FI Analysis No. 35

The importance of lenders in payment problems and debts registered with the Swedish Enforcement Authority

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Summary

There are different types of lenders. They offer different types of loans and have different levels of risk tolerance. Their risk tolerance is evident from their business model, which includes, inter alia, the way they perform their credit checks. There are also different types of borrowers. Some are looking for small loans, while others are looking for large loans. Both the lender's credit checks and the borrower's repayment capacity are often better for large loans. Small loans account for a high proportion of early payment problems (reminders and collection notices). However, borrowers can normally pay it back small loans before it becomes a debt registered with the Swedish Enforcement Authority. As there are different kinds of lenders and borrowers, each loan is the result of matching between the two. Borrowers with the best payment capacity may usually borrow from lenders with a low risk tolerance, where interest rates are generally low. Borrowers with a lower repayment capacity can normally borrow from lenders with a higher risk tolerance, so they have to pay higher interest rates. Borrowers with the worst repayment capacity may often only borrow from lenders with the highest risk tolerance.

Major banks and non-property-backed financing companies tend to perform more comprehensive credit checks. This explains why there is a relatively low proportion of borrowers from major banks and non-property-backed financing companies who receives a debt registered with the Swedish Enforcement Authority; the proportion is 0.1–0.2 per cent. On the other hand, 0.4 per cent of those who take out a loan from a niche bank and as high as 2.3 per cent of those who take out a loan from consumer credit institutions receives debts registered with the Swedish Enforcement Authority every year. Credit checks can partly explain this, but there are also other differences in the levels of risk tolerance that our data is unable to capture. However, our analysis shows that consumer credit institutions issue loans to customers with the lowest payment capacity. This is clear both from the interest rates and the proportion who have a debt registered with the Swedish Enforcement Authority.

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We analyse payment problems broken down by lender

There are different reasons why borrowers may have payment problems. It is likely that simpler problems, such as individual payment reminders, are often the result of carelessness rather than serious financial problems. The situation becomes more serious when borrowers have payment problems because their income is not enough to cover their monthly payments. The cause of these kinds of problems is often unknown or a result of several different factors. For example, the borrower's financial situation could have deteriorated following a life event, such as illness, unemployment or divorce (see Andersson et al., 2021, and Kronofogden (Swedish Enforcement Authority), 2020). Low income is also associated with a greater probability of experiencing payment problems (see Andersson and Förster, 2020). Borrowers can have payment problems as well if they have to make many and large payments. These payments could be for their regular expenses, such as rent, loan payments and telephone subscriptions. However, they may also be linked to consumer spending financed by cash, credit cards or invoices.

This analysis focuses on payment problems where loans are involved. We have divided payment problems into four stages:

1. repeated payment reminders
2. collection notice
3. payment order
4. debt registered with the Swedish Enforcement Authority.

This analysis aims to describe the prevalence of payment problems in these four stages, broken down by lender group. It therefore complements previous studies of borrowers with payment problems (see Andersson and Förster, 2021, and Andersson, et al. 2021).

The analysis unfolds as follows. We start by describing the main loan types and lender groups in Sweden. The description is based on specific sections of their business models, i.e. their credit checks, how they send payment reminders and collection notices, and what proportion of loans they sell on.[1] Credit checks are performed to determine whether the consumers have the financial conditions to fulfil the conditions of the credit agreement. There are differences in the way credit checks are performed, which means that the characteristics of people who are allowed to borrow money differ between different lender groups. We then study

[1] The lenders' business models cover more aspects than the ones we describe. For example, reputation can be important for a lender.

the people who borrow from each lender group. In particular, we are interested in borrowers with low incomes or assessed deficits (based on monthly payments relative to their income).

The analysis is based on data from two authorities

Data from Finansinspektionen (FI) comes from samples of new mortgages and consumer credit from 2019 (see Finansinspektionen, 2020 and 2021a). The information (about individual borrowers) includes new loans, any payment reminders and collection notices, the borrower's income and age, and data about the lender. We also use FI's aggregated data from these compilations. They contain information about new lending, total lending, payment reminders and collection notices, as well as loans that have been sold. FI's aggregated data is also broken down by lender. The companies included in FI's data account for a high proportion of loans in Sweden.[2] As well as individual data and aggregated data, we use qualitative data about the lenders' credit checks. The data from FI cannot be linked to data from the Swedish Enforcement Authority.

We have used data from the Swedish Enforcement Authority on payment orders from 2019. This information includes, inter alia, data about the grounds for the claim, who has applied for a payment order and the principal amount of the debt (original amount).[3] We have *initially* searched for people (the 'debtors') who have received a payment order directly from the lender in question (the 'creditor') in FI's data.[4] It does not cover all of the payment orders that originate from a loan, as some lenders sell their loans on. In these cases, the company that has bought the loan becomes the creditor. We have obtained information about these payment orders by searching for the lender's name, while excluding the cases where the companies themselves have sent in the order. This gives us a *second* set of debtors. For this second set of debtors, we have identified, as a minimum, claims that have been transferred once. However, it can be difficult to trace the original debt if it has been transferred several times. We have also used principal and debt amounts, where the debt from the payment orders for 2019 was still in the Swedish Enforcement Authority's recovery data in November 2020.

[2] The banks in FI's Mortgage Survey account for almost 93 per cent of the volume of mortgages. The companies in FI's Consumer Credit Survey total 86 per cent of the volume of unsecured loans and 90 per cent of the volume of loans that use a different collateral to houses. The survey covers approximately half of the lending from all consumer credit institutions and almost the entire market for invoices.
[3] The principal amount is the claim that the creditor is demanding payment for. The debt amount also includes any fees and interest.
[4] The payment orders only apply to natural persons who are resident in Sweden.

Loans and lenders

There are many types of loans

Mortgages are loans that use a home (often a house or a share in a tenant owned association) as collateral. They amount to SEK 3,700 billion, which represents 82 per cent of total lending to households in Sweden. Other loans (which we refer to as 'consumption credit') comprise:

- loans without collateral (unsecured loans, instalment plans, invoices and credit cards/lines of credit)
- loans with a different collateral to a house (non-property-backed loans).

Unsecured loans include loans for a down payment for a house purchase, which together with mortgages, come under the 'housing credit' loan type. Loans without collateral and non-property-backed loans account for 5 per cent and 13 per cent of lending to households, which represent SEK 260 billion and SEK 540 billion in lending respectively.

Mortgages are a relatively homogeneous product. They are mostly for large amounts (new mortgages are an average of SEK 1.5 million), have low interest rates and long repayment periods.[5] It is major banks and small mortgage lenders that issue mortgages.

Unsecured loans are not a homogeneous loan type. They can be both small and large; 90 per cent of new unsecured loans are between SEK 7,500 and 350,000 (see Diagram 1).[6] The average new unsecured loan is just over SEK 100,000. The interest rate on unsecured loans can also differ significantly. This depends, inter alia, on the lender that has issued the loan and the creditworthiness of the borrower. There are also differences in repayment periods, which are normally based on the size of the loan.

