



Overindebtedness and women

The overindebtedness procedure, which is aimed at finding solutions for households in financial difficulty, has been in existence for nearly 30 years. After initially rising in the 1990s and 2000s, the annual number of applications has fallen by 30% since 2014, thanks to legislation to curb abusive lending practices, and an improvement in household solvency stemming from low interest rates and loan renegotiations. The legal framework for assisting overindebted households, the methods of dealing with applications and even the goals of the procedure have all changed profoundly since the system was introduced, as has the profile of the applicants. In the 1990s, a large proportion of overindebted individuals had some financial resources but were struggling to repay too many loans, in particular consumer loans. Over the years, however, the procedure has increasingly become focused on the most financially vulnerable segments of society, in particular women raising children on their own.

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JEL codes
D1, J16
and K35

4.5 million

total number of applications submitted since the introduction of the overindebtedness procedure (155,000 per year)

54%

share of female applicants (sole or joint applicants) in 2018

29%

percentage of overindebted women who are the head of a single-parent family

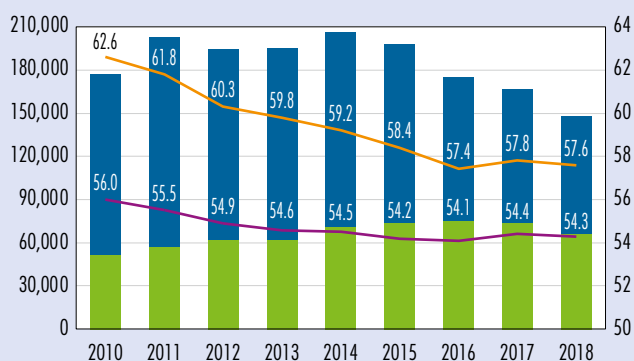
39%

percentage of overindebted women in an irremediably compromised situation (i.e. directed towards a personal recovery procedure or PRP) who are the head of a single-parent family

Admissible overindebtedness applications and proportion of women

(number of applications and % share)

- Number of admissible cases not directed towards a PRP (left-hand scale)
- Number of admissible cases directed towards a PRP (left-hand scale)
- Share of overindebted individuals who are women
- Share of individuals directed towards a PRP who are women



Source: Banque de France.

Note: PRP = Personal Recovery Procedure



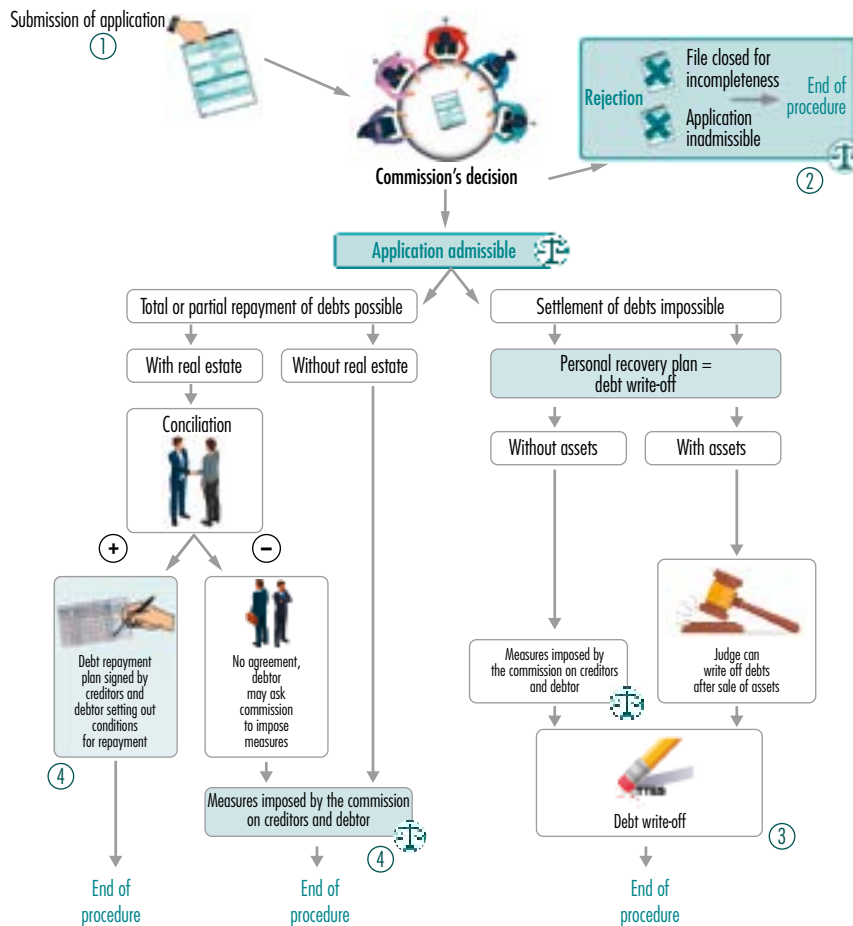
1 A simple definition but a complex reality

