

1 March 2011

**LENDING STANDARDS
BOARD**

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To **Lending Code Compliance Officers**

Dear Compliance Officer,

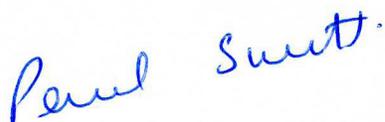
Credit card interest rate increases

Paragraph 81 of the Lending Code requires that where a provider decides to re-price a customer's credit card it should give the customer options which include closing the credit card account and repaying the balance at the existing interest rate within a reasonable period and consider offering an alternative product (if there is one available) at an equivalent or lower rate of interest.

The Addendum to the Code introduced in January 2011 requires firms to give customers 30 days notice of their intention to increase the rate on a customer's card. They must also give them 60 days in which to reject the rate increase and where the customer rejects the increase, they must be permitted to pay their outstanding credit card balance at their pre-notification interest rate in line with the guidance contained within the Statement of Principles of Re-pricing issued by The UK Cards Association. That guidance, which is monitored and enforced by the Lending Standards Board, requires that firms have regard to the level of minimum repayments and the customer's financial situation when considering what is a "reasonable period".

Following a case recently referred to us by the OFT and feedback from the Financial Ombudsman Service we are writing to advise subscribers that when monitoring compliance with these provisions in Code, the LSB will require firms to provide evidence of the processes and controls that they have in place to show that customers are being allowed a reasonable period to pay account balances down where they have rejected interest rate increases and that the level of minimum repayments and the customer's ability to pay have been taken into account when deciding what is a reasonable period.

Where customers are in financial difficulties, the provisions contained in Section 9 of the Lending Code also apply.



Paul Smith
Compliance Director