COFACE's response to the EC consultation on the study on interest rate restrictions in the EU

22th of March 2011

(2) Do you think IRR policies are justified? Why? Under which conditions?

IRR policies are justified as they are a concrete preventive tool against overindebtedness. The only condition is to make sure that the banking market does not suffer great distortions or becomes uncompetitive or that the IRR laws present exploitable loopholes. However, since IRR exist in many EU member States, it is safe to assume that IRR policies do not represent a major threat to the banking business.

(3) Do you agree with the conclusions of the analysis of the 12 hypothesis examined in the study?

IRR reduce credit access, in particular for low-income borrowers. Plausible

We wish to underline that even if this hypothesis is true, we do not believe that this is negative. Given their high individual risk, if the only credit available to the low income borrowers is a credit with skyrocketing interest rates, we do not believe that this is "positive".

Without IRR, more product types exist in the market. Plausible

Again, we believe this is a good thing. "Innovation" in the credit and credit insurance markets is one of the root causes of the current economic crisis. Thus new "innovative" products cannot be considered automatically as positive. Furthermore, many innovative products are directly harmful to the consumer such as credit schemes where the consumer pays only the interest rates for the first one or two years (thus very low down-payments) and then faces very high instalments once he has to start reimbursing the capital.

The lack of IRR leads to a higher level of over-indebtedness. Unlikely

We do not agree with this analysis. In the US, there have been countless studies showing the close correlation between the end of usury laws in 1978 and the steep increase in over-indebtedness due to credit cards as well as the number of bankruptcies. The same analysis can be made in Canada. In the EU, there are many other preventive mechanisms besides IRR, but the fact remains that in many other countries like the US, the link is clear.

IRR lead to increased charges as providers will try to compensate the reduced interest revenues by increased charges. Plausible

Again, even if the charges are increased, we do not see this as negative. With, IRRs, since banks cannot charge the most vulnerable consumers with very high interest rates, they
are obliged to charge the wealthy consumers more in order to compensate for the risk they
are taking. Thus the risk would be partly hedged according to a "mutual" insurance system
rather than by making each consumer pay for the individual risk he or she represents.

(4) Do you think that IRR are a barrier to the EU credit market integration?
   No. There are many other barriers besides IRR. We believe that IRR should be
   implemented by each member State. The specific details of IRR should remain at the member
   State level but the EU should secure the principle of IRR in all EU countries.

(5) Which would be the impact, at social and consumer level, of a ban of IRR?
   A negative impact of the level of overindebtedness, especially for the most vulnerable.

(6) What system/type of IRR, if any, do you find is most appropriate/effective to prevent
    potential consumer over-indebtedness? Please describe.
   We do not have a specific "model" we would like to implement EU wide. Each member
   State should decide what is the best IRR law as a function of it's domestic credit market and
   it's overindebtedness levels. However, a good IRR law should present to gaps or loopholes as
   these are quickly exploited by banks.

(7) What system/type of IRR, if any, do you find has less negative effects in terms of limiting
    the access to credit? Please describe.
   In order to compensate for the banks' unwillingness to lend to the most vulnerable
   representing the highest risk, there is a need to setup systems like AERAS in France or other
   social microcredit systems sponsored by the State and possibly partly by the private sector via
   a "pay or play" tax for instance, where banks willing to retain only the "elite" borrowers in
   terms of risk would pay a tax to support financial institutions engaging in more social credit.

(8) Do you believe that, based on the findings of the study, there is a need for further action
    at EU level? If yes, what form such a policy response should take?
   We consider that access to banking services is very important. This includes the right to a
   basic bank account, to a savings account and to a credit adapted to the consumers needs. The EU
   has a clear role to play in this respect, by ensuring that consumers have the same rights across the
   EU.

   COFACE calls upon the EU to set the principle of interest rates restrictions in all EU
   member States. Member States would be responsible for choosing the IRR system and setting the
   thresholds. The EU must also ensure that there are no loopholes in the different member States' 
   IRR systems to avoid unfair competition on the credit market.