



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Caroline Lucas MP
House of Commons
London
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18th March 2019

Your ref: ML.C0019.CM.11.3.18

Dear Caroline,

Thank you for your email of 11 March about personal debt.

To address the concerns you have raised, perhaps it would be helpful if I first set out the Government's position on consumer credit more generally. The Government has fundamentally reformed regulation of the consumer credit market, transferring regulatory responsibility from the Office of Fair Trading to the Financial Conduct Authority (FCA) on 1 April 2014. This more robust regulatory system is helping to deliver the Government's vision for a well-functioning and sustainable consumer credit market which is able to meet consumers' needs.

The Government has given the FCA strong powers to protect consumers. The FCA assesses every firm's fitness to trade as part of the authorisation process, and it has put in place binding standards on firms. It proactively monitors the market, focusing on the areas most likely to cause consumer harm, and it has a broad enforcement toolkit to punish breaches of its rules - there is no limit on the fines it can levy and, crucially, it can force firms to provide redress to consumers.

You suggest that a total cost cap should be extended across the consumer credit market. The Government has given the FCA the power to cap the cost of credit, and it will do so if it thinks necessary to protect consumers. As you highlighted, the Government legislated to require the FCA to introduce a cap on the cost of payday lending, which came into force on 2 January 2015. Furthermore, following an investigation into the high cost credit market, the FCA identified the case for introducing a cap in the rent-to-own market, and aims to have a cap in place by 1 April 2019.

For other forms of credit, individual organisations make their own commercial decisions on prices, rates of interest and default fees for their products. The Government believes it is in the interest of lenders to consider the impact on their customers and to treat them fairly. That is why the FCA requires firms to provide adequate pre-contractual explanations to enable consumers to assess whether the proposed credit agreement is suited to their needs and financial situation.

However, regulation can only go so far. To this end, at Autumn Budget 2018 the Government announced a package of measures designed to support the responsible lending sector and help ensure low income consumers can access safe, affordable and sustainable credit. The package includes:

- Launching a £2 million Affordable Credit Challenge Fund, which will harness UK Fintech to address the challenges faced by social and community lenders, such as credit unions and Community Development Finance Institutions (CDFIs);
- Simplifying regulation to make it easier for Registered Social Landlords to signpost their tenants to sources of affordable credit such as credit unions and CDFIs if, for example, they arrive in an unfurnished flat and need to borrow money to buy furniture;
- Working with leading debt charities and the banking industry to launch a Feasibility Study for a no-interest loans scheme, to investigate how such a scheme could work in the UK. This follows the success of the Australian no-interest loans scheme run by Good Shepherd Microfinance; and
- Piloting a prize-linked saving scheme for credit unions, which will increase membership, awareness and deposits for credit unions whilst encouraging participants to build up savings to help them cope with financial shocks. This will draw on behavioural insights to incentivise savings by offering the chance to win prizes in a regular monthly draw.

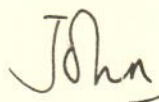
On problem debt more broadly, you may also be interested to know the Government has increased funding for publicly-funded debt advice to over £56 million, enough to provide support to over 530,000 people. This advice helps people in problem debt to seek expert help to get their finances back on track.

The Government is also implementing its manifesto commitment to introduce a breathing space and statutory debt repayment plan. The two policies aim to give people in problem debt the opportunity to take control of their finances and put them on a sustainable footing.

In the past year, the Government has set out a detailed policy proposal for the breathing space scheme in a consultation launched in October 2018. The consultation closed in January 2019, and the Government will shortly publish a consultation response. In its response, the Government intends to set out its approach to the whole scheme, ahead of laying regulations to implement breathing space before the end of the year.

Thank you for taking the trouble to make me aware of these concerns.

With very best regards



JOHN GLEN