Non-property-backed loans are often for large amounts. The average non-property-backed loan is SEK 150,000 and 90 per cent of these loans are in the range of SEK 32,000 to SEK 370,000. One difference from an unsecured loan is that a non-property-backed loan has collateral (normally a car or a boat) that can be sold to fully or partially repay the loan if the borrower is having payment problems. Other kinds of consumption credit are for smaller amounts. Utilised credit cards/lines of

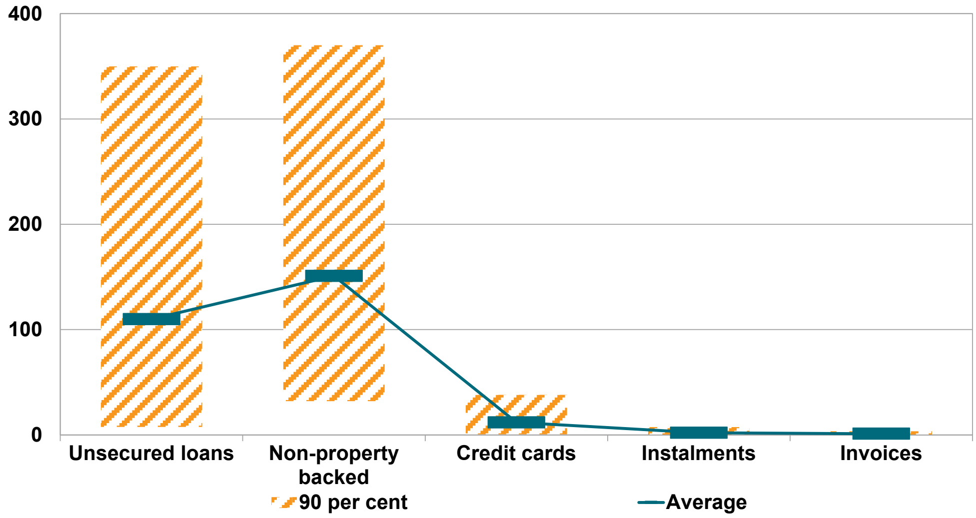
[5] Approximately 90 per cent of the new mortgages from major banks are between SEK 100,000 and SEK 3.9 million. See Finansinspektionen (2021a) for more information about new mortgages.
[6] FI collects data from a ten-day period; if a borrower has taken out several loans of the same type and with the same lender, we consider this to be one loan. This applies to all loan types in the sample.

credit are on average SEK 12,000, instalment plans are SEK 2,000, while invoices are SEK 1,100.

The law states that invoice payments are a purchase on credit, where payment is made a period of time after the purchase. However, we do not define an invoice purchase as a loan per se. If the invoice is paid within the agreed time, it does not incur any direct additional costs for the consumer, so it is not included in our data. Consumers pay approximately 90–95 per cent of all invoices on time. However, if the consumer does not pay on time, the invoice will incur additional costs in the form or a reminder fee or late fee,[7] which is when it is included in our data. Invoices that consumers choose to convert to a new interest-bearing instalment plan (loan) are also included in our data. A lender must perform a credit check before allowing borrowers to convert these invoices into an instalment plan. We refer to all invoices that incur an additional cost for the consumer as *interest-bearing* invoices.

Diagram 1. Size of new loans, broken down by loan type

SEK thousand



Source: FI

Note: The shaded areas show the size of 90 per cent of the loans for each loan type. This implies that 5 per cent of the loans are smaller than the highlighted area, while 5 per cent are larger.

We divide the lenders into groups

As well as there being different types of consumption credit, there are also significant differences between the lenders (see Finansinspektionen, 2020a). We

[7] Between 5 per cent and 10 per cent of the invoices issued by the companies in the Consumer Credit Survey result in additional costs for the borrower later on.

have therefore divided the lenders into seven different groups. *Major bank*s have a wide range of products. Major banks offer mortgages, consumption credit with and without collateral, and credit cards/lines of credit (see Table 1). *Small mortgage providers* (SMP) also issue mortgages, but they have small market shares compared to major banks and they do not offer such a wide range of products. *Niche banks* (NB) often specialise in one or a few areas, for example, consumption credit. *Non-property-backed financing companies* (NPBFC) issue loans that use different collateral to houses. It is also common for their product range to include credit cards. *Sales-based financing companies* offer loans when purchasing goods or services, while *consumption credit institutions* mainly issue loans without collateral. Consumer credit institutions, which used to be called 'payday loan companies', often lend smaller amounts with shorter repayment periods than major banks and niche banks.

Instalment plans and interest-bearing invoices account for 75 per cent of the number of new consumption credit loans in FI's survey. It is primarily sales-based financing companies that issue these kinds of loans. Unsecured loans comprise 7 per cent of the new loans and they are mostly issued by major banks, niche banks and consumer credit institutions. Credit card companies mainly issue credit cards, but also a few unsecured loans and non-property-backed loans.

Table 1. Number of new loans in FI's sample, broken down by lender group and loan type

Number

Lender	Mort.	Unsec.	NPB	CC	Instalm.	Inv.	Share
MB	25,435	6,816	774	4,266			11.4
SMP	2,647						0.8
NB		10,386	2,783	16,233	816	4,172	10.5
NPBFC			2,915	5,067			2.4
CCC		733	553	21,037			6.8
SFC		264			83,051	135,659	66.9
CCI		2,152		383	267	821	1.1

Source: FI

Note: These figures relate to lending over a ten-day period in September/October 2019 (mortgages) and a ten-day period in May 2019 (all other loans).). MB = Major Bank, SMP = Small Mortgage Provider, NB = Niche Bank, NPBFC = Non-Property-Backed Financing Company, SFC = Sales-based Finance Company, CCC = Credit Card Company and CCI = Consumer Credit Institution. The loan types are (in order) Mortgages, unsecured loans, non-property-backed loans, credit cards, instalment plans and invoices. 'Share' shows the proportion of borrowers (as a percentage) for each lender group in FI's data.

The situation is different when looking at lending in monetary terms. This is because the companies that issue many loans often issue loans for smaller amounts, while those that issue fewer loans often issue larger loans. Although sales-based financing companies issue the most loans, they account for less than 1 per cent of the total volume of loans in monetary terms (see Table 2).

Major banks (including their mortgage activities) account for 84 per cent of the volume of loans. If we exclude mortgages, the proportion for the major banks is 23 per cent. Niche banks lend 45 per cent, while sales-based financing companies account for 7 per cent of the total volume of consumption credit in FI's data.

The number of borrowers and the volume of loans therefore reflect differences in the size of the loans. This is important when comparing payment problems in relation to the number of borrowers and the volume of loans. This difference can also play a role in the distribution between early and serious payment problems. Small loans are more common among those with early payment problems, while larger loans are more common among serious payment problems (see Andersson, et al., 2021). This reflects the fact that loans are taken out for different purposes and by borrowers with different characteristics.

