

REPLY BY 19/01/10

Consultation

CREDIT CARDS & STORE CARDS

We want to:

- ▶ get you a **better deal** on credit cards and store cards.
- ▶ give you **more control** over the money you borrow
- ▶ and make sure any changes we make **help the right people**

Read on and find out how we want to do this, and get your voice heard.

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People in the UK have **£230 billion** in debt on credit cards, loans, store cards and other credit deals.

One debt advice charity says the average credit card holder they talk to owes nearly **£15,000**, and earns less than **£30,000** a year.

It's much more difficult to borrow money now because of the recession. More people than ever have been turning to credit cards as a quick and easy way to get hold of money.

But finding a credit card is getting more complicated, and a lot of the time people don't know what they're signing up for, or feel they have no choice but to take the deals they're offered.

Other organisations like the European Union and the Office of Fair Trading are already looking at what credit companies should be allowed to do, but we think we can do more.

We want to talk about what's wrong with the credit card system, and see what how we can help people with the debts they have now.

6 things we'd like to take a closer look at:

1. Getting charged **different interest rates** for taking out cash, spending on your card, and balance transfers
2. Paying off your card with low **minimum payments** that keep you in debt for too long
3. Your **credit limit** getting increased without asking
4. **Interest rates** on your credit card getting increased, with little explanation
5. **Confusing advice** that's hard to understand
6. All the **different cards** out there making it hard to find the best ones

1. Getting charged different interest rates

Because there are lots of different ways you can use a credit card, credit companies can charge you different interest rates for them:

- ▶ **Get cash out** with your credit card, and your credit company will charge you more than your normal rate for that cash.
- ▶ **Buy things** with your card, and the credit company will charge you interest at your normal rate
- ▶ Do a **balance transfer** from one credit card to another, and you might get charged less interest, or even no interest for a bit.

What does this mean for me?

This isn't always explained very well, but when you pay off your credit card, usually you automatically pay off the debt with the **lowest interest rate first**.

So if you transferred over **£1000** from another card, took out **£20** cash that morning, and last week spent **£400** on a new fridge, and then paid off **£50**, that £50 would just take your balance transfer amount down to **£950** but wouldn't touch the rest.

So you'd still have the £20 cash sitting there gathering high interest, and the £400 fridge would get the normal amount of interest on it. You wouldn't pay off the fridge, or the cash, until you'd finished paying off the £1000 balance transfer.

This gets **even more complicated** with store cards, because of all the different options like buy now pay later, or paying in instalments.

What can we do about getting charged different interest rates?

1. We could **leave it** as it is for now, because new rules are coming in which will mean card companies have to explain this better.
2. We could also make the credit company give people **even more information** so they understand the rules. We're not sure if this goes far enough, though.
3. We could also set up a system where if you pay off say **£100**, that pays off a bit of all the different kinds of debt on your card, for example **£50 on your balance transfer** amount, **£40 on things** you've bought with your card, and **£10 on cash** you've got out on your card. If you've taken a lot of cash out, more of what you pay in goes towards paying off that expensive bit of debt. This could be confusing for people, though.

More ideas for helping with confusing interest rates...

4. We could tell credit card companies that when you pay off your credit card, the money you put in should **pay off your most expensive debt** first. So if you pay off £50 of your debt, this pays off all of the £20 cash you got out, and a bit of that £400 fridge, and you get less interest building up on your card. This could mean that there are less 0% balance transfer offers around, though, because credit card companies wouldn't make as much money.
5. Or we could make credit card companies at least let people pay off any money they took out as **cash first**. This should mean banks can keep giving out deals like 0% balance transfers.

Next we're going to look at:

- ▶ Paying off your card with **minimum payments** that keep you in debt for too long
- ▶ Your **credit limit** getting increased without asking
- ▶ **Interest rates** on your credit card getting increased, with no explanation
- ▶ **Confusing advice** that's hard to understand
- ▶ All the **different cards** out there making it hard to compare

2. Paying off your card with minimum payments

Quite a few people only pay off the lowest amount they absolutely have to pay on their card every month - usually between 2 and 3% of their card debt.

