

NEW RIGHTS FOR CREDIT AND STORE CARD USERS

JOINT COMMITMENT BY THE GOVERNMENT AND CARD COMPANIES

The Government and credit and store card companies have agreed to introduce five new rights for credit and store card users. These are:

- **Right to repay:** consumers' repayments will always be put against the highest rate debt first. For consumers opening new accounts the minimum payment will always cover at least interest, fees and charges, plus 1% of the principal to encourage better repayment practice.
- **Right to control:** consumers will have the right to choose not to receive credit limit increases in future and the right to reduce their limit at any time; and consumers will have better automated payment options. Consumers will have access to these options online.
- **Right to reject:** consumers will be given more time to reject increases in their interest rate or their credit limit.
- **Right to information:** consumers at risk of financial difficulties will be given guidance on the consequences of paying back too little; and all consumers will be given clear information on increases in their interest rate or their credit limit, including the right to reject.
- **Right to compare:** consumers will have an annual statement that allows for easy cost comparison with other providers.

In addition, consumers who are at risk of financial difficulties will be protected through a **ban on increases in their credit limit as well as the ban on increases in their interest rate**, and card companies will work with debt advice agencies to agree new ways they will provide targeted support to consumers at risk to help improve their situation before they get in too deep.

These new rights, together with the existing **right to redress** mean a better deal for consumers, giving them improved control of their credit and store card borrowing.

The Government and the card companies have agreed that the key consumer benefits will come into effect by the end of the year. This means that consumers do not have to wait for legislation to be passed to benefit from these measures. These measures are in response to the Government's recent public consultation on the regulation of credit and store cards.

Right to repay

Consumers' repayments will always be put against the highest rate debt first. For consumers opening new accounts the minimum payment will always cover at least interest, fees and charges, plus 1% of the principal to encourage better repayment practice.

- Consumers' monthly payments will always **pay off their most expensive card debt first**. This fully reverses current widespread practice. Consumers are confused by the current system, and research commissioned by the UK Cards Association found that regardless of the way in which the current way of allocating payments is explained, consumers find it counterintuitive.
- **For consumers opening new accounts the minimum payment will always cover at least interest, fees and charges, plus 1% of the principal**. This means that some minimum payments on new accounts will be higher in future to ensure that at least 1% of the loan itself is paid off as well as the interest and any fees and charges incurred. US based firms already have to do this in the UK, and this agreement will level the playing field. We want to encourage more responsible borrowing and lending in future, but have seen from the consultation evidence that it could be harmful to apply this increase to existing accounts.

Right to control

Consumers will have the right to control their borrowing limits and how they repay their card debts. And to protect people who are struggling with their debts, card companies will observe a ban on limit increases for people at risk of financial difficulties.

- Consumers will have the right to tell their card company at any time that they want to **reduce their current limit**. This will be available online or through an automated telephone system so consumers can do so without having to speak to an adviser.
- Consumers will be able to tell their card company at any time that they **don't want to be given limit increases at all** in future.
- The Consumer Credit Directive will introduce a new legal requirement to undertake a creditworthiness assessment before offering a significantly higher limit, and The Office of Fair Trading's new Irresponsible Lending Guidance will expect firms to check that any new limit is affordable. In addition, **card companies will observe a ban on limit increases for consumers at risk of financial difficulties**. They will work with debt advice agencies to agree how they will identify consumers at risk.
- **Consumers will be able set up an automated payment to pay any amount they choose on a regular basis**. Previously, automated payment

options for many consumers were limited to paying the full amount each month or the minimum payment. This will be available to all consumers online.

Right to reject

Consumers will be given more time to reject increases in their interest rate or their credit limit.

- Consumers **will now have 60 days to tell their card company they want to reject an interest rate increase**, close the account, and pay down the outstanding balance at the existing rate. This doubles the time consumers have to consider an interest rate increase and take action. In addition, consumers will be notified at least twice during the 60 days that they have the right to reject and card companies will tell them how much their borrowing will cost at the higher rate so they are able to see the real impact of an interest rate increase when making their decision.
- Consumers will be able to **reject any increase in their credit limit** at any time. Card companies will make it as easy as possible for people to do so, in particular by automating this process.

Right to information

Consumers will have new rights to information about their card account, tailored to their own personal circumstances.

- A **new minimum payments warning communication** will be sent to consumers who are using their card in ways which may be putting them at risk of financial difficulties or incurring high levels of interest on their debts, for example making repeated low payments. This will illustrate how their current behaviour is costing them more money and will explain what they can do to improve their situation, including providing details of independent sources of advice and support.
- A **new, separate, interest rate increase communication** will be sent to consumers facing an interest rate increase at least 30 days before the change. Previously, some lenders only notified consumers through their monthly statement. Consumers will also be reminded after this that they can reject the interest rate increase within 60 days, close the account and pay down the outstanding balance at the existing rate. These communications will explain in clear and simple language how their rate is changing, what it will cost them and that they have a right to reject the new interest rate.

- A **new credit limit increase communication** will be sent to consumers offered an increase in their credit limit at least 30 days before the change. This will explain in clear and simple language how their limit is changing and what they can do if they wish to reject the new limit. The communication will reassure consumers that their card company will not treat them any differently simply because they have exercised their right to reject a limit increase or reduce their limit.
- **Card companies will work with debt advice agencies to agree how they will identify consumers at risk** and to ensure that the communications they send out are clear and easy to understand.

Right to compare

Consumers will have a right to be given the tools they need to easily compare the costs of different credit cards and how they could save money by choosing the card best suited to their needs and the way they typically use their card.

- Card companies will work with consumer groups and the Government to develop an **annual statement** which will give consumers clear information about how much it has cost them to use their card over the last year. This statement will be available electronically so that consumers can easily use this information to compare the cost of their current card with other offers online, in particular through the forthcoming impartial credit card comparison tool on the MoneyMadedclear website (www.moneymadedclear.fsa.gov.uk). The statement will be fully tested with consumers to ensure that it is easy to use and understand.

The Government is also making a longer term commitment to **place these principles on a statutory footing**, taking account of the effectiveness of these voluntary arrangements. This will lock in good practice, and give these new rights the full force of the law.

Department for Business, Innovation and Skills
The UK Cards Association
The Finance and Leasing Association

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