



EUROPEAN
COALITION FOR
RESPONSIBLE
CREDIT

ECRC

ECRC Newsletter 11.0, Dec. 2007

Become a partner! Sign our principles!

ECRC – Alive and well!

This end of year Newsletter aims to update ECRC members and partners about recent discussions, initiatives and developments affecting or potentially being of interest to stakeholders of credit and debt in Europe. It also informs on the successful international conference held in Brussels in September 2007, where our collective Principles for responsible credit were specifically discussed, representing the first solid step in the work ahead in further developing them together. Also a source of lessons for us throughout the coming years will be analysis on the causes and effects behind the “sub-prime crisis”, which has been affecting both the personal lives and corporate lives of the two sides of the financial services market. Also of obvious topical and highly significant concern, is the pending EU legislation on the consumer credit Directive which we have followed for a number of years together and which is set to be finally ratified by the European Parliament vote on 15th of January 2008. Our comments are available on the website, and we forewarn that efforts of the coalition will probably need to be mobilised within the first weeks of January if we and others feel that the Directive should be further improved. Numerous hyperlinks have been included in this letter to enable readers to inform themselves in more detail about the opinions or events referred to. We hope you have all had a satisfying year and look forward to still stronger involvement and commitment on the part of all our partners next year.

The reason, purpose and motivations driving our coalition have become all too evident in the light of the current turmoil on the global credit markets. No amount of sound, productive and responsible credit alone can ensure the overall stability of financial systems in the world, but they definitely would have reduced the risk and size of impact which potential unforeseen events can have on society and the economy.

We are firmly convinced that the present credit crisis is a crisis of the quality of credit. More and more usurious bad credit has been extended. The bill for this behaviour has not yet been paid. Now the portfolios circulate and are pushed from one corner to the other without solving the problem but causing turmoil in all areas of finance. The fairy tale that irresponsible consumer borrowed more money than they could afford which then affected a sane securitisation market can be heard from industry, government, Commission and beyond. Again financial education of consumers shall solve the international debt crisis. The supporters of the European Coalition for Responsible Credit, in our respective capacities and areas of expertise, will continue to promote and defend the ideas of responsible credit and fair finance, as agreed on for our [statutes](#), with the exchange of information and solutions on the various issues related to financial services for people today. As we read on and are reminded of the various efforts which the partners of the coalition have undertaken over the past few months, including the

majority of us that participated in the Brussels 2007 conference in September, it is comforting to end a busy year with the knowledge that the coalition has reaffirmed itself as a genuine forum for constructive stakeholder dialogue. With rich reflection and a wealth of on-the-ground experience, the ECRC as a whole continues to demonstrate its ability to communicate with policy makers and financial service providers, suggesting solutions to unsatisfactory situations in the market for credit and debt.

Two quasi-stakeholder voices which have been introduced into the workings of the ECRC this year in a more significant way are the media and the regulators. Though ECRC member organisations generally have longstanding extensive relations with their country's press, ECRC has also been gradually developing its own media coverage and slowly improving its coordination with information campaigns from its own members. We urge partners to follow the example of the [Northern Rock comment](#) led by UK partner DOOD, which shows the way forward in how we want you, the national operators, to start associating the ECRC to your press releases. Our collective logo can then be sent to you, provided the content of the message is in line with the general views of the coalition. Please try and inform us of any planned public announcements that you make next year, and we will see if it helps you to get your message through. ECRC has also continued to grow in stature through its increased solicitation by the press. Receiving calls from journalists from the [International Herald Tribune](#) shows that the ECRC is on the right path and enjoys a respectable standing with those it deals with. The ECRC Secretariat will continue to refer external requests for information and insights to the relevant country or topic expert from among its ECRC partners. We therefore remind you to let us know which specific areas you are open to receive questions about.

In October 2007, ECRC presented its principles and the concerns of the coalition at a regulators [conference in Budapest](#), Hungary. Officially invited by the Hungarian Financial Supervisory Authority, ECRC gave an overview on the activities and issues it has been working on during a Round Table discussion with speakers from the US Federal Reserve Board and the Australian Banking and Financial Services Ombudsman. The ECRC opinion, put forward by iff, was assisted by the timely input received from a number of partners ahead of the conference, whom we thank again (INC, FLAC, ADICAE, DOOD and others). The usefulness of contacts made will strengthen ECRC ties with the community of regulators and will add a significant edge to future debates when they take part in ECRC stakeholder events.

