

# Consultation Response



## Response by StepChange Debt Charity to the Financial Conduct Authority consultation paper: Detailed proposals for the FCA regime for consumer credit (CP 13/10).

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We are an independent charity dedicated to overcoming problem debt. Our advice and solutions are effective, tailored and importantly, free. Foundation for Credit Counselling. Wade House, Merrion Centre, Leeds LS2 8NG. Company No 2757055. Charity No 1016630. [www.stepchange.org](http://www.stepchange.org)

## Introduction

StepChange Debt Charity welcomes this opportunity to respond to the Financial Conduct Authority consultation on *detailed proposals for the FCA regime for consumer credit*. StepChange is the largest specialist debt charity operating in all four UK nations. Last year over 400,000 people contacted our telephone helpline or online debt remedy tool for help and advice about problem debt and debt solutions.

StepChange Debt Charity is also the UK's largest not-for-profit provider of free-to-client debt management plans (DMP); having introduced the debt management plan concept to the UK in 1992. Our DMPs are currently helping around 130,000 people to make affordable repayments to their creditors.

We believe that the experience we have gained in over twenty years of helping people deal with consumer credit and consumer credit debt makes us well placed to comment on these proposals from the Financial Conduct Authority for the consumer credit regulatory regime.

### Q1: Do you have any comments on the way our threshold conditions are being applied to consumer credit firms and/or the updates to our Handbook rules?

StepChange Debt Charity broadly agrees with the way that the threshold conditions are being applied to consumer credit firms. However we do have the following comments and concerns:

- The new draft handbook text for COND (pages 203 to 206, appendix 2) did not appear clear in defining the key concept of *relevant credit activities*. The text merely refers to a part of the Act (which is currently not consolidated into the text of the Act, requiring sight of the regulated activities amendment [No 2] order). As a result COND 1.1A.5AG is fairly incomprehensible without further knowledge and research. Given that small firms without recourse to extensive legal resource will need to comply with these rules, the FCA should consider ensuring that definitions or key terms and concepts should be as clear as possible and avoiding unexplained reference to further legislative sources.
- While agreeing with and supporting the notion of the limited permissions regime, StepChange Debt Charity remains nervous that firms selling goods on credit may use the limited permissions regime to avoid scrutiny of what could turn out to be high risk products. In particular we are concerned that firms with a limited permission appear to be wholly excluded from the business model threshold condition under paragraph 2F of Schedule 6 to the Act. Would this mean that the FCA would not be able to scrutinise a firm with a limited

permission even if the FCA became aware of business models in that sector causing consumer harm? This would seem to rob the regime of a key pre-emptive safeguard.

- Table 3.1 states that business models of higher-risk firms will be assessed against market norms. It is far from clear what this means. COND 2.7.1 and 2.7.8G give more detail, and we presume this will be applied to consumer credit firms. Here we note that 2.7.8G (3) suggests that firms should consider 'the needs of and risks to consumers'. Given that a key problem in sectors of the consumer credit market has been firms failing to adequately consider the needs of certain groups of financially vulnerable consumers, we would ask the FCA to consider amending this text along the lines of 'assess the needs of and risks to different consumers who may use their products or services'. This would perhaps better reflect a 'product governance' approach to business model scrutiny, where firms would be required to identify particular types of consumer who may be exposed to detriment by features of their business model.
- The threshold conditions on appropriate resources are modified for firms with a limited permission; with a firm assessed as having adequate financial resources if they are able to deal with their debts as they fall due. But we would ask the FCA to consider whether firms should include in this some arrangements to ensure reasonable cover against possible contingent liabilities to consumers who have made successful complaints to FOS, for instance. Otherwise we are concerned that this modified threshold condition could leave consumers without adequate access to redress.

## Q2: Do you agree with the updates to our draft Handbook rules for approved persons for consumer credit firms?

StepChange Debt Charity broadly agrees with the updated draft rules for approved persons

## Q3: Do you have any comments on the updates to our draft rules regarding appointed representatives of consumer credit firms?

StepChange Debt Charity has no additional comment at this time on the update to the draft rules on appointed representations.

Q4: Do you have any comments on the criteria that we are proposing a person would have to fulfil to be a self-employed agent of a principal firm (as set out in Appendix 2)?

StepChange Debt Charity broadly agrees with the criteria set out in the draft text of PERG 2.3.10G.

Q5: Do you have any comments on our proposed regulatory reporting regime?

Q6: Do you agree with our proposals to collect product sales data on high-cost short-term lending and home collected credit?

StepChange Debt Charity welcomes the introduction of a regulatory reporting regime to the consumer credit market. The effectiveness of the Consumer Credit Act has been severely weakened by the lack of a systematic regulatory reporting regime, leaving the regulator heavily reliant on *events driven* consumer complaints data to supervise the conduct and wider fitness of consumer credit firms. This resulted in a regime that tended to react only after significant consumer harm had occurred and then too slowly to stop that harm increasing.

Therefore we believe that an effective regulatory reporting regime is essential for the consumer credit regime to successfully deliver consumer protection. We broadly support the proposals set out in this consultation but have a number of comments and concerns that are set out below:

#### Early introduction of reporting requirements for high risk sectors needed

The consultation proposes that reporting requirements will only apply to firms that are fully authorised and that the FCA will not collect data from firms with an interim permission. This means that some firms will enter the FCA credit regime without demonstrating they meet the threshold conditions, without a reporting requirement and subject to event-driven supervision. StepChange Debt Charity is concerned that rogue firms will take this as an opportunity to continue with current bad practice after April 2014. We believe this is unacceptable and urge the FCA to give a clear statement on how these risks will be dealt with in the transition to the full regime. As a part of this we would ask the FCA to invoke the right discussed in paragraph 4.6 of the consultation and require firms in high risk sectors to report data while holding an interim permission.

## Payday lending and real time data

We strongly support the introduction of measures to deal with problems in the short term high cost credit sector. But we are not convinced that quarterly product data reporting will be sufficient to ensure that these measures are effective.

The consultation paper sets out proposals to restrict short term high cost credit suppliers from rolling over loans. But, as the impact assessment by Europe Economics points out, to make this policy effective it may be necessary to introduce real time data reporting to prevent lenders 'working round' the restrictions (perhaps by flipping between brands or associated firms).

