

Responsible Finance response: The FCA's High-cost Credit Review, August 2018

Consultation on rent-to-own, home-collected credit, catalogue credit and store cards, and alternatives to high-cost credit.

Consultation Questions

Rent-to-own

Q3: Do you agree with our proposals for a point of sale ban on extended warranties?

Yes

Q4: Is the two-day deferral period the right length of time?

Yes

Q5: Do you have any comments on the proposal to provide adequate explanations to enable the consumer to make an informed decision?

No – agree with proposals

Q6: Do you have any comments on our proposed definition of rent-to-own?

No – agree with proposals

Q7: Do you have any comments on the proposed period for firms to implement the new rules?

No – agree with proposals

Home-collected Credit

Q8: Do you have any questions on our draft guidance on interpretation of s.49 CCA?

No

Q9: Do you agree with our proposed new rules on explaining the costs of refinancing compared with a concurrent loan?

Yes

Q10: Do you have any comments on the proposed period for firms to implement the new rules?

No – agree with proposals

Catalogue Credit and Store Cards

Q11: Do you agree with our proposals for new rules clarifying that firms must explain clearly upfront how interest will be charged if the customer does not repay within the BNPL offer period?

Yes

Q12: Do you agree with our proposals to require firms to prompt customers to repay before the expiry of a BNPL or similar offer period?

Yes

Q13: Do you agree the rules should not include a specific time or period to issue the prompt? If not, what should it be?

n/a

Q14: Do you have any comments on the guidance on how firms may comply with this rule?

n/a

Q15: Do you have any comments on our proposals for a three month implementation period?

No – agree with proposals

Q16: Do you have any comments on our proposals to extend the existing rules for credit cards and store cards regarding credit limit increases to catalogue credit?

No - agree with proposals

Q17: Do you have any comments on our proposals for a three month implementation period?

No – agree with proposals

Q18: Do you have any comments on our proposals to extend the existing rules for credit cards and store cards to not increase credit limits or interest rates for customers at risk of financial difficulties to catalogue credit?

No – agree with proposals

Q19: In particular, do you have any comments on our proposal to use the same definition of ‘at risk of financial difficulties’ for catalogue credit?

No - agree with definition

Q20: Do you agree with our proposals that firms should have to take steps to be compliant as soon as the rules come into force?

Yes

Q21: Do you have any comments on our proposals to extend the existing rules for credit cards on earlier intervention to catalogue credit and store cards?

No – agree with proposals

Q22: Do you consider that there are any particular aspects of data that is particular to catalogue credit and store cards which firms in these markets should also monitor?

n/a

Q23: Do you have any comments on a six month transition period for implementation?

No

Q24: Do you agree with our proposals to extend the existing rules for credit cards on persistent debt to catalogue credit and store cards?

Yes

Q25: Do you agree with our proposals on the implementation period?

Yes

Q26: Do you agree that we should adapt the guidance to remove the reference to a reasonable repayment period of 3 to 4 years?

Yes

Q27: Do you have any comments on our definition of 'retail revolving credit'?

No

Q28: Do you have any comments on what types of product may be caught over and above catalogue credit and store cards?

No

Alternatives to high-cost credit

Q29: Do you have any comments on our draft guidance for registered social landlords?

We welcome the FCA's work on fostering the growth of alternatives to high-cost credit. The need for everyone to have access to a comprehensive package of appropriate and affordable financial products has never been more pressing. CDFIs and Credit Unions are essential for those on low incomes who are either poorly served or not served at all by the main high street banks. These people are often pushed into the hands of exploitative, high-cost lenders. To help achieve financial inclusion for all, CDFIs and Credit Unions need long term commitment and support to scale up and improve their reach.

As part of this we welcome its goal of supporting and encouraging referrals when consumers need credit. We agree that registered social landlords (RSLs) can play a key role in assisting tenants to find alternatives to high-cost credit; housing associations are among personal lending CDFIs top sources of customer referrals. However, we have concerns about the draft guidance in Appendix 2. We question whether it would, as proposed, result in RSLs increasing their roles in helping tenants to get access to essential household goods without turning to high cost credit, or whether instead it would negatively impact these referral partnerships by placing undue regulatory burden upon RSLs.

The proposed guidance states that the FCA will consider that if a social landlord suggests that a tenant consider approaching a local Credit Union or CDFI and does no more than this, the social landlord is unlikely to be credit broking. This includes providing content on their website that explains what these institutions are and why they might provide an alternative to high-cost credit. However, if a social landlord's activities do not fall into this scenario, for example where they provide tenants with contact details of specific providers, the social landlord is likely to be engaged in credit broking and in need of FCA authorisation for credit broking.

Even though the authorisation process has been made more streamlined (with the help of the specialist team), we are concerned that the procedure for applying to the FCA for authorisation for credit broking may actively discourage registered social landlords from promoting CDFI/CU lending, and therefore disincentivise them from referring tenants. Since we are not aware of any housing associations who take fees or commissions from promoting social lenders, the measures proposed appear heavy handed.

The guidance states that registered social landlords will need to submit their business plan as part of the application. RSLs may be reluctant to submit their business plans to the FCA for such a small part of their activity, and one that won't show in the financial parts of their plan anyway.

We also have concerns that one of the proposed alternatives to authorisation – RSLs acting as an appointed representative for a credit union or CDFI – in practice is not feasible as very few CDFIs and Credit Unions will have the kind of compliance function that this suggestion envisages. Most CDFIs and Credit Unions will be smaller than most housing associations, therefore supervising a larger housing association as an appointed representative may be impractical. This could also detract from the flow of referrals.

5.22 states that the FCA believes there is a case to consider an amendment to the regulatory boundary to remove credit broking by RSLs from the requirement to be authorised under FSMA. We would welcome this. We recommend that the FCA investigates providing an interim licence for RSLs already operating in this area. This licence should run until RSLs are given an exemption from authorisation for credit broking, as Local Authorities are. This would make referrals easier, meaning consumers moving in at short notice to unfurnished social housing tenancies will have better access to information and expertise, lessening the need to resort to high-cost credit.

Equality and Diversity Assessment

Q30: Do you agree with our initial assessments of the impacts of our proposals on the protected groups? Are there any others we should consider? (*Annex 4, p.130*)

n/a