

***ASSOFIN - CRIF - PROMETEIA***

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**CONSUMER CREDIT SURVEY**

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**ABSTRACT**

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## INTRODUCTION

The Survey is divided into five chapters, each of which addresses different aspects of the household credit market. In fact, though it focuses particular attention on the retail credit business, the Survey analyses the market as a whole, also based on the type of financial operator involved, and takes a look at the phenomenon of the growing recourse to borrowing of Italian families.

The first chapter describes macroeconomic scenario, also on a global scale, with special attention being given to the trends in the main explanatory variables and drivers of the demand for household credit.

The second chapter compares the pattern of development that has characterised the main financial operators in the market (general banks and specialised banks and financial institutions) with reference to:

- overall performance of the household credit market;
- performance of the consumer credit market;
- trend in the different lending instruments;
- breakdown of loans by product sector;
- composition of bank lending (general and specialised banks) to households and, more specifically, the trend in the mortgage market;
- regional trends in household credit.

The third chapter deals with the topic of risk in the consumer credit and mortgage markets. The analysis is conducted on the basis of overall market risk trends over the last 24 months, as revealed by the indexes developed using the information contained in the CRIF databank.

The fourth chapter illustrates the forecast scenario for the consumption of durable goods (by product sectors), consumer credit and other forms of bank lending to households (other than consumer credit) on a national and regional level (by macro-areas). On a national level an “index of coverage of durable goods consumption” has also been created. Applied to different product sectors, it provides an interesting indication into the grade of market penetration by general banks and specialised banks and financial institutions.

The fifth chapter is dedicated to household borrowing and contains an overview of trends, description and comparison with other major European countries.

With the aim of offering as complete a picture as possible of the different characteristics of the consumer credit market in the individual regions, the final part of the Survey includes a series of regional data with a detailed analysis of the main parameters specifically characterising the consumer credit and mortgage markets and their trends over time.

As always, the Survey relies on:

- the CRIF Credit Bureau database, as well as CRIF’s expertise in processing data on credit risks and on the performance of this market;
- the information structure and forecasts of Prometeia, as regards macroeconomic data and forecasts relating to the household credit market;
- the contribution of ASSOFIN, Italian Association of Consumer and Real Estate Credit, which represents the most important financial institutions operating in the consumer credit and property loan sectors, and is thus the most accredited source of statistics pertaining to this market.

## REPORT TOPICS

In 2003 the context determining the trends in the supply of and demand for household credit improved slightly in comparison to the previous year.

Real household disposable income grew in 2003 by 0.8% compared to 0.3% in 2002, but most importantly, per capita income resumed an upward trend and as consumer spending recovered, the consumption of durable goods increased accordingly (+1.8% in real terms). Moreover, unlike in the recent past, Italian households did not reduce their investments in financial and real estate assets; therefore they used the credit channel leverage in order to render their investment decisions compatible with the respective growth in income and consumption. In this context, Italian households increased their reliance on credit, which rose to 36.6% of disposable income, though remaining well below the levels observed in the USA and other major European countries.

The real estate market saw a further increase both in prices and in the number of transactions. Growth was also buoyed by a favourable trend in interest rates which, considered in relation to consumer price trends, signified a further reduction in the real cost of mortgages for Italian households.

As regards to the supply of consumer credit, the offering of loans at promotional rates continued to increase and the process of product innovation similarly continued, the aim being to lengthen repayment periods and shift the balance in the loan portfolio toward direct forms of lending. In the mortgage segment as well, supply-side policies were oriented toward a lengthening of repayment periods, which was further associated with a willingness to increase the extent of coverage in proportion to collateral the *Loan to Value ratio*.

Within the framework of reference outlined above, consumer credit balances continued to display brisk growth, + 9.6%, though down slightly from the growth reported in 2002 (+12.5%); the change, net of the effect of the securitisation of performing loans in the two years, may be estimated as about 10.7%. Growth was generated by the intensification of the activities of specialised banks and financial institutions. For their own part, general banks aimed at a broader distribution of the products of specialised banks and financial institutions through their networks.

As regards to the different instruments by which consumer credit is provided, the market confirmed last year's forecasts, with non-purposive credit and, within this category, revolving cards, showing a particularly strong uptrend.

