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May 2025 update:
This letter is historical. See our supervisory correspondence page for more information and current views.

3 February 2020

Dear CEO,

Persistent Debt (PD); Your approach to customers who have been in Persistent Debt for 36 months (PD36)

We are committed to doing all that we can to ensure a smooth roll-out of firms' 36-month persistent debt interventions. We have carried out a review of the approach of a collection of firms' PD36 strategy and their readiness to meet their regulatory obligations. Our review has identified some areas of concern where we believe there is a need to confirm our expectations.

With the 36-month PD milestone approaching in February and March 2020 for credit card borrowers, we are telling you to check your firm's approach to ensure it is reducing persistent debt while treating customers fairly.

Background to persistent debt rules

PD rules came into force on 1st March 2018. They are part of a package of remedies to address harms identified in the Credit Card Market Study's final report in 2016 (MS14/6.3). As part of our ongoing supervision of the implementation of the PD remedies, we are calling attention to firms' obligations under the relevant regulatory requirements, particularly regarding steps required where a customer has been in PD for 36 months.

Our PD rules apply to customers who, over a period of 18 months, have paid more in interest, fees and charges than they have repaid of the principal balance on their card. If a customer meets the definition of being in PD36, our rules require firms to help the customer repay more quickly in a way that does not adversely affect the customer's financial situation. Firms must consider their entire credit card customer portfolio (both performing and non-performing) to identify customers in persistent debt.

Treatment of PD36 customers

Where a firm is required to contact a customer in persistent debt to set out options for the customer to reduce the debt, those options must be reasonable. The aim of the repayment options is that the debt is repaid in a reasonable period. This is usually between 3 and 4 years and only, in exceptional circumstances should the repayment period extend beyond 4 years (but this should not result in additional cost to the customer).

We are concerned that some customers may not respond to firm communications about being in persistent debt. Firm communications must ask the customer to make contact to confirm their situation. We are also concerned that firms are proposing repayments options which are not reasonable and sustainable for customers.

Where the repayment options proposed by a firm are not sustainable for the customer, they will be in a better position if they contact the firm as they are entitled to receive forbearance (potentially including the reduction, waiving or cancellation of interest and charges). We encourage firms to make the customer aware of this in their communications.

We also remind firms of the need to ensure PD36 communications provide details of not-for-profit debt advice bodies and encourage contact with them. Some consumers may receive PD36 letters from more than one credit card issuer. In these circumstances, customers are particularly likely to benefit from independent advice and we encourage you to make this clear in your letters.

Card Suspensions

We are also concerned that some firms may be planning a ‘blanket’ suspension of credit cards for all their PD36 customers.

The PD rules only require the suspension or cancellation of cards where a customer:

a) does not respond to the repayment options proposed within the time specified by the firm;

b) confirms that one or more of the proposed options are affordable but that they will not make increased payments.

We remind firms that, in line with section 98A of the Consumer Credit Act 1974, when they choose to suspend or cancel a customer’s access to credit they must serve customers with a notice giving reasons for this, and those reasons must be objectively justified.

There is no regulatory requirement (outside of those mentioned above) that a card must be suspended where a customer is in persistent debt, so an objective justification could not rely on such a requirement.

Operational Readiness

It is important that firms are operationally ready to deliver their PD36 interventions in line with our regulatory requirements. Operational readiness should include consideration of the people, processes (including all communications) and systems impacts and requirements to deliver competent customer engagements.

Conclusion

Our rules will assist customers to break out of persistent debt and ensure that customers who cannot afford to repay quickly are given help.

As part of our review we are evaluating the approach taken by some firms in following our rules on persistent debt. Where we identify poor practice, we will take swift action to ensure customers are being treated fairly and our rules are being followed.

For any queries or to discuss further, please use your usual Supervisory contact.

Regards,

Philip Salter

Director of Retail Lending and Claims Management

Supervision – Retail & Authorisations