High-Cost Credit:

Citizens Advice response to CP18/12 - rent-to-own, home-collected credit, catalogue credit and store cards

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Summary

High-cost credit products can be useful for consumers - they provide flexibility, allow people to make purchases that they can't afford to pay for upfront and are one of few credit options available to those on a low income.

These credit products are, however, often used over an extended period of time - and can lead to exorbitant costs for consumers. Rent-to-own, doorstep and catalogue credit are all associated with increasing debt levels and worsening credit scores, and can be an entry point into a spiral of unaffordable debts.

Our clients who use these products are largely on a low income and are often vulnerable - they are disproportionately likely to have a disability or long term health condition, are un- or underemployed, or are single parents. As such, we think it's vital that these consumers have proper protections to ensure that the credit available to them is helpful, rather than detrimental to their wellbeing.

Extended warranties on rent-to-own goods.

Alongside the FCA's proposed cap on the cost of rent-to-own goods, the point of sale ban on extended warranties would be a very positive development. The two day deferral period is insufficient, however, to prevent customers being pressured into purchasing often unnecessary extended warranties. We propose that the FCA extend this period to at least two weeks - a common cooling off period for other credit products.

Home-collected credit

The FCA's proposals correctly identify some of the problems with home-collected credit - that people find themselves in a cycle of debt and often repeatedly refinance loans. But the nature of home-collected credit means these rules will be difficult to implement - and won't address the substantive issue with doorstep loans - its excessive cost.

A cap would be a more effective measure to control the costs of doorstep loans. Similar to the cap on the cost of high-cost short term credit, this would:

- Limit the number of times each loan can be refinanced
- Ensure the customers never pay back more than twice what they borrowed.

We estimate that, were existing loans to be priced down to this cap, it could save consumers up to £123 million on up to 540,000 loans.[1]

Catalogue Credit

The FCA's proposals to increase information about Buy Now Pay Later deals will be helpful, since many customers don't understand the terms of these offers. Unfortunately, this measure doesn't go far enough. Catalogue credit providers should not be permitted to backdate interest after the offer period.

We agree with the FCA's move to increase the consistency of rules on persistent debt across catalogue, store and credit cards. But it remains concerning that consumers will continue to be given credit limit increases without securing their explicit consent.

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[1] Citizens Advice, Doorway to Debt, March 2018

Rent-to-Own

Background

Rent-to-own products are useful for consumers - they allow people on low incomes to purchase goods that they cannot afford to pay for upfront. Our clients who use rent-to-own stores value the convenience and often feel that there are a lack of alternatives when they're in need of dom

However, action is necessary to prevent people paying over the odds for rent-to-own goods. At present, rent-to-own goods are excessively expensive. Interest rates can be as high as 99.9%, and missed payments are subject to fees of £10-12 per occasion. More generally, rent-to-own goods are a bad deal - with high markups on prices, costly delivery charges, and expensive add ons, such as aftercare and insurance.

A total cost cap would be the most effective way to prevent these costs spiralling. A total cost cap would limit the damage that rent-to-own goods can do to people's financial situation in two ways. A limit on the total cost cap would:

- **Make rent-to-own products more affordable** - by limiting the upfront cost of the good, installation and delivery fees, and the level of interest charged, a total cost cap would reduce the outstanding levels of debt held by rent-to-own clients.
- **Reduce the cost of late payment fees** - nearly 60% of rent-to-own clients are charged late payment fees. These charges commonly amount to £72 over the course of a loan.[2]

The cap on rent-to-own to own goods must be clear to consumers and robust to work-arounds by rent-to-own providers. It should include a 100% total cost cap on the following components:

- A cap on the upfront price of the good - tied to RRP or a 'reasonable' price benchmarked to high street providers which sell the good upfront.
- Benchmarked delivery, installation and recycling costs.
- A £15 cap on default charges per agreement per year.

An additional cost associated with rent-to-own goods is the use of extended warranties. These are purchased by approximately 70% of rent-to-own customers,[3] and drive the cost of the item up by an average of 20%.

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[2] 58% of rent-to-own customers have paid one or more late payment fee. The median number of payments missed by rent to own customers was 3 over a three year period.
[3] FCA, High Cost Credit Review: Consultation on rent-to-own, home-collected credit, catalogue credit and store cards, and alternatives to high cost credit, May 2018, p. 17.

A. We agree with the FCA's proposal for a point of sale ban on extended warranties. The two day deferral period is insufficient, however, to prevent customers being pressured into purchasing often unnecessary extended warranties.

