

Attitude of Hungarian Young Adults Towards Bank Loans: The Risk Mitigation Trap

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SUMMARY

The aim of this study is to examine the attitude of young adults (18–25 years) towards bank loans. For the analysis we used two primary data sources (financial literacy surveys were executed in 2013 and 2020). The samples are non-representatives, the number of involved survey participants exceeded 1,740 in both cases. The survey included 6 sections with open and closed questions, as well as likert-scales. It was found that the attitude of young adults towards the loans is negative. Between the 2013 and 2020 surveys the economic cycle showed prosperity. As a result, the respondents devalued the importance of the loans in the economy. Besides, the extreme rejection of having a bank loan was also mitigated. As for the bank loan experiences of the respondents it was found that the purposes of the borrowed loans are along the good criteria of financial literacy – the spendings examined can be considered as an investment for the future. Regarding the satisfaction level of the respondents with the bank loans the most important satisfactory factor was the expectations for the future. The measures taken after 2008 financial crisis such as re-defining consumer friendly lending and executing population supporting policy involving credit institutions resulted a mild positive effect on the attitude of the young adults towards bank loans. Risk avoidance results a trap situation that is against financial inclusion and results disequilibrium in demand and supply of banking services. The effect of the so called ‘risk mitigation trap’ can be reduced by developing the financial literacy.

KEYWORDS: credit, loan, young adults, attitude, risk mitigation trap

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Looking at it from the aspect of presently known advanced economic structures, lending is of key importance. We can say that lending is one of the arteries of the economy, and if it does not function, or not function properly, the performance of the economy will be rather limited. This also means that the welfare available to the population is also behind the level that people could reach with proper lending practice. (Varga, Temuulen, Bareith, 2019)

However, the institution of lending in itself is not a solution for the quality improvement of the economy or for the challenges in growth, it is also necessary that borrowers understand the essence of loans, and make responsible and conscious financial decisions, taking risks that correspond to their level of knowledge (Mérő, 2003).

The making of conscious financial decisions is a risky activity – even supposing a proper level of knowledge – for both the borrower and the creditor. In addition, our decisions related to bank loans cannot be separated from the psychological processes that facilitate every-day existence for people, that is to say from patterns and templates present in the subconscious and from other less influencing factors.

Our study examines the attitude of young adults towards bank loans on the basis of two financial literacy surveys based on almost identical methodologies, but conducted in two different periods. Our objective, on the one hand, is to present the differences between the two periods through the attitude of young adults (18–25 years of age) towards loans, and, on the other hand, to interpret the results in deeper financial and economic relations.

While preparing the study, we primarily considered the aspects of lending, however, we focused on the considerations of financial literacy, too. The reason why we wish to emphasize this is that the promotion of

lending and the maintenance or the increase of the level of financial literacy are not always in line.

In the first structural unit of the study, we present why and to what extent we can assume the impact of the social system behind the decisions of individuals, how much we can detect the values of the society, and what kind of influencing factors impact individuals in their decisions (including borrowing decisions). In the second structural unit, we describe the methodology used for the production of the study. Following that, we present the results achieved in the processing of questions related to lending in the financial literacy surveys of 2012–2013 and 2020. The study ends with conclusions and a summary.

REVIEW OF LITERATURE

Since the early 2000s, the volume of loans taken out by the population, and people's indebtedness and financial vulnerability have increased dynamically. Year 2008 was characterised by a high volume of retail loans, and the related risks were confirmed by the outbreak of the financial crisis at the end of 2008. After that, the population did not dare or was hardly able to take out loans. Over the past few years, however, retail borrowing has grown dynamically again. There are multiple factors behind the repeated growth in borrowing. They include the costs of lending, the government's lending incentives and restrictions, lending regulations designed to reduce the level of non-performing loans, loan-to-value and loan cost indicators, interest periods and methods influencing loan repayment, the population's income situation and the country's macroeconomic situation, and last but not least the population's financial literacy, as well as consumer habits (Kádár, Erdélyi, Právitzné Pejtkó, 2020).

The primary objective of researches analysing consumer habits is that researchers wish to understand consumers' behaviour and motives. It represents a higher level of analysing consumer habits when identified key factors are used to project habits, or even to influence them in the appropriate¹ direction.

The reason why the identification of habits has a special importance is that almost 45 percent of our daily decisions are not based on conscious decisions, but on habits (Neal, Wood, Quinn, 2006). This is not a new research result, as *James* (1892) described life as a set of habits (if life goes on under organised conditions) already in the 19th century.

Duhigg (2012) writes the following about the system of habits: *'though each habit means relatively little on its own, over time, the meals we order, what we say to our kids each night, whether we save or spend, how often we exercise, and the way we organize our thoughts and work routine have enormous impacts on our health, productivity, financial security, and happiness.'*

Neal et al. (2015) describe habits as a learned, reflex-like behaviour, which, once established, is hard to change (Neal, Vujcic, Hernandez, Wood, 2015). The theory of *Ouellette and Wood* (1998) somewhat tinges the picture by saying that people's expected behaviour is determined by two basic factors: (1) past behaviour (experience) and (2) intention. They think that during regular activities past behaviour is dominant in our decisions, while during rarely occurring events, it is intention that is the basis of our decisions.

In their study *Lemmerer and Menrad* (2017) examined the role of habits and attitude in connection with consumer decisions. The results show that both habits and attitudes play significant roles in consumer decisions. They, however, also detected a kind of hierarchy between the two factors, namely that habits determine attitude – the deeper the roots of a given habit are, the more it mitigates the

impact of the affected attitude in consumer decision-making.

In the development of individuals' habits, significant roles are played by examples in their micro-environments (family and friends), the education system and, in a wider sense, the society in which they live (the values accepted by the society and subcultural value systems). Consequently, when we examine attitudes, we cannot avoid the habits of the individual and, indirectly, the values of the society (Zsótér, Németh, Béres, 2016).

In relation to habits and attitude, it is necessary to examine how we behave when we have limited information or when we have a negative vision about the future. The answer to this is given by *Kahneman and Tversky* (1979), who, as a criticism to the utility theory, elaborated the model of risky decision-making, the so-called prospect theory. Their results confirm that in the case of negative future prospects, people tend to distort the probability of the occurrence of individual events, that is to say they underestimate results that are purely probable compared to the definitely achieved results. This is what we call certainty effect. In counterproductive way, this attitude leads to risk avoidance in the case of decisions offering sure benefits, and to risk-seeking in the case of choices leading to sure losses. In other words, this phenomenon (isolation effect) leads to inconsistent preference if the same choice is presented in different forms – in our case, along different economic prospects. Based on the alternative choice theory of the authors, people assess positive and negative possibilities in different ways. Based on their results, the majority of people are more sensitive to losses, then to profits.

The other important result of the authors is the so-called framing effect. (Kahneman, Tversky, 1984) This actually means that the way we phrase a decision-making problem

and the form, in which we receive information (how it is given to us) have determining effects on our individual decisions in the case of uncertainty (more precisely, in risky situations). Similarly to future prospects, there is a difference between phrasing the possible outcomes of an event in a positive or a negative form. Differences in the volume of information provided before the decision is made may have framing effects the same way as presenting the problem or the number of options offered to decision-makers (Hámori, 2003).

The essence of the mirroring effect recognised by Kahneman and Tversky is that positive outcomes (benefits) make people avoid risks: they take the position of ‘a bird in hand is worth two in the bush’. However, in the case of negative outcomes (losses), people seek risks. The preference sequences of their choices between alternatives are mirror images of each other, in the negative and positive frames.

If we project the framing effect on lending, taking the economic cycle as a framework, the way we are able to make decisions among the individual credit options, along the information received or available is of outstanding importance. From this aspect, bank loans available to the population with identical conditions may actually increase the willingness to take risks (to borrow money), because they significantly reduce the number of criteria to be weighed. We may have the same effect if the loan product is simple, easy to understand and customer-friendly (no hidden costs).

