the Ministry of Trade and Industry has delegated the formal decision-making power to regulatory issues to the micro-supervisory authority (Finanstilsynet) and in practice it is therefore the latter that decides on the macro-prudential policy tools. The level of the countercyclical capital buffer requirements is reviewed quarterly	In micro-supervision, Denmark applies the so-called the supervisory diamond, which also takes into account systemic risks such as large exposures and rapid lending growth for banks. For mortgage institutions, a large number of macro-prudential factors are taken into account in the corresponding supervisory diamond. The institutions are incentivized not to lend to floating interest rates or amortization-free to households with medium to high loan-to-value ratios. Households with both medium to high debt ratios and medium to high loan-to-value ratios are limited to both mortgages and must meet strict restrictions for obtaining amortization-free loans. In addition, there is a general recommendation on minimum cash contribution, as well as guidelines that limit lending to households with a high debt ratio if they do not have significant other assets. Denmark has introduced the countercyclical capital buffer requirements, but the level has been left unchanged at 0%. System risk buffer requirements are applied to the banks that are considered to contribute most to systemic risks
Norway	The central bank (Norges Bank) makes proposals to the Ministry of Finance and/or the Government that makes decisions. The government tends to decide in line with the central bank's proposal, but it has occurred that the government chooses to make another decision. Measures within this policy area are normally limited in time, which provides a regular review of the measures' goal fulfilment and any need to make adjustments. The central bank is not responsible for micro-supervision of the financial system, which is the Norwegian Financial Supervisory Authority's responsibility	There are ceilings for loan-to-value and debt-to-income ratios that are applied for housing loans. The measures are directed directly towards individual loans, but for each bank a certain proportion of the loans may violate the limitation of the debt ratio and/or the loan-to-value ratio. More strict, separate requirements are applied for the Oslo region. The country has activated the countercyclical capital buffer and applies systemic risk buffers for the largest financial institutions

(continued)

Table 1 (continued)

Country	*Organization*	*Utilization*
Finland	The FSA, which, like in Sweden, is also responsible for micro-prudential supervision is the macro-prudential authority and decides on the use of macro-prudential tools. However, these decisions are taken in close cooperation with the central bank (the Bank of Finland) and the Ministry of Finance, and the Finish Financial Supervisory Authority also has a closer relationship with the Bank of Finland than the Swedish counterparty has to the Riksbank. The decisions on macro-prudential measures are constantly being reviewed. Several of the measures are reviewed quarterly. However, as in Sweden, and in line with other euro area countries, the national central bank also has financial stability as a clear target	Ceilings are applied to the loan-to-value ratio for housing loans, with more generous rules for first-time buyers. These have been made more stringent in recent years. Finland has also introduced minimum risk weights of 15% for mortgages. The country has introduced the countercyclical capital buffer, even though the level has so far been set at 0%. Buffer requirements based on systemic risks are applied to four banks
The Netherlands	Formally, it is the so-called Financial Stability Committee, which is the macro-prudential authority. However, it is the central bank (De Nederlansche Bank) who is empowered to apply most macro-prudential policy tools since the central bank is the responsible authority for the tools that come from the capital adequacy directive. Decisions on the application of the tools are taken by the central bank after, among other things, preparation in the Financial Stability Committee, which also includes the Ministry of Finance and the Financial Market Authority. However, with respect to other types of macro-prudential tools, primarily the tools that are directly directed to household credit, it is the Ministry of Finance that decides based on a recommendation from the central bank or the Financial Stability Committee. The central bank is the micro-prudential supervisor for large parts of the financial system	In the Netherlands, a staircase model has been applied for a number of years to the maximum loan-to-value ratio, which is reduced by one percentage point per year. The Central Bank's and the Financial Stability Committee's recommendation is that one should gradually approach 90% of maximum lending in the future. By comparison, the maximum loan-to-value ratio was 106% in 2012. Tax rules are also used for macro-prudential purposes. Interest expenses are, for instance, only deductible if the loan is amortized at a rate so that it is paid off in 30 years. The countercyclical capital buffer has been introduced, but the level has not been raised above 0%. Systemic risk buffers for the largest banks are applied (from 1 January 2019)

(continued)

Table 1 (continued)

