FINANSINSPEKTIONEN

Swedish Consumer Credit

01 October 2020

Summary

One of Finansinspektionen's (FI) assignments is to promote a high level of protection for consumers on the financial markets. Loans and loan payments are very important for household finances, and FI therefore follows the developments related to household debt. Household debt consists of around 80 per cent mortgages and 20 per cent consumer credit. FI publishes a report every year that analyses mortgages (The Swedish Mortgage Market). This is the report that analyses Swedish households' consumer credit. Even though consumer credit only constitutes a small portion of households' total credit, the interest rate and amortisation payments for these credits amount to more than half of the households' total debt service payments. This is because these types of credit have higher interest rates and amortisation rates than mortgages. The analysis also shows that individual consumers are having difficulty paying for their consumer credit. Overall, this means that the consumer credit market could impact many households, which makes it important for consumer protection on the financial markets.

The report also shows that households' consumer credit has grown. Unsecured loans of more than SEK 250,000 have also increased rapidly. Demand for large unsecured loans may have increased due to a strong economy, rising house prices and low interest rates. Small lines of credit, credit cards and invoices for amounts below SEK 10,000 have increased even more than the large unsecured loans. These small loans increased from SEK 4 billion in 2008 to almost SEK 50 billion in 2019. This trend coincides with the increase in e-commerce, where consumers are often using invoices, lines of credit, or credit cards to pay for online purchases. Most of the consumer credit in the report was small and had a high effective interest rate. This is because the maturity was normally short and the fees were large in relation to the size of the loan. Several small loans can also be the start of a larger debt if the borrower replaces or increases the loans instead of paying them off. This could result in the borrower experiencing repayment difficulties. FI's stress tests show that many borrowers may need to use more than half of their post-tax income to make interest rate and amortisation payments if the interest rate were to increase significantly.

Finally, the report also shows that one-fifth of consumer credit borrowers received a payment reminder and 4.5 per cent received a collection notice. Among borrowers under the age of 25, the share receiving a collection notice was approximately 8 per cent. Purchases on invoice, where credit checks are not legally mandated, and small, unsecured loans had the highest share of borrowers receiving payment reminders and collection notices. This indicates that many borrowers are having difficulty making their payments. The high percentage that

goes to collection shows that it is important for institutions to run credit checks for the borrower. The share that received a collection notice decreased compared to last year’s analysis. One explanation could be the introduction of new rules for high-cost short-term credits, which sharply reduced the supply of these loans.

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