Money & Pensions Service

FCA Call for Input on ongoing support for consumers affected by coronavirus: mortgages and consumer credit

Money and Pensions Service response

The Money and Pensions Service welcomes the opportunity to respond to the FCA's Call for Input on ongoing support for consumers affected by coronavirus: mortgages and consumer credit.

Executive Summary

Many customers coming out of deferral will face a range of mutually compounding issues affecting their financial wellbeing, most notably a potential combination of reduced income, unaccustomed levels of unpaid borrowing and, in many cases, loss of employment. These consumers risk experiencing potential long-term financial detriment in seeking to pay off accumulated credit commitments if they are obliged to do so at the market interest rates that prevailed before the Coronavirus pandemic, most notably in the case of overdrafts.

Shrinkage of and reduced access to the mainstream lending market, combined with a tightening of lending conditions, is likely to both engender greater reliance on high-cost credit and also reduce access to more affordable 'remedial' products such as consolidation loans or no/low-cost balance transfer credit cards.

The impact of the pandemic on consumers' financial lives has had an unequal impact on different socio-economic groups, with lower-income households more likely to have taken on extra debt to cope during the crisis. Equally, there are specific impacts on groups protected by the Equality Act, with the FCA's own research finding that younger people and/or those from BAME backgrounds are more likely to have been making use of credit deferrals. We would therefore urge the FCA to require firms to take specific account of the needs of financially vulnerable consumers, while also bearing in mind its Public Sector Equality Duty in relation to groups protected under the Equality Act.

In this context, we are making the following recommendation to the FCA:

- Extend the current deferral window by a further three months in cases where a customer in financial difficulty has either not made previous use of the scheme or has only made use of it once, both in the interests of fairness and to create a breathing space for customers to deal with the impact of redundancy, income reduction or accrual of multiple debts.
- At the point when the deferral scheme ends (either 31 October or any later date if the scheme is extended), require lenders to agree individual repayment plans, offering reduced interest rates in respect of Covid-related debt burdens and waiving interest where this is necessary, in order to avoid significant financial detriment to customers.
- Require firms to consider extending deferral or resumption of appropriate Handbook forbearance requirements to the point when the Statutory Breathing Space is introduced in cases where customers will be unable to initiate repayments in the interim.

- In the case of particularly vulnerable customers, require firms to consider writing off Covid-related debts.
- Widen the existing range of forbearance options to include the offer of alternative, cheaper credit products where these are available.
- Assertively monitor and supervise lenders' future deferral and forbearance activities to ensure that firms are meeting regulatory requirements from the outset and throughout the management of arrangements agreed with the customer.
- Require firms to pro-actively refer customers to sources of free and impartial guidance and advice, particularly when a customer has arrears with multiple creditors. MaPS' recently released Money Navigator Tool may be a particularly useful source of help as it seeks to diagnose a customer's guidance and advice needs in the context of the pandemic and route them to the most appropriate form of support.

The guiding principle that unites and underpins our recommendations is that the FCA should require firms to ensure wherever possible that consumers are no worse off than they would have been without the impact of the pandemic on their financial health.

We provide further detail on these proposals and our views on other issues raised by this Call in our responses to individual questions below.

About us

The Money and Pensions Service (MaPS) exists to help people make the most of their money and pensions. We were created by the Financial Guidance and Claims Act 2018, bringing together the Money Advice Service, the Pensions Advisory Service, and Pension Wise, under one body.

The Money and Pensions Service is an Arms-Length Body, sponsored by the Department for Work and Pensions, with a vision of "Everyone making the most of their money and pensions" by ensuring that people throughout the UK have guidance and access to the information they need to make effective financial decisions over their lifetime. We deliver this across;

- Pensions guidance - to provide information to the public on matters relating to workplace and personal pensions.
- Money guidance - to provide information designed to enhance people's understanding and knowledge of financial matters and day-to-day money management skills.
- Debt advice - to provide people in England with information and advice on debt.
- Consumer protection - enabling us to work with Government and the Financial Conduct Authority (FCA) in protecting consumers.
- Strategy - work with the financial services industry, devolved nations and the public and voluntary sectors to develop and coordinate a national strategy to improve people's financial capability, help them manage debt and provide financial education for children and young people.

In delivering our statutory duties, MaPS has an explicit obligation to ensure that information, guidance and advice is available to those most in need of it - bearing in mind in particular the needs of people in vulnerable circumstances.

Detailed responses to 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 further payment deferrals should not be offered as a default solution for those in financial difficulty who have already made use of deferral options for a period of six months. However, many customers may either not have used deferral at all or have only used it for one three-month period during the overall timescale it has been available.

Redundancy rates are likely to spike when the Job Retention Scheme comes to an end, and will certainly not have fully tapered off by the current deferral deadline. A proportion of individuals who have become unemployed between now and 31 October may not have made full or even partial use of the deferral scheme before the deadline. Others in this category may be made redundant between the end of October 2020 and January 31 2021.