A very positive sign of a healthy coalition is also the way partners are willing to respond to requests from one another under time constraints. As explained in the section on the CCD, respondents from the different EU Member States promptly contacted their elected Members of the European Parliament (MEP) notifying them of the alarming last minute changes which were being inserted in to the recommendation for the Directive by the rapporteur, and for which only a few days remained before the deadline for the tabling of additional amendments. Our action with MEPs in November with regards to this IMCO proposal generated 236 amendments!! Other than showing that the CCD was still unsatisfactory in many areas and to many deputies, it also shows that generally, European Institutions are responsive to our concerns.

The similarities between our work on the principles and the [recommendations](#) of the Council of Europe on legal solutions to debt problems presented at our Brussels conference, and the influential reports on over-indebtedness produced by ECRC supporter and voice for civil

society, the European Economic and Social Committee, show that dialogue with these organisations is fruitful.

In terms of our relations with the Commission, they have considerably improved, and our interaction with both DG Social Policy on matters of social inclusion and DG Market on the CCD have been good. Ironically however, there remains a certain difficulty for the coalition to enter into constructive dialogue with the DG in charge of consumer protection. In spite of having seen our request for funding from DG SANCO under its offer of financial support for European networking activities in the year 2008 turned down, we still hope that this will be an area where ECRC will improve on in the coming year. On a positive note, our relations with BEUC have strengthened and we have appreciated the valuable contributions made by the recently revived [European Consumer Debt Net](#) in the many practical areas of financial services related to financial inclusion. With a number of our coalition members also involved in the above network, synergies should be sought to increase awareness of what both networks are doing.

Prospects for good relations with the EU Council this year also look good. On 1 January 2008 Slovenia will succeed Portugal at the head of the European Union, the first of the ten new Member States from 2004, followed by France on 1 July 2008. The ECRC partner consumer organisation from Slovenia, MIPOR, [confirms](#) that the CCD will be a top priority for them to sort out.

Before the next section reminds you of results of the last conference 3 months ago, we would like to inform you of our next international ECRC conference taking place in 2008. The Dutch stakeholders have agreed to transform the planned national event into our annual international forum, and because of the strong political

interest from authorities to encourage the exchange of views on ideas and practices, ECRC is pleased to declare and shape the conference of the Netherlands as the venue for the next central international ECRC stakeholder conference. The date to put in your 2008 diaries is 20-21 of November, but you can expect to receive more information about it next year. The idea of having our central event rotating every second year through Europe may prove a useful way of strengthening identification of domestic players with our Coalition and should relieve it from any significant extra financial and organisational burden which it had borne on its own this year. The many of you based in Belgium that have faithfully attended our conferences to date, are strongly encouraged to come to Holland in November 2008. We reassure you that the ECRC international conference on financial services will return to Brussels as planned in the fall of 2009.

Brussels 2007 – A successful event

Registered for the [conference](#) were 178 people from 32 nations. Discussions took place in five plenary sessions and nine workshops, with one plenary organised in the form of a parliamentary hearing with close to 30 country representatives sitting together and exchanging views on their respective concerns, actions and successes.

Equipped with an electronic voting device able to sort responses according to characteristics of the user of the keypad, participants (which included NGO's from Brazil, South Africa and Japan) were able to voice the opinions on various questions related to the issues covered by the panel discussions. The main results of the voting (with a more detailed cross referencing analysis of answers still to come), along with the conference reader, and the minutes and the

vzbv commissioned Report on the Principles, are [all available here](#). Also, for those of you who may have missed out on Brussels 2007, [photos](#) of the event are also available (note that photos taken during the more recreational parts of the 2 days i.e. the dancing are available on request)

We believe that conference participants found it informative and enjoyable, and have heard back from some that the organisation was becoming better each year.

