

# PREVENTIVE ACTIVITIES IN THE AREA OF INDEBTEDNESS IN SOCIALLY EXCLUDED LOCALITIES AND SCHOOLS

Petra Stoeva, Gabriela Hůlová

Magistrát města Pardubic

***Abstract:** This contribution represents projects focused on preventive activities in the field of indebtedness and distraint. In the introduction, the reader is introduced to the problems of indebtedness. The next section describes the preventive activities aimed at those living in socially excluded localities. This is followed by introduction of a preventive program for high schools and secondary vocational schools. Conclusions are based on experience gained through social work provided to families by municipality and non-profit organisation specialising in dealing with debt counselling. Observations from the experience and other visions are presented at the end of the chapters on implementation of the project.*

***Keywords:** debt, executions, prevention, project, social work*

## 1. Introduction

Households in the Czech Republic incur increasingly more debts, which is evident from the long-term economic indicators collected and presented every year by the Czech Statistical Office and the Czech National Bank. According to the recent data from the Czech Statistical Office the total household debt soared to approximately 875 billion crowns in 2008 and in 2009/2010 the debt is already over one billion crowns. Of course it is true that from the global perspective the debt problematic in our republic does not reach dramatic levels, but what is alarming for many experts is the tremendous rate at which the indebtedness of Czech households grows, especially over the last ten years. It is economic and especially social development over the last ten years that shows a change in the behaviour of people, particularly in the area of borrowing. Living with debt and using it to further raise the standard of living has become a social trend in our country, just like in America and in Europe. An earlier approach to borrowing of the Czech population, especially the conservative one from the nineties, has changed dramatically. Czech households now risk more and their levels of consumption are no longer equal to those of their real income.

What needs to be also mentioned, however, is that there is so called healthy debt when a purchase is acquired on credit and the lifespan of the asset far exceeds that of the debt itself. For households, this means particularly an acquisition of a property which is a tangible asset that can be used for repaying debt if the family gets into financial difficulties. This is not the case of loans used for products and services of fleeting value, which often serve only for short-term consumption. The desire to “live off the fat of the land”, raising standards of living at the expense of increasing the debt poses a high risk particularly in low-income families. It is often the case here that loans for holidays, gifts and electronics can lure the family into a debt trap. Subsequently, this leads to borrowing money for paying off previous debts. Borrowing to finance the repayment of previous debts, however, usually leads to the so called low threshold loans (these are often loans from the non-banking sector).

The lower the threshold is the less favourable the conditions are, and the loan, as well as the debt recovery, sometimes balances on the edge of legality. People with such debts do not often

think about the loan conditions, they "cannot read" the contract and they do not realise the potential risks that may arise in the future. *The financial literacy of loan beneficiaries is often low.* Insolvency eventually leads to serious consequences for the whole family. Assets are seized (including social benefits), which may lead to loss of housing, family breakdown, criminal activity, etc. Recent data from the Chamber of Bailiffs of the Czech Republic suggest that the number of distraints is increasing year by year. While in 2006 there were 309 457 writs of execution, in 2007 there were over 427 800 of new writs of execution (<http://www.spotrebitele.info/vase-prava/clanek>). In 2009 it was already around 750 000 writs of execution. The latest forecasts indicate that as a result of the economic crisis there may be a further rise of writs of execution in following years. Here, a significant role is also played by the unfair practices of credit providers, whose goal may be to seize the assets of the debtor. Understandably, these loan providers are not interested in raising *consumer awareness*.

## **2. Preparation and Implementation of the Project “Before Bailiff Rings“**

### ***2.1. Preparation and Implementation of the Project “Before Bailiff Rings“ 2007/2008***

Based on information obtained both from the work of our section of prevention and social services department of community services of Municipality of Pardubice with low-income families balancing on social exclusion, as well as from the nationwide projections in the area of debts and distraints, we have decided to implement a pilot project aimed at dealing with this issue more closely. The pilot project “Before Bailiff Rings“, was established in 2007 and ran throughout 2008. The project was funded by the Municipality’s Crime Prevention Program.

