

## Finalised guidance

# High-cost short-term credit and coronavirus: Payment Deferral Guidance

November 2020

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## Introductory

### Background

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- 1.1 This guidance is an updated version of the FCA's guidance "High-cost short-term credit and coronavirus: updated temporary guidance for firms". This guidance applies in the exceptional circumstances arising out of coronavirus (Covid-19) and its impact on the financial situation of high-cost short-term ('HCSTC') customers. It is not intended to have any relevance in circumstances other than those related to coronavirus.
- 1.2 The coronavirus pandemic has had a significant impact on millions of consumers, businesses and on the consumer credit markets. We have intervened to support both customers and businesses during this period of uncertainty.
- 1.3 In April 2020, we published guidance setting out how we expect firms to support customers facing temporary payment difficulties because of coronavirus. That guidance set out our expectation that firms should grant HCSTC customers experiencing or reasonably expecting to experience temporary payment difficulties because of coronavirus, a payment deferral for 1 month. It also set out that where a payment deferral was granted in those circumstances, any interest that would not have accrued but for the payment deferral should not be charged.
- 1.4 The guidance provided immediate and temporary support for customers to help them deal with the short-term financial difficulties they faced because of coronavirus. We updated that guidance in July 2020 as the coronavirus pandemic and the Government's response to it evolved. This allowed customers who had not yet benefitted from a payment deferral under the guidance to do so until 31 October 2020.
- 1.5 In September 2020, we published additional guidance setting out the tailored support that firms should provide to customers who had been granted payment deferrals and remained in financial difficulty, as well as to those newly affected by coronavirus once the July guidance largely expired on 31 October 2020. We said we would keep our approach under review.
- 1.6 On 31 October 2020, we indicated our intention to consider extending the availability of payment deferrals as a result of increasing government restrictions in response to coronavirus.

- 1.7 This guidance (an update to the guidance originally published in April) sets out our expectations of firms to extend the availability of payment deferrals to HCSTC customers who have not yet benefitted from one until the end of 31 March 2021. Where a payment deferral is granted in these circumstances, any interest that would not have accrued but for the payment deferral should not be charged.
- 1.8 If you have any questions or concerns about this guidance, [contact us](#).

### Scope and status of this guidance

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- 1.9 In this guidance 'payment deferral' refers to a situation, on or after 24 April 2020, where a firm permits under this guidance (or in anticipation of the original guidance coming into force) the customer to make no payments or reduced payments under their regulated credit agreement for a specified period without considering them to be in arrears.
- 1.10 This guidance deals with eligibility for, and the processes expected of firms in relation to, the granting of a payment deferral. The FCA's guidance "Consumer credit and Coronavirus: Tailored Support Guidance" ('the Tailored Support Guidance') deals with how firms should support customers facing payment difficulties due to circumstances arising out of coronavirus when they are not receiving a payment deferral under this guidance, including where they are not or are no longer eligible for a payment deferral. It may be relevant to firms' treatment of customers prior to the end of a payment deferral under this guidance.
- 1.11 Where a customer indicates that they may be experiencing, or they reasonably expect to experience, payment difficulties as a result of circumstances relating to coronavirus, a firm should offer any support the customer is eligible for under this guidance before providing support under the Tailored Support Guidance.
- 1.12 This guidance applies to regulated firms that enter into HCSTC loans, including payday loans and applies to firms that have acquired such loans. It applies to both current loans and loans entered into after the guidance comes into force.
- 1.13 This guidance sets out our expectation that firms provide, for a temporary period only, exceptional and immediate support to customers facing payment difficulties due to circumstances arising out of coronavirus. It is intended to provide help to those who might be having temporary difficulty in making payments due to a loss of or reduction in their income (or income of other members of their household) or to those who expect to experience such difficulties.
- 1.14 This guidance applies where customers are experiencing or reasonably expect to experience temporary payment difficulties as a result of coronavirus. Where a customer was in pre-existing financial difficulty unrelated to coronavirus, our existing forbearance rules and guidance in CONC 7 would continue to apply. Forbearance under CONC 7 would include for example the firm considering suspending, reducing, waiving or cancelling any further interest or charges, deferring payment of arrears or accepting token payments for a reasonable period of time.

