

Credit card and store card repricing

How does it work?

Introduction

In this factsheet we aim to answer your questions on repricing. This is where your credit card or store card provider changes your interest rate. We believe it's important that you understand how repricing works and why your card provider may do this.

1 Can my credit card or store card interest rate change over time?

- Yes. Your card provider can increase and reduce your interest rate over the time that you have your account.

2 Why might this happen?

- If you borrow money on a credit card or store card, the credit is:
 - 'unsecured' because it's not linked to your property; and
 - 'open ended' because the account is not set to last for a specific length of time.
- This means that credit card and store card providers face more risk than for other types of credit products, such as personal loans and mortgages. Also, your financial circumstances can change over time, which means there may be a higher risk that you will not be able to pay back the money you have borrowed.
- Changing the interest rate allows a card provider to respond to:
 - changes in the economy;
 - the cost of providing credit; and
 - their opinion of your financial circumstances.
- If a card provider couldn't adjust interest rates in this way, it might have to take your credit card or store card away, or you may have to pay new charges.

3 Does a change in an interest rate only apply to my future spending?

- No. The new interest rate will apply to all of the money you owe on your card, except for any amounts you may have at special promotional rates. This is because the risk that you might not be able to pay back the credit applies equally to money you have already borrowed and any money you will spend in the future.

4 Do credit card and store card providers change interest rates for the same reasons and in the same way?

- No. A credit card or store card provider may change your interest rate in two ways:
 - if a provider thinks that you (or a group of similar customers) are more or less likely to be able to pay off the money you have borrowed, it may change your interest rate. This is called 'risk-based repricing'.
 - any other type of repricing is called 'general repricing', for example due to a change in the costs of providing credit which may be caused by changes in the economy.

5 For risk-based repricing, how does a credit card or store card provider decide to increase my interest rate?

- Credit card and store card providers take into account a wide range of information, including how you manage your account and information that may be provided by credit reference agencies, before they decide whether or not to increase interest rates.

There isn't a definite list of things which providers may take into account. However, your card provider is more likely to increase your interest rate if you:

- miss a payment or payments on your account (or other accounts);
- start paying off less of your outstanding balance each month;
- increase the overall amount you owe, the number of credit agreements you have, the number of accounts you've recently opened and so on; and
- frequently make cash withdrawals on your card, particularly when this is seen alongside other factors (such as those above).

6 How can I reduce the chances of my credit card or store card provider increasing my interest rate in this way?

- There are no firm rules. That's because credit card and store card providers may take different things into account. But, it would help if you:
 - make sure you pay your monthly payments on time;
 - reduce the amount you owe whenever you can;
 - make sure that you keep up with payments on your other types of credit;
 - keep within your agreed credit limits; and
 - consider closing any accounts you no longer use or need.

7 Are there any rules in place around increases in interest rates?

- Yes. A set of principles has been agreed by the credit card and store card industries.
- These make sure of the following:
 - if your card provider decides to increase your interest rate, it must give you at least 30 days' notice.
 - you can decide not to accept the new interest rate. If you do this within 60 days, your card provider will close the account and you will need to pay back the money you owe at the current interest rate. If your card provider also offers other lending products, such as personal loans, it may let you transfer the balance on your credit card or store card to one of these, at your current interest rate (or a lower rate).
 - card providers will not increase your interest rate within the first year when this is linked to risk-based repricing. This means your interest rate would only increase within the first year because of general repricing.
 - other than in exceptional circumstances (for example, where there are sudden changes in the economy) card providers will not increase your interest rate more than once every six months.
 - when card providers tell you about an increase in your interest rate, they will explain in clear language how it is changing, what it will cost and the options available to you.

8 Are there any other reasons why my interest rate may change, which are not directly covered by these rules?

- Yes. For example, your interest rate may change if a promotional interest rate has come to an end (or if you are being offered a new promotional rate). Your interest rate may also change if it directly tracks an index (such as the Bank of England base rate).

The following questions provide some additional information about how your credit card or store card works.

9 What is the annual percentage rate (APR)?

- The APR tells you how much your card provider is charging you for credit. It includes the actual interest rate and any monthly or yearly fees. The way APR is worked out is laid down in law and it's the figure that providers have to use in advertisements so that you can compare the rates they are offering.
- The APR doesn't include fees you would only have to pay for making a late payment or going over your credit limit.

10 How can I find out more about interest rates?

- A good way is to check your credit card or store card provider's 'Summary Box'. This is a table which sets out your card's important product features. All the information in the Summary Box has to be set out in a standard format to help customers compare different offers easily.

11 How is the interest rate set when I first open my credit card or store card account?

- There are two ways that credit card and store card providers set interest rates:
 - Some providers give everyone the same starting interest rate.
 - Others use risk-based pricing, which means they set a rate after assessing your application form and also any information they may have about:
 - how you've managed credit with them in the past; and
 - your overall credit history from credit reference agencies.

12 Will the interest rate on my account vary depending on how I use it?

- Yes. Credit card and store card providers often charge different interest rates for different ways that you may use your account. For example, a provider may charge you different interest rates:
 - when you buy something;
 - when you take out cash;
 - when you transfer balances from other cards; and
 - as part of promotional offers.
- All these rates will be listed in the credit card or store card provider's Summary Box.