REGULATION PROBLEMS AND THEIR POSSIBLE SOLUTIONS IN THE LITHUANIAN EXPRESS CREDIT SECTOR

Rimgaudas Pazniokas*, Aldona Jočienė
Vilnius University, Lithuania

Abstract. *Express credit institutions have started their activities only five years ago when the economic crisis came and increased the borrowing demand. Now, we have the consumer credit law and other legislative acts which aim to ensure this sector regulation. However, there still remain problems that have to be solved. The main of them are inconsistencies in consumers' solvency evaluation in different companies, the lack of financial knowledge in society and its information, the aggressive lending and advertising policy. The increasing demand for this service shows its importance and proves the necessity to maintain it in the market while at the same time ensuring consumer protection.*

Key words: *express credits, pay-day loans, consumer credit*

Introduction

During the last decade, there have been important changes in the small consumer credit sector, which were especially striking during the financial crisis of 2008. People faced financial problems, difficulties in settling financial liabilities to banks or managing cash flows, what led to the increased demand for short-term, small-amount loans. Starting with the year 2008, we can see a rapid growth of express credit institutions offering loans without a deep evaluation of the financial state of consumers. Such a rapid growth of express credit institutions and consumer credit volumes caused various problems due to the lack of legal regulation, i.e. borrowers used not to give enough time to analyzing the conditions of loans; the advertising was misleading consumers, and there were even cases of fraud in the market.

The other EU members had similar problems, what encouraged the appearance of 2008/48/EB EU Directive of consumer credit agreements, which was implemented in Lithuania by 2010 December 23 Consumer Credit Law No. XI-1253. While applying this law in practice, we can see gaps and a need for an additional legal regulation; therefore, this article analyzes the problems of express credit institutions' regulation and their possible solutions.

* *Corresponding author:*
Faculty of Economics, Vilnius University, Saulėtekio Ave. 9, LT-10222, Vilnius, Lithuania;
Email: rimgaudas.pazniokas@gmail.com

Attitude to express credits in researches

Express credits are short-term consumer loans, often delivered via SMS, cell phone or the internet. These consumer loans differ from others by a high interest rate, usually reaching a few hundreds or even thousands percent, and are short-term. It is obvious that a careless use of such services increases the risk of huge financial losses. The danger is even higher due to the fact that the main consumers of such service are persons with a low income level and mostly having a limited level of financial knowledge. To get a deep understanding of such service, it is good to listen to opposite opinions with different arguments why express credits should be prohibited or left in the market.

Negative attitude

A large part of society criticize the activity of express credit institutions due to the cases when agreements consist of a variety of terms setting huge fines or other sanctions in case of payment delay or client insolvency. Howard Jacob Karger in his research "Scamming the Poor: The Modern Fringe Economy" claims that such institutions harm low income communities. In his opinion, the largest part of express credit consumers are persons receiving small salaries and therefore having no possibility to get a loan from other financial institutions at much lower costs. This fact even more worsens the situation of this part of society, as by paying higher interest rates they decrease the possibility to save and avoid borrowing in the future (Karger, 2004).

The Consumer Union blames express credit institutions for using peoples' financial challenges in order to maximize their profit. Lenders pay attention to young and poorly living persons who often do not understand that high interest rates may push them into the "debt cycle" forcing to borrow more and more, while they will manage to save the necessary amount and get rid of financial liabilities (Consumer Union, 2005). Similar critics are expressed in Kelly D. Edmiston's research accusing express credit companies making profit of poorly communities and even pushing them into the borrowing helix from which it is impossible to escape (Edmiston, 2011). Brian T. Melzer in his research claims that there is a direct subordination between express credit accessibility and the growing possibility to suffer difficulties while paying your bills. The results of his research show that for the families earning 15 000 to 50 000 $ per year the possibility to get a loan causes increased difficulties in paying their bills by 25 percents (Melzer, 2011). However, the results of this analysis can be treated also in another way, stating that the supply of express credits is larger in those countries where persons have more financial problems that increase the demand of borrowing.

Positive attitude

Price difference between express and other consumer credits is really huge, however, according to institutions offering such service, it is natural due to a shorter term (K. Nemaniūtė, 2010). They claim that usual interest rates for small-amount and short-term loans wouldn't be profitable, i.e. a 100 LTL loan for a week with 25 percents annual percentage rate would cost only 48 ct, and this amount couldn't cover the lending costs. Mark Flannery with Katherine Samolyk in the Federal Deposits Insurance Corporation working paper have stated that the operating costs of express credit institutions and the high level of insolvent clients don't allow these companies' to earn big profits. According to the statistical data analyzed by these authors, bad loans amount around 15 or more percents of companies income. Expenses of express credit institutions are even more increased due to the efforts working with insolvent clients and arising cases of fraud (Flannery, Samolyk, 2005).

The necessity of express credit institutions is also substantiated as often such service is the only choice left for the consumers who are not able to use other borrowing methods (Lehman, 2003). According to the author, without express credit service such consumers would need to turn to the "loan sharks" or other illegal sources of funds. Kelly D. Edmiston supports such opinion claiming that limitations for express credits may have negative consequences, especially for low income users seeking borrowing opportunities. In case of express credit prohibitions, people would be forced to search for more expensive and usually illegal sources of funds (Edmiston, 2011). Another institution with a positive attitude to express credits is the Federal Reserve Bank of New York. The Bank report "Defining and detecting predatory lending" states that express credits can increase the welfare of households; therefore, they shouldn't be treated as predatory ones. It is also admitted that if express credits contribute to households' welfare while decreasing lending limitations, strict regulations of this activity could lead to its reduction, although the author agrees that services offered in these days are very expensive and oriented to low-educated people or communities having an uncertain level of income (Morgan, 2007).

Reasons for choosing express credits

Services offered by usual financial institutions often do not meet the need of low income households. The research performed in the USA has showed that around 40 percents of express credits' receivers have personal bank accounts, what allows to state that banks weren't able to satisfy their borrowing needs (Elliehausen, Lawrence, 2001). The research has also revealed that almost half of express credit users claim to have previously thought about bank loan possibility. Most of them explain their choice of getting an express credit as being much easier or its location being more comfortable to reach. Admittedly, very often short-term loans in the banks are not available for low-income consumers, so clients turn to express credit institutions.

Mistrust or an insufficient level of financial knowledge also make a big influence on low income communities. Some of them choose alternative financial services providers not because they offer a better service, but due to mistrust in banks or inability to properly evaluate and compare express credit costs. Such users often do not understand interest rate differences or other aspects of express credits. Studies have revealed that almost every borrower paid attention to the cost of taking a loan, but only a very small part knew what size of annual percentage rate it corresponded to, so they were unable to compare the return requested by different institutions (Elliehausen, Lawrence, 2001). This problem is even bigger when borrowers are not using banking services and may be not aware of lower cost alternatives.

