EXPLANATORY MEMORANDUM TO

THE CONSUMER CREDIT (EXEMPT AGREEMENTS) (AMENDMENT) ORDER 2006

2006 No. 1273

1. This explanatory memorandum has been prepared by the Department of Trade and Industry and is laid before Parliament by Command of Her Majesty.

2. Description

2.1 The Consumer Credit (Exempt Agreements) Order 1989 ("the 1989 Order") contains a number of articles, which exempt certain types of credit agreements from regulation by the Consumer Credit Act (1974). Article 4(1)(a) states that "The Act shall not regulate a debtor-creditor agreement where the creditor is a credit union and the rate of the total charge for credit does not exceed 12.7%". The Consumer Credit (Exempt Agreements) (Amendment) Order 2006 ("the Order") up-dates the article to reflect an increase in the rate of interest that credit unions are allowed to charge.

3. Matters of special interest to the Joint Committee on Statutory Instruments

3.1 None.

4. Legislative Background

4.1 The Consumer Credit Act 1974 (the 1974 Act) regulates certain types of consumer credit agreements up to a limit of £25, 000. The 1974 Act defines the categories of consumer credit agreement that are regulated. In particular, section 16 of the 1974 Act exempts a number of different types of agreement from regulation including. 16(5)(a) provides that the Secretary of State may by Order provide that the Act shall not regulate consumer credit agreements where the rate of the total charge for credit does not exceed the specified rate.

4.2 Credit unions are incorporated under the Credit Unions Act 1979 (the 1979 Act) which places a number of requirements on how credit unions operate. One restriction is that credit unions may not charge interest on loans exceeding 1% per month. This interest must also be inclusive of all administrative costs and other expenses associated with making the loan. The total charge for credit is therefore 12.68%.

5. Extent

5.1 This instrument extends to Northern Ireland.

6. European Convention on Human Rights

6.1 Gerry Sutcliffe MP, the Parliamentary Under Secretary of State for Employment Relations and Consumer Affairs, has made the following statement regarding Human Rights:

> In my view the provisions of the Consumer Credit (Exempt Agreements) (Amendment) Order 2006 are compatible with the Convention rights.

7. Policy background

7.1 HM Treasury and the Financial Services Authority are responsible for the prudential regulation of credit unions. As part of the Treasury's programme to widen access to affordable credit among low-income groups, in March 2005 they consulted on raising the cap on the interest rate that credit unions are allowed to charge, to 2% per month (total charge for credit of 26.82%). The intention is to enable credit unions to offer loans to a broader range of people, by allowing them to offset the higher risk posed by some borrowers against a higher charge for credit. The consultation responses were generally in favour of the increase in the interest rate cap and consequently the Chancellor announced his intention to raise the cap in the 2005 Pre-Budget Report. The cap will be raised, by amending secondary legislation, on 6 April 2006.

7.3 Credit unions are exempted from the Consumer Credit Act under the Consumer Credit (Exempt Agreements) Order 1989. This exemption reduces the cost of running the consumer credit business and enables them to offer credit at affordable rates to consumers who might otherwise be excluded from credit. One of the criteria for this exemption is that credit must be provided at less than 12.7% APR (a total charge for credit of 12.7%). If credit unions raise the interest rate, which they charge, they will not qualify for the current exemption and will be brought within the Consumer Credit Act.

7.4 As part of their consultation on the interest rate cap the Treasury asked whether the Consumer Credit Act exemption should be maintained. The consultation responses were in favour of maintaining the exemption. The arguments centred on the costs of regulation outweighing any benefits gained from the rise in the interest rate cap.

7.5 This Statutory Instrument therefore amends the 1989 Order to increase the specified rate to 26.9% in order that credit unions will continue to remain exempt from the 1974 Act, following the increase in the interest rate cap.

7.3 HM Treasury formally consulted on maintaining the exemption as part of their consultation on increasing the interest rate cap (published alongside the Budget in March 2005). No formal consultation has been undertaken on this amending Statutory Instrument, but interested bodies and government departments have been consulted.

8. Impact

8.1 A Regulatory Impact Assessment is attached.

9. Contact

Gaynor Jeffery at the Department of Trade and Industry Tel: 0207 215 2804 or e-mail: Gaynor.Jeffery@dti.gsi.gov.uk can answer any queries regarding the instrument.

