

FS20/9: Further support for consumers impacted by coronavirus: feedback on draft guidance and rules (personal loans, credit cards and overdrafts)

1 July 2020

Contents

1	Summary	2
2	General issues	4
3	Credit cards and retail revolving credit	13
4	Overdrafts	15

1 Summary

- 1.1 We announced a range of further proposals to provide continued support for users of certain consumer credit products who are facing payment difficulties because of the exceptional circumstances arising out of coronavirus (Covid-19).
- 1.2 The proposals set out the further support firms would be expected to provide to personal loan and credit card (including other revolving credit) customers coming to the end of a payment deferral, as well as those yet to request one. The proposals also included measures to provide further support to overdraft customers impacted by coronavirus.
- 1.3 We wanted to act quickly to protect consumers in these difficult times and, therefore, did not formally consult on the proposals or produce a cost benefit analysis. We consider that the delay in doing so would be prejudicial to the interests of consumers. However, we invited comments on our proposals and received 37 responses from firms, trade bodies, consumer bodies and individuals.
- 1.4 The majority of respondents supported the overarching approach to personal loans, credit cards and overdrafts. Almost all respondents acknowledged that consumers in temporary payment difficulties continue to need support. There was strong support for keeping the 'window' in which a consumer could apply for temporary support open until 31 October.
- 1.5 There were some areas where respondents challenged, or sought clarification on, various aspects of the proposals. We have taken the responses into account in finalising the rules and guidance, and provide further feedback on these issues below.
- 1.6 These rules and guidance support our consumer protection objective and are designed to protect consumers by providing them with temporary support in the light of the current exceptional circumstances arising out of coronavirus. In developing the policy and considering responses, we have had regard not only to our consumer protection objective, but also to our market integrity and competition objectives, in particular in considering the different impacts on firms of the proposals.
- 1.7 We do not consider that the rules and guidance will adversely affect consumers with protected characteristics under the Equality Act 2010.
- 1.8 We are now publishing our finalised rules and guidance, subject to a small number of changes which clarify the application of the guidance in various areas and address a number of technical issues raised. These include amendments to clarify:
 - That no additional payment deferrals can be applied for under our guidance after 31 October
 - The extent to which firms are able to rely on customer-provided information when granting payment deferrals
 - The interaction of the guidance with our credit card persistent debt rules
 - The scope and timing of support to be offered to overdraft customers

- 1.9 The rules and guidance affect a range of firms including providers of:
- Personal loans
 - Credit cards including retail revolving credit (catalogue credit and store cards)
 - Overdrafts
- 1.10 We recognise that there may be other types of regulated credit agreement which are not specifically covered by this guidance or that previously issued. Firms offering such agreements should treat customers fairly by considering providing support in line with this guidance as a part of their forbearance approach.
- 1.11 The rules and guidance come into effect on 3 July and, unless renewed or updated, expire on 31 October 2020, save for those aspects of our guidance that remain in force after 31 October to enable firms to address residual issues for those customers coming to the end of payment deferrals after that time.

Next steps

- 1.12 Over the coming weeks we will keep this guidance under review and work with firms, consumer and debt advice groups, and government, to consider what other forms of support may be needed.

2 General issues

Summary

- 2.1 Respondents broadly supported the proposals and raised a variety of cross-cutting issues. This chapter addresses those issues which are relevant to personal loans, credit cards and retail revolving credit. The following chapters address specific issues relevant to credit cards (including retail revolving credit) and overdrafts.
- 2.2 The main general issues raised included whether customers were able to apply for further payment deferrals after the expiry of the application 'window' and whether alternative forms of support not explicitly referred to in the guidance may be offered.
- 2.3 Some firms and trade bodies also raised questions around the extent to which they could rely on information where provided by the customer and what reasonable steps they should take to engage customers coming to the end of payment deferral periods. They also highlighted technical difficulties with implementing partial payment deferrals, raised concerns around the potential financial impact of further payment deferrals and reiterated concerns raised in response to previous draft guidance about the interaction with Consumer Credit Act (CCA) requirements.
- 2.4 There were a range of views expressed on the approach to Credit Reference Agency (CRA) reporting, with some firms and trade bodies highlighting concerns around the potential implications.
- 2.5 Some respondents also highlighted the risk of subsequent FOS decisions not taking sufficient account of FCA guidance on payment deferrals and other temporary support, and raised issues around the role of debt counsellors when seeking payment deferrals on behalf of customers.
- 2.6 Further detail on these issues and our response is set out below.