Part of low income users have no confidence in banks, or the usage of their services is unpleasant. It could happen due to the lack of skills to generate questions, an unpleasant conduct of bank employees or a fear of various bank account fees. C. Berry has made a research and found that 6 percents of respondents pointed to not liking to work with banks for various reasons (Berry, 2005). Another reason forcing people to pay attention to express credit service is unstable income. A lower level of income or education determines a higher household income fluctuation (Bania, Leete, 2007). Such families often live unmarried, change their partners and even the living place according to their working location. The instability strongly affects income changes, what leads to an increased demand of express credits. Even if this service is expensive, people usually take it as more acceptable than the risk to lose electricity or connection services provision.

Furthermore, consumers' decision to choose express credits can be made because of insufficient financial knowledge or inability to reasonably compare the alternatives. John Y. Campbell in his publication about financial consumers' security provided data from 2004 and 2007–2008 researches which show the respondents' understanding of interest rates. The questions used in the research and the obtained results are provided in the table below (Table 1).

As regards the different age groups of respondents analyzed in the researches, we're not able to objectively assess their financial knowledge change over time (from 2004 to 2007–2008) or the level of financial knowledge subordination with respondents' age as the researches were performed in different time, and the level of financial knowledge could have changed. Although, according to Table 1 data, we can state that 20.5 to 46 percents of respondents were not able to provide correct answers for primitive financial questions. Such a lack of the basic knowledge influences also the decision while taking a loan, because users fail to properly evaluate the difference appearing due to a higher

TABLE 1**. Level of financial knowledge**

Question	Majority of respondents 50–69 years old (2004)			Majority of respondents 23–28 years old (2007–2008)		
	Correct	Incorrect	Don't know	Correct	Incorrect	Don't know
Imagine that you have a $ 100 deposit whose annual percentage rate is 2 percents. What amount you'll have in your deposit account after 5 years? More than $ 102, $102, less than $ 102?	67.1	22.2	10.7	79.5	14.6	5.7
Imagine that annual percentage rate for a deposit was 1 percent and inflation was 2 percents. Will you be able to buy more, the same or less for these money than today?	75.2	13.4	10.4	54.0	30.7	15.1

Source: composed by the authors according to Lusardi and Mitchell (2006), Lusardi, Mitchell and Curto (2010) data.

interest rate or attention is being paid only to the payable amount without trying to convert it into percentage (Campbell, Jackson, Madrian, 2011).

Taking into consideration all the researches mentioned above, we can state that there is no one opinion about express credit service. However, we must admit that the proper regulation and ensured security of both agreement parties' rights can make this instrument useful and increase the welfare of society.

Express credit regulation in Lithuania

The fast evolution of the new service created gaps in its regulation or even total appropriate field deregulation, which were used by express credit institutions. Very high interest rates and huge fines incorporated into loan agreements pushed many incautious users into financial problems and a rapid growth of their financial liabilities. These problems didn't remain unnoticed, and the Lithuanian government took efforts to increase the legal regulation of express credit institutions.

Legal regulation is based on these main legal documents:

- Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC;
- Law XI-1253 of Republic of Lithuania of 23 December 2010 on Consumer Credit (further – Law on Consumer Credit);
- Resolution 03-62 of Bank of Lithuania Board of 19 March 2013 on Consumer Credit Receivers' Solvency Evaluation and Responsible Lending Regulations Approval.

The legal documents mentioned above create a base for express credit institutions' legal regulation and limitations for consumer credit agreements made by these institutions. The consumer credit law in Lithuania was approved while implementing Directive 2008/48/EC which defines the common regulation in the EU member countries. The consumer credit law in Lithuania was approved on 1 April 2011, and since then there were some additional regulation changes introduced. While evolving the market of express credit, on 17 November 2011 there was amendment act XI-1684 implemented, which states that from 1 January 2012 the supervision of express credit suppliers is transferred to the Bank of Lithuania, and the total annual percentage rate of consumer credit price may not exceed 200 percent. No other actual changes were implemented with this amendment. Resolution 03–62 on the consumer credit receivers' solvency evaluation and responsible lending regulations approval strictly restrained express credit suppliers' abilities to give consumer loans without an appropriate evaluation of client solvency. This resolution was approved on 1 July 2013, so soon we'll be able to assess whether such a change of regulation helps to reduce the risk for consumers or forces express credit institutions to leave the Lithuanian market and to destroy the supply of such service.

Express credit sector problems noted by service suppliers

According to the data provided in the Bank of Lithuania Supervision Service review of 2011 Consumer Credit Market, there were three main credits suppliers on 31 December 2011 lent 65,65 mln. Lt express credits, which concluded 79 percent of the whole loan portfolio in this sector (The Supervision Service of the Bank of Lithuania, 2012). The largest suppliers of express credits on 31 December 2011 were UAB "4finance" – "vivus.lt" (32,74 mln. Lt), UAB "MCB Finance" – "credit24" (22,77 mln. Lt) and UAB "Moment Credit" (10,14 mln. Lt).

In order to find out the problems existing in the express credit sector, it was decided to get the opinion of one of the top three companies and one smaller enterprise. The smaller company didn't want to be identified, therefore its title won't be mentioned in this article. This company offers express credits via the internet and SMS messages in Lithuania. The primary registration in each case is executed over the internet, and the clients need to provide the personal bank account data, but later they're able to get an express credit via an SMS message as well. Due to the limited size of equity and difficulties to get additional funds while borrowing from banks (because of activity kind), the company orients its activity to a short term (1–6 months), lending with the possibility to postpone the repayment of a loan.

The second in the market, in terms of loans allowed, UAB "MCB Finance" company, agreed to participate in the research and submit its observations about the market problems and the possible ways of their solution. Introducing the UAB "MCB Finance" opinion about the express credit sector regulation, it is important to admit that this company was the first to see favorable conditions for express credit service and to start business in Lithuania. Established in Finland in 2006, MCB Finance Group Plc. started its activity in Lithuania on January 2007, and in the next year many other companies followed its example. Now, MCB Finance performs its activity in five countries – Finland, Estonia, Latvia, Lithuania, and recently, due to favourable conditions in the market, started doing business in Australia.

Express credit institution representatives expressed their opinion about the main problems existing in the express credit sector. As it was obvious before, a company with a small market share and equity faces much more difficulties. The UAB "MCB Finance" representative, country manager Augustas Štaras assesses the current situation in the express credit sector more optimistically. A much larger share in the market, the achieved trust of clients, and the possibility to orient not only to one month term loans allows the company to feel fairly safe and to experience much less problems in the express credit sector.

