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**DRIVERS OF HOUSEHOLD OVER-INDEBTEDNESS AND
PREVENTION FACTORS: INTERVIEWING FINANCIAL
EXPERTS**

Bachelor's thesis

International Business Administration, Finance

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I declare that I have compiled the paper independently
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ABSTRACT

This bachelor's thesis attempts to research drivers and preventative factors of households over-indebtedness by interviewing financial experts and comparing the results with academic literature. The paper tries to find out if there are differences or similarities between existing academic literature and the objective is to find new aspect and understanding to the problematic topic. The research method in this paper is a qualitative method. It was conducted by ten semi-structured interviews with people who work among debtors, seen as experts in this paper. All participants are working in the financial sector in different positions thus their opinions bring substantial added value to this bachelor's thesis. Interviews were conducted in April 2018 and the supportive literature material for this paper was collected during September 2017-May 2018. Findings show that there are similarities between existing literature and experts' viewpoints on the factors that drive households to over-indebtedness and how to prevent it. Still, while academic literature places an emphasis on the unexpected negative life changes as the main reason for households over-borrowing, experts stress that the lack of financial knowledge is the primary reason for over-borrowing and related problems.

Keywords: Over-indebtedness, drivers of over-indebtedness, prevention factors of over-indebtedness, literature versus experts

INTRODUCTION

Households' financial mismanagement is a topical subject today. Growing amount of literature and data (Schicks 2012; Angel, Heizmann 2015; Du Caju *et al.* 2016;) shows that people have an excessive amount of debt and that has negative consequences. There are unfavorable impacts to individuals, financial institutions, and the whole society. Primarily, the suffer is biggest for individuals whose everyday life might not be the same after over-indebtedness and that affect entire household long-term. The consequences might be, not only economical but also psychological to the household (Gutiérrez-Nieto *et al.* 2016). Concerning that, it is essential to research the problem more and find ways to take care of the complex topic over various studies.

The interest to study this topic through financial experts and compare their opinions to current literature on the subject of drivers and prevention factors of households' over-indebtedness arise because there can be a lot to learn from the comparison and possibility to find new aspects to resolve the problematic topic. The more understanding to the problematic phenomenon the better to find resolutions to manage it. Admittedly, previous researches on the subject of households over-indebtedness have noticed differences between households and experts viewpoints (Gutiérrez-Nieto *et al.* 2016; Ericksen *et al.* 2014). It has often resulted that experts experience and knowledge should be researched more while households blame uncontrolled factors. Experts different opinions and advances, for example how to prevent over-indebtedness in the first hand are important. This suggests that in this study, the focus is on experts voices which may obtain new findings which are not covered by the literature yet.

The research question in this bachelor's thesis is "What are the differences or similarities between experts' opinions and academic literature on the subject of main drivers of households' over-indebtedness and prevention factors?". The goal of this paper is to find advanced opinions and understanding households over-indebtedness and if there are some unknown factors which are not in current literature and if there is impact between experts ideas. Thus, the comparison is important in order to see if experts assessments support or disagree the main occurring themes and theories in existing literature, i.e. does practice differ from theory. The research problem focuses on this

research question, and the key is to understand the deeper essence of households' over-indebtedness. The paper does not include information about companies' over-indebtedness, the focus is on households' over-indebtedness. Also, the paper research the issue generally, not country-specific.

The research method used in this paper is a qualitative method. It was conducted via semi-structured interviews with financial experts. The interviewees were conducted during April 2018 via email. Overall there were ten participants from different financial positions, nine out of ten employees of a bank. The interviewees were five bank advisors, two financial advisors, a supervisor in a bank, coach for new employee's in a bank and one employee of microcredit firm, total of ten interviewees. Anonymity of interviewees was necessary in order to get most honest answers. A qualitative method was the best alternative when exploring phenomenon and understanding more in-depth the topic. The paper review existing literature about the main drivers of households' over-indebtedness and prevention factors and compare these to financial experts interview results. Data was analyzed mostly through direct content analysis method which is common when using existing literature as a guide to research results and deeper discussion.

The results confirm that current literature and different experts analyzed have similarities. Previous studies which include experts as well, demonstrate same issues which point out in this paper. To illustrate some points, financial knowledge, households indifferent attitude and importance of financial help, are common themes arise. However, when comparing results to current literature, it must be pointed out that differences between researched experts and households researched in previous studies have very different viewpoints on the subject of over-indebtedness. From this standpoint, experts ideas and thoughts can be considered in the future researches in order to manage household over-indebtedness better.

This paper is structured as follows. It is divided into three main chapters. The first chapter review households' over-indebtedness through academic literature. It covers information about the situation of over-indebtedness, what is over-indebtedness, factors influencing why households over-indebted and preventative factors. The second chapter discusses methodology, the research method used in this paper, selection of sample and data analysis method. The third chapter presents empirical findings and the following discussion. The final chapter is the conclusion.

1. BACKGROUND AND LITERATURE REVIEW OF HOUSEHOLDS' OVER-INDEBTEDNESS

The first chapter review background of households over-indebtedness (focusing on factors influencing households over-indebtedness and preventative factors) via current academic literature. The purpose is base the reader for the upcoming chapter where is compared, analyzed and discussed more experts viewpoints and similarity or difference between previous studies. At first, there is reviewed the over-indebtedness generally. Then there are chapters about driving and preventative factors of households' over-indebtedness, and at last there is sub-chapter about consequences of over-indebtedness.

1.1. What is over-indebtedness

In the literature, it has seemed that the starting point for the existing problem was in the United States (US) and housing credit markets. From the US the crisis extend to Europe damaging households' finances, and it end up being worldwide dilemma (Caju *et al.* 2016). Indeed, in the Europe the spread of households over-indebtedness is seen to be a result of financial crisis in 2008 and simply because of the current economic condition. A survey done one year before the mentioned crisis for the members of the European Union, 9% of households identified themselves as having difficulties having ends meet, and 35% were unable to face unexpected expenses. These figures risen respectively 11% and 40% in 2012 (Angel, Heizmann 2015). Even though the mentioned data is based on the European Union, the problem of households' over-indebtedness is present globally and there are differences between countries in micro- and macrolevel (*Ibid.*). This paper focuses on the problem broadly, not any country-specific.

The term over-indebtedness is on surface in the literature as well as in the media, but instead of that, it does not exist as a standardized term. Usually, the studies have the most common elements between countries legal bounds in their definitions (Allewldt *et al.* 2013; Gutierrez-Nieto *et al.* 2016). This chapter introduces few perspectives to understand the term over-indebtedness and found similarities in definitions occurred.

