

**REGULATIONS IMPLEMENTING
THE CONSUMER CREDIT
DIRECTIVE**

Quick Start Guide

AUGUST 2010

CONTENTS

Quick start guide	2
The Regulations.....	3
Key changes	5
1. Advertising and APRs – (<i>Chapters 5 and 6</i>).....	5
2. Creditworthiness and adequate explanations – (<i>Chapters 7 and 8</i>) ..	5
3. Pre-contractual information and agreements – (<i>Chapters 9 and 10</i>)..	6
4. Right of withdrawal – (<i>Chapter 11</i>)	6
5. Other key changes – (<i>Chapters 13 to 19</i>).....	6
Further information.....	8

Quick start guide

This quick start guide explains the key changes that have been made to the Consumer Credit Act 1974 (the CCA) and other associated legislation to implement the Consumer Credit Directive (the Directive). It is intended to be a plain English guide to the new requirements to help businesses identify and understand changes that affect them. It may also be helpful to consumers and those advising consumers on their rights and protections, and to enforcement authorities and other organisations.

Full guidance¹ is available on the BIS website. Guidance should be read in conjunction with the implementing regulations themselves.

¹ URN 10/1053 - Guidance on the regulations implementing the Consumer Credit Directive.

The Regulations

1. The 2008 Consumer Credit Directive was adopted on 23 April 2008, replacing the previous Consumer Credit Directive.
2. In the UK, the Directive has been implemented by six sets of regulations.
3. The implementing regulations apply to all consumer credit agreements regulated under the CCA (other than agreements secured on land), but with modifications for certain types of agreement as noted in the individual chapters of the full guidance. The existing CCA regime is unchanged in relation to agreements secured on land and consumer hire agreements (although lenders may choose to comply with the new requirements in respect of agreements secured on land).
4. The changes principally affect creditors, but also impact to some extent on credit-brokers and credit intermediaries. All those involved in lending money, or making credit available to consumers, or acting on behalf of consumers or lenders in relation to prospective credit agreements, should read this guidance and ensure that they are familiar with the obligations placed on them under the CCA and regulations.

5. The regulations implementing the Directive are:

- *The Consumer Credit (EU Directive) Regulations 2010, SI 2010/1010 (the EU Directive Regulations)*

These regulations make a number of amendments to the CCA and to secondary legislation made under the CCA to implement various requirements of the Directive (eg the right of withdrawal and the requirement to provide adequate explanations).

- *The Consumer Credit (Total Charge for Credit) Regulations 2010, SI 2010/1011 (the TCC Regulations)*

These Regulations set out how the total charge for credit and the annual percentage rate of charge (APR) disclosed in advertising and consumer information must be calculated. They largely replace previous regulations on the total charge for credit.

- *The Consumer Credit (Disclosure of Information) Regulations 2010, SI 2010/1013 (the Disclosure Regulations)*

These Regulations set out what information must be provided to consumers before they enter into a credit agreement and the way in which that information must be provided. They largely replace previous regulations on the disclosure of pre-contractual information.

- *The Consumer Credit (Agreements) Regulations 2010, SI 2010/1014 (the Agreements Regulations)*

These Regulations set out what information must be included in a credit agreement and how it must be presented and include requirements on the signing of a credit agreement. They largely replace previous regulations on the form and content of agreements.

The Consumer Credit (Amendment) Regulations 2010, SI 2010/1969 (the Amendment Regulations)

These Regulations amend errors that were identified in the EU Directive Regulations, the Disclosure Regulations and the Agreements Regulations.

- *The Consumer Credit (Advertisements) Regulations 2010, SI 2010/1970 (the Advertisements Regulations)*

These Regulations set out what information must be included in advertisements for consumer credit agreements and how that information must be presented. They largely replace previous regulations on advertisements.

6. Most of the implementing regulations were made on 28 March 2010. The Amendment Regulations and the Advertisement Regulations were made on 3 August 2010. The regulations come into force on 1 February 2011, although firms can comply earlier if they choose (other than in respect of advertising).

Key changes

(The relevant chapters in the full guidance are indicated in brackets)

1. Advertising and APRs – *(Chapters 5 and 6)*

7. Under the new Advertisements Regulations, if an advertisement includes an interest rate or any amount relating to the cost of credit, it must also include a representative example. This must contain certain standard information including a representative APR. The example must be clear and concise and must be more prominent than the information that triggered the inclusion of the example.

8. The representative APR must reflect at least 51% of business expected to result from the advertisement. The standard information must be representative of agreements to which the representative APR applies.

9. A non-status or comparative indication or incentive triggers a representative APR but does not in itself trigger a representative example. The APR must be more prominent than the relevant indication or incentive.