The overindebtedness procedure was introduced under Law No. 89-1010 of 31 December 1989, known as the Neiertz Law, and will thus be 30 years old at the end of this year. It aims to find solutions for families and individuals who are struggling to repay debts or to meet their day-to-day expenses. The laws in place for helping overindebted families, the methods used to deal with cases and even the goals of the procedure have all undergone profound changes over the years.

Main changes in the procedure since its creation

The procedure was initially designed to resolve difficulties deemed to be transitory: the emergence of a high number of cases of overindebtedness not linked to a professional activity, in a context of surging consumer credit following the deregulation of lending in France. The procedure originally consisted exclusively of finding an amicable settlement between debtors and creditors, under the supervision and guidance of the household debt commissions. However, the continuing problem of

Diagram Treatment of overindebtedness in France



- You and your creditors can challenge the commission's decision in the courts
- ① You are listed in the National Register of Household Credit Repayment Incidents (FICP) for the duration of the procedure
- ② You are no longer listed in the FICP on grounds of overindebtedness
- ③ You are listed in the FICP for 5 years
- ④ You are listed in the FICP for the duration of the measures (7 years maximum)

1 Between 1990 and 1994, half of all admissible applications resulted in a closure of the procedure with no solution being found, or a failure to reach an agreement.



overindebtedness combined with the high failure rate for the procedure,¹ prompted the authorities to introduce a first set of reforms in 1995 giving the commissions a greater role. Under these changes, the commissions were given responsibility for issuing recommendations to the courts in the event of a breakdown in amicable settlement talks. Subsequent legal changes granted the commissions even greater powers: in 1998 they were authorised to propose debt moratoriums for a limited period; in 2004, the personal recovery procedure was introduced, under which an applicant's debts can be completely written off, subject to court approval, if the situation is found to be irremediably compromised; and in 2010 the commissions were given the power to impose debt resolution measures on both parties, again under the supervision of the courts. More recently, from 1 January 2018 onwards, two new laws took effect that simplify and speed up the overindebtedness procedure and grant the commissions' even greater independence: the amicable settlement phase is now reserved exclusively

for cases where the debtor owns real estate; and court approval is no longer required for debt resolution measures imposed by the commissions or for personal recovery procedures not involving a judicial liquidation. If the debtors or creditors disagree with the commissions' decisions, they still have the option of lodging an appeal before a court.

Thirty years after its introduction, the overindebtedness system is now a fully-fledged regulatory procedure, strictly governed by law and underpinned by the legitimacy of the debt commissions. The latter bring together representatives of the government, creditors and individuals, together with the Banque de France, whose regional and departmental branches provide secretariat services and process the applications. The handling of overindebtedness in France thus differs from practices in the majority of countries, where it essentially consists of legal procedures that are regulated to differing degrees (see box).

BOX

Main characteristics of the current French overindebtedness procedure and international comparison

As part of efforts to reduce social exclusion, the French system for handling overindebtedness aims to find solutions for individuals struggling to meet their existing and future debt repayments, and thus help them to improve their financial situation. The system is structured around a network of departmental household debt commissions, which are chaired by the local prefect for the department. They also comprise the head of public finances for the department (vice-chairman), the director of the departmental Banque de France branch (secretary), and other officially appointed members (a jurist and representatives of creditors, consumers and households). The household debt commissions' priorities are defined by law and supplemented by an agreement signed between the government and the Banque de France.

