



## Payday loans

Fact sheet no. 41 EW Payday loans

September 2017

This fact sheet tells you how to deal with the common problems that often occur with payday loan debt.

Use this fact sheet to:

- help you stop a continuous payment authority;
- deal with a loan 'rollover';
- apply for a refund of interest and charges;
- find out alternatives to payday loans; and
- help you make a complaint.

The sample letters mentioned in this fact sheet can be filled in on our [website](#).

## What is a payday loan?

A payday loan is a type of cash loan, normally paid into your bank account. They are called payday loans as they are intended to be short-term loans, meant to be paid back when you next receive your wages or benefits.

Even though these loans are non-priority, they often cause other problems. The interest rates are usually very high and it can be easy for the debt to get out of control. Later in this fact sheet we cover alternatives to payday loan borrowing. We also cover the other common issues with these loans.

### Information:

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#### non-priority debt

A payday loan is a non-priority debt because you cannot lose your home, lose an essential service or go to prison for non-payment.

## Payday lenders' price cap rules

On **2nd January 2015** new rules were introduced by the **Financial Conduct Authority (FCA)** about how much payday lenders can charge.

- Interest and fees must not exceed **0.8%** per day of the amount borrowed, even when rolled over.
- Default charges must not exceed **£15**. Interest rates on unpaid balances must not go over the interest rates of the initial amount borrowed.
- Borrowers should never have to pay back more in fees and interest than the original amount borrowed.

## I cannot pay my payday loan

If you are in this situation, there are two things to watch out for.



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## 1. Loan rollover

Some payday loan companies may offer you a loan 'rollover'. This means that your loan is rolled over for another month, giving you extra time to pay. This may seem like a helpful solution if you are struggling to pay.

However, a rollover usually means you make a new agreement with the payday loan company. More interest and charges will be added, so you will owe more than you did before.

You should only consider a rollover if:

- your repayment difficulties are only temporary; and
- you are sure you will be able to clear the loan in full the following month.

## 2. Stopping your payments

If your loan repayment due date is coming up, and you cannot afford to pay, you can take action to stop your payment being taken. The action you need to take will depend on the repayment method you agreed with the payday loan company. They may not be able to stop the payment to the payday loan company if they are only given very short notice.

### Direct debit or standing order

A **direct debit** is an arrangement where you give a company or individual permission to take money regularly from your account. You can cancel a direct debit by writing to your bank or using your internet or telephone banking service. It is also a good idea to notify the payday loan company.

A **standing order** is an instruction you give your bank to regularly pay a set amount to another account. You can instruct your bank to cancel a standing order by writing to it, or using your internet or telephone banking service. The latest you can cancel a standing order is usually before the close of business on the working day before the payment is due to be made.

### Payment by cheque

If you have written a cheque to the payday loan company for them to cash on the loan payment due date, you will need to cancel the cheque. You can do this by writing to your bank or using your telephone or internet banking service.

### Extra advice: struggling to pay



If you are struggling to pay at the moment, think carefully before borrowing again. It will only help if you can afford to pay more next month.

### Information: two rollovers only



The FCA's **Consumer Credit sourcebook** (6.7.23) states that firm must not refinance the agreement more than twice, unless it is exercising forbearance.

If a firm does refinance an agreement, it must send out an information sheet with specific warnings about borrowing more money and working out whether the agreement is affordable.

### Extra advice: if your payday loan company is hard to contact



If you are finding it difficult to contact the payday loan company, for example, because they are an online company, contact your card issuer. See the sample letter **Withdraw your continuous payment authority from your card issuer**. Your bank should stop the payment (or payments) being taken, even if you haven't told the payday loan company.



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## Continuous payment authority (CPA)

Payday loan companies sometimes call these 'recurring payments'. A CPA means you give the payday loan company your debit or credit card details, and permission for them to use the card to take a payment or payments, to repay your loan.

There has been a lot of confusion about CPAs and the right to cancel them. If you have agreed to repay your loan in this way, you can take action to stop the payment being taken. See the next section of this fact sheet for more information.

## Stopping a CPA

On the [FCA website](#) it states your right to cancel the CPA.

"In most cases, you should be able to cancel by contacting the company taking the payment and asking it to stop. However, you do have the right to cancel directly with your card issuer. Once you have done this, it must stop payments immediately – it cannot insist that you agree this with the company taking the payment first."