Our effort to get sponsoring from DG SANCO for the next central ECRC conference in Amsterdam cost us a lot of work but produced only a one line rejection. ECRC is no formal organisation and does not qualify for this programme which intends to facilitate communication on consumer issues in Europe but obviously is more focussed on organisations than on activities. This at least had already been the official critique of an evaluator a year ago which had been published by the Commission. It seems that the European Debt Net has been rejected with a similar reasoning. There is obviously something wrong. Networking is what the EU needs and not more offices, companies and organisations in Brussels.

Our contacts to BEUC where new people have arrived at the top as well as for financial services have started to promise an even improved cooperation in the future. With Monique Goyens a longstanding expert in consumer research has taken the lead. Also the links to the European Debt Net have been deepened especially when both organisations presented themselves together at the Amsterdam event which was headed by the Dutch Crown Princess Maxima.

The ECRC Principles – Just a start

Of particular value were the comments received from the broad stakeholder audience on the principles from the break-away sessions. With the recommendation of the Council of Europe corroborating our efforts with the principles of responsible credit, developing them into a yardstick for regulation and product development in consumer and mortgage credit, is not unrealistic. They will need to be discussed again by the ECRC Steering Committee in early 2008, and modified in light of what has been said in Brussels 2007. The aim is to continuously improve, first, the wording and then the functionality of the principles, perhaps with the use of concrete examples for each sub-principle.

The [post-conference Report](#) entitled “Principles of Responsible Credit - Practical Applications and Requirements for Responsible Lenders” conducted for the German Verbraucherzentrale Bundesverband e.V. (VZBV) using the material and preliminary findings from the Conference are a starting point from which to generate ideas and receive feedback. From the voting results mentioned above, it would appear that participants were most sensitive to and in agreement with the principle related to the issue of “Access” to credit, with the principle concerning the responsibility and fairness of the credit transaction coming second. The report indicates the direction which ECRC would like to focus the attention of its partners in the future. Suggestions in the report are the first step in one day making these principles operational. Practical examples should be formulated by the consumer organisations and other stakeholders along the lines of these principles. The report suggests a number of possible examples of how suppliers could try to comply with these principles. These range from producing a community reinvestment report or providing a mini-

mum bank account service (for the principle P1 addressing Access) to the drafting of collective agreements, production of national debt reports, and hosting stakeholder initiatives (for the principle P7 addressing Advice on consumer rights).

Consumer Credit Directive

We did not succeed in getting adequate regulation from Brussels on good credit in a time where the lessons from deregulated markets are easy to learn. Our demands: an integrated Interest Rate which comprises also the hidden kick-back payments to the creditors, no early repayment fees, introduction of anti-usury elements and acknowledgement of the driving force of national consumer protection have not been met. What we get is more information for consumers. In ten years we will probably say that it did as much to prevent predatory lending as did the US and English consumer credit regulations to prevent the actual crisis.

But we can at least testify that there is a turn around from neo-liberal believes to a more realistic approach. When now the Parliament in its press release claims that this Directive is designed to prevent overindebtedness it is certainly not true but proves that the Parliament has at least understood that this is a valuable goal for the future.

The revision of the existing EU Directive on Consumer Credit agreements has undergone a long journey of transformation to get where it is at. Basically, November saw the ECRC coalition partners demonstrate their responsiveness by being part of an [information campaign](#) warning Members of Parliament about an imminent serious downgrading of consumer protection in Europe due to a stealth tactic employed by the

Parliament's Internal Market and Consumer Protection Committee (IMCO) Rapporteur in charge of the proposal for the Consumer Credit Directive's Second Reading, with alarming amendments that completely watered down the minimum contained in the Common Position. It has since then undergone changes and we suggest you [click here](#) if you want to know where to find the latest draft.

ECRC would like to thank its members that took part in the contacting their MEPs in Brussels, and a number of them even received a privileged email exchange with McCarthy MEP, Chairwoman of IMCO overseeing the Directive at the Parliament. Extracts from her messages received in response are sited below in which she states that negotiations are ongoing and she is in touch with ourselves and open to receiving further briefings.

"thank you for your emails of last month concerning the consumer credit directive, which have been helpful for Ms McCarthy to prepare her approach to this dossier, which she has followed on behalf of the PES Group in the European Parliament... We are also in touch directly with the secretariat of the European Coalition for Responsible Credit."