The overindebtedness procedure was initially designed as a form of mediation service, available free of charge for debtors and their creditors. However, since its introduction the debt commissions have been given the power to reschedule debts, and even write them off completely. Applications to the commissions are submitted by the individual debtors themselves. The commissions then work with all stakeholders – the debtor and creditors, but also local public sector actors, public administrations and social services – to ensure the good faith of the debtor, provide them with assistance and protect them from legal proceedings, in particular the threat of eviction in cases involving rental arrears.

In practice, the commissions compile a detailed assessment of the applicant's outstanding debts and determine their ability to repay, based on their available resources and unavoidable expenses. They then have three months

.../...



from the date of submission of the application to decide whether the case is admissible and direct it towards a solution. All creditors have to be treated equally, taking into account the financial situation of the debtor. If the debts can be settled in full or in part, the commissions impose direct measures on the creditors and debtor, based on the debtor's ability to pay. The measures apply for a maximum of seven years, after which any debts still outstanding are written off. In cases where debtors own real estate, the commissions can decide to remove the seven year ceiling to allow them to keep their home.

If a debtor's situation is deemed to be irremediably compromised and the individual has no assets or savings, the commissions can impose a write-off of all debts (except those that are not eligible, as listed in the French Consumer Code) by putting in place a personal recovery procedure (PRP) without a judicial liquidation. If the debtor has assets, the PRP has to be imposed by a district court as the assets will first have to be legally liquidated. Once a PRP has been implemented, the debtor is listed in the National Register of Household Credit Repayment Incidents (FICP) for five years. This register can be consulted by all credit institutions.

At each stage of the procedure, the debtor or creditors have the right to appeal or contest the commissions' decisions before a court. In cases where the debts have not been written off, or only partially written off, the debtor is listed in the FICP for as long as the imposed measures or repayment plan are in place. During this time, the debtor is obliged to meet all rescheduled payments, and cannot take out a new loan without the commissions' authorisation.

There is no standard definition of individual overindebtedness in the European Union and the United States, and no common insolvency procedure or standard deadline after which debts are cancelled. However, most countries have rules in place for dealing with personal insolvency.

With the surge in consumer credit, overindebtedness was clearly identified as a problem at the European level following the 2008 crisis. Tackling problem debt has thus become an increasingly important policy priority in Europe in the past ten years. New measures and legal changes have been introduced in the majority of member countries, including standardised procedures for the repayment and cancellation of debts to allow overindebted individuals to make a fresh start.

These new measures place the emphasis on finding an agreement outside the courts, under the guidance of a third-party administrator, and legal authorities only get involved at the opening of the procedure or to validate the negotiated repayment plans. In the vast majority of countries, debt cancellations have to be ordered by a court and are conditional on any assets being liquidated and the debtor following a strict repayment plan. Germany and Spain have tighter restrictions in place, whereas in Belgium debt write-offs are an integral part of repayment plans.

In contrast with the Anglo-Saxon approach, countries in continental Europe are generally reluctant to cancel debts too quickly or in full. They retain a strong belief in the need to respect financial commitments, and prefer debtors to repay their creditors from their available resources, while at the same time allowing them and their family sufficient funds to maintain a decent standard of living.

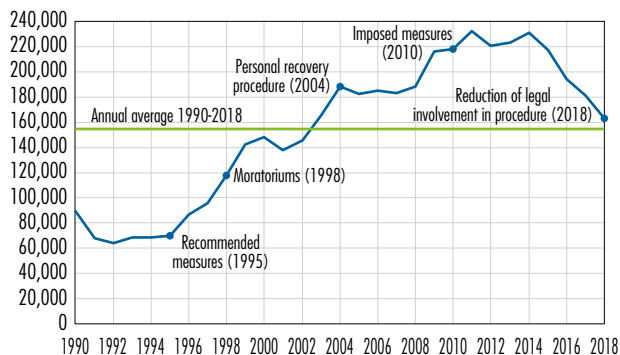
Since the overindebtedness procedure was introduced on 1 March 1990, nearly 4.5 million applications have been submitted to Banque de France network branches, or an average of 155,000 per year. There have been several phases of rapid growth in the annual number of applications – from 1995 to 2000, from 2001

to 2004 and from 2008 to 2011 – linked to factors such as changes in the pace of economic growth or household income growth, rising unemployment, increases in poverty or trends in consumer credit. However, it was also during these periods that the main reforms were introduced aimed at improving the



C1 Overindebtedness cases submitted to the commissions

(number of cases)



Source: Banque de France.

procedure and limiting the rise in the number of applications (see Chart 1). The fact that these different determinants coincide explains in part why it is difficult to evaluate the respective impact of economic and institutional factors on trends in overindebtedness.

