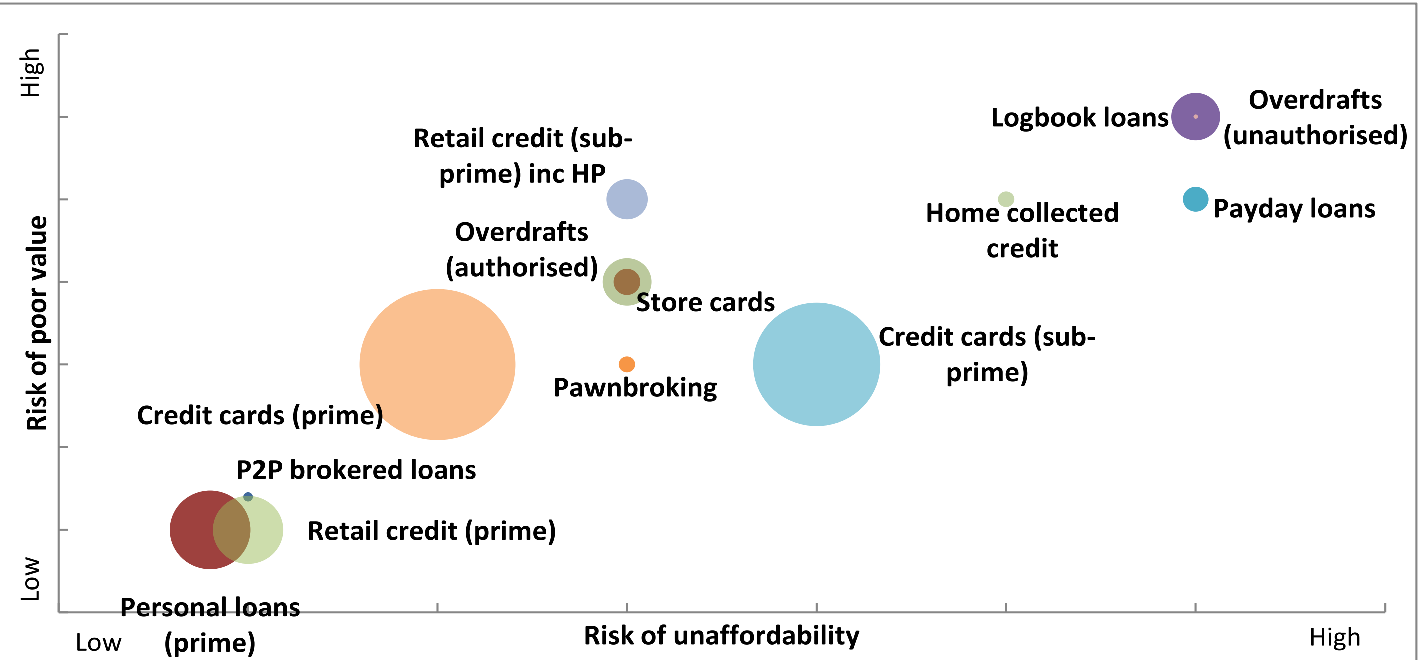
FCA regulation of payday lending
Nadege Genetay
23 April 2014

Consumer Credit

Overview:

1. A proportionate approach
2. Better regulation
3. Improving standards in payday lending

1. A proportionate approach: higher-risk firms (lenders)



Source: FCA qualitative research

- The above graph indicates the risk that a consumer of a product can not afford a loan against the risk of poor value from that loan.
- The size of the bubble is proportional to the gross lending estimates for the sector.
- Estimates will vary as we do more work and gather better information.

2. Better regulation: the gateway

- Firms had to register for Interim Permission by 1 April.
- New firms can now apply for authorisation.
- Firms with Interim Permission asked to apply for authorisation over the next two years.

2. Better regulation: making sure firms meet our standards

Proactive	Event-driven (reactive)	Issues and products
• Contact with all firms – frequency depends on risk. • Judgement based.	• Identify issues ourselves or through stakeholders. • Firms have to tell us when problems arise.	• 'Thematic work'. • Can lead to new rules, guidance or advice for consumers. • Public outcomes.

Examples of sanctions we can impose:

- **'Variation of permission'.**
- **Fines.**
- **Order consumer redress.**
- **Fine or ban regulated individuals.**

2. Better regulation: working with Trading Standards

- We recently signed a Memorandum of Understanding with the national representative bodies – see our website.
- We will share information where we are able to.
- FCA authorisation staff are sending out a survey – tell us if firms don't meet our 'threshold conditions'.