- 1.15 This guidance builds on Principle 6 ('A firm must pay due regard to the interests of its customers and treat them fairly') and Principle 7 ('A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading').
- 1.16 The guidance is potentially relevant to enforcement cases and the FCA may take it into account when considering whether it could reasonably have been understood or predicted at the time that the conduct in question fell below the standards required by Principle 6, Principle 7 and CONC.

### **Commencement, expiry and transitional provisions**

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- 1.17 We originally published this guidance on 24 April 2020 and updated it on 17 July 2020. This further update to our guidance comes into force on 25 November 2020. Unless renewed or updated, this guidance expires at the end of 31 March 2021 except that firms should continue to act in accordance with this guidance (excluding paragraphs 2.1-2.2, 2.5-2.8, 3.3 and 3.6) for all customers who have a payment deferral but who have not been dealt with under the relevant parts of the guidance by that date. This guidance remains in force to the extent necessary to enable this.
- 1.18 This paragraph applies where a firm is providing support, on the date this guidance comes into force, to a customer experiencing payment difficulties after 31 October 2020 and before this updated guidance came into force on 25 November 2020. If the customer would have been eligible for a payment deferral under this updated guidance if it had been in force, the firm should, as soon as reasonably practicable, review whether the outcome the customer will receive under the Tailored Support Guidance is equivalent to, or more favourable than, what the customer would likely receive under this guidance as updated. If it is not, the firm should make reasonable efforts to contact the customer and give them an opportunity to take up any further help under this guidance.
- 1.19 Where a firm provides a payment deferral in accordance with the preceding paragraph we expect it to work with the customer and Credit Reference Agencies (CRAs) to ensure that any necessary rectifications are made to credit files so that no worsening status is recorded in respect of the payment deferral period.
- 1.20 Guidance is relevant to firm behaviour only to the extent it is current at the time of the behaviour in question. Please check our website for updates to this guidance.

## 2 Payment deferrals

- 2.1 Where a customer is experiencing or reasonably expects to experience temporary payment difficulties as a result of circumstances relating to coronavirus, and wishes to receive a payment deferral, a firm should grant the customer a payment deferral for at least 1 month. The firm should not seek to persuade such a customer to make full or partial payments. Nor should firms seek to persuade customers not to make requests for payment deferrals. A payment deferral would entitle the customer to request that the payment due on the next contractual due date can be deferred until at least the following monthly due date.
- 2.2 An example of a situation in which a payment deferral may be appropriate is where there is or will be a temporary reduction in household income that would have otherwise been used to make loan payments.
- 2.3 In order to treat customers fairly in the current exceptional circumstances, any interest that would not have accrued but for the payment deferral should not be charged. The effect of this should be that a customer would not, in respect of the deferred amount, be in a worse position, in terms of interest, than if they had paid such amount in full in accordance with the agreement. This deferment of the payment and interest should have no impact on the firm's calculation of the total costs of the agreement for the purpose of the Total Cost Cap in CONC 5A.2.2R. Such costs should continue to be calculated as though there had been no payment deferral.
- 2.4 The firm should allow the customer to repay the deferred payment over such period and in such amount as the customer can reasonably afford, including over a period that extends beyond the original period of the loan. For example, in some circumstances the payment could be repaid in a single amount 1 month after the end of the term or in others, over an extended period by smaller amounts.
- 2.5 This guidance does not prevent firms from providing more favourable forms of assistance to the customer if they choose to do so.
- 2.6 Customers should be able to request a 1 month payment deferral at any point up to the end of 31 March 2021. This means that a payment deferral could go beyond that date. The application for a payment deferral can only be made once under this guidance, although where customers encounter further difficulties arising from coronavirus, firms will need to consider appropriate forbearance under the Tailored Support Guidance.
- 2.7 Firms should make clear in their communications that no additional interest will be charged as a result of a deferral granted under this guidance. Firms should make it as easy as possible for their customers to contact them both online and by phone. In addition, if, during an interaction between the firm and the customer, the customer provides information suggesting that they may be experiencing or could reasonably expect to experience

temporary payment difficulties as a result of circumstances relating to coronavirus, the firm should ask whether the customer wishes it to consider granting a payment deferral. Firms should also make customers aware, when contacting them about missed payments, of the availability of a payment deferral if their payment difficulties relate to circumstances relating to coronavirus.

