MONEY ADVICE TRUST

BUSINESS DEBTLINE NATIONAL DEBTLINE WISER ADVISER

Consultation Response:

FCA Call for input- Ongoing support for consumers affected by Coronavirus

Response by the Money Advice Trust

Date: August 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

Public disclosure

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

Executive summary

The FCA's temporary measures to support customers through Coronavirus to date have been significant and impactful, with 1.8 million mortgage payment deferrals and 1.6 million deferrals on personal loan and credit card payments. These deferrals have directly supported consumers experiencing financial shocks caused by the impact of Covid-19, and the availability of deferrals has offered reassurance to many of those who are uncertain about their financial position in the short term.

With many consumers soon to start rolling off payment deferrals in September, and the end of the current temporary guidance approaching on 31st October , the FCA is right to now be considering measures to support two groups:

1. Consumers who have **already accessed payment deferrals**, but who remain in financial difficulty and require further support
2. Consumers whose finances **may be newly-impacted by Coronavirus** after the end of the current temporary guidance on 31st October

Further supporting consumers who have already accessed payment deferrals

There should be three key elements to further support for customers who have already accessed payment deferrals, and who remain in financial difficulty.

- **Targeted further payment deferrals for certain groups**, including deferrals linked to the end of the Job Retention Scheme and Self-employment Income Support Scheme, and limited further deferrals on mortgage payments to be used as 'forbearance of last resort' for mortgage customers who would otherwise face near-term repossession. Targeted payment deferrals are also needed to **give customers the time they need to seek debt advice** – particularly given demand for debt advice is set to surge and not everyone who needs advice will be able to access it immediately – and to help creditors handle large contact volumes as part of any triaging/prioritisation arrangements.

- **New Covid-specific guidance and rule changes,** to strengthen the forbearance measures available to customers with Covid-specific debts and make clear to firms the consumer outcomes the FCA is expecting. In particular, this new guidance should place a strong emphasis on **rewriting/rescheduling** existing consumer credit agreements over a longer term where customers can afford to meet a proportion of their contractual payments, to avoid defaults/ arrears and the associated credit rating impact. In the case of multiple consumer credit debts, there may be potential for this to be achieved in a co-ordinated and consistent way through a scheme facilitated by debt advice agencies.

- **Continued credit rating protections** for people in temporary difficulty caused by the impact of coronavirus**.** While we understand that credit rating protections cannot continue indefinitely, we do not agree that normal CRA reporting should resume at this stage and believe there should be specific consideration given to ensure that temporary financial difficulty caused by Coronavirus does not have a long-term impact on individuals' finances.

Supporting consumers who may be newly-impacted after 31st October

The FCA should ensure that payment deferrals are made available to customers who are newly-impacted by Coronavirus after 31st October (whether by extending the temporary guidance already in place, or given the uncertainty over the duration of the crisis, by amending MCOB and CONC on a more permanent basis to make payment holidays available for Covid-impacted customers whenever the impact occurs).

Responses to individual questions

We have included below responses to all questions in the Call for Input that we are in a position to answer as a debt advice provider (i.e. excluding firm-specific questions).

Question 1: Do you agree with these propositions?

Proposition 1: Further payment deferrals will not necessarily be the right solution for many of those still in financial difficulty after 6 months

We agree that blanket payment deferrals may not be the right solution for people given that interest is still accruing and monthly payments are likely to be higher or the payment term longer. However, we believe that there should be a targeted approach to deferrals from now on, with further deferrals made available to help certain groups of customers.

Targeted further payment deferrals should be available to:

- **Customers whose second payment deferral ends before 31st October and are who are currently furloughed.** Many people who are currently furloughed are facing significant uncertainty over their job security as the government's Coronavirus Job Retention Scheme is wound down. A third payment deferral to beyond the end of the Job Retention Scheme would bridge this remaining short-term uncertainty, and enable both customers and lenders to make more informed decisions at the end of the third deferral.

- **Customers whose second payment deferral ends before 31st October, who have been supported by the Self-employment Income Support Scheme, and whose business continues to be impacted.** Just as people who are furloughed are facing continued uncertainty, the incomes of many self-employed people who have been supported through the Self-employment Income Support Scheme continue to be impacted by Coronavirus, including as a result of increasing local/regional lockdowns. To address this, and as a matter of equity, a third deferral should also be available to these self-employed customers.

