

Changes being made by the credit card industry to help cardholders

What has been agreed by the credit card industry and the Government?

We've agreed changes throughout the credit card industry to help customers who are struggling with their finances. The industry is adopting new principles around risk-based repricing and creating a 'breathing space' to benefit those customers who are having trouble meeting their credit card repayments. Importantly these changes do not necessarily mean your APR will always stay the same.

What is a breathing space and how will it benefit me?

If you're a customer in discussion with a not-for-profit debt advice agency on a debt repayment plan, you should notify your credit card company(ies). Your credit card company will then suspend any attempts to collect the outstanding debt for 30 days whilst those discussions continue. An extension of a further 30 days can be granted if you have not yet agreed a repayment plan but you are making demonstrable progress with the agency and those discussions are expected to conclude positively.

The creation of this 'breathing space' will be invaluable to customers at a time when they need it most and will lift some of the pressure at a very difficult time.

What is risk-based repricing?

Credit card companies always have to bear in mind the risk that a customer to whom they lend does not repay it. The risk which a customer can represent will change over time and risk-based repricing helps to ensure that the price of supplying credit and the risk of the customer defaulting stays balanced.

What do these changes to risk-based repricing principles mean to me?

These new principles will mean you receive a lot more information should risk repricing result in changes to your credit card.

Your credit card company will:

- Give you at least 30 days notice of any increase in the APR you pay on your credit card if it is being changed as a result of risk-based repricing.
- Tell you that you have the option to close your credit card account and repay the balance at the existing interest rate, within a reasonable period.
- Not increase your APR for the first twelve months that you have your credit card; or more often than once every six months after that.
- Explain why an APR has been increased, if you ask.
- Offer an alternative product (if there is one available) at an equivalent or lower rate of interest.

Can any customer be repriced in this way?

Your credit card company will not increase your rate, where:

- You have failed to make the minimum monthly payment for two months or more;
- You have already agreed a repayment plan for your account; or
- Your credit card company has been told by a not-for-profit debt agency that you are discussing a repayment plan with them.

What is the APR?

APR stands for annual percentage rate. It is not in itself the interest rate – it is an expression of the total charge for credit that takes into account the interest rate and any mandatory fees and charges. It does not include any avoidable charges such as late payment fees. Generally speaking, the lower the APR the less interest you will have to pay. Companies are required by law to state what the APR is in advertisements for all forms of credit. This enables borrowers to compare rates.

Why does risk-based repricing happen?

A credit card is an unsecured and open-ended borrowing tool, so credit card companies carry more risk than with other lending products because they don't have the back-up of any security. As there is more risk associated with credit card lending and because your financial health can change over time, risk-based repricing enables a credit card company to make adjustments to reflect these changes in risk profile. If a company could not reflect any increase in risk by repricing the APR, it might have to withdraw the credit card or impose other new charges.

Would a repriced APR apply to the whole of my outstanding balance or just to any new spending?

It would apply to the whole of the outstanding balance because the risk that a customer might default applies equally to the existing balance on a card as much as any new spending.

When do these changes come into force?

These new risk-based repricing principles will come into effect across the industry from 1st January 2009. The 'breathing space' takes immediate effect and if you think this should be applied to you, you should contact your credit card company.

Why don't APRs fall when the Bank of England base rate is falling sharply?

Although base rates have fallen sharply, because of the way credit card lending works, the risk of lending has not fallen and may have actually increased. A credit card APR is not actually an interest rate; it represents the total cost of credit being granted. An APR will include all credit card fees and charges as well as the costs of operating an open-ended line of credit along with the costs of bad debt and fraud. Base rates are only one factor in the level of an APR.

What are the reasons my credit card may be subject to a risk-based price review – why might I become 'riskier'?

A credit card company may decide to review a customer's account, or a number of its customers' accounts for a variety of reasons.

Some of these include instances where a customer:

- consistently makes only the minimum monthly repayment;
- uses their credit card to regularly withdraw cash, or for gambling transactions;
- regularly uses a high percentage of the credit limit, or goes over the limit;
- uses the total amount of credit they have outstanding versus their income; or
- may have missed repayments on other credit products.

Who are the not-for-profit debt advice agencies and how do I contact them?

Advice UK

020 7407 4070

www.adviceuk.org.uk

Citizens Advice

You can get the phone number of your local bureau from the phone book, the local library or from their website.

www.citizensadvice.org.uk

Citizens Advice Scotland

0131 550 1000

www.cas.org.uk

Consumer Credit Counselling Service

0800 138 1111

www.cccs.co.uk

Money Advice Scotland

0141 572 0237

www.moneyadvicescotland.org.uk

National Debtline

0808 808 4000

www.nationaldebtline.co.uk

Payplan

0800 917 7823

www.payplan.com

You should also be aware that there are other companies that charge a fee for managing your debts. It is your responsibility to check the fees that may be charged before asking these companies to act on your behalf.

www.apacs.org.uk