Consultation Response

StepChange Debt Charity response to the FCA Call for Input: High-cost credit and review of the high-cost short-term credit price cap

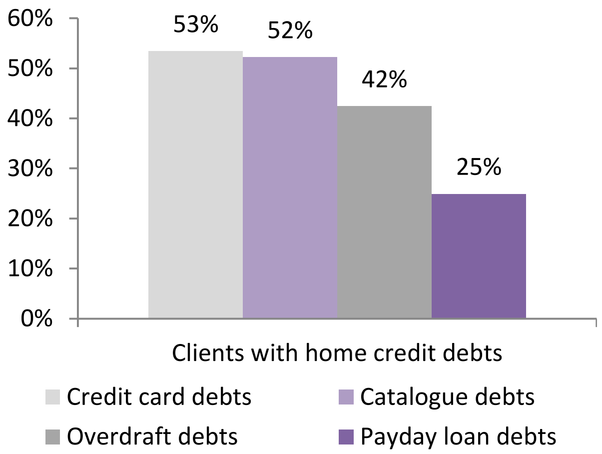
February 2017

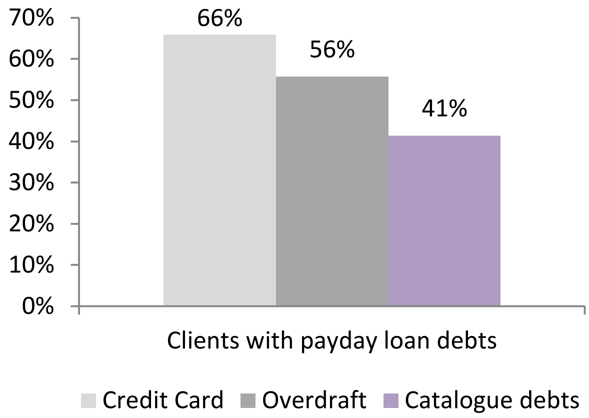
StepChange Debt Charity London Office
6th Floor, Lynton House, 7-12 Tavistock Square, London WC1H 9LT
Policy Contact: Laura Rodrigues
Tel: 0207 391 4589
Email: laura.rodrigues @stepchange.org

Introduction

StepChange Debt Charity welcomes the opportunity to respond to this call for input on high cost credit and review of the high-cost short-term credit (HCSTC) price cap. We are the largest specialist debt advice charity operating across the UK. In 2016 some 600,000 people contacted our telephone helpline or online debt remedy tool for advice and information about problem debt. This response is based on our client's experiences of using high-cost credit and overdrafts.

We support the decision by the FCA to expand the review of the HCSTC price cap into a broader call for input into high cost credit as a whole. A holistic approach is welcome as our evidence supports the FCA finding that consumers of high cost credit are likely to be using several of these products or switching between them. For example, 41% of our clients with payday loan debts also have catalogue debts and of our clients with home credit debts, 52% have catalogue debts and 25% have payday loan debts as the chart below indicates.[1]





There is also considerable overlap between high cost credit products and mainstream products that can also be high cost as for example, of our clients with payday loans debts the majority have credit card and overdraft debts (66% and 56% respectively). Also of those with home credit debts, 53% have credit card debts and 42% have overdraft debts as the chart above shows. The use of mainstream credit products that can also be high cost are also important as part of this call for input. An exploration of the detriment caused and levels of protection across different forms of high cost credit products is essential to ensuring better outcomes for consumers using this market.

The FCA needs to look across all credit products that can be high cost and identify where they are and can cause consumer detriment and push consumers into financial difficulties and establish what particular new or further interventions are necessary to minimise the harm these products can cause. This review also needs to ensure there is a consistency of regulation across all these products and establish what general principles should apply across all forms of high-cost credit. For instance, **the principle established by the price cap on HCSTC that no borrowers should have to repay more than 100% of what they borrowed should be applied across other high-cost products.**

Other high cost credit products

Our response illustrates the main issues with high cost credit products (excluding HCSTC) including poor lending practices, complex lending terms and a lack of price transparency and concerns about the treatment of customers in arrears. The following summarises our proposals for how these could be addressed:

- The FCA should consider putting in place a rule that guarantor lenders can only seek to recover the original balance outstanding from the guarantor when a borrower has defaulted.
- Creditworthiness assessments for guarantors should be strengthen further so firms are required to ensure that guarantors are able to meet repayment commitments without causing them detriment and financially difficulties.
- The FCA should ban compulsory warranties from being a condition of rent to own credit agreements, and ensure that rent to own customers are not pressured into - or forced to buy - service cover at point of sale.
- FCA should ensure repossessions of vehicles in logbook loans only takes place as a last resort after all other reasonable attempts to solve the position have failed. We would also urge the FCA to look further into the adequacy of affordability assessments in logbook lending.
- The FCA should assess outstanding issues with consumer detriment following the Competition Commission 2013 evaluation of their home credit remedies including whether the limit on the number of rollovers in HCSTC should be extended to home credit.

Overdrafts

Persistent overdraft debt, where what is designed as short-term credit becomes long-term borrowing is a serious concern with more than half (52%) of our clients having overdraft debts. This can arise because households on tight budgets are regularly going overdrawn, reaching or going over their overdraft limits, and experiencing the build-up of interest and charges. These charges then make it even more difficult to escape from the cycle of overdraft use.

There are particular issues with unarranged overdraft charges as they can push those already struggling further into financial difficulties. On average our clients exceeded their overdraft limit in five out of the last 12 months and were charged around £45 for doing so, culminating in them facing around £225 in unarranged overdraft charges. The Competition and Market's Authority identified this issue and have ordered the banks to set their own monthly maximum unarranged overdraft charges. However, with banks accumulating £1.2 billion in revenue per year from these charges it is unclear how this remedy will lead to a significant reduction in the level of charges consumers pay and the detriment that this causes . We believe **the FCA is best placed to balance the interests of lenders and consumers and set an effective and fair cap on unarranged overdraft charges.**

There are also issues with consumers struggling to get out of their arranged overdraft or regularly going in and out of their arranged overdraft. This also leads to the build-up of interest and charges that can lead to unmanageable, problem debt. The FCA has identified the issue of persistent credit card debt in the Credit Card Market Study and proposed earlier forbearance to ensure that lower cost alternative credit is offered to those who are building up problem debt. **This same early forbearance should also be applied to overdraft debts by the FCA requiring banks to separate the overdraft debt from the transactional banking facilities by offering them a basic bank account and an affordable way to repay their debt separately**.

High-cost short-term credit (HCSTC)

FCA regulation has made a difference to the HCSTC market. We have seen a significant fall in the number of people coming to us with HCSTC debts as in 2013 23.4% of our clients had HCSTC debts and in 2016 this had fallen to 16.3% of clients.

However, we have concerns about the risks for consumers of using HCSTC post-cap. Our evidence suggests there are still some issues with lending practices and multiple loans with over a third of our clients with HCSTC debts having three or more of these debts. In order to tackle this, **the FCA should strengthen their rules on responsible lending including turning their existing guidance on responsible lending into rules.** It would also be useful to get an update from the FCA on what proportion of HCSTC lenders are sharing data in real-time and searching real-time databases in 2017. If this is not widespread, we would urge **the FCA to take action and mandate real-time data sharing across the whole of the HCSTC market.** There are also continued issues with how HCSTC lenders treat customers in arrears and default. The FCA should evaluate the progress firms have made following the thematic review into this issue in 2015 to assess whether improvements have been made and further interventions may be necessary.

There has also been a shift from one month payday loans to more medium-term instalment loans. Giving customers a longer period to repay and breaking up repayments into smaller chunks can be beneficial, but it can also mean interest builds up over a longer period making borrowing more expensive overall. **The FCA should explore as part of their review of the price cap, what the implications of the shift to instalment loans are for the appropriate level of the price cap.**

The question has been asked about where consumers will go if they are declined when they apply for HCSTC. Our client survey showed the most common options were to missing another bill or credit payment, to borrow from friends or family or borrow from other lenders (including other HCSTC, credit cards and overdrafts). Only very few reported that they were turning to illegal lenders. We think there is a broader question of where financially vulnerable households in general can turn if commercial credit is not a viable option. This issue clearly sits across the FCA remit but is also on a boundary with public policy. **We would urge the FCA to work with the Government to identify new ways of providing greater access to more affordable credit safety nets for the most financially vulnerable.**

Q1: Which high-cost products do you think our review should focus on and do you think a more consistent approach to high-cost products is feasible or desirable?

This FCA review needs to go across the whole high cost credit landscape, by looking at the features of all products that can cause consumer harm and contribute to worsening financial difficulties. There is a clear need for the features and structure of some high-cost products to be better designed to meet the needs of their target consumers. In our response to the consultation on the FCA's Mission, we called for a stronger and more consistent approach to product governance to ensure greater consumer protection, particularly for vulnerable consumers.

This review should focus on those high cost credit products that are causing or have the potential to cause the most detriment both in quantity and in the level of detriment. The focus should be on both those products causing widespread detriment and those causing particularly high levels of detriment even if to a relatively small group of consumers. We welcome the inclusion of overdrafts in this review as they have been found to cause widespread detriment and there is clearly more work to be done to tackle persistent overdraft debt following the CMA retail banking market investigation.[2] We also welcome the acknowledgement that credit cards can be a high cost form of credit: when they become longer term borrowing products they can cause widespread detriment (see our response to the credit card market study for our views on persistent credit card debt).

The review should also focus on those high cost credit products that are causing significantly high levels of detriment to those consumers, usually in vulnerable circumstances that have to use these products as distress purchases. The FCA should review the evidence in this call for input to establish where the highest levels of detriment are being caused and focus on these products. From the evidence from our clients, we would suggest that as well as the products the FCA has already specified in the review (HCSTC and overdrafts) the focus should be on rent-to-own, home credit, guarantor loans and logbook loans.

