

Statement submitted by the Office of Fair Trading (OFT)

1. This statement provides the Committee with a brief introduction to the OFT's role and remit under the Consumer Credit Act 1974 (the Act), and a recent history of our work in the debt management and high cost credit markets in particular.

1. The OFT's role and remit

2. The OFT's mission is to make markets work well for consumers. We aim for competitive, efficient and innovative markets where standards of consumer care are high, consumers are empowered and confident about making choices, and where businesses comply with consumer and competition laws but are not overburdened by regulation.
3. The OFT is responsible, under the Act, for licensing firms engaging in consumer credit activities. Our role involves the assessment of businesses' fitness to engage in licensable credit activities before they are granted a licence and monitoring their continued fitness thereafter. Our role is to assess whether the conduct of traders makes them unfit to trade; we do not have powers to regulate particular products.
4. To be fit, a business must satisfy the OFT that it meets the necessary standards of integrity and competence to enable it to deal properly with consumers. In determining whether a business is fit, the OFT can have regard to any matter it considers relevant, but the Act specifies certain matters to which it should have particular regard. These include whether a business, the individuals who run or control it, or their associates have any convictions for fraud, dishonesty or violence or have engaged in unfair business practices. Since 2008, following reforms introduced by the Consumer Credit Act 2006 (CCA06), these matters have also included a firm's "competence" to engage in regulated credit activities. In assessing competence we seek to establish whether the skills, knowledge and experience of applicants and those participating in a business, and the practices and procedures an applicant proposes to operate, are adequate to carry out the activities covered by a licence to a reasonable standard.
5. The licensing requirement is broad in scope and covers not only lenders and brokers of credit but all businesses "concerned with the provision

of credit". So, for example, those who collect consumer credit debts on behalf of lenders, or offer debt management services to consumers need to be licensed. The wide scope also means that many licensed businesses are not financial services businesses themselves but provide their customers with access to credit provided by a lender. The licensed population thus includes many providers of goods and services such as high street retailers, car dealerships or home improvement firms. These account for approximately half of the current licensed population of around 84,000 firms. One consequence of this is that around one third of licensed businesses are sole traders and just over two thirds employ fewer than ten people.

6. The issues currently facing the OFT in discharging its responsibilities under the CCA are dominated by four broad themes:
 - The unfair treatment of consumers in financial difficulties who are no longer able to service their debts.
 - The unfair treatment of consumers who are otherwise vulnerable, for example through age, mental capacity limitation, or poor financial literacy.
 - The irresponsible treatment of consumers seeking credit, often where they have limited access to mainstream provision as a result of impaired credit records or low incomes.
 - Preventing entry into credit markets of individuals with a history of violent or fraudulent behaviour or firms which simply lack the competence to meet expected standards.

7. Since the introduction of new powers in April 2008, the OFT has operated a risk-based strategy based on:
 - A strong gateway to exclude violent, fraudulent or otherwise unfit traders from the market.
 - Developing clear, practical guidance and driving up standards of behaviour.
 - Credible deterrence through targeted high impact intelligence-led enforcement, particularly focused on issues of wider market significance.

8. Our gateway risk model treats debt collection, debt management, secured sub-prime lending and lending in the home as high risk activities. We have subjected these businesses to a greater degree of scrutiny at the application stage and have conducted a rolling programme of thematic compliance reviews and enforcement work in these sectors. More detail on our approach to debt management and high cost lending is set out in sections 2 and 3 of this note.
9. Our enforcement work is complemented by active engagement with industry to drive up standards. We work closely with trade associations and other forums to ensure firms are aware of their responsibilities under the Act and the OFT's expectations. We have produced a suite of sectoral and cross-cutting guidance setting out the standards we expect of businesses engaging in particular regulated credit activities and making clear the behaviours which the OFT considers will call a firm's fitness into question and may trigger enforcement action. A summary of the OFT's key guidance documents is set out at Annexe A.
10. This guidance does not have the status of rules or legislation. It does not place positive obligations on firms, but rather sets out the behaviours or omissions which may be likely to lead to OFT enforcement action. Statutory obligations on firms are set out in the Act. A significant portion of these are governed by the maximum harmonisation European Consumer Credit Directive¹. Policy responsibility for the Act rests with the Department for Business, Innovation and Skills (BIS).
11. Where firms fail to meet the standards set out in legislation or guidance, or engage in activities which the OFT considers to be otherwise unfair or improper (whether lawful or not) the OFT can take enforcement action. Breaches of certain statutory requirements (such as engaging in regulated activity without a licence or breaches of the advertising regulations) are offences enforceable through the courts by OFT and by Local Authority Trading Standards Services including specialist Illegal

