



EUROPEAN COMMISSION

Directorate General Internal Market and Services

FINANCIAL INSTITUTIONS

Retail issues, consumer policy and payment systems

Brussels, 25 January 2011

CONSULTATION DOCUMENT

ON THE

STUDY ON INTEREST RATE RESTRICTIONS IN THE EU

Disclaimer:

This document is a working document of the Internal Market & Services Directorate-General of the European Commission for discussion and consultation purposes. It does not purport to represent or pre-judge any possible formal proposal of the Commission.

1. BACKGROUND

The study on *Interest rates restrictions in the EU* was announced in the Commission's White Paper on the Integration of EU Mortgage Markets¹ published in 2007. The objectives of the study were to:

- identify the different types of interest rate restrictions, the Member States that apply them, and their reasons for doing so;
- analyse the economic, financial, and social impacts of interest rate restrictions on various stakeholders.

The tasks of the study were carried out between December 2009 and September 2010.

2. MAIN FINDINGS OF THE STUDY

2.1. Legal analysis

The study offers an inventory of interest rate restrictions in the EU Member States and details the mechanisms and levels at which interest rate ceilings are set in those countries. To that end, it uses a broad definition of Interest Rate Restrictions (IRR), which refers to all legal rules that limit, directly (e.g. caps) or indirectly (e.g. rules on the calculation of compound interest), the price of credit contracts.

The study concludes that all Member States subscribe to the principle of 'good morals' or 'fairness', which explicitly forbids usury, under criminal as well as private law, or implicitly incriminates the intentional exploitation of the weakness of another person at an individual level through extortionate pricing, especially in relation to credit.

With the exception of two Member States (Ireland and Romania), all have IRR in relation to default interest. In addition, 14 Member States had either some form of an absolute ceiling (Greece, Ireland, Malta) or a relative ceiling based on a reference rate (Belgium, Estonia, France, Germany, Italy, Netherlands, Poland, Portugal, Slovakia, Spain, Slovenia).

The spread of interest rate ceilings is quite broad. It may range from as high as 453 % p.a. for a small loan in Slovenia to a cap of 13.2 % p.a. for a long-term loan there, while in France the ceilings for the different forms of credit ranged from 5.72 % p.a. to 21.63 % p.a. as of March 2010.

¹ COM(2007) 807.

Direct IRR are seen as follows:

- (1) France, Belgium, Portugal: very effective.
- (2) Cyprus, Denmark, Finland, Italy, Netherlands: effective.
- (3) Poland, Austria, Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Slovakia, Slovenia, Sweden, Romania: indifferent.
- (4) Spain, Germany, Greece, Hungary, Luxembourg, Malta, United Kingdom: less effective.
- (5) Ireland: not effective.

2.2. Economic analysis

The study also discusses legal IRR as interventions in the market and its effects on competition and on social and economic welfare. It draws the attention to the resulting trade-off between reducing credit access for irrational or uninformed consumers (which is beneficial, as these are protected from becoming over-indebted) and excluding consumers who are able to make appropriate credit decisions (which is negative as it reduces their options to choose from).

The study offers an overview of the consumer credit markets in the 27 EU Member States, as well as, more detailed information on six countries (Germany, France, Netherlands, Poland, Sweden and United Kingdom), which accounted, at the end of 2008, for nearly two-thirds of the volume of total credit to households in EU27.

In order to assess the impacts of IRR, the study considered a set of different hypotheses. The conclusion of the analysis of those hypotheses is presented in the table below.

Hypothesis	Conclusion
IRR reduce credit access, in particular for low-income borrowers.	plausible
IRR lead to a decline in the volumes of consumer credit granted.	unlikely
Without IRR, more product types exist in the market.	plausible
IRR lead to credit from non-bank sources, such as paying bills late.	inconclusive
IRR lead to a substantial illegal market in lending.	inconclusive
The lack of IRR leads to a higher level of over-indebtedness.	unlikely
The lack of IRR has particularly adverse effects on default rates/over-indebtedness in the presence of negative shocks (e.g. recessions) to the economy.	inconclusive
The average consumer – or even more so: low-risk consumer – would be granted cheaper credit in the presence of IRR.	inconclusive
IRR lead to increased charges as providers will try to compensate the reduced interest revenues by increased charges.	plausible
IRR represent barriers to consumer credit market integration.	inconclusive
IRR lead to lower levels of competition in the consumer credit industry.	unlikely
IRR lead to a convergence of all consumer credit interest rates at the level of the interest rate cap.	inconclusive

3. QUESTIONS

General assessment

- (1) Do you think that the inventory of IRR presented in the study accurately reflects the reality in EU27? If not, please explain why, and what information you think is missing or incorrect.
- (2) Do you think IRR policies are justified? Why? Under which conditions?

Impact of interest rate restrictions

- (3) Do you agree with the conclusions of the analysis of the 12 hypothesis examined in the study?
- (4) Do you think that IRR are a barrier to the EU credit market integration?
- (5) Which would be the impact, at social and consumer level, of a ban of IRR?
- (6) What system/type of IRR, if any, do you find is most appropriate/effective to prevent potential consumer over-indebtedness? Please describe.
- (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.

Possible follow-up

- (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?

4. NEXT STEPS

Stakeholders are invited to send their responses to the questions raised in this document **by 22 March 2011** to markt-retail-consultation@ec.europa.eu. Responses will be placed on the Commission's website unless explicitly indicated otherwise by the stakeholders in their response.

The study's findings, as well as the comments received during this consultation, will be taken into account by the Commission services when developing any future position on interest rate restrictions.