The research note completed by European Commission in 2010 leads the way to European countries to establish a similar definition for over-indebtedness. There is mentioned a few elements, for instance, “Indicators need to cover all financial commitments of households – borrowing for housing purposes, consumer credit, paying utility bills, meeting rent and mortgage payments and so on – and not be confined to just one aspect” and “For a household to meet its commitments requires it to reduce its expenditure substantially (or find ways of increasing its income)” (European Commission 2010, 4). According to this European Commission research note:

“Households are considered over-indebted if they are having – on an on-going basis – difficulties meeting (or falling behind with) their commitments, whether these relate to servicing secured or unsecured borrowing or to payment of rent, utility or other household bills.” (*Ibid.*, 4).

The authors who have studied a lot of household over-indebtedness emphasized that even this definition is widely accepted, it is actually hard to define when household is in this situation (D’Alessio, Iezzi 2013).

In the newest literature, lack of universal agreement for definition of over-indebtedness has created common indicators (see table 1) to clarify the term over-indebtedness (D’Alessio, Iezzi 2013). The common indicators mentioned more objective signs than European Commission suggestions. For example, there is specified as a percentages households availability to spend their gross monthly income to other expenditures than repayments of debt. The percentages are between 25-50% depending on the type of repayment (unsecured or secured). There is also mentioned, for instance, arrears on a credit commitment and subjective perception which involves households borrowing repayments are heavy. In the existing literature, over-indebtedness is often seemed as well a heavy burden to household itself (Niemi *et al.* 2009, 94).

Table 1. Common indicators of over-indebtedness

Category	Indicator
Cost of servicing debt	Households spending more than 30% (or 50%) of their gross monthly income on total borrowing repayments (secured and unsecured)
	Households spending more than 25% of their gross monthly income on unsecured repayments
	Households whose spending on total borrowing repayments takes them below the poverty line
Arrears	Households more than 2 months in arrears on a credit commitment or household bill
Number of loans	Households with 4 or more credit commitments
Subjective perception of burden	Households declaring that their borrowing repayments are a “heavy burden”

Source: (D’Alessio, Iezzi 2013, 8)

This paper use, as the most of the previous studies, the common elements of definitions of households over-indebtedness. Most of all, over-indebtedness it is seemed to be a burden for a household and difficulties in managing households’ finances.

1.2. Drivers of household over-indebtedness

This sub-chapter introduces the reasons for households’ over-indebtedness which are commonly pointed out in the present literature. Generally accepted viewpoint in the existing literature is that causes of over-indebtedness are in two categories. In the universal and country-specific literature, the drivers of household over-indebtedness have noticeable attention, and commonly mentioned reasons are at first unexpected life events, and the second excessive indebtedness levels (Niemi *et al.* 2009, 94). In this chapter is represented uncontrolled factors, as unexpected life events and the mistakes what households’ do, which make the debt no more sustainable. These factors are important to review in order to illustrate the becoming research and its results later in this paper.

1.2.1. Uncontrolled factors

This chapter review more about uncontrolled factors, focusing on unemployment, marital status, more clearly separation, and health issues, for example, illnesses which are seemed as a drivers for over-indebtedness (Niemi *et al.* 2009; Rantala, Tarkkala 2010). As mentioned above, the employment situation has great importance when speaking of households’ over-indebtedness. It was argued that after financial crisis 2008 people lose their jobs which cause more and more debt

problems which may lead to over-indebtedness. The survey done by the author Beckert found out the most common adverse life changes which cost over-indebtedness for households. These are, i.e. unemployment, divorce, loss of financial overview and not being familiar with banks and their practises (Niemi *et al.* 2009, 283). Above-mentioned data was collected from Germany. In the most surveys, the link between employment situation and probability of over-indebtedness is generally explored (Anderloni, Vandone 2008) thus when household faces unemployment, it is seemed to be a driver for over-indebtedness. While one's monthly income reduces because of job loss (Ravn, Sterk 2017), the probability to fail financially and default risk rises. For this reason, the household may end up over-indebted.

The survey conducted by above-mentioned author Beckert (Niemi *et al.* 2009, 283) resulted that more than one third interview respondents' opinion was that divorce or separation cause over-indebtedness. Interestingly, the problematic issue has changed over the past decades. Before it was common that in the event of divorce or separation, the other party stays with the children and the other has maintenance payments to pay and that cause struggles to manage finances and mostly because of that the other end up over-indebted. Today more problems create the situation of separation from common home to new home without, i.e. items of furniture which may lead to easy loan or credit with extra hidden costs (Rantala, Tarkkala 2010). Hence, when a couple split-up, it is a driver for over-indebtedness.

Health-related issues are often included to financial mismanagement and debt problems. Thus, these factors often cause unexpected expenditures and incapacity for work and that way seem as a driver of household over-indebtedness. Himmelstein *et al.* (2005) surveyed illnesses as contributors to bankruptcy and stressed that diseases, injuries, addictions, death or born in the family may cause additional expenditures and that way the reason for applying debt (Himmelstein *et al.* 2005). The same survey resulted that in the USA medical issues caused financial problems to households through and straightly lost income. However, medical issues and debt problems caused by them are different in the USA and in the Europe, where is generally health insurance provided by employment status (by employer).

1.2.2. The mistakes households do

The common mistakes what households, which are indicators for over-indebtedness, are linked to ones buying behavior, lack-of financial knowledge, comparing debt contracts and importance of

time management, for example concerning interest and paying invoices on time. These issues are covered more in this chapter.

In the recent literature is mentioned households financial mistakes which influence negatively households ability to survive financially well. One's buying behavior is one cause for over-indebtedness, more precisely impulsive buying. Often people may mismanage their capacity to pay, and credit card in the wallet make the decision making easy. Van Raaij point out the situation where people give more attention to type their PIN code than thinking the sum what they are paying (Van Raaij 2016, 50) which often results in growing amount of credit. In long-term this kind of behavior increase the risk to end-up financial difficulties, and for this reason impulsive buying may result in over-indebtedness.

Lack of financial knowledge cause over-indebtedness. In terms of that, one mistake what households do is that they do understand the debt contracts. Bucs and Pense (2008) resulted that low-skilled (not highly educated) and debt applicants whose income were lower agreed mortgage documents without entirely understanding contracts' terms and because of that, they end up getting a mortgage with higher risk (Bucs, Pense 2008). In addition, research done in Nordic to young people, aged between 18-30 point out that they did not understand debt contract's conditions, but they did not have daring or even care to ask more information (Lehtinen, Peura-Kapanen 2005). This results for that loan applicants of young age and lower education are riskier to misunderstand debt terms.