Full Regulatory Impact Assessment – Credit Union Exemption

Contents

Title of proposal

Purpose and intended effect

Objective

Background to proposal

Rationale for Government intervention

Risk assessment

Options

Costs and benefits

Consultation with small business: the Small Firms' Impact Test

Competition assessment

Enforcement and sanctions

Compensatory simplification

Summary and recommendations

Consultation

TITLE OF PROPOSAL

1. Maintaining the exemption for credit unions from the Consumer Credit Act (1974).

PURPOSE AND INTENDED EFFECT

OBJECTIVE

2. The objective is to enable the Government to meet its policy objective of helping credit unions to offer credit to a wider group of potential borrowers, by enabling credit unions to take advantage of an increase in the limit of the amount of interest on a loan that a credit union can charge. This involves maintaining the exemption for credit unions from the Consumer Credit Act 1974 to reflect the higher interest rates that credit unions will be able to charge.

3. This proposal will affect credit unions and their members. It will also affect disadvantaged groups by helping them to obtain access to credit

BACKGROUND

4. Credit unions are mutual financial organisations, offering savings and loans facilities to their members. The Government recognises that not-for-profit, or 'third' sector lenders have an important role to play in the provision of affordable credit in areas of high financial exclusion. HM Treasury and the Financial Services Authority are responsible for the prudential regulation of credit unions, which are incorporated under the Credit Unions Act 1979.

5. The Credit Unions Act 1979 places a number of requirements on how credit unions operate. One restriction is that credit unions may not charge interest on loans at a rate exceeding 1% per month. This interest must also be inclusive of all administrative costs and other expenses associated with making the loan. The associated APR is 12.68%.

6. Credit unions are exempted from the Consumer Credit Act 1974 (the Act) under the Consumer Credit Order 1989. This exemption ensures that a number of regulatory burdens are removed from their operation. In particular;

    - The form and content of agreements made by credit unions does not have to adhere to CCA regulations.
    - Credit unions are not required to provide pre-contract information
    - Credit union advertisements do not have to adhere to CCA standards
    - Credit unions are not subject to information disclosure provisions
    - It is not necessary for credit unions to hold a credit licence
    - Credit unions are not subject to CCA procedures to be adopted in the event of default, termination, or early settlement

7. This exemption aims to reduce the set up and running costs of the consumer credit business and enables them to offer credit to consumers who might otherwise be excluded from credit at affordable rates. One of the criteria for this exemption is that credit must be provided at less than 12.7% APR.

8. Credit unions are, however, subject to a risk-based supervisory regime under the FSA, which sets the requirements for prudential capital and liquidity. They have their own specialist handbook, tailored to the needs of the sector called CRED - details are set out in the FSA website[1]. As a result of being regulated under the Financial Services and Markets Act (FSMA) their members have access to the Financial Ombudsman Service in respect of complaints against the credit union. They also fall within the Financial Services Compensation Scheme. Members' funds are covered up to a maximum of £31,700. This is made up of 100% cover for the first £2,000 and 90% of the next £33,000. Compensation is also available to cover investments, mortgage advice and insurance. Regulation is based on the premise of minimising the risks to the FSA's objectives under FSMA. Although none of this goes directly to protection under the Act it does mean that credit unions operate under a system of regulatory requirements that are designed to protect their members.

9. In March 2005 Treasury consulted on raising the cap on the amount of interest that credit unions can charge[2], as part of the programme to widen access to affordable credit among low-income groups. The intention is to enable credit unions to offer loans to a broader range of people, by allowing them to offset the higher risk posed by some borrowers against a higher APR. The consultation was published as an associated document to the 2005 budget and received wide coverage. The consultation responses (the majority from credit unions and their trade bodies) were generally in favour of an increase in the interest rate cap and consequently the Chancellor announced his intention to raise the cap to 2% per month (APR of 26.82%), in the 2005 Pre-Budget Report[3].

10. The Treasury consultation asked a specific question about whether the current exemption from the Act should be maintained if the interest rate cap were to be raised. The consultation responses were in favour of maintaining the exemption (27 respondents, almost entirely credit unions or their trade bodies), although one respondent suggested that this exemption should be kept under review as credit unions expand to compete with other lenders. Two respondents felt that credit union members should be afforded the same levels of protection as other borrowers (and thus be brought within the Consumer Credit Act). The arguments in favour of maintaining the exemption centred on the costs of regulation outweighing any benefits gained from the rise in the interest rate cap.

