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# Payday Loans in Finland and the USA: Contrasting Legal Responses to Consumer Indebtedness

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<p><b>Abstract</b></p> <p>The purpose of the thesis is to indicate issues regarding payday loans and how the new law reform will affect the over-indebtedness of youth in Finland. I have used secondary research material for this thesis. The topic has been relevant in the current economic environment and therefore the best sources are news outlets such as The New York Times, CNBC and Kauppalehti. Data for this thesis has also been gathered from articles, literature, Finnish legislation and payday creditors webpage.</p> <p>The law reform has prohibited high cost consumer credit loans in Finnish markets. The creditors are facing decreased return for their loans. As a result, the creditors can no longer grant loans to insolvent consumers. The consumer credit information will become more essential in the decision-making process of the creditor. Therefore, the debt cycle of the over indebted consumers will decline as they are not able to receive new loan to repay their prior debts.</p> <p>The law has been reformed in order to protect consumers from the predatory payday lenders. Based on the findings many payday lenders have quit their operations leading to a decreased supply of small short-term loans. The remaining payday lenders offer higher credit limit to consumers with longer payback period. The regulation could also have the opposite effect as the consumers are able to withdraw higher amount of loan with longer payback period. Prohibiting high cost loans will not solve the primary issue of the consumers.</p>	
Keywords	Instalment credit, constant credit, interest rate, nominal interest rate, annual percentage rate (APR)

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## 1 Introduction

A payday loan or instant loan is a relatively small loan borrowed at a high interest rate with short payback period. Payday loan is as its name suggests a loan which is usually agreed to be repaid when the borrower receives their next wages. Recently, there has been a lot of controversy surrounding payday loan companies for not operating ethically. Payday companies are criticised for taking advantage of customers that are vulnerable and willing to accept any terms in order to receive a quick money solution.

The previous regulations in Finland regarding the payday loan companies were implemented on 2013. The prior law was set to regulate consumer credit loans below the amount of 2 000 euros. Companies offering payday loans could no longer collect higher annual percentage rate of 50% on loans below 2 000€.

This has led to less companies offering small instant loans and the industry shifting towards granting higher amounts of debt at once. Companies more commonly grant flexible loans of over 2000€ to customers wishing to receive smaller amount. A flexible loan is a credit loan which can be used by taking either small loans or a large sum at once. The flexible credit has a limit until which point the loan can be used. By offering flexible credit of over 2 000€ the companies can avoid the law and collect higher interest rates from loans below 2 000€. Customers requesting a 100€ loan can be granted a flexible loan of over 2 000€ and pay back a higher real annual interest rate for the smaller amount of loan (Yli-Korhonen, 2018).

The Finance Committee "Talousvaliokunta" is a Finnish parliament committee that deals with legislative matters regarding taxes and financial matters. The Finance Committee has presented new interest rate cap of 20 percent for all consumer credit loans. On 1 September 2019 a nominal interest rate cap of 20 percent came to effect. Under the law reform the operational costs regarding payday loans must not exceed 0,01 percent per day and at most it may not exceed EUR 150 a year. The new regulations are going to affect all consumer credit loans meaning it will also affect payday loans above EUR 2000. The interest rate cap will change the payday loan industry and make these companies' operations less profitable.

## 1.1 Research methods

Payday loan is a relevant topic for the current economic environment and there are many studies and surveys conducted regarding payday loans. The thesis is based on secondary research material. The information for the thesis is mostly collected from many articles, literature and news outlets such as The New York Times, CNBC and Kauppalehti. Understanding consumer behaviour is very important for this topic as well as understanding the reasoning for youth borrowing. The study conducted by Finanssiäläly has been a crucial source of information as it indicates the changes in consumer savings, borrowing and payment methods. The survey conducted by Finanssiäläly compares the results of spending and borrowing to previous years. Another essential research question has been the reason for youth borrowing. Finnish ministry of trade and industry has conducted a study on the reasoning for young consumers borrowing a payday loan.

In the beginning of the thesis I have shortly described payday loans and the main benefits and disadvantages regarding the loans. The thesis also contains research on consumer behaviour and how the consumer markets have changed in Finland. For this thesis I have mainly focussed on the consumer behaviour of youth and how they will be affected by the new law reform. I have also presented the United States as a comparison to the Finnish payday loan markets. Overall, the main purpose of the research is to understand how the payday loan offerings are affected by the new law reform and how it will affect the over indebtedness of consumers. Therefore, I had to understand the Finnish legislation and realise its correlation with the consumer credit offerings. Finnish consumer protection law has been an important source in determining the payday lenders' operations. However, the thesis only contains parts of the consumer protection law that are most relevant to payday lenders' operations.

## 2 What Is a Payday Loan?

A payday loan is a small, short-term credit which can be granted through an online application or a text message. This form of consumer credit has originated from the United States of America. Payday loan was originally repaid in a single payment by the customer's next payday. The loan was commonly due within two to four weeks from the

date the loan was made. Payday loans have been in Finnish markets since 2005. The industry has grown rapidly while also receiving backlash.

Currently there are many forms of payday loans over the world. Mainly the payday loans are divided into two credit subgroups. The payday loan can either be a one-time credit or a constant credit. Constant credit is a consumer credit which can be used continuously till the set limit. The loan has a credit limit up to which it can be used without any impediment. One-time credit on the other hand is a credit amount which is granted to a customer at a given moment. The consumer receives the agreed sum of money which is expected to be repaid as planned. The flexible credit is continuous, meaning that once the customer has repaid some of the credit, it can withdraw again up to the set limit. The customer of a constant credit can reborrow the money till the set limit once the credit has been repaid. The payday loan can be either repaid in a single payment or by smaller instalments. More commonly in Finland the payday loans are repaid in instalments.

The payday loans in the United States are commonly repaid in a single instalment. If a customer cannot repay the total debt by the agreed date, the loan can be rolled over. Rolling over a loan means that the consumer will extend the period in which the loan is expected to be repaid. Rolling over a loan results in additional costs for the consumer.

Payday loans are associated with high interest rates and operational costs. Payday loan companies charge an account management fee, a credit opening fee and a withdrawal fee. Nominal interest rate is the percentage rate charged on the loan. The nominal interest is calculated monthly yet informed as an annual interest rate and it does not include inflation. The annual percentage rate (APR) on the other hand takes into consideration all the interest and operational costs. It gives realistic information of the true costs of the loan. The annual percentage rate is the real interest of the loan when considering the management fee, credit opening fee and withdrawal fee. The annual percentage rate varies depending on how often the consumer withdraws the loan and how often the instalments' due dates are postponed.

## 2.1 Benefits of payday lending

Payday loans have been criticised for their unethical behaviour. However, they have also provided positive customer service to many consumers needing short and quick money



solutions. For some customers the loan has been needed in order to fund their unexpected costs.

Payday loans are quick and easy money solutions for customers. Consumers in need of a loan can receive money through a text or computer application in matters of minutes. For some, it was more beneficial to borrow an instant loan than to suffer the consequences of paying a bill too late. If a customer's electricity service is shut off, that will cause high expenses and a lot of time in order to regain the service. Besides the time and money caused to correct the situation, there are also high debt collection fees related to overdue bills. Therefore, the cost of the overdue bill can be more significant than the costs of borrowing a payday loan. If the electricity is cut off due to delayed payment, there will be high costs and a lot of time required in order to regain the electricity. The opportunity cost of a payday loan is higher and therefore the payday loan may be viewed as beneficial for some consumers.