Comparing financial products is ordinary mistake households do, or conversely the lack of comparing them. The survey done in 27 member countries of the European Union found that one-fifth of respondents did not compare different mortgage products, even though the impact on their financial well-being is vast. They estimated that, if the consumer compares mortgage products, they could save (in net present value) over 7,000 euros (Damen, Buyst 2016). There can be seeing a strong link between lack of financial knowledge and comparing financial products and the risk for over-indebtedness.

Often arrears in payments are seemed to be indicators of over-indebtedness, as mentioned in chapter one. Time management and repayments are important in the light of over-indebtedness. It is maybe lack of knowledge or careless attitude, but it is proven that households do not merely understand the changes in monthly repayments and how it affect the repayment time of debt (Soll

et al. 2013). It was pointed out that one may misunderstand how increase in monthly payment work. From the results, it was obvious that the payment time fails since the high interest-to-principal ratio.

1.3. Prevention of households' over-indebtedness

Preventative factors are playing a big part when thinking how households can manage over-indebtedness. Most of the elements are based on person's behavior, but also the creditor has its own role in this case. This chapter focus on mostly peoples' responsible financial behavior, the part of savings and what is the importance of help in case of preventing households over-indebtedness according to the recent literature. After all, above mentioned drivers for over-indebtedness and preventative factors of over-indebtedness often go hand in hand. These all elements are discussed more in-depth in the chapter three, interviewing experts and analyzing their thoughts.

1.3.1. Financial behavior, savings and debtor's access to help

Personal financial welfare is the primary objective of one's responsible financial behavior, thus it helps to prevent over-indebtedness as well as other problems like health issues and troubles at workplace (Van Raaij 2016, 127). Factors that represent sustainable financial behavior (*Ibid.*, 128):

- expenditure should be based on income and keep daily expenses in control;
- avoid impulsive purchases and decisions;
- choice of different financial products and comparing alternatives;
- help-seeking and insurances in case of a decline in income;
- keeping savings for unexpected expenditures.

Above mentioned factors are part of ones' financial behavior, but most of all, preventative factors of households' over-indebtedness. Here is pointed out most common issues that appear in the literature, for instance, what is the part of savings and is there relevant access to help for the debtor in terms of indebtedness and over-indebtedness.

The author Van Raaij stressed that one should not use more money than possess (Van Raaij 2015, 128), hence expenditures should be based on income. Different strategies (i.e., according to Van Raaij, permanent income model by Friedsman in 1957 where consumption expenditure based on

the average income of a three to five year period), keeping daily spending in control and buying behavior are ways to implement the responsible financial action in real life decisions. Impulsive buying behavior unbalances the situation, and in the literature, it is seemed that, for instance, credit cards make the decision making easier and more comfortable for the buyer.

The literature often point out that people with savings have less probability to end up troubles with their payments, thus it is considered as a preventative factor of households' over-indebtedness. The survey done in America by Brobeck resulted that the need for savings is highest in low- and moderate-income families. There was the need for 1500 dollars savings for low-income households, in case of unexpected expenditures. Even so, under three out of ten respondents have at least 500 dollars savings for emergencies. Households median account balance for savings was only 600 dollars, and this resulted from challenges to pay bills and minimum payments to credit cards which increase the chance to apply high-cost loan or credit (Brobeck 2008). Therefore, households savings are important in case of unexpected life events and when avoiding over-indebtedness.

Offering debt help for the debtor and at what stage is a problematic issue. In the literature, it is often mentioned that the situation is quite bad or un-avoidable when a customer seeks or get help for his or hers financial problems. The situation might be uncomfortable and embarrassing for the individual, and that makes it even harder. Robert and Jones resulted that the point when American college students were experiencing credit troubles and the time when they get help for their problem, it is already too late to fix it. (Roberts, Jones 2001). Still, the situation about whose responsibility it is to offer help and how to provide support, is not as commonly researched topic in the literature as it should be. When thinking about the prevention of over-indebtedness, the debtor's should be more aware how to get help and it should be a more visible topic.

1.3.2. Prevention from the lender's aspect

Most of all above-mentioned factors of households' over-indebtedness on the subject of prevention, focused on debtor's responsibility. Since the relationship between debtor and creditor is bilateral, there should be mentioned few other things which should be taken into account in terms of the existing problem. There is shortly introduced thoughts about different financial products and insurances provided by financial institutions, objective of credit register and a bit about regulations and social responsibility.

In the literature were interviewed one expert who works among over-indebted individuals, the expert in that study emphasized importance of lender's aspect when speaking about over-indebtedness (Rantala, Tarkkala 2010). Financial institutions have different legal boundaries and responsibility to check credit or debt applicant's background information when they are applying loan. These are specified by country, but the main idea is the same. Accordingly, laws and regulations can slow the negative movement of turning over-indebted, even though by law it is not possible to prevent all accidents and bad luck that people face in life-time (Niemi *et al.* 2009, 91). To support responsible lending behavior, banks create, for instance, different insurances in case of unexpected reduction in income and they offer also payment free months for their customers.

Above mentioned applying process often use, for example different models (statistical and mathematical) and calculate applicant's ability to access debt (Anderloni, Vandone 2008). It is important to both parts, i.e. banks need to make sure that applicant have ability to pay back, it is kind a key to the banking business, but it is also protects the applicant. Financial institutions use forecasting methods and credit registers (based on customers credit history) to weigh how risky the applicant is and it is widely used in financial sector (*Ibid.*). These credit scoring models help to prevent over-indebtedness. "Credit scoring models have been developed in order to identify default risk by companies granting consumer credit" (*Ibid.*).

The author Koivuporras stressed that in the ethical and economic viewpoint, the financial sector has social responsibility (Koivuporras 2008) which is important in order to manage excessive debt levels and consequently therefore over-indebtedness. These issues are argued more in the empirical part of this study, where the financial experts give their viewpoints on the subject of prevention and how social responsibility affects and lender's aspect overall matters.

1.4. Consequences of over-indebtedness

Consequences of households' over-indebtedness can be quite harsh for individuals, but also for businesses and government. It is important to realize that the growing debt problems have the overall impact on well-being in every level. The suffering from over-indebtedness is hardest for individuals whose daily activities in life can be affected. After all, this can lead to the social exclusion and psychological health-related problems. Economic consequences for individuals are,

for example, lower expenditure levels and sacrifices in necessary consumer goods (Gutiérrez-Nieto *et al.* 2016).

According to Gutiérrez-Nieto *et al.*, consequences for financial institutions have an economic and an intangible nature. “Borrower’s overindebtedness affects lenders when it reaches the stage of delinquency. Financial institutions not only get less profit, but they also increase their probability of default” (Gutiérrez-Nieto *et al.* 2016). The same study also stressed that the risk of default can destabilize financial system. There are also consequences in trust and charge of high-interest rates. The impacts together to individuals and financial institutions affect negatively to whole society.

