

Baroness Wilcox

Parliamentary Secretary for Business,
Innovation and Skills

Lord Borrie
House of Lords
London SW1A 0PW

14 January 2012

Dear Gordon,

ANNUAL PERCENTAGE RATE IN CONSUMER LENDING

Further to your question at Oral Questions in the Main Chamber on Tuesday 10 January, I am writing to clarify the Government's position in relation to the use of the Annual Percentage Rate (APR) in consumer lending.

The European Consumer Credit Directive requires the cost of credit to be shown by means of an APR. The aim of the APR is to provide a uniform way of calculating the total cost of credit to enable consumers to compare the cost of borrowing throughout the EU. UK Regulations implementing the Consumer Credit Directive therefore stipulate that lenders must display the cost of credit as an APR.

We know that for some short term loans such as payday loans, APRs might not be the best way to show consumers the cost of these loans. Many providers of this type of credit also give a total cost of credit per £100 in their advertisements, and we would encourage this as we think that this is a better measure of cost than APR for low-value, short-term credit. However, the total cost of credit can only be in addition to the APR, and the APR and other information such as the interest rate must be more prominent in advertising.

At this time the Government has no plans to amend regulations in this area. However, the Commission is due to undertake a review of the Directive next year and APRs may be one of the issues reviewed.

I am placing a copy of this letter in the Library of the House of Lords.

Yours ever
Julia

BARONESS WILCOX

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