Table 2. New lending in FI's sample, broken down by lender group and loan type

SEK million and per cent

Lender	Mort.	Unsec.	NPB	CC	Instalm.	Inv.	Share
MB	34,801	717	158	62			84.2
SMP	3,468						8.2
NB		1,293	377	194	4	4	4.4
NPBFC			396	33			1.0
CCC		151	129	267			1.3
SFC		18			164	126	0.7
CCI		57		3	3	1	0.2

Source: FI

Note: These figures relate to lending over a ten-day period in September/October 2019 (mortgages) and a ten-day period in May 2019 (all other loans). MB = Major Bank, SMP = Small Mortgage Provider, NB = Niche Bank, NPBFC = Non-Property-Backed Financing Company, SFC = Sales-based Finance Company, CCC = Credit Card Company and CCI = Consumer Credit Institution. The loan types are (in order) Mortgages, unsecured loans, non-property-backed loans, credit cards, instalment plans and invoices. 'Share' shows the proportion of borrowers (as a percentage) for each lender group in FI's data.

There are differences in the lenders' business models

The lenders' business models differ, inter alia, in the type and size of loans they issue. Interest rates and repayment periods are also part of their business models. Some lenders impose strict requirements on a borrower's payment capacity and often issue loans at low interest rates. These companies normally perform a more comprehensive credit check. Other lenders have a higher risk tolerance and issue loans to borrowers with a lower payment capacity, after performing a credit check that is not as comprehensive. These borrowers often have to pay a higher interest rate. Another difference in the business models is that some lenders sell loans on, while other lenders do not. There are also differences in how quickly lenders send collection notices for unpaid bills.

Some lenders sell loans – others do not

When a loan is sold, it means that it is the buyer that sends any unpaid bills for the loan for collection notices, payment orders and recovery. Some lenders only sell non-performing loans, while others sell all loans immediately in order to remove them from their balance sheet. Irrespective of the reason why the lender sells the loans, it breaks the link between the lending and management of the loan.

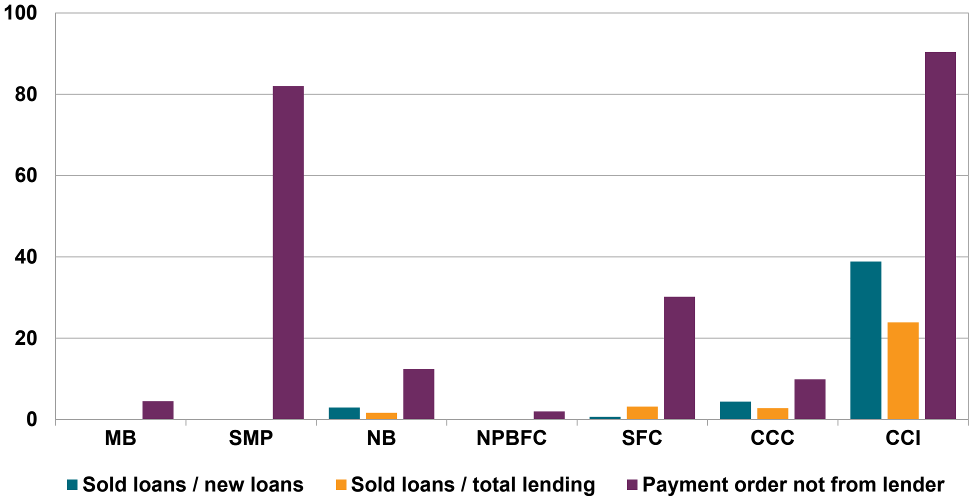
Consumer credit institutions sell a high proportion of their loans every year (see Diagram 2). The proportion of the loans they sell each year accounts for 40 per cent of their new lending and 20 per cent of their total lending. Niche banks, sales-based financing companies and credit card companies sell approximately 2–3 per cent of their loans (compared with their total lending). Major banks and non-property-backed financing companies sell almost none of their loans.

As major banks do not sell loans, they themselves apply for payment orders and request recovery. Niche banks and credit card companies have a different creditor for payment orders in approximately 10 per cent of their cases, and sales-based financing companies have a different creditor for approximately 30 per cent of their payment orders. A different creditor can be the company that bought the loan or an agent (debt collection company). Almost every payment order where the loan originated from a small mortgage provider or a consumer credit institution came from a different creditor to the lender. This is probably due to the fact that they sell non-performing loans more than the other lender groups.[8]

[8] We do not have data about the proportion of loans that small mortgage providers sell.

Diagram 2. Payment order with a different creditor to the original lender and loans sold, broken down by lender group

Proportion in per cent



Source: FI and the Swedish Enforcement Authority.

Note: MB = Major Bank, SMP = Small Mortgage Provider, NB = Niche Bank, NPBFC = Non-Property-Backed Financing Company, SFC = Sales-based Finance Company, CCC = Credit Card Company and CCI = Consumer Credit Institution. We do not have data about whether small mortgage providers sell loans.

Repeated reminders and collection notices

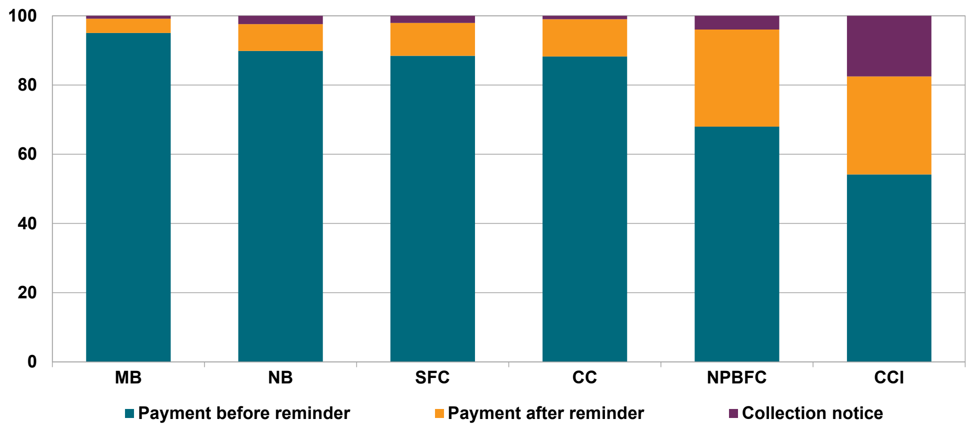
Lenders usually send a payment reminder if a borrower does not pay a bill. Payment reminders incur an additional cost of SEK 60 for the borrower, regardless of the number of reminders. If the borrower has not paid the bill after a reminder, some lenders send several reminders, while others send collection notices. A collection notice increases the cost by an additional SEK 180. The proportion of borrowers who have received repeated reminders before they receive a collection notice is an indication of the lender's business model. Lenders that send more reminders probably have a lower proportion of borrowers who receive a collection notice. However, this (in itself) does not mean that they have a lower proportion of customers who have a debt registered with the Swedish Enforcement Authority.

Approximately one in 20 borrowers from major banks receives payment reminders during the course of a year (see Diagram 3). This is the lowest proportion of all lender groups and indicates that customers of major banks are mostly able to manage their payments. Around one in ten customers of niche banks, sales-based financing companies and credit card companies receives payment reminders. One in three borrowers from non-property-backed financing companies receives payment reminders during the course of a year. These reminders are normally linked to credit cards. The differences we have identified here between different kinds of lenders are not as significant once we take into consideration borrowers who pay after receiving reminders. Once we have taken this into consideration, 1–4 per cent of the customers of these lenders receive collection notices.

