Consumer Credit Association

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

[Redacted]

11 September 2026

Competition and Markets Authority
The Cabot
25 Cabot Square
London
E14 4QZ

Dear Sir/Madam

CMA Review of the Home Credit Market Investigation Order 2007 - Provisional Decision

We are grateful for the opportunity to comment on the CMA's Provisional Decision of 12 August 2026.

The Consumer Credit Association (CCA) welcomes the CMA's provisional decision to revoke the great majority of the remaining provisions of the Home Credit Market Investigation Order 2007 (the 2007 Order). In this regard, we fully agree with the CMA that the home credit market and the wider regulatory environment have changed very substantially since the Competition Commission (the CC) reported in 2006.

We would, however, respectfully ask the CMA to reconsider its provisional decision to retain Part 5 of the Order concerning early settlement rebates (ESRs).

The purpose of the 2007 Order

The 2007 Order was not introduced as a general consumer protection measure for home credit customers. It instead comprised a package of remedies for a set of identified adverse effects on competition ('AECs') in the home credit market *as it then existed*.

We believe this raises an important matter of principle.

This is because the CC's decision to intervene in ESRs was part of that remedy package. The aim of the package was to tackle prices that CC found—at the time—to be higher than could

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be expected in a competitive market. The CC saw ESR levels as one element of that overall detriment.

The market which gave rise to that finding has now fundamentally changed.

As the CMA notes, five of the six large lenders subject to the 2007 Order have left the market, together with many smaller firms. Provident—then by far the largest firm—was one of the five to exit (and it was Provident data that was very largely deployed in the CC's analysis).

There are, therefore, no national lenders left and home credit sales have, as a result, seen very substantial reductions.

Given all this, the CMA has concluded that the changed circumstances justify removing Parts 2, 4 and 6 of the 2007 Order[1].

We respectfully suggest that essentially **the same question needs to be asked of Part 5: does the competition problem which justified this exceptional intervention—specific only to home credit and to no other lending format—still exist?**

If the answer is no, we cannot see how retaining Part 5 can be justified.

No regulatory vacuum would ensue

We fully understand the FCA's concern to ensure appropriate protection for home credit customers, and we do not question the importance of that objective.

However, removing Part 5 would not take away the statutory right to an early settlement rebate. It would simply mean that home credit agreements would once again fall under the **Consumer Credit (Early Settlement) Regulations 2004** ('the 2004 Regulations') **just as regulated agreements made by all other types of lender currently do**.

Indeed, the 2007 Order functions by modifying the operation of the 2004 Regulations for home credit agreements. For instance, where the 2004 Regulations say *'28 days'*, the 2007 Order, substitutes *'13 days'*.

Should home credit still have to operate under a special regime?

The question is therefore not whether home credit customers should continue to receive ESRs. Plainly they should.

The question is whether, almost twenty years after the Competition Commission's investigation and following the transformation of the market which prompted it, **home credit should remain subject to a special, less favourable, regime for lenders than the generally applicable statutory regime**.

We respectfully suggest that it should not, unless there remains a competition justification for doing so.

Are home credit prices still higher than could be expected in a competitive market?

[1] Part 3 was removed in 2024

In 2006—when the CC reported—the overwhelming view was that home credit prices were higher than could be expected in a competitive market. At the time, however, there was very little to compare those prices with. That is no longer the case.

Since then, we have seen the emergence of payday lending (and subsequently its near-demise). When FCA imposed a price cap on this sector in early 2015, it was set at 0.8% per day. While this appears reasonable at first glance, it equates to an APR of around 1,270%, far higher than the generality of home credit APRs.

More recently, we have also seen the emergence of not-for-profit CDFIs seeking to compete in the small sum, short-term sector. In our original submission to the CMA, we highlighted the rates that some of these organisations have been charging (see Appendix D of that submission). These were very much in the same range as home credit APRs, that is to say, typically between 200% and 600% APR.