Many people who have made use of deferral are likely not only to have low financial resilience but also to have used credit to pay off other commitment. There are therefore likely to be many situations where a customer has accumulated multiple debts not subject to forbearance, including priority non-consumer credit debts such as Council Tax or rent arrears.

It would therefore be appropriate to extend the deferral deadline to the end of January 2021 to allow for customers fitting into the above scenarios, subject to a limit of six months' deferral in total. This would provide an opportunity for customers to assess their current and future financial circumstances and consider what, whether, when and how much they can repay of their Covid-related debt burden.

If the above proposed conditional three-month extension is not introduced, we recommend that the FCA requires lenders to extend deferral for financially vulnerable customers on a case-by-case basis. This would have the same effect as applying the relevant option from CONC 7.12, albeit for a potentially longer period than that customarily applied by many lenders. Such arrangements, subject to episodic review, might then dovetail with the introduction of the statutory breathing space in May 2021 in cases where customers' financial circumstances have not improved in the interim and they require debt advice.

Lenders should also be required to actively consider whether complete or partial debt write-off is the fairest option in cases of acute vulnerability.

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

From 1 November, customers who had made use of the option to take out a £500 interest free overdraft and to pay preferential rates for amounts in excess of that ceiling will face the shock of (on average) 40% interest rates being applied to their overdraft balances. The ending of payment breaks on credit cards will also give rise to higher credit balances and repayments.

There are emerging indications that consumers' use of credit is now rising again[1] at a time when the overall lending market is shrinking[2], which will leave people facing limited or more expensive options to find new credit or switch/consolidate to cheaper products.

Without new FCA requirements, many consumers will be left with unmanageable levels of debt. We therefore propose that firms should be required to offer individualised repayment plans for those who have accumulated unpaid credit commitments as a result of Coronavirus, which are tailored to the needs generated by customers' specific circumstances. These plans should include the application (or continuance) of the preferential interest rates applicable to overdraft balances in excess of £500+ that were directed by the FCA during the current deferral period. For consumers in serious financial difficulties, we further propose that firms should be explicitly required to waive interest on the amounts covered by these plans, an option provided for in CONC 5D.

Bearing in mind the contraction of the low/no-interest rate credit card market, we suggest that a parallel approach should be adopted in relation to credit cards as provided for in CONC 6.7.3B2(a)).

In certain circumstances, particularly those relating to vulnerable customers experiencing financial difficulty unlikely to be resolved in the longer term, debt write-off should be considered an appropriate option.

As well as exercising maximum flexibility in the application of existing forbearance measures to take account of the needs of individual customers, firms should consider options beyond these wherever appropriate. As an example, firms could consider switching customers to more affordable credit products, where they offer them. Such an approach would be consistent with the option set out in CONC 5D, which deals with repeat overdraft customers.

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

We acknowledge the overall logistical challenges on firms generated by the Coronavirus pandemic, and the specific impact of administering a high volume of deferral and post-deferral arrangements. These issues mean that firms must prioritise deployment of resources so as to

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[1] Resolution Foundation research has found that a quarter of the second income quintile have reported taking on extra consumer credit, twice as many as among high-income families. Lower-income families are particularly likely to have increased their use of high-cost products like credit cards and overdrafts.

[2] https://www.bbc.co.uk/news/business-53431056

ensure that the needs of consumers who are vulnerable due to financial and/or non-financial factors are met in a manner consistent with the principle of Treating Customers Fairly.

As we indicate elsewhere, there may be situations in which it would be appropriate to consider applying a debt write-off. In considering such cases, firms should weigh up the costs of recovery against the relative probability of recovering the debt.

Free money guidance and debt advice services may be a source of help suitable for many customers. These too will face high demand in coming months, so firms should be required to implement nuanced and targeted onward referral strategies to ensure that the right kind of help for consumers is made available, bearing in mind the need to avoid overloading those services.

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

We agree that the resumption of normal credit reporting is necessary to ensure that firms are able to act in compliance with FCA rules on responsible lending and avoid creating the risk that customers will be exposed to the risk of taking on unaffordable credit commitments.

However, the extraordinary circumstances of the current situation provide an opportunity to re-visit longstanding discussions in and beyond the debt advice sector regarding options for credit records to demonstrate positive behaviour. For example, a form of positive marker could be agreed to indicate successful compliance with the type of repayment arrangement we propose above. This would offset the impact of the default marker and be consistent in spirit with the FCA's encouragement to customers to make part-payments towards credit commitments where full payments are not achievable.

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

By their nature as distinct product types subject to different rules, specific options for further forbearance will differ between mortgage and unsecured lending products. However, the general principle that firms should agree affordable arrangements that are tailored to individual customers' circumstances must prevail in both markets.

