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INTRODUCTION

The Survey is divided into six chapters, each of which addresses different aspects of the household credit market. In fact, though it focuses particular attention on the consumer credit business, the Survey analyses market performance as a whole, also based on the type of financial operator involved, and seeks to provide insights into the phenomenon of the growing recourse to borrowing of Italian households.

The first chapter describes the macroeconomic scenario, also on a global scale, with a special focus on the drivers of the demand for credit expressed by households.

The second chapter compares the pattern of development that has characterised the main financial players 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;
- trends in credit according to loan type and purpose;
- composition of bank lending to households with a focus on mortgages.

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 database.

The fourth chapter illustrates the scenario for the domestic consumption of durable goods (by product sectors), consumer credit and other forms of bank lending to households (other than consumer credit). An “index of coverage of durable goods consumption”, broken down by product sector, has also been constructed for the segment of specialised banks and financial institutions.

The fifth chapter is dedicated to a geographical analysis based on macro-areas; it provides an overview of the macroeconomic scenario, as well as forecasts relating to consumer credit, associated risk trends and forms of bank lending to households other than consumer credit (mortgages and other loans).

The sixth chapter of this edition of the Survey takes a special look at lending to foreign-born households present in Italy.

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 Information System instalment credit 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 market and is thus the most accredited source of statistics pertaining to this market.
REPORT TOPICS

At the end of 2004 the overall demand for credit of Italian households showed an upward acceleration compared to the previous year, despite the environmental context not being particularly favourable.

Given the persistence of conditions of uncertainty tied to an economic recovery that is struggling to get off the ground, household spending showed relatively modest growth, lower even than the feeble increase in disposable income. The increase in consumption was mainly driven, however, by the demand for durable consumer goods, which is likely to have supported the demand for credit. Alongside the internal composition of consumption, there are other factors that explain the persistence of a strong demand for credit among households; some are linked to current economic conditions, such as interest rates, the real cost of borrowing and real estate market trends, while others are structural, tied to the behavioural and socio-demographic changes of households as well as the evolution of competition and financial innovation on the supply side. Also worth mentioning, in addition to these factors, is the further increase in the tied-up share of household financial portfolios and the consequent decrease in the opportunity cost of borrowing to cover temporary cash flow imbalances.

In this context the recourse of households to borrowing has grown, driven by the medium and long-term component, as reflected in the further increase in the borrowing rate, which now stands at around 39% versus 36% in 2003. Despite this, household borrowing is still modest in Italy compared to other industrial countries: in 2004 the ratio of total financial debts to GDP was 28% in Italy, versus 54% in the Euro zone and over 80% in the United States and United Kingdom.¹

On the consumer credit supply side 2004 saw a continuation in the trends toward product innovation, longer repayment periods and rising average loan amounts. Furthermore, there was a shift toward forms of direct lending, in particular personal loans and “cessione del quinto” arrangements, where loan payments are deducted directly from the borrower’s wages.

An intensification of competitive pressure has also characterised the mortgage market, generating further development on the supply side as regards the financial characteristics of the products offered. Moreover, the further shift in demand toward higher loan amounts and longer repayment periods have contributed to significantly reducing the gap which still persists between the characteristics of the Italian market and those prevalent in other major European countries. One of the main peculiarities of the Italian market is the large percentage of mortgages provided at interest rates pegged to money market trends. This phenomenon affects different regions to varying degrees: in southern Italy we may observe a lower prevalence of variable-rate mortgage loans compared to the regions of central and northern Italy. This is mainly due to the greater aversion to risk displayed by the average family in this part of the country.

Overall, growth of the credit provided to households by banks and specialised firms stood at 13.5% at the end of 2004, versus 10.2% in the previous year and was particularly strong both in the consumer credit and mortgage sectors. However, taking into account the available information about securitisation operations and the transfer of loan assets, which have continued to characterise this market to a relevant degree, the effective growth in household’s demand for credit appears to have been even greater than indicated above.

More specifically, in 2004 overall demand for consumer credit surged even more strongly, in terms of total outstanding, than in the previous year, with growth standing at 15.1% (compared to 13.5% in 2003). The uptrend in consumer credit was favourably by a series of factors of a structural nature, further reinforced by the economic context.

