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## **DAMIAN HINDS SPEECH ON CONSUMER CREDIT AND DEBT MANAGEMENT**

If hon. Members will forgive the pun, may I say that it is encouraging that there are such high levels of interest in this Chamber in this subject, particularly among the new intake? I pay tribute to the hon. Member for Walthamstow (Stella Creasy) and my hon. Friend the Member for North Swindon (Justin Tomlinson) for their interest, which has been shown not only in this debate, but in the hon. Lady's private Member's Bill and the Westminster Hall debate, and in my hon. Friend's institution of the all-party group on financial education for young people. I commented at the time that, as so many people were crammed into the room, he had managed to make financial education for young people the new rock and roll.

Almost all of us in this Chamber, wherever we are in the spectrum of belief in free market economics, conclude that something else needs to be done to curb the worst excesses in the credit market. A number of us also have examined the other countries in the world, both those in the European tradition, such as France, Germany and Italy, and those in the Anglo-Saxon tradition, such as Australia, Canada and most of the states in America, and asked, "Can they all be wrong?" Perhaps instead they are on to something in having some sort of usury ceiling and sensible credit limit.

Any approach to this matter has to cover all the aspects of education, advice and this country's culture about debt, must include smart regulation that protects the most vulnerable, and must provide for proper alternatives, such as credit unions. They, in particular, have an important role to play, not only in providing affordable credit, but in encouraging the savings that a number of hon. Members have discussed.

There are a couple of problems with the motion. First, it refers to various "caps on prices" without saying what that means. It is not clear whether that would be a cash or a percentage cap. When lenders talk about the total cost of credit, they normally refer to a cash figure, but I assume that the hon. Member for Walthamstow was referring to a percentage.

Members have drawn a distinction between an interest rate cap and a cap that includes interest and other charges—that is what the annual percentage rate is; APR includes some other charges. It does not include behavioural charges, default charges and so on, and I do not understand mathematically—I am happy to take an intervention on this for a second minute—how they could be factored into a general cap that would apply to credit products extended to everybody, given that, by definition, behavioural and default charges are incurred only by some customers.

Another problem with the motion is its emphasis on a lack of competitiveness, because that is not the problem in this area. I do not wish to be too pedantic, but I do not think that

"many" lenders can be in a "near monopoly" position, as the motion suggests. In many ways, stimulating competitiveness further might end up being counter-productive, but in the three minutes available there is no chance of our discussing that aspect.

This country is both blessed and cursed with a very diverse and dynamic consumer credit market. We are blessed because of the variety, where there is a product to suit just about every need in the market. Even payday lending can be very rational; it could be very rational for someone trying to avoid current account bounce charges to take out a payday loan instead. Very few people are excluded from the legal and, therefore, regulatable market altogether.

We are cursed by this market because of the ubiquity of the messages about credit that people are bombarded with; the emphasis on what people want to borrow, rather than what they need or can afford to pay back; and the complexity involved. Even very highly educated people find it difficult to understand every product and every aspect of every product. I am sure that some Members of this House struggle, as I do, with understanding some aspects of some of these products.

That complexity highlights one of the great difficulties with introducing new regulation, because companies make money in this market in lots of different ways. Rent-to-own companies, such as BrightHouse, which has been mentioned more than once in this debate, would almost certainly not be curtailed by any restriction on the cost of credit, because so much of the money they make is on the sticker price, relative to Argos or Currys, rather than on the charge for credit.

I am running out of time already, so I had better hurry up. The experience in America suggests that where there is effective regulation of cash lending, other sectors such as rent-to-own or good old-fashioned catalogues are stimulated, and if there is a clamp down on interest rate charges, that will stimulate growth in behavioural charges and so on. Everybody in this House probably agrees that a blunt, general, across-the-board APR cap is not a good idea, so the challenge is whether we can come up with a regime that curbs the worst excesses of the market without putting entire segments and entire product categories out of the market, and that protects the most vulnerable. We need a regime that does not push them into the arms of illegal loan sharks-the sort of people for whom the idea of a late payment penalty is a cigarette burn to the forearm.

Having a range of caps on different products in the market is one option for achieving the two aims I have just set out. However, the market is diverse and dynamic; the mention of the growth in payday lending in the motion is a good example of how the market keeps changing. In such a market, the danger of such an approach is that when certain categories are capped, there will be growth in different categories as people try to morph products and move into different areas of the market to avoid regulation.

If caps are to be considered, one idea that I would like to throw into the mix for the Minister to consider is what I call a twin cap. Rather than having caps on different categories, we could set out a formula with a maximum rate of simple interest combined with a one-off percentage of the principal-for example, a 30% interest rate and a 15% arrangement fee. I suggest that structure because it more closely reflects the actual cost of providing loans. Shorter-term loans cost more to provide because there is a fixed-cost element for the initiation and completion of the loan. My own back-of-the-envelope modelling-I stress it is no more than that-suggests that some credit companies may well set their prices in that way. If there were a cap of 50% annual interest plus a 15% one-off charge, just about every segment of the market would survive, but by curbing the very worst excesses over time, we could bring that down.

I do not have time to go through the rest of what I wanted to say, but we should not forget everything else-supplementary charges, roll-over charges, missed payment charges and minimum payments. Critically, lenders should be required to take all reasonable steps to make sure that loans are paid down and that charges never exceed a set percentage of the outstanding loan in any given month.