



ADDLESHAW GODDARD

January 2009

InCredit

This month's edition sees industry introducing changes for struggling credit card holders, the OFT issuing its consultation response to its irresponsible lending project and the FSA issuing a discussion paper on consumer responsibility, whilst the mortgage market is still struggling and seeing prime mortgage arrears at their worst for 8 years.....

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Consumer Credit

OFT issue consultation response to its Irresponsible Lending project

The OFT has published its response to the consultation on the scope of its Irresponsible Lending Project which was launched on 1 August 2008. The OFT has decided that the project should adopt a wider scope to include behaviour and practices around a borrower's ability to repay credit, credit advertising and marketing, selling techniques, product design, use of appropriate credit scoring techniques, and the handling of arrears cases. Please click [here](#) to read the document. [Back↑](#)

FSA discussion paper on Consumer responsibility

The Financial Services Authority has launched a discussion paper on consumer responsibility to explore what steps it as the regulator or others could take to help consumers understand and protect their own best interests more effectively. Please click [here](#) to access the document. [Back↑](#)

Industry principles finalised on clarification of changes for credit card holders

Following a agreement at a meeting on 11 December between the credit card industry and Government, changes for credit card holders who may be struggling to make their regular payments have been announced. This delivers on the industry's commitment to draw up new principles made at the credit card summit on 26



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November. APACS has published a fact sheet to explain exactly what has been agreed and what the changes mean for credit card holders. It is available from <http://www.choosingandusing.com/>.

Two changes have been agreed to help customers struggling with their finances in these challenging economic times, they reflect current industry best practice:

1. Breathing space for customers in trouble: the creation of an agreed breathing space for any customer working with one of the free debt advice agencies to establish a debt repayment plan. This will give those customers a minimum of 30 days, whilst they agree a repayment plan, during which time the credit card company will suspend collection activity. If discussions remain ongoing after 30 days, there is an option of extending this by an extra 30 days to ensure agreement can be finalised.

2. Transparency for customers in the area of risk-based repricing. Many credit card companies use risk-based repricing to calculate the risk of lending an open-ended, unsecured line of credit to a customer whose financial position can change over time. Risk-based repricing can result in changes to the overall cost of credit to a customer. These agreed changes will ensure that customers will be notified when their interest rate is being changed as a result of risk-based repricing, and critically, if their interest rate goes up they will be given sufficient time to close their account or be offered an alternative product, where available. Credit card issuers have also agreed that they will not increase the interest rate on a card on the basis of risk during its first twelve months, or more often than six monthly thereafter. No risk-based repricing decisions will be taken after 1 January 2009 that do not comply with these principles. Please click [here](#) for more information. [Back↑](#)

Metro article – 'Millions may sue over unfair loans'

The article from the London Metro discussing unfair loans, includes comments from claims management companies and references to the Consumer Credit Act. As well as this reference is made to the sale of PPI with loans and the fact that this could increase the consumers chance of having the loan written off if they were sold together. Please click [here](#) to access the article.

There was also a recent article in the Guardian that discussed the role of claims management companies (CMC's) and includes interviews and comments from both the CMC's and the banks. Please click [here](#) to access this article. [Back↑](#)

A 'fairer credit card' by Saga

Saga has launched a new credit card for their members. The card has been described in the article as being an innovative idea and beneficial for consumers as it allows the card holder to transfer a balance at 0% for the first six months, but when they make repayments, the money reduces the most expensive debt first, so the card holder can use the card for purchases and still retain the 0% interest facility on the balance transferred. Please click [here](#) for more information. [Back↑](#)

Chancellor expected to unveil rescue package for lending

Reports persist that the Chancellor is to announce a further rescue package to help bank lending. It is thought that an announcement will be made in January 2009. The package will aim to kick start lending amid a worsening threat of recession. There will be new guarantees announced to help provide banks with incentives to lend to businesses, despite reports from those within the industry that it may prove hard to get the banks to start lending again. In a speech made to the Commons on Thursday 18th December, Alastair Darling said: "I don't favour a one club approach." The Treasury, Bank and Financial Services Authority are also drawing up a number of proposals to help rescue the economy. *Source: Financial Times, 19 December 2008.* [Back↑](#)

