Consultation Response:

FCA proposals for temporary financial relief for customers impacted by Coronavirus

Response by the Money Advice Trust

Date: April 2020

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Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

In 2019, our National Debtline and Business Debtline advisers provided help to more than 199,400 people by phone and webchat, with 1.97 million visits to our advice websites.In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK and in 2019 we delivered this free training to over 981 organisations.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Find out more at www.moneyadvicetrust.org

Our response to Covid-19

As a result of the Covid-19 outbreak, all Money Advice Trust staff – have been working from home since Monday 23rd March. This includes all National Debtline and Business Debtline advisers, who are advising clients by phone and webchat after a significant infrastructure project to support this transformation, delivered at speed.

We have published new National Debtline and Business Debtline Coronavirus factsheets to provide information and advice to people whose household and small business finances have been affected by the Covid-19 outbreak. These are being continually updated and are available at www.nationaldebtline.org/coronavirus and www.businessdebtline.org/coronavirus

On 19th March the Money Advice Trust and StepChange Debt Charity published our joint Rescue Package proposal to Government and we continue to share evidence from National Debtline and Business Debtline to help shape the Government's, regulators' and creditors' policy responses. For more information on the Money Advice Trust's response to Covid-19 visit www.moneyadvicetrust.org/coronavirus

Public disclosure

Please note that we consent to public disclosure of this response.

Executive summary

We welcome the Financial Conduct Authority's proposed measures to support credit card, loan and overdraft customers through the impact of the Covid-19 outbreak. However, **we would welcome clarity on several key issues** including the regulator's intentions on other forms of consumer credit borrowing, the problem of interest being accrued during payment deferrals, and on business lending.

The FCA should also **be prepared to extend these measures** beyond three months if necessary – and should issue a formal reminder to all firms on their responsibilities in relation to vulnerable customers in the specific context of the Covid-19 outbreak.

Key points in our response include:

- ✓ **The FCA is right to step in to ensure payment freezes on loans and credit cards where customers are struggling and to extend interest-free overdrafts to borrowers**. This is a proportionate and appropriate way of ensuring that unsecured credit customers receive support to help them through the unprecedented impact of Covid-19 on household finances.

- ✓ We need to know more, however, about **what steps the regulator intends to take on other types of borrowing such as hire purchase agreements (including car finance) , guarantor loans and other high-cost short term credit product**s. For forbearance to be effective, it has to cover all forms of borrowing, to help people through this difficult period.

- ✓ **We are concerned that the FCA has not required firms to suspend interest on the credit card or loan payments accruing during the three month payment deferral period.** We would like to see the guidance amended to require interest to be waived. Otherwise consumers will be required to resume repayments with a higher balance plus the rolled-up interest will have been added to their accounts.

- ✓ **We would urge the FCA to turn its attention to business lending** and how it can assist micro-businesses who have been impacted by coronavirus. It appears to us from contact to Business Debtline that our clients are at risk of receiving little help with their business lending products, business credit cards and business overdrafts. This must be addressed as a matter of urgency.

- ✓ As the impact of the Covid-19 outbreak develops, **the FCA should be prepared to extend these measures beyond three months** if necessary.

- ✓ The FCA should issue a **formal reminder to all firms on their responsibilities in relation to vulnerable customers in the specific context of the Covid-19 outbreak** and encouraging firms to take into account the long-term effects of the outbreak into their **future planning on vulnerability**. In many cases existing vulnerable circumstances are being exacerbated, and more customers are becoming vulnerable, as a direct and indirect result of the impact of the outbreak and firms need to take tailored, bespoke action to ensure both groups of vulnerable customers are supported at this difficult time.

- ✓ **The FCA needs to consider what effect these temporary crisis provisions will have in the longer term, including considering ‘off ramp’ approaches** to avoid unwelcome effects of removing temporary support overnight. Once the measures are no longer required, there will still be extra knock-on effects from the measures that will have an impact on individual consumer finances. These may need further forbearance measures which may need to be absorbed into longer-term rules to deal with the extra debt and interest that has accrued as a result.