Rollovers are not the only way that payday loan debts can spiral upwards. Multiple payday loan use is also a cause of very severe consumer detriment, with borrowers becoming trapped in a cycle of using one unaffordable payday loan to pay another. The experience of StepChange Debt clients who had outstanding payday loans at the time they sought debt advice illustrates this problem:

- The average total payday loan debt of StepChange Debt Charity clients with one or more payday loans is £1,665, but the average net household income of these clients is only £1,298 – they will never be able to repay what are supposedly short term loans out of their monthly income.
- Nearly half of StepChange Debt Charity clients with a payday loan have three or more outstanding payday loans and around 20 per cent have five or more outstanding payday loans.
- The average balance per individual payday loan held by our clients is £552, compared to an average loan for the market as a whole of around £250.

This strongly suggests that both individual lenders and the payday loan sector as a whole are not currently lending in a responsible way. We cannot see how the problem of multiple short term high cost loans can be resolved without lenders using real time data in their lending decisions. More pertinently here, we cannot see how the FCA will be able to monitor and guarantee payday lenders' compliance with responsible lending requirements such as CONC 2.2.2G (1) and CONC 5 without requiring lenders to report product sales data in real time for the FCA to monitor against a robust suitability and affordability framework.

## Secured loans

Both the Government and the OFT have previously recognised that secured loans can carry a very high risk of consumer detriment. The FCA currently requires authorised home finance providers to report data on second charge lending, presumably in recognition of the potential of these loans to cause consumer harm. So it seems a serious anomaly that consumer credit lenders will not be required to report product sales data on secured loans. Furthermore, authorised home finance

providers subject to post MMR responsible lending provisions, may carry these more robust requirements over to lending decisions for secured loans. As a result consumer credit lenders offering secured loans may actually present a bigger risk of producing consumer detriment but the FCA is proposing to exempt them from product sales data reporting. We are concerned that this decision could prove to be a serious mistake and we do not see how exempting consumer credit lenders from a requirement that home finance providers currently comply with is either proportionate or in line with the FCA's consumer protection objective.

### Loans secured by Bill of Sale

Paragraph 4.15 states that the FCA will consider expanding the scope of the PSD requirements as understanding of the market develops. The Government has previously recognised the high risks of consumer detriment attached to consumer credit agreements secured against chattels (usually a car) by a Bill of Sale. These generally high cost credit agreements give lenders an almost unfettered ability to take possession of the borrower's goods in the event of default. These products are often advertised as 'no credit check' loans in a way that may target financially vulnerable consumers. Loan amounts may also be advertised with reference to the value of the car to be secured (up to a proportion of value for instance). Taken together, this seems to push hard against the prohibition in CONC 5.3.5R not to base a creditworthiness assessment primarily or solely on the value. As a result we would ask the FCA to consider bringing credit agreements secured by Bill of Sale into the PSD regime.

### Reporting matters throughout the term of the loan

StepChange Debt Charity would urge the FCA to reconsider the decision that PSD reporting for consumer credit will only be concerned with the original sale of the loan. We believe that the PSD regime can be used to identify both emerging problems in the market and to monitor compliance with key provisions in the rule book such as:

- Requirement of lenders to freeze interest and charges in accordance with CONC 7.3.4R / 7.3.5G / 7.7.5R / 7.7.6G
- Requirement not to take steps to repossess a customer's home other than as a last resort under CONC 7.3.18R
- Requirement not to threaten court action (7.3.19R and 7.3.4R and proportionality under 7.3.16R)
- Requirement on debt management firms to ensure that the amount or timing of fees and charges do not have the effect that the customer pays all or substantially all of those fees in priority to making payments to lenders (8.7.2R)
- Control of use of set off in CONC 7.8
- Credit broker fee refunds under S155 / 6.8.3G

- Requirement to monitor repayment record under 6.7.2R, particularly in respect of the number of clients making a number of consecutive minimum repayments as in 6.7.3G (b)
- Restrictions on use of continuous payment authority under 7.6.12 R

This is not an exhaustive list but highlights some of the key provisions in CONC to control firms' conduct with respect to matters arising over the life of a consumer credit agreement. Given that the FSF suggests that many consumer credit firms will only be supervised on an event-driven or thematic basis, we are concerned that non-compliance with key protections will not be picked up until a significant number of consumers have experienced detriment. Therefore we would ask the FCA to consider requiring firms engaged in high risk activities to update data throughout the life of the agreement.

## Q7: Do you have any comments on how we propose to carry across CCA and OFT standards, in particular in the areas highlighted above?

StepChange Debt Charity welcomes this opportunity to comment on the way that the FCA proposes to carry across the CCA and OFT standards listed in paragraph 5.9 of the consultation. Our comments are as follows:

### **Irresponsible lending**

#### **Adequate explanations, CONC 4.3**

We are not convinced that the 4.3.2R (converting rules to guidance for specified agreements) is a sensible provision. We presume that the aim of the provision is to align prescriptive rules in 4.3 with the scope of the Consumer Credit Directive, so that loan agreements outside of the CCD's scope are not subject to 'gold plating'. But aside from the requirements of the Directive, the adequate explanations provisions read as good business practice and a key component of compliance with Principle Six. Indeed it is hard to see how a firm can treat a customer fairly without taking reasonable steps to ensure that a customer understands the credit agreement. So we do not see why agreements outside the scope of the Directive should be subject to a lower standard of fundamental consumer protection, particularly as large agreements and secured agreements may present a higher risk of consumer detriment. In consequence we would ask the FCA to reconsider 4.3.2R and apply the rules in 4.3 as rules to all agreements.

4.3.7R requires lenders or brokers to make decisions on the level and extent of explanations with regard to the type and amount of credit, the customers understanding and the channel. We ask the FCA to consider whether the rule should

require lenders or brokers to establish and implement clear policies and procedures to ensure compliance with 4.3.7R

StepChange Debt Charity welcomes 4.3.13R as a sensible 'anti-avoidance' measure.

We welcome the inclusion of adequate explanation provisions where agreements are marketed by distance or electronic means, as we believe this is a key area where consumers can be sold unsuitable or unaffordable agreements or surprised by features on an agreement. However we wonder whether the paragraphs 4.3.17-19, and particularly 4.3.19 should be designated as a rule.

### Assessment of affordability, CONC 5.2

StepChange Debt Charity broadly welcomes the proposed rules on assessing affordability set out in CONC 5.2, 5.3, 5.4, 5.5 and 6. A system of rules based oversight of lending decisions should be more robust than the guidance based CCA regime in terms of compliance monitoring and enforcement. However it is not clear sufficient detail from the current irresponsible lending guidance has been carried over to the CONC rulebook.

Perhaps more importantly, the CONC rule book largely takes the same high level approach as the previous guidance; an approach that has so far failed to ensure that credit firms do lend responsibly. There is an opportunity here to drill down into more targeted provisions to address specific concerns.