Country	*Organization*	*Utilization*
Great Britain	The central bank (Bank of England) is the macro-prudential authority, but the decisions are taken in the Financial Policy Committee (FPC) and not the Monetary Policy Committee (MPC). The membership differs to a certain extent between the committees, but the FPC, like the MPC, has external members, including non-voting representatives of the Ministry of Finance. The central bank also has micro-prudential responsibility in all issues that do not concern consumer protection through the Prudential Regulation Authority	The UK have requirement to stress-test mortgage borrowers at a significantly higher interest rate level over a five-year period. Mortgages are limited in the case of high debt where only a certain proportion of the total mortgage volume may exceed the limit for the debt ratio. The Bank of England's Financial Policy Committee is also entitled to decide on limitations on loan-to-value ratios, but has not yet done so. Countercyclical capital buffer requirements have been implemented and applied at levels above 0%. Gross solvency requirements for banks are utilized based on the degree of system weight and the countercyclical buffer value

Sources Adapted from Breman and Wallin Johansson (n.d.), ESRB (2018)

235), there are three archetype measures to improve financial literacy: (i) directly improving education, (ii) improving access to timely decision support, or (iii) implementing judicious default options to limit the harm that people can do by not making an informed choice.

In more recent years, as financial literacy has attained more focus across the world, many new initiatives are available to help people become more financial literate including museums, theme-parks, e-games and apps, dedicated government programs and so on. In recent years a few studies have tried to estimate the effects of educational efforts (for an overview, see Lusardi & Mitchell, 2014), and these generally show that there are significant benefits. Still, Lusardi and Mitchell (2014: 31) note that most of these studies suffer from methodological problems among which accounting for the abovementioned heterogeneity among and between different age groups, the prediction being that: 'in order to change behavior, financial education programs must be targeted to specific groups of the population, since people have different preferences and economic circumstances'.

In 2008, the Minister for Financial Markets and Consumer Affairs in Sweden launched an initiative to focus on financial literacy. Since then, SFSA have run two surveys on financial literacy in Sweden and continuously run initiatives together with independent actors such as "Ung Privatekonomi" in order to increase financial literacy among young adults. Still, as suggested by Jappelli and Padula (2013) countries (such as Sweden) with generous Social Security benefits have less incentive to invest in financial literacy simply because there is weaker rationale to save in these countries. The authors also conclude that the least educated individuals have less incentive to invest in financial literacy, because it may not be worthwhile for them to incur the knowledge investment. As argued by Lusardi and Mitchell (2014: 9): '[d]espite the fact that some people will rationally choose to invest little or nothing in financial knowledge […] it can still be socially optimal to raise financial knowledge for everyone early in life, for instance by mandating financial education in high school. This is because even if the least educated never invest again and let their knowledge endowment depreciate, they will still earn higher returns on their saving, which generates a substantial welfare boost'.

Although financial literacy may be important to improve decision-making, research shows that an individual's actions in the financial market is influenced by a variety of factors such as lack of self-control (Ameriks, Caplin, Leahy, & Tyler, 2007), local bias (Mavruk, 2010), overconfidence in their own abilities (Barber & Odean, 2000), as well as cognitive biases and emotional processes that affect risky decisions and creating "erroneous" thinking in relation to timing and ambiguity (Lucarelli, Brighetti, Uberti, & Maggi, 2015; Lucarelli, Marinelli, & Brighetti, 2014; Lucarelli & Alemanni, 2015). These shortcomings may in turn lead to insufficient risk management and non-diversified savings. The financial actors' role in helping individuals to manage financial decisions has proven to be important to balance the above-described bias (Bhattacharya, Hackethal, Kaesler, Loos, & Meyer, 2012; Gentile, Linciano, Lucarelli, & Soccorso, 2015).

The financial companies "role in increasing consumers" financial knowledge is undergoing a process of change and the forms of financial advisory services are a particular challenge in the new digitized and regulated environment. In England, several of the large players have started charging for advice as a result of new regulations and MiFID II, MiFIR, PRIIPs and IMD 2 regulations are expected to have further impact on the relationship between individual and actor. While such regulations strengthen consumer protection, they also make advisory services costlier, a notion that could make public debt support become even more important in the future.

