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Is Financial Inclusion a Magic Bullet for Development?

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List of Acronyms

AFI	Alliance for Financial Inclusion
EDS	Espacio de Derechos Sociales
EU	European Union
EURIBOR	The Euro Interbank Offered Rate
FI	Financial Inclusion
IMF	International Monetary Fund
OECD	Organisation for Economic Cooperation and Development
PAH	Plataforma de Afectados por las Hipotecas
RP	Research Paper
UN	United Nations
US	United States of America

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Abstract

This Research Paper is a critical engagement with the Financial Inclusion (FI) literature that focuses on the benefits of credit for economic and social development. It questions two central ideas in this literature: 1) over-indebtedness is the result of personal irresponsibility; 2) extending access to credit to the population improves their living conditions. Through the stories of mortgage debtors in Zaragoza and Madrid, it shows that becoming over-indebted is the result of events at the macroeconomic and personal level, which are beyond debtors control. Likewise, it illustrates that holding debt stresses the households' vulnerability, limiting their response capacity and exacerbating the consequences of negative circumstances. This RP claims for social policies that help people to cope with situations of passive over-indebtedness and protect them from its consequences. Most importantly, this RP remarks the need to consider the context and households' vulnerability when promoting FI inclusion policies.

Relevance to Development Studies

Nowadays, financial inclusion has become a new buzzword in development and extending access to credit appears as the solution to a vast myriad of problems. The excessive optimism on FI policies seems to underestimate its risks and hence the need for policies to protect people with debt problems. This paper is relevant to development studies because it explores the downside of FI and the mechanism in which credit lead households' impoverishment. Through the voices of the affected debtors, this RP explores the causes and consequences of households' debt problems. Thus, it brings light into the mechanism to prevent the adverse effects of FI as well as the policies to help over-indebted people.

Keywords

Financial Inclusion, Over-indebtedness, Household's vulnerability

Chapter 1

Introduction

Luciana¹ is a 63 years old businesswoman who signed a mortgage and a commercial loan in the years 2000-2002. At that time, she and her husband did not have difficulties to meet their financial obligations. Even when her husband left, she managed to pay the instalments of both credits. However, with the beginning of the Spanish economic crisis, her revenues decreased. To cope with this situation, she took a personal loan and some debt with her family and suppliers. This funding allowed her to get back on track with late payments, but some months later her financial situation continued worsening. “*I felt like a criminal for not paying my debts, but I had no other alternative*” (Luciana 2018, focus group). Talking about the consequences of having debt problems she said: “*after working hard all my life as a wretch, I could have ended up on the street if my son had not given me shelter*” (2018: no page). Luciana’s story was heard many times in Spain after the financial crisis and challenges the idea that credit is beneficial for everyone, regardless of how hard they work and responsibly plan to repay their debt.

Financial Inclusion (FI) has become a new buzzword in development and extending access to credit appears as the solution to a vast myriad of problems. Promoting FI seems beneficial for achieving many Sustainable Development Goals (SDGs), mainly eradicating poverty (AFI 2018). Several policymakers believe that access to financial products will allow the poor to help themselves in periods of stress and invest in their future. For instance, the current Ministry of Finance from Indonesia underlines that: “financial inclusion helps lift people out of poverty and can help speed economic development” (Mulyani 2015: no page), while the former Prime Minister from Kenya (Raila Odinga) considers it pivotal “to break the vicious cycle of poverty” (AFI 2009:5). Likewise, the World Bank (2018a) insists on its positive impact on the lives of poorest and the society at large, for which emphasises the need to reach universal financial access by 2020. This excessive optimism seems to underestimate the risks of FI and disregard stories like Luciana’s.

Although the most recent global economic crisis created some public awareness about the harmful effects of credit abundance, the debate among most policymakers and economists has not questioned the positive role of credit in development. These sectors

¹ All the interviewee’s names were changed in order to protect their privacy.

remained convinced that households' irresponsibility or lack of self-control were the main causes of debt problems. As Fischer (2012:46) suggested for the Latin America debt crisis, there is a tendency to blame debtors rather than lenders in order to justify that the former is who suffers the consequences of financial distress. This discourse of debtor's responsibility was defended by a retired bank employee, who is a volunteer of Caritas² in a project that helps people with debt and housing problems: *“I recognize that the banks made a lot of mistakes in the credit approvals, but the main responsible are the families who took loans without carefully analysing their financial conditions. They should have done the math to know how much debt they could afford. Before signing the mortgage contracts, they should have considered that they would face the consequences if something went wrong”* (Ezequiel 2018, personal interview).

Reflecting about the tenth anniversary of the crisis, Elliot (2018) states that “there never was a huge swing of the pendulum away from the prevailing” political orthodoxy that really challenges the trust and power of the financial system. Discussions among economists focused on the role of governments in the efficiency of this market rather than the social aspects of the crisis and the unequal power between borrowers and lenders (Dymsky, 2010). Thus, the policies aimed to increase the credit access of the population under the general label of FI continued their course and were even revamped with the creation of the Alliance for Financial Inclusion (AFI) in 2008 and the publication of the G20 Principles for Innovative Financial Inclusion in 2010.

The reasoning in favour of generalised access to financial products claims that they are essential for growth and “are the linchpin of any modern economy, and an inseparable part of daily life” (AFI 2018:6). Among these products, credit has received special attention because it “improves the consumption and investment opportunities for households and enables better diversification of household wealth” (IMF 2006:47). Loans allow people to smoothen their consumption in periods of economic stress (Rosenzweig and Wolpin 1993) and cover expenses beyond their disposable income, all of which increases their utility. Credits allow students to invest in their professional career and close the enrolment gap between wealthy and low-income families (Solis 2017). Finally, loans would enable households to access basic needs such as housing in contexts where there is not enough public offer, and homeownership is widely promoted (Colay and Alemany 2012).

² Caritas is a Catholic organization that help people at risk of social exclusion or in a very vulnerable situation.

Nonetheless, this is only one side of the story and cases like Luciana's are not uncommon. Especially for the poor and minorities, FI and easy access to credit may lead to a severe deterioration of their condition and permanently push them into poverty. In contrast with most of the literature on microfinance that exhibits its benefits, Mohanty (2005) and Bateman and Chang (2012) address the negative consequences of microcredit and question its contribution to social and economic development. With data from India, Mohanty (2005) found that some farmers committed suicide due to their inability to fulfil their re-payments and the risk of losing their collateral (land). Similarly, Bateman and Chang (2012) found that the excessive promotion of microcredit in developing countries has hindered the development of their small and medium enterprises, causing an over-supply of survivalist businesses and economic stagnation.

Furthermore, little research on FI has discussed the terms and conditions of people's inclusion in the credit market as well as the negative consequences of debt on vulnerable households. The latter refers to those who cannot cope with adverse circumstances without suffering a decline in their living conditions (Chamber 1989, Moser 1998). Being vulnerable does not necessarily mean being poor, but being exposed to fall into poverty under changing circumstances (Alwang et al. 2001). For instance, Luciana was not poor when she took her loans (otherwise, the bank had not approved them these long-term loans), but she was highly vulnerable due to the economic conditions and the lack of protection for small entrepreneurs. Two exceptions in this literature are the works of Dymsky (2010) and Suarez (2017), who explores the consequences of extending credit access among black communities in the United States of America (US) and foreign residents in Spain, respectively. They found that their inclusion in the credit market worsened their living conditions due to the unfavourable conditions of their inclusion and the lack of a buffer to support adverse shocks.

This Research Paper approaches FI critically given its non-neutral impact of people's lives. It seeks to understand the transition from regular and payable mortgage loans to situations of over-indebtedness and impoverishment. The former is defined as the condition of being unable to cover financial commitments without reducing the living standards (Brennan and Gallagher 2007:623). Whereas the latter refers to the process of deprivation from the goods and services needed to fully participate in a given society (Townsend 2006:5). This RP will concentrate on mortgage loans and will not delve into discussions about self-control problems and overconsumption with credit cards or personal loans for status purchases, which have been addressed by authors such as Ottaviani and Vandone (2011), Strömbäck et al. (2017) and Gathergood (2011).

The primary objective of this research is to understand the consequences of promoting FI without considering the context and households' vulnerabilities. The research will adopt a case study methodology with non-poor households who signed mortgage contracts. When signing the mortgage, they were creditworthy debtors (acceptable credit scoring), who met all the requirements set by the financial entities. Nevertheless, they reached a situation in which their debt exceeded their payment capacity and started to be defined as over-indebted. Analysing the story of these debtors is pivotal to disclose the downside of FI because it shows the negative consequences of debt in the case of vulnerable families that faced adverse scenarios at the macroeconomic and personal level.

To better understand the topic, we will follow an ethnographic approach, which allows to explore in depth the uniqueness of each case and their experiences in a broad sense (O'Reilly 2012). Thus, the gathering of primary data includes semi-structured interviews, participant observation, focus group, and informal conversations with debtors and other stakeholders. Most research on over-indebtedness involves quantitative methods only (Steadman 2017), which is a limited approach to understand the non-metric dimensions of the problem (Porter 2012). The predominance of quantitative methods is partially explained by the stigma of having debt problems, which makes affected people reluctant to share their experiences. Following Graeber (2011:9), this stigma relies on the belief that "paying back money one has borrowed is a simple matter of morality".

I selected Spain as a case study because of its long-term policy of promoting home ownership via mortgage credit since the mid of the twentieth century (Montiel 2011), and due to the significant numbers of mortgage borrowers that have experienced over-indebtedness and are willing to talk about it. Unlike other countries in which indebtedness is seen as a taboo topic (Steadman 2017, Trachtman 1999, Cohen and Duygan 2008), discussing household indebtedness has become normal in Spain thanks to organisations like the Spanish Mortgage Victims Association (Plataforma de Afectados por las Hipotecas – PAH).

The PAH is a bottom-up movement created to support borrowers with mortgage problems given the magnitude of the problem around all the country. All members are passive over-indebted because their debt problems were caused by factors beyond their control rather than overconsumption problems. The PAH operates through weekly meetings, where debtors share their debt story and the other members provide support and advice. This advice is not only about the legal process with the bank, but also about strategies to manage this situation at a personal level. Likewise, the PAH is an open a space in which

researchers are welcomed, which enormously facilitates the conduction of the fieldwork (July 29- August 18).

Research Objective and Questions

This research aims to challenge the widespread belief in all the positive role of credit for people's lives. Through the stories of over-indebted and defaulted households in Spain, it seeks to understand the transition from being a creditworthy debtor to become over-indebted and impoverished. Considering these objectives, the main research question and sub-questions are written as follow:

Why do regular mortgage loans become unpayable to households in Madrid and Zaragoza, Spain?

Sub-questions:

- What factors drive the over-indebtedness and defaulting of non-poor debtors?
- What determines debtor's capacity to cope with adverse events?
- In what ways have debt problems affected the daily life of borrowers?

This document has seven chapters, including this introduction. Chapter 2 presents the theoretical debates and concepts associated with the research problem, namely the impact of credit, over-indebtedness and vulnerability. Chapter 3 presents the methodologic approach, the strategy for data collection and my positionality. Chapter 4 introduces the context of the research. Chapter 5 summaries the characteristics of the interviewees and explains their process of over-indebtedness and response capacity. Chapter 6 discusses the consequences of this phenomenon in dimensions like health, sociability and expectations. Finally, Chapter 7 concludes that extending access to credit should consider the context and vulnerability of households; otherwise, it can push them into poverty.

Chapter 2

Is Financial Inclusion a Magic Bullet for Development?

This RP encounters with the literature on financial inclusion, over-indebtedness and vulnerability. Firstly, it presents a summary of the research on the impact of credit on the economy and people's lives. It shows that although the majority of works underline a positive relationship between credit and economic growth, some authors have found that this relationship is not always positive, and credit can undermine people's living conditions. They argued that debt increases households' vulnerability, which limits their response capacity and worsened the impact of adverse external shocks. Secondly, this RP reviews the literature on over-indebtedness that mainly discusses its measurement approaches and the most relevant consequences. It also presents some few documents regarding the causes of this phenomenon, which distinguish between passive and active over-indebtedness depending on debtors control over its drivers. This seems essential for affected families because they feel that the concept is non-neutral and has been used to blame them for their situation. Finally, it presents different approaches to vulnerability, which emphasises its difference with poverty.

