

Consumer Credit Law

A Consultation on Voluntary
Termination of Hire Purchase
and Conditional Sale
Agreements Under the
Consumer Credit Act 1974

CONSULTATION DOCUMENT

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A Consultation on Voluntary Termination of Hire Purchase and Conditional Sale Agreements Under the Consumer Credit Act 1974

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Voluntary Termination of Hire Purchase and Conditional Sale Agreements

1. Foreword

The White Paper; "Fair, Clear and Competitive - The Consumer Credit Market in the 21st Century" was published in December 2003 and set out the Government's agenda for creating a fairer and more transparent consumer credit market. Implementation of those reforms began in June 2004 with the making of new regulations amending and updating regulations under the Consumer Credit Act 1974. As soon as Parliamentary time is available, I will be bringing forward a Bill introducing further reforms. Together these changes will strengthen consumer protection and will bring about a more transparent and fair consumer credit market.

In responses to the White Paper, providers of hire purchase and conditional sale finance have expressed concern about losses being made because consumers are increasingly exercising their right to terminate agreements half way through without further liability (known as voluntary termination). This is a particular issue for the motor finance sector.

On the other hand, consumer bodies have suggested there is a need to tighten the legislation to provide greater protection for consumers and to clarify what is a complex area of law.

In the light of these concerns I have agreed to consider further whether there is a need for any change in the legislation governing voluntary termination of such agreements. This Consultation seeks detailed information and figures relating to voluntary termination from interested parties and views on the options for change.

I hope you will take the time to respond to this consultation so that we can arrive at a transparent and fair way forward based on a full and thorough understanding of the position.

Gerry Sutcliffe

Parliamentary Under Secretary for State

For Employment Relations, Competition and Consumers.

2. Purpose of consultation

In December 2003 the Department of Trade and Industry published its Consumer Credit White Paper "Fair, clear and competitive - The Consumer Credit Market in the 21st Century". This set out proposed changes to the consumer credit regime designed to improve the transparency of the information available to consumers; establish a fair framework with adequate redress mechanisms, and promote the principles of responsible lending.

A key proposal of the White Paper is the removal of the current limit of £25,000 in the Consumer Credit Act 1974 (CCA) so that any credit agreements, including hire purchase (HP) agreements for any amount entered into by private individuals will be regulated. The limit will not change for credit agreements entered into by business partnerships of three or fewer, or sole traders.

In the light of the change to the limit, and the other proposed changes and new regulations discussed later in this paper, it is appropriate to review the current legislation relating to HP and in particular the current provisions relating to voluntary termination of HP agreements and conditional sale (CS) agreements.

This consultation paper sets out the background and describes some of the issues associated with these provisions. Responses are called for from all stakeholders interested in the consumer credit market.

The aim is to develop a policy in the light of all the responses and for Government to consider if any amendments are required to the current legislation.

3. What we want from you

We want to receive responses from all stakeholders in the consumer finance market and from any other person or body that has an interest in this issue.

This is an opportunity for all interested parties to have an influence on Government policy at an early stage. At this stage the Government is considering several options, described in this paper.

4. Consultation and how to respond

You can respond to this consultation by e-mailing to andrew.cormie@dti.gsi.gov.uk or by writing to:

Andrew Cormie
Consumer and Competition Policy Directorate
Room B007
Department of Trade and Industry
1 Victoria Street
London SW1H 0ET

The deadline for responses is 30th November 2004.

Your response to this consultation document may be made publicly available in whole or in part at the Department's discretion. If you do not wish all or part of your response (including your identity) to be made public, you must state in the response which parts you wish us to keep confidential. Where confidentiality is not requested, responses may be made available to any enquirer, including enquirers outside the UK, or published by any means, including on the Internet.

5. What is Voluntary Termination?

Sections 99 and 100 of the CCA permit a customer who has purchased goods on a HP agreement or CS agreement to hand back the goods to the finance company and have no further liability under the credit agreement provided at least 50% of the total amount due under the agreement has been paid. This is called voluntary termination ("VT").

