Council – 13th January 2014

Notice of motion – Payday loans

Set out below is a notice of motion to Council on 13 January 2014 from Councillors Oliver, Chambers. S Coughlan, Jeavons, Westley and Burley:

"That this Council:

(i) Notes that payday lenders are trapping millions of people in spirals of debt.

(ii) Believes that the Financial Conduct Authority (FCA)'s new proposals for regulating payday lenders are a step in the right direction, but do not go far enough.

(iii) Further believes:

  (a) That the FCA's proposals would not prevent payday lenders from dripfeeding new loans to people who already have payday debts and are struggling to pay them back.

  (b) That the FCA's proposals would not prevent people from being hit with escalating penalty fees

  (c) That the FCA's proposals would not stop payday lenders from raiding people's bank accounts without telling them

(iv) welcomes that some of Britain's biggest debt, consumer and anti-poverty organisations – including Which?, Citizens Advice, StepChange Debt Charity, Church Action on Poverty and the Centre for Responsible Credit – and MPs from every Party represented at Westminster have come together to support the 'Charter to Stop the Payday Loan Rip-Off'.

This Council therefore resolves to:

(i) Endorse the Charter to Stop the Payday Loan Rip-Off which calls on the FCA to introduce tougher regulation of payday lenders.

(ii) Encourage residents of [local authority] to support the Charter by signing the online petition at http://www.change.org/paydayloancharter.

(iii) Continues to promote and further support the development of local credit unions and more affordable lending.

(iv) Work with partners on campaigns against increasing levels of personal debt.

(v) to send a copy of this motion to Martin Wheatley, Chief Executive of the Financial Conduct Authority and to all local Members of Parliament."

The Charter

The full text of the charter reads:

<u>The Charter to Stop the Pay-day Loan Rip-off.</u>

We believe irresponsible payday lending and other high cost credit is damaging the health and wealth of our country. Payday lenders are exploiting millions of people across the UK, trapping them in spirals of debt, and the problem is getting worse.

Payday lenders are breaking promises they made in their own customer charter. Self-regulation has failed. We call for effective regulation of payday lenders and high cost credit, which is properly enforced, to:

- Stop them giving loans to people who can't realistically afford to pay them back
- Stop them repeatedly rolling over loans and creating spiralling debt
- Stop hidden or excessive charges
- Stop them raiding borrowers' bank accounts without their knowledge and leaving them in hardship.
- Stop irresponsible advertising and instead provide clear and transparent information.
- Require lenders to promote free and independent debt advice, and ensure they co-operate with other services to help people get out of debt.

We also want action to support the growth of credit unions and other forms of more responsible lending; we want action to support the growth of credit unions and other forms of more responsible lending: we want banks to increase the availability of credit to people on low and middle incomes: and we want new research on capping the total cost of credit undertaken now.

Background

On 20 December 2013, the Business, Innovation and Skills Select Committee published a report "Payday Loans". This report can be accessed:-
http://www.publications.parliament.uk/pa/cm201314/cmselect/cmbis/789/78902.htm

Overview and recommendations of the select committees report

- In February 2012, the select committee published a report on debt management including the pay day loan sector.
- The committee asked for action in the areas of advice and regulation and recommended focus on the following issues:-
    - rolling-over of loans
    - real-time data-checking and
    - the use of the Continuous Payment Authority
- The Office of Fair Trading (OFT) has also reviewed the sector and published its findings.
- The Financial Conduct Authority (FCA) is also conducting a review of the sector.
- The FCA will take over the responsibility from OFT for the regulation of the sector from 1 April 2014.
- On 3 October 2013, the FCA published its consultation. In a press release the FCA set out its approach to regulation of the payday loan sector:

> "The proposed regime will allow the FCA to provide stronger protection and better outcomes for consumers than the existing OFT regime. There will also be tougher requirements for payday lenders, including a mandatory affordability check on borrowers, limiting the number of loan roll-overs to two, and restricting (to two) the number of times a continuous payment authority (CPA) can be used. There will also be tighter restrictions on what pay day lenders can say in adverts, while the FCA will be able to ban any that are misleading."

- Martin Wheatley, the FCA's chief executive, made it clear at that time that payday lending would be subject to stringent oversight by the FCA:
  > "Today I'm putting payday lenders on notice: tougher regulation is coming and I expect them all to make changes so that consumers get a fair outcome. The clock is ticking."
- The FCA is expected to publish its final rules and guidance in February 2014.
- On 25 November 2013, the Treasury announced the introduction of a cap on the cost of payday loans.

The recommendations in the select committees report published in December 2013 covered the following areas:-

Responsible lending and credit checking, real-time data, rolling over of loans, continuous payment authorities, advertising, referrals and marketing and debt advice.

The committee concluded:-

"We welcome the increased focus, across the political spectrum, on the payday loan sector. Both the Government and the Official Opposition are aware that changes need to be made in this area. While we welcome these initiatives, we believe that further action, including stronger regulation, is necessary to protect consumers."

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3rd January 2014