

Managing household debt: Hungarian country report

FINAL REPORT

Budapest, July 2011

Country report commissioned by Eurofound

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1 Introduction

Indebtedness is a widespread problem in Hungary, the proportion of household in arrears is high in international terms. Indebtedness of households whose housing is threatened by their inability to repay foreign currency mortgage credits became an important issue in the political agenda as a consequence the economic and financial crisis.¹

1.1 Key factors leading to widespread debt

According to the latest household survey in Hungary, carried out by TARKI in 2010 (in reference to 2009)², 18% of the Hungarian households (and 21% of the population) are in arrears, and the majority of them are in arrears with housing costs.

The principal reason for widespread debt is a rise in housing costs³ (especially energy costs) that is out of all proportion to the rise in incomes (affected by increased unemployment and inactivity rates) over recent years. This is compounded by a lack of effective public measures to increase affordability, and to prevent or manage indebtedness. The problem of household debt is further exacerbated by the poor quality of the housing stock: it is relatively antiquated (23% was built prior to 1945),⁴ suffers from poor insulation (a problem both with prefabricated housing estates and with jerry-built family houses) and is in need of refurbishment (due to a lack of public spending on such purposes both in the socialist era and over the last two decades, as well as to the inability of private owners to afford to undertake renovations). Moreover, the economic crisis has left large numbers of households unable to repay their foreign-currency housing loans.

Housing costs have risen significantly faster than incomes. Between 2000 and 2008, incomes rose by a factor of 2.06; meanwhile housing costs overall increased by a factor of 2.36, with the most spectacular increases occurring in the cost of electricity (2.4) and gas (2.65). (Moreover, based on the data of Hungarian Central Statistical Office, since 2008 there have been further increases in energy prices, especially for gas.) As a result, since the political and economic upheavals of 1989/90, the share of housing costs in total household expenditure has soared. According to the 2005 TÁRKI Household Monitor survey, they stood at 25% of household expendi-

¹ see e.g. Eurostat 2010

² TARKI Household Monitor Survey 2010

³ In part, as a result of the decrease in in-built state subsidies. In this report we use a fairly broad definition of 'housing costs': as well as home-loan interest repayments or rent, municipal charges, etc., we include charges for utilities – water, gas and electricity.

⁴ KSH (2005)

ture, as against 9% in 1989/90.⁵ The last large housing survey, conducted in 2003, showed that, for 20% of all households, housing costs made up 30% of household expenditure (and thus presented affordability problems).⁶ It is important to emphasize that housing cost burdens show large regional variations – the result of disparities in both incomes and housing costs.

The available housing-related subsidies are uncoordinated, inappropriately targeted or inadequate to compensate for the increasing housing costs. Price subsidies for households (e.g. for gas and district heating), central government subsidies to ease the financial strain (e.g. the normative housing maintenance subsidy, which assists households with the running costs of housing), similar local authority subsidies (e.g. local housing maintenance subsidies) and other grants and programmes (e.g. assistance for the water industry in areas where the prime cost of water exceeds a certain limit, or grants for infrastructure development) all run parallel to one another.⁷ Either price subsidies are not linked to household income (as is the case with water sector subsidies and was the case for gas and district heating subsidies prior to 2007) or else they are not properly targeted. A good example of inappropriate targeting was the gas price subsidy, which employed such a broad definition of eligibility that more than 50% of households using gas qualified for it in 2008.⁸ Since it was paid in proportion to the gas used, it also encouraged over consumption; meanwhile it excluded nearly 600,000 disadvantaged households that used some means of heating and/or cooking other than gas.⁹ That same year, the broad eligibility criteria meant that 49% of households using district heating proved eligible for district heating subsidies.¹⁰

As for housing maintenance subsidies,¹¹ prior to 1 May 2004 the provision of such subsidies was entirely a local government decision. This led to significant disparities between local authorities.¹² Moreover, those households which lived in accommodation that lacked proper amenities – and thus had low running costs – tended to miss out. The 2004 amendment introduced a normative housing maintenance subsidy. The eligibility criteria for this subsidy include a ceiling on income and a limit on the housing costs/income ratio, calculated on the basis of normative housing costs

⁵ Bernát (2008)

⁶ KSH (2005)

⁷ Hegedüs J. et al (2008)

⁸ Energia Klub (2009)

⁹ Since then, the eligibility criteria have been tightened somewhat. From 1 September 2011 the gas and district heating subsidies will be integrated into the central housing maintenance subsidy. According to available information, the subsidies will affect 10% of the total population, in the lowest income groups.

¹⁰ Energia Klub (2009)

¹¹ Housing maintenance subsidies are treated here as contributing to the running costs of the household, as well as to maintaining the fabric of a property.

¹² <http://szochalo.hu/hireink/article/101310/1307/>

and size of accommodation. This subsidy is provided by the local authority, but 90% of the total amount is reimbursed to it from the central budget. According to many experts, the introduction of the subsidy did improve the affordability of housing: for the first time since the end of the 1990s the number of supported households increased, so that by August 2005 nearly 150,000 households were in receipt of the subsidy, which amounted to some 15–30% of recognized housing costs (calculated on the basis of normative housing costs and size of dwelling), depending on household income.^{13,14} However, it was also the focus of some criticism: other people argued that, since it does not take account of the significant variations in housing costs in different types of housing, it fails to make a substantial contribution to housing affordability for many households that inhabit dwellings with high running costs.¹⁵ (In other words, where the amount of the subsidy calculated on the basis of recognized costs does not reach 15–30% of actual housing costs. The minimum provision, set out in the Act on Social Administration and Benefits, is 2,500 HUF a month – approximately 9.25 EUR.)¹⁶ Moreover, the amount of the subsidy did not rise with inflation, and so its real value decreased – in 2007 the average subsidy was 4,100 HUF (roughly 15 EUR) and covered just 12% of housing costs.¹⁷ Despite such criticism, however, it may be regarded as an important tool in preventive, passive debt management. In 2009, according to data from the Central Statistical Office, some 338,894 people received the subsidy (out of a population of 10 million, living in about 3.8 million households).

Public debt-management services, though they have undergone substantial development in recent years (see section 3 for more detail), are still unable to meet the needs of the population. Such as, the existing legal framework provides for the installation of electricity and gas pre-payment meters as a debt-prevention measure. A pilot project was launched in 2005 for electricity pre-payment meters, and since 1 January 2008 electricity providers (and since 1 January 2009 gas providers) have been able to install such meters for vulnerable consumers (people in receipt of regular social welfare support from their local authority and disabled people) free of charge. However, the opportunity exists only in towns and villages where public debt-management systems operate (such services are only compulsory in towns with a population of more than 40,000 – see below). Other related measures include payment in instalments and ‘payment holidays’. Despite the existence in law of the option, utility companies seem reluctant to install such meters, and only a few thousand electricity pre-payment meters and just a few hundred gas pre-payment meters are known to be in use. (The utility providers argue that one of the reasons for the low

¹³ Hegedüs (2006).

¹⁴ Bakos (2008: 29).

¹⁵ Hegedüs et al. (2008).

¹⁶ The average housing cost per person was 14,700 HUF (54 EUR), according to 2008 data from the Central Statistical Office.

¹⁷ Herpai (2010)

number is that consumers do not take up the option when it is offered to them.)¹⁸¹⁹ Some companies undertake occasional promotions to prevent debt – such as E.On’s Bonus Programme, under which households that suffer hardship but that pay on time can apply for a temporary discount on energy unit prices.

The inadequate quality of the housing stock compounds the problem. In Europe as a whole, households account for around 26% of all energy used, whereas in Hungary the figure is 35%. This is associated with ineffective heating systems and poor insulation.²⁰ Indebtedness is further increased by the fact that low-income households tend to live in the least energy-efficient houses (poor-quality, run-down family houses, or flats on prefab housing estates).

In addition to the above, in the last ten years, a rapid increase of outstanding credits took place. The proportion of outstanding credits in households’ disposable income in Hungary rose from 7.5% to 52.5% between 2000 and 2009, it was above 40% of disposable income when the financial crisis began in 2008. It is not especially high in international comparison; it equals the one experienced in the Czech Republic and Poland.

Between 2000 and 2007 a particularly sharp increase of consumer credits occurred. The proportion of outstanding consumer credits increased from 2.2% to 16.6% of household disposable income, in addition, the increase further continued after the outbreak of the crisis in 2008 and in 2009 (when in other countries, such as Germany and Austria its proportion already declined). As a result, in 2009 the proportion of outstanding consumer credits in household disposable income was among the highest in the EU (23.4%, the same level as in Romania, higher levels were measured only in Bulgaria and the UK).

A further important factor leading to the current scale of indebtedness is an upsurge in foreign currency housing mortgage credits, after the government introduced restrictions on state-supported HUF-based housing credit schemes in 2003 and 2005. While the outstanding housing loans were some 7.8% of household disposable income in 2002 (before the restrictions were implemented) their share increased to 24.4% by 2008, the outbreak of the international financial crisis, and further increased by 2009, to 27.5%.²¹

¹⁸ This argument was voiced by electricity and gas providers at a conference held as part of the ‘We owe this’ programme, held on 29 June 2011 in Heves.

¹⁹ Originally, utility companies refused to install pre-payment meters for households in arrears, and several needy households were excluded from this form of debt management. However, this policy is changing, and some gas and electricity providers do install meters for households in debt. In such cases, a certain proportion (e.g. 25%) of payments is automatically allocated to repaying the old debt. However, no unified policy on this exists, and some suppliers insist that the amount owing is cleared before a pre-payment meter is installed.

