

Consumer Credit Act (2006) And Its Effectiveness

Posted on July 26, 2022

1 Introduction

During the last couple of decades, there has been a histrionic increase in credit in the UK and other European states. In fact, the need for credit is unquestionable in the modern consumer-based society. More and more companies and households are dependent upon credit to undertake their daily transactions, so the importance of credit in society has expanded to unmeasurable extents. The credit products available in the market are more than when the original Consumer Credit Act (1974) was presented, which is why more regulations are required for these products to improve the linkages between debtors and creditors. History has proven that the previous governing regulations are significantly outdated, and they are in dreadful need of reworking and updating to meet the modern standards of society. The temperament of the relationship between creditors and their debtors has consequently become more legalistic and complex, and rules that manage these particular relationships need to be established without depending upon the general principles that can be found.

2 Consumer Credit Act (2006)

The CAA (2006) is an act passed by the UK parliament to ensure the protection of consumers when they borrow money. This act is an extended version of the original Consumer Protection Act of 1974 to resolve insufficiencies that have led to the unfair or unequal relationship between consumers and lenders and to the exploitation of the consumers by lenders, which gives undue advantage to the lender. After a keen evaluation of the CAA (1974) for three years, an amended version of the act was passed in March 2006 to meet three different purposes. First of all, increase consumer remedies and rights by enabling them to challenge unjust lending practices through a more comprehensive dispute resolution structure. Secondly, the expansion of the consumer credit business system by developing an easier licensing arrangement by requiring information provision to consumers over their accounts. Thirdly, the correct administration of a range of credit dealings should be done with the help of balanced business industry regulation^[1].

The CAA (2006) has several important provisions, including the execution of an extra rational structure that is appropriate in case of contract breaks, the application of a synchronized standard for all consumer credit organizations, and credit businesses planned to help reasonably priced and faster dispute resolution systems. The amendments of the CAA (2006) have an influence on all those who use credit to purchase goods, for instance, by using a store credit card.

3 Key Amendments Of CAA (2006)

CAA (2006) is a refined version of the CAA (1974), which was amended by introducing a new system to govern the activities of loan-providing institutions with respect to several agreements, such as credit agreements and hires. In fact, it protects consumers from entering into such agreements and controls the lending process. These amendments cover credit agreements, for example, store cards, overdrafts, individual cash credits, and credit cards, as well as hire purchase contracts like buying a vehicle through instalments. The act was re-presented on 30th March 2006 with important changes to the consumer credit regime. The following are some key amendments to the CAA (2006).

The first key amendment of the act was an improved version of the meaning of the term “individual”, which implies that the act does not guard against lending to more than 3 people or partnerships. The next important amendment was related to the elimination of financial limits.

This amendment of the Act states that the act will be valid for loans up to any lump sum that was 25000 pounds before on consumer credit or hires. The third important amendment was to establish a fair system for the creditor. “To help impose minimum standards and implement Periodic statements for fixed sum credit and Periodic statements running account credit (e.g. health warnings) as well Arrears notices”^[2].

Some other amendments of the CAA (2006) include: 1) the Office of Fair Trading powers will be strengthened in relation to the licensing of consumer credit lenders, 2) extortionate credit bargains rules will be changed with a new test named “unfair relationship”^[3] which will be applicable to all lending transactions of consumers, 3) default notices requirements extended from seven days to fourteen days, 4) lenders may only recover simple interest on default sums, 5) running account credit statements must include the health warnings in a specified form, 6) high net worth exemption enables rich people to opt-out of regulation, 7) provision of flexible power to the law court so that they can help to enforce executed arguments, 8) power as a regulator of The Office of Fair Trading (OFT) has strengthened containing the capacity to enforce civil penalties up to fifty thousand pounds, and 9) Consumer Credit Appeals Tribunal enables the licensee to challenge any decision prepared by OFT.

4 Effectiveness Of The Amendments Of CAA (2006)

The effectiveness of the amendments of the CAA (2006) has been a widely discussed topic during the last couple of decades. Many scholars have written papers on the usefulness of these amendments. In this section, we will highlight how effective they have been in protecting the rights of consumers in credit transactions. Concisely speaking, the CAA standardizes not only credit card buying but also offers consumer protection when he/she goes into a hire or loan agreement. It also provides him/her with the command to have a cooling-off period. The ombudsman scheme is documented as the most important feature of the CAA (2006). It gives consumers options for using the FOS if they feel

despondent about their creditor dispute resolution.