In Sweden, public debt support is managed on a municipal level. A report from the SNAO concludes that the municipality financial counselors are severely underfunded and despite a quick increase in the number of application they have not seen a corresponding budget increase (SNAO, 2015). In addition, the same report highlight that there is a wide discrepancy in the educational background and types of advice provided. Larsson, Svensson, and Carlsson (2016) further notes that the vast majority of young adults do in fact not seek help from the municipality financial counselors, because they try to solve their financial difficulties themselves for many years before they seek external help.

3 Over-Indebtedness from a Legal Perspective: The Case of Sweden

We have already mentioned that Swedish household indebtedness is amongst the highest in the world (see Chapter 2). Statistics from Eurostat presented by the Swedish Bankers' Association (SBA, 2018:14) disclose that 'over 65 percent of the households own their homes', which puts Sweden in the middle in comparison with the share of homeowner households in other Member States in the EU. Swedish households are, however, among the top three when it comes to the share of mortgage-financed homes. Almost nine out of ten homeowner households in Sweden have a mortgage loan. This explains the relatively high debt-to-income ratios reported in Chapter 3.

More detailed statistics from SBA (2018) show that new homeowners in the Stockholm area exhibit a debt-to-income ratio of as much as 534%, that is, almost 5.5 times their disposable income. Bearing in mind that many young adults that bought their first home are among these new homeowners, it is far from surprising that these figures are regarded as alarming on a governmental level. Time will tell whether the imposed direct and indirect policy measures (such as LTV-limits, amortization requirements and higher capital adequacy requirements related to the Basle III Accord) by Swedish regulatory authorities will have the desired effects. Still, it is not farfetched to assume that there might also be undesired side-effects such as, for example, the financial exclusion of potential homeowners, in general, and young adults, in particular. At present, it is still too early to tell what impact the measures taken will have. The risk of side effects in the form of financial exclusions makes the design and implementation of policy measures a “balancing act”. To do nothing seems not to be an alternative. After all, financial exclusion can also be a side effect caused by over-indebtedness.

Adopting a definition of over-indebtedness according to the administrative approach, homeowner households have in the past been underrepresented with respect to arrears registered at the SEA. Based on statistics reported in the Swedish Government Official Reports (2013), de Toro (2016) attracts attention to that long time over-indebtedness, defined as having unsettled arrears registered at SEA for a duration of at least five years, was by far more common among tenants occupying a rental apartment than among homeowners at the time of the investigation. Representing less than one-third of the Swedish population, tenants still accounted for almost two-thirds of the number of long time over-indebted people. This implies that most of the arrears are not related to failures in fulfilling the obligations of mortgage contracts, but rather inability to comply with the contractual terms entered into when purchasing consumer products. Considering also that most young adults are tenants, who rent their home, the remainder of this section will focus primarily on policy measures targeting banks’ and other financial institutions’ provision of credits, and unsecured loans for consumption purposes.

In her dissertation, Henrikson (2016:439) states that: 'Swedish law contains many rules regulating the credit process, from the time when the consumer contemplates concluding a credit contract to the time when the consumer is too indebted to pay back as due and must seek debt modification or rescheduling of repayment obligations'. Stressing that over-indebtedness is inadmissible, she analyzes consumer protection against over-indebtedness in a legal context with respect to (1) how the adoption of consumer protection rules is motivated in the law writing process, (2) the consumer protection interest(s) targeted by the rules, and (3) consumers to be protected by the rules. She argues that consumer protection is needed through the whole "borrowing-on-credit" process, albeit the extent to which it is needed depends on the process phase. Hence, in her analysis, she divides the borrowing-on-credit process into the *pre-contractual* phase, the *contractual* phase, and the *post-contractual* phase.

Evidently, Swedish "consumer protection" oriented laws are most accentuated in the *pre-contractual* phase.[6] As in many other countries, Marketing and Consumer Credit Acts in Sweden aim at protecting consumers from entering into unreasonable agreements that can be harmful for them. The importance of adequate information is stressed in both. Consumers should not enter into disadvantageous credit contracts when purchasing on credit. According to the author, however, business firms do not always comply with these laws at the same time as the enforcement of the laws by Swedish authorities has been rather weak in the past. This is explained partly by that many consumers are not aware of their rights and/or find it inconvenient to enter into legal processes, and partly by lack of proper knowledge, information, and understanding at the governmental level. The author observes a change in the frequency of authorities' acting the past years and lately stricter regulatory measures in the form of control and sanctions have been imposed to prevent consumers from becoming over-indebted.