Insurance

Egg fined £721,000 for PPI failings but will compensate customers

The Financial Services Authority has fined Egg Banking plc £721,000 for serious failings in its sales of credit card payment protection insurance (PPI). The FSA found failings in approximately 40 per cent of telephone sales of credit card PPI made by Egg between January 2005 and December 2007. Egg sold PPI either when receiving a customer services call, or when making a



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sales call to a new customer. When Egg customers said they did not want PPI on their credit cards, it was found that the firm directed its sales staff to use techniques to persuade the customer to take the insurance - called 'objection handling'. Please click [here](#) to access the full FSA article. [Back↑](#)

Mortgages

Government offers mortgage interest relief

Prime Minister Gordon Brown grabbed the limelight ahead of the Queen's Speech with his announcement that homeowners suffering a loss of earnings could defer mortgage interest payments for up to two years. The government has agreed to guarantee interest payments for those made redundant or suffering a loss of income due to the downturn for mortgages worth up to £400,000. Please click [here](#) for more information from the BBA and [here](#) for the official HMT statement. [Back↑](#)

The Homeowner Mortgage Support Scheme

The Government has announced further details of the Homeowner Mortgage Support Scheme, intended to provide greater assurance to homeowners that they will be able to remain in their homes if they suffer a temporary fall in income, but are expected to recover at a later date. The new scheme will provide a bridge, giving homeowners who are experiencing financial problems sufficient time to find new employment or recover income, without the added concern and stress of potentially losing their home in the interim. Please click [here](#) to read the full HMT press release. [Back↑](#)

Prime mortgage arrears worst for 8 years

Prime mortgage borrowers are struggling to keep up their payments - the proportion of top-quality loans held in asset backed securities that are at least one month in arrears has risen 50%. A report by Standard & Poor's notes that, at 3.24%, the percentage of delinquent loans to prime borrowers at the end of September compared with a year earlier is at its highest since the ratings agency developed its index in 2000. *Source: Financial Times, 15 December 2008.* [Back↑](#)

Mortgage arrears set to increase significantly

The Council of Mortgage Lenders (CML) has issued a warning that the number of mortgages in serious arrears is set to double in 2009. It follows worsening conditions in the housing market. The CML has predicted that loan repayments would exceed the number of new loans for the first time since 1965. The number of mortgages that will be in serious arrears may top 500,000 which will be 4.41% of all home loans. Please click [here](#) to access the article. [Back↑](#)

Current issues in the mortgage market

Jon Pain, Managing Director of Retail Markets at the FSA speaks at the CML annual conference. He discusses the current market, arrears and TCF and the future. To access the speech, please click [here](#). [Back↑](#)

Payments

Mobile banking set to outpace internet banking

The current market has prompted even greater numbers of people to use their mobiles to text or call their banks, according to research. The report suggested that the economic downturn meant consumers are keeping in closer touch with their finances. The survey revealed two thirds (64 per cent) of consumers agreed (or strongly agreed) that it was important to be able to manage their money 24 hours a day, seven days a week. Please click [here](#) for more information. [Back↑](#)

Payments industry issues advice for people with disabilities

APACS has marked the UN International Day of Persons with Disabilities with a new advice guide aimed at helping consumers unable to access some payment methods and services. The guide – Payments & accessibility – offers top tips on payment options for people with a disability, explaining the range of services available. Under The Banking Code, banks and building societies are obliged to provide customers with alternatives if they are unable to use standard services. For example, cardholders that are unable to use a PIN



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– because they are unable to remember a PIN number or because they cannot use a chip and PIN terminal – may request a chip and signature credit or debit card. Please click [here](#) to access the guide. [Back↑](#)

Reloadable 'open loop' cards, popular in Australia?

