

**TASK FORCE
ON TACKLING
OVERINDEBTEDNESS**

SECOND REPORT

Contents

	Page
1. Executive Summary	3
2. Introduction	6
3. The Context	8
Household Survey Research on Overindebtedness: Summary of Findings	8
Conclusions	11
4. What is overindebtedness?	12
5. Consumer Information and Education	14
Key Questions	14
6. Responsible Lending	16
Marketing Techniques	16
Payment Protection Insurance(PPI)	18
Minimum Repayments on Credit Cards	19
Secured Lending	19
Treatment of Consumers in Financial Difficulties	20
7. Transparency	22
Prior Information	22
Cancellation Rights	24
Task Force Conclusions and Recommendations	24
8. Summary of Recommendations	26
Annexes:	
A Terms of Reference for the Task Force	29
B Members of the Task Force	30
C First Report of the Task Force	31
D Progress on other recommendations of Task Force Report of July 2001	32
E Summary of Working Group recommendations to the Task Force	52
F Statistics	60
G Key Questions	62

1. EXECUTIVE SUMMARY

1.1 This is the second report of the Task Force on Overindebtedness, set up by the then Consumer Minister, Dr Kim Howells, in October 2000. It concentrates on the issues raised by the research carried out for DTI in response to the first report and the areas covered by the Working Groups set up to investigate further some of the issues and possible solutions identified in the first report. Its scope is therefore narrower than that of the first report. In addition to the further recommendations made here, the Task Force continues to attach importance to the recommendations made in the first report and has taken this opportunity to review progress on their implementation.

1.2 The research found that most households used credit modestly but around 5% were heavy credit users and around 20 % were in financial difficulties at the time of the survey, most with household bills rather than consumer credit. The major cause of financial difficulties was loss of income, particularly job loss, although they were also strongly associated with setting up home and having a family and with relationship breakdown. The research also found some evidence of irresponsible borrowing and irresponsible lending associated with financial difficulties.

1.3 Compared with the last similar survey in 1989 more households had credit facilities but the proportion actually using those facilities to borrow was about the same. However, the amounts owed by credit users were significantly higher. The historically high levels of borrowing are problematic for only a small number of people but a far greater number would be at risk in an economic downturn or a period of sustained increases in interest rates. While macro-economic conditions are very different now compared with 1989, uncertainties remain and there is no room for complacency. The Task Force therefore sees a need to put in place measures to monitor developments through regular surveys and a more permanent role for the Task Force itself in monitoring and considering any emerging problems.

1.4 The research considered whether particular factors were correlated with being in financial difficulty. It identified that high risk of getting into financial difficulties was associated with

- having four or more current credit commitments¹
- spending more than 25% of gross income on consumer credit or
- spending more than 50% of gross income on consumer credit and mortgages.

At least 7% of households² were in one or more of these categories.

1.5 Clearly, consumers need to consider even more carefully before taking on more borrowing if their commitments have reached this level.

1.6 The results of the research have borne out the importance to minimising overindebtedness of the recommendations in the first report for greater sharing of

¹ “Credit commitments” is used to refer to outstanding consumer borrowing. It does not include mortgages (which are included in household bills) nor credit or store card balances which are unused or paid off by the due date.

² In 2000 there were 24.554 million households in the UK (Regional Trends)

data, including positive data, between lenders to enable them to make an informed assessment of the consumer's existing commitments, past payment performance and potential ability to repay. While many lenders already do so, it is clear that all lenders need to ensure that they consider all the available evidence about the consumer's commitments as a whole before extending new credit facilities or increasing the limits on existing facilities. Many lenders do not seek income data or information about non-credit commitments on all occasions. Often they would consider it disproportionate to do so given the size of the individual borrowing. Nevertheless, they have developed sophisticated systems for predicting consumers' ability to repay based on the available information. Analysis of the industry information available through credit reference agencies, which provides the basis for most lenders' lending decisions, suggests that borrowers with six or more active credit accounts³ and a balance of £500 or more on each of them are more likely to get into financial difficulties. Lenders should exercise particular care if their credit checking systems indicate that this or one or more of the indicators set out in paragraph 1.4 above will be exceeded by granting further credit.

1.7 But it is consumers who will be best placed to assess how their income and commitments measure up against the risk indicators. It is therefore important that the indicators should be included in advice to consumers from lenders, regulators and consumer advisers, along with tools to help consumers make the assessment. This report includes a template which can be used for such advice.

1.8 The research found evidence that some lending practices were associated with households in financial difficulty and with those that were heavily borrowed. None of these practices affected large numbers of people and it would be wrong to claim that they caused financial difficulties or over-borrowing. They do, however, disproportionately attract people who face these situations and have the potential to make a bad situation worse. It is, therefore, essential that lenders should act responsibly in using these techniques. In particular, they should not offer pre-approved loans, send unsolicited credit card cheques or make unsolicited increases in overdraft or credit card limits without first making appropriate checks to ensure that there is no evidence that the intended recipients are already in financial difficulty. Lenders should also consider carefully whether it is appropriate to offer inducements such as prize draws for the use of credit card cheques.

1.9 It is also crucial that lenders ensure that consumers understand the terms and conditions that will apply if they take up offers of credit made to them. To ensure this, lenders should provide customers with a clear statement of the charging arrangements and conditions of use of credit card cheques each time they send them. Those who sell payment protection insurance (PPI) should seek to ensure that the terms and conditions of the insurance are transparent to consumers and that the product is not sold to consumers who would be excluded by the terms of the policy from benefiting from it. In addition, there is a concern that not all consumers are aware that PPI stands apart from the credit agreement and is generally optional. A second signature should therefore be required for face-to-face sales. And where consumers transfer unsecured borrowing to a secured loan there should be a clear

³ Including mortgages and revolving credit that is repaid in full each month.

warning on the agreement that the home may be repossessed if repayments are not kept up.

1.10 However responsible both borrowers and lenders are, there will always be unexpected events which cause some consumers to get into financial difficulty. When they do, it is important that they should be treated sympathetically and positively. There is a key role for industry codes of practice in giving guidance to lenders on what this should mean in practice. In the case of the Banking Code separate guidance has been produced for subscribers which outlines how compliance with the principles of the Code can be demonstrated. The FLA is considering a similar initiative. Other industry codes should be reviewed to ensure that they provide appropriate guidance. At the same time, consumers and lenders can help avert problems by addressing them as early as possible. We would encourage consumers to approach their lenders to explain the problems they are experiencing and lenders to treat such approaches sympathetically and positively. In this way a mutually acceptable solution is more likely to be agreed.

1.11 Some cases will nonetheless result in court action. Where that is the case, consumers need to be aware of and understand the nature of the action and the options open to them. At the relevant stage in the process, lenders should provide consumers with information about the processes they will use to recover the debt and the options available to the consumer, including time orders. As part of its current review of enforcement procedures, the Lord Chancellor's Department should consider what more can be done to improve consumers' awareness of the options available to them.

1.12 Clear, succinct and transparent information about the terms and conditions of loans both before entering into an agreement and in the agreement itself is key to ensuring that consumers understand the commitments they are taking on, can assess their affordability and can compare different deals. A Working Group on prior information did much valuable work in identifying the key information consumers need and considering how this can best be presented to them, including some testing of consumer reactions. However, it was not an appropriate forum for reaching a solution to all the wide range of issues raised, including the requirements for statutory warnings. There is a need for a wide-ranging review of the statutory requirements on pre-contract information and on the format and content of credit agreements, which should draw on the lessons learnt from the Working Group and be a priority for DTI's current review of the Consumer Credit Act.

2. INTRODUCTION

2.1 The Task Force on Overindebtedness was set up following a conference hosted by Dr Kim Howells, Minister for Consumer Affairs, in October 2000 to explore the causes and effects of overindebtedness and look at ways of achieving more responsible lending and borrowing.

2.2 Dr Howells asked the Task Force to look at three specific and key areas:

- Improving the transparency of information provided to consumers before and when concluding a credit agreement, including the small print;
- Adoption of core principles of lending practice, including examining an applicant's overall borrowing exposure and ability to repay; and
- Requiring clear notification to consumers on free and low interest agreements before the final payment is made, or moving onto a repayment plan.

2.3 Dr Howells also wanted the Task Force to look at identifying how more responsible lending could be achieved through better sharing of information between lenders and greater transparency where consumers are declined credit. The terms of reference are set out at Annex A.

2.4 The Task Force membership was drawn from the British Bankers' Association (BBA), Consumer Credit Association (CCA), Council of Mortgage Lenders (CML), Experian, Finance & Leasing Association (FLA), Financial Services Authority (FSA), National Association of Citizens Advice Bureaux (NACAB), Office of Fair Trading (OFT) and the Personal Finance Research Centre (PFRC). The members are listed at Annex B.

2.5 The Task Force's first report, attached at Annex C, was published in July 2001⁴. The report made a number of recommendations for action by lenders, Government and others. It is important to achieving more responsible lending and borrowing that those recommendations should be implemented effectively. Indeed, developments since the first report have only served to highlight the importance of some of our recommendations, for example on data sharing. Annex D to this report sets out progress so far. Much has been done but there is still more to do.

2.6 Some of the recommendations of the first report called for further research or consideration. In response to the recommendations DTI commissioned MORI to carry out research based on a national household survey of the cause, effect and extent of overindebtedness during the Spring of 2002. A report on the findings of this research is published separately. In addition, a number of working groups were set up to take forward the recommendations for further work. The working groups met during autumn 2001 and spring 2002. Their recommendations to the Task Force are summarised at Annex E.

2.7 The Task Force has now considered the results of the research and of the further work carried out by the working groups. This report addresses the

⁴ Report by the Task Force on Tackling Overindebtedness, DTI, 25 July 2001

implications of that further work. It therefore needs to be read with the first report. The Task Force has not, however, had the opportunity to consider the implications of the European Commission's proposals for a revision of the Consumer Credit Directive, which contains a number of proposals relevant to the issues covered by the Task Force reports. Their impact will depend on the final outcome of negotiations between Member States, which we do not expect to emerge for some time.

2.8 We are very grateful to all those who participated in the Working Groups for the effort and commitment they put into providing the Task Force with well-considered and helpful advice on those areas where we were not able to reach final conclusions in our first report. Their work has been invaluable in informing our conclusions.

3. THE CONTEXT

3.1 In its first report the Task Force noted that such evidence as was available on overindebtedness at that time presented a mixed picture. On the one hand, the level of consumer borrowing had increased markedly and there had been a sharp increase in the number of enquiries to Citizens Advice Bureaux (CABx) relating to debt problems. On the other hand, the number of credit accounts in arrears had remained at around 5% for the past five years and the number of mortgages in arrears, the level of repossessions and the number of county court actions related to debt had all fallen. And the Task Force found that there was little information beyond the anecdotal about the cause, extent and effect of individual indebtedness.

3.2 Since July 2001 when the Task Force completed its first report, the level of consumer borrowing has continued to grow. Net mortgage lending grew from £19 billion in 1996 to £54 billion in 2001 and unsecured consumer borrowing reported by major British Banking Groups more than doubled in the same period (from £41 billion to £84 billion)⁵, up by 32% and 18% respectively between 2000 and 2001. The rise in the number of debt enquiries to CABx continued but at a much slower rate (up 1% in 2000/01 and 2% in 2001/02 and 28% since 1996/97) while the numbers of credit arrears remained broadly stable and county court actions continued to fall - see figures at annex F.

Household Survey Research on Overindebtedness: Summary of Findings

3.3 The research carried out for DTI in response to the Task Force recommendation found that:

Extent of Overindebtedness

75% of all households had credit facilities⁶ of some kind, but only 47% of households had credit commitments⁷ at the time they were interviewed.

Most households used credit modestly, having only one or two credit commitments, owing modest amounts and paying less than a tenth of their gross income on credit repayments, but a small minority were heavy credit users:

- 7 per cent had four or more credit commitments
- 5 per cent were spending a quarter or more of their gross income on consumer credit repayments
- 6 per cent were spending half or more of their gross income repaying their mortgage and other credit commitments.

Credit was used most when people were setting up home and had young children but its use was high right across most age groups, through to those

⁵ British Bankers' Association figures

⁶ "Credit facilities" excludes mortgages but includes facilities such as overdrafts, credit and store cards, which may be available but unused.