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

Yes, extended warranties should be banned at the point of sale. These warranties are a significant cost (amounting to an average of 20%) on top of already costly rent-to-own agreements. The FCA's research with PWC suggests that the cost of warranties is often not figured into the total cost of a rent-to-own good - either by consumers or by rent-to-own providers.[4] That roughly 70% of consumers purchase this additional warranty suggests that its discussion at the point of sale is highly persuasive for consumers.[5]

The appeal of the extended warranty is increased by the fact that customers do not own the product until after making the final payment, leaving them liable if the good was damaged. Unfortunately, however, many customers do not know that many of the protections provided under the extended warranty would be available under the manufacturer's warranty.

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

The two day deferral period is too short for customers to be re-contacted by their rent-to-own provider. A number of rent-to-own goods will take two-three days to deliver a rent-to-own good. If the deferral period is only two days, there is a risk that the delivery of the item would be used as an opportunity to pressure customers into purchasing an extended warranty.

All consumers should be given a 14 day cooling off period after purchase in order to shop around for aftercare and insurance. A two week cool off period is standard practice across insurance and consumer credit products, and would prevent rent-to-own customers being canvassed for a warranty during the delivery of the item.

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

Rent to own providers should make clear how their extended warranty is different from the manufacturer's warranty. The additional cost of the manufacturer's warranty as a total sum over the lifetime of the agreement should also be clearly stated. Many rent-to-own consumers focus on the weekly cost of agreements rather than the total cost of the product. A clear demarcation of the total cost of the extended warranty in comparison with the manufacturer's warranty and other market

[4] PWC, Usage and Experiences of High Cost Credit, 2018, p. 33.

[5] FCA, High Cost Credit Review: Consultation on rent-to-own, home-collected credit, catalogue credit and store cards, and alternatives to high cost credit, May 2018, p. 17.

alternatives would be likely to reduce the tendency to purchase overpriced warranty products.

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

No

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

We welcome the introduction of the point of sale ban three months after the introduction of the new rules. We would strongly recommend that the new rules were in place for the introduction of the rent-to-own cost cap to ensure that rent to own providers do not inappropriately redistribute costs in the wake of the total cost cap.

Home-collected credit

Background

Between 2017 and 2018, Citizens Advice helped an estimated 30,000 clients with home credit debts. This makes it the form of high-cost credit we most commonly see amongst our clients.

Home-collected credit is a useful resource for consumers. It provides a flexible and widely available means of accessing credit, and does not carry late payment fees - unlike other forms of high cost credit.

Despite this, home-collected credit is highly expensive - with interest rates up to 1557% - and is often associated with repeated cycles of borrowing - which makes it hard for people to escape persistent debt. We recently looked at the profiles of our clients with home credit debts, and found a number of concerning common characteristics.

- **Home credit clients are disproportionately likely to be vulnerable.** Clients are typically female, out of work, on low incomes, and living in social housing. Nearly half (48%) have a long-term health condition or disability, compared with 18% of adults in England and Wales.[6]
- **These clients are likely to be over-indebted.** Half of home credit clients are in arrears on council tax and 43% are behind on water bills. Nearly 2 in 5 (37%) hold catalogue credit debts while a third (32%) have credit card debts.[7]
- **Home credit borrowing often exacerbates money problems.** The FCA recently found that credit scores of home credit users deteriorated significantly between 2015 and 2017. It also showed that the level of debt held by home credit users has been rising as a proportion of their income - from 10% in 2015 to 22% in 2017.[8]

Our research highlights three key factors which lead to poor outcomes for consumers:

1. **Some clients are offered loans which are unaffordable.** Citizens Advice regularly sees cases where clients who are already struggling to keep up with repayments are provided with additional credit.
2. **Customers are taking on multiple loans.** A third (34%) of home credit clients had outstanding debt on two or more home credit loans.
3. **Loan refinancing is causing costs to spiral.** We estimate that customers can end up paying more than double what they originally borrowed in interest on up to 490,000 home credit loans.[9]

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[6] Citizens Advice, Doorway to Debt, March 2018, p. 2.
[7] Citizens Advice, Doorway to Debt, March 2018, p. 6.
[8] FCA, High-cost credit: Feedback statement, July 2017
[9] Citizens Advice, Doorway to Debt, March 2018.