Problems in the market seen by company with small market share

Specialties of economics determine that for smaller companies it is usually more difficult to compete with enterprises managing a larger market share; the situation in the express credit sector is the same. During a half-structured interview, smaller company representatives noted much more sector problems than the spokesman of one of the top three companies (Fig. 1).

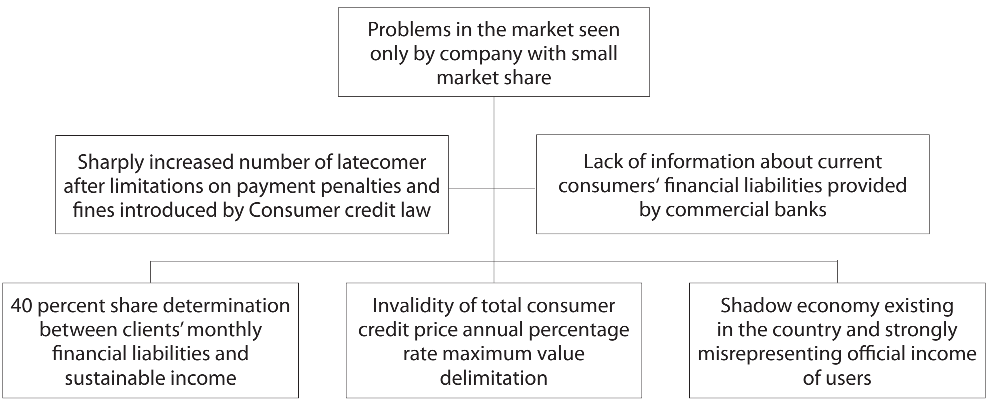


FIG. 1. Problems in the market seen by company with small market share

Source: composed by the author according to data provided by express credit company.

Even if the Consumer Credit Law delimited the possibility to use payment penalties and fines and strongly decreased potential losses of express credit users in case of insolvency, it also created some negative consequences. A company with a small market share mentioned a sharply increased number of clients not willing to pay the required loan installments in due time. As the main reason for such lateness the company noted fairly small financial costs which the client suffers not settling his liabilities in time. The UAB "MCB Finance" representative didn't give too much importance to this change as it is not so essential to them – if a client doesn't keep to the agreement, the company protects its loan rights transferring the loan collection to bailiffs. However, assessing the decision to delimit payment penalties and fines, we must admit that it was needed in order to protect users from unexpected and relatively huge additional costs. Express credit institutions still have the possibility to use bailiffs' services and collect their assets.

The small company mentioned the problem of difficulties to collect information about users' current financial liabilities to banks. According to them, banks are not willing to deliver information about their clients' liabilities, and this causes additional problems to credit institutions while trying to evaluate client solvency. The solution of this problem was excluded as the most important to comply with law regulation demanding not to exceed a 40 percent share between clients' monthly financial liabilities and sustainable income. One of the possible solutions could be access to the loan risk database administered by the Bank of Lithuania provision to express credit institutions. Since 2 April 2012, the Central Credit Union of Lithuania and other credit unions (previously also other credit institutions) have an obligation to provide data about loan recipients and their financial liabilities. Data provision is obligatory; therefore, express credit institutions' involvement into the same database and granting access to the necessary information would ensure their ability to meet law regulation requirements.

The small express credit company sees 40 percent share between clients' monthly liabilities and sustainable income requirement as far too strict. In their opinion, such proportion is logical while assessing housing loans, as due to the variable interest rate and long terms the installment amount can widely fluctuate, i.e. at one time period the installment size can meet this requirement, but in case of an interest rate sharp increase the proportion can reach even 100 percent. Meanwhile, in an express credit case, such a limitation strongly decreases the clients' ability to borrow money, especially for a short period of time. The UAB "MCB Finance" representative didn't pay too much attention to this requirement. In his opinion, such regulation will have an impact on the express credit market as a client willing to borrow the same amount as before will be forced to choose longer term agreements, but at the same time it should delimit the competitors' unreasonable risk and reduce the probability of borrowers' insolvency. Furthermore, there is a possibility that 40 percent monthly liabilities and sustainable income proportion requirement indirectly will help to reduce the size of Lithuania's shadow economy. It can be grounded, as consumers willing to get larger loans will need to declare more income. Although, we must agree with the small company that such requirement will reduce their possibility to remain in the market, as the number of the possible clients will be reduced. Questions can be raised also about the application of such requirement to consumers with a high level of income, for which monthly installment size could be higher than 40 percent of their sustainable income. In this case, it would be reasonable for the Bank of Lithuania Supervision Service to assess the proportion appropriate for the express credit sector and maybe make a little increase as these companies are lending not depositors' but their own funds and are interested to get them back.

The determination of total consumer credit price annual percentage rate maximum value in Lithuania, according to a small express credit company, was performed in a hurry without any additional calculations. The delimitation of this indicator to 250 and later to 200 percent wasn't grounded on any economic assessments but only seeking to decrease financial consumers' costs. The express credit institution's opinion is that the annual percentage rate for express credits should be determined by demand and supply as it is in other goods markets. The wish to attract more clients would force lenders to offer an attractive interest rate which would enable them to compete in the market. Certainly, in case of high interest rates, reasonable borrowing and lending would be very important, as they should grant the consumer an ability to understand the size of his financial liabilities and the possible ways of repaying them back. According to UAB "MCB Finance", the current total consumer credit price annual percentage rate maximum value is not a big problem for companies in the market. He claimed that a similar rate was used by their company even before establishing such requirement. Taking into consideration that the total consumer credit price annual percentage rate maximum value determination to 200 percent still allows express credit institutions to earn profit, we must agree that such requirement is positive as it protects consumers from lenders' unfair actions.

Problems named by both small and big market share having companies

Even if more problems in the express credit market are seen by a small express credit company, there are cases when both companies agree on the same ones (Fig. 2).

Assessing the express credit sector institutions' behavior, both companies (UAB "MCB Finance" and the small market share having company) noted appropriate

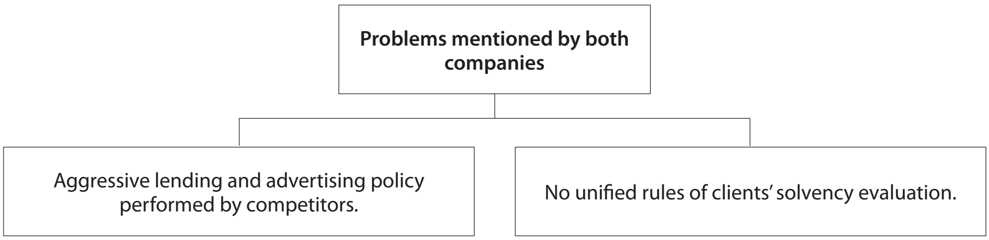


FIG. 2. **Problems in the market seen by both small and big market share having companies**

Source: composed by the author according to data provided by express credit companies.

of express credits for consumers influenced the growth of payment lateness as clients made irrational decisions and later faced difficulties in repaying their loans. One of such examples can be advertising campaigns where the first credit is offered for free. This kind of campaigns has a dual benefit for express credit institutions. Firstly, companies attract a new client who previously hadn't borrowed from them or even hadn't used this service. With a kind and qualitative service, the client who paid his installments on time has a very high probability to come back in the future and become loyal. The other kind of benefit the institution can get in case of clients' having solvency problems. Being unable to repay the loan in time, a credit receiver asks to postpone his payment, and from this period on the company begins to calculate the interest, i.e. interest income. These tricks annoy other companies as due to arising clients' insolvency problems the sector regulation in stiffened, what harms also the rest of the express credit institutions.

