

## Briefing Paper

### What is responsible lending and borrowing?

The financial crisis has led to debates about the responsibility of the financial services sector for both the crisis itself and for the treatment of low-income borrowers. There has also been discussion about the role that individuals have played here:

*'British households that borrowed too much money must "accept responsibility" for their role in the current economic troubles'*<sup>1</sup>.

As far as 'responsible lending' is concerned, consumer groups such as Which? and the Office of Fair Trading (OFT) have called for greater reform of the banking sector to ensure financial institutions play their part in accepting responsibility in this field. Meanwhile, consumer protection has been strengthened by the Office of Fair Trading amending the Consumer Credit Act 2008<sup>2</sup>. The OFT has gained greater consumer protection against 'irresponsible lending' within mainstream banking services through ensuring affordability, transparency of terms and conditions, and supporting a borrower if experiencing repayment difficulties. The OFT are now undertaking a review of payday lending practices to consider standards within this sector.

Turning now to 'responsible borrowing', one definition of 'irresponsible borrowing' could be '*knowingly over-indebting oneself*' so affordability of borrowing is important as well as consumers not taking huge risks. This is the mirror image in some ways to responsible lending.

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<sup>1</sup> Kirkup, J. (3 May 2012) 'Families must accept share of blame for Britain's woes'. *The Telegraph*. <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/9244414/Families-must-accept-share-of-blame-for-Britains-woes.html>

<sup>2</sup> Office of Fair Trading (2011) *Irresponsible lending: A guide for creditors*. Available at: [http://www.oft.gov.uk/shared\\_of/business\\_leaflets/general/oft1107.pdf](http://www.oft.gov.uk/shared_of/business_leaflets/general/oft1107.pdf)

However, some may question whether or not it is appropriate to moralise about low-income borrowers given that many are experiencing repayment difficulties due to unforeseen circumstances, poverty-level incomes and the lack of welfare provision?<sup>3</sup> Encouraging saving may be one way of mitigating the need to borrow although this is not a panacea, nor a simple solution to prevent over-indebtedness.

The Chief Executive of the new Financial Conduct Authority (FCA), Martin Wheatley, has suggested that the new FCA will put the customer at the heart of its operations but in so doing consumers, financial providers and intermediaries will all need to take responsibility for their role within the financial system. This adds weight to the need for a more financially responsible and inclusive financial services sector particularly in light of the recent financial scandals, such as the miss-selling of Payment Protection Insurance. In this way, the notion of responsibility needs to be shared between government, financial services, supporting institutions (such as financial education through Money Advice Service), and individuals but this responsibility needs to be proportionate and fair.

Responsible lending and borrowing to people on low-incomes is one part of the 'FinCris: Responsibilities, Ethics and the Financial Crisis' research project<sup>4</sup> which is sponsored by the Arts and Humanities Research Council.

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<sup>3</sup> See briefing paper on 'Lending to people on low incomes: an overview' <http://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/briefing-papers/2013/lending-to-people-on-low-incomes.pdf>

<sup>4</sup> For more information about the project please visit: <http://www.fincris.net>