

**Press Release**

7 January 2011

**Do New Rules to Protect Credit Card Borrowers Go Far Enough?**

National debt charity Debt Advice Foundation believes the voluntary code of practice introduced to give credit card borrowers greater protection doesn't go far enough and that inappropriate credit limits need to be tackled urgently.

An agreement has been reached between Government and the credit card industry to introduce a new lender voluntary code of practice, the aim of which is to give borrowers more protection.

The proposed changes, which include, making sure minimum payments cover a portion of the capital so that the debt is actually being reduced, making sure payments are allocated to the most expensive debt on an account first (in instances where balance transfers and new purchases coexist) and making sure borrowers are able to reject rate increases and cut up their cards, will unequivocally be a good thing for consumers.



However, debt charity Debt Advice Foundation doesn't think the changes go far enough. David Rodger, Managing Director of the charity said "The main problems affecting borrowers of high-interest credit will persist. Credit card debt, one of the most expensive forms of borrowing, was never intended to be used for the amounts we now regularly see being borrowed. These levels are much more suited to the traditional role of the personal loan with its significantly more competitive rate of interest. We believe that average credit limits

**David Rodger, Managing Director of  
Debt Advice Foundation**

**“**We believe that average credit limits are substantially higher than is reasonable for these types of APRs**”**

are substantially higher than is reasonable for these types of APRs and need to be brought down to sustainable levels as soon as practicable.”

“The ability to opt out of credit limit increases also doesn’t go far enough. We know that upping limits on credit cards is a significant contributory factor to spiralling levels of personal indebtedness. Whilst it’s easy to say people should take personal responsibility for their own borrowing, we need to recognise that it’s a much easier option for someone to eat into additional available credit than cut their cloth accordingly. I’ve heard it said numerous times that credit card companies are complicit in exacerbating debt problems simply by providing credit facilities that haven’t been requested.”

As part of the new rules, credit card companies will be expected to run a credit check first to ascertain whether someone is in financial difficulty before raising limits. Whilst that may prevent people getting into further financial difficulty, will it stop people getting into financial difficulty in the first place? The charity believes that the onus should be on the borrower to prove they can afford the increase and that they want one rather than them being made to go out of their way to reject it.

In terms of the [debt advice and support](#) being offered as part of the new package, the acid test will be how at risk borrowers are identified as many of the people that call the charity’s helpline have never missed a payment, often choosing to go hungry instead. We’re also yet to be convinced about the principles underpinning many lenders’ approach to debt advice - a cursory search for debt advice on Google shows major high street lenders targeting overindebted consumers on the sponsored listings and offering them further credit through consolidation loans as a way out of debt. We also know that lenders have in the recent past preferred to put financially impaired customers in to debt management plans, rather than more suitable insolvency arrangements, because it meant they didn’t have to provide for any bad debt on their balance sheet.

For further information visit: <http://www.debtadvicefoundation.org>

Photo Caption: David Rodger, Managing Director of Debt Advice Foundation

Further information:

Contact the press office on 0800 779 71 36 / 0788 973 60 44 or email [pressoffice@debtadvicefoundation.org](mailto:pressoffice@debtadvicefoundation.org)

### **Editors Notes**

(1) Total credit card borrowing in the UK stood at £58.4bn in November 2010 - Source: Bank Of England, 4th January 2011. <http://www.bankofengland.co.uk/statistics/li/current/index.htm#tables>

(2) Source: 1.2 million people are spending over £1,000 per month online on credit cards - Source: Sainsburys Bank, January 2011.

[http://sainsburysbank.thepressdesk.co.uk/pages/136/2010+Press+releases.stm?article\\_id=679](http://sainsburysbank.thepressdesk.co.uk/pages/136/2010+Press+releases.stm?article_id=679)

(3) Source: Six million Brits have had an outstanding balance on their credit card for a year or more - Source: Money Supermarket 5th October 2010.

<http://www.moneysupermarket.com/c/news/credit-card-balancing-act/0010257/>

### About Debt Advice Foundation

Debt Advice Foundation's telephone helpline service is available six days a week on 0800 043 40 50, lines are open from 8am-8pm Mon-Fri and 9am – 5pm on Saturdays.

Debt Advice Foundation is a registered charity, with the following objectives:

- Provide free, impartial and appropriate advice to people with unaffordable debt.
- Help people with debt problems to gain free access to solutions that will help them.
- Promote the education of young people in money management so as to reduce the likelihood they will mis-use debt later in their lives.
- Undertake or fund research to understand why problem debt happens and its effect on individuals, families and the wider UK economy.
- To use this evidence to become a force for beneficial change within the credit and debt solutions industry and to work with government to bring about legislative change to benefit UK consumers.

Debt Advice Foundation features on the FSA (Financial Services Authority) consumer website – Money Made Clear and Direct Gov as a source of free and impartial debt advice.