²⁰ Sharp (2008)

²¹ Fondeville et al (2010)

Meanwhile, the country experienced growing economic problems even before the onset of the international economic crisis, reflected by a relative significant, 5% increase in the proportion of households with difficulty of making ends meet between 2005 and 2007. The proportion of affected households was the second highest in the EU in 2007, before the outbreak of the international economic crisis (41,2%, after Greece where 52,4% of households claimed to be affected by the problem). The same tendency is reflected by the fact that in the reference period of the EU-SILC data collection 27.9% of people lived in households which experienced a major drop in their income, the second highest proportion in the EU (after Italy), 7.8% of whom attributed this to job loss, the third highest proportion in the EU (after Bulgaria and Spain, equal to Portugal). Such a drop in the household income, often associated with job loss, is considered to be a significant cause of over-indebtedness (though not necessarily the only one, households' repayment imbalance might have been longer standing).²²

The problem of households being unable to repay their mortgage credit instalments has been a major problem since the beginning of the economic crisis in 2008. After the start of the economic crisis, an increase in unemployment and left large numbers of households unable to keep up repayments, primarily those which undertook foreign currency credits, due to a decline in the value of the national currency. According to a recent analysis of the Central Bank of Hungary (Magyar Nemzeti Bank, MNB)²³ on households with more than 90 days arrears with their mortgage credits, households in foreign currency non-housing credit are usually older (with the borrower above 40 years of age), of lower education, and with higher rate of dependent household members. Households in arrears with mortgage credits below 60% loan-to-value (LTV) are younger and the value of housing they obtained is above average. Households in arrears with mortgage credits with high, more than 60% LTV show a higher proportion of young and single borrowers. This group usually obtained credits after 2007 when scorings were more permissive. The relative weight (value) of their arrears exceeds their proportion of indebted households. Households with HUF-based credits are relatively rare among those in more than 90 days arrears. A characteristic group of problematic households is those with several types of credits. According to a recent analysis, most properties affected are in the lower-middle category (with an estimated value of between 5 million and 15 million HUF, i.e. 18,000 and 55,000 EUR). It may thus be assumed that the households affected are mainly lower-middle class and those whose middle-class status has been jeopardized by the economic crisis. Mortgage lending was not common in the case of lower-value properties, partly because the households that occupied them were not eligible and partly because of their low collateral value. For that reason, the lowest-income groups are less affected by the problem.²⁴ Since 2009 there has been a ban on evicting households that are in arrears with

²² Fondeville et al (2010)

²³ MNB (2011)

²⁴ MNB (2011)

their loan repayments, but this, according to most experts, has only served to exacerbate the problem, encouraging non-payment by households that would otherwise be able to pay (in the forlorn hope that the government would help with repayments).

1.2 The extent of the different types of indebtedness in Hungary

The latest household survey carried out by TÁRKI²⁵ in 2010 showed that 18% of Hungarian households are in arrears, which equates to 21% of the Hungarian adult population (aged 16 and above). (Chart 1) Almost all of them got into arrears with housing-related costs, such as housing loan repayments, utility bills or other housing related monthly charges. Without consumer and other debts 17% of the Hungarian households (and 20% of the population) are in housing-related arrears.

Households are most commonly behind with the payment of utility bills: in 2009, every seventh household (15%) reported having been unable to pay a utility bill on time on at least one occasion. (Chart 1) This finding accords with the 2009 EU-SILC data, which show that some 20% of the Hungarian population lives in households that had been unable to pay at least one utility bill in the previous 12 months – the highest percentage in Europe. (Some experts estimate that the number of households in serious arrears with utility bills is as high as 500,000.)

The results of research conducted by the Ministry of Social Affairs and Labour show that, on 30 June 2009, 11% of individual consumers (555,652 people) were in arrears, and 24% of those were 91–180 days in arrears (according to the then current legislation, utilities could be cut off after 90 days).²⁶ The data indicate that 14% of gas consumers (466,349 people) were in arrears – 24% of them by more than a year. In the case of district heating, data are available for about 70% of affected households, and of those 23% were in arrears (107,035 people). Though these data are incomplete, it would appear that most consumers were either 91–180 days or over a year in arrears. No figures are available for arrears with water, sewerage or waste-disposal bills, because of the very fragmented system of service provision (providers operate at the local level, with different rules, regulations and administration).

Moreover, though no precise data are available, we estimate that approximately 30% of the households that occupy the country's 135,000 or so local-authority housing units (most of them social housing) are in arrears with the rent.

²⁵ TARKI Household Monitor Survey 2010, own calculation.

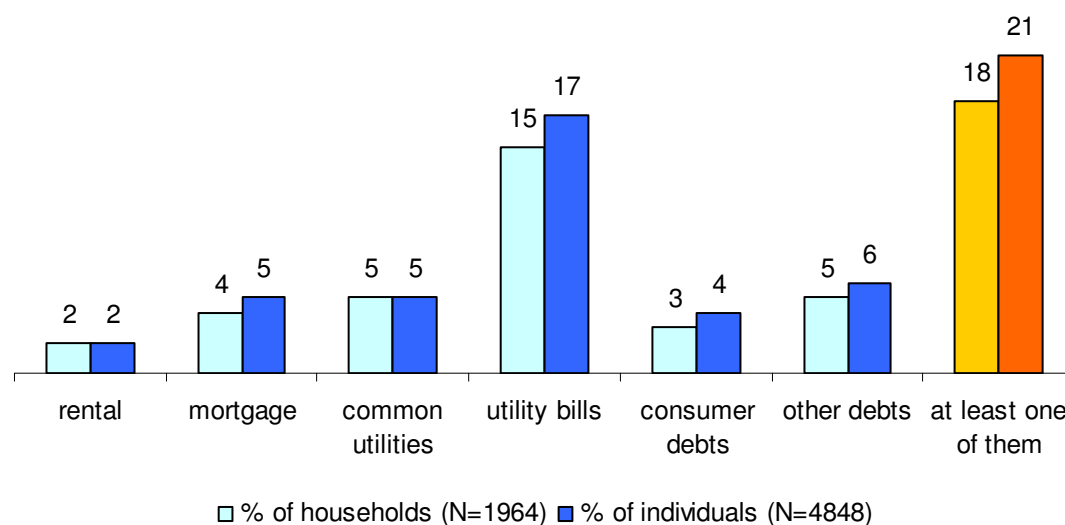
²⁶ Herpai (2010)

Meanwhile more than 90,000 households are over 90 days in arrears with their mortgage loan repayments (90% of which are foreign-currency loans, largely Swiss franc credits), cca. half of them are affected by housing loan repayment problems.²⁷

According to the TARKI Household Monitor Survey, compared to problems concerning housing-related payment services such as utility bills, other monthly charges and housing loans, other (non-housing) kinds of arrears occur less frequently, as 3% of the Hungarian households (4% of the population) have arrears in consumer debts, while 5% of the households (6% of the individuals) fall into arrears with other debts.

Chart 1

Hungarian households and individuals in arrears in 2009



source: TARKI Household Monitor survey 2009, published in 2010, own calculation (the proportion of households unable to pay any of the above payment obligations in the past 12 months)

EU-SILC data from 2008 show a similar magnitude of non-housing forms of indebtedness, according to this data source 5,1% of the population lives in households with an overdrawn bank account, 1,2% in households with outstanding balances on credit or store cards, and 5% in households in arrears on other loans/credit repayments due to financial difficulties. While the former two forms of indebtedness are not significant in international comparison, the proportion of

²⁷ MNB (2011) The data provided bundle households with housing credits and consumer credits together. In practice, several households used consumer credits (which were easier to access than housing credit) for housing purposes.

households in difficulties with other loan/credit repayments is relatively high (the third highest in the EU after Greece (12%) and the UK (7%)).²⁸

To sum up, then, the main sources of indebtedness are utility bills and housing credit instalments. In some cases, those households that face economic hardship prioritize the payment of bills, etc. according to the (perceived) threat to the roof over their heads: thus they prefer to keep up their housing credit payments at the expense of their utility bills. In other cases, different types of debts often appear together.²⁹ In the case of households mired in deep poverty, usury poses a specific and significant problem ('loan sharks'), though no estimates are available for the number of households affected. Besides laying it open to the social and economic depredations of usury, if a household is in debt to a loan shark, then 'repayment' of that debt takes precedence over everything else and renders the household incapable of meeting its other payment obligations (due to loan-sharks' violent 'debt-collection' methods). This gravely influences the chances of successful debt management, so besides all other reasons supporting the need of combating loan sharks, such actions are also key to effective debt management of households in deep poverty.

It is important to highlight the fact that, at present, the housing-related national public and policy discourse is dominated by the problem of those households that are unable to repay their foreign-currency mortgage loans. This issue has been high on the political agenda since 2008 (for specific steps taken by the government see section 2.1.1). It is mostly non-governmental organizations (NGOs) that have sought to get the problems of households with other types of debts, such as utility bill and/or rent arrears onto the political agenda.