¹ Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers

Money Lending Teams set up by BIS in 2004². In practice, however, most enforcement action is taken forward under the OFT's licensing powers. If dissatisfied with a firm's behaviour the OFT can issue a warning letter or impose requirements on its licence. Requirements are flexible and can be tailored to the specific behaviour in question, for example, we can require firms to cease particular behaviours or to put in place processes to safeguard against future misconduct. If requirements are not adhered to we can levy fines of up to £50,000 per instance of non-adherence. If the OFT considers that a firm's behaviour is so serious that it is not fit to trade we can take steps to revoke its licence. We are not obliged first to impose requirements: we can, and frequently do, move straight to revocation proceedings.

12. We have supporting investigatory powers, including information gathering powers and powers of entry and inspection. The OFT also has enforcement powers under other consumer protection legislation including the Enterprise Act 2002 and the Consumer Protection from Unfair Trading Regulations 2008 which it may use against licensees where appropriate.
13. Once formal actions are completed this information is publicly available via the Public Register on the OFT website and is usually accompanied by a Press Release. Between April 2009 and March 2011 the OFT revoked or refused the licences of 104 firms and placed requirements on a further 53. A more detailed summary of recent enforcement activity can be found at Annexe B.
14. The regime is fully funded through industry fees. Our budgeted income for 2011/12 is approximately £10 million. This is raised by a fee of £435 for sole trader or £1075 for other firms when applying for or renewing a licence. As the fee is collected on a five year cycle this is equivalent to an annual fee of £87 or £215 respectively. In addition, all

² Breaches of the advertising regulations (and of wider advertising standards) are also addressed by the Advertising Standards Association, in consultation with the OFT

firms pay a flat levy of £150 to fund the Financial Ombudsman Service, which we collect on their behalf alongside the fee.³

15. Further financial and operation information about the regime is provided at Annexe C.

³ Excepting those firms that are authorised by the Financial Services Authority and have therefore already paid the levy via this route.

2. The OFT's approach to debt management

1. Well before the current economic downturn the OFT had identified debt management as a high-risk area. Debt management services are a classic "distress" purchase; consumers seeking debt management help tend to be over-indebted, vulnerable and desperate for help. Research by the Money Advice Trust has shown that consumers do not shop around for debt management services⁴. Consumers are potentially committing themselves to a debt solution which can affect their lives for years. The risks if things go wrong can be significant, potentially leaving consumers in a worse financial position, which in some cases can include the loss of the consumers' home.
2. As part of the OFT's wider compliance strategy of rolling targeted reviews of high risk sectors, and against a background of rising complaints and rapid growth in new entrants to the fee charging debt-management sector operating mainly over the internet, the OFT carried out a compliance review of the sector in 2009-10.
3. We set out our findings in September 2010⁵. The review found that:
 - There was widespread non-adherence to the standards set out in the OFT's Debt Management Guidance by debt advice and debt management licensees, with most debt management firms audited failing to meet expected standards to some extent in at least three areas.
 - Misleading advertising was the most significant area of non-adherence, in particular misrepresenting debt management services as being free when they are not.
 - Frontline advisers working for debt management companies generally lacked sufficient competence and were providing consumers with poor advice based on inadequate information.
 - Industry awareness of the Financial Ombudsman Service scheme for resolving consumer complaints was low and there was widespread

⁴ *An independent review of the fee-charging debt management industry*, Money Advice Trust, June 2009

⁵ See <http://www.of.gov.uk/about-the-oft/legal-powers/legal/cca/debt-management>

non-compliance with the Financial Ombudsman Service's complaint handling rules.

