PRESS RELEASE

Soured loans and Covid-19
Borrowers left to the mercy of debt collection companies

One month after its alert on irresponsible consumer credit lending practices, UFC-Que Choisir releases a study that lifts the veil on the dark side of the “bad loans” market: the study highlights the scandalous practices – sometimes close to harassment - adopted by debt collection companies. As “soured loans” are expected to boom in 2021, borrowers are at risk of being confronted with such aggressive practices. As such, UFC-Que Choisir urges European legislators to bring the sector’s harmful practices under control. At the same time, UFC-Que Choisir provides practical tools to help consumers assert their rights.

2021: a year full of dangers for borrowers

As unemployment is forecast to jump and worsen many households’ budgets, some credit institutions have found nothing better than resorting to reckless advertisements in order to push consumers to borrow. In contrast with the illusion of an “easy credit”, unpaid debts are a reality since they already reach € 22 billion, for all loans to consumers in 2020 (€ 1700 per borrowing household). When one would expect from sound EU regulation to require banks to propose forbearance measures to address their customers’ repayment difficulties (by offering an extension of term, interest rate reduction, etc. to consumers), the European Commission is going astray. In the midst of a storm, its Action Plan on Non-Performing Loans (NPLs) presented in December intends to help banks to get rid of “soured loans” by selling them off to third party investors and debt collection companies.

Unpaid loans: a lucrative market for debt collection companies

For debt collection companies, the establishment of a secondary market for NPLs announces a new Eldorado. Indeed, debt-collectors are making huge (and indecent) gross profits (100% margin on average, according to the sector) on this fruitful business estimated at nearly € 7 billion in 2021.

The recipe which enables debt collection companies to turn banks’ “lead” into “gold” for their own profit is simple. First, they take over “bad debts” at slashed prices, some of which can no longer even be claimed in court (lost supporting documents, debts extinguished, etc.). Then, they push consumers hard in order to get a full repayment.

This mechanism is doubly scandalous. Firstly, because it is imposed upon borrowers, since banks can sell-off their “soured loans” without even having to inform them. Secondly, because it places borrowers into the hands of almost lawless debt collection companies… to such extent that Professional Best Practice codes feel compelled to remind debt-collectors that they should act with “respect”, in a “non-aggressive way” or without “identity theft”. These puzzling recommendations sound like admissions and are surely not very reassuring.

The deleterious practices of debt collection companies

UFC-Que Choisir is concerned by the steep rise in reports concerning the deleterious methods of debt collection companies (+15% over the past year) registered by its local branches. The analysis of nearly 400 files reveals aggressive practices (one out of two reports). Debtors testify that they and their families are contacted almost every day for months. On top of this telephone harassment, come a shameful pressuring of borrower (making borrowers feel ashamed or guilty, making threats, blackmailing, etc.) orchestrated by debt-collection professionals.
Apart from these methods, UFC-Que Choisir notes that consumers also have to deal with the opaque strategies of debt-collection companies (in ca. 60% of disputes). Indeed, it is often impossible for consumers to access the documents justifying the debt and its amount. Besides, we have been informed of proposals for payment plans in instalments or for “discounts”, which have the effect of resuscitating extinguished debts, without consumers being notified of this.

Finally, 14% of claims concern “phantom” debts, that simply appear not to be owed anymore! This is particularly the case for loans whose existence cannot be proven or which have already been re-paid, in particular pursuant to a recovery plan which was put in place by a commission dealing with over-indebted consumers.

Determined to put an end to the harmful practices of debt collection companies, and mobilised alongside consumers during the economic crisis, UFC-Que Choisir:

- Provides a complete dossier to help consumers to better understand the debt collection sector and a decision tree with recommendations on what actions to take when dealing with debt-collectors;
- Underlines that its network of local branches can help consumers.

In parallel, in view of the threats posed by the European Commission’s Action Plan, the organisation is asking European legislators:

- To ban the sale by banks and the purchase by debt collection companies of ”phantom” loans whose validity cannot be proven;
- Before the selling of a NPL, to impose on banks the need to inform the borrower, by sending him an “account balance” as well as the conditions allowing him, if he wishes so, to buy back the debt that will be transferred;
- After the selling of a NPL, to strictly supervise all solicitations by the debt collection company, which has acquired the credit (mail, telephone, etc.).

Finally, to block from the outset the toxic mechanisms which are in play within secondary ”soured debt” markets and to prevent loans from becoming non-performing, banks should have an obligation to propose a forbearance measure after two missed repayments, and in any case before selling the credit to third parties.