

New debt letters rules will support people in problem debt

The letters borrowers receive from their lenders when they are seriously behind on repayments will be easier to understand and less intimidating as a result of new rules proposed by the Treasury today (7 October 2020).

Default Notices are designed to give people who are falling behind on their debts fair warning before lenders take further action, but much of the formatting and content has not been updated in nearly 40 years.

Research from the Money and Mental Health Policy Institute and debt charities has shown that large amounts of capitalised text and legal terms can make the information contained in the letter hard to understand, which has the unintended consequence of confusing and distressing people. This has a negative impact on people's mental health as well as their ability to effectively manage their debt.

As part of the government's effort to support people in problem debt, it will legislate to change the language and presentation of information in debt letters. The new rules will make debt letters less threatening by restricting the amount of information that must be made prominent and requiring lenders to use bold or underlined text rather than capital letters. Lenders will also now be able to replace legal terms with more widely understood words and letters will clearly signpost people to the best sources of free debt advice.

John Glen, Economic Secretary to the Treasury, said:

Being behind on your credit repayments can be a really distressing experience which is made worse by a confusing and intimidating letter from your lender.

As part of our effort to help to people struggling with their finances, it's right that we look again at the legislation around these letters. These new rules will help to take the fear out of finance by ensuring that letters are easier to understand, less threatening, and empower people to take control of their finances.

Some vital work has been done by charities, the industry and the Money and Mental Health Policy Institute and I am grateful for their support in tackling this important issue.

Martin Lewis, Founder and Chair of the Money and Mental Health Policy Institute charity, said:

It's no exaggeration to say that this change could save lives. Over 100,000 in England attempt to take their lives each year due to

debts, and four times that consider it. So we're delighted the government has agreed to back this element of our campaign and change the default demand rules. The last thing people struggling with debt need is a bunch of thuggish letters dropping through the letterbox, in language they can't understand, written in shouty capitals alongside threats of court action.

And the timing is crucial, with millions of people facing debt and distress due to the pandemic, the sooner we end these out-of-date laws which force lenders to send intimidating letters the better. Today's changes will make the most distressing debt letters much less intimidating, and crucially will also easily and calmly point people in serious debt to get the free, non-profit, debt advice they need.

Eric Leenders, Managing Director, Personal Finance at UK Finance said:

The banking and finance industry understands the impact that debt can have on a customer's wellbeing and has been working closely with government to help support customers, especially those in vulnerable circumstances. Lenders have to send Default Notices and these important changes announced today will ensure that customers receive more appropriate and supportive communications.

These new rules are the latest in a wide package of support put in place to help people struggling with their finances, especially through coronavirus. This includes £38 million of extra funding to debt advice providers this year and working with lenders and financial regulators to give people access to payment holidays on their mortgages and a range of consumer credit including credit cards, personal loans, motor finance and payday loans.

The government has also given the Financial Conduct Authority strong powers to protect consumers who borrow money, including cracking down on payday lenders, capping the cost of rent-to-own, and taking action on overdraft fees.

The new rules will be delivered through secondary legislation and are expected to come into force in December 2020. All lenders will then be required to make the changes within six months.