

Chapter 5A

Cost cap for high-cost short-term credit



5A.4 Cost cap for operating an electronic system in relation to lending

Application

5A.4.1 **R** This section applies to a *firm* with respect to *operating an electronic system in relation to lending* in relation to a borrower or a prospective borrower under an agreement for *high-cost short-term credit*.

Cost cap rules for operating electronic systems in relation to lending: Total cost cap

5A.4.2 **R** A *firm* must not facilitate an *individual* becoming a borrower under an agreement for *high-cost short-term credit* that provides for the payment by the borrower of one or more charges that, alone or in combination with any other charge under the agreement or a connected agreement, exceed or are capable of exceeding the amount of *credit* provided under the agreement.

Cost cap rules for operating electronic systems in relation to lending: Initial cost cap

5A.4.3 **R** A *firm* must not facilitate an *individual* becoming a borrower under an agreement for *high-cost short-term credit* that provides for the payment by the borrower of one or more charges that, alone or in combination with any other charge under the agreement or a connected agreement, exceed or are capable of exceeding 0.8% of the amount of *credit* provided under the agreement calculated per *day* from the date on which the borrower draws down the *credit* until the date on which repayment of the *credit* is due under the agreement, but if the date of repayment is postponed by an indulgence or waiver, it is the date to which it is postponed.

5A.4.4 **R** A reference to a charge in **■ CONC 5A.4.3 R** excludes a charge to which **■ CONC 5A.4.14 R** (Default cap) applies.

5A.4.5 **G**

- (1) The initial cost cap is calculated on a daily basis. However, a charge or charges that may be provided for in an agreement in compliance with this cap can amount to 0.8% of the credit provided (determined in accordance with **■ CONC 5A.4.7 R**) multiplied by the number of days from the date on which the borrower draws down the *credit* until the date indicated in **■ CONC 5A.4.3 R**.
- (2) Where *credit* is drawn down in tranches or is repaid in instalments, the calculation of the initial cost cap takes into account the different

amounts of *credit* outstanding and the different durations for which the *credit* is provided.

Determining the amount of credit provided

5A.4.6 **R** The amount of *credit* provided under an agreement for *high-cost short-term credit* for the purposes of **■ CONC 5A.4.2 R** (Total cost cap) is the lesser of:

- (1) the amount of *credit* that the *lender* actually advances under the agreement; or
- (2) the *credit limit*.

5A.4.7 **R** The amount of *credit* provided under an agreement for *high-cost short-term credit* for the purposes of **■ CONC 5A.4.3 R** (Initial cost cap) is the amount of *credit* outstanding on the *day* in question under the agreement, disregarding for the purposes of that rule the effect of the borrower discharging all or part of the borrower's indebtedness in accordance with section 94 of the CCA (right to complete payments ahead of time) by repayment of *credit* before the date provided for in the agreement.

5A.4.8 **G** For the purpose of the calculation of the initial cost cap, if there is an early repayment by the borrower of an amount of *credit* repayable under an agreement for *high-cost short-term credit* (including where that early repayment is financed by a replacement agreement), the amount of *credit* outstanding on the *days* that follow the early repayment is not reduced to reflect the amount of the early repayment. There is no effect, however, on the right of a borrower to any rebate applicable under the Consumer Credit (Early Settlement) Regulations 2004 and, where applicable, a borrower therefore continues to be entitled to a rebate.

5A.4.9 **G** For the purposes of this chapter, where a *lender* allows a borrower to make a number of drawdowns of *credit* (which may be expressed to be possible up to a specified amount of *credit*) but only with the *lender's* consent to each respective drawdown, each drawdown is a separate agreement for *high-cost short-term credit* and, where applicable, each agreement needs to be documented as a separate *regulated credit agreement* in accordance with the CCA and with the rest of CONC. This chapter applies to each drawdown as a separate agreement accordingly.

Refinancing

5A.4.10 **R** A *firm* must not facilitate an *individual* becoming a borrower under an agreement for *high-cost short-term credit* that replaces an earlier agreement for *high-cost short-term credit* if the replacement agreement provides for the payment by the borrower of one or more charges that, taken together with the charges under the earlier agreement or a connected agreement to any of those agreements, exceed or are capable of exceeding the amount of *credit* provided (determined in accordance with **■ CONC 5A.4.6 R**) under the combined effect of the replacement agreement and the earlier agreement.