RATIONALE FOR GOVERNMENT INTERVENTION

11. Where as most consumers are able to gain access to consumer credit products through mainstream lenders a significant proportion are unable to do so due to their poor credit history. In the absence of credit unions these individuals would need to borrow from sub-prime lenders who tend to charge significantly higher rates. The value of the sub-prime credit market in the U.K has been estimated at £16 billion per annum, with approximately 8 million people falling in to this definition[4].

12. The Government is committed to supporting financial inclusion and widening access to credit to those in lower income groups. Credit unions provide one way of doing this – providing individuals with an alternative to sub prime lenders.

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[1] www.fsa.gov.uk
[2] http://www.hm-treasury.gov.uk./budget/budget_05/other_documents/bud_bud05_odcredit.cfm
[3] http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr05/report/prebud_pbr05_repindex.cfm
[4] Datamonitor report on UK non-standard and sub-prime lending, 2004, as referred to in http://www.competition-commission.org.uk/inquiries/current/homecredit/third_party_submission_debtonourdoorstep.pdf

13. The latest figures available from the Association of British Credit Unions Limited (ABCUL) show that there are a significant number of credit unions assisting a substantial number of consumers. 386 credit unions are registered with ABCUL and an estimated 550 credit unions exist in the UK. The 386 Credit Unions that are members of ABCUL have 404,658 members, £35m in outstanding loans and £380m in member's shares.

14. Evidence regarding certain sources of commercial credit used by people living in the poorest fifth of UK households indicates that 4% of these individuals had used credit union loans in a 12-month period.

Sources of commercial credit used in the last 12 months by people living in the poorest fifth of UK households (%)

	All[a]	On benefits or only part-time or occasional earnings	Full-time earnings
Home credit	6	8	1
Mail order	8	9	5
Credit card	7	6	8
Personal loan (eg bank)	5	4	7
Store card	3	2	6
Car loan	1	1	2
Rental purchase	1	2	[b]
Hire purchase	1	1	2
Payday loan	1	1	1
Pawnbroker	1	[b]	1
Credit union loan	4	5	2
Personal loan from family or friend	13	11	20
Social Fund loan or grant	20	25	2

Notes: [a] All people living in the poorest fifth of UK households; [b] less than 1%.
Source: Policis

15. Although not for profit, credit unions need to at least break even on loans they supply. The current interest rate cap of 1% per month thus limits the number of loans that credit unions can provide. By raising the limit to 2% the proposals intend to widen the scope of credit unions meaning that their products are available to a higher proportion of those excluded by mainstream lenders.

OPTIONS

Option 1 - do nothing

16. Credit unions charging 1% or below per month would still benefit from an exemption from the Act. Credit unions would be free to charge interest on loans at rates between 1% and 2% but these loans would be subject to regulation under the Act.

Option 2 – Amend the exemption to reflect the increased interest rate

17. Credit unions would benefit from an exemption from the Act for all loan products.

SECTORS AND GROUPS AFFECTED

18. The DTI expects the impact of these proposals to primarily affect credit unions and their customers. Sub prime lenders may also be affected in so far as the proposals mean that credit unions product range moves into that previously covered by sub prime lenders. This issue will be considered further as part of the competition assessment.

COSTS AND BENEFITS

19. The costs and benefits set out in this section represent an initial assessment based on the information currently held by the Government.

Benefits:

Option 1: (Do nothing)

20. Leaving the exemption as it currently stands would mean that credit unions wishing to charge interest rates of higher than 1% per month would need to comply with the Act for these loans. This would mean that credit union customers who were charged interest rates within this higher band would be afforded the additional consumer protections of the Act. These include standard information requirements such as those relating to pre-contractual information and credit agreements, and minimum early settlement terms.

21. Furthermore this option would avoid the potential competition impacts identified in the competition assessment section below. However, these competition impacts are likely to be limited in nature.

Option 2:

22. The primary thrust of the proposal outlined above is to broaden the potential group of customers who could borrow from a credit union. Maintaining the exemption from the Act for all credit union loans would mean that the costs discussed in paragraphs 23-26 would be avoided. This would enable credit unions to take full advantage of the allowed increase in interest rates and offer loan products to a wider group of potential borrowers. This would mean that some higher risk consumers would be able to access credit at lower cost than is currently available and that some consumers who are currently unable to access credit may be able to do so.