⁷ "Credit commitments" is used to refer to outstanding consumer borrowing. It does not include mortgages (which are included in household bills) nor credit or store card balances which are unused or paid off by the due date.

in their fifties. There was no evidence of young people still living at home being especially heavy users of credit.

Since the last comparable survey in 1989 the number of households with credit facilities has increased markedly, but the proportion currently repaying credit was about the same. In other words there had been a large increase in the number of households with overdraft and credit card facilities they were not using.

The amounts owed by credit users had, however, increased quite considerably – and especially on credit cards, loans and hire purchase agreements. At the same time, credit cards are increasingly being used in place of cheques or cash and being settled in full each month. These two factors taken together seem to account for the increase in gross borrowing recorded by official statistics. In other words, compared with 1989 more people would be at risk in an economic downturn but not as many as it might first appear given the numbers settling their credit cards in full each month.

Overall, about 24% of households reported that they had been in financial difficulty in the last 12 months, including 18% who had been in arrears on one or more of their household commitments⁸ and around 20% were in financial difficulties at the time of the survey. Levels of current arrears were much lower in Scotland and Wales (7 and 8% respectively) than they were in any of the English regions. The highest levels of arrears were in London, the North East and Yorkshire/Humberside, all at 17%. A small number (3%) were currently behind with payments on three or more commitments. More were in arrears with their household bills than had fallen behind with repayments on consumer credit agreements – but just half of households were repaying credit commitments.

It would seem that the situation is currently stable - over the last 12 months as many households got out of financial difficulties as saw them start. About 7% of households, however, had been in financial difficulty for more than a year.

Causes of overindebtedness

Despite low levels of unemployment, the major cause of financial difficulties was still job loss. Financial difficulties were also strongly associated with setting up home and having a family. The arrival of a new baby increased the risk of difficulties, as did relationship breakdown. Low and unstable incomes also increased the risk. Nearly half of households having financial problems attributed them to a loss of income and one in seven of households with financial difficulties said it was because they were living on low incomes that were inadequate to meet their needs.

⁸ “Household commitments” includes mortgages, rent, council tax and utility bills but excludes credit commitments.

Only one in ten households with financial difficulties⁹ said that over-commitment was the cause of their financial difficulties. The more credit commitments households had and the larger the proportion of their income that went on repaying borrowing, the more serious was their level of arrears on household commitments. It was not possible to say to what extent this was because borrowing puts extra strain on household budgets or because the types of people who borrow are the ones most likely to overspend generally. In reality, it will probably be a combination of these.

There is some evidence for the claims of both irresponsible lending and irresponsible borrowing. Lending practices that are associated both with financial difficulties and with high levels of spending on repaying money borrowed include:

- The automatic raising of credit limits on credit and store cards and on overdraft facilities.
- Encouraging people to transfer balances on credit cards, by offering low initial interest rates and higher credit limits.
- Reducing the minimum payment on credit cards.
- Issuing cheques that can be used to draw on credit card accounts.

These do, however, need to be set in context – each affects a relatively small proportion of high-risk households. But such practices do tend, quite disproportionately, to attract customers who are at a high risk of over-commitment.

At the same time there is clear evidence of borrowers acting irresponsibly:

- borrowing money when already in financial difficulty to pay off other credit or to pay off arrears on bills and other commitments.
- Taking on credit agreements, despite knowing that they will struggle to repay the money.
- And impulsive shopping and credit use by consumers who buy things on the spur of the moment and know they will not be able to repay or do not consider whether they will be able to do so.

Each of these has a strong link both with financial difficulties and with high spending on credit repayments, although again each applies to only a small proportion of all households.

Of particular concern is the fact that, currently, more people are re-financing when they are having difficulty keeping up with payments than are either claiming on payment protection insurance or seeking advice from a free money advice service.

The historically high levels of borrowing are, therefore problematic for only a small number of people at present. But a far greater number would,

⁹ This question was asked of the 17% of households who had either fallen into arrears in the past 12 months or said that they were in financial difficulties but had kept up with their commitments.

potentially, be at risk of serious difficulties in an economic downturn or a period of sustained increase of interest rates. This underlines the need to find ways of minimising the risks, both by educating consumers about the dangers of borrowing irresponsibly and by changes to the lending practices identified above.

Conclusions

3.4 The general picture therefore suggests that the historically high levels of borrowing are currently problematic for a only small number of people and the numbers are not at present increasing. The fact that as many households get out of financial difficulty as fall into it in the course of a year suggests that for most the problems are manageable. The principal causes of financial difficulties are loss of income and relationship breakdown rather than irresponsible lending or borrowing. However, it also shows many parallels with the picture in 1989, just before the recession of the early 1990s and the peak in repossessions. While macro-economic conditions are very different now compared with when the earlier research was done and real incomes have increased enormously¹⁰, uncertainties remain and there is no room for complacency. Those households which have borrowed heavily could be at risk of serious difficulties in an economic downturn or a period of sustained increase of interest rates. And there are clearly many more people who might benefit from debt and/or financial management advice than are currently seeking it. There is therefore a need to keep the situation under review. **We therefore recommend that the Minister considers putting the Task Force on a more permanent footing to monitor developments, including progress on the implementation of the recommendations of this and the previous Task Force report, and meet as necessary to consider any emerging problems. The title and membership of the Task Force should be reconsidered in the light of this new role.**

¹⁰ Personal post-tax household income increased by 40% from £425 billion in 1985 to £599 billion in 1999, at 1999 prices from “Consumer Trends”, National Statistics 2000.

4. WHAT IS OVERINDEBTEDNESS?

4.1 In considering the available evidence for its first report, the Task Force found that there was no generally accepted definition of overindebtedness and inadequate information on which to base one.

4.2 Clearly, “overindebtedness” is a broader concept than simply being in arrears. Clearly also differences in individual lifestyles, attitudes and other financial commitments will mean that a level of debt which is manageable for one individual or household may be unmanageable for another. Some will choose to incur a high level of debt and cut back on other spending for a period to achieve a particular goal. It is therefore difficult to establish a clear definition which will hold in all cases. However, the research carried out for DTI provides some pointers to identifying the levels at which alarm bells should ring.

4.3 The research found that 20% of all households considered themselves to be in financial difficulty either on household bills, consumer credit or both at the time they were interviewed and might therefore be described as overindebted. 13% of all households were in arrears on one or more of their regular commitments and 7% of households considered themselves to be in financial difficulty although not in arrears at the time of the survey. 6% were in arrears on consumer credit commitments (including 2% who were also in arrears on other household bills).

4.4 The research also found a strong link between the number of credit commitments and the proportion of income being spent on repaying credit and the likelihood of being in arrears – half of those with 4 or more current commitments, half of those spending a quarter or more of their gross income on credit repayments and 40% of those spending half their gross income on credit and mortgage repayments were in arrears or had been at some time in the past 12 months.

4.5 This suggests that

- **having four or more current credit commitments¹¹ (7% of all households)**
- **spending more than 25% of gross income on consumer credit (5% of all households) or**
- **spending more than 50% of gross income on consumer credit and mortgages (6% of all households)**

indicates a high risk of getting into financial difficulties, if not already being in difficulty. Those in this position could be overindebted. Taking these as indicators is not to say that a household is only over-indebted or is necessarily overindebted if its spending is above these levels – but it provides a reasonable guideline for raising concerns.

¹¹ “Credit commitments” is used to refer to outstanding consumer borrowing. It does not include mortgages (which are included in household bills) nor credit or store card balances which are unused or paid off by the due date.

4.6 The credit industry has done much to use the information available to it about consumers' credit commitments and behaviour to assess propensity to repay and this has contributed to reducing levels of arrears on consumer credit. Where data on income and commitments other than credit are not available, analysis of the industry information available through credit reference agencies suggests that borrowers with six or more active credit accounts¹² and a balance of £500 or more on each of them are more likely to get into financial difficulties.

4.7 In its first report the Task Force identified scope for improving the assessment of consumers' credit status. It recommended greater sharing of data, including positive data, on consumers' credit facilities. It also felt that there was value in focusing the minds of those applying for credit on their income and existing commitments. Its first report therefore recommended that lenders who do not use any form of data on income and existing commitments should be encouraged to do so. The results of the research have borne out the importance of these earlier recommendations in ensuring that lenders have the information they need to make the best possible assessment of the likely impact of further lending on a consumer's financial situation. They also point to the value of sharing data on other household commitments. Lenders need to consider a borrower's total level of commitments before making decisions on lending. Lenders also need, for example, to be able to distinguish between those who are using credit or store cards simply as a payment mechanism, paying off the bill in full each month, and those who are rolling over debt on their cards. In the light of the strong connection that the research has shown between the number of credit commitments, the proportion of income spent on credit repayments and financial difficulties, **we recommend that lenders should exercise particular care if their credit checking systems indicate that one or more of the indicators set out in paragraphs 4.5 and 4.6 will be exceeded by granting further credit.** The systems they use for credit checking will need to be proportionate and appropriate to the amount and type of credit involved.

4.8 Consumers themselves will be in the best position to judge whether they can afford a credit commitment. **We therefore recommend that the indicators in paragraph 4.5 should be incorporated in advice to consumers, alongside information on how to assess affordability.**

4.9 The available statistics do not provide an adequate basis to track any changes in the numbers of households in financial difficulties or at serious risk. The national household survey carried out for DTI has provided much valuable information on this. **We recommend that a small number of tracking questions should be included regularly in existing household surveys (for example, ONS surveys) to enable changes to be identified early on.**

¹² Including mortgages and revolving credit which is repaid in full each month.

5. CONSUMER INFORMATION AND EDUCATION

5.1 The first Task Force report noted the need for better financial education both for young people in schools and for adults to provide them with the understanding and tools necessary to manage their finances effectively. It also noted that there was already coordinated work under way to achieve better financial education in schools. There was also valuable work going on to improve adult education but it needed to be better coordinated and the Task Force recommended that the FSA should take the lead in coordinating it. Progress on taking forward the relevant recommendations is summarised at annex D.

Key Questions

5.2 The first Task Force report also recommended that:

A DTI working group should finalise ... a set of key questions ... for consumers when taking out a loan and it should be made available through Consumer Support Networks, consumer groups, lenders, Government, etc. Consideration should also be given as to whether there should be separate 'key questions' for different market sectors or types of credit.

The Working Group finalised a set of questions, attached at Annex G, covering different types of borrowing: credit and store cards, loans, and general questions applicable to all types of borrowing. The questions were designed to be generic and, as far as possible, appropriate to all market sectors. The questions were then tested on consumers by consultants, Carne Martin. The results of the consumer testing by Carne Martin strongly indicated that to be effective, the key questions leaflet would need to be supported by a significant publicity campaign. Given the lack of any existing budget for this, the Working Group recommended that the Task Force should consider further what use should be made of the questions.

5.3 The key questions prepared by the Working Group contain important messages for consumers who are considering taking out a loan. In addition, as we noted in the previous chapter, consumers should be encouraged to assess their financial position to ensure they can afford the repayments. They should focus in particular on the indicators of overindebtedness in paragraph 4.5 of this report but should also take account of any likely changes in their income or commitments before borrowing. **The Task Force recommends that DTI should publish the key questions material on its website. Lenders, consumer advisers and regulators should take this into account in the advice they provide to consumers, focussing in particular on the key messages about affordability and tools to assist consumers in assessing this. Trade Associations should take a lead in publicising this material, for example through their web sites.**

5.4 The aim of the key questions is not only to inform consumers before they borrow but also to discourage consumers from simply borrowing their way out of debt. **The support given to consumers by the money advice services can be**

crucial in helping consumers to resolve their financial difficulties. We particularly welcome the support given by lenders to the money advice services and the pilot debt helpline project and would encourage them to continue to build on this support.

6. RESPONSIBLE LENDING

6.1 The national survey of households found evidence that some lending practices were associated with households in financial difficulties and with those that were heavily borrowed. None of these practices affected large numbers of people and it would be wrong to claim that they caused financial difficulties or over-borrowing. They do, however, disproportionately attract people who face these situations and have the potential to make a bad situation worse. These practices included:

- The automatic raising of credit limits on credit and store cards and on overdraft facilities
- Encouraging people to transfer balances on credit cards, by offering low initial interest rates and higher credit limits
- Reducing the minimum payment on credit cards
- Issuing cheques that can be used to draw on credit card accounts

It also found some evidence of irresponsible borrowing by a small proportion of consumers:

- Borrowing to re-finance other credit or to pay off arrears on bills and other commitments. There is evidence that not only has this become more common, but it is a strategy used disproportionately by people who are either in financial difficulties or have borrowed substantial amounts.
- Households who take on credit agreements, despite knowing that they will struggle to repay the money.
- Unplanned purchases and credit use, which is also linked to financial difficulties and heavy borrowing.

