

Draft guidance

High-cost short-term credit and coronavirus: updated temporary guidance for firms

July 2020

About this guidance

- 1.1 This guidance applies in the exceptional circumstances arising out of the coronavirus pandemic (Covid-19) and its impact on the financial situation of high-cost short-term credit customers. It is not intended to have any relevance in circumstances other than those related to coronavirus.
- 1.2 The proposals in this guidance support our consumer protection objective. They are designed to protect consumers by providing them with temporary support in the light of the current exceptional circumstances arising out of coronavirus.

Equality and Diversity

- 1.3 We are required under the Equality Act 2010 to have due regard to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, and to foster good relations between people who share a protected characteristic and those who do not.
- 1.4 As part of this, we ensure we consider the equality and diversity implications of any new policy proposals. We do not consider this guidance will adversely affect consumers with protected characteristics.

How to respond

- 1.5 We want to act quickly to protect consumers in these difficult times. We consider that the delay involved in publishing a formal consultation accompanied by a cost benefit analysis would be prejudicial to the interests of consumers. We are therefore not doing so. This is

not a statutory consultation. There is no statutory requirement to prepare a cost benefit analysis in relation to guidance.

- 1.6 We would welcome comments from stakeholders on this draft guidance by 5pm on Monday 6 July. Please send your comments to: FCAconsumercredit@fca.org.uk

High-cost short-term credit agreements and coronavirus: updated temporary guidance for firms

- 1.7 We originally published this guidance on 24 April 2020. This update to our guidance comes into force on [X July 2020]. Unless renewed or updated, this guidance, save for paragraphs 1.10-1.11, 1.15, 1.20-1.22, 1.27-1.38, 1.40-1.41, 1.45-1.47 expires on 31 October 2020.
- 1.8 Guidance is relevant to firm behaviour only to the extent it is current at the time of the behaviour in question. Please check this page for updates to this guidance.
- 1.9 This guidance applies to regulated firms that enter into high-cost short-term credit (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.
- 1.10 This guidance applies in the exceptional circumstances arising out of the coronavirus pandemic (Covid-19) and its impact on the financial situation of HCSTC customers. It is not intended to have any relevance in circumstances other than those related to coronavirus.
- 1.11 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.
- 1.12 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, our existing forbearance rules and guidance in CONC 7 would continue to apply. These 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.
- 1.13 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'). It sets out our expectations for firms to provide

coronavirus related support for customers who are experiencing (or reasonably expect to experience) temporary payment difficulties.

- 1.14 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.
- 1.15 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.
- 1.16 If you have any questions or concerns about this guidance, [contact us](#).

Payment deferrals

- 1.17 In this guidance, 'payment deferral' means an arrangement made on or after 27 April 2020 under which a firm permits the customer to make no payments under their regulated credit agreement for a specified period, or extends the period until payments are due, without being considered to be in arrears.
- 1.18 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 one 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.
- 1.19 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.
- 1.20 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.
- 1.21 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 one month after the end of the term or in others, over an extended period by smaller amounts.

- 1.22 This guidance does not prevent firms from providing more favourable forms of assistance to the customer if they choose to do so, in line with Principle 6, for example by extending the temporary measures for a period longer than one month.
- 1.23 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.
- 1.24 Customers should be able to request a payment deferral at any point up to 31 October 2020. 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 forbearance under our rules where these apply.
- 1.25 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 including the fact that no additional interest will be charged as a result of the deferral. 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 the customer 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.
- 1.26 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, including, for example, information provided by applicants or bank account information.
- 1.27 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 risks 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.
- 1.28 A customer should have no liability to pay any charge or fee in connection with the permitting of a payment deferral under this guidance.

- 1.29 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 apply CONC 7.3 regardless of whether or not a customer is in default or arrears. Firms will need to assess the customer's needs and ability to pay, and provide appropriate forbearance. Examples of forbearance set out in CONC 7.3.5G include 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 of time (in order to allow a customer to recover from an unexpected income shock).
- 1.30 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.
- 1.31 In considering what is in the customer's interests, a firm should not have regard to its own commercial interests.
- 1.32 Firms should also comply with the other 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 one 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.
- 1.33 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.

Training, monitoring, record keeping and Credit Reference Agency reporting

- 1.34 Firms should ensure that staff are adequately trained to enable them to implement the firm's process for following this guidance.
- 1.35 Firms should keep records of how any process was designed sufficient to demonstrate that the support provided was consistent with customers' interests.
- 1.36 Firms should record and monitor the support provided, including the measures offered where customer 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.
- 1.37 Firm supervisors may request access to a firm's records and the outcomes of a firm's customer monitoring.
- 1.38 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.
- 1.39 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.
- 1.40 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).
- 1.41 We expect firms to be clear about the credit file implications of other forms of support offered to customers, including at the end of payment deferral periods. 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.

Debt help and money guidance

- 1.42 We are providing this guidance on debt help and money guidance to help firms to help their customers in financial difficulty during coronavirus.
- 1.43 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.
- 1.44 Customers who are considering whether a payment deferral is right for them may benefit from firms referring them to the [Money Advice Service's Money Navigator tool](#).
- 1.45 When, at the end of the deferral period, a firm identifies that a customer continues, or reasonably expects to continue, to face payment difficulties, firms should alert customers to the availability of free and impartial debt advice, provide contact details for not-for-profit debt advice bodies and encourage the customer to seek advice.
- 1.46 Firms may also provide the customer with a link to our information page '[Dealing with financial difficulties during the coronavirus pandemic](#)' and signpost them to the Money Advice Service's Money Navigator tool.
- 1.47 If customers need help to work out what they can afford firms should aim to provide this information in time to allow that.