For consumers a bounced check is more expensive than a payday loan. Therefore, payday loans are perceived as beneficial for consumers that would have otherwise bounced checks. Two thirds of consumers have reported avoiding bounced checks as a benefit of payday loans. Mainstream banks also compete with payday lenders by offering overdraft credit. The depositories offer an overdraft credit limit to consumers in order to avoid bounced checks. The depositories offer bounce protection by offering an overdraft credit limit. Therefore, consumers are able to make transactions that would have otherwise overdrawn their accounts. If the bank does not allow the customer to overdraw from the account, it returns the check and charges a high insufficient funds fee. Returning or bounced checks contain high insufficient fund fees. Under the bounce protection the banks offer a credit limit that the customer can overdraw from the account balance up to the set limit. For each overdraft transaction they charge a flat fee regardless of the amount borrowed. The mainstream banks have also been highly criticized for their high-priced overdraft credit loans.

The overdraft fees are however 5 percent lower following payday prohibitions (Melzer, Morgan. 2015). In the absence of payday lenders, the depositories also offer a lower credit limit on average. The depositories are motivated to offer higher overdraft limits with higher expenses in the presence of payday lenders.

The nature of employment has also transformed into more short-term contracts and part-time positions. Today it is common to work as a freelancer or as a part-time employee, which can lead to fluctuating income. Some months the pay might be steady and sufficient while at other times the employee might receive their salary late or not receive it at all. The delay in pay could affect the employee's ability to pay living expenses such as rent and other necessities. Therefore, many also rely for a short-term payment option until they receive their next wage.

Banning the payday loan industry altogether might also cause harm to low- and middle-income consumers that need a short-term loan. Not all consumers misuse the payday loan, some consumers use the loan for the intended purpose. Many consumers also repay the loans as initially planned and do not rely on payday loans for extended periods (Lawrence and Elliehausen, 2008). Therefore, the payday loan has been benefitting some consumers.

## 2.2 Disadvantages of payday loans

Overall, there are both positives and negatives related to payday loans. The companies are the ones mostly benefiting from the current arrangements of high interest and operational costs. However, the payday loans have also been beneficial to some costumers. Payday loans have a great consequence on many vulnerable customers that might not have the ability to pay back the loan.

Many politicians have also highlighted the importance of transparency of the real costs related to the instant loans. Customers receiving a payday loan may not even understand the real annual interest rate of the loans. The Finnish companies are currently charging high operation costs and interest rates which can lead to 400% (as of 21 March 2019) real annual percentage rate for the loans. Due to charging high costs for the loans the companies do not care about the individual customer's ability to pay back the loan in order for their operations to be profitable. As long as interest is paid, they can allow customers to "roll over" the loans, thereby increasing the income earned from the loan.

Payday companies offer loans to customers with very little qualifications. Any consumer above the age 18 or 21 with basic income can receive a payday loan. Employment is not required for many instances and neither is the payment default entry a barrier for

receiving an instant loan. The payday companies grant loans to customers that do not have the ability to pay back the loan. The companies do not conduct an extensive credit investigation on consumers. In many cases the companies do not research background information such as does the customer have other loans from other institutions. The companies grant loans to consumers regardless if they have prior debt. Many payday loan customers have other loans from other institutions. The customers may take a new loan in order to payback the old one. This will lead to a high interest debt cycle.

The vulnerable customers will be the ones facing most consequences and difficulties regarding payback of the high interest loans. The payday loan customers have limited and constrained income, meaning that they have often higher costs than earnings. For some consumers, borrowing a payday loan is the only financial solution. The consumers with low income will be most affected by the loans. Not only are the payday loans associated with high costs and interest rates but also borrowing an instant loan will affect the unemployment benefit (Korelainen, 2015). The amount borrowed will be counted as income for the unemployed which can lower the unemployment allowance. Meaning that the unemployed could also be facing a lower income while also facing high interest and operational costs for their loans. This will lead to an even further debt spiral.

In Finland the unemployed have the right to receive unemployment benefits. However, the amount of payday loans borrowed may be counted as income and therefore affect the unemployment allowance granted. The costs of taking the payday loans are not counted as costs in the unemployment benefit support, which is why it will even further leave the customers in a more difficult financial situation. People with low income often must yield to the costly financial solution as they may not be eligible for other loans. However, limiting the payday loan companies will not affect the initial problem, which is lack of money (O'Connor S. 2019).

### **3 Consumer credit market in Finland**

During the 1960s there were tight regulations in Finland regarding financial markets. The regulations were mostly affecting interest rates, credit supply, savings and deposits. Savings were encouraged during the period and credit loans were associated with low financial stability. The Finnish economy has since shifted towards a more liberal credit market (Partala, S. 2018). Therefore, consumer credit has become more common

among Finnish consumers. In fact, by 1 January 2020 there are 386 000 people in Finland registered as having a payment default entry (Aikkila, E. 2020).

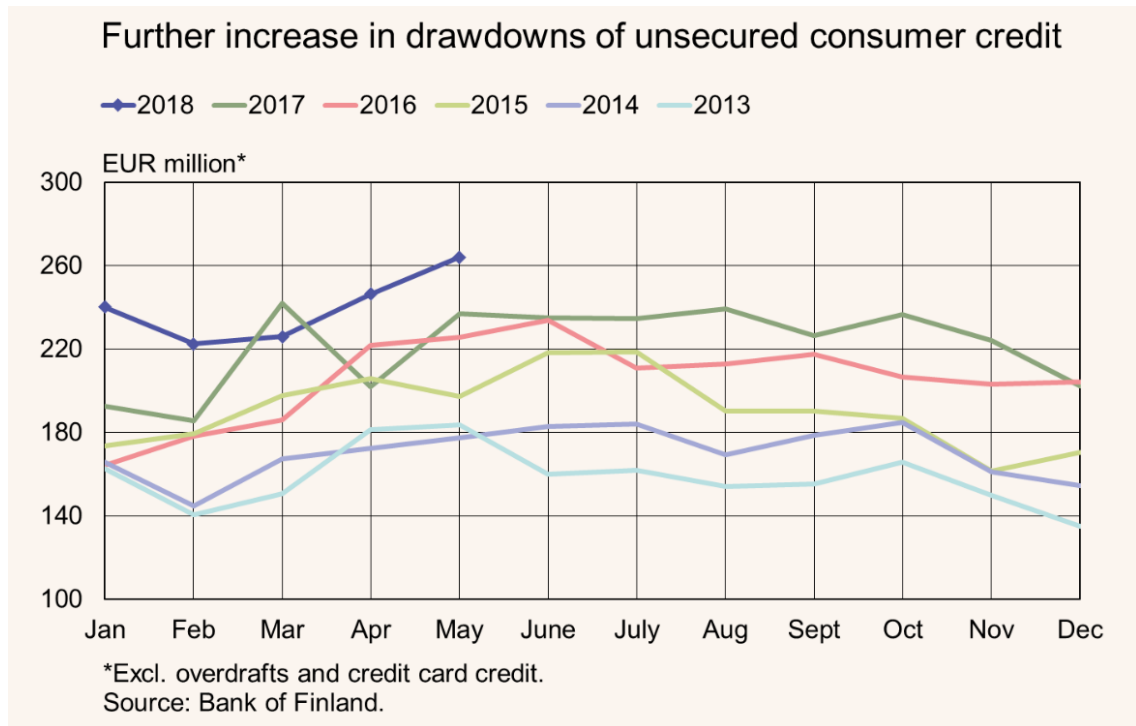
Financial regulation has been decreased since the 1960s. Currently credit debt has become common among all consumers. Many consumers began earning a stable wage since the industrialization of Finland. Therefore, many have faced increasing solvency. People began moving to cities as of result of industrialization. Consumers were no longer as self-sufficient, as the consumers gained stable employment.

During 1970's the consumers had more disposable income, which led to increases in consumption. Consumers had more options in pursuing their personal needs through individualism. Consumers started to save less while simultaneously spending more. Individuality became more essential culturally, and consumers began pursuing personal wants such as travelling or free time spending. Similarly, the government increased its spending which greatly expanded the provision of welfare services.