For instance, multiple payday lending is a significant problem (the experience of StepChange Debt Charity clients was highlighted above) and we believe that requiring lenders to use real time data in their lending decisions will be necessary to address this. But payday lenders have so far been very slow in taking any meaningful action to prevent consumers getting trapped in a cycle of multiple payday loan use. We believe that there is a strong case for the FCA to intervene and require real time data to be necessary for assessing creditworthiness / ensuring that the customer's financial situation is not adversely affected.

More generally we would urge the FCA to consider adding further targeted rules and guidance as an outcome of any thematic work highlighting specific problems with a product or sector that are not certainly controlled by the high level approach.

With specific regard to CONC 5.2, we are somewhat concerned that 5.2.1R reads as almost a straight copy out of provisions in the Consumer Credit Directive. The recitals to the directive make it very clear that the provisions on creditworthiness are aimed at ensuring responsible lending and preventing irresponsible lending. Therefore we believe that the FCA should be able to go further than the Directive text to interpret and implement the provisions without breaching the harmonisation conditions or 'gold-plating' the directive. The factors that firms will have to consider



in 5.2.2R (2) seem to be a reasonable, non exhaustive indication of the things firms should consider in lending decisions in order to treat their customers fairly and we saw no reason why this should not also apply to agreements covered by 5.1.1R.

In 5.2.1R (2) firms are required to take into account the information of which they are aware at the time the regulated agreement is to be made. We believe this wording should be improved to include an active duty on firms to seek the information necessary to make an assessment and also to make use of information on which they might have constructive knowledge. This could perhaps be done by amending the wording to state that firms should take account of information that they could obtain at the time the agreement is to be made?

#### Comments on 5.3 include:

- We would ask the FCA to consider whether aspects of 5.3.1G should be redefined as rules – (4), (5) and (6).
- 5.3.2R is fundamental to responsible lending, but what does ‘sufficient information’ mean? It is not clear how this rule either directs firms towards particular behaviour or gives certainty of compliance.
- 5.3.3R is also fundamental, but we believe that a similar provision in MOCOB failed to prevent irresponsible lending by home finance providers, leading to a more prescriptive approach to what lenders must do being incorporated into the rules by the MMR.
- We would ask the FCA to consider including explicit provisions for lenders who advance credit on the basis that the consumer provides a guarantor; to ensure that both the customer and the guarantor understand the arrangement, that the guarantor is under no undue influence and that the guarantor is able to meet any obligations under the agreement in line with the requirements of CONC 5.3 etc.

## CONC 6

StepChange Debt Charity warmly welcomes the emphasis on post contract practices in CONC 6. StepChange Debt Charity sees many cases where the problems financially vulnerable people face have been caused or exacerbated by the post contractual behaviour of firms. Our specific comments of CONC 6 are as follows:

- CONC 6.2.1R (4) provides that the duty to assess credit worthiness before increasing the amount of credit or a credit limit will not apply to agreements secured on land. However secured overdrafts exist and other secured revolving / running account credit are possible. Both would constitute a high risk of consumer detriment but seem to be excluded from this provision. There does not appear to be a similar provision in CONC 15. We would also ask the FCA to consider whether an anti-avoidance rule is needed to prevent lenders from modifying secured loans to increase credit rather than granting a new

loan if such a practice could be used to avoid CONC 5.2.2R for increased lending.

- In 6.3.4R (2) we would urge the FCA to consider adding information on support for people experiencing financial difficulties in the information firms should give borrowers.
- We are unclear as to how CONC 6.3.2R and 6.3.4R (4) fit together.
- We would ask the FCA for clarification on the meaning of 6.4.2R (2). Does this mean that where a consumer owes a lender in respect of an unsecured loan **and** a hire purchase, hire or agreement with security that the lender would not be able to prioritise receipt of payment to the hire purchase, hire or secured agreement; even where this could mean the customer might have essential goods repossessed or sold? If this interpretation is correct, should lenders of agreements specified in 6.4.2R (2) a-c be required to advise customers of their right to make an appropriation and the consequences of not doing so?
- We would ask the FCA to consider specifying that the circumstances in 6.7.3G a) b) and c) should trigger requirements under CONC 7.2, 7.3, 7.7 etc. as appropriate.
- We would ask the FCA to consider whether the requirement in 6.7.5R (1) is consistent with 5.3.1G (4) (b) and 5 (b), and (6) (a). This is a carryover from the voluntary industry commitment in the lending code. But the one per cent of the balance formula is insufficient to prevent repayments extending over a very long period (generally 17 years or more) if a consumer were to only make minimum payments. Therefore we would ask the FCA to take this opportunity to consider options for a more effective protection, such as raising the per cent level for balance reduction, setting the per cent payment to the credit limit rather than balance or specifying that the minimum payment must be kept at the same level as the minimum payment was at the start of a run of minimum payments (otherwise the one per cent applies to a declining balance, extending the repayment period as minimum payments reduce with the balance).
- We believe that CONC 6.7.9R should be amended to include a requirement prohibiting a lender from an unsolicited increase in a credit limit where there is evidence of financial difficulty. This would support 6.2.1R and carry over the card industry voluntary commitment on this issue.
- CONC 6.8.3G (1) references refunds of brokers fees under Section 155 of the CCA. However the OFT (in response to the Citizens Advice super complaint of credit broking charges) asked the Government to consider banning 'up-front fees' by credit brokers as these have consistently been a source of consumer detriment. We would therefore ask the FCA to take the opportunity to use these rules to prohibit credit brokers from taking an upfront fee before a credit agreement sourced by them is concluded.

