

High-cost credit - findings and proposals

May 2018

A third of the 52 million personal current account users in the UK use arranged overdrafts, and a quarter use unarranged overdrafts, while more than 3m consumers use the other forms of high-cost credit below. Our proposed consultation package could generate more than £200m per year in savings for some of the most vulnerable consumers, and we are doing far-reaching further work on overdrafts and rent-to-own.

Overdrafts



Harms: high and complex pricing, repeat use, low customer engagement and awareness.

We are considering radical options to ban fixed fees and end the distinctions between how arranged and unarranged overdrafts are priced, as well as tackling harm from repeat use. We will consult on any proposals in late 2018, as part of our wider review of banks' business models.

We are consulting now on reforms to help consumers better engage with and understand overdrafts, by providing digital eligibility tools, better information and alerts to address unexpected overdraft use.

Rent-to-own



Harms: very high costs, warranty products can be of limited value.

We believe the case in principle is made to consider a cap on rent-to-own pricing.

We will now do the necessary detailed work to assess the impact any cap could have and what we should do next. We remain open to any alternative solutions. We aim to introduce changes, if appropriate, by April 2019.

We are consulting now on a ban on the sale of extended warranties at the point of sale.

Catalogue credit and store cards

Harms: expensive long-term debt, lack of customer choice and control over credit limit increases, poorly understood promotional deals ('buy now pay later').

We are consulting on new rules to:

- require firms to do more to help customers in long-term persistent debt to repay more quickly, and to find and help customers in financial difficulty
- give customers more choice about whether their credit limits are increased, and ensure that firms do not raise limits for customers in difficulty or the interest rate on their accounts
- make firms explain 'buy now pay later' deals more clearly and prompt customers to avoid unexpected interest charges



Home-collected credit



Harms: long-term use by a small core of customers, some customers being unduly influenced to keep borrowing, issues around refinancing of existing loans.

We are consulting on:

- guidance to make clear that firms must not visit customers to offer new loans or refinancing unless the customer requests this
- rules requiring that firms give consumers a clear explanation of the comparative costs of taking out a new loan and refinancing an existing one

Alternatives to high-cost credit

We are working with Government and other stakeholders to encourage availability of reasonably priced alternatives, and will continue to do so.

We are consulting on guidance for social landlords on referring tenants to alternative credit providers, and we recommend that the Department for Work and Pensions revisit its 2013 guidance.

We are continuing initiatives to encourage innovation and increase access to sustainable capital for alternative credit providers.