2.1 Credit Impact

Ten years ago, with the crash of the global economy, some authors emphasised the need to transform the financial system to enhance its contribution to development and avoid its negative consequences. Green New Deal Group³ (2008:4) preaches that "finance will have to be returned to its role as servant, not master, of the global economy". On the contrary, political and business leaders reaffirmed the need for extending access to financial products to overcome the crisis and restore the economic growth (Soederberg, 2013). This commitment was ensured with the creation of AFI and the definition of the G20 Principles for Innovative Financial Inclusion. The bank bailouts and the lack of structural reforms assured the rapid stabilisation and further expansion of the financial system (Elliot 2018).

³ This group was established in 2007 by Larry Elliott (The Guardian), Andrew Simms (The New Economics Foundation), and Colin Hines (Finance for the Future), among others. Its objective was to reflect about the global crisis and propose a new global deal to address these issues.

AFI was founded in 2008 by Bill & Melinda Gates Foundation and the international cooperation agencies of Germany, France and Canada to include the poor into the financial system and hence alleviate poverty. Ten years after its creation, AFI (2018:6) is still convinced that “improving people’s access to financial services- is key to poverty reduction” that “inclusive economic growth begins with financial inclusion”, for which countries can spare no efforts to promote it. The principles for FI aimed to guide policymakers to enhance people’s access to financial products because they are “a driver of economic growth and poverty alleviation” (G20 Financial Inclusion Experts Group 2010:4). Furthermore, the United Nations Secretary-General’s Special Advocate for Inclusive Finance for Development (UNSGSA) promotes FI as the solution to the problems of the poor, including the achievement of zero hunger (Queen of The Netherlands Maxima 2014).

This trust on the positive impact of credit has relied on various academic articles. One of the most cited works is the article of King and Levine (1993), who found a positive relationship between the level of financial development and economic growth using data of 80 countries⁴. According to these authors, financial services boost the accumulation of capital and productivity, and hence countries’ development. They remarked that “within this framework policies that alter the costliness and efficiency of financial intermediation exert a first-order influence on economic growth” (1993:735). More recently, Loayza and Rancière (2004) supported this conclusion based on panel data and time series of 75 countries. These authors found that financial liberalisation and the extension of credit to the private sector (households and firms) promotes economic development in the long run.

Furthermore, Beck et al. (2007) have underpinned that credit, as a proportion of the GDP, reduces income inequality and enhances countries’ effort to reduce poverty. Through a cross-country analysis, they found that the expansion of credit is negatively associated with the GINI coefficient, but positively related to the reduction of poverty. Likewise, they found that the poorest households exhibit the greater benefits of financial development since their income grew faster than the other groups. Thus, these authors highlighted that future research must focus on the policies that better untapped this positive impact of credit for the whole society, especially for the most vulnerable people.

In an IMF staff discussion note, Sahay et al. (2015:5) remarked that “financial development increases a country’s resilience and boosts economic growth” because it

⁴ This document was part of a larger project within the World Bank aimed to measure the long-term effects of public policies. The authors were, respectively, Economics professor of the University of Rochester and professional at the World Bank.

improves the resource allocation, the management of risks and the financial stability. Moreover, access to credit helps household and firms to respond to adverse shocks and smooth their consumption through different periods (2015:9). Notably, they mentioned that financial development could further benefit emerging economies, despite acknowledged some public concerns due to the recent financial crisis. They affirmed that instead of hindering the credit access of the population, governments must follow some regulatory principles that promote both financial and economic development.

At a country level, many researchers have also found a positive relationship between credit and macroeconomic indicators. For instance, Burgess and Pande (2005) showed that rural banks had helped households to overcome poverty, while Bruhn and Love (2014) underlined that access to finance improved the labour condition of Mexican workers. Likewise, there have been found a positive effect of credit in the daily life of Thailand villagers (Kaboski and Townsend, 2012). These authors claimed that microcredits increase the consumption, investment and income of debtors, triggering a rise in the wages of all the inhabitants. Finally, Demirgüç-Kunt et al. (2008) mention that the lack of access to credit hinders children education in poor communities from Peru, Guatemala, India and Tanzania because loans give parents liquidity to pay for schools fees, transport and adult workers prior to harvest.

Nevertheless, when discussing the positive link between credit and growth, Rousseau and Wachtel (2011) sustains that more recent cross-country data do not support this causality. According to the authors, the lack of a clear link between credit availability and growth can be explained by the higher incidence of financial crisis and the adverse effects of credit expansion in inflation rate, which have negatively impacted the economic growth of nations. Despite these findings, they still consider finance as a crucial element of economic development. Contrary to Rousseau and Wachtel (2011), other authors like Soederberg (2013), Bateman and Chang (2012) and Krishna (2003) believe that finance can undermine instead of enhancing development.

Soederberg (2013) problematizes the belief on the power of credit to alleviate poverty. Instead of helping poor households and countries, holding debt increase their vulnerabilities to the speculative financial capital and hide exploitative relations of power. In this regard, the widespread interest in microfinance does not aim to help unbanked small entrepreneurs, "but rather at filling a demand in the high-finance circuit" (2013:595) through high-interest rates and fees. She argued that the real interest of FI policies is to consolidate the new stage of capitalism defined as financialization. Although there is no a unique definition about this

latter phenomenon, Van der Zwan (2013:10) stated that scholars on this field “interrogate how an increasingly autonomous realm of global finance has altered the underlying logic of the industrial economy and the inner workings of a democratic society”.

On the other hand, Bateman and Chang (2012) suggest that the increasing credit supply for the poor do not benefit them, nor contribute to the social and economic development. Indeed, they state that microcredits worsen the consequences of business failures because, after losing their source of income, microentrepreneurs lost their assets trying to pay off these debts, or even their social capital when falling into arrears. Moreover, Mohanty (2005) showed that microcredit had affected the living conditions of small farmers in India. He found that the pressure for paying the credit back and the potential loss of their land (in the case of default) increased the incidence of suicidal cases. Furthermore, Thorat et al. (2017) and Krishna (2003) underlined that debt has played a crucial role in the impoverishment of households according to data from India and a group of developing countries (India, Kenya, Peru and Uganda), respectively.

Additionally, Dymsky (2010) shows that the extension of credit to minority groups in the US, during the previous years to the financial crisis, was carried out through predatory lending (e.g. excessive fees and interest rates). When the outbreak of the crisis, they were forced to make tremendous sacrifices to repay their debt or fall into arrears. In the latter scenario, they were evicted from their houses and condemned to being financially excluded for the rest of their life. Based on this case, the author suggests that credit can lead to the impoverishment and exclusion of some segments of the population while increasing the assets and opportunities of other groups.

When analysing the case of some mortgage debtors in Spain, who had defaulted these loans, Suarez (2017) found that the Ecuadorian migrants were one the most affected groups. She found that, despite being legal residents, these migrants were included into the market through subprime mortgage loans (unfair terms and excessive costs). This fact together with their precarious jobs, make them unable to respond to these obligations with the hit of the economic crisis. This process has left them evicted from their places, indebted for life and excluded from the formal sector. According to Suarez (2017), this case study brings light into the effect of financialization and financial predation on people’s lives.

This RP does not explore the benefits of FI but its downside, considering the experience of mortgage debtors. This is relevant for social policy studies because it enlightens our understanding of the risks and adverse consequences of debt in a period when extending its access is highly promoted. My critic to FI goes beyond the unfair terms of the inclusion of

minority groups. This research shows that holding debt increases household's vulnerability because it undermines their response capacity and worsens the impact of adverse external shocks. These adverse effects are most significant in the case of previously vulnerable families.

2.2 Over-indebtedness

Over-indebtedness is a concern for public and multilateral institutions due to its consequences on people's lives and the stability of the financial system. Specifically, governments are interested in this phenomenon for its social and economic consequences. On the one hand, the coping strategies of debtors may undermine their well-being because they are either forced to reduce their daily expenses, overwork, migrate or liquidate their family assets. On the other hand, the (potential) arrears of the household's debt deteriorate the balance sheet of the creditors, which stresses the whole financial system. Moreover, the positive trend of household (over) indebtedness in both developing and developed countries has increased the need for a better understanding of the causes and effects of its topic⁵.

Despite its relevance, there is not a unique definition within and among countries, which has made difficult its monitoring and the implementation of preventive measures. In the case of the European Union (EU), some definitions refer to a structural/temporary situation, others describe the type of debt (mortgage, consumer debt), and others compares the level of debt with the income or assets (European Savings Institute et al. 2008, Table 1). To address this issue, in 2018 the European Union launched the project '*Towards a common operational European definition of over-indebtedness*'. Despite this effort, the EU has not established a standard definition; in fact, none of the countries of the union has a unique official definition (Civic Consulting 2014).

In the academic literature, there is no standard definition either. Nevertheless, over-indebtedness is often referred to a situation in which a household hold debt beyond their payment capacity. For instance, Brennan and Gallagher (2007:623) and Gutierrez-Nieto et al. (2017:188) defined over-indebtedness as the inability to meet the financial obligations and other commitments, without undermining primary consumption (as cited in Yaruro, 2018a). Stamp (2009) stated that over-indebted people are those whose resources are insufficient to cover their living expenses and financial obligations, while Schicks (2013:302) defined it as

⁵ According the IMF (2017a), between 2008 and 2016 household indebtedness as a proportion of the GDP increase by 6% and 11% in emerging and advanced economies, respectively.

the condition of making “unduly high sacrifices” to meet the financial obligations. Finally, Mujica et al. (2009) stated that over-indebted households are those who allocate more than 40% of its income to financial payments and have problems to make ends meet.

Table 1. Definitions of Over-indebtedness in the EU

Institution/Source	Country	Definition
Economic and Social Committee	European Union	Objectively unable, on a structural and ongoing basis, to pay short-term debts taken out to meet the needs considered to be essential, from their habitual income provided by work, financial investments or other usual sources, without recourse to loans to finance debts contracted previously.
OCR Macro for DG Health & Consumer Protection	European Union/ Andorra	A person is over-indebted if he or she considers that he or she has difficulties in repaying debts, whether it be a consumer debt or a mortgage.
Ministry of Finance	Netherlands	Individuals are considered to be over-indebted if they meet the conditions to benefit from the debt settlement scheme Schuldsanering – for that it is sufficient that an individual, in good faith, is unable to meet his/her debt commitments
Government Department of Social and Family Affairs	Ireland	Households are over-indebted if they are persistently unable to meet from their income reasonable living expenses and deferred payments as they fall due.
Ministry of Economics	Italy	Over-indebtedness is a situation of non temporary difficulties of regularly honouring his/her commitment using his/her income and his/her assets (real estates and other mobile properties).
Grupo Catalán en el Senado de Convergència i Unió	Spain	Over-indebtedness is the situation where a consumer – in good faith – is not able (actually and persistently) to repay all his/her debts (debts which have been incurred for reasons different from businesses).

Source: authors' summary based on European Savings Institute et al. (2008:110-111)

In the media and other contexts, this term has been widely used to describe the condition of people with debt issues, independent of their debt story. In El País, Elola (2006) use it to describe the situation of a 37-year old woman who used her credit card and easy loans to finance her compulsive consumption. *Hoja de Caridad de Caritas*⁶ uses the term to describe a marriage without any source of income, who contracted debt in order to purchase food and medicines (Caritas Madrid 2018). Over-indebtedness also designates the situation of a Dominican housemaid who borrows money to visit her ill father and pay a lawyer to solve some issues with her child custody (Daniela and Tatiana 2018, personal interview). Finally, this term explains the situation of a 50-years old man, who lost his job due to the economic

⁶ This is a monthly publication in which Caritas exposes ten cases of people who need immediate help. Its audience is everyone willing to collaborate with these people.

crisis and started to experience severe difficulties to meet his mortgage obligations (Ana 2018, personal interview).

