

Debtors' Ombudsman

Lovísa Ósk Þrastardóttir
Head of Legal Services

Debt advisory center

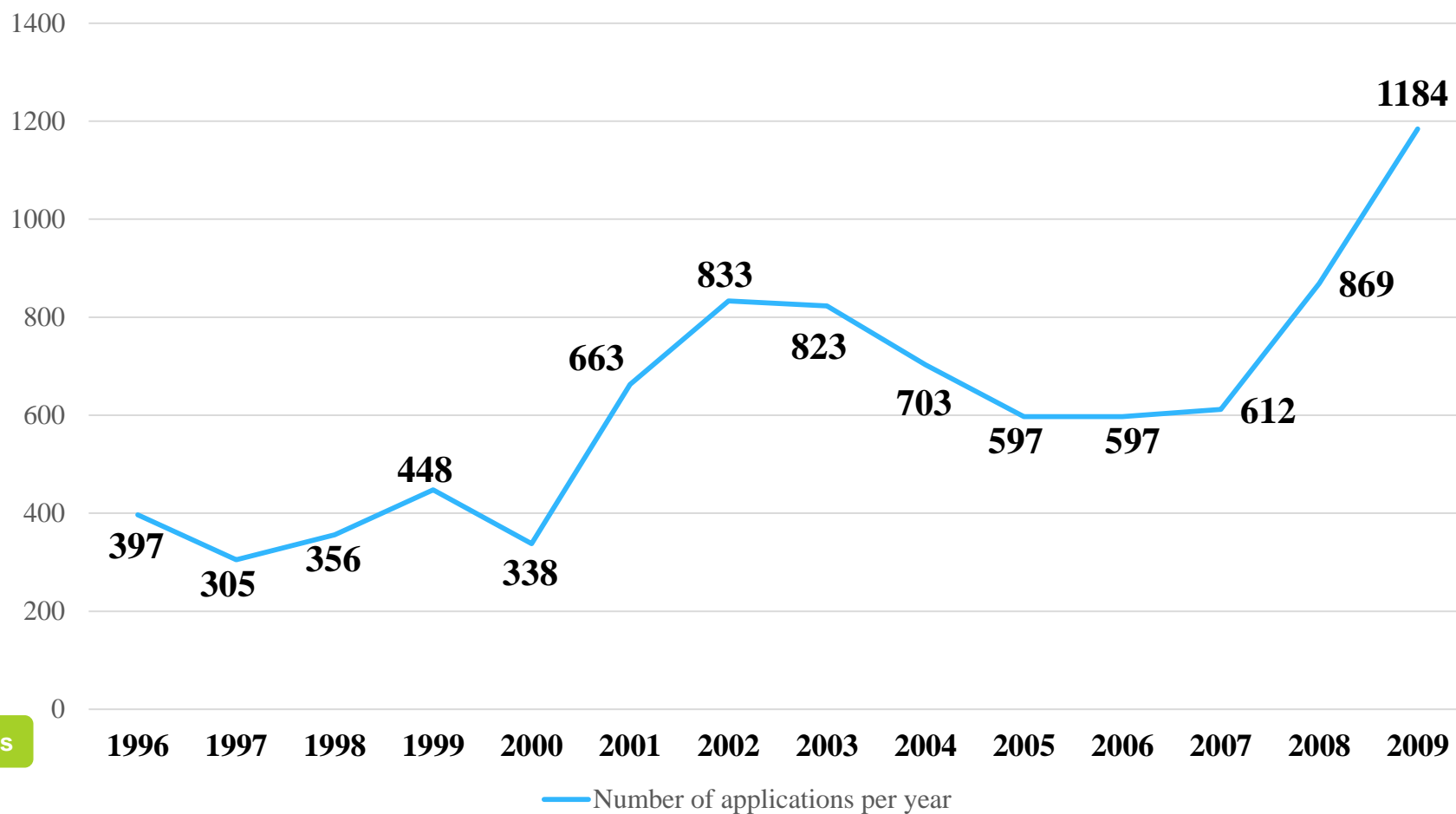
- Debt advisory center was established in 1996
 - Experimental project
 - Common project of ministry of social affairs, larger municipalities, pension funds and banks
 - Comprehensive financial advise for people with serious debt problems