Application window and further payment deferrals

- 2.7 Many respondents questioned whether customers would be able to apply for further payment deferrals after the expiry of the guidance on 31 October where they have already entered into a payment deferral prior to that date.

Our response

- 2.8 We have amended our guidance to clarify that it does not require firms to offer further payment deferrals to customers after 31 October. Our draft guidance stated that while the guidance would cease to apply from 31 October, firms should continue to act in accordance with it to the extent necessary for those customers that took a payment deferral before 31 October. This was intended to ensure that firms would waive interest in accordance with the expectation set out in the guidance, where customers require forbearance at the end of payment deferral periods which end after 31 October.
- 2.9 We have also clarified which aspects of our guidance remain in force after 31 October to enable firms to address residual issues for those customers coming to the end of payment deferrals after that time.

2.10 However, firms can continue to offer payment deferrals of any length or similar forms of support outside of our guidance should they wish to do so and where this is in the interests of the customer. Such support may also be provided in order to comply with CONC 6 or 7 requirements. For example, this could include where a customer was given a further payment deferral of 3 months that extends beyond 31 October, but needs further temporary support after that point. In such cases, it may be appropriate for firms to offer further periods of reduced or token payments in line with our existing requirements under CONC 7.

Alternative forms of support

2.11 Trade bodies were concerned that further payment deferrals could leave many customers with unsustainable debts. They felt that payment deferrals should be placed on more of an equal footing with other forms of support.

2.12 Some firms and trade bodies suggested that there were a range of alternative forms of support which, while not explicitly referred to in our guidance, could be more suitable for customers but which they considered would not be permitted under our guidance.

2.13 A trade body asked whether firms could offer refinancing solutions. A firm also questioned whether, when dealing with customers unable to resume payments at the end of an initial deferral period, they could grant a further payment deferral of longer than 3 months.

2.14 A consumer body was concerned that the guidance gave firms too much flexibility on alternative options, which could risk inconsistent outcomes.

Our response

2.15 Our overarching intention is to ensure customers are provided with temporary support by having payments reduced to a level they can afford, recognising that it is in their best interests to pay what they can wherever possible.

2.16 However, we believe it is important that firms should be able to provide other forms of support where a further payment deferral is not in the customer's interests. This has been a key component of our temporary guidance across consumer credit products, in recognition that a payment deferral may be less appropriate on a relatively high interest short-term loan compared to, say, a mortgage.

2.17 For example, an alternative could include a shorter payment deferral period or forbearance in accordance with CONC 7, including a longer payment deferral, where a payment deferral under our guidance is clearly not in the customer's interests.

2.18 Firms can also offer a refinancing solution to deal with a customer's payment difficulties, where this is clearly in the customer's interests and taking into account the customer's wider financial circumstances. However, firms would need to carry out a proportionate creditworthiness (including affordability) assessment in relation to any new facilities offered.

2.19 We consider that our guidance strikes an appropriate balance by affording firms with sufficient flexibility to determine appropriate solutions, but that these should clearly be assessed as being in the customer's interests where they involve something other than a temporary period of reduced or deferred payments. But where firms agree to reduce payments to a level the customer can afford under this guidance, they are

entitled to rely solely on information provided by the customer when considering whether such support is obviously not in the customer's interests.

- 2.20 We believe that the risk of inconsistent outcomes is mitigated by the need for firms to demonstrate that a payment deferral is obviously not in the customer's interest where they wish to offer an alternative solution, and the expectation that they should not implement a single solution for all customers.

Reliance on customer information

- 2.21 A range of views were expressed around the nature and extent of information that should be relied upon when making decisions about the appropriateness of further payment deferrals. Some trade bodies sought further clarity that firms should be able to rely entirely on information provided by customers, while retaining the option to have more detailed engagement where appropriate.
- 2.22 One firm felt that it would be challenging to determine whether or not a payment deferral was in the customer's interests without asking for detailed information from the customer.
- 2.23 Firms also questioned whether the fact that our draft guidance indicated firms could choose to make further enquiries of customers meant that firms would need to revisit payment deferrals offered under the existing guidance.