Regarding mortgage post-deferral forbearance requirements, we would expect the FCA to require firms to make customers aware of the full range of options available under MCOB 13.3, and agree an option from among those listed that best fits the customer's individual circumstances. The option of further deferral of payment of interest or capital against the principal should therefore also be considered as being one of the available options where appropriate.

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?

Please refer to the detailed comments regarding payment deferral and its relationship with job loss in our response to Question 1. It is likely that redundancy rates will rise sharply at the point the Job Retention Scheme ends, and the recommendations we make above are directly relevant to this scenario.

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? Are there practical barriers for firms in doing so?

We are not entirely clear about the cohort or the timeframes referred to here, i.e., does this question relate to:

(i) customers who were up-to-date with all credit commitments prior to entering into deferral arrangements, or
(ii) those who, irrespective of pre-deferral credit status, have come out of deferral prior to October 31 and kept up with payments at the level set at the point of exit?

If this proposal refers to providing a general financial health-check to all payment deferral users, then we support it. This health-check could include use of the Standard Financial Statement to provide a clear picture to both firm and customer of current income and total credit commitments (as well as other expenditure). Such an assessment would help ensure that any customers who do not currently show signs of financial distress will be able to negotiate and make payments at an affordable rate based on their individual circumstances.

This approach would also be valuable in encouraging firms to do more to identify and help customers address **potential** financial difficulty. This consideration is particularly important in the current situation, where customers will be carrying newly-inflated levels of credit commitment, which they will need to service in a structured fashion.

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

The FCA should require lenders to actively consider applying debt write-off to customers whose vulnerability is such that it would impact on any longer-term ability to repay debts accrued during the deferral period(s), particularly those debts that compound pre-existing unmanageable arrears. With reference to write-off and customers with mental health conditions, Section 13 of the Money Advice Liaison Group's 'Good Practice Awareness Guidelines for helping consumers with mental health conditions and debt' provides useful guidance.

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The extreme nature of the current situation offers a unique opportunity for lenders to re-evaluate and enrich their overall approach to supporting customers in financial difficulty. At present, lenders adopt measures that only address the difficulties which customers experience with their own products.

There are many areas in which customers would benefit from a more holistic approach to resolving their financial difficulties which, once introduced, would represent a good practice model for sector-wide application. Such a model would enhance the consistency of customer experience across the credit market and also enable firms to meet their vulnerability obligations with much greater effect. Relevant measures might include:

- Recognition and adoption of a single portable Standard Financial Statement that a customer could use in negotiating with all lenders
- Provision of clear basic information about the difference between priority and non-priority debts
- Referral to income maximisation/benefits advice as well as debt advice, where appropriate
- Smart use of data to identify 'pre-arrears' customers at the cusp of financial difficulty and provision of early advice and support to manage these consumers' current use of the lender's credit products

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

Lenders should pay particular regard and offer maximum flexibility to customers who lack financial resilience as a result of low income (either long-term or Covid-derived), and particularly those who have multiple debts. There is therefore a spectrum of activities that should be applied to support this group, selected according to individuals' specific needs, which would range from forbearance to immediate referral to debt advice.

The Coronavirus pandemic has had a significant impact on the mental health of the overall population, and two in five people with mental health problems have experienced a drop in income[3], compounding well-documented access barriers that this group faces in managing money. Firms should therefore be urged to adopt the Money and Mental Health Policy Institute's Urgent Covid-19 Customer Support Standards, which among other recommendations advise that creditors should 'proactively offer forbearance'.

Lockdown provided perpetrators of domestic abuse with the opportunity to take greater control of the financial aspects of victims' lives[4][5], which could include coercion to take on a higher level

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[3] Money and Mental Health Policy Institute (2020) Income in Crisis: how the pandemic has affected the living standards of people with mental health problems. https://www.moneyandmentalhealth.org/wp-content/uploads/2020/06/Income_in_Crisis.pdf (accessed 31 July 2020).

[4] Women's Budget Group (2020) Crises Collide: Women and Covid-19. https://wbg.org.uk/wp-content/uploads/2020/04/FINAL.pdf (accessed 31 July 2020).

[5] Surviving Economic Abuse is currently conducting a survey to establish the extent of this problem.

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of credit commitment or apply for payment deferrals on existing products. In addition to actively exercising forbearance (or write-off where appropriate), firms should be guided by the UK Finance Financial Abuse Code of Good Practice, developed in partnership with the specialist charity, Surviving Economic Abuse.

Firms should adopt approaches that encourage customers to proactively disclose their vulnerability by, for example, promoting their commitment to working with vulnerable customers and giving prominence to any specialist support resources that are available.