Costs

Option 1:

23. If this option were taken it would result in some credit union loans being brought within the Act. This would create a two-tiered regulatory structure for credit unions, which would be practically very difficult to manage, especially given that many credit unions are run by volunteers.

24. The effect of not extending the exemption for credit unions would also have the effect of introducing regulation to those credit unions that choose to take advantage of the increase in the interest rate cap. Although the additional ongoing costs for compliance with the Act may not be substantial once credit unions have the relevant systems in place, the initial 'set up' costs associated with a move to regulation under the Act will impose significant costs potentially offsetting the benefits gained from the increase in interest rate caps. This would mean that the policy objective of helping credit unions to extend their base of potential borrowers would not be met with repercussions on disadvantaged groups who would not benefit from wider access to affordable credit.

25. It is difficult to estimate the cost of this regulation, but the regulatory impact assessment for pre-contractual information and credit agreements[5] estimated the transitional cost to small businesses of complying with the regulations at £5,000 per lender. Ongoing compliance costs were judged to be relatively low. There would also be a cost associated with obtaining a consumer credit licence - £275 to apply for a licence together with associated administrative costs.

26. In light of these factors the Government proposes to reject option 1.

Option 2:

27. As this option maintains the exemption from regulation, there are no regulatory costs imposed by this option. However, there may be new costs to the customers of credit unions charged interest at over 1% per month because keeping credit unions exempt from the Act would mean that they do not benefit from the same protections afforded to other credit users.

28. However, all credit unions have defined ethical lending policies and there is no evidence of consumer detriment in this sector, although further research would be required to confirm that this is the case. Furthermore, credit unions as deposit takers are now

[5] http://www.dti.gov.uk/ccp/topics1/pdf1/credriadis04.pdf

regulated by the FSA, which does afford their customers some protections that are not afforded to those borrowing from some other lenders within the non-status lending sector.

29. Furthermore this option may create detrimental competition impacts, as identified in Competition Assessment section below. However, these competition impacts are likely to be limited in nature.

30. As such, Government supports Option 2, based on current information.

CONSULTATION WITH SMALL BUSINESS: THE SMALL FIRMS IMPACT TEST

31. The measure affects credit unions that are small businesses. However the proposal is to maintain an exemption from regulation and so we do not anticipate any adverse impacts on small businesses. We have consulted with the Small Business Service who agree that this proposal should not have any adverse consequences on small businesses. The Treasury consultation on the credit union interest rate cap was sent to a large number of credit unions and also to The FSA Small Business Practitioners Panel. As mentioned in paragraph 5, the consultation was published as an associated document to the 2005 budget and so would have received broad coverage because of this.

COMPETITION ASSESSMENT

32. The DTI considers that the relevant market for analysis in this instance is the market for sub-prime credit products i.e. those produces supplied by credit unions or sub prime lenders (see Annex 1 for further information on this market definition). Given that credit unions and other sub-prime lenders are likely to be in the same market, it is inevitable that any proposal that offers more favourable conditions to one sub-set of suppliers (credit unions) will be distortionary. The lower cost base on which they operate as a result of the proposal will enable them, ceteris paribus, to offer lower priced products than other suppliers, enabling them to capture a greater share of the market than would occur otherwise.

33. Such short-term movements in market share may then feed through in to longer-term impacts on efficiency, as potentially less efficient firms are able to operate more successfully in the market due to the cost advantage they enjoy.

34. However, in this instance the significance of this competition distortion is likely to be limited by a number of key factors, including;

- **The share of the sub-prime market accounted for by credit unions**

  As described in paragraphs 11-14 credit unions account for a small share of the sub-prime credit market at present. Although the proposals aim to increase this share other sub prime lenders will still make up the majority of this market

- **The significance of the cost advantage**

  The size of the benefit conferred on credit unions through their exclusion from the consumer credit act will have a major impact on the extent of the competition distortion. Generally, if a measure confers are a small or insignificant cost advantage, its impact both in the short term and long term will be limited.

The exemption from the Act granted to credit unions is set out in paragraph 6. However, whilst this list may appear extensive, the actual cost advantage conferred upon credit unions is likely to be relatively limited.

In many areas credit unions operate on terms very similar to those set out within the regulations under the Act. For example the form of agreements, and pre contractual information may not take the exact form of the specifications of the Act, but are likely to broadly cover similar issues in a similar manner. As such it is unlikely that a significant cost advantage is conferred on credit unions in these instances.

