

Responsible lending and debt solving in the Netherlands

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Why?

Lots of research shows us that financial problems lead to social problems. Obvious classical issues such as social exclusion, easy access to the criminal scene etc are often discussed in this context. A problematic financial situation is not always the only source of problems but it is an important one.

Is it a governmental task?

Where the government regards social wellness as a governmental task, responsible credit and debt solving can be governmental tasks when the market does not take its responsibility.

In the Dutch situation a discrepancy is seen between the local and the national government. Although poverty is seen as a national problem, the solution for solving individual problems should be found in a regional approach with regional money. Political choices should be made taking into consideration to what extend debt solving in the pre-law phase is available for inhabitants.

How to organise?

Organising it from above (national government) instead of giving structure for realising a solution is a political discussion. Two main solution systems can be determined:

- Firstly, organising extreme financing by law. This can be done by restrictive lending, maximisation of interest rates etc.
- Secondly, facilitating an organisation for solving problems of indebtedness, organising insolvency structures.

It can be discussed whether one single approach will be able to prevent problems such as social exclusion as a mix or a combination seems preferable.

Dutch approach

The Dutch approach can be seen as a combination of both systems. In three stages it can be made clear:

1. Consumer laws are protecting clients from predatory lending and high interest rates. For example, no consumer interest rate is allowed go over 12%+euribor a year. Advertising should be "honest".
2. Banking laws restrict the types of company's dealing with money. There should be a certain quality/ethical level for being a "bank".
3. Local organised structures of municipal banks are strongly embedded in the world of financing and debt solving. Where the amicable or pre-law phase of debt solving doesn't succeed, the chance of a final solution in a three year clean debt history can be given.

The NVVK as national committee has made a rather strong political statement of influencing the national government for realising relevant laws. Although there are "just" 70 members of the NVVK they are a main source of information to the government.

Recently realised issues include:

- National registration of debts (€ 250 and up).
- National registration of debt solving clients. Lenders can check the financial "health" and then decide if additional lending is given.
- Debt solving activities (done by NVVK members) is free of taxes.

National legislation implements restrictions on lending and brokerage. A relevant control factor herein is the Dutch national bank. Local municipalities can support their inhabitants with a social bank and debt solving agency. The members of the NVVK belong to the municipalities and each one is serving one to fifty of them. So a national coverage is (nearly) realised.

Effects and results

The effects of the approach is in one way recognized by a permanent interest from the media, and the influence by the national government changing relevant law's. Additionally, the results are measured in several ways:

1. success rate of the amicable process
2. mentioning of social effects
3. appliance of products of the municipal banks

ad 1 Dealing with clients related to debts is much more than just interacting the amicable process between debtors and creditors. The balancing income process implicates that about 60 % of the financial problems of clients can be solved by instructions about money management and by facilitating the method of balancing income. The complexity of social problems and debts results in an appliance of the amicable process. The success rate by a solution in this final amicable process is about 25%.

Intake	100%	
Balancing income	60%	
Amicable proces	40%	75% failed 25% succes rate

This shows that about 70% can be solved in the pre-law phase.

ad 2 the social effects of preventing social exclusion and homelessness are hard to express in numbers, however some examples from landlords make clear that intervention by applying “balancing income” in great numbers (200 out of 1100 cases) can prevent homelessness. In this case the “saved costs” were up to € 1.5 mio (200 x€ 7.500) more examples can be given.

ad 3 As mentioned before, the municipal banks have nearly national coverage and therefore are accessible for almost every client. The system of controlled “money management” - where no debts are allowed – is a free choice of many clients which is used in a high number of cases.

Additional information is available at the website of the bank.

www.volkskredietbank.nl

www.volkskrediet.nl

Dutch method

A large range of products are presented as regards dealing with financial problems.

In a nutshell : the products are prevention, coaching, intake, restricted bank card, balancing income, balancing income by law, debt solving, responsible credit and debt solving by law (wsnp)

- Prevention: In the “pre client phase” an educational part at school, in companies or to individuals can take place. Training and courses (from one up to five times) are developed to support people in handling their money.
- Coaching: the individual method of supporting (from one up to six times) for giving instructions about insurances, financial housekeeping and etc are presented in a structured way.
- Intake is focused at analysing the problem. Solving the most critical elements (e.g. a roof above their head). Giving information about the ongoing process (debt solving and balancing income) and advice for the follow up. The follow up can also consist if the activation of an external social network.
- Restricted Bank card; a normal bank card, related to a special account where no debts are allowed. The use of the card is controlled and can be used during the learning programme of the client.
- Balancing income. Control of the client’s income by the bank. The two main strands are: balancing the income by an agreement between client and municipal bank, and the method forced by law (“bewindvoering”). A schedule is made about all the payments to debtors or the client himself, additional payments should be discussed.

The objectives are solving the problem and education with a systematic method of financial balancing.

- Debt solving, solving debts by an arrangement between clients and debtors. The procedure of solving the debts does have a strong formalised method. Rearrangement of the debts and financing them (partly) with the income of the client is also strictly controlled by the members of the NVVK. Another method of solving the problems is a refinancing through a loan of the municipal bank. (*Nb: especially this part is mostly called the “amicable process” however it is just a part of it*)
- Responsible credit. Small loans at low interest rates for mortgage in order to finance for example a washing machine. In essence no commercial activities are allowed, and with strong restrictions it is formalised (law fido) in dividing the market into social and commercial loans.
- “Bewindvoering”: similar to balancing income but forced by law.
- WSNP: debt solving applied by law. Maximized up to three years, after that, the client starts again with a clean balance sheet.