Marketing Techniques

6.2 Amongst other recommendations on marketing techniques, the initial Task Force report recommended that:

A DTI working group should examine further the sending of unsolicited pre-approved loan, credit card cheques and overdraft offers that do not need to be positively accepted by the borrower....

The Working Group set up to consider these issues agreed that it would be appropriate in addition to consider unsolicited increases in credit card limits.

Pre-approved Loans

6.3 The national household survey did not look at pre-approved loans and the Working Group considered it unlikely that calling a loan offer “pre-approved” had any impact on the likelihood of its contributing to overindebtedness. We therefore conclude that there is no case on indebtedness grounds for preventing the use of the term.

6.4 That said, lenders must clearly use such offers responsibly. **We recommend that pre-approved loans should be treated by lenders in the same way as any other loan. Industry codes of practice should require lenders to ensure that before making such offers they carry out appropriate checks, bearing in mind the recommendations we have made elsewhere in this report, on the individual's ability to repay. They should also ensure that such loans are not offered in ways which are misleading, for example where the lender intends to carry out new checks on receipt of a completed application.**

Credit Card Cheques

6.5 Although credit card cheques can only be used up to the limit which already applies to spending on the credit card, there were some concerns that it was not always clear to customers where different terms and conditions applied to spending on credit card cheques than to spending on the credit card. For example, section 75 of the Consumer Credit Act (which gives additional consumer protection for credit card purchases) does not apply to spending on credit card cheques, there may be additional fees and interest may begin to accrue from the date the cheque is written.

6.6 These concerns are borne out by the research, which found that 16 per cent of households with credit cards had been sent cheques by their card supplier in the past 12 months. (This is equivalent to 8 per cent of all households in Britain.) In almost all cases these were sent unsolicited. Only a minority (13 per cent) of cheque recipients had used any of them, so the numbers are small and the analysis needs to be treated with caution. A third of them had used the cheques either to pay bills or to pay off debts. Only a third of cheque users knew that they paid interest on the money straight away.

6.7 The research also found that credit card cheques had been sent to above average proportions of card holders who were either in financial difficulty or spending a high proportion of their income on repaying the money they had borrowed.

6.8 Given the low levels of usage of these cheques and their link with financial difficulties identified by the research for DTI, DTI should seek further information from the banks and other stakeholders on the basis for and impact of the sending of unsolicited cheques and consider whether further action is needed. In the interim, it is important that lenders should avoid sending such cheques to those who are already in financial difficulty. **We therefore recommend that before sending unsolicited credit card cheques lenders should carry out appropriate checks on customers to ensure that this is not the case.**

6.9 It is also important that customers should understand the different terms that may apply to the use of credit card cheques and it is clear that many do not at present. **We therefore recommend that lenders should provide customers with a clear statement of the charging arrangements, conditions of use and the difference in protection compared with the use of the card each time they send credit card cheques.**

6.10 The Task Force heard anecdotal evidence that unsolicited credit card cheques were being sent accompanied by the offer of rewards for using them, for example entry in prize draws. Given the link with vulnerable consumers, **we recommend that lenders should consider carefully whether it is appropriate to offer such inducements to use credit card cheques.**

Unsolicited Increases in Overdraft and Credit Card Limits

6.11 The Working Group considered whether lenders should be required to get positive acceptance or even an application from customers before implementing any increase in an overdraft or credit card limit. This would require costly changes in lenders' systems and additional administration costs. Lenders considered that the costs would be disproportionate given that only a small proportion of customers had difficulties with their credit facilities. It would also cause inconvenience to customers who were not overindebted but might accidentally exceed their limits and who might otherwise have their credit limit increased to save them embarrassment at the point of sale. Lenders also saw the possibility that higher credit limits might be offered to new customers if it was made more difficult to increase limits as the customer established a track record and this could contribute to increasing overindebtedness.

6.12 The research found that 28% of those with a credit card, 10% of those with a store card and 16% of those with an agreed overdraft facility had had an increase in their limit in the last 12 months and in more than 90% of all of these cases the increase was unsolicited though half of those whose overdraft limit was increased had requested it. Households that were in financial difficulties at the time of the interview were more likely than others to have had an increase in the limit on their credit card or overdraft in the past 12 months. Households that repaid a high proportion of their gross income either on credit alone or on credit and a mortgage were also more likely to have had the limits increased. 20% of those whose credit card limit was increased and 40% of those whose overdraft limit was increased were close to or over the limit at the time.

6.13 Taken together, this evidence lends weight to the Working Group's proposal that credit limits should only be increased following a check on account-holders credit worthiness. The information relating to overdrafts shows that this will be more effective in preventing over-indebtedness than seeking prior authorisation from customers, as households in financial difficulty are especially likely to agree to an increase. **We therefore recommend that lenders should ensure that they carry out appropriate checks on the customer's ability to pay before increasing his or her credit limit.**

Payment Protection Insurance (PPI)

6.14 The first Task Force report recommended that:

Further work should be undertaken by another DTI led working group to establish how to overcome any mis-selling of PPI while still maintaining a high take-up amongst consumers who could benefit from it.

6.15 The Working Group was unable to reach unanimous agreement on the way forward. There was broad consensus that there should be a separate box for PPI and that face-to-face sales should require a second signature on the credit agreement form. Most working group members did not support a mandatory cooling-off period for PPI.

6.16 FSA will be taking over responsibility for regulation of the insurance market in 2004 and **we therefore recommend that they consider the Working Group's conclusions during their consultation on insurance regulations. In the meantime, those who sell PPI should seek to ensure that the terms and conditions of the insurance are transparent to consumers and that the product is not sold to consumers who would be excluded by the terms of the policy from benefiting from it.** In addition, there is a concern that not all consumers are aware that PPI stands apart from the credit agreement and is generally optional. **We therefore recommend that a second signature be required for face-to-face sales.** OFT, NACAB and pfrc consider that this requirement should be applied to all sales. The industry considers that to apply the requirement to distance sales would be disproportionate given the practical difficulties likely to arise in getting agreements accurately completed and the impact this would have on the process.

Minimum Repayments on Credit Cards

6.17 A number of lenders have in recent times reduced the minimum repayments they require for credit card debts, sometimes to as little as 2%. At this level, borrowers will be repaying little, if any, of the principal outstanding. The national household survey found that this practice was associated with households in financial difficulty and with those that were heavily borrowed. This is an area of concern, which should be on the agenda of the reconstituted Task Force.

Secured Lending

6.18 The first Task Force report recommended that:

A DTI working group should consider how best to ensure that consumers fully understand the implications of transferring unsecured borrowing to a secured loan and make recommendations.

6.19 The Working Group concluded that the best way of meeting the terms of reference would be to provide an explanatory warning which is integral to the loan agreement. This was not intended to be a duplication of the wealth warning but an explanatory note on the implications of a secured loan, which would be best positioned at the head of the agreement. **We agree that it is essential that consumers should be clear of the potential consequences when they take on a secured loan and recommend that all such loan agreements should be required to carry at the head of the agreement the warning that “this loan is secured by a mortgage on your home. Your home could be repossessed if you do not keep up repayments”.**

Treatment of Consumers in Financial Difficulties

6.20 The Task Force was not given an explicit remit to examine how debt recovery is handled by consumers and lenders. Nevertheless the research undertaken for DTI throws light on the serious consequences of debt for households. Aside from the stress and worry where a consumer becomes indebted they may incur charges for letters and visits, and processes, such as county court summonses, which increase their overall indebtedness. The experience of debt is likely to mean that a consumer has less choice of credit in future. The aim of responsible lenders, and borrowers, should be to avoid credit turning into debt as much as possible. With this in mind, **we recommend that lenders should review their systems to ensure that they do all they can to identify at an early stage those customers who may be in financial difficulty; and that they take appropriate action in such cases.** But when this is not achieved responsible lenders will respond constructively.

6.21 There are indications from CAB debt clients that customers with multiple debt problems are not always treated sympathetically when they approach their creditors. It is essential that consumers who are facing debt problems receive clear and helpful information about contacting the creditor, that they receive a positive response when they make contact and that they are treated fairly and sympathetically, in accordance with the requirements of industry codes. To improve the process, BBA, Money Advice Trust, advice agencies including NACAB and major lenders are working together on a common approach to handling the problems of the multiply-indebted. The Task Force welcomes this initiative.

6.22 The Working Group on secured lending recommended that terminology in the varying codes of practice and accompanying guidance should be reviewed and attention given to a fuller interpretation of 'sympathetic' to ensure that customers are treated appropriately. **We endorse this recommendation.** In the case of the Banking Code separate Guidance has been produced for subscribers which outlines how compliance with the principles in the Code can be demonstrated. Practice is also subject to independent audit by the Banking Code Standards Board.

6.23 Where lenders seek to recover debts through the courts, the Consumer Credit Act allows the court to make time orders, which can provide for payment of any sum owed under a regulated agreement by such instalments and at such times as the court thinks reasonable, having regard to the means of the debtor. A time order can also be made on application by a debtor who has received a default notice. The court also has powers to amend an agreement, including the interest rate, in consequence of a time order. However, the provisions are not well understood by consumers nor well-used by the courts. Where the agreement provides for contractual interest after judgment, and the lender applies this clause, consumers can find themselves paying off instalments as ordered by the court without realising that interest is continuing to accumulate and, having completed the payments ordered by the court, may find that they owe more than they did originally. **We therefore recommend that at the relevant stage, lenders should provide the consumer with information about the processes they will use to recover the debt and where relevant the possibility of a time order. DTI should review the regulations on default notices to ensure that this is sufficiently**

transparent. As part of the current review of enforcement procedures, the Lord Chancellor's Department should consider what more can be done to improve consumers awareness of the options available to them, for example through the court forms.

7. TRANSPARENCY

Prior Information

7.1 The first Task Force report recommended that:

“With the exception of first charge mortgages (which will be regulated by the FSA and have separate information requirements):

- all lenders should be required to provide certain key financial information in a clear and understandable format to the consumer so that he/she can see if they can afford it, as well as compare and understand the offer, before entering into a credit agreement.
- the DTI sets up a further working group to explore how this should be implemented, and to examine whether the process of offering credit should form a three-step approach; key information; personal details; and then signing the agreement. It would look at whether a proportionate, but credit neutral approach could be adopted, as well as the costs and benefits. It would also examine whether this process could be achieved with a single document.
- the working group should also review the current post contractual cancellation rights to ensure they would continue to provide appropriate consumer protection
- any proposals from the working group should be tested on representative consumers to ensure they deliver the objectives.

The working group on provision of prior information should also look at revising the content and form of the credit agreement to ensure it is clear and transparent to consumers, reflects the type of credit being offered, and that proportionality is taken into account.

It should also consider how best to ensure that the ‘small print’ focuses clearly on the main rights and responsibilities of the consumer, explains the key terms, and is in plain language. This should include consideration of model clauses, a minimum font size, adequate colour differentiation between the typeface and the background to enhance readability.

The proposals, which may require some changes to the current regulations on the form and content of agreements, should be tested on representative consumers to ensure they deliver the objectives.”

Key Information

7.2 The Working Group on Prior Information considered from first principles what information consumers should have before entering into a credit agreement. The Group concluded what consumers needed at this stage was sufficient information to enable them to answer three questions:

- How much will it cost me?
- How much will it cost me if it goes wrong?

Can I afford it?

This is consistent with the advice on key questions discussed in chapter 4. It meant that they needed to know:

- Whether the loan is secured or not
- Whether the interest rate is fixed or variable
- Whether payments are fixed or variable
- The term of the loan and whether it is fixed or not
- Total cost of the credit
- Total amount payable
- APR (to compare with other offers)
- Example payments where there is a choice of payment methods
- Frequency and number of repayments
- Amount of repayments
- If a deposit is required
- Additional charges
- Whether or not the agreement is cancellable
- What happens and what costs are involved on early settlement.