To stop your continuous payment authority:

- write to, or email, the payday loan company to tell them you are withdrawing your permission for money to be taken from your card. See the sample letter [Withdraw your continuous payment authority from payday loan company](#) and
- write to, or email, your bank or card issuer, and tell them you are withdrawing your permission for money to be taken from your card. See the sample letter [Withdraw your continuous payment authority from your card issuer](#).

If you withdraw your continuous payment authority and the money is still taken from your account, this is an 'unauthorised transaction'. Your card issuer should give you a refund. This should include any interest or charges added to your account because the payment was taken. See **Complaints** later in this fact sheet.

Stopping payments to the payday loan company may help you pay your essential bills and living costs, but it does not mean you no longer owe the money. You need to get full advice on how to deal with the debt in the long term. **Contact us for advice.**

### Information:

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#### know your rights

The Financial Conduct Authority (FCA) has a simple guide to your rights and bank accounts. It's called [Know Your Rights: banking](#).

### Information:

INFO

#### cancel or withdraw?

Technically, you need to withdraw your consent for payment to be taken, rather than cancel the CPA. However, the result is the same, so don't be put off if you hear different terms used.

### Information:

INFO

#### in financial difficulties

The FCA's [Consumer Credit sourcebook](#) (7.6.12) states that, where a customer is in financial difficulties, a firm must not request payment on a continuous payment authority more than twice on the same agreement once it has already been refused. If the customer later agrees that more payments can be requested, this rule does not apply.



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## Refund

The FCA says that payday loan companies must lend responsibly. This means that they must check that you can afford to repay the payday loan before they give it to you. If your loan was unaffordable, this might have meant that you:

- had to take out another payday loan to pay off the previous one;
- kept taking out bigger and bigger repayment loans;
- didn't pay an important household bill you would normally pay so that you could repay the payday loan; or
- only managed to pay the payday loan by not buying enough food that month.

If repaying your payday loan meant that you had 'undue difficulty' in paying it back, you may be able to get a refund from the lender and some loans removed from your credit history. How much you might get depends on your circumstances when you took out the loan, but could include:

- interest the payday loan company added to your loan amount;
- charges the payday company added if you could not repay the loan on time; and
- an extra 8% interest if you take your complaint to the Financial Ombudsman Service.

Asking for a refund and for the loans to be removed from your credit history is normally a three-step process.

1. Get the information about the payday loans you received.
2. If you think that you were not treated responsibly by the payday loan lender, make a complaint to the lender that they did not lend responsibly to you.
3. If you do not get a satisfactory reply offering a suitable refund, you can escalate your complaint to the **Financial Ombudsman Service (FOS)** after the lender's final response or after eight weeks, whichever is sooner. The FOS is a free, independent and confidential service. If you want to talk over issues, or how to get started with your complaint, you can ring the FOS on 0800 023 4567 or 0300 123 9123.

### Warning:



#### debt relief order (DRO)

If you get a refund from your payday lender while you are in a debt relief order, it could mean that it is revoked. **Contact us for advice.**

You can also find helpful information about payday loan refunds on Debt Camel's website [debtcamel.co.uk](http://debtcamel.co.uk). Debt Camel has template letters that you can adapt and use to start your complaint with the payday loan company. Alternatively, you could use the Resolver website [www.resolver.co.uk](http://www.resolver.co.uk) to make your complaint. If you need face-to-face help making your complaint, contact your local **Citizens Advice** office and ask them to help you.

## Alternatives to payday loans

You may have taken out a payday loan, or be thinking about it, because you are finding it difficult to manage. Lots of people get into debt because they are not getting all the help to which they are entitled.

We have a self-help pack that has a section on ways of increasing your income. **Contact us for a copy.**



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What benefits you might get will depend on your circumstances. Use an online benefits checker, for example, the Benefits Calculator and the Grants Search tool on the Turn2us website [www.turn2us.org.uk](http://www.turn2us.org.uk).

**Government help** – you can apply for help with funeral or maternity costs, cold weather and winter fuel payments and in some cases, budgeting loans. If you are on Universal Credit, you can apply for a budgeting advance instead of a budgeting loan. There are rules about who can apply. **Contact us for advice.**

**Credit unions** – if you have a local credit union, you may be able to get a loan from them. Usually, but not always, they give loans if you have saved a certain amount with them first. You can search for a credit union near you at [www.abcuk.org](http://www.abcuk.org).