Another problem indicated by both companies is the absence of unified solvency evaluation rules. The dishonest behavior of some express credit companies or not reasonable decisions of offering loans to clients create problems also to other enterprises. Not enough attention to a client's solvency assessment later leads institutions to cases when borrowers are not settling their financial liabilities, and the situation is solved by a trial. The response of such issues creates mistrust in society about the whole express credit sector and provokes regulation institutions to search for the possible ways to solve the problems. As one of this problem consequences, the UAB "MCB Finance" representative mentioned the myth that express credits are being approved also for unemployed people. In his opinion, such practice may not exist in this activity as institutions are lending their private funds and do everything to limit the risk as much as possible.

While express credit institutions are using solvency evaluation rules created by themselves, there is a danger that wishing to gain a larger market share companies can take a higher risk than their competitors and propose loans even to clients with a doubted solvency level. According to the overview of the Lithuanian consumer credit market in 2011 prepared by the Bank of Lithuania Supervision Service, a 40 percent proportion is used only by a very small share of express credit institutions, while other companies use proportions calculated by them, i.e. 70 or 100 percents. It has also been noticed that there is a practice in the market not to assess client income or previous credit history in the National Social Insurance Fund Board or credit bureau databases, what creates a risk to give loans to unemployed people (Bank of Lithuania Supervision Service, 2012).

To sum up the problems perceived by express credit companies, we can claim that like in other sectors, more problems are experienced by smaller companies, which are more sensitive to regulation or market changes. Trying to find a niche, these companies search for alternative ways to attract customers and often have to take a higher risk, which is decreased using additional methods. The smaller company (which gave the interview) employees before clients' registration in the system check their data in the National Social Insurance Fund board and even contact a client by phone. In this way, the company solves the problem of stolen personal data usage and accrues more data on their client. Questions about their current or previous employer, school finished, help to avoid cases of theft and to take a decision whether to give a loan or not. Also, problems seen by both companies should be considered as really serious and attract more attention. It is nice to admit that an insufficient assessment of solvency and aggressive advertising policy problems are mentioned also by the regulation authority, allowing us to believe in their solution in the nearest future. It is more difficult to evaluate 40 percent proportion requirements. Larger companies, having bigger sources of funds and ability to lend for a longer period of time, do not see this requirement as very dangerous and agree that it is useful, while for smaller companies it can be very harmful, reducing the number of potential clients.

Problems faced by express credit receivers

In scientific researches and society, the express credit sector problems most often are analyzed and solved protecting the borrowers, so a survey was performed questioning 416 respondents. According to data collected in the survey, we are able to assess appropriate respondents' characteristics to their choices.

Selecting respondents for the survey, efforts were made to reach their structure as similar as possible to the one in the consumer credit overview for 2011, performed by the Bank of Lithuania Supervision Service. To make it easier to compare different characteristics of credit receivers, they were divided into four age groups (Fig. 3).

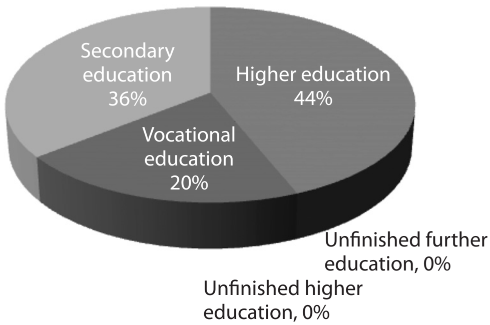
Age interval	x ≤ 25 y.	25 y. < x ≤ 35 y.	35 y. < x ≤ 50 y.	x > 50 y.
Respondents' share	62 percents	23 percents	11 percents	4 percents

FIG. 3. **Respondents that participated in the survey according to their age**

Source: composed by the author according to data collected in the survey.

As we can see in Fig. 3, the largest share of respondents weren't older than 25 years, and those older than 35 years comprised only 15 percents of the whole set. Such distribution of respondents was influenced by the type of the survey and a large number of master students that participated in the research. Although the achieved respondents' distribution meets the tendencies seen in the consumer credit overview for 2011, performed by the Bank of Lithuania Supervision Service, the largest share of consumer credit receivers (63 percents) consists of persons not older than 35 years (Bank of Lithuania Supervision Service, 2012).

In scientific studies, there was mentioned the problem of lack of financial knowledge, so in the survey it was decided to assess the respondents' education impact on their attitude to the express credit service. Below, we can see a comparison of users' education level and association with express credits (Fig. 4).



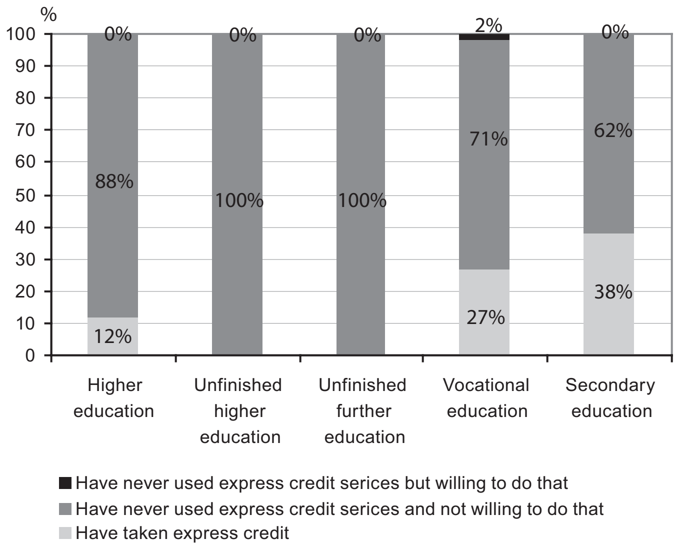


FIG. 4. **Comparison of respondents' education level and association with express credits**

Source: composed by the author according to data collected in the survey.