During the same timeframe television started to increase in popularity. Television became more common amongst Finnish households. Finnish consumers started to gain influence from American culture. The spending culture also gained more popularity during the 1980s, which led ultimately to overheating of the economy and eventually to depression in the early 1990s.

Due to the changes in peoples' mindsets, incomes and regulations, consumer credit has become a common payment solution used by many in the current economic environment.

Figure 1. The drawdown of unsecured consumer credit from 2013 till 2018 (Finlands Bank, 2018)



The figure 1 indicates the amount of unsecured consumer credit borrowed in Finland in the years 2013 to 2018. The amount of credit borrowed has increased each year. In May 2018, the drawdowns of consumer credit were at a record high, EUR 264 million. The average interest rate of a consumer credit has also increased by 0,5 percent. Therefore, the average interest rate for consumer credit was 5,7 percent in May 2018. However, there are great differences between the interest rate offered by the depositories compared to other institutions that are centred around offering only consumer credit loans such as payday lenders. The average interest rate of a depository institutions was 4,6 percent while the institutions offering consumer credit charged an average rate of 16,6 percent.

In the current economic environment, the reason for bankruptcy is more commonly due to consumer credit and payday loans, whereas in 1990 the most common reason for bankruptcy was the economic conditions (Aalto, H. 2020). Figure 1 also indicates that unsecured consumer credit is becoming more common among consumers regardless of increasing interest rates. This also suggests that many consumers do not have financial literacy.

## 4 Over indebtedness of consumers

Finanssiala ry conducted a study that indicates changes in consumer borrowing and saving, and changes in payment methods. The study surveyed 2500 consumers aged between 15-79 years. According to the findings of the research, 41 percent of consumers below the age 18 plan their monetary situation for no longer than a month. However, 60 percent of consumers over the age of 65 plan their finances for up to a year. And a fifth of the consumers in the age of 65 will not plan their monetary situation. According the study the 65-year-old consumers are more conservative regarding their spending. In 2017, 28 percent of the young consumers in the age of 18-24 used to plan their finances maximum of one month. In 2019, however, 34 percent of the same age group used to plan their finances for maximum of one month (Kuhno, R. Erkkilä, E. 2019).

Overall, one fourth of all Finnish consumers currently have consumer credit. Consumer credit borrowers were most commonly aged between 35 and 54. Consumers below the age of 25 years and above the age of 65 years have less commonly a consumer credit. The research indicates that 1,5 percent of Finnish consumers have borrowed a payday loan over the past 12 months. The consumers aged between 45 and 54 took more significantly a payday loan. The working class was most subjected to payday loans. Similarly, consumer which have a deficit of income borrow payday loans at a higher rate than other consumers. The consumers in the ages of 25 or 75-79 had most likely higher costs than income meaning a deficit of income (Kuhno, R. Erkkilä, E. 2019).

Figure 2. The amount of payday loans borrowed in Finland from years 2015 to 2019 (Kuhno, R. Erkkilä, E. 2019)

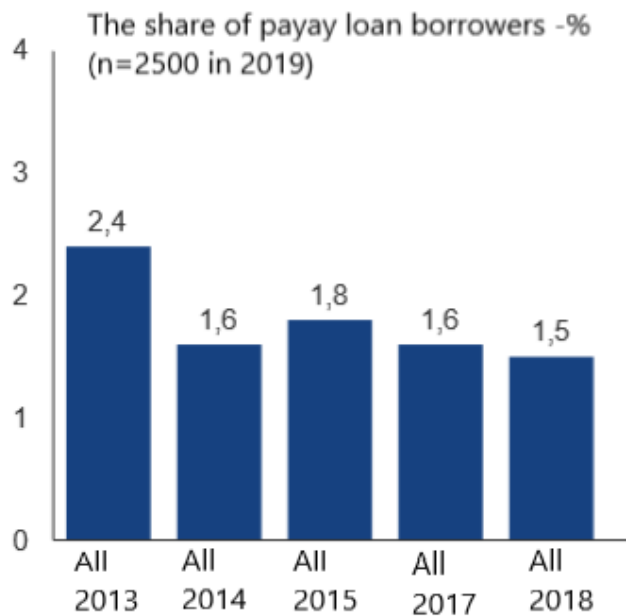


Figure 2 indicates the number of consumers that have borrowed a payday loan in each year from 2013 - 2019. The chart indicates the overall number of consumers borrowing the payday loan over the past year. It also demonstrates how payday lending has evolved over the years. There has been a slight decrease of payday loan borrowings in 2019 compared to prior years. In 2019, 1,5 percent of consumers have borrowed payday loans in the past year. Between 2017 and 2019 there has been a slight decrease of 0,1 percent of people borrowing payday loans. In 2013 the number of consumers borrowing payday loans were at 2,4 percent. The study illustrated that the payday loan borrowing has decreased over the past six years.

Figure 3. The amount of payday loans borrowed in Finland (Kuhno, R. Erkkilä, E. 2019)

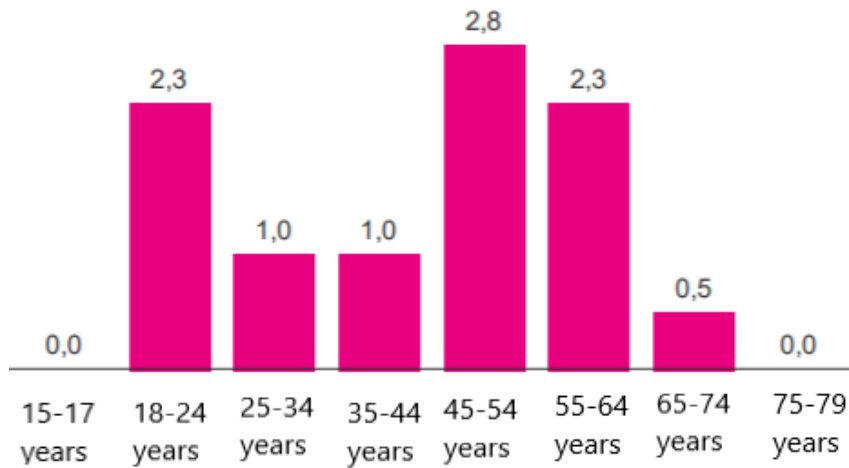


Figure 3 indicates the different age demographics that were taking the loans. Payday loans were most borrowed by consumers in the ages between 45-54-years. The consumers aged between 18-24-years have also an above average rate of payday loans. This is not a good indication for the Finnish youth.

Consumers that have borrowed a payday loan are more likely to have also borrowed other consumer credit from traditional banks. Consumers that have borrowed payday loans have an average of three payday loans over the past 12 months. 76 percent of the payday borrowers have borrowed more than once in the past year, indicating that many payday borrowers will get trapped in a debt cycle (Kuhno, R. Erkkilä, E. 2019, 6).

In Spring of 2015 a study was conducted for young consumers aged between 18 to 35 years (Majamaa, A. K., Rantala, K. E., Sarasoja, L. M., 2016). Only 4,9 percent of the surveyed consumers had a payday loan or a flexible credit during the time they were surveyed. The study also researched collection rulings of consumers aged between 18 and 35. The research founded that only 4,9 percent of the surveyed consumers had a payday loan or a flexible credit at that moment. Payday loans or other consumer credit were common reasons for a ruling for consumers aged between 18 and 35. According to the study many collection rulings of young consumers were due to payday loans, flexible credit or a Phone bill. The collection rulings regarding payday loans have



decreased due to the law reform of 2013 (Laki kuluttajaluojalain 7 luvun muuttamisesta 15.3.2013/ 207). The 2013 legislation was created in order to regulate payday loan companies' operations by setting an interest rate cap of 50 percent for loans below EUR 2000. The law reform helped reduce the amount of payday lenders therefore resulting in a decreased supply of the loans. Less consumers were overindebted due to payday loans. However, the payday loan institutions began offering greater loans to consumers. Many of the payday loan institutions began offering over 2000-euro loans in order to avoid the legislation. Therefore, the average amount of debt per debtor increased as a result. The average amount of unpaid credit in 2013 was EUR 2000 while in 2014-2016 it was a little over EUR 3000. This indicates that while the number of rulings caused by payday loans have decreased the average amount of debt has increased.