Debt advisory center

- Mediating negotiations with creditors
- Applying for grace periods for loans
- Making changes in the terms of debt agreements
- Advising to sell property
- Applying for debt mitigation (set by the court)

Debt advisory center

Number of applications per year



Year of crisis

- 2008
 - Banking crisis
 - Currency crisis
 - High inflation
 - High unemployment
 - 2008: 1,6% - 2009: 8,0%
- 20% of household loans fx-loans
- Majority of mortgages inflation linked

What has been done in response to the economic crisis?

- Debtors' Ombudsman founded 2010
- From 2010: Debt mitigation
- 2010-2011: Special allowance for people owing two homes
- Special debt mitigation through banks 2011-2012
- Postponing foreclosure of homes
 - 2009-2011 – for three months
 - 2014 – until 1. March 2015
- 2010-2011: 110% of mortgages
 - Below a certain financial limit, mortgages were brought down to 110% of market value

Cont.

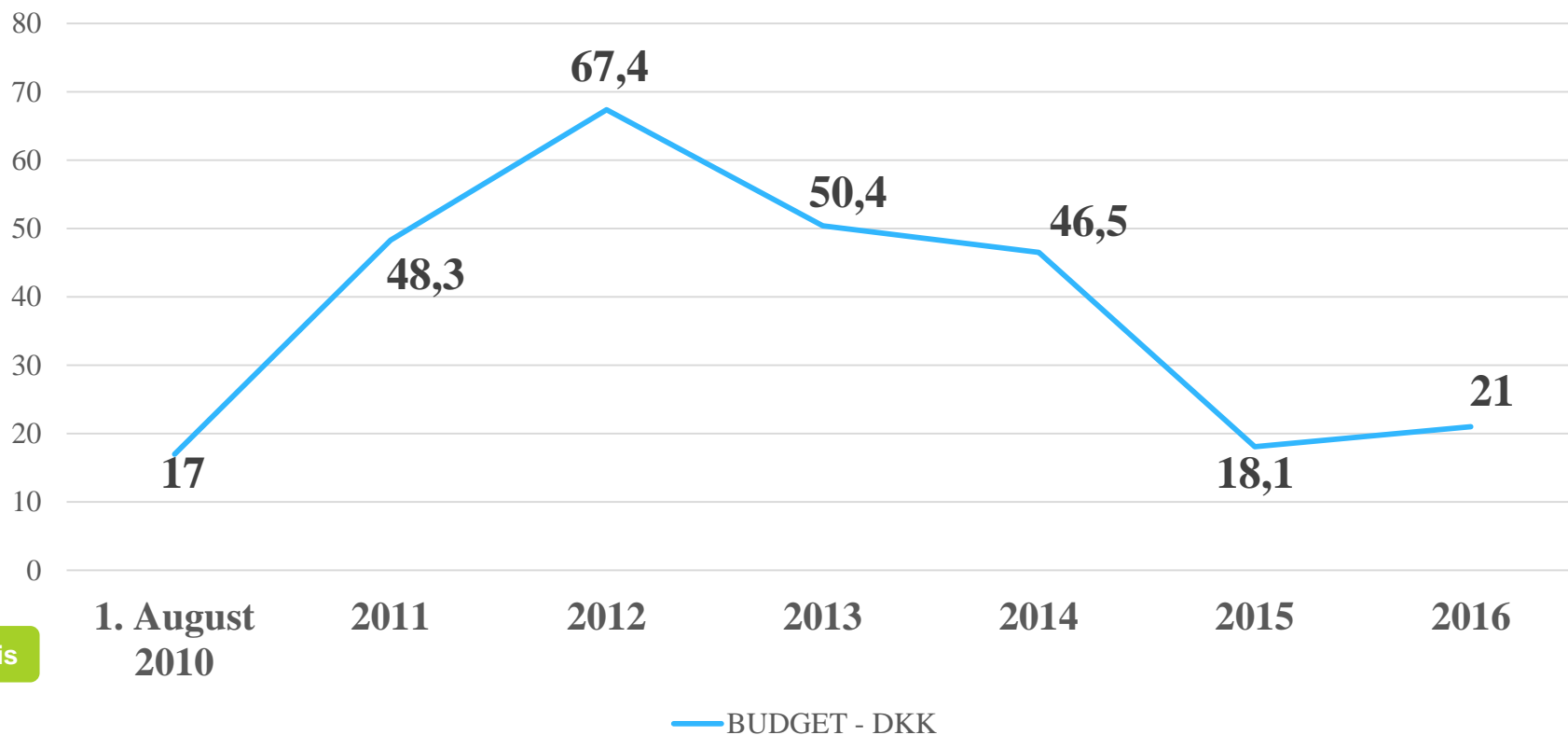
- 2009 -2011: Interest benefits and child benefits could not be netted against taxes owed
- 2011-2012: Special mortgage interest benefits
- 2009: New laws on guarantees and guarantors
- 2010: Laws on personal bankruptcy changed.
 - Claims now expire two years after bankruptcy
- 2013: New laws on consumer loans. Personal pension funds open for withdrawals
- 2014: Lowering of mortgages and personal pension funds can be used to pay mortgages