One of the former research results of Tversky and Kahneman (1974) is the so-called availability bias. This says that people systematically overrate unusual, extraordinary, spectacular and personally experienced events, when they make decisions. This is related to another determining factor of the

importance attributed to events in subjective way. The extent to which we qualify a given phenomenon or event frequent, depends on how easily we can retrieve it from our memory. Frequent events are obviously easier to recall than events that happen rarely. However, the nature of human psychology is such that this relation is reversed: we attach higher frequency to events that had a bigger impact on us for some reason than to neutral and immaterial events (Hámori, 2003). The representativeness bias of these authors says that individuals consistently misinterpret the later probabilities (that are closer in time), that is to say events happening now or recent events influence their decisions stronger than events that happened years before, and do not care about the size of samples in statistical sense (statistical population). Tversky and Kahneman (1983) successfully proved the existence of similar types of biases, namely that we draw wrong conclusions on the basis of certain biases, and the wrong connections may significantly divert our decisions from rationality (conjunction fallacy).

In connection with financial behaviour, we have to mention the self-control hypothesis of *Thaler and Shefrin* (1981). They assume that an individual at a certain point in time is both a farsighted planner and a myopic doer, and this results in conflict. In the case of strong emotional impacts, rational planning sometimes loses against the myopic doer function (Lo, 2004; Joó, Ormos, 2011).

The so-called matching law theory of *Herrnstein* (1961), which says that in situations of choice, individuals strive for balancing, considering the value of alternatives is also worth mentioning. This means that decision-makers wish to increase the average value of alternatives, and not their marginal value, therefore decision-makers behave in a sub-optimal way, focusing on general satisfaction, and not on maximum results.

Owing to the innovation of financial products, we have to make more and more complex decisions, therefore comparison is essential. *Selten* (1994) found that complex decision-making situations often make comparison impossible for the decision-maker, therefore, when comparison is not possible, individuals try to avoid exchanges between incomparable value dimensions. *Simon* (1976) also supports this statement, saying that when comparison is not possible, people concentrate on the most critical dimension in making their decision, and try to achieve a satisfactory improvement in that. In this respect, the statement mentioned under the framing effect is also valid here, namely that loan products with identical conditions, or simple, clear and customer-friendly loan products may be popular for people wishing to take out loans.

All in all, we can observe that financial decisions have multiple dimensions, and beside optimal and satisfactory decisions, we can also see irrationality in the human psyche. At the same time, in the dimension of lending as one of the arteries of economy, on the basis of the above points this means that the establishment and controlling of borrowing habits, as well as the lending practice go beyond themselves, and on the long term they are able to determine the future possibilities of an economy, primarily in the area of quality improvement, and secondarily in the area of economic growth.

MATERIAL AND METHOD

Under the leadership of the State Audit Office of Hungary, a team was set up in 2012 to assess the financial literacy of young people studying in higher education. For this purpose, a composite questionnaire was produced for the examination of a number of aspects in financial literacy. The survey was repeated

in 2020 with minimum modifications in the previous questionnaire, ensuring the possibility of comparison between the results (Béres et al., 2021).

The target groups of the research were young adults of 18–25 years of age in both years. This is advantageous because the members of the selected target group already have some practical financial skills, but some of the followed past behaviour patterns do not come from their own experience, so the interviewed young adults give us a picture about the society, too.

In 2012,² 2070 people filled in the questionnaire in an assessable way, while in 2020, this number was 2557. In the sample of 2012–2013, the age group of 18–25 was represented by 1743 people, while in 2020, it was represented by 1746 persons.

The sample was not representative in any of the examined years, but based on the number of respondents, the results can be considered robust. In the interpretation of results, we paid attention to error possibilities originating from the lack of representativeness in each case.

We used MsExcel and SPSS programmes to process the questionnaires. We used the instruments of descriptive statistics for the production of analyses.

We examined the attitude of young adults towards bank loans at multiple levels (macro and micro levels) and in repeated way to ensure the consistency of results.

RESULTS

Macro-level approach

In the first step we applied a macroeconomic approach to examine the attitude of young adults towards bank loans. In a 7-point scale survey respondents had to indicate how much they agreed with the statement that the

possibility of borrowing contributes to the well-being of the society (see Figure 1).

The figure shows that at the time of the 2012–2013 survey, the interviewed young adults set a higher value on lending in the context of the national economy than the next generation in 2020. It is not surprising at all that respondents in 2012–2013, who were hit harder by the financial crisis of 2008, attached greater importance to bank loans, as – along the scarcity principle – we always appreciate more what we would need but do not have at the moment, or what is available to a limited extent only. In addition, there is the representativeness bias mentioned in the literature, that is to say an event closer in time has a stronger effect on individuals.

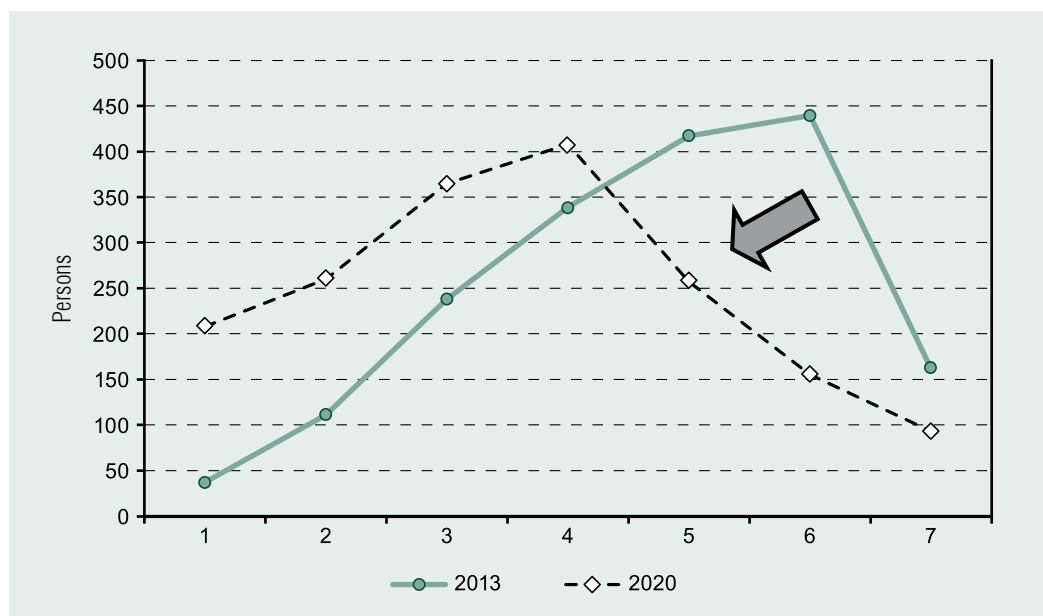
Based on the presentation by Nagy (2021),

the largest decline in retail lending was observed in 2012,³ therefore, in this respect, the first survey was conducted at an optimal time to show the difference between the period of financial and economic crises and a basically prosperous period.⁴ Calculating the average value of the answers of respondents in 2012–2013, we receive 4.69, that is to say they rather agreed with the impact of lending on the well-being of the society, but in 2020 this value was only 3.62 in average, that is to say people rather disagreed.

From the aspect of this study, it is an extremely important statement in connection with Figure 1 that in the so-called ‘times of peace’ (prosperity), the ratio of people thinking that lending does not or rather not contribute to the well-being of the society is much higher.

Figure 1

**THE POSSIBILITY OF BORROWING CONTRIBUTES TO THE WELL-BEING OF THE SOCIETY
(1: NOT TRUE AT ALL, 7: COMPLETELY TRUE)**



Note: N₂₀₁₃=1743; N₂₀₂₀=1746

Source: own edition; Survey on the financial literacy of young people studying in higher education, 2013 and 2020

Micro-level approach

The micro-level preferences of respondents were evaluated along seven questions. From these, we examined two in a negative approach, and two in a positive approach, while in the case of three questions, we analysed answers given to life situations.

Questions with negative contents

Students participating in the survey were asked to use a 7-point scale to answer the following question: how true in your opinion is it that you would not take out a loan under any circumstances? The answers received to this question are illustrated in *Figure 2*.

Based on Figure 2, we can say that in the sample of 2020, the ratio of respondents

who would definitely reject a loan dropped significantly. The reason for that might be the fact that social tensions caused by foreign currency loans are not as significant now as they were in 2012–2013.