When you only pay in this low amount, although you stop the interest from building up on your account, it doesn't really help you get rid of the rest of the debt quickly.

Clearing it can take **years longer** this way, and you end up getting charged a lot of interest. You could get end up with money troubles more easily too, because you might not be able to pay off any extra charges you get if you go over your credit limit or miss a payment.

You may not have noticed, but there's now a **warning on credit card statements** which credit card companies have to put in. This says that **making the lowest payment costs you more** in the long run.

Sometimes, even if you do pay more than the lowest amount, you might still use that lowest level to work out how much you should pay.

If this base level is too low, you might pay less than you can actually afford and clear your debt more slowly than you need to!

To help people pay their debts off faster, there's a few options we'd like you to think about:

1. We could **do nothing**. The Office of Fair Trading is already planning to say credit card companies should set your payments at a level where you'll pay off your debt as well as the interest.
2. We could make sure that card companies **explain how paying off your credit card works**, in plain language, on every credit card statement, but would this go far enough? People could easily ignore it.
3. At the moment there's a legal amount you have to repay on your credit card each month. We could get banks to **put in a second higher payment amount**, so you could take that option instead and pay off your debt quicker, but still have some freedom to go down to the lowest payment if you're having a bad month.
4. We could **increase how much you have to pay** each month to about 5%, so even if you're only making the lowest payment you'll pay off your debt much faster.

We could also put a different warning on your credit card statement which says **how long it's going to take** to pay off your debt at the rate you're paying, instead of talking about numbers that can be tricky to understand.

Whatever we decide, if you rely on the lowest payment level already and you're having trouble paying that, **this new way could be very difficult**. So we think something like this should be brought in gently, to give people time to adjust.

3. Your credit limit getting increased without asking

Credit card companies can and do **increase your credit card** limit without telling you.

It's happening much more often now, and takes away some of your control over your credit card debt.

Card companies tell us they raise your limit **only when you look like you can afford it**, but the checks they use to tell them whether it's okay to raise your limit don't tell them everything.

Card companies also say that you can easily tell them to **leave your credit limit where it is**, and they also say that you don't have to spend up to your limit. But it is tempting to spend more when they've given you more money – especially if you've got money troubles.

What can we do about these credit limit increases?

1. We could **wait** for the new Office of Fair Trading rules to come in, which say the card company has to tell you about the increase or you have to agree to it. This still means they can increase your credit limit without you having to think about it too much, though.
2. We could make the credit card company **send you a separate letter** when they increase your limit, and make them give you a clear way of cancelling it, and a better understanding of what it means for you.
3. The credit card companies have agreed they need to be clearer about credit limit increases, and they've also agreed they shouldn't increase your credit limit **more than once every 6 months**. We're worried that dealing with the problem this way could stop people getting temporary increases for big purchases and emergencies.
4. We could ban them from giving you a higher limit **unless you asked for it**. A lot of card companies say that banning automatic credit card limit increases would be bad for business. We're just as worried that when they increase your limit without asking, it's bad for credit card holders. We want credit card companies to **show us that a ban really would be a problem**.

5. Finally, card companies could give you a higher limit **only when they've asked you whether you want it**. They could either have to ask every time, or you could agree when you first got the card that you don't mind if the credit card company increases your limit. Card companies say they might end up not giving people more credit if they have a bad credit score already, and then ask for a fixed limit. **We want them to show us why they think that**, and we'd like to know what you think.

4. Interest rates on your credit card getting increased, with little explanation

Sometimes credit card companies will decide that all their customers, or a group of them, need to start paying a **different interest rate** on their credit cards.

Or, if something happens that makes them think **you might not be able to make your payments** in the future, they might want to increase the interest you pay on your card so the credit card company is covered.