5A.4.11 **R** A *firm* must not facilitate an *individual* becoming a borrower under an agreement for *high-cost short-term credit* that replaces an earlier agreement

for *high-cost short-term credit* if the replacement agreement provides for the payment by the borrower of one or more charges in connection with a breach of the agreement by the borrower that, taken together with such charges provided for by the earlier agreement or in a connected agreement to any of those agreements, exceed or are capable of exceeding £15.

5A.4.12 **R** If the effect of a replacement agreement is to repay an amount outstanding under an earlier agreement for *high-cost short-term credit* before the date on which the earlier agreement requires repayment, any charge imposed under the earlier agreement which never becomes payable as a result of the early settlement is disregarded for the purposes of **CONC 5A.4.10 R**.

5A.4.13 **R** No amount is to be counted which is provided to the borrower to repay any amount of *credit* outstanding under an earlier agreement for *high-cost short-term credit* or any amount provided to pay any charge outstanding under the earlier agreement:

- (1) in calculating the amount of *credit* provided for the purposes of **CONC 5A.4.10 R**; or
- (2) where an earlier agreement for *high-cost short-term credit* is replaced, in calculating the amount of *credit* provided for the purposes of **CONC 5A.4.3 R** (Initial cost cap).

Default cap

5A.4.14 **R** A *firm* must not facilitate an *individual* becoming a borrower under an agreement for *high-cost short-term credit* if:

- (1) it provides for one or more charges payable by the borrower in connection with a breach of the agreement by the borrower, which alone or in combination (and whether in relation to one breach or cumulatively in relation to multiple breaches of the agreement) exceed or are capable of exceeding £15; or
- (2) it provides for the payment by the borrower of interest on a charge of a type in (1) that exceeds or is capable of exceeding 0.8% of the amount of the charge calculated per *day* from the date the charge is payable until the date the charge is paid; or
- (3) it provides for the payment by the borrower of one or more charges (except for a charge to which (1) or (2) applies), on any amount of *credit* provided which in breach of the agreement has not been repaid, that alone or in combination exceed or are capable of exceeding 0.8% of that amount calculated per *day* from the date of the breach until the date that the amount has been repaid.

5A.4.15 **G** *Firms* are also reminded of the provisions of section 93 of the CCA (Interest not to be increased on default).

Connected agreements

5A.4.16 **R** Where a borrower or a prospective borrower pays a charge:

- (1) to a *firm*, that carries on or has carried on *credit broking* in relation to an agreement or prospective agreement for *high-cost short-term credit*, which is in the same *group* as the *firm* which is to facilitate, facilitates or has facilitated the provision of *credit* under the agreement for *high-cost short-term credit*; or
- (2) to a *firm*, that carries on or has carried on *credit broking* in relation to an agreement or prospective agreement for *high-cost short-term credit*, which shares some or all of that charge with the *firm* which is to facilitate, facilitates or has facilitated the provision of *credit* under the agreement for *high-cost short-term credit*;

the reference to a charge in **■ CONC 5A.4.2 R** (Total cost cap) and **■ CONC 5A.4.3 R** (Initial cost cap) includes this charge and the agreement providing for the charge is a connected agreement.

5A.4.17 **R** Where a *person* imposes, on a borrower or a prospective borrower under an agreement for *high-cost short-term credit*, a charge for an ancillary service to the agreement, the reference to a charge in **■ CONC 5A.4.2 R** (Total cost cap), **■ CONC 5A.4.3 R** (Initial cost cap) and **■ CONC 5A.4.14 R** (Default cap) includes this charge and, if the charge is not provided for under the agreement for *high-cost short-term credit*, the agreement providing for the charge is a connected agreement.

5A.4.18 **G** Examples of the types of ancillary service to an agreement for *high-cost short-term credit* referred to in **■ CONC 5A.4.17 R** include, but are not limited to, services related to processing the application and to the transmission of the money being lent, and insurance or insurance-like services ancillary to the agreement.

Prohibition on compound interest

5A.4.19 **R** A *firm* must not facilitate an *individual* becoming a borrower under an agreement for *high-cost short-term credit* which provides for a charge by way of interest, unless the charge is by way of simple interest.