What are Hire Purchase and Conditional Sale Agreements

Under an HP agreement the customer will pay an initial deposit, with the remainder of the balance and interest on it paid over a period of time. The creditor owns the asset until the final instalment under the agreement is paid. At that time the customer can elect to take ownership of the asset, sometimes on payment of a fee. A CS agreement is similar, except that the ownership of the asset automatically passes to the customer when all of the conditions in the agreement, before ownership can be acquired by the customer, have been met and when the final instalment is paid.

The agreement will normally require the customer to insure the asset and keep it in good condition.

As the customer does not own the asset until all of the contractual conditions for acquiring ownership have been met and until the total amount payable under the agreement and any final fee have been paid, the lender has the right to repossess the goods should the customer be in default under the terms of the agreement.

The customer is not free to dispose of the goods until ownership has passed to him/her. However, the VT provisions give the customer the right in most cases to return the asset to the lender provided that 50% of the total cost of the agreement has been paid.

If a customer has defaulted on his payments or is in breach of the agreement and the agreement has been terminated by the lender, the customer is not able to make use of the VT provisions.

6. Legislative background

The Consumer Credit Act 1974

Sections 99 and 100 of the CCA give consumers the right to terminate their regulated HP and CS agreements subject to certain conditions:

- At any time before the final payment under the agreement a customer can give notice to terminate the agreement;
- The right to terminate does not apply to CS agreements relating to land after the title to the land has passed to the debtor;
- No right to terminate CS agreements applies to goods that have been transferred by the customer to another party, who does not become a debtor under the agreement;
- At the time of termination the customer is liable for any amount that has not been paid under the original agreement up to a maximum of 50% of the total amount due to be paid under the Agreement. Any installation charges must also be paid in full;
- On termination the customer must return the goods in reasonable condition to the creditor;
- If the customer can show to a court that any loss suffered by the lender is likely to be less than the 50% amount due, the court may order that a lesser amount should be paid in settlement.

History of Legislation

Similar provisions to those contained in the CCA were included in the Hire-Purchase Act 1965 and also appeared in hire purchase legislation going back to 1938.

The provisions were initially introduced at a time when consumers were suffering hardship as a result of what would now be regarded as unfair contracts with provisions including, for example, excessive minimum final payment clauses and damage (penalty) provisions. The 50% rule was seen as an attempt to strike a balance between goods purchased on HP or CS which became worthless soon after being hired out and those assets that depreciated more slowly. The provisions also assisted hirers

who were in financial difficulty to extricate themselves from an HP agreement without having to complete the agreement or pay the early settlement amount due based on the Rule of 78 calculation in return for giving the goods back to the lender.

The 1971 Crowther Report on Consumer Credit expressed some sympathy with the industry, who had argued that the 50% rule was unfair. In particular the members of the committee considered it unfair that a court could order a payment of less than 50% in settlement of an agreement but could not make a similar order for a payment in excess of 50% to be paid where the lender could show a greater loss. The Committee, noting that there were other credit products in the market where the 50% rule did not apply, concluded that all lenders should have the same rights to recover the full amount of their advance with agreed charges.

The Committee was much exercised by the difference between an HP transaction and a loan to purchase goods. They highlighted the fact that with HP the consumer had no rights to the goods until the agreement was settled, whilst the owner had some form of security over the goods. With loans to purchase, the consumer had rights to the goods purchased but the lender normally would have no security over the goods. The Committee proposed that hire purchase contracts should be abolished and other forms of security introduced so that the loan could be secured on, for example, motor vehicles.

The Government subsequently decided that as consumers and businesses were comfortable with the concept of hire purchase and conditional sales it was not necessary to abolish the contracts.

7. Issues

The DTI has received submissions from industry groups and has taken some soundings from consumer bodies and also from Trading Standards Officers and the OFT. A stakeholder meeting has been held with various representatives from finance houses and consumer protection bodies present.