Our response

- 2.24 We agree that firms should be able to rely solely on information provided by customers when reducing payments to a level the customer can afford under our guidance. We recognise that many firms will need to operationalise processes at scale in a short period of time and that, in the current circumstances, it is appropriate for this temporary support to be based on customer-led processes and information.
- 2.25 In determining whether an initial payment deferral is obviously not in customers' interests, we have previously made clear that firms can determine this at a book or cohort level, taking into account relevant factors such as interest rates and term. Where a customer is seeking a further payment deferral, a firm will have contacted the customer prior to this to determine whether the customer can resume payments.
- 2.26 Firms are able to choose to undertake more detailed enquiries where appropriate, but we do not intend that any change in firms' approach under this guidance should impact payment deferrals offered under our previous guidance. Our guidance sets out the issues that firms should take into account when considering whether further payment deferrals are obviously not in the customer's interests, including the longer-term effects on the customer's situation. Where firms conclude that a payment deferral is obviously not in the customer's interests, we consider it unlikely such a conclusion could typically be justified solely on the basis of information provided by the customer.
- 2.27 Firms should also note that they will need to be able to evidence how they reached a decision that a payment deferral is not in customers' interests in line with the record keeping section of our guidance.

Contact and further support at the end of payment deferral periods

- 2.28 Some firms questioned whether a customer who makes their first payment after the end of a payment deferral but misses a subsequent payment should be treated in line with CONC 6 or 7 or be offered further support under the guidance. Another firm questioned the extent to which they would be required to make to contact with customers in order to demonstrate that they had taken the necessary reasonable steps.
- 2.29 A consumer body was concerned that firms would not be required to make every effort to establish contact with a customer approaching the end of a payment deferral.

Our response

- 2.30 Our guidance sets out that firms should take all reasonable steps to contact customers in good time before the end of a payment deferral period to engage with them about their options. Where the customer does not respond firms are able to proceed on the basis the customer is able to resume repayments, but where the first payment due is missed or the customer indicates they unable to meet this payment, firms should offer further support in line with our guidance.
- 2.31 Our expectation is that this will mitigate poor outcomes for customers who are unable to resume repayments because of temporary payment difficulties but have been deemed to be able to do so because they have not responded to communications from firms ahead of their first payment falling due.
- 2.32 We consider that firms should take those steps to contact customers coming to the end of payment deferral period that are reasonably practicable for the firm in the circumstances (for example we would not expect firms to have an outbound dialling campaign if they do not have the systems or processes to do so). Those steps are likely to vary reflecting the nature of the firm, product and customer base. However, we would expect that this should take into account customers' preferences for methods of communication and reflect any particular needs of vulnerable consumers.
- 2.33 We do not consider that it would be appropriate to expect firms to provide a further payment deferral under our guidance to customers who are treated as being able to resume payments and make their first payment but either go on to miss subsequent payments or want to take a further payment deferral ahead of missing a subsequent payment. However, firms are able to treat customers that miss subsequent payments as being in temporary payment difficulty should they choose to do so and offer support in line with the guidance where this is in the customer's interests.

Further support and single solutions

- 2.34 A firm questioned what was meant by "adopting a single solution" in relation to all customers requiring further support at the end of initial payment deferral periods, and under what circumstances this would contravene Principle 6.

Our response

- 2.35 We think that it is unlikely to be appropriate for firms to offer a single prescriptive solution to all customers requesting further support. While firms are able to make assessments at book or cohort level when determining whether a payment deferral is obviously not in a customer's interests, alternative solutions offered should treat

customers fairly by taking into account their individual ability to pay what they can afford in the current circumstances. For example, a firm offering a partial payment deferral of, say, 50% of contractual monthly payments for all its customers would not be consistent with our guidance or Principle 6 in this regard.

- 2.36 Similarly, making an assumption that all customers who are unable to resume payments at the end of an initial payment deferral require forbearance under our rules would not provide customers who need further temporary support with appropriate temporary support.