A more consistent approach to high cost credit is certainly desirable. We acknowledge that high cost credit products have different features that can mean certain rules that would work for certain products may not work so well for other credit products. However, we think there should be a consistency of approach to high cost credit products including consistent high level principles for their regulation. For example, should regulatory interventions that the FCA has applied to the HCSTC market also apply across other high cost credit products and should some of the measures taken as part of the credit card market study be applied to the overdraft market. Credit markets should not be seen in isolation of each other. There is also a need to focus on each product individually and establish what harm they can cause and what action is needed to protect consumers (see response to questions 2, 3 and 4). The outcomes of this review should lead to better product governance, improved lending practices and arrears management across all high-cost credit lenders.

Q2: To what extent is there detriment from high-cost credit products (other than HCSTC)?

There are a range of issues with high-cost credit products which mean that they can cause detriment to consumers this can include poor lending practices to financially vulnerable borrowers. These also included complex terms of lending, a lack of price transparency and concerns about the treatment of customers in arrears and default.

The high-cost credit products (excluding HCSTC) that we see these issues with are examined in more detail below:

Guarantor loans

We have seen a significant increase in clients coming to us with guarantor loan debts. In 2016, over 10,500 clients owed money to a guarantor lender, compared to fewer than 650 in 2012 (see chart in question 14). The average level of guarantor loan debt our clients have is £4,395 which has also increased from 2012 when it was £3,109.

We welcomed work the FCA undertook to address some of the problems in the guarantor lending market (PS15/23). However, this is a market that continues to cause detriment for our clients and their families, as outlined below:

Creditworthiness assessments for guarantors:

Despite the strengthening of rules on creditworthiness assessments for guarantors, we are still concerned that guarantors are not subject to adequate creditworthiness checks.

> *Case study:*
> A client contacted their guarantor lender to let them know that she was struggling financially and her guarantor (her ex-partner) could no longer afford the monthly payments. The lender offered to lend her more money if she could find another guarantor. She did borrow the extra money and now cannot keep up with the payments, and neither can her guarantor, pushing her further into financial difficulties.

Aggressive debt collection practices

We have also seen numerous cases in which the collection practices of guarantor loan companies were aggressive and intrusive. Guarantors in particular can be threatened with a charging order or an attachment of earnings before court proceedings have even begun. We are also concerned that guarantors in particular do not always receive forbearance and due consideration when in default or arrears. If a borrower misses payments, the creditor can go straight to the guarantor and demand payment from them. Guarantors will feel the pressure of trying to help out someone they have been a guarantor for and this can be a barrier to resolving debt problems.

> *Case study:*
> A client had a debt management plan with StepChange Debt Charity that included a guarantor loan debt. The client contacted us as this guarantor lender had be contacting them wanting money to be paid outside of the plan and had also been contacting their guarantor asking for money. The lender threatened that they would be taking the client and guarantor to court and that they would recover money from the guarantor’s house if necessary.

> *Case study:*
> A client reported to us that a guarantor lender they had a debt with was contacting her and her guarantor on a daily basis wanting payment for the debt. This is despite the client explaining that she was unable to afford high repayments. This was causing considerable stress to the client and was also causing the guarantor to get annoyed with the client. This placed stress and strains on the friendship between the client and the guarantor.

> *Case study:*
> A client is a guarantor for her partner. The partner is now unemployed and stays at home to look after their child. The guarantor lender had been aggressively chasing the client for payments. For example, the lender's advisor shouted at the client saying that they could afford the payments and that the partner had let her down.

Another issue with guarantor loans is that there is often close relationship between the borrower and guarantor (e.g. a close friend or relative). This relationship can mean the borrower can be reluctant to enter into a debt solution as this will leave the guarantor liable for the loan. Borrowers may also wrongly prioritise the guarantor loan debt over other priority arrears (e.g. their rent/mortgage) because they are worried about the consequences for the guarantor.

Rent to own

The rent to own sector has more than doubled in size in recent years, with more than 400,000 households using rent to own to acquire goods in 2016, up from 210,000 users in 2008. The All Party Parliamentary Group (APPG) on Debt and Personal Finance, which we provide the Secretariat for, undertook an inquiry into the rent to own sector that found a range of issues. These included:

- Rent to own firms charge excessive rates on the goods themselves and on added extras like extended service cover or aftercare. The bundling of warranties in particular can double or triple the cost of essential household goods like fridges, freezers and washing machines.
- Consumers are not always provided with an adequate explanation of whether a rent to own agreement is appropriate for their financial circumstances. For some a pure rental option may be more suitable.
- Payment problems in the rent to own sector are rife. FCA reported to the inquiry that 50% of rent to own customers fell behind on repayments at some stage in the agreement.
- There is a lack of specific safeguards for rent to own customers in financial difficulties and a significant minority of customers are forced to surrender the goods when they may have made substantial payments towards ownership. The FCA also told the inquiry that 10% of rent to own customers are forced to surrender goods they could no longer afford or have them repossessed.

We understand the FCA has appointed skilled persons at the three largest rent to own providers to oversee improvements in their practices. We welcome this intervention and set out in response to question 4 where we think the FCA could take action to tackle some of the issues raised by the APPG.

Home credit

Home credit has consistently been among the most common consumer credit debts we see 8% of our clients had these debts in 2016. The average home credit debt is £1,487.

There are features of the home credit loan that provide potential benefits to consumers with no default fees and some payment flexibility. The Competition Commission undertook an inquiry into the home credit market in 2006 that found that price competition among home credit lenders was weak.[3] They also found that refinancing of previous loans was common (around 40% of all loans were renewed) and there were financial incentives for firms to encourage borrowers to rollover loans.[4] This can effectively trap customers into repeat borrowing, making it very difficult for them to escape the cycle of debt. The Competition Commission's more recent evaluation of their remedies in 2013 found that there had not been any significant reduction in the numbers of people refinancing their loans with the same lender.[5] The FCA should consider what impact the Competition Commission remedies have had, particularly with regard to the issue of financial incentives to rollover loans and the role of home credit agents in this.

Logbook loans

Logbook loans are a small but growing high cost credit market with the Law Commission finding that the market has increased from under 3,000 loans in 2001 to over 37,000 in 2015.[6] The Law Commission recently reviewed the Bills of Sale Acts that govern logbook lending and found significant issues. We contributed to this review outlining how our clients have experienced the detriment caused by the antiquated and inadequate consumer protection governing logbook loans. For example:

Consumer difficulty in understanding complex loan agreements

Logbook loans are based on archaic Victorian legislation and involve complicated possession rights making them particularly difficult to understand. The FCA's own research has found that logbook loan paperwork is overly complex, lengthy and borrowers generally do not fully understand the terms and conditions of the loan.[7] For example, borrowers do not always understand that the ownership of the car moves to the lender. The Law Commission also found that the loan documents are not currently written in 'plain English' and are not easy to understand.[8] This issue can be compounded if lenders are not then undertaking adequate creditworthiness checks as consumers are then signing up for something that they do not understand and will struggle to repay:

> *Case study:*
> A client took out a logbook loan of £800 and paid £1500 back but was told he still had £775 left to pay. Client was unhappy about the level of interest and charges and felt that they were not clear when the loan was sold to him.

This example also illustrates how this lack of understanding can be compounded by the high interest and charges associated with these loans so any missed repayments can lead to debts spiralling. Moreover, as logbook loans are often secured against important assets borrowers can feel pressure to prioritise these loans in order to keep their car so they can get to work or transport their children.

There is also a lack of consumer protection when a borrower defaults on their logbook loan payments with lenders able to recover the vehicle without a court order even on private land. This lack of protection can affect consumer decision making as again threats of losing the car may lead to further borrowing or making unaffordable payments that increase hardship of make the overall debt problem worse. The repossession procedure is also open to poor practice with examples of cars being towed away in the middle of the night and threatening behaviour being used.

Case study:
A client borrowed £800 from a logbook lender and then found he had to repay over £4,000. He fell behind on one payment and had several text messages and calls stating that a collections agent may come to take his car.

Case study:
Our client took out a logbook loan fell behind with payments. Their car was repossessed when the client was not in. When she called to speak to the lender to come to an arrangement, she was told that there was nothing more they could do.

The Law Commission Bills of Sale review has investigated all this and has put forward recommendations for modernising the legislation on logbook loans including simplifying loan documents. The FCA should work with the Law Commission and could go further than the Law Commission in protecting consumers of logbook loans (see response to question 4).

Q3: Where there is detriment, do you consider that it arises from matters not addressed by our rules, or is it mainly caused by firms failing to comply with the rules?

The detriment caused by high cost credit products (outside of HCSTC) can arise from both matters not addressed by FCA rules and it can also be caused by firms failing to comply with rules.

Some of the consumer detriment from high-cost credit products is caused by matters that are not addressed by FCA rules as these issues cross over into public policy matters. For example, as we outlined in our response to the FCA Mission, the high cost credit market may not be able to serve consumers without causing detriment but if the FCA takes action to address this detriment effectively then some consumers may not be able to access this credit. [9] However, we do not think that not taking appropriate, proportionate action is the solution as then consumers will not be protected from detriment. Where the market cannot meet consumer needs sufficiently without causing harm then public policy intervention is necessary. Where commercial, accessible credit options are not viable for more financially vulnerable consumers is an important issue for the FCA to advice and work with the government on.

Some of the cases (included in the response to question 2) of detriment that arise with high cost credit products where borrowers in arrears or default are not treated fairly are clearly examples of firms failing to comply with CONC 7.3 (specifically CONC 7.3.2). There is also detriment caused, as also outlined in the response above, by firms not complying with the FCA rules and guidance on responsible lending (CONC 5) where poor lending practices mean some consumers of high cost credit are being lent to where they will struggle to make repayments.

There is also detriment caused by matters that are addressed by FCA rules but where the rules and consumer protections could be strengthened – see response below.

Q4: If there is detriment arising from matters not addressed by our rules, what sort of interventions should we consider? What would be the impact?

There are areas where detriment can arise from matters not addressed by FCA rules and where consumer protections could be strengthened to improve outcomes for consumers.