One difference within the above cases is the origin of over-indebtedness. In some cases, the problem was generated by personal characteristics such as control problems or financial mismanagement, while in others was produced by deficiencies in the social protection system or job loss. Therefore, some authors have remarked the need to differentiate between passive or active over-indebtedness (Anderloni and Vandonde 2011, Garces 2009). “In the first case –passive over-indebtedness- financial difficulties are determined by unexpected factors beyond an individual’s control (...) In the second case, over-indebtedness is generating by excessive levels of debt held by households, following decisions to borrow up to a level is unsustainable on the basis of present and future earnings” (Anderloni and Vandonde 2011:113).

In the case of active over-indebtedness, some researchers have found that one of the main drivers is the lack of self-control. Using data from employees of the financial sector, Ottaviani and Vandone (2011) found that over-indebtedness is more frequent among those with self-control problems. Similarly, Strömbäck et al. (2017) and Gathergood (2011) showed that impulsive people in Swedish and UK, respectively, exhibit a higher probability of experiencing debt problems. Finally, based on a theoretical model Banerjee and Mullainathan (2010) highlighted that credit could undermine the living conditions of people with self-control deficiencies, especially if they are poor, because of the mismatch between volatile income and fixed instalments (as cited in Yaruro 2018a:7).

In the case of passive over-indebtedness, Dymsky (2010) and Suarez (2017) has underlined that this phenomenon was caused by external factors that mainly affected minorities. This RP also talks about passive over-indebtedness in relation to some households in Zaragoza and Spain. It illustrates that over-indebtedness was caused by a decline in debtor’s payment capacity, triggered by adverse shocks at the macroeconomic and personal level. This distinction between active and passive over-indebtedness seems very important for debtors. They have perceived that some people blame them for their situation because of associating their cases with situations of financial mismanagement and over-consumption.

Consequences of Over-indebtedness

There is much evidence of the negative consequences of over-indebtedness on people's lives. In this regard, Drentea and Reynolds (2012) and Sweet et al. (2013) highlight that (over) indebtedness should be further analysed by social epidemiology researchers. Similarly, Civic Consulting (2014:172) affirms that this topic is relevant not only for its effect on the welfare of families. They emphasise that over-indebtedness deteriorates the economy, causing loss of productivity and financial instability, and triggering social disruption, citizen frustration and emigration. This section presents some articles that explore its impact on debtors, based on data from surveys mainly.

Accordingly, Drentea and Reynolds (2012) find that among all the indicators of socioeconomic status in the US, people's indebtedness is the only one associated with depression, anxiety and anger simultaneously. Likewise, Sweet et al. (2013) highlight that having debt problems in the US worsen people's perception of their health status while increasing the incidence of stress, depressive disorders, and blood pressure problems. Similarly, Hojman et al. (2016) find that depressive symptoms are persistent among over-indebted Chileans, especially among mortgage debtors who have felt into arrears. Furthermore, Meltzer (2011) emphasise that over-indebtedness rise the likelihood of suicidal thoughts as well as suicidal attempts among the British population.

On the other hand, Porter (2012) highlights that debt problems reduce American's wealth and employment opportunities, as well as increase their college dropout rate and social exclusion. This author also underlined that debt reduce people's expenses and investments in health care, which deteriorate their physical and mental condition. Moreover, Steadman (2017) shows that unmanageable debt affects not only the mental health of Canadian people but also their interpersonal relationships. In contrast to the other cited documents, this researcher conducted in-depth interviews, but the sample is limited to acquaintances due to great difficulties to find volunteers.

In the case of developing countries, Schicks (2013) states that over-indebted debtors in Ghana have experienced a reduction in their primary consumption. This has been accompanied by social sacrifices such as asking for financial help to friends and family, as well as being more exposed to harassment, excessive stress and non-physical violence. Regarding India, Krishna (2003) and Thorat et al. (2017) have shown that debt is one of the factors that increase the likelihood of non-poor households of falling into poverty.

Finally, Gutierrez-Nieto et al. (2017) found that over-indebtedness undermined the living standards of debtors, their diet and work conditions (Table 2). To collect the data, these authors survey 61 borrowers with debt problems connected to the PAH from Zaragoza. This article was a pivotal reference for this RP because it helped to choose the case study, given that it mentions the severity of the problem in Spain. It also makes me reflect on the limitations of trying to quantify them through a Likert-scale, for example. Thus, it encouraged the author to follow an ethnographic approach.

Table 2. Number of debtors

	Strongly Disagree	Disagree	More or less disagree	Undecided	More or less agree	Agree	Strongly Agree
One of the consequences of over-indebtedness is the deterioration of debtor's diet	7	4	2	4	9	11	24
One of the consequences of over-indebtedness is the drastic reduction of debtor's standard of living	4	4	3	3	5	15	27
One of the consequences of over-indebtedness is the increase of debtor's workload (e.g. overtime or working while sick)	8	8	8	5	4	8	19

Source: authors' calculations based on the data shared by Gutierrez-Nieto et al. (2017)

2.3 Vulnerability

Vulnerability is a relevant concept to understand the impact of FI on people's lives. It does not only determine debtors' capacity to cope with a fall in their payment capacity, but the consequences of being over-indebted. Although vulnerability is often used as a synonym of poverty, they are not the same (Chambers 1989, Moser 1998) as it was illustrated in the case of Luciana. Vulnerability refers to the exposition and response capacity to external shocks, while poverty relates to the level of deprivation. Chambers (1989:1) emphasises that this distinction is crucial for policymakers because a policy to reduce monetary poverty, such as promoting credit access, rise the vulnerability of households, who then face the "horror of debt" though having an increased income probably.

Thus, vulnerable households include poor and non-poor families, who are at risk of suffering a decline in their living conditions due to external circumstances and their limited space to implement coping strategies. Among this group, "poor people are usually among the most vulnerable" (Moser 1998:3) because, on the one hand, they are more exposed to

unfavourable circumstances, such as natural disasters given the location of their dwellings or food shortage due to their complete dependence on current harvesting. On the other hand, their response capacity is minimal since they have been depleting their few assets/resources in order to survive. This greater vulnerability may constitute a lifetime condition if they lack access to a generous social protection system (Loughhead et al. 2001:25).

According to Alwang et al. (2011), the measuring of vulnerability varies among disciplines. These differences “can be explained by their tendency to focus on different components of risk, household responses to risk and welfare outcomes” (2011:2). While economists and sociologist analysed household’s response capacity and outcomes, researchers from the disaster management literature focused on the risky events. Nevertheless, one recurrent theme in all this literature is that vulnerability is dynamic and has multiple causes.

In the sociological literature, the concept of vulnerability has been used to describe the condition of disadvantaged segments of the population. Sociologists have identified the sources of vulnerability in factors beyond monetary dimensions, such as skin colour, ethnic group, age, gender and migratory status. Thus, they have remarked that “vulnerability is socially constructed” because it depends on the social and institutional arrangements (Morrow 1999:1). For instance, Loughhead and Mittai (2000) preach that factors conditioned by the social structure, such as family composition, position in the caste system and labour market, as well as tenure status (recognised or not), determines the vulnerability of Indian households.

When analysing people’s vulnerability to the economic crisis of 2008, Papademetriou and Terrazas (2009) found that immigrants were the most vulnerable segment. These authors found that their vulnerability was associated with their precarious inclusion in the labour market combined with their exclusion from the social protection system. Their overrepresentation in low skill jobs and highly volatile sectors, such as construction, personal services, and *maquila* industries, make them more susceptible to the economic cycle. Since most of them were noncitizen, they lack access to public supports like food stamps or unemployment allowances, which are pivotal to cope with periods of stress.

Although most of the economists have avoided the use of the term vulnerability explicitly, most of their work on poverty dynamics relies on it (Kanbur and Squire 1999, as cited by Alwang et al. 2011:5). These studies inquire about the incidence of different factors on household’s impoverishment to then identify those with the higher probability of falling into it. In other words, they aimed to identify household’s vulnerabilities. Economists only

analysed vulnerability in consumption changes due to their monetary conceptualisation of poverty (Coudouel and Hentschel 2000, as cited by Alwang et al. 2011:6).

On the other hand, vulnerability is a central concept of the asset-based and sustainable livelihoods literature. In the first case, vulnerability is defined according to two dimensions: sensitive and resilience. Sensitive refers to “the magnitude of a system’s response to an external event”, while resilience relates to “the ease and rapidity of a system’s recovery from stress” (Moser 1998:3). Implicitly, any definition considers the means of resilience, which “are the assets and entitlements that individuals (...) can mobilise and manage in the face of hardship” (1998:3). Thus, this literature defined non-vulnerable households are those with sufficient and appropriate assets to manage their own risk and avoid welfare losses.

In the case of the sustainable livelihoods literature, vulnerability combined two sides. “An external side of risks, shocks, and stress to which an individual or household is subject; and an internal side which is defencelessness, meaning a lack of means to cope without damaging loss” (Chambers, 1989:1). Accordingly, vulnerable families exhibit a high likelihood of experiencing livelihood stress, which means difficulties to “satisfy their needs and earn a living” (Alwang et al. 2011:11). Depending on the nature of the risk, some authors differentiate between structural and proximate vulnerability. The first one analyses structural characteristics that cause households’ vulnerability; while the second focus on their capacity to satisfy their needs in a short period (2011:11).

As mentioned in the introduction, this RP defines vulnerability following the approaches of Chamber (1989) and Moser (1998). Vulnerable households are those who cannot cope with adverse circumstances without suffering a decline in their living conditions. This vulnerability is analysed in relation to households’ likelihood of falling into poverty in specific circumstances. This is relevant for analysing the case of mortgage debtors in Spain, who were non-poor when taking the credit but becoming poor afterwards due to their inability to cope with a decline in their payment capacity and their over-indebtedness.

To conclude, this RP approaches the FI and over-indebtedness literature critically. In contrast with most of the FI literature that focused on its benefits, this RP analyses the story of vulnerable and defaulted mortgage debtors in Madrid and Zaragoza, whose living conditions declined due to their indebtedness. This RP shows that although the Spanish government never warned about the risks of FI, these risks still exist and can undermine people’s living conditions. Unlike most of the literature on over-indebtedness, this RP discusses the triggers of over-indebtedness as well as debtors’ control over them. Although being passive over-indebted families, this RP shows that they have been portrayed as

responsible for their situation. Finally, vulnerability is a crucial concept to understand borrowers' capacity to deal with a fall in their payment capacity and the consequences of facing debt problems.

Chapter 3

Methodology

3.1 Ethnographic Approach

This RP follows an ethnographic approach, understood as an explorative method centred on the stories and experiences of participants, which also reflect on the positionality of the researcher (Yaruro 2018b). This approach aligned with the objective of this RP that is to understand the multidimensionality of the problem rather than to prove any theory or generalise the debt experience of households. As O'Reilly (2012:1) states “ethnography has proven to be the best way to learn, in detail, about a diverse range of complex social phenomena”.

As this RP wants to explore the downside of FI, my participants are debtors who have experienced a decline in their living conditions due to problems associated with their mortgages in Madrid and Zaragoza. Analysing their experience is pivotal to comprehend the failures of FI policies in enhancing the living condition of households. Speaking of those whose vulnerability and deprivation have worsened because of credit is essential to challenge the belief on FI as a motor of development and welfare's gains.

The gathering of data was done through methods used by ethnographers: semi-structured interviews, participant observation, focus group, and informal conversations. These methods helped to establish a more natural connection with the participants, which enriched our discussion and sharing of experiences. Since the data from the individual semi-structured interviews mainly refers to people's story and experience, they constitute the primary source for my analysis (Chapter 5). This type of interviews is defined as interactions between researcher and participants, freely enough to explore different dimensions of the research topic and to talk about other connected themes (Fylan 2005:65).