10. The rules for the calculation of the total charge for credit (TCC), and hence the APR, differ slightly from the previous requirements, and there are some new assumptions.

2. Creditworthiness and adequate explanations – *(Chapters 7 and 8)*

11. Creditors are required to assess the borrower's creditworthiness before granting credit or significantly increasing the amount of credit. The assessment must be based on sufficient information, obtained from the borrower where appropriate, and from a credit reference agency (CRA) where necessary.

12. Creditors must ensure that the borrower is provided with an adequate explanation of the proposed credit agreement, for example the particular features of the agreements, the cost and the consequences of failure to make payments, to enable him to assess whether the agreement is suited to his needs and financial situation. The explanation must cover certain specified matters, and must be provided orally in certain circumstances. The borrower must be able to ask questions about the agreement, or to ask for further information or explanation.

3. Pre-contractual information and agreements – (*Chapters 9 and 10*)

13. The Disclosure Regulations require pre-contractual information to be given in good time before the borrower enters into the agreement. The information must be clear and easily legible, and the borrower must be able to take it away to consider and to shop around if he wishes. In most cases the information must be provided in a standard format, the Pre-contract Credit Information form, to aid comparability and consumer understanding. In the case of overdrafts, a different standard form may be used but is not mandatory. If this form is not used, all the information must be equally prominent.

14. The Agreements Regulations do not prescribe the form of the credit agreement, or the ordering of information. They do prescribe the information that must be included in the document which the borrower signs. It must be clear and concise and easily legible. There are new rules regarding the provision of copies of executed agreements.

15. There is a new right for consumers to request a statement of account for a fixed-term loan. The statement can be requested at any time during the life of the agreement but not more frequently than once a month.

4. Right of withdrawal – (*Chapter 11*)

16. The borrower can withdraw from an agreement within 14 days following conclusion of the agreement or (if later) once the borrower has received a copy of the executed agreement or notification of the credit limit on a credit card. The borrower must repay the credit and must also pay interest for each day the credit was drawn down.

5. Other key changes – (*Chapters 13 to 19*)

17. The borrower must be notified of changes in the rate of interest payable under the agreement. This must generally be done in writing before the change takes effect.

18. The borrower is entitled to seek redress from the creditor in certain circumstances if he is unable to obtain satisfaction from the supplier of goods or services. This applies in cases where section 75 of the CCA (joint and several liability) does not apply, provided that the cash value of the goods or service is more than £30,000 and the credit does not exceed £60,260.

19. The existing right to settle a credit agreement early is extended to a right to make partial early settlements at any time. Under section 95A of the CCA the creditor may claim compensation in certain circumstances provided

that this is fair and objectively justified and does not exceed 1% or 0.5% of the amount repaid early.

20. The borrower can terminate an open-end agreement at any time, subject to notice not exceeding one month. The creditor must give at least two months' notice of termination, and the notice must give objectively justified reasons for termination. The notice requirement does not apply in certain situations, for example where giving notice would prejudice the prevention of crime.

21. The borrower must be informed if the debt is sold or transferred to a third party, unless the arrangements for servicing the debt are unchanged.

22. A number of changes have been made in the requirements on overdrafts. These largely relate to the information that the creditor must give to the borrower about both authorised overdrafts and overdrafts which are not pre-arranged.

23. Credit intermediaries must disclose the extent to which they are acting independently or work exclusively with one or more creditors. If a fee is payable by the borrower to the credit intermediary for his services, this must be agreed in writing with the borrower before the credit agreement is entered into. The fee must be notified to the creditor if the creditor is calculating the APR.

24. If an application for credit is declined on the basis of information from a CRA, the creditor must notify the borrower of this and provide contact details for the CRA.

Further information

This Guide is available electronically at **www.bis.gov.uk** and is not available in standard printed copy. Other versions of this document can be made available on request in Braille, other languages, large fonts and other formats from BIS Publications 020 7215 6024. You may make copies of this document without seeking permission.

This is the August 2010 edition of this Guide and it will be reviewed every 24 months.

This Guide is compliant with the eight golden rules of good guidance given in the Code of Practice on Guidance on Regulation, which can be viewed at <http://www.bis.gov.uk/files/file53268.pdf>

If you wish to comment on the Guide or report any inconsistencies or inaccuracies please contact:-

Susan Walker
Consumer and Competition Policy Directorate
3rd Floor
Department for Business, Innovation & Skills
1 Victoria Street
London SW1H 0ET
consumer.credit@bis.gsi.gov.uk
☎ 020 7215 6427
Fax 020 7215 6437