3. Improving standards in payday lending: reduce unaffordable lending

Affordability assessments

- Our rules require all firms to assess affordability.
- This assessment will need to take into account other financial commitments.
- We will look at firms' affordability assessments.

Real-time data-sharing

- Data-sharing in the UK is through Credit Reference Agencies (CRAs).
- Recently CRAs Callcredit and Experian announced products that will update credit information daily or more than daily.
- We continue to talk to the industry and CRAs. If we are best placed to act, we will.

Limiting use of CPAs

- Lenders use 'Continuous Payment Authority' (CPA) to repeatedly access bank accounts.
- New rule means lenders can only use CPA twice before contacting the customer.
- We've banned use of CPA to take part payment.

Limiting use of rollovers

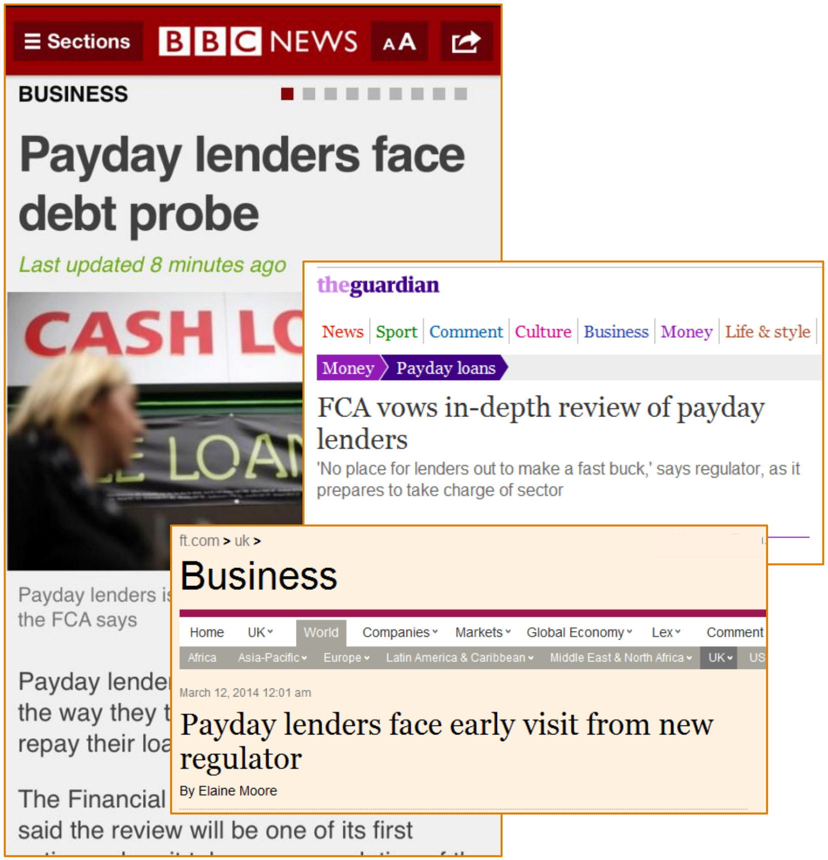
- Rolling over loans means lenders don't need to be concerned about whether the customer can pay back the whole loan.
- We are capping the number of rollovers at two.
- Loans should not be rolled over if a firm knows it isn't in a customer's interests.

3. Improving standards in payday lending: increase borrowers' awareness of risk

Warning:
Late repayment can cause you serious money problems. For help, go to moneyadviceservice.org.uk

- This warning will appear:
  - on email, text and online now.
  - on other adverts from 1 July.

3. Improving standards in payday lending: better treatment of customers in difficulties



- A review of the way payday lenders treat customers when they experience difficulties repaying their loan.
- We have requested information from a number of firms across the market. We will go out and inspect them and gather a range of evidence including reviews of case files so we can trace what happens to customers.
- We will publish our results in 2015.

3. Improving standards in payday lending: capping the total cost of credit

- Cap on the total cost of credit:
  - Now: research and analysis
  - July: consultation
  - November: publish rules
  - January 2015: implement cap

- Australian example:
  - a maximum up-front fee of 20%.
  - monthly charges are capped at 4% per month.
  - all charges must not exceed 200% of the loan.
  - translates as 1270% APR representative (based on EU calculation methodology).

Thank you