The Business Perspective

HP and CS agreements form a significant share of the consumer credit market and are particularly important in the motor finance sector. New HP and CS agreements in the motor sector were worth £9.4 billion in 2003.

Representatives of the motor finance sector have argued that the value of cars handed back under VTs is generally less than 50% of the amount due under HP or CS agreements and that as a result they are making

large losses. In their response to the Consumer Credit White Paper the Finance and Leasing Association claimed that the motor finance industry was losing £83 million per year. These losses have been growing since the value of second hand cars fell in 1999/2000 and the FLA estimates they will rise to over £91 million a year when the financial limit of £25,000 on agreements regulated by the CCA is removed.

The industry argues that the provisions do not in fact provide any real benefit to those who are in financial difficulty, who generally need to keep a car and would be better served by reaching an agreement with the lender to reschedule payments and that those who simply wish to settle an agreement early will have the protection of the new regulations on early settlement of credit agreements. They say that most of the losses incurred on VTs are a result of sophisticated consumers, being aware of their rights, taking advantage of the provisions to change vehicles on a regular basis whilst avoiding the full cost of the credit agreements they have entered into. They argue that this may have a negative effect on the value of second hand cars which could be to the disadvantage of consumers.

Other sectors where HP and CS agreements are used do not necessarily share the views of the motor finance industry. Many household items and IT equipment are also financed by this method. Some providers of finance for household items are not aware of significant losses in respect of VT and actually see the provisions as an aid to sales. Some of them do also see the VT provisions as an aid to consumers who are finding it difficult to meet their obligations.

Consumer Perspective

Consumer and regulatory bodies see the VT provisions as an important benefit for consumers. With HP, consumers do not have control over the goods they are “purchasing”. This is unlike a loan where the consumer owns the goods purchased free of any encumbrance. VT gives consumers some form of “control” at a certain point in the contract.

The opportunity to return the goods after making a 50% contribution to the amount of the agreement may be important to consumers who are struggling financially. If a consumer knows he is likely to default on the agreement, and provided he has paid 50%, he can escape any further liability by returning the goods. This may be helpful particularly if the value of the goods has depreciated substantially and defaulting on the agreement could leave the consumer with a greater liability for payment. A consumer can also use VT to avoid incurring costly early settlement charges (although of course the goods must be handed back).

VT provisions give consumers an opportunity to renew the goods in question on a regular basis without incurring early settlement charges.

Regulators have also raised concerns about abuses of the VT provisions by lenders. Trading Standards officials have said that some providers of finance make it very difficult for a consumer to exercise his/her rights. For example, it has been known for car dealers to expect a vehicle to be delivered many hundreds of miles from where the consumer lives or to charge exorbitant fees for "repairs" to vehicles before taking a car back. Concern has also been expressed that some ancillary financing arrangements, such as for insurance, cannot be terminated at the same time as an HP agreement causing hardship to the consumer.

8. Changes to Consumer Credit legislation

Recent and proposed changes to consumer credit legislation will change the framework within which the VT provisions operate to provide a fairer and more transparent regime for consumers. The Consumer Credit (Early Settlement) Regulations 2004 come into force on 31 May 2005 and change the current law on early settlement so that if a consumer wishes to settle an agreement early, s/he can do so and only pay charges based on an actuarially derived formula for the period the finance has been outstanding, subject to periods of notice varying from 28 days to 59 days. This reduces the cost of settling agreements early and is of benefit to consumers.

The Consumer Credit (Agreements) (Amendment) Regulations 2004 come into force on 31 May 2005. These will make forms of agreement (including HP agreement) more transparent, easier to understand and will detail key financial information in a standard manner.

The Consumer Credit (Advertisements) Regulations 2004 come into force on 31 October 2004. This will result in greater transparency and should result in a more consistent approach being used when providing comparative features such as APRs.