Other provisions are unlikely to apply to the ways in which credit unions operate. For example, credit union advertising is likely to be very limited in nature. Exemption from advertising regulations therefore confers little benefit.

Exemption from OFT licencing under the Act is also likely to confer little benefit on Credit Unions due to the minimal costs involved (less than £300).

In conclusion, the exclusion under which credit unions operate serves to offer only a limited cost reduction. The competitive distortion created by this exclusion is therefore likely to be relatively small.

- **Factors affecting consumer switching**

Credit unions operate under a system in which members needs to have a 'common bond of membership'. This means, for example, that all members must live in the same area, or work for the same employer, or be a member of a trade union, or of some other special interest group. As such, membership to credit unions is highly restricted.

Customers of other forms of sub-prime lender cannot simply switch to the products of credit unions, should they offer a better package, unless they have such a common bond. As such, the competitive distortion created by any cost reduction conferred on credit unions is likely to have a smaller impact than would otherwise be the case.

35. The combination of these factors make it unlikely that the proposed exemption to the operations of credit unions will have a substantial impact on competition in the sub-prime consumer credit market.

ENFORCEMENT AND SANCTIONS

36. The legislative proposal set out in this paper does not require any changes to the existing arrangements.

COMPENSATORY SIMPLIFICATION MEASURES

37. The preferred option (option 2) does not impose any additional regulatory burdens on either credit unions or other players within the market. Our aim is to ensure that the proposals come into effect in early April in line with commitments on common commencement dates.

SUMMARY OF COSTS AND BENEFITS

OPTION	COSTS	BENEFITS
1	Loss of benefits associated with the increase in the credit union interest rate cap, due to costs of conforming to consumer credit regulation or failure of credit unions to take advantage of the increase because of the regulatory costs they would face. Costs estimated at £5,000 transitional costs per small lender to comply with requirements for credit agreements and pre-contractual information, with relatively low ongoing costs. Costs of a consumer credit licence currently £275.	Consumer protections under the Consumer Credit Act 1974 extended to some credit union borrowers.
2	Credit union borrowers do not benefit from protections under the Consumer Credit Act 1974.	Credit unions should be able to take advantage of the increase in interest rate cap and offer loans to a broader customer base. More consumers have access to credit at affordable cost.

Option 2 preferred, as this Option seems likely to capture most of the benefits available from the associated increase in the credit union interest rate cap.

Consultation

38. We have consulted with the following bodies:

Within Government
- Small Business Service
- Office of Fair Trading
- HM Treasury
- Financial Services Authority
- Department for Work and Pensions

Public Consultation
- The Citizens Advice Bureau
- National Consumer Council
- Which?
- The Finance & Leasing Association
- British Bankers Association
- Consumer Credit Association
- Consumer Credit Trade Association
- Association of British Credit Unions
- UK Credit Unions (formerly (AICU)
- Scottish League of Credit Unions
- ACE Credit Union Services

I have read the regulatory impact assessment and am satisfied that the benefits justify the costs

Ian McCartney

9th May 2006

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ANNEX 1: Market Definition Used for the Competition Assessment

Market definition

The process of defining a market typically begins by establishing the closest substitutes to the product (or group of products) that is the focus of the investigation (i.e. those offered by credit unions). This involves considering both supply side substitutes (where suppliers of other products could substitute to the production of the product in question) and demand side substitutes (the products which consumers consider as direct alternatives). These substitute products are the most immediate competitive constraints on the behavior of the undertaking supplying the product in question.

Demand side substitution

In considering the extent of consumer substitution, it is important that we consider the market in the context of proposed changes. In this instance, relying on historic data on consumer switching to inform the market definition and subsequent competition assessment may not be the best approach, given that proposals could change the operations of credit unions and the subsequent level of switching substantially.

Instead, the best indicators of consumer switching in the presence of the new proposals are likely to be the characteristics of the products offered by various suppliers, coupled with natural barriers to consumer switching that occur in the market.

If products are similar in their characteristics, then it is very likely that consumers will tend to switch between them and subsequently that they are in the same market. However, if consumers are somehow restrained from switching then it is unlikely that products will be in the same market.

The type of products offered by credit unions can, in general, can be defined as follows;

- Short -term
- Low-value
- Sub-prime customer orientated[6]
- More expensive than prime market lenders
- Only available to members of the credit union, where entry is restricted by common bonds.