So it becomes clear that a large structure of supporting customers through controlling and dealing with debtors and their income is organised. The amicable process is just a part of the integrative approach of supporting a client in their money management.

Suppliers

Making clear how these products or services are presented, one should be aware that Holland has a large number of players in this market.

	Products	suppliers	How organised
A	Prevention	Municipal banks & Social workers	Regional organised National coverage
B	Coaching	Municipal banks & Social workers	Regional organised National coverage
C	Intake	Municipal banks & Social workers	Regional organised National coverage
D	Bank card restricted Balancing income Debt solving	Municipal banks Social workers	Regional organised National coverage
	Products	suppliers	How organised
E	Responsible credit	Municipal banks	Regional organised National coverage
F	“Bewindvoering”	Municipal banks	Regional organised National coverage
		Externals	
G	WSNP	Municipal banks	Regional organised National coverage
		Lawyers	National coverage

Social map

Consumer representatives

- Nibud
- Consumentenbond

Network organisations

- NVVK (municipal banks)
- MO-groep (social work)
- Divosa (board of social security managers)
- VNG (board of municipalities)

How is it financed?

Since debt solving and balancing income is seen as a task of the local government (owners of the municipal banks), the financing is mostly done by the local government. However, in the balancing income and “bewindvoering” part in some situations the final customer has to pay a fee for the services. For the banking organisation the relationship between social and responsible credit to the balancing income is one in a financial way. On their balancing income account no debts are allowed. So a “funding” for the responsible credit is herewith realised and implements a good financial result for the organisation.

Is it applicable in other countries?

Political will is necessary. Legislation should be created. The structure can be copied.

In essence it can be applied in every country, realising the weak parts of the construction being the dependence on the local policy level, a national structure is recommended. But the high level of effectiveness and problem solving (e.g. preventing homelessness) are strong recommendations for this approach.

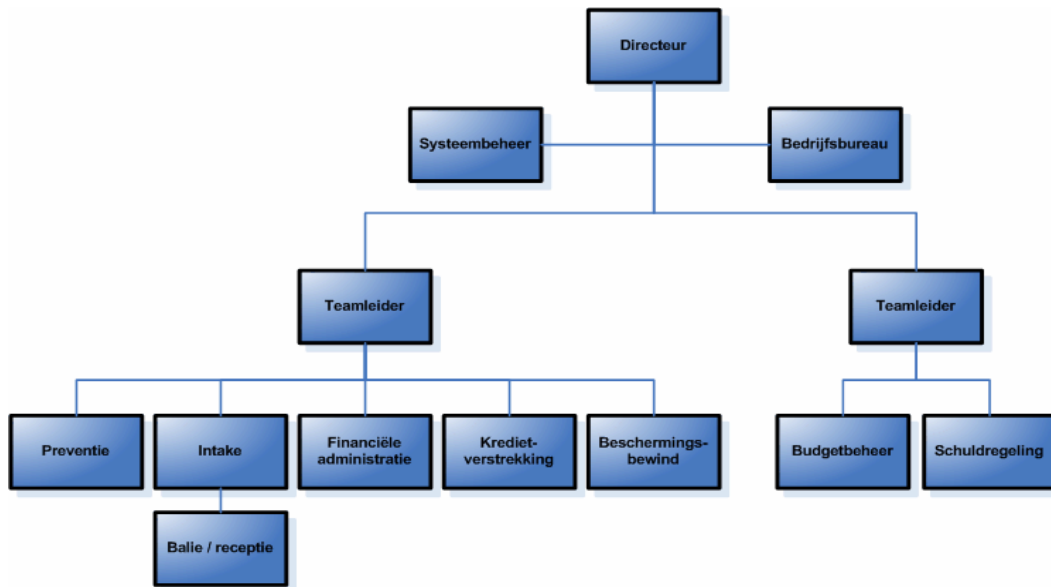
Organisation

The nature of the organisation is called a “gemeenschappelijke regeling (GR)”. In a certain way it can be compared with a limited (Ltd). The owners of this GR are several local municipalities. They are responsible for profits and losses of the organisation. The director is responsible to the board of mayors and has to supervise the daily activities and to advise the members of the board about the strategy of the organisation in the future.

H.L. Norder MBA

- Director volkskredietbank VKB
- Board member NVVK
- Board member Nibud
- Board member Progresz
- Board member SCS
- Member SBN
- Board member ECRC
- President comm HDBAssen

The following chart shows the several departments of the company. It should be noted that a scheme of the local bank is given.



Historical context

In the early 1920th's the economic situation was very bad. Churches and later the local governments were concerned about the people's handling of money. The "lommert" or "pandjeshuis" were established. The local governments of some municipalities created "social banks" for particular reasons; one could come to this bank when the financial perspectives were not outstanding. Nowadays, there are about forty banks in Holland working in this specific market, which have their roots in the early 1920th's.

In the late 90th's "schuldhulpverlening" was more been seen as a company goal and the organised municipalities redefined their strategy.

The defined products are:

- Prevention/ training/ coaching Intake / front office.
- Balancing income / "Bewindvoering".
- Solving debts
- Giving loans / Restricted Bank card

Members of the company

Looking to the map, it will be clear which municipalities are members of the company (GR).



Scope

The scope of the company is: correcting the financial misbalance in families and solving debts when there are financial problems, giving social loans where normally no loan is given by commercial banks, but to do it in an economic sufficient way.