- We would also ask the FCA to introduce a provision for brokers similar to 8.7.5R (3) that prohibits debt management firms from requiring or taking payment before the firm has entered into a contract with the customer. This would probably be achieved by amending CONC 2.5.8R (18) to include such a provision

## CONC 7

StepChange Debt Charity is very happy to see the introduction of a robust rules based regime setting out requirements to control the way firms deal with arrears, default and recovery including repossession. We believe this to be a big step towards ensuring that financially vulnerable consumers are treated fairly. Our specific comments on CONC 7 are as follows:

- CONC 7.3.5G and 7.76G both tell lenders to exercise forbearance to people in financial difficulty and prevent debts from rising by freezing interest and charges. We believe that these provisions are absolutely central to treating customers fairly. We also believe that consumers in financial difficulty are more likely to seek help earlier if they have certainty that they will be treated well by their lenders. This is currently not always the case. In a 2012 survey, around 50 per cent of StepChange Debt Charity clients said that none or less than half of their creditors had treated them well prior to seeking advice. Therefore StepChange Debt Charity strongly recommends that the FCA should upgrade these provisions to rules, such is the importance of the point. It is a major weakness of the current framework of consumer protection that people in financial difficulty can only get a guarantee of protection from spiralling debt and continuing enforcement by entering an insolvency procedure. This may be unsuitable for people in temporary difficulties and may drive people to debt forgiveness who otherwise might be able to meet their credit commitments in the future.
- CONC 7.3.16R is a welcome and important rule. However it is not clear that the text of this rule is completely aligned with 7.3.4R and 7.3.8G. We believe that firms should generally refrain from action when a customer has made a reasonable offer of payment in line with a recognised budget standard. But this is not made clear in the reference in 7.3.16R to proportionate options. Therefore we would ask the FCA to amend this rule to make it clear that firms should not be taking action against customers who are making a reasonable offer of repayment given their circumstances.
- CONC 7.3.18 should be explicit that such steps can include issuing a court claim for possession.
- CONC 7.6.3R is welcome. However we would ask the FCA to consider amending this rule to include a requirement for firms to repay any amount already taken by continuous payment authority where it becomes apparent that the payment has caused financial difficulties such as those set out in

7.6.5G (2). In particular we believe that the FCA should apply such a rule to short term high cost credit agreements as this would mirror the voluntary commitment to refund CPA payments in the Consumer Finance Association Code.

- We would urge the FCA to amend 7.6.2R (1) to prohibit firms from making a charge for taking or attempting to take payments by continuous payment authority. We have seen examples of payday lenders charging for a large number of multiple CPA attempts, massively inflating the debt of a person in financial difficulty.
- StepChange Debt Charity believes that 7.8.3G tends to undermine 7.8.2R and the rules on forbearance discussed earlier. We do not believe that a lender should be exercising right of set off when they become aware that a customer is in financial difficulty.
- StepChange Debt Charity welcomes 7.11.1R but asks the FCA to consider how this relates to rules on dealing with customers in financial difficulty discussed earlier. While people lacking mental capacity may well be in a vulnerable position, so might other financially vulnerable consumers. The looser wording of the earlier rules read alongside this rule suggests that lenders **must** suspend debt recovery only where there is evidence of a lack of mental capacity. We believe that the combined reading of these rules might lead firms to offer too little protection to most customers in financial difficulty (who may also be vulnerable for other reasons).
- CONC 7.13.2R allows firms to refuse to deal with customers or debt advice agencies when they have an 'objectively justifiable reason to do so'. We would ask the FCA to be clearer in defining what these objectively justifiable reasons might be. In 7.13.3G the FCA gives one example and we would like this to be either classed as an exhaustive example or other examples added to make an exhaustive list. StepChange Debt Charity has experienced a number of cases where creditors have refused to deal with us.

## Mental Capacity

StepChange Debt Charity welcomes reference in CONC to the needs of vulnerable consumers. We only have two brief comments to make at this time:

- The section is titled *Dealing with particularly vulnerable customers* but the focus is only on customers lacking mental capacity. We would ask the FCA to consider amending this section to take a broader view of vulnerability following a thematic review of the causes and consequences of consumer vulnerability
- The section appears to have no rules. Given the importance of this area we would expect firms to face some clear requirements rather than just guidance.

## Credit brokers and intermediaries

We have made comments relating to credit brokers earlier in this response. Here we focus on the issue of unsolicited marketing of credit and ancillary products.

StepChange Debt Charity welcomes the FCA recognising unsolicited marketing of credit and debt management products cause problems, in particular for financially vulnerable consumers. We have seen a number of cases where consumers have entered unsuitable and harmful credit or debt management arrangements as a result of an unsolicited marketing contact. Six percent of StepChange Debt Charity clients have fallen into a worse financial position after purchasing a credit product or claims management service, following an unsolicited telephone call or text<sup>1</sup>.

We recently commissioned a nationally representative survey from the polling company YouGov about the problems caused by unsolicited calls and text messages. The results of this survey, along with qualitative analysis of our clients, were published in a report, *Got their number*. The report highlighted problems resulting from unsolicited marketing and widespread non-compliance with consumer protection and data protection legislation.

- Three and a half million adults are afraid to answer the phone as a result of unsolicited calls or text messages
- 1.2 million British adults who have received such calls said they had been tempted to take out high-interest credit such as payday loans as a result of an unsolicited marketing call or text messages
- Nearly 28.5 million adults have been offered high-interest credit such as payday loans via unsolicited calls or messages

We have attached a copy of the report to this response and would welcome the opportunity to talk to the FCA about it in more detail. We believe that these problems are severe enough for the FCA to take additional policy action in respect of high risk products. Specifically we would ask the FCA to consider:

- Prohibiting unsolicited real time promotion of high risk products such as payday loans
- Working with the ICO to ensure that credit firms adopt best practice guidance on data privacy notices and gaining consent.
- Ensuring that brokers have to inform consumers in advance of any other firm they will pass the consumer's details to, who may then themselves contact the

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<sup>1</sup> Results based on a survey of 465 StepChange Debt Charity clients surveyed in August and September 2013

consumer. The FCA should prohibit firms receiving leads from consumers from passing their contact details to any further firms.

### Debt collection

We have no additional comments to those made above on CONC 7.6 and 7.14 at this time

### Debt management.

We have made a number of comments in respect of CONC 8 (including 8.7.2) in our response to question 19.

We warmly welcome CONC 2.6.2 requiring commercial debt management firms to alert consumers that free debt advice is available. We would ask the FCA to consider whether commercial debt management firms should also be required to make such a statement in advertisements and other promotions.

We also believe that the FCA should consider prohibiting unsolicited real time promotions by commercial debt management firms.

### Misleading or otherwise undesirable names guidance

StepChange Debt Charity welcomes these rules on misleading and otherwise undesirable names. Our only brief comment would be to ask the FCA to consider adding to 2.2.4G (2) names of firms providing high risk products that might cause consumers to be misled as to the risk nature of that product.

### Second charge lending

We have made a number of comments in respect of second charge lending above. We have no additional comments on CONC 15 at this time.

StepChange Debt Charity does not have any specific comment on CONC 13 at this time.

## Q8: Do you have any comments on our proposed approach to financial promotions?

We have made a number of comments on financial promotions in responses to other questions. StepChange Debt Charity has no additional comments to add here.

## Q9: Do you agree with the definition of a high-cost short-term credit provider as set out at the start of this chapter?