Responses to questions

Introductory comments (applicable to all proposed measures across product types)

It is vital that there is **consistency across all firms** and that all firms offer the same level of support. The proposed measures should provide a consistent approach across the product types that they cover, and this should allow debt advisers to provide clear advice to people in financial difficulty on how creditors should behave. They should also ensure that consumers achieve a consistent outcome across their consumer credit borrowing products. **To fully achieve this, we would urge the FCA to turn its attention to other consumer credit products** such as hire purchasing agreements (including car finance), guarantor lending and other high cost short term credit,[1] as well as business credit cards, overdrafts and other lending.[2]

Applications for support

The FCA should require firms to ensure that **all mechanisms for applications for help under these measures be made as simple as possible**, perhaps using the model of a simple online application for each product. Clearly provision must also be made for consumers who are unable to use digital services and people who are in vulnerable circumstances, so that they can have equal access to these sources of help. However, a simple online application that most people can access and complete with ease, can allow staff to concentrate on calls to answer queries from those who are particularly vulnerable.

Vulnerability and Covid-19

In addition to these measures, the FCA should issue a **formal reminder to all firms on their responsibilities in relation to vulnerable customers in the specific context of the Covid-19 outbreak** – and in relation to all product types, channels and points in the customer journey. In many cases existing vulnerable circumstances are being exacerbated, and more customers are becoming vulnerable, as a direct and indirect result of the impact of the outbreak and firms need to take tailored, bespoke action to ensure both groups of vulnerable customers are supported at this difficult time.

Firms should be reminded that customers may not only be vulnerable to financial difficulty, but also:

1. Problems such as disability, illness, capability, or other circumstances that make it much harder for customers to access, use, manage, and understand products

[1] For more on other consumer credit products, see our responses on page 12
[2] For more on business lending, see our responses to the proposed measures on credit cards, overdrafts and personal loans on pages 9, 11 and 14 respectively

or services. This is particularly relevant where a firm introduces changes to a service or product to respond to the existing pandemic, to ensure that these changes are accessible, useable, manageable, and understood by all customers.

2. Problems that make it much harder to communicate with firms using a particular channel. Again, firms need to ensure that – where possible – a range of audio and written communication channels can be used by customers to meet their needs, rather than relying solely on telephone or online alone.

3. Problems not related to a product or service in the ways described above, but where a firm can still take action to help customers. Here firms should be considering their signposting, referrals, or partnerships with external specialist agency that can provide the support a customer needs.

In addition, we know that the direct and indirect effects of the COVID-19 pandemic will be felt for a considerable period of time. **Firms should therefore include in their future planning, the creation of mechanisms and processes that allow them to better know their vulnerable customers (and their needs)**. This could include, for example, making it possible for customers to flag or disclose a relevant vulnerability (such as inability to access/use online service portals, or a need for communications in a certain format) directly to their financial services provider. Being able to better know their vulnerable customers, would allow firms to take proactive and anticipatory steps to prevent harm and meet, rather than waiting for this to be identified at a later point in time (when a customer may be in crisis).

Future ‘off-ramp’ measures

Finally, **the FCA needs to consider what effect these temporary crisis provisions will have in the longer term, including considering ‘off ramp’ approaches** to avoid unwelcome effects of removing temporary support overnight. Once the measures are no longer required, there will still be extra knock-on effects from the measures that will have an impact on individual consumer finances. These may need further forbearance measures which may need to be absorbed into longer-term rules to deal with the extra debt and any interest that has accrued as a result.

Credit cards (inc. retail revolving credit) and coronavirus: draft guidance rules for firms

Consultation question: Do you have any comments on this draft guidance and rules?

We support the intention behind the guidance for credit cards, and other forms of revolving credit such as catalogues and store cards. We welcome the intention to review the guidance within the next three months and to revise the guidance if appropriate.

We also welcome the commitment stated in the guidance that:

> *“Consumers whose payment have been deferred under this guidance should not have the use of their cards or credit facility suspended.”*

Accrued interest

We are, however, concerned that the FCA has not required firms to suspend interest on the payments accruing during the three month payment deferral period. We would like to see the guidance amended to require interest to be waived. If this step is not taken, consumers will be required to resume repayments with a higher balance in addition to the rolled-up interest which will have been added to their accounts. This may well mean higher minimum payments as consequence which will impact on their ability to make the new payments on their agreements. The FCA should be more directive to firms on freezing and waiving interest charges in these circumstances.