Guarantor loans

We welcome the changes to the CONC rules that the FCA has previously made in relation to guarantor lending (in PS15/23 and in GC16/2). However, we continue to have broad concerns about guarantor lending as outlined above. We believe the FCA should go further to limit detriment:

- Liability for fees and charges: There is currently nothing stopping guarantor lending firms from transferring interest and charges from the borrower to the guarantor. This means a guarantor can become liable for a far higher debt than anticipated at the point they agreed to become a guarantor. We believe the FCA should act to ensure that guarantors do not have a potentially open-ended liability. For example, by putting in place a rule that lenders can only seek to recover the original capital from the guarantor when a borrower has defaulted.
- Creditworthiness: PS15/23 outlines that creditworthiness checks may be different for a guarantor than the borrower. While for the borrower the creditworthiness assessment will have to check 'the ability of the customer to make repayments as they fall due over the life of the regulated credit agreement' (5.2.1R), for the guarantor it will not have to do so. We believe to strengthen creditworthiness

assessments for guarantors the FCA should explore whether 5.2.1R should apply to guarantors as well as borrowers. The FCA should require firms to ensure that guarantors are able to meet repayment commitments without causing them detriment and financially difficulties.

Rent to own

Another sector where we think FCA rules could go further to strengthen consumer protections is rent to own. The APPG inquiry into this sector put forward a number of recommendations for the FCA in its final report in 2015. Since then some progress has been made but there are still outstanding issues that they FCA should focus on:

- Extended compulsory warranty service agreements: these agreements remain compulsory across the rent to own sector and add significant costs. The FCA has stated that firms are currently exempt from conduct rules for these sales due to the "connected contracts exemption" in the Financial Services and Markets Act, Article 72B. The FCA should work with the Government to give assurances that RTO firms that become fully authorised will not be able to use the "connected contracts" exemption. The FCA has taken action on insurance add-ons in other markets, for example with the banning of opt-out selling, but has not addressed it in the rent to own sector.
- The FCA should look at the compulsory element of these agreements and address these as unfair terms or breaches of the treating customers fairly principle. The FCA should ban these expensive compulsory warranties from being a condition of rent to own credit agreements. FCA should also introduce or enforce rules so that customers are not pressured into -or forced to buy - service cover at point of sale (service cover alone can almost double the cost).
- Mis-selling of insurance: The APPG called for a review into possible mis-selling of insurances and is asking the FCA to act on concerns that RTO customers may have been sold services they already had or did not need from April 2014 onwards.
- Safeguards for customers in financial difficulty: The APPG has called for new sector-specific protections so that when it is evident customers cannot pay – and the loss of items would result in hardship (e.g. essentials like a cooker or child's bed). The FCA should introduce rules making it clear that firms should take reasonable steps to agree an affordable repayment plan with consumers.

Logbook loans

We are in general supportive of the Law Commission's recommendations to reform the law governing logbook loans and modernise consumer protection for this archaic form of lending. However, we think it is important that the FCA works closely with the Law Commission to ensure that all the issues they found in the logbook lending sector are dealt with.

The Law Commission recommends that logbook lenders should not be able repossess a car when the borrower is in default unless the lender has a court order if the borrower has paid off one third of the loan. We were supportive of the Law Commission requiring a court order for repossessions but are concerned that there should be further protections for consumers before it getting to repossession stage especially for those who have paid off less than a third of the loan. This 'one third' provision is taken from legislation governing the hire purchase market. However, when a borrower is looking to purchase a new vehicle using hire purchase they are in a very different position to borrowers who use their goods/vehicle as security for a loan. In hire purchase the lender is risking the value of the goods whereas in logbook loans the borrower is risking their own goods in exchange for a loan so are more likely to be financially vulnerable.

The FCA should ensure repossessing the asset is only a 'last resort' and should specify what logbook loan firms should do before taking court action. This could include applying rules similar to those in the Mortgages and Home Finance sourcebook which state that a firm must 'not repossess the property unless all other reasonable attempts to resolve the position have failed' (MCOB 13.3.2A).

The Law Commission also did not look in detail at the high cost of logbook loans and whether appropriate creditworthiness checks were taking place in this market as it was outside of their remit. We would urge the FCA to look further into affordability and cost issues and explore whether there is enough control on the security in logbook lending in FCA rules.

The Law Commission's recommendations for reforming the law on logbook loans are have been accepted by the Government but require legislative change. We would urge the FCA to take urgent action on their rules on logbook lending to ensure some extra protection for borrowers before the Law Commission recommendations are implemented.

Q5: Should some of the HCSTC protections be applied more widely? What would be the impact on the cost of or access to credit?

There is a case that some of HCSTC protections should be applied more widely to ensure greater consistency of regulation and prevent consumer detriment.

Rollover limit

The Competition Commission's evaluation of the remedies from its home credit investigation found around half the detriment had been addressed particularly by the Early Settlement Rebate remedy.[10] However, as stated earlier (in response to question 2) the Competition Commission evaluation of their remedies in the home credit inquiry in 2013 found that there had not been a significant reduction in the numbers of people rolling over their loans. [11] It found that the percentage of loans being refinanced by one of the biggest providers of home credit had not changed significantly since 2006 and there was evidence of a deterioration in some firms' business practices in 2013 with increased use of rollovers.[12] The Public Accounts Committee inquiry into the regulation of consumer credit also highlighted concerns about home credit providers encouraging borrowers to take out further loans and repeated rollovers.[13] They recommended a limit on rollovers per loan.

Home credit debts have consistently been among the most common types of high cost credit debt our clients have had problems with (see chart in response to question 14).

The FCA should deal with the outstanding issues with consumer detriment following the Competition Commission's evaluation of their home credit remedies. This should include exploring whether the rollovers are still an issue with home credit products and whether the limit on rollovers in HCSTC should be extended to this sector.

Risk warnings

The FCA should also consider whether other high cost credit products should carry a risk warning like those applied to advertisements for HCSTC. This may be particularly beneficial in types of high cost credit where there can be particular confusion around the terms and conditions of the loan. For example, the FCA could require that guarantor lenders include a warning on their financial promotions explaining that guarantors will be liable to pay the full cost of the loan if the borrower cannot make repayments. Similarly with logbook loans, the Law Commission recommended that there should be prominent statements (that the vehicle transfers to the lender's ownership and may be repossessed if the borrowers does not keep up with their repayments) in credit agreements and in advertising.[14] They recommended that the FCA should prescribe the wording of these statements and we agree this is something the FCA should take forward.

Price cap

The FCA should establish general principles and develop rulebook guidance on what kind and level of charges they consider reasonable and a general principle on where fees and charges should not be applied where they deepen financial difficulties. This would include exploring whether the principle of the total cost of credit cap, where borrowers should not have to repay more than 100% of what they borrow, should also be applied more broadly to other types of credit. There are clear examples of where using high cost credit outside the scope of HCSTC can exceed the total cost cap and cause consumers financial detriment. For example, a logbook loan of £1000 from an online lender with 12 monthly payments of £193.33 would attract an additional £1,320 in interest. Research by Which? has also shown that unarranged overdraft charges can be more expensive than HCSTC.[15]

Using the HCSTC as a basis for the general principles, we think the FCA should explore the case for whether price caps would work in other high cost credit sectors and what the impact of extending the cap would be.

Q6: To what extent do you think overdrafts are a substitute, or alternative, for other high-cost credit products?

High-cost credit products are often used in conjunction with mainstream credit products like overdrafts (and credit cards). Our data indicates that most of those with high cost credit debts will have also used their overdrafts. 56% of those with payday loan debts and 42% of those with home credit debts also having overdraft debts. In contrast, of our clients with overdraft debts far fewer have high cost credit debts, 17% also have payday loan debts and just 7% have home credit debts.

Some financially excluded consumers use high-cost credit when other routes have been exhausted. A recent study from the University of Bristol found that consumers using high cost credit felt they have no other option as they were not able to pay in cash or access mainstream credit.[16] Our clients have similarly told us how they lack access to other credit options so have to turn to these high cost products:[17]

"As my credit rating was non-existent I had no option but to use doorstep lenders who were only too keen to 'help'."

"When I needed help I looked at lots of different options but in the end the only thing I could get was a payday loan."

Some other consumers will have chosen to use high cost credit over overdrafts. Previous research from 2010 into the use of payday loans found that some borrowers were using this form of high cost credit as an alternative to overdrafts due to previous bad experiences with overdrafts.[18] Some of the borrowers in this study saw overdrafts as too tempting a source of longer-term debt and some stated that bank charges had made overdrafts an unviable alternative to payday loans. [19] Consumers can be worried about lacking control over revolving credit products and this leading to debts building up. Therefore some consumers may, by choice or by necessity, be using high-cost credit as a substitute or alternative to high-cost credit.

However, other consumers do see overdrafts, particularly unarranged overdrafts as an alternative to other high-cost credit. Qualitative research commissioned by the FCA found that some less affluent consumers would use an unarranged overdraft as a preferred alternative to payday loans or credit cards.[20]

In summary, there is a group of consumers on lower incomes that have few options when they need to borrow money for essentials. They have to make choices between going further into their arranged overdraft, going over their limit with the associated high charges, or using other credit products like payday loans or credit cards. This has implications for public policy and ensuring consumers, particularly vulnerable consumers, have access to suitable credit products that are not highly likely to cause them further harm.

Q7: What do you think are the key issues the FCA should consider on arranged and unarranged overdrafts respectively?

The main issue we are concerned about is persistent overdraft debt, where what is intended to be a short-term credit product becomes a long-term borrowing problem. Many households, particularly those on tight budgets, turn to credit products like overdrafts to cover shortfalls in their household finances. Our research found that around 2.7 million people a year use overdrafts to meet their everyday expenses.[21] Our clients have told us about having to use overdrafts to cover these costs:

"When you have a baby at home with nothing to give them to eat next things is to use your credit card or your overdraft."

Clients like the one quoted above us are facing impossible choices between turning to credit that may get them into more difficulties or going without and causing harm to their families. Those using credit to get by are likely to fall deeper into financial difficulties as our research found that people using credit to cope after an income shock were twenty times more likely to fall into severe problem debt than those who were able to adjust to their finances without credit.[22]

The key issue is that squeezed households are regularly going overdrawn, reaching or going over their overdraft limits, and experiencing the build-up of interest and charges. These charges then make it even more difficult to escape from the cycle of overdraft use and they find themselves with growing, unmanageable overdraft debts.