Waiving of interest

- 2.37 Some firms questioned how interest waived at the end of payment deferral periods where a customer requires forbearance under our CONC rules should be calculated, and whether customers who have already exited payment deferrals under our guidance should have interest waived retrospectively.
- 2.38 One firm sought clarification on whether a positive confirmation would be required from the customer that they are no longer in payment difficulties in order to avoid triggering the expectation to waive interest. Some consumer bodies argued that all interest in relation to payment deferrals should be waived irrespective of whether the customer subsequently required forbearance.

Our response

- 2.39 Our intention is that, where customers require forbearance under our rules at the end of a payment deferral period, any interest that would not have accrued but for the payment deferrals should be waived. The effect of the interest waiver should be that a customer would not, in respect of deferred amounts, be in a worse position, in terms of interest, than if they had paid those amounts in full in accordance with the agreement. We have amended our guidance to make this clearer. We also do not consider that a positive confirmation from customers is required in the circumstances described above.
- 2.40 We recognise that some respondents believe that it is inappropriate for interest to be allowed to accrue at all during payment deferral periods. However, we consider that we have struck an appropriate balance between the interests of firms and consumers, and that those customers most in need of assistance will receive targeted additional support in the form of an interest waiver where they are in need of forbearance under our existing requirements at the end of a payment deferral period.
- 2.41 Where customers have exited a payment deferral under our original guidance and are subject to forbearance under our existing rules, our original guidance provided that firms should waive any interest accrued during the relevant period.

Partial payment deferrals

- 2.42 Some firms and trade bodies raised concerns around the operational challenges associated with partial payment deferrals. They highlighted that systems issues could cause significant implementation issues, including in relation to CRA reporting, and that it should be possible to adopt various internal approaches subject to customers being able to make partial payments should they wish to do so.

Our response

We recognise the concerns that have been raised and have amended our guidance to make clear that firms can adopt various internal approaches. This could include, for example, recording partial payment deferrals as full payment deferrals in systems while accepting voluntary partial payments at the level the customer indicates they can afford. Such arrangements should be regarded as partial payments for the purposes of our guidance.

Financial impact of payment deferrals

- 2.43 Some firms and trade bodies highlighted that payment deferrals have placed a significant prudential and liquidity burden on many non-bank lenders. They noted that complex securitisation structures are not able to accommodate widespread forbearance programmes, and argued that liquidity support should be made available to non-bank lenders to preserve the future viability of certain sectors.

Our response

- 2.44 We recognise that the current circumstances present significant financial challenges for some firms. We also acknowledge that firms in these sectors may be unable to access certain Government funding schemes and may need to seek renegotiation of existing funding arrangements. However, this does not affect our expectation that consumers should be offered appropriate support in accordance with our rules and guidance where necessary, particularly given the current exceptional circumstances.
- 2.45 We consider that it is essential wherever possible that consumers receive the same high standard of protection, whatever the business model of their lender, and that our guidance strikes a fair balance between the interests of consumers and the interests of firms.
- 2.46 Where firms, including those subject to insolvency procedures, are concerned about the impact of providing payment deferrals or other forbearance in accordance with this guidance, they should contact us at the earliest opportunity.

Credit Reference Agency (CRA) reporting

- 2.47 Industry respondents, including CRAs, raised concerns around the risks associated with further 'masking' of credit files, including that this could impede accurate and responsible credit decisioning. They suggested that this could affect the availability and cost of credit and contribute to consumer over-indebtedness.
- 2.48 Some suggested that firms should be allowed to record 'arrangements' or other markers on credit files for further payment deferral periods in order to provide a more accurate picture of a consumer's financial position. They also highlighted the risks of misunderstandings around the potential impact of payment deferrals on credit files and consumers' future credit prospects, as consumers may not appreciate the distinctions between credit files, credit scores and other sources of data used to inform lending decisions.
- 2.49 Some firms questioned whether preferential overdraft interest rates offered under this guidance should be reported to credit files, and one firm questioned the approach to credit reporting at the end of payment deferral periods.
- 2.50 Consumer bodies broadly supported our proposals and agreed that protection of credit files from negative reporting should continue for further payment deferral

periods. Some argued that firms should not be allowed to take account of the fact that an individual had taken a payment deferral in lending decisions.