StepChange Debt Charity broadly agrees with this definition for the purpose of introducing provisions to address problems with payday at this. However we would make two brief observations:

- Firms may seek to avoid the definition by reducing their borrowing rate but maintaining revenues by increasing contingent fees such as default charges etc. The FCA will need to review charging practices aimed at avoiding rules specific to high cost short term credit
- The definition is limited for the current purposes, but we would remind the FCA that overdrafts are a form of potentially high cost short term credit that may be substitutes for payday loans. We would urge the FCA to consider what specific rules might be necessary to deal with ongoing problems with overdrafts. Other credit products such as bill of sale loans, home credit and some credit card offerings can also be viewed as high cost short term credit and may need specific regulatory action to deal with risks of consumer detriment.

## Q10: Do you have any comments on limiting rollover to two attempts?

## Q11: Do you have any comments on whether one rollover is a more appropriate cap?

StepChange Debt Charity welcomes action by the FCA to limit rollovers on short term high cost credit. However we believe that the cap should be set at one rollover *at the most* rather than two.

Firstly rollovers can significantly increase the cost of payday borrowing. The OFT reported an average cost of payday borrowing of £25 per £100 borrowed per month with the average payday loan in the market found to be around £250. With a charge of £62.50 per month rolling this over twice would increase the cost of borrowing £250 to £187.50 – or 75% of the initial capital borrowed.

Among StepChange clients the implications can be even more severe. The average payday loan held by StepChange clients is around £550. If this is rolled over twice the cost of borrowing this amount comes to £412.50 – almost an entire additional payday loan. It is not hard to see how roll-overs are trapping people in a cycle of dependency on high cost short term credit.

Secondly we believe that where a consumer cannot repay a payday loan at the end of the loan period, this is likely to suggest either a significant change of financial circumstances during the month or that the loan was not affordable for the borrower from the outset. In either case we would expect a lender to consider whether their customer was in financial difficulty before rolling over the loan.

There may be exceptional circumstances where the change of financial circumstances is also very short term (an unexpected expense perhaps) and the consumer retains an underlying ability to repay a rolled over high cost short term credit agreement in the original term. In which case it might be reasonable to roll the loan over one time where the lender has established with a high degree of certainty that the borrower will be able to repay at the end of the following loan period. Where the lender cannot satisfy themselves of this (perhaps with reference to the criteria of 5.3.1G etc.) we do not see how rolling over the loan and making a fresh charge for credit can be compatible with the requirement to treat customers fairly by lending responsibly.

In which case we do not see how rolling over a loan twice can be compatible with responsible lending. It suggests that the first assessment was wrong and the borrower's financial difficulties have persisted.

Here our concern is that by setting a limit of two rollovers the FCA will in effect be undermining any expectation on lenders to make an effective assessment of affordability or financial difficulty at the end of the first loan period.

The experience of StepChange Debt Charity clients suggests that payday lenders are not making these assessments effectively and in the best interest of their customers and we agree with the FCA that a specific cap on rollovers is necessary. However we believe that the limit needs to be set at one rollover not two to be consistent with principles of responsible lending and treating customers fairly.

**Q12: Do you have any comments on our proposal to introduce a limit of two unsuccessful attempts on the use of CPAs to pay off a loan?**

**Q13: Do you have any comments on our proposal to ban the use of CPAs to take part payments?**

StepChange Debt Charity welcomes the proposal to limit the number of unsuccessful attempts at CPA. The experience of StepChange Debt Charity clients shows how using CPA on consumers in financial difficulties can severely aggravate debt problems. The following case gives an example:



*A payday loan company issued a 44-year old man with a claim for £1,830 in penalty charges incurred for default on a loan of £120. The claim detailed two overdue penalty charges totalling £80, a debt recovery fee of £100 and a total of £1,650 in charges for 330 unsuccessful attempts to recover payment. The lender also charged £178 in interest, or 1 per cent on the original loan principal every day.*

We believe that where a CPA attempt fails to recover the whole of the agreed amount at the agreed time the lender should treat this as evidence that the borrower is likely to be in financial difficulty. In which case the lender should turn to their arrears policy under 7.2.1R rather than making a further CPA attempt in order to ensure that they are treating their customer with due consideration under 7.3.4R and fairly in accordance with Principle 6.

The lender should only make a second attempt when they have taken reasonable steps to satisfy themselves that the use of CPA will not cause hardship as described in 7.6.5G (2) for instance.

In consequence we believe that the limit should normally be set at one attempt after which the lender should take steps to ensure that CPA use is appropriate before attempting again. The FCA might require lenders to document the efforts they made to make such an investigation.

We believe it should be reasonable for the lender and consumer to agree for the lender to make further attempts on agreed dates and for part payments if this is also agreed. But any such agreement would have to be a genuine agreement taken after due consideration of the consumer's financial situation.

## Q14: Do you have any comments on our risk warning?

StepChange Debt Charity supports the idea of a risk warning. However we are not certain that this particular text is necessarily the optimum way of informing consumers about the risks of payday loans. The reference to two million payday loans could perhaps be supported by also expressing this as a proportion of all payday loans.

More generally we believe that the FCA should require the high cost short term credit industry to work with the regulator to develop a range of measures to improve consumer awareness of the risks and costs associated with inappropriate payday loan use and the alternatives to using high cost credit to pay bills and other credit.

## Q15: Do you have any comments on our proposals to require highcost short-term lenders to provide information on free debt advice before the point of rollover?

StepChange warmly welcomes the proposal requiring lenders to provide information on free debt advice at the point of rollover. This seems a sensible and proportionate addition to the package of consumer protection measures in respect of high cost short term lending.

## Q16: Do you have any comments on the effectiveness of price capping?

Given the recent Government announcement concerning a planned change to legislation that will place the FCA under a duty to introduce the price capping provisions in Section 137C FSMA, we would welcome a longer conversation with the FCA about price capping.

In very brief outline here we believe that price interventions might be effective in achieving two consumer protection outcomes:

- Arguments for a total cost of credit cap concentrate on all the possible costs under an agreement rather than just the interest rate or headline borrowing costs. StepChange Debt Charity is particularly concerned with the way that default interest and charges can cause debts to spiral upwards. Therefore we believe that there is a clear need for a regulatory intervention to limit to extent to which debts can escalate when people fall into financial difficulties. This could be done either through a price intervention, conduct interventions or both. Here we note that 7.7.5R places controls on default charges without putting a final limit on how they can inflate a debt. Both 7.35G and 7.76G suggest that lenders should cease to apply interest and charges when a customer is in financial difficulties but these do not have the strength of a rule. Converting these provisions into rules requiring lenders to freeze interest and charges when a customer is in financial difficulty could perhaps go towards meeting the objective of protecting consumers from spiralling debts.
- Price capping can also perhaps be effective in providing a direct remedy for different aspects of market failure and this is already recognised in existing competition and consumer credit legislation. The Enterprise Act gives the Competition Commission power to cap prices as part of a package to address consumer detriment arising from features of a market having an adverse effect on competition. The *unfair credit relationships test* (Section 140A-D) provides a judicial power to intervene on price where aspects of the

relationship between creditor and borrower are unfair to consumers - the definition of unfairness including a concept of bad faith that could include taking advantage of a consumer's financial vulnerability. However neither provision has been wholly successful in dealing with the problems faced by financially vulnerable consumers in credit markets, but notably there has been no broad application of a price intervention power in either case.