Persistent overdraft debt is one of the most common issues we see with more than half of our clients having overdraft debts:

- Overdrafts are the second most common type of debt we see (after credit cards) – 52% of our clients have overdraft debt.
- The average overdraft debt among these clients is £1,700

Unarranged overdrafts

The key issue with unarranged overdrafts is that those that are regularly going into over their arranged overdraft limit can then be charged significant amounts for being in unarranged overdraft and these charges can then push them further into difficulties. Some consumers, particularly vulnerable consumers, may be locked into high cost credit products like unarranged overdraft charges regardless of price sensitivity.

In terms of scale, the Competition and Markets Authority's (CMA) analysis showed that over half (51%) of overdraft users went into unarranged overdraft in 2014 and 10% were heavy unarranged overdraft users, going over their limit for nine months or more.[23] These charges can be excessive: the CMA also found over a million instances where consumers incurred unarranged charges in excess of £75 in a month and over half a million instances where consumers incurred cumulative unarranged overdraft charges in excess of £100 in a month.[24]

We surveyed our clients with overdraft debt to explore their experiences of overdraft charges. [25] We found that:

- Almost two thirds of the people (62%) we help with overdraft debt have regularly had to exceed their arranged overdraft limit, doing so in an average of five out of the last 12 months.
- They faced charges of £45 a time on average for going into an unarranged overdraft.
- They are therefore being charged around £225 a year on average in unarranged overdraft charges.

When you are already on a tight budget, having to meet additional charges for going over an overdraft limit can push you further into financial difficulties. The FCA Mission proposes that the issue of charges hitting the most financially vulnerable is something the regulator should be taking action on.

Arranged overdrafts

Financially vulnerable households that rely on credit to meet their essential costs can find themselves having to go overdrawn for a long period of time or regularly cycling in and out of their overdraft. Long-term overdraft usage can mean that interest and charges build-up into an unmanageable debt and these households can struggle to get out of their overdraft. Our survey of clients found that people coming to us with overdraft debt are regularly going into the red as on average they had been in their arranged overdraft in 11 of the last 12 months. [26]

Across the whole population the CMA found that being overdrawn regularly was not unusual. They found that 28% of overdraft users were overdrawn in every month of the year (for at least one day in that month).[27] Of those that went overdrawn, a significant minority are staying overdrawn for a long period of time, over a quarter (27%) used their overdraft for 22 or more days and 17% were in their overdraft for 30 days per month, on average.[28]

The combination of struggling to get out of arranged overdraft over a long period of time as well as being frequently being hit by unarranged overdraft charges can push households into problem debt.

Q8: What measures could be taken to address these and what would be the risks and benefits?

A cap on the monthly cost of unarranged overdrafts

To tackle the cost issue, the CMA's remedy is the maximum monthly charge (MMC) covering all unarranged overdraft charges. [29] However, we are concerned that this is unlikely to make a significant impact as the MMC is to be set by the banks themselves. The four major high street banks that make up 77% of the market already have monthly maximum charges on unarranged overdraft charges that can be as much as £90 a month. There is little financial incentive on the banks to lower their existing charges given the substantial revenues they generate. The CMA found that £1.2 billion of banks' revenues in 2014 came from unarranged overdraft charges. Therefore it is unclear how this remedy will lead to a significant reduction in the level of charges consumers pay.

The CMA stated the aim of the MMC is to constrain exposure to unarranged overdraft charges and to improve price transparency. We believe having one independently set MMC cap would be simpler to understand for consumers, and so improve transparency. Moreover, an independently set cap on the MMC would be more likely to reduce the overall levels of the charges than banks having their own MMCs. The current monthly maximum banks set on unarranged overdraft charges are aligned with banks £1.2 billion revenue from these charges so there is little incentive for the banks to competitively price and lower these charges.

There is a precedent for regulators setting caps on similar charges. The Office of Fair Trading (OFT) in 2006 found that credit card charges for late or missed payments or exceeding credit limits were too high at around £30-35 and that this did not reflect the real cost to the companies.[30] The OFT took action and their ruling led to most companies reducing their charges to around £12.[31] The FCA should address consistency across products here given that similar charges on other credit products have reduced significantly, but not those on unarranged overdrafts. The FCA should ensure that people facing persistent debt and financial difficulties are treated fairly by firms no matter which product they have taken out. We believe a centrally regulated MMC cap is more appropriate and that the FCA as the independent regulator is best placed to set this cap.

It has been suggested that a MMC cap could lead to a restriction in the access to credit for consumers. However, unarranged overdrafts are not intended to be a line of consumer credit but as a last resort for consumers to cover an unanticipated shortfall in cash. There has also not been any analysis undertaken to provide evidence that an independent MMC cap would restrict access to unarranged overdrafts. Therefore we believe the FCA is best placed to balance the interests of lenders and consumers and set an effective and fair cap on unarranged overdraft charges.

Overdraft charges: Earlier forbearance

Measures could also be taken to introduce early interventions to prevent overdrafts becoming persistent debts. The FCA should explore what more could be done by lenders to support people who are trapped in an overdraft cycle and give them better and more affordable ways of paying down their debts.

The FCA Credit Card Market Study proposed earlier forbearance by suggesting credit card providers could do more to address problem debt more quickly to prevent consumers from missing payments and accumulating interest and charges.[32] This principle of earlier forbearance should also be applied to persistent overdraft debt.

The FCA should work with banks to do more to identify customers who are regularly going over their overdraft limit or struggling to get out of their arranged overdraft over a long period of time. Being identified as a ‘heavy overdraft user’ could be a trigger for customers getting additional support rather than continuing to face charges. The CMA identified ‘heavy overdraft users’ as those that were in their overdraft for nine months out of a year. The FCA would need to work with banks to establish a range of triggers based on financial circumstances of customers.

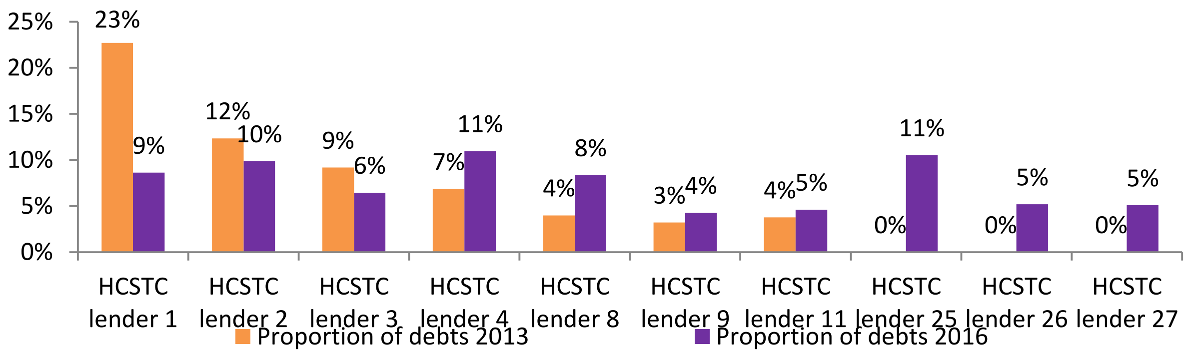
In terms of the additional support banks could provide instead of charging, this could involve signposting suitable customers to free debt advice and offering customers affordable repayment plans. Another form of support would be to offer consumers the ability to opt-out of having access to an unauthorised overdraft without being charged.

The Credit Card Market Study also said that the FCA wants to "explore how to rebalance the incentives for firms to make sure that lower cost alternative credit is offered to those who appear to be building up problem debt over a sustained period".[33] This same early forbearance could also be applied to overdraft debts. For example, banks could identify where customers are struggling with their overdraft and separate their debt from the transactional banking facilities by offering them a basic bank account and an affordable way to repay their debt separately. This more affordable way to repay could be a lower cost personal loan or the freezing of interest and charges. This would bring vital stability to household finances and provide a sustainable and affordable way of repaying their debt balance.

Q9:

The response to question 10 below, illustrates how StepChange has seen significant fall in the number of people coming to us with HCSTC debts as at the peak of the market in 2013, 23.4% of our clients had these debts whereas this had fallen to 16.3% in 2016. This chimes with the FCA findings that there has been a substantial reduction in applications from consumers for HCSTC and a reduction in loan acceptance rates. We would suggest that this reduction is due to fewer people being granted HCSTC that they cannot afford to repay so substantially fewer borrowers are getting into difficulties and having to turn to debt advice agencies like StepChange. It could also be due to fewer consumers considering payday loans as a viable option for them due to negative publicity and broader understanding of the harm they can cause. We think it is important to continue monitoring whether this fall will continue or if it will plateau or increase.

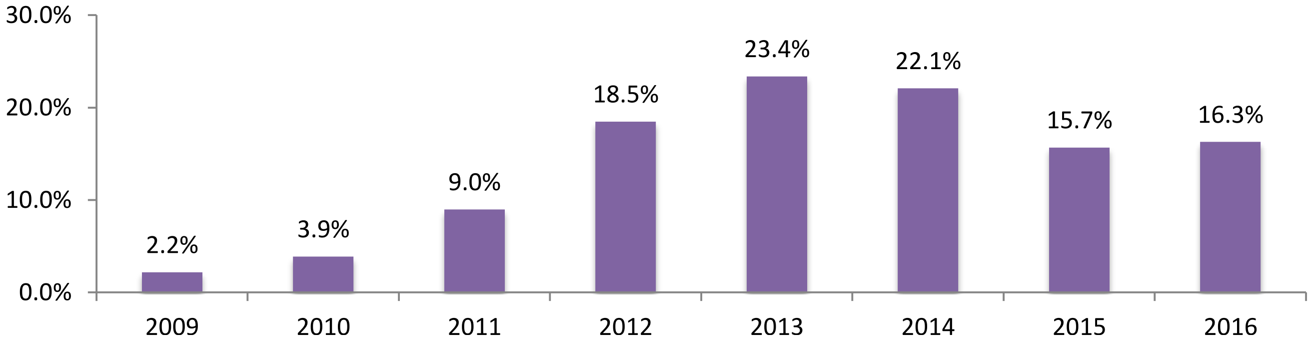
In terms of viability of the market, despite evidence that some firms have left the market there are still several different HCSTC lenders in operation that are lending to consumers. Our evidence shows that of the HCSTC lenders that were in operation in 2013, some have seen a decrease in the numbers of our clients with debts with them but some have seen an increase (lenders 25, 26 and 27 were all only established after 2009 and 2013 respectively).[34]



We cover the impact of loan duration and product development on the structure and level of the price cap in further detail in response to question 13.