2. METHODOLOGY

This research is designed as follows. It uses a qualitative approach conducted by ten semi-structured interviews. Interview results are analyzed through direct content analysis method by applying previous literature as a structure for the research. This chapter introduces the research method, sampling procedure, and data analysis process more specifically.

2.1. Qualitative method

These days the most common research methodology in the field of finance is a quantitative method and different statistical analysis (Pirie, Chan 2015). It is argued that before computers and technology, researchers wanted to get advantage from those who were making policies and who were behind the decisions. The results from these kinds of surveys in the field of finance continue their impacts still today thus it is as important to do qualitative researches as quantitative researches (*Ibid.*). Therefore, the author choose qualitative research method for this bachelor's thesis. While quantitative method dominates the field of finance, the qualitative method can result more profound answers and add an extra observation. "Qualitative research is based on a very different frame of meaning construction that allows the researcher to explore and better understand social science issues at a deeper level. What people say and write and how they behave can be just as valuable to the researcher" (Kaczynski *et al.* 2014). This suggests that qualitative method is a flexible and powerful way to get people's meaning for experiences and phenomenon. It follows that the author choose the qualitative research method because it is often mentioned the best alternative for phenomenon and for board topics and deeper understanding of research problem.

The qualitative research was conducted by interviews via email. Email Interviews are assimilated to be similar to face-to-face interviews. On the contrary, email interviews facilitate transcription of the material and it is also time-saving (Kuoppala 1998). The semi-structured interview questions were done by author and interviews conducted during April 2018 via email. The selection for email interview was necessary, mostly because of interviewees different locations. Also, the author wanted that interviewees had the time to think the answers and response as truthfully as possible.

The interview language was Finnish because all respondents mother language were Finnish. The author wanted to get the most honest and the deepest answers from the interviewees in order to get the most advanced results. Translation into English is done by the author (interviewees comments included into empirical part).

The interview questions for experts were open-ended questions. The questions were divided into three categories, at first, there were regular questions about the debtor. That was important in order to understand the broader viewpoint through experts about the debtors who might end up into financial problems. The second category was about households over-indebtedness. There were mixed extensive questions and specific questions since the author did not want to lead the interviewee too much. In that way, it was possible to have different opinions and new perspective to the research compared to current literature. The third category was geographical questions, like age, sex and professional status. By using direct content analysis method, the answers were easy to analyze and categorizing same thoughts, ideas, and themes. Finally, the author compiled the research material results under classifying certain topics.

The interview questions for the experts can be found in this paper (Appendix 1). The interviews are saved trustfully in the author's email, and the interview transcripts in Finnish are also in the end of the paper and properly added a link into sources. Interviewee's straight answers are included into text with italicized font, and the text between marks [and] is added by the author in order to clarify some of the experts' comments.

2.2. Sample selection

The selection of interviewees should base on their similar experience and knowledge (Eskola, Suoranta 1998, 66). In light of that, the interviewees were selected by their professionalism and their expertise in the financial sector, seen as experts in this paper. The author used own contacts and selected experts to this paper. There were ten interviewees from different positions from the financial sector. Ten interviewees were sufficient amount for collecting research material in order to obtain profound results.

Altogether, there were ten interviewees:

- One supervisor at a bank
- One coach for new employees at a bank
- Two financial advisors
- Five bank advisors
- One employee of microcredit firm

The author wanted to keep the anonymity of the respondents since it was important to get the most honest answers without any filter or pressure from an employer. The interviewees are seen as experts in this paper, most of all because of their experience. Moreover, they are all people with good financial skills.

2.3. Data analysis method

The research use, more precisely, direct content analysis approach. This approach mainly focuses on linguistic material, which the researcher can analyze through structures related to a phenomenon and different classifications under examination. Direct content analysis categorizes as a qualitative data method, which describes the form and content of both, written and spoken language. The approach enables the unit of analysis to be, i.e. sentence, idea, thought and argument (Seitamaa-Hakkarainen 2014). On the other hand, the direct content analysis applies previous literature as a structure for the study. This approach is generally agreed when existing theory or research of phenomenon would benefit from further explanation and understanding (Hsieh, Shannon 2005).

Applying the direct content analysis, the author could analyze and bring up frequently occurring topics and thoughts. Since existing theories are included in this method, it was the best alternative to this paper. Thus, in that way, it was easy to analyze and compare research material.

3. EMPIRICAL PART: INTERVIEWING EXPERTS

In this chapter is introduced the empirical part of this paper. It includes results of financial experts' viewpoints about driving and preventing factors of households' over-indebtedness compared to academic literature. There are also chapters about interviewees' thoughts about typical debtors and managing factors of over-indebtedness. Comparison seeks to find differences, similarities and unknown factors, most of all, new aspects to the problematic issue.

3.1. Results and discussion

3.1.1. The typical loan or credit applicant

After a positive credit or loan application, the applicant becomes the debtor thus it is important to find out similarities between applicants, who are the debtors in the future. In that way, it is easier to understand the deeper reasons for the problem of mismanagement of one's financial situation, more clearly, why they might end up over-indebted and how it could be prevented. However, a typical credit or debit applicant is hard to define, and in the literature there is not mentioned one typical applicant. Also, all interviewees stressed that there are very different applicants and the typical applicant is very hard to define.

Interviewee 4: "It is hard to define particular type [a typical credit or debit applicant]. There are people who are trying to repay existing loans with the loan, but also people who could afford not to borrow, but based on the current market situation they decide to invest their own money elsewhere and benefit from a cheap loan. Age and gender distribution is also diverse."

Few interviewees found some similar features between the applicants. To name a few, interviewees mentioned that applicants are mostly quite young, over 25 years old, but often under 50 years old persons. The study done by D'Alessio and Iezzi mentioned life-cycle theory, where young people want to have good living conditions, thus they apply for loan, and are expecting their income to grow in the future. According to the mentioned study, an unexpected reduction in income i.e.,

household lose a job can lead to money problems. (D'Alessio, Iezzi 2013) Also, interviewees indicated that most of the applicants have a good employment situation during the application process, but when households face an unexpected unemployment situation the risk to end up over-indebted increases. It was also mentioned that people often more easily borrow, instead of using their own savings.

