

Draft guidance

Overdrafts and coronavirus: updated temporary guidance for firms

June 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 overdraft 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 Covid-19.

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- 1.6 We would welcome comments from stakeholders on this draft guidance by 5pm on **Monday 22 June**. Please send your comments to: FCAconsumercredit@fca.org.uk

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- 1.7 This guidance was updated on [] with effect from [] it replaces our previous "[Overdrafts and coronavirus: temporary guidance for firms](#)" from that date. Unless renewed or updated, this guidance expires on 31 October 2020. Guidance is relevant to firm behaviour only to the extent it is current at the time of the behaviour in question. However, where a customer is entitled to receive assistance under this guidance that continues beyond 31 October, the firm should continue to deal with that customer in accordance with this guidance, unless we make other provision. Please check this page for updates to this guidance.
- 1.8 This guidance applies to:
- A firm with permission to accept deposits and which provides a current account with an overdraft facility.
 - Primary personal current accounts. A primary account is the account into which a customer would usually receive, or would have received, their main source of income. Main source of income would normally include salary, wages (whether employed or self-employed) or pension payments.
 - This guidance applies to EEA firms who currently passport into the UK.
 - This guidance does not apply to private banks and credit unions.
- 1.9 This guidance applies in the exceptional circumstances arising out of the coronavirus pandemic (Covid-19) and its impact on the financial situation of overdraft customers. It is not intended to have any relevance in circumstances other than those related to coronavirus.
- 1.10 This guidance sets out our expectation that firms provide, for a temporary period only, exceptional and immediate support to consumers facing temporary difficulties with their finances, or who can reasonably expect to face temporary difficulties with their finances, due to circumstances arising out of coronavirus. It is intended to provide relief to those who might be having difficulties 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.
- 1.11 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.
- 1.12 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 expenditures. However, we also recognise that overdraft facilities are not an appropriate means to manage long-term financial difficulty and wish to guard against future over-indebtedness.

- 1.13 This guidance builds on [Principle 6](#) ('A firm must pay due regard to the interests of its customers and treat them fairly') as well as rules in [CONC 5C](#) and [CONC 5D](#).
- 1.14 This 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](#) and CONC.
- 1.15 Firms should make clear in their communications including on their websites that those arranged overdraft customers experiencing temporary difficulties with their finances, or who reasonably expect to encounter temporary difficulties with their finances, due to the impact of Covid-19 can benefit from interest free overdrafts and reduced interest rates where eligible, as set out below.
- 1.16 If, during an interaction between the firm and an arranged overdraft customer, the customer provides information suggesting that the customer may be eligible for support under this guidance, the firm should ask whether the customer would be interested in an interest free overdraft or further support.
- 1.17 There is no expectation under this guidance that the firm investigates the circumstances surrounding a request for support before agreeing it. 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 cause undue delay.
- 1.18 A firm should not reduce the credit limit or suspend or remove the overdraft facility of a customer entitled to help under this guidance if that reduction, suspension or removal would cause financial hardship to the customer.
- 1.19 This guidance does not apply to Basic Bank Accounts.
- 1.20 If you have any questions or concerns about this guidance, contact us.

Interest free overdrafts for those in temporary difficulty

- 1.21 Where a firm provides an arranged overdraft to a customer on their primary personal current account, and the customer has temporary difficulties with their finances, or reasonably expects to have temporary difficulties with their finances, due to the impacts of coronavirus, the firm should, at the customer's request, assist the customer in the following way:
- No interest should be payable in respect of up to £500 of the balance of the arranged overdraft.
 - Where an arranged overdraft has a limit of over £500, firms should not charge interest on the first £500 irrespective of whether the balance exceeds that amount.
 - In the case of an arranged overdraft with a limit of £500 or below, the entire balance should be interest-free.
- 1.22 The period during which eligible customers should be able to request this assistance, runs continuously from 14 April 2020 until 31 October 2020. The assistance should last for an initial period of 3 months from the time the customer requests it. Where a customer is receiving or has received an initial 3 months support the customer is eligible to receive a further 3 months support on request beginning from the time the customer requests it, or the expiry of the initial period of support, whichever is later. This means that the assistance could continue beyond the point where the window for requesting this assistance expires.
- 1.23 Firms may instead choose to extend an interest free amount to all customers with an arranged overdraft on their primary current account without the need for a request, and this may be for a fixed period in the calendar that is the same for all customers.
- 1.24 Where a firm is already providing this support to all its arranged overdrafts customers, the firm can either extend the support for a further 3 months automatically (so that all customers receive at least 6 months support in total) or choose to move from offering the interest free amount to all customers to offering it only to eligible customers who request it.
- 1.25 Where firms have previously required customers to request interest free borrowing on an individual basis, firms may choose to automatically extend this support for a further 