The Consumer Credit (Disclosure of Information) Regulations 2004 come into force on 31 May 2005. In a face to face or non distance situation between customer and finance company or its agent, a separate summary of the key financial details concerning the HP or CS agreement will have to be given to the consumer before the full agreement is signed. The intent is to provide key financial information concerning the agreement so that the customer has time to understand what s/he is entering into and so that, if necessary, he or she can "shop around" for more competitive deals. This is important because many agreements completed on the premises of dealers do not give the customer any rights to cancel the agreement.

Consumer Credit Bill.

A Consumer Credit Bill is being drafted and will be brought forward as soon as Parliamentary time is available.

The major provisions are:

- Reforming the Licensing regime to strengthen the “fitness” test for lenders to hold a Consumer Credit Licence and also strengthening the investigation and enforcement powers of OFT and Trading Standards Departments;
- Introducing an “unfair credit” test to replace the current extortionate credit test so as to enable the re-opening of credit agreements where the transaction as a whole is found to be unfair, which will be determined by reference to all the relevant circumstances – including the terms of the agreement and the conduct of the parties. Unfair behaviour by lenders that is in breach of the test would be brought within the scope of the Enterprise Act 2002 to allow for investigation and enforcement action by the OFT;
- Improving consumer redress by the introduction of an Alternative Dispute Resolution mechanism operated by the Financial Ombudsman Service. The Government also proposes to permit debtors to apply for time orders at an earlier stage (i.e. when an arrears notice is served), but only after the completion of a structured discussion with the lender to try to resolve the issue;
- Removing the limit of £25,000 on credit agreements with consumers which are regulated by the CCA (with the retention of protections for small businesses comprising sole traders, unincorporated associations and partnerships of 3 or fewer, and provision for a waiver of protection by defined High Net Worth Individuals);
- New requirements for clearer information during the currency of the agreement – including annual statements for fixed term credit of more than 1 year; arrears notices in a specified form; information about default charges; minimum repayment warnings for running account credit; and OFT information sheets to be provided with arrears and default notices;
- Extending the period for complying with the default notice to 14 days and requiring the default notices to include a prominent statement in the case of an HP or CS agreement of the consumer’s right to voluntarily terminate under S.99/100 together with the actual amount required to be paid.
- Bringing forward the period when a consumer can apply for a time order to shortly after the account falls into arrears rather than having to wait for a default notice to be served.
- A prohibition on the compounding of default interest on fees and charges.

See

http://www.consumer.gov.uk/ccp/topics1/consumer_finance.htm#review

for details of all Regulations and the White Paper - "Fair, Clear and Competitive - The Consumer Credit Market in the 21st Century".

9. Options for Change and Questions

Market Background

In order better to understand the market, the advantages and disadvantages of HP and CS deals and the implications of any change in the law, we would like further information from you.

Questions

1. How much of your total business – in both percentage terms and monetary value is accounted for by:

- a) Hire purchase and conditional sale finance for vehicles
- b) Hire purchase and conditional sale finance for other goods?

Please give separate figures for HP and CS, if possible.

2. How much of your total business – in both percentage terms and monetary value is accounted for by:

- a) Hire purchase and conditional sale finance to private individuals
- b) Hire purchase and conditional sale finance to unincorporated bodies for business purposes?

Please give separate figures for HP and CS, if possible.

3. How, if at all, do you expect the distribution of your business to change in future?

4. How much of your business is currently written in respect of HP agreements and Conditional Sale agreements that carry VT rights (i.e. for amounts of less than £25,001)?

5. How much is currently written (HP and CS Agreements) for individuals in a personal capacity above £25,000?

6. What proportion of VTs result in another vehicle or other goods being supplied subject to another HP or CS agreement?

7. How much of your business is accounted for by other financial products offered along with HP and CS agreements e.g. insurance?