3.2 Gathering of Data

As mentioned in Section 3.1, data were collected through diverse methods such as semi-structured interviews and informal conversations. These conversations and my field notes are in Spanish. I only translated into English the quotes and information cited in this RP. During my meetings with debtors, we not only talked about their debt problems but also

their most significant life events, their expectations about the future, as well as my life and projects. On average, these interviews lasted one hour and were recorded, except for one. In this case, I deleted the recording during the meeting due to the sensitive nature of the information.

My interviews were not only tailored to borrowers but also other stakeholders. Thus, the interviewees included three volunteers from the PAH, given their experience working with these debtors and their perspective about the causes and consequences of this phenomenon. Social workers from Caritas and the Municipality of Zaragoza were also interviewed to know their experience helping over-indebted families and listen to the stories of affected people, who have asked for social assistance but have not necessarily participated in the PAH. When asking social workers about the differences between PAH members and non-members, they told me that both groups shared similar stories and problems, but the former believe in social organisations, know people linked to the PAH or have time to attend to the assemblies. Finally, I interviewed two lecturers and researchers: one of them was specialised in economic growth and development, and the other in consumer behaviour and over-indebtedness.

Accessing to debtors was mediated through the PAH. In the case of Zaragoza, I contacted them several times before the fieldwork, and they agreed to give me space during the assembly to look for volunteers. However, they decided to cancel the summer meetings, for which they asked through the WhatsApp group who wanted to participate in the study. Then, I contacted the volunteers to arrange a meeting. One of them was uncomfortable with my plan of conducting individual interviews, but after explained him my reasons, he accepted to meet.

In the case of Madrid, interviewees were mainly recruited by the mediation of two activists from the PAH (Cecilia and Felipe). Cecilia works in a low-income neighbourhood of Madrid (Usera) helping people with eviction orders and housing problems, such as mortgage arrears, debts for rent and squatting. Felipe accompanies people with difficulties to meet their mortgage and rent obligations in Valdemoro, a small town in Madrid metropolitan area. The research participants were those who read the message sent by these two activists through WhatsApp and were interested in participating in the study. In the case of Valdemoro, the participants accepted to meet if the interview was in a group, for which a focus group was conducted.

Additionally, I attended two assemblies of the PAH Madrid, where I did participant observation. Before the first meeting, I interviewed the leader of the group, who also had

debt problems and told me about the causes and consequences of this phenomenon. He used to work doing social research, so he advised me to review the stories presented during *Proceso a la Banca Española*⁷, which helped me to review my guiding questions. During this assembly, I was introduced by the leader as a researcher interested in the movement. I did not notice any particular reaction from the attendances, which gave me the impression that my presence was not affecting their routine.

In the second assembly, I passed to the front to explain the attendances the aim of my research and asked for their help as participants. Only three people expressed their interest, but for time constraints, I only managed to meet one of them. Nonetheless, a Colombian woman, who had accepted to be part of my study previously, invited me to drink beer with other participants of the meeting. During this informal gathering, they started to talk about the topic and agreed to answer my questions.

Regarding the other stakeholders, I sent them a formal requirement through email, explaining the topic of my research and the aim of my interviews. In the case of the other informal conversations, they were held while travelling between Madrid and Zaragoza and the places where I stayed. Apart from one woman, the rest of people had not experienced debt problems but shared with me their view. Some of them insisted that the debt problems were directly associated with the crisis, while others mentioned the lack of financial literacy in the country. My conversation with the affected woman was essential because it helped me to frame the questions of one of my most sensitive topics: the effects of over-indebtedness on debtors' diet. Before asking that question, I always introduced her example for being very illustrative⁸.

3.3 Positionality

When reflecting on my position as a researcher, I see myself as an economist that used to analyse household (over) indebtedness in Colombia from an economic perspective but who is now interested in investigating this phenomenon from an ethnographic approach (Yaruro 2018b). Despite the fact that I have some knowledge on the topic, the method and the

⁷ Proceso a la Banca Española was a civil initiative inspired by the Russel Tribunal with the aim of judging the financial institutions because of its responsibility in the financial crisis and the suffering of many families. This project seeks to give the affected people the justice denied by the judicial branch.

⁸ This Ecuadorian woman told me that to cover her instalments, her family stop eating Latin American food ingredients because it was more expensive than Spanish ones.

context are entirely new for me, for which this work constitutes a new area of exploration. This research has been significant for my professional life linked to the financial system because it helps me understand the vital importance of considering household vulnerabilities and the context when promoting FI policies.

My experience during fieldwork was very positive because many people, including non-debtors, found my topic relevant and shared with me their opinions. Nevertheless, I was always aware that being a migrant woman conducting research in a foreign country could affect my access and interactions with the population. I think that my position impacted participants' willingness to share their thoughts and experiences openly. For instance, I noticed that women interviewees were more open about their debt experience than men; although I tried to ask them similar questions. In the case of the migrant participants, I perceived a more significant connection since we share stories about our home countries, our migration processes and our plans abroad.

In the first days of my fieldwork, I tried to focus my interviews on the consequences of over-indebtedness, but I realised that people also needed to talk about their causes. Some of them even need to challenge the concept due to its negative connotations in the media. Thus, my interest in the topic evolves from understanding the impact of over-indebtedness to problematize its conceptualisation, considering its drivers and debtors' control. During all this process, I have reflected on the responsibility of these debtors and realised that it was minimal (if any). Therefore, I decided to illustrate their process of passive over-indebtedness rather than limit myself to analyse its negative impacts only.

Finally, I do not define myself as a militant of the PAH, despite sharing some of their claims and actions. I support its fight for a more comprehensive housing law, which does not force people to sign a mortgage to secure decent and stable housing. Moreover, I acknowledge its crucial role in making visible and create awareness of a social issue that has affected a significant portion of the population. Finally, I must recognise my admiration for many activists of the PAH, who have accompanied these debtors in their process, despite not having housing or financial problems.

Chapter 4

Case Study

4.1 The Spanish Economic Crisis

Many authors have stated that the Spanish crisis was caused by internal and external factors, such as the household debt, the burst of the housing bubble and the changes of the international monetary policy (Banco de España 2017, Rahman et al. 2017 and Sánchez-Martínez et al. 2015). On the contrary, others researchers have remarked that the deregulation of the financial system and the commodification of housing are the main drivers (Colau and Alemany 2012).

According to the Spanish Central Bank, the country accumulated serious imbalances during the economic expansion (2000-2007), which deepened the effects of the global financial crisis of 2008 and the European Sovereign Debt Crisis (Banco de España 2017). This document underlines that the indebtedness of the private sector (household and companies) grows exponentially, far above the rise of the GDP, which increases the economic and financial risks. This increase was a result of at least two factors: 1) The expansionary international monetary policy; and 2) The reduction of the funding costs after the Spanish's integration into the euro economic area.

The households and companies' debt was concentrated in the real state sector, which fuelled the construction sector and house prices (Banco de España 2017). During the years 2000-2007, housing investment as a proportion of the GDP almost doubled, while the rise of the registered construction workers exceeded one million. During the same period, house prices increased by 150%, which were above the fundamental prices, displaying a "pattern consistent with a speculative bubble" (2017:31). Therefore, the high indebtedness and the speculation in the real state sector constitute the central transmission mechanism of the economic downturn (Banco de España 2017).

Sánchez-Martínez et al. (2015) remark that the high household's debt was supported by the positive dynamic of the Spanish economy. This idea was supported by Nieto (2007), a professional of the Spanish Central Bank, who said that "the financing received by households over the period analysed is in line with what may be inferred from its determinants" (Nieto 2007:8). Therefore, Sánchez-Martínez et al. (2015) belief that the crisis

was caused by some mistakes on the credit approval process. These failures allowed many borrowers (including those with a non-stable job) to acquire debt beyond their means, which then generated their falling into arrears and bankruptcy. Thus, not only their quality of life has been deteriorated but also the fragility and profitability of the financial system.

Pisarello (2012) criticises these two explanations because it hides the real cause of the crisis and gives impunity to the perpetrators. Explaining the crisis in economic terms does not show the role of the speculative greed of financial institutions, real estate companies and public authorities on setting the foundations of this tragedy. Thus, a market-driven explanation “place blame on the most vulnerable” segment (2012:15), who are the families who signed loans to secure their right to housing. In this regard, Colau and Alemany (2012) state that the housing bubble was caused by the excessive international liquidity, the deregulation of the credit market and speculation on house prices, rather than the irresponsibility of mortgage debtors.

Moreover, government intervention seems to fuel the housing bubble instead of correcting the market imbalances (Colau and Alemany 2012:49). The authors mention that State interventions push housing demand, giving tax reductions to homebuyers and making renting an unstable and expensive option. The reduction of public housing was leaving people without alternatives rather than buying their own place through loans. Also, public officials encourage people to purchase houses because their prices will never decrease, the interest rate was historically low and were the best saving for retirement (2012:43). The interest of government was not to benefit people but boosting one of the most critical sectors concerning its contribution to the public administration budget and alliances with political parties.

Another group of articles have not questioned the causes of the crisis but focused on the consequences. Laparra (2012) has underlined that the crisis increased poverty and social exclusion as well as worsen social cohesion. Merino et al. (2012) have provided evidence on its negative effect on the labour conditions, while Aller and Grant (2018:51) have emphasised that the crisis altered the payment behaviour of debtors due to a “decline in the stigma attached to default over time”. On the other hand, most media have highlighted its impact on macroeconomic variables. As is shown in Graph 1, the economic growth rate moved from 3.8% in 2007 to -3.6% and -2.9% in 2009 and 2012, respectively. Alongside, the unemployment rate jumped from 8.2% in 2007 to 26.1% in 2013, far beyond the average rate of the EU (Graph 2). It must be mentioned that the unemployment trend may not entirely reflect the severity of the problem because it excludes hundreds of Spanish residents

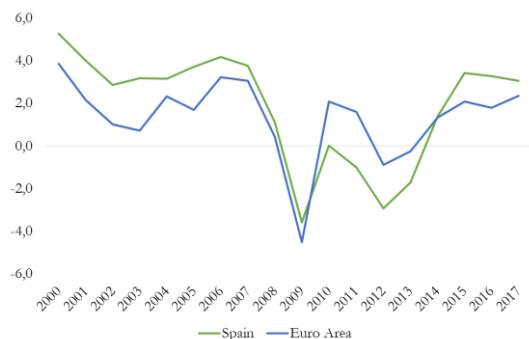
who left their country due to the lack of jobs⁹. These effects seem to remain in the Spanish society, which shows worse social indicators than the EU (Table 3) and a decline in households' capacity to respond to another economic downturn (Fundación Foesa 2017).

Table 3. Euro Area vs Spain in 2016

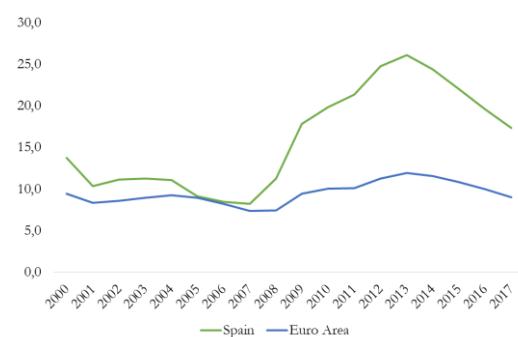
	Euro Area (19 countries)	Spain
Inability to make ends meet	7,1	9,5
Material and Social Deprivation	14,0	17,4
Inability to face unexpected financial expenses	32,8	36,6
People at risk of poverty or social exclusion	23,1	27,9

Source: Eurostat (2018)

Graph 1. GDP Growth



Graph 2. Unemployment rate



Source: World Bank (2018b)

4.2 Mortgage Debt among Spanish households

The outbreak of the economic crisis not only “found Spain’s banks and its government in denial” (Dymski 2013), but also debtors. They suddenly experienced an increase in their monthly payments due to the rise in the Euribor (The Euro Interbank Offered Rate) between 2006 and 2008 because their credits were anchored to this benchmark. Additionally, they suffered a decline in their income due to the negative trends of the employment and GDP growth rate since 2008. Although some public servants like Nieto (2007:9) had mentioned that high debt affects families’ response capacity to “unexpected changes in their wealth,

⁹ According to INE, the number of Spanish people living abroad increased from 1.5 m in 2009 to 2.1 in 2014 and 2.5 in 2018.

their income or in interest rates”, the government did not do anything to prepare or protect them.