Debtors' Ombudsman

- Founded 1. August 2010
 - Response to high demands to assist homes
 - State institution
 - Under the Ministry of Welfare
 - Founded with act no 100/2010
 - Funded by levying financial institutions
 - 7.000 visits in the first year
 - Based on the Debt advisory center

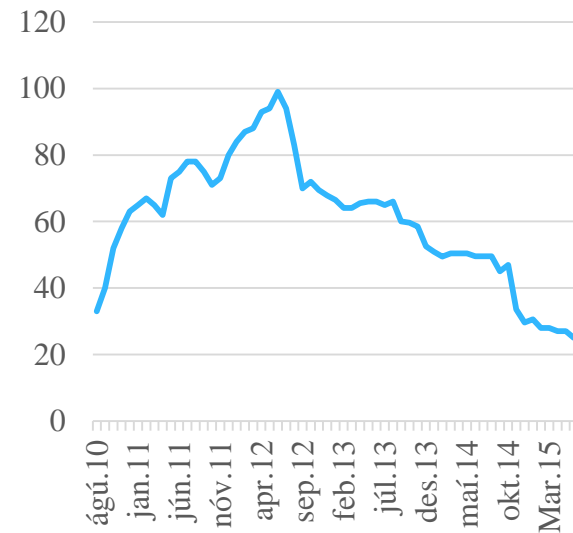
Debtors' Ombudsman

Budget – DKK (islandske finanslov)



Staff

- Now about 24. When most about 100
- 92% women, 8% men
- 50% lawyers, but also social workers, phycologist, teacher, economists etc.



Main role

- Provide assistance for individuals facing serious payment difficulties, free of charge.
 - Goal to obtain a comprehensive overview of their finances and to seek solutions
- Act as intermediary, guided by debtors' interests, in communicating and negotiating with creditors.
- Provide assistance in efforts to negotiate debt mitigation.

Main role cont.

- Prepare standard budget criteria
- Receive requests and suggestions from debtors concerning flaws in lending activities and forward these to the relevant authority.
- Protect the rights and interests of debtors and assist them as appropriate.