Even if the respondents' distribution (seen in the first graph) according to their association with express credits shows that the largest share consists of persons with a higher education, we cannot make such a conclusion. These results were impacted by a very large share of respondents with a higher education (64 percents). In this part, it is also better not to analyze unfinished higher education and further education groups due to the very low number of respondents in these groups.

It is obvious that persons with a higher education have less willingness to use express credit services than the ones with secondary or vocational education. However, such a distribution cannot be directly linked to the attitude to express credits as it can be determined and by different factors such as higher income, better planning of income and expenses, wider possibilities to borrow in banks. Respondents with vocational or secondary education have a similar position to express credits. Despite that, the share of persons with vocational education is smaller than with secondary education (27 percents < 38 percents); after assessing the share of respondents willing to use express credit services, the difference decreases.

Comparing the association with express credits and the age of respondents, we can state that the largest share of express credit consumers consists of persons aged under 35 years (Fig. 5). In this part, it is important to pay attention to the condition that a large share of respondents aged under 25 years consists of persons with a higher education, who are less likely to use express credit services; therefore, the share of individuals using express credit services in this age group may not match the distribution of population.

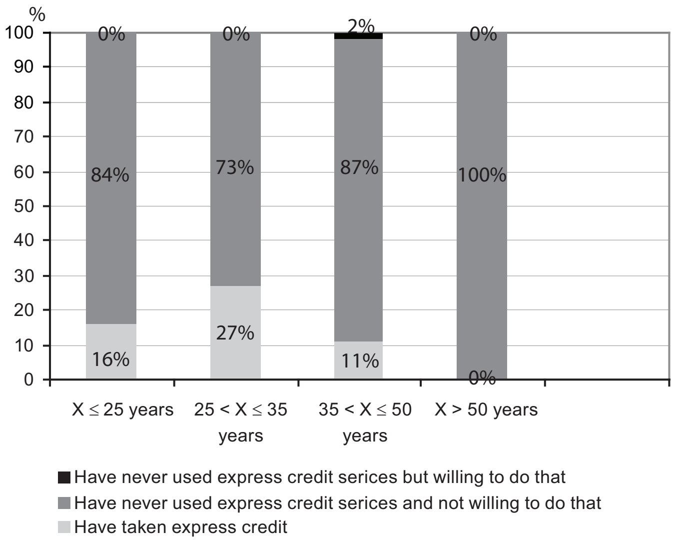


FIG. 5. Comparison of respondents' age and association with express credits

Source: composed by the author according to data collected in survey.

Summing up the relation of respondents' characteristics with express credit analysis results, we can state that the largest share of this service users are persons aged under 35 years without higher education. The reasons for such a distribution may be a lower level of financial knowledge, influencing the worse financial planning and a higher need for borrowing. It can also be impacted by the difficulties to get a loan in banks or a lower level of income.

As it is claimed that an insufficient level of financial knowledge may affect a person' decision to take an express credit, the question about the influence of inflation on the purchasing power, used in the Lusardi, Mitchell and Curt research, was also included into the survey (Campbell, Jackson, Madrian, 2011). Answers to this question were divided into groups by respondents' education level (Fig. 6).

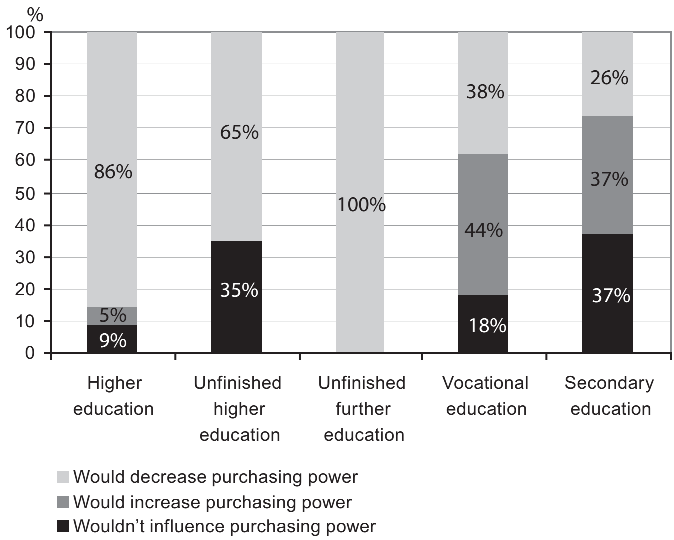


FIG. 6. **Comparison of respondents' answers to the question how inflation growth would affect their purchasing power**

Source: composed by the author according to data collected in the survey.

The answers of respondents with unfinished higher and further education were not assessed because of a small number of participants. The results show that the largest share of individuals that made correct answers had a higher education. Correct answers were submitted by 86 percents of respondents with a higher education and respectively by 38 percents and 26 percents with vocational or secondary education. Such results, together with the previously identified tendency of persons with a lower than higher education to choose express credits, confirms the presumption that this service is often chosen by individuals having a lower financial knowledge.

The determined subordination is very important when searching for the ways to improve the situation in the express credit sector and to reduce the number of insolvent clients. One of the possible solutions of the problem could be the strengthening of consumers' financial education, which would help not only to better assess the borrowing agreement terms or personal financial capabilities, but also to plan the personal budget in an appropriate way, decreasing the need of loans.

Nowadays, in the mass media we can see articles about the express credit sector problems, cases of fraud and financial losses experienced by service consumers. They influence the formation of a negative opinion in society and may misrepresent the perception of the real conditions of the sector. In order to reasonably evaluate the variety of the sector's problems, the respondents were asked to assess the existence of the express credit service, and the results were analyzed by comparing them with individuals' association with this service (Fig. 7).

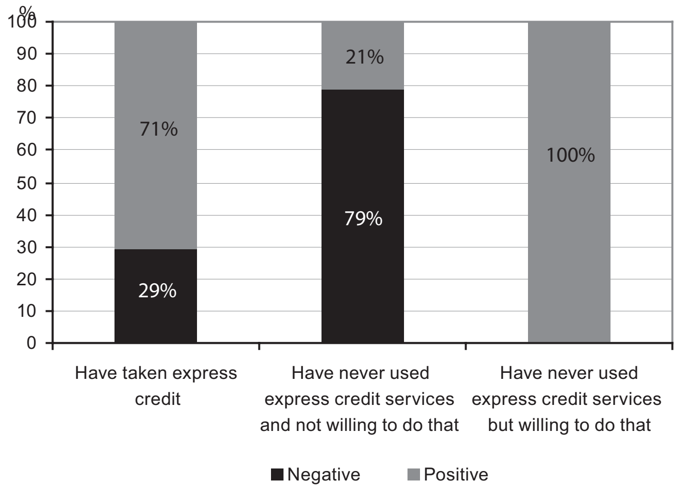


FIG. 7. **Assessment of respondents' attitude to express credit service and their association with it**

Source: composed by the author according to data collected in the survey.