- 2.8 A firm should give customers adequate information to enable them to understand the implications of a payment deferral. Firms are also reminded of their obligations to provide the customer with an information sheet, where this is required, pursuant to CONC 6.7.20R. Firms should also explain that while a worsening status will not be reported to the customer's credit file in respect of any payment deferral taken under this guidance, lenders may take into account other information when making future lending decisions. This may include for example, information provided by applicants or bank account information.
- 2.9 We expect firms to use the deferral period to engage with their customers to understand the likelihood of their being able to resume payments at the end of the deferral period. Where a customer continues, or reasonably expects to continue, to face payment difficulties, as a result of circumstances relating to coronavirus, the firm should consider appropriate forbearance under the Tailored Support Guidance regardless of whether or not a customer is in default or arrears difficulties.
- 2.10 Where firms do not take reasonable steps to engage with their customers individually, this should not result in the customer being worse off. In these circumstances, the firm should provide a payment deferral, on the basis set out above, until it has taken such steps.
- 2.11 The Tailored Support Guidance sets out examples of forbearance such as considering suspending, reducing, waiving or cancelling any further interest or charges, allowing deferment of payment of arrears or accepting token payments for a reasonable period to allow a customer to recover from an unexpected income shock.
- 2.12 A firm adopting a single solution for all customers requiring further support at the end of a deferral period is likely to contravene Principle 6.
- 2.13 Firms should also comply with the relevant provisions of CONC 7.3. In particular, CONC 7.3.10R provides that a firm must not pressurise a customer:
- to pay a debt in 1 single or very few repayments or in unreasonably large amounts, when to do so would have an adverse impact on the customer's financial circumstances;
  - to pay a debt within an unreasonably short period of time, or;
  - to raise funds to repay the debt by selling their property, borrowing money or increasing existing borrowing.

## 3 General provisions

- 3.1 A customer should have no liability to pay any charge or fee in connection with the permitting of a payment deferral under this guidance.
- 3.2 When implementing this guidance, firms should take account of the particular needs of their vulnerable customers. If using digital channels, firms should make it easy for customers less able to use these to access alternatives.
- 3.3 There is no expectation under this guidance that the firm makes enquiries with each customer to determine the circumstances surrounding a request for a payment deferral, (or whether this is not in the customer's interests). Firms can, however, choose to make the enquiries they consider necessary in order to satisfy themselves that the customer is eligible for support and to identify whether the customer would benefit from any additional support, provided that this does not delay the provision of timely support. We have disapplied CONC 6.7.18R, 6.7.19R and CONC 6.7.21G to give effect to this. We have also disapplied CONC 6.7.23R to remove a restriction to enable consumers to benefit from these measures.
- 3.4 Firms do not need to comply with, or follow, CONC 7.3.3G to 7.3.6G and 7.3.8G when acting under this guidance except where the guidance states or indicates that firms should comply with, or follow, relevant Handbook rules or guidance. We have disapplied those provisions to that extent.
- 3.5 Where a firm is required to send information to customers under the Consumer Credit Act 1974, such as a Notice of Sums in Arrears (NOSIA), and the firm, acting reasonably, considers this risk causing confusion for the customer due to the interaction with a payment deferral, the firm must accompany this with contextual information to reduce that risk. This information should be clear, fair and not misleading in accordance with Principle 7.
- 3.6 Firms should make clear in their communications, including on their websites, that the payment deferral is available as set out in the circumstances described above.