Our response

- 2.51 We recognise that there is a tension between our proposed approach and the risks to the integrity of credit information. While we also acknowledge there are some risks to future credit decisioning processes and credit availability, the wider economic circumstances are also relevant.
- 2.52 On balance, we consider that our approach remains appropriate in the circumstances. We do not think that it would be appropriate to record arrangements on credit files for further payment deferrals taken under our guidance which are provided as a form of temporary support in the current exceptional circumstances, given the long-term negative impact this could potentially have.
- 2.53 We acknowledge that some firms would like to explore the possibility of introducing a new marker for credit files that would reflect certain exceptional circumstances. We have engaged with industry on this issue and understand that it would not be possible to introduce such a marker for payment deferrals taken under this guidance, given the operational complexities involved. However, we would be interested to hear from industry on what alternative approaches may be possible to reporting temporary support provided to consumers in exceptional circumstances with a view to protecting the integrity of credit information.
- 2.54 We expect firms to be clear about the credit file implications of other forms of support offered, including at the end of payment deferral periods, and to ensure that sufficient time is afforded to determine appropriate solutions before reporting any new arrears or arrangements. Where at the end of a payment deferral period a mechanism to repay accrued amounts is agreed, this should not result in any negative reporting on credit files at that time (e.g. recording of new arrears or arrangements). However, we would expect subsequent payment performance in relation to any new repayment terms to be reported in accordance with usual reporting processes.
- 2.55 We do not consider that any changes to the cost of overdraft borrowing made as a result of this guidance should result in the reporting of arrangements to credit files. We otherwise expect that customers' access to, and use of, an overdraft facility will be reported on their credit file in the usual way.
- 2.56 We acknowledge that there is a risk of consumer misunderstanding in relation to these complex issues. We have provided clear messages to consumers that credit files and scores may be impacted by a wide range of factors, and that future lending decisions may take account of a range of information and reflect commercial risk appetites at that time. However, we want to ensure that consumers affected by these exceptional circumstances are treated fairly in future, and will consider what further work or guidance may be necessary to achieve this.
- 2.57 It is also important to recognise that credit files will be subject to usual reporting processes once payment deferral periods have come to an end. This is ultimately in consumers' interests as it will help ensure that future lending decisions are based on a more complete and accurate picture of their financial circumstances.

Financial Ombudsman Service (FOS) complaints

- 2.58 Some firms and trade bodies highlighted the risk of subsequent FOS decisions not taking sufficient account of FCA guidance on payment deferrals, resulting in potentially unfair outcomes that do not reflect the current exceptional circumstances.

Our response

- 2.59 The FOS is independent but we have made it aware of the guidance, and the need for swift action by firms to support consumers who are impacted as a result of coronavirus. The FOS has confirmed that it will continue to keep its website updated with details of its approach to complaints.

Debt counsellors

- 2.60 Some respondents questioned whether debt counsellors' views on the appropriateness of payment deferrals should be extended to take account of a broader view of a credit products held by a customer and which could potentially be subject to payment deferrals. A consumer body suggested that the guidance should establish a process for debt counsellors 'overturning' firms' decisions.
- 2.61 Other respondents sought clarity on the scope of the debt counsellor's view prevailing on the nature of payment deferral sought, including that this should be strictly limited to the payment deferrals which may be offered under our guidance. Another respondent suggested that the criteria for the debt counsellor's view prevailing be broadened to encompass advice sought directly by consumers from online tools.

Our response

- 2.62 We do not consider that it would be appropriate to broaden the circumstances under which a debt counsellor's view should prevail on the appropriateness of a payment deferral. Our intention is to ensure that the debt counsellors' view on reasonable proposals regarding payment deferrals prevails over that of the firm. We agree that this should be limited to payment deferrals taken under our guidance.
- 2.63 It is not our intention to provide a wider route to challenge decisions about whether a payment deferral is in the customer's interests. We also do not think it would be appropriate to provide that debt advice obtained through online tools should prevail over the view of firms, given the potentially significant implications that could result from what may amount to a customer self-certification process.

Debt help and money guidance

- 2.64 Respondents were supportive of the approach that firms should help customers understand different types of debt help and encourage them to seek the type of help that suits their circumstances. Some made suggestions on points that could be clearer, including spelling out that the guidance applies to customers who are asking for a payment deferral for the first time and that a firm may not refuse to consider a payment deferral until the customer has sought debt advice.