As we can see in Fig. 7, the majority of respondents with a negative attitude to the express credit service consists of individuals who have never used this service and are not willing to do it. Their attitude can be formed by the above mentioned mass media articles and knowledge about problems that occurred to other persons. However, the other part – persons who have used this service – have an opposite opinion, and even 71 percent of them positively treat its existence.

The results of this analysis are very important as they reveal much better conditions in the sector than we could think when assessing the opinion of all respondents. Of course, 29 percents of dissatisfied clients is quite a big share, and actions are needed to be taken to decrease this number. Although, problems in the sector must be solved while searching for the golden mean and creating conditions that maintain the possibility for express credit institutions to continue their activity.

In order to have a proper understanding of the problems in the express credit sector and their possible solutions, the survey included the question about the most important factors impacting the respondents' decisions. The collected data confirmed the presumption that most attention is paid to the price of credit – this factor was mentioned by the majority of respondents, whatever their association with express credits (Fig. 8). Such respondents' choice is reasonable and very likely, because the price of credits is their financial cost for consumption today, and as they increase, the marginal benefit for the user diminishes.

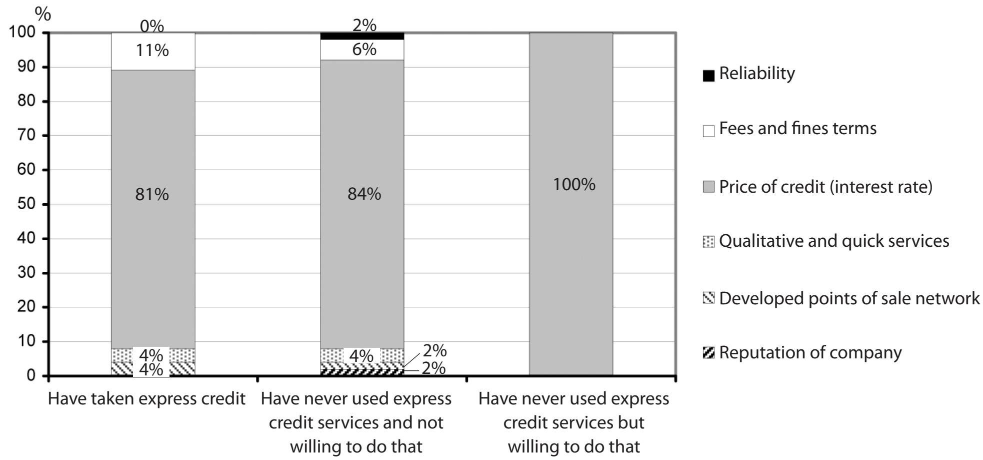


FIG. 8. **The most important factors influencing respondents' decision while choosing an express credit institution**

Source: composed by the author according to data collected in the survey.

Another important factor when choosing the express credit institution is the fees and fines terms. This area is very important because cases of payment lateness are usually not taken into consideration when signing the loan agreement and surprise clients by their size. However, the legal regulation has strictly delimited payment penalties and fines in cases of client insolvency and thus strongly decreased potential financial costs. Here, we can even remember a qualm of a small express credit company that reduced payment penalties often encourage consumers not to hurry while repaying their loans.

As we can see, other factors didn't seem very important for possible credit receivers, so express credit companies should give most of their attention to the price of credit while competing in the market and seeking a larger market share. If the economies of scale would grant the profitability of such decision for a company, such changes would be beneficial for both sides of the agreement. At the same time, in legal regulation, we still need to take care that the price of a credit presented in advertisements would be more understandable to clients and ensure his ability to make a proper assessment of possible choices.

Respondents were also asked to identify the problems and their possible solutions existing in the express credit sector. The survey results were analyzed considering the respondent's association with express credits in order to be able to evaluate how different are the opinions of individuals who use this service and those who don't (Figs. 9, 10).

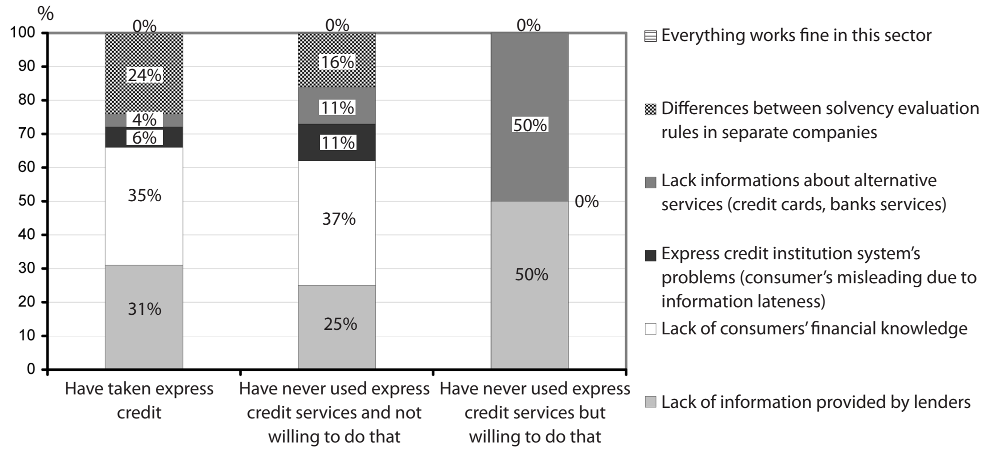


FIG. 9. **Express credit sector problems noted by respondents**

Source: composed by the author according to data collected in the survey.

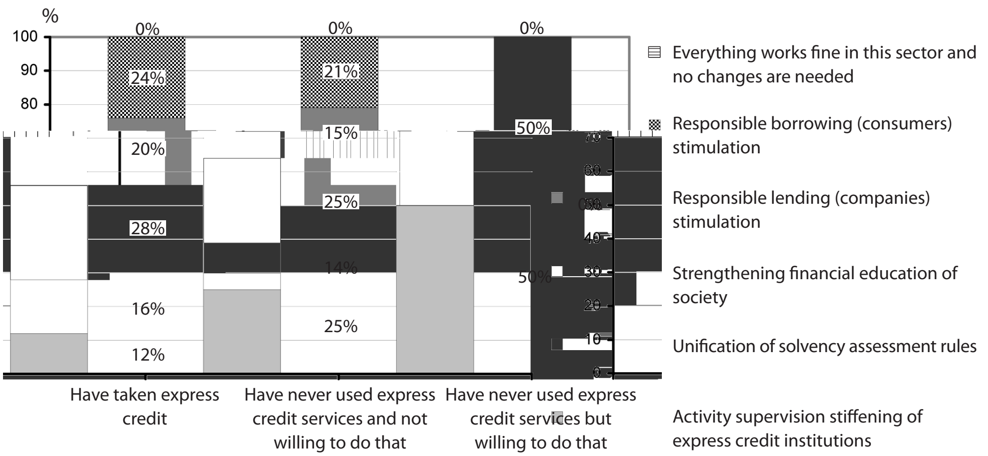


FIG. 10. **Potential solutions of the express credit sector problems noted by respondents**

Source: composed by the author according to data collected in the survey.