Credit file impact

We are pleased to see the requirement on firms to *“ensure that there is no negative impact on the customer’s credit file because of the payment deferral”.* Through our National Debtline service, we have seen that many people are worried and confused about the impact of forbearance measures and payment breaks on their credit file**, so firms need to make sure that they are clear in their communication with customers,** so that people are not unnecessarily put off taking out vital support due to misunderstanding the impact on their credit file.

Case studies from National Debtline and Business Debtline callers with credit cards whose finances have been impacted by Covid-19

A client had a credit card with company A and when he spoke to them they said they would put it all on hold for 3 months and there would be no impact to his credit file. The client also had a credit card with company B, but in contrast he said they had been really unhelpful. The client told us that they had just said if he cannot pay, he can't pay, and they just referred him for debt advice.

A client was very anxious about her credit file and the impact holding action will have on things like credit cards, loans etc. She is usually up to date with everything and relies on good credit ratings to be able to apply for renewal of mortgages, work and so on.

A client called National Debtline to get advice on making reduced credit card payments but was worried about preserving his credit rating. His employer has stopped trading and they currently have no hours due to coronavirus. We advised him creditors should not negatively impact his credit rating due to Covid-19 and payment breaks should be considered.

A client is a director of a limited company which she had to shut due to the Coronavirus. She has no income other than working tax credit as a result. The client is anxious that she is now not able to keep credit cards up to date due to the business closure.

A client contacted Business Debtline client to say: ''As an Uber driver, my work has completely disappeared. My partner is in the extremely vulnerable group so I can't do Uber work for fear of catching and passing anything to her. I was already struggling financially prior to cv19 as recently I had surgery for cancer so was getting back up to speed work wise, now this. Any hopes I had of getting back on to the property ladder are destroyed as my credit rating will be obliterated"

Persistent debt rules

It is vital that the FCA addresses the contradictory messaging that could be going out from firms in relation to the persistent debt rules. We welcome the suspension of these rules for affected consumers, but presume this only applies to those consumers who proactively contact their card provider. For other consumers, they may well continue to see letters urging them to increase payments on their cards at a time of crisis, under the persistent debt rules. There could be a case for temporarily suspending the persistent debt rules altogether for the duration of the outbreak, however this will need to be carefully balanced against detriment for those consumers who can still afford to pay.

Credit card pricing

We are pleased to see the recognition by the FCA that:

> *"Some rates can be particularly high in respect of cards that are usually marketed or offered to low income customers or those with poor credit ratings."*

We would question whether the requirement on firms to *"review their prices to consider whether they are consistent with the obligation to treat customers fairly in the light of the exceptional circumstances arising out of Covid-19 in order to ensure that they do not pose unjustifiable burdens on these consumers who may be experiencing payment difficulties"* will go far enough. We would welcome clarity on what action the FCA will take if it finds that firms are failing to review their prices and continuing to charge high interest rates regardless of this proposed requirement.

Business credit cards

We would like to see the FCA give consideration to extending these temporary protections to business credit cards. As has been well documented, many small businesses are struggling to survive as a result of the Covid-19 outbreak and all potential support measures need to be adapted to their needs in the crisis. This is particularly important considering the widespread intertwining on business and personal finances that we see at Business Debtline, and as the FCA's Financial Lives survey has evidenced.

Future 'off-ramp' measures

In the context of these proposed credit card measures, the FCA must consider 'off ramp' approaches to avoid unwelcome effects of removing temporary support overnight. These may need further forbearance measures which may need to be absorbed into longer-term rules to deal with the extra debt (and as it stands in these proposals, credit card interest that has accrued) as a result.

Overdrafts and coronavirus: draft guidance for firms

Consultation question: Do you have any comments on this draft guidance?

