

ADDENDUM TO INDUSTRY CODES OF PRACTICE

Payday and Short-term Loans

DELIVERING NEW CONSUMER PROTECTIONS

On 24 May 2012, the Consumer Finance Association, the Consumer Credit Trade Association, the BCCA and the Finance & Leasing Association agreed to a series of new consumer protections for customers taking out a payday or short-term loan.

This Addendum sets out the enhanced consumer protections for payday and short-term loan customers and sits within or alongside the trade associations' existing Codes of Practice. **The new standards in this Addendum will be implemented by 26 November 2012.**

A payday or other short-term loan is an agreement allowing you to borrow a small amount of money (usually between £50 and £1,000) and then repay it over a short period (typically one or two months).



Payday and Short-term Loans

Key Commitments

1.

A Good Practice Customer Charter setting out in a clear, concise and user-friendly format what customers of payday and short-term loans should expect from their lender.

This Charter will:

- highlight lenders' key commitments to customers, including to provide clear information about how the loan works, the price per £100 borrowed as well as the APR, and charges for extending the term of the loan ('rolling over') and default;
- explain how lenders will communicate with customers and how customers can contact them;
- explain how they assess if customers can afford a loan; and
- explain how to complain if there is a problem and signpost customers to sources of free and independent debt advice and relevant helplines.

The Charter was published on 25 July 2012 and it sits alongside each trade association's individual Codes of Practice and as part of this Addendum. Copies of the Charter must be easily accessible to consumers via lenders' websites or at their business premises (where appropriate).

2.

Lending to new or existing customers

In addition to the key commitments set out in the Good Practice Charter, we will:

- Act fairly, reasonably and responsibly in all our dealings with you.
- Comply with all relevant legal requirements and have regard to relevant guidance produced by the Office of Fair Trading, including for example their guidance on irresponsible lending.
- Make sure all advertising and promotional material is clear, fair, not misleading and complies with relevant advertising regulation.
- Tell you the full name and contact details of the company providing the loan.

We will not pressurise you into taking out a payday or short-term loan.

3.

Extending the term of your loan ('rollovers')

We will:

- Not pressurise you to extend the amount you owe for another term.
- Only consider extending ('rolling over') the term of your loan if you ask us to and after we have reminded you of the risks of extending a short-term loan. If you are in financial difficulties, you should let us know as soon as possible and we can explore new arrangements with you for paying off your debt.
- Carry out a sound, proper and appropriate affordability assessment before the term of the loan is extended.
- Clearly explain any additional costs of extending the term of your loan and require you to repay any fees, charges and interest before the term of your loan is extended.
- Tell you if we have a limit on the number of times your loan might be extended.

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Key Commitments

4.

Robust credit assessments

As responsible lenders, we will:

- Tell you that a payday or short-term loan should be used for short-term financial needs and is not appropriate for long-term borrowing or if you are in financial difficulties.⁽¹⁾
- Check whether the loan is suitable for you, taking account of your circumstances.
- Make sure that all loan applications go through a sound, proper and appropriate affordability assessment and credit vetting which includes your ability to repay your loan in a sustainable manner. This assessment may look at a combination of:
 - the amount of credit requested;
 - your income;
 - your age;
 - how you have handled your financial affairs in the past;
 - information from credit reference agencies;
 - your personal circumstances and any changes in the future you have told us about;
 - the results of credit assessment techniques: for example, credit scoring; and
 - information you have supplied, including proof of your identity.

We will explain in general terms what types of information we will consider in making a decision, if you ask us to.

We will not provide you with a payday or short-term loan if you have told us you are in financial difficulties or our credit assessment indicates that you may not be able to repay the loan in a sustainable manner.

5.

Increased transparency about loan repayments to help customers make better informed decisions and making sure that continuous payment authority is not used inappropriately for those in financial difficulty.

We will:

- Explain clearly how continuous payment authority works and how payments (including the possibility of part-payments) will be deducted from your bank account. This will help you decide whether this type of repayment is acceptable to you before you take out the loan.⁽²⁾
- Make clear to you your rights to cancel a continuous payment authority before you take out a loan. We will remind you that if you cancel, you will still owe any outstanding debt and will need to provide an alternative method of repayment on the due date to avoid going into default. We will give you a contact point should you want to cancel the payment authority directly with us.
- Always notify you by email, text or phone at least 3 days⁽³⁾ before attempting to recover payment using continuous payment authority on the due date. This notice will ask you to contact us if you are in financial difficulty and cannot repay.
- Send you further regular reminders when a continuous payment authority is being used and where you have not made repayment on the due date. These reminders will give you a contact point so you can tell us if you are experiencing repayment problems or if you want to cancel the payment authority.
- Repay any amounts we have taken via the continuous payment authority where this has caused you to get into financial difficulty, and you have told us about this.