It is obvious that the main problems are seen in the same aspects by all respondents independently on whether they have used this service or not. Individuals who haven't used this service but are willing to do that shouldn't be analyzed as there were only 8 of them. The main problem in the sector, according to both respondents' groups, is the lack of consumers' financial knowledge; for the second and third, stand the lack of information provided by lenders and the differences among solvency evaluation rules in separate companies.

We need to admit that three main problems were noted by 90 percents of individuals who have used this service choices and 78 percents of those who haven't. The fact that service consumers to these three main problems give even a higher weight than those assessing from the outside shows the relevance of these problems and the need to search for their solution possibilities.

Usually, people naming the problems have also some suggestions on how they could be solved. Our case is not an exception, therefore, the respondents were asked to choose the possible ways of solving the existing problems in the express credit sector. The collected results meet the main problems in the sector.

As we can see in Fig. 10, respondents' opinions were the same regarding the main and probably the most difficult way of solution – strengthening the financial education of society, indicated while evaluating the need for express credit institutions' activity supervision stiffening. Individuals not using express credit services thought this solution to be as important as financial education strengthening, while express credit users treated it as less important. In their opinion, it is much more useful to encourage responsible lending and borrowing instead of continuing to strengthen the supervision of companies. Such attitude seems to be logical as the current supervision system guarantees an effective supervision of express credit institutions, and the responsible borrowing and lending stimulation should give more benefit for problem reduction.

Summing up, we can state that both agreement sides (lenders and borrowers) assess the situation in an objective way and note the same problems. Despite the fact that some express credit companies manage to ensure a proper client solvency assessment by their internal rules, there are many companies in the sector which do it more carelessly, and we need additional actions to ensure a responsible lending together with the unification of solvency assessment rules. Such ways of solution are mentioned by both agreement sides, this problem is noted and by the Bank of Lithuania Supervision Service, so we can expect proper decisions and positive changes in this sector.

Proposed ways of solving the problems of the express credit sector

During scientific research analysis and Lithuanian express credit sector problems' survey, the main of them were identified. In order to perform an objective and accurate analysis, both agreement sides – express credit institutions and consumers – were analyzed. The half-structured interview method was used to collect data on express credit institutions' problems, and the information gathered during consumers' opinion survey allowed to propose the proper ways of solving the sector problems. The most important problems in the express credit sector and their solutions proposed by the author are presented in Fig. 11.

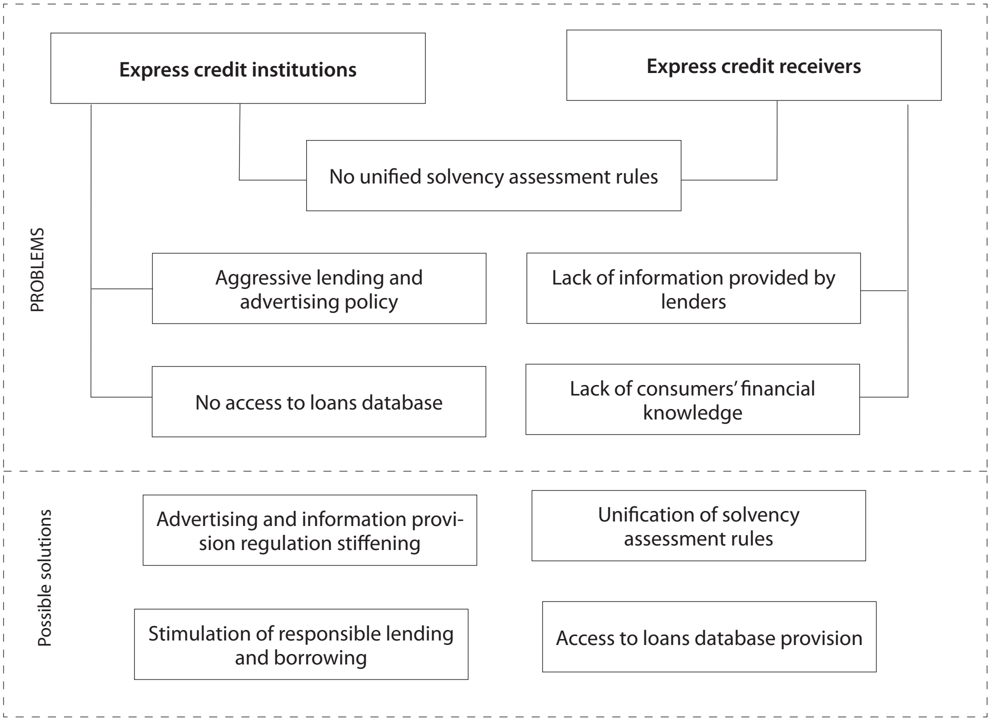


FIG. 11. **The express credit sector problems and possible solutions**

Source: composed by the author according to research data.

The research of the express credit sector has shown that market participants agree on one common problem – the absence of unified solvency assessment rules. The dishonest behavior of some companies or not reasonable decisions while offering express credits create problems not only to service consumers but to competitors as well. Giving not enough attention to a client's solvency evaluation, companies later face clients not repaying their financial liabilities, which is usually solved in a trial. Information about such cases creates mistrust in express credit institutions and encourages supervision authorities to search for the possible solutions which can be dangerous to the market existence. The Resolution 03–62 of the Bank of Lithuania Board of 19 March 2013 on Consumer Credit Receivers' Solvency Evaluation and Responsible Lending Regulations Approval is an important step towards the solution of this problem, as since 1 July 2013 entered into force the regulations consisting of stricter delimitations of the possible unreasonable actions of express credit institutions.

Responsible lending regulations are closely associated with the aggressive lending policy problem. These regulations will support a 40 percent proportion between monthly liabilities and sustainable income, approved by the Bank of Lithuania Board in 2011. Nevertheless, during a half-structured interview, the chief of an express credit institution has stated that this requirement is too strict. Such proportion is fairly logical considering housing loan installment and monthly income dimensions as due to variable interest rate, and the long agreement term installment size can highly fluctuate and in some periods even hit the 100 percent mark. From the express credit consumer's point of view, such requirement delimits an individual's ability to get a loan, especially when borrowing for a short period of time. The small company that participated in the interview stated the problem of this requirement also by fact that, according to their internal methodic, 9 of 10 applications for express credits are rejected. After stiffening the clients' solvency assessment, this proportion can become even higher, making it very difficult to find a client meeting all the requirements. The UAB "MCB Finance" representative does not think that this problem is very important as they have bigger sources of funds and are able to lend for longer terms. However, it would be beneficial to evaluate the influence of this proportion on smaller sector companies in order to avoid the unnecessary risk for the existence of this service.

