



FORBRUKERRÅDET

Executive officer:  
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Our date:  
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## **Comments on the study on interest rate restrictions in the EU- The Norwegian Consumer Council**

The report “Study on interest rate restrictions in the EU Final Report” is of great importance. It suggest a coordination of Interest Rate Regulation in different member states. That is of great importance also for consumers in Norway, where there are no IRR.

We further note that liberalization on interest rates restrictions has been demonstrated in this report as in other studies that deregulations would increase credit access<sup>1</sup>. We are currently experience a market situation where there are easy access to credit. Accessibility to consumer credit and unsecured loans are specially high. This support by aggressive marketing has made the Norwegian Consumer Council to call out for stricter regulation on accessibility and suppliers marked conduct.

We fear that there is a significant danger of consumer over-indeptness. We encourage the EU Commission to continue focus on IRR.

As the report demonstrates the EU member states have all a tradition of direct regulation in forbidding usury. So is the case for Norway. The low against usury has the intention of protect consumers from their own naivety or lack of financial illiteracy. Much of the current consumer policy and regulation regime puts emphasis on bringing relevant information to consumers. The assumption is that thru good information consumers would be able to make sound and rational choices. This might be the case in many markets but in market of financial products is highly questionable.

We refer to the EU Commission own study “Consumer Decision-Making in Retail Investment Services – A behavioural Economics Perspective” as an important contribution on the questioning of the value of good information and its ability to promote rational choices in the financial market. The report published in November 2010 clearly demonstrates the impact of social and psychological mechanisms as a hinder for sound and rational choices. These mechanisms calls for direct regulation.

The Norwegian Consumer Council support the introduction of a cap on benefit margins on unsecured loans and consumer credit. The cap on benefit margins should be designed as relative interest rate ceilings, according to the French, Belgium or the Polish model. The cap should be placed on suppliers benefit margins rather than on the total interest.

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<sup>1</sup> Diego Romero-Avila “Liberalization of capital controls and interest rates restrictions in the EU-15”, Applied Financial Economics, 2009, vol. 19, issue 20, pages 1625-1648

Unsecured loans and consumer credit are expensive and we have experienced overall interest rates over 50% in the last decade. This of course comes with smaller loans. We have also experience in our neighboring countries introduction of SMS loans. We genuinely fear that this kind of loan products would appear also in our markets. Direct regulations of interest rates would prevent further the development this type of loans.

There are few reasons to believe that those types of loans mentioned above would constitute a large proportion of the households overall credits. Still SMS loans alongside with unsecured loans and consumer credit foster impulse consumption. We believe that this kind of consumption is unhealthy for consumers, environment and could cause over-indebtness in segments of the populations – specially among youths.

Easy access to those kind of loans earlier mentioned comes as a burden on top of mortgage. Among many member states there is a strong cultural preconception of home ownership. So is the case in Norway. As a result mortgages seize a quite high proportion households incomes. As Norwegian consumers also tend to prefer variable-rate interest mortgage, the social risk of rapid increases of interest rates is high.

Providing transparent information on interest levels is still a regulatory challenge. In some extent this could be done by establishing independent and free of cost price comparing websites on mortgages and loans – in national and cross-national markets. We believe price comparing websites could contribute to a more efficient internal financial market in European region.

Further efforts that should be investigated is the benefit of better presentations of interest paid on the loan. One option is to clarify benefit margins. The Norwegian Consumer Council refer to Tracker Mortgage in the UK as an example of more transparent pricing. Such pricing models exist also in Norway, but not for consumer mortgage.

Our comments on the specific questions:

*(2) Do you think IRR policies are justified? Why?*

Yes. IRR would contribute to a more sound access to credit and hence reduce the risk of over-indebtness in households and society.

*(4) Do you think that IRR are a barrier to the EU credit market integration?*

The lack of coordinated IRR and minimum harmonization could lead to a “run-to-the-bottom” in a fluent and well functional internal marked. Financial markets in Europe are not yet perceived as a integrated single market. Still that should not be a hindrance for establishing harmonized IRR. Efforts harmonizing IRR should be understood as a contribution to market integration.

*(5) Which would be the impact, at social and consumer level, of a ban of IRR?*

Ban on IRR could lead to over-indebtness. Ban of IRR is socially undesirable as it would strongly jeopardize consumer protection laws currently in place in many Member States who already has IRR. IRR is not present our markets but we welcome the introduction.

*(6) What system/type of IRR, if any, do you find is most appropriate/effective to prevent potential consumer over-indebtedness? Please describe.*

We would welcome a cap on benefit margins specially on unsecured loans and consumer credit. The cap on benefit margins should be designed as relative interest rate ceilings. They should also in some way reflect the current market conditions (high/low costs of credit refinancing).

*(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?*

A certain level of harmonization of IRR would contribute to consumer credit market integration. If the objective pursued by the Commission is building a single market in consumer credit, action at EU level should be taken to harmonize IRR. It should be kept in mind that IRR play quite a subordinate role in credit market integration.

Yours Sincerely,

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