²⁸ Fondeville et al (2010)

²⁹ Data from the Central Credit Information System (Központi Hitelinformációs Rendszer, KHR), including data on problem borrowers, show that the average number of loans per client in the database is 1.8; thus several families have multiple debts. (<http://www.vg.hu/penzugy/hitel/khr-negyedlevel-nott-a-kesedelmek-es-visszaelesek-szama-347256>)

2 Institutional framework

The subsidies outlined in section 1 – price subsidies, central and local government subsidies to help households cope (housing maintenance subsidies) and other grants and programmes (for the water sector and infrastructure development) – can be regarded as passive and preventive means of debt management, i.e. debt management based purely on financial transfers that seek to prevent indebtedness.³⁰ We now summarize the institutional framework that provides further debt-management services and discuss some key regulatory issues.

2.1 Key actors in debt-management services

2.1.1 Local authorities

The main public actors in debt management, combining active and passive instruments, are the local authorities, thanks largely to their statutory obligations as set out in the Act on Social Administration and Benefits (see detailed description in section 3).³¹ They provide a debt-management counselling service, and handle corrective and preventive social transfers (debt-management support and housing maintenance subsidy). Debt management provided for in the aforementioned Act only concerns housing-related debts. In addition, only towns with a population of over 40,000 are obliged to run such services, so only a few smaller towns and villages do so. In some cases, the smaller towns manage such services in collaboration with other organizations, mainly NGOs. A significant initiative to establish such services in smaller places – entitled ‘Pilot Programme for the Prevention of the Debt Trap’³² – is currently under way in deprived micro-regions with the financial support of the European Social Fund.

2.1.2 Other debt advisory services

Other debt advisory services and programmes aimed at assisting households with debt management include:

- programmes undertaken by non-profit organizations;
- programmes undertaken by utility companies (measures regarding protected consumers on the basis of relevant legislation; other forms of support); and
- measures provided by banks.

A brief description of these programmes is provided in section 3.

³⁰ ‘A lakossági eladósodás háttere’ [‘The background to public indebtedness’] on the Socio East Egyesület website, at: www.szocioeast.hu/

³¹ Act No. III of 1993, http://net.jogtar.hu/jr/gen/hjegy_doc.cgi?docid=99300003.TV

³² www.nfu.hu/unios_palyazat_az_adossagcsapda_elkerulesere

2.2 Further relevant regulatory issues

2.2.1 Consumer bankruptcy and debt-restructuring legislation, borrowing restrictions

As was indicated above, the problem of households that are unable to meet their mortgage credit obligations is high on the political agenda. Here we summarize some key steps taken by the government to tackle the issue:

- In spring 2009 a ban was imposed on foreign-currency mortgage lending in order to prevent any further escalation of the problem.
- In spring 2009 a moratorium on court-order evictions was introduced, and this was prolonged in autumn 2010 by the new government. On 15 April 2011 the moratorium was partly lifted, and the measures became discriminatory: households in arrears with utility bills or rent payments could be evicted, while households in arrears with mortgage credit payments were protected, until 1 July 2011. This well reflects the different political attention paid to the different types of households in debt.
- In summer 2009 the government set up a so-called Crisis Fund, which aimed to help those households that were experiencing severe hardship related to the economic crisis. One-off support could be obtained by one member of a household. The associated decree excluded certain beneficiaries of social insurance services (such as age and disability pension) and recipients of local social welfare support. After 30 April 2010 no new requests for Crisis Fund support were processed.
- In May 2011 a five point agreement between the government and the Hungarian Banking Association, a so-called Otthonvédelmi Akcióterv (Home Protection Action Plan) was announced. According to the Plan³³, on 1 July 2011 the moratorium on foreclosures was lifted, but there are still limitations on such actions, in the form of a quota system (in 2011 no more than a few hundred dwellings are affected, and only high-value properties). Further points of the agreement are as follows:
 - Exchange rate fixing: Creditors should fix the exchange rates used to specify the monthly instalments on imaginary beneficial rates of 180 HUF/CHF, 250 HUF/EUR and 200 HUF/100JPY, until the end of 2014. Differences between the fixed and the actual rate will be collected on a 'Special Account', which will be financed by the creditors, and denominated in HUF, carrying an interest rate aligned to the benchmark Hungarian interbank rate.

³³ Ministry for National Economy (2011)

- Interest subsidy scheme for debtors with more than 90 days arrears, who sell their home and move to cheaper accommodation.
- Establishment of a new National Asset Management Agency (NAMC) to help householders facing foreclosures. The NAMC will be involved in two schemes: purchase of homes of eligible debtors from banks and renting them to the original owners (in co-operation with local governments), and a proposed green-field rental home construction programme.
- Enabling EUR-dominated mortgage lending, under strict rules. Such as, the borrower will require an income of at least 15 times the minimum wage to apply for an EUR-denominated mortgage-backed loan, in the currency in question (EUR).

It should be pointed out that in Hungary the legal concept of personal bankruptcy does not exist, although some experts support the introduction of such an option for debt management.³⁴

2.2.2 Rules regarding disconnection from utilities

The rules governing disconnection from utilities (such as gas, electricity or district heating) are set out in the legal statutes regulating service provision. In the case of electricity and gas, customers can be cut off after 60 days.³⁵ Before they do disconnect a consumer, providers are obliged to offer payment in instalments and a 'payment holiday', and to issue two warnings. These warnings should include notification of the amount outstanding, notification that the customer may be disconnected, a summary of the options open to households suffering economic hardship (such as 'protected consumer' status) and the offer to install a pre-payment meter. During winter, utility companies should also contact local notaries if utilities are likely to be cut off. 'Protected consumers' – i.e. consumers in straitened circumstances (receiving regular local social aid) and consumers with disabilities – can only be disconnected after 90 days and three warnings. If any protected consumer accepts the option of a pre-payment meter, installation should be carried out free of charge.)³⁶ In the case of district heating, under the relevant Act the provider may revoke the contract if payment is not made within 60 days of a formal written notice.³⁷ The Act also stipulates that disconnection must not affect any consumers who are up to date with their bills.³⁸

³⁴ <http://bankweb.hu/cikk.php?id=645>

³⁵ Act No. LXXXVI of 2007 on Electricity, Act No. XL of 2008 on gas provision.

³⁶ According to interviews conducted for this research, the policies of different providers in terms of disconnection vary, and are subject to change. Electricity providers have become stricter in recent years, while gas providers are less rigid. In the case of district heating, disconnection is very rare for technical reasons.

³⁷ Act No. XVIII of 2005 on district heating.

³⁸ This makes disconnection from district heating technically impossible in most cases (in 2009 there were only a few dozen disconnections, according to research conducted by the Ministry of Social Affairs and Labour).

Under current legislation, no household may have its access to water cut off entirely, since local authorities have an obligation to provide water. In the case of non-payment, the following options are open to the service company: (1) the supply of water in the flat may be physically restricted to 50 litres/person/day; (2) defaulters who live in buildings of up to four storeys high may be obliged to use a public water supply (such as a standpipe) if one is available within 150 metres; if not, then their piped water is limited as in (1); (3) non-payers who live in buildings of over four storeys may have their supply limited, as in (1) or may be obliged to use a public water supply if it can be provided in no more than four storeys distance.³⁹ Before taking any of these steps, the provider must notify the National Public Health and Medical Officer Service (Állami Népegészségügyi és Tisztiorvosi Szolgálat).

³⁹ Government Decree No. 38 of 1995 (IV. 5.).

3 Debt advisory services

In Hungary there are only a few organizations that offer households in debt assistance with housing debt. The key public actors involved in providing such services are the local authorities.

3.1 Local government debt advisory services

The institutional framework for public debt advisory services started to be developed in the 1990s; however, until the early 2000s there were no properly organized debt advisory services (as one of the people interviewed for this research – the president of the advisory board of Network Foundation (Hálózat Alapítvány) – pointed out, this is quite a significant time lag, given the housing affordability problems that had been on the increase since the early 1990s).

In 1989/90 the conditions attached to loans obtained from the OTP (Országos Takarékpénztár – National Savings Bank) – the only source of housing credit in the socialist era and, at the time, still the most important – were changed and the state subsidies on credit were drastically cut.⁴⁰ Borrowers had the opportunity to pay back their existing loans early, but less well-off families were unable either to pay back the loan or to meet the increased instalments, and therefore faced eviction.

Up until the end of the 1990s there was no comprehensive debt-management system: the task was delegated to local authorities; there was no normative housing maintenance subsidy; and local government did not receive systematic, normative support for debt management.⁴¹ Thus, according to experts, the system had no chance of achieving its mission, since it did not cover the relevant target group, and the amount and form of the support it provided was inadequate.

The first comprehensive measures appeared in 1998, but were not integrated with other instruments of social policy and provided only temporary support. It was also left to local authorities to work out the details (including the eligibility criteria). Experts believe that the programme reached only a fraction of its target group – a view that is supported by, among others things, the fact that 60% of the allotted budget for 1998/99 remained unused.

In 2001, a government decree established a system of support for credit debt (pre-1989 and 1989–93 debt).⁴² Expert opinion indicates that 32% of people in debt could access the support

⁴⁰ Unless otherwise indicated, the following section on debt management is based on König (2006).

⁴¹ Between 1990 and 1994 there were two attempts by the then Welfare Ministry to introduce a limited package in support of local government debt-management schemes.

⁴² Between 1990 and 1994 borrowing conditions were very disadvantageous.

and that it was accessed disproportionately: lower-income, marginalized households were less likely to receive it.

