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**Light at the End of the Debt Tunnel in Finland**

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*Introduction*

No claim stands forever automatically, and debtors are protected by a kind of prescription (limitation) period set by legislation. Through the passage of time, by prescription, creditors lose their right to collect the receivables owed to them. The prescription period may refer to the time limit in which the material receivable expires or to a proceduraltime limit within which the creditor must file a claim in court. Usually, the material time limit can be interrupted by instituting formal or informal proceedings or notifications against the debtor before the prescription time lapses. The effect of an interruption is a new or an extended prescription period. The creditor’s right to unlimited interruptions means a lifelong debt burden for a debtor.

To cure this distress, many countries in the European Union and elsewhere have adopted different kinds of debt adjustment procedures for private persons. However, these proceedings may be time consuming and they are not suitable for all, including debtors with irregular incomes or entrepreneurs who may have difficulties in implementing the repayment plan.

*The Finnish Legislation*

Finland’s legislation is quite liberal concerning debt adjustments for private persons.[[1]](#footnote-1) The length of the repayment plan is usually three years. However, when the debtor has no income or when certain obstacles for a debt adjustment have been noticed, such as reckless indebtedness, the duration of the repayment plan is five years. In cases where the debtor is permanently without any repayment capability due to, for example, illness or advanced age, the court may order a repayment plan shorter than three years. At a private creditor’s request, the repayment plan may be lengthened by a maximum of two years after it has otherwise ended to collect the private creditor’s receivable. At the end of a successfully implemented repayment plan, the debts of the debtor will be discharged. The debt adjustment system is only of limited use to secured claims, in that the repayment schedule may be changed and the interest can be reduced by the court, whereas the capital of the secured receivable is protected.

The Finnish debt adjustment system is quite debtor friendly. However, due to the deep economic depression in Finland beginning in the early 1990s, tens of thousands of debtors were still in economic distress, despite tens of thousands of citizens having benefitted from the debt adjustment legislation and obtained debt relief. When mass indebtedness occurs, a system where the debtors must open a court procedure to obtain relief is time consuming, expensive and incomprehensive. It leaves many debtors without help to live with the debt burden; thus, it tends to make citizens passive, even worsening tax revenues and increasing the costs of caring for social problems. Moreover, the situation may worsen due to aggressive instant loan marketing.

*A Final Prescription Period to the Fore*

Therefore, Finland has enacted a double system with a final prescription period that leads to the same outcome as debt adjustment—a discharge—automatically, but slower and on a debt-by-debt basis. The system of a final description period is based on a non-interrupted time limit so that when the period lapses, the debt in question terminates (final prescription) automatically without any decision by the court or other authority. The final prescription applies only to natural persons, in contrast to entities. It does not matter whether the natural person in question is a private person or an entrepreneur.

An advantage of the final prescription system is that it bears no expenses, which is why it is highly applicable to a large number of debtors. A disadvantage of this kind of system is that it is not a collective scheme where all the debts of a debtor will be arranged simultaneously; rather, every debt has its own individual prescription time. Another disadvantage is that to avoid misapplication, the automatic discharge period is longer than the repayment period in a debt adjustment. In an automatic final prescription scheme, the court or other authority does not control the depth or reasons for the indebtedness.

Nevertheless, some kind of gradation can be carried out by the legislator. In Finland, the final description time is generally 15 years calculated from the date when the last judgement (*res judicata*) was passed. That is, the enforcement title is valid for a 15-year period, at the end of which the debt expires materially. The prescription time is five years longer when the creditor is a natural person (private person or entrepreneur) or when the debt in question originates from a serious crime (the debtor sentenced to prison). Then, the prescription time is 20 years.

However, not even this system, where an automatic discharge occurs 15/20 years after the enforcement title, has proven sufficient: not all creditors filed a suit in the court to obtain an enforcement title. Some creditors postponed the filing by interrupting a prescription using notifications to the debtor to ‘save’ the prescription time so it does not begin until the time limits for other creditors have lapsed.

That is why supplementary legislation was endorsed in 2014. According to this legislation, the final prescription time passes, even when the creditor has no enforcement title against the debtor. This prescription time begins when the creditor’s claim falls due. A prescription time based on a due date is even longer than a prescription time calculated from an enforcement title: the debt of a natural person (private person or entrepreneur) expires when 20 years has passed from the due date. In cases where the creditor is also a natural person, the length of the final prescription is 25 years.

Thus, there are two automatic debt discharge schemes: one calculated 15/20 years from the enforcement title and the other calculated 20/25 years from the due date. One is chosen based on the time limit that occurs first. This means that a creditor has five years to get an enforcement title without losing the maximum collection time.

*Available Relief Systems*

In summary, Finland has implemented three different relief systems for debtors: debt adjustment proceedings (united arrangement of all debts), a final prescription based on the enforcement title, and a final prescription based on the due date. In passing all this legislation, there has been much debate in which ethical and political arguments and threats concerning the risks of rising interest rates and other negative consequences have been presented. However, it seems nothing terrible has happened.

Due to transition provisions and a long transition period (five years), the first prescriptions based on due date took place at the beginning of the year 2020. Thousands of debtors (nobody knows the exact number) were finally discharged from debts, the oldest originating from the economic recession in the early 1990s. Many of these old debts have circulated into the hands of different debt collection companies due to transfers of claims in the credit market.

The ‘silence’ regarding this latest, I would say, historical moment, when the Finnish debt rescue system for natural persons became comprehensive, is a bit surprising when remembering all the doubt and mistrust during the previous law reforms. Perhaps the creditors and society have become accustomed to the idea of a limited debt burden. The rapidly expanded instant loan market has shown its negative consequences, and public attitude has changed: not all creditors earn compassion at the expenses of debtors. There is a provision for this in the debt adjustment act, according to which when considering granting a debt adjustment, the conduct of the creditor must also be considered; if the creditor has, for example, used reckless methods in marketing, a debt adjustment can be granted despite the debtor also being blamed to some degree.

At the same time, there are some vulnerable creditor groups, especially private creditors. Debt adjustment, being a collective debt clearance, may create problems of debt adjustments being granted too easily. One solution is increased the length of the repayment plan for creditors conducted themselves properly or who have ended up in a creditor position unwillingly (alimonies, taxes, victims of crime, etc.).

*Summary: Society the Winner*

Finland’s debtor rescue system is an example of a liberal scheme that has been implemented following years of discussions and even protestations. However, when the system reached its final point at the turn of the decade, ‘no hard feelings’ occurred. Over the years, legislator has developed for the credit market some rules that protect debtors, and it seems the market has adopted them without any verified harm to credit market functionality. Most obviously, society is the winner in this development, as many over-indebted citizens have been rehabilitated back to active citizens in Finnish society.

1. Laki yksityishenkilön velkajärjestelystä, 25.1.1993/57. [↑](#footnote-ref-1)