7.3 This is essentially the information already required to be given under consumer credit legislation.

Format of Credit Agreements

7.4 This key information needs to be presented to consumers in a way which is clear, easy to identify and easy to understand. The Working Group considered how best this could be done and whether it could be done effectively while retaining the key information as part of a single credit agreement document. To test this, the Working Group drew up two rough prototype credit agreements – for a fixed rate personal loan and a variable rate revolving credit agreement – with different layouts for the key information but in both cases presenting this as the first part of the agreement document. The prototype agreements were then tested by consultants, Carne Martin, on focus groups of consumers of varying ages and social groups in different parts of the country and covering both consumers who had had credit and those who had not but might do so in future.

7.5 The feedback from the consumer focus groups broadly endorsed the approach taken in the prototype agreements, in particular presenting the key information briefly and simply in a single block up front in the agreement with clear signposting where necessary to further detail in the terms and conditions, keeping everything in a single document and the use of larger print. There was strong pressure for forms to be quick and easy to complete. More work was, however, needed on the formatting, particularly ensuring that there was a logical flow through to a final signature at the end. It was also clear that the use of “cancellable” in its Consumer Credit Act meaning was not understood by consumers and that a different way of explaining the concept needed to be found.

Small Print and Statutory Warnings

7.6 In looking at the presentation of credit agreements and how small print might be reduced, the Working Group identified 13 different statutory “warnings” which were required on credit agreements. Most, but not all, stem from the Consumer Credit Act 1974 and the Consumer Credit (Agreements) Regulations 1983. Many of these warnings could be more simply and briefly expressed. Some may no longer be needed at all. If the requirements could be simplified and streamlined, it could make a substantial contribution to reducing the small print in credit agreements. The Group therefore recommended that the 1983 Regulations should be reviewed.

7.7 Another key area is the warnings required under data protection legislation, the length of which may adversely impact on the clarity of the agreement.

7.8 Beyond this, the Working Group rejected as impractical the idea of developing model terms and conditions. Credit agreements are legal agreements and each lender is entitled to have different terms and conditions to suit their different business requirements. They also rejected the idea of requiring external “plain English” certification for credit agreements, which could be an expensive option, particularly for small lenders. However, the Group noted that the Unfair Terms in Consumer Contracts Regulations 1999 apply to consumer credit agreements. These Regulations require agreements to be in plain, intelligible language and the Consumer Credit (Agreements) Regulations require them to be easily legible. The Office of Fair Trading, Trading Standards Departments and others have powers to enforce this legislation. In addition, industry codes should emphasise the need for clarity of terms and conditions.

Cancellation Rights

7.9 The Working Group considered whether the right of cancellation which applies to credit agreements signed off trade premises should be extended to debtor-creditor-supplier agreements signed on trade premises (essentially in-store credit). The majority of the Group took the view that any impact that doing so might have on the level of overindebtedness would be outweighed by the difficulties it was likely to cause for retailers and the majority of consumers who were not overindebted; and that the case had not been made on overindebtedness grounds for such an extension.

Task Force Conclusions and Recommendations

7.10 In the light of the work carried out by the Working Group we conclude that there is a need for a wide-ranging review of the statutory requirements on pre-contract information and the format and content of credit agreements, including data protection requirements. This should be a priority of DTI’s current review of the Consumer Credit Act. The review should be carried out in consultation with industry, consumer groups, enforcers and other interested parties. It should draw on the lessons from the work done by the Working Group and ensure that proposals for change are subject to robust consumer testing. In addition to the key information identified by the Working

Group, we believe that consumers should be alerted upfront to the consequences to them of failing to keep up payments.

7.11 We note that the European Commission proposal for a revised Directive on Consumer Credit includes proposals for the extension of cancellation rights. We do not, therefore, recommend any change in advance of the outcome of negotiations on the Directive.

8. SUMMARY OF RECOMMENDATIONS

8.1 The Minister should consider putting the Task Force on a more permanent footing to monitor developments and meet as necessary to consider any emerging problems. The title and membership of the Task Force should be reconsidered in the light of this new role. (paragraph 3.4)

8.2 Lenders should exercise particular care if their credit checking systems indicate that one or more of the following indicators:

- having four or more current credit commitments¹³ (7% of all households)
- spending more than 25% of gross income on consumer credit (5% of all households)
- spending more than 50% of gross income on consumer credit and mortgages (6% of all households) or
- having six or more active credit accounts¹⁴ and a balance of £500 or more on each of them

will be exceeded by granting further credit. (paragraph 4.7)

8.3 Consumers themselves will be in the best position to judge whether they can afford a credit commitment. We therefore recommend that the first three indicators set out above should be incorporated in advice to consumers, alongside information on how to assess affordability. (paragraph 4.8)

8.4 A small number of tracking questions should be included regularly in existing household surveys (for example, ONS surveys) to enable changes in the numbers of those in financial difficulties to be identified early on. (paragraph 4.9)

8.5 DTI should publish the key questions material on its website. Lenders, consumer advisers and regulators should take this into account in the advice they provide to consumers, focussing in particular on the key messages about affordability, and tools to assist consumers in assessing this. Trade Associations should take a lead in publicising this material, for example through their web sites. (paragraph 5.3)

8.6 The support given to consumers by the money advice services can be crucial in helping consumers to resolve their financial difficulties. We particularly welcome the support given by lenders to the money advice services and the pilot debt helpline project and would encourage them to continue to build on this support. (paragraph 5.4)

8.7 Pre-approved loans should be treated by lenders in the same way as any other loan. Industry codes of practice should require lenders to ensure that before making such offers they carry out appropriate checks, bearing in mind the recommendations we have made elsewhere in this report, on the individual's ability

¹³ "Credit commitments" here refers to outstanding consumer borrowing. It does not include mortgages (which are included in household bills) nor credit or store card balances which are unused or paid off by the due date.

¹⁴ Including mortgages and revolving credit that is repaid in full each month.

to repay. They should also ensure that such loans are not offered in ways which are misleading, for example where the lender intends to carry out new checks on receipt of a completed application. (paragraph 6.4)

8.8 Before sending unsolicited credit card cheques lenders should carry out appropriate checks on customers to ensure that they are not already in financial difficulty. (paragraph 6.8)

8.9 Lenders should provide customers with a clear statement of the charging arrangements, conditions of use and the difference in protection compared with the use of the card each time they send credit card cheques. (paragraph 6.9)

8.10 Given the link with vulnerable consumers, lenders should consider carefully whether it is appropriate to offer inducements such as prize draws to use credit card cheques. (paragraph 6.10)

8.11 Lenders should ensure that they carry out appropriate checks on the customer's ability to pay before increasing his or her credit limit. (paragraph 6.13)

8.12 The FSA should consider the Working Group's conclusions on PPI during their consultation on insurance regulation. In the meantime, those who sell PPI should seek to ensure that the terms and conditions of the insurance are transparent to consumers and that the product is not sold to consumers who would be excluded by the terms of the policy from benefiting from it. (paragraph 6.16)

8.13 A second signature should be required for face-to-face sales of PPI. (paragraph 6.16)

8.14 All secured loan agreements should carry at the head of the agreement the warning that "this loan is secured by a mortgage on your home. Your home could be repossessed if you do not keep up repayments". (paragraph 6.19)

8.15 Lenders should review their systems to ensure that they do all they can to identify at an early stage those customers who may be in financial difficulty; and that they take appropriate action in such cases. (paragraph 6.20)

8.16 Terminology in the varying codes of practice and accompanying guidance should be reviewed and attention given to a fuller interpretation of 'sympathetic' to ensure that consumers are treated sympathetically and positively when they experience financial difficulties. (paragraph 6.22)

8.17 At the relevant stage, lenders should provide the consumer with information about the processes they will use to recover the debt and where relevant the possibility of a time order. DTI should review the regulations on default notices to ensure that this is sufficiently transparent. As part of the current review of enforcement procedures, the Lord Chancellor's Department should consider what more can be done to improve consumers awareness of the options available to them. (paragraph 6.23)

8.18 In the light of the work carried out by the Working Group we conclude that there is a need for a wide-ranging review of the statutory requirements on pre-contract information and the format and content of credit agreements, including date protection requirements. This should be a priority for DTI's current review of the Consumer Credit Act. The review should be carried out in consultation with industry, consumer groups, enforcers and other interested parties. It should draw on the lessons from the work done by the Working Group and ensure that proposals for change are subject to robust consumer testing. In addition to the key information identified by the Working Group, we believe that consumers should be alerted upfront to the consequences to them of failing to keep up payments. (paragraph 7.10)

8.19 We note that the European Commission proposal for a revised Directive on Consumer Credit includes proposals for the extension of cancellation rights. We do not, therefore, recommend any change in advance of the outcome of negotiations on the Directive. (paragraph 7.11)

TASK FORCE ON TACKLING OVERINDEBTEDNESS

TERMS OF REFERENCE

The Task Force will consider the scope for minimising consumer overindebtedness, in particular by:

Improving the transparency of information provided to consumers before and when concluding a credit agreement, including the small print;
The adoption of core principles of lending practice, including examining an applicant's overall borrowing capacity and ability to repay; and
Providing clear notification to consumers on interest free agreements before the final payment is made or an interest bearing repayment programme commences.

The Task Force will consider current evidence on the incidence of overindebtedness and identify how to achieve a better understanding of its extent, cause and effect. It will also identify practical solutions for achieving greater transparency by lenders where a consumer has been declined credit, and improved sharing of data between lenders to aid borrowing decisions.

2. The Task Force will report to the Minister for Consumer Affairs in April 2001.

MEMBERS OF THE TASK FORCE

Fiona Price, DTI (Chair)

Tim Sweeney/Mike Young/Jerry Fearnley, British Bankers' Association

David Rees, Consumer Credit Association

Michael Coogan, Council of Mortgage Lenders

John Saunders/Jill Stevens/Gillian Key-Vice, Experian

Martin Hall, Finance & Leasing Association

Christine Farnish/Sarah Wilson/Deborah Arnott/Gill Hind, Financial Services Authority

Teresa Perchard, National Association of Citizens Advice Bureaux

Caroline Banks/Martin Goulden, Office of Fair Trading

Elaine Kempson, Personal Finance Research Centre

(NOTE: representation at the Task Force meetings varied for some organisations)

Members of the Task Force participated in a personal capacity.

First Report of the Task Force

– see separate Report at <http://www.dti.gov.uk/ccp/consultpdf/review.pdf>

ANNEX D

SUMMARY OF RECOMMENDATIONS FROM THE TASK REPORT ON TACKLING OVERINDEBTEDNESS - JULY 2001

No	Recommendation	Target Date	Lead Organisation	Update
1	<p>Research into the cause, effect and extent of overindebtedness</p> <p>Research should be commissioned by the Department to build up a better understanding of the factors, both personal and external, that lead to consumers becoming overindebted.</p> <p>It should also examine the nature and extent of both secured and unsecured borrowing and the incidence of repayment difficulties, plus other debts that act as a contributory cause of overindebtedness.</p> <p>It should collate data on the type and size of consumer debt, identify what actions by lenders and borrowers contribute to debt problems.</p> <p>It should also highlight any possible solutions to overindebtedness that arise from the research.</p>		<p>DTI</p> <p>Chris Knox CCP5c 020 7215 5001 christine.knox@dti.gsi.gov.uk</p>	<p>MORI have completed the fieldwork and the results are currently being analysed. The final report is expected to be published in autumn 2002.</p>
2 2a	<p>Consumer Education</p> <p>The FSA should play a more active role in promoting and co-ordinating adult financial education on consumer credit by working with the DTI, DfEE, and other interested parties such as the Scottish Executive, to:</p> <ul style="list-style-type: none"> undertake a mapping exercise of current adult consumer financial education as it relates to money management, and establish a co-ordinating body with responsibility for developing policy and effective practice in adult consumer financial education, by the end of 2001 	<p>end 2001</p>	<p>FSA</p> <p>Gill Hind gill.hind@fsa.gov.uk</p>	<p>see <i>Annex A</i></p>