Our response

- 2.65 We have considered the comments raised and concluded that the guidance is sufficiently clear on the points raised. We have made some small changes to the consumer information page in the light of respondents' suggestions.

Consumer Credit Act

- 2.66 As with our previous guidance, firms and trade bodies raised concerns around the ability of firms to offer payment deferrals while remaining compliant with Consumer Credit Act 1974 (CCA) requirements, particularly in relation to the issuance of notices-of-sums-in-arrears (NOSIAs) and the provisions affecting credit agreement variations and modifications.
- 2.67 A trade body asked that our guidance should not prescribe how firms will treat the underlying credit agreement as different firms will take different approaches to comply with the CCA.

Our response

- 2.68 We have adjusted our guidance on the issuing of NOSIAs and other CCA-prescribed documentation. This makes clear that, where a firm (acting reasonably) considers that documentation risks confusing the customer, the firm must provide contextual information to reduce that risk.
- 2.69 It is not our intention to assume or prescribe how firms will grant further support – be that through a modifying agreement or an indulgence. We recognise that these measures have been introduced quickly and that some firms have told us that they may have operational challenges in complying with the detailed prescriptive and technical CCA requirements.
- 2.70 We will, where relevant, take into account the circumstances of any breaches of CCA requirements and resulting consumer detriment when making regulatory decisions.

3 Credit cards and retail revolving credit

Summary

- 3.1 Respondents broadly supported our intention to provide further exceptional and immediate support for credit card and retail revolving credit customers facing temporary payment difficulties arising from coronavirus.
- 3.2 We set out below the main points raised in relation to the draft guidance and our response.

Persistent debt

- 3.3 The draft guidance suspends the application of the 'persistent debt' (PD) remedies in CONC 6.7.27R to 6.7.40G, for customers who have been granted a payment deferral under the guidance, for the length of that deferral. The provisions start to apply again for these customers after the end of this period.
- 3.4 Many respondents welcomed the information included in the guidance on the interaction between payment deferrals and the persistent debt remedies. However, some firms asked for further guidance to help their implementation of these measures, in particular to provide more clarity on what is required for the PD communications sent at 18, 27 and 36 months. Some firms suggested we include examples in the guidance.
- 3.5 Some firms and a trade body asked for firms to be provided with a reasonable period to implement the persistent debt changes. In considering what is a 'reasonable period' within which the customer should be requested to respond to the PD36 communication under CONC 6.7.31R(3), several respondents asked for flexibility to allow different approaches where these delivered the same consumer outcome.
- 3.6 Some respondents asked that we reaffirm our statements in [FS20/3](#) inviting firms to contact us where they experience operational challenges resulting from the suspension of the persistent debt remedies. Other respondents asked whether we would be updating our website statement in which we asked firms to extend the deadline for customers to respond to the PD36 communication to October 1.
- 3.7 Some respondents asked us to review the persistent debt remedies in light of the current exceptional circumstances, including the timing of the issuing of PD36 communication for catalogue and store card customers which is scheduled to take effect in Q4, 2020.

Our response

- 3.8 In light of the feedback received we have amended the guidance to provide further clarity on how we expect firms to apply the persistent debt rules to customers exiting a payment deferral.
- 3.9 We have also updated the persistent debt information for credit cards on our [website](#). To ensure that customers continue to be given a reasonable period of time within which to respond to PD36 month communications, firms no longer have to apply the October 1 deadline and can set a later deadline.
- 3.10 In determining what is a reasonable period within which a customer should respond to the PD36 month communication provided by the firm under CONC 6.7.31R(3), firms should take into account the duration of any payment deferral period granted under our temporary guidance. For example, if a customer exits a 3-month payment

deferral after the 36th month, it may be appropriate to allow the customer up to an additional 3 months to respond to the PD36 month communication.

- 3.11 As set out in [FS20/3](#), we recognise the concerns expressed by some firms that it may be operationally challenging to ensure that only those customers who have had a payment deferral are excluded from the persistent debt rules.
- 3.12 We also recognise the concerns expressed by some firms and trade bodies about the operational burden that may result from applying the persistent debt remedy to customers exiting payment deferrals and resuming regular payments. Such firms should contact us to discuss these difficulties.