The Finnish Ministry of Trade and Industry has conducted a survey of 1951 consumers aged between 18 and 29. The study indicated reasons for youth consumer borrowings. The most common reason for consumer borrowing was the lack of money (Kaartinen and Lähteenmaa, 2006). The payday loan borrowers were more commonly in low income brackets or unemployed. Furthermore, single parent households were more likely to borrow a payday loan compared to other forms of family.

The survey researched people's financial behaviour and concluded that more responsible consumers were the ones least likely to take any payday loans or any other consumer credit. The payday loan customers more often had low understanding of the real costs of the loans. The young people who had been taking payday loans were least likely to claim that they understood the real cost of instant loans. Financial literacy is an essential skill needed for many consumers in order to avoid over indebtedness.

The survey also consisted of an open question section where 179 people wrote the reasons for borrowing payday loans. The most common reason for the instant loan was the lack of money and the need for necessities such as food or paying bills. Consumers have also borrowed the high cost loans for free time activities such as partying, gambling and stimulants. Other reasons for borrowing a payday loan was that the consumer could cover costs related to their cars and for fuel.

## 5 The Target Market

Defining a target market, a specific demographic that would most likely be interested in the offered goods or services is crucial for all industries. The payday lenders target asset-limited, income-constrained and employed consumers (O'Connor, S. 2018). The target demographic is called "Alice". The targeted consumers work at a "non-offshorable service sector" and are not able to cover all their costs. The target demographic is generally undereducated and therefore it is difficult for them to advance above their income bracket. It is preferred for the customer to be employed rather than unemployed. However, the customer usually has a low-paid and volatile employment.

After the recession of 2008 the nature of employment has shifted towards zero-hour contracts, short-term contracts and part time-employments. Businesses tried managing their expenses by offering employees hours to match the demand (O'Connor, S. 2018). As a result, many blue-collar and service sector employees had fewer working hours in a month. The potential customers were facing lower income while their living expenses remained the same as before. As I earlier mentioned, the most common reason for borrowing a payday loan is the lack of money. Therefore, Illegalising payday loans will not resolve the main issue.

Payday loans were commonly borrowed for food and other daily necessities, paying debt and rent. Payday borrowers also differ from each other. Some payday borrowings were in connection with deprivations and unexpected costs. Other payday borrowers have present-minded biases or financial illiteracy.

## 6 The legal aspect of Payday lending in Finland

### 6.1 The required information in Advertising

Compared to other countries Finnish payday lenders are more transparent in their operations. The advertisements must entail the following information of the interest and other costs related to the loan. The company must also inform the customer of the credit limit, number of instalments required in order to repay the loan and the duration of the agreement. The lender must also inform the full costs of the loan which in turn will help the customers receive a realistic view of the total costs. The real annual

interest rate must be mentioned in the advertisement and the terms must in accordance with the law.

The advertisement must also indicate in case there are down payments needed for goods purchased. In case the consumer credit is in connection with purchasing goods, the advertiser must also inform the customer of the amount of down payment. Also, in case the credit approval requires an insurance or another service that requires an undetermined amount, the advertisement must also inform of the requirement.

## **6.2 HE 64/2009**

The 2009 law amendment was created in order to restrict consumer credit markets and payday lenders. The creditor must follow the verification standards which consist of electronic identification and electronic signature, which is according to the following law (617/2009) 8 §. If the consumer has once done the verification process, he/she may use personal identification.

According to the Consumer Protection Act the lender cannot grant a consumer credit in between the hours of 23 till 7 am (9 c §). The consumers may receive a loan between the hours of 7 and 23. If a consumer does apply after 23, he/she will not receive a credit decision and is not able to withdraw the money until the following day starting from 7 am. However, a customer that has been granted a flexible credit may withdraw the loan during all hours of the day. Customers may withdraw the loan up to the set limit.

In cases of distant selling the customer must also receive a copy of the contract which must contain all the required information. The customer may also cancel the credit agreement within 14 days of agreeing to the contract. The customer may also cancel the agreement later if the lender has not provided the necessary information or if the lender has not sent the copy of the credit agreement. However, the consumer may not cancel the contract if both the lender and borrower have followed the requirements accordingly. In cases that the customer has cancelled their credit contracts, the lender may request the agreed real annual interest rate for the period that the customer had withdrawn the money (11 b §). The lender may not request the interest payments in case it had neglected to inform the customer of the required information such as the interest rate.

The lender cannot receive interest in case the contract has been created without the explicit request of the customer.

The customer must also return the money within 30 days of cancellation otherwise the contract continues as agreed. The customer may abstain from its obligation until the lender has fulfilled its own responsibilities. Within 30 days of the cancellation the lender must return all the instalments paid by the customer except the amount of real annual interest rate for the period that the customer had borrowed the capital (11 c §). The following laws are monitored by the Consumer Ombudsman, the Finnish Competition and Consumer Authority, and the Financial Supervision Authority (Finanssivalvonta) (24 §).

### **6.3 HE 24/2010**

In 2010 there was second law created which also affected the payday loan companies. It was created in order to unify the Finnish law with the European parliament and council's directive (Ahtiainen. A, 2014). The new law was created to make changes on the consumer credit law chapter 7 in regard to credit and hire-purchase law. According to the new law the creditors must also register as a lender. A company wanting to offer a consumer credit must make a statement for Etelä-Suomen aluehallintovirasto. A creditor is only able to grant loans if it has been registered as a lender.

### **6.4 HE 78/2012**

On 1 June 2013 a new interest rate cap was implemented in order to protect consumers from high interest payday loans. The amendment was expected to decrease the cost and the number of payday loan companies. The new legislation was presented by the cabinet in order to create changes to the consumer credit law, chapter 7 section 3§ subsection 1, 13§, 14§ and 22§ subsection 1. Besides changing the already existing laws, the 207/2013 also added a new subsection (17 a §) to the chapter 7. A new legislation was created to regulate the high cost payday loans. The new interest rate cap of 50 percent was set to regulate consumer loans below 2000 euros.

The main objective for the new law was to control the overall costs of the payday loans for customers. However, this would mean that companies would gain less profit for the

same loans, which would mean that they could no longer grant loans to solvent consumers. Therefore, the companies would be forced to conduct credit investigations for consumers before granting the loans. The law was created in order to protect the consumers. The law was also created so that the consumers would be able to receive small credit with a more reasonable cost.

## **6.5 HE 230/2018**

On 1 September 2019 the Finance Committee implemented new regulations for consumer loans. The new regulations are going to affect all consumer credit loans meaning it will also affect payday loans above EUR 2 000. The new nominal interest rate cap is 20% for all consumer credit loans. The new legislation also restricts the amount of operational costs that the creditors can collect.

The costs related to payday loans are account management fee, credit opening fee and withdrawal fee. The operational costs may not exceed the amount of 0,01 percent per day from the borrowed credit or the credit limit of the contract. The earlier mentioned fees cannot exceed the amount of 150 euros in a year.

The new law will forcibly change the industry and make these companies operations less profitable. The companies will receive less interest on the loans granted after the 1<sup>st</sup> of September. The companies are no longer receiving high return for their high-risk operations. It is no longer profitable for the companies to borrow loans to customers with no ability to repay the loan. The payday lenders are therefore forced to research customer background information. The companies' operations will be less profitable and therefore the companies must be more careful in their decision-making. As their profit margins decrease, the companies are forced to consider their customers' ability to payback their loans. The new law does not however affect the loans granted prior to 1 September 2019.