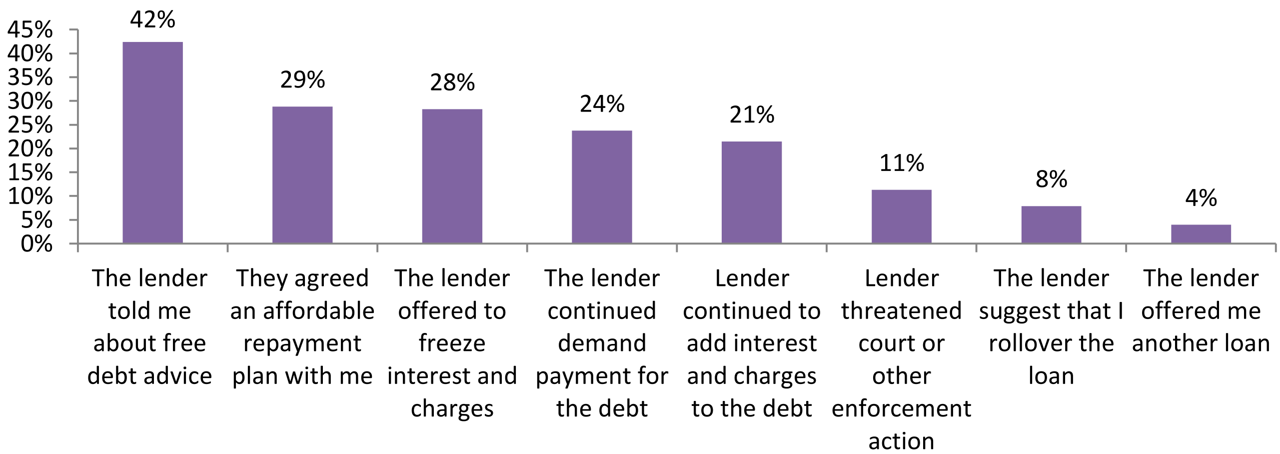
Q10: Do you have views and evidence on the risks for consumers of using HCSTC post-cap? Do you agree with our initial assessment that risks of falling into arrears have reduced?

We have seen a significant fall in the number of people coming to us with HCSTC debts. This is in contrast to the substantial rise we saw in the preceding years as shown in the table below. At the peak of the market in 2013, 23.4% of our clients had HCSTC debts and this had fallen to 16.3% of clients in 2016. This decrease in people coming to StepChange with payday loan debts is likely to be due to both the risk of falling into arrears having reduced and the overall reduction in the payday loan market.



However, we do have concerns about the risks for consumers of using HCSTC post-cap. Our evidence suggests there are still some issues with how HCSTC lenders treat customers in arrears. There has been a very small increase from 2015 to 2016 which will continue to monitor.

We undertook a survey of our clients with HCSTC debts to understand their experiences of HCSTC post-cap. This found that over half (58%) told their lender when they got into financial difficulties but many were not treated with forbearance and due consideration. The chart below shows that less than half (42%) were told about free debt advice, under a third (29%) had an affordable repayment plan agreed and 21% found their lender continued to add interest and charges.



Although we are not seeing the very worst practices about lenders that we were seeing at the peak of the market in 2013, we do still have concerns. Our advisors are still seeing some concerning cases:

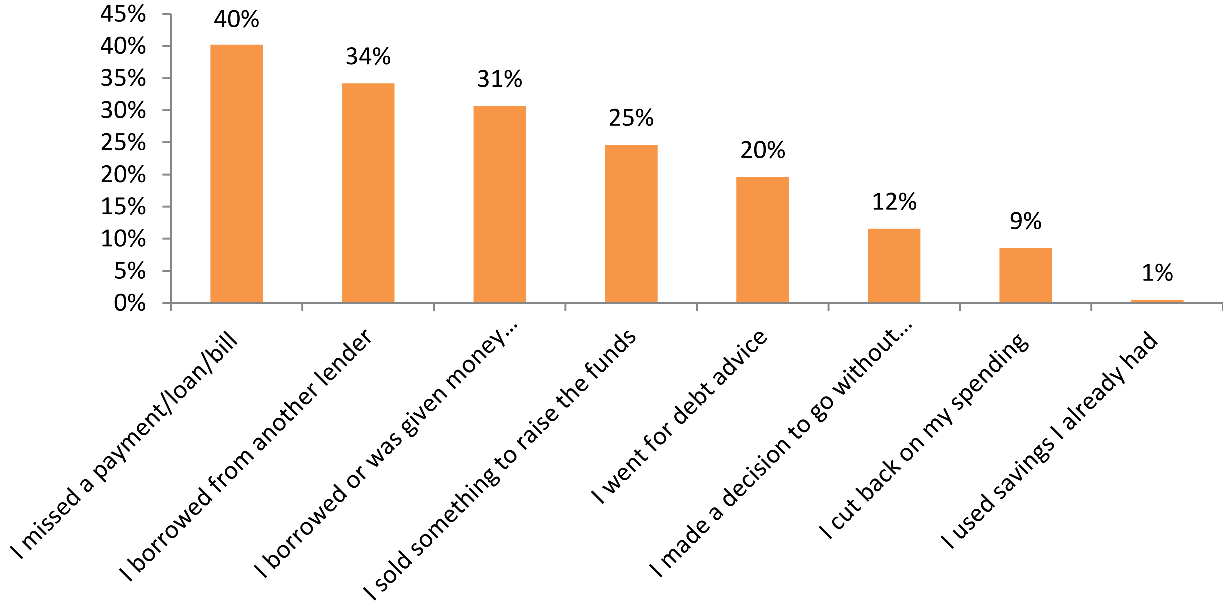
Case study: one of our clients told us that after she missed a payment with a HCSTC lender she was bombarded with texts and emails even though she had explained her situation to them.

Case study: Another client told us that the HCSTC lender she has borrowed from called her work to the collect the debt, stating who they were and making her colleagues aware of her financial situation.

We acknowledge that the FCA reviewed how HCSTC lenders treat their customers who struggle to repay in 2015. However, in light of continuing issues with this, we recommend that the FCA look into how customers in financial difficulties are treated by HCSTC lenders further. This should ensure through supervision that all firms are treating customers fairly and adhering to the CONC (7.3) rules on the treatment of customers in default or arrears. The FCA should evaluate the progress firms have made following the thematic review in 2015 to assess whether improvements have been made and what, if any, further interventions may be necessary.

Q11: Do you have any evidence of adverse consequences for consumers as a result of being declined for HCSTC?

Our survey asked clients what they had done when they were not able to access that HCSTC and found that clients had a range of strategies. The most common as shown in the chart below were missing a payment (40%), borrowing or getting help from friends or family (31%) or borrowing from other lenders (34%).



We would challenge the assertion of this question and suggest it is more complicated than a straight choice between access to HCSTC and being declined and experiencing adverse consequences From the experience of our clients who had HCSTC debts before the cap, most would have been better off being declined HCSTC than taking it out and getting into further difficulties. FCA findings support this as taking out HCSTC was shown to have a link with the risk of experiencing arrears on other credit products. Before the price cap, many of our clients were using HCSTC as a last resort but when they struggled to repay and were hit by the interest and charges their debts would spiral out of control. It is likely that if they got into difficulties with their payday loan they would also be falling behind on other bills or other credit repayments. Therefore it is welcome that the price cap has led to restricted access to credit for more 'higher-risk' consumers.

Another issue that we raised in our response to the FCA Mission is that if ensuring access means allowing products and practices with a high built in likelihood of causing harm, then consumers are facing poor choices. Our clients that have used high cost credit are facing impossible choices between taking out this credit to cover essential living expenses or having to fall behind on household bill repayments or going without. In their own words, they felt they had no choice but to take out high cost credit:

“Because I would of had no food in for my son. Plus I have to be wise with my money because my gas and electricity bill is due.”

“Because it was that or the children didn’t eat.”

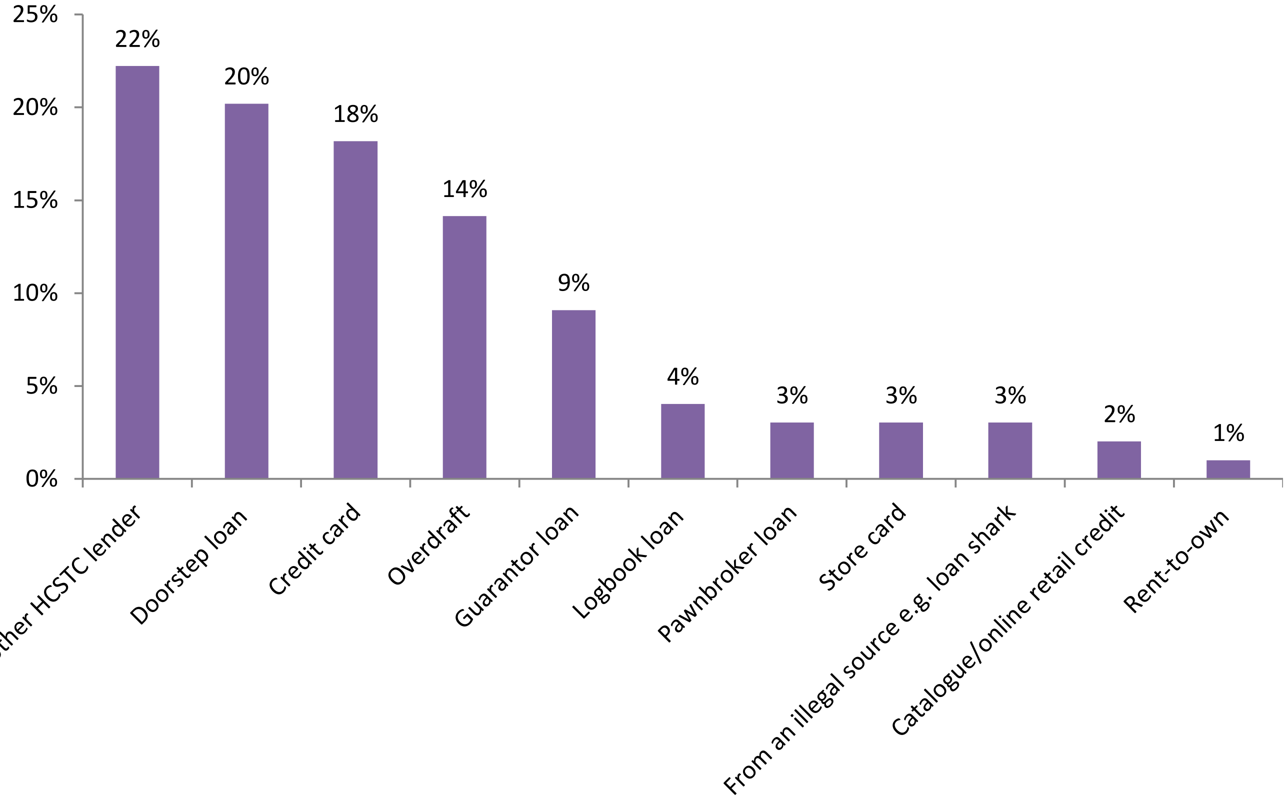
“Had to repair car so I could work.”