Legislation on systematic debt advisory services was passed in 2001 and has been in operation since 2003. (In 2003, some 500,000 households had debt that threatened the security of their homes, while only between 180,000 and 200,000 households were involved in debt management of any kind.) The system includes debt-management counselling, debt-reduction support and the provision of housing maintenance subsidy. (Ninety per cent of debt-reduction support may be reclaimed from the central budget.) From 1 January 2003 local authorities were able to operate debt-management systems, but their provision was not made obligatory. Between 2003 and 2005, services were established in 100 places, mainly the larger towns and cities.

The system was amended in 2005 and again in 2006, when the provision of debt advisory services became compulsory for towns with a population of over 40,000 and when new forms of housing-cost management (such as public utility pre-payment arrangements) were also introduced. According to interviews conducted for this research, the establishment of a comprehensive system of debt management, with a specialized social work element, may be regarded as a significant development. However, a major structural problem remains: it is not compulsory for smaller towns and villages to run debt advisory services, and most have not set any up (on account of lack of resources and personnel, and, in some cases, lack of concern for the problem of indebtedness). As a result, in smaller towns the vast majority of low-income households in debt have no access to such services.

Furthermore, some components of the regulatory framework for debt-management services are counterproductive, such as the regulation that sets eligibility criteria for minimum indebtedness and minimum income that many households in debt are unable to meet, even though they are in need of the advisory services. In 2007, 8,649 households received support – a small fraction of all the households in debt.⁴³ According to interviews, the quality of the services is variable (in terms of resources allocated and the cooperation between utility companies, property management companies and the local authority – a key element both in providing early warning of problems and later on, for example in avoiding disconnection when debt management has already begun) and depends greatly on the attitude of local officials and managers. In addition, it is important to emphasize, that the debt management service provided for in the Act of Social Administration and Benefits only handles housing-related debts, such as: arrears with utility bills, common charges (in condominiums), rents or housing loan repayments (or non-housing loan repayments resulting from a conversion of households' previously existing housing loan).

While, as was mentioned above, there is no statutory obligation for smaller communities to provide such services to households in debt, there are some good examples of NGOs taking on the

⁴³ Kőszeghy (2009).

task in smaller towns, particularly in depressed regions. Overall, then, when it comes to helping households in debt with their housing problems, NGOs are active and relevant stakeholders (not counting the compulsory services provided by the local government of larger towns). For more details on NGO-run programmes, see section 3.1.

Turning to other types of organization, we can find no examples of either private companies (as employers) or trade unions (as representatives of employees) helping those of their employees or members who are in debt. Other private organizations, such as banks or utility companies, which have a direct link to households that are having difficulty in paying their loans or their fuel bills, are more active. However, given the large proportion of households that struggle to pay their various payment services, the coverage and services they offer appear inadequate. The services offered by utility companies in this field focus primarily on those consumers who are legally protected; while other forms of support do exist, they are of much less importance.

What follows are brief descriptions of the most relevant initiatives on debt advisory services and related services offered by the kinds of organization mentioned above. Two specific examples will be discussed later as case studies.

3.2 Non-governmental organizations

3.2.1 Socio East Foundation – Debt-management programme

The Socio East association established a Counselling Office for Household Debt Management (Adósságkezelési Tanácsadó Iroda) in 1999, with the support of the municipality of Nyíregyháza, public utility providers and, later, the Foundation for the Development of Democratic Rights (Demokratikus Jogok Fejlesztéséért Alapítvány). Since 2003, when debt management was included in national legislation, the association has cooperated with the municipality of Nyíregyháza in the provision of a debt-management service. The association's main tasks are to prepare requests for support, in consultation with affected households, and to provide debt-management counselling.

3.2.2 Tutor Foundation – ‘We Owe This’ (‘Tartozunk ennyivel!’)⁴⁴

The Tutor Foundation⁴⁵ was established in 1996 as a private organization that aimed to provide help for homeless people and families in Budapest; later on, its activity was broadened out to include programmes for people in disadvantaged rural regions as well.

⁴⁴ www.tutorialapitvany.hu/?q=doclist/Tartozunk%20ennyivel!

⁴⁵ www.tutorialapitvany.hu/

This programme, co-financed by the European Social Fund, carries out debt prevention and management in 17 villages in the depressed Heves micro-region. The project includes mentoring, the development of tailored debt-management strategies for affected households, and the provision of information and support with the aim of enhancing clients' life skills and improving their employability. The project employs a training programme developed by a Brussels-based organization for individual and group work, but adapted to the local circumstances. It aims to bring about long-term change in household behaviour patterns, by involving more generations of family members.

3.2.3 Hitel-S programme of the Hungarian Maltese Charity Service⁴⁶

Hitel-S is a pilot programme, launched in February 2009 to provide support for households that get into debt as a result of the economic crisis. It is operated by the Hungarian Maltese Charity Service and is supported by savings banks. It provides assessment of the financial situation of participating households, debt management and counselling, and assists clients in administrative issues related to debt management (e.g. with regards to utility companies). It also aims to improve participants' skills in finding support, obtaining information and understanding relevant regulations.

3.2.4 College for Advanced Studies in Social Theory at Corvinus University of Economics and Habitat for Humanity Hungary – Renovation of social rental dwellings together with reduction in rent arrears⁴⁷

In 2010, Habitat for Humanity Hungary⁴⁸ and the College for Advanced Studies in Social Theory (known as 'TEK') at Corvinus University of Economics⁴⁹ organized a 'social renovation camp' on two occasions in Nagykanizsa, a medium-sized town of more than 50,000 inhabitants in south-western Hungary. The programme's target group were those families (most of them Roma) living in severe poverty in slum areas, in social housing with obsolete and inadequate energy supply systems, and who were behind with the rent. During the camps, the flats were renovated by people in rent arrears and other volunteers. The project was organized by TEK and Habitat, and was led by professional construction managers from Habitat. In all, 13 properties were refurbished in 2010, with the participation of 40 households.

⁴⁶ http://hitels.maltai.hu/?subpage=a_hiteles_program

⁴⁷ Information provided by Habitat for Humanity Hungary staff for the purposes of this report.

⁴⁸ www.habitat.hu/index.php

⁴⁹ www.tek.bke.hu/

An important point is that the refurbished social-rental flats belong to the local authority, which agreed to reduce the amount of arrears owed by the families in view of the increased value of the renovated flats and the amount of effort the tenants had invested in doing them up. As the tenants are usually poor and unemployed, they have no other way of paying off their arrears, and so this is an appropriate and integrative way of dealing with the problem. Moreover, by doing some of the work themselves on their flats or houses, not only do they gain certain (new) skills that may be useful on the labour market, but they also have a stronger commitment to taking care of and looking after the newly renovated housing, even if they do not own it. In the near future the organizers hope to continue the programme using a more comprehensive approach that focuses increasingly on improving the employability of those people in debt, and engaging in greater monitoring and dissemination activity. As part of this, a 'social renovation camp' has been organized for summer 2011 by TEK and the Autonomia Foundation in a village in southern Hungary, with the participation of Habitat for Humanity Hungary.

3.2.5 Habitat for Humanity Hungary – Financial training for low-income households⁵⁰

This programme is based on a recognition that disadvantaged families lack the skills to plan their family finances – and indeed lack awareness of the various loan products. By offering financial education, Habitat for Hungary can help them make use of whatever income they do have in a sustainable way and can mitigate the risks caused by their financial illiteracy. Institutional partners in the project include the Hungarian Red Cross, the Maltese Charity, the SOS Children's Village and various family crisis centres. Training takes place in groups and includes general financial education for households, introducing such basic concepts as income, expenditure, savings, family budget and monthly cash flow. It seeks to make families understand the importance of planning ahead and keeping track of (or even being conscious of) their spending. The aim of the exercise is to give families a clear understanding of their own responsibility for their spending/saving habits, as well as the basic tools to monitor and improve those habits. Such training sessions are also carried out under the 'Investment in Our Homes' programme, based on the Individual Development Account model and run together with the Autonomia Foundation.

3.2.6 Hungarian Anti-Poverty Network – Independent debt-prevention and debt-management information system⁵¹

⁵⁰ Information provided by Habitat for Humanity Hungary staff for the purposes of this report.

⁵¹ www.nyiron.hu/szabolcs-szatmar-bereg-megye-hirek/fair-segitseg-a-penzugyi-gondokban

This programme helps households in need of information and advice on their financial problems. It aims to restore the financial balance and assist socially disadvantaged households in debt with the management of their household budget. The programme was initiated by the Hungarian Anti-Poverty Network (Magyar Szegénységellenes Hálózat). One innovative component of the programme is the involvement of banking and social experts as counsellors. It seeks to show why people fall into debt, to assess families' resources, to inform them about support options and to assist them in financial planning.

3.2.7 Association for the Youth – ‘Everything is Soluble’: family assistance programme for debt prevention in the Sellye micro-region⁵²

This programme, led by the Ifjúságért Egyesület, Association for the Youth, an NGO seated in the city of Pécs, is an adaptation of the association's home attendant programme in Pécs (see section 5). It aims to provide a package of support for poor households, enabling them to develop effective household budgeting and to manage their debts, at the same time as improving their labour market situation. The programme was launched on 1 February 2011 and targets primarily low-income households in debt in the deprived Sellye micro-region of south-western Hungary. The programme's secondary target group are the local communities, alongside collaborating organizations, institutions and local decision makers. The programme provides intensive social work, in parallel with individually customized development, with the aim of increasing the employability of participants. It also includes group and small community programmes that seek to motivate participants and make them more receptive to assistance, sharpen individuals' problem-solving skills and prevent any backsliding.