Suspension of cards

- 3.13 The draft guidance stated that customers in receipt of a further payment deferral should not have the use of their cards or credit facility suspended except where the firm acts in line with its obligations under section 98A of the Consumer Credit Act 1974 (for example in the event of fraud).
- 3.14 Some respondents disagreed with this and asked for firms to be allowed to suspend credit facilities during a further payment deferral, to mitigate the risk of unsustainable debt accruing in the interim. They argued that allowing customers to continue to borrow when no payments have been made for up to 6 months would leave them susceptible to significant payment shocks at the end of payment deferral periods.
- 3.15 Other respondents argued that maintaining an open facility would do little to encourage customers to repay, where they are able to do so.

Our response

- 3.16 We do not consider that customers whose payments have been deferred under this guidance should have the use of their cards or credit facility suspended except where the firm acts in accordance with its obligations under section 98A of the Consumer Credit Act 1974, for example in the event of fraud or where there is a significantly increased risk of customers being unable to fulfil their obligations to repay the credit.
- 3.17 We have provided in our guidance that, in order to treat customers fairly, where firms give notice of suspension under section 98A, they should also ask customers to contact them urgently if they need to use their credit facility for essential living expenses. In such cases, firms should consider lifting or delaying the suspension.

4 Overdrafts

Summary

- 4.1 Respondents broadly supported our approach to overdrafts which was that firms should continue to offer an interest free amount up to £500 for those who are in temporary difficulties with their finances as a result of coronavirus. We did not propose to continue with the 'general overdraft pricing measure' but instead expected firms to put in place a preferential rate for impacted customers with borrowing in excess of the interest-free amount over £500, and provide further support for customers when their overdraft remains unaffordable even with this support.
- 4.2 Most consumer bodies accepted that it was now appropriate for firms to target support to customers impacted by coronavirus, rather than providing blanket assistance to all overdraft customers.
- 4.3 Further detail on these issues and our response is set out below.

Operational difficulties

- 4.4 One firm and a trade association raised operational concerns about putting in place the preferential rate for borrowing in excess of the interest-free amount. They argued that firms' systems were not set up to offer differential rates to their customers, and that they would need some flexibility to achieve the desired outcome. Some firms also asked for clarity about the way that this support could be offered and whether it could take the form of a non-contractual waiver.

Our response

- 4.5 We are conscious that systems vary between firms and we do not want to impose unnecessary costs on firms. On the other hand, a number of firms told us that they would achieve our desired outcome without putting in place a preferential rate for impacted customers. These firms proposed to either extend the interest-free buffer to reduce the cost to the customer, or maintain their current rate for their wider customer base. We have amended our guidance to provide more flexibility for firms by referring to the cost of borrowing rather than a preferential rate. We refer to this as 'top-up support' in the guidance.
- 4.6 We are also confirming that whilst our guidance permits firms to target assistance to customers impacted by coronavirus, firms are free to continue to provide support on a blanket basis to all customers if they consider this to be appropriate.
- 4.7 Firms can take the approach of initially offering a single solution to all customers impacted by coronavirus requesting support for borrowing in excess of the interest free amount. However, this should be accompanied by access to further support if the overdraft remains unaffordable in a customer's individual circumstances.
- 4.8 We also fully accept that firms can adopt a number of different approaches to delivering the support, and may do so through non-contractual waivers without varying the underlying contractual rate payable. This is consistent with our guidance.

Timing

- 4.9 A number of firms and consumer bodies queried interaction between the preferential rate of borrowing and the interest free buffer in terms of timing, and asked whether these were aligned or independent of each other.

Our response

- 4.10 We have amended the drafting of our guidance to align the two. This means that both the buffer and the top-up support will be made available to customers for the same time period. We have also clarified that before taking steps that could increase the costs of coronavirus impacted customers' overdrafts, firms should ensure that they have allowed a reasonable period for them to request the top-up support.

Communication with customers

- 4.11 A trade body and a firm asked for clarification around the requirement for firms to contact customers who were approaching the end of an interest free borrowing period and inform them that there is further support available.