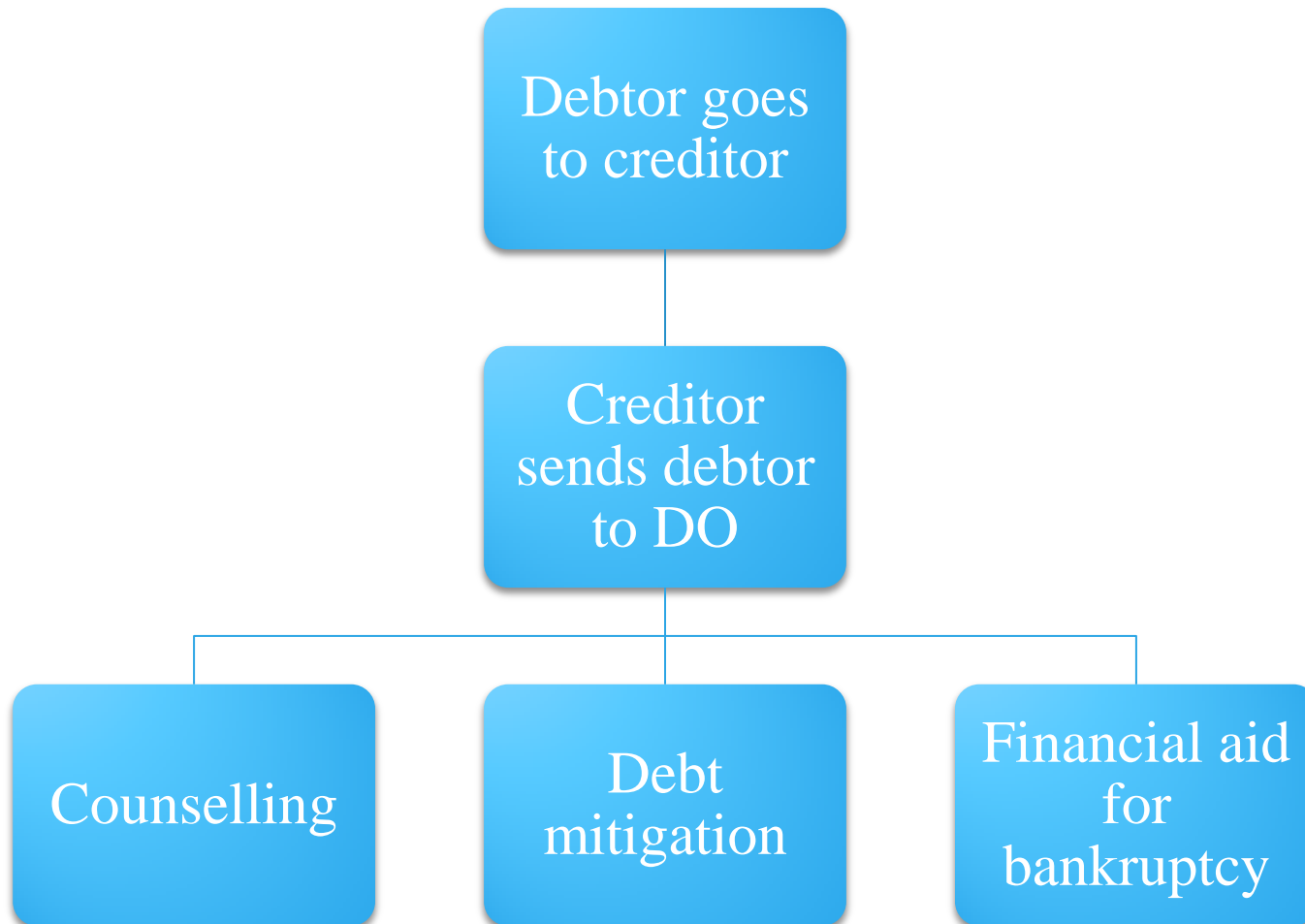
Residence of applicants



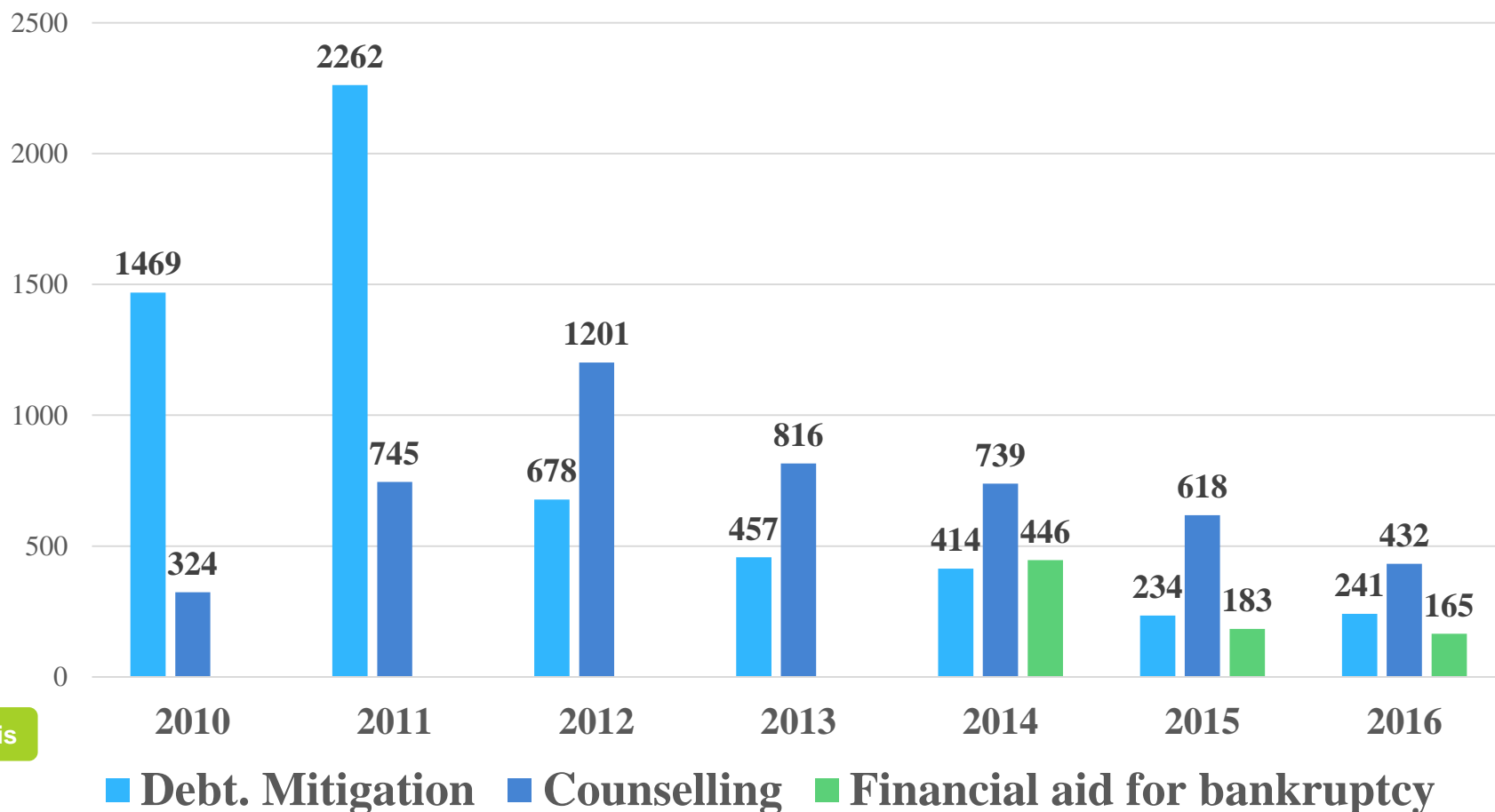
Debtors' Ombudsman

- The office is in Reykjavik, the capital
- Office in Akureyri
 - Opened in February 2012
 - Closed in January 2014
- Office in Keflavík
 - Opened in December 2010
 - Closed in September 2014