This suggests that these households are in such difficult financial situations that they are facing seriously constrained choices between defaulting on a payment and using costly credit to keep up. This raises the question of where the more financially vulnerable and excluded can turn where commercial credit is not a viable option. These questions of financial exclusion and access to affordable credit are public policy issues so not solely in the remit of the FCA. The FCA role in promoting effective competition may be relevant here as new entrants to the market, particularly not-for-profit firms, can find accessing data and other regulatory issues barriers to entry. We have also urged the government to look at new ways of providing greater access to more affordable credit safety nets for the most financially vulnerable. We would suggest that the FCA should identify where there are gaps in the market and work with the government to address these.

Q12: Do you agree that consumers do not generally move to other high-cost credit products as a result of being declined for HCSTC?

The evidence from our client survey suggests that some consumers are moving to other high-cost credit products as a result of being declined for HCSTC. 34% of clients borrowed from other lenders when there application was declined. When asked what form of borrowing they used, as the chart below shows, most turned to other high-cost products with the most common response being the 22% that used another HCSTC lender. This raises questions about the adequacy of affordability checks as consumers are being rejected by some lenders and then able to access HCSTC from other lenders. While it may be reasonable for some lenders to have higher risk appetites than others, this must remain within the context of responsible lending. But this is not what we are seeing.

Other high cost lenders used were: 20% using doorstep lenders and a small proportion 9% using guarantor loans. Others turned to mainstream credit: 18% using a credit card and 14% going into or further into their overdrafts. It is important to note that the sample size for this question was very small (just over 100 clients).

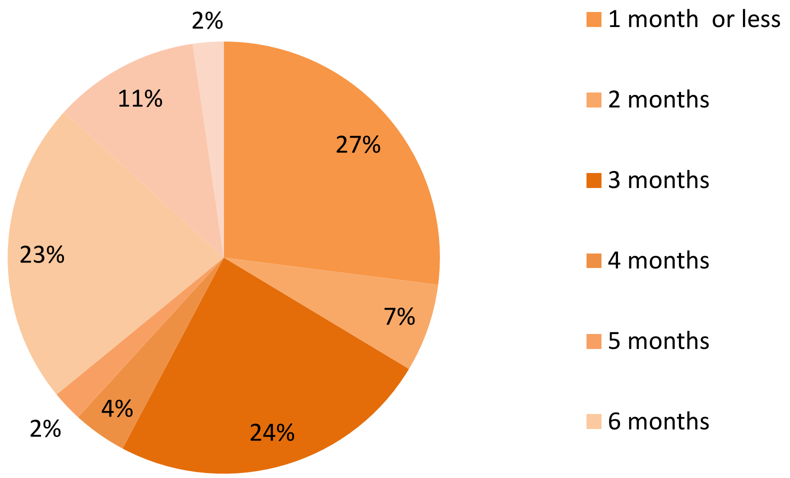


Only a small proportion went for other lenders with a tiny percentage saying they went to an illegal loan shark, echoing the FCA findings that there is no statistical evidence of people turning to illegal money lenders after having their application for HCSTC rejected. Even though it is difficult to get a clear picture of illegal loan sharks due to the nature of the lending, there does not appear to be evidence that it is growing in response to interventions in the HCSTC market. We consider illegal lending to be a relatively small but persistent problem that does not appear to be closely connected to access to HCSTC.

Q13: What are the implications for consumers of increasing loan duration for HCSTC?

The findings from our survey also reflect increased loan duration for HCSTC and the move to medium-term instalment loans. In our survey, over half (53%) of clients had a loan repayment term of 3 to 6 months, as the chart below shows.

How long was the repayment term on your loan?



There are benefits to this shift to instalment loans for consumers as having the repayment spread out and not requiring repayment in a single lump sum could help prevent HCSTC creating acute payment difficulties for some households. A problem with the short-term payday loans was that 30 days was not long enough to find the funds to cover repayments and also meet essential costs for that month. When borrowers were unable to repay in that time, they could be forced to rollover over their loan or borrow again and the build-up of interest and default charges could lead to debts spiralling out of control. Therefore having a longer period to repay the loan should help borrowers avoid these debt traps.

However, there are issues with instalment loans and they are still expensive credit products. Borrowers may end up paying more for an instalment loan than they would with a payday loan after making the payments in full as high interest rates are applied to the amount borrowed over a longer period. For example, if you were to borrow £200 from one HCSTC lender with a repayment period of 30 days it would cost around £250 to repay whereas if you were to borrow the same amount with monthly repayments over three months it would cost nearly £300 and if you were to borrow over six months it would cost nearly £350. In our survey, clients told us about struggling to repay instalment loans and about their issues with repaying loans even with the price cap:

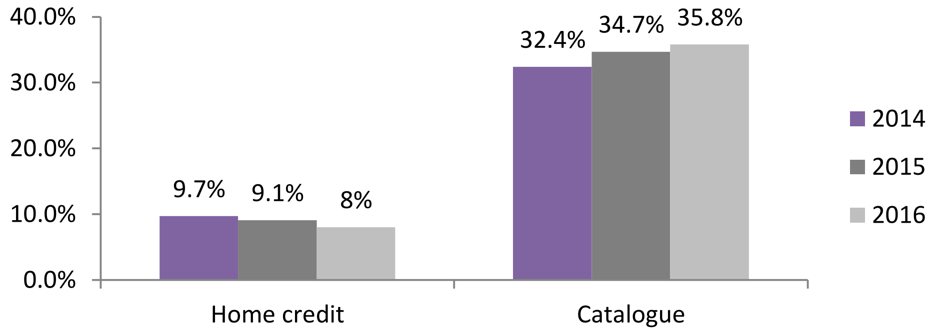
“Trying never to get one [a HCSTC loan] again as I pay £237 per month for 6 months and I only borrowed £800 so paying back nearly double what I borrowed.”

“I can't have this kind of stress again no more. I am paying them double payment from how much I took off them so it’s actually no worth it taking from them.”

It could be suggested that rollovers have been replaced by longer term instalment repayments. This may mean that consumers are no longer subject to the costs associated with renewing loans but may now face additional charges from longer loan terms (albeit under levels designated by the price cap). The FCA should explore as part of their review of the price cap, what the implications of the shift to instalment loans are for the appropriate level of the price cap.

Q14: Do you have views or evidence that the HCSTC price cap has had an impact on other high-cost products: e.g. because consumers use those products as an alternative?

We have not seen a very significant change in the numbers of clients coming to us with certain high cost credit debts since the introduction of the price cap. As the table below shows the proportion of our clients with home credit debts has fallen and the proportion of clients with catalogue debts has risen.



We would suggest the FCA explore if there is a broader evidence of increases in the use of high cost catalogue credit, whether this is a close substitute for payday loans and what consumer detriment there is in this market.

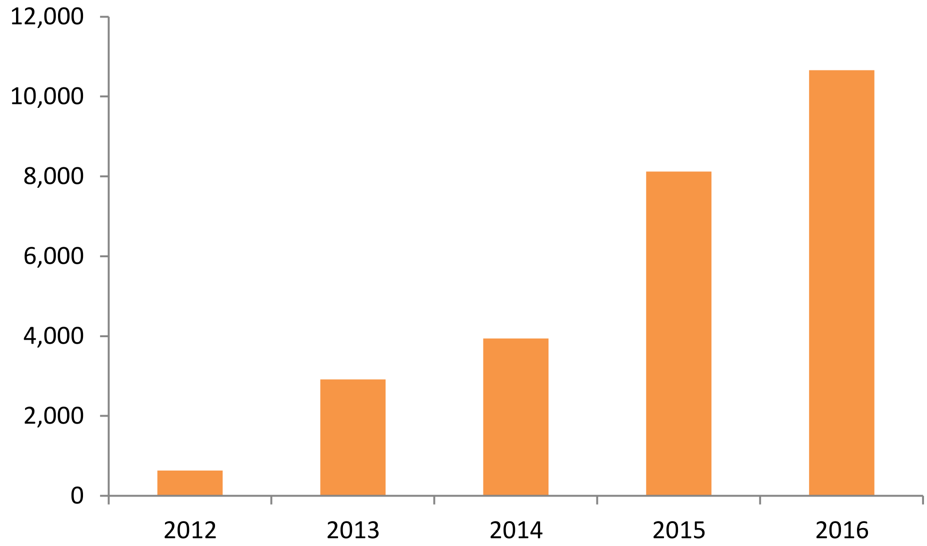
Our client’s average catalogue debt is just over £2,000. Recent issues raised about catalogues from our advisors include concerns about the treatment of customers in arrears or default. Examples of this include:

> *Case study:*
> A client was contacted by a catalogue firm they were using warning if they did not make an clearly unaffordable payment then ‘bailiffs’ would be sent round to his house and they would take him to court. The client had a good grasp of the collections process so understood the false nature of these claims but was concerned that other people may not know enough to challenge the lenders.