Interviewee 1: *“[Applicants are] aged between 25-50. People who work but tend to be looking for "extra" money to use, for example, vacation or renovation. Often, people are more likely to take loans instead of using their own productive savings.”*

Interviewee 6: *“Often it is recalled that the person applying for the loan is a person aged between 25 and 45 who apply for a larger loan (mortgage, repair loan) with another party. Another stereotypical loan applicant is a young man seeking a consumer credit or a loan to pay for the previous loans. Such a person usually does not have savings or assets at all.”*

Additionally, the report done in 2011 in Canada for the 8,000 customers advocate the situation that the average insolvent person is working, often approximately 40-year male owning something that is not mortgage (CBC News, 2011). The same report stressed that it is typical that debtor has four credit cards. As in this research, an interviewee number 9 mentioned, she thought that the most common credit to apply is credit cards, approximately customers ask sum up to 5,000 euros. The interviewees also said that debtors are working and that they are roughly age between 25-50. The interesting fact mentioned by interviewees was that some applicants want to take advantage of the low-interest rates, even though they have their own money or savings because it is such easy to get loan or credit nowadays, which is the consequence of current economic situation. The topic financial knowledge in terms of over-indebtedness and how it affects, is discussed more in the next chapter.

3.1.2. The reasons why people end up over-indebted

In the academic literature, reasons and impacts for people's over-indebtedness are often divided into two categories. As mentioned before in chapter one, common reasons for financial problems are firstly uncontrolled factors, like unemployment or divorce, and secondly, mistakes households do. This sub-chapter analyzes experts answers regarding these and other occurred main reasons.

In the study done by Gutiérrez-Nieto et al. is mentioned that there is a difference between people's own opinions and experts' opinions about factors why households end up over-indebted. People themselves seem to keep the unexpected life events i.e., unemployment as the main reason for financial struggles, while experts think it is mainly the result of lack of knowledge. (Gutiérrez-Nieto *et al.* 2016). As in this paper, experts' results speak for households lack of knowledge.

Interviewee 4: *“[Financial knowledge has a] great importance. When customers understand, for example, the price difference between the unsecured and secured loan and the reason for it (risk) then it is always positive. Young people may also not understand the impact of interest and expenses incurred, so it is making it difficult for their financial management when the loan is taken.”*

The interviewee number 3 also mentioned that people who have more information could weigh the risk of indebtedness. She underlines that credit and loans can be taken by everyone, but persons with good financial knowledge do not most likely end up with over-indebtedness or personal bankruptcy.

The most of the interviewees mentioned surprising and changing life situations as the reasons for households over-indebtedness. Also, people's different lifestyles were cited and various addictions, fox example, gambling, and drugs.

Interviewee 6: *“[Reasons why households over-indebted are] unemployment, indifference, carelessness, certain lifestyles such as gambling / shopping behavior / drug abuse (a complex issue overall, but often linked to later payment problems), and of course microcredit and other credits and previous loans.”*

It was quite surprising that only one out of ten interviewees mentioned illnesses particularly as a cause for over-indebtedness. There were generally mentioned changes in the life situation, but almost all interviewee's emphasized people's careless attitudes. In the literature, illnesses are often mentioned in the context of a driver to households' over-indebtedness. It can be the result of the geographical location of all interviewees (to note, Europe versus the United States). As mentioned before, there are differences in insurance policies for instance between most of the European countries and the US which may result in lower attention to illness in this paper's experts (Himmelstein *et al.* 2005).

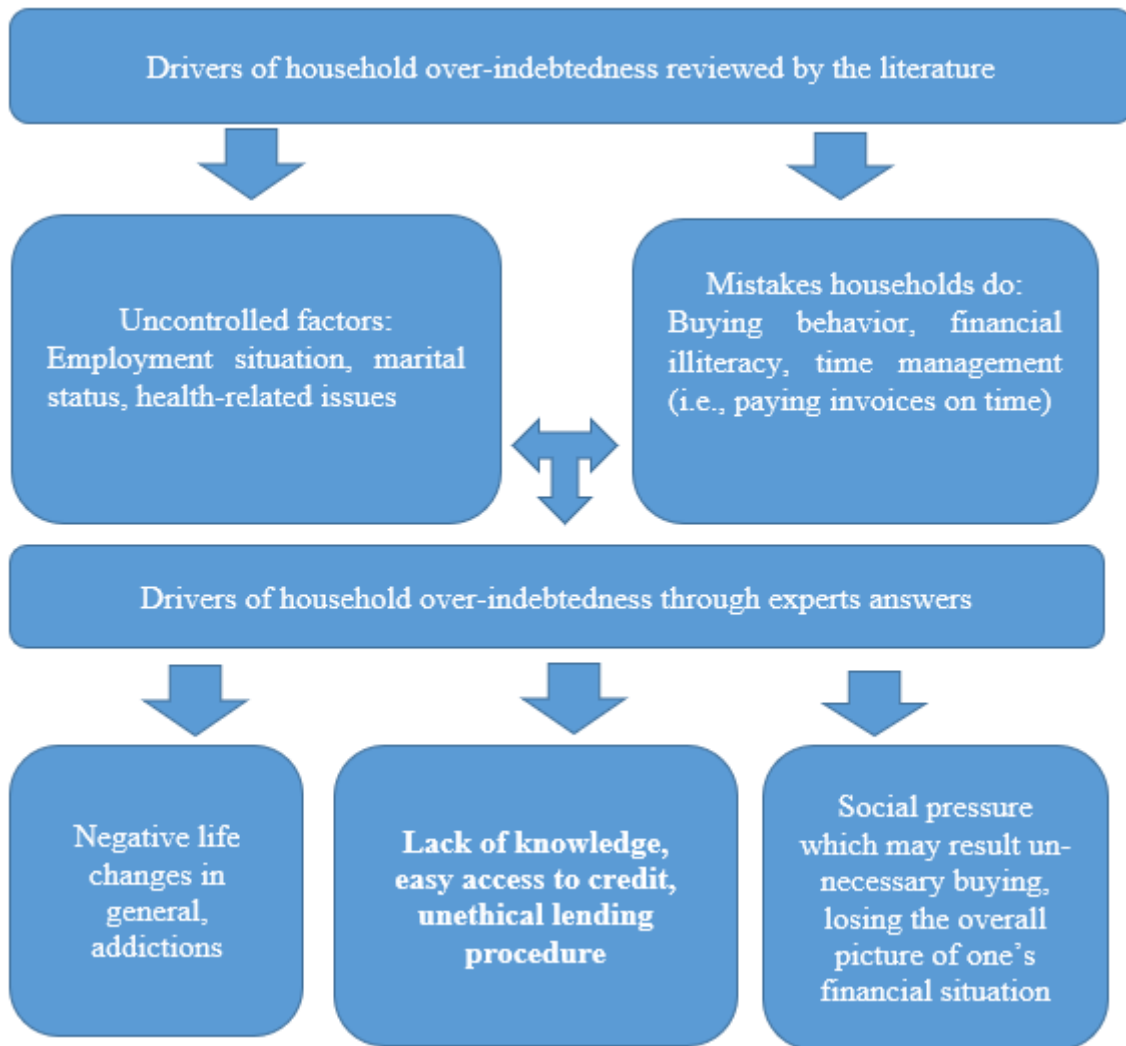
Households can make many mistakes when thinking about the driving factors of over-indebtedness. The literature part points out, few to mention, impulsive buying and mismanagement of debt repayments. The interviewees stressed the lack of financial knowledge and changes in the life situation, and there were mentioned the pressures of consumer society. The demand may increase the risk of impulsive buying behavior which is the driver for over-indebtedness. Interviewee 2 said that people buy products, even though they cannot afford them, but because of credit cards, it is possible. Unfortunately, this kind of behavior might grow hidden debt which results as over-indebtedness.