### **Training, monitoring, record keeping and Credit Reference Agency Reporting**

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- 3.7 Firms should ensure that staff are adequately trained to enable them to implement the firm's process for following this guidance.
- 3.8 Firms should keep records of how any process was designed sufficient to demonstrate that the support provided was consistent with customers' interests.
- 3.9 Firms should record and monitor the support provided, including the measures offered where customers require further support at the end of the deferral period, as well as any issues which might impede customers' ability to access the assistance required under this guidance. Firms should use this information to keep their processes for following this guidance under review to ensure that customers' interests are being met and to refine their approach.
- 3.10 Firm supervisors may request access to a firm's records and the outcomes of a firm's customer monitoring.
- 3.11 The payment deferrals, described above, should be regarded as being offered in exceptional circumstances outside of the customer's control. In accordance with the relevant Coronavirus Data Reporting Guidance published by the Credit Reference Agencies in consultation with SCOR, firms should not report a worsening status on the customer's credit file during the payment deferral period.
- 3.12 Where customers have been unable to reach timely agreement with firms for a payment deferral because of firms' operational difficulties and subsequently miss a payment which is reported to their credit file, we would expect firms to work with customers and Credit Reference Agencies to ensure that any necessary rectifications are made to credit files to ensure no worsening status is recorded in respect of the payment deferral period. Firms should also ensure no default or arrears charges are levied in relation to payments missed in these circumstances.
- 3.13 Where at the end of a payment deferral period a mechanism to repay accrued amounts is agreed we would not expect this to result in any negative reporting (subject to subsequent payment performance being reported in the usual manner).
- 3.14 We expect firms to be clear about the credit file implications of other forms of support offered to customers, including at the end of a payment deferral period. We also expect firms to ensure that a reasonable period of time is afforded to determine an appropriate solution with customers before reporting any new arrears or arrangements to credit files.



## 4 Debt help and money guidance

- 4.1 Customers who are considering whether a payment deferral is right for them may benefit from being signposted to the [Money Advice Service's Navigator Tool](#).
- 4.2 At the point of granting a payment deferral under this guidance, firms should help customers to understand what types of debt help or money guidance are available. They can do this by signposting or referring them to appropriate sources of guidance. This could include providing a link to our information page '[Dealing with financial difficulties during the coronavirus pandemic](#)' and to the [Money Advice Service's Navigator Tool](#).
- 4.3 Where customers could benefit from debt advice we would expect firms to inform the customer that free and impartial debt advice is available from not-for-profit debt advice bodies; and signpost or refer them to one or more sources of such free advice. Signposting can include providing a link to the Money Advice Service's [debt advice locator tool](#).
- 4.4 Firms should have regard to Principle 7 in any communication with their customers. They should also have regard to relevant parts in CONC, in particular, CONC 7.3.7A G.
- 4.5 Firms should try to make any referrals as effective as possible, and should consider:
- encouraging customers to use digital tools, where appropriate;
  - offering to transfer a customer's call directly to a debt advice provider; and
  - whether the customer would benefit from a specialist source of debt advice, such as making a self-employed customer aware of business debt advice providers in the Money Advice Service [Strategic toolkit for creditors](#)
- 4.6 Firms should tell customers that they can get guidance or not-for-profit debt advice through both digital and telephone services, and we would expect signposting and referral processes to take the full range of delivery channels into account. Firms should also highlight the availability of face to face services, where this is appropriate, but should help the customer to get debt advice through alternative means in case face to face services are not available.
- 4.7 Where firms handle customers through a digital or scripted process, we expect this to include appropriate signposting or referrals to debt advice or money guidance, as appropriate to the customer's needs.
- 4.8 Where a customer indicates that they are experiencing payment difficulties with other debts, the firm should, where possible within their existing systems capabilities, share a record of any income and expenditure assessment that they complete with customers or make these available to customers so that they are able to share them with other lenders and debt advice providers. Although firms are not required to rely on information collected by third parties, firms should support and encourage customers to re-use up-to-date income and

expenditure information previously gathered where possible. For example, an income and expenditure assessment completed by another lender.

4.9 Some customers in short-term difficulty may feel they are able to deal with their own debts without needing full debt advice. For these customers, the firm may also wish to:

- Suggest the customer works out a budget. Firms may find it helpful to refer customers to resources mentioned in our [information page](#).
- Explain to the customer that, for most people, it makes sense to pay essential expenses and priority debts before any discretionary expenses or non-priority debts. To see if this is right for them customers can use online guides such as the Money Advice Service '[How to prioritise your debts](#)' page.
- Recommend the customer contacts all their creditors to discuss their repayments.

4.10 Firms should have regard to chapter 17 of PERG in our Handbook which provides guidance on the regulated activity of debt counselling.