Our response

- 4.12 We have clarified in the guidance that where firms have provided the interest free borrowing on a blanket basis to all overdraft customers there is no requirement to contact customers individually to advise them that the initial interest free period is ending, and that further assistance is available on request. Firms should, instead, include relevant information to customers in general communications such as web-page updates and mobile banking messages. This information should be presented in a prominent and easily accessible way that is designed to bring it to the attention of customers.
- 4.13 Where the firm provided support only to those customers who requested it, firms should take reasonable steps to inform those customers that their initial period of support is due to expire and provide them with further information about the availability of ongoing support and how to access it. This communication can be through digital channels.

Repeat use rules (CONC 5D)

- 4.14 We were asked by one firm to review, and potentially revise, our overdraft repeat use rules during the current exceptional circumstances. Another firm response thought that we had suspended the rules at this time.

Our response

- 4.15 In our repeat use rules, which came into force in December 2019, we required firms to develop strategies for tackling the harm arising from repeat use of overdrafts. Firms are required to develop a range of indicators to help them determine which customers might be facing financial difficulties. In CONC, we give guidance that firms have discretion to tailor the policies, procedures and systems to their specific business circumstances.
- 4.16 We do not intend to review these rules, as in our view these rules give firms sufficient flexibility to adapt their repeat use strategies to the current circumstances. In our guidance, we have pointed out that firms should continue to develop and apply their repeat use strategies during the current time to ensure that those

customers who require support to address harmful repeat use continue to receive it regardless of whether their finances have been adversely impacted by coronavirus.

- 4.17 We have also highlighted that with many consumers experiencing sudden income shocks it may be appropriate to reduce the periods of time of overdraft use that the firm considers necessary to determine that there is a pattern of repeat use that could be a sign of actual or potential financial difficulties.

Unarranged overdrafts

- 4.18 A consumer body asked us to confirm if our temporary guidance extended to users of unarranged overdrafts.

Our response

- 4.19 Our temporary guidance is specifically directed at arranged overdrafts with support provided for those who are suffering temporary difficulties with their finances due to coronavirus.
- 4.20 However, our rules in CONC 5C set out our overdraft pricing requirements, and in particular the requirement for interest rates for unarranged overdrafts to be no more than the interest rates for arranged overdrafts (using a comparable account where the customer doesn't have an arranged overdraft or it is interest free). As a result, the cost of unarranged overdrafts may also be affected by the changes to arranged overdrafts under this guidance. It is also worth noting that a significant number of large firms no longer charge for unarranged borrowing at all.
- 4.21 Customers who find themselves with an unarranged overdraft, can request that their bank provides them with an arranged overdraft, or an overdraft limit increase if they have incurred an unarranged overdraft by exceeding an arranged overdraft limit. Any application for arranged overdrafts will however be subject to standard credit assessment processes.
- 4.22 Unarranged overdraft users who find the cost of their borrowing problematic may also request forbearance from their overdraft provider.

Reliance on interest free borrowing

- 4.23 Some consumer groups expressed concern about consumers becoming reliant on interest free borrowing, and asked us to put in place measures so that firms support these borrowers when the temporary support provided for under this guidance comes to an end.

Our response

- 4.24 We recognise 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 expenditure. However, overdraft facilities are not an appropriate means to manage long-term financial difficulty.
- 4.25 We have tackled this in a number of ways. We recognise that some customers impacted by coronavirus may need additional support beyond the interest-free buffer and the top-up support. In our guidance, we have stated that where a customer requests additional help, or provides information suggesting they may need additional help, firms should provide further assistance with the cost of the overdraft

such as further reducing interest or waiving interest and other charges or by providing a structured repayment programme.

- 4.26 As we set out above, we have also underlined the importance of the repeat use rules which require firms to put in place strategies to identify and support customers at risk of harm as a result of high cumulative charges, particularly those who are experiencing financial difficulties. We have made clear we expect firms to adapt these strategies so that they are ready to identify customers who may suffer harm from repeat use when any temporary support provided to them is withdrawn.
- 4.27 Finally, we have included guidance on debt help and money guidance to assist firms to help customers in financial difficulty during coronavirus.

All our publications are available to download from www.fca.org.uk. If you would like to receive this paper in an alternative format, please call 020 7066 7948 or email: publications_graphics@fca.org.uk or write to: Editorial and Digital team, Financial Conduct Authority, 12 Endeavour Square, London E20 1JN