- **Mortgage customers who have had 1 or 2 payment deferrals and who would otherwise face near-term repossession as 'forbearance of last**

resort'. We believe this additional measure for mortgage customers is required to help prevent a wave of near-term repossessions as the economic consequences of Coronavirus unfold. Given the fact mortgage lenders have greater flexibility to offer deferrals without a drastic effect on future monthly payments, a further payment deferral should be available as a last resort, after all other forbearance options have been exhausted. This will help Covid-impacted mortgage customers in continued but temporary financial difficulty, and for others, help bridge the gap between difficulty and accessing Support for Mortgage Interest. Ultimately, however, FCA and lender action can only go so far –the Government needs to take steps to improve the mortgages safety net.

In addition, further payment deferrals will be needed – on a more pragmatic level – to provide time for customers to be able to access debt advice, and time for creditors to handle large contact volumes. Further payment deferrals should be available to

- **Customers who have had 1 or 2 payment deferrals, are facing longer-term financial difficulty, and who need time to be able to access debt advice.** Given the volumes involved, there needs to be a recognition that not everyone who needs debt advice will be able to access debt advice immediately. While capacity in the debt advice sector is increasing, this capacity-building takes time (including the time needed to train new advisers). Some customers who have had two payment deferrals and are facing longer-term financial difficulty will not be able to access debt advice straight away – and a further payment deferral should be available in these circumstances. The easiest way to implement this would be for creditors to offer a further payment deferral at the same time as referring the customer to debt advice.

- **Customers who have had 1 or 2 payment deferrals, where the creditor is not able to put in place tailored support before their payment deferral ends (including as a result of any triage/prioritisation in operation).** The regulator has outlined that should make every effort to have a conversation with all customers about tailored support before the end of their payment deferrals. Where this is not possible, however – or where certain groups have been triaged/prioritised over others – any customer with whom the creditor is not able to have a full conversation with should be offered a further payment deferral as part of the 'streamlined support' that the FCA has suggested as one option.

Proposition 2: Firms will need to focus on a broader range of sustainable forbearance options

We agree that firms need to focus on a broad range of sustainable forbearance options. However, normal forbearance measures are not sufficient to help in the current circumstances.

The FCA should introduce **new Covid-specific guidance and rule changes**, to strengthen the forbearance measures available to customers with Covid-specific debts and make clear to firms the consumer outcomes that the FCA expects.

This new guidance should place a strong emphasis on firms **rewriting/rescheduling existing agreements** over a longer term where customers can afford a proportion of their contractual payments, to avoid defaults/arrears and the associated credit rating impact. For multiple consumer credit debts, there may be potential for this to be achieved in a co-ordinated, consistent and structured way through a scheme that could be facilitated by debt advice agencies.

The guidance should also emphasise the need for firms to accept **token payments** on unsecured credit where the creditor is aware of priority debts, and to consider **debt relief for unrecoverable Covid-specific debts** under a clearly-defined set of circumstances.

Proposition 3: Firms will need to consider the challenges posed by dealing with a high volume of consumers who require further support

We understand that firms will need to consider the challenges posed by dealing with high volumes of consumers who will require further support – and we recognise that these challenges could increase as the economic impact of coronavirus unfolds.

While firms should be encouraged to put in place tailored support for as many customers as possible, we broadly support the principle **that customers should be triaged/prioritised where needed** – with vulnerable customers coming to the end of a payment deferral prioritised ahead of non-vulnerable customers. The suggested ‘streamlined support’ – including a targeted further payment deferral – for non-prioritised customers is sensible and appropriate in these circumstances.

Proposition 4: Normal Credit Reference Agency (CRA) reporting should resume

We do not agree that normal credit reference agency reporting should resume. Whilst we appreciate that protection from normal credit reporting cannot continue indefinitely for everyone, there should be specific consideration given to making sure that consumers impacted by Covid-related debt and who are in temporary financial difficulty are protected from normal credit file reporting.

Where consumers enter further payment deferrals – or other forbearance on Covid-specific such as rescheduling/rewriting existing agreements – there should be some level of protection for their credit rating. This might vary according to the forbearance that is in place. The overall aim should be to ensure that, wherever possible, short-term financial difficulty that arises as a result of Coronavirus **should not have a long-term impact** on individuals' financial situation.

