

## ADDENDUM TO INDUSTRY CODES OF PRACTICE

# Payday and Short-term Loans

DELIVERING NEW CONSUMER PROTECTIONS

On 24 May 2012, the Consumer Finance Association, the Consumer Credit Trade Association, the BCCA and the Finance & Leasing Association agreed to a series of new consumer protections for customers taking out a payday or short-term loan.

This Addendum sets out the enhanced consumer protections for payday and short-term loan customers and sits within or alongside the trade associations' existing Codes of Practice. **The new standards in this Addendum will be implemented by 26 November 2012.**

A payday or other short-term loan is an agreement allowing you to borrow a small amount of money (usually between £50 and £1,000) and then repay it over a short period (typically one or two months).



# Payday and Short-term Loans

## Key Commitments

### 1.

**A Good Practice Customer Charter setting out in a clear, concise and user-friendly format what customers of payday and short-term loans should expect from their lender.**

**This Charter will:**

- highlight lenders' key commitments to customers, including to provide clear information about how the loan works, the price per £100 borrowed as well as the APR, and charges for extending the term of the loan ('rolling over') and default;
- explain how lenders will communicate with customers and how customers can contact them;
- explain how they assess if customers can afford a loan; and
- explain how to complain if there is a problem and signpost customers to sources of free and independent debt advice and relevant helplines.

The Charter was published on 25 July 2012 and it sits alongside each trade association's individual Codes of Practice and as part of this Addendum. Copies of the Charter must be easily accessible to consumers via lenders' websites or at their business premises (where appropriate).

### 2.

**Lending to new or existing customers**

**In addition to the key commitments set out in the Good Practice Charter, lenders will:**

- Act fairly, reasonably and responsibly in all their dealings with the customer.
- Comply with all relevant legal requirements and have regard to relevant guidance produced by the Office of Fair Trading, including for example their guidance on irresponsible lending.
- Make sure all advertising and promotional material is clear, fair, not misleading and complies with relevant advertising regulation.
- Tell customers the full name and contact details of the company providing the loan.

Lenders will not pressurise customers into taking out a payday or short-term loan.

### 3.

**Extending the term of your loan ('rollovers')**

**Lenders will:**

- Not pressurise customers to extend the amount owed for another term.
- Only consider extending ('rolling over') the term of the loan if the customer asks and after the lender has reminded the customer of the risks of extending a short term loan. If the customer is in financial difficulties, they should let the lender know as soon as possible and the lender can explore new arrangements with the customer for paying off the debt.
- Carry out a sound, proper and appropriate affordability assessment before the term of the loan is extended.
- Clearly explain any additional costs of extending the term of the loan and require the customer to repay any fees, charges and interest before the term of the loan is extended.
- Tell the customer if there is a limit on the number of times a loan might be extended.

# Payday and Short-term Loans

## Key Commitments

### 4.

#### Robust credit assessments

##### As responsible lenders, we will:

- Tell customers that a payday or short-term loan should be used for short-term financial needs and is not appropriate for long-term borrowing or if the customer is in financial difficulties.<sup>(1)</sup>
- Check whether the loan is suitable for the customer, taking account of their circumstances.
- Make sure that all loan applications go through a sound, proper and appropriate affordability assessment and credit vetting which includes the customer's ability to repay the loan in a sustainable manner. This assessment may look at a combination of:
  - the amount of credit requested;
  - income;
  - age;
  - the ability to repay the loan in a sustainable manner;
  - how financial affairs have been handled in the past;
  - information from credit reference agencies;
  - the customer's personal circumstances and any changes in the future the customer has told the lender about;
  - the results of credit assessment techniques: for example, credit scoring; and
  - information supplied by the customer, including proof of identity.

The lender will explain in general terms what types of information are considered in making a decision, if the customer asks for this.

The lender will not provide a payday or short-term loan if the customer has told the lender they are in financial difficulties or the credit assessment indicates that the loan would not be repaid in a sustainable manner.

### 5.

#### Increased transparency about loan repayments to help customers make better informed decisions and making sure that continuous payment authority is not used inappropriately for those in financial difficulty.

##### Lenders will:

- Explain clearly how continuous payment authority works and how payments (including the possibility of part-payments) will be deducted from the customer's bank account. This will help the customer decide whether this type of repayment is acceptable to them before they take out the loan.<sup>(2)</sup>
- Make clear to the customer their rights to cancel a continuous payment authority before they take out a loan. The lender will remind the customer that if they cancel, they will still owe any outstanding debt and will need to provide an alternative method of repayment on the due date to avoid going into default. The lender will give the customer a contact point should they want to cancel the payment authority directly with the lender.
- Always notify the customer by email, text or phone at least 3 days<sup>(3)</sup> before attempting to recover payment using continuous payment authority on the due date. This notice will ask the customer to contact the lender if they are in financial difficulty and cannot repay.
- Send the customer further regular reminders when a continuous payment authority is being used and where they have not made repayment on the due date. These reminders will include a contact point so the customer can tell the lender if they are experiencing repayment problems or if they want to cancel the payment authority.
- Repay any amounts the lender has taken via the continuous payment authority where this has caused the customer to get into financial difficulty, and they have told the lender about this.