We welcome the recognition by the FCA that:

> *"for many customers, current account overdraft facilities are likely to be the easiest and quickest way to access emergency funds to cover a temporary shortfall in income and to meet essential expenditures".*

We also welcome the statement that *"overdraft facilities are not an appropriate means to manage long-term financial difficulty and wish to guard against future over-indebtedness".*

We recognize that some firms have already put in place voluntary measures that support their customers. We support the first measure set out in the FCA guidance which requires firms not to charge interest on the first £500 of an arranged overdraft facility, and for this to be put in place for no less than three months.

Enabling access to arranged overdrafts

We are concerned, however, that for new applications for overdraft facilities, that the FCA expects the lender to use the *"standard creditworthiness assessment".* Although there is a caveat within the guidance requiring lenders to *"take into account individual circumstances especially during this exceptional period"* we wonder if this is likely to happen in practice. We would not like to see overdraft facilities refused because of standard, pre-Covid-19, decision making processes continuing. This is particularly important given the fact that the proposed overdraft measures do not cover unarranged overdrafts – **customers who may otherwise resort to unarranged borrowing should be supported in every way possible to access arranged overdraft facilities in this difficult period.**

It appears that, in practice, lenders will have to very much make individual assessments to ensure that the FCA's expectations can be met to look beyond "*current stressed circumstances if it is reasonable to expect the consumer's financial position will improve in the future and can take account of historic information".* We would like to see the guidance require lenders to do so.

Unarranged overdrafts

In addition to enabling easier access to arranged overdraft facilities, further consideration needs to be given to the issue of unarranged overdrafts.

The FCA should consider requiring firms to **offer temporary extenuating forbearance for customers who have recently, as a result of Covid-19, fallen into unarranged overdrafts.** Some of these customers may benefit from the proposed overdraft measures in respect of interest frozen on any arranged overdraft facility that they have, but no customers will benefit in respect of any new unarranged borrowing that the outbreak has caused.

Overdraft pricing

We also support the second measure set out in the guidance, which sets out a requirement on firms to look at their new pricing regime put in place in response to the FCA's overdraft charging rules and to ensure that consumers are "not worse off".

> *"Firms must review their prices to ensure they are consistent with the obligation to treat customers fairly in the light of the exceptional circumstances arising out of Covid-19."*

We welcome the intention to review the guidance within the next three months and to revise the guidance if appropriate. We are also pleased to see the requirement on firms to *"ensure that there is no negative impact on the customer's credit file because they have taken advantage of interest free borrowing for a temporary period".*

Given the unprecedented impact of the Covid-19 outbreak, it is reasonable for the FCA to allow firms to amend their strategies for addressing the harm arising from repeat overdraft use and to allow firms to delay implementation of their strategy or contact with their customers about these measures at the moment.

Bank account closures

The FCA should additionally **consider requiring firms to suspend bank account closures during the outbreak (unless related to fraudulent account activity)**. We have already seen an example of a major high street bank threatening to close a National Debtline client's bank account at a time when it was difficult for her to open a new account because of the impact of the Covid-19 outbreak.

Business overdrafts

As with credit cards, the proposed overdraft measures should be extended to cover business overdrafts, to ensure that small business owners who are struggling with the impact of Covid-19, and whose personal and business finances are often intertwined, provide adequate protection across all of their banking products.

Future 'off-ramp' measurers

Finally, we would reiterate the point made earlier – which is particularly relevant here – about the need for firms to offer customers safe routes out of debt once the coronavirus crisis is over- so that people who have had to use their overdraft to meet their immediate needs during the crisis do not end up stuck in a continued overdraft, facing high fees as a result.

Personal loans and coronavirus: draft guidance for firms

Consultation question: Do you have any comments on this draft guidance?

We support the FCA proposal to require firms to grant customers a three month payment deferral for unsecured loans under these guidelines.

Accrued interest

As with credit cards, however, we are concerned that the FCA has not required firms to suspend interest on the payments accruing during the three month payment deferral period. We would like to see the proposals amended to require interest to be waived. Without this step, consumers will be required to resume repayments with a higher balance in addition to the rolled-up interest which will have been added to their accounts.

If interest is accrued, we would like to see the FCA be more directive as to how firms should deal with the effect of any accrued interest on future payments on customers' agreements. If there is a simple requirement to allow the agreement to be extended by three additional payments without interest accruing or firms being allowed to add interest upon interest, this might work.

