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Date	19 December 2008	Email	ray.watson@oft.gsi.gov.uk

Dear Mr Thomas

Wider implications: risk-based step-changes in interest rates on credit cards and store cards

Thank you for your letter of 18 December which raises a number of concerns regarding the practice of some credit and store card issuers changing the interest rates applicable to their products (including on pre-existing debt) based on a reassessment of the risk of default posed by the consumers affected.

While we accept that there is a place for risk based re-pricing in these markets, we believe that this must be done in a fair and proportionate fashion if consumers are not to suffer unduly as a result. As you know, a number of these issues have been discussed as part of the government's recent credit card summit and as a consequence the industry has agreed a number of important principles to which credit and store card issuers will adhere when proposing future interest rate changes. These principles address a number of the concerns that you have about the timing, frequency and transparency of such decisions and consumers' ability to switch to alternative products. They also specifically address situations where consumers are experiencing difficulties in making repayments and are therefore particularly vulnerable to interest rate increases.



The principles do not apply retrospectively and they do not resolve the questions you have posed about the inherent fairness of contractual terms (where these exist) which permit lenders to vary interest rates in the ways your caseload indicates has happened, or the nature of the risk reassessment undertaken by card issuers. We would, however, expect all card issuers to follow the principles and review their terms and their approach to risk based reassessments in the light of the principles as well, of course, as their legal obligations.

We will be monitoring the industry's progress in implementing the principles (including, for example, the nature of the explanations provided to consumers for increases in interest rates), including via feedback from you on complaints and other relevant data you receive. While we have no immediate plans to take regulatory or other action in this area we will be considering, in the light of developments, whether further work should be undertaken to address some of the complex issues involved. We will update you on our thinking in due course and will of course be engaging with you in the New Year in the context of our Financial Services Plan.

Given the likely circumstances of consumers affected by these changes, we would agree that proceeding with consideration of the cases you have already received is right. While we have no specific information to offer that might assist in this process at present, we very much wish to continue the dialogue we have had to date so that, in the short term, complaints can be progressed satisfactorily and, longer term, we can work to minimise the causes of complaint. This may include, for example, any interpretation of the application of the Unfair Terms in Consumer Contracts Regulations to variation clauses in order to ensure that we are taking a consistent view of the law.

Yours sincerely

Ray Watson
Director of Consumer Credit