(1) (2) This information will be included in the lender's adequate explanation under section 55A (2) of the Consumer Credit Act 1974

(3) Where contact is being made by telephone, this timeframe will be influenced by the customer actually receiving the call

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6.

Help for customers in financial difficulty

If you are in financial difficulty, we will:

- Deal with you sympathetically and positively and do what we can to help you manage what you owe. This may include making new arrangements about how you will pay off your debt. In doing so, we will consider other debts that you owe.
- Freeze interest and charges if you make repayments under a reasonable repayment plan or after a maximum of 60 days of non-payment.
- Not contact you or take any action to recover the money you owe us for 30 days, if you are making a genuine effort to agree a repayment plan using either a debt-counselling organisation or a 'self-help' approach (for example, you are suggesting a repayment plan). If you or your adviser provide us with clear evidence that real progress is being made in reaching a repayment plan, but work has not yet concluded, we will extend this 'breathing space' for an additional 30 days.
- Tell you about free and independent debt-counselling organisations. These include: Citizens Advice, the Consumer Credit Counselling Service, National Debtline or the Money Advice Service.
- Not allow you to borrow further from us until all outstanding loans with us have been repaid.
- Deal with people whom you have asked to act on your behalf, with your authority, unless those people behave unreasonably.

Further information on how we can help you if you are in financial difficulty is available in our industry Code of Practice.

7.

Data protection and marketing

We will:

- Follow all relevant privacy and data protection law.
- Not reveal information we hold about you unless:
 - we have your permission to do so;
 - we have to by law;
 - we have a public duty to do so; or
 - there is a good reason for us to do so (for example, legal reasons such as fraud).
- Not specifically target our marketing on groups of people known to be financially vulnerable or credit-impaired.

8.

Effective compliance monitoring

We are committed to complying with the Good Practice Customer Charter for Payday and Short-term Loans and this Addendum.

We will provide an annual statement of compliance to our trade association and we will also be subject to periodic independent compliance visits.

Failure to comply with the Charter and this Addendum could result in us being subject to:

- Written warnings, or
- Recommendations as to future conduct.

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The most serious punishment for not keeping to the Charter and Addendum would be expulsion from our trade association.

Quarterly meetings will be held between the Office of Fair Trading and the trade associations to discuss areas of concern in the payday and short-term credit markets and potential solutions.

The trade associations will also meet quarterly with consumer groups to discuss market practice.

9. Rigorous complaints procedures

When you take out a loan, we will tell you about our complaints-handling procedure. We will do this:

- in writing – at or immediately after the point of sale;
- by giving you a copy of it, if asked to do so; and
- by giving you a copy of it, if you send us a complaint.

This information will also be available on our website or at our business premises, where appropriate.

If you want to make a complaint, you should contact us first using our complaints procedure. We will acknowledge your complaint within five days of it being received by our Complaints Department. If we need to investigate your complaint further to respond fully, we will tell you and keep you regularly updated.

If you want to make a complaint to our trade association about our conduct under the Charter or this Addendum, we will give you their contact details. As a first step, our trade association will refer your complaint to our Chief Executive (or a nominated representative) who will make sure we investigate it and send a response to you.

If you are still not satisfied, our trade association will try to help you reach an agreement up to the time the matter is resolved. You may also refer the complaint to the Financial Ombudsman Service and we will give you their details.

Further information on how we deal with complaints is available in the industry Codes of Practice.

10. Updates and twelve month review

A review of the effectiveness of the Charter and this Addendum will be undertaken in Summer 2013.

Before then, the trade associations may amend or add to the Charter and Addendum in order to respond effectively to any recommendations which emerge from the Office of Fair Trading following their review of payday lending compliance and consultation on the misuse of Continuous Payment Authority, as well as industry discussions on continuous payment authority.

Further Information

If you want more information about this Charter and the new rights and protections for customers it contains, you can find this at:

Consumer Finance Association www.cfa-uk.co.uk

Consumer Credit Trade Association www.ccta.co.uk

BCCA www.bcca.co.uk

Finance & Leasing Association www.lendingcode.org.uk