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Mr Gary Smith  
Consumer Affairs Directorate  
Room 407  
Department of Trade and Industry  
1 Victoria Street  
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SW1H 0ET

20 June 2002

Dear Mr Smith

**'Tackling loan sharks- and more! A consultation document on the financial limit and exempt agreements of the Consumer Credit Act 1974**

This is the response of the Financial Services Consumer Panel (the Panel) to the Consultative Document issued by Department of Trade and Industry in March 2002. The Panel is an independent body established by the Financial Services Authority (FSA) under the Financial Services and Markets Act 2000 to advise the FSA Board on the interest and concerns of consumers. In addition the Panel also advises the government on the scope of financial services regulation.

**Financial limits (Questions 1 and 2)**

In response to the H M Treasury consultation document, 'Regulating Mortgages' issued in February 2002 the Panel stated that the FSA should regulate all loans secured on residential premises, including all second or subsequent mortgages and secured loans over £25,000.

The Panel believes that the current financial limit should be removed to enable the regulation of the vast majority of consumer borrowing. The present upper limit has resulted in the creation of an artificial divide that has no justification in reality and resulted in the creation of a regulatory gap that must be closed.

**Business Lending (Question 3)**

The Panel believes that the current business lending definition is satisfactory. While small partnerships and sole traders are responsible for running businesses this does not necessarily mean that they are better equipped than ordinary consumers to deal with credit matters.

### **Related Issues (Question 5)**

Whilst the Panel notes the identification of issues of concern, such as those of motor financiers in relation to early settlement. Consumers are expected to accept the risks associated with the declining value of second hand vehicles, there is no justification for motor financiers to be better protected from the same risk. The Panel will oppose any changes, which could result in the diminution of consumer protection measures. On the issue of the consideration period for secured loan transactions, the Panel believes that as the consequences of a defaulting on such loans are severe, the cooling off period should remain. The Panel holds the same view in relation to cooling off periods for high value transactions.

### **Exemptions from the Consumer Credit Act (Questions 10, 11 and 15)**

As stated earlier in this response, the Panel believes that the FSA should regulate all loans secured on residential premises, including all second or subsequent mortgages and secured loans over £25,000.

The Panel would support the introduction of a meaningful measure of the cost of overdrafts. At the same time the Panel are aware that the use of the Annual Percentage Rate for overdrafts would result in practical difficulties. The Panel suggests that the Department should undertake consumer research on the use of overdrafts to determine consumer understanding of the costs and potential detriment of overdrafts.

### **Consumer Hire Agreements (Question 17)**

The Panel is unaware of any reasons to change the regulations in relation to consumer hire agreements.

Yours sincerely,



**Colin Brown**  
Chairman  
FS Consumer Panel

cc. Christine Farnish

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