When designing suitable regulatory measures against over-indebtedness of young adults, findings in our conducted studies reported in Chapters 4–7 can be useful. These studies relate to the pre-contractual phase and cover also findings and knowledge generated in other contemporary research studies. Regarding, for example, young adults' attitude toward borrowing, prior research largely suggests that their attitude is positive toward borrowing, while the conducted study presented in Chapter 5 says the opposite. However, the study also finds that the negative attitude of young adults toward borrowing did not prevent them from purchasing more expensive consumer goods on instalment payments. This seems to imply that young adults do not perceive that they borrow when entering into a credit contract to finance the purchasing a product, which in turn indicates lacking financial literacy. How to measure financial literacy and its impact on young adults' debt-related financial behavior is examined in Chapter 7. As expected, there was a strong relationship, but young adults did not differ significantly from other age groups. This does not exclude that different segments of young adults are more at risk. This calls for further research and investigations. Finally, in this context, the importance of information format must be emphasized. In Chapter 6, it is suggested that many of the regulations focusing on transparency may have difficulties obtaining their goals, since individuals have a hard time interpreting the consequences of a revealed financial fact (such as, e.g., the interest rate). It is further observed that by changing the information format from the commonly used fact-based format to a narrative-based format the borrowing decisions of young adults were positively affected.

The *contractual* phase starts at the point of time when a valid credit agreement is entered into between the consumer and the creditor. As Henrikson (2016:441) puts forward, this phase of the borrowing-on-credit process is characterized by consumer protection rules that: 'protect consumers by preventing the use of unfair contractual terms; limiting both consumers' and creditors' rights to close or cancel revolving credit accounts or installment loans; regulating creditors' rights to modify interest-rate terms and to charge fees; protecting consumers if the right to receive payments are transferred by the creditor; prohibiting sellers from certain settlement-of-debt restrictions or practices; and imposing an obligation to provide certain information to consumers'. In this phase, the Swedish Consumer Credit Act still applies but it is here surrounded/supplemented by Swedish contract laws as well as the Swedish Interest Act ("räntelagen" in Swedish). As the creditor is given (or takes) the right to design contract terms, it is important that these terms are reasonable for the debtor. The Swedish Consumer Credit Act is superior to contract laws, but the author illustrates that it many times can be difficult for consumers (borrowers) to interpret and sufficiently understand the contract terms when entering the credit agreement. What is, for example, the difference between interest and the various kinds of credit fees charged by many creditors? Until the implementation of a new Consumer Credit Act in September 1, 2018 (i.e., SFS 2018:2028), it was also difficult to determine what level of interest rate constitutes usury. SFS (2018:2028) stipulates a specific interest rate cap given the current reference rate and, moreover, a ceiling for the annual interest cost paid by the debtor. As high-interest expenses play a crucial role for borrowers to enter into over-indebtedness, it is anticipated (or at least a hope) that the imposed interest constraints will help to protect borrowers, in general, and young borrowers, in particular, from this to happen. Considering the relatively high-interest rates approved, this might show to be just wishful thinking. Future studies and investigations on how the provision of unsecured instant loans are affected will show whether the new Act will make a difference to the better for young adults.