StepChange Debt Charity believes that the payday lending market (and other credit markets) is not working well for financially vulnerable consumers in particular and we are doubtful that efforts to improve competition in the market through better consumer information, switching etc. will be successful in removing consumer detriment, at least in the short term. In which case a regulatory intervention on price might well be justified **if** analysis of the market shows that payday lenders are making excessive returns from vulnerable consumers.

However it will be crucial to ensure that any such price intervention is set at a level that reduces detriment without unduly reducing access to credit granted by responsible lenders (assuming the conduct rules get the sector to this point). This will require the FCA to carry detailed economic analysis and the Competition Commission inquiry should work with the FCA to deliver this.

### Q17: Do you agree with our proposals on how to calculate our prudential requirement for debt management firms and some not-for-profit debt advice bodies? If not, what amendments would you suggest, and why?

StepChange Debt Charity welcomes the proposal to introduce a scheme of prudential requirements for debt management firms. A number of commercial debt management providers have fallen into difficulties in recent years and client money has been lost. The lack of protection of client money in the CCA regime was and remains a serious weakness.

That said we are not convinced that prudential requirements will by themselves be a sufficient protection for client money as some of the incidents of debt management firms failing have been caused by dishonest misappropriation by staff or owners rather than 'business risk' per se. Therefore we believe that client money handling rules will also have a key part to play by providing safeguards against misappropriation, such as robust segregation of functions.

StepChange Debt Charity is the UK's largest charitable not-for-profit provider of free to client debt management plans (DMPs). In 2012 our DMPs helped around 130,000 get control of their debt problems. Around £320 million was returned to creditors in respect of over £3Billion in debt under management. StepChange Debt Charity

agrees with the FCA that not-for-profit debt advice bodies holding more than £1 million should be subject to prudential requirements.

**However we do not agree with method that the FCA has developed to calculate the prudential requirement for debt management firms.** We believe this has some serious flaws that could lead to not-for-profit debt advice agencies having to turn away people needing free debt advice. This would be an exceptionally bad consumer outcome.

Our specific comments on the calculation are as follows:

The key policy aim of the prudential standard is given in paragraph 7.1 as making sure 'firms have enough financial resources available at any time to cover potential operational and compliance failures and/or pay redress'. **In which case £5,000 seems too low as a fixed minimum to achieve this policy objective.** It seems neither big enough to ensure the orderly run down of a business that was in trouble nor sufficient to cover potential redress to the many hundreds even thousands of current and past customers that a debt management company holding up to £1 million in client money might have.

**We believe that the concept of *relevant debts under management* on which the volume based measure is based may be wrongly defined.** The amendments to the glossary of definitions in Annex B gives *relevant debts under management* as 'a debt due under a credit agreement or a consumer hire agreement in relation to which a firm is carrying on debt adjusting or an activity connected to that activity'.

It is not clear from this (or from the definition of Debt Adjusting in article 39D of the Regulated Activities amendment Order) whether this definition would only capture debts in respect of which a debt management firm / not-for-profit debt advice agency is handling client money, or all debts where the firm / charity is negotiating with lenders or carrying out similar activity in connection with the liquidation of the debt.

The two amounts could be very different. For instance, only around 10 per cent of clients advised by StepChange Debt Charity each year enter into a debt management plan where the charity handles client money. But a large proportion of the rest are given advice and support to access debt solutions that could possibly be described as debt adjusting under the article 39D definition. This could massively inflate the charity's prudential requirement without having any relation to protecting client money.

**Therefore we would ask whether the FCA needs to reconsider redefining *relevant debts under management* to connect this more closely to client money.**

**We believe that the value of debts under management is generally a poor base from which to measure prudential requirements to protect client money and may actually lead to consumer detriment.** StepChange Debt Charity currently manages between £3 and £4billion of credit debts in DMPs. This would produce a capital requirement of around £10 million, which we believe is probably about right as a safeguard to ensure an orderly run down of the Charity if this were needed. So we do not have any serious issue with the magnitude of the proposed capital requirement.

However we are extremely concerned that the proposed formula for calculating the prudential resources requirement set out in CONC 10.2.5 could have the effect of excluding people from accessing free debt management plans from not-for-profit providers. This would disproportionately affect people with larger debts but little available income who are likely to be very financially vulnerable.

The current average total unsecured debt of StepChange Debt Charity clients is around £17,000. Adding this amount to the *relevant debts under management* would increase our prudential requirement by £42.50. Assuming this increase operates on an annual basis, we would need to find at least £42.50 in additional annual revenue to cover the prudential charge alone.

On the basis of our fair share funding model (where creditors make a voluntary donation to StepChange Debt Charity equating to around 10 per cent of the value of payments distributed to them through DMPs), a client would need to be making payments to creditors of at least £35 per month to cover the marginal increase in the prudential requirement.

However we estimate that around half of our clients will not have a sufficient budget surplus to pay £35 per month to their creditors. Indeed many of the most financially vulnerable people approaching StepChange Debt Charity for help are those who have faced a recent major income shock (such as unemployment) that leaves them with little or no money for repayments to unsecured credit. For many of this group bankruptcy or another formal insolvency option will not be immediately appropriate – they do not need debt forgiveness but a period of breathing space until their income recovers.

People in these circumstances are often best supported by a form of short term time limited debt management plan, a token payment plan, where they make token payments in return for a period of forbearance by their creditors.

But under the current proposed capital requirement formula, helping these clients would result in an unfunded increase in our capital requirement. We would be able to cross subsidise from our overall fair share revenue to an extent. But StepChange Debt Charity would almost certainly be placed in the position where

we might have to turn away people in dire need of our help or risk breaching the prudential requirement in 10.2.5R. This cannot be right.

