



Proposed New Rules for Credit Card Debt

The use of credit cards is now a part of everyday life and we all know that paying the full amount of debt off each month is by far the best option. However sometimes it isn't that easy and the debt starts growing, and for some, it spirals out of control. In fact there is now an estimated 3.3 million people in the UK in serious credit card debt.

The Financial Conduct Agency (FCA) has studied the UK credit card market in depth and is addressing the problem with proposed new rules.

Andrew Bailey, FCA Chief Executive, said:

“Credit cards can be a very effective product for consumers, but a significant minority of customers experience real difficulties. We expect our proposals to reduce the number of customers in problem credit card debt, as well as putting customers in greater control of their borrowing.

“Persistent debt can be very expensive - costing customers on average around £2.50 for every £1 repaid - and can obscure underlying financial problems. Because these customers remain profitable, firms have few incentives to intervene. We want to change this situation so that firms and customers will deal with outstanding debt more quickly, and avoid persistent debt in the first place.”

Under the new proposals firms supplying credit cards must adhere to a series of steps in order to help customers who are in serious debt. If a customer has been in persistent debt for over 18 months the firm must prompt the customer to make faster repayments, if they can afford it. If the customer is still in persistent debt after a further 18 months then the firm must propose a repayment plan to help them clear the debt more quickly. Finally if a customer still can't afford to repay the debt more quickly, the firm should consider reducing, waiving or cancelling any interest or charges. From the customer's point of view, if they do not respond or alternatively confirm that they can afford to repay faster but then don't, the firm then has the ability to suspend the credit card.

Other proposals include firms responding quicker to signs that customers are in financial difficulty by monitoring the extensive amount of data available to them such as repayment records. This can then lead them to take appropriate action. Also there is to be more choice and transparency regarding increases to credit limits.

It is hoped that by 2030 these new measures will lead to savings for customers of between £3bn and £13bn as a result of faster repayments and lower interest charges, dependent on how firms and customers respond.

However, Mike O'Connor the chief executive of debt charity StepChange believes the proposals do not go far enough.

"Credit card debts remain the biggest single category of problem debt for our clients, with average debts of over £8,000. We welcome moves to tackle persistent debt, but we are concerned that these proposals will not fix the central issue that credit cards, which are supposed to be a short-term form of borrowing, often become long-term and expensive debt."

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