Case study:
Another client was very unhappy about the way she was treated by a catalogue firm. When she missed a payment, she was contacted excessively by the firm and some of their calls were quite threatening e.g. "make sure you answer the phone at 4 o clock today". She suffers from depression and anxiety and found these calls difficult to manage.

We have also seen a rise since 2012 in the number of clients with debts to guarantor lenders (see chart below), although guarantor loans still make up a smaller proportion of the debts we see, compared to other forms of high cost credit. In 2016, over 10,000 clients owed money to a guarantor lender, compared to fewer than 650 in 2012. This increase pre-dates the introduction of the price cap on payday loans but particularly accelerated between 2014 and 2016.

Numbers of StepChange clients with guarantor loan debts



The increase in guarantor loans could just be a reflection of greater referrals to our service from guarantor lenders but also is likely to reflect the growing guarantor loan market. The logbook loan market has also grown significantly over the last few years.[35] However, both logbook loans and guarantor loans are generally for larger amounts (over £1,000) and taken out for a longer loan term (usually over 12 months) so cannot be used as direct replacements of HCSTC.

The growth in guarantor lending could indicate that some consumers who lack access to mainstream credit have looked at other different forms of high cost credit. Another issue is whether guarantor loans for larger amounts than HCSTC are being used to consolidate debts. We would support the FCA undertaking work as part of their consumer survey to look into the reasons for the increase in guarantor and logbook lending and whether consumers have turned to them or other forms of credit as an alternative to HCSTC.

Q15: Do you have evidence that the definition of HCSTC is providing opportunities for firms to evade the HCSTC price cap (and HCSTC regime more generally)?

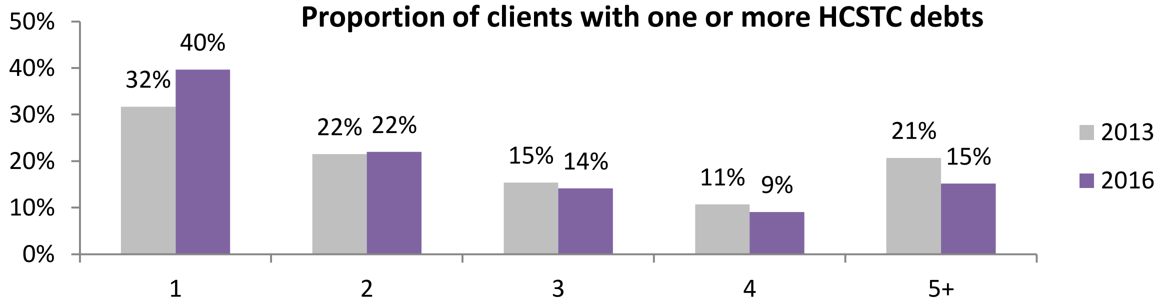
We have not seen evidence of firms using the definition of HCSTC to directly evade the HCSTC price cap for example by changing loan terms to over 12 months. However, in our review of the ten lenders our clients have the most HCSTC debts with, we found some concerning practices of firms meeting the price cap but in ways that could cause harm to consumers.[36]

As outlined by the FCA, under the price cap there has been a move to longer loan durations with more medium term instalment loans. In our response to question 13 we outline the benefits of instalment loans: they allow borrowers to repay in more manageable amounts over a series of payments rather than having to pay back a large amount in one repayment. However, we have seen an example of at least one firm with a charging structure that includes a balloon payment asking for the majority of the repayment in the last instalment. For example, a £200 loan taken out over three months will involve a £48 repayment in the first month and second month and then a £248 repayment in the final instalment. This could lead to the same debt trap as the old 30 day products, where borrowers struggle to find the final larger instalment, and so are hit by interest and charges and the build-up of debt.

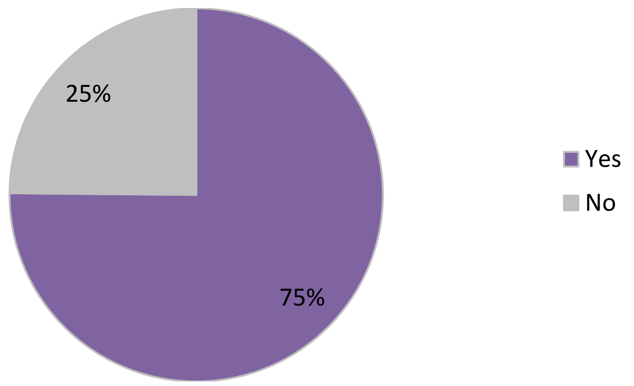
Other HCSTC firms are positioning themselves as alternative to facing unarranged overdraft charges. We are concerned that high cost credit products (including HCSTC and the others) are not the answer to avoiding getting into persistent overdraft debt. We would suggest the FCA look closely into firms positioning themselves in this way and establish if this causing consumer harm and take action where necessary.

Q16: What are your views on our analysis of the data and market with regard to repeat and multiple borrowing?

In contrast to the FCA findings, a high proportion of our clients have multiple HCSTC debts. In 2016 over a third (38%) of our clients with HCSTC debt had three or more. The chart below shows there has been some changes since 2013, with fewer clients with multiple loans but the levels of clients with multiple loans remains high.



Our client survey also found that the majority of respondents had a HCSTC loan that they were paying off when they took out another HCST loan as the chart below shows:



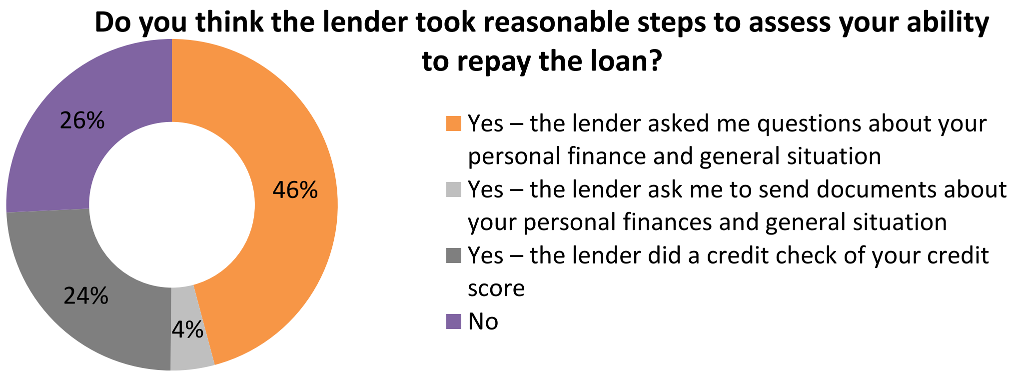
Some clients described how they were able to access a HCSTC loan when they already had outstanding HCSTC:

"I had multiple loans out with them and other lenders."

"Considering I already had 11 other payday loans, I am surmising little/no checks were done."

The FCA found that the more loans held by an individual at one time, the more likely it is that one of those loans would enter arrears. The FCA also says it will continue to monitor this issue and progress on real-time data sharing, as well as consulting separately on proposed changes to rules on creditworthiness (including affordability). However, we are still concerned that the current proposals do not do enough to limit the scope of repeat and multiple borrowing and the core of these issues, inadequate affordability assessments, should be considered as part of this review.

Our evidence suggests that there have been some improvements but there are still causes for concern about lending practices and inadequate assessments of affordability among HCSTC lenders. The survey asked clients how well they understood how much they would have to repay when they took out a HCSTC and in total a quarter (25%) said that they did not know or only had a rough idea of how much they would have to repay. Also when asked whether the HCSTC lender they used had taken reasonable steps to assess their ability to repay the loan (see in chart below), just over a quarter (26%) did not think the lender took reasonable steps.



Some clients also told us they were able to get a HCSTC loan with inadequate affordability assessments and when they had considerable other debts:

"I found that all pay day loan companies do not check correctly if you can make repayments."

"Checks were carried out at time of first application for a loan, after that they'll just hand out loans whenever you ask for one as long as previous loan has been paid off."

"I should have not been lent the amount as I already had a huge amount of credit to repay to other creditors."

"I was in a lot of debt anyway and the payday loan tipped me over the edge."

In order to tackle continuing problems with lending practices we think the FCA should go further and look again at the regulatory tools around responsible lending. Some of the section on responsible lending in CONC is only guidance, for example, it is currently only guidance that lenders should take into account whether a customer is experiencing difficulties with their existing financial commitments (CONC 5.2.3). The CONC responsible lending rules need to reflect the possible financial vulnerabilities of the customer base for high cost credit. **We believe the FCA should strengthen their rules on responsible lending including turning their existing guidance on responsible lending into rules.**

The FCA concludes that because the majority of HCSTC users did not hold multiple HCSTC loans at the same time means the sharing of information in real time is having an impact. However, we are concerned that there is still a significant minority of HCSTC users with multiple loans that get into debt and turn to charities like ours for help.

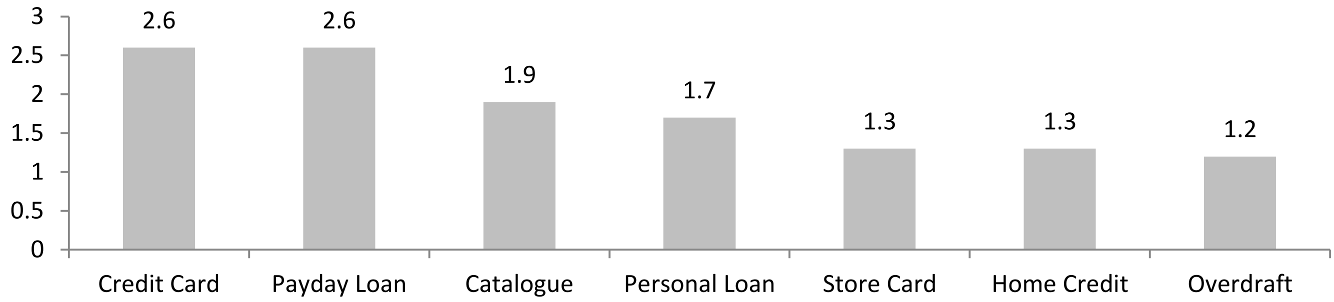
Real-time data sharing is essential to ensuring that that loans are lent responsibly, based on full information about a customer's financial commitments. It is also essential to monitor not just whether lenders are sharing data in real time but also if they are using that data to make informed, responsible lending decisions. Lenders may report to credit reference agencies in real time but there are questions about how many lenders are actually searching the real-time databases to find out what other loans applicants may have. We also understand that there was a requirement for firms to report in real-time to at least *two* bureaus but that this has now been changed to one.