## **7 How has the Payday Loan industry been affected by the law of 2013?**

The consumer protection law was altered in 2013 so that consumer credit below EUR 2000 would have an interest rate cap of 50 percent. Therefore, the companies could no longer charge a higher average percentage rate of 50 percent for consumer loans below

EUR 2000. The payday lenders could no longer receive a high return for their small loans. Therefore, many payday lenders started offering above EUR 2000 loans with a longer payback period. Offering over EUR 2000 loans became a loophole for many consumers that many companies started implementing.

The companies began offering flexible credit in order to avoid the interest rate cap. Flexible credit is a loan that can be used continuously up to the set credit limit. By offering over 2000-euro loans the companies could avoid the interest rate cap of 50 percent. As I have earlier mentioned after 2013 the amount of evictions due to payday loans have decreased however the total amount of debt leading to eviction has increased. This indicates that less consumers are borrowing money while simultaneously the ones borrowing are withdrawing higher sums of payday loans. However, the amount borrowed has decreased meaning that the ones that borrow money withdraw higher sum of payday loans. (HE 78/2012)

The flexible credit has a limit up to which point the loan can be used. If a customer has a flexible loan of 2000 euros, he/she can borrow up to 2000 euros and once the debt is paid the customer can continue borrowing till the limit. By offering flexible credit of over 2 000 euros the companies can avoid the law and collect higher interest rates from loans below 2 000 euros. Customers requesting a 100 euros loan can be granted a flexible loan of over 2 000 euros and pay back a higher real annual interest rate for the smaller amount of loan (Yli-Korhonen, 2018).

Several companies that have once belonged to 'Suomen Pienlainayhdistys ry' have now closed their operations due to the 2013 regulation. Suomen Pienlainayhdistys ry was an association that focuses on following and creating new consumer credit guidelines for its member companies. The association consisted of 13 payday lenders, including the largest payday lenders in Finland. Besides following an ethical credit lending guideline, the association also intended to increase the transparency of the real costs for the customers. Suomen Pienlainayhdistys ry ended its operations on 2013 due to the consumer protection law (207/2013). Many of its members, however, continued their operations after the legislation came to effect on 2013.

Figure 4. The member companies of Suomen Pienlainayhdistys ry (Ahtiainen, A. 2014)

1. Ainalaina Oy	Netford Capital Ltd Oy
2. Ferratum	Ferratum Finland Oy
3. Capitem Oy	Ab Botnia Finance Ab
4. Get Capital	Get Capital Oy
5. Monetti	Folkia AS
6. Pikavippi	OPR-Vakuus Oy
7. Rahapuu	Maxmani Oy
8. Reissuluotto	J.W.-Yhtiöt Oy
9. Riscum	DFC Nordic Oyj
10. Suomivippi	NDN-Yhtiö Oy
11. Terrarahoitus	Terrarahoitus Oy
12. Viestilaina	Suomen Viestilaina Oy
13. Vippi.fi	Vipster Oy

Some companies adjusted to the law while others had to quit their operations because it was no longer profitable for them to operate in the new environment. Rahapuu and Viestilaina closed their operations due to the interest rate cap of 50 percent for all loans below EUR 2000. Viestilaina halted its operations on 31.5.2013 due to the new legislation regarding payday loans. The parent company of Viestilaina, C Finance Oy, created another payday loan institution, Luottoraha. The new payday loan institution offered a loan according to the legislation (HE 78/2012). However, Luottoraha has also ended its operations on 1 September 2019 due to the new consumer protection law (596/2019).

## 8 The 2019 Law Reform's effect on Payday companies

The new legislation will affect the payday loan industry as the companies are no longer able to receive high interest and operational costs on their loans. Granting payday loans will be less profitable for the lenders. The companies must make a shift in order to be profitable in the new environment. Many companies may not view Finland as a profitable market area for instant loans and will therefore either quit or transfer their operations abroad.

### 8.1 Ainalaina

Ainalaina is a Finnish company that has operated since 2006. As of 23.9.2019 Ainalaina has announced on their webpage that they do not offer new loans to customers. The

company has informed the customers that they are creating a new financial product. The company is adjusting its products to fit the new regulations. The previous customers can use their loans as agreed.

## 8.2 Ferratum

Ferratum is a Finnish company that has expanded its operations to 25 countries since 2005. The company is one of the leading payday lenders in Europe with over 2 million customers worldwide. Currently Ferratum operates in Europe, Africa, South and North America and Asia. The latest expansion destinations have been Mexico, Brazil and Nigeria. The company is not only relying on the Finnish markets but instead offering its services globally. The company is also benefitting from low regulations in other economies. Therefore, the company can collect higher returns from its foreign operations.

Ferratum has adjusted its offerings according to the new legislation. The company offers a flexible credit of up to EUR 4000, with payback period of 3 to 229 months. The loan can be repaid either at once or by smaller instalments. The minimum instalment is 3 percent of the capital. The minimum instalment for repayment is 3 percent of the capital borrowed. The financial product has a nominal interest rate of 19,97 percent and an account management fee of EUR 12 per month. Ferratum also offers an instalment credit of up to EUR 20 000 with a maximum payback period of 10 years. The nominal interest rate for the instalment loan is 4,95-16,95 percent depending on the applicant's income and financial information. The instalment credit collects an account management fee of EUR 9,90 per month (Ferratum, 6 April 2020).

A consumer can repay a EUR 2000 loan in 12 instalments which would cost a total of EUR 2352,87. The minimum instalment for the Ferratum flexible credit is 3 percent of the capital loan. Therefore, a EUR 2000 loan would be repaid in 157 instalments. The first instalment will be EUR 61,36 and the following instalment will be 3 percent of the remaining capital loan. If a customer withdraws EUR 2000 at once and pays back the loan with minimum instalment of 3% of the capital loan, the loan will cost a total of EUR 6896,78 (Ferratum, 17<sup>th</sup> October 2019).



Regardless of the new lower interest and operational costs, the companies are still able to receive high returns for their operations. Ferratum currently offers higher sums of credit with a prolonged payback period. Prolonging the payback period has become a loophole for many companies in order to receive high return for their loans. Therefore, an insolvent customer can payback in smaller instalments which eventually leads to higher total costs as the customer will be repaying the same loan for many years. However, the lender also faces an increased risk as there is more uncertainty regarding the customers' ability to repay the loan over the long period.

Following the 2013 law reform Ferratum offered a flexible credit and an instalment credit. A flexible credit is a consumer credit which can be borrowed up to the set limit. The maximum credit limit for the loan was EUR 2000. The annual percentage rate would be 136 percent for a consumer borrowing a EUR 2000 flexible loan with a maximum payback period. The company also offered an interest free payday loan which was an instalment loan of EUR 50-300. The loan would be free of costs and interest for the first 7 to 30 days (Ahtiainen, A. 2014).

Ferratum has adjusted its financial offerings to meet the new law amendments. Due to the new legislations the interest rate of the payday loans has drastically decreased. Comparing the previous payday loan terms and conditions to current ones, there is a clear distinction between the real cost of borrowing. As of result of the 2019 law reform the customers can receive a payday loan with much lower real annual percentage rate resulting in a lower cost loan. A customer can repay the same EUR 2000 loan with same payback period which would result in a lower cost credit compared to the 2014 offerings.

### 8.3 Capitem

Capitem has also temporarily closed its operations so it can better adjust to the new legislation. The customers that already have a loan from the company may continue using the loans and withdraw according to their agreement. As of 20.4.2020 there is no further information on how Capitem will adjust to new laws.

#### 8.4 Get Capital

Get Capital has finished its operations on 25.8.2019. The company announced on its website that it will no longer grant instant loans or flexible loans to its customers.

