Summary of ch\_04.pdf

Summary of CONC Chapter 4: Pre-contractual Requirements

# Overview

This chapter of the Consumer Credit sourcebook (CONC 4) establishes comprehensive pre-contractual requirements for firms engaged in consumer credit lending, credit broking, and consumer hiring. The regulations ensure customers receive adequate information and explanations before entering into credit agreements, with particular emphasis on transparency regarding fees, commissions, and potential risks.

# Key Points and Main Findings

## Content of Quotations (Section 4.1)

* Firms must include specific warning statements in quotations for agreements secured on customers' homes
* Required warnings include:  
    
  "YOUR HOME IS AT RISK IF YOU DO NOT KEEP UP REPAYMENTS..."  
  Special warnings for equity release-type products  
  Foreign currency mortgage warnings
* "YOUR HOME IS AT RISK IF YOU DO NOT KEEP UP REPAYMENTS..."
* Special warnings for equity release-type products
* Foreign currency mortgage warnings
* Statements must be in capital letters, clear, legible, and prominent
* "YOUR HOME IS AT RISK IF YOU DO NOT KEEP UP REPAYMENTS..."
* Special warnings for equity release-type products
* Foreign currency mortgage warnings

## Pre-contract Disclosure and Adequate Explanations (Section 4.2)

* Firms must provide adequate explanations covering:  
    
  Features that may make credit unsuitable for particular uses  
  Payment amounts (periodic and total)  
  Significant adverse effects customers may not foresee  
  Consequences of missed payments (including repossession risks)  
  Withdrawal rights
* Features that may make credit unsuitable for particular uses
* Payment amounts (periodic and total)
* Significant adverse effects customers may not foresee
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* Withdrawal rights
* Special requirements for:  
    
  High-cost short-term credit (must explain unsuitability for long-term borrowing)  
  Credit token agreements  
  Bill of sale loans  
  Hire purchase agreements  
  Debt consolidation loans
* High-cost short-term credit (must explain unsuitability for long-term borrowing)
* Credit token agreements
* Bill of sale loans
* Hire purchase agreements
* Debt consolidation loans
* Explanations must consider customer's level of understanding and financial situation
* Firms cannot require customers to acknowledge adequacy of explanations
* Features that may make credit unsuitable for particular uses
* Payment amounts (periodic and total)
* Significant adverse effects customers may not foresee
* Consequences of missed payments (including repossession risks)
* Withdrawal rights
* High-cost short-term credit (must explain unsuitability for long-term borrowing)
* Credit token agreements
* Bill of sale loans
* Hire purchase agreements
* Debt consolidation loans

## P2P Agreement Requirements (Section 4.3)

* Operators must disclose fees to both borrowers and lenders
* Similar adequate explanation requirements as traditional lending
* Must provide prominent warnings for agreements secured on homes

## Credit Broker Requirements (Section 4.4)

* Credit Broking Information Notice: Firms must send formal notice before requesting payment details, including:  
    
  Legal name and statement that firm is a broker, not lender  
  Amount of charges  
  Payment method and timing
* Legal name and statement that firm is a broker, not lender
* Amount of charges
* Payment method and timing
* Customer must provide written confirmation of receipt before payment details can be requested
* All fees must be agreed in writing before credit agreement is entered
* Legal name and statement that firm is a broker, not lender
* Amount of charges
* Payment method and timing

## Commission Disclosure (Section 4.5)

* Credit brokers must prominently disclose commissions that could affect impartiality
* Motor Vehicle Finance Prohibition: Discretionary commission arrangements are prohibited where:  
    
  Credit brokers can negotiate interest rates  
  Commission varies based on the rate charged
* Credit brokers can negotiate interest rates
* Commission varies based on the rate charged
* Examples of prohibited arrangements include "difference in charges" models
* Credit brokers can negotiate interest rates
* Commission varies based on the rate charged

## Continuous Payment Authorities (Section 4.6)

* Firms must explain:  
    
  How CPAs work  
  How to cancel them  
  Consequences of insufficient funds  
  Frequency of collection attempts  
  For high-cost short-term credit: maximum two collection attempts allowed
* How CPAs work
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* How CPAs work
* How to cancel them
* Consequences of insufficient funds
* Frequency of collection attempts
* For high-cost short-term credit: maximum two collection attempts allowed

## Current Account Agreements (Section 4.7)

* Must disclose overdraft interest rates and charges
* Information required when overdrawing is possible without pre-arrangement

## Unfair Business Practices (Section 4.8)

* Firms must not:  
    
  Pressure customers to enter agreements quickly  
  Induce customers to borrow more than requested  
  Mislead about debt reduction possibilities
* Pressure customers to enter agreements quickly
* Induce customers to borrow more than requested
* Mislead about debt reduction possibilities
* Pressure customers to enter agreements quickly
* Induce customers to borrow more than requested
* Mislead about debt reduction possibilities

# Important Details and Conclusions

* Consumer Protection Focus: The regulations prioritize informed decision-making by requiring comprehensive pre-contractual disclosures and explanations tailored to individual customer circumstances.
* Special Protections for Vulnerable Situations: Enhanced requirements apply to agreements secured on homes, high-cost credit, and situations involving guarantors.
* Transparency in Intermediation: The credit broker provisions ensure customers understand when they're dealing with intermediaries and what fees they'll pay.
* Motor Finance Reform: The prohibition on discretionary commission arrangements represents significant reform in motor vehicle financing to eliminate conflicts of interest.
* Documentation Requirements: Firms must maintain records of information notices and customer confirmations, ensuring an audit trail of compliance.
* No Waiver of Rights: Customers cannot be induced to waive their rights to adequate explanations, ensuring minimum standards are always met.

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The chapter establishes a comprehensive framework ensuring customers receive sufficient information to make informed borrowing decisions while protecting them from unfair practices and hidden costs.