In 2018, after declining for seven consecutive years, the number of first-time overindebtedness applications fell to below 2001's level

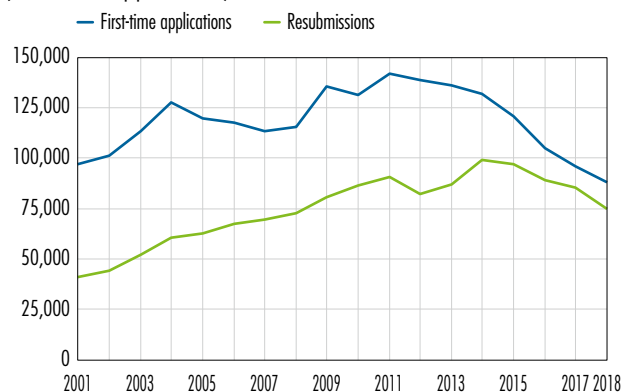
The indicator traditionally used to measure the scale of overindebtedness is the number of applications filed with the debt commissions, sometimes expressed as a ratio of the total population. However, this indicator is somewhat biased as it adds together new cases of overindebtedness (first-time applicants) with resubmissions, in other words applications where the debtor has already submitted a file in the preceding weeks, months or years. As some of these resubmissions are a specific requirement of the rules of the procedure, it would be misleading to take them into account when assessing trends in overindebtedness. It makes more sense to analyse first-time applications and resubmissions separately. Since 2001, when the data first began to be broken down into first-time applications and resubmissions, the evolution of these two components appears to have been largely uncorrelated (see Chart 2).

In the last 20 years, no general upward trend can be observed in the number of first-time applications, as the phases of growth – corresponding to an acceleration in consumer credit growth (2003-04) or rising unemployment and an economic recession (2009) – are interspersed with phases of decline. The steady decline observed since 2011 (drop of 38% in seven years) can be attributed to a number of favourable factors – economic, legal, or related to changes in the procedure – but confirms the crucial role played by the 2010 Lagarde Law, which was designed to curb abusive practices in consumer credit and particularly revolving credit.² As a result of this decline, particularly in the past four years, the number of first-time applications was lower in 2018 than it was in 2001 (88,187 compared with 97,152).

In contrast, the number of resubmissions increased steadily between 2001 and 2014, irrespective of the economic environment, except in 2012 when there was a reform in the overindebtedness procedure. The change in the trend since 2015 is notably due to a reduction in resubmissions filed as part of a debt postponement measure,³ following efforts by the Banque de France and the commissions to reduce the use of this type of mechanism.⁴

C2 First-time overindebtedness applications and resubmissions

(number of applications)



Source: Banque de France.

² See the report submitted to the French Senate in 2012 entitled "Crédit à la consommation et surendettement: une réforme ambitieuse à compléter" ("Consumer credit and overindebtedness: an ambitious reform that needs to be completed").

³ Debt moratorium, suspension of payments or other postponement measure, with a maximum duration of two years.

⁴ For a long time, postponement measures were seen as the main or only alternative to a conciliation. However, they are only of benefit to the wider community and to the debtor if they are used for individuals likely to get realistically out of debt before the measure expires. If this is not the case, they merely delay the implementation of a long-term solution, such as a full debt write-off with a personal recovery procedure or a partial debt write-off and the imposition of measures.



Together, first-time applications and resubmissions have fallen by nearly 70,000 in the past four years, from 231,000 in 2014 (decline of 30%).

2 The profile of debtors has changed since the start of the 2000s

Types of households and individuals that are overindebted

A few years after the overindebtedness procedure was created, the Banque de France signed a public service agreement with the government, under which it agreed to carry out triennial surveys to identify the main quantitative, sociological and geographical changes in overindebtedness, and find ways of dealing with the problem more effectively. More recently, the Banque de France signed a new bilateral agreement with the government providing for even closer cooperation, and under which it now carries out an annual survey of the socioprofessional characteristics of overindebted households and of their levels of debt.⁵ The statistical tools used and problems encountered have changed over the years, so comparing data from the first triennial surveys (relating to households whose applications were examined by a household debt commission in 2001, 2004 and 2007) with those from the annual surveys conducted since 2010 is not an easy task. However, it is still possible to draw some general conclusions from the different surveys.