For consumer credit institutions, just over half of the borrowers pay their loan bills without receiving a payment reminder. Almost another 30 per cent of borrowers pay after they have received reminders. This means that the remaining 18 per cent of those who borrow from consumer credit institutions receive at least one collection notice. Borrowers from consumption credit institutions appear to receive reminders and collection notices more often, which means that they incur more additional costs than those who borrow from other lenders.

Almost 60 per cent of the customers of major banks who receive a reminder also receive several reminders, which is the highest proportion in the sample. This indicates that major banks often send several reminders before sending collection notices. Customers of sales-based financing companies receive the lowest proportion of repeated reminders; just under 40 per cent of everyone with a reminder. This could be because these customers often pay their reminders. However, it could also be caused by the fact that sales-based financing companies are more likely to issue collection notices for unpaid bills after just one reminder.

Diagram 3. Proportion of borrowers who pay their loan bills
Per cent



Source: FI.
Note: MB = Major Bank, SMP = Small Mortgage Provider, NB = Niche Bank, NPBFC = Non-Property-Backed Financing Company, SFC = Sales-based Finance Company, CCC = Credit Card Company and CCI = Consumer Credit Institution. We do not have data about payment reminders and collection notices for loans from small mortgage providers.

The scope of the information that lenders use for their credit checks varies.

Before a lender grants a loan, it must obtain and use a sufficient amount of data to be able to assess the borrowers' repayment capacity (see Regeringen (Swedish

Government), 2010, and Finansinspektionen, 2021b).[9] This data normally includes the customer's income and existing loans. This credit check can be included in the lender's business model and reflects their risk tolerance.

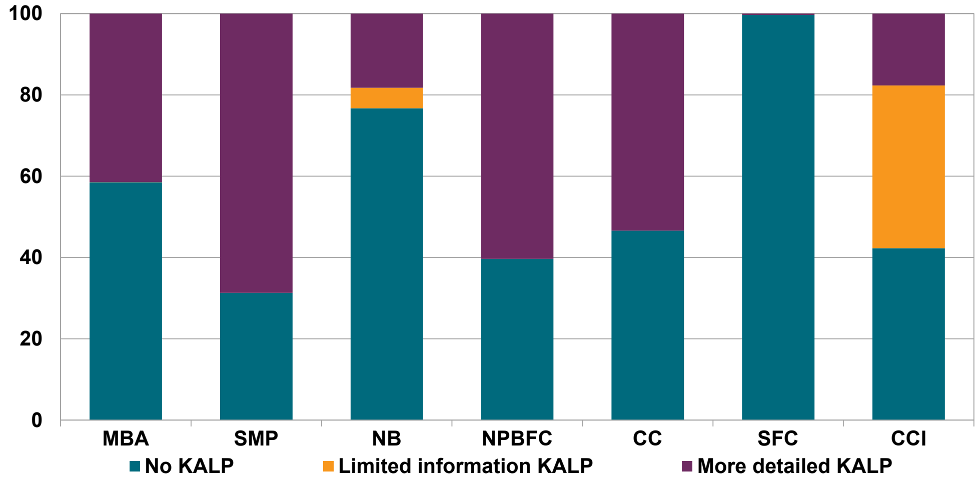
Lenders use one or more methods for assessing the borrower. The methods include KALP (discretionary income) calculations, loan-to-income ratio calculations and risk classification models.[10] These calculations can use more or less detailed information. We have looked at the amount of information that the various lender groups use in their KALP calculations in order to demonstrate what they do. Some lenders do not perform this kind of calculation. There are also lenders that use a KALP calculation, but do not include payments for all existing loans. Some lenders take into account a limited proportion of the loans: limitations commonly include only looking at loans from the same company as the new loan or obtaining information from one credit bureau about the same type of loans. We refer to this as using *limited information*. If lenders use information about the borrower's existing loans from several lenders that use the same credit bureau, we say that they use *more detailed information*.[11]

Major banks, non-property-backed financing companies and credit card companies use calculations based on more detailed information for around half of all loans (see Diagram 4). The figures from major banks do not include mortgages, but a credit check is always performed before a mortgage using detailed information. Niche banks and consumer credit institutions use more detailed information for approximately 20 per cent of their new loans. Consumer credit institutions use limited information for 40 per cent of their loans, while sales-based financing companies do not use KALP calculations in their credit checks. Small mortgage providers often use more detailed information in their credit checks.

[9] Invoice purchases, with a shorter payment period than 90 days, are excluded from the requirement for credit checks.
[10] This calculation uses information about the borrower's income, payments on new and existing loans, as well as data and assumptions about living costs. The results from this calculation show whether the borrower has a surplus or deficit in their cash flow each month, based on these assumptions. The debt-to-loan ratio calculation relates loans to the borrower's income, while the risk classification assesses the probability that the borrower cannot repay the loan.
[11] As a lender typically uses information from one credit bureau (for a specific loan type), it misses information about loans from companies that submit information to other credit bureaus. Different lenders also use different income data and assumptions about living costs and discretionary income interest rates, which means that there are also differences within the three KALP approaches (none, limited and more detailed).

Diagram 4. Credit checks, broken down by lender group

Per cent



Source: FI

Note: The diagram is based on the amount of information that a lender uses about the borrower if they perform a KALP calculation. MB = Major Bank, SMP = Small Mortgage Provider, NB = Niche Bank, NPBFC = Non-Property-Backed Financing Company, SFC = Sales-based Finance Company, CCC = Credit Card Company and CCI = Consumer Credit Institution. Mortgages from major banks are not included in the diagram. For these loans, the mortgage institutions of major banks always perform more comprehensive KALP calculations. Lenders that do not use a KALP calculation may have used a different method for their credit checks.

Interest rates reflect risk

Important factors that are taken into consideration when determining the interest rates that borrowers pay include their assessed repayment capacity and whether they provide any collateral. The size of a loan and the repayment period also affect the (effective) interest rate, as there is a fixed cost involved in setting up a loan. Mortgages that use a house as collateral have the lowest interest rate of all loan types. Mortgage institutions generally perform more comprehensive credit checks, so mortgage borrowers tend to have a high repayment capacity.

Borrowers with a low repayment capacity often have to pay a high interest rate, as they can only borrow from lenders with a high risk tolerance. The average interest rate for an unsecured loan for consumer spending from major banks amounted to 4.8 per cent in 2019 (see Table 3). The corresponding interest rate for a non-property-backed loan, or an unsecured loan that was taken out for a house purchase, was lower. The interest rate for an average unsecured loan from niche banks and consumer credit institutions was 8 per cent and 25 per cent respectively. This is probably because these companies are more willing to issue loans to riskier borrowers than major banks. We can see a similar tendency for credit cards, but the differences are not as significant.