Options

We have identified three possible options: to do nothing and leave the existing VT provisions as they are; amendment of the provisions to allow creditors to recover a higher proportion of the amount due under HP and

CS agreements which are voluntarily terminated; or repeal of the existing VT provisions.

Option 1: Do nothing and retain current provisions.

Under this option, creditors would continue to be exposed to the possibility of losses on HP and CS agreements, which might increase once the financial limit on regulated agreements is removed from the CCA. If the industry continued to operate as at present, there would be no additional costs to consumers.

Industry has the option not to offer HP or CS agreements, if these are unprofitable, and to use other forms of finance such as personal loans, which do not carry a right to VT. This could lead to higher costs for consumers because lenders would be at greater risk without the security over the goods. It might also mean that higher risk consumers could not get access to credit at all.

Questions

8. How, if at all, do you think lenders will change their business practices if the law remains unchanged? What benefits or disadvantages would this have for consumers?
9. Why should consumers have greater rights in relation to HP and CS agreements than in relation to other forms of consumer credit?
10. Please provide case histories of how VT provisions have provided necessary consumer protection.

Option 2: Make amendments to current provisions to allow creditors to recover a higher proportion of the amount remaining due under HP and CS agreements, whilst continuing to give consumers protection.

There are a number of possibilities for amending the 50% rule. The proportion could be increased to 75%, which we estimate would be about the right level to eliminate the losses lenders say they are making at present. The costs would be transferred to consumers, who would have to pay three quarters of what was due under an HP or CS agreement and return the goods in order to avoid further liability on VT. The consumer would also have the option of settling the agreement early under the early settlement regulations, if that offered a better deal.

Alternatively, instead of a simple adjustment to the 50% rule, a sliding scale could be introduced for the minimum percentage liability on voluntary termination depending on the value of the goods. For example the 50% rule could apply to goods valued up to £10,000 when new and

a rate of 60% to goods valued between £10,000 and £30,000 and so forth.

Another option would be to lay down a maximum liability percentage for VT but encourage lenders to compete against each other by offering a lower figure in their agreements. This figure could vary depending on the type and value of goods.

Alongside this, regulators have suggested that there is a need to provide some additional protection for consumers exercising their right to VT in order to:

prohibit unreasonable demands being made by the creditor when goods are returned, for example about the condition of the goods or the place to which they must be returned.

Questions

11. What scope do you see for amending the current provisions so that lenders do not suffer losses at the current rate but consumers retain the right to escape an agreement where the underlying asset may be worth less than the liability?

12. VT rights are currently based on 50% of the amount owing. Is there any justification for amending the percentage and, if so, to what figure so as to achieve a different balance between retaining the right of the consumer to hand back the goods hired and to reduce the losses suffered by providers of this type of finance?

13. Is there any merit in having a sliding scale for the outstanding percentage liability which would depend on the original value of the goods? If so, what figures would be appropriate? Would this proposal add unnecessary complexity?

14. Is there any other way to provide protection for the consumer whilst at the same time ensuring that a reasonable lender does not suffer a financial loss?

15. Are there particular issues with PPI or other insurance products that may not terminate automatically on VT, or may not allow for a refund of premiums? Do you have any suggestions for remedying the position?

16. What evidence is there that consumers are suffering detriment as a result of the manner in which VTs are managed by lenders? Please provide specific examples

Option 3: to remove the VT provisions in Sections 99 and 100 of the CCA.

This option would eliminate the losses suffered by lenders on HP and CS agreements but would mean additional costs for those consumers who would otherwise have taken advantage of VT.

Removing the VT provisions would mean that consumers would be liable to repay the full amount due under the credit agreement, as they are for forms of credit other than HP and CS and would not have the right to reduce their liability by returning the goods financed by the agreement. Consumers would, however, have the right to settle the agreement early at any time during its course, with the amount of interest payable being re-calculated according to the Early Settlement Regulations. Under this option, they would also retain the goods. They would also be protected by the provisions in section 90(1) of the CCA that state that a provider of finance cannot forcibly recover the goods in question in the event of default without the consent of the Court if one third of the cost of an agreement has been paid.