We called it a pilot project because for the first time its objective was to map the situation of the people and families at risk of debts and distraint and subsequent increased risk of social exclusion. We gathered the initial information from localities with high proportion of socially disadvantaged families. The data collected through the research confirmed the trend of excessive indebtedness. This is why major efforts in the project focused on improving *financial literacy and competence* of families that are most at risk of excessive indebtedness. The aim of this project was to instruct these families how to prevent problems arising from mismanagement of their debts. Another equally important goal of this project was to influence clients in terms of their awareness and ability to assess their realistic financial situation before borrowing, as well as to improve their skills to read the contract, particularly with attention to the rights and obligations arising from loans and, last but not least, to inform clients how to solve *problems with repaying debts*. Because we were aware that we could only cover a narrow range of clients, we decided to raise awareness of the problematic of borrowing and indebtedness among social workers, both in government and the NGO sectors, but particularly among those working with people at risk of social exclusion.

For this reason, we included in the first phase of the project a lecture aimed at training these workers by a specialist. The one day lecture took place at the City Hall and it was attended by ten workers from the state sector (members from department of social welfare, social and legal protection of children, staff from the local city councils and a social worker from the prison) and thirteen people from the NGO sector (Citizens Advice Bureau, Amalthea , SPK - Centre, SKP-Portus, Town Shelter Ray, FOD Pardubice Branch). In the next phase of the project our attention turned to clients themselves. *Printed materials* for the upcoming lectures by experts on indebtedness were distributed to the selected localities. During 2008, there were four lectures in total, which also included an individual *professional advice*. *Participation in the*

*offered activities* was not so high and as a result the last two lectures were held directly in the socially excluded localities.

The general public was also informed about the ongoing project through papers in a monthly "Town Hall Newsletter" (published by the Municipality of Pardubice). The public was able to learn in these papers about the pitfalls of borrowing, the over-indebtedness as well as distraint.

## **2.2. Project Partners**

In the phase of the preparation of the project cooperation was established with a non-profitable Association Spec from Olomouc. At the time, the Association Spec was almost the only association devoted to providing debt counselling on a highly professional level as well as providing prevention advice at schools. A member of the association offered a possibility of professional training for social workers and seminars for clients. In addition to this, the association participated in an extensive project of Olomouc Region "Nothing is Free", which was devoted to the prevention of pathological indebtedness.

As a part of our preparation and implementation of the project on the same topic, we both exchanged our own personal experiences and we consulted the addressed areas with a crime prevention manager of the Regional Authority of Olomouc Region.

In order to ensure that clients get an opportunity for direct consultations in the area of distraint, a distraint clerk was approached for cooperation in the form of seminars and consultations with clients. This clerk had also experience with the above mentioned project from Olomouc Region. The third key person in the team was a professional counsellor with a legal background, with whom the cooperation was established through the Citizens Advice Bureau Pardubice. The legal advice was intended for clients in situations such as legal proceedings, etc. Because the project was targeted on people living in socially excluded localities, a Roma field officer was approached as the natural authority in the locality. This was partly because leaflets had to be translated into the Romany language and because this would also promote the participation of clients.

## **2.3. Evaluation of the Project in 2008**

As already stated above, the organised lectures and individual counselling for the indebted clients were not met with an interest we expected. *This fact may be due to the reason* that a larger number of the people were already overindebted in all aspects (recovery, seizure, etc.) so that the preventive information campaign could no longer help them. Another reason is that clients who have debt and who are beginning to have difficulty repaying it very often adopt a passive approach to the problem. They are unwilling to address their situation feeling that when worse comes to worst "someone" will solve it for them. We think that this also could have been a reason that may have contributed to a low interest in this topic among the clients. However, we have detected positive effects particularly in sharing information among professionals in the social sphere. If we did not succeed in the project in bringing the information directly to the clients, it is evident that the informed social workers will be able to provide individual assistance to a particular overindebted client.

### 3. Modification of the Project

#### 3.1. Change of the Target Group

The experience with the 2008 pilot project “Before Bailiff Rings” led us to the idea of changing the target group. The original version of the project did not really meet the expectations because of the reasons mentioned above. However, it would have been *pity* not to utilise the valuable information and experience, which we managed to obtain in the course of implementation of the project (thanks to various seminars and considerable amount of self-study). At the same time, we observed from the environment of our work and the media that the topic is timely and interesting. Given the scope of our “field of prevention” an idea presented itself to move this topic to schools, namely to primary or secondary schools. After long consideration, we chose secondary schools (and vocational schools) and we decided to focus on teenagers just before the age of maturity. This is the age just before they fully enter the world of loans and debts and hence even possibility of distraint.