Table 3. Average interest rates in FI's sample, broken down by lender group and loan type

Per cent

		Unsecured loans				
Lender group	**Mortgage**	**House**	**Consump.**	**NPB**	**CC**	**Instalm.**
Major banks	1.6	4.0	4.8	3.2	11.3	
Small mortgage providers	1.8	6.4				
Niche banks			8.0	3.9	15.5	19.2
Non-property-backed financing companies				4.0	16.5	
Credit card companies			10.3	3.3	14.0	
Sales-based financing companies			9.5			17.4
Consumer credit institutions			24.6		38.8	14.5

Source: FI

Note: These figures relate to lending over a ten-day period in September and October 2019 (mortgages) and a ten-day period in May 2019 (all other loans). Unsecured loans are divided into loans that are issued for the purchase of a house (houses) and those that are issued for other purposes (consumer spending).

Vast differences in the proportion of low-income earners between lender groups

Borrowers with different margins in their finances normally borrow from different lender groups. One of the reasons for this is that different lender types have different risk appetites, so they target different borrowers. A prospective borrower can therefore be denied a loan from one lender with a low risk tolerance. They can then go to another lender with a higher risk tolerance that is prepared to issue them with a loan (at a higher interest rate). People with the lowest payment capacity will probably not be allowed to borrow any money at all. Another explanation as to why borrowers with different margins borrow from different kinds of lenders is that they are looking for different types of loans. For example, borrowers with large margins are more often interested in large unsecured loans and non-property-backed loans, while those with smaller margins often take out small loans and instalment plans.

If the borrower has a low income, they are more likely to have payment problems (see Andersson and Förster, 2020). However, there are other factors that can affect the prevalence of payment problems. For example, the size of the loan and the repayment period can have an impact. Borrowers may also have savings that they can use if they have any temporary payment difficulties or they can ask a relative for help if necessary. One common cause of serious payment problems is that the borrower has experienced a life event that deteriorates their financial situation (see Andersson et al., 2021, and Kronofogden (Swedish Enforcement Authority), 2020). Despite all of the possible causes of payment problems, low income is still the main indicator of how widespread payment problems are among the customers of various lender groups.

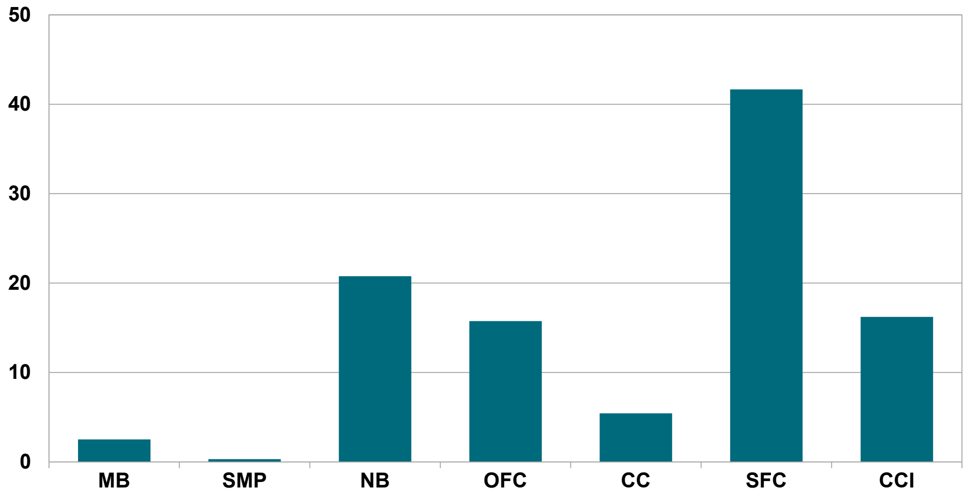
We have used an income of less than SEK 14,000 per month after tax as an indicator of weak payment capacity; this is roughly the same as the low-income standard in Sweden in 2019. Small mortgage providers, major banks and credit card companies have the lowest proportion of borrowers with low salaries (from the borrowers of each lender) (see Diagram 5).[12] The proportion of low-income earners is higher among customers of niche banks, non-property-backed financing companies and consumer credit institutions. The highest proportion of low-income earners is among customers of sales-based financing companies.[13]

Overall, this information shows that the payment capacity of borrowers differs between the lender groups. This could be due to the lenders' business models. If a person is not issued a loan from one lender, they may choose to take out a loan from another. The weakest borrowers will only obtain a loan from companies with the highest risk tolerance, and this will probably be based on a credit check that is not as comprehensive. In addition, the size of the loan can affect whether the lender accepts borrowers with low incomes.

[12] The major banks' mortgage institutions have no borrowers with an income of less than SEK 14,000 per month after tax.
[13] Borrowers with invoices who do not convert the invoices into interest-bearing instalment plans have higher incomes. However, we do not have any information about these borrowers.

Diagram 5. Proportion of borrowers with a low income from the borrowers of each lender group

Per cent



Source: FI

Note: We have defined low income as income of less than SEK 14,000 per month after tax. MB = Major Bank, SMP = Small Mortgage Provider, NB = Niche Bank, NPBFC = Non-Property-Backed Financing Company, SFC = Sales-based Finance Company, CCC = Credit Card Company and CCI = Consumer Credit Institution. Low income refers to an income of less than SEK 14,000 per month after tax. The figure for major banks refers to their new borrowers of consumption credit. There are no new mortgage borrowers from major banks with an income of less than SEK 14,000 per month.

Differences in payment problems between lender groups

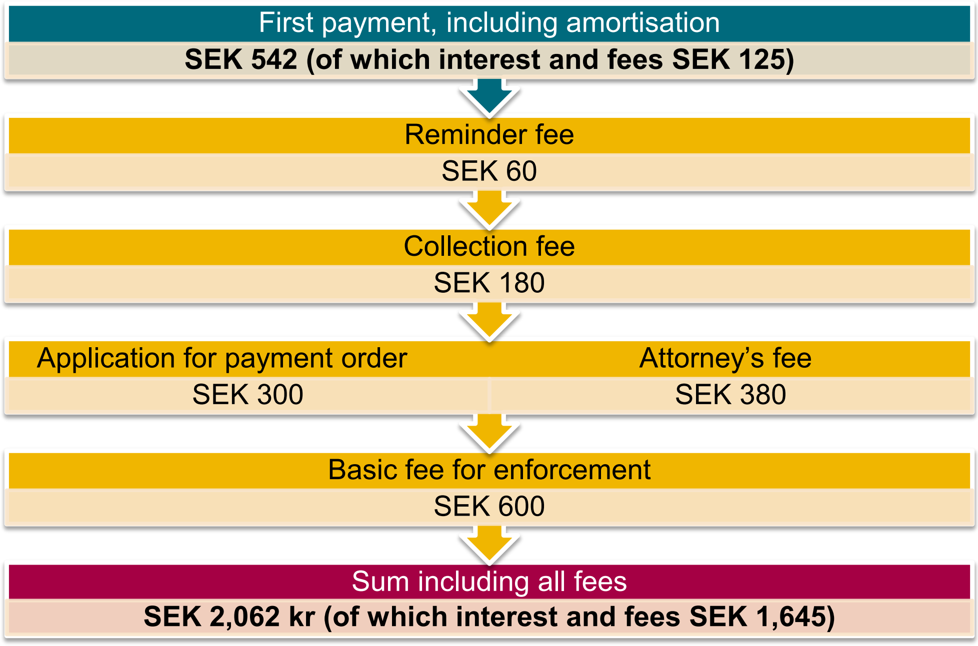
Four stages of payment problems

Payment problems can start by a person not being able to pay a bill. This bill could be for a loan, another kind of debt or regular expenditure. If the borrower misses a payment, they will be sent a reminder, which incurs an additional cost of SEK 60 (see Figure 1). However, a reminder does not necessarily mean that the borrower has or will have recurring payment problems. This is why we look at repeated reminders for the same loan as the *first* stage in payment problems for a borrower.[14] The *second* stage is a collection notice, which incurs an additional cost