A year ago we noticed some really high interest rate increases going through.

This wasn't right, so we quickly **put in new rules** so credit card companies had to give you notice, let you freeze the account and repay at the interest rate you used to have, or switch to a better credit card or loan option.

The rules also say that if you only miss your last **two payments**, or you're worried about your debts and talking to a debt adviser, then they **can't do anything about your interest rate**.

But we think when credit card companies increase their interest rates like this, people **stick with them anyway**, and just accept the change.

This could be because they want to stay on good terms with the company, or because they don't have a good credit rating so they can't switch to a better card.

We're worried that credit card companies are increasing interest rates as an **easy way to stay in profit during the recession**. Card companies haven't been very good at explaining to their customers why they suddenly have to pay increased interest charges on their credit cards.

There are 6 options we want you to think about:

1. If we get evidence that the rules we agreed with card companies a year ago are really helping, **we don't have to do anything**.

If we wanted to do something stronger, we could make those rules into law - then we could punish credit card companies who didn't stick to them, or we could change and add to them, giving people more protection.

2. At the moment, card companies only have to tell you why they've increased your interest rate if you ask them. We could **make them tell you why without you having to ask**, and also get them to give you advice to help you improve your interest rates in the future. This will come in handy if you want to reduce your interest rate too, because you'd know what they're looking for.
3. The new rules the Office of Fair Trading are suggesting mean that card companies could only be able to increase your interest rate if:
 - ▶ it costs more than it used to for the credit company to lend people money and they need to cover their costs
 - ▶ Your level of risk for the credit company lending money to you changes.

We need to **work out all the things that make people a risk to lend to** so the reasons for increasing interest rates get much clearer.

More ideas to help with interest rates on your credit card getting increased...

4. We could also think about making it so card companies could **only increase their interest rates by a certain amount**. Though that might make it more difficult for card companies to deal with a bad economy or people who are genuinely bad for business.
5. We could stop credit card companies from raising interest rates on **debt you already have on your card**.

They could still increase your rate on anything you use your card for in the future though, which means you might have to think about two or more different interest rates for the same card.

6. Or we could stop card companies raising interest rates **unless they can show it's a general increase** to cover the card companies' costs. Either change will make it more difficult for banks to give cheap offers, though.

Just two more problems to go...

- ▶ **Confusing advice** that's hard to understand
- ▶ All the **different cards** making it hard to compare

5. Confusing advice that's hard to understand

We think card companies should be much clearer when they **explain how credit cards work**.

The Financial Services Authority has already done some great work with a project called [MoneyMadeClear](#), which is really helpful for explaining how credit card debt and lots of other money issues work. We're also going to **make it even better** so that from next year everyone will be able to talk to someone to get advice about managing their money.

The credit card companies really **need to be more helpful**, though.

One way we think they can do that is to **give you an annual summary** of how you're doing with your credit card debt.

The summary could help you work out how to avoid paying too much interest and help you compare your card with other ones to see if you're getting the best deal.

6. All the different cards out there making it hard to find the best ones

There are so many different credit cards out there and **they all work differently**. It can be very confusing, especially for people just starting out with credit, or if you have no credit rating, or a bad rating that you want to improve.

► A simple credit card

We think there could be a place for a simple credit card that's easy to understand. What do you think?

► Card labelling

Another idea is a labelling scheme to show the good and bad points of credit cards. This could help people pick a credit card that's right for them. Would labelling help you make a better decision, and should we take a look at it?

As you can see, there are a few things we'd like credit card and store card companies to change about how they work. **This is where you come in.**

We need you to help us decide the best options.

Is there anything missing? Are there options you've thought of that you can't see here? Tell us what you'd like to see. How are things going wrong at the moment, and what we can do to fix them? What's going right, and how do we make sure they stay as they are?

We would like your comments, questions and ideas by **19 January 2010**.

You can comment at bis.gov.uk/creditconsultation or send your ideas to:

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