If we look at the average score achieved in the examined years, the value was 3.97 in 2012–2013, and 3.55 in 2020. This means that the majority of young adults consulted would have rather taken out loans for the implementation of their plans, in both years. However, during the examined period, the value of the average score shifted to a positive direction from the aspect of lending.

The second negative question was hid among the characteristics of good loans, in a form that respondents were able to indicate whether they agreed with the statement that

Figure 2

I WOULD NOT TAKE OUT A LOAN UNDER ANY CIRCUMSTANCES (1: NOT TRUE AT ALL; 7: COMPLETELY TRUE)



Note: N₂₀₁₃=1743; N₂₀₂₀=1746

Source: own edition; Survey on the financial literacy of young people studying in higher education, 2013 and 2020

nobody should take out loans (see Figure 3). According to Figure 3, the ratio of people saying nobody should take out loans was lower in 2020 than at the time of the survey of 2012–2013. To be more precise, in the first survey, 12.1 percent indicated so, while at the time of the second survey, only 8.9 percent. This supports the above points, namely that the rejection of loans decreased in the period between the two surveys.

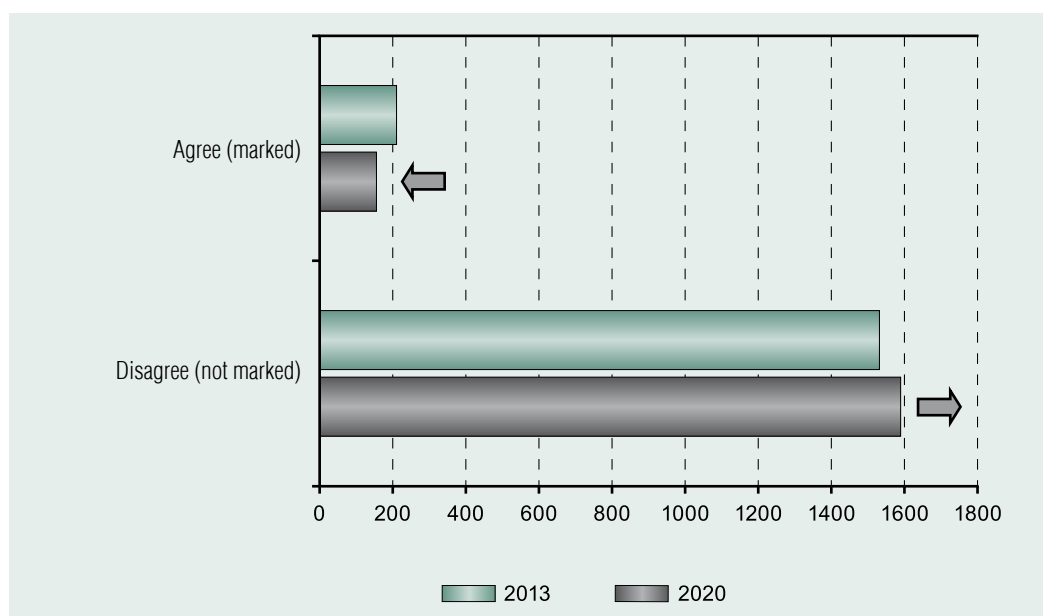
Questions with positive contents

As to our first question placed in a positive context, young adults were required to answer the question whether they basically found the possibility of taking out bank loans a good thing. They entered their answers on a 7-point scale (Figure 4).

In the positive approach, we can observe the same phenomenon we noticed when we asked about lending in a negative way, i.e. the ratio of people definitely rejecting the institution of lending decreased. It is an interesting observation that in the positive approach, the extent of the shift is not so spectacular than in the case of the negative approach, and, all in all, respondents set a lower value on loans than in the negative approach. In other words: the results support the existence of the framing and mirroring effects described in the literature in connection with lending, too. The average score of respondents was 2.99 in 2012–2013 and 3.32 in 2020, so in the positive approach – in spite of the improving trend – people thought in both years that the institution of credit was rather not good. It is

Figure 3

**WHAT DO YOU THINK THE CHARACTERISTICS OF GOOD LOANS ARE?
(YOU CAN SELECT 3 OPTIONS) I THINK THAT NOBODY SHOULD TAKE OUT LOANS**

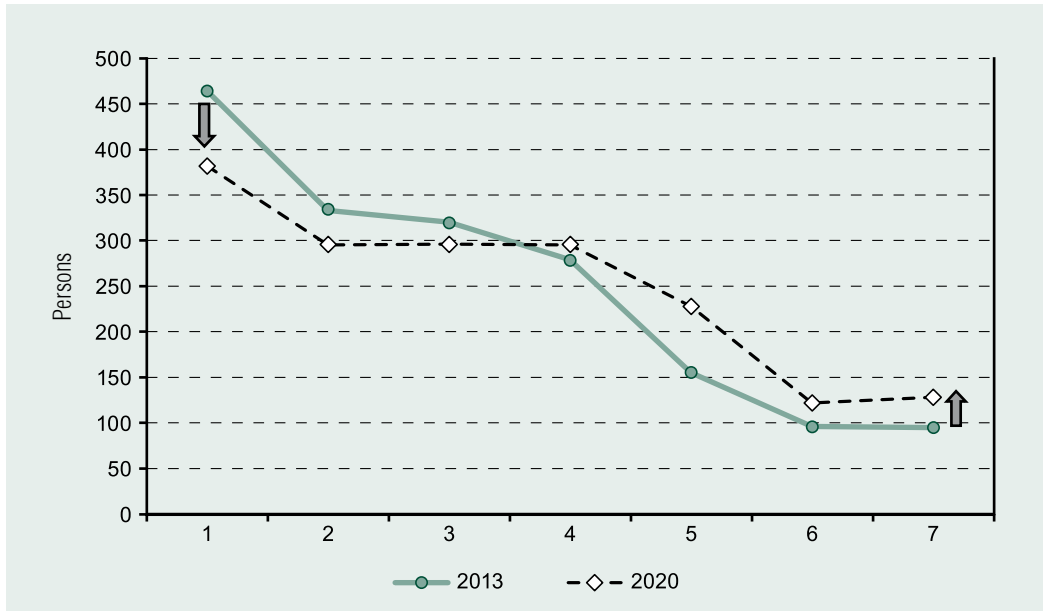


Note: N₂₀₁₃=1743; N₂₀₂₀=1746

Source: own edition; Survey on the financial literacy of young people studying in higher education, 2013 and 2020

Figure 4

**I THINK THE POSSIBILITY OF TAKING OUT BANK LOANS IS BASICALLY A GOOD THING
(1: NOT TRUE AT ALL; 7: COMPLETELY TRUE)**



Note: $N_{2013}=1743$; $N_{2020}=1746$

Source: own edition; Survey on the financial literacy of young people studying in higher education, 2013 and 2020

an interesting finding that in connection with questions of negative contents, a higher ratio of respondents had positive reactions than to negative questions.

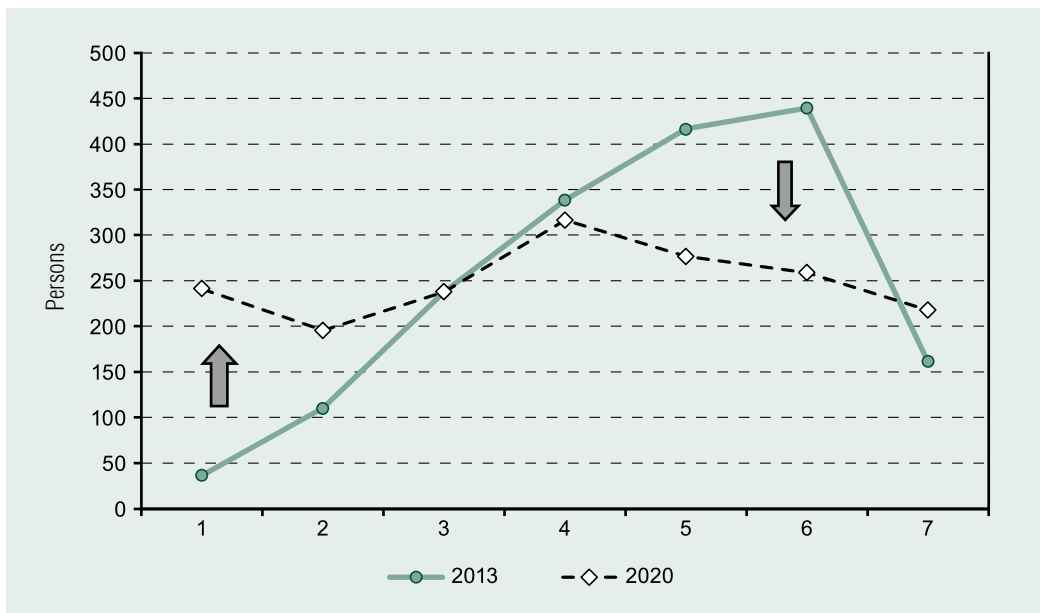
In the other question of positive contents, we asked respondents how much they agreed with the fact that loans are good for people who know about finances (Figure 5).