This all bears out the correctness of these timeless observations by Professor Clyde William Phelps on the economics of small sum lending. In effect, anyone seeking to make very small, short-term loans will have to charge very high rates:

> **…The social agencies which took the initiative in developing the Uniform Small Loan Law, as well as the legislators who enacted it into state legislation, realized the unavoidable cause and effect relationship between size of loan and percentage rate of charge. Now, as then, very small loans and very high rates inevitably go together. So do small loans and moderate rates. And so do large loans and low rates.**
>
> **This relationship is inescapably true no matter who is the lender – whether commercial bank, industrial or Morris Plan bank, industrial loan company, credit union, or consumer finance company. The smaller the average loan made, the higher must be the percentage rate charged to cover expenses because many of these expenses are the same in dollar amount regardless of the size of the loan...**
>
> *'The social control of consumer credit costs: a case study'*
> Professor Clyde William Phelps
> University of Southern California, 1951

Early settlement and the purpose of 'deferment'

In reviewing all the materials, we have been struck by the degree of uncertainty in some quarters about what the 'deferment' in an ESR calculation is for.

In fact the calculation is a two-stage process. The first is **a mathematical actuarial calculation** which assumes that all the lender's costs (credit checking, rent, staff costs etc.) are spread over the term of the agreement in exactly the same way that interest would be (the actuarial spread).

The second is **a policy decision** as to how to adjust that to reflect the reality that lender's costs do not arise in that way. The 'deferment' is that policy adjustment.

The best explanation of how this all works is by Professor Sir Roy Goode from his text, *'Consumer Credit Legislation'*, which we set out at the Appendix. In that he says:

> **…but the debtor, expecting a rebate which was pro rata to the unexpired period of the agreement, was usually unpleasantly surprised to discover that it was a great deal less. For example, a debtor liable for total charges of £100 on a 24-month contract and settling the agreement after 12 months would no doubt have expected to be allowed a rebate of £56, but the figure quoted to him was more likely to**

> **have been a mere £26, and if the finance house imposed a three-month loading'[2] to allow for the initial costs of setting up the transaction, the rebate would probably have come down to a derisory £15**

He then goes on to say:

> **In short, whereas for the purpose of rate disclosure one is looking at the cost to the debtor, who is not concerned with the makeup of the creditor's expenses, when it comes to rebates it is necessary to have regard to the creditor's position also, for what is now involved is not a mathematical concept of interest but a policy decision as to what is fair to both parties.** [*our emphasis*] **Ideally, the creditor should be reimbursed his direct and indirect costs, leaving the pure profit element to be spread actuarially to produce a rebate figure, but there is no accurate way of calculating either the amount or the accrual of the creditor's costs on a specific transaction, and the complexities involved in any attempt to do so would be almost insuperable.**

Conclusion

We appreciate the careful consideration which both the CMA and FCA have given to the position of consumers who continue to use home credit.

However, as we say above, the ESR calculation deferment is not intended to be a purely pro-consumer or pro-lender device but is instead—as Professor Goode observes—a balancing tool by which fairness to both the lender and the borrower can be achieved.

In the light of that, and in the light of our earlier observations, we respectfully suggest that the proper course is to revoke **Part 5 as well as the other parts**, thereby allowing the Home Credit Market Investigation Order 2007 to fall away in its entirety.

Home credit customers would retain their statutory entitlement to an early settlement rebate. Home credit lenders would simply return to the ESR regime which Parliament has determined should apply generally to all other regulated consumer credit formats.

We therefore respectfully invite the CMA to reconsider its provisional decision and to revoke Part 5 of the Order.

Yours sincerely,

[Redacted]
Consumer Credit Association

[2] Treating the settlement date as three months later than it actually was.

