

Telephone: 020 7066 9346

Email: [enquiries@fs-cp.org.uk](mailto:enquiries@fs-cp.org.uk)

Claire Porter  
Banking and Credit Team  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

26 February 2013

Dear Ms Porter,

## **HM Treasury consultation: Credit union maximum interest rate cap**

This is the Financial Services Consumer Panel's response to the HMT credit union maximum interest rate cap consultation.

We welcome the Government's aim to help credit unions become more sustainable. We believe that credit unions are an important part of the financial inclusion agenda and offer a vital service to people who may be excluded from accessing mainstream financial services.

A recent National Audit Office report on the Consumer Credit Market noted that high-cost credit is the fastest growing sector of the market and is now estimated to account for approximately £8 billion of total lending annually. Consumers of high-cost credit tend to have lower than average financial understanding, lower than average incomes and poor credit or no credit history<sup>1</sup>. Credit Unions are often the only alternative to high cost credit for consumers with one or more of these characteristics. The recent DWP report, referred to in the consultation, suggests there is a potential consumer market of at least 7 million working age adults in the UK for the services of credit unions. However, currently only around 950,000 people are members of one.

We support the decision to raise the interest rate cap so that credit unions can break even on small short term loans. However, we believe if this change is to have a significant impact in terms of promoting sustainability within the credit union sector, the increase needs to go beyond the proposed 3%. Furthermore, we believe that a static rate does not allow for future social and economic considerations. It would be far better to introduce a flexible rate – tied to the Bank of England interest base rate – that can adapt to market changes as necessary.

---

<sup>1</sup> National Audit Office Value for Money Study on the Office of Fair Trading and Regulating Consumer Credit (2012) [www.nao.org.uk/publications/1213/oft\\_regulating\\_consumer\\_credit.aspx](http://www.nao.org.uk/publications/1213/oft_regulating_consumer_credit.aspx)

Furthermore, increasing the interest rate cap should not be seen as a panacea. Credit unions exist in a range of different forms and face a range of individual challenges. The Panel notes that representations have previously been made by Version 2 credit unions to HMT, that despite the legislative changes, there remain restrictions on growing their business model to meet wider need and compete against payday lenders. To achieve greater reach and meet the needs of the potential 7 million consumers the DWP report identifies, we believe that Version 2 credit unions, with the capability, need the flexibility to take larger deposits and offer larger loans and to take deposits and provide loans to incorporated bodies.

Growing their business model will, of course, be dependent on credit unions having effective governance systems and processes in place, with the necessary infrastructure to deliver consistently good outcomes for consumers.

Yours sincerely,

Adam Philips

Chair  
Financial Services Consumer Panel