Question 2: Do these propositions apply to both mortgages and unsecured credit?

We appreciate that the aim of the FCA propositions is to treat both mortgages and unsecured credit in the same way. Given the essential nature of a mortgage, however, mortgage customers need different and extra measures. There is a need to prevent a wave of repossessions, and the main responsibility for achieving this lies outside the FCA's remit, in that the Government should take steps improve the mortgage safety net by reforming Support for Mortgage Interest and making changes to Universal Credit.

The FCA can, however, help to avoid near-term repossessions. Given that a mortgage is a long term agreement, this enables lenders to build in some flexibility in its repayment terms without having a drastic effect on monthly payments for the borrower.

As we have outlined in our response to Question 1, the FCA should introduce a **further payment deferral for mortgage customers as a 'forbearance option of last resort'** in cases where the customer would otherwise face near-term repossession. This should only be available after all other forbearance options have been exhausted.

While far from the full solution, a further payment deferral in these circumstances will help Covid-impacted mortgage customers who are in continued but temporary financial difficulty, and for others, help bridge the gap between falling into difficulty and accessing Support for Mortgage Interest. In tandem with this measure, the FCA will need to change MCOB and its related mortgage forbearance guidance to ensure firms do not argue that it is in the best interests of their customers to be repossessed.

While the following issues are not matters for the FCA, in the interests of completeness we have included below our view on the steps the Government should take to improve the mortgage safety net in the wake of Coronavirus.

- The Government should reform the Support for Mortgage Interest (SMI) scheme to protect new claimants of Universal Credit, by reducing the 39 week wait for payments to 13 weeks.

- The £200,000 mortgage cap under SMI should be increased (this was set in 2009 and not been increased since), and interest should be paid at the borrower's actual interest rate rather than the standard scheme interest rate which is too low.

- The Universal Credit "zero earnings rule", which means that people do not receive any help with mortgage costs if they did any paid work or have any income from self-employment during a particular period, should be removed.

- More fundamentally, the Government should consider the case for a new simplified Mortgage Rescue Scheme – learning the lessons from the scheme introduced after the 2008 financial crisis – to help minimise repossessions in the wake of Coronavirus.

Question 3: Do you have views on the appropriateness of a further payment deferral linked to the end of the Government's Coronavirus Job Retention Scheme?

As we have outlined in our answer to Question 1, **there is a strong case for further payment deferrals linked to the end of the Job Retention Scheme**. Many people who are currently furloughed are facing significant uncertainty over their job security as the Scheme is wound down, and this uncertainty presents a barrier to making decisions about what actions to take to resolve financial difficulty.

Where a furloughed customer's second payment deferral ends before 31st October, a further payment deferral to beyond the end of the Job Retention Scheme would bridge this remaining short-term uncertainty to a point where customers' employment and therefore financial situations are more clear. As the paper suggests, this would enable both customers and lenders to make more informed decisions.

In addition to linking further payment deferrals to the Job Retention Scheme, **a similar link should be made with the end of the Self-employment Income Support Scheme** i.e. further payment deferrals should be available to self-employed customers whose business income is still being affected by Coronavirus, and whose second payment deferral ends before 31st October. This will be particularly important for self-employed people whose businesses are impacted by new local/regional lockdowns.

Question 4: Are there benefits to extending the application of MCOB 13 and CONC 7 to customers who have benefitted from payment deferrals under our guidance but not yet missed a payment?

It is vital that all possible assistance is provided by firms as early as possible for consumers who have had payment deferrals. Therefore, **we support extending the application of MCOB 13 and CONC 7** to customers who are not technically treated as having missed a payment but have reached the end of their payment deferrals.

We believe that extending the application of MCOB and CONC to customers who have not yet missed a payment would address a general issue that is overdue for correction. We all encourage people to engage with their creditors early so that problems can be resolved before they get worse, and yet the status quo has led to cases where customers who follow this advice and reach out to their creditors because they know they are about to develop financial difficulties, are told to come back when they are in arrears. Extending MCOB 13 and CONC 7 in the proposed way is a welcome opportunity to address this.

Question 5: How should firms be recognising and responding to the needs of vulnerable consumers at the end of a period of temporary support?