#### 8.5 Pikavippi

Pikavippi was a subsidiary of a Finnish financial company, OPR-Finance Oy. Pikavippi ended its operations on 28.9.2019. The parent company, OPR-Finance Oy, wants to concentrate more on consumer and corporate credit products that operate in Finland and abroad. OPR-Finance Oy has granted over a million loans to over 500 000 customers around five EU-countries. The parent company created Ostoraha.fi which offers consumers 400-3000-euro loans with the maximum real annual percentage rate of 29,4 percent. The company is currently operating and has adjusted its loan terms and conditions according to the new legislation.

#### 8.6 Reissuluotto

As of 23.9.2019 the company had resigned its operations due to the new law amendments. The payday lending industry may no longer be as profitable as it once was and therefore many of the companies have stopped granting new loans. The company does not grant loans to new customers after 1.9.2019. However, the current customers can withdraw loans as agreed. The customers may use and pay back their loans according to their agreements.

### 9 The Law Reform's Effect on Consumers

The 20 percent interest rate cap has been implemented on all consumer credit loans granted after 1 September 2019. The law has largely affected the payday loan industry. The small, short-term and high cost payday loans are no longer legal in Finland. The payday loans were once recognized for their easy accessibility, high interest, small loan and short payback period. The payday lenders have transformed their operations entirely by offering a larger loan, with smaller interest and longer payback period. Because the

loan providers are no longer receiving a high return for their investment it is no longer profitable for the companies to offer a loan to an insolvent consumer.

The payday loan industry will no longer be as profitable and therefore many companies have resigned their operations. The supply of small, high cost and short-term consumer goods has dropped notably. The payday lenders that choose to stay in Finnish markets adjust to the new regulations by offering larger amount of loans up to EUR 20 000 with a longer payback period. Offering an extended payback period allows the companies to receive higher returns for their loans. This is a loophole that many payday lenders have exploited since the new amendment came into effect. Having a longer payback period also increases the risk of the loan. The uncertainty of the customers' ability to repay the loan over the long period could also affect the profitability of the company. The consumers would be able to receive a loan with a lower interest rate.

This will also result in higher costs for customers. They can also benefit as they are able to receive a higher amount of loan with lower interest rate and operational costs. Customers can either repay the loan with a short or longer payment plans if they wish.

Consumers could receive small and short-term loan with a lower interest rate. However, due to the legal amendment it will be more difficult for them to receive a positive credit decision. The payday lenders are forced to change their business plan as it is no longer profitable to grant a loan to insolvent consumers. The customers' ability to repay the loan will be more significant in the company decision-making. Therefore, it will be more difficult for customers to receive a loan.

The rising risks will however force the companies to be more responsible in their business operations. The creditors must research customers' financial abilities before granting a high amount of loans. Offering customers an option to repay the loan over a long period of time will increase the costs as customers have to pay interest and operational costs for many years. This matter has been addressed in Swedish law as they have set an overall cost cap for the loans. The overall cost cap prevents the loan costs to increase the amount of the loan borrowed regardless of the payback period of the loan. Therefore, the companies cannot avoid the interest rate cap by setting long payback periods for the loans.

The new law has been predicted to end the debt cycle because the customers are no longer able to receive a new loan in order to repay their previous loan. Ending the debt cycle will be beneficial for costumers in the long term as they will not be overindebted anymore. Currently approximately 400 000 people in Finland have a payment default entry. The amount of payment default entry is predicted to increase because many consumers will not gain the short-term solutions to repay their financial obligations. In long term this will be a positive matter as it will stop the debt cycle for many of the consumers. The customers can no longer push back the repayment of the debts by taking a new loan (Uusitalo, K. 2019).

## **10 Payday Loans in the United States**

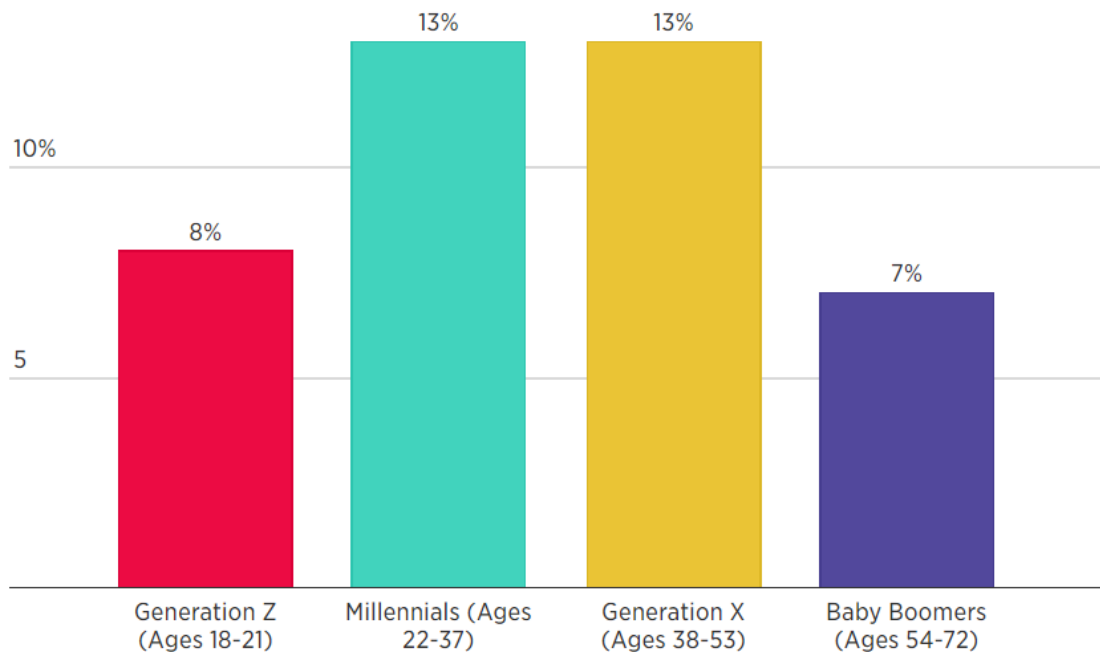
Payday loans have also been a growing industry in the United States. The payday loan industry has grown into a \$9 billion industry and has grown rapidly over the past years (Leonhardt, M. 2018). In order to receive a payday loan, the borrower must have a valid ID, proof of income and a bank account.

In many cases the payday companies make profit once the customers have taken more than one loan. Therefore, if the customer cannot pay back the loan they can take either more loan to repay the previous loan, which will lead to higher expenses for the vulnerable customers. The customers can also pay back the loan with a longer payback period. The national average annual percentage rate for the payday loans in the US is 400% (Leonhardt, M. 2018). This means that the longer the payback period, the more the companies will receive as interest revenue from the loan.

Furthermore, many borrowers in US agree to the term that the companies can directly withdraw the money from the customers checking account. These withdrawals can lead to pricey overdraft fees and damage customers' credit scores. Eventually the customers will be the ones suffering the most losses due to the high costs and aggressive terms. However, the payday companies argue that the reason for the high interest rates is the fact that many borrowers fail to repay the loans. The regulators agree and therefore want to create regulations so that the payday companies cannot lend money to consumers unless they have researched the customers' ability to pay back the loan.

According to The Pew Charitable Trust the people between the ages of 25 and 49 are most likely to borrow payday loans. The study indicated that disabled, unemployed or people with lower incomes were most likely to take a payday loan. This study showed that consumers with lower financial stability or less preferable situations were borrowing the loans.

Figure 5. Percent who have taken out payday loans in the US in the past two years (Leonhardt, M. 2019)



Young people in the United States are facing more financial instability than ever before due to the student loan debt crisis. Millennials have higher student loans on average yet earn the same amount as workers without a college degree did in 1989 (Meller, A. 2019). Millennials make 43 percent less than the generation X employees earned in 1995. This indicates that the income has dropped while the cost of education has risen. The youth in the United States are more in debt due to high student loans and will more commonly borrow payday loans in order to finance their living costs. The financial instability could therefore lead to increased demand for payday loans.