CAA (2006) is a unique and essential law that covers most commercial lending in the United Kingdom. It highlights what creditors must do when they give money and when they take it back. It also highlights the key rights of consumers when they obtain money. As mentioned earlier, since 1974, this Act has been amended several times, and at the present time, it provides more safety to consumers than ever before. According to the literature, there are several types of consumer agreements. A regulated consumer credit agreement is the legislation that covers particular types of consumer credit agreements, non-commercial or partially regulated agreements mean those credit agreements that are not fully regulated, while exempt agreements mean the credit agreement that is not regulated for example normal trade credit and credit union agreements. All debts covered by this act are recognized as regulated debts, which applies to most common household borrowing. Some of the regular debt types regulated by the CAA include credit cards, catalogues, personal loans, hire purchase, payday loans, store finance, buy now pay later agreements, store cards, and secured loans, while some types of debts are not regulated by the CAA including charge cards, credit union loans, debt to central or local government, household bills, debt to unlicensed lenders, and debt to family or friends.

If the debt is under the regulation of the CAA, then consumers will normally have stronger rights than unregulated debts. The amended CAA (2006) protects the rights of consumers in several ways. If a consumer falls into arrears, then a default notice must be issued by the regulated creditor, which gives the consumer time to bring his/her account up to date before they can take any further action. In order to avoid criminal offence, all regulated creditors must hold a license under the Consumer Credit Act. Credit agreement cooling-off periods are another distinctive feature of the act, which explains that if someone signs a credit agreement off trade premises, then he has the right to cancel the contract within the cooling-off time. Along with a 5-day cooling-off period, consumers have 14 days more to remove from the credit agreement. This act provides rights to your credit files, for example, if the consumer thinks that he/she has been unfairly denied credit then he/she may ask the credit supplier about the credit reference agency whose services they used. Similarly, if someone believes that his /her credit files contain out-of-date or inaccurate information, then they can ask for an alteration.

Moreover, these amendments to the CAA provide additional protection for credit purchases. As per the CAA section 75, additional protections are provided for purchases that fall between 100 pounds and 30000 pounds. It provides exclusive protection to the parties' rights; for instance, if you have an assertion for the misrepresentation or contract breach counter to the suppliers of the goods, this section provides you with the same claim against the creditor. However, if the purchase of goods and services is greater than the above limit, then Section 75 protection would not be applicable. Another distinctive impact of these amendments is that those particular agreements not previously regulated now fall within the scope of the Act, which provides more protection for consumer rights in credit transactions. A key amendment for retailers who offer consumer credit goods is the "replacement of extortionate credit bargains with the unfair relationship test"^[4]. This new test is applicable to any

agreement that enables the court to evaluate all perspectives of the relationship between debtor and creditor to decide whether the agreement is fair or not.

Conclusion

In this research essay, we comprehensively review the CAA (2006), which is a refined version of the CAA (1974) that is amended by introducing a new system to govern the activities of loan-providing institutions with respect to several agreements like credit agreements and hires. It has been documented as the most vital improvement of British consumer credit law for decades. Our essay starts with the significance of the credit market and the historical evolution of the CAA (2006). The next section deals with the Key Amendments of CAA (2006) from the perspective of both debtor and creditor. The last section of the essay highlights how effective the key amendments of the CAA (2006) have been to protect the rights of consumers in credit transactions. The objective of all these introduced amendments is to boost the protection of consumers, particularly with respect to increasing the enforcement powers of the Financial Services Ombudsman and OFT, new rights on default and cure for unjust relations, and better transparency after the commencement of arrangements.

Reference

Jonathan Campbell and others, 'The excessive cost of credit on small money loans under the National Credit Act 34 of 2005' [2007] 19(3) SA Mercantile Law Journal 251 – 271.

Richard Mawrey and others, 'Blackstone's Guide to the Consumer Credit Act 2006' [2006] 1(1) OUP Catalogue, Oxford University Press, number 9780199205264 1-316

Tanya Woker, 'Why the need for consumer protection legislation? A look at some of the reasons behind the promulgation of the National Credit Act and the Consumer Protection Act' [2010] 31(2) Obiter 217-231

Therese Wilson and others, 'Protecting the Most Vulnerable in Consumer Credit Transactions' [2009] 32(1) Journal of Consumer Policy 117-140.

Jonathan Campbell, 'The Excessive Cost of Credit on Small Money Loans under the National Credit Act 34 of 2005' (2007) 19 SA Mercantile Law Journal 251. ↑

Nigel Abbas, *Blackstone's Guide to the Defamation Act 2013* (Oxford University Press 2013). ↑

Therese Wilson, Nicola Howell and Genevieve Sheehan, 'Protecting the Most Vulnerable in Consumer Credit Transactions' (2009) 32 Journal of Consumer Policy 117. ↑

Tanya Woker, 'Why the Need for Consumer Protection Legislation? A Look at Some of the Reasons

behind the Promulgation of the National Credit Act and the Consumer Protection Act' (2010) 31 Obiter 217. ↑