	Wherever relevant Government policy should take into account links between key employment skills and key consumer life skills.		
2b	Through the education process (in both schools and for adults) consumers should be enabled and encouraged to take responsibility for the management of their finances and a positive approach to their credit record	<p>FSA Gill Hind</p> <p>DfES Lucy Fogarty lucy.fogarty@dfes.gsi.gov.uk</p>	<p>FSA: see <i>Annex A</i></p> <p>DfES 5-16 yrs: Personal finance education is now assured of its place in the National Curriculum as part of the Personal, Social and Health Education (PSHE) framework.</p> <p>The framework has been in place since September 2000 for pupils aged 5 –16. It was introduced to support the personal and social development of young people, including the development of financial capability.</p> <p>Guidance for teachers, ‘Financial Capability through Personal Financial Education’, was published in April 2000.</p> <p>A website to support the professional development of all PSHE teachers will be available in the Summer (2002)</p> <p>DfES Adult: Following the report of the Adult Financial Literacy Advisory Group (AdFlag), published in Dec 2000, the Adult Basic Skills Strategy Unit in DfES, has commissioned the Basic Skills Agency to set up a project to improve the financial literacy skills of adults. They are working on a package of measures that aim to address financial literacy and basic skills. This package includes training materials for frontline staff in financial institutions, resource development and pilot projects in community settings. An important area of work has been the production, in partnership with the FSA, of a draft Adult Financial Capability Framework which sets out the knowledge, skills and understanding adult need on financial matters. The Department is also piloting a new Community Finance and</p>

				Learning Initiative to explore a more integrated approach to financial exclusion .
3	<p>Information and Advice</p> <p>The DTI' s Consumer Support Networks (CSNs) should be utilised to provide a national infrastructure of financial information and advice.</p> <p>The DTI to explore with LACOTS and other organisations how CSNs might be developed and resourced to fulfil this role.</p>		<p>DTI</p> <p>Nick Grout CCP7b 020 7215 6008 nick.grout@dti.gsi.gov.uk</p>	CSNs are taking time to become established with their existing remit. Although 100% of Britain is covered by developing networks just 16 CSNs have to date achieved full registration, covering 12% of the population, and it remains a significant challenge to get all of these fully operational. For these reasons it would be difficult to add further responsibilities and expectations to CSNs at the present time.
4	<p>Key questions for consumers when taking out a loan</p> <p>A DTI working group should finalise by the end of October 2001 a set of key questions, such as those at Annex E, for consumers when taking out a loan and it should be made available through CSNs, consumer groups, lenders, Government, etc.</p> <p>Consideration should also be given as to whether there should be separate ' key questions' for different market sectors or types of credit.</p>	end Oct 01	<p>Key Questions Working Group</p> <p>DTI Alex Chisholm CCP5c 020 7215 5496 Alex.chisholm@dti.gsi.gov.uk</p>	Key Questions finalised in Jan 01 and then plain englished and scrutinised by Focus Groups. The Working Group report was forwarded to the Task Force on 20 June 2002.

<p>5</p> <p>5a</p> <p>Marketing Techniques</p> <p>All relevant trade associations should either agree a code of practice on marketing credit, or develop their existing codes, to cover best practices by the end of March 2002.</p> <p>While any advertisements falling within the Consumer Credit Act should be in line with the requirements of the Advertising Regulations, the best practices would include:</p> <ul style="list-style-type: none"> not emphasising the possibility of high credit limits that they are unlikely to grant not giving the impression that there is easy credit readily available to anyone where speed of decision making is a feature of the advertisement, making clear that this will not be at the expense of a proper assessment of the applicant's ability to repay making the main terms and conditions clear making the limitations on any special offers as clear as the offer itself encouraging consumers to fully consider whether they can afford the repayments before making an application, including the need to consider how they would cope with a change in circumstances – this could include the provision of a budget planner clear warnings that a failure to repay could damage their credit record 	<p>end Mar 02</p>	<p>Trade Associations (see end for contact list)</p> <p>ABI APACS BBA BCCA CCA CCTA CML FLA GISC MOTA NPA</p> <p>Direct Line</p> <p>APACS: With regard to recommendations 5a and 5c APACS has participated in the DTI Working Groups on Marketing Techniques and on Prior Information, which has been the main focus of our work. You will be aware that the Banking Code (of which APACS is a joint sponsor), together with the accompanying guidance, is currently under independent review.</p> <p>BCCA: Agreed at AGM in Nov 2001 to produce Best Practice document but awaiting results of Task Force and research into operation of delayed presentation until this is finalised.</p> <p>CCTA: we have set an objective this year to undertake a full review of the Association's code of practice and in particular whether that should seek to conform to the OFT criteria. The review will also consider upgrading the Arbitration option contained within the Code. As part of that review we will be revising the sections dealing with marketing and will be reflecting the recommendations of the Task Force in the revised section.</p> <p>CML: No changes implemented following the Treasury decision in December. However we have updated our consumer leaflet You and Your Mortgage to respond to the DeAnne Julius report (50 million copies of the leaflet issued and over 10 million copies of the Code).</p> <p>FLA: Over the past few months, our primary focus has necessarily been on the work of the various DTI Working Groups, including the one on Marketing Techniques. That being said, the FLA Consumer Code includes a section on advertising which could be expanded to encompass some of the additional recommendations of the Task Force in this area. We will be consulting with members.</p> <p>We have recently reviewed the FLA Consumer Code, publishing the latest version on 1 January 2002.</p>
--	-----------------------	--

5b	A DTI working group should examine further the sending of unsolicited pre-approved loan, credit card cheques and overdraft offers that do not need to be positively accepted by the borrower, and report by no later than the end of December 2001.	end Dec 01	Marketing Techniques Working Group DTI (contact as for rec. 4)	Final report was forwarded to the Task Force on 21 May 2002.
5c	Trade Associations should review codes regularly to make sure they are up to date with developments in the market place and continue to reflect and deliver best practice.		Trade Associations (as for 5a)	CCA: agree in principle but review of codes is costly and a time consuming process. Codes will be assessed and reviewed following decisions from OFT.
5d	OFT should ensure relevant principles of marketing best practice are included when endorsing credit industry codes of practice, and that there is adequate monitoring and enforcement by the code sponsor.		OFT Caroline Banks 020 7 caroline.banks@oft.gsi.gov.uk	see <i>Annex B</i>
5e	OFT should include relevant principles on best practices, where appropriate, in any guidance material it produces on credit advertising or the licensing regime.		OFT (as above)	see <i>Annex B</i>
5f	The Advertising Regulations should be reviewed in the light of mortgage regulation to ensure they provide a consistent approach, and that they are targeted and effective.		Consumer Credit Act Review DTI Trevor Single – CCP 5b 020 7215 0351 Trevor.single@dti.gsi.gov.uk	The Advertising Regulations are being reviewed as part of the Consumer Credit Act review which was launched in July 2001 (<i>Tackling loan sharks – and more!</i>). In addition to simplifying the existing regulations it will also look at improving the way in which APRs are used for running account credit. A consultation paper on proposed changes will be issued in Winter 2002/03.

6	<p>Provision of information prior to concluding a credit agreement</p> <p>With the exception of first charge mortgages (which will be regulated by the FSA and have separate information requirements):</p> <p>all lenders should be required to provide certain key financial information in a clear and understandable format to the consumer so that he/she can see if they can afford it, as well as compare and understand the offer, before entering into a credit agreement.</p> <p>the DTI sets up a further working group to explore how this should be implemented, and to examine whether the process of offering credit should form a three-step approach; key information; personal details; and then signing the agreement. It would look at whether a proportionate, but credit neutral approach could be adopted, as well as the costs and benefits. It would also examine whether this process could be achieved with a single document.</p> <p>the working group should also review the current post contractual cancellation rights to ensure they would continue to provide appropriate consumer protection</p> <p>any proposals from the working group should be tested on representative consumers to ensure they deliver the objectives</p> <p>this work should be completed by April 2002</p>	Apr 02	<p>Prior Information Working Group</p> <p>DTI Alex Chisholm CCP5c 020 7215 5496 Alex.chisholm@dti.gsi.gov.uk</p>	Final report was forwarded to the Task Force on 21 May 2002.
7 7a	<p>Improvements to the layout and content of credit agreements</p> <p>The working group on provision of prior information should also look at revising the content and form of the credit agreement to ensure it is clear and transparent to consumers, reflects the type of credit being offered, and that proportionality is taken into account.</p>	Apr 02	<p>Prior Information Working Group</p> <p>DTI Alex Chisholm CCP5c</p>	Final report was forwarded to the Task Force on 21 May 2002.

	<p>It should also consider how best to ensure that the 'small print' focuses clearly on the main rights and responsibilities of the consumer, explains the key terms, and is in plain language. This should include consideration of model clauses, a minimum font size, adequate colour differentiation between the typeface and the background to enhance readability.</p> <p>The proposals, which may require some changes to the current regulations on the form and content of agreements, should be tested on representative consumers to ensure they deliver the objectives</p> <p>This work should be completed by April 2002</p>		<p>020 7215 5496 Alex.chisholm@dti.gsi.gov.uk</p>	
<p>8</p>	<p>Payment Protection Insurance (PPI)</p> <p>Further work should be undertaken by another DTI led working group to establish how to overcome any mis-selling of PPI while still maintaining a high take-up amongst consumers who could benefit from it. It should report by the end of 2001</p>	<p>end Dec 01</p>	<p>PPI Working Group</p> <p>DTI Chris Knox CCP5c 020 7215 5001 Christine.knox@dti.gsi.gov.uk</p>	<p>Final report was forwarded to the Task Force on 21 May 2002.</p>
<p>9 9a</p>	<p>Adoption of core principles of lending practice</p> <p>Examining ability to repay</p> <p>Lenders should continue to invest in the development of more sophisticated scoring techniques to better identify over-commitment</p>		<p>Lenders / CRAs (see end for contact list)</p> <p>BBA CCA CCTA CML FLA NPA Experian</p>	<p>Experian: Experian holds the credit commitment data for 351 organisations and has recently developed an Indebtedness Index for use by those organisations who do not wish, or whom it would be impractical to, undertake a detailed affordability assessment. This product is in the final stages of development and is anticipated to be available for use later this year.</p> <p>BCCA: formal scoring has only very limited value in the context of such low value, short duration transactions (typically £50 for under one month). What is important is making effective checks on ability to repay and our Best Practice document will place heavy emphasis on this.</p>

9b	Lenders who use data scoring should consider during the development of decision systems making use all available data to assess ability to repay.	<p>Equifax CallCredit</p>	<p>CCTA: CCTA represents a hugely diverse range of lenders from some of the largest high street names to small sole trader businesses. The techniques used to carry out credit assessments also vary correspondingly with some small lenders basing assessments on long standing relationships with their customer base. It is very difficult therefore for CCTA to issue recommendations that can have equal applicability to all members. Having said that the Association endorses the guide to credit scoring.</p> <p>It is by no means clearly established that the use of income and outgoings information will necessarily lead to better lending decisions. Indeed we have had discussions with some members who have established that on an analysis of scorecards using that data, against scorecards not using it, loans would have been made to borrowers when that data is used which would not have been made on the basis of other data alone. We remain to be convinced therefore that it is appropriate to advise members that the use of income and outgoings data should be mandatory where they are already using other data to make responsible lending decisions. This is a matter however which we will be further reviewing during the course of this year.</p> <p>CML: these issues are already addressed by mortgage lenders so have not undertaken any new initiatives.</p> <p>FLA: We will be discussing the various recommendations at a senior level within the membership. Encouragement of lenders to use data on income and existing commitments raises issues of proportionality particularly for smaller loans in the retail credit market</p>
		<p>Lenders / CRAs (as for 9a)</p>	<p>Experian: whilst the lending policy and decision process is a matter for lenders themselves. Experian continues to</p>

			<p>develop tools to support the industry. Since the Taskforce reported there are now 258m shared credit records, from 351 lenders, on our database.</p> <p>Every lender is currently undergoing an assessment of their systems ahead of any redevelopment required for compliance with the third party data changes under the Data Protection Act 1998. It continues to be our recommendation that exposure be analysed as a potential characteristic. In future we will also offer the Indebtedness Index for this purpose.</p>
9c	<p>Lenders who do not use any form of data on income and existing commitments should be encouraged to do so</p>	<p>Lenders (see end for contact list)</p> <p>BBA CCA CCTA CML FLA NPA</p>	
9d	<p>Where lenders are concerned that information on income and commitments provided by potential borrowers or their agents may not be reliable, lenders may wish to alert applicants that providing false or misleading information could lead to prosecution.</p>	<p>Lenders (as for 9c)</p>	<p>BCCA: agreed. In general our member's documentation highlights this.</p>