A population that is increasingly fragile

Between the first two triennial surveys (2001 and 2004) and the last two annual surveys (2017 and 2018), the share of adults not living with a partner (unmarried, divorced, separated or widowed) among those qualifying as overindebted increased sharply from 41-46% to more than 50%. This was accompanied by a proportionate decrease in the share of adults living in a couple. This trend is not specific to the overindebted population – the share of lone adults, with or without children, has also risen in the French population as a whole. However,

the proportion of lone adults in the overindebted population remains significantly higher than for the general population (difference of 14 percentage points in 2018). Moreover, the size of overindebted households also fell between 2001 and 2018, with the share of families with at least one dependant declining by 14 percentage points to 43%.

Since the start of the 2000s, there has been a visible increase in the age of those qualifying as overindebted. The share of overindebted individuals in the first two age brackets – 18 to 24 and 25 to 34 – has declined respectively by nearly 3 percentage points and more than 6 percentage points. Meanwhile, the 35-44 age bracket, which was the largest in 2001, accounting for 31.4% of overindebted individuals, only accounted for 24.5% in 2018. In contrast, the 45-54 age group is now the largest, while the share of debtors aged 55-64 has more than doubled to 17%, and the share of those over 65 has nearly tripled to 12%. In less than 20 years, therefore, the average age of overindebted individuals has risen by more than six years.

These figures should nonetheless be interpreted with caution, as the French population in general has also aged significantly in the past 20 years. However, the share of overindebted individuals aged 25 to 64 is higher than the share of the overall French population in this age bracket.⁶ The only age groups that account for a smaller share of the overindebted population than of the overall French population are 18-24 year-olds (2.4% of overindebted individuals compared with 10.2% of the general population) and the over-65s (11.6% versus 25.3%). Thus, despite the general ageing of the population in the past 20 years, senior citizens are still less likely to be overindebted than the rest of the population.

In the first two typological surveys, conducted in 2001 and 2004, around 30% of overindebted households (27% in 2001 and 32% in 2004) had no ability to repay – in other words, after paying for all their regular expenses, they had no money left to repay their debts.

⁵ <https://particuliers.banque-france.fr/surendettement/etudes-sur-le-surendettement>

⁶ For the French population as a whole, the proportions indicated are calculated on the basis of individuals aged 18 and over to ensure comparability with the overindebted population.



By 2013, however, this proportion had risen to 54%, and in 2018, even though it had declined slightly, it was still around 50%. The significant increase between the two periods, coupled with other differences, for example in the share of consumer credit and arrears on regular expenses, points to a major shift in the structure of the overindebted population. Whereas in the years following the introduction of the overindebtedness procedure, and even at the start of the 2000s, a high proportion of those with problem debt were not without financial resources but had excessive levels of borrowing – consumer credit in particular – the share of this type of debtor has declined substantially in the past few years. The introduction of legislation to curb abusive lending practices, the sharp drop in the number of overindebtedness cases in the past four years, and the improvement in household solvency thanks to lower interest rates and loan renegotiations, have all resulted in the overindebtedness procedure becoming increasingly focused on those individuals who are most financially vulnerable.

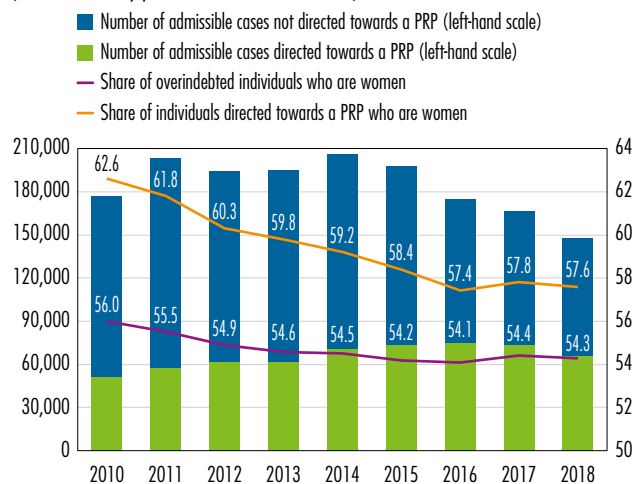
3 Women raising children alone: a segment particularly at risk of overindebtedness