#### 3.2. The Conceptions of the Project Before Bailiff Rings Lectures 2009

A survey of secondary schools (including vocational schools, etc.) conducted in our town confirmed the fact that schools are interested in the topic. *In addition, students already experience distraint* (for example for stowing away on public transport). Thus gradually a new project emerged “Before Bailiff Rings Lectures” aimed at raising legal awareness among students about borrowing and distraint, and to enhance their competencies and responsibilities when they enter the legal dealings of this nature. The project was launched in 2009, in a same subsidy program as in 2008. We prepared a two hour lecture as a part of the project. In a developing phase, we based the lecture plan on the experience with our clients, whose problems were not always only the lack of legal awareness, but also irresponsible behaviour, in particular, fear and suppression of problems. Quite often the behaviour just described deprived clients of information, which could have led to some solution prior to the distraint itself and hence very grim life situation. Instead, they came at the stage when, because of distraints, they were left with almost no means of subsistence. Concepts such as bailiff, and debt-collector, writs of execution and contract etc. were confused by them. For a long time the concept of distraint was abstract to them and the longer the enforcement took the more they believed in the likelihood of it being lost somewhere. These facts led us to the next content subject of the lecture: identifying students' awareness, transfer of theoretical knowledge and active involvement in the topic.

In the first part of the lecture, students complete the knowledge test and they are introduced to the topic. They work in a workshop form on a potential monthly family budget and they receive theoretical information about a contract, and hence about the importance of such a document, the terms, the price indicator for a loan, etc. In this section the students are expected to learn that it is necessary to consider the loan in advance, to know own income and expenditure, to examine the contract and to realise the importance and repercussions of signing *any* document. The second part of the lecture focuses on behaviour in a situation of insolvency. Emphasis is placed on active problem solving and strengthening own responsibility when it comes to borrowing. The consequences of situations where insolvency is not resolved are explained to students. They receive specific information about specific examples (e.g. how much the legal proceedings cost as in the case of an *earlier mentioned* fine for “stowing away”) and other findings from the field (the process from a debt to a writ of execution, types of enforcement, a defence in case of wrongful distraint, etc.) The effort is aimed at informing not only about the rights of the debtor, but also his or her obligations. The purpose is not to

discourage students from loans and mortgages, but to show them the responsible approach. *The offer of the program was gradually extended outside of the school environment. Cooperation was established with the children's home, halfway house shelter, and organisations providing transitional employment. The offer, therefore, applies to schools and other facilities where people aged about eighteen years old live, work, or are educated.*

### **3.3. Students' Results from the Lecture's Entrance Tests**

The depth and scope of a lecture is adjusted to the level of students' knowledge. In selected classrooms the test is written even after the lecture. So far there have been seven classes from seven different schools from which tests were evaluated. The input data differs depending on whether these are vocational schools or high schools. The closer affinity the school has to business administration education and to comprehensive secondary education, the better results students achieve.

Six classes had the same wording of the questionnaire (number of students was about one hundred and fifty). For your interest we present students' results from the entrance questionnaire.

**Table 1: Students' Results from the Knowledge Tests**

QUESTION	A NUMBER OF ACCEPTABLE (CORRECT) ANSWERS IN PERCENTAGES
What is an interest?	92
What is a loan?	86
Is it possible to have a loan insurance?	64
Who is a creditor?	51
How would you deal with insolvency when paying off a loan?	41
Is it possible for a bailiff to visit home without the presence of people who live there?	38
What is an APR?	17
What is the bailiff's minimum fee?	10

Students often confuse the concept of interest and loan as well as the concept of creditor and guarantor.

When they know what the abbreviation APR stands for, they can not explain what this indicator means.

They know insurance quite well from advertising.

In dealing with insolvency creditors are the last to be approached.

They have often very distorted notion about distraint (particularly about the costs of distraint).

Distraint is perceived more as a kind of threat and a profitable profession rather than as a legal assistance to the lender. *Over a period of time, however, we witnessed students' greater capability to differentiate between debt-collector and bailiff, and banking and non-banking sector.*

This information (along with other information) appears in the lecture. The output knowledge questionnaire indicates a positive acceptance of the topic by students.