Interviewee 2: *“The sudden change in the life situation, the careless attitude towards money and spending money, the pressures of the consumer society that always have to be new and the best, people bought products even though they can not really afford them and they use credit cards or a part payment and little by little the debt grows [the reasons why people over-indebted]. Also, not knowing how credit really works and how it is paid back to the lender.”*

Interviewee 9: *“Too quick decision to borrow, often high-interest credits which means that some customers need to take recovery credit or debt and finally the person is over-indebted.”*

Other themes which arise between experts opinion was that access to credit is too easy and pressures that financial institutions have to do business at people’s expense. It is notable that experts concern were that banks and other financial companies grant credit without proper background check and without realistic income-expenditure examination, which may cause over-indebtedness at first sight. Hence, it is evident that combination of different factors causes over-indebtedness according to this papers experts. It can be seen that the experts' opinions support findings of the drivers of over-indebtedness in the literature (see figure 1 below).

Figure 1. The drivers of household over-indebtedness



Source: compiled by the author

The figure 1 illustrates findings and it demonstrates how this papers' experts' thoughts support the main drivers behind over-indebtedness, and the over-indebtedness is often the consequence of many different factors, there is no one main reason for it.

To sum up, the experts stressed same things that are occurring in the literature as drivers of households' over-indebtedness. Unexpected life events and mistakes done by households are the major reasons for over-indebtedness. Clearly, experts concern was more for households' financial knowledge and understanding how loan and credit works. Also, experts mentioned people's negligence attitude and unethical lending procedure which may result in financial failure.

3.1.3. Ways to prevent households' over-indebtedness

As mentioned in the literature review part of this paper, preventative and driving factors of households' over-indebtedness goes strongly hand in hand. To illustrate, person's financial behavior can be seen as a driver of over-indebtedness, but it is also a preventative factor. Also, experts interview results showed the link between issues, but, for instance, unexpected life situations did not occur as much as maybe the author expected. Often mentioned reason why people over-indebted is the lack of financial knowledge, and generally accepted, it is one preventative factor in financial literature overall. Thus, the more information, the easier it is to avoid financial mismanagement. Interviewee 3 mentioned that there should be financial teaching for young people and that way prevent over-indebtedness. Also, another expert stressed the importance of financial education at school. As a result, financial literacy matters.

Interviewee 3: *“[Way to prevent households' over-indebtedness is to] teach young people how to use money reasonably and clearly teach factors how to prevent indebtedness. Loan and credit card access should not be such easy and risky customers should be guided to a financial management course and they should get better help and advice on a difficult economic situation and how to cope it.”*

Interviewee 6: *“When talking about over-indebtedness, I think it is important to focus on prevention. Most of all, over-indebtedness is a circle of debt, and it does not even occur if too much debt is not originally granted. In my opinion, it would be good for young people to know how to apply for a loan or credit and how does it work. Usually, it is not even necessary to apply for any loan at first hand. This could be a high school course or something (additionally, how to fill in a tax return documents and other important adult-related)”*

The interviewees 3 and 6 answers about financial education are shown in the literature useful. In fact, results from the study done by Xiao *et al.* (2010) to high school students examined that financial education may decrease the probability of taking tricky credit. Still, in that study, there was no direct impact on objective debt knowledge. This educational importance should still take into consideration in schools. Furthermore, as the interviewee 6 mentioned, the course which includes some other adult-related issues also could be useful for young people. That could be helpful for managing over-indebtedness and other complicated financial issues, like related to taxation as she mentioned.

Often occurred theme also in respondents' answers was different consumer loans and so-called microcredits when thinking about prevention factors of over-indebtedness. The interview questions did not include any question directly referring to that subject, so it tells that the issue is arising among experts. For instance, Interviewee 6 thought that kind of credits should prohibit by law. The suggestion was that always when applying debit or credit, there should be a better applying process and there was mentioned mortgages and how it is more complicated applying process, but that way it is safer in terms of prevention. The author thinks also that microcredits are topical and such a new issue thus there should be more researches and literature about that and more thinking for stricter the regulations. In fact, the concern is also widely in the literature on surface and the author Schicks thinks that after a decade of commercialization the moving into more customer friendly products and services are back in financial industry (Schicks 2012). The main priority is to protect customers from over-indebtedness, because of the risks of impacts in microfinance and institutional sustainability (*Ibid.*). Microcredits are surely one factor why people end up over-indebted and in the light of prevention, it is essential to survey more. The above-mentioned author Schicks surveyed and measured the over-indebtedness of the microborrowers in Ghana from customer-protection perspective, she resulted that 30% of African microborrowers are over-indebted (*Ibid.*)

Another experts' suggestions for ways to prevent households' over-indebtedness are, for instance, savings and providing help by the lender.

Interviewee 7: "Start saving as fast as possible and that way there is no access to savings. Also being realistic and accepting the fact that everything he or she wants may not be possible, that is, understanding better what one needs and what one wants."

Like in the literature, Van Raaij stressed the importance of savings and Brobeck et al., surveyed the situation that emergency savings reduce likelihood of households over-indebtedness when facing something unexpected in the life (Van Raaij 2016; Brobeck *et al.* 2009). The good point what interviewee 7 mentioned, was that one should not have access to savings, or at least it should not be easy when thinking ways to prevent over-indebtedness.

The interesting and complicated question is the access to help on the subject of households over-indebtedness. It is complicated, because of the question about responsibility and how to provide

help and at what stage. The issue is part of prevention factor of over-indebtedness. In the literature is mentioned that financial institutions have ethical and social responsibility in the position of creditor (Koivuporras 2008). The experts' thoughts about how to prevent households' over-indebtedness and how the access to help and information related to debt issues were also straightforward. The interviewee 6 was very concerned about the help issue. She said that over-indebtedness is often noticed when the due date of the bills is already acute and no money in the account. When the debtor contacts the lender, the lender may propose a new loan which extends, not only, the length of the loan, but also the problem. In her opinion, there are not sufficient amount of help available to debtors. She emphasized the ethical responsibility and how i.e. banks should have distinct department for over-indebted persons or general information about debt problems. She also said that as a financial institution, it is easier to be indifferent. Her experience was also that sometimes she had situation where credit application is positive, even though she would not accept the credit, but because it goes through their system positive, she had to accept it (even it is to the contrary of her ethics). She stressed the importance of truthfully done income and expenditure estimation, not only what their technological systems calculate which are common in applying process according to literature (Anderloni, Vandone 2008).