9e	<p>Sharing Data</p> <p>Lenders should seek to share all currently permissible data, both positive and negative, with other lenders. This should include outstanding credit balances, credit limits, open credit lines, history of repayments and amounts borrowed.</p>	<p>Lenders (as for 9c)</p>	<p>BBA: Not all white data will be shared by all banks with current account data. However the Banking Code covers other issues relating to data sharing under section 13.4</p> <p>BCCA: CRAs do not currently provide an economically viable form of white information for low value, short duration lending. Unless the Task Force proposes the nationalisation of the agencies of the provision of such data in a utility basis this seems unlikely to change.</p> <p>BCCA is now exploring the provision to its members and others if an extension of our current free "black" Cheque Alert system to one involving white information on all delayed presentation cheques and similar small short duration transactions.</p> <p>CCA: impractical for small lenders and not appropriate to this sector.</p> <p>CCTA: This is another area where proportionality has to be relevant. As a matter of general advice CCTA would encourage the use and sharing of as much permissible data as possible in the interests of improving lending decisions. However the costs of full data sharing through the existing CRA product lines is prohibitively expensive for some small lenders who accordingly may only share default data as a result. We are however currently investigating a number of opportunities for the Association to provide packaged support services to smaller members in this area with a view to establishing a wider use of all positive data available.</p> <p>FLA: Fully supportive of the need to share all currently permissible data, both positive and negative, with other lenders. The role of SCOR will be to co-ordinate actions agreed by the trade associations.</p>
9f	<p>Credit reference agencies and lenders should jointly consider whether there are any changes to data sharing</p>	<p>Lenders / CRAs (as for 9a)</p>	<p>Experian: A program of meetings has commenced between</p>

	that could assist in more effective identification of over-commitment, especially on credit card limits, usage and repayment behaviour			<p>Experian and the trade associations to establish the particular issues and needs of their industry, the majority of which should be complete by the end of August. Experian will then include the changes in the ongoing development of the Experian systems.</p>
9g	SCOR (Standing Committee on Reciprocity) should publish plans to continue to develop data sharing, and consult with consumer groups and the Information Commissioner by the end of March 2002.	end Mar 02	<p>CRAs / SCOR SCOR Chair - S Chapman simon.chapman@bbeynational.co.uk</p>	<p>Experian: SCOR consists of representatives from trade associations and credit reference agencies and has responsibility for the cross industry formulation and management of the rules governing the shared databases. That is articulated within the Principles of Reciprocity, which are currently undergoing a comprehensive rewrite, largely as a result of the need to better manage consumer data. When agreed and implemented it will encourage and facilitate the wider use of data in a more customer centric manner, facilitating more robust customer focussed rather than product based decisions. It also contains a number of recommendations, which will enable and encourage greater levels of data sharing in the future.</p> <p>Experian has an active programme to encourage the wider extension of data sharing although it should be recognised that Data Protection legislation does sometimes restrict what activities may be undertaken with data already held. More than 20 new organisations have joined the shared credit data base at Experian since the report was published.</p>
9h	All non-credit organisations taking regular payments from consumers are encouraged to register those payment commitments and defaults with CRAs, if and when they have the necessary consent from consumers.		Utility companies Local Councils	

9i	<p>Student loans</p> <p>DTI Ministers should press DfEE Ministers to make information about student loans available through credit reference agencies once students have completed their courses.</p>		<p>DTI / DfES DTI Chris Knox CCP5c 020 7215 5001 Christine.knox@dti.gsi.gov.uk</p>	<p>Meeting with DfES Minister to be re-arranged.</p>
10	<p>Notification procedures and transparency on interest free option periods, low start agreements and credit cards</p> <p>All lenders offering interest free options periods and low start interest agreements should:</p> <ul style="list-style-type: none"> v provide clear and explicit information on the credit agreement form about the type of credit being offered and the payment arrangements v clearly notify to consumers towards the end of the interest free option or low interest period and provide a short grace period for late payment of the outstanding balance v the Trade Associations should monitor the effectiveness of this approach and review it in a year's time. 	<p>July 02</p>	<p>Trade Associations (as for 5a)</p>	<p>APACS: With regard to recommendation 10, concerns regarding introductory interest rates on credit cards have been overtaken by the OFT's Stop Now action during the second half of 2001. This action has resulted in introductory rates no longer being described as APRs but as 'per annum' or 'p.a.' rates, apparently satisfying the OFT's concerns. In addition, the subject of APRs has been added to the review of the Consumer Credit Act, in which APACS is actively participating. Latest discussions with the DTI and OFT have centred around options for the presentation of key information, including that relating to introductory rates and their duration.</p> <p>BBA: The wider debate on Credit Card APR's was resolved to the OFT's evident satisfaction.</p> <p>CCTA: We believe that this is no longer an issue and that in any event the matter is being addressed where necessary by the OFT.</p> <p>FLA: Progress in this area has been overtaken by OFT stop now action.</p>
11	<p>Unchecked instant credit</p>		<p>Lenders (as for 9c)</p>	<p>BBA: The Banking Code at section 11 fully covers this</p>

	All lenders should adopt the undertaking by the FLA to ban unchecked instant credit.			<p>CCTA: We are not aware of any of our members indulging in this practice</p> <p>FLA: This is covered by the January 2002 version of the FLA Consumer Code.</p>
12	<p>Reasons for credit refusal</p> <p>All lenders, whether they use credit scoring or not, should be as clear and specific as possible in communicating reasons for refusal of credit.</p> <p>Lenders should ensure compliance with the Guide to Credit Scoring.</p>		<p>Lenders (as for 9c)</p>	<p>BCCA: Agreed, except that the Guide is not relevant where credit scoring is not used.</p> <p>CCA: difficult issue for CCA. Can be impractical when declining face-to-face. Need to bear safety issues in mind as referred to in "Guide to Credit Scoring".</p> <p>CCTA: As mentioned above the CCTA endorses the guide to credit scoring and enters into discussions with individual members from time to time on ways to improve the approach.</p> <p>FLA: FLA is committed to the Guide to Credit Scoring which is recommended to members. We will discuss with members the possibility of giving people better information on why they have been declined.</p>
13 13a	<p>Other issues</p> <p>Secured lending ' explanatory' form</p> <p>A DTI working group should consider how best to ensure that consumers fully understand the implications of transferring unsecured borrowing to a secured loan and make recommendations by October 2001.</p>	Oct 01	<p>Secured Lending Working Group</p> <p>DTI Chris KnoxCCP5c 020 7215 5001 Christine.knox@dti.gsi.gov.uk</p>	<p>Final report forwarded to the Task Force on 19 June.</p>

13b	<p>Money advice</p> <p>The DTI in partnership with the Money Advice Trust, providers of free money advice and all credit grantors should continue to develop a national infrastructure that results in the ready availability of free debt advice throughout the UK</p>	<p>DTI / MAT</p> <p>DTI Chris Knox CCP5c 020 7215 5001 Christine.knox@dti.gsi.gov.uk</p>	<p>MAT and DTI have set up a pilot debtline (with £1 million funding from Treasury's Invest to Save programme plus £1million industry funds) which provides free phone and electronic money advice to consumers and access to debt management programmes. The pilot will run for 12 months ending in Feb 2003.</p>
-----	--	--	--

Recommendations 2a, 2b - FSA

*2a The FSA should play a more active role in promoting and co-ordinating adult financial education on consumer credit by working with the DTI, DfEE, and other interested parties such as the Scottish Executive, to:
Undertake a mapping exercise of current consumer financial education as it relates to money management, and
Establish a co-ordinating body with responsibility for developing policy and effective practice in adult consumer financial education, by the end of 2001.*

Wherever relevant Government policy should take into account links between key employment skills and key consumer life skills.

2b Through the education process (both in schools and for adults) consumers are enabled and encouraged to take responsibility for the management of their finances and a positive approach to their credit record.

1. The FSA has taken forward the DTI recommendations in the context of our overall work to promote financial capability both in young people and adults.
2. The FSA set up the working group which produced the DfES guidance for Financial Capability through Personal Finance Education which was published in July 2000. Financial capability includes three interrelated themes, financial knowledge and understanding, financial skills and competence, and financial responsibility. These include enabling and encouraging young people to take responsibility for the management of their finances and a positive approach to their credit record.
3. In the first half of 2002 the FSA set up a co-ordinating body in the form of an advisory Working Group to develop an adult literacy curriculum framework, in response to recommendations from the Adult Financial Literacy Advisory Group and the DTI task force. Chaired by the FSA this group was constituted to include as many of the organisations involved in adult financial education

as possible, such as Government Departments, the money advice sector, consumer groups, trade bodies, adult education, research organisations and the voluntary sector.

4. The framework builds on the DfES guidance for schools. It provides a continuum from the schools Guidance through to the FSA's Learn Online programme, which was designed to help adults understand and plan their finances more effectively, and is due to be launched in June 2002.

5. It also tackles concerns that we and others have that there is not yet an agreed understanding of adult financial capability, or a shared agreement about the skills, knowledge and understanding that adults should have in order to be financially capable. For example:

**money advisors tend to put the emphasis on getting out of debt (and staying that way) with their clients
the Savings Gateway pilots are specifically about low paid workers saving for the short term
DWP and HMT are concerned with long term savings for retirement
the Basic Skills Agency use money management as a context for basic skills work.**

6. A pilot version of the Framework has now been produced & sent out to the members of the Group to disseminate widely through their networks. This includes a list of relevant resources produced by a wide variety of organisations including the FSA. At the end of the Framework is a questionnaire that can be completed & returned to the FSA. The idea is for the Group to revise the Framework in the light of the feedback received at the beginning of 2003.

7. The FSA and various other agencies (e.g. NACAB, CABx, BSA) will be putting the Framework on their websites, and promoting it widely.

8. The Working Group found the meetings extremely helpful as it enabled colleagues from a wide variety of organisations to network and to look at the many financial education initiatives taking place throughout the UK. At the request of the Group the FSA has agreed to host further meetings of this Group on a quarterly basis.

Educational Materials for schools and colleges

9. FSA educational work in schools has focused until the beginning of 2002 on producing a complete suite of teaching and learning materials covering pupils aged 4 - 19 years. We are now concentrating on ensuring that take-up and use of these materials is maximised.

10. The materials we have produced in 2001 are:

'Colossal cards' (11 - 14 years) print resource of giant cards and teacher's notes -includes sections on debit cards, credit cards, store cards

'Looking after the Pennies' (12 - 16 years) TV programmes broadcast by C4 Schools TV - covers money issues faced by the average family including credit card debt, credit scoring, credit referencing, applying for a loan, budgeting to cover loan repayments

'Make the Most of it!' (14 - 19 years) print resource for teachers a copy of which has been sent to all UK secondary schools.

Topics covered include planning for the long-term and buying online but also thinking about borrowing, credit referencing, credit scoring, and risk.

Educational materials for adults

11. We are in the process of extending our range of resources for adults and most of this work is being done in partnership with other organisations. This includes:

University for Industry we have produced the content for an interactive learning package for Learn Direct students - includes sections on sorting out credit card debt, what to do if you are getting into debt, thinking about different forms of borrowing (store cards, credits cards, catalogue buying, doorstep lending, banks loans, store credit etc.), getting a good deal, borrowing to finance business expansion, credit scoring, credit referencing, APRs.

Basic Skills Agency have commissioned us to reversion 'Colossal Cards' for use by adult basic skills tutors.

FSA Learn on Line is an interactive web based individual learning programme for adults which can be accessed via the FSA Consumer website (goes live June 2002). The learning programme includes a section on borrowing. This programme has also been trialled in post-16 education with some success and we are working on making it more accessible for further education tutors by designing assignments which link into the Key Skills curriculum.

Information for adults

12. The FSA Consumer website is an extensive information bank for individual consumers. There is a complete section on 'credit and debt' within the 'financial planning' pages of the site plus other material on borrowing where relevant, with links to relevant other sites such as NACAB, OFT, National Debtline etc. See www.fsa.gov.uk/consumer under financial planning for more information.