#### **4. Conclusion**

Given the interest and cooperation of the vast majority of students during the lectures and the primary character of prevention, we evaluate this form of project very positively. Our vision is to maintain the scheme of the project within the primary prevention but also to specify it more towards schools where pupils are more likely to be from families with lower social and economic standards. *On the other hand, it becomes more difficult to establish cooperation with these schools in the area of prevention.*

At the same time we feel the need to enhance financial literacy among children in elementary schools. Our survey indicates that there is interest in this topic among the municipal primary schools. We believe, however, that it would be necessary to introduce this topic to curriculum in a more systematic way, to familiarise children with different tools, concepts and the nature of financial markets and the world of loans, but also to prepare them how to use their savings better. *What is positive is that we have noticed that the first Czech textbooks and worksheets on this topic have already emerged.*

#### **References:**

- [1] Právní rozbor k problematice zadlužování sociálně deprivovaných vrstev obyvatelstva pro Odbor bezpečnostní politiky MV ČR, Praha prosinec 2006, Zšvůle práva, o. s. Mgr. Kateřina Hrubá a Bc. Edita Stejskalová
- [2] Závěrečná zpráva z terénního průzkumu podmínek na trhu drobných půjček a úvěrů v Olomouckém kraji, Občanské sdružení Spes Biskupské nám. 2, 771 01 Olomouc, 20. 7. 2007
- [3] Manuál Sdružení Spes pro školení sociálních pracovníků a pracovníků nevládních neziskových organizací a charit Formy pomoci předluženým občanům, listopad 2007
- [4] Průvodce spotřebitele sdružení českých spotřebitelů Podepsat můžeš, přečíst musíš! (O spotřebitelských půjčkách a úvěrech), Ing. Libor Dupal, JUDr. Ing. Otakar Schlossberger, JUDr. Petr Toman
- [5] Vývoj zadluženosti českých domácností, odborná studie finančního serveru Měšec.cz, Praha, říjen 2006
- [6] Prevence zadlužování českých domácností s důrazem na sociálně slabé a vyloučené skupiny obyvatel, Odbor prevence kriminality MV ČR, březen 2007
- [7] Odborná diskuse „V pasti zadluženosti“ Krajského úřadu Olomouckého kraje 17. 10. 2006
- [8] Spotřebitelské úvěry a neschopnost splácet dluhy – vybrané otázky, Občanská poradna Jižní město, o. s. Společnou cestou

- [9] Dluhová problematika – informační brožura, Občanská poradna Plzeň, o. s. a Člověk v tísní – společnost při České televizi, o. p. s., 2007
- [10] Systém budování finanční gramotnosti na základních a středních školách, společný dokument MF ČR, MŠMT ČR, MPO ČR, vypracovaný na základě usnesení vlády č. 1594 ze dne 7. prosince 2005, aktualizovaná verze a v souladu se Strategií finančního vzdělávání, prosinec 2007
- [11] Půjčky a úvěry, manuál pro pracovníky pomáhajících profesí, zpracován v rámci projektu prevence zadluženosti „Nic není zadarmo“

**Related Legislation:**

- [12] Zákon č. 99/1963 Sb., občanský soudní řád
- [13] Zákon č. 40/1964 Sb., občanský zákoník
- [14] Zákon č. 120/2001 Sb., exekuční řád
- [15] Zákon č. 321/2001 Sb., o některých podmínkách sjednávání spotřebitelského úvěru
- [16] Zákon č. 182/2006 Sb., o úpadku a způsobech jeho řešení (insolvenční zákon)
- [17] Zákon č. 64/1986 Sb., o české obchodní inspekci
- [18] Zákon č. 634/1992 Sb., o ochraně spotřebitele
- [19] Zákon č. 216/1994 Sb., o rozhodčím řízení a o výkonu rozhodčích nálezů
- [20] Vyhláška č. 330/2001 Sb., o odměně a náhradách soudního exekutora

**Contact Address:**

Petra Stoeva, DiS., Mgr. Gabriela Hůlová  
Magistrát města Pardubic  
Štrossova 44  
530 21 Pardubice  
Email: [petra.stoeva@mmp.cz](mailto:petra.stoeva@mmp.cz), [gabriela.hulova@mmp.cz](mailto:gabriela.hulova@mmp.cz)  
466 859 134, 466 859 145