According to a survey conducted by the CNBC, most commonly a payday loan was borrowed by a millennial or by generation X member. 13 percent of the millennials and generation X members surveyed had borrowed a payday loan in the past two years.

The baby boomers between the ages of 54-72 were least likely to borrow a payday loan while Generation Z was a close second (Leonhardt, M. 2019).

### **10.1 Legal Aspect of Payday Loans in the United States**

In the U.S., the states have their own regulations for the payday loans. In some states the loans are legal while in others they are either heavily regulated or prohibited. Payday loans have been regulated in 15 states through laws that limit the APR to 36 percent or less. Ohio used to have one of the highest average percentage rates in the US with the APR of 667 percent (Leonhardt, M. 2018). Indicating that on average the payday lenders in Ohio charge an average APR of 667 percent. However, in October 2018 a new law came to effect in Ohio to regulate the aggressive loan terms of payday lenders (excessively expensive payday loans). The law reform capped the payday loans APR at 60 percent. In many states the payday loans are regulated yet the companies have found a solution to overcome the obstacles.

The Consumer Financial Protection Bureau was established after the financial crisis of 2008 as an independent regulator. The Republicans tend to believe all companies should have little regulations and so does the current US president Mr. Trump. In the US creating changes and regulations has been difficult due to the payday companies lobbying and dodging the already existing regulations.

The Bureau has pursued the creation of new rules and regulations for the companies. The new rules would regulate how often and how much the customers can borrow. The new set of regulations created by the Bureau was the result of a five-year process. However, on February 2019 the Bureau's new director, Kathleen Kranning proposed to eliminate nearly all the proposed regulations.

In an attempt to prevent the debt cycle of the payday loan borrowers the Bureau was creating new nationwide rules which were supposed to be put into effect by August 2018. According to the regulations the lenders must verify each customer's income and debts in order to determine whether they can afford the loan or not (Cowley, S. 2019). The new rules were supposed to be put into effect in August 2019. However, in June the Bureau's acting director Mick Mulvaney shifted the date to late 2020. This will add time for the administrative steps to prevent the rules coming into effect. The Republican Party

supports less regulations for the consumer credit industry, which has consequently created setbacks for regulating the industry.

## 10.2 The Regulations set in Illinois

Illinois set regulations that applied on loans of up to 120 days. The state has created regulations in order to control the amount borrowed. The new rules include cooling-off periods for the borrowers and controlled fees. This will regulate the payday industry and can help prevent the debt cycle for the borrowers. The customers can only borrow payday loans up to \$1000 or 25% of their gross monthly income. The lenders are also not able to charge more than \$15.50 per \$100 on their payday loans. In a 2013 study, the Consumer Financial Protection Bureau (CFPB) found that the median fee on a typical 14-day loan was \$15 per \$100 borrowed. APR for the payday loans in Illinois can reach 404%.

The payday companies began avoiding the regulations by offering loans with an over 121-day period. The companies have been avoiding many of the regulations by changing their terms or shifting their loans into another form of money service. Each state has its own legislation regarding the payday loans. The United States does not have a unified regulation regarding the matter despite the CFPB. The set rules should affect all the loans regardless of the amount or its duration. The more inclusive the laws are to all loans the more difficult it will be to avoid the rules.

Rolling over a loan means taking a new loan in order to finance the old loan. Many of the payday borrowers cannot pay back the loan on the due date and therefore need to take a new loan in order to finance the previous one. This practice pushes the due date further to the future. However, taking a new loan creates additional fees. This will lead the consumers into a deep debt cycle. Illinois has created a law in order to regulate the number of rollovers. There are different regulations for the three different loans.

### 10.2.1 Small Consumer Loan

As of April 2019, the state of Illinois offers three types of payday loans. Small consumer loan is the least expensive form of payday loan. The Annual Percentage Rate (APR) of the small consumer loans are 99% at most. The small consumer loans also have longer

terms. This is also better for the customers as they may repay in instalments. This ensures that the consumer loan balance is mostly repaid. The monthly instalments may be no more than 22,5 percent of the customer's monthly income. The customer cannot take rollover loans in the first 75 days of their loan's term. This prevents customers from entering the debt cycle as they cannot increase their costs by pushing back the due date. This is a long-term loan that can last up to one year or even more.

### 10.2.2 Payday Instalment Loan

The payday instalment loan is also a longer-term loan compared to a conventional payday loan. The loan can last up to six months. The payday instalment loans have higher real annual interests of up to 400%. The consumer may not roll over their debt if it would keep the customer in them in debt for more than six months. Similar to small consumer loans, the instalment loan's monthly payment cannot exceed 22,5% of the customer's gross monthly income.

### 10.2.3 Payday loan

As its name suggest, payday loan is a short-term loan, that is usually paid back in less than a month. This form of loan has a high annual interest rate of up to 400%. The law of Illinois has created some protections for consumers against payday loans. The payday loan customers may enter into an interest-free repayment plan if the payday loan has lasted longer than 35 days. This option can only be used if the customer has a payday loan, not a payday instalment loan or small consumer loan. The customer must also request the interest-free repayment plan in order to receive it. The lenders cannot grant new payday loans if it would result in the customer being in debt for more than 45 days in a row.

## 11 Comparing the Finnish to the United States payday loan industry

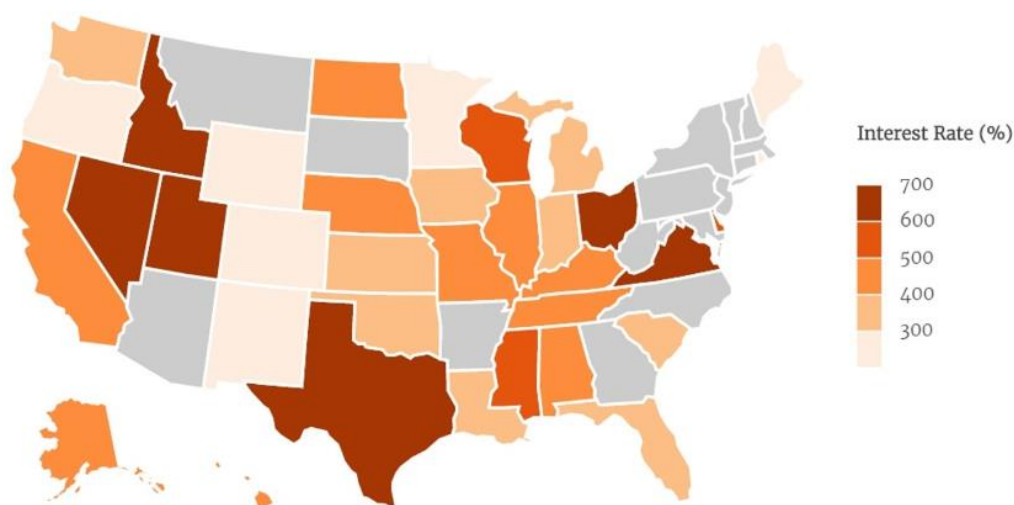
Due to the recent legislation in Finland a traditional payday loan is no longer legal. The nominal interest rate of any consumer credit cannot be higher than 20 percent. The United States consumer credit industry will be subject of specimen for this research. There are many factors affecting the consumer credit industries. The different economies, consumer behaviours, cultures and laws are some factors that affect the



industries. The subject of comparison is the United States credit industry and in particular the Illinois payday loan industry.