Figure 5 indicates a significant change in answers. While in 2012–2013 the vast majority of young adults agreed that loans were good for people who understand finances, this was different in 2020, as more and more people thought that it was not only people with financial literacy that could benefit from loans. The value of the average score dropped from 4.69 in 2012–2013 to 4.05 in 2020, so, all in all, the majority moved from rather agree to neutrality or rather disagree.

The change in the trend, as seen in Figure 5, can be traced back to two basic reasons. One of them is the actions of the Magyar Nemzeti Bank (National Bank of Hungary) that focus on consumer-friendly lending (including the redefinition of the framework of lending and the possibility of lending, financial consumer protection and the development of financial literacy), and the second is the support systems applied by the government, the majority of which were implemented through the credit institution sector during the examined period (e.g. loans with interest subsidy, waiving of loan amounts etc.). The joint use of these two approaches was able to strengthen the effects of each other from the aspect of lending, and had positive impacts on the social assessment of lending.

Figure 5

**A LOAN IS GOOD FOR SOMEONE WHO UNDERSTANDS FINANCES
(1: NOT TRUE AT ALL; 7: COMPLETELY TRUE)**



Note: N₂₀₁₃=1743; N₂₀₂₀=1746

Source: own edition; Survey on the financial literacy of young people studying in higher education, 2013 and 2020

Situational questions

Although the way we would behave in a future situation reflects individual preferences, the values preferred by the society can be detected more clearly, as the respondent will consider the behaviour accepted by the society a good answer. This is especially true when the respondent lacks own practical experience. In another approach the situational questions asked in the survey primarily answer this question: what in respondents’ opinion is the socially accepted form of behaviour (respondents are not influenced with marketing tools)?

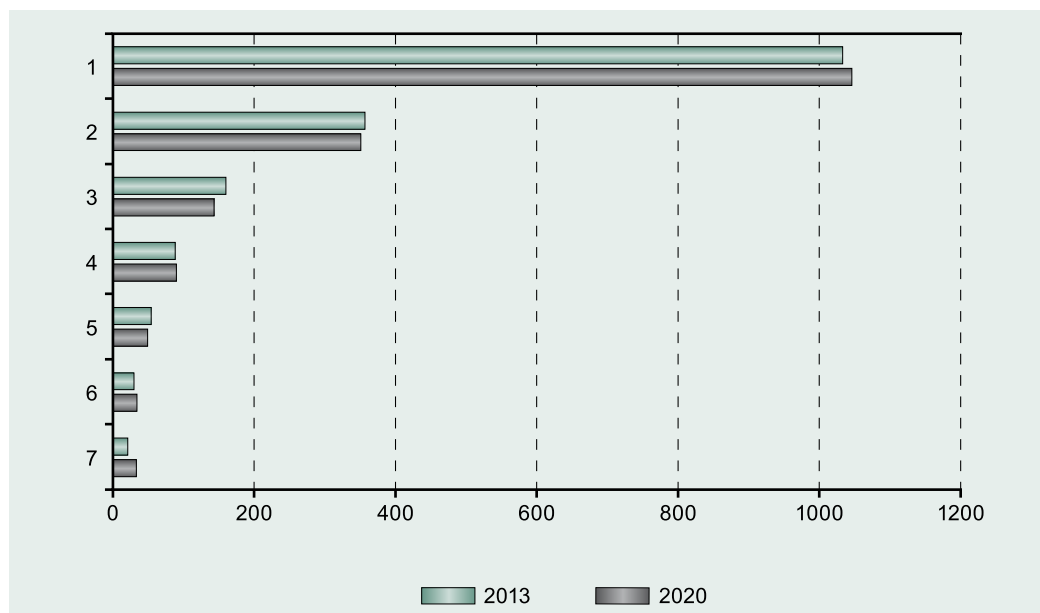
In the first situational question we asked the following: when respondents wish to purchase something bigger, would they buy it even on credit (bank loan)? (Figure 6).

Based on Figure 6, young adults consulted

would rather avoid taking out loans, if they can. This is true for respondents in both samples taken at different points in time. The fact that the rejection of borrowing is permanently high among young adults refers to a phenomenon that goes far beyond itself. On the one hand, it reflects the society’s attitude towards loans, therefore the banking system – from the aspect of loans – starts from a quasi losing position, as people do not want to take out bank loans if they do not have to. This interpretation is also supported by the presentation of Nagy (2021), saying that the ratio of household loans to the GDP is only 17 percent in Hungary, while the EU average is 52 percent. This result actually matches the risk-avoiding and financially conservative behaviour patterns of the Hungarian population. It is not only in connection with loans that risk avoidance is

Figure 6

**IF I WANT TO BUY SOMETHING BIG, I WILL BUY IT EVEN ON CREDIT
(FROM BANK LOAN) (1: NOT TRUE AT ALL; 7: COMPLETELY TRUE)**



Note: N₂₀₁₃=1743; N₂₀₂₀=1746

Source: own edition; Survey on the financial literacy of young people studying in higher education, 2013 and 2020

typical, *Baranyai et al.* (2019) identified this kind of behaviour in relation to investments, too (*Baranyai, Csernák, Huzdik, Széles, 2019*). The complexity of the situation is indicated by the fact that from the aspect of financial literacy, *Németh et al.* (2020) matched risk-avoiding behaviour with a lower level of financial vulnerability. On the other hand, the negative attitude towards loans makes the process, as a result of which more people could have access to basic financial services, more difficult (*financial inclusion*).⁵ In this respect, the challenge is that if there is no income from lending and interests on loans, banks have to generate revenues from various charges in order to maintain their operation and achieve the expected profit levels.⁶ From the aspect of the consumer, this means that he/she cannot open a retail account in a bank with free-of-

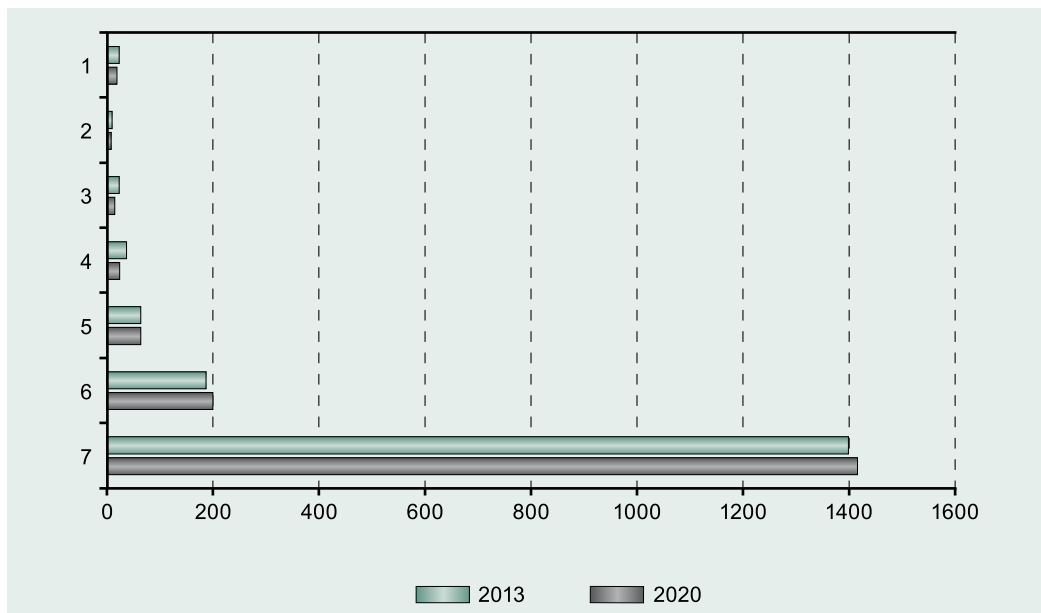
charge or almost free-of-charge conditions (account management fee and transaction fees). Looking at it from another angle, the credit institution sector is not able to offer services that would convince people outside the financial inclusion about the benefits of financial inclusion.