- The two main trade associations, the Debt Managers Standards Association (DEMSA) and the Debt Resolution Forum (DRF), needed to do more to lead the way by introducing more robust compliance monitoring and auditing systems for their members.
 - Stakeholders found the Guidance to be clear and understandable but it needed to cover new emerging practices, and to give greater clarity on expected competence levels, advertising standards, transparency of fees, and the 'best advice' principle.
 - There was a strong expectation and desire that the OFT would continue with its programme of pro-active compliance monitoring and take strong action to remove unfit traders from the market.
4. The OFT issued warnings to 129 debt management firms following the publication of its compliance review. Of these, 53 businesses have since exited the market. A further 17 firms have exited the debt management market as a result action outside the review since September 2010.
 5. In addition to individual cases, we have also taken action against multiple firms at once to tackle areas of particular bad practice in the market. This has included several actions over the past three years against firms that sent misleading IVA mailings to consumers, used 'look-alike' websites to mislead consumers into believing that they were charity-based sources of free debt advice, and engaged in cold calling in a way that breaks the law.
 6. In light of the findings of the compliance review, the OFT has revised and updated the Debt Management Guidance, setting out more clearly specific practices which we regard as unfair or oppressive. The revised guidance was issued for consultation in June 2011 and we expect to publish final guidance in January 2012. We have an ongoing pipeline of enforcement investigations. Details of those cases where we have issued a notice that we are minded to take licensing action can be found at <http://www.offt.gov.uk/OFTwork/credit/enforcement-action/>

3. The OFT's approach to high-cost credit and payday lending

1. In June 2010, in response to concerns that markets for high-cost credit may not be working well for consumers, the OFT published a study of the market for the provision of high-cost credit⁶ (pawnbroking, payday and other short-term small sum loans, home credit and rent-to-buy credit).
2. The study made a number of recommendations for improvements to the market which the Government has responded to in its Consumer Credit and Personal Insolvency Review. A short note setting out the problems and features of the market identified by the study and the recommendations made is attached as Annexe D.
3. However, the OFT made clear that the recommendations made would have limited effect on the market. The kinds of action necessary to tackle the more deep-seated concerns raised, such as securing a step-change in the financial capability of low-income consumers or intervening in the market to expand the availability of credit to those consumers, would have highly significant economic, financial and social consequences and are outside of the OFT's remit.
4. Whilst price control remedies such as interest rate caps were considered, the study concluded that these would not be an effective solution to the particular concerns identified. Broadly, this was due to concerns that:
 - This would be likely to lead to credit suppliers either restricting availability of their products or exiting the market altogether, which could lead to poorer outcomes for some consumers and for the economy through the impact on consumption.
 - A system of price controls would be complex, expensive and difficult to administer.

⁶ The study is available in full from <http://www.oft.gov.uk/OFTwork/credit/review-high-cost-consumer-credit/>

5. Alongside an examination of competition and consumer choice in high-cost credit markets, the OFT has focused on improving standards of consumer protection in the sector. In March 2010 we published the Irresponsible Lending Guidance, building on the requirements on lenders set out in the new European Consumer Credit Directive. This Guidance makes clear the OFT's expectation that firms should take appropriate steps to assess the affordability of any loan, considering the borrower's ability to take on an additional credit commitment and to meet any repayments in a sustainable manner without incurring further financial difficulties or other adverse consequences.

6. The OFT is closely monitoring the payday lending market, which is a key area of regulatory focus. At the time of the High Cost Credit Review consumer complaints about the market were relatively low. Since then we have seen a rapid expansion of the sector, particularly in online provision. It is estimated that the number of payday loan borrowers rose from 0.3 million in 2006 to 1.2 million in 2009⁷. Although the precise current market size is disputed, it is clear that it is continuing to expand at pace, both online and on the high street. Linked to this, there has also been an expansion of brokerage and lead generation activities – firms which pass on consumer details to payday lenders for a commission. The sector is also experimenting with new channels to market, for example, lending via text message and smartphone apps.