The coverage of consumption also rose: as regards consumer credit provided by specialised banks and financial institutions, the ratio of credit flows to consumption increased by over a percentage point in one year, from around 27% to around 28%. The product sectors benefiting in 2004 from the increased reliance on credit were “other tradable goods and services” and the furniture sector, buoyed also by promotional interest rates. Furthermore, consumption in the mobility sector, characterised by the highest index of credit penetration, displayed a further increase in coverage. This trend toward growing reliance on credit in household consumption decisions may receive an additional boost, in terms of global quantities and diversification of the types of consumer goods financed, through the further development of the large scale retail trade.²

¹ Source: Banca d’Italia - Annual Report, May 2005
² See the special section dedicated to this topic in the last edition of the Survey.
Of the approximately 63 billion euros of credit intermediated by financial operators in 2004, approximately 74% is accounted for in the balance sheets of specialised banks and financial institutions. Therefore, operators specialised in this business have consolidated their hold on the consumer credit segment: the market share held by general banks in fact shrunk, in terms of receivable balances, by almost two and a half percent in one year. The consumer credit model that characterises Italy and distinguishes it from other European countries is more greatly oriented toward the presence of specialised operators. This situation is accentuated by the policies of major banking groups, which increasingly delegate the consumer credit business to specialised product companies, and the growing tendency of small and medium-sized operators not belonging to groups to outsource their production processes.

For both categories of operators, a breakdown of consumer credit demand by type reveals livelier growth in all components of the non-purposive loan segment, i.e. personal loans, “cessione del quinto” loans (granted against the assignment of a portion, up to one fifth, of the borrower’s wages) and revolving credit cards.

Again in 2004, the trend in bank lending to households was influenced by a considerable expansion in the market for mortgages, which grew at a brisker rate than the other forms of credit offered to households. In particular, performing mortgage loans saw an increase of about 18%, up from 16% in 2003. However, net of the distorting effect of securitisation on financial data, the growth in the demand for mortgages appears to have been substantially stable in relation to the level of the previous year. In fact, the securitisation of real-estate loans fell 16% in 2004, involving an amount of approximately 7.4 billion euros in the year.

In such a context, the observations made in the previous issue of the Survey with respect to the quality of credit receive further confirmation. The data reported for the consumer credit sector in 2004 confirm the improvement in overall risk that has occurred in the past two years. Among the most serious forms of delinquency, the sharpest improvement has been seen in the write-off rate. Overall risk in the consumer credit segment has also been positively impacted by the vigorous improvement in the minor delinquency rate, which continued the downward trend marking the two-year period.

The progressive improvement in the quality of consumer credit may be ascribed to the significant reduction in the write-off rate within the sector of specialised banks and financial institutions, which has offset the slight worsening in this index for general banking sector. An analysis of credit quality according to bank size category further reveals that while the write-off rate was higher for large banks, it had slightly improved compared to 2003, whereas banks of more limited dimensions, above all small banks, saw a more significant worsening.

After a reversal in the positions that had characterised the first six months of 2004, in which specialised banks and financial institutions enjoyed a better quality of credit in comparison to general banks, at the end of 2004 the overall level of risk (write-off rate, serious delinquency and minor delinquency) appeared to be practically identical among the two categories of operators, as a result both of the financing structure and the converging approach to risk management, as well as the impact of the recent and ongoing reorganisation of banking groups, which are progressively shifting the consumer credit business to specialised product companies.

The risk trends within the market may however also have been influenced by securitisation operations and the transfer of loan assets — which among both general banks and specialised banks and financial providers is becoming increasingly a routine activity rather than a once-for-all event — as well as the different propensity to securitise/dispose of performing vs. non-performing loans.

In the mortgage segment, the total level of risk for general banks remained substantially stable. An analysis of the quality of credit according to bank size category confirms that in the mortgage market as well, large and medium-sized banks experienced a higher write-off rate while banks of more limited dimensions, above all small banks, saw a progressive worsening in this index.

The scenario for the end of the current year and the next two years points to a further increase in the borrowing rate of Italian households, again driven by the medium and long-term component, though a gap will remain between Italy and other major European countries.

The total volumes of credit provided to households by specialised banks and financial institutions should continue to grow at an elevated rate, despite gradually slowing down compared to the end of last year. Specifically, the increase for 2005 is expected to stand at around 12%, with growth falling off in subsequent years to an estimated 10% at the end of 2006 and 8% at the end of the forecast period.
Throughout the period in question we should continue to see a shift toward the mortgage and consumer credit components, a process that has been underway for several years now, consistently with the propensity shown by households toward longer-term borrowing (almost the totality of mortgages and a good portion of consumer credit being classifiable as such), and a gradual convergence between the borrowing decisions of Italian households and the average behaviour shown by their European counterparts.

Notwithstanding a macroeconomic scenario which projects a moderate economic recovery only starting from 2006 and the relatively modest growth in consumption, throughout the forecast period consumer credit should continue to enjoy elevated growth, surpassing that of overall lending to households. However, after a three-year period characterised by an accelerating uptrend, we may expect to see a gradual deceleration in the growth rate of this market, partly due to the forecast slackening in the consumption of durable goods: growth is predicted to settle at average values of just above 13% in 2005-2006 and around 12% in 2007.