In the *post-contractual* phase, finally, the consumer protection is least visible. This phase is entered if the borrower is not fulfilling her or his obligations according to the credit agreement entered into. The Consumer Credit Act does no longer apply, but contract laws do. In addition, there are the Debt Recovery and Debt Reconstruction Acts. Hence, the creditor is often in a strong position to exert pressure on the borrower to recover the credit extended. Such pressure is mostly executed through penalties in the form of fees or interests. As described in Chapter 2 of this volume, if a solution is not reached, creditors often turn to debt recovery agencies and, eventually, the debt becomes an arrear registered at SEA. On its webpage, SEA informs that it then sends a "demand of payment" to the debtor urging her or him to settle the debt(s) claimed within the stipulated time period.[7] If the debtor is unable to pay, SEA starts investigating whether the debtor possesses and owns any assets (like e.g., real estate, including condominiums) with a positive net market value if liquidized. It is most common that SEA issues attachment of earnings, like salary, pensions, and other income. Under certain conditions, SEA can decide that the debtor is entitled to debt relief regarding all or part of her or his debts. SEA does not issue payment or arrears remarks, though. This is done by credit information agencies on the market, like the Swedish UC, in which payment arrears concerning private individuals are kept in registers for three years.[8] Such remarks usually mean that the debtor will be regarded as an unqualified borrower by banks and other creditors during this time period.

Debtors' weak position in the post-contractual phase relative to creditors in the Swedish (and largely also in the Member States of the EU) borrowing-on-credit process can be challenged. Among the critics, de Toro (2016:15) makes a comparison with the United States advocating the American view that debtors are entitled to a second chance and, thus, a new starting-over of daily life: 'Over-indebtedness is seen as a market failure in that the market has not been able to satisfactorily assess the risks. Debt restructuring, or personal bankruptcy, is thus considered as a possible way of dealing with the problems of over-indebtedness, so that the over-indebted are able to quickly return to the market as entrepreneurs, consumers and borrowers'.[9] As the author asserts, creditors should take on more responsibility in the provision of credits and loans as they have greater opportunities to both diversify and manage their risk exposures on the market. For instance, SEA (2008:8) states: '[o]ne of the main reasons the United States has had such a forgiving bankruptcy system is that a forgiving system supports capitalism, risk taking, and entrepreneurialism'.

It is noteworthy that the latest quoted statement was made just before the news was released about the Lehman Brothers debacle and, thus, the outbreak of the global financial crisis a decade ago. From a financial system stability perspective, the US approach is evidently not the ultimate solution to managing problems caused by over-indebtedness. Just as the predominant approach in the EU, the US approach seems to open-up for opportunistic behavior among agents involved in the borrowing-on-credit process. Adverse selection in the pre-contractual phase and moral hazard in the post-contractual phase are well-known ingredients of crediting and lending because of asymmetric information. Hence, regulatory measures imposed for handling default problems arising in the post-contractual phase will more or less inevitably have implications for the financial behavior of borrowers and creditors in the pre-contractual phase, and vice versa. For example, if there is a lender of last resort, like Central banks traditionally have been, creditors will to a greater extent be inclined to utilize this in the pre-contractual phase when providing credits and loans to borrowers. Likewise, if given the opportunity, borrowers will to a greater extent over-borrow when sanctions in connection to a failure of meeting obligations according to the credit agreement are regarded too light in the post-contractual phase. This suggests that implementation of regulatory measures in the pre- and post-contractual phases, as well as the enforcement and execution of these measures, must be carefully coordinated to efficiently promote soundness in the provision of credits and loans to young adults.

4 Concluding Remarks

In this concluding chapter of our book about the indebtedness of young adults, we have examined and elaborated on what actions are taken as well as actions required on governmental levels against over-indebtedness among households, in general, and amongst young adults, in particular. Our ambition is to utilize findings in the studies conducted within our research program, as well as in prior research and public investigations in the area of household indebtedness and possible over-indebtedness, in order to suggest how to accomplish greater soundness in the provision of credits and loans to young adults.

When trying to understand the interaction in the loan chain between, on one hand, financial institutions and regulators, and financial institutions and individual young adult borrowers on the other, the use of the legal framework proposed by Henrikson (2016) provides insights illuminating the importance of where and in what format regulatory measures are implemented in the borrow-on-credit process, that is, in which of its three different phases of this process the various types of such measures are suitable. At present, there are already legal consumer protection rules in the pre-contractual phase that have the potential to discourage young adults from entering into inappropriate credit agreements when purchasing consumer products as well as buying a home. The adherence to these laws, however, has not been satisfactory in the past. Therefore, it is of vital importance that priority now is given to ensure that all creditors are complying with these legal rules. At the same time, it is evident that regulatory measures taken in each of the three phases are interdependent. This requires coordination between measures imposed to provide incentives for both young borrowers and creditors to make decisions accordingly. The weak position of the borrower in the post-contractual phase is not necessarily unreasonable, at least not when considering credits for purchasing consumer products. It depends on what has happened in the prior phases. If the creditor has applied what characterizes as sound provision of credits and loans and the borrower fails to fulfill her or his obligations anyhow, then a stronger position for borrowers at the post-contractual phase might even be contra-productive in the case of consumer credits. This is because it will indirectly encourage consumers to behave opportunistically in the pre-contractual phase and present private information about themselves in an unbalanced way to potential creditors. When there are information asymmetries, this is likely to lead to adverse selection and, thus, that creditors end up with a too large share of the riskiest borrowers.

