Summary of ch\_05A.pdf

# Summary of CONC 5A: Cost cap for high-cost short-term credit

## Overview

This chapter establishes comprehensive cost caps for high-cost short-term credit agreements entered into on or after January 2, 2015. The regulations implement the FCA's statutory duty under Section 137C of the Act to protect borrowers from excessive charges by imposing three distinct cost limitations: a total cost cap, an initial cost cap, and a default cap.

## Key Points and Main Findings

### Application and Scope

* Applies to firms engaged in consumer credit lending, credit broking, debt administration, debt collecting, and operating electronic lending systems
* Covers new agreements from January 2, 2015, and variations/supplements that impose new or increased charges
* Includes charges from connected agreements (credit brokers in same group or sharing charges, ancillary services)

### Three Cost Caps

* Total Cost Cap: Total charges cannot exceed the amount of credit provided
* Initial Cost Cap: Charges cannot exceed 0.8% per day of outstanding credit (excluding default charges)
* Default Cap:   
    
  Maximum £15 for breach-related charges  
  Maximum 0.8% daily interest on unpaid charges  
  Maximum 0.8% daily on overdue credit amounts
* Maximum £15 for breach-related charges
* Maximum 0.8% daily interest on unpaid charges
* Maximum 0.8% daily on overdue credit amounts
* Maximum £15 for breach-related charges
* Maximum 0.8% daily interest on unpaid charges
* Maximum 0.8% daily on overdue credit amounts

### Refinancing Restrictions

* Replacement agreements must include charges from earlier agreements when calculating cap compliance
* Credit used to repay earlier agreements is excluded from cap calculations
* Early settlement charges that never become payable are disregarded

### Prohibited Practices

* Compound interest is strictly prohibited (only simple interest allowed)
* Multiple drawdowns requiring lender consent are treated as separate agreements
* Firms cannot circumvent caps through connected agreements or group arrangements

### Enforcement and Consequences

* Agreements violating caps are unenforceable against borrowers
* Borrowers can choose not to perform non-compliant agreements
* Lenders must repay excessive charges within 7 days of borrower request
* Borrowers must repay credit received within reasonable period after charge refund

## Important Details and Conclusions

The regulations create a comprehensive framework preventing exploitation of high-cost short-term credit borrowers through multiple protective mechanisms. The daily calculation method for the initial cost cap (0.8% per day) effectively limits total non-default charges to approximately 100% of the principal over 125 days. The £15 default cap provides crucial protection against spiraling penalty charges.

The broad definition of "charge" encompasses all costs associated with credit provision, including broker fees, transmission costs, and ancillary services, preventing circumvention through fee restructuring. The treatment of refinancing ensures borrowers cannot be trapped in debt cycles through repeated rollovers that exceed the original cost caps.

Non-compliance renders agreements unenforceable, providing strong incentive for lender compliance while giving borrowers meaningful remedies. The requirement for simple interest only further protects borrowers from exponential debt growth common in high-cost lending markets.