Although the government promoted homeownership through mortgage loans and taking these credits were a standard practice within society, debtors realised that the mortgage law favoured lenders only. This legislation condemned them to “mortgaged lives” to use the expression of Colau and Alemany (2012). This law did not give affected debtors any alternative but to pay all their debt back. This act states that mortgage debts are excluding from the personal bankruptcy act, which deprives debtors of their discharge due to adverse economic conditions. Also, mortgage loans remain “even when the assets purchased with those loans have been vacated” (Dymski 2013), which protects the lenders from any devaluation of the collateral. Thus, defaulted families not only lose their house but must respond for the remaining debt after the auction.

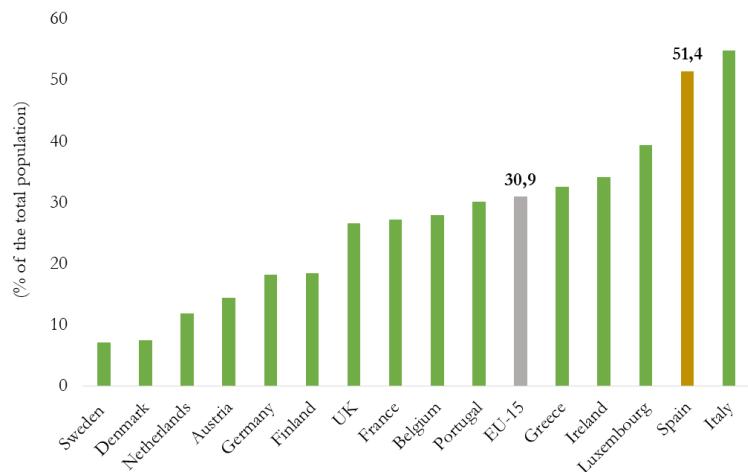
The magnitude of the problem was aggravated given the importance of mortgage loans within the Spanish households’ portfolio (Table 4). In 2008, these type of loans, which included main residence and other real estate properties, representing the 84,1% of the households’ debt. Compared to other members of the EU, the financial burden due to housing costs in Spain was excessively high (51,4% versus 30,9% for EU15), especially for those families in the low and median quintiles of the distribution (Graphs 3 and 4). Some authors have argued that high mortgage debt is a consequence of the Spanish culture, which privileges homeownership over other types of housing (Sánchez-Martínez et al. 2015, Cabre and Modenes 2004). Nevertheless, Colau and Alemany (2012) have highlighted that the high number of mortgage debtors have been mainly fuelled by government discourses and the low stock of public housing compared to other EU countries (Graph 5)

Table 4. The Composition of Households’ Debt

Type of Debt	2002	2005	2008	2011
Mortgage debt	80,0	80,6	84,1	86,9
Other debts (personal loans, credit cards)	20,0	19,5	12,3	13,1

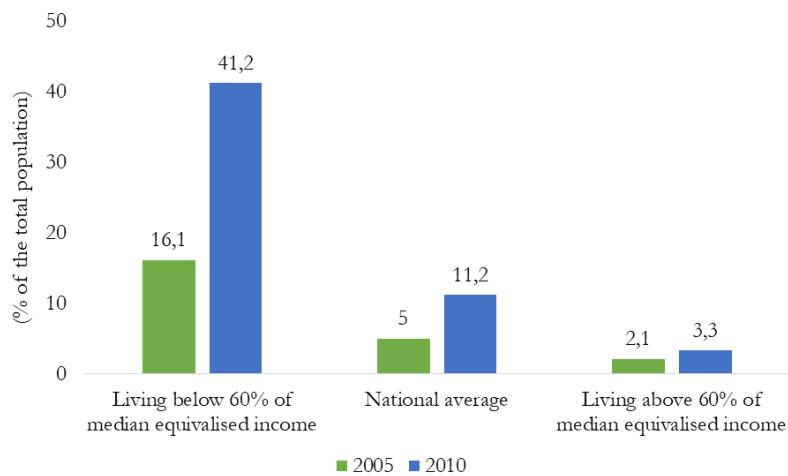
Source: author’s calculations based on the results of the Survey of Household Finances from Banco de España (2007, 2010, 2014)

Graph 3. Financial Burden due to Housing Costs: Spain versus other EU countries (2010)



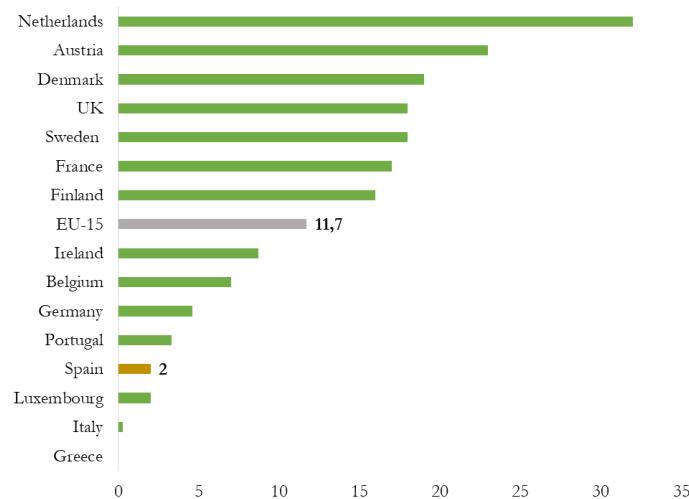
Source: Adapted from the Center for Economic and Social Rights (2012:4)

Graph 4. Housing Cost Overburden Rate Disaggregated by Poverty Status in Spain



Source: Source: Adapted from Center for Economic and Social Rights (2012:4)

Graph 5. Social Rental Stock as a Percentage of the Total Housing Stock



Source: Source: Adapted from the Center for Economic and Social Rights (2012:4)

Finally, there is evidence that some mortgage debtors in Spain have suffered a substantial decline in their living conditions due to their passive over-indebtedness and falling into arrears. Between 2008 and 2015, around 450.000 families were *desahuciados* (being evicted from their homes), losing not only their dwelling but also their space intimacy and their life project (Galeote 2018). Some families have moved from being homeowners to become homeless, due to the lack of housing alternative. In other cases, this process has related to suicide cases (Galeote 2018). Indeed, Suarez (2017) documented around 30 suicides directly linked to home evictions during her fieldwork (2012-2015), while the PAH shared a list of 58 cases covered by the press.

4.3 Plataforma de Afectados por la Hipoteca (PAH)

The PAH is a social movement that supports defaulted mortgage debtors, whose payment capacity have decreased due to economic factors and life events beyond their control. Its members include defaulted debtors facing their foreclosure procedure or stopping their eviction, as well as debtors fighting to achieve *dación en pago*¹⁰ or to be recognised as victims of the financial institutions. It also includes some volunteers who accompany these debtors

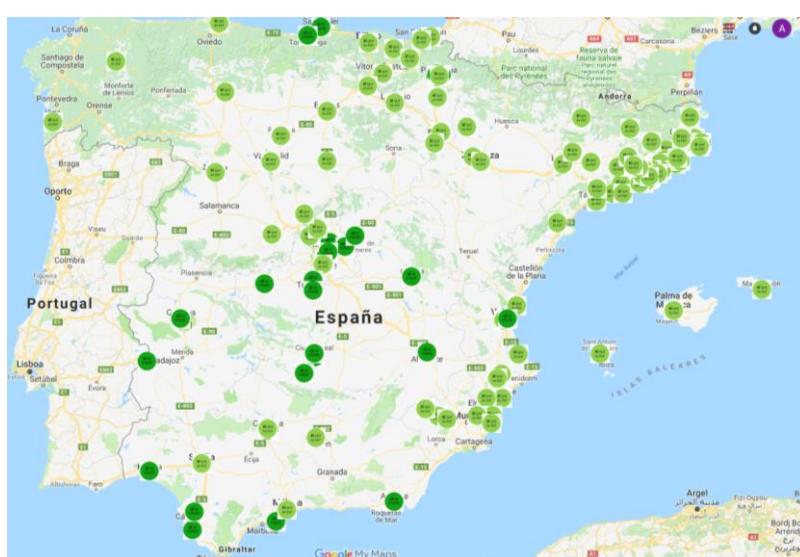
¹⁰ It refers to the cancellation of the mortgage debt, once the financial institutions have taken the ownership of the debtors' house.

to negotiate with the banks and organise public demonstrations to shed light on this problem and demand actions by the governments.

It started in Barcelona as the collective social response to the crisis (Colau and Alemany 2012) and soon widespread around the country, reaching more than 250 nodes (Graph 6). According to Coy (2012:20) “one of the most important achievements of the PAH was to visualise an individual problem, contained within an intimate and private space, and make it a social issue”. In this way, PAH has given relief to affected debtors since they have seen their debt problems as the result of broader dynamics rather than a personal failure. Through weekly meetings, PAH has created a space where debtors can share their debt story and receive advice and support for their legal and emotional processes.

One of the main objectives of the PAH has been to pressure the financial system and governments to give debtors *dación en pago*. They have insisted that the Spanish law is condemning borrowers to be (over) indebted for life. Unlike other European countries, mortgage loans in Spain are not liquidated after people lose their homes nor when they have felt in bankruptcy, which violates their socio-economic rights. Other two key aims are to stop the evictions of debtors without housing alternatives and to advocate for the use of empty and “mortgaged homes into affordable rental properties” (Colau and Alemany 2012:103). More recently, the PAH has lobbied for the approval of the *Ley de Vivienda PAH* (Housing Act), which aims to protect the right for housing of the population¹¹.

Graph 6. Presence of the PAH in Spain



Source: PAH (n.d.)

¹¹ This law has 5 main demands: 1) Retroactive *dación en pago*; 2) *Affordable and stable rental*; 3) *To stop evictions*; 4) *Social housing*; 5) *Assured access to essential utilities*.

Chapter 5

From the Euphoria of Being a Homeowner to Becoming Over-indebted

These findings are based on the semi-structured interviews of those participants with mortgage contracts (eleven out of fifteen). The first section presents the sociodemographic characteristics of the research participants (Table 5) and their debt status (Table 6). The second section describes their process of over-indebtedness.

5.1 Sociodemographic Characteristics and Debt Status

Six participants were women and the rest were men. The age varies between 30 and 74 years old, with a median of 50 years old. Eight of them were divorced while the remaining three were married. All had children, but the number of kids differed, as well as their level of dependency. For instance, Andres had four kids, who entirely depended on him, while Oliver's sons moved from his place many years ago. His youngest son returned to Oliver's place after his eviction, but unfortunately, passed away due to a heart attack.

On the other hand, seven participants were migrants, who moved to Spain due to economic reasons. All of them were legal residents. Although Fernanda is Spanish, she considered herself a migrant because she also left her hometown seeking for job opportunities. Among the migrants, six were originally from Ecuador and the remaining one from Rumania. The high proportion of Ecuadorians is explained because they were “the largest foreign collective partaking in mortgage acquisition” (Suarez 2017:67) and the most representative group within the PAH (2017:214)¹².

Regarding their occupation, while most of the Spanish people have worked as university professionals (engineer, sociologist and plastics arts), foreign residents used to work in low skills jobs (household cleaner, storekeeper, diver). According to Calavita (1998:545), this difference is not a coincidence but explained by the Spanish migration law, which privileged the approval of work permits in low-skilled sectors. These differences are less relevant when

¹² Given the severity of the problem among Ecuadorians, the government of Rafael Correa decided to join efforts with the PAH to advise their compatriots abroad (Ministerio de Relaciones Exteriores y Movilidad Humana, n.d.).

analysing their employment status. Only one participant was a formal employee, while the majority was either unemployed (three) or had a part-time job as house cleaners (three). The situation of the remaining four was no better: one was a freelancer (van driver), two were in sick leave and one was retired.