Furthermore as 10.2.6R requires an annual assessment of *relevant debts under management* we would have to undertake precautionary modelling of compliance with 10.2.6R to avoid a cliff edge effect at the reassessment date. This introduces an additional element of caution that is likely to further exacerbate the possible regulatory exclusion of people in financial difficulty from charitable help. Given that the prudential rules are likely to increase ‘cherry picking’ of more affluent clients by commercial fee-charging debt management firms (who will refer other clients to the charitable sector under CONC 2.6.2R or 8.3.7R) we expect to see an increasing proportion of clients visiting debt advice charities to be in the lower budget surplus group.

**As a result we strongly urge the FCA to reconsider the method of calculating the prudential requirement to align this more closely to the amount of client money received rather than the level of debt under management (which is not necessarily or closely connected to the degree of prudential risk).**

We repeat that we are not unduly concerned about the magnitude of prudential requirement that would apply to StepChange Debt Charity under the current rules. It is the disproportional gap between marginal increases in the prudential requirement and marginal increase in client money that could have a disastrous impact on access to free debt management services.

## Q18: Do you agree with our proposal to apply a transitional approach to prudential standards for debt management firms and some not-for-profit debt advice bodies?

StepChange Debt Charity understands and broadly supports the need for a transitional approach to give firms time to prepare for the prudential requirements regime. However, given that a number of debt management firms have failed in recent years, we are concerned that the transitional arrangements could see unsound firms putting client money at risk under the FCA regime.

As the FCA will not be auditing firms with an interim permission against the threshold conditions (including the appropriate and adequate resources conditions) this maintains an unknown level of risk to client money and creates an unknown reputational risk for the FCA regime.

Therefore we would urge the FCA to consider at least requiring firms with an interim permission who hold client money to demonstrate they have appropriate and

adequate resources to continue trading in accordance with conduct rules in force for interim permission holders without risking client money.

## Q19: Do you have any comments on our draft guidance on the debt counselling activity and our draft rules covering the provision of debt advice?

### Draft rules on debt advice

StepChange Debt Charity warmly welcomes FCA rules to cover the provision of debt advice. For too long we have been seeing cases where financially vulnerable people have suffered as a result of the poor advice, poor service and exploitative charging practices of some commercial debt management companies. The previous guidance based approach has proved unable to deal with problems in the debt management market so we believe a more robust regulatory approach is fully justified.

We broadly agree with the CONC provisions on debt advice and believe this to be an excellent outline for a better regulatory regime for debt advice. However we would take this opportunity to raise the following comments and concerns:

Our general comment is that it is not clear whether CONC 8 is establishing primarily an *advice* regime or a *disclosure* regime as the language of the requirements on firms moves backwards and forwards between giving information and options and giving recommendations. So for instance CONC 8.3.2R (1) states that advice must be in the best interests of the customer while (2) describes a requirement to ensure customers receive sufficient information about options and (3) describes a requirement to describe why options (plural) are suitable or unsuitable. Likewise 8.3.4R (2) requires firms to be clear about potential advantages, disadvantages etc. while 8.3.7R (2) talks of any advice or recommendation.

StepChange Debt Charity is comfortable with the notion of a *recommendation* being central to the notion of an advice regime – that best advice requires the debt advice agency to point a customer to the best option for their needs and circumstances and give reasons for that decision. This would not necessarily preclude a customer choosing an alternative suitable option on an ‘execution only basis’ but it would preclude firms from hiding mis-selling behind disclosure of information about options.

CONC 8.3.7R (1) requires firms to provide a customer with a source of impartial information on the range of debt solutions available to the customer. But does this mean all solutions, even those that are clearly unsuitable but available nonetheless. This sounds like a potentially costly and paper heavy requirement that has not previously delivered consistent advice outcomes under similar provisions in either the OFT debt management regime or the insolvency regulatory regime.

CONC 8.3.7R (2) requires firms to carry out a *full assessment* of income, capital and expenditure but does not give any clear indication as to what this means. This is important as some creditors may see this as placing debt advice providers under a duty to conduct a full examination that might include land registry searches etc. and providing detailed evidence to verify income and expenditure. We believe that this could create a disproportionate burden on debt advice providers. In contrast 8.5.4R requires firms to take reasonable steps to verify identity, income and expenditure (but not capital). The guidance below this does not give much help on what should be sufficient and importantly what creditors should accept. So additional clarity here might be useful.

CONC 8.5.1R is welcome, as an accurate, realistic and clear financial statement is a cornerstone of good debt advice. 8.5.2G mentions a particular budget standard, which is one of several widely recognised budget standards at present. Therefore we would ask the FCA to remove reference to the MAT CFS (at 8.5.5G as well) or include reference to other standards (such as the StepChange budget guidelines) to prevent any creditors unreasonably arguing for financial statements to follow one standard rather than another.

That said there are initiatives to develop a single common set of standard budgeting guidelines for both Scotland and the rest of UK. If the debt advice sector does develop an agreed common standard the FCA should consider amending 8.5.2G into a rule requiring debt management firms to use this standard in developing financial statements.

CONC 8.6.5R and 8.6.6G describe the actions that debt advice providers should take where firms continue to apply interest and charges to an agreement after they have been alerted to the customer's financial difficulty. Once again we would point out our belief that CONC as a whole has to do better than this. We are looking for the new consumer credit regime to ensure that people who engage with their debt problems, take advice and then do what they can to meet their credit obligations are treated fairly by their creditors, and protected from further collections and enforcement activity and do not see their debts spiral upwards.

We warmly welcome the inclusion of provisions to control the fees charged by commercial fee charging debt management companies. The lack of any such controls under the CCA regime has proved to be a significant failure in consumer protection. However the text of the rule in CONC 8.7.2R (1) does not seem to provide a clear requirement. What is meant by 'substantially all' and would the rule be clearer by stating a limit on the proportion of available income (established in line with a budget standard as in 8.5.2G) that providers can take as a fee instead of passing to creditors. The concept of a significant payment in (2) is clearer but still leaves very wide scope for interpretation.



StepChange Debt Charity has no specific comments on the amended perimeter guidance at this time.

## Q20: Do you have any comments on the rules that we propose to apply to peer-to-peer lending platforms to protect borrowers?

StepChange Debt Charity has no specific comment at this time on the proposed rules for peer-to-peer lending platforms.

## Q21: Do you agree with our proposals for debt management firms and not-for-profit debt advice bodies that hold client money? If not, which aspects of the regime do you disagree with and why?

StepChange Debt Charity welcomes the decision by the FCA to introduce client money rules for debt management firms and we broadly support the proposals set out in the consultation document. However we do have some concerns over the practical consequences that could arise from some of the detailed rules and we are not fully convinced that the proposed rules will protect client money from the risk of misappropriation by rogue debt management firm owners or staff.