3.2.8 Association for the Youth – Home Attendant Programme⁵³

The Home Attendant Programme (HAP) programme has been running since 2005 and aims to prevent low-income families in debt from losing their homes. It seeks not only to eliminate or reduce debt, but also to change clients' outlook on life and to develop their problem-management skills. For more details, see the case study in section 5.2.

⁵² http://ifjusagertegyesulet.hu/Hirek/Mindenre_van_megoldas

⁵³ www.ifjusagertegyesulet.hu/Lakaskiseresi-program; www.ncsszi.hu/rendezvenyek-1_3/%E2%80%9Ekerdes-es-valaszok%E2%80%9D,-avagy-szegenyseg-es-lakhatas---emlekezteto-n_12; www.ifjusagertegyesulet.hu/Hirek/Lepesrol-lepesre

3.3 Utility companies

3.3.1 Network Foundation: Foundation for Budapest Fee Payers and Defaulting Payers

This foundation was established in 1995 and is operated in Budapest by four large utility providers (Budapest Water, Budapest Sewerage, the Metropolitan Public Space Maintenance Company and the Municipal District Heating Works).⁵⁴ The initiative was launched following an upsurge in the number of customers who were having difficulty in paying their utility bills. The foundation seeks to support socially disadvantaged Budapest citizens, whose circumstances have become straitened due to the rise in energy prices and the cost of living, and who would fail, if left without assistance, to cover the cost of acceptable housing. They also need to satisfy the eligibility criteria for support from the foundation.

The foundation offers three main types of support: utility fee compensation, support with paying outstanding fees, and, complementing these, ad hoc crisis aid. Utility fee compensation is paid in line with a resolution of the General Assembly of Budapest, which annually determines the eligibility criteria for support, the deadline for filing applications and the amount of compensation. It operates as a kind of housing maintenance subsidy – a passive, preventive measure to combat indebtedness. Unlike the housing maintenance subsidy provided for by the Act on Social Administration and Benefits, it differentiates between those dwellings with district heating and those with other forms of heating. The support with paying outstanding fees is designed to help those who have been unable to pay their utility charges for some time (and who have outstanding water, sewerage and waste-collection bills; gas and electricity charges are not included, as those utility companies do not participate in the foundation's work, nor does the support cover non-housing debts). The support may be provided for clients of the local authority's debt-management service,⁵⁵ but it can also be paid separately (e.g. for those who are not eligible for the local debt-management service, but still face economic hardship). The Network Foundation occupies itself

⁵⁴ Previous research ('Lakhatás megfizethetősége és az energiahatékonyság [Affordability of housing and energy efficiency]', carried out in 2010 by Városkutatás Kft. with the collaboration of Habitat for Humanity Hungary, and commissioned by Energia Klub (Energy Club) (manuscript)) suggests that the large utility companies may not be interested in allocating resources to debt collection, as they can incorporate losses arising from debts into their service fees and pass liabilities on to debt-collection agencies. Interviews conducted for our research paint a different picture: while gas and energy providers are indeed less bothered about their liabilities, this is not true of local government-owned companies and utilities where disconnection is problematic and thus debts are nearly impossible to control, such as those that take part in Network Foundation.

⁵⁵ According to our interviewee from the foundation, utility providers have become more flexible in the last 3–4 year years, in terms of cooperation with local government in debt management (e.g. not cutting people off if social workers ask them not to do so and if debt management measures have already begun).

with giving financial support and does not undertake social work; however, requests for assistance are processed by the local authority family care services, therefore at least at the moment the Foundation receives the social providers' request, families have access to social work. The ad hoc crisis aid is a form of immediate support for households in a crisis situation. As well as those utility charges mentioned above, rent arrears may be considered for crisis aid (in the case of households that are unable to pay the rent on their public housing and so are faced with the termination of their rental agreement). Ad hoc crisis aid may be granted by the Advisory Board in exceptional, well defined cases. To become eligible for support from the foundation, people in arrears need to have a letter of recommendation from a social organization (local authority, charitable foundation, church) and they need to submit their application for aid to that organization. According to one of our interviewees, a member of the foundation's board, whether the aid is forthcoming depends largely on the ability and attitude of the family care services.

Similar initiatives undertaken by the local utility companies are to be found in some larger Hungarian cities, such as Miskolc, Szeged and Nyíregyháza.

3.3.2 Héra Foundation

The Héra Foundation was formed in 1991 by experts in the energy sector. It seeks to help households that are suffering economic hardship on account of rising energy prices, by providing financial support (paid direct to the utility providers) and by distributing energy-efficient household devices. Unlike the Network Foundation, Héra operates across the country (according to an interviewee from the organization, the disadvantaged areas of the country are overrepresented in terms of the number of applications received). The foundation's financial backing comes mainly from utility companies that supply electricity, gas and district heating (and assistance can only be provided to pay the bills of those companies). Private donations are also possible, but are rare.

The foundation provides support for socially vulnerable households on request (formally, it is a tender on the basis of a permanent call for tenders) from a relevant social service provider (local authority, its family care service, social organizations operated by churches, NGOs such as the Association of Large Families, the Maltese Charity or the Red Cross). Decisions on whether to grant support are made by the foundation's board. The foundation does not provide any social work itself; however, according to our interviewee from the organization, since requests are submitted by a social service provider, it is reasonable to assume that families affected are in receipt of social care.

In many cases, the support offered by utility companies is 'targeted' – they stipulate who may benefit and lay down other parameters (such as the maximum subsidy available). In such cases, the foundation abides by these guidelines.

According to the foundation's summary of its activity for the years 1991–2010, it prioritizes large families and tends not to support those who are permanently in arrears with their bills or who break the rules (e.g. with illegal electricity usage). Individual requests are only dealt with if the situation is critical. The foundation aims primarily at preventing indebtedness, though it does also provide support for indebted families, usually with a relatively small amount of debt, as the amount of support per household the foundation provides is limited (except if the donor requests otherwise).

As the founders and operators of the organization are experts in energy policy, they have good contacts with providers. Hence they can, if necessary, directly contact the providers to delay disconnection or to provide an opportunity for the customer to pay in instalments.⁵⁶

3.3.3 E.On – Protected consumers programme

As an example of an occasional debt-management promotion by a utility company, in autumn 2010 E.On Hungary ran a programme for its protected consumers: the company reduced their debt by an amount equalling their payments (up to 150,000 HUF – around 555 EUR) between 1 November 2010 and 31 December 2010 (for debts incurred before 15 October 2010).

Another example will be the initiative of one of the large gas providers, Tigáz Zrt., from July 2011 in the case of households more than 90 days in arrears.

3.4 Banks

Banks apply their standard procedures for debt collection, the main instruments of which are 'payment holidays' and payment by instalment (thus, passive, corrective instruments). According to one of our interviewees, although such measures are less complex and contain no element of social work, in terms of volume and effectiveness they can be regarded as a significant form of debt management in Hungary.

⁵⁶ This is especially interesting in light of the fact that interviewees in the 8th District local government referred to cases where local social workers were unable to prevent families already engaged in local debt management from being cut off.

4 Recent demand for debt advisory services

On the question of actual demand for debt advisory services – i.e. the number of households that say they want them – there are no data available, since data on this issue have not up until now been collected. Qualitative data from debt-management service providers may supply further information, and this will be collected at a later stage in the research.

However, if we define demand as the number of households in debt, then we can state categorically that demand for such services is on the increase.⁵⁷

4.1 Recent trends in the number of families in debt

A recent data-collection exercise carried out by the Ministry of National Resources found that the rise in the number of consumers in debt is significantly greater than the rise in the number of consumers generally. Compared to 2003, the number of households in arrears with their electricity bills had increased by 66%, while arrears with gas bills had increased sevenfold (the price of gas has tripled since December 2003). The increase was lower in the case of centralized district heating – this is supposedly linked to the more efficient debt-collection mechanisms of district-heating companies.

No data are available for trends in the number of households in rent arrears. Given the overall deterioration in the financial position of low-status households, however, it may safely be assumed that the figure is on the rise. This is confirmed by qualitative information obtained from local authorities and experts in the course of our research.

The number of households in arrears with mortgage loan repayments has jumped dramatically in recent years. The latest report from the Hungarian National Bank compares information on loan defaulters over the last three years. The data show that altogether the number of properties with more than 90-day arrears increased from 33,654 in December 2008 (shortly after the financial crisis broke) to 70,436 in December 2009 and 90,667 in December 2010.

⁵⁷ Herpai (2010)

5 Case studies of debt advisory services

5.1 Case study 1: Debt advisory service in Budapest's 8th District (Józsefváros)

5.1.1 Background information

The 8th District is located in the centre of Budapest and is home to 80,000 of Budapest's 1.7 million inhabitants.⁵⁸ The district's origins date back to the 18th century, but most of the housing stock was constructed in the latter part of the 19th century and provided accommodation for lower-status households – mainly the working class and owners of small workshops and businesses. After World War II, the area began its slide into physical and social decay. This was due in part to the artificially low rents; in part to the absence of renovation projects; and in part to an ageing population. The arrival of low-income families in the 1960s and 1970s, most of whom were Roma, resulted in the district acquiring the most significant concentration of Roma in the capital. In the 1970s, supposed 'urban reconstruction policies' resulted in the demolition of part of the housing stock of central Józsefváros and the construction of a large housing estate (which proved ineffective at reversing the urban decay). By the beginning of the 1990s, the district – and especially its centre, with its high crime rate, rampant prostitution and drug abuse – had the worst reputation of any area in the capital. Since the mid-1990s, various types of urban renewal programmes have been carried out in the district, including a pioneering programme on social rehabilitation.