The employment status of participants was not necessarily a bias from my sample but a consequence of the Spanish economic crisis. In fact, IMF (2017b) has highlighted that the Spanish labour market still faces many challenges as unemployment remains far above the pre-crisis period and there is a high incidence of over-skilling and temporariness. Likewise, all interviewees (debtors or non-debtors) told me that although the government preaches that the crisis is over, they have not experienced a significant improvement in the labour market and living conditions.

Regarding their degree of connection with the PAH, the data is diverse. Some of them (Andres and Miguel) had only attended one assembly and exhibited a low commitment. Others like Julian and Carmen were very committed and actively cooperated in its activities. Even though Andrea and Fernanda declared to be firmly committed with the PAH, they cannot regularly attend the meetings for different reasons (illness, time constraint, and a long commute). Finally, Mariana used to be very active but had not attended assemblies for one year due to her illness and a feeling of disappointment since her problem had not been solved.

Table 5. Sociodemographic Characteristics of the Research Participants

Participant	Sex	Nationality	Occupation	Employment status	Civil Status
Julian	Male	Spanish	Sociologist. Researcher and consultant.	Unemployed	Married
Carmen	Female	Spanish	Plastic artist	Part-time job: house cleaner	Divorced
Miguel	Male	Ecuadorian	Care employee	Full time employee	Divorced
Andres	Male	Ecuadorian	Van driver	Freelancer	Divorced
Cecilia	Female	Rumanian	Household cleaner	Part-time job: house cleaner	Divorced
Mariana	Female	Ecuadorian	Storekeeper	Sick leave	Divorced
Lucia	Female	Ecuadorian	Household cleaner	Part-time job: house cleaner	Divorced
Luis	Male	Ecuadorian	Mechanic	Sick leave	Married
Fernanda	Female	Spanish	Care employee	Unemployed	Divorced
Andrea	Female	Ecuadorian	Household cleaner	Unemployed	Married
Oliver	Male	Spanish	Engineer	Retired	Divorced

Source: Fieldwork (2018)

All interviewees have defaulted their mortgage debt and have been included in the list of defaulted debtors. Eight of them were facing the foreclosure or eviction procedure through legal actions, pressure to banks or civil resistance. They were either fighting to reach *dación en pago* or to not lose their houses. Only Carmen had achieved *dación en pago* because, according to her, her debt was low, and she got divorced during this process. Although her mortgage debt was liquidated, she continued living in her own house due to a social renting agreed with the bank. She is afraid of what will happen when the rental agreement ends since she has not had another housing alternative. On the contrary, Andres and Andrea already lost their homes and continued being accountable for the remaining debt.

Apart from these mortgage loans, some of the interviewees had also defaulted their personal loans, credit cards or rapid credits. Some of them still used and paid their credit cards. In fact, they used them regularly to cover some expenses (food, utilities, and school materials of their kids) before the reception of their income/economic assistance. This surprised me because I would have expected that the financial entities cancelled these credit lines. I was also impressed by the fact that these debtors kept these cards despite their bad experience with the banks and their knowledge about the excessive costs of these instruments. Nevertheless, they made me realise that they did not have many alternatives, so they either use these cards to cover their basic needs or put at risk their livelihood.

Table 6. Debts of the participants

Name	Defaulted debts	Other existing debts
Julian	Mortgage, personal and commercial loans	
Carmen	Achieved <i>dación en pago</i> . Other defaulted loans	
Miguel	Mortgage	Credit card and a commercial loan under his daughter's name
Andres	Mortgage	
Cecilia	Mortgage	
Mariana	Mortgage and exhusband's debts (credit cards)	
Lucia	Mortgage and exhusband's debts (credit cards)	Credit card (Carrefour)
Luis	Mortgage and personal credits (quick loans)	
Fernanda	Mortgage	Debts with her family
Andrea	Mortgage, personal loan (renovation of the house) and a debt for an insurance against the volatility of monthly payments (the bank didn't cancel it after her eviction)	
Oliver	Mortgage debt, credit cards, and some personal credits	

Source: Fieldwork (2018)

5.2 Process of over-indebtedness

Andrea is a 47-years old woman who dropped her nursing studies and migrated to Spain due to the Ecuadorian economic crisis (1999-2000). She aimed to work very hard to send remittances to her family, who had been severely affected by the crisis. These remittances covered their living expenses and allowed them to migrate too. Once her mother, brother and husband settled in Spain, she thought that was time to have kids. Therefore, she and her husband decided to buy a house, which was easy given their relatively high salaries and the flexibility of the Spanish credit market. Moreover, the monthly instalments would be the same as their rent, so it sounded like a great decision.

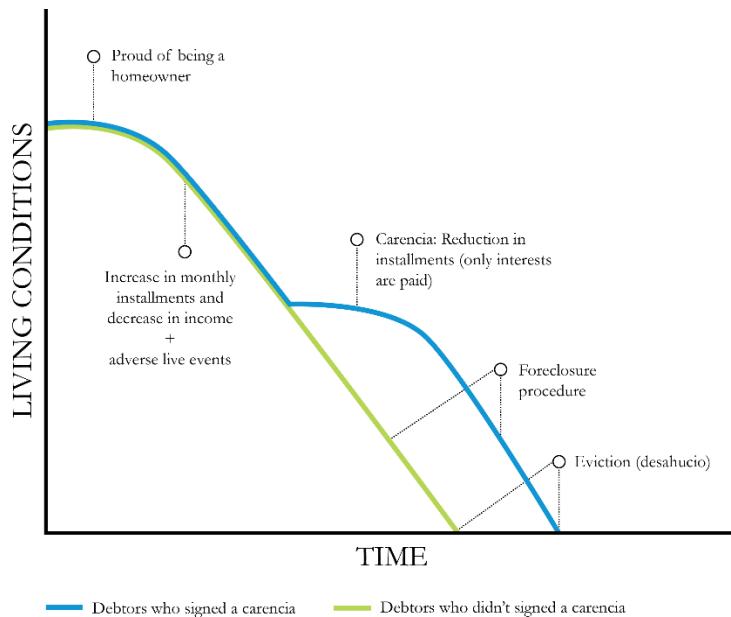
However, with the outbreak of the global economic crisis, their income gradually reduced while the mortgage payments increased since their loan's interest rate was anchored to the *Euribor*. Suddenly, they became over-indebted. Specifically, they became *passively* over-indebted since they did not have control over the triggers of their debt issues. When both lost their jobs, they were unable to fulfil their financial obligations. Her mother and brother were in the same condition and decided to return to Ecuador. They tried to sell their home to pay off the debt, but there were no potential buyers. Their situation was so critical that they did not even apply for *carencia*, which is a reduction of the instalments (making interests payments only). Thus, the bank initiated the foreclosure and then took possession of their home, evaluating it for the 50% of the appraisal value. At the moment of the elaboration of this text, they were still responsible for the remaining debt and the costs associated with the foreclosure process.

Andrea's story is similar to the experience of the other research participants. All of them moved from the pride of being a homeowner to become over-indebted and experienced a dramatic decline in their living conditions (Graph 7). Those debtors who got a *carencia* diminished the payments pressure for some period, but then their living conditions continued to fall. This trajectory is consistent with the findings of Enclave de Evaluación et al. (2016) and ADICAE¹³ and Quepo con Debitas (2012). This first reference summarises the results of a participatory research with evicted families in Madrid, whose purpose is to understand the impact of this process on children's lives following a human right approach.

¹³ ADICAE is a non-profit collective specialized in the protection of the rights of users of the banking and insurance services. In the last years, it has played a crucial role in advising mortgage debtors, especially those with unfair terms in their contracts. ADICAE together with PAH has launched campaigns to pressure the government to regulate the financial system better.

The second is a documentary that shows the stories of some mortgage debtors in Barcelona who fell into default and lost their houses because of the economic crisis.

Graph 7. The Process of Over-indebtedness- Stylized Facts



Source: adapted from Enclave de Evaluación et al. (2016:14)

When asking participants about the drivers of their over-indebtedness, Andrea, Andres, Luis, Luis and Miguel told me that everything started when their income declined because it reduced their payment capacity. They said that they had never imagined being with debt problems because they are hard-working people and their monthly payments were similar or lower than their previous rent. For example, Luis told me that his over-indebtedness was triggered by a reduction in his income (from around 3.000 to 1.200 euros). To cope with this situation, he signed three *carencias* to avoid falling into arrears and took personal loans to cover the payments while renovating the *carencias*¹⁴, all of which raised his over-indebtedness. He always thought that his situation was temporal, but it was not. When the bank denied the fourth *carencia*, Luis defaulted on his loan.

Although the profile of Carmen, Oliver and Julian is different, given that they were micro-entrepreneurs, they also associated their debt issues with the economic crisis. Carmen and her ex-husband ran a home remodelling firm, which went to bankruptcy with the fall of

¹⁴ This process last between three or four months. To get another *carencia*, debtors must pay the full instalments while the bank review their request; otherwise, their request is denied.

the housing market. Thus, they lost all their capital paying debts from the company, and their home due to its inability to meet their mortgage payments. In the case of Oliver and his sons, owners of a large business restaurant, their debt problems started because their sales declined. He was convinced that this problem would be temporal, so decided to extend his mortgage loan in order to cover some of the firm's expenses and debts. Nevertheless, the situation did not improve, they closed the restaurant and ended up with debt beyond their payment capacity.

Even though the other participants were also affected by the crisis, they told me that their over-indebtedness was mainly caused by some life events. For instance, Cecilia said that her debt problems began when his husband suffered a back injury that affected his mobility. He used to work as an independent contractor (carpenter) and used to cover most of the living expenses because she did not earn much money working as a house cleaner. On the other hand, Mariana and Lucia think that their problem initiated when their husbands decided to go back to Ecuador, leaving them alone with the children and debts.

When Mariana bought her house, she did not know that it was over-priced, and her instalments would dramatically increase over time. She just thought that owning a house was good for her family and the future of her kids. At that time, her income was 700 Euros and her husband's was between 2000 and 3000 euros. For three years, they paid a fixed monthly instalment of 700 Euros, but they started to increase to 800 and 960 euros in 2009. By that time, her husband decided to return to Ecuador, leaving her alone with the children and the mortgage and other debts. Although she found a better job with a salary of 1.100 Euros, she was facing severe difficulties to meet their financial obligations. During several months, her wage almost covered their mortgage payments, for which their power was cut off, and the quality of life dramatically decreased. Given their situation, she decided to negotiate with the bank, which offered her a personal loan to cover the difference between her actual payment capacity (400 euros) and the monthly payment. When she realised that this deal was not helping her but rising her debt, she fell into arrears.

In summary, these debtors became over-indebted because they faced adverse shocks that undermined their payment capacity. On the one hand, their monthly instalments increased due to the dynamics of the Euribor since their interest payments were anchored to this benchmark. On the other hand, their income declined due to the economic crisis, which jumped the unemployment and bankruptcy rates. In the case of some debtors, these financial conditions were aggravated by the family disintegration or health issues, which made more difficult to meet the payments.

Finally, I must say that during my conversations with the participants about their over-indebtedness, they either expressed their disagreement with the term or associated it with financial hardships at large despite my efforts to differentiate them. The first group questioned the term because it has been used by the media to blame them for their situation. In this regard, Carmen (2018, personal interview) told me: “*My ex-husband and I were not living beyond our possibilities. When we got the mortgage, we both had a good income. Over-indebtedness came later, when the crisis hit, when we lost our jobs*”. Similarly, Margarita (2018, informal conversation with other members of the PAH) said: “*I disagree with using that word because, before the crisis, I did not have any problem to pay my mortgage. But then when my income fell, I could not pay any more. When I assumed this debt, there was no over-indebtedness*”.