*(1) (2) This information will be included in the lender's adequate explanation under section 55A (2) of the Consumer Credit Act 1974*

*(3) Where contact is being made by telephone, this timeframe will be influenced by the customer actually receiving the call*

# Payday and Short-term Loans

## Key Commitments

### 6. Help for customers in financial difficulty

#### If the customer is in financial difficulty, lenders will:

- Deal with the customer sympathetically and positively and do what they can to help the customer manage what they owe. This may include making new arrangements about how the customer will pay off the debt. In doing so, the lender will consider other debts owed.
- Freeze interest and charges if the customer makes repayments under a reasonable repayment plan or after a maximum of 60 days of non-payment.
- Not contact the customer or take any action to recover the money owed for 30 days, if the customer is making a genuine effort to agree a repayment plan using either a debt-counselling organisation or a 'self-help' approach (for example, the customer is suggesting a repayment plan). If the customer or their adviser provide the lender with clear evidence that real progress is being made in reaching a repayment plan, but work has not yet concluded, the lender will extend this 'breathing space' for an additional 30 days.
- Tell the customer about free and independent debt-counselling organisations. These include: Citizens Advice, the Consumer Credit Counselling Service, National Debtline or the Money Advice Service.
- Not allow you to borrow further from the lender until all outstanding loans with the lender have been repaid.
- Deal with people whom the customer has asked to act on their behalf, with the customer's authority, unless those people behave unreasonably.

### 7. Data protection and marketing

#### Lenders will:

- Follow all relevant privacy and data protection law.
- Not reveal information they hold about the customer unless:
  - they have the customer's permission to do so;
  - they have to by law;
  - they have a public duty to do so; or
  - there is a good reason for the lender to do so (for example, legal reasons such as fraud).
- Not specifically target their marketing on groups of people known to be financially vulnerable or credit-impaired.

### 8. Effective compliance monitoring

Lenders are committed to complying with the Good Practice Customer Charter for Payday and Short-term Loans and this Addendum.

Lenders will provide an annual statement of compliance to their trade association and lenders will also be subject to periodic independent compliance visits.

Failure to comply with the Charter and this Addendum could result in lenders being subject to:

- Written warnings, or
- Recommendations as to future conduct.

*Continued overleaf >*

# Payday and Short-term Loans

## Key Commitments

The most serious punishment for not keeping to the Charter and Addendum would be expulsion from the trade association.

Quarterly meetings will be held between the Office of Fair Trading and the trade associations to discuss areas of concern in the payday and short-term credit markets and potential solutions.

The trade associations will also meet quarterly with consumer groups to discuss market practice.

### 9. Rigorous complaints procedures

**When the customer takes out a loan, the lender will tell them about their complaints-handling procedure. Lenders will do this:**

- in writing – at or immediately after the point of sale;
- by giving the customer a copy of it, if asked to do so; and
- by giving the customer a copy of it, if they send us a complaint.

This information will also be available on the lender's website or at their business premises, where appropriate.

If the customer wants to make a complaint, they should contact the lender first using their complaints procedure. The lender will acknowledge the complaint within five days of it being received by the lender's Complaints Department. If the lender needs to investigate the complaint further to respond fully, the lender will tell the customer and keep them regularly updated.

If the customer wants to make a complaint to the trade association about the lender's conduct under the Charter or this Addendum, the lender will give the customer their contact details. As a first step, the trade association will refer the complaint to the lender's Chief Executive (or a nominated representative) who will make sure the lender investigates it and send a response to the customer.

If the customer is still not satisfied, the trade association will try to help the customer reach an agreement up to the time the matter is resolved. The customer may also refer the complaint to the Financial Ombudsman Service and the lender will give the customer their details.

Further information on how we deal with complaints is available in the industry Codes of Practice.

### 10. Updates and twelve month review

A review of the effectiveness of the Charter and this Addendum will be undertaken in Summer 2013.

Before then, the trade associations may amend or add to the Charter and Addendum in order to respond effectively to any recommendations which emerge from the Office of Fair Trading following their review of payday lending compliance and consultation on the misuse of Continuous Payment Authority, as well as industry discussions on continuous payment authority.

#### Further Information

If you want more information about this Charter and the new rights and protections for customers it contains, you can find this at:

**Consumer Finance Association** [www.cfa-uk.co.uk](http://www.cfa-uk.co.uk)

**Consumer Credit Trade Association** [www.ccta.co.uk](http://www.ccta.co.uk)

**BCCA** [www.bcca.co.uk](http://www.bcca.co.uk)

**Finance & Leasing Association** [www.lendingcode.org.uk](http://www.lendingcode.org.uk)