5.1.2 Debt advisory services

The debt advisory services available in the district are provided by the local government, as part of its obligatory activities.⁵⁹ The programme is run by the local authority's family care service. The district's debt advisory services are of the type most prevalent in Hungary: services provided by local authorities that oversee a population of more than 40,000 residents (compulsory under the Act on Social Administration and Benefits).⁶⁰

The 8th District started to provide a debt-management and advisory service from the early 2000s, i.e. before it became compulsory for it to do so. The service has been modified several times since then – partly following changes in the Act on Social Administration and Benefits and partly

⁵⁸ Hegedűs et al. (2007); Alföldi (2006).

⁵⁹ Unless otherwise indicated, the following section on debt management in 8th district is based on the interviews No. 1-4 and 7-9 and König (2006).

⁶⁰ Act No. III of 1993.

to tap into the local authority's own experience of how to improve matters. The most recent modification – this time introduced by the local authority – came into force on 1 August 2010.

Of all the 23 districts in Budapest, the number of claimants and beneficiaries is highest in the 8th District. Since 2008, between 800 and 1,200 applications have been lodged each year with the local authority (the number depends on the legislation in force at the time and therefore on who is eligible to call on the debt-management services). Some of the clients are also in arrears with housing loan repayments; while this issue cannot be dealt with by the local authority debt-management service, it does indicate the presence of the problem.

In 2010, some 2,876 local residents turned to the local authority's family care service with some kind of problem, and of these 1,358 submitted an application to use the debt advisory and management service. Of the 1,358 applicants, 978 met the eligibility criteria and had their applications forwarded to the responsible office within the local authority; that means that some 1,900 households were not eligible, even though they were affected by debt.

The eligibility criteria are governed by the regulations set out in the Act of Social Administration and Benefits. The debt-management service is available to those local inhabitants whose household is in arrears with the rent on local authority housing or with common utility bills (gas, electricity, district heating, water, sewerage and waste collection) to the tune of less than 750,000 HUF (roughly 2,800 EUR).⁶¹ The service is available to those people who have arrears of six months or more in one of the aforementioned utilities and services. If the applicant is also in arrears of less than six months with other eligible utilities and services, then those debts may be added to the sum of arrears. Benefit claimants must submit a document detailing their household income and supply confirmation that they are not in arrears with other utility bills. If an applicant meets these criteria, then the local authority's family care service initiates the process by submitting all the documents mentioned to the local authority office.

If successful, an applicant is obliged to pay 30% of the arrears from his or her own pocket, while the rest of the outstanding amount is paid by the service. The personal contribution can be paid in up to 18 instalments, depending on the income of the household and the amount owed. (Under specific circumstances defined in the Act on Social Administration and Benefits, it can be prolonged to up to 60 months.) Nobody from the same household can apply to use the debt-management service again within two years of the previous process being initiated. The problem is, however, that beneficiaries do not know when their arrears are cleared, since they get no information from the local authority about the end of the process and therefore can only estimate when that might be.

Furthermore applicants are required to prove that they intend to cooperate with the debt-management service by paying all their utility bills (except for the one that has been outstanding

⁶¹ Decree No. 31/2010 of the general assembly of Józsefváros (2010)

for six months or more) for three months. The people we interviewed offered a somewhat ambivalent assessment of this additional filter: according to some interviewees, given the aim of the service and the significant public resources allocated to it, it is not unreasonable for the local authority to channel resources to those households that have a realistic chance of coming to terms with their debt. According to others, this measure filters out many families that otherwise could successfully stabilize their financial situation and contributes to an increase in debt: because they must pay all their other bills on time for three months, it is not easy for claimants to make even part payments to their biggest utility service creditor, and thus prevent the amount they owe from growing. This rule was introduced by the local authorities in 2010.

The procedure is quite protracted, on account of the large number of applications – even though six staff members are dedicated to the housing debt-management service (the largest number in the 23 districts of Budapest). Following the preparatory phase described above, to prepare the required documentation and get a decision on eligibility can take three months or more, during which time people's debts continue to mount up (which, given the aim of the service, is rather counterproductive).¹ If an application is successful, the claimant is informed of the amount that the household needs to cover (i.e. 30% of the total amount of the arrears) and he or she also receives a timetable for the instalments. If the client feels that the instalment plan is not suitable for their financial situation, they can negotiate with the authorities.

From our interviews and document analysis, it is evident that one of the main problems with this system lies in the limitations governing the criteria for choosing potential beneficiaries. The Act of Social Administration and Benefits sets a certain minimum indebtedness – an amount that is too great for many of the affected households to handle. In addition, applicants need some income source (from work or social benefits) in order to pay the 30% personal contribution to the total amount of the arrears. If a claimant has little or no income, then he or she falls outside the scope of the service. Another significant problem is the long wait at several points in the process: this results in household debts mounting up further, and hence in a reduced chance of successful debt management.

In the case of the 8th District (which is not dissimilar to many other towns and districts) resource constraints also limit the effectiveness of debt management. Though the requirement for specific social work can be seen as a positive development in terms of providing adequate services to affected households, on the other hand it limits the availability of the service (since the local authority cannot afford the specialized training of many more staff members).

5.2 Case study 2: Home Attendant Programme in Pécs

5.2.1 Background information

Pécs is Hungary's fifth largest city with 170,000 residents and is located in the south-eastern part of the country. The city is renowned throughout Hungary for its cultural heritage and is also one of the country's centres of higher education. Despite the many attractions of Pécs, parts of the city that date from before World War II contain slums, while dilapidated socialist-era housing estates are a feature of other areas. The city also used to be a centre of the mining industry, but, with the closure of the mines after the transition to a market economy, a large number of residents became unemployed and for the past 15–20 years have remained stuck on very low incomes. The city also hosts a significant Roma population.

5.2.2 Home Attendant Programme

The Home Attendant Programme (HAP) is operated by Ifjúságért Egyesület (Association for the Youth), an NGO seated in Pécs. It has imported a Dutch model for integrated debt advisory services and has been operating since 2005.

The background is that the Association for the Youth was established in 1988 with the mission of helping socially disadvantaged individuals and families and promoting their social reintegration. In 1992 it established a youth housing community (providing housing and, if needed, work opportunities for singular mothers and low income families with children), which later operated as a temporary shelter for families.⁶² It found that many people were coming to the shelter after falling into debt and losing their homes. Social workers often found that the way low-income families managed their money contributed to them losing their homes. During the time these families spent in the shelter, social workers helped them with their financial management skills (with household budget diaries, close monitoring of income and expenditure). This prompted the association to develop its Home Attendant Programme to prevent low-income families from losing their homes.

The programme was developed on the basis of the 'VIP' programme of the Social Welfare Foundation (Stichting Maatschappelijke Opvang, SMO) for the Dutch town of Helmond and environs, with which the Association for the Youth has kept in regular professional contact since 2003. The main aim of the SMO's programme is to maintain vulnerable families in their dwellings and avoid having them taken into institutional care. The range of the services is determined by the clients' requirements. The programme uses individually tailored assistance plans and a so-called housing counselling contract, which sets out the affected parties' rights, duties, tasks, finances, time plan, etc. Help is provided with the following: information and counselling, support, motivation, devel-

⁶² Source of case study, if not indicated otherwise: Sándor (2010a)

opment of life skills, debt management, coordination of social care activities, monitoring of a client's situation, representation of the target group in society.

The contractual basis of the Pécs programme is a service provision agreement between the municipality of Pécs and the Association for the Youth, based on Decree 40/2005 (11.29) of the Municipality of Pécs). The programme is operated on a network basis, in collaboration between the Municipality of Pécs, the Lajos Esztergár Family Care and Child Care Service (Esztergár Lajos Családsegítő és Gyermekjóléti Szolgálat) the Regional Resource Centre of Southern Transdanubia (Dél-Dunántúli Regionális Forrásközpont) and the Association for the Youth. The Municipality of Pécs has signed framework agreements with utility companies on cooperation and available supportive measures of companies towards participants of the programme (such as, flexible instalment payment or release of interest payment obligations). (All utility companies, except for an energy provider, signed the agreement).

The target group is households living in public rental flats with rent arrears that put their homes at risk, and in many cases, other debts also endangering their habitat, but falling outside the scope of debt-management services provided for under the Act on Social Administration and Benefits. The programme also involves households with somewhat lower arrears but still not covered by the local authority's debt-management arrangements for other reasons. Such reasons may be the lack of income or 'too high' – in practice, still low – incomings, or the affected individuals' inability to co-operate with the local government's debt advisors, e.g. through regular visits to the debt management service, presentation of fulfilled payment obligations (due to the excessive case load, local government's debt advisors are not able to carry out family visits, to perform a more resource intensive social work). Clients are delegated to the programme by the local government's social welfare committee. (The latter posed some privacy-related concerns in the previous years, i.e. that it needed the transfer of private personal data from a public body – the local government – to an NGO. The Association suggested that no private personal data are transferred except for the contacts of clients, but such a change did not come into force.)