Against this backdrop, consumer credit risk remained substantially stable at relatively modest levels, though it is worth pointing out a rising trend in minor delinquencies. Specialised financial institutions continued to report higher write-off rates than general banks, but the gap is progressively narrowing.

Shifting our focus to household mortgages, this segment grew by around 22%, basically matching the trend of the previous year. If we consider the segment of performing household mortgage loans as a whole – including, therefore, loans for property renovation and construction – growth stood at approximately 16% compared to 2002, though it is worth highlighting a significant acceleration compared to the previous period. In 2003 as well, the marked uptrend in the demand for mortgages confirmed the tendency of the Italian market to grow at a faster rate than real estate prices, a trend that is not seen either in France or the United Kingdom and is present only to a modest extent in Spain.

Overall risk in the household mortgage market rose slightly, though the increase is entirely ascribable to the trend in minor delinquencies.

In the current year and over the next two years the macroeconomic scenario should see a further accentuation of the positive factors driving the demand for consumer credit:

- this year gross household disposable income should in fact hold steady at growth rates similar to those in 2003 and then rise to 2% in 2005-2006;
- this year household spending for consumption is expected to grow at a slightly lower rate than in 2003; the recovery in the purchase of durable goods should instead confirm last year's growth; in the two years to come, average yearly growth should rise to around 3%;
- forecasts point to more marked growth in durable goods consumption in those sectors characterised by a lower penetration of credit (household appliances and furniture);
- financial markets are expected to show a very cautious trend toward a rates increase, and the cost of servicing debts will remain relatively modest for households.

With reference to mortgages, we may add some further factors affecting the evolution of the external context:

- a relative stabilisation in real estate values, as implied by the recent lengthening in negotiation times;
- a stabilisation, or slight reduction, in the propensity of families to prefer real estate investments to financial ones;
- a slight increase in the real cost of borrowing for households in the medium and long terms;
- the persistence of structural changes on the supply side, oriented toward more efficient products, longer repayment terms and a high loan to value ratio.

Consistently with the context of reference outlined above, the level of borrowing of Italian households is destined to increase, reaching approximately 41% in 2006, a level that is still very far, however, from those seen in other major European economies (from around 60% in France to 120% in the United Kingdom).

Throughout the forecast period, therefore, household credit should continue to grow at a steady rate – surpassing that predicted for disposable income and household consumption – and result in a further narrowing of the gap between the financial behaviour of Italian families and average European household borrowing rates. The forecasts for the consumer credit market suggest that balances will continue to grow at a brisk rate (+10.4% estimated for the end of the current year, and a yearly average of +13.6% in the two years to come), with an even more marked uptrend in the segment served by specialised banks and financial institutions. Despite the further growth in consumer credit, Italy will still remain at relatively modest levels as regards the ratio of loans to consumption, which is not expected exceed 10% in 2006, whereas this ratio is already higher than 15% in the other major European countries.

In the segment of mortgages we can also expect to see positive growth rates, albeit significantly lower than in the past two years: this year growth is expected to stand at around 16%, versus an average of 12% forecast for the period 2005-2006.

Finally, the scenario in terms of risk does not seem to imply any possible tensions either in the consumer credit or mortgage sectors.

The special focus of the present edition of the Survey aim to provide an interpretation of the trend in borrowing by Italian households, the extent to which families borrow and the role played by socio-economic factors.

The main conclusions of the Survey are as follows:

- a growing number of households are making recourse to credit, even in the presence of loans that have not been completely repaid; however, the increase in the number of pre-existing loans and in the overall amount of financial commitments is accompanied with an increase in the number of borrowers belonging to higher income families and a substantial balance between the amount of financial obligations and current income levels;
- it is precisely medium-high income households that are showing a more significant propensity to borrow; thus the borrowing rate is growing at a faster pace in this segment; families with an income from subordinate employment represent the majority of those seeking credit, but the changing behaviour on the supply side has also resulted in a growing presence of self-employed workers and other types of households with less certain sources of income;
- the increase in the borrowing of Italian households seems to be more the result of a change in financial behaviour and household budget management methods rather than the consequence of a general impoverishment of the families themselves;
- the relative increase in the number of households that are having trouble repaying their loans should be interpreted as a natural consequence of the growth in the credit business rather than as a symptom of an increasing inability of families to fulfil their debt obligations.