If you need money for **food, furniture or white goods**, see if there is a food bank or recycling project near you. You can search for a food bank at [www.trusselltrust.org](http://www.trusselltrust.org). For furniture, electrical items and white goods, try either Homekind's website [www.homekindshop.co.uk](http://www.homekindshop.co.uk) or Fair For You's website [www.fairforyou.co.uk](http://www.fairforyou.co.uk). Your local advice agency, for example your Citizens Advice Bureau, should also have details of furniture and white goods schemes in your area. See **Useful contacts** towards the end of this fact sheet.

## Information:

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### other help

Your local council may be able to help, but this will depend on their **welfare assistance scheme**. If you have claimed certain benefits but you have not yet been paid, you may be able to apply for a **short-term advance** from the Department for Work and Pensions (DWP).

## Extra advice:



### mortgage risk

A payday loan record on your credit reference file may adversely affect your ability to get a mortgage in the future.

## Payday loan complaints

### Complaint to your bank

If you withdraw your continuous payment authority, and payment is still taken, your card issuer should give you a refund. This should include any charges or interest added to your account because the payment was made. If they do not do this, or refuse to cancel the CPA, you can use your card issuer's complaints process. You must do this first, but if you are not happy with the outcome, you can take your complaint to the **Financial Ombudsman Service (FOS)**.

### Complaint to your payday lender

You can also complain to the payday loan company. Ask them about their complaints procedure. The main payday lender trade associations have issued a 'customer charter' which sets out how their members should behave. If you are unhappy with the way your payday lender has behaved, the charter may help you make a complaint.

For example, the charter says lenders should warn customers at least **three days** before they try to take a repayment from your card. If you are having difficulty repaying your loan, the charter says that lenders should "freeze interest and charges if you make repayments under a reasonable repayment plan or after a maximum of **60 days** of non-payment."

You can see the full charter on the Finance and Leasing Association's website [www.fla.org.uk](http://www.fla.org.uk) or , or **contact us for advice**. Not all payday loan companies will be members of a trade association. Contact the relevant trade association to see if your lender is a member. See **Useful contacts** towards the end of this fact sheet, or **contact us for advice**.



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## Complaint to the Financial Ombudsman Service

If you have made a complaint to your bank or payday lender and you are not happy with the response, you can ask the **Financial Ombudsman Service (FOS)** to investigate. The FOS plays a very important part in complaints. It does not have the power to fine or punish businesses, but it can help settle disputes between businesses and consumers. The FOS can look into your complaint, and can award compensation to you.

You have **six months** from the date of the final response to take your complaint to the FOS. Your bank or lender should tell you when their response is final. It may be their only response to your complaint. If you are not sure, ask them. If you do not complain to the FOS within **six months**, they may not be able to help. Time limits may also apply if what you are complaining about happened some time ago. **Contact us for advice.**

The FOS cannot help with all complaints. You will need to speak to them by phone or fill out their **complaints form** to see if they can help. See **Useful contacts** below.

## Useful contacts

### Citizens Advice

Independent, free advice.

Phone: 0345 404 0506

[www.citizensadvice.org.uk](http://www.citizensadvice.org.uk)

### Financial Conduct Authority

Phone: 0800 111 6768

Email: [consumer.queries@fca.org.uk](mailto:consumer.queries@fca.org.uk)

[www.fca.org.uk](http://www.fca.org.uk)

### Financial Ombudsman Service

Phone: 0800 023 4567 or 0300 123 9123

Email: [complaint.info@financial-ombudsman.org.uk](mailto:complaint.info@financial-ombudsman.org.uk)

[www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

### British Cheque and Credit Association

Phone: 0192 573 7100

Email: [info@bccca.co.uk](mailto:info@bccca.co.uk)

[www.bcca.co.uk](http://www.bcca.co.uk)

### Consumer Credit Trade Association

Phone: 0127 471 4959

Email: [info@ccta.co.uk](mailto:info@ccta.co.uk)

[www.ccta.co.uk](http://www.ccta.co.uk)

### Consumer Finance Association

Phone: 020 3178 7408

Email: [enquiries@cfa-uk.co.uk](mailto:enquiries@cfa-uk.co.uk)

[www.cfa-uk.co.uk](http://www.cfa-uk.co.uk)

### Finance and Leasing Association

Phone: 020 7836 6511

Email: [info@fla.org.uk](mailto:info@fla.org.uk)

[www.fla.org.uk](http://www.fla.org.uk)



National Debtline endeavour to keep our fact sheets as up-to-date as possible, however, we cannot be held responsible for changes in legislation or for developments in case law since this edition of the fact sheet was issued.

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