Interviewee 9 answered to the question about what is the best way to prevent over-indebtedness, that applicant itself should take into account own ability to pay back and consider other solutions than borrowing (for example thinking consumer habits and additional work opportunities if possible etc.). Same time other experts point out that people with good financial literacy take advantage of current economic situation and borrow instead of using own money. As can be seen, the situation is complicated, on the other side is easy access to credit and growing demand, and the other side the part where existing situation has become serious problem which need prevention.

It can be concluded that the most common subjects that arise in the experts' answers were financial knowledge, lender's ethics in applying process and how savings help to prevent over-indebtedness. While in the literature common point out is borrowers' financial behavior when thinking how to avoid and that way to prevent over-indebtedness.

All in all, all out of ten interviewees experts said that prevention of over-indebtedness is very crucial. As one expert stated, proper preparing is the groundwork of everything.

3.1.4. Ways to manage households' over-indebtedness

The avoiding factors of over-indebtedness, as well as driving factors, are seen to be part of managing households' over-indebtedness. This chapter introduces experts' viewpoints about managing factors and how these factors appear in the literature, and most of all the author wanted to get some new perspective on the previously mentioned factors. There was one question about the experts' opinions of the best ways to manage households' over-indebtedness and who they think is the responsible party of this, the banks or households. Most of the experts said that the main responsibility is for the debtor, but financial institutions have own duties in the managing part.

Interviewee 2: *“The lender checks that the framework and backgrounds are fine, but the final responsibility for own behavior is for the borrower. In my work I have seen that over-indebtedness is often seen as somehow really embarrassing thing and over-indebted do not know how to ask for help when the situation has already badly escalated, and not always even then. Borrowers should be more courageous to contact and ask for help if they know more difficult times or have noticed that the repayment of the loan has become more difficult, it is also important for the Bank's customer service to know such situations and to guide the customer to get advice and help, even if the customer does not always know how to ask for it.”*

The literature also stressed that over-indebtedness is often seen as an embarrassing issue for the over-indebted person (Rantala, Tarkkala 2009). One interviewee point out that it would help to manage over-ondebtedness if a bank (or person themself) could have or could seek help earlier before the situation is escalated. The suggestion was that even customer service could see the issue and take care of it. Of course this is not easy to make happen in real life, when the situation is likely to be already hard for the customer.

Interviewee 3: *“In the end, the person always has the final responsibility for his own actions, i.e. the borrower has more responsibility. Over-indebtedness can be controlled by increasing knowledge and how to use the money. Banks should be more aware of the risks and better chart the credit applicant's situation. Also, the bank could offer help for payment arrangements, for example, if a person suddenly becomes unemployed.”*

Interviewee 10: *“The borrower has the final responsibility for own finances. The lender should ensure the client’s understanding and financial condition which help to prevent over-indebtedness and that way to manage it also. Yes, responsible lending is also really important from lenders viewpoint.”*

An important question combine to the subject of managing households over-indebtedness, is that who is the responsible party in the end? Is it the lender who accept the credit or the borrower who need financial wealth and resorts to excessive debt. All interviewees emphasized the bilateral relationship between debtor and creditor, but accept the final responsibility is to debtor. Still, they thought that lenders responsibility can not be ignored. As described, lenders responsibility could help manage the complex issue.

Overall, all experts answered that prevention is the most important in order to manage households over-indebtedness. The results appeared in this chapter match state of the previous studies where also prevention is the critical point when thinking how to prevent household over-indebtedness at first sight. (Brobeck 2008; Van Raaij 2016).

CONCLUSION

The negative phenomenon of households over-indebtedness is on surface globally. Hence the issue is multi-faced and has severe effects to individuals and the whole society, it is essential to research and find solutions how to manage it. The topic of this bachelor's thesis focus on drivers of household over-indebtedness and prevention factors. The existing literature points out different driving factors for households' over-indebtedness. Generally, the drivers are in two categories. The first review situations of uncontrolled life events, for example, job loss and illnesses. The second review excessive debt, i.e. households financial mistakes like not comparing debt products, even though there could be affects to household financial wealth. Prevention factors of over-indebtedness covered in the literature focus on borrower's responsible financial behavior.

The purpose under this qualitative research was to answer the following research question: "What are the differences or similarities between experts' opinions and academic literature on the subject of main drivers of households' over-indebtedness and prevention factors?". The research problem was centered to this research question, and the objective was to find new aspect and understanding to the complicated topic. The research was conducted by semi-structured interviews to ten financial experts by analyzing and comparing their answers via academic literature. Direct content analysis approach was used for data analysis. The importance of this empirical study was to compare academic literature and experts opinions about drivers of household over-indebtedness and preventative factors in order to see if practice and theory go together or not, since this may result in valuable information for future studies. The research showed that there are similarities and some differences between experts and literature. The main results occurred in this study are summarized below.

In the literature mentioned life-cycle theory resulted that young people are the common borrowers because of they are expecting their income to grow in the future, thus credit applicants are often quite young. Correspondingly, the interviewed experts in this paper found that debt applicants are mostly young individuals or couples and well employed, but when facing unexpected unemployment, they are riskier to end up over-indebted according literature and experts.

The primary results showed that when speaking about drivers of households' over-indebtedness and prevention factors, experts' viewpoints support often mentioned drivers of over-indebtedness in the literature. Still, experts stressed a lot more about households lack of financial knowledge, when in the literature is often point out more unexpected life situations as main drivers for over-indebtedness (previous studies done to households themselves). The main themes that experts stressed were life changes in general, borrowers negligent attitude and impulsive buying. The results from experts answers propose for the future that there could be high-school courses for young people about debt and how does it work. To sum up, importance of financial knowledge was one of the main arising themes in this bachelor's thesis interview results.

Surprisingly, all ten interviewees stressed the situation of easy access to credit and the growing amount of different high-interest consumer credits in order to prevent over-indebtedness. It is true that this is a topical issue and regarding experts' answers, they have a very negative attitude to this rising phenomenon. It results that their experience about microcredit needs more strict rules or better legislation in terms of managing households over-indebtedness. They seemed to keep different microcredits as a driver and also as a way to prevent over-indebtedness. This suggests that microcredits should be more experienced in the future. All things considered, they thought that when people apply for loan or credit, it should be a careful process and background search is very important. Even so, their experience were that different technological applications and credit scoring in applying process are not enough and realistic. In the future should focus on more applying process of debt and different data collection methods. Some of them even mentioned that banks might accept too easily credit or loan, as the employees are under pressure to make profit for their employer. This show that banks ethic in lending procedure should be taken into account in the future studies.