Women are one of the most financially vulnerable segments of the population. In 2018, they accounted for 54%⁷ of individuals whose applications were examined by the household debt commissions, even though, in the general French population, the age brackets most exposed to overindebtedness – 18 to 64 – comprise more or less equal proportions of men and women. This over-representation of women among the overindebted declined slightly between 2010 and 2016, from 56% to 54% (see purple line in Chart 3). In total, in 2018, the number of overindebted women was 32% lower than in 2010 (a decline of 45,000).

Women are also over-represented among those directed towards a personal recovery procedure or PRP – a solution designed for cases where the debtor(s) is (are) incapable of repaying what they owe, and where the debts are completely written off (see orange line in Chart 3).

C3 Admissible overindebtedness applications and proportion of women

(number of applications and % share)



Source: Banque de France, Typological surveys of overindebtedness.

Note: PRP = Personal recovery procedure. To eliminate a statistical bias linked to the rise in the proportion of cases directed towards a PRP in the period 2010-18, the share of women among debtors and joint debtors directed towards a PRP was not calculated for all cases, but only for a specific category – i.e. those with the most negative ability to repay.

Over-representation of female heads of single-parent families

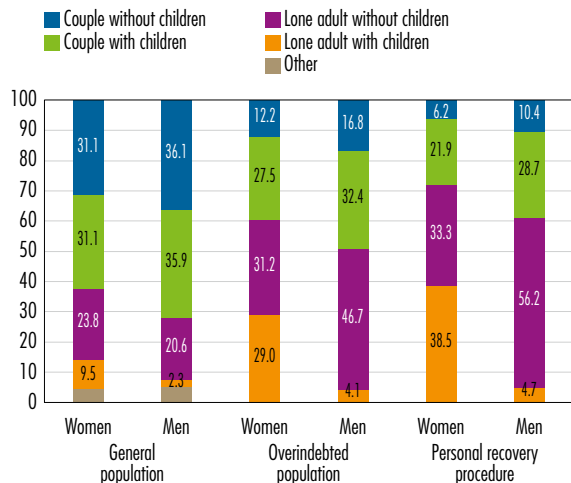
Overindebted women and men live in fundamentally different types of household: 29% of overindebted women are the head of a single-parent family, compared with 4.1% of overindebted men (see Chart 4, centre panel). The difference between the share of overindebted women and men who are heads of single-parent families is thus 24.9 percentage points (29 – 4.1). It is important to bear in mind that a large majority of single-parent families in the general population are also headed by women. However, in the overall French population, the difference between the share of female and male-headed single-parent families is 7.2 percentage points, with more than 9.5% of women raising children on their own compared with just 2.3% of men (see Chart 4, left-hand panel). The gap between these two differences indicates that female heads of single-parent families are over-represented in the overindebted population by

⁷ Of debtors and joint debtors whose application was processed by a commission.



C4 Breakdown of general population, overindebted population and PRPs by gender and type of household

(%)



Source: INSEE, Banque de France and authors' calculations.

17.7 percentage points (24.9 – 7.2).⁸ This over-representation is even higher among those directed towards a PRP (because their financial situation is deemed to be irremediably compromised), at 26.6 percentage points, which is 8.9 percentage points higher than for the overall overindebted population (see Chart 4, right-hand panel).

The probability of being directed towards a PRP varies according to gender, age and household composition

The statistics above clearly show that women are over-represented among single-parent families and particularly among those experiencing the greatest financial difficulties. However, it is important to analyse the data from the perspective of several factors simultaneously. We looked at the role played by gender, age and household composition in determining whether an overindebted individual will be directed towards a PRP.⁹

Chart 5 shows the probability of a 40-year-old overindebted person being directed towards a PRP.