These characteristics are relatively close to the products offered by other sub-prime lenders, although certain differences can be identified. For example, the following differences between credit unions and home credit providers can be identified;

- Credit unions are accessible only to their members;
- Membership is limited to those who share a ‘common bond’ (for example those living in a particular area).
- With most credit unions, loans are accessible only after a period of saving and only for a limited multiple of the savings on deposit, and
- There is no home collection service.

6 Sub-prime customers are defined as those with a poor credit history, or who are in debt and having difficulty getting credit from mainstream lenders.

However, it would be difficult to argue that customers of credit unions under new proposals would not have at least the potential to switch to other sub-prime credit providers in sufficient quantities to consider them in the same market. It is certainly not the case the any barriers to switching away from the products of credit unions occur within the sub-prime market, and products would be likely to be compared on similar terms if price convergence occurs as a result of the proposals.

Conversely, significant natural barriers would appear to exist, which act to substantially limit consumer switching from the sub-prime market to the prime market.

Customers are, in general, assumed only to enter the sub-prime market due to their exclusion from the prime market. Indeed, sub-prime customers are defined as those with a poor credit history, or who are in debt and having difficulty getting credit from mainstream lenders. In general, given the substantially lower prices available in the prime market, it would be economically irrational for an individual to enter the sub-prime market unless they were forced into such a decision. As such, it would seem as if demand side substitution is unlikely between the sub-prime and prime markets

This analysis is consistent with work undertaken by Kempson and Collard[7], which suggests that the types of credit available to people on low incomes or with impaired credit records comprise small, short-term cash loans and credit tied to the purchase of goods, from the following sources;

- Home credit companies:
- Pawnbrokers
- Unlicensed moneylenders
- Social Fund Budgeting Loan scheme.
- Community based loan schemes
- Credit Unions
- Informal savings and loans schemes/ family and friends
- Agency mail order
- Rental purchase

Supply side substitution

If barriers do not exist to limit the entry of prime market lenders to the sub-prime market then the market definition should be widened to include these providers, as the would provide a competitive constraint on the actions of firms operating within the sub-prime market.

Currently there is very little supply side substitution between the commercial sub- prime market and the prime market, with firms such as Provident, Cattles, London and Scottish Bank and S&U dominating the sector. Two key reasons have been highlighted by the Competition Commission to explain this.

Firstly, there are absolute cost advantages for larger firms in the market. These accrue due to the lack of credit data sharing across home credit lenders and with other sections of the consumer credit market, and the problem of adverse selection that arises for new market entrants who may choose to obtain market share by competing on price. Market entry is therefore discouraged because new market entrants experience higher average costs than incumbent firms.

[7] http://www.jrf.org.uk/bookshop/eBooks/1861347480.pdf

Secondly, the large companies do not need to take the higher risks of attracting new customers in order to make substantial profits. They can instead rely on their existing customers who, as a result of the use of rollover loans and the high switching costs that would be experienced in the event of a move to a competitor firm are often unable to take advantage of any lower cost credit that may be on offer.

These two factors allow larger companies with existing customer bases to balance the extent to which they seek new customers against the increased risks of default that those customers represent. New firms seeking to enter the market cannot do this.

In the event that a local moneylender entering the market is successful in securing a loan book of reasonable quality after taking the initial considerable risk, the larger companies can afford to acquire that business as a whole. Entering the market on a national scale is prohibited by the degree of investment required to establish a national network of agents and the significant marketing costs involved. New entrants are therefore unlikely to erode the existing customer bases of the larger companies.

In addition to this, certain issues surrounding reputation may act to deter entry from credit lenders currently operating in the prime market. Offering high cost products to those individuals likely to default, due to adverse financial situation is considered by some to represent an unethical business avenue. Credit lenders wishing to protect the value of their brand have subsequently been unwilling to enter this area of lending, according to some sources.

As such, it would seem unlikely that sufficient supply side switching is likely to take place between the prime and sub-prime markets due to natural barriers to entry, coupled with reputational issues.

Conclusion: Sub-prime credit market

Based on the analysis above, it seems that the characteristics offered by other sub-prime lenders are sufficiently similar to those offered by credit unions to suggest that consumer switching is likely. However the same is not true for the prime market, as sub-prime consumers will be restricted in switching to these products. On the supply side, a number of factors serve to restrict supply side substitution from those outside the sub-prime sector.

The DTI therefore considers that the relevant market for analysis in this instance is the market for sub-prime credit products.