7. Alongside this growth, we have seen an increase in reported consumer harm, particularly over the last 12 months. The overall level of complaints to the Financial Ombudsman Service about payday lending is low, relative to some other products, but increasing. We understand that 81 complaints cases were completed or closed between January and November 2011. This is an increase of 72% over the same period last year, and the rate of increase in complaints upheld is 171%. In addition to this, since 1st January 2011, there remain 180 open

⁷ *Keeping the plates spinning – Perceptions of payday loans in Great Britain*, Consumer Focus, August 2010

complaints about the sector. By way of comparison, completed or closed cases about the home credit sector are decreasing (by 26% this year) with a 50% decrease in the number of complaints upheld. Complaints to Consumer Direct have shown a greater increase, from 700 complaints in 2010 to 1535 complaints in the first eleven months of 2011. We are seeing similar patterns in complaints passed to us by debt advice agencies.

8. The main areas of concern we see are:

- The misuse of continuous payment authority – where lenders use the facility to take payments direct from a consumer’s bank account to recover repayments where a consumer has defaulted, which may result in the borrower incurring unauthorised overdraft charges or struggling to meet priority debts (such as mortgage repayments) and essential living expenses.
- Rollover of loans – which can significantly lengthen the repayment period and rapidly escalate the outstanding debt.
- Irresponsible advertising and sales practices – for example, lenders emphasising access to quick cash, such as “decisions in seconds” or transfer of funds within an hour. An emphasis on speed may mean affordability assessments are not conducted properly and consumers are not given a clear explanation of the product and associated risks.
- Targeting potentially vulnerable consumers –such as the disabled, the unemployed or those with bad credit histories, including concerns that in many cases such lenders may not be conducting appropriate credit checks and affordability assessments.
- Transparency concerns – this includes a lack of clarity about who consumers are dealing with, with websites not making clear whether they are a lead generator, broker or lender, and not providing basic contact details.
- Treatment of customers in arrears and default – evidence of unfair debt collection practices and a failure to exercise forbearance and consideration towards borrowers in financial difficulty.

9. In light of our significant concerns about the market, we are tightening our approach to the scrutiny of new applications and renewals for the sector, alongside a programme of investigatory and enforcement action.

10. The OFT has conducted an initial advertising sweep of a sample of online payday loan websites. This has identified a number of examples of the issues set out above. These include:
 - A lack of transparency regarding the product on offer.
 - No or inadequate affordability assessments.
 - Absence of adequate pre-contract explanations.
 - A lack of clarity regarding arrears handling and charges.
11. A more comprehensive advertising sweep is currently being undertaken, encompassing a more diverse spread of websites of approximately 50 lead generators and firms which are not members of a trade association.
12. To date, the OFT has taken enforcement action against two payday lenders. In late 2010 we imposed requirements on CIM Technologies Ltd, trading as "Toothfairy Finance Ltd" and on Safeloans, trading as "Paydayok", for a range of breaches including misuse of continuous payment authority. We also took action in April this year to shut down 10 unlicensed payday lead generation websites targeting people with disabilities, military personnel and their families, and consumers with poor credit histories as part of a wider action against unlicensed lead generators. Other action is ongoing but we are unable to comment on active investigations.
13. The OFT will launch a review of compliance with the Irresponsible Lending Guidance in the payday lending market in the New Year. The review, the detail of which we are still working on, will assess and test wider compliance levels across the sector, identify practices harming consumers and assess reasons for non-compliance. We intend to use the findings to take further enforcement action, where appropriate, and as the basis for ongoing liaison with the industry to drive up standards.
14. In parallel, we will take appropriate enforcement action on the basis of non-compliant online advertising identified in the sweeps described above.
15. At this stage, we expect to launch the compliance review early in the new year. We will publish details of any resulting enforcement action as

and when cases are completed.