[14] Some invoices are converted into interest-bearing instalment plans when the person does not pay the bill. They will also receive a payment reminder. This is one of the reasons why

of SEK 180. This is what the borrower receives if they do not pay, despite receiving reminders. The lender (or the company pursuing the claim against the customer) can choose to apply for a payment order from the Swedish Enforcement Authority for the unpaid collection notice. We see this as the *third* stage of payment problems. The *fourth*, and final stage in the chain of payment problems is when the debt is sent to the Swedish Enforcement Authority for recovery. These are the same four stages that Andersson et al. (2021) uses to describe payment problems.

Figure 1. Costs incurred in the event of an unpaid loan bill (a calculation example)
SEK



Source: Own calculations
Note: This calculation example is for a loan of SEK 5,000 with an interest rate of 5 per cent over a period of 12 months, with SEK 500 in other agreed costs.

We analyse the first two stages of payment problems by looking at repeated reminders and collection notices in relation to new lending. We analyse the last two stages by looking at payment orders and outstanding debt with the Swedish Enforcement Authority in relation to total lending. We have divided borrowers with payment problems by the lender group that issued the loan.

Looking at all of the borrowers with new consumption credit, approximately 7 per cent received repeated reminders and 5 per cent collection notices shortly after

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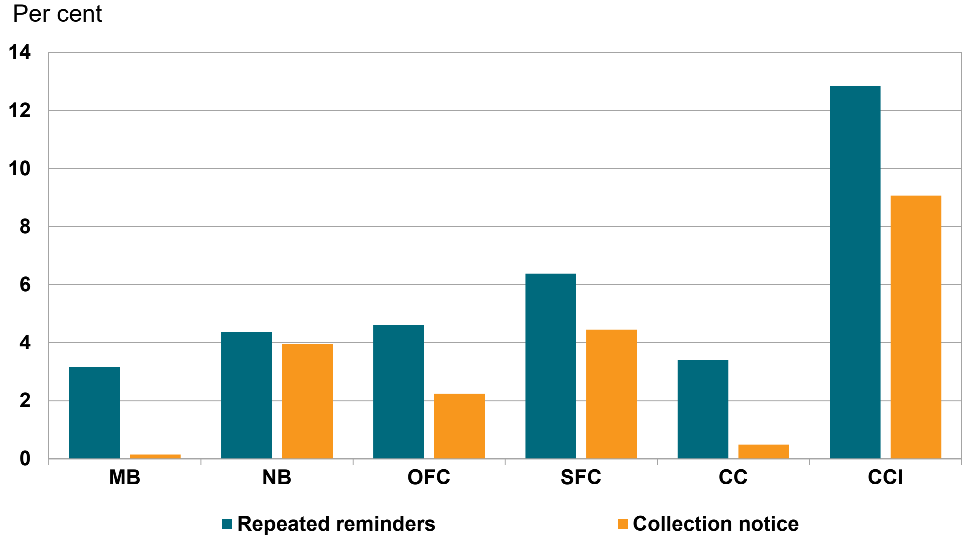
we use repeated reminders in the analysis. Another reason for a borrower to receive a payment reminder could be their carelessness.

taking out the new loan (see Andersson and Förster, 2021). Every year, 3 per cent of borrowers receive a payment order and one in five of these borrowers (i.e. 0.6 per cent) still has an outstanding debt with the Swedish Enforcement Authority one year later (see Andersson et al., 2021).

Early payment problems

Consumer credit institutions usually issue small loans without collateral and their borrowers show early signs of payment problems more than the other lender groups. Approximately 9 per cent of borrowers from consumer credit institutions receive a collection notice within five months (Diagram 6).[15] The lowest proportion is among those who borrow from major banks, which issue larger loans, and credit card companies. Less than 0.5 per cent of these borrowers receive a collection notice.

Diagram 6. Proportion of borrowers with early payment problems, broken down by lender group



Source: FI
Note: MB = Major Bank, SMP = Small Mortgage Provider, NB = Niche Bank, NPBFC = Non-Property-Backed Financing Company, SFC = Sales-based Finance Company, CCC = Credit Card Company and CCI = Consumer Credit Institution. Reminders and collection notices shortly after the loan. We do not have information about payment reminders and collection notices for loans from small mortgage providers.

[15] Although FI's data covers half of the lending from consumer credit institutions, the survey only covers 25 per cent of these lenders. Consequently, there is uncertainty about our average figures for consumer credit institutions as a whole.

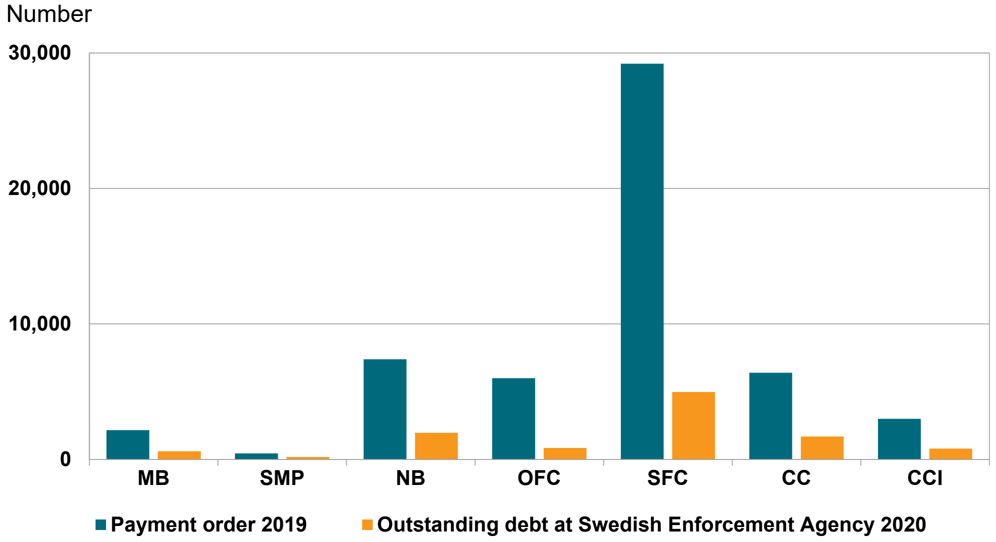
More serious payment problems

Borrowers with interest-bearing loans from an (average) sales-based financing company account for almost 30,000 payment orders over the course of a year (see Diagram 7). [16] However, sales-based financing companies also represent the highest amount of new lending, in terms of the number of loans and the number of borrowers. [17] In addition, borrowers from niche banks, non-property-backed financing companies and credit card companies account for around 7,000 payment orders each. Borrowers from major banks and consumer credit institutions receive 2,160 and 3,000 payment orders respectively each year.