In the second situational question, we asked: if the young adult borrows money from someone, does he/she try to repay it as soon as possible (*Figure 7*).

Figure 7 shows an extremely positive picture from the aspect of lending – it shows that if one of the interviewed young adults has a debt, he/she tries to repay it as soon as possible. The numbers in the two examined years are not significantly different from each other, that is to say this statement can be considered as robust.

Figure 7

**IF I BORROW MONEY FROM SOMEONE, I TRY TO REPAY IT AS SOON AS POSSIBLE
(1: NOT TRUE AT ALL; 7: COMPLETELY TRUE)**



Note: N₂₀₁₃=1743; N₂₀₂₀=1746

Source: own edition; Survey on the financial literacy of young people studying in higher education, 2013 and 2020

Taking the assumed situation into account, the result again shows the socially accepted answer. This is advantageous for the banking system in a sense that if conditions are given (e.g. adequate and stable source of income, predictable costs of living), the ratio of debtors not repaying their loans may drop to a minimum level and permanently stay there. On the other hand, for people considering bank loans, the possibility and the costs of early repayment may be factors with more importance, as young adults – as we saw above – basically do not like having bank loans.

With the third and last situational question, we were looking for answers to this question: in what cases do young adults think it is worth taking out loans? (Figure 8)

Figure 8 supports the above statements. Based on this, the ratio of people who reject

loans and are not planning to take out loans in the future, either, decreased from 2012–2013 to 2020, and the number of people who would be willing to take out loans for important things doubled.

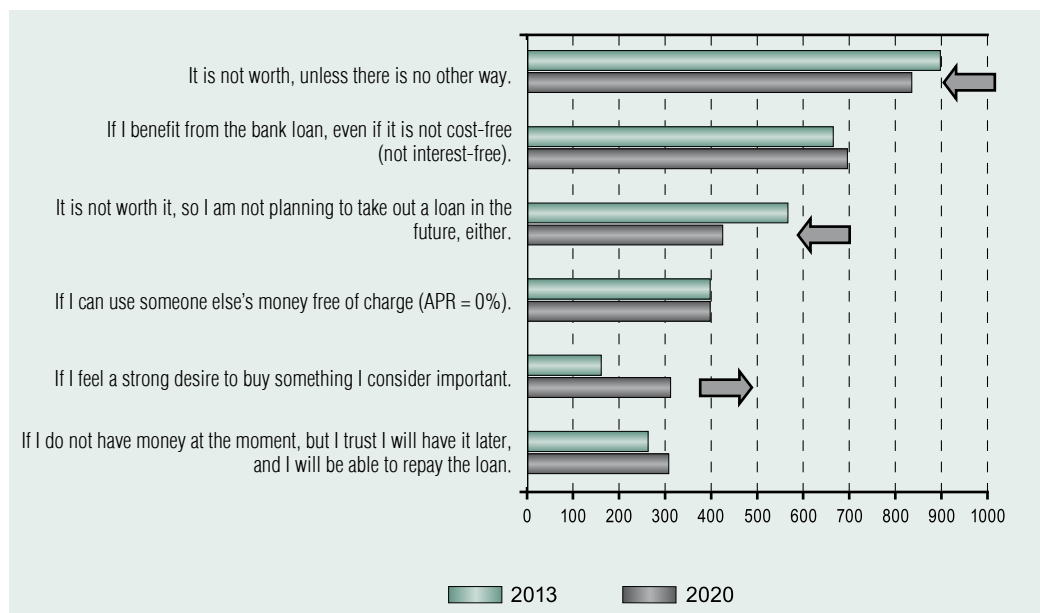
Characteristics of good loans

In the course of the surveys we also wished to find out what respondents thought the characteristics of good loans were (Figure 9).

Based on the answers, in addition to low lending costs, young adults set the highest value on predictability, and this is what they require in borrowing (the conditions of the loan do not change, it can be repaid in a predictable way, the instalment does not grow). This phenomenon intensified further from 2012–

Figure 8

IN WHICH OF THE FOLLOWING CASES IN YOUR OPINION IS IT WORTH TAKING OUT A BANK LOAN? (MINIMUM 1, MAXIMUM 3 MARKS / PERSON)



Note: N₂₀₁₃=1743; N₂₀₂₀=1746

Source: own edition; Survey on the financial literacy of young people studying in higher education, 2013 and 2020

2013 to 2020. It is also interesting that the free-of-charge prepayment and final repayment of loans was not such an important point in 2020. The reason for that probably was that the ratio of people with loans was much lower in the 2020 survey, only 16.8 percent (in 2012–2013, their ratio was 25.4 percent).

Loan purposes

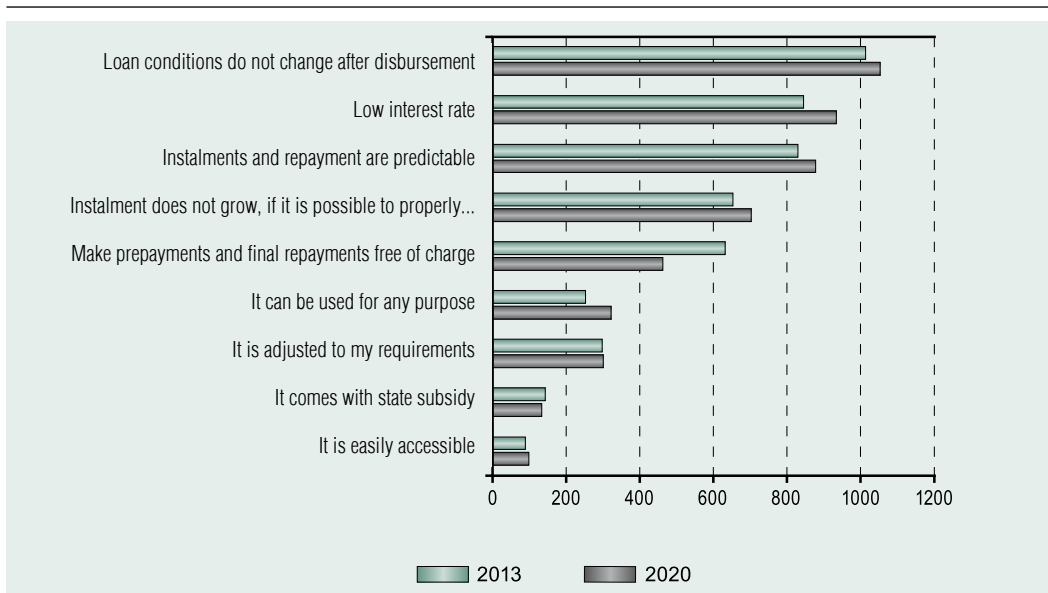
One of the main considerations in evaluating the attitude towards loans was the purposes for which young adults think that it is worth – moreover necessary – to take out loans. Therefore we asked the participants of the survey about their possible main loan purposes in the future, that is to say for what purposes they would take out loans⁷ (Figure 10).

The vast majority of the interviewed people mentioned housing as the primary loan purpose, and this is followed by starting a business or developing a business. This is true for both surveys, but there is a striking difference between the results of the first, 2012–2013 survey and the 2020 survey: there were 193 more marks for housing purposes. This refers to two phenomena: on the one hand, the majority of the population is unable to buy a home without loans, and, on the other hand, – in line with the previous point, and partly as a consequence of that – the acceptance of housing loans within the society is much higher than that of other loan categories (among others, the housing programmes – established with identical conditions – also lend a positive image to loans).