Recommendations 5d, 5e - OFT

5d Codes of Practice

“OFT should ensure relevant principles of marketing best practice are included when endorsing credit industry codes of practice, and that there is adequate monitoring and enforcement by the code sponsor”.

OFT has introduced a new, more challenging regime for consumer codes of practice, based on core criteria. These were set out in an OFT consultation document in February 2001, and in the OFT’s response to the consultation in July 2001. The core criteria include monitoring and enforcement – other criteria relate to organisation, preparation, content of code, complaints handling and publicity.

OFT has identified seven priority sectors for consideration under the new regime. The credit sector is one of those priorities. In August 2001 code sponsors from the priority sectors were invited to submit their codes for assessment by 19 September 2001. Other code sponsors were invited to register an interest in participating at a later date. Response from the credit sector has however been disappointing, and only one relevant trade body has so far submitted an application.

Assessment of code applications submitted from the priority sectors continues. The guidance on the core criteria, first published in August 2001, has been reviewed to take into account findings from the initial assessments and a revised version was published in May 2002. Work progresses on the production of an application pack to assist future code sponsors.

OFT will take into account the principles set out in the Task Force report when it comes to consider code applications from the credit sector.

5e Guidance Material

“OFT should include relevant principles of best practice, where appropriate, in any guidance material it produces on credit advertising or the licensing regime.”

OFT issued general guidance in February 2001 to holders of and applicants for consumer credit licences. This explains how OFT operates the licensing system under the Consumer Credit Act, and the fitness test. It provides a general list of examples of unfair business practices that could lead to a licence being refused or revoked. It also indicates the OFT’s intention to follow up with further guidance for specific market sectors where problems have been identified or where a more detailed consideration of market circumstances would be helpful.

Guidance on debt management services was published in December 2001 following extensive consultation. The purpose of this guidance is to set out minimum standards and highlight examples of practices that would be considered unfair or improper. It applies to all licensees who provide debt-adjusting or debt-counselling services for the purposes of the CCA, and it also extends to actions of other traders in their dealings with debt management companies.

Further licensing guidance is planned in a number of other areas, including the used car market and debt collection practices. Future projects may include credit brokerage, home improvements and credit repair. OFT will also be reviewing the Non-Status Lending Guidelines in the light of mortgage regulation.

In addition, OFT intends to issue guidance material on a number of issues relating to the application and enforcement of the CCA. These may include credit advertising, credit card APRs, section 75 and section 155.

As above, OFT will take into account the principles set out in the Task Force report in any guidance material it produces.

SUMMARY OF WORKING GROUP RECOMMENDATIONS TO THE TASK FORCE¹⁵

Key Questions Working Group

Research commissioned by the DTI on behalf of the Working Group strongly indicated that Pre-Family group (ie younger couples or singles with no children), older teenagers, and the Young Family group (singles or couples with children) would most benefit from the information in the Key Questions leaflet (drafted by the Working Group). However, encouraging take-up, retention and use of the leaflets particularly by the Pre-Family group is unlikely to be successful unless supported by a solid, and potentially costly advertising campaign.

- a. The Working Group recommended publication only if the following criteria are met:
 - i. The research confirmed that Pre-Family and Young Family were the main target audience
 - ii. Publication is part of a wider overindebtedness publicity campaign with a clear message aimed at these target groups
 - iii. A source, or sources of funding to successfully conduct the publicity campaign has/have been identified
 - iv. Distribution channels used for the leaflets are appropriate to the target audience
 - b. In the absence of funding, the Task Force will need to consider alternative means of utilising the text of the Key Questions leaflet
-

Marketing Techniques Working Group**Pre-approved loans**

The Working Group recommended to the Task Force that the following be considered as best practice for responsible lending when sending pre-approved loans to customers:

- a. Customers should not be offered a pre-approved loan unless the lender has first carried out suitable checks, e.g, the customer has been
 - i. pre-screen by lenders using the CRA and/or
 - ii. pre-screened using information the lender already has on the customer, but provided that it is sufficiently robust and up-to-date.

¹⁵ Not all the Working Group recommendations were accepted in full by the Task Force.

- b. Any caveats must be included and be prominent and clear. These might include
 - i. No change in personal circumstances
 - ii. No change in the way the customer has maintained their existing accounts
 - iii. That the loan is not transferable
 - iv. That acceptance of the loan must be made within a specified time scale
 - v. That credit checks used before the offer was made may be repeated on receipt of an acceptance of the offer
- c. Lenders should only use the term 'pre-approved loan' provided that any credit checks conducted on receipt of an application only repeat those checks conducted before the offer was sent out. Lenders who conduct different credit checks on receipt of an application should not call their offers 'pre-approved'.

Credit Card Cheques

- a. Credit card cheques should only be supplied provided that appropriate checks on credit conduct have been carried out (each time new cheques are sent). Furthermore, they can only be sent to a customer provided s/he is still within their credit limit.
- b. Customers should be provided with conditions of use each time they receive credit card cheques. Information must clearly (not in small print) show the following (of which some points will be more prominent than others):
 - i. The circumstances in which cheques can be used (and their cheque limit)
 - ii. When interest will accrue on credit card cheque transactions
 - iii. Any additional fee for use of credit card cheques
 - iv. That section 75 does not apply to credit card cheques

Overdraft offers and extensions to credit limits

The Working Group recommends to the Task Force that:

- a. *Unsolicited increases for credit limits and to overdrafts should only be made after pre-screening customers each time an increase is proposed*
- b. *Customers must be made aware that they have the right to reduce or refuse an increase in credit or overdraft limit*

- c. Additionally, where there is an unsolicited increase in a bank overdraft, customers should be warned that overdrafts are repayable on demand.
-

Payment Protection Insurance (PPI) Working Group

Unless otherwise stated the following recommendations to the Task Force apply to all methods of selling PPI ie face-to-face at point of sale, by telesales and mail order.

- a. A PPI **key information supplementary leaflet** should be provided to the consumer before taking up PPI. Training should be given to point of sales staff to ensure they communicate effectively the key information which they should discuss with customers. The leaflet should:
- i. be structured to allow the customer to focus on the areas of interest/use to them
 - ii. provide the information needed to answer the following key questions
 - What can I claim for?
 - What can't I claim for? e.g. no pre-existing medical conditions, no self employed, no claims within 6 months of previous claim
 - What benefits will I get?
 - How much will it cost? E.g., cost of payments, frequency payments, start and end dates, any additional charges, cancellation and refunds
- b. The key information leaflet should include the common terminology (eg for redundancy etc) being drawn up by ABI and GISC
- c. Where a separate leaflet is not practicable (eg magazine inserts, internet transactions) the PPI key information should be clearly distinguishable.
- d. There should be a **separate box for PPI** on the credit agreement, indicating the customer's acceptance/rejection of the insurance policy. This would apply in all cases where the single PPI premium is added to the loan and forms part of the credit agreement or where there is a separate credit agreement for the PPI but they are documented as one. This can take the form of a 'yes/no' tick box and can be pre-populated for telesales as appropriate.
- e. It should be clear that the PPI and credit agreement are separate and that the PPI is optional, however separate documentation is not necessary to achieve this.
- f. For face-to-face sales the box should also require an **additional customer signature for PPI**. Again this should apply in all cases where the single PPI

premium is financed by credit.

- g. It is not beneficial to have a mandatory **cooling-off** period for PPI. Cooling-off periods cannot be a substitute for prior information such as, easy to read and understood information at the point of sale
- h. by implementing the methods above, the industry will be able to focus on increasing consumer awareness and confidence in PPI leading to high take-up amongst those who would benefit from it.
- i. implementation should be achieved through codes of practice reinforced by GISC rules and ultimately FSA regulation.

OFT are unable to agree fully with recommendations d - g. Their experience suggests that PPI is being mis-sold, partly as the result of confusion as to whether PPI is an optional element of the credit agreement. OFT believe that there should be separate documentation for the PPI agreement requiring a second signature. Failing that, the forms should require a separate signature for PPI in all cases and that appropriate changes should be made to the CCA regulations. They also believe that further consideration should be given to cooling-off periods for PPI particularly where it is sold face to face.

Prior Information Working Group

Key information to be included in credit agreements

Research commissioned by the DTI on behalf of the Working Group examined what key information consumers want to be able to clearly identify in credit agreements. The results led the Working Group to recommend that :

- a. Credit documents need to be presented clearly and written in plain language, with easily understood/explained key terms
- b. The following key information should be given prominence in the agreement:
 - Is it secured or unsecured (what is the nature of the security: goods / property?)
 - Is the rate fixed or variable?
 - Is payment fixed or variable?
 - Term of the loan: fixed or not?
 - Total cost of credit
 - Total amount payable
 - APR (as a means of comparison)
 - Example payments where there are choices of ways to repay
 - Frequency and number of repayments
 - Amount of repayments
 - Amount of credit or credit limit
 - If a deposit is required

- Additional charges (this should take the form of a warning notice, signposting the customer the section of the agreement that details additional charges)
- Can the agreement be cancelled?

These key terms should be applied to all credit agreements (except first charge mortgages), as appropriate.

- c. Agreements and the key information, should be presented and written in a way that enables consumers to answer three core questions:
 - i. How much will it cost?
 - ii. How much will it cost them if it goes wrong?
 - iii. Can they afford it?
- d. Agreements should clearly indicate whether or not they are cancellable. Further consideration needs to be given to how this can be expressed to consumers.

Changes to regulations

The Working Group noted that the existing regulations already require much of the information identified as key information. However, the WG recommended that:

- The Agreements Regulations should be reviewed including the statutory warnings. A review (working with stakeholders) should also consider other CCA regulations relating to documentation.

Agreement Regulations

- a. Further consideration should be given to the way statutory warnings are presented and worded - particularly those which contain difficult concepts that detract from the overall clarity of credit agreements.
- b. The *Consumer Credit (Agreements) Regulations 1983* should be reviewed to consider whether the requirements can be streamlined and simplified.

Layout of credit agreements

The research also sought to identify what layout was preferred by consumers to aid their understanding of the content. The results led the Working Group to recommend that:

- a. Further consideration needed to be given to what to call the "key information" section.
- b. The key information should appear as a whole, up front in the agreement
- c. The key information, personal information and terms and conditions and signature should all be contained in a single document

- d. The document should be presented as a legal document
- e. Where PPI was covered, it should be clear that it was optional and there should be a separate signature box to accept it
- f. As consumers want convenience, agreements should be easy to complete, with a logical flow through from beginning to end, signature box at bottom right and font size as large as possible while keeping the document short and uncluttered.
- g. Consumers want to be able to easily determine what their monthly repayments will be
- h. There should be clear headings and consistent signposting (preferably to numbered clauses) to where there is more detailed information in terms and conditions

Small Print

- a. Drafting model clauses should not be necessary provided the clarity of credit agreements is improved.
- b. Key information should be made as clear as possible and more prominent than other information on the front of the form and the font size should be as large as possible.
- c. Crystal marking should not be a requirement.
- d. Credit agreements are legal documents and need to set out both parties' rights and obligations in a simple document.

Industry codes

- a. Industry Codes should emphasize the need for clarity of terms and conditions and picking up other relevant recommendations of the Working Group. It was recognised however that not all traders are members of trade associations.
- b. Lenders should be encouraged to take account of the focus group research findings
- c. Consumers must be made aware that missing payments might affect later applications for credit.

Post cancellation rights: ensuring consumers appropriate consumer protection

The Working Group did not recommend extending cooling-off periods to d-c-s agreements signed on trade premises. However, the Working Group did recommend that:

- a. Retailers should be encouraged to make sure that opportunities were available for consumers to read credit agreements before signing.
- b. A prominent warning on the agreement should be included stating that it is not cancellable.
- c. Better education and clearly presented prior information is necessary
- d. The research had shown that the word cancellable was not understood and further work needs to be done on how it is expressed.

