



Rt. Hon Lord Mandelson
Secretary of State for Business, Innovation & Skills
Ministerial Correspondence Unit
1, Victoria Street
London
SW1H 0ET

23rd November 2009

Dear Lord Mandelson

Home Credit

I am writing concerning the profiteering of firms in the Home Credit market. Today, the BBC Inside Out programme in the West Midlands reveals the damage that is being done by these companies to families on low incomes. The programme highlights that local advice agencies are now inundated with debt problems arising from the high costs that are being charged.

Firms in this market have been over-charging low income consumers for the last decade. A Competition Commission inquiry into the Home Credit market in 2006 found that a 'striking' lack of price competition was allowing lenders to make at least £75 million in excess profit per year. The Commission indicated that this level of profiteering has taken place since at least the year 2000. As a result, at least £750 million has been drained from our poorest communities in the last 10 years. But the position is getting worse.

The Competition Commission put in place a number of 'remedies', including providing customers with better information, insisting that companies shared customer data, and the establishment of a price comparison website. These have failed to deliver. At the time of the inquiry the largest lender Provident Financial, had 60% of the market and was charging £65 for every £100 lent. Today, the Commission's price comparison website shows Provident Financial is now charging £82 in credit costs for every £100 lent. Prices have actually increased by a further 26% in the three years since the Commission's report.

It is time to cap these obscene prices. In our view there are no longer any other realistic policy options left which will deliver a fair price for credit within a reasonable period of time.

In particular, the 'unfair credit relationship test' introduced by the Consumer Credit Act 2006 has, as we predicted at the time, been a complete failure and the development of credit unions and other alternatives lacks anything like sufficient scale.

We therefore urge you to take two steps which would really improve the position for low income borrowers:

- Introduce an amendment to the Financial Services Bill currently before Parliament which will provide the Office of Fair Trading with the power to cap prices in this and other non-price competitive credit markets. Let the OFT then decide how best to use this power following the conclusion of its High Cost Credit Review which is expected in February 2010.
- Place mainstream financial institutions under an obligation to consider how they can help to meet, either directly or in partnership with credit unions, the needs of low income groups for affordable credit. This could be done by making this a condition of banking licenses and performance could be monitored through the FSA. Given the level of state support provided to the banking system this type of obligation seems particularly appropriate.

We hope that you will now take the action required to help some of our poorest households and look forward to hearing from your office in due course.

Yours sincerely

Damon Gibbons
Chair

Copies to: Kevin Brennan, Ian McCartney