

**Reform of the UK's Financial Sector:
Addressing Financial Exclusion
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Why regulate payday lending?

- FCA review found:
 - Unacceptable practices: including failure to recognise customers in financial difficulty
 - Failure to direct people to free debt advice
 - Inflexible payment options
- FOS found:
 - High costs
 - Unfair or multiple charges
 - Excessive use of CPAs
- Business model reliant on consumer default

Who was using HCSTC loans?

- Younger (under 35 years)
- Lower income
 - 32% <£12k
 - 60% <£18k
- Financial position already deteriorating

Since price cap introduced January 2015

- Experience of StepChange
 - Payday debt callers fallen by 10%
 - More callers have turned to family and friends
 - Fewer callers with credit card debt
 - Home credit problem debt has increased slightly
 - Overdraft debt remains unchanged
 - Callers with guarantor loan problems increased from 500 (2012) to 4000 (2015).
 - Indications that payday products are mutating into longer term, higher value loans
 - Providers seeking lower risk borrowers
 - Increase in “distress debt” (CAB also experiencing this, plus increase in calls regarding log book loans)

Possible scenarios developing

- Longer terms loans offered to avoid the scrutiny attracted by rollover loans
- Rollovers between firms (sequential borrowing)
- Guarantor loans growing rapidly
- Rise in log book (“Bill of Sale”) loans

Risks for the Financially Excluded (and friends and family...)

- Inadequate explanation of the consequences of guaranteeing loans
- Demutualisation of risk (reduction in cross-subsidy)
- Rollovers between firms (sequential borrowing) leading to spiralling debt and additional interest and fees costs
- Inadequate protection for log book (“Bill of Sale”) borrowers
 - Terms and conditions unclear and out-dated
 - Poor debt collection practices
 - Lack of affordability checks
 - Poor practice dealing with customers in financial difficulty
 - No court order required for repossessions
 - Punitive fees and charges (releasing car from repossession: £1000; agent fees for early settlement: £480; charge for a phone call: £12).

Who has a role in mitigating risks?

- FCA:
 - Regulate guarantor loans effectively, and apply full weight of FCA regulation to overdrafts
 - Work closely with Illegal Money Lending Teams
- More effective real-time data sharing (to prevent sequential loans)
- Law Commission to review log book lending law – needs updating urgently
- Credit Unions and Community Development Finance Institutions (for planned borrowing)
- Long term, government-led solution for the gap in the market: short term, small amounts of credit
- Effective welfare state support: review effectiveness of local authority welfare assistance schemes