These concerns are set out as follows.

### CASS 11.5 Organisational requirements

StepChange Debt Charity welcomes the recognition in CASS 11.5.2 that adequate organisational arrangements are needed to safeguard client money against misuse, fraud, negligence and poor administration etc.

However the rule is set at such a high level that it is providing no better safeguard than if the rule were to state simply 'be a well-run firm'. This is perhaps analogous to the section of the OFT debt management guidance that tells licence holders not to use client money for their own purposes (OFT DMG 3.42). But this has not prevented cases where firms have used client money for their own account.

Instead we believe that the rules in 11.5 should be more explicit and proscriptive in setting out what these adequate organisational arrangements might be. For instance, the rules in CASS 11.5 might require debt management firms to (amongst other things):

- Have written policies and procedures to ensure that the firm cannot use client money for its own account

- Clear divisions of responsibility to ensure that no one individual can access client accounts for an inappropriate purpose
- Clear administrative oversight and 'double checks' to ensure that no one individual can operate client accounts without effective supervision
- That the person with the operational oversight function is not able to access client money without further verification from at least one other senior manager
- StepChange Debt Charity would urge the FCA to consider how CASS 11.5 might be used to give debt management firms a clearer direction of the steps they must take to safeguard client money.

We would welcome the opportunity to discuss this with the FCA in more detail

### CASS 11.7: Selecting a bank

We ask for more detail on how a debt management firm or debt advice charity would in practice satisfy themselves as to the credit worthiness of the approved bank (CASS 11.7.3G) in any meaningful way.

### CASS 11.9.11R: Interest on client money

This provision copies over from paragraph 3.42 of the Debt Management guidance. However StepChange Debt Charity has a large number of clients making relatively small payments that will earn a very small amount of interest on money held in client accounts. Calculating the precise amount of interest accruing to a specific individual client could be unduly costly in comparison to a very small client benefit. Therefore we would ask the FCA to consider a 'de minimis' rule for not-for-profit debt advice agencies holding client money where 11.9.11R would not operate in respect of monies held below a certain value. Any interest aggregating across the entire client money account would be used in furtherance of charitable objectives.

We would welcome the opportunity to discuss this with the FCA in more detail.

### CASS 11.10: Payment to creditors

The provisions in CASS 11.10 copy over and expand upon similar provisions from paragraph 3.4.3 of the OFT debt management guidance. We understand that the primary purpose of the OFT provisions was to address the practice of some debt management providers of holding client money for a protracted period (ostensibly for a settlement payment) in a way that could result in consumer detriment from resulting interest, charges and court action by unpaid creditors.

However it is not clear to us why the guidance set a period for payment that was normally to be within five business days of receipt. Most creditors set agreements up for monthly payment and so long as creditors receive regular payments on a monthly payment there should be no detriment to consumers (if creditors are complying with the proposed CONC 7.3.4R / 7.3.5G and 7.7.5R / 7.7.6G) Indeed the OFT gave StepChange Debt Charity (then the Consumer Credit Counselling Service) a

dispensation to the five day period when this was introduced into the DMG, as complying with this would have required an expensive systems rebuild with no obvious benefit to our clients.

Conversely we believe that the CASS 11.10 requirements on debt management firms to make payments within five days of receipt could actually be detrimental to consumers. Firstly this puts pressure on providers to clear payments quickly, suggesting less scope for the robust organisational requirements such as division of responsibilities, layers of oversight and control to safeguard client money.

Secondly debt management providers may respond by limiting the manner and timing by which customers can make payments to suit the requirements of the firm rather than the customers. In this respect StepChange Debt Charity clients currently have a number of flexible payment options and around 10,000 clients currently make payments in respect of debt management plans by *transcash*. These payments may be received on different dates and would require multiple disbursements to meet the five day rule provisions. This would have with significant resource implications for the charity with no obvious benefits for our clients.

CASS 11.10.3R provides an opt out (without specifying the position with regard to any back book DMPs that start before CASS 11 comes into effect). However CASS 11.10.4R would require the debt management provider to contact the customer's creditors on each occasion that payment is not made within five days in accordance with CASS 11.10.3R. This seems excessively unwieldy if the rule required an actual contact to be made, given the reality of automatic electronic information exchange in respect of over 130,000 DMP clients and the regular working relationship we have with creditors.

Finally we believe that the rule in 11.10.6R is not proportionate in its current form. Creditors generally receive payments under a credit agreement on a monthly basis and we would expect them to accept monthly payments in respect of a debt management plan. We would hope creditors would freeze interest and charges between payments and make adjustments without charges if the payment date of a DMP is different to the original payment date under the credit agreement. As stated previous, compliance with CONC provisions on arrears management seems to expect the same thing.

It might be reasonable for creditors to recommence interest and charges if payments are not received at the end of an expected monthly period (although we would argue not if the lender should have reason to believe this is the result of a problem with the debt management firm) and consequently we would support a rule requiring the debt management provider to compensate their customers for any attendant loss caused by significant delay in payment by the debt management firm. But to connect such a provision to a five day payment period seems disproportionate.

**Q22: Do you agree with our proposed implementation timetable? If not, please give reasons.**

Please see our answer to question 18 as we believe the FCA should take a similar approach to assessing firms' client money handling policies during the period of interim permissions.

**Q23: Do you agree with our suggested amendments to the reporting requirements for second charge loans?**

Please see our answer to question five and six that includes comments on reporting requirements for secured loans.

**Q24: Do you agree with our proposal to allow all microenterprises to complain to the ombudsman service?**

StepChange Debt Charity agrees with the proposal to allow microenterprises to complain to the ombudsman service.

**Q25: Do you agree with our proposal to include not-for-profit bodies providing debt advice in the Compulsory Jurisdiction?**

As StepChange Debt Charity is a standard consumer credit licence holder, our clients have had the benefit of access to the Financial Ombudsman Service for some time. Therefore we are very pleased that our clients will continue to have access to FOS through the compulsory jurisdiction.

**Q26: Do you agree with our proposals on recording, reporting and publishing complaints?**

StepChange Debt Charity broadly agrees with the FCA proposals on recording and publishing complaints

**Q27: Do you agree with the costs and benefits identified?**

StepChange Debt Charity has no specific comment on this proposal at this time

Q28: Do you agree with our assessment of the impacts of our proposals on the protected groups? Are there any others we should consider?

StepChange Debt Charity broadly agrees with the FCA's assessment of the impact of these proposals on the protected groups.