As the FCA has highlighted, more customers are becoming vulnerable, as a direct and indirect result of the impact of Coronavirus and firms need to take tailored, bespoke action to ensure vulnerable customers are supported at this difficult time.

We agree that the approach set out in the paper is correct in principle. There needs to be a triage approach and a degree of prioritisation where there are large volumes of customers in need of support. People with the greatest priority are likely to be those with forms of vulnerability that are not necessarily financial.

The paper sets out the FCA's four identified drivers which may increase the risk of consumer vulnerability. We believe these are already set out in the order in which vulnerable customers would need to be prioritised under this approach.

> ***Health****: disabilities or illnesses that affect the ability to carry out day-to-day tasks*
> ***Life events****: major life events such as bereavement, job loss or relationship breakdown*
> ***Resilience****: low ability to withstand emotional or financial shocks*
> ***Capability****: low knowledge of financial matters or low confidence in managing money (financial capability). Low capability in other relevant areas such as literacy or digital skills*

While firms should aim to put in place tailored support for all customers before the end of their payment deferrals wherever possible, we appreciate the need for pragmatism where contact volumes make this impossible. We therefore broadly support the FCA's idea set out under 2.43 that, where triage/prioritisation is in operation, those who do not meet 'priority' criteria should be offered *"streamlined form of support (for example a further full or partial payment deferral) for a further fixed period to allow firms to prioritise those customers in greatest need".* We agree this would allow firms to free up resources to deal with priority groups.

However, the FCA is right to identify the risk that this group of consumers end up receiving a better deal by way of a payment deferral than those who are vulnerable – and so the success of this approach (in delivering fair outcomes) will rest on ensuring firms 1) triage/prioritise appropriately, 2) offer streamlined support quickly in a way that genuinely does free up resource for vulnerable customers, and 3) achieves positive outcomes for vulnerable customers as a result.

It is difficult to estimate how long any further payment deferral should last for before firms are required to make a fuller assessment of individual circumstances. This may well depend upon the type and size of the firm, and what their customer profile looks like. Some firms are clearly going to have greater capacity to make individual assessments or fewer customers who fit into the vulnerable category.

If the individual support measures we and others have identified are put in place, then this might help with the task of finding solutions that are appropriate to individual client groups and therefore shortening this time period.

Question 6: Will different groups of customers need different levels of support? If so, how should they be identified?

Yes, different groups of customers will undoubtedly require different levels of support. One starting point to assist firms in identifying the support required at a macro level would be the FCA's segmentation of 'debt help needs' into four categories (groups 1 to 4) as previously shared with stakeholders[2] and we would welcome an up to date FCA-endorsed segmentation based on the regulator's most recent Covid-19 impact research.

The FCA has made a further good start at identifying examples of borrowers with "very low financial resilience", which is a group that we agree should be prioritised.

"Examples of very low financial resilience may include borrowers who:

- *were already in arrears pre-coronavirus*

[2] *FCA, Slides for roundtable on debt help and Covid-19, 6 May 2020*

- *are highly indebted*
- *have only a short term remaining on their mortgage or credit product*
- *are unemployed*
- *are relying on credit for essential spending*
- *are unable to meet other priority debts"*

Following on from the Standard Life Foundation's recent report[3], we would suggest that the low paid might be usefully added to this set of examples.

In the case of vulnerable customers specifically, firms should already have put in place mechanisms to provide appropriate support to different groups and the impact of Coronavirus has made ensuring this even more important.

Firms are of course currently considering the FCA's welcome publication of proposed new vulnerability guidance. While many will already be reviewing their processes based on the proposed guidance, in light of the urgency created by the impact of Coronavirus, an early finalisation of the guidance would be helpful in ensuring that all firms make the necessary improvements quickly.

Question 9: Is further guidance supplementing our forbearance rules needed to ensure good outcomes?

Yes, we believe that the **FCA should introduce further Covid-specific guidance and rule changes**, to strengthen the forbearance measures available to customers with Covid-specific debts and make clear to firms the consumer outcomes that the FCA expects.

As we have outlined in our response to Question 1, this new guidance should place a strong emphasis on firms **rewriting/rescheduling existing agreements** over a longer term where customers can afford a proportion of their contractual payments, to avoid defaults/arrears and the associated credit rating impact. The guidance should also emphasise the need for firms to accept **token payments** on unsecured credit where the creditor is aware of priority debts, and to consider **debt relief for unrecoverable Covid-specific debts** under a clearly-defined set of circumstances.