"I particularly noted the concerns in the attached document from the European Coalition for Responsible Credit, regarding the right to early repayment..... "The position voted last week in the IMCO Committee does contain certain significant improvements on the original proposals by the Rapporteur Mr Lechner (whose attempt to introduce last minute radical changes circumventing the consultation of stakeholder views from the legislative procedure was promptly criticised by ECRC) but nevertheless remains unsatisfactory in certain areas, especially in early repayment fees (please read our [comments](#) on the website).

However, because negotiations between the Council, Parliament and Commission continue as we approach the vote by full Parliament in the plenary session on 15th of January, there may be something for us to do when we get back from the Christmas break.

News from the EU Level

While some members, such as our partner in Finland, question the benefits from the [full harmonization](#) of rules concerning retail financial services, and the usefulness of initiatives put forward by the Commission, the EU's new Single Market strategy was nevertheless announced on 20 November, and communicated through its [Single Market News No.48](#) for the general public. It refers to retail financial services, mentioning financial literacy and the facilitating of switching bank accounts without a closing fee (first through industry's development of a set of common rules to benefit consumers, e.g. fast redirection of direct debits when changing bank, but also in terms of tackling existing discrimination – where legislation is not ruled out).

The [EU White Paper on mortgage credit](#) has been made available this week and will be commented on shortly on the responsible credit website. Also closely related to mortgages is the current review by the Commission on credit intermediaries (who advise on and arrange a significant share of personal mortgages).

Also just released this week are two commentaries by the European commission on the subject of [financial education](#), its communication on the subject and a study on financial literacy schemes. Comments on the details, e.g. the suggested basic principles for ensuring quality in schemes, will be made available on the ECRC website in the New Year. Also related

are the comments posted by our Finnish partner summarising the work done by the [OECD](#) in the area of behavioural economics and decision making capabilities.

A further area where the Commission is rightly focussing its attention next year is the phenomenon of product-tying (such as linking insurance policies to mortgage loan contracts), which the Commission intends to tackle in two stages: firstly with a study of current tying (and other potentially unfair) practices in all financial services areas (credit, accounts, payments, insurance) so as to measure their impact on mobility and reasons for their existence; and secondly, by examining the possible special regulation of unfair commercial practices in the field of financial services.

Also a recurrent theme of our ECRC conferences and area where the Commission will be active next year is in the issue of access to credit data. Their ultimate objective is to permit easy lender access to loan applicants' credit histories and ensure accuracy of registers. An expert group is to be created in 2008 to assist the Commission in the identification and analysis of adequate measures to ensure the smooth circulation of credit data. Regulatory solutions could eventually be envisaged in this area.

Furthermore, as already mentioned, DG Social Policy has made significant contributions to a number of our issues of common interest, including the organising of a well attended conference to present the preliminary findings of a [study](#) on a common operational European definition of over-indebtedness, which although able to identify and categorise six measures to prevent over-indebtedness, did not live up to everyone's expectations (see the [iff comment](#)). Also available under the financial exclusion and over-indebtedness section of DG Social Policy's new website, is the January 31st presentation of the "Financial Services Provision and Preven-

tion of Financial Exclusion” [study](#) lead by ECRC partner RFA.

The US Sub-prime crisis

The sub-prime mortgage problem was visible at least three years ago, and thanks in part to our close relations with the NCRC (the National Community Reinvestment Coalition), co-organiser of our conferences, we have been reporting on the dangers of sub-prime lending and negative-redlining for a number of years.

The credit squeeze is a big story for a number of reasons, but one is clearly that it has imparted a huge blow to the credibility of the model of transactions-orientated financial capitalism. A mixture of crony capitalism and gross incompetence has been on display in the core financial markets of New York and London. From the “ninja” (no-income, no-job, no-asset) sub-prime lending to the placing (and favourable rating) of such assets, value or sell, these activities have been riddled with conflicts of interest. Causing the current state where core financial markets have seized up.