A. The FCA's proposals correctly identify some of the problems with home-collected credit. But the nature of home-collected credit means these rules will be difficult to implement - and won't address the substantive issue with doorstep loans - its excessive cost.

Q8: Do you have any comments on our draft guidance on interpretation of Section 49 of the Consumer Credit Act?

The draft guidance on the interpretation of Section 49 of the Consumer Credit Act is a significant improvement. Evidence from our advisers strongly indicates that agents use collection visits to canvass for refinancing offers or additional loans, as in the case study below.

Case study: Vanessa

Vanessa came to Citizens Advice for help with managing her money because she had incurred court fines and was having difficulty budgeting in order to balance payment of these against repaying other debts. Whilst Vanessa was in the process of working with Citizens Advice to address her outstanding debts and arrange an affordable repayment plan for her debts, her adviser discovered that she and her husband had taken out a new loan from their home credit provider as they made their last payment on an existing debt.

They explained that they had borrowed again in order to buy a new tumble drier and to have money for Christmas presents. Despite the fact that Vanessa was already struggling to keep up with her existing debts, she was allowed to borrow additional money from a home credit lender.

Whilst their original loan was for £500, the cost of interest meant that they owed a total of £1092 - equivalent to weekly payments of £21 over the course of the year. Vanessa and her husband will now have to pay back more than double what they originally borrowed.

Unfortunately, it's not clear how the FCA would monitor firms to ensure that clients were not being canvassed informally. An important aspect of home credit lending is that payments are collected in person from customers' homes, making it hard for firms or the regulator to retain oversight of the financial transaction.

The incentives on home credit agents need to change - agents often earn commission on the loans that are purchased from them. Evidence submitted by Citizens Advice advisers shows several cases where customers who were struggling to keep up with weekly payments were pressured by lenders to refinance their loan rather than agreeing an affordable repayment plan. We think that any change in the guidance on Section 49 should be accompanied by a change to the incentives model for home credit agents. Agents should not be incentivised to canvass for loans.

It is unlikely to address the 'impulsive' appeal of a loan when consumers are visited by their home credit agent. Our research has shown that many consumers experience overconfidence bias when it comes to the repayment of loans, even when

their financial position might already be precarious.[10] The temptation of a home credit loan - which often go towards necessary household expenditure or important leisure activities is exacerbated by the informal nature of the transaction.

The changes to the guidance won't significantly affect the 'convenience' of home credit. As the FCA's own research suggests, home credit loans are often 'embedded' within communities, acting as the local 'go-to' option for credit in low income areas.[11] The draft guidance on the Consumer Credit Act will do little to address the appeal of home credit as an easy option for people with few alternative sources of credit.

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

The rules are a step in the right direction - people often do not know that the costs between refinancing and taking out a new loan are different. The rules might encourage some agents to provide greater clarity, and reduce the number of people who refinance where taking out a new loan might be cheaper.

But it's unlikely to significantly affect levels of indebtedness amongst users of home collected credit. This is for a number of reasons:

- **It will be difficult to monitor the implementation of the rules.** As with the interpretation of Section 49 of the Consumer Credit Act, the obligation to explain the difference in cost will be hard to oversee by either the regulator or the home-collected credit firm.
- **Improved explanations will not address the more fundamental issue of financial capability.** At present, there is widespread difficulty understanding the terms of the loan, the FCA's own commissioned research found that:

  > '*While a small number had a rough idea of how much they were due to pay back in total, this was only in cases where a single loan was currently in place. Even in such cases, there was often a discrepancy between the amount given by the customer and the amount written in the repayment book.*'[12]

  Similarly, in a number of instances we encounter clients - with learning difficulties or health conditions - who struggle to understand even the most essential costs of the credit transaction. We remain concerned that home credit firms do not take sufficient account of such vulnerability, leaving often vulnerable people in an increasingly marginal financial position.
- **Refinancing might appear more attractive in the short term, as it allows consumers to keep low weekly payments.** For some consumers, refinancing a loan may remain a more attractive offer - as they will need additional credit - and wish to keep weekly payments low. In this instance, clients will find themselves paying off their loan over a longer term - and at a higher cost.

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[10] Citizens Advice and the Behavioural Insights Team, Applying Behavioural Insights to Regulated Markets, 2016.
[11] PWC, Usage and Experiences of High Cost Credit, May 2018, p. 13.
[12] PWC, Usage and Experiences of High Cost Credit, May 2018, p. 13.

