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

Sir Mark Hendrick MP
House of Commons
London
SW1A 0AA

02 NOV 2018

Dear Sir Mark,

Thank you for your email of 18 October enclosing correspondence about payday lending.

I was sorry to read about the experience of Danny Cheetham as reported in the BBC News story. Perhaps it would be useful if I first set out the Government's approach to consumer credit more broadly and the changes to the way it has been regulated since Danny Cheetham's experience with payday lending. The Government has fundamentally reformed regulation of the consumer credit market and on 1 April 2014, transferred responsibility for consumer credit regulation from the Office of Fair Trading to the Financial Conduct Authority (FCA). This more robust regulatory system aims to deliver a well-functioning and sustainable consumer credit market which can meet consumers' needs.

The FCA's rules strengthen consumer protection and are based on the principle that money should only be lent to a consumer if they can afford to repay it. This also provides greater clarity to firms on what is expected of them and the sanctions if they lend irresponsibly. The FCA also requires firms to comply with its high-level principles, including 'treating customers fairly'. The FCA is able to impose tough sanctions, such as banning products, imposing unlimited fines and ordering firms to pay money back to customers, where wrongdoing is found.

With regards to payday lending in particular, the Government believes that consumers should be protected from unfair costs in this market. The Government therefore legislated to require the FCA to introduce a cap on the cost of payday loans, which came into force on 2 January 2015. The cap includes a total cost cap of 100% that ensures that consumers never need to pay back more than twice the sum they have borrowed. This cap includes all fees and charges that may be incurred in relation to a payday loan, including arrangement fees and default penalties.

The FCA reviewed the payday loan price cap as part of its ongoing review of the high cost credit market. It published its findings in July 2017, showing that the price cap has been effective, leading to savings of approximately £150 million for the 760,000 individuals using payday loans each year. The price cap will remain at the same level, and the FCA has committed to review it again in three years.

Your constituent may also be interested to know that in July 2018 the FCA published a policy statement on creditworthiness assessments, with updated rules and guidance for lenders. The FCA clarifies in its rulebook that firms should consider not just whether a customer will repay, but the customer's ability to repay affordably and without significantly affecting their wider financial situation.

I hope this letter reassures your constituent that the Government, working together with regulators, has a strong package of action in progress to address the concerns raised.

Yours sincerely,

John Glen

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