Secured Lending Working Group

The Secured Lending Working Group recommends that:

- a. A non-statutory wealth warning should be included in a box at the top of the agreement. Suggested wording:
 - **“This loan is secured by a mortgage on your home. Your home could be repossessed if you do not keep up repayments.”**
- b. Statutory and non-statutory wealth warnings to be included on documentation at the various key stages of the application process.
- c. Wealth warnings at the early stages of the application process must to refer to affordability. These should tie in with the key questions developed by the Key Questions Working Group (subject to decisions to publish the Key Questions leaflet).
- d. The education curriculum to include reference to:
 - i. the risks of unsecured lending, in particular the use and implications of charging orders made by lenders.
 - ii. reference to the fact that if customers miss their credit/loan payments, this will have negative impact on their credit rating and have implications for them in the future
 - iii. annual statistics to show the number of repossessions that do take place
 - iv. statistics to show the willingness of lenders to treat each case sympathetically and negotiate fairly with a borrower

- v. the risks and benefits of loan consolidation.
- e. Where a lender's debt management/arrears policy for unsecured loans includes the use of charging orders as a means of recovering bad debt, this 'risk' should be disclosed to a borrower early in the process.
- f. Information about charging orders should be sent to defaulting borrowers with documentation relating to summonses.
- g. Terminology in the varying codes of practice to be reviewed and attention given to a more descriptive definition of 'sympathetic' to ensure consumers are treated fairly and sympathetically when financial difficulties are experienced.

The above recommendations should be discussed with FSA to harmonise the approach they are taking.

MAJOR BRITISH BANKING GROUPS – UNSECURED LENDING BY TYPE

(£ million)

	Personal loans	Credit cards	Overdrafts	Total
1995	21,945	10,263	4,346	36,554
1996	24,563	12,193	4,325	41,081
1997	29,048	13,515	4,688	47,251
1998	31,414	16,091	5,099	52,604
1999	36,098	18,068	5,374	59,540
2000	40,885	20,845	5,765	67,495
2001	49,111	23,569	6,841	79,521
2002 ^a	52,893	24,527	6,720	84,140

Source: British Bankers' Association

a: based on a sample of banks accounting for 99% of major British banking groups' lending outstanding for consumer credit

DEBT ENQUIRIES: FIGURES FROM NACAB

CATEGORY	1996/7	1997/8	1998/9	1999/00	2000/01	2001/02
Consumer Debt	405,826	433,385	510,938	592,423	604,006	646,787
Housing Debt	132,544	131,287	136,905	132,622	127,728	118,234
Utilities Debt	90,696	89,857	95,619	97,241	93,404	86,063
Tax Debt	75,664	68,007	66,454	66,889	69,342	69,495
Benefits Debt	24,671	27,430	31,855	33,768	35,302	36,472
Legal Debt	26,518	24,119	23,339	23,267	22,042	22,742
Employment Debt	15,869	15,922	15,869	17,216	16,864	15,522
Relationships Debt	18,136	16,091	15,372	13,990	13,507	11,820
TOTAL	789,924	806,098	896,351	977,416	983,195	1,007,124

CREDIT ACCOUNT ARREARS

	Nov '96	Nov '97	Nov '98	Nov '99	Nov '00	Nov '01	July '02
% of credit accounts with no current arrears.	94.15	93.94	94.20	94.23	94.86	95.20	95.22
% of credit accounts with 1-3 months arrears.	4.78	4.75	4.51	4.48	4.06	3.85	3.87
% of credit accounts with 4-6 months arrears.	1.07	1.31	1.29	1.29	1.08	0.95	0.91
Average credit account default value.	£620	£655	£632	£751	£927	£1,001	£1,074

NB: Credit account information based on data shared by lenders through Experian's credit reference agency.

REGISTRY OF COUNTY COURT JUDGEMENTS

1995	1996	1997	1998	1999	2000	2001
1,390,140	1,245,830	1,185,367	1,123,568	1,077,499	1,013,044	886,990

Source: Registry Trust Ltd

(cover)

Think before you borrow

(visuals showing cash, credit card, loan options?)

How to save yourself money and avoid debt problems

(insert logo of sponsor: eg, dti, or FLA, or NACAB etc to indicate independence of the leaflet)

(inside cover)

You may be thinking of buying something but are not sure how to pay for it. Should you use a credit card or take out a loan? Or is it better to wait until you can pay by cash?

This leaflet is intended to give you independent advice to help you decide the best way to buy and avoid debt problems. If you want to know more, a list of useful contacts is at page.....

WHAT IS THE BEST WAY TO PAY FOR SOMETHING?

Do you have the cash to spend? Will you use your credit card? Or will you take out a loan? If it is an emergency, should you use an overdraft facility?

Ask yourself:

- If you pay by cash, will this leave you enough money for a rainy day?
- If you haven't got the cash, can you really afford to borrow?
- How long will it take you to pay off a credit card or a loan?
- How much interest will you end up paying? What is the Annual Percentage Rate? (APR is explained in this leaflet)
- How much will it cost each month? Can you really afford the repayments?
- If you do decide to buy now and pay later, compare credit card and loan options to work out what's the best deal for you.
- In an emergency, should you use an authorised overdraft facility? What are the conditions and penalties? How quickly can you repay the money you will owe your bank?
- What happens if you suddenly earn less money or have to spend more each month?
- If you have got savings, check whether it is cheaper to use these rather than borrow. Remember, it normally costs you less to use your own money because you usually earn less interest on your savings than you will pay for credit.

Don't over-commit yourself
- keep your debt under control

WHAT ABOUT USING A CREDIT CARD/STORE CARD?

FOR

- Using a credit card may be better than taking out a loan. If you make your repayments on time or settle the bill quickly, it may be cheaper than taking out a loan.
- Sometimes, customers are offered a discount in a shop when they open a new credit account there.
- If you buy something on a credit card that costs more than £100, you may get extra protection if the goods are faulty or don't arrive. The credit card company will be liable as well as the person you bought it from. You have statutory rights under Section 75 of the Consumer Credit Act.

AGAINST

- Credit companies make money by charging interest. They add this to your bill each month.
- If you draw cash on your card, or use credit card cheques you will pay interest from day one.
- If you regularly send just the minimum amount asked for on the bill, you will end up paying much more than the amount you first spent on the card.
- The less you pay each month, the more it costs you.

PLASTIC - CHOOSING A CREDIT OR STORE CARD

Make sure you find out:

- What do you have to pay?
- Normally you get a certain number of "interest free" days if you pay off the bill in full on or before the date shown on your statement.
- What happens if you are late with a payment?
- What is the "APR" charged by the credit card company?
 - APR stands for Annual Percentage Rate of Charge for credit and shows the percentage you will be charged on top of the money you owe. Different credit cards and shop account cards offer different APRs. Use the APR to compare them. Generally, the lower the APR, the better the deal. The higher the APR, the more you will have to pay on top of the amount you have actually spent
- Does the credit card company charge differently for cash advances and for things you buy? Get the credit provider to explain it.
- Some credit card companies say they will charge you a very low introductory interest rate if you transfer all the money you owe to their account. This low rate will normally go up after a period of time - check how long it lasts.

WHAT ABOUT LOANS?

Before you arrange a loan, think carefully:

- What would happen if your income suddenly went down.
- Does your current guaranteed income include regular overtime, commission or extra allowances that you might lose?
- What would happen if you lost your job or were unable to work due to ill health?
- If you and your partner arrange a joint loan, think about what would happen if either of you were to separate or die. Would you still be able to afford the repayments on just one income?

What about using an overdraft?

Another way of borrowing is to arrange an overdraft on your bank account. This can be a useful source of funds in an emergency because it can often be agreed over the phone, but you need to think carefully about it.

- Always make sure you arrange an overdraft with your bank first - the penalties for an unauthorised overdraft can be very high
- Don't exceed your agreed overdraft limit - for the same reason
- Check the interest rate and other charges - overdrafts are often more expensive than other forms of credit
- Remember that your bank can generally call in your overdraft at any time - what will you do if they reduce your limit or withdraw the facility?

HOW MUCH CAN I AFFORD?

- Before borrowing any money, it's worth working out how much you actually need to spend to live on each month and how much you have left from your income to spare
- How much income do you have each month?
(Only include guaranteed monthly income. Don't add in overtime and commission if they aren't paid regularly.)

○ Yourself	£
Your partner	£
Any other income	£
TOTAL INCOME (A)	£

○ How much do you have to spend each month?	
○ Mortgage or rent	£
Second mortgage	£
Court orders/fines/Maintenance payments	£
Existing loan/credit repayments	£
Deferred payments (buy now/pay later)	£
Credit cards	£
Student loan repayments	£
○ Pension contributions	£
Life/endowment/health premiums	£
Buildings/contents insurance	£
Car insurance	£
Car expenses (petrol/servicing)	£
Fares/travel expenses	£
School/university fees	£
Childminding/nursery fees	£
○ Ground rent/service charges	£
Gas/oil/coal/electric/bills	£
Telephone/mobile	£
Water rates	£
Council tax	£
Television licence	£
Television/cable/sky rental	£
○ Food/milk/toiletries	£
School meals/meals at work	£
Clothes/laundry	£
Pets	£
○ Social expenses:	
cinema/pub/going out/cigarettes	£
Club memberships	£
Children's clubs	£
Newspapers/magazines	£
○ Other known expenditure	£
○ Contingencies [say 5% of total expenditure]	£
TOTAL SPENDING (B)	£
SPARE MONEY EACH MONTH (A-B)	£

WHAT DO I NEED TO CHECK BEFORE I BORROW?

- Before you decide, compare different deals. Read the credit agreements, including the small print, and ask for information if you can't find the answers you need.
- Always check:
 - The APR (Annual Percentage Rate of Charge for credit).
 - The APR includes all the important credit charges, not just interest. Use the APR to compare different loans and to compare different credit cards. Generally, the higher the APR, the more you will have to pay on top of the amount you owe. In general, the lower the APR, the better the deal
 - How many repayments you will need to make to pay off the loan, when the repayments will start and when they will finish
 - The cost of each repayment and whether the cost can increase.
 - Find out why and when the cost could go up and how much extra you would have to pay
 - How much you will end up paying in total compared to the amount you are borrowing
 - If you have the right to cancel the agreement once you've signed it - how long have you got to change your mind?
 - What would happen if you couldn't keep up the repayments?
 - Could your house or belongings be taken away?
 - If you decided to pay off the loan in full after making a few repayments, how would the amount you owe be worked out?

CHECK SPECIAL DEALS

- Sometimes, shops and service providers offer special deals such as
 - Interest free
 - Delayed payments
 - Discounts
 - Combinations of these, e.g.: "Pay nothing for one year, then take two years interest free credit!"

- Make sure you read the terms and conditions of any special offer. In particular
 - Does any interest free offer cover the whole period of the loan
 - For delayed deals what are your circumstances likely to be then?
 - Does a discount carry any tie-in?
 - On any deal like this what penalties are there if you miss or are late with payments – charges are often higher
 - Special deals often carry big penalties if you don't stick to the agreement

THINK ABOUT INSURANCE

When you borrow money or sign a credit agreement you may be encouraged to take out payment protection insurance (PPI). You can usually choose whether or not to take it.

Having PPI could mean that your monthly payments are protected if you lose your job or fall ill – but you need to check what is covered and whether it meets your needs. Always read the small print.

Check:

- how much it's going to cost, and whether the lender will add the cost to the loan (so you'll be paying interest on that too)
- whether you can get out of it later if you change your mind
- whether your age or employment status, or any health problems, could stop you making a claim if something happens
- whether you are covered by any existing insurance policies
- how long are you covered for?
- if a joint loan, are you both covered?

IF YOU CAN'T AFFORD TO PAY BACK YOUR LOAN OR CREDIT INSTALMENTS...

- Don't ignore the problem - it won't go away.
- Contact the company that has lent you money or given you credit and tell them you're finding it difficult to keep up the repayments. Lenders should work with you.
- Contact the company as soon as possible. This will make it easier for them to work with you to resolve the situation.

WHERE TO GO FOR HELP OR ADVICE

- Citizens Advice Bureaux (look in your telephone directory to find the number of an office near you)
- Your local council's Trading Standards office
- Student welfare officers at your college or university
- Consumer Credit Counselling Service - 0800 138 1111
- National Debt Line - 0808 808 4000

SOURCE OF FURTHER INFORMATION

- www.adviceguide.org.uk
- www.consumer.gov.uk
- www.nacab.org.uk (use this site to search for local Citizens Advice Bureaux or look in your telephone directory)
- www.ofc.gov.uk - (Consumer Phonenumber: 08457 22 44 99)
- www.fsa.gov.uk - (Consumer Helpline: 0845 606 1234)

Go to your local library to use the Internet, if you do not have any other way to access the Internet

End