The United States does not have a unified legislation regarding the payday loan industry. Therefore, the average annual percentage rate for payday loans varies depending on the state. In some states, payday loans are prohibited while in others there are high interest rates of up to 700 percent. In some states such as Illinois there are regulations restricting the availability of a payday loan, but they are not prohibited. However, in Finland there has been created a unified law to ban all high interest loans. The Finnish lawmakers have taken on a one size fits all approach by creating an interest rate cap for all consumer credit loans. Figure 6 indicates all the average annual interest rate percentages in each state. According to the Figure 6 Ohio, Nevada and Alabama have the highest average annual percentage rate. This meaning that in many areas of the United States the payday lenders are still able to use predatory business practices.

Figure 6. The average annual percentage rate of payday loans in each state (Leonhardt, M. 2018)



Blue Finance is a Finnish creditor which has previously operated in the payday loan industry. Due to the new legislation the company is no longer able to offer high cost credit to consumers. However, the creditor does currently offer small and short-term loans although with a lower interest rate. Due to having less regulations, the American payday

lenders are able to charge higher interest rates and operational costs. Below I have compared the communication and marketing of two companies.

### 11.1 USA Cash Express

The American company, USA Cash Express, grants consumer credit of up to 1000 dollars. The company's webpage has noted its requirements for granting a loan to a potential customer. A customer must have a steady source of income, residence or a citizenship and must be over the age of 18-years. The customer must also be free from debt and bankruptcy and have a valid banking account (USA Cash Express).

USA Cash Express webpage does not indicate the interest rates and operational costs regarding the payday loan. The customers wanting to apply for the loan will not have information of the real annual interest rate.

The company webpage highlights that the loan is very quick, easy and reliable. The company advertises its loans by indicating that many consumers are eligible to receive the loan. The customer's low credit rating or score does not prohibit the customer from gaining a payday loan. Cash Express insinuates that almost everyone can receive the loan.

### 11.2 Blue Finance Oy

Blue Finance is a Finnish payday lender which has over 100 000 customers in Finland. The company was established in 2011. The payday lender offers a one-time credit of 100 to 500 euros. The company also offers a flexible credit of EUR 100 to EUR 5000.

The webpage indicates the type of loan, the credit limit, interest rate and the operational cost regarding the loans. The following information can be found in Figure 7. The webpage also listed the additional costs related to the loans.

Figure 7. Blue Finance one-time and flexible credit (Blue Finance, 2019)

	Credit limit	Withdrawal fee	Account management fee	Nominal interest rate	Annual percentage rate (APR)	The loan period
One time Credit	EUR 100-500	EUR 0	3,65 %	20 %	26,40 %	4 month
Flexible credit	EUR 100-5000	EUR 0	3,65 %	30,60 %	30,60 %	continuous

Unlike Cash Express, the Blue Finance Oy webpage failed to disclose the requirements for receiving a loan. The customers applying for the loan will however receive the credit decision immediately or shortly after the application.

### 11.3 Differences between the payday lenders

Due to the different locations in which the two companies operate, there are many differences in their marketing and operations. Comparing the two companies' webpages already indicated many important discrepancies. The USA Cash Express is not transparent regarding its costs and interest rates. The Finnish legislation does emphasize the importance of the transparency.

The Finnish companies are more transparent with informing the overall costs of the loan. The Finnish websites clearly states the operational costs and the overall annual percentage rate. The customers are receiving a clearer indication of how much a loan will cost them.

The requirement for the loans is similar in both countries as both require a minimum of basic income and do not take into consideration the prior debt of customers. However, the US companies operate in more aggressively and have higher average interest rates for their loans. Due to the new Finnish legislation the traditional payday loan is illegal. Companies are not allowed to grant high cost loans and therefore the companies must also be more cautious about the customers' ability to pay back the loan. The United States payday lenders will grant loans to more consumers regardless of their ability to repay the loan. The United States payday lenders are receiving a higher return for their loans and therefore are able to take higher risks than Finnish creditors.

Due to the new legislation in Finland also the prior payday lenders are currently offering a much lower cost and longer-term debt. Therefore, consumer lending has even further

shifted from the original concept of a payday loan which is a high cost, short term and quick money solution.

## 12 Conclusion

Finland has set a 20 percent interest rate cap on all consumer credit loans granted after 1 September 2019. The regulations regarding interest rate caps may benefit many consumers as they are able to receive a loan with a lower interest rate. Due to the interest rate cap the payday lenders are forced to operate in a more responsible matter. Therefore, it will no longer be profitable for creditors to grant loans to insolvent consumers. The payday companies will receive a lower return for their loans and therefore, they are not able to take similar risks as they did prior to the law amendment. Many payday lenders have also quit their operations resulting in lower supply of the loans. For some consumers a payday loan was the only form of credit which they were able to receive. Therefore, due to law reform some consumers are no longer able to receive any form of credit. The vulnerable consumers are no longer able to receive high cost consumer credit to fund their previous debt. The amount of payment default entry has been predicted to increase in Finland. The debt cycle caused by payday loans will however diminish over the long period as a result.

However, the regulations and interest rate caps do not solve the underlying issues that many individuals face. The main issue for the payday loan borrowers is that they do not have the proper income to finance their living costs. The deficit of income has been the main concern in both Finland and in the United States of America. Some consumers borrow payday loans due to irresponsible spending or due to a high amount of existing loans. However, in the US 69% of the payday borrowers reported to have been borrowing due to lack of funds, according to the research conducted by The Pew Charitable Trust.

We must also take into consideration that the payday borrowing stems from more deep-rooted issues. Employers want to save money by hiring more part-time and short-term employees. Therefore, consumers are having to deal with the increased costs and decreased income. This also applies for the youth as they are also more commonly having part-time and short-term employment which results in unstable income flow.

After the recession of 2008 the nature of employment has also shifted towards zero-hour contracts, short-term contracts and part time-employments. In the current economic environment consumers are having less stable employment with varying income. The unstable employment and low income have been a reason for payday borrowing. Prohibiting high cost loans could result in many consumers not receiving a consumer credit. Therefore, insolvent customers would be subjected to other costs such as collection and overdraft fees. Electricity service could also be shut off as of result of delayed payment. Regaining electricity contains high costs which could have been avoided by a small, short-term loan.

Financial illiteracy has also been recognised as a reason for consumer borrowing. The study conducted by The Finnish Ministry of Trade and Industry Indicated that more commonly payday borrowers did not understand the true costs of the payday loans. Consumers do not understand the financial consequences of payday borrowing and cannot repay the high cost loans. Insolvent consumers might not have the proper finances to pay back the high costs and therefore must take new loans to cover the old debt, resulting in a debt cycle. An essential solution for the consumer over indebtedness is to educate all consumers regarding personal finances (Uusitalo, K. 2019). Financial literacy is as important skill which is not being taught in our education system.

Banning high interest loans will eventually help decrease the debt cycle for many consumers while simultaneously it could also lead to consumers borrowing higher loans with longer payback period. The payday lenders that have once offered small loans with short payback periods have now shifted their business practices. The payday lenders that have chosen to stay in the markets are offering consumer credit up to EUR 20 000.

The legislation helps protect young consumers from the predatory payday lenders. The law reform helps prevent the over indebtedness of youth. The creditors are forced to research the consumers credit information prior to granting them loans.

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### **Government proposals:**

HE 64/2009 vp. Hallituksen esitys eduskunnalle laeiksi kuluttajansuojalain 7 luvun, rikoslain 36 luvun 6 §:n ja korkolain 4 §:n muuttamisesta

HE 78/2012 vp. Hallituksen esitys eduskunnalle laeiksi kuluttajansuojalain 7 luvun, eräiden luotonantajien rekisteröinnistä annetun lain sekä korkolain 2 §:n muuttamisesta

HE 230/2018 vp. Hallituksen esitys eduskunnalle kuluttajaluottosopimuksia ja eräitä muita kuluttajasopimuksia koskevien säännösten muuttamisesta