In PS14/16 in November 2014, the FCA stated that the majority of the HCSTC market (around 90%) were participating in real-time data sharing.[37] It would be useful in this review to get an update on what proportion of HCSTC lenders are real-time data sharing in 2017 and whether this includes reporting to two bureaux or just one. Also to answer questions around how many firms are actually searching real-time databases to establish a consumer's current levels of HCSTC and other borrowing and if they are using this to assess applications for HCSTC. If the FCA finds that there are still significant issues**, we would urge the FCA to take action and mandate real-time data sharing across the whole of the HCSTC market.**

Q17: Do you have any further evidence on repeat and multiple borrowing?

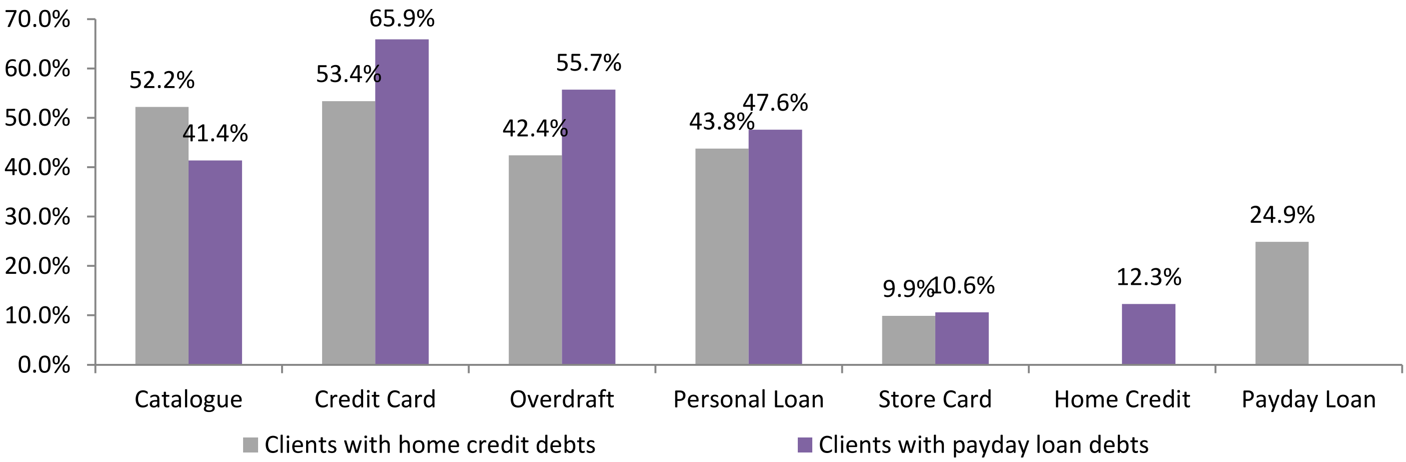
Multiple borrowing is not just an issue in the HCSTC market and we are also concerned about the levels of multiple credit card debts we see with our clients. The table below shows that the average number of debts our clients have with credit cards and payday loans is 2.6. Over four in ten of our clients (40.1%) have three or more credit card debts. In our response to the credit card market study we have urged the FCA to take action to address this.

Average number of debts by consumer credit type

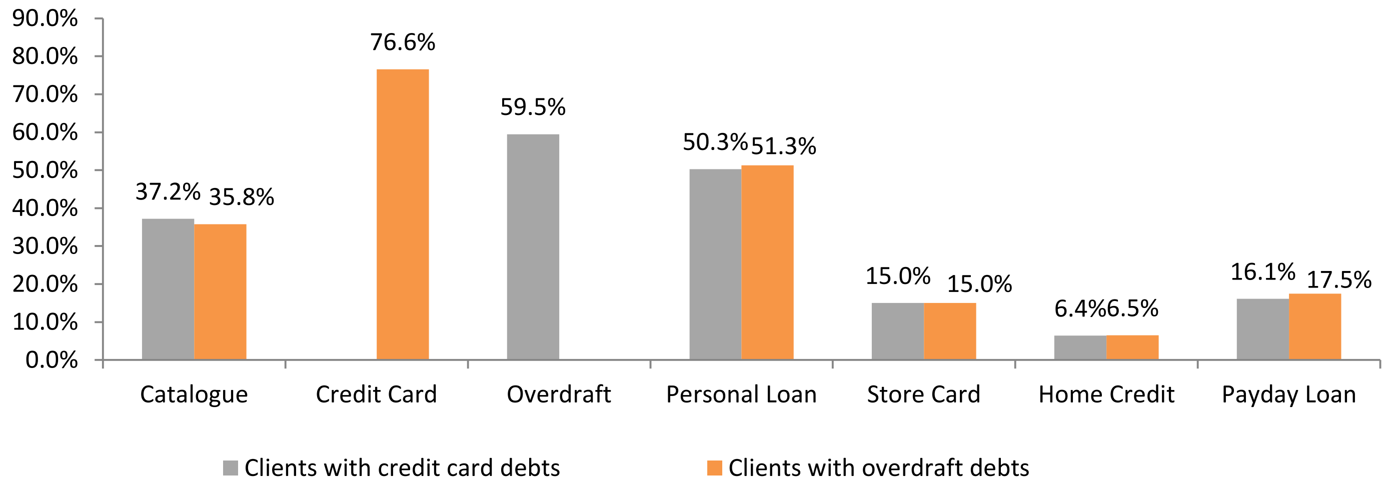


There is also the broader issue of the 'debt cocktails' we see when clients come to us. It is very unusual for clients to come to us with just one debt. Those clients with high cost credit debts are particularly likely to have various other consumer credit debts. As the table below shows, over 40% of our clients with home credit or payday loan debts also have catalogue, credit card, overdraft or personal loan debts.

Other debt types held by those with home credit or payday loan debts



In contrast, those with credit card and overdraft debts are particularly likely to have mainstream credit debts but less likely to have high cost credit debts. Over three quarters (76.6%) of those with overdraft debts also have credit card debts and nearly 60% of those with credit card debts have overdraft debts.



This all suggests how important it is to look at credit use across different sectors and ensure consistency of regulation across different credit products.

[1] From StepChange Debt Charity (2017) 2016 UK personal debt and statistics yearbook (to be published in Spring 2017)
[2] StepChange (2016) Falling into the red: How overdrafts can lead to problem debt
[3] Competition Commission. (2006). Home Credit Inquiry: final report. London: Competition Commission.
[4] Competition Commission. (2006). Home Credit Inquiry: final report. London: Competition Commission.
[5] Competition Commission. (2013). Understanding past market investigation remedies: home credit. London: Competition Commission.
[6] Law Commission (2016) Bills of Sale: A summary of the Law Commission's recommendations to reform the law of logbook loans and of other loans secured on goods
[7] ESRO for the FCA (2014) Consumer Credit Research: Payday Loans, Logbook Loans and Debt Management Services
[8] Law Commission (2016) Bills of Sale: A summary of the Law Commission's recommendations to reform the law of logbook loans and of other loans secured on goods
[9] StepChange Debt Charity response to the Financial Conduct Authority consultation: Our Future Mission
[10] Competition Commission (2013) Understanding past market investigation remedies: Home credit
[11] Competition Commission (2013) Understanding past market investigation remedies: Home credit
[12] Competition Commission (2013) Understanding past market investigation remedies: Home credit
[13] Public Accounts Committee. (2013). Regulating Consumer Credit. London: House of Commons.
[14] Law Commission report
[15] http://press.which.co.uk/whichpressreleases/overdraft-charges-more-expensive-than-payday-loans/
[16] University of Bristol (2016) Paying to be poor: Uncovering the scale and nature of the poverty premium
[17] StepChange Debt Charity (2016) The credit safety net: How unsustainable credit can lead to problem debt and what can be done about it
[18] Consumer Focus (2010) Keeping the plates spinning: Perceptions of payday loans in Great Britain
[19] Consumer Focus (2010) Keeping the plates spinning: Perceptions of payday loans in Great Britain
[20] Jigsaw Research for the FCA (2014) Consumer Credit Qualitative Research: Credit Cards & Unauthorised Overdrafts
[21] www.stepchange.org/Mediacentre/Pressreleases/ResponsetoWhichresearchonoverdrafts.aspx
[22] StepChange Debt Charity (2015) Navigating the new normal: Why working families fall into problem debt and how we need to respond
[23] CMA retail banking market investigation: provisional findings report, APPENDIX 7.4, Annex C
[24] CMA retail banking market investigation: provisional findings report 9.116.
[25] StepChange Debt Charity carried out a survey of 1,019 clients with overdrafts in September-October 2016.
[26] StepChange Debt Charity carried out a survey of 1,019 clients with overdrafts in September-October 2016.
[27] Retail banking market investigation: provisional findings report Appendix 7, 4-8, Para: 22
[28] Retail banking market investigation: provisional findings report Appendix 7, 4-12, Para: 30.
[29] Competition and Markets Authority (2016) Retail banking market investigation: Final report
[30] OFT (2006) Calculating fair default charges in credit card contracts
[31] OFT (2006) Calculating fair default charges in credit card contracts
[32] FCA credit card market study final report
[33] FCA credit card market study final report, section 7.40
[34] For more on this: StepChange Debt Charity (2016) Payday loans the next generation: Changes to the high-cost short-term credit market since the introduction of the price cap
[35] Citizens Advice (2015) Evidence on bill of sale consumer lending
[36] See StepChange Debt Charity (2016) Payday loans the next Generation - for methodology
[37] FCA (2014) Detailed rules for the price cap on high-cost short-term credit Including feedback on CP14/10 and final rules