Looking at all loan purposes and respon-

Figure 9

**WHAT DO YOU THINK THE CHARACTERISTICS OF GOOD LOANS ARE?
(MINIMUM 1, MAXIMUM 3 MARKS / PERSON)**

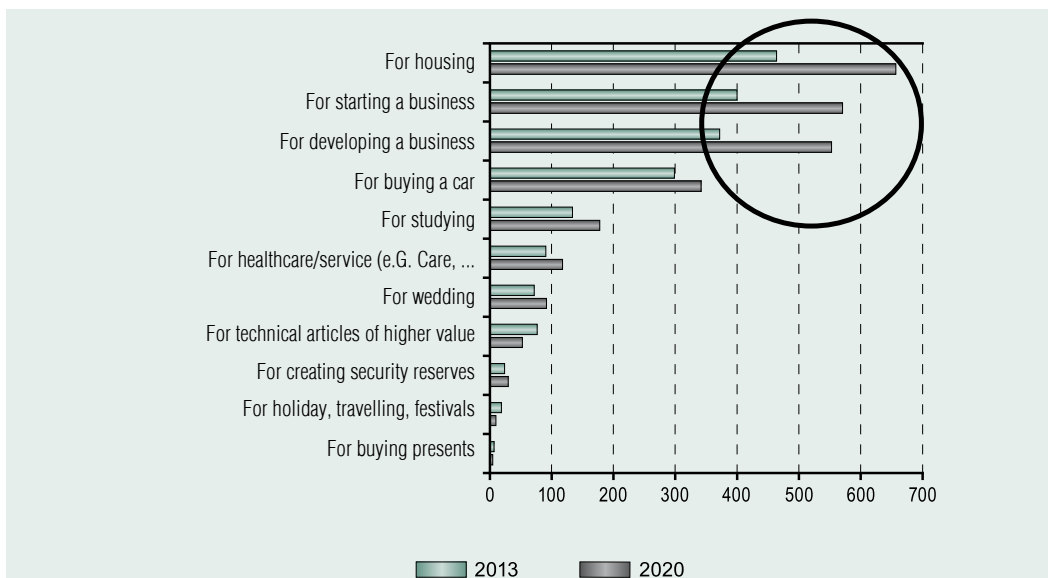


Note: N₂₀₁₃=1743; N₂₀₂₀=1746

Source: own edition; Survey on the financial literacy of young people studying in higher education, 2013 and 2020

Figure 10

LOAN PURPOSES – FOR WHAT PURPOSES WOULD YOUNG ADULTS TAKE OUT LOANS?



Note: N₂₀₁₃=1743; N₂₀₂₀=1746

Source: own edition; Survey on the financial literacy of young people studying in higher education, 2013 and 2020

dents’ selections from the given loan purposes, borrowing willingness increased in most categories from 2012–2013 to 2020. Although this is a positive trend from the aspect of lending and banks, it is not necessarily a good direction in the case of short-term loan purposes (e.g. weddings). It is, however, definitely positive that less people would take out loans for holidays and buying presents in 2020.

Last, but not least, it is worth mentioning a few words about the fact that a lot of people would take out loans for starting a business, but that is not in line with banking practice⁸ or with the fact that a high ratio of the Hungarian population – including the examined young adults – are risk-avoiding. Risk-taking, however, is a basic criterion for entrepreneurs and businesses. Németh et al.

(2020B) examined training programmes and came to the conclusion that the teaching of investment and business skills is unfortunately not a high priority.

Experiences regarding loans

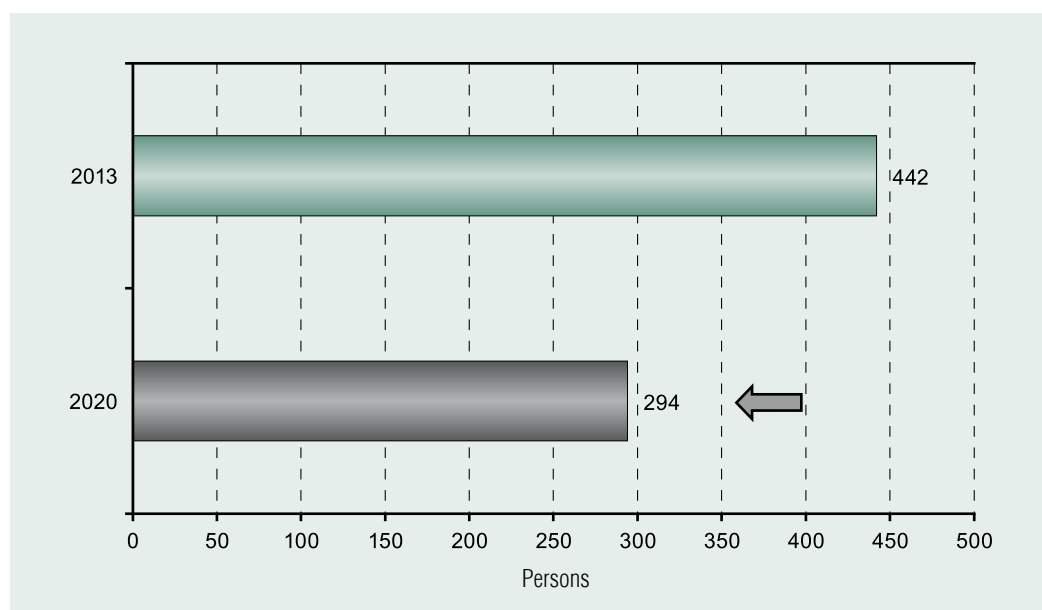
Young adults having loans

In the first step, we wanted to know the ratio of people with real loan experiences among the interviewed people (*Figure 11*).

There is a striking difference between the surveys conducted in the two different periods: in the case of the first survey, more than one quarter of the interviewed people (25.4 percent) had loans or experiences with loans, but this was true only for one-sixth

Figure 11

DO YOU PRESENTLY HAVE A LOAN OR DID YOU HAVE ONE IN THE PAST? (RESPONDENTS WITH LOANS)



Note: $N_{2013}=1743$; $N_{2020}=1746$

Source: own edition; Survey on the financial literacy of young people studying in higher education, 2013 and 2020

(16.8 percent) of young adults participating in the survey of 2020. On the one hand, this statement supports the above points, namely that young adults do not look for possibilities to take out loans, and on the other hand, it may reflect the differences between the individual phases of the economic cycle (prosperity and slow recovery after the crisis).

Implemented loan purposes

In the case of people with actual loan experience, we examined the purposes for which they took out loans, that is to say what actual loan purposes they implemented (*Figure 12*).

It is not a surprise that the majority of young adults of 18–25 years of age involved in the survey had contacts with the institution of credit through learning. Next in line are technical articles of higher values, homes and cars as implemented loan purposes. Loan purposes indicated by respondents may also

be considered as certain kinds of investments, as they may contribute to the achievement of a higher income level in the future. In this respect, the majority of borrowers can be rated positively from the aspect of financial literacy, too.