Regarding identification, the current version of the FCA's guidance on the treatment of vulnerable customers provides a useful steer in directing firms to train staff to recognise potential indicators of vulnerability and exercise sensitivity in soliciting more information from them. Also, the Money Advice Trust hosts a Vulnerability Resources Hub, which includes a range of useful materials.

Overall, it is clear that a 'one size fits all' approach will not deliver for consumers as well as a tailored approach would. Again, we strongly advocate proactive referrals by firms into free and impartial sources of guidance and advice. However, a blanket policy of referring all customers exiting payment holidays is likely to be counter-productive and create unmanageable levels of demand.

Question 7 Do firms expect to automate aspects of their process? If so, do they anticipate challenges in meeting MCOB 13, CONC 6 or CONC 7 and would further guidance be helpful?

We are not in a position to comment on this question.

Question 8 Do firms anticipate challenges in collecting the necessary information from their customers?

We are not in a position to comment on this question.

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

Responses to individual questions in this Call for Input indicate where we feel that CONC should be strengthened. This can be achieved either by specific amendments (e.g., as per our response to Question 10 below) or, more generally, by a clear direction to firms to make customers aware of existing forbearance options and work together with them to identify and apply those that best fit individual circumstances and needs.

This direction must be supported by assertive monitoring and supervision on the part of the FCA, to ensure that firms are meeting regulatory expectations from the outset and throughout the management of agreed arrangements. This will help reduce the risk of consumers experiencing unfair treatment regarding which they would be obliged to seek redress for after the damage is done. Crucially, close regulatory oversight will also improve the consistency of consumer experience, enabling customers to feel more confident that the fair treatment they receive from one lender will be replicated by others.

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

As a general point, proper consideration of Principle 6 should already ensure that in agreeing a package of support, firms consider all the products a customer has with them. However, it may well be worth spelling this out to lenders in future guidance.

In line with CONC 7.3.7, firms should be actively encouraged to refer customers to debt advice and we suggest that, as a minimum, they should signpost to the Money and Pensions Service Money Navigator Tool. The tool provides a simple online diagnostic that helps consumers find the guidance they need if their finances have been impacted by the coronavirus pandemic. It offers tailored guidance according to consumers' individual circumstances and, where appropriate, directs them to regulated not-for-profit debt advice services.

Firms should also be required to record instances of referrals and signposting, both on customer records and as a unitary service-wide measure, in order to provide evidence of good practice. In due course, the introduction of the MaPS PACE project will deliver a smooth referral journey for consumers, enabling creditors to match customers with debt advice services via a virtual contact centre. Advice providers will be able to supply feedback to creditors on client progress throughout the debt repayment journey to enable tailoring of collection activities.

We also propose that the direction to suspend active debt recovery contained in CONC 7.3.11 should be extended to cover instances when a debt adviser is not yet involved. This would afford consumers some of the protections they will be entitled to under the forthcoming Statutory Breathing Space, and would help mitigate the risk of a sharp spike in debt advice demand once this form of protection goes live.

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?

The Standard Financial Statement (SFS) has been adopted by more than 90 per cent of the debt advice sector in England and is familiar to and used by many creditors. It will also become a requirement of the forthcoming Statutory Debt Repayment Plan. In cases where lenders do not currently use the SFS, the FCA should strongly encourage firms to adopt the SFS as the 'gold standard' product in order to minimise the need for consumers to provide the same data multiple times in different formats.

Given the wide recognition and use of the SFS, individual lenders should provide their customers with a completed SFS that can then be 'portable', i.e., available for the customer to use with any other creditors and accepted by them as an accurate picture of the individual's financial circumstances.

MaPS is the custodian of the SFS and is well-positioned to consider which resources it can provide to support firms and consumers in a timely way during the forthcoming period. We would be happy to discuss this with FCA colleagues in greater detail.

Question 12 Is any further guidance on credit reporting needed?

Please refer to our response to Question 1, Proposition 4.

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?

This question has been answered in our response to other questions.

Question 14 Are the current repeat use rules 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?

Many consumers will now be carrying a significant overdraft that under ordinary circumstances they would previously have been able to manage without difficulty, making use of it on an as-needed basis and for lower amounts. The increased overdraft burden created by deferral, particularly when coupled with larger amounts drawn on to compensate for income shortfalls, increases the probability of higher rates of month-on-month rollover as a form of repeat use.

We therefore reiterate our call for the introduction of tailored repayment arrangements, as described in our response to Question 1, to help customers deal with the shock of having interest rates, likely to be at around 40%, applied to what in many cases will be significantly higher overdraft balances. Such arrangements will enable customers to gradually and affordably reduce inflated overdraft balances and reduce the risk of repeat use.

As an adjunct, rather than an alternative, FCA should oblige firms to consider, wherever available, the provision of 'alternative credit on more favourable terms (for example a fixed-sum loan repayable by instalments)' as set out in CONC 5D.

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