The plans put forward to solve the problem, first the idea of a bank-underwritten rescue fund which has been forgotten, and now the Bush administration's latest voluntary plan based on self-interest, have not yet shown how the more than two million sub-prime loans set to hit their trigger point for payment adjustments between now and 2009 will stop the fears that at least one-third of those borrowers will face foreclosure. Some question the idea of a bailout by the tax payer (or even by the [German Welfare Recipients](#)) and the questionable division of mortgage holders into groups in the systematic proposal for loan modification (mortgage lenders are to be persuaded to freeze mortgage rates, however only for homeowners who can continue to make their existing mortgage payments

but who would default if held to the rising payments called for in their mortgage contracts). But banking generates such turmoil, such profitability and such well paid people, because banking takes high risks. Why should the public sector subsidise this risk-taking behaviour when banks have in fact been speculating.

Solutions which focus on a lenders' self-interest, is precisely why the ECRC principles have become so important, and why banks have to start understanding that adhering to them will be to their advantage.

Considering the firm belief in the free-market which most Americans generally hold, it is surprising to see the recent division in US public opinion on what should be done about the sub-prime mortgage mess (let the market punish mistakes versus compassion for those who have lost, or are at risk of losing, their homes), because it clearly confirms the extent to which predatory lending existed (using the broader definition i.e. including homeowners who were victims of predatory or deceptive lending practices, because we disagree that the term predatory lending only encompasses a loan situation in which the lender profits from the loan's likely default, as opposed to deceptive lending which involves practices that conceal the real costs and risks of borrowing).

Some fear that credit card based securitisation may be the next area to cause turmoil (although such structured products are unsecured in comparison to mortgage-backed ones and thus will cause a complete loss for the investor, Americans do hold almost 1trillion in credit card debt and cash advances, smaller payments made against balances and creeping rise in defaults have been noticed).

Some sub-prime lenders are already becoming more heavily regulated in Europe as the case for [Ireland](#) shows, but what will ironically complicate the ongoing crisis further, could be the im-

minent introduction of new banking rules under Basel II, because they may not really help considering that it is precisely the big banks that will be adopting the Internal Ratings-Based (IRB) approach (authorised use of their own models to estimate credit risk), that have been reporting the biggest losses (and thus worst risk models).

If the predatory lending model of credit providers based on perverse incentives seems unintuitive, this [funny/tragic account](#) of a telephone conversation highlights the extreme nonsensical lending relations that can exist without it.

One immediate lesson should be learned. The way some banks first exploit poor people, then shift the risks to ordinary citizen and their savings while finally forcing the state to bail those out who are the last in the chain should come to an end. Besides consumer protection we need a bankruptcy schemes especially for banks which hinders failing banks to blackmail the state to use even the scarce social budgets to keep them alive. No more tax payers money to rescue speculators should be a political slogan.

<p>2008 – More National Stakeholder Involvement</p>
--

2008 will be a sporty year, with the Euro football championships in Austria and Switzerland and the Olympics in Beijing, and we hope that your New Year resolutions will include an active effort in thinking about how you can contribute to the coalition in 2008. Without any funding, our activity is dependant on the dedication of our members. Crucial to the build up of our international event in the Netherlands, set for November 20th 2008, is for domestic partners to meet their respective national credit market stakeholders and to exchange views about the different concerns and solutions which are preferred

by the different actors. Our experience from numerous [national conferences](#) that have taken place under the ECRC umbrella (with the involvement of as wide a breadth of stakeholders as possible and the published reports made available), is that banks are willing and interested in being part of the conversations. The ECRC is there to help you in the organisation and provision of competent speakers your national events.

Already this year since the Brussels 2007 conference, [Luxembourg](#) have organised a regional meeting, and our partner ADICAE in [Spain](#) has recently facilitated a dialogue with banks and the government on issues of predatory lending and unbalanced consumer-creditor relationships. Also, our Dutch member organisation NVVK celebrated its 75th anniversary in The Hague last November to which several ECRC members attended.

Already underway for 2008, is the well advanced organisation of the German national conference, fixed for the 6th and 7th of June 2008 in Hamburg. Preparatory meeting with sponsors and NGO leaders is being set up to help define the exact contours of the conference discussions and provide a forum where opinion leaders meet once a year in a closed circle. The hosting of the UK conference will move from Scotland to Cardiff in Wales with the planned dates being 10th and 11th April, 2008 and the Washington conference will be held in March 2008 as usual.

As mentioned above, Slovenia will be taking over the helm of the EU in 2008 and we are confident that the Council will be receptive to what ECRC has to say. Slovenia is also undergoing significant reform in the field of financial services, as it will soon be getting an inter-bank credit register (perhaps the last EU member state to do so), while the first law on personal bankruptcy is currently in parliament. Details on

a first ECRC supported national conference in the Balkans look promising and will be made available soon. And our global partners from Brazil, Japan and South Africa, are all likely to be active in 2008 as well.

Also useful for dissemination purposes is if the partners inform the ECRC Secretariat or use the decentralised "Input" button at the top of our websites for those who have received passwords, telling us about their **country developments**. For example, why do we hear that the **UK** consumer credit market performed well in Q3 2007 considering the difficulties they have witnessed in unsecured personal loans (the credit crunch has led to a number of lenders exiting the market and increasing households facing financial difficulties)? Could this be attributable to further growth in credit card lending? The recent [report](#) on over-indebtedness also appears overly positive about future prospects for those potentially facing debt problems. The re-organised Department for Business, Enterprise and Regulatory Reform (DBERR, replacing the former Department of Trade and Industry, DTI), with its working party on over-indebtedness, has tried several measures to bring the household debt levels under control (focus on advice services, revision of the Banking Code, financial education) but they have ambiguous results and have seen an accompanied mushrooming of commercial debt reconstruction services. The UK government classifies an individual as being a cause for concern if they spend more than 25% of their gross salary on unsecured debt, or 50% if rent or mortgage is included. This could currently account for 10% of people and the economic climate is not improving.

Commendable and with strong local impact are ECRC member actions at a national level. On the 23rd of October, DOOD led a UK campaign in response to being ignored by a bankers con-

ference taking place on the subject of responsible lending, the organisation went on to publish its [proposals for action](#) which the ECRC fully adheres to.

France has also been making changes. Partner INC which hosted and organised the domestic stakeholder conference on responsible credit in 2007, has been a valuable asset to the coalition with a well circulated [report](#) on the conference and active participation in communications with the European parliament concerning the CCD. Current initiatives in France include a proposed law to encourage competition in the provision of consumer services, the new compulsory information obligation to provide consumers with an annual recap of banking charges, and the end to the monopoly on the Livret A (a savings product which only Savings banks and the postal bank are currently allowed to sell) which has implications for the most fragile banked populations (in part due to the savings collected being largely used to finance social housing projects). Bank charges for payment incidents have also recently been given a ceiling, and one of ECRC's founding members has had an amendment inserted into the budget for 2008 with its name (the "Finansol" amendment giving a fiscal incentive to ethical and solidarity saving plans).

In Germany, we are all occupied by the credit crisis where a whole state of Germany, Saxony, was threatened with bankruptcy due to a 20 billion € speculative investment into the US subprime market by a small public bank which borrowed the money to earn the fantastic interest span. After a parliamentary hearing with the participation of ECRC and a second to be held beginning of January the government has published a draft law to help debtors in mortgage loans who have been sold to foreign investors which now try to cash in on the mortgages which according to German law can circulate

even separated from the loan contract. Until now the government uses the known instruments of more information and rights of withdrawal which obviously will not affect neither the generation of such mortgages nor its sale. The press seems to learn constantly more about banking during this crisis and has become more critical.

With regards to the **“Input”** button, we would like to have more partners in the authoring tool. The number of active users of the tool has at least been increasing, but remains below our expectations. Please indicate your willingness to use this facility and we will call you to explain the easy steps involved.

Alongside your own contributions to be shared with the network, we also require offers for translation, because too little is being translated from English into the other website languages. Translation from your own country language is key but if you could also assist us by volunteering for additional translation from English into either French, Italian, or Portuguese, that would be greatly appreciated (if you have more junior staff which could do this, we are sure they will find it interesting work).

We also hope to see some new initiatives by some of our members, following the worldwide discussion on the way the principles on responsible credit could be made operational, or the closed inter-disciplinary discussions between certain members on exploring the issues related to the right of withdrawal and free choice. Anything we can provide to national regulators will no doubt be valuable to them in the current context which many of them find themselves in.

Just as the Eurozone expands to include two new entrants and the Schengen area is enlarged to 24 countries, 2008 will be a different year for EU citizens and we must continue to shape the changes for the better.

Happy New Year from the ECRC Team!