Debtors come to the DO



Number of applications



Number of applications (1. October 2016)

- Debt mitigation: 5.755
- Councelling: 4.863
- Financial aid for bankruptcy: 794
- Complaints and advice: 3.667

Total: 15.079 (population 332.000)

About 16.000 interviews in our „walk- in“
 ums.is centre

Counselling

- Seeking holistic overview of the applicant's finances
- Sought to balance financial obligations and payment ability.
 - Often by mediating negotiations with creditors, applying for grace periods for loans or advising debt mitigation
 - Advisors try to seek more lenient measure than debt mitigation

2010-2012

- Advisory centre
 - Walk-in/call centre
 - First step
 - Not necessary to make appointments
- Frontline which provided information on what was possible for individuals in financial difficulties.

Debt mitigation

- Act on Debt Mitigation for individuals
 - Adopted by parliament at the same time as the Act on Debtors' Ombudsman
 - Seeking voluntary agreement with creditors
- Has been DO's largest project

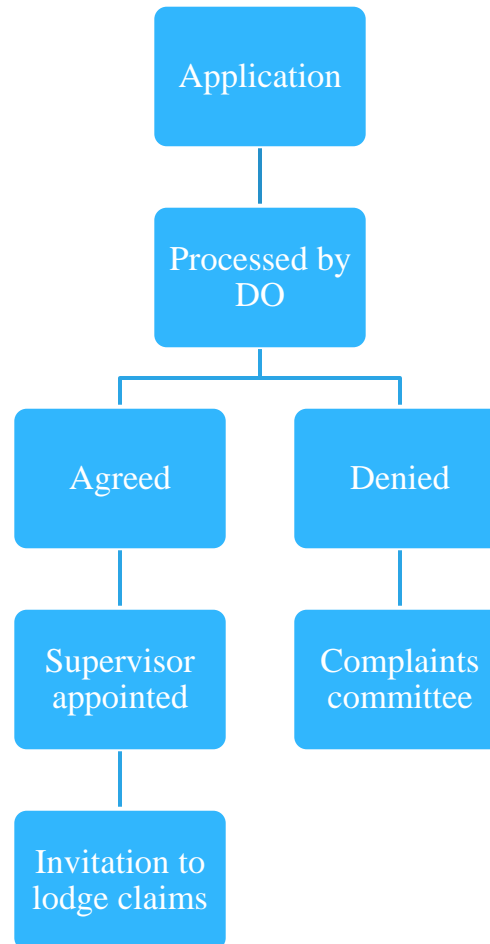
Debt mitigation

- The aim of debt mitigation is to assist individuals in payment difficulties to achieve balance between debt and payment ability.
- A voluntary agreement between debtor and creditor with DO acting as intermediary.

DO's role in debt mitigation

- Application filed with the office of DO
- DO authorises/refuses authorisation of debt mitigation
- If approved, DO appoints a debt mitigation supervisor
 - A lawyer
- DM supervisor attempts to seek negotiation with known creditors