To be able to meet the responsible lending regulation, lenders need to have all the information related to credit receivers' financial liabilities. Nowadays, express credit institutions don't have information about clients' liabilities to commercial banks and aren't able to accurately assess clients' solvency. This problem could be solved by granting express credit institutions access to the Bank of Lithuania loan database. The decision to grant access or another way of getting information about a client's financial liabilities must be taken in the nearest future as otherwise lenders won't have enough tools to execute responsible lending regulation requirements.

The results of the present survey show that the problem of insufficient express credit institutions' information provision noted by respondents is related to the aggressive advertising problem mentioned by lenders. Even if the Bank of Lithuania management representatives often speak about advertising regulation stiffening, this problem still exists in the express credit sector. As advertising specialists usually find the ways to increase the impact on consumers while meeting legal regulation requirements, it is important at the same time to execute a responsible borrowing stimulation. Giving more attention to social advertising and informing about the alternative borrowing instruments would give more information to individuals while taking a decision on loan. This way would also help in solving the problem of the lack of consumers' financial knowledge.

To sum up, even if a huge progress has been achieved in stiffening the regulation of the express credit sector, there still remain areas to be improved. While regulating this service, the focus was mainly on consumers' rights protection; however, it is also very important to give attention to express credit institutions' thoughts about the arising risk for this service continuity due to its specific regulation. Attention to both lenders and borrowers should be fostered also by big consumers' interest to this service, which shows the necessity of express credits. Therefore, the express credit regulation improvement in the future should ensure the existence of this service and increase its competitiveness in the market.

Conclusions

Express credit institutions form a small share of the world financial system, but they fill in the consumer credit sector niche and require a specific regulation. This service provides the possibility to borrow for undeveloped regions or consumers with a low level of income, who are not able to get a loan from other financial institutions, although the individuals need to borrow responsibly as otherwise they are risking to suffer financial losses.

In half-structured interviews, express credit institutions' representatives noted an aggressive lending and advertising policy performed by some competitors. Insufficiently accurate advertising, intensive supply of express credits to clients lead to the growth of payment delays. The lack of information from the lenders was mentioned during the survey of potential consumers, too. Another problem expressed by potential consumers and express credit institutions was the absence of unified solvency assessment rules. The dishonest behavior of separate companies or not reasonable decisions while giving loans create problems also for other institutions in this sector. Taking too little attention to clients' solvency assessment, express credit institutions later face the problems of non-covered financial liabilities, which are later solved in trials.

The survey has revealed that the main problems are the same according to both persons who have never used the express credit service and those who did. The lack of financial education was noted as the main problem in the sector, the second and third places belonging to the lack of information provided by lenders and differences among the solvency rules used by credit institutions. The presumption that this service is more popular among young and having no higher education persons was also confirmed, although such distribution shouldn't be directly associated with the attitude to express credits as it can be caused by other reasons such as a lower level of income, worse planning of expenses, fewer possibilities to borrow in banks. The research has also revealed that the largest share of respondents with a negative attitude to express credits consists of those who have never used this service and are not willing to do that. This allows to make a presumption that such an opinion may be formed by mass media articles and the information about problems experienced by other individuals. Meanwhile, the attitude of persons who have used the express credit service is totally different – here even 73 percent of respondents have a positive opinion about this service.

Referring to the research performed by the author, there are different actions needed to solve the problems existing in the express credit sector. Firstly, the unification of clients' solvency assessment rules should be done, and it would limit the dishonest behavior or unreasonable decisions by separate companies, which create a risk not only for that company but for client solvency as well. This solution should be based on the resolution 03-62 of the Bank of Lithuania Board of 19 March 2013 on Consumer Credit Receivers' Solvency Evaluation and Responsible Lending Regulations Approval, which has an increased delimitation of lenders' abuse. In line with stiffening advertising, the stimulation of responsible borrowing and financial education of potential consumers should also make a positive impact on the market. Giving more attention to social advertisements and providing information on the alternative ways of borrowing should help individuals to take a better decision while taking a loan.

To avoid the risk for express credit service existence, the 40 percent proportion between monthly liabilities and sustainable income should be reconsidered assessing the impact of such regulation on small express credit companies. The importance of selecting an appropriate legal regulation level is accented by the big demand showing this alternative necessity. Granting access to the Bank of Lithuania loans database (or an appropriate substitute) for express credit institutions is vital for them to have the necessary tools to meet the requirements of a responsible lending. Taking this decision, it is important to determine the accurate rights and liabilities for the companies and to ensure a proper protection of clients' data.

REFERENCES

Bania, N., Leete, L. (2007). Income volatility and food insufficiency in U.S. Low-Income Households, 1992–2003. Institute for Research on Poverty Discussion Paper No. 1325–1307.

Bank of Lithuania Supervision Service (2012). Consumer Credit Market Overview 2011.

Berry, C. (2005). To Bank or Not to Bank? A Survey of Low-income Households.

Campbell, J. Y., Jackson, H. E., Madrian, B. C., Tufano, P. (2011). Consumer financial protection. Journal of Economic Perspectives, Vol. 25(1), pp. 91–114.

Consumer Union (2005). Implementing Revised FDIC Payday Loan Guidelines.

Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC (2008).

Edmiston, K. D. (2011). Could restrictions on payday lending hurt consumers?

Elliehausen, G., Lawrence, E. (2001). Payday Advance Credit in America: An Analysis of Customer Demand. Monograph #35.

Flannery, M., Samolyk, K. (2005). Payday Lending: Do the Costs Justify the Price?

Karger, H. J. (2004). Scamming the poor: The modern fringe economy. The Social Policy Journal, Vol. 3 1: pp. 39–54.

Law XI-1253 of Republic of Lithuania of 23 December 2010 on Consumer credit (2010). Valstybės žinios, Nr. 146-6830.

Melzer, B. T. (2011). The real costs of credit access: Evidence from the payday lending market. The Quarterly Journal of Economics, Vol. 126(1), pp. 517–555.

Morgan, D. P. (2007). Defining and Detecting Predatory Lending.

Nemaniūtė, K. (2010). GVKA Members Reject up to 60 percent of Requests for Loan.

Pazniokas, R. (2013). Place of Express Credit Institutions in Lithuania’s Credit and Financial System, Arising Regulation Problems and Possible Solutions.

Resolution 03-62 of Bank of Lithuania Board of 19 March 2013 on Consumer credit receivers’ solvency evaluation and responsible lending regulations approval (2013). Valstybės žinios, Nr. 30-1519.