On the other hand, the coverage of consumption through credit should increase further, thanks also to the support of marketing policies in the retail trade industry, which will continue to boost growth in the loan sector, especially in a context of more intense market competition, and also considering the gradual increase in the visibility of consumer credit as a tool supporting buying decisions within the framework of the household budget.

The consumer credit market will continue to be marked by a trend toward increasing specialisation as far as channels, products and processes are concerned and probably also by the presence of foreign operators in the market. Moreover, the regulatory innovations that have characterised these months, and which have specifically regarded "cessione del quinto" loans, should generate over the whole forecast period new volumes of medium/long-term credit guaranteed by employment contracts.

We may thus confirm a scenario of further specialisation in this business: forecasts by type of lender point in fact to a strengthening of the market share of specialised banks and institutions throughout the period considered; this phenomenon will be further accentuated by the transfer of business from general banks to specialised firms.

In upcoming years, with respect to the quality of consumer credit, the scenario suggests that risk within the market as a whole (general banks, specialised banks and institutions) will remain stable at current levels, at least during the 2005; risk indexes are expected to worsen slightly only at the end of the period of projection.

However, risk levels will continue to display different patterns among general banks and specialised banks and financial institutions. Specifically, specialised banks and financial institutions will continue to see on average a larger improvement in consumer credit risk levels in the two-year forecast period, while in the general banking sector the write-off rate will continue to worsen, confirming the trend observed in 2004.

Throughout the forecast period, performing household mortgage loans, buoyed mainly by homebuyer loans, should continue to experience dynamic growth, despite a gradual slackening. In particular, forecasts for the current year put growth at 16%, whereas the pace will decelerate more markedly in the next two years, settling at around 14% and 12% respectively in 2006 and 2007.

The evolution of the mortgage market will continue to be driven by a series of supply and demand side factors. An important contribution to the growth in demand will continue to be made by tax incentives for property renovation, whose effect will extend throughout the current year, and the limit to increases in the real cost of borrowing, which reflects both money market trends and the intensification of competitive pressure, in virtue of the good opportunities tied to this business in terms both of profitability and customer retention. On the supply side, the ongoing process of financial innovation launched by operators should continue, also resulting in a greater integration of service components into traditional products. Moreover, given prospects for a slow and gradual increase in market rates, the lengthening of repayment periods could be an important factor limiting the burden of paying loan instalments and consequently the risk levels. This phenomenon should be favoured, moreover, by the imminent market introduction of longer-term, low-risk instruments for collecting funds (covered bonds).

In this edition of the Survey we take a special look at credit granted to foreign-born households. Our analysis is focused on several types of financial behaviour of foreigners and the main aspects characterising their demand for consumer credit and mortgages, on the one hand, and on the other hand the dimensions and evolution of this demand and how financial intermediaries are responding.
The main points emerging from the analysis are the following:

- the presence of foreigners has become a structural feature of the Italian population; they represent an effective component of the real economy, showing a large potential for development as is evidenced by their growing presence in many job sectors. Migratory plans have become more stable and integrated and a large number of households, being in the initial stages of the life cycle, express a strong demand for goods and real estate and hence for financial services;
- notwithstanding the differences ascribable to different ethnic and cultural models, the financial behaviour of foreigners reveals a non-insignificant propensity to borrow and a growing demand for consumer credit and mortgages. Recourse to real estate loans is highest in Northern Italy, probably because of the better socio-occupational conditions, whereas the geographical distribution of consumer credit is directly related to the geographical distribution of foreigners;
- credit granted to foreigners in 2004 represents about 5% of total lending to households. Compared to standard customers, the demands of foreigners are tied more closely to such basic needs as a home and durable household goods. The demand for mortgage loans is in fact growing at a faster rate than the demand for consumer credit, while a breakdown of the latter reveals a higher growth of personal loans as opposed to purposive loans, which is a sign of a more mature and less transactional borrowing process, as is also evidenced by the lengthening of loan repayment periods and the increase in average loan amounts;
- the supply-side structure shows the traditional polarisation between general banks, which focus on mortgages, and specialised banks and financial institutions, focused on consumer credit. Growth rates are higher than among Italian customers, reflecting an alignment of financial behaviour on both the supply and demands sides.
- as regards loans to foreigners, there are no particular elements of risk to be highlighted. Though the empirical evidence could be biased by the relatively recent character of the practice of lending to immigrants, in consideration of the average times in which defaults and delinquencies manifest themselves after a loan has been taken out, the quality of loans has moved progressively into line with the average values associated with standard customers.