- **Clients are often in urgent need of credit - this leaves them less likely to make an informed choice.** The FCA's own research suggests that few consumers using home credit perceive themselves to be securing a good deal.[13] Instead, most consumers feel that home-collected credit is their only available option or are in need of an instant source of finance. This need for convenience and easy access may operate in tension with a strong understanding of the terms of a credit arrangement.
- **Better explanations will do little to address the cycle of indebtedness associated with home-collected credit.** Citizens Advice casenotes show examples where clients took out new loans with a home credit provider when they got into financial difficulty because they had an existing relationship and felt confident they would be accepted for additional credit. We also see cases where customers take out a new home credit loan immediately after making the final payment on an existing loan. This relationship provides home credit customers with easy access to credit. However, it also means there is very little pressure on home credit lenders to support people to enter into more sustainable forms of borrowing.
- **Improved explanations won't address the shortcomings of current affordability assessments.** We continue to encounter a significant number of clients who are allowed to refinance their loans despite being in serious financial difficulties, as demonstrated in the case study below.

Case study: Nigel

Nigel came to Citizens Advice because he was struggling with unaffordable debts totalling nearly £20,000. Nigel is the lone parent of an eight-year-old child, and has an ongoing mental health condition. As he works part time and has an income of under £1000 a month, he is having difficulty keeping up with his debt repayments. Nigel has a loan with a home credit provider totalling just over £1000. Despite his financial difficulties, his lender has refinanced his loan multiple times. According to Nigel, his lending agent had not questioned his financial situation when refinancing his loan.

B. The FCA should introduce a cap on the cost of home-collected credit loans

Introducing a cap on home-collected credit - similar to the FCA's cap on the payday loan market - would provide consumers in that market with two key benefits:

- **Limiting the number of times each loan can be refinanced**

Payday loan customers are only able to refinance loans twice,[14] unless the purpose is for forbearance.[15] Some protection from refinancing already exists for home credit

[13] PWC, Usage and Experiences of High Cost Credit, May 2018, p. 13.
[14] CONC 6.7.23
[15] CONC 6.7.17 where the result is that no interest accrues at any time in relation to that agreement or any which replaces, varies or supplements it from the date of the refinancing and either: (a) there is no charge in connection with the refinancing; or (b) the only additional charge is a reasonable estimate of the actual and necessary cost of the additional administration required in connection with the refinancing.

customers - lenders should only let consumers refinance where it it wouldn't make repayments unsustainable[16] and where it is in a customers best interest.[17]

The protections for payday loan customers are more complete. In addition to limiting refinancing to twice per loan, payday loan providers cannot refinance a loan if that might be harmful to the consumer,[18] or if refinancing the loan means the cost of borrowing would be more than twice the original sum borrowed.[19]

Restricting the number of times home credit loans can be refinanced would protect borrowers from spiralling costs and help prevent them from getting trapped in persistent debt.

- **Ensuring consumers never pay back more than twice what they borrowed.**

Currently payday loan customers have three protections from high charges. They are:

- A total cost cap which means people cannot repay more than the amount they borrowed in interest and charges.[20]
- An initial cost cap - which means interest charges cannot be more than 0.8% per day.[21]
- Lenders can only charge a maximum of £15 in additional fees and charges.[22]

As we have shown in our report on doorstep loans,[23] home credit consumers - who don't have these protections - can end up repaying more than twice what they borrowed. Currently, that is largely the result of refinancing.

While refinancing is the main cause of the cost of home credit loans exceeding twice what people borrowed. Limiting refinancing alone would create a risk that lenders would simply shift the high-costs on to borrowers in other ways - for instance through late payment fees or higher initial interest rates. The full package of protections from high-prices in the payday loan market is effective because it limits the ability of lenders to shift the cost of borrowing.

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[16] CONC 6.7.18
[17] R01/04/2014(2)
[18] CONC 6.7.21
[19] CONC 5A.2.10
[20] CONC 5A.2.2
[21] CONC 5A.2.3
[22] CONC 5A.2.14
[23] Citizens Advice, Doorway to Debt, March 2018.

Catalogue credit

Background

We helped 23,170 people with catalogue credit debts each year. This is the second most common high-cost credit issue brought to Local Citizens Advice.

Catalogue credit enables people to spread the cost of purchases across a number of months, often with attractive 'interest-free' periods or buy-now pay-later deals. But for a significant number of customers, this form of credit can be difficult to stay on top of.