The first two bars show that the probability for a woman in this category is more than 5 percentage points higher than for a man (47.7% versus 42.3%). Not living with a partner is another factor that increases the likelihood of a PRP, for both women and men alike. Thus a 40-year-old overindebted woman living without a partner has a 56.4% chance of being directed towards a PRP, compared with 35.5% for a woman living in a couple. The same difference of around 20 percentage points can be observed for men (52.9% versus 32.4%). The probability of a PRP is also lower for households with no children and increases steadily with the number of children. For example, for a 40-year-old woman living without a partner, the probability is 52.1% if she has no children and 57.9% if she has one child, rising to 70.1% for those with more than three children. For couples, the probability of a PRP is lower, but also rises steadily with the number of children.

If we look solely at the interaction between gender and whether or not there are children, it is clear that women with children are much more likely to be directed towards a PRP. In particular, women with at least one child have an 11 percentage point higher chance of being directed towards a PRP than men with children. This figure rises to 12 percentage points towards the age of 30, and then falls gradually as the individual's age rises. In contrast, although still statistically significant, the difference in the probability that a woman or man without children will find themselves in an irremediably compromised situation falls to 1 percentage point.

The crucial factor for understanding gender differences in the probability of an individual being directed towards a PRP is thus whether or not the individual is a single parent. If we look solely at the interaction between gender and single parenthood, overindebted female heads of single-parent families are 12 percentage points more likely to be directed towards a PRP than men in the same position.¹⁰ For men and women that are not heads of a single-parent family, the difference is not significant.

⁸ Similarly, single men without children are over-represented in the male overindebted population (46.7% of overindebted men compared with 20.6% of the general population). For women, the difference is 7.4 percentage points (31.2 – 23.8). The gap between these differences is 18.7 percentage points, which is similar to the size of the over-representation of female heads of single-parent families.

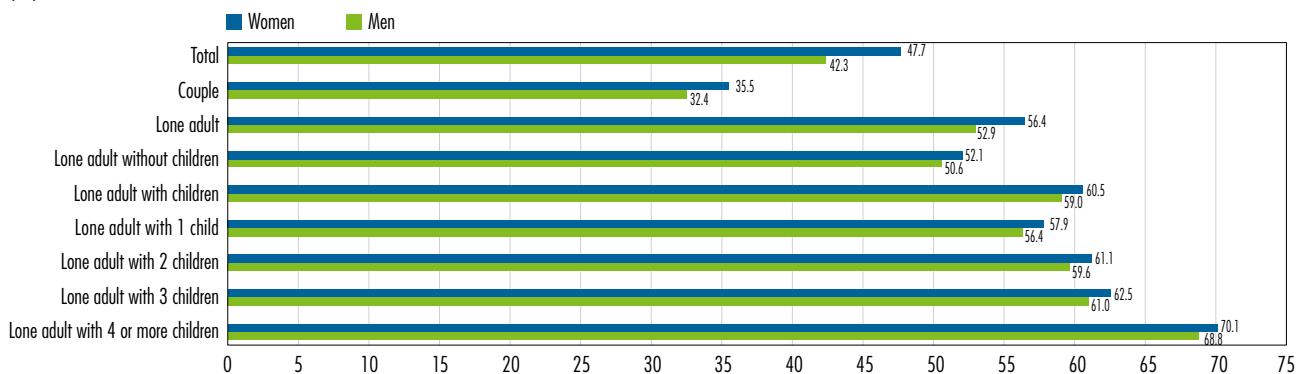
⁹ As we only have data on overindebted households, it is not possible to conduct a similar analysis of the probability of becoming overindebted.

¹⁰ The model was configured by age, gender, whether or not the applicant had children, and the interaction between these last two variables.



C5 Probability that an overindebted individual will be directed towards a PRP

(%)



Note: Probabilities were estimated using a logit model. The first two bars show the probability that an overindebted 40-year-old woman and man respectively will be directed towards a personal recovery procedure. The probabilities for a "couple" and "lone adult" are estimated for an overindebted 40-year-old woman and man respectively, living in a couple or alone. The last six bars show the probability that a 40-year-old individual not living in a couple, with or without children, will be directed towards a PRP.

Source: Banque de France and author's calculations.



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Published by

Banque de France

Managing Editor

Gilles Vaysset

Editor-in-Chief

Claude Cornélis

Editor

Jean-Luc Bontems

Translator

Vicky Buffery

Technical production

Studio Creation

Press and Communication

ISSN 1952-4382

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