"2.53 We want to understand if respondents feel there are areas where our current requirements under MCOB and CONC do not go far enough to deliver good outcomes for consumers in the current environment. This could be in relation to the risks above. Or it could reflect the specific circumstances consumers are facing as a result of coronavirus."

[3] https://www.standardlifefoundation.org.uk/our-work/publications/publications/covid-19-and-the-low-paid

It is of greater concern that the provisions in FCA guidance in MCOB 13 may lend itself to firms being very wary of supporting their customers indefinitely through forbearance.[4] We have heard that firms believe that they are under instructions not to “overforbear”.

We would like to see the FCA changing the rules to ensure that an assessment of the consumer’s “best interests” does not result in a decision that their best interests would be to repossess their property. It is difficult to see this as a good outcome for people in mortgage arrears as a result of coronavirus.

We have set out above that we believe that MCOB rules and guidance need to change as set out above, to address the issues regarding whether it is in a consumer’s best interests to lose their home at this time.

“We want to understand from respondents what good practices they have observed that can support good outcomes in the current environment, and what practices they consider could lead to poor outcomes. We are interested in the views of consumer and debt advice groups on what they think firms need to do to deliver good outcomes in the coming months.”

We are aware of some firms requiring consumers to seek debt advice before granting payment deferral requests. This is against the spirit of the current guidance, and is a practice that could tie up scarce free debt advice resources to “outsource” its eligibility assessments for that individual firm.

Question 10: What can firms, the debt advice sector and FCA do to ensure customers with multiple debts get the support they need at the end of a payment deferral?

We share the FCA’s concern over the impact of Coronavirus on people in multiple debt, not just with consumer credit and mortgages, but who are unable to pay rent and household bills such as council tax.

Ensuring that customers with multiple debts get the support they need rests on:

[4] https://www.handbook.fca.org.uk/handbook/MCOB/13/?view=chapter
https://www.fca.org.uk/publication/finalised-guidance/fg11_15.pdf
https://www.fca.org.uk/publication/finalised-guidance/fg13-07.pdf
https://www.fca.org.uk/publications/thematic-reviews/tr14-3-thematic-review-mortgage-lenders%E2%80%99-arrears-management-and
https://www.fca.org.uk/publication/thematic-reviews/tr14-03.pdf

- Increasing the supply of free debt advice and delivering capacity increases as quickly as possible
- Improving and extending effective referral mechanisms between creditors and debt advice agencies
- Improving creditor practice in other, non-FCA-regulated creditor sectors including in local and central government
- Exploring potential new debt advice products/schemes designed specifically for Covid-impacted customers

Firstly, a pre-requisite for supporting customers with multiple debts is ensuring that the debt advice process can work well, including managing demand effectively. Increasing financial difficulty as a result of Coronavirus makes it even more important to achieve a **significant increase in supply of free debt advice**. The welcome increased funding for debt advice announced by HM Treasury in June needs to translate into increased capacity on the front-line as soon as possible – and additional funding will need to be sustained well beyond the current year.

However, as we have outlined in our answer to Question 1 it is important to recognise that any increased capacity cannot be put in place immediately, including due to the time required to recruit and train new debt advisers. Given the time needed to build capacity, the FCA's suggested approach to **triaging/prioritisation** is welcome, and as we have outlined, **further payment deferrals** will also be needed to give people time to access debt advice given the fact surging demand will mean that not every customer will be able to access this immediately.

Secondly, **improving and extending referral mechanisms** between creditors and debt advice agencies is also central to addressing the multiple debts problem. Firms need to be able to conduct proper individual assessments of their customers' financial situations in order to establish if they are in multiple debt, and then need to ensure their arrangements for signposting and referral to sources of free debt advice are robust, effective and provide as smooth a client journey as possible. This FCA will be aware that this is an area that debt advice charities are continuing to explore with the Money and Pension Service and the credit industry.