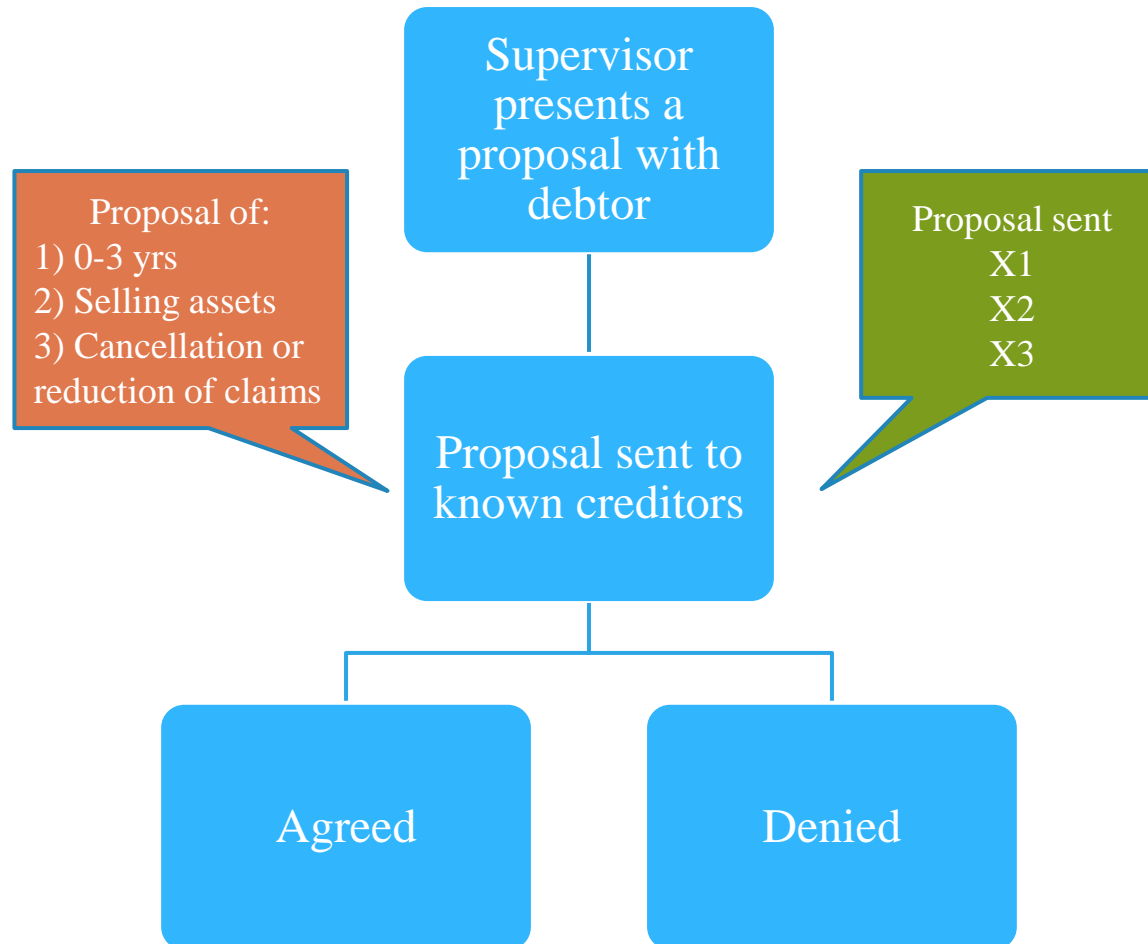
Debt mitigation



Debt mitigation

- Conditions
 - Individuals need to demonstrate inability for the foreseeable future of fulfilling their financial obligations
 - Only those persons who are legally domiciled and resident in Iceland can seek debt mitigation
 - Unless temporary residing abroad to study, or work or due to illness

DM– negotiation process



Not all claims included

- Excluded from debt mitigation are e.g.:
 - Claims arising after an application has been accepted
 - Non-monetary claims
 - Claims for insignificant amounts
 - Fines levied by a court verdict, unpaid VAT, unpaid taxes, etc.
 - Student loans
 - Accumulated debts owed to public bodies due to child support

If no voluntary agreement

- If creditors do not accept debt mitigation proposal
 - Supervisor can propose that compulsory agreement is set by the court

Debt mitigation contracts

- On average 88% write-offs on non-mortgage claims
 - Many current contracts
 - Heavily indebted individuals
 - Very unlikely that income will change
 - Little or no assets
 - 100% write-offs on non-mortgage claims
 - At the other end of the spectrum
 - Individuals with reasonable income
 - About 30-70% write-offs on non-mortgage claims