Participant households are of very diverse household types, including elderly with a reduced pension (e.g. disability pension) and households of the unemployed. One-parent households (especially mothers with children) are a characteristic sub-group (where the fragile balanced of the household was broken by the only active member's unemployment, whose returning to the labour market may have had restored the household's day-to-day operation, but it could not put an end to household debt).

The programme's approach is to provide continuous and intensive care and support for families. According to its philosophy, clients control their own lives, and HAP assists them to avoid social exclusion. Its main aim is to foster each client's ability to keep his or her individual housing, to eliminate his or her debts and to maintain/restore his or her ability to keep up payments.

Key components of the programme that are available to clients include: information, counselling (life guidance, household management, debt management), labour market services (such as employment agency services on the basis of the involvement of the Regional Resource Centre of Southern Transdanubia), increased employability, provision of a regular (monthly) subsidy so that they can reduce their debts, counselling and support regarding housing that is tailored to individual/household requirements, and follow-up activities.

Monthly financial support is provided as follows: in the first year, 15,000 HUF (55 EUR); in the second year, 10,000 HUF (37 EUR); in the third year, 5,000 HUF (18.5 EUR). No payments are made to individuals or families: these amounts are transferred direct to the utility companies or the property management company concerned. The support is supplemented by the own contribution of the family, depending on its financial circumstances, with a minimum amount of 1,000 HUF per month (3.7 EUR).

Social work is carried out in the client's home. To begin with, social workers visit clients every week (or, if necessary, several times a week); later on the visits are less frequent, but still occur at least once a month. In practice, there is significant involvement in the family's life – including, if necessary, in the minutiae of household management (such as providing assistance to compare prices but also in administrative issues of social welfare, counselling in life guidance and child care, as needed). The main role of the HAP is support; however, it also has a control function. Social work took place through face to face visits in participants' homes, occasionally, telephone consultations were also held. No other means of contact were used, such as the Internet: only one client had a computer and Internet access but his computer literacy did not make it possible to use such tools for the purposes of the programme.

Since 2005, the programme has operated with five 'home attendants' (all with a relevant third degree education and a specific training on debt management, the same required for local governments' debt management services) financed by the local authority. It has been expected to combat or reduce indebtedness, as well as to change clients' way of life and improve their problem-solving skills. Participation in the three-year programme is preceded by a three-month preparatory phase, in which clients must pay their monthly bills and cooperate with the home attendants. Once the three-year period is up, the local authority's family care services help families to maintain progress.

On their first visit, home attendants carry out a preliminary examination of the client's financial situation, the scale and structure of the indebtedness, the reasons for it, steps already taken to tackle the debt, and the client's motivation. At this point, social workers asked the presence of the whole family if possible, as involvement of the programme required an active engagement of all family members. Later on, they examine the household's budgeting and consumption, income, debts (on the basis of documentation obtained from providers), other problems, internal and external resources etc. On the basis of their findings, a preliminary agreement is drawn up, including

goals and the tasks required to achieve them. The home attendant seeks a moratorium from those service providers affected – i.e. asks them to suspend legal proceedings against the client. If in the preparatory phase successful co-operation can be established (in practice it took 6-9 months in several cases, instead of the originally planned 3 months) a home attending contract is drawn up, including the goals, duties and rights of the respective parties. Clients' duties include maintaining a regular household diary detailing all expenditure (designed in a way that fits households' skills and competences), paying bills on time and participating in programmes to improve their employability; families must also undertake to refrain from taking out loans and purchasing expensive goods without the consent of their home attendant. Client's payment obligations are set much more flexibly than in case of the local government's debt management service. In case of the latter supports are allocated on the proportion of debts. In case of the "Home attendant" programme other factors may be taken into account, such as the seriousness of the debt's threat to housing, the amount of debt, participants' preferences may also be taken into account. The home attendant meanwhile provides life guidance, helps clients with the administrative tasks related to debt management, maintains regular personal relations with the family (home visits) and keeps in contact with utility companies and the relevant local authority bodies. Both parties should continuously evaluate implementation of the agreement and make sure it reflects current circumstances and needs. Breach of contractual duties or non-payment of own contribution or housing costs for three months may lead to exclusion from the programme; however, clients are not obliged to pay back what they have already received.

After the contract is signed, home attendants request an arrears reduction support for their client. Each request is considered and decided upon by the Social Welfare Committee of the Municipality of Pécs. Support lasts for one year, though this may be extended twice (so the total duration of the support may be up to three years). The programme ends after three years, or earlier if the client does not want to be involved any further; if the client is excluded from the programme; or if he or she pays back all debts owing. At the end of three years (or if the client pays back all money outstanding) there is a three-month follow-up period. If after three years a client still has debts, the home attendant assists in reaching agreements between providers and clients, to be monitored by the local authority's family care service.

According to the former co-ordinator of the programme home attendants had a good relationship with the relevant public social bodies, such as the local government's welfare committee, its family care centre in charge of the local government's debt management (the centre regularly sent clients falling out from 'official' debt management to the Association) and the Regional Resource Centre of Southern Transdanubia, in charge of labour market programmes. It also had a good contact with utility companies, with whom the local government set a co-operation agreement with regard to the programme (see above). Utility providers became increasingly flexible in setting their conditions for participants of the programme, and in most cases where families which ended the

3-year programme with still remaining debts (mainly with district heating bills) instalment payment agreements could be set for the remaining sum.

Some key lessons of the programme are as follows:

- The longer a family or individual spends in the programme, the less chance there is of dropout.
- The association's evaluation⁶³ points out that, if the debt is of a larger amount, it is extremely important to allocate enough time, as that is the only way to achieve permanent change.
- In case of households over a million HUF arrears (it may occur primarily with district heating bills) it is practically not possible to clear debts. This further emphasizes the importance of an early warning system.
- The longer a client spends in the programme, and so the more work and effort invested, the more motivated he or she is to maintain the results.
- Both the preparatory phase and the follow-up are very important. In the preparatory phase, the goal is to make the family able to meet the criteria for support. The time needed for that varies considerably. Follow-up aims to make families aware of what is needed to maintain the results, to provide assistance in paying in instalments and to ensure that contact between the client and the home attendant comes to a clear end. This latter phase usually takes three months.

According to data from December 2010 37 families out of whom which received an arrears reduction support, and one family without such a support finished the 3-year period, 26 families successfully accomplished all their payment obligations in the framework of the program.⁶⁴ 12 families had to be excluded, experiences show that the reason of exclusion was not non-cooperation but: extremely bad and deteriorating financial conditions, indebtedness with more than two types of payment obligations, large amount of arrears, high proportion of district heating arrears, presence of other debts, not manageable in the framework of the program (such as, consumer credits). Debts were partially decreased in the latter group as well. In sum, the local government's expenditure for the arrears reducing supports was cca 8,4 million HUF (cca 30,700 EUR) which 'mobilised' 4,7 million HUF of retention (cca. 17,200 EUR) and cca 1 million (cca. 3,650 EUR) of utility provider's support. An interim evaluation of the programme also showed that though the relatively close control applied in the program could have been displeasing to participants, they were highly satisfied with the intensive and wide-scope social work they received.

63 Minutes of the meeting of the 12th workshop of the Northern Great Plain Region http://www.foglakprojekt.hu/viewpage.php?page_id=8

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On the basis of this experience, in autumn 2009 the association suggested to the local authority that certain amendments should be made to the programme. Some of the key proposals for amendments were that the way clients were proposed should be reviewed (the association suggested that the local authority housing office should apply a pre-filter); that there should be a quarterly assignment of new clients; that there should be an option for 'crisis assignment', in the case of a threat of imminent loss of housing; that exclusion from the programme should not prevent the household from participating at a later date; and that there should be greater flexibility in terms of the support provided and the time span (possibility to suspend and re-launch programme). Due to lack of resources no new participants could be admitted to the programme since the summer of 2009, at present the number of home attendants was reduced to one, who deals with clients already enrolled in the programme, for that reason, the above amendments have not taken place. As the legislative background of the programme still exists, its further operation depends basically on available resources.⁶⁵

⁶⁵ By then, the Association strives to keep and if possible, develop its capacities, a component of which is its participation in the 'Everything is Soluble' programme presented in section 3.

Conclusions

Several forms of debt management exist in Hungary (passive and active; preventive and corrective) and different types of actors are active in the field (local authorities, utility companies, NGOs). However, a number of indebted households fall outside the scope of such services, and the services provided do not necessarily meet the demands of needy households.

In part, this is rooted in the regulatory framework of debt management. For instance, although it is the most significant passive, preventive measure in terms of the number of households covered, because the amount it pays out is so small, the centrally subsidized housing maintenance subsidy often fails to provide substantial alleviation of affordability problems. The system of subsidies that seeks to increase affordability is uncoordinated and, in many cases, not properly targeted. Local government's centrally subsidized debt-management services – the most relevant public institutional system for corrective debt management, including both financial assistance and social work – are not obligatory in towns and villages with a population below 40,000 (and indeed such services are generally not available in smaller places due to resource constraints and, in some cases, lack of recognition of the problem by local decision makers). Moreover, according to the eligibility criteria set out in the relevant legislation (the Act on Social Administration and Benefits), only a relatively narrow range of indebted households can access the service (those that have certain types or sizes of debt, that are under a locally defined income limit, that enjoy a regular income, etc.). It is important to emphasize that such services only concern housing-related debts. Furthermore, the Act does not support early action (a precondition for involvement is a minimum of six months in arrears or a disconnected utility).