Thirdly, supporting customers with multiple debts across debt types **requires good creditor practice in other, non-financial creditor sectors**, and has been widely documented this is far from the case at present. This is particularly true of local and central government, and we welcome the Cabinet Office's current call for evidence on improving fairness in public sector debt collection as a significant opportunity to address this issue. We would welcome the FCA's active involvement in encouraging other creditor sectors to adopt best practice in debt collection and vulnerability – including through the UK Regulators Network and through the Cabinet Office's current call for evidence. These issues are long-standing, but made more urgent by the impact of

Coronavirus and the significant increases in customers with multiple debts that we can expect in the future.

Finally, the impact of Covid-19 has led to welcome discussion of **new debt advice products/schemes that designed specifically for Covid-impacted clients with multiple debts**, including the Covid Payment Plan for clients in temporary financial difficulty. In addition to this, as we have noted in our response to Question 1, there may also be a potential role for a scheme involving debt advice agencies facilitating – in a co-ordinated, consistent and structured way – **the rewriting/rescheduling of multiple consumer credit agreements** for customers who can afford to pay a proportion of their contractual payments.

Question 11: Can firms provide customers with a copy of a completed Standard Financial Statement so that a customer does not have to repeat the process multiple times? Or are there alternative ways to deliver the same outcome?

We have long advocated the creation of a single “common view” budget that creditors can check via an online portal and use to accept offers of payment. This is an issue with a long history, including the CASHflow tool which is now operated by the Money Advice Trust as a legacy tool, and more recently the Money and Pensions Service’s work on PACE.

On the question of creditors completing the SFS with customers themselves for wider use, there are likely to be practical concerns about lenders taking on this activity from a debt advice perspective – including issues around authorisation, potential conflict of interest, how the lender would confirm that the SFS is complete and ready to share with other creditors as a “common view” and by what mechanism they would do so.

For consumers who can seek to self-help digitally, we would recommend that firms refer them to the Money Advice Trust Debt Advice Tool[6] or the StepChange Debt Charity Debt Remedy Tool[7] to work out their budget and debt options.

[6] https://tools.nationaldebtline.org/dat-reg
[7] https://www.stepchange.org/start.aspx

Question 12: Is any further guidance on credit reporting needed?

As we have outlined in our response to Question 1, we do not agree that normal credit reference agency reporting should resume. Whilst we appreciate that protection from normal credit reporting cannot continue indefinitely for everyone, there should be specific consideration given to making sure that consumers impacted by Covid-related debt and who are in temporary financial difficulty are protected from normal credit file reporting.

Where consumers enter further payment deferrals – or other forbearance on Covid-specific such as rescheduling/rewriting existing agreements – there should be some level of protection for their credit rating. This might vary according to the forbearance that is in place. The overall aim should be to ensure that, wherever possible, short-term financial difficulty that arises as a result of Coronavirus **should not have a long-term impact** on individuals' financial situation.

We therefore agree that **the FCA should work with the CRAs on further guidance on CRA reporting**. It is important that further guidance is put into place to deal with the specific scenarios that may well emerge for specific groups of consumers at the end of the payment-deferral period. Guidance should be flexible and developed with the intention of reviewing its effects once more becomes known.

Question 13: Is any further guidance necessary to ensure that those who have taken payment deferrals under our guidance are treated fairly when their financial circumstances are being considered by lenders in future?

We believe there should be a broad agreed principle that **customers who are only temporarily affected by the economic impact of coronavirus should not be negatively affected in affordability assessments** carried out for future lending applications. The FCA should work to achieve that goal.

We would therefore expect there to be a need for further guidance. It is confusing for consumers to hear the message that their credit file will not be impacted by coronavirus payment deferrals, but at the same time to find that lenders may take other factors into account. Where this may result in future credit being refused and a consumer's ability to re-mortgage being affected, it is vital that further guidance is provided.

Lenders of course take into account a range of other information beyond credit reference files to go into their affordability assessments and to make lending decisions. In the case of temporary payment deferrals, however, the effect of this decision making by lenders does not align well with the FCA's specific intention to ensure that credit files are not negatively affected as the result of Covid-related payment deferrals.

We are concerned that there could be long-term effects on peoples' ability to get credit which could have consequences that are difficult to predict at present for both household spending personally and the economic recovery more generally.

This raises fairness issues for the FCA to consider. In particular, many people may have taken payment deferrals as a precautionary measure at the time. This could make it particularly unfair for that group of people to be affected longer term by what they would have considered to be prudent behaviour.