The provision of secured loans (i.e., collateralized mortgages) for buying a home differentiates from credits for purchasing of consumer products. First, the size of the amounts generally differs substantially implying that the creditor, which in most cases is a bank, can benefit more from economies of scale in its credit screening and controlling processes than otherwise. Second, the bank often has (at least the capacity to obtain) superior information about both the current situation and the likely future development of the real estate market. Third, the bank is also often in a position to better assess the fair market value of the single specific property for sale. Many banks cooperate closely with or even own their own real estate brokerage firm. Fourth, and finally, for many households buying their own home means a realization of a dream and something that they only do once or a few times. This implies a lot of emotions, which can make home buyers behave less rationally and, for example, absorb purchasing confirmatory information but ignore information that discourages a purchase. In that respect, these home buyers are vulnerable and, thus, more likely to enter into credit agreements that they will have difficulties to comply with. As stressed in the introductory Chapter 1, this appears to be particularly true for young adults who buy their first home. Hence, there are reasons for adopting the US approach when it comes to mortgages and not make the borrower liable for mortgage debt exceeding the net sales value of the home if sold. Given that there is information asymmetry, it would of course have implications for how the parties act and behave in the pre-contractual phase. Banks are likely to seek to compensate themselves for their higher risk exposure, which suggests a widening of their interest rate margins. On the one hand, this may lead to adverse selection. On the other hand, banks are in a fairly good position to mitigate adverse selection. However, higher mortgage rates can lead to certain categories of potential homeowners being squeezed out from the market and, thus, financial exclusion. The magnitude of this problem will ultimately depend on how adoption of the US approach will impact on bank competition. This is a question for future research.

Future research should also examine the suitability of the US approach on consumer credits extended by creditors, who have adopted a business model with a focus on providing credits to consumers that have difficulties to borrow from traditional banks. Such customers are often subject to arrears registered at SEA that have resulted in arrears remarks at credit information agencies, like UC. Adopting such a business model, the creditor is calculating that there will be a higher proportion of borrowers that will not be able to fulfil their commitments according to the credit agreement entered into than otherwise. This is part of their value at risk assessment, where the expected credit losses are to be covered by the addition of a risk premium to the lending rate. It is questionable whether it is efficient that these creditors are given the right to utilize debt recovery agencies and SEA for a fairly low cost, which they can do according to the Swedish and, also largely, the EU approach. Adopting the US approach would set pressure on these creditors to be more careful in their lending. A question is what maneuver-room they have to increase their lending rates, which seem to be high already? Related questions are what the effect would be in terms of financial exclusion, in general, and concerning young adults, in particular? To answer these kinds of questions will be an important challenge for future research.

Notes

1. Our translation from Swedish to English.
2. https://www.esrb.europa.eu/about/html/index.en.html (accessed January 3, 2019).
3. Belgium, Cyprus, Estonia, Greece, Ireland, Italy, Lithuania, Malta, Portugal, Slovakia, UK, Czech Republic, and Hungary.
4. Bulgaria, Denmark, France, Italy, Croatia, Luxembourg, Netherlands, Poland, Romania, Slovenia, Germany, and Austria.
5. Finland and Sweden.
6. As Henrikson (2016) notes, the concept of "consumer protection" is defined neither in Swedish law nor in EU law.
7. https://www.kronofogden.se/download/18.33cd600b13abbc8411c800020855/1371144370347/kronofogden_in_english.pdf.
8. The time duration is prolonged to five years if the debtor has been subject to debt restructuring.
9. Quote in Swedish, freely translated by us into English.

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