For that reason, NGOs such as the Association for the Youth, the Hungarian Maltese Charity Service, Habitat for Humanity Hungary or the Tutor Foundation, which are presented in this report, may have a very important role to play in debt management: preventing indebtedness, dealing with families that fall outside the scope of corrective debt management provided by public bodies, and offering more flexible and relevant services than those provided for under the Act on Social Administration and Benefits. However, the contribution of NGOs has its limitations: while they may offer in-depth social work, they are unable to administer and provide financial support to clients. The Home Attendant Programme presented in our study is an innovative one, as it combines social work provided by an NGO with a financial contribution from the local authority in a scheme that runs as an adjunct to the one provided for under national legislation.

Local governments may undertake further debt-management measures (e.g. the local housing maintenance subsidies that exist in some places) and programmes such as the Home Attendant Programme in Pécs, operated by the Association for the Youth. However, it all largely depends on local attitudes and on human and financial resources, and the Home Attendant Programme is a rare beacon.

A further important factor is the lack of coordination between actors and the different forms of debt management. It would be better if there was closer cooperation between local authority debt-management services and the utility companies, as well as with the foundations established by or financed by the utility companies. This is very important, because a number of families have multiple debts and because the different actors seem, on their own, to be incapable of providing effective solutions to indebtedness – local authorities do have legal powers and knowledge on local issues, but lack resources; utility companies have the resources and administrative mandates, but lack local knowledge and are unable to apply 'soft' measures, such as social work; NGOs are capable of providing in-depth social work, but have no administrative powers and lack resources, etc.⁶⁶

Lack of resources (both financial and, related to this, human) presents a further problem.⁶⁷ In smaller towns and villages it prevents local government from establishing debt-management services. In the case of services already operating, it may inhibit the allocation of enough human resources: the staff of local authority debt-management services is often overworked, and this prevents them from providing relevant (and thus effective) assistance. Hence there are waiting lists (though with debt, time is critical), and staff are unable to organize personal visits to families or to provide intensive social work. NGO initiatives are also often hampered by the lack of resources: take, for instance, the Association for the Youth's Home Attendant Programme, which has been unable to enrol new clients since summer 2009 for lack of resources.⁶⁸ Lack of local government resources may inhibit cooperation between NGOs and local authorities in providing effective debt management (e.g. the profound social work of NGOs, complemented by local authority financial support to participating households).

The policies of specific actors – and indeed the change of those policies – also play a role: different utility companies have different policies on the disconnection of non-paying customers, as well as on the installation of pre-payment meters. As a result, depending on their provider, similarly defaulting households may have completely different experiences, and the opportunities for debt management may be very different, too.

⁶⁶ This was particularly emphasized by the project coordinator of the 'We Owe This' programme, Szilárd Lantos (speaking at a conference organized under the 'We Owe This' programme, 29 June 2011, Heves).

⁶⁷ The regulations stipulate specialized qualifications for debt managers. While this is a positive development in terms of quality assurance, it often prevents the establishment or development of such services, as there is no money to hire such personnel.

⁶⁸ In the case of programmes operated on the basis of grants, resource insecurity may pose a problem.

Important factors in terms of successful debt management, ways to improve access to and quality of service delivery

For the purposes of our analysis 'successful' debt management practices may be regarded as those that:

- effectively reach households that are at risk of indebtedness or are already indebted;
- effectively prevent (or, if it already exists, reduce) debt (a question that might be asked here is whether the mark of success in this respect is the total abolition of debt, or, as with the Pécs example, merely a significant reduction in debt and assistance for affected households to enable them to cope with remaining debt);
- achieve sustainable results (a key component of sustainability may be that, assuming no decline in its economic circumstances, a household's improved payment behaviour does not deteriorate once it has completed the programme).⁶⁹

An early response on the part of services that provide debt management is crucial: this would include effective preventive measures for households suffering economic hardship (including a well targeted and coordinated subsidy system, as well as consumer information and awareness raising) and, if a household has already fallen into debt, an effective early warning system, as well as the immediate application of corrective measures (the economic equilibrium of low-income households may be irreversibly lost in just one month). Large-scale debt is virtually unmanageable, even if professional debt-management providers apply intensive social work alongside financial support (such as in the Pécs programme presented in this report). In such cases, consumer bankruptcy might be a solution. (Since the institution of consumer (private) bankruptcy does not exist in Hungary, heavily indebted families face total social marginalization, including exclusion from the legal labour market and, in several cases, spatial exclusion.)

The installation of pre-payment meters for households threatened by (or already in) arrears is an effective tool to avoid the accumulation of unmanageable amounts of debt.⁷⁰ (Postponement of disconnection – unless the household is already engaged in debt management – is problematic, since it enables the further accumulation of debt.) In Hungary, stricter monitoring of the disconnection activities of utility companies and a clear message from the authorities to both utility pro-

⁶⁹ Several interviewees emphasized that the key problem regarding indebtedness in Hungary is unemployment. For that reason, some of the innovative NGO programmes include a component aimed at developing employability; however, in many cases, improving the employment prospects for affected individuals falls outside the remit of providers. Other factors, such as health problems, demographic factors, etc. may also affect a household's ability to keep up payments.

⁷⁰ The experience of the Hungarian Maltese Charity Service shows that the installation of such devices did not leave families without services: they were able to use the services without interruption, but consumption dropped to about 70% of what it was preceding installation. (Presentation by Miklós Vecsei, vice president of the Hungarian Maltese Charity Service at a conference organized by the 'We Owe Them That Much' programme, 29 June 2011, Heves.)

viders and their customers regarding the use of such meters may be in order, since, although the legislation allowing the installation of such devices has been in existence for some years, the number of pre-payment meters actually installed is minuscule, and utility providers have divergent policies on the issue.

Time is of the essence in other respects, too: the effective reduction or elimination of debt (especially larger amounts of debt) and a sustainable change in households' budgeting behaviour may take some time (even several years). The Pécs programme presented here includes three years of intensive social work, preceded by a 6–9 month preparatory phase and followed by three months of further work.

Access by all households suffering economic hardship to debt management is crucial. As is outlined above, the existing Hungarian institutional structure means that a number of needy households lack access to debt management: they may fail to meet the necessary income or housing criteria; have a structure of indebtedness that differs from that handled by the available services; be unable to take part in the activities expected of them (e.g. regular attendance at personal meetings at the local family care centre) unless they are helped to do so; or live in places where debt-management services are not available.

Services adapted to the demands of affected households and built on the available resources of clients and their social environment (skills, competences, financial resources, etc.) stand a better chance of success.⁷¹

From all that has been said above, it is clear that no unified model can be developed. Services might range from simple information provision to intensive social work; from a one-off financial contribution to regular assistance. The lower the income of the household, the more complex are its problems (poor education, health problems, etc.) and the more relevant becomes the social work component. Our interviews suggest that personal encounters are important during social work.⁷² Individually tailored solutions also require flexibility from utility providers in terms of payment by instalment, delay in disconnection (or discarding of the option) if the customer is already engaged in debt management, or installation of pre-payment meters, if necessary.

In the Hungarian context, a closer cooperation between actors and the services they provide would significantly improve the effectiveness of debt management. As we showed above, there are several types of debt-management services and a variety of actors present in the field, but they are not coordinated.

⁷¹ This was particularly emphasized by the project leader of the Hitel-S programme of the Hungarian Maltese Charity Service, Gábor Major. (Conference organized by the 'We Owe This' programme, 29 June 2011, Heves.)

⁷² In the Pécs programme, telephone consultations also took place, but these were not applied as a main instrument of communication. Our research suggests that other forms of communication, such as via the Internet, cannot at the present time be effectively applied, due to the poor Internet penetration among the target group and its poor computer literacy.

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Minutes of the meeting of the 12th workshop of the Northern Great Plain Region
http://www.foglakprojekt.hu/viewpage.php?page_id=8

List of interviews

No. of interview	Name of interviewee	Organization	Position
<i>Local authorities</i>			
1	Ms Márta Révész	Local government, 8 th District, Budapest	Councillor, vice-president of the Social Committee
2	Mr György Molnár	Local government, 8 th District, Budapest	Councillor
3	Ms Gizella Váradi	Local government, 8 th District, Budapest	Head of the Integrated Family and Child Care Centre of 8 th District
4	Ms Szilvia Tar-Bárczy	Local government, 8 th District, Budapest	Head of the Family Centre within the Integrated Family and Child Care Centre of 8 th District; also responsible for the Debt Advisory Service
<i>NGOs, utility services</i>			
5	Ms Gabriella Dobó	Association for the Youth, Pécs	Former co-ordinator of the Home Attendant Programme
6	Mr Péter Győri	Network Foundation, Budapest	Head of the Advisory Board
7	Mr Nándor Bacsó	Héra Foundation	Managing director
<i>Households</i>			
8	Ms J. D.	Resident of 8 th District, lives in Fecske Street	Client of the local government's Debt Advisory Service in the 8 th District
9	Ms T. M.	Resident of 8 th District, lives in Lujza Street	Client of the local government's Debt Advisory Service in the 8 th District
10	Ms K. L.	Resident of 8 th District, lives on Baross Road	Client of the local government's Debt Advisory Service in the 8 th District