We are pleased to see the requirement on firms to "*ensure that there is no negative impact on the customer's credit file because of the payment deferral".*

Other forms of credit

The guidance states the following.

> *"For the purposes of this guidance, personal loan refers to a regulated credit agreement, secured (other than on land) or unsecured, that is not a high-cost short term credit agreement, buy now pay later agreement, hire purchase agreement (including motor finance), credit card or overdraft."*

We strongly recommend that the FCA turns its attention to other forms of credit, including car finance, guarantor loans and other high cost short term credit products. These are debts that a significant minority of National Debtline clients were struggling with before the Covid-19 outbreak (*see table below*).

Type of debt	% of National Debtline clients in 2019 who had this debt type
Hire Purchase	10%
Vehicle contract	12%
Payday / HCSTC	8%
Guarantor loan	3%

This is particularly important as we are already identifying inflexible or inappropriate responses to requests for help from, for example, high-cost short term credit providers. Some practices that lenders are using as a mechanism for support for customers during the crisis do not seem to be within the spirit of forbearance and is likely to generate extra financial benefit to the lender.

National Debtline case study

The client has a guarantor loan. The client only has one payment left to make and contacted the lender for support as is unable to make payments due to the impact of Covid-19. Instead of offering to suspend payments they offered the client a 'roll-over' loan on a month to month basis, along with associated interest and charges.

We would support these measures being extended to **high-cost short term credit agreements** to allow three month payment breaks on this type of loan. There should not be an exemption for higher cost credit, given there are already concerns about the potential for further credit to be offered instead of a payment break.

The proposed measures are similarly silent on the subject of **guarantor lending**. The guidance should contain a specific section on guarantor lending that clarifies that a three month payment break for borrowers will not result in the guarantor being asked to pay instead. Where someone had defaulted on the loan prior to the Coronavirus outbreak, and a request for payment has been made to the guarantor, companies should be prepared to show the guarantor flexibility and forbearance where they have been affected by the financial impact of Coronavirus.

We are unclear how **buy-now-pay-later agreements** will be treated and whether the FCA is going to look at a suitable approach for payment breaks or other measures that would suit this type of credit agreement. We would welcome clarification on this.

It is also vital that an equivalent payment holiday is put in place **for hire purchase agreements, including car finance.** There should be every reason to grant a payment break in such circumstances, as the finance agreement remains secured by an asset. This means there is little risk to the lender who is in possession of a secured finance agreement.

National Debtline and Business Debtline case studies

A client called us concerned about whether she will be able to continue to pay car finance next week, as she and her partner have both stopped working due to the coronavirus. She is hoping to be furloughed to benefit from the Government's 80% of incomes gurantee, although she is unsure on when this will happen. She is also worried about paying other bills in the short term.

A client rang as her self-employed partner has had to stop trading and seen his income stop overnight. She works in a food distribution centre and called us as she was concerned about affording the hire purchase she has on her car. She has tried to contact the hire purchase company but has been struggling to get a hold of them. She needs to keep her car to be able to travel to work.

Clarity on secured loans

There needs to be an explicit statement in the guidance as to the status of consumer credit regulated secured loans, which we understand to be covered by the mortgage help rules. However this might not be entirely clear to either firms or consumers. We think it would be helpful for the FCA to be explicit that the provisions cover these types of loans, which are often at relatively high interest rates, and clearly non-payment of which puts the consumer's house at risk of repossession.

Business lending

As noted previously in the context of credit cards and overdrafts, we would urge the FCA to turn its attention to business lending and how it can assist micro-businesses who have been impacted by coronavirus. It appears to us from contact to Business Debtline that our clients are at risk of receiving little help with their business lending products, business credit cards and business overdrafts. There are also firms that offer business-related asset finance who we have previously raised concerns about their lending and collection practices. Such a firm is advertising on search engines to appear above the Government business interruption scheme, offering "business interruption finance".

This issue needs to be addressed as a matter of urgency.