5.3 Response Capacity and Vulnerability

Even though adverse events triggers participants' over-indebtedness, their limited response capacity was the driver of their default and impoverishment. As Alwang et al. (2001:35) state “everyone faces risks, and some people are vulnerable because of their inability to manage these risks -- due to a lack of assets and other factors”. As many other Spaniards, participants were hit by unfavourable macroeconomic and personal events, but unlike some people from the first group, they could not cope with it.

Davies (1993) states that families can reduce their vulnerability if they adapt themselves to the new circumstances. However, mortgage debtors did not have much adjustment capacity. When facing financial issues, families usually reduced their expenses. Accordingly, these debtors reduced their spending on social activities, utilities and even food. However, this was insufficient since they could not reduce their main expense: housing. As Ezequiel told me: “*unlike tenants who moved to cheaper houses, these debtors could not leave their places and buy a cheaper house. They were married with their mortgages, and they could not ask for a divorce or cancellation of the contract*” (Ezequiel 2018, personal interview).

Also, they lacked enough savings, assets and social networks to respond to these financial hardships. As Moser (1998:16) underlines “the more assets people command in the right mix, the greater their capacity to buffer themselves against external shocks”. Although some of them had savings, these were insufficient to compensate the decline in their payment capacity. When reflecting on this case, I have realised that to avoid their situation, these debtors would have had to accumulate such amount of savings that seems unfeasible. On the other hand, the burst of the housing bubble depreciated the value of their primary asset,

their houses, which otherwise could have been used to liquidate their debts. Similarly, the assets of the Spanish entrepreneurs lost value and became an additional source of financial pressure instead of a buffer¹⁵.

Furthermore, they could not rely on families and friends because they did not have sufficient financial resources, or they were in the same condition. This fact was highlighted by the social workers of Caritas and the municipality of Zaragoza, who told me that the crisis affected almost everybody. “*The Spanish crisis totally changed the profile of our beneficiaries. In the past, Caritas usually helped the structural poor like Romani people or slum inhabitants, but with the crisis people from all walks of life came to us asking for food or help to pay their utilities*” (Natalia 2018, personal interview). In the case of the foreign residents, their primary social network was in another country and did not have the means to help them. Their families were facing similar conditions as those that force them to migrate (e.g. low wages, informal jobs).

To conclude, the story of participants shows that becoming over-indebted is not always the result of irrational and impulsive decisions. When interviewees took their mortgage loans, they were creditworthy debtors with the means to fulfil these monthly payments. Nevertheless, macroeconomic and personal events undermined their payment capacity, for which they started to face debt problems. Although participants were non-poor, they were vulnerable in the sense of lacking enough savings, assets, family or social support to cope with adverse situations. Moreover, holding this long-term debt limited their response capacity, which together with the interests protected in the Spanish mortgage law, triggered their impoverishment and indebted for life. These stories warn of the risks of FI, even in the case of mortgage loans, which are socially accepted and encouraged by governments.

¹⁵ According to them, the Spanish law does not protect the small micro-entrepreneurs, who must respond with their personal assets for any commercial obligation.

Chapter 6

Consequences of Over-indebtedness

6.1 Perception of non-debtors

When asking about the major consequences of having debt issues, the non-debtor participants cited issues at the individual, family and society level (Table 7). For instance, Sebastian highlighted the jump in divorces, while Daniela and Tatiana underpinned the hopelessness of these borrowers. Moreover, Alicia and Ezequiel stated that the most dramatic consequence is seeing families reducing the amount and quality of their food or asking for it in organisations like Caritas. On the other hand, Paola remarked that, before the families have felt into default, the coping strategies have already undermined their living conditions dramatically.

Table 7. Main Consequences of Over-indebtedness (Non-debtors)

Alejandra	Social worker- Caritas	All segments of the population face debt problems, but the consequences depend on debtors' support networkIf they don't have any support, the effects are dramatic.
Sebastian	Volunteer EDS	Over-indebtedness has caused a family crisis, reflected in a higher number of divorces. Talking about their debt problems became unbearable for some household members.
Daniela and Tatiana	Social worker- Caritas	One of the most dramatic consequences of over-indebtedness is that people lost all hope. They don't see any way out causing them a lot of anxiety and suffering. In some cases, this problem aggravated previous psychosocial risks.
Alicia and Ezequiel	Social worker- Caritas	The most dramatic consequence is that they reduced their food budget to cover the financial payments. There is a rise in people with anemia.
Paula	Social worker- Caritas	Over-indebted people are in a trap. Even those who managed to find a job, they still need social assistance because their income goes to pay their debts instead of covering their living expenses
Humberto	Lecturer in Economic Growth and Development	The consequences of the excessive debt of Spanish households are very clear. On the one hand, some families couldn't pay their credits, for which they surrendered their houses as guarantee. This is a strong consequence. On the other hand, these arrears deteriorated the balance sheet of the financial institutions and increased their risk of bankruptcy. This situation and the effects of the crisis rise the debt of the Spanish government, which adversely have affected the families, banks, the public sector and all of the population.
Paola	Ex-volunteer PAH	When people stopped paying their mortgage is because, everything else, have failed or were exhausted. Before falling into arrears, they had eaten badly, they had asked for food to social organisations, or they had lived without heating.
Cecilia	Volunteer PAH	What worries me most is that people have got used to living in poverty.

Source: Fieldwork (2018)

6.2 The voices of the debtors

6.2.1 Health

Most participants had experienced health problems. At the physical level, five had suffered pain muscles or constant headaches. Fernanda was recently diagnosed with fibromyalgia, a long-term condition that causes chronic pain in muscles and soft tissues, fatigue and cognitive difficulties (Mayo Clinic Staff 2017). Similarly, Mariana was diagnosed with arthritis some months ago, which is “a joint disorder featuring inflammation” (Shiel 2018: no page). They believed that their condition is associated with their debt problems. On the one hand, they used to overwork to cope with their instalments, which demanded an intense physical effort due to the nature of their jobs (house cleaner and care employee). On the other hand, they consider that high levels of stress and anxiety caused by their payment difficulties have affected their immune system.

Furthermore, six of them told me that they had been taken sleeping pills or antidepressants. The rest had not consumed this type of pills, or they did not share this information. They could have thought that experiencing high levels of anxiety and stress is not a health issue. This happened with Luis, who told me that his health had not been affected for his debt problems, but then mentioned that he was taking pills to control the anxiety and panic attacks. Alternatively, they might not have felt comfortable to talk about it for personal reasons. I knew that this was a sensitive topic, but I expected more openness given the substantial increase in consumption of antidepressants in Spain. According to data from OECD (2017), the antidepressant drugs consumption increased by 159% between 2000 and 2015, above the average of the OECD members (96%).

6.2.2 Living Conditions and Subjective Well-being

All participants have suffered a reduction in their living conditions and subjective well-being. All of them divided their lives into two parts: before and after the beginning of their debt problems and the economic crisis. Oliver (2018, personal interview) described this process of impoverishment in the following words:

“In the past, I used to live well. I could afford holidays, going out on weekends and having dinner in restaurants. I could buy clothes and replace my sunglasses if they were broken. Moreover, I could meet my financial obligations without any problem and could ask for a credit in any bank (...) Nowadays, I can not afford holidays, eating out or even replace my sunglasses. I just realised

that I have not bought any clothes in the last ten years, except for some socks and underclothes that I bought the other day. Luckily, I still have clothes in good condition, though I will have to buy a pair of shoes soon”.

Regarding their subjective well-being, most of them have felt guilty, hopeless, and falling into a trap. Accordingly, Carmen (2018, personal interview) told me: “*It is inevitable feeling unwell. There is a problem that you cannot solve (...) all fronts overwhelm you*”. Mariana no longer felt guilty for have stopped paying her house, but for having bought an over-priced house and the impact of these problems in her daughter’s health.

“Sometimes I felt guilty because of my daughters’ strokes. I think that she suffered a lot for seeing me facing this problem and this affected her health. I tried to hide from her what was happening, but she is very smart and knew about it (...) I regretted to have left my children alone when I went to the PAH’s meetings and any demonstrations against the bank (...) They must have suffered a lot when the summer week in which I did a hunger strike to demand a solution from the bank” (Mariana 2018, personal interview).

Fernanda has not felt guilty about her situation because she never stops paying her mortgage, even though fulfilling these payments has severely deteriorated her quality of life. She told me that her bank initiated the foreclosure procedure due to delayed payment and not to her falling into arrears, as it happens in most cases. Due to her conviction on the illegality of her situation, she has been fighting in the courts during the last years. However, nothing positive has come out and, at some point, she lost hope and attempted to kill herself. A major tragedy was avoided by some neighbours, who managed to call an ambulance and avoid her disease

6.2.3 Interpersonal Relations

As shown in Table 4, eight participants were divorced. Six of these divorces occurred after the worsening of debtor’s economic conditions. The majority told me that their divorce was caused by many reasons, including the challenges of coping with their debt problems. In Carmen’s words: “*my divorce was caused by many disagreements with my ex-husband. I would say that our debt problems were the last straw*”. Likewise, Miguel believes that his debt problems were one of the reasons for his divorce: “*this topic was driving us crazy. When we discussed it, we always ended up fighting. When we wanted to make any plan, this issue also came out. It was a constant stress*”.

They also told me that their debt and economic problems had affected their social relationships. “*In the past, I usually met my friends in a restaurant or bar, but with the instalments pressure I preferred not to do it (...) I even stopped playing football on Sundays since most of my friends*

moved to other countries looking for their livelihoods” (Andres 2018, personal interview). Carmen, on the other hand, said that little by little she started to experience social exclusion: “*at the beginning, I did not go out because I spent all my day on my sofa thinking on a solution to my problems (...)* *Later, I realised that when you lose economic status, you also lose social status and friends*” (Carmen 2018, personal interview).

6.2.4 Desahucio

According to RAE (2018:no page), *desahuciar* means: “1) Remove someone from all hope of getting what you want; 2) Admit that a patient has no chance of cure; 3) Dismiss the tenant or tenant through legal action”. This term is usually translated to English as eviction, but I think that the meaning differs in some degree, since the latter only considers “the action of forcing someone to move out of a property” (Cambridge Dictionary 2018:no page). In a way, the verb in Spanish carries a stronger connotation, which can affect the understanding and experience of the phenomenon. Notwithstanding the above, in some sections of this document they are used as synonyms for simplicity.

One of the most dramatic consequences of over-indebtedness is being ‘*desahuciado*’. This refers to the legal action for which the financial institutions take possession of the collateral (house) of a defaulted loan. For the affected people, this means losing their dwelling “and their space of coexistence and intimacy and, with it, their life project” (Galeote 2018). A *desahucio* is a break-point in people’s lives because it abruptly changes family’s dynamics, and let them on the streets when they do not have any housing alternative (Enclave de Evaluación et al. 2016:3).

The Commissioner for Human Rights of the Council of Europe (2013) highlighted that around 400 mil Spanish families were evicted between 2007 and 2012 because due to the economic crisis and consequently their debt problems. The commissioner was very concerned about “the considerable impact of evictions on the enjoyment by children of their human rights” (2013:9), and their families’ welfare. Although the importance of the problem, there is no a historical series of the foreclosures and evictions to analyse their trends before, during and after the crisis. Nowadays, the data published by the INE and CGPD only covered the period 2014-2017, thereby excluding the peaks of the crisis.

Among interviewees, Andrea and her husband are *desahuciados*. When the bank took possession of their house, they also lost most of their belongings since they moved to a room in a shared apartment and did not have a place to store them. They thought that this option

would be temporary, but after several months without any improvement, they decided to return to their home country. However, they re-considered this decision after knowing about her pregnancy and its high risk due to her age. She told me that going back to Ecuador would be putting at risk her life and that of the baby.