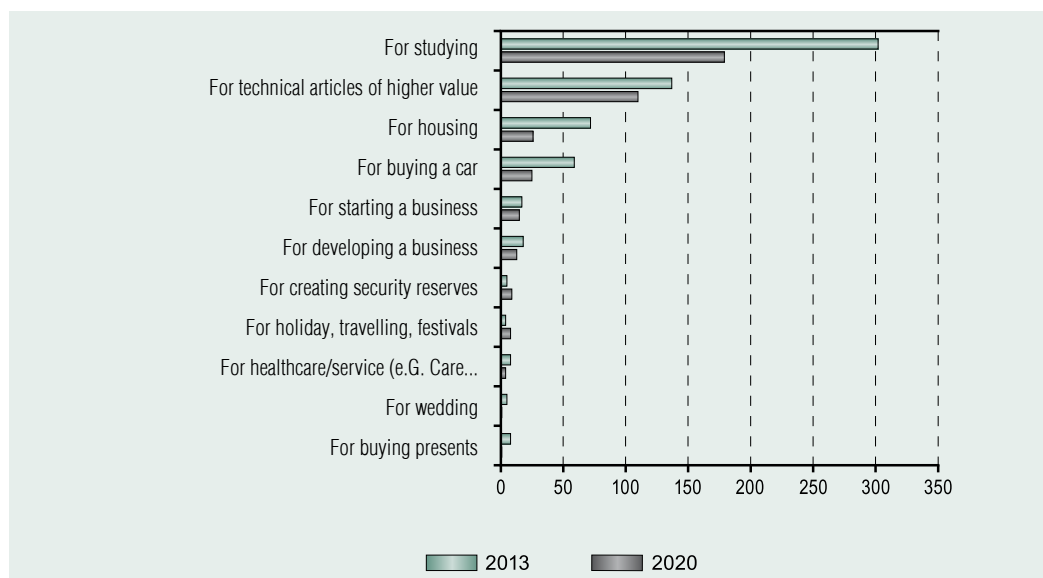
Satisfaction with loans

We examined the ratio of those borrowers who were satisfied with the loans they took out (*Table 1*).

Based on the data in Table 1 we can see that in the respect of implemented main loan purposes, young adults were in each case more satisfied with their loans at the time of the 2020 survey than in 2012–2013. The increase in the satisfaction factor is in line with the above points, that is to say in the case of economic prosperity, the prospects and the expectations of the individual are better (especially regarding loan decisions made).

Figure 12

IMPLEMENTED LOAN PURPOSES AMONG YOUNG ADULTS (18–25 YEARS)



Note: $N_{2013}=442$; $N_{2020}=294$

Source: own edition; Survey on the financial literacy of young people studying in higher education, 2013 and 2020

**SATISFACTION WITH LOANS
(1 – COMPLETELY DISSATISFIED, 10 – COMPLETELY SATISFIED)**

Loan purpose	2013		2020	
	persons	average assessment	persons	average assessment
Buying presents	8	5.75	1	5.00
Wedding	5	4.60	1	5.00
Healthcare/service	8	5.13	4	6.00
Holidays, travelling, festivals	4	5.40	8	8.13
Creating security reserves	5	6.40	9	7.78
Developing a business	18	6.72	13	5.77
Starting a business	17	5.29	15	5.73
Buying a car	59	5.15	25	6.60
Housing	72	5.26	26	6.85
Technical articles of higher value	137	7.21	110	8.13
Studying	302	5.88	179	8.45
Total	635	6.02	391	7.87

Note: N₂₀₁₃=1743; N₂₀₂₀=1746

Source: own edition; Survey on the financial literacy of young people studying in higher education, 2013 and 2020

Significant measures were taken in the area of financial consumer protection, and the social rejection of the institution of credit was mitigated, so the subsequent assessment of borrowing was able to reach a higher satisfaction level (framing effect).

Main reasons for dissatisfaction with loans

Borrowing young adults, who were not satisfied with certain loan products (gave scores below 5 in a 10-point scale) were asked to tell the reasons for their dissatisfaction (Figure 13).

Based on Figure 13, it is a major positive finding that at the time of the survey of 2012–2013, 31.7 percent of young adults were not satisfied with their loans, but in 2020 this ratio was only 8.2 percent.

It is an important finding that at the time of the survey of 2012–2013, the main reason for dissatisfaction with loans was not the loan

product, but the expectations of the borrowers about the future (economic prospects). In the order of dissatisfaction, the requirement of predictability was only after the above point, and based on the above findings, in 2020 it was an even more important factor among requirements against loans.

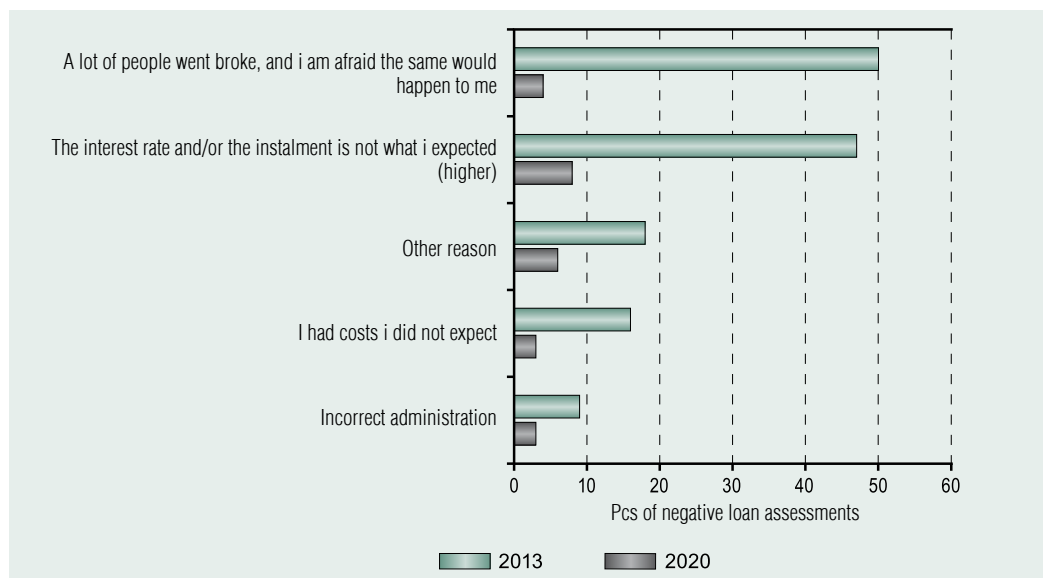
Young adults without loans – why have they not taken out any loan yet?

A large proportion of young adults belonging to the target group of the examination has never concluded a loan contract, therefore they have no practical experience about loans. We asked them why they had not taken advantage of any credit options yet (Figure 14).

In the 2012–2013 and the 2020 surveys, the same two answer categories were marked by most participants of the examination (Figure 14). On the one hand, there was a significant

Figure 13

MAIN REASONS FOR DISSATISFACTION WITH LOANS



Note: N₂₀₁₃=140 (a hitelfelvevők 31,7 százaléka); N₂₀₂₀=24 (a hitelfelvevők 8,2 százaléka)

Source: own edition; Survey on the financial literacy of young people studying in higher education, 2013 and 2020

increase in the ratio of people who had never needed a loan, because they produced the money they needed for their way of life from other sources (typically from support received from home, from work and scholarships), and, in parallel with that, there was a significant drop in the ratio of people who said they would not want to be indebted. Based on this, the interpretation of the respondents changed significantly – indebtedness is a less important (frightening) factor, and there are other ways to earn income (sectors with shortage of labour).

CONCLUSIONS

The attitude of young adults of 18–25 years of age, who form the target group of the survey, is basically negative towards loans. They avoid borrowing whenever they can. Considering

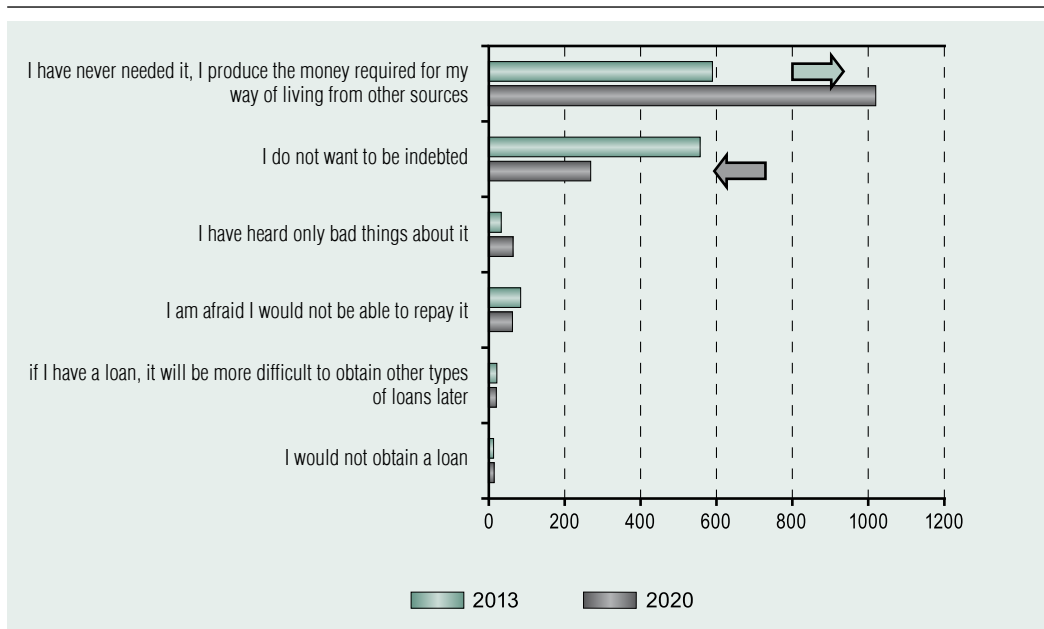
the fact that a high ratio of respondents have no real credit experiences, we can say that their answers map or, if you like, mirror the attitude of the society. Statistics also support this statement: the credit-to-GDP ratio of Hungarian population is well below the EU average (17 percent versus 52 percent).