Business Debtline case study

A client has a loan with a business finance company secured on his grandparents' home. He can no longer maintain payments due to Covid-19 as he has had to cease trading. As such he has no income and therefore maintaining payments to the firm would be difficult and repossession possible. We advised him on the governments scheme to support the self-employed and highlighted that the firm are not obliged to assist.

For more information on our response, please contact:

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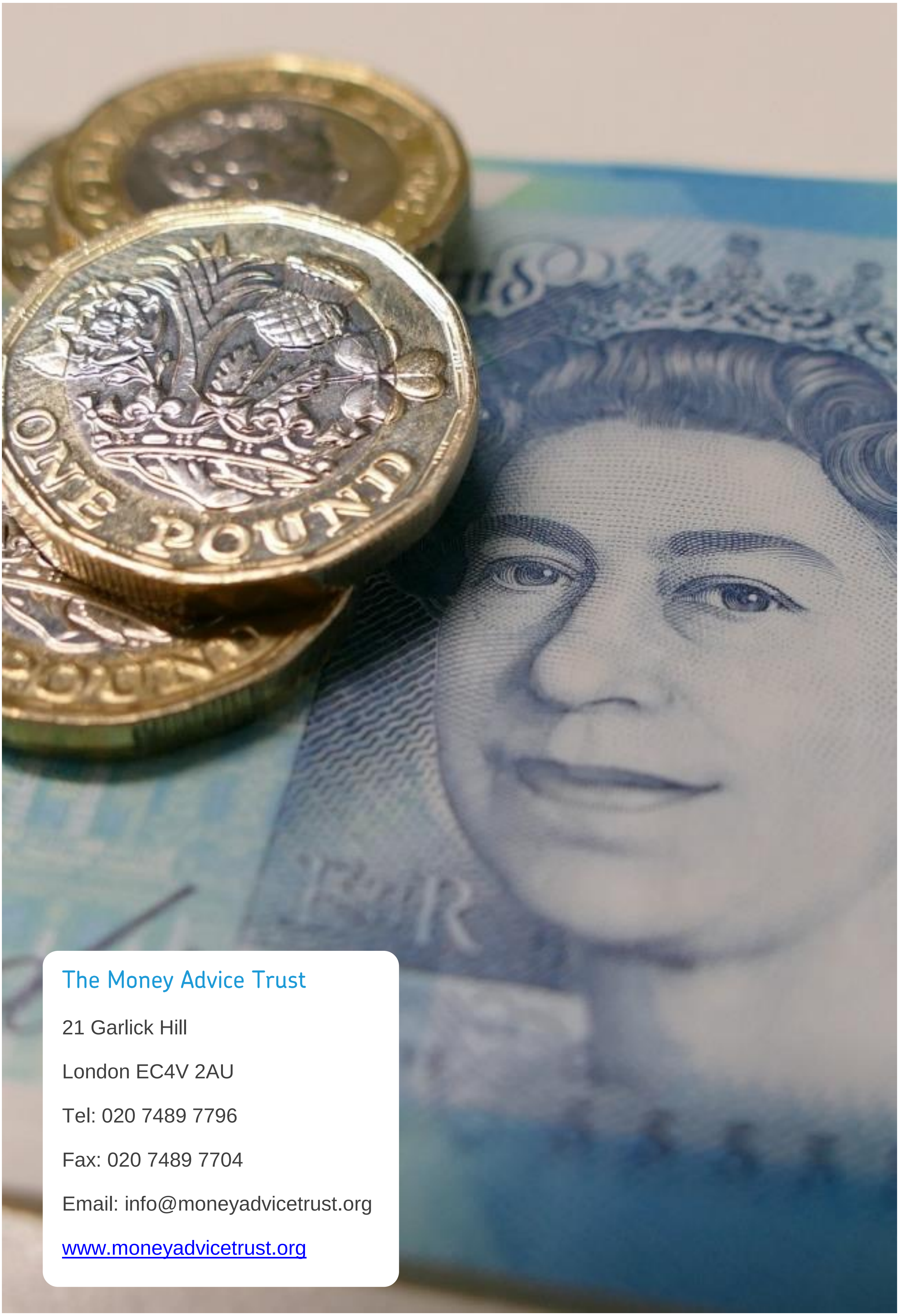

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