

Policy Updates

As part of our commitment to communicate with visitors to our website on current issues in the area of public policy, we will be focusing on one or two topics each time. We have included here our position statement on the issue of whether it is appropriate and helpful to introduce a cap on interest rates. We also have included the text of the submission Keith Tondeur made to the Competition Commission into the Store Cards market.



Background

Many lenders (often referred to as 'sub-prime lenders') lend money at higher rates of interest. Reputable sub-prime lenders do so in order to cover the costs of collecting repayments which are higher because it often involves doorstep collecting. Other less reputable lenders and those on the fringe of legality are far less scrupulous and accompany extortionate interest rates with intimidation and are generally very unpleasant.

High Street lenders (the main 'clearing banks') offer unsecured lending (e.g. personal loans etc) at lower rates of interest but often impose stiff penalties and charges if the borrower falls behind with payments. Often such lenders will offer relatively expensive insurance policies that offer some protection if the lender's circumstances change and they get into difficulties making payments.

Credit Action has consistently called for much clearer explanations to borrowers and potential borrowers of both the risks of borrowing as well as the benefits. We also are calling for much clearer labeling of the basic terms of taking out a loan.

Credit Action believes that credit is here to stay and can be very useful to people when used wisely and is informed by an approach which encourages people to think through the wider issues of personal priorities for our lives and the way decisions are made about possessions.

In recent times there has been a strong call to limit (cap) the top levels of interest that lenders are able to charge in order to protect people from the sharp practice of some less reputable lenders as well as those lenders, who, proponents of capping top interest rates would say, exploit people who are less able to access credit at affordable rates of interest, in other words, those on lower incomes and typically people with poor credit ratings. Doorstep lenders are one of the main targets of the people calling for a cap on high rates of interest.

Credit Action believes that there is no easy or simple answer and has opposed the calls for limiting top rates. In recent weeks the Government has resisted calls to cap rates.

Here is an explanation of Credit Action's policy on the issue.

POLICY STATEMENT INTEREST RATE CAP

Credit Action does not support an interest rate cap for the following reasons:

1. Annualized Percentage Rates (APRs) are a very clumsy and unhelpful way of measuring short-term loans
2. Sub prime lenders are companies not charities
3. They have substantial costs caused by weekly visits etc so their margin is quite low. Any cap could simply make them withdraw
4. The average 26-week loan takes 33 weeks to repay and no extra interest is charged for this time extension - can you imagine the clearers doing the same!
5. Three out of five people using a door to door lender actually have a bank account but are choosing this as the best method for a short term loan (He or she could in fact be right. If you suddenly needed to spend £100 and were up to your overdraft limit, or if there was a sale on for one day tomorrow where something you needed was at a 20% discount, this would be exactly what you should do)
6. Others will be using this as the only legitimate way of borrowing. If they were not about, families may have to go without food, clothing or heating or resort to loan sharks
7. Talk of an interest rate cap deflects attention away from the Government's failings and on to companies who are trying to provide a service that is still popular with several million customers being visited each week. To help the really needy the Government needs to reform the Social Fund and encourage better basic money education
- 8 An interest rate cap at the end of the day would remove competition and encourage unlicensed and therefore unaccountable loan sharks
9. Some of the groups promoting such a cap give the impression that they are more concerned about their political position than they are about the actual person needing to borrow.