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Consumer Credit Policy  
Strategy and Competition Division  
Financial Conduct Authority  
25 The North Colonnade  
Canary Wharf  
London E14 5HS

14 March 2016

Dear Sir/Madam,

## **GC16/2 – Proposal to issue guidance on the FCA’s view of enforcing security under the Consumer Credit Act 1974**

The Financial Services Consumer Panel welcomes the FCA’s reconsideration of whether *taking or demanding payment from a guarantor would amount to ‘enforcement’ of the security*.

The Panel is pleased that the FCA has kept the guarantor loan sector under review, and we welcome these proposals to adapt the regime accordingly.

The Panel has been particularly concerned about the rise in guarantor loans. Many consumers seeking guarantor loans will have limited, or no, access to other sources of credit. They may help some consumers with ‘thin’ or adverse credit files to borrow but in general, there should be a very limited role for guarantor loans in the consumer credit market. If lenders are conducting appropriate affordability checks, it should be quite rare for them to have to call on guarantors.

It is likely that many guarantors do not understand the nature of their liability, believing they are simply providing a reference for the borrower. In its 2015 report into the guarantor loan market<sup>1</sup>, Citizens Advice said that 43% of guarantors who sought their help raised an issue concerning the extent of their responsibilities. Many of these guarantors were unaware that they took on the full responsibility for loan repayments in the event of default, when they guaranteed a loan.

As we have said previously, the Panel believes that guarantors should receive additional information post-contract, including annual statements and arrears notifications. We do not believe it is acceptable for lenders to remove money from a guarantor’s account without prior warning. At the very least, this would not meet the requirements of Principle 6 (treating customers fairly).

So the Panel welcomes the FCA’s view that, if the creditor wishes to request or take payment from a guarantor following non-payment by the debtor, the creditor must first serve a default notice on the debtor (and provide a copy to the guarantor) and allow at least 14 days for response. However, we also believe it is important for the guarantor to

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<https://www.citizensadvice.org.uk/Global/CitizensAdvice/Debt%20and%20Money%20Publications/AProblemShared.pdf>

be told the outcome by the lender after the 14 days has elapsed, as this will have a direct impact on them, and it should not be assumed that the debtor will tell them.

Guarantors should be seen as a backstop rather than a direct source of repayment. Accordingly, borrowers should first be treated with forbearance in cases where they want to avoid their guarantor becoming liable. When a guarantor is actually required to make a repayment for a loan, firms should be required to provide both adequate notice and sufficient time to meet their liability.

Yours sincerely

A handwritten signature in cursive script, appearing to read "S. Lewis".

Sue Lewis  
Chair  
Financial Services Consumer Panel