People who borrow from a sales-based financing company also account for the most debts with the Swedish Enforcement Authority one year after the payment order. However, the differences with payment orders are not as noticeable compared with the other lender groups. This is probably because payment orders are for small amounts. Major banks and small mortgage providers have the lowest number of customers with outstanding debts. There are extremely few people who take out a mortgage with a major bank that have payment problems; just over 200 customers from an average mortgage institution receive a payment order every year.

[16] We have used both payment orders and payment orders in security, as both relate to loans.
[17] Some loans from sales-based financing companies use an agreed interest rate and others can become interest-bearing. In this report we have only analysed invoices and instalment plans that have incurred a cost for the consumer. In practice, this means that the invoices in our data have already taken a small step towards payment problems, as a reminder has to be sent for them to be included in our data. Approximately 10 per cent of invoices without costs are converted into interest-bearing instalment plans.

Diagram 7. Number of borrowers with payment problems (average of lenders in each group)



Source: Swedish Enforcement Authority
Note: MB = Major Bank, SMP = Small Mortgage Provider, NB = Niche Bank, NPBFC = Non-Property-Backed Financing Company, SFC = Sales-based Finance Company, CCC = Credit Card Company and CCI = Consumer Credit Institution.

Payment problems as a proportion of lending, broken down by lender group

The number of borrowers with payment orders and outstanding debts with the Swedish Enforcement Authority show how widespread serious payment problems are. However, if we are going to make a comparative analysis, we have to account for the size of lending in each lender group. We do this in two stages. Firstly, we compare the number of payment orders with the number of (existing) borrowers, and then compare the principal amount (in SEK) from the payment orders with the lenders' total lending.[18] The reason why we compare principal amounts and not debt amounts is because they better represent the size of the loans.[19]

Every year, 5 per cent or less of those who borrow from major banks, sales-based financing companies and credit card companies receive repeated reminders (see Diagram 8). Between 1 and 2.5 per cent of borrowers from these lenders receive

[18] The aim is to identify potential loans that could lead to payment orders. We also have better information about amounts than the number of borrowers. For invoices, we have used new lending from 2019 as a measure of total lending. For other loan types, we have used the total volume of loans (as at the end of December 2019) plus the volume of loans sold.
[19] The debt amount comprises the principal amount plus interest and fees that have been incurred.

collection notices, while 0.1–0.2 per cent have a debt registered with the Swedish Enforcement Authority. The fact that relatively few borrowers have problems could be because major banks, non-property-backed financing companies and credit card companies have a lower risk tolerance and often perform more comprehensive credit checks than other lenders. The fact that a relatively small proportion of customers from sales-based financing companies have payment problems, despite often having low incomes, is probably because the invoices are normally for small amounts. Previous analyses have shown that small loans and debts are less common among serious payment problems (see Andersson et al., 2021).

There is approximately the same proportion of customers from niche banks that have early payment problems as customers from credit card companies and sales-based financing companies. However, there is a higher proportion of customers from niche banks who have serious payment problems; 0.4 per cent have a debt registered with the Swedish Enforcement Authority. This is probably due to the fact that loans from niche banks are often larger. These borrowers also have lower incomes and credit checks are often less comprehensive for niche banks than credit card companies (see Diagrams 2 and 4).

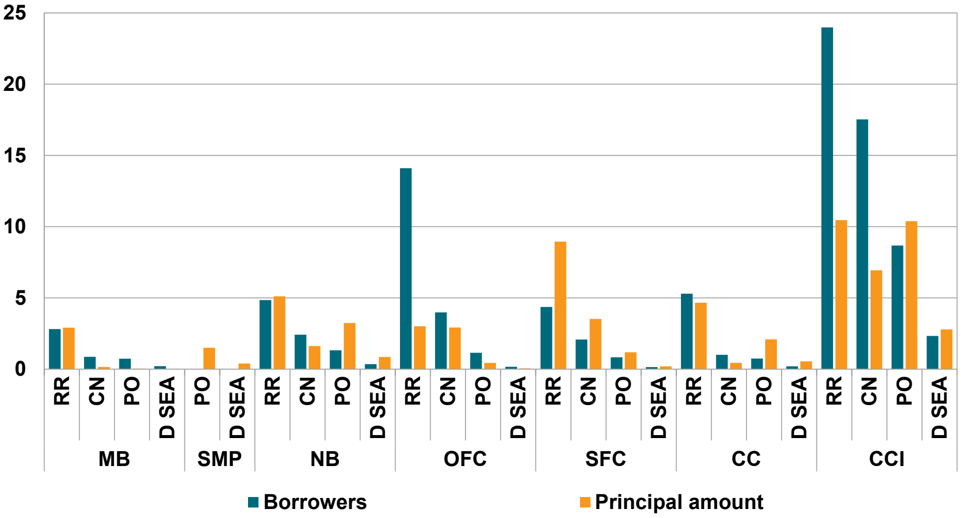
People who borrow from consumer credit institutions have similar characteristics to borrowers from niche banks. However, there are fewer customers of niche banks who have payment problems among those who take out large loans. This suggests that there are differences between the lender groups that we are not able to observe. These differences are probably a result of risk tolerance, which is reflected in the interest rates. In addition, high interest rates cause the debt to grow quickly if the loan is not paid on time (see Regeringen (Swedish Government), 2013). This in itself can lead to payment problems. Almost one in four people who borrow from a consumer credit institution receives repeated payment reminders and 18 per cent receive a collection notice. In addition, 9 per cent of borrowers from consumer credit institutions receive payment orders every year. Of these, 2.3 per cent have an outstanding debt with the Swedish Enforcement Authority one year later.

There is also a relatively high proportion of customers from non-property-backed financing companies who receive reminders and collection notices. These payment problems are mainly associated with the companies' credit card operations. Borrowers from non-property-backed financing companies are not overrepresented among those who receive payment orders and have debts registered with the Swedish Enforcement Authority. This is probably due to the fact that credit card debts are relatively small and non-property-backed loans have collateral that can be sold.

In total, just over 5 per cent of Swedes receive at least one payment order (regardless of what kind of debt it is) every year.[20] The proportion who receive a payment order due to a loan is lower, at 3 per cent. This indicates that loans are not the only, or even the dominant factor, behind payment problems, even though loans can naturally be a burden for households who have these problems. It is also probable that those who are most likely to have payment problems are not allowed to borrow at all. This may partly explain why the proportion of borrowers with serious payment problems is lower than in the population as a whole.