The findings of this empirical study support that experts knowledge has valuable information in order to understand the complex topic. Planned comparison between literature and experts viewpoints in this paper resulted that the previous studies find out households predominantly blame factors that they can not control when experts point out more accurate thoughts. It can be concluded that researching people with experience and knowledge may be valuable for future studies as well. Also, the comparison between different factors which affect to over-indebtedness (lenders, borrowers and society) are arears for further researchers.

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APPENDICES

Appendix 1. Interview questions

The loan or credit applicant

- What kind of person is the typical loan or credit applicant?
- How much loan or credit person approximately applies and what is the most common loan or credit what they apply? Have applicants had any loan or credit previously?
- When applying for loan, how important is it to check customer's background information? Do you think financial institutions should have more information rights?
- Do you think above mentioned safe more bank claims in the future or debtor in long-term?

Over-indebtedness

- Can you say any reasons why person over-indebted?
- What do you think what is the best way to avoid over-indebtedness?
- What do you think is the role of people's saving habits are in terms of over-indebtedness?
- What do you think how people's purchasing behavior influence to over-indebtedness? Is there too easy access to credit and how does the current consumer society affect?
- What is the significance of a person's financial knowledge in over-indebtedness? Do you think credit agreements are too complicated?
- What do you think is the best way to manage over-indebtedness? Do you think there is more responsible for the borrower or the lender?
- Do you think that the most important thing how to manage over-indebtedness is to focus on prevention? What other factors should be taken into account?
- Do you think there are enough help and information to debtors about over-indebtedness and at what stage should help be obtained? What do you think is the lender's role in providing help?

Demographic questions

Age:

Sex:

Professional status and how long you have worked in your position:

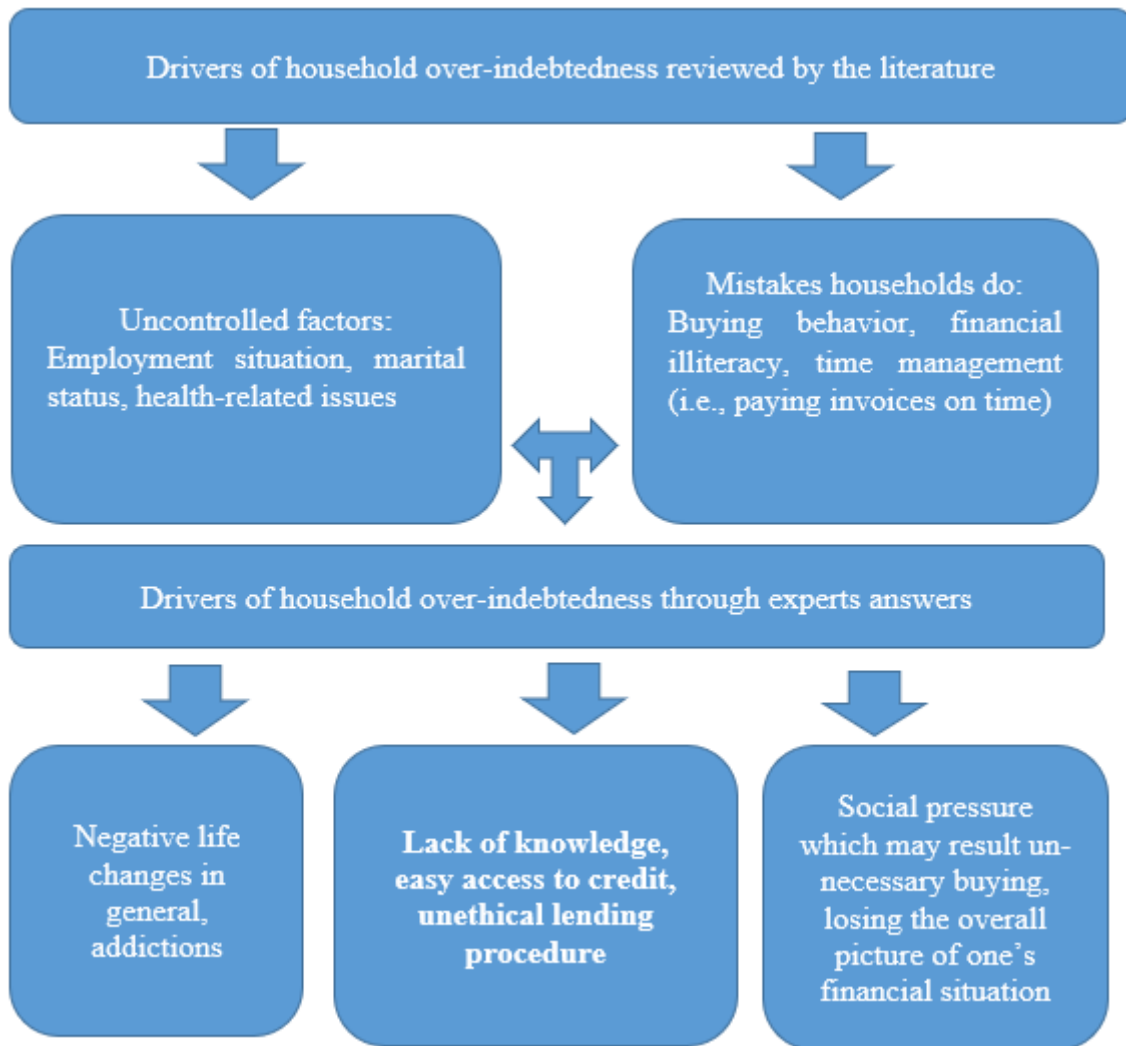
Place of residence:

Appendix 2. Common indicators of over-indebtedness

Category	Indicator
Cost of servicing debt	Households spending more than 30% (or 50%) of their gross monthly income on total borrowing repayments (secured and unsecured)
	Households spending more than 25% of their gross monthly income on unsecured repayments
	Households whose spending on total borrowing repayments takes them below the poverty line
Arrears	Households more than 2 months in arrears on a credit commitment or household bill
Number of loans	Households with 4 or more credit commitments
Subjective perception of burden	Households declaring that their borrowing repayments are a “heavy burden”

Source: D’Alessio, Iezzi 2013, 8

Appendix 3. The drivers of household over-indebtedness



Source: compiled by the author

