Consumer Credit Association

Promoting high standards of business and consumer relations in the home credit industry

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2 August 2024

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Competition and Markets Authority
The Cabot
25 Cabot Square
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Dear Sirs

HOME CREDIT ORDER
PROVISIONAL DECISION ON REVIEW OF Pt.3, Art.29 AND Pt.1 OF Sch.4 OF THE HOME CREDIT MARKET INVESTIGATION ORDER 2007

On behalf of the UK's home credit industry, the Consumer Credit Association is grateful for the chance to comment on the above Provisional Decision.

We do very much agree with, and welcome, the decision to remove the Price Comparison Website requirements, which were no longer affordable for the sector.

As backdrop, the data (including new robust survey data) shows that the long-term survival of home credit is now probably more important than ever to consumers, and very many would still be using it if the three large companies had not failed.

First, there has been a general collapse in all types of lower-income credit[1], not merely home credit. In parallel, recent robust survey data indicates that there has been striking growth in illegal lending, up from c.300,000 users in 2010[2] to c.3.3 million in 2023[3].

[1] *'Building a non-prime market that delivers for UK consumers'*, Ernst and Young and ClearScore, February 2024.
[2] *'Interim Evaluation of the National Illegal Money Lending Projects'*, for BIS, 2010.
[3] *'Access to credit and illegal lending: the shape of the market is as important as the size'*, May 2024, Fair4All Finance (published on 22 May, the day the Election was announced). The study says:

In other words, the main credit type to which home credit users appear to have moved is illegal, unregulated credit. As one of our members recently observed:

> **Illegal lending rising every day...well all the ex-Provident customers had to go somewhere...Recently had a grown man crying in front of me as he'd just been threatened with having his front door kicked in if he didn't pay.**

Second, the collapse of the three large home credit firms has an undisclosed back story. Some of this has now finally begun to emerge, with FOS comments in a recent Consultation Paper[4] giving a feel for what happened:

> **These [*CMC*] companies can send in significant volumes of cases with little prospect of being upheld or which are poorly presented. This can have a significant impact on our [*FOS'*] ability to help others who have come directly to us and drives up our costs…**
>
> **At its worst, this reduces confidence and brings the system into disrepute; and we are told could cause firms to go out of business due to the financial pressure of having to process so many cases all at once and pay our fees...**
>
> **This present situation cannot be fair for either complainants or respondent firms…**

Third, home credit's 'super-forbearance'[5] characteristic [*which includes a fixed, 'all-in' cash charge*] is still poorly understood. It is, however, uniquely valuable and **our customers routinely deploy it to relieve other financial stresses at nil extra cost**. By contrast, almost every other system - including credit unions and CDFIs - uses credit card-style 'period rate' charging, where extra interest accrues automatically on any miss. Period rate charging potentially **adds to** financial stress.

Fourth, there has been much 'live testing' of CDFI alternatives to home credit over the last few years, seeking to implement ideas for 'more affordable' credit that FCA had floated in its speeches.

Observed outcomes indicate that CDFIs have found it far more challenging and expensive to serve this market than they had supposed.

> *'New survey data covering Great Britain, commissioned for this report, estimates that in the past three years 3.3 million people used, or believe someone in their household used, illegal moneylenders.'*

Fair4All Finance commissioned Ipsos to carry out two surveys, one in January 2023 (sample: 2,547), the other in June 2023 (sample: 1,859). Each survey indicated that 7% of adults (or someone in the adult's household) had used an illegal lender. This equates to c.3.3 million people. Respondents were asked: *'To the best of your knowledge, have you or someone in your household borrowed from an unlicensed or unauthorised informal money lender who charges interest (sometimes known as a loan shark) within the last 3 years, or not?'*

[4] *'Charging Claims Management Companies and other professional representatives - consultation paper'*, FOS, 23 May 2024 at pp.3 and 10.

[5] These are recent examples of home credit 'super-forbearance' in action:

> ***Male customer:*** **customer is a longstanding customer and became poorly before Xmas, losing his job and unfortunately having to have a leg amputated. The agent told him not to worry about his payments, do what he could until his benefits were fully sorted.** [*As per normal, no extra costs, no added interest.*]
>
> ***Female customer:*** **customer enquired about a further loan as she was struggling this month and had also had to borrow off her mother. The agent told her not to worry about our payment, not to take another loan and to pay her mother back. She did make a reduced payment as she was happy with the options the agent offered.** [*As per normal, no extra costs, no added interest.*]
>
> ***Female customer:*** **customer was the victim of a bank scam and unfortunately was unable to make her normal December payment. She was told by the agent not to worry and resume payments when she was fully sorted with her account.** [*As per normal, no extra costs, no added interest.*]
>
> ***Male customer:*** **customer changed jobs during the term of a recent loan and was unable to make his normal monthly payment whilst he waited for his new wages to be received. He was concerned how it would affect his standing with us as he has always made his payments. The agent informed him that it would be ok and to resume his payments when his wages were received, which he has done.** [*As per normal, no extra costs, no added interest.*]
>
> ***Female customer:*** **customer was on the sick from work and received no sick pay. Her private landlord insisted that she pay her monthly rent threatening her with eviction if she did not. The agent told her to miss her loans with us to give her some breathing space. She was so grateful for the agent allowing her to do that and was slightly emotional when the agent told her. Her family have dealt with us for a long number of years.** [*As per normal, no extra costs, no added interest.*]

No other system offers such informal, instant, flexible forbearance. The problem, however, is that because home credit forbearance almost always involves a miss, or misses, officials (in both FCA and FOS) routinely seize on these to 'prove' that a past or future loan to that person is either 'unsustainable' or 'unaffordable'.

For example, CDFI website calculators[6] show that for a 26-week, weekly-repaid loan [*the typical home credit loan*], APRs are 556.1% (Fair Finance), 246.4% (Scotcash) and 180.3% (Street UK). These prices are essentially no cheaper than home credit's, especially once home collection and fixed 'all-in' costs are factored for. Scotcash and Street UK have now ceased trading, and still other CDFIs are seriously impaired.

Separately, CDFI credit retailer, Fair for You, has an *'explicit'* APR of around 50-60% on its goods sales. However its *'implicit'* APR (i.e. which reflects that it can sell its goods at up to roughly twice high street prices[7]) can be over 3,000%.

Fifth, the data shows that, for all social groups, unpredictable events [*job loss, sickness, divorce, unanticipated large expense, etc.*] are overwhelmingly the main cause of debt problems.

It is normal for middle-income consumers to be able to resolve these shocks in various ways [*using savings; using a credit card; borrowing from family*] and so it is rarer for them to need to miss a loan repayment. But if you are less well-off, these options tend not to be there, and you will need to miss more often to cope with these shocks.

Also forgotten is that people from all social groups mostly recover from unpredictable events. They get another job. They get better from illness. And so on.

As far as we know, home credit is the only credit format able to recognise and handle these market realities in ways that are helpful to the customer.

By contrast, CRA systems are, in one sense, highly intolerant of missed repayments because they cannot properly differentiate between what a miss denotes for a person on a lower income and what it denotes for someone on a middle income. That record is also held for six years. Data protection implications potentially flow from all this as well.

This creates enormous difficulties for those on lower incomes because as the 'reach' of CRA systems expands, they increasingly find themselves cut out from access to goods, services and even jobs.

The FCA and FOS are similarly intolerant of misses, routinely seizing on these to 'prove' that a past or future loan a lender has made (or will make) is either 'unsustainable' or 'unaffordable', when in fact the miss may carry a completely different meaning.

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[6] Website data collected May 2022.

[7] See Trustpilot customer comments. For instance:

'I think fair for you is good but just bought my second item and realised just how much they make. TV advertised as 289.99 but upon receipt the same TV is actually 139.99 customers are told its low interest. Upon receipt of a reply from fair for you they are just the financial company its the supplier that sets the prices.' 20 Dec 2020

'In comparison with places such as brighthouse they are excellent regarding interest rates, however I recently learned my purchase retailed at £75... I paid £150 plus interest so just be aware of that before you commit.' 3 Aug 2021

'…most of the items are over priced for example an xbox series s is 250 in all other stores fair for you 399 and that is without the interest added…' 10 Oct 2021

'Just the price of products that could have been bought outright for a third of the cost.' 25 Feb 2023

'As a start FFY really need to consider new suppliers. Dorset Homes are a company like no other. The quality of the sofas/beds and mattresses are appalling they are not made to last and are of poor quality all round. But people are being charged through the roof for them.' 1 Sept 2023

In summary, the UK lower-income credit market is now in an exceptionally serious state. Every intervention has a reaction, and all the data points to this conclusion here.

In economic terms, markets can only exist if contracts can be enforced. FCA and FOS initiatives have inadvertently destroyed enforceability and forced up costs and risks (with knock-on effects into business funding).

We believe this is a major reason why (a) credit access has collapsed and (b) illegal lending has mushroomed to over 3 million users.

Yours sincerely

Phil Carey	Doug Martin
Chairman	Director
Consumer Credit Association	Consumer Credit Association