Diagram 8. Proportion of lending with payment problems, broken down by problem stage and lender group

Per cent



Source: FI and the Swedish Enforcement Authority

Note: MB = Major Bank, SMP = Small Mortgage Provider, NB = Niche Bank, NPBFC = Non-Property-Backed Financing Company, SFC = Sales-based Finance Company, CCC = Credit Card Company and CCI = Consumer Credit Institution. RR = repeated reminders, CN = collection notices, PO = payment orders, D SEA = debt with the Swedish Enforcement Authority. 'Borrowers' is the proportions in terms of people; 'Principal amounts' is the proportions in SEK. We do not have any data about reminders, collection notices and the number of borrowers for small mortgage providers.

Diagram 8 also shows payment problems as a proportion of total lending in SEK. This confirms that loans from major banks result in the lowest proportion of payment problems at any stage. This is particularly true for mortgages. There is also a comparatively low proportion of lending from small mortgage providers that

[20] See statistics from the Swedish Enforcement Authority, https://www.kronofogden.se/om-kronofogden/statistik/statistik-om-betalningsforelagninga

result in payment problems. It is likely that this is due to mortgage institutions and small mortgage providers performing more comprehensive credit checks, which means that they have borrowers with a good payment capacity. It may also be because the houses can be sold if the payments become too difficult for the borrowers. Loans from a consumer credit institution lead to the highest proportion of problems, including when we use the volume of lending in the calculations. The difference between major banks and consumer credit institutions could be because major banks lend to people with relatively high incomes, while consumer credit institutions lend to people with relatively low incomes (see Andersson and Förster, 2021). Approximately 3 per cent of lending from a consumer credit institution leads to a debt registered with the Swedish Enforcement Authority. The second highest proportion of borrowers with a debt registered with the Swedish Enforcement Authority have loans from credit card companies, small mortgage providers and niche banks, with proportions in the range of 0.5 per cent to 1 per cent. Customers of sales-based financing companies are more likely to have early payment problems than customers from other lender groups, except for consumer credit institutions.[21] However, there is a low proportion of lending from sales-based financing companies that result in an outstanding debt with the Swedish Enforcement Authority. Loans from non-property-backed financing companies almost never lead to a debt being registered with the Swedish Enforcement Authority, even if their borrowers show some signs of early payment problems. This is probably because there is collateral for these loans, which protects the consumers.

The spread between the lenders' proportions of loans that result in payment problems provide information about how general our conclusions are. It is approximately the same proportion of borrowers from major banks who receive a payment order.[22] This also applies to non-property-backed financing companies and credit card companies. The spread between different lenders in sales-based financing companies and niche banks is slightly larger. The spread is the largest among consumer credit institutions, which indicates that there are major differences between these companies. There are some consumer credit institutions

[21] Many invoices included in our data have become interest-bearing as a result of the borrower not paying the bill. The borrower also received a payment reminder in conjunction with this. We have only studied borrowers who received at least two reminders.
[22] We have used payment orders in the calculations as they provide a larger selection to analyse than debts registered with the Swedish Enforcement Authority.

where 1 per cent of borrowers receive a payment order. However, there are other credit institutions where more than one in five borrowers receives a payment order.

Large payment orders from loans often result in a debt registered with the Swedish Enforcement Authority

The size of the loan is significant as to whether a payment order becomes a debt registered with the Swedish Enforcement Authority.[23] Just over one in two borrowers with a payment order that has borrowed from a small mortgage provider ends up with a debt registered with the Swedish Enforcement Authority (Diagram 9). This is the highest proportion of all borrowers and could be because small mortgage providers often issue large loans. This high proportion may partly be due to some small mortgage providers issuing loans to people who already have a record of non-payment. These borrowers probably have less incentive to pay their payment orders. This is supported by the fact that borrowers who do not manage to pay their debts to the Swedish Enforcement Authority after a short period of time often have long-term debt problems (see Kronofogden (Swedish Enforcement Authority), 2018).

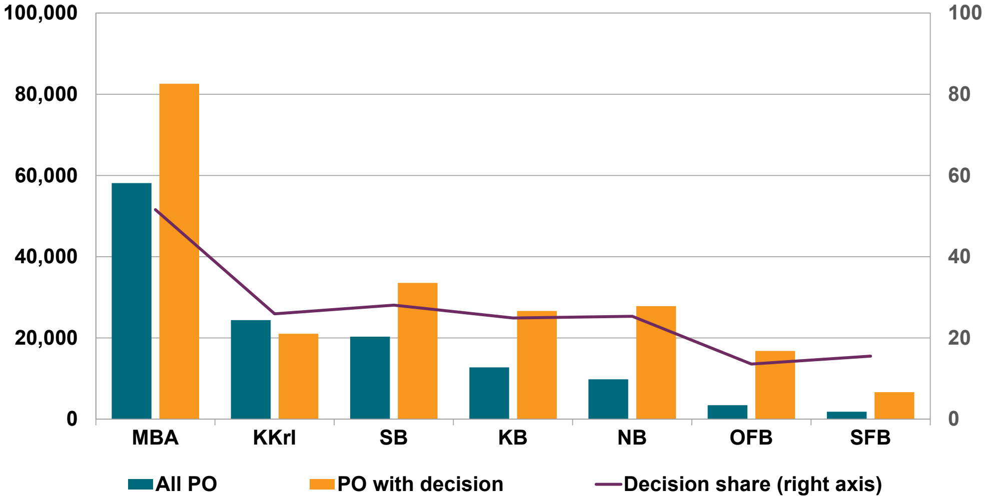
Between 15 per cent and 30 per cent of people with a payment order for consumption debt still have an outstanding debt with the Swedish Enforcement Authority one year later. The proportion of borrowers with outstanding debt is lower for small principal amounts. The lowest proportion is among customers of non-property-backed financing companies. One possible explanation for this is that (once again) the sale of the loan's collateral can reduce the debt to a level that the borrower can repay.

We previously saw that the principal amounts for borrowers who still had an outstanding debt in 2020 is higher than for all payment orders in 2019.[24] This is true for every lender group except for consumer credit institutions (comparing all payment orders with those at the Swedish Enforcement Agency, Diagram 9). Our analysis therefore provides several indications that the risk of having a debt registered with the Swedish Enforcement Authority increases with the size of the loan.

[23] When we compare principal amounts and debt amounts, we do not use payment orders in security, as they are redeemed through an executive auction.
[24] In this comparison, we have not included the interest payments and fees that have been incurred following a payment order being issued.

Diagram 9. The median of the principal amounts and the proportion with a debt registered with the Swedish Enforcement Agency, broken down by lender group

SEK (left axis) and per cent (right axis)



Source: Swedish Enforcement Authority

Note: MB = Major Bank, SMP = Small Mortgage Provider, NB = Niche Bank, NPBFC = Non-Property-Backed Financing Company, SFC = Sales-based Finance Company, CCC = Credit Card Company and CCI = Consumer Credit Institution. The diagram is sorted based on the size of all payment orders. A decision means that the debt (in a payment order) has been earmarked for recovery (has become a debt registered with the Swedish Enforcement Agency).

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