- **Many people struggle to meet the cost of repayments.** The most common problem faced by our clients with catalogue credit debts is dealing with debt repayments. This accounts for nearly 60% of the catalogue problems that are brought to us.
- **Catalogue borrowing is more prevalent amongst vulnerable people.** 37% of people with catalogue credit debts have a mental health condition and nearly half (45%) have a disability or long term health condition. 55% live in social housing and one in three are single parents.[24]
- **People with catalogue credit debts tend to have have complex debt problems.** Roughly half of people with catalogue credit debts come to Citizens Advice with other debt problems. Most commonly, these include unsecured personal loan debts, council tax arrears and debt relief orders.[25]

We believe there are a number of reasons for this:

- **The widespread use of catalogue credit is not matched by a good comprehension of the product.** As the FCA's own research has highlighted, catalogue offers are often viewed as a less expensive and less stigmatised form of lending. A number of borrowers did not consider purchasing items through catalogue credit as a form of borrowing at all.[26]
- **Buy Now Pay Later deals and 'interest-free' periods are particularly poorly understood by consumers.** Often people don't realise that interest can be backdated on these deals. This can leave people with unexpectedly large bills - sometimes costing more than twice the original amount they borrowed.
- **Catalogue credit often uses credit limit increases as 'rewards' to incentivise higher spending**. In one quarter, 75% of catalogue credit accounts were given at least one credit limit increase. Our research on credit limit increases in the credit card market found that at least a third of customers who receive higher credit limits increase their spending as a result.[27] This figure is likely to be higher amongst catalogue credit users who might have access to few sources of credit.

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[24] Citizens Advice client data, June 2018.

[25] 20% of clients with catalogue credit debts have unsecured personal loan issues, debt relief orders and council tax arrears issues respectively, Citizens Advice client data, June 2018

[26] PWC, Usage and Experiences of High Cost Credit, May 2018, p.2.

[27] Citizens Advice, Credit Limit Increases Briefing, October 2017

A. Increasing information about Buy Now Pay Later deals doesn't go far enough. Catalogue credit providers should not be permitted to backdate interest after the offer period.

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

Clearer explanations about the total cost of interest and how it will be charged at the end of the BNPL period will be an improvement for consumers. As the FCA's research has shown, there is widespread confusion about how interest is charged and the effect of 'interest free' periods. In particular, BNPL deals rely on consumer tendencies towards over-confidence about their financial situation - with a significant number of people treating the payment as 'something which would work out in the end'.

But this change does not go far enough - catalogue credit providers should not be permitted to backdate interest on these offers. Instead, genuine BNPL deals should commence charging interest only after the completion of the offer period. This would increase transparency for the consumer and prevent consumers who are facing financial difficulty or unaware of the contract terms being faced with 'shock bills'.

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

A reminder to pay off BNPL deals must be accompanied by a clear explanation that interest will be backdated after the completion of the offer. As we have shown, BNPL deals are poorly understood by consumers. An additional reminder of the need to pay off balances on offers will help some borrowers to avoid the additional interest charges associated with missing the payment deadline.

But prompting customers will not have any effect on those customers who are not in a position to repay the credit which is outstanding. To allow catalogue credit providers to backdate interest on these offers penalises consumers who are most likely to already be in a financially precarious position.

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

Removing the backdating of interest on BNPL deals would do away with the need to prompt consumers about the offer period. If this is not pursued by the FCA, it should ensure that firms introduce prompts which occur at regular intervals throughout the BNPL period. THe exact time period of these prompts does not need to be specified Although, the FCA should ensure that providers are supervised on the impact of their alerts. If the impact is found to be insignificant, the implementation of these rules should be reconsidered.

B. Increasing the consistency of rules across catalogue, store and credit cards is an improvement, but customers shouldn't be given credit limit increases without explicit consent.

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

Increasing the consistency of regulations across forms of revolving credit will provide additional clarity for consumers. As the FCA have identified in its consultation, there is some overlap between the problems associated with store and catalogue credit and other forms of revolving credit. Aligning regulations across these products should support consumers to know their rights and provide clear guidelines to creditors on how to treat customers.

People shouldn't receive credit limit increases without explicit consent. Our research found that 85% of people think credit limit increases shouldn't be given without customer consent.