Questions

We want to know how much the Voluntary Termination Provisions are costing lenders and how much they are likely to cost if the CCA limit is removed.

17. Please give recent examples of situations (including those not involving vehicles) where lenders have made losses through having to comply with the VT provisions.
18. How much do you consider your business currently loses as a result of consumers making use of the VT provisions? Please give actual examples of cases where a loss was suffered. Please also state the loss as a percentage of total losses experienced with HP and CS transactions for VT and bad debts etc.
19. How will the level of losses change if the limit on CCA agreements is removed bearing in mind that the limit for lending to partnerships of three or fewer and sole traders will remain at £25,000?
20. How will the new Early Settlement Regulations affect the figures quoted in answer to the questions above? In other words if the new calculation for the amount outstanding in the event of early settlement is taken into account how does this affect the loss indicated in your previous answers?
21. What measures do owners take to mitigate the effect of Section 99 and 100 when entering into HP and CS Agreements? For example, do the size of deposits reflect the depreciating value of the underlying asset. Do some lenders refuse HP transactions on certain types or value of goods and why?

22. Apart from suffering financial loss what are the other reasons for considering that the current provisions should be removed or amended?

23. If VT is removed what is the likely impact on consumers and in particular those consumers who could be described as “vulnerable”?

10. Partial Regulatory Impact Assessment (RIA)

Background

This paper highlights concerns expressed by both car manufacturers and the motor finance sector about the effect on revenues of the continuing use of the voluntary termination provisions. It also refers to issues raised by consumers regarding the way current VT provisions are managed by providers of finance.

The value of used cars has fallen in recent years and it often happens that vehicles reach the point of 50% depreciation before 50% of the full amount of the agreement has been paid. Faced with an asset worth less than the total of the remaining payments consumers are using the VT provisions to walk away from what have become economically unattractive deals. The opportunity to renew a vehicle is often taken and financed by another HP or CS agreement.

Because of the nature of HP and CS agreements consumers gain some protection from expensive finance agreements and can make use of VT provisions to get out of costly contracts or make use of the provisions to renew the underlying goods (usually cars) before the end of an agreement.

There are various costs and benefits attached to the three options described above and it is hoped that the answers to many of the questions asked will provide a clear picture relating to the costs associated with the current provisions and also the extent of the HP and CS market and the value and benefits of this type of finance to consumers, manufacturers and retailers.

Option 1 – Do nothing and retain current provisions

Costs

For Business

The estimated losses as supplied by the FLA are discussed above.

The Government proposes to remove the current CCA limit of £25,000 for personal borrowing and it is therefore likely that the losses described by the FLA would therefore increase once the limit is removed. This consultation seeks to obtain forecasts on the likely trend in losses being made.

If more valuable goods and in particular cars, are the subject of VT provisions there may be an adverse impact on the value of such cars if

customers at the higher end of the market take advantage of their rights to VT.

Benefits

For Business

If the CCA limit is increased sales of high value vehicles on HP or CS may increase because of the benefit of the VT provisions to some consumers.

For Consumers

It seems likely that VT provisions enable some consumers to renew their goods purchased on HP or CS more frequently. If the CCA limit is increased purchasers of higher value goods will have the same right and perhaps sales of such items will increase.

The level of consumer protection will be extended to high value items.

Option 2: Make amendments to current provisions to allow creditors to recover a higher proportion of the amount remaining due under HP and CS agreements, whilst continuing to give consumers protection.

This approach would achieve more of a balance between costs to lenders and benefits to consumers.

Any measures to make it difficult for lenders to avoid their obligation in respect of VT will similarly have a cost impact on lenders and be of benefit to consumers. However an adjustment to the percentage will have beneficial impact on those lenders who currently act reasonably when customers want to exercise their right to VT.

It would be interesting to find out if a more flexible approach to the percentage in the VT rule would bring about increased competition and benefits to business and consumers.