It can be assessed as a major positive factor that in the period between the two surveys, which can be considered a period of prosperity, the ratio of people who firmly rejected bank loans and the institution of credit decreased. We can project this result to the level of the society and accept it as true in holistic way. The reduction in the rate of rejection proved to be stronger, when we asked about credit as a negative phenomenon (framing and mirroring effect).

One of the key findings is that in 2020 the assessment of loans as ‘good only for people who understand finances’ is not so general.

Figure 14

**YOUNG ADULTS WITHOUT LOANS – WHY HAVE YOU NOT TAKEN OUT ANY LOAN YET?
(1 MARK/RESPONDENT)**



Note: N₂₀₁₃=1301; N₂₀₂₀=1452

Source: own edition; Survey on the financial literacy of young people studying in higher education, 2013 and 2020

This can be considered as a result related to the redefinition of the consumer-friendly lending practice, which includes the mix of lending, the possibility of lending, the development of financial literacy and the measures of financial consumer protection. As an equally important factor this process is further strengthened by the fact that a number of support forms are implemented through the credit institution sector (loans with interest subsidies, waiving of loan amounts etc.), and these instruments significantly contribute to the increased or maintained demand for loan products in the examined period.

The anti-credit attitude of young people involved in the survey and indirectly the Hungarian population is a factor that hinders financial inclusion that would allow more people to have access to basic financial services

without regulatory intervention⁹. Looking at it from consumers' perspective, with the applied charges the credit institution sector is not able to offer (free) services that would convince people outside the financial inclusion about the benefits of financial inclusion.

It is an obvious statement that under appropriate conditions (firm source of income and predictable costs of living) the repayment of credits and loans is basically coded into the society – we do not like to be in debt, and if we have a debt, we try to repay it as soon as we can. This utopian picture is tinged by the fact that impulsive incentives, including the ambivalent conduct of credit institutions¹⁰, work against the equilibrium.

As to loan purposes, the first is borrowing related to housing purposes, and this is a loan purpose that is accepted by the society,

too (the majority of the people are unable to buy homes from their own assets, and housing support programmes are also assessed positively by the society). An interesting point is that a lot of people selected the starting of a business as a loan purpose (in spite of the fact that start-up businesses are usually not creditworthy), which refers to the fact that there are deficiencies in practical financial and economic socialisation.

Another factor identified as a barrier to retail lending is that young adults involved in the survey and the Hungarian population itself basically wish to avoid risks. This is not good from the aspect of lending, but we cannot say that it is good from the aspect of financial literacy, either, as profit without risk is either too low, or increases the deadweight loss of the society. In other words, extreme avoidance and mitigation of risks is a barrier or a burden that results in a trap situation (risk mitigation trap).

The borrowing habits of young adults seem appropriate from the aspect of financial literacy, as the loan purposes implemented by them can also be considered as investments into the future. In this situation, the risk mitigation trap occurs in the respect of credits in a way that at the time of prosperity, young people do not want to take out loans, as they can cover their expenses in other ways, too (in 2012–2013, 25 percent of the interviewed people had loans, while by 2020, this ratio dropped to 16.8 percent). From this aspect, it is understandable why the welfare-improving role of loans is appreciated less at times of prosperity.

The examination of the satisfaction with loans shows that there has been a significant improvement since 2012–2013. This is due to the fact that borrowers' level of satisfaction is determined not only by the predictability factor (which was deemed the most important factor by the respondents, together with

price), but by expectations about the future, too: the results of the 2012–2013 survey, which was close to the financial crisis of 2008 in time, show that the fear of going broke with the loan was the most dominant factor regarding satisfaction with loans. In simple words: *'I already regret taking out the loan'*. On the other hand, the results of the survey in 2020 – which basically shows the results of a prosperous period – say that only 8.2 percent of borrowers expressed dissatisfaction with the loans they took out (in 2012–2013 this ratio was 31.7 percent).

SUMMARY

The practice of foreign currency lending conducted until the period of the financial crisis of 2008 contributed to the experienced decline in the economy and generated significant social tension, too, which led to lower confidence in the banking system and, as result, in credits¹¹. The future performance of the economy basically depended on the way and the instruments of restarting lending. The redefinition of applied monetary policy instruments and the consumer-friendly lending practice, together with the implementation of a significant part of support programmes with the involvement of credit institutions, resulted in the fact that in the examined period, from 2012–2013 to 2020, the social assessment of the institution of credit was able to improve in small steps. From the aspect of the increase in social well-being¹², this is a fairly positive process.

In information technology, the real reason for the error is called root cause. In the field of credits, one of the root causes identified in this study is the risk-avoiding behaviour of the population. A risk mitigation trap is generated, and it is an obstacle for the economy. The majority of the population does not want to

use bank loans, the bank is too cautious and does not provide as much credit as it would be optimal from its own perspective, the yields of investments stay at a low level, and there is a significant deadweight loss in the economy. In extreme cases, this generates an isolation effect, which leads to inconsistent preferences on the side of both borrowers and creditors (risk avoidance in relation to sure profit, and seeking risks in the case of sure losses).

The risk mitigation trap may be eliminated by the continuous development of the financial literacy of the population. The increasing level of financial literacy goes hand in hand with

the improvement of financial and economic knowledge, which – even in the case of taking risks below the level of knowledge – will result in an increased willingness to take risks. Another positive yield is that the conscious management of finances leads to a higher willingness to save than presently, and this will reduce the marginal costs of wrong financial decisions, that is to say it will further strengthen the willingness to take risks. Considering the points described in connection with the development and amendment of habits, we cannot expect a fast and spectacular development, but it is definitely worth proceeding in this direction. ■

NOTES

- ¹ By 'appropriate' we mean an ethically acceptable direction that is positive from the aspects of the society.
- ² The first inquiry period of the questionnaire was between December 2012 and February 2013, so years 2012-2013 in the study refer to the first survey.
- ³ In Q1 2012, the annual growth rate of retail lending was 15 percent, and the growth remained in the negative range right until 2016.
- ⁴ The negative economic impacts of the Covid-19 epidemic were not felt yet at the time of the 2020 survey.
- ⁵ It is translated in multiple ways: financial integration, financial inclusion.
- ⁶ Data published by the Magyar Nemzeti Bank (National Bank of Hungary) (2021) indicate that the profitability and the solvent operation of the banks cannot be ensured without banking charges and commissions.
- ⁷ In the questionnaire we asked for what purposes they had already taken out loans, so actual borrowing was not mentioned under this question.
- ⁸ A start-up business represents high risks for banks, therefore such loans are not typical (the standardised credit rating system of banks supports decisions on the basis of past data, so in the lack of effective financial past, creditworthiness cannot be assessed on the basis of examining objective considerations).
- ⁹ For instance base account, free cash withdrawal.
- ¹⁰ High amounts of funds are allocated by the credit institutions to the development of financial literacy, while they promote holidays, presents and other short-term loan purposes that are negative from the aspect of financial literacy.
- ¹¹ Kovács L. (2017) interprets loss of trust for the whole financial sector.
- ¹² Kovács A. (2016) interprets the concept of public good as a dynamic equilibrium, and we consider it a valid concept in relation to this study, too.

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