Question 14: Are the current repeat use rules for overdrafts sufficient to enable firms to identify and address potential harm caused by an increase in the cost of borrowing for those coming to the end of their temporary support under these measures?

We do not believe that the current repeat use rules are sufficient to enable firms to address the potential harms that will be caused by the increase in the cost of borrowing for people at the end of the interest-free overdraft period.

Following the pricing structure overhaul, the new interest rates set by firms have been subject to some questioning as they have been set at very similar levels and at around the 39.9% mark. This prompted the FCA to write to firms asking firms to evidence how these levels had been arrived at.[8] We would expect the FCA to return to this issue once the current emergency has receded.

We do not feel that returning to such high overdraft interest levels will assist people who will have to bear a much higher cost of borrowing at a time when they are having to resolve financial difficulties resulting from Coronavirus. Where Covid-impacted customers have made use of the £500 interest-free overdraft introduced under

[8] https://www.fca.org.uk/news/statements/fca-gives-update-banks-overdraft-pricing-decisions-and-plans-support-consumers

temporary measures, interest should continue to be frozen on the £500 balance for a further set period of time, with firms providing support on how to pay this off over time.

We note that the FCA has indicated in its overdrafts and coronavirus updated guidance[9] that firms should offer further support with the cost of interest on overdrafts, as set out below.

1.25 Where during an interaction between such a customer and the firm, the customer requests additional help, or provides information suggesting they may need additional support, the firm should, where appropriate:

- *Offer further support with the cost of the overdraft, such as further reducing interest or waiving interest and other charges (where applicable); and/or*
- *Offer a structured repayment programme. This repayment programme might be implemented by way of a repayment plan on the overdraft facility, supported by the firm or by way of transfer of overdraft debt (full or part) to a personal loan at a rate of interest lower than they would have been expected to pay on the overdraft (noting the requirement to assess affordability if a personal loan is provided).*

This guidance on reducing or waiving interest on overdrafts should be retained and any extra protections from the temporary guidance built into the FCA repeat overdraft use guidance. We would like to see the provisions under the repeat use overdraft rules be extended.

However, these protections depend upon firms identifying a pattern of repeat use under CONC rule 5D.2.3.[10] We wonder if the timescale for a firm to identify and take action under these rules is too protracted for the current emergency situation. We would prefer a requirement for firms to supply immediate help by way of reduced or waived interest and a structured repayment programme or fixed term loan on a low interest rate for all those whose finances have been affected by coronavirus.

[9] https://www.fca.org.uk/publication/finalised-guidance/finalised-guidance-overdrafts-coronavirus-updated-temporary-guidance-firms.pdf
[10] https://www.handbook.fca.org.uk/handbook/CONC/5D/2.html#D169

Question 15: Do you have views on whether and how further temporary support should be provided [beyond October 31st]?

The FCA should ensure that **payment deferrals are made available to customers who are newly-impacted by Coronavirus after 31st October** (whether by extending the temporary guidance already in place, or given the uncertainty over the duration of the crisis, by amending MCOB and CONC on a more permanent basis to make payment holidays available for Covid-impacted customers whenever the impact occurs).

While we understand that an extension of temporary guidance may be being considered as a more straightforward option, the more permanent solution should also be carefully considered. Given the duration of the current crisis remains unknown, there is a strong argument for supplementing MCOB and CONC rules with further guidance on when a payment deferral should be given more permanently. This then becomes an additional tool for firms to use when considering what support to offer their customers in difficulties in the future – regardless of at which point Covid impacts their finances.

Regardless of how it is delivered, we have set out some of the potential groups who could benefit from the continued availability of temporary support beyond October 31st below.

- Consumers whose finances have been newly impacted by coronavirus and have not previously had payment deferrals.
- Consumers newly impacted specifically by new local (or national) lockdowns, who may have had payment deferrals previously.
- Consumers who have previously been in payment deferrals (including as a precautionary measure), then resumed full payments, only to be newly impacted by coronavirus at a later date

We would be welcome the opportunity to engage with the FCA on the question of support beyond October 31st outside of the tight timescale for responses to this call for input.

Question 16: Do you have views on the factors we have set out?

We agree with the factors that have been set out by the FCA in the paper and have responded to these in our responses to the questions above.

For more information on our response, please contact:

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