APPENDIX - EXCERPT FROM 'CONSUMER CREDIT LAW AND PRACTICE' BY PROFESSOR R GOODE

Charges as a function of funds in use

[36.41] Early settlement of a credit transaction is a common occurrence in the case of purchase-money credit and usually arises because the asset purchased with the credit is later sold (as in the case of a house) or traded in by way of part-exchange (as with a motor vehicle). Even before the CCA 1974 it was the practice for finance houses, where charges were pre-computed, to allow the debtor a rebate of charges in the event of early settlement[3]; but the debtor, expecting a rebate which was pro rata to the unexpired period of the agreement, was usually unpleasantly surprised to discover that it was a great deal less. For example, a debtor liable for total charges of £100 on a 24-month contract and settling the agreement after 12 months would no doubt have expected to be allowed a rebate of £56, but the figure quoted to him was more likely to have been a mere £26, and if the finance house imposed a three-month loading'[4] to allow for the initial costs of setting up the transaction, the rebate would probably have come down to a derisory £15. But a debtor who was familiar with the concept of interest as a function of funds in use would have been less startled, if no less unhappy, at this outcome, for he would have realised that since interest reduces as the principal diminishes, by far the greater part of the interest is earned in the first half of the transaction period. In other words, the balances of principal outstanding at the end of each payment period failing within the first half of the agreement [*come*] to a total which is obviously very much larger than the total of the balances in the second half of the agreement and thus attracts a correspondingly greater proportion of the total interest. This is clear from Table 6 at para [29.29]. The Consumer Credit (Rebate on Early Settlement) Regulations 1983 adhered to this principle, though its application has become much more complex, as we shall see.

It should be noted that the Consumer Credit (Rebate on Early Settlement) Regulations 1983 were revoked by the Consumer Credit (Rebate on Early Settlement) Regulations 2004. The 1983 Regulations continued to apply to some agreements up to 31 May 2010. They no longer apply. The purpose of section III is to provide the historical background leading up to the Consumer Credit (Rebate on Early Settlement) Regulations 2004.

Suitability of an actuarial spread for rebate calculations

[36.42] We have previously noted that for the purpose of obtaining a completely accurate statement of the effective rate of interest payable by the debtor in an instalment transaction it is necessary to distribute the interest charge over the period of the contract actuarially, that is, in such a way that the ratio of interest charged at the end of each payment period to the principal sum outstanding during that period remains constant throughout the contract. It might seem logical to apply the same distribution for the purpose of computing the rebate for early settlement on the basis that the proper rebate is the amount of interest still remaining to be earned at the date of settlement and the actuarial spread tells us precisely what interest has accrued due up to the end of any given payment period and what still remains unearned. This would be a perfectly valid approach if the creditor incurred no overheads or other expenditure in connection with the transaction (for his income would then be pure interest, or profit, and could properly be subjected to the actuarial rule) or if the spread of costs incurred by the creditor exactly matched the

[3] If charges are not pre-computed but are calculated on the balance from time to time outstanding, the question of rebating does not, of course, arise.

[4] Treating the settlement date as three months later than it actually was.

actuarial spread of income. But this, of course, does not happen. The creditor's costs are not distributed according to some neat mathematical formula, but depend on the nature and timing of a vast range of different outlays, each of which has its own time pattern. For example, dealers' commissions, legal costs, survey fees, in connection with the setting up of the transaction are non-recurrent and are incurred at the outset; wages, rent and other overheads are spread over the whole period of the contract but are likely to rise during that period because of inflation; and defaults, terminations and repossessions, followed by proceedings to enforce payment, attract expenditure at a later stage of the transaction the timing of which is to a considerable degree outside the creditor's control.

[36.43] In short, whereas for the purpose of rate disclosure one is looking at the cost to the debtor, who is not concerned with the makeup of the creditor's expenses, when it comes to rebates it is necessary to have regard to the creditor's position also, for what is now involved is not a mathematical concept of interest but a policy decision as to what is fair to both parties. Ideally, the creditor should be reimbursed his direct and indirect costs, leaving the pure profit element to be spread actuarially to produce a rebate figure, but there is no accurate way of calculating either the amount or the accrual of the creditor's costs on a specific transaction, and the complexities involved in any attempt to do so would be almost insuperable.