There are a number of reasons why credit limit increases should be limited to those who have clearly consented to them:

- **People who receive credit limit increases are often in financial difficulty, this is more likely to be the case for catalogue credit customers.** Our research on credit limit increases in the credit card market found that people who receive credit limit increases are more likely to be struggling than other credit card customers. Catalogue credit customers are often in a difficult financial situation - with a median debt to income ratio of 28%.[28]
- **People who receive credit limit increases are highly likely to increase their spending.** Our research found that roughly 1 in 3 people increased their spending in response to receiving a credit limit increase. This tendency is particularly acute amongst people who are already in financial difficulty, with 59% of those who show signs of financial distress, such as taking out a payday loan, using doorstep lenders or cutting back on food to stay on top of their finances.[29]
- **Relying on consumers to opt-out of credit limit increases runs against the grain of usual consumer behaviour.[30]** The opt-out process on credit limit increases for catalogue credit relies on a proactive engagement on the part of consumers to refuse what are often considered 'tempting' opportunities to have access to additional credit.

[28] FCA, High Cost Credit Review, May 2018.
[29] Citizens Advice, Uninvited Credit Limit Increases Briefing, October 2017.
[30] Behavioural economics highlights the strong tendency of consumers to stick with the default option when presented with a range of choices. For Citizens Advice's take on this, see Citizens Advice and the Behavioural Insights Team, Applying Behavioural Insights to Regulated Markets, May 2016

With three quarters of credit limit increases initiated by credit card companies and low demand from customers, we think credit, store and catalogue providers should be required to secure consent from all customers before raising limits.

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

Yes, extending the rules on credit limits and interest rates for people who face financial difficulty will be an improvement for catalogue credit users. Our advisers do record occasions on which clients in financial difficulty receive credit limit increases from catalogue credit providers. Despite, this we were surprised by the extent of catalogue credit limit increases which the FCA uncovered - with 7,800 receiving limit increases despite having missed two or more payments.

As our client data and the FCA's research has shown, people who use catalogue credit are more likely to be vulnerable and face financial difficulty than other consumer credit users. On this basis, it is concerning that people are finding themselves extended ongoing lines of credit - which it is highly likely that they will struggle to pay back.

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

The FCA's definition of financial difficulties 'Where a consumer is two or more payments in arrears, or has agreed a repayment plan, or is in serious discussion with a firm which carries out debt counselling with a view to entering into a debt arrangement plan and the firm has been notified of this fact.'

This definition for financial difficulties appears appropriate to ensure that clients who might face some level of financial difficulty do not receive unsolicited credit limit increases.

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

Yes, the ongoing supply of credit lines to people who experience little in the way of affordability checks appears extremely risky.

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

We agree that there should be additional rules on early intervention in the catalogue credit sector. The FCA should build on those by providing clearer guidelines to firms about when and how to intervene if a customer appears to be struggling in a wider range of circumstances.

One possible example of this could be a notification or verification option for people who are accruing high balances within a short space of time. Money and Mental Health Policy Institute have undertaken research into the spending tendencies when people are experiencing mental health difficulties - 93% of those surveyed increase their spending when they're unwell. MMHPI's research into catalogue credit identified it as

particularly difficult for people who find it difficult to manage their spending, with the door-to-door distribution of catalogues making it hard for people to self-exclude from this marketing.[31] 37% of our clients with catalogue credit issues have a mental health difficulty, one of the highest incidences of overlap between mental health condition and financial services products.

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

No

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

Extending the rules on persistent debt to credit cards to catalogue and store cards would be an improvement for consumers. Unfortunately, as we have raised in prior consultations, we believe that there are shortcomings in the FCA's definition of 'persistent debt'.

The definition appears to capture one sub-set of customers who are least able to pay down their debt on one particular long-term credit card. However, it does not account for customers who may be experiencing persistent debt through other means. This includes customers who hold debts held across multiple cards. Where customers may fall just outside of the proposed definition they may still be paying substantially high rates of interest, often in excess of high-cost credit products which are capped. Many of these customers may also be doing so as a result of irresponsible lending or inducement by a firm to increase a credit limit beyond their means.

The proposed definition of persistent debt should be revised to a 12 month period, with a second intervention after a following 12 months. This would allow for seasonal variations in expenditure and repayments to be captured over the course of a year, while allowing for interventions to occur at an earlier stage (as the first phase of persistent debt interventions involve minimal mandatory changes to a customer's behaviour).

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

Yes

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

For simplicity for consumers the catalogue credit remedies should align closely with remedies in other markets. The 3 to 4 year across markets gives clarity to consumers and providers/

[31] Money and Mental Health Policy Institute, In Control, July 2016

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

No

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

No

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