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## High-cost consumer credit – summary of responses to the informal consultation

2 July 2009

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### **Summary of responses**

1. In response to a short informal consultation on the proposed credit review the OFT received over 20 responses. The responses represented consumer bodies and lenders, including their trade associations and related bodies, in equal measure.

#### **Scope of the review**

2. Over two thirds of the respondents did not disagree with the proposed scope of unsecured credit. A number of respondents welcomed the fact that secured credit would be looked at where it acts as a substitute for unsecured lending, in particular second charge mortgages.
3. Some of the lenders either questioned the need for the work to be done, particularly at this point in time because of other ongoing initiatives, or felt the review should either be of a more fundamental nature or be looking at entirely different issues.

#### **Issues to be addressed**

4. The OFT identified four key issues for possible investigation: consumer behaviour and decision-making; the degree of transparency in pricing,

how risk-based pricing operates; and, whether the right incentives are in place for suppliers to provide the right products for consumers.

5. A few lenders were unclear why the four areas had been chosen. However, the vast majority of respondents were content with the proposed issues and suggested either more detailed areas which could be looked at under each issue or additional issues for investigation.

Consumer behaviour and decision-making

6. Information/education and responsible borrowing emerged as areas for greater investigation in relation to consumer behaviour and decision-making. The lack of financial literacy amongst consumers was seen as an important issue because it was felt that most consumers do not understand the agreements they enter into. Responsible borrowing by consumers was considered to be crucial by lenders in order to avoid problems and it was argued needed to be a focus on whether documentation had been read, the information providing was accurate, there was self-appraisal of affordability, circumstances were reviewed periodically and whether early advice of changing circumstances was given.
7. Some respondents suggested that an investigation of the practices of claims management companies could be included under consumer behaviour.

Degree of transparency in pricing

8. Consumer financial literacy was also considered an important feature when looking at transparency in pricing. It was argued that vulnerable consumers have little or no understanding of APRs or financial terms and conditions more generally.
9. Possible overlap with the Consumer Credit Directive was raised especially as one of its stated aims is to make the credit market across Europe more transparent.

How risk-based pricing operates

10. The responses on risk-based pricing were mixed. It was argued that the way risk-based pricing operates should be transparent enough for consumers to understand the cost of borrowing and that the lending criteria used by lenders should be investigated
11. On the other hand it was suggested that risk based pricing should be considered in the context of unfair relationships under the Consumer Credit Act 2006. Also, ongoing work of BIS' Consumer Finance Forum needed to be taken into account.

Whether the right incentives are in place for suppliers to provide the right products for consumers.

12. There were few comments on this issue. One suggestion was that remuneration practices in the sector should be looked at, particularly incentives for credit products and associated services (such as payment protection insurance). Another respondent made the point that the ever increasing regulatory requirements were also seen as a disincentive and placed a constraint on new products, innovation and new entrants and therefore needed to be reviewed.

#### **Issues relating to credit reference agencies (CRAs)**

13. The OFT had asked respondents to consider whether there were any issues that should be considered in respect of CRAs, which play a role in informing responsible lending decisions. A large number of issues were in fact raised in relation to CRAs. These were typically against lenders that supplied information rather than the CRAs as information holders.
14. On lender behaviour, it was argued that improvements in the quality and accuracy of information held by credit reference agencies should be encouraged. There was also concern that a large number of debts still did not show up on credit reference files, such as those from small lenders and from rent arrears and the like.
15. Another important issue was access to data and data sharing about which there were mixed views. Lenders argued that they are

progressing towards gradually increasing use of responsible lending tools including affordability assessment. However, others argued that pressure to allow full access to the electoral roll register for marketing purposes should be resisted given the many and varied scams and cold calling techniques employed by some companies of dubious quality.

16. With regard to the practices of the CRAs, it was suggested that the quality of data supplied by CRAs needed to be looked at, particularly in the case of a trace (where a particular debtor has changed addresses) because it was alleged that the majority of data was incorrect.
17. The number of CRAs was also deemed to be problematic for some lenders such as credit unions (although most lenders welcomed competition). It was also considered very confusing for consumers to find that there are more than three credit reference agencies that they can approach to check their files.

#### **Additional areas for investigation**

18. There were a large number of suggestions for other issues that could be investigated. This included, payday loans and more generally the impact of high cost lending on low-income and vulnerable consumers, misleading advertisements, lender behaviour more generally, debt management and recovery, a review of legislation such as the Consumer Credit Act 2006 'unfair credit relationship' test, the implications of greater market concentration for choice and competition, and, the implications in the UK of developments in the USA.