Example of DM contract



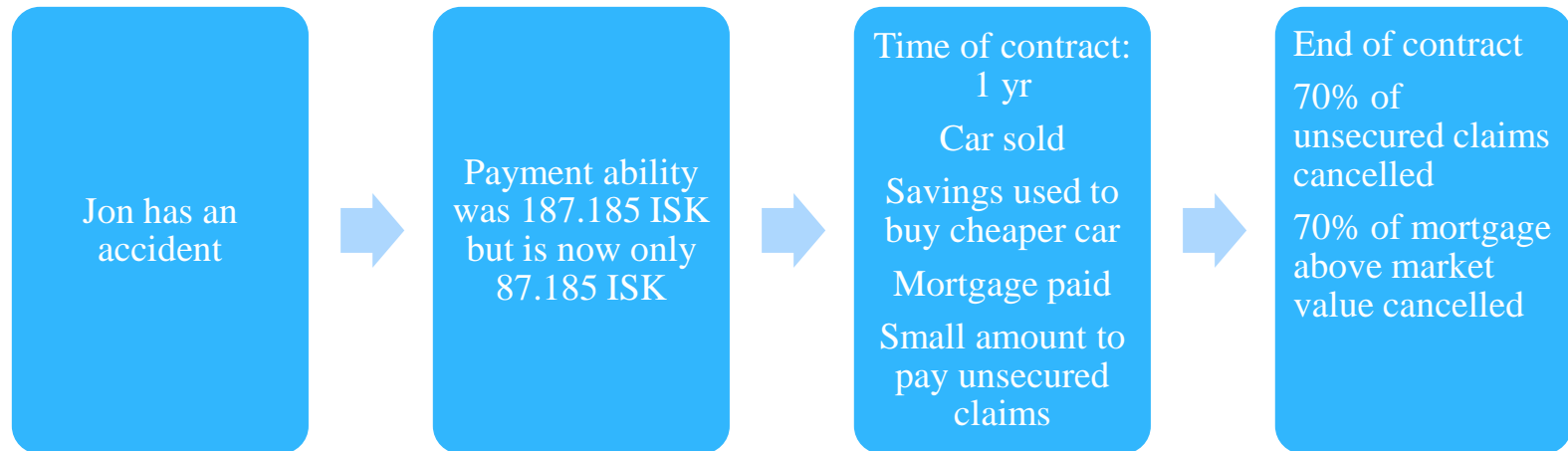
Couple w/
3 children



Car-loan



Mortgage
over
market
value



Jon has an accident

Payment ability was 187.185 ISK but is now only 87.185 ISK

Time of contract:
1 yr
Car sold
Savings used to buy cheaper car
Mortgage paid
Small amount to pay unsecured claims

End of contract
70% of unsecured claims cancelled
70% of mortgage above market value cancelled

Obstacles

- Interpreting new laws with little experience of similar laws
- Waiting for results in individual cases when new measures are introduced
 - Recalculation of fx-loans
 - 110% mortgages
 - Clarifications on the Act on debt mitigation
 - Negotiations with financial institutions on mortgages
 - Incapable lawyers taking on negotiations

Main difficulties

- Negotiating with the state bodies
 - The Icelandic housing fund
 - Student Loan Fund
 - Tax collectors
- Negotiating with the largest banks
- Estimating proportional reduction of debt
 - What should the percentage be?

Financial aid for bankruptcy proceedings

- Assisting people to pay collateral security for expenses related to bankruptcy proceedings.
- Started in 2014
- For now, claims can be chased for two years following bankruptcy.
- Half of applications rejected, as applicants have not sought other solutions to their debt difficulty.



Umboðsmaður skuldara

Kringlan 1, 103 Reykjavík

Netfang: ums@ums.is

Sími: 512 6600/ 800 6600

Opið: Virka daga 09:00-15:00