ANNEXE A – KEY OFT GUIDANCE DOCUMENTS

Irresponsible Lending Guidance. Revised and updated February 2011. Sets out guidance for creditors on the practices OFT considers may constitute irresponsible lending. Applies to all creditors and covers each stage of the lending process from advertising and marketing through to the handling of arrears and default.

Debt Collection Guidance. Revised and updated October 2011. Covers all firms involved in the recovery of consumer credit debts, including creditors, debt collection agencies, debt purchasers and tracing agents. Significant updates were made this year to take account of market changes, including the growth of debt purchase and debtor tracing and the emergence of new practices such as the use of continuous payment authorities.

Debt Management Guidance. Revised and updated guidance to be issued January 2012. This covers all firms engaged in debt management activities, both fee charging and free-to-client. Significantly updated following the recent compliance review to take account of market developments and to set out more explicitly specific examples of practices the OFT considers unfair or oppressive.

Mental Capacity Guidance. Issued September 2011. Seeks to provide clarity for creditors on the OFT's expectations of them in relation to the treatment of borrowers with known or suspected mental capacity issues, particularly in the context of responsible lending and borrowing decisions. Aims to afford better protection to particularly vulnerable consumers from unsustainable borrowing, whilst also ensuring that they are not inappropriately denied credit.

Guidance for Credit Brokers and Intermediaries. Issued November 2011. Sets out the OFT's expectations of brokers and intermediaries, in particular in respect of transparency with regard to their status and the nature and amount of any consideration received. Clarifies what the OFT considers to be the responsibilities of relevant businesses (primarily creditors) for the activities of third parties with whom they do business.

Second-Charge Lending Guidance. Issued July 2009. Applies to all firms offering second mortgages and secured personal loans.

ANNEXE B - SUMMARY OF OFT ACTIVITY 2010-11

Licensing Applications	Enforcement	Licensing Decisions and Appeals
<p>The OFT received:</p> <ul style="list-style-type: none"> • 7,552 new Applications • 5,718 renewal Applications • 3,239 variation Applications <p>The OFT exceeded its Key Performance Indicator (KPI) target of over 90% of low risk cases completed within 25 working days and the KPI target of over 75% of high risk cases completed within 90 working days</p>	<p>The OFT received 4,830 complaints about licensed traders.</p> <p>The OFT served 124 notices on applicants and licensees about their fitness to be granted, or to retain, a licence. This included:</p> <ul style="list-style-type: none"> • 75 'Minded to revoke' an existing licence • 25 'Minded to refuse' an application for a licence • 7 'Minded to refuse renewal' of an existing licence • 1 'Minded to revoke or refuse the variation of terms' • 1 'Minded to grant in different terms' • 1 'Minded to refuse application to vary' • 1 'Minded to refuse renewal of an existing licence and compulsory vary' <p>The OFT also issued 13 'Minded to impose requirements' notices</p>	<p>OFT adjudicators considered 106 licensing cases:</p> <ul style="list-style-type: none"> • 13 favourable determinations • 67 adverse determinations • 2 applications withdrawn • 15 licences surrendered • 1 licence expired • 16 OFT 'minded to' notices withdrawn • 26 cases still under consideration at the end of the period <p>The First Tier Tribunal considered 17 appeals against decisions taken by OFT adjudicators:</p> <ul style="list-style-type: none"> • 0 appeals upheld • 2 appeals dismissed • 2 appeals struck out • 4 appeals withdrawn • 9 appeals still under consideration at the end of the period

Key actions since November 2010:

- 2 November 2010: OFT crackdown on illegal cold-calling practices in the debt management sector – including licence removal from major lead generation firm Compensation Professionals Network Ltd (Basingstoke)
- 9 November: Requirements imposed on unsatisfactory business practices of payday lender CIM Technologies Ltd, known as Tooth Fairy Finance (London)
- 22 November: OFT acts on concerns about charging orders - requirements action against Alliance and Leicester Personal Finance Limited, American Express Services Europe Limited, HFC Bank Limited (part of the HSBC Group) and Welcome Financial Services Limited (part of Cattles plc)
- 23 November: OFT takes action against unfair debt recovery practices - requirements action against debt recovery company Aktiv Kapital (Bromley, Kent)
- 6 December: Consultation on Mental Capacity Guidance launched
- 14 December: Requirements imposed on credit card lender MBNA Europe Bank Limited to secure improvements to the way its in-house debt collection arm deals with customers in financial difficulties
- 16 December: London North Securities Limited convicted of unlicensed trading and ordered to pay £400k compensation to customers
- 17 December: Further action taken to address unfair direct debit clauses in payday loan contracts
- 20 December: OFT issues more than 50 warning letters to the home collected credit (doorstep lending) industry

2011

- 28 January 2011: OFT announces that 35 debt management firms have surrendered their consumer credit licences and that it is taking further licensing action against at least a further 15 as a result of an OFT compliance review
- 11 February: OFT revokes the credit licences of two associated businesses NIZ Financial (UK) Ltd (Stockport) and First Money Direct Ltd after uncovering unfair business practices. OFT warns the credit broking market to improve the way they deal with customers' upfront fees or risk losing their licences
- 22 February: Requirements imposed on Money Advice Direct Limited (London), a lead generating firm introducing people to debt advice providers via its website
- 15 March: OFT consultation on revisions to the guidance for group licensing closes. Amendments and updates to the guidance to follow
- 30 March: OFT launches consultation on revised debt collection guidance
- 8 April: Closure of 19 unlicensed lead generation websites
- 15 April: OFT revokes companies' licences for misleading IVA mailings
- 1 June: OFT announces package of measures to address concerns over credit practices and publishes its Which? super-complaint response
- 14 June: Revised debt management guidance published
- 5 July: OFT revokes the licence of debt management company, Parkgate UK Limited

(Haywards Heath), after it sent a threatening letter to a debt collection agency

- 22 August: After seeing a 50 per cent year-on-year rise in complaints about loan scams the OFT issues a consumer alert warning people to steer clear of scam loan companies who take upfront fees but fail to provide credit or offer clearly unsuitable credit alternatives
- 13 September: The OFT warns companies collecting consumer credit debts to make sure they communicate clearly and fairly and do not mislead consumers after the First-tier Tribunal upheld the OFT's decision to revoke the consumer credit licence of Carltons Business Limited (Dartford, Kent)
- 21 September: The First-tier Tribunal upholds the OFT's decision to revoke the licence of JST Financial Solutions Limited (JST) because the company allowed a convicted fraudster to become involved in its business
- 28 September: Revised mental capacity guidance is published
- 10 October: The OFT takes action against a further three debt management businesses as part of its ongoing enforcement work in the sector (Prime Legal and Financial Services (PLFS), Mile End, London; Midlothian-based Deric Hamilton Oliver; and London-based Money Advice Direct Limited (MADL))
- 19 October: Updated Debt Collection Guidance published
- 18 November: OFT welcomes Tribunal's decision to strike out Log Book Loans' appeal
- 24 November: OFT publishes guidance for credit brokers and intermediaries

ANNEXE C – FINANCIAL AND OPERATIONAL INFORMATION

Budget and resources

The regime is fully funded through the licence fee. Our budgeted income for 2011/12 is approximately £10 million. This is raised by a fee of £435 for sole trader or £1075 for other firms when applying for or renewing a licence. As the fee is collected on a five year cycle this is equivalent to an annual fee of £87 or £215 respectively. In addition, all firms pay a flat levy of £150 to fund the Financial Ombudsman Service, which we collect on their behalf alongside the fee.⁸

As at November 2011, 126 staff are employed full time in the delivery of the current consumer credit regime. Of these:

- 61 are engaged in investigation and enforcement, including sectoral compliance reviews,
- 28 are engaged in the licensing function,
- 14 are involved in developing industry guidance and policy and collating market intelligence.
- 13 are dedicated lawyers and adjudicators
- 10 provide business support functions

Back office, communications, infrastructure and governance functions are provided by OFT centrally, met by a financial contribution reflecting Credit Group's share of total OFT overheads.

Licensed population, application levels and fees

As at November 2011 there were approximately 84,000 consumer credit licenceholders, of whom 50,500 have obtained or renewed their licences under the new standards introduced in April 2008 by the Consumer Credit Act 2006 (CCA06). An estimated 53% of consumer credit licenceholders

⁸ Excepting those firms that are authorised by the Financial Services Authority and have therefore already paid the levy via this route.

describe their primary activity as some form of financial services provision (including debt related services). The remainder engage in wider retail activities, mostly introducing consumers to credit to finance the purchase of goods and services.

32% of licensed firms are sole traders, 8% partnerships, around 58% corporates, and 2% others such as charities and clubs. An estimated 70% of licenceholders are micro-enterprises, employing fewer than 10 people. The number of credit licence applications has been steadily declining over a number of years. The table below illustrates the decline in applications since April 2008 along with the income generated under the regime.

Year	New Applications	Renewals	Variations	Total	Income (£k)
2008-09	11,068	7,050	4,233	22,351	£9,233
2009-10	8,475	6,828	4,017	19,320	£10,322
2010-11	7,552	5,718	3,239	16,509	£9,236
2011-12	6,413	4,846	2,747	14,006	£10,004

Applications for a new licence, and for renewal or variation of an existing licence attract a charge. There are different new and renewal application fees for sole traders and other firms. Applications for group licences and directions under s60(3) [waiving of certain requirements regarding form and content of documents embodying regulated agreements] and S101(8) [dis-application of certain conditions for hire agreements] of the Act also attract a fee.

The vast majority of income generated under the regime is through new and renewal applications. The fees charged for new and renewal 5 year licence applications are as follows:

- £435 (equivalent to £87 pa) for a sole trader
- £1075 (equivalent to £215 pa) for other applicants

The table below shows changes to the level of new and renewal application fees since the changes introduced by CCA06 were implemented in April 2008.

	Sole Traders	Others
2008-09	230	575
2009-10	330	820
2011-12	435	1075

ANNEXE D - HIGH-COST CREDIT STUDY: SUMMARY OF FINDINGS

The study found some positive features of high-cost credit markets:

- They fill a gap in the market not served fully (or at all) by mainstream financial suppliers, providing significant groups of consumers with access to lawful credit that they might not otherwise have.
- There is evidence with some products that lenders show a degree of forbearance towards those with repayment difficulties and do not penalise borrowers when payments are late or missed.
- The level of complaints from consumers was low at the time of the review.

However, the study also found problems with competition in the market:

- On the demand side, there was relatively low ability and effectiveness of consumers in driving competition between suppliers, given their low levels of financial capability.
- On the supply side, sources of additional supply such as mainstream financial suppliers seemed to be limited.
- In such circumstances, competition on price is limited and there appeared to be some suppliers charging higher prices than would be expected.

The study made a number of recommendations, under the following headings:

- **Helping consumers make informed decisions on high-cost credit** – e.g. extending financial literacy programmes to cover high-cost credit, making comparisons between products easier through the use of comparison websites, and considering whether providers could be required to include 'wealth warning' statements in advertisements for high-cost credit
- **Increasing the ability for consumers to build up a documented credit history when using high-cost credit**, with Government and credit reference agencies to explore ways in which providers could provide suitable information to credit reference agencies about the payment performance of their customers

- **Enhancing understanding of developments in the high-cost credit sector**, through OFT collecting information on the high-cost credit sector, such as the volume, value and pricing of credit, levels of repeat business and default levels among customers
- **Promoting best practice among suppliers of high-cost credit**, through the relevant trade associations for home credit suppliers, payday lenders and pawnbrokers establishing a code or codes of practice covering best practice policy.