They continued living in this shared apartment during most of her pregnancy, but they had to leave when one flatmate contracted a contagious disease that could affect the development of the fetus. Then, they rented a small apartment paid with some working hours in the 'black market'. Eventually, they could not pay their rent and were *desahuciados* again. They ended up in a shelter of the municipality, where they shared common areas with drug addicts and people who have lived on the streets for many years. This was a challenging experience because her daughter was in her early infancy and suffered a lot with all these changes. She told me that being there changed her perception about the homelessness. She used to think that homeless people were alcoholics and drug abusers who left their families or were abandoned by them. Seeing herself in this situation make her realise that 'normal' people could also end up living in the streets. After some weeks, the municipality allocated them in a temporary apartment, and finally gave them a housing contract for three years.

During our conversation, she repeatedly told me about her deeply social exclusion and their impact on her daughter's development. They used to live in Huesca, a small town near Zaragoza, but after their second *desahucio*, they moved to Zaragoza, where they did not know anyone. They did it because, unlike Huesca, Zaragoza had a municipal shelter where they could sleep. Moreover, they have heard that the city had more job vacancies. Thus, they arrived in a city without any friends or families, with the only support of her social worker. This story profoundly impacted me because it illustrated one of the most dramatic consequences of having debt problems. After our conversation, I started to wonder what might have happened with the other half million of *desahuciados*.

6.2.5 Financial Exclusion

Link to financial inclusion debate being excluded from the credit market is perhaps the most obvious consequence of falling into arrears because it deteriorates people's credit scoring. Given their negative debt experience, some of participants said that they would not take any loan, even if they had the opportunity. However, others like Andres insisted that being excluded from the credit market was very unfortunate.

Andres has lived in Spain since 2003 when migrated due to the Ecuadorian economic crisis. He used to work with the Quito government and managed a skin care shop. However, the economic crisis of 1999-2000 left him without employment and savings, for which he decided to accept a job offer from a dairy company in Spain. “*The dollarisation made us pieces. My savings lost all their value from night to day (...) I came to Spain before committing any madness, thinking on the welfare of my children*” (Andres 2018, personal interview).

In 2005, he and his partner decided to buy an apartment and contacted a real estate company to help them with the credit application. To get the loan approved they needed a guarantor; so, they agreed with a friend to be the co-signer of each other¹⁶. Initially, their monthly instalments were 570 euros, similarly to their previous rent. However, in 2010 they started to face problems to meet these payments. On the one hand, their income reduced, and on the other, the payments increased due to the structure of their loan and the rise in the Euribor. They tried to negotiate with the bank a reduction in the monthly obligations, but the entity did not accept. Moreover, the bank requested that Andres should assume the debt of his friend and mutual guarantor because he had returned to Ecuador without paying off his debt. Given this situation and the arrival of their children from Ecuador, they decided to stop paying and leave the apartment before the eviction.

When talking about the consequences of their debt problem, Andres seemed particularly affected by his exclusion from the financial system because it limits its business opportunities. “*What has affected me the most is that I am almost a zero to the left. Being in the file of defaulters (...) is an impediment to doing any kind of operation with the commercial entities. It almost erases you*” (Andres 2018, personal interview). Because of this problem, he could not ask for a commercial loan to buy the van in which he could work every day or develop his new business idea. “*Having these debt problems have made me feel tied and prostrated (...) I cannot have anything at all*” (2018: no page).

6.2.6 Collective Empowerment and Social Awareness

Even though most debtors told me about the negative consequences of having debt problems, I noticed that they had gained empowerment and social awareness. Firstly, they had understood that their situation was mainly caused by factors beyond their control. Thus, their feeling of guilt had diminished or disappeared, which obliges to question the real causes of their situation. During our conversations, they mentioned cases that illustrate the misbehaviour of the Spanish banks (including their own cases) and their links with the

¹⁶ According to Suarez (2007) this was a very common practice among Ecuadorians in Barcelona.

political power. They criticised that while the banks were rescued by the government, indebted families were not. Secondly, they have taken over their cases. I was impressed by all the details they knew about their mortgage contracts such as the components of their payments (variable interest rate and capital), the extra charges for making a payment late, and the terms regarding debtors' rights or their waiver. For instance, Mariana brought to our meeting a folder with the mortgage contract, all the letters received from the bank and the used legal resources (e.g. rights petition, sue for exploitative interest rates).

Additionally, it has also created a network of solidarity. Some of them feel very grateful with their partners from the PAH, who have helped them to negotiate with the bank. Begona told me that during her voluntary work at the PAH she has learned what solidarity means: "when we negotiate with a bank collectively, some debtors risked their own solutions to pressure the bank for giving a solution for the other partners". Most of them trust that they will not end up on the street because the PAH will help them either stopping the eviction or pressuring the government to give them a housing alternative. Even Mariana and Fernanda, who have not gone to the meetings during the last years, are convinced that their partners from the PAH will help them if they need it.

Finally, this experience has increased their social awareness. Many of them had not participated in any social organisation before, but now are convinced of the importance of these groups. During our conversations, I noticed that they were not only worried about their solution but claimed for a solution for all the affected debtors. I was impressed by the transformation of Oliver, who used to be a high middle-income professional and support-right wing politicians: "*when you see many people with the same problem, including yourself, you understand that it is not your fault but politicians (...) when you became poor too, you understand them better than if you were not*".

To conclude, this chapter illustrates the consequences of over-indebtedness. Through debtors' stories, it shows that this problem affects many dimensions such as health, living conditions, sociability and well-being. It illustrates the drama of being *desahuciado* and the paradox of being excluded from the financial system because of signing a socially accepted loan. Likewise, it shows that the severity of the problem in Spain enhanced citizen's awareness of the structural factors that triggered their individual problems. All of this brings light into the downside of FI and the social policies required to protect affected debtors. Moreover, it enriches our understanding of how people can fight against a problem portrayed as a consequence of personal failure, which is actually caused by factors beyond their control.

Chapter 7

Conclusions

This research approaches FI and over-indebtedness literature critically as Dymsky (2010) and Suarez (2017) do. Unlike most of the FI literature that quantifies or explains the benefits of extending access credit to population, this RP questions the impact of credit in people's lives. It shows that, in some contexts, FI initiatives increases the risk of triggering debtors' impoverishment. Complementing most of the over-indebtedness literature that mainly discusses its measurement and consequences, this RP remarks the need of analysing its causes and debtors control over these factors. Thus, it underlines that debt problems are not necessarily the result of personal irresponsibility as some of the literature portrayed, but also the result of factors beyond the control of individuals and households.

Through the stories of mortgage debtors in Zaragoza and Spain, this RP illustrates the need to consider households' vulnerabilities when extending credit access to the population. Credit increases the previous vulnerability of households because they remain accountable for their debt in the face of adverse shocks. Likewise, it highlights that debtors' response capacity depends on their assets and position within the society, for which falling into arrears can show the failure in their coping strategies rather than irresponsibility. Therefore, it claims the need for policies that help families, especially the most vulnerable, to cope with situations of over-indebtedness and protect them from its negative consequences.

My data tells the story of mortgage debtors that suffered a deterioration of their living conditions due to adverse events and their limited response capacity. On the one hand, their payment capacity diminished because while their instalments increased, their income decreased. The trend of their instalments responds to the rise in the Euribor and the risk perception of international investors, given that their mortgage contracts stipulated a flexible interest rate tailored to this benchmark. As many other Spaniards, they were also hit by the Spanish economic crisis that pushed the unemployment rate higher together with the bankruptcy of small businesses.

Although it is true that these two factors lead their over-indebtedness, their defaulting was caused by their inability respond to this situation. They lacked enough assets to respond to these financial hardships. For most of them, the main asset was their house, but with the burst of the housing bubble, their value drastically dropped and lost liquidity. In the case of

the small entrepreneurs, their company became an additional financial burden rather than a source of income. Even though some of them had savings, they were insufficient to compensate this decline in their payment capacity. Moreover, they could not rely on families and friends because they did not have sufficient financial resources, they were in the same condition, or they were in another country as in the case of foreign residents.

These debt problems have affected their lives in so many dimensions that their welfare losses are highly significant. In line with the literature about the consequences of over-indebtedness (Section 2.2), these debtors have experienced a deterioration of their physical and mental health, living conditions, subjective well-being, sociability and economic opportunities. These stories make me reflect on the paradox of becoming excluded from the financial system due to the signing of a mortgage contract, which is considered by many people as a lifetime investment. Additionally, I found that these debtors have suffered the fear of being *desahuciados*, which is based on their dramatic consequences. Finally, I noticed that not all the impact was negative since they have felt empowered to fight their cases against the financial system, which has been enhanced through the PAH's assemblies. They have also become more aware of the social problems triggered by factors beyond people's control as happen with them.

Finally, the main limitation of this RP is that the time of my fieldwork was very brief, for which my interactions with the participants were limited to one meeting and some phone calls. Spending more time with them could have allowed me to develop a stronger connection with them and hence improve my understanding of their situation. It would have been interesting to interview someone from the financial system or the Central Bank of Spain (regulator) and include their voices. I did not do it because during my fieldwork I wanted to focus my attention on the affected debtors. However, I got to know their discourse through their reports on the financial crisis and households' indebtedness.

Policy Reflections and Future Research

The analysis in this RP signals that FI policies should consider the context and household's vulnerabilities. Otherwise, they can trigger household's impoverishment, which "is frequent, traumatic, frequently irreversible, and therefore serious enough to merit separate policy attention" (Krishna 2007:1951). In countries like Spain, where the mortgage law disadvantaged borrowers, governments should not promote the acquisition of houses through mortgages but modify the regulation to favours citizens' demands rather than financial institutions' profitability. Besides, the supply of public housing should be enough

to avoid that households take loans to satisfy a basic need such as housing. Furthermore, governments should understand that promoting credit for all is not a silver bullet and that regulation must control the behaviour of financial institutions. Otherwise, they will continue feeding housing bubbles and speculating as they did in the past, causing severe damage in people's lives.

Alongside, this RP claims for social policies that help people to cope with situations of passive over-indebtedness and protect them from its negative consequences. One of these policies is that people can get rid of unpayable debts caused by a deterioration of their payment capacity. Thus, households will have more margin to implement coping strategies when their financial situation deteriorated. Another essential policy is to exclude them from the list of defaulting or make clear that their debt problems were not associated with personal irresponsibility but factors beyond their entire control. This is essential to ensure their access to other loans in the future, renting a house or contract services like Internet and mobile data, among others. More immediately, social policies should protect evicted families from becoming homeless due to their foreclosure procedure. Social policies should also avoid that their diet and sociability deteriorated because of the re-payment pressure.

Looking into future research, one element to explore is the media discourse about the situation of these debtors. At the beginning of the Spanish crisis, media seemed to blame them for 'had lived beyond their possibilities'. But later, they started to show the tragedy experienced by many families, without offering a sound explanation of their causes. This is relevant given the tendency to blame borrowers rather than lenders as a way to justify the unequal distribution of the consequences of debt problems (Fischer 2012: 46). Another topic to future study is how debtors dealt with the cognitive dissonance caused by two contradictory discourses about their debt problems. On the one hand, the neoliberal discourse centred on individual responsibility and failure. On the other hand, PAH's discourse that emphasises that debtor's problems has been caused by the dynamics of the global financial capital added to government incentives and the commoditization of housing.

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Appendices

Appendix A. Date and City of Meetings with Participants

Semi-structured Interviews		
	Date	City
Julian	July 31	Madrid
Carmen	August 2	Zaragoza
Miguel	August 3	Zaragoza
Andres	August 3	Zaragoza
Cecilia	August 4 and 6	Zaragoza
Mariana	August 6	Zaragoza
Lucia	August 7	Zaragoza
Luis	August 8	Zaragoza
Fernanda	August 8	Zaragoza
Andrea	August 8	Zaragoza
Oliver	August 16	Madrid

Focus Group		
	Date	City
Luciana		Valdemoro,
Juana		Madrid
Raul	August 11	Metropolitan
Felipe		Area

Informal Conversation		
	Date	City
Sofia		
Gustavo		
Rafael	August 14	Madrid
Samuel		
Richard		

Source: Fieldwork (2018)