For Enforcers

Enforcement authorities such as Trading Standards Departments and the OFT may incur additional costs in enforcing any new regulations that seek to improve consumer protection.

Option 3 – Remove the VT provisions in Sections 99 and 100 of the CCA.

Costs

For Business

The obvious costs of this option are transitional – relating to the amendment of forms of agreement, education of sales staff. Most of these costs will be incurred by providers of finance who will, of course, benefit from the savings made by the removal of the provisions.

It is acknowledged by the industry that in many cases when a consumer exercises his or her right to VT another vehicle or goods are supplied. It is likely that removal of the VT provisions will have an impact by reducing the occasions on which customers will renew and it is likely there will be a slowdown in sales that have been previously made by customers exercising their rights.

In some cases VT is used as a sales aid and removal of the provisions may have an effect on customers who are undecided about what form of finance to take out.

The actual figures relating to these sales are not known and it is hoped that responses to this Consultation will assist in giving an indication of the likely decrease in sales.

Lenders make a profit on finance deals and whilst losses in respect of VT are claimed there are other profits associated with the sale of ancillary products linked to HP and CS such as insurance sales and warranty sales. If the number of purchases is reduced then the opportunity to make ancillary sales may be reduced and it is hoped some idea of the extent of this ancillary business and likely trends will be given in responses to this Consultation.

For Consumers

There will be other hidden costs associated with the removal of the provision. Customers who feel they can no longer afford to make repayments will not have the opportunity to walk away from their debt after they have paid more than 50% of the original agreement. This may place additional strain on their finances and force them into other more expensive lending packages or place greater strain on debt counselling services as customers in this position attempt to find a way out of a financial commitment they can no longer afford.

It is important that organisations who serve consumers by providing advice on personal debt respond to this Consultation and provide figures as to the likely impact of the VT provision being removed.

Benefits

For Business

The FLA estimates that currently the motor finance industry lost £83 million in 2003 and presumably if the provision is removed these losses will in time disappear.

For Consumers

If HP and CS agreements become less susceptible to incurring losses through VT an opportunity must be presented to lenders to make their products more competitive and it would be interesting to see if any providers of such finance have analysed how their rates might be affected if the provisions are removed.

For Enforcers

If the provision is removed there will be a saving achieved in the current costs incurred by enforcement authorities handling VT enquiries from consumers.

Additional Considerations (outside the scope of the credit market)

If the number of vehicles exchanged as a result of VT is reduced will the price of used vehicles be affected and is there a likelihood such prices may harden?

11. Summary of Questions

1. How much of your total business – in both percentage terms and monetary value is accounted for by:

- a) Hire purchase and conditional sale finance for vehicles
- b) Hire purchase and conditional sale finance for other goods?

Please give separate figures for HP and CS, if possible.

2. How much of your total business – in both percentage terms and monetary value is accounted for by:

- a) Hire purchase and conditional sale finance to private individuals
- b) Hire purchase and conditional sale finance to unincorporated bodies for business purposes?

Please give separate figures for HP and CS, if possible.

3. How, if at all, do you expect the distribution of your business to change in future?

4. How much of your business is currently written in respect of HP agreements and Conditional Sale agreements that carry VT rights (i.e. for amounts of less than £25,001)?

5. How much is currently written (HP and CS Agreements) for individuals in a personal capacity above £25,000?

6. What proportion of VTs result in another vehicle or other goods being supplied subject to another HP or CS agreement?

7. How much of your business is accounted for by other financial products offered along with HP and CS agreements e.g. insurance?

8. How, if at all, do you think lenders will change their business practices if the law remains unchanged? What benefits or disadvantages would this have for consumers?

9. Why should consumers have greater rights in relation to HP and CS agreements than in relation to other forms of consumer credit?

10. Please provide case histories of how VT provisions have provided necessary consumer protection.

11. What scope do you see for amending the current provisions so that lenders do not suffer losses at the current rate but consumers retain the

right to escape an agreement where the underlying asset may be worth less than the liability?

12. VT rights are currently based on 50% of the amount owing. Is there any justification for amending the percentage and, if so, to what figure so as to achieve a different balance between retaining the right of the consumer to hand back the goods hired and to reduce the losses suffered by providers of this type of finance?

13. Is there any merit in having a sliding scale for the outstanding percentage liability which would depend on the original value of the goods? If so, what figures would be appropriate? Would this proposal add unnecessary complexity?

14. Is there any other way to provide protection for the consumer whilst at the same time ensuring that a reasonable lender does not suffer a financial loss?

15. Are there particular issues with PPI or other insurance products that may not terminate automatically on VT, or may not allow for a refund of premiums? Do you have any suggestions for remedying the position?

16. What evidence is there that consumers are suffering detriment as a result of the manner in which VTs are managed by lenders? Please provide specific examples

17. Please give recent examples of situations (including those not involving vehicles) where lenders have made losses through having to comply with the VT provisions.

18. How much do you consider your business currently loses as a result of consumers making use of the VT provisions? Please give actual examples of cases where a loss was suffered. Please also state the loss as a percentage of total losses experienced with HP and CS transactions for VT and bad debts etc,

19. How will the level of losses change if the limit on CCA agreements is removed bearing in mind that the limit for lending to partnerships of three or fewer and sole traders will remain at £25,000?

20. How will the new Early Settlement Regulations affect the figures quoted in answer to the questions above? In other words if the new calculation for the amount outstanding in the event of early settlement is taken into account how does this affect the loss indicated in your previous answers?

21. What measures do owners take to mitigate the effect of Section 99 and 100 when entering into HP and CS Agreements? For example, do

the size of deposits reflect the depreciating value of the underlying asset. Do some lenders refuse HP transactions on certain types or value of goods and why?

22. Apart from suffering financial loss what are the other reasons for considering that the current provisions should be removed or amended?

23. If VT is removed what is the likely impact on consumers and in particular those consumers who could be described as "vulnerable"?

12. The Consultation Criteria

1. Timing of consultation should be built into the planning process for a policy (including legislation) or service from the start, so that it has the best prospect of improving the proposals concerned, and so that sufficient time is left for it at each stage.
2. It should be clear who is being consulted, about what questions, in what timescale and for what purpose.
3. A consultation document should be as simple and concise as possible. It should include a summary, in two pages at most, of the main questions it seeks views on. It should make it as easy as possible for readers to respond, make contact or complain.
4. Documents should be made widely available, with the fullest use of electronic means (though not to the exclusion of others) and effectively drawn to the attention of all interested groups and individuals.
5. Sufficient time should be allowed for considered responses from all groups with an interest. Twelve weeks should be the standard minimum period for a consultation.
6. Responses should be carefully and open-mindedly analysed, and the results made widely available, with an account of the views expressed, and the reasons for decisions finally taken.
7. Departments should monitor and evaluate consultations, designating a consultation co-ordinator who will ensure the lessons are disseminated. The complete code is available on the Cabinet Office's web site, address

<http://www.cabinet-office.gov.uk/servicefirst/index/consultation.htm>.

Comments or complaints

If you wish to comment on the conduct of this consultation or make a complaint about the way this consultation has been conducted, please write to:

Nick Van Benschoten,
Consultation Co-ordinator
Department of Trade and Industry
1 Victoria Street
London SW1H 0ET
e-mail: <mailto:nick.vanbenschoten@dti.gsi.gov.uk>
tel: 020 7215 6206
fax: 020 7215 0480

13. Consultees approached

We have emailed this to our database of approximately 1500 stakeholders who have requested all consumer credit consultations. They comprise lenders, trade associations, consumer groups, academics and

individuals. If you require a copy of the listing – which runs to 20 pages – please email nigel.creswick@dti.gov.uk.