The Australian Sydney Morning Herald discussed the rise in popularity of the prepaid card. It is thought that this card that helps consumers set spending limits and is challenging its credit and debit rivals. It further reports that the mounting popularity of debit cards is one indication that Australians are losing their appetite for credit. Many consumers will have come across prepaid cards in the form of gift cards - cards with a set value that are branded by a retailer to be used in its particular outlets - these are known in the industry as "closed loop" cards because you can't use them outside that store. This article reports on the increased popularity of the prepaid card, the reloadable "open loop" card, which can be used almost anywhere and replenished with further funds. These have been in Australia for a couple of years. Please click [here](#) to read the full article. [Back↑](#)

Vodafone, Safaricom and Western Union announce partnership to deliver International Mobile Money Transfers

Vodafone, Safaricom and The Western Union Company announced that they will partner to pilot a cross-border Mobile Money Transfer service between the U.K. and Kenya. This service will enable customers to send cross-border remittances from select locations directly to Safaricom mobile subscribers in Kenya generally in minutes. Please click [here](#) to read the article. [Back↑](#)

Faster Payments Service volumes reach new peak

APACS reports that six months after the go-live date for 'Faster Payments', nearly four million internet, phone and standing order payments are processed in a single day. Introduced at the end of May this year, the new system processed 3,907,719 payments on its latest peak day, on 1 December 2008. Please click [here](#) to read the full article. [Back↑](#)

APACS reviews some of the year's top payment myths

APACS comments on some of the most popular payment myths that have been voiced throughout the year. One example;

Myth 1: If you are at a cash machine and you enter your PIN code in reverse it will send a signal to the police to alert them that you are in danger

Fact: This urban myth spread far and wide thanks to the power of the internet. It isn't true, if only because many PINs will be the same when reversed i.e. 6226.

Please click [here](#) for more! [Back↑](#)

1.5 million people to benefit from free cash machines in low-income areas

HMT has issued a statement stating that around 1.5 million people will benefit from the placement of over 600 non-charging cash machines in low income areas. Reporting on substantial progress made by the ATM Working Group, they confirmed that:

- 527 new free access cash machines are now operating in low income areas across the country;
- a further 136 locations for free access cash machines have now been identified and it is planned that these ATMS will be in place in the next 6 months; and
- work will continue to ensure that a free-to-use ATM will be introduced in every possible target area.

This follows on from the initiative that was started in 2008. Please click [here](#) for more details. [Back↑](#)

Market Watch

Reports state that **HSBC** aims to scoop up a large slice of new mortgage lending in 2009. HSBC is aiming to grab a much larger share of the UK mortgage market in 2009. It has set aside £15bn (\$22.3bn) to lend to home owners next year, roughly double the amount it lent in 2007. New mortgage lending by all banks is predicted to come to a halt next year because the credit crunch means most do not have fresh funds to lend. HSBC is one of the world's largest international banks and has



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not been too badly affected by the financial crisis. Please click [here](#) for more information.

Lloyds TSB has announced the main elements of its multi-brand banking strategy once the proposed acquisition of HBOS plc completes in January 2009. Committed to multi-branding: The combined Group is committed to a multi-brand strategy and will have a significant number of strong brands in its portfolio. In particular, Bank of Scotland, Halifax and Lloyds TSB will all continue to operate on the high street once the proposed acquisition is completed. The combined organisation will have the largest branch network in the UK. Work reviewing the other brands in the combined Group's portfolio continues. *Source: Mergermarket, 7 December 2008.* [Back↑](#)

Nationwide brings back the 95% mortgage. The 95% mortgage is back, as Nationwide became the latest lender in December to loosen its lending criteria. However, the new deal is only available for existing borrowers moving home. *Source: Citywire, 17 December 2008.* [Back↑](#)

Nationwide building society, which reportedly has nearly 20 million savings and current accounts, will cut some rates to zero. The move came as a host of banks and building societies cut their savings rates by more than this month's 1.5% cut in Bank rate, effective from 1 December 2008. Interest on Nationwide's Flex and Cash Card current accounts will fall by up to 1.5% to as low as zero on some tiers. Nationwide advertises Flex as paying "up to 30 times more credit interest" than other providers. It now pays just 0% - 1.5%. Many people have taken out the account as it gives access to its e-Savings and Monthly Income 60+ accounts for those aged 60 and over. Rates on those are being cut by 1.5% and 1.55% to 3.05% and 3% respectively. *Source: Sunday Times, 30 November 2008.* [Back↑](#)

NatWest has reportedly launched what it claims is the first international money transfer service over mobile phones offered by a UK bank. From Christmas, customers of its Polish Welcome account were able to send money home to accounts run by Polish bank PKO BP. Please click [here](#) for more information. [Back↑](#)

Royal Bank of Scotland - Homeowners who fall behind with their mortgage payments will be given six

months' breathing space by Royal Bank of Scotland. Stephen Hester, the new head of RBS, which also owns NatWest, said: "We need to recognise our customers' needs and fulfil them where we can. Not because of any moral pressure - although we understand it - but because it makes commercial sense." Mr Hester promised to double the "grace period" that the banks agreed with the Chancellor, Alistair Darling. *Source: Daily Telegraph, 1 December 2008.* [Back↑](#)

And also.....

[ECB opinion on the review of the electronic money directive](#)

Following a request by the European Council, the European Central Bank (ECB) published an opinion on a proposal [set forward](#) by the European Commission on 9 October 2008 for a directive of the European Parliament and of the Council on the taking up, pursuit and prudential supervision of the business of electronic money institutions, amending Directives 2005/60/EC and 2006/48/EC and repealing Directive 2000/46/EC

Whilst the ECB generally supports the review of Directive 2000/46/EC, the ECB also expressed serious concerns regarding the proposal to change the legal definition of electronic money institutions to from "credit institution" to "financial institution" as this may have wide-ranging consequences for the conduct of monetary policy. Please click [here](#) for a copy of the opinion. [Back↑](#)

[Debt trade association gets OFT code approval](#)

The Debt Managers Standards Association (DEMSEA) has become the first trade body within the debt management industry to successfully secure approval for its code of practice under the OFT Consumer Codes Approval Scheme. DEMSEA currently has four members, who between them deal with around 38 per cent of all fee-paying debt management cases handled in the UK. Consumers using companies that are members of DEMSEA are guaranteed a better standard of customer service than the law requires according to the OFT. Please click [here](#) to access the press release. [Back↑](#)



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Queens Speech: Statutory Banking Code regulation

The British Bankers' Association said that bringing the Banking Code more firmly into statutory regulation is now appropriate and that it has no problems with this approach. The Banking Bill which has already started its journey through parliament will have a few more elements added to it following the speech, these include plans to strengthen the Bank of England's mandate to provide financial stability and new rules on dealing with banking sector insolvencies – which some have said would give the Bank of England the right to lend to struggling banks at their own discretion. Please click [here](#) to access the BBA press release. [Back↑](#)

Queens Speech: Savings Gateway Accounts Bill

The government's Savings Gateway Accounts Bill, which has now started its progress through Parliament, aims to encourage people on lower incomes to save by topping up every pound saved with a government contribution. It aims to kick-start a saving habit and to introduce more people to mainstream financial services - a key objective of the government's financial inclusion agenda. Please click [here](#) to access the BBA press release. [Back↑](#)

Government produce paper on Islamic finance

A paper has been released by the government (HMT) entitled "The development of Islamic finance in the UK: the Government's perspective", the intention of the government in producing this paper was to raise awareness about the growing role of Islamic finance in the UK and highlight remaining barriers to development. Please click [here](#) to access the document. [Back↑](#)

OFT consultation paper looking at 'established means' under UCPD

The OFT has published a consultation on the development of compliance partnerships with those bodies that provide 'established means' for the control of unfair commercial practice under the Consumer Protection from Unfair Trading Regulations 2008 and the Business Protection from Misleading Marketing Regulations 2008. The consultation closes on 5 March 2009. Please click [here](#) for a link to the consultation. [Back↑](#)

If you wish to discuss any of the above, or for more information, please contact one of the Financial Regulation Group



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