

Zero per cent credit cards ‘lead to a worrying increase in people’s level of debt’

29% of people who took out best buy credit cards for spending or balance transfer ended up with more debt

According to new research⁽¹⁾ from the Fairbanking Foundation - the not-for-profit charity dedicated to encouraging banking institutions to improve the financial well-being of their customers – 29% of people taking out zero per cent credit cards for spending or balance transfers in the past five years ended up with more debt.

Its study shows 41% of people who have taken out a zero per cent credit card for spending failed to clear the debt at the end of the period and 45% who took out cards to transfer balances failed to clear the debts.

When looking at the reasons why they ended up with more debt, 28% said it was because their new credit card had a long interest free period which they felt ‘encouraged’ them to do this. Just over one in four (26%) said their credit card offered them access to new interest free credit which they used, and 22% said the long period of not having to pay any interest meant they were not focused on repaying their debt.

Similarly, since 2010 10% of people claim they have taken out a personal loan for debt consolidation purposes that resulted in them owing more. Nearly one in five (19%) of these people said this happened because they used their loan to consolidate other debts so they could borrow more. Just over one in ten (11%) said they ended up with more debt because their bank offered them access to a higher amount of credit than they applied for.

Overall, Fairbanking Foundation says these issues contributed towards 21% of people claiming they have had debt problems over the past five years. The charity’s research has been welcomed by companies which have dropped so-called teaser rates.

Les Matheson, CEO NatWest and RBS Personal and Business Banking said: *“We want to be the bank that helps customers out, not catches them out, so we’re pleased that this research from The Fairbanking Foundation helps to highlight this important issue. We don’t think this is good for our customers and has no place in financial services.”*

Richard Rolls, head of operations at Capital One said: “Balance transfer deals which offer a fixed long-term rate – up to 37 months with some providers – can be useful for some people.

“However, the worry with zero per cent teaser deals with long pay-off periods is they encourage people either to take on more debt, or forget about the money they owe – that is until the long-term interest-free period ends. The Fairbanking Foundation research shows too many credit card customers end up worse off as a result of taking up such an offer.”

Antony Elliott, Chief Executive of Fairbanking Foundation said: “It is genuinely alarming that 29% of credit card customers taking out zero per cent offers for spending or balance transfers end up with more debt.

“Used sensibly zero per cent deals can be useful but it is clear they are also encouraging significant numbers to take on more debt and can be detrimental to helping people manage their finances in a proper way.

“It would be better to offer credit cards with consistently attractive rates which don’t encourage people to spend beyond their means. Banks and other finance companies have a duty of care to ensure that people are not taking on too much debt.”

Free and impartial advice on money issues including credit cards is available from the Money Advice Service <https://www.moneyadviceservice.org.uk/en>. People with serious debt problems can access free online advice from the charity Step Change at <http://www.stepchange.org/> or by calling 0800 138 1111.

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Notes to editors

⁽¹⁾1,040 people were interviewed online by Consumer Intelligence between 16th and 19th July 2015.

About the Fairbanking Foundation Certification Scheme

The Foundation operates a certification scheme to encourage banking organisations to improve the financial well-being delivered by their products. The certification is called the ‘Fairbanking Mark’ and is

granted in three, four or five star versions based on Fairbanking's assessment of the level of the financial well-being the product delivers. In addition to reviewing the financial well-being characteristics and features of the product, the process of assessment involves independent research carried out with a representative number of customers holding that product. This research is carried out to test the extent to which the theoretical benefits to financial well-being are delivered in practice.

Fairbanking's assessment also reviews the provider's complaints procedures and experience for the product in question.

Finally, The Fairbanking Mark Assessment Panel reviews the assessments that have been carried out and takes a look at wider factors, including the rates charged/offered by the product, before advising whether the Mark should be granted.

Fairbanking Marks are granted in 3, 4 or 5 star variants in five possible categories - credit card, savings account, current account with overdraft and current account without overdraft and personal loans.

For further information or interviews, please contact Phil Anderson/Kevan Reilly at Citigate Dewe Rogerson on 0207 282 1031/1096 or email phil.anderson@citigatedr.co.uk or Kevan.reilly@citigatedr.co.uk

About The Fairbanking Foundation

The Fairbanking Foundation is a not-for-profit, research-based charity (number 1125769) established in 2008 to encourage and assist providers of banking products to improve the financial well-being of their customers by enabling these customers to manage their money better. The Foundation does this through a combination of thorough consumer research to better understand what drives financial well-being, assessment of existing core banking products against this understanding, and the operation of the Fairbanking Mark certification scheme, now accredited by UKAS.

Further information and contact details for The Fairbanking Foundation can be found at www.fairbanking.org.uk.

How a Fairbanking Mark is granted

Banking organisations seeking to gain a Fairbanking Mark for one of their products must submit it for full analysis and testing by The Fairbanking Foundation. This includes research conducted with a representative number of customers by an independent research firm - usually Ipsos MORI, the

Foundation's research partner. This research must confirm that a significant percentage of customers using the product found it useful in helping to improve their financial well-being, through factors like helping them to manage their money better and to achieve their savings goals.

Antony Elliott OBE

Antony received an OBE in the Queen's Birthday Honours announced on 14th June 2014, for "services to bank customers" as Founder and Chief Executive of The Fairbanking Foundation.