

Regulatory fees and levies: policy proposals for 2014/15 (CP13/14) – revised proposals on consumer credit application fees

CP13/14**

December 2013

We are asking for comments on this Supplement to the Consultation Paper by 16 January 2014.

You can send them to us using the form on our website at: <http://www.fca.org.uk/your-fca/documents/consultation-papers/cp13-14-response-form>.

Or in writing to:

David Cheesman
Finance Division – Fees Policy
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

Telephone: 020 7066 5406

Email: cp13-14@fca.org.uk

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

You can download this Supplement from our website: www.fca.org.uk. Or contact our order line for paper copies: 0845 608 2372.

Contents

1	Overview	4
2	Revised proposals on consumer credit application fees	5

1 Overview

Introduction

- 1.1 This paper presents an amendment to the proposed application fees for firms seeking full consumer credit permissions that we originally set out for consultation in paragraphs 2.16 to 2.24 of our consultation paper on *Regulatory fees and levies: policy proposals for 2014/15* (CP13/14).
- 1.2 We have reviewed our original proposals in the light of discussions we had with firms and trade bodies at a number of roadshows across the country and comments that have been submitted to us as part of the consultation exercise.
- 1.3 The proposals relate to Question 1 of CP13/14, which asked: 'Do you agree with our proposals for consumer credit application fees?'
- 1.4 Our amendments do not change the consultation question, but anyone who has already responded may wish to reconsider Question 1 and send us a new response by 16 January 2014.
- 1.5 For more information on the background and context, please refer to CP13/14 and to our consultation paper on *Detailed proposals for the FCA regime for consumer credit* (CP13/10).

Who does this affect?

- 1.6 The paper affects any firm considering undertaking consumer credit business from 1 April 2014 onwards.
- 1.7 As firms will in the long run recover their costs from their customers, retail consumers and consumer groups may be interested in our charges.

Next steps

- 1.8 Please consider these amendments along with the other proposals in CP13/14 and send us your comments by 16 January 2014, using the online address form on our website or by writing to us at the address on page 2. The consultation deadline for all the remaining questions in the CP is still 6 January 2014. We will consider your comments and publish our feedback along with our rules through a policy statement in February or March 2014.

2 Revised proposals on consumer credit application fees

Background

- 2.1 During November 2013, we held ten roadshows across the country to engage with firms and trade bodies about our proposals in CP13/10 and on the fees structure for the new consumer credit regime set out in Chapter 2 of CP13/14. It became clear from these discussions, and from the first responses to CP13/14, that our proposed application fees might constitute a significant barrier to entry for some small firms. Rather than wait until we provide formal feedback after the consultation period closed, we decided it would be more helpful to firms to issue amended proposals as soon as possible.
- 2.2 This paper revises the charges we proposed for firms seeking full consumer credit permissions. We are not revising our proposals on application fees for limited permissions, or any other proposals in the CP.

Original proposals for firms seeking full permission

- 2.3 Our original proposals for firms seeking full permission were based on our structure of charges for firms applying for other Part 4A permissions under the Financial Services and Markets Act 2000 (FSMA). These are based on three categories of complexity as an indicator of the resources we expect to put into assessing them – straightforward, moderately complex and complex. We do not in practice recover the full cost of assessment from the applicants themselves. The costs are shared with existing firms through their periodic fees. This is partly to avoid the risk of application fees acting as a barrier to market entry, partly because all firms benefit from operating in a market that has enhanced integrity due to us ensuring firms meet our threshold conditions before they can enter it.
- 2.4 For consumer credit, we added a fourth ‘very complex’ category.
- 2.5 Our proposals for our application fees were set out in Table 2.1 of the CP.

Table 2.1: consumer credit application fees – original proposals

Limited permission

Firms with annual consumer credit income up to £50,000	£100
All other firms	£500

Full authorisation

<i>Straightforward</i>	£1,000
• Credit broking	
• Providing credit information services	
<i>Moderately complex</i>	£5,000

- Entering into a regulated credit agreement as a lender, or exercising or having the right to exercise rights and duties under a regulated credit agreement (excluding in relation to high-cost short-term credit, bill of sale loan agreements and home credit loan agreements)
- Exercising or having the right to exercise the rights or duties of a lender (excluding in relation to high-cost short-term credit, bill of sale loan agreements and home credit loan agreements)
- Entering into a regulated consumer hire agreement as an owner
- Exercising or having the rights to exercise rights and duties under a regulated consumer hire agreement
- Operating an electronic system in relation to lending
- Debt collecting
- Debt administration
- Exercising or having the right to exercise rights and duties under a regulated credit agreement

Complex £10,000

- Entering into a regulated credit agreement as a lender, or exercising or having the right to exercise rights and duties under a regulated credit agreement, in relation to high-cost short-term credit, bill of sale loan agreements and home credit loan agreements
- Exercising or having the right to exercise the rights or duties of a lender in relation to high-cost short-term credit, bill of sale loan agreements and home credit loan agreements
- Debt adjusting
- Debt counselling

Very complex £15,000

- Providing credit references

- 2.6 We proposed this structure because we believed small firms would fall into the 'straightforward' category.
- 2.7 It has become clear that this is not the case. A large number of small firms, including firms with incomes under £50,000, would fall into the higher fee-bands. For such firms fees of £5,000 - £15,000 might constitute a significant barrier to entry. We are mindful of the need to set fees at a level that should not unduly prevent firms from entering the market.
- 2.8 Excluding small firms from the market would reduce the range of choices available to consumers and restrict opportunities for entrepreneurial start-ups to challenge existing market participants.

Revised proposals for firms seeking full permission

- 2.9 We therefore propose to modify the complexity categories to take account of the size of business. Adapting the model we proposed for limited permissions, we would scale the charges within each category according to firms' consumer credit income. To keep the matrix as simple as possible, we are also merging the 'Complex' and 'Very complex' categories. We are proposing to charge some of the smaller firms less than the

minimum of £1,000 in our original structure. The smallest home collected credit lenders and debt management firms would pay a fee of £1,000 while the smallest brokers would pay £600. We are restricting the fee-bands for the largest firms to the maximum of £15,000 we had proposed for 'Very complex' applications. We believe our revised structure should ensure that application fees will not be a significant barrier to entry.

- 2.10 Our revised proposals are set out in Table 2.1a.

Table 2.1a: consumer credit application fees – revised proposals

		Consumer credit income		Up to £50k	Over £50k
<i>Limited permission – no change</i>				£100	£500
		Full permission – revised matrix			
Category		Up to £50k	Over £50k to £100k	Over £100k to £250k	Over £250k to £1m
Straightforward		£600	£750	£1,000	£1,500
Moderately complex		£800	£1,000	£1,500	£5,000
Complex		£1,000	£1,250	£2,000	£7,000
					£15,000

- 2.11 The fee for an application to vary permission by adding credit activities would be 50% of the relevant authorisation fee for the activity added, based on the projected consumer credit income for the 12 months following the change (except where a firm with existing credit activities is applying to add a straightforward activity, where the fee would remain £250 as proposed in CP13/14).
- 2.12 Our consultation question remains as published in CP13/14, but we are extending the consultation period on this question to 16 January 2014, to give firms time to respond to it. The consultation deadline for all other questions in the CP remains 6 January. The question is:

Q1: Do you agree with our proposals for consumer credit application fees?