PRESS RELEASE

Consumer credit and Covid-19

UFC-Que Choisir alerts against a sharp rise in soured loans

While the European Commission unveils today an Action Plan on Non-Performing Loans that will make it easier for banks to sell-off their €9 billion of "bad loans" they have granted, UFC-Que Choisir releases a study that provides evidence of irresponsible consumer credit lending practices by banks, for both consumers and the economy. As ‘soured loans’ are expected to boom in 2021, UFC-Que Choisir urges European legislators to ensure sufficient safeguards for borrowers exposed to repayment difficulties. At the same time, UFC-Que Choisir calls on consumers to exercise caution when taking out loans, in the face of renewed efforts from creditors trying to benefit from the crisis and provides tools to help them assert their rights.

The economic crisis, a hotbed of irresponsible credit

Despite an unprecedented drop in purchasing power since 2013, a sharp rebound in consumption is expected in December. Such a consumption boom is expected to notably benefit sectors that have been constrained by the current health restrictions (automobiles, furniture, household appliances, etc.), and which are often related to heavy spending items for consumers, in a context where French Christmas shopping could reach a peak (€600, +10% in one year). Well aware that budgetary difficulties do not lessen temptations, credit institutions seem determined to take advantage of this consumption boom. Their valves are so wide open that the flow of consumer credit has beaten a record since the 2012 crisis (€3 billion in June alone). However, UFC-Que Choisir is concerned about the lending practices of banks, with reckless advertisements pushing consumers to borrow. When Sofinco encourages consumers to take out loans that can be repaid after the holidays, long-term car rental providers, such as Toyota Financing, offer six-month rent deferrals!

Bold lending practices...

In addition to these irresponsible practices, there is also a far too lax distribution of credit. Even before the crisis, French banks have piled up up to €9 billion in consumer credit that their customers are unable to repay. Per borrowing household, these unpaid debts exceed €1,000, i.e. almost ten times more than in Germany. Contrary to a popular misconception that "bad payers" are victims of their own excesses, these risks are in fact taken with the implicit consent of lenders, as shown by the differences in the percentage number of loans, whose monthly payments are not repaid by banks. While on average 2.7% of French consumer loans are in default, those rates reach 5.6% for Société Générale loans and even 7.1% for BNP Paribas group! Conversely, Crédit Mutuel and BPCE group show default rates below 2%. Such disparities raise concerns about the poor lending practices by some large banks in France.

... and mediocre credit default management

As 900,000 consumers are about to lose their jobs, consumer credit defaults could reach €12 billion (+40%) by 2021. Therefore, credit institutions have a great responsibility in managing these delinquencies, in order to prevent borrowers from falling into over-indebtedness. They urgently need to offer them long-term solutions. Two-thirds of the moratoria granted in the spring expired in November. In this respect, it should be remembered that lenders can forbear soured loans (by offering an extension of term, interest rate reduction, etc. to consumers). Yet forbearance measures, which are an important tool to help consumers overcome any challenges with repayments, are too often little used by banks in practice (30% of cases on average, and only 18% at Société Générale).
The European action plan does not tackle the root causes of the problem

As if that were not enough, the European Commission is today submitting an Action Plan on Non-Performing Loans to purge banks' balance sheets of their "bad loans". Rather than attempting to address risky lending practices and bank mismanagement of their customers' repayment difficulties, it intends to facilitate the sell-off of soured loans to debt collection companies! While these sales could double to reach €7 billion next year, UFC-Que Choisir's local branches are already witnessing an explosion of complaints by consumers, due to the lack of safeguards from the aggressive practices of debt collection companies.

Mobilised alongside consumers during this economic crisis, notably to prevent the risks of budget collapses that consumers face now that irresponsible lending is back, UFC-Que Choisir:

- Calls for consumers to exercise caution before taking out consumer credit;
- Provides a complete dossier of actions to be taken when borrowers are struggling to meet their repayment deadlines, as well as a model letter that can be used to request a credit forbearance;
- Underlines that its network of local branches can help them.

In parallel, in view of the expected surge of consumer credit repayment difficulties and the threats posed by the European Commission's Action Plan, the organisation calls on European legislators to require banks to propose a forbearance measure after two missed repayments and, in any case, before selling a soured loan to third parties.

Finally, in light of the disputes already recorded within its local branches, UFC-Que Choisir announces that it will publish the second part of its study in January, which will include an exhaustive analysis of the deleterious actions of debt collection companies. Today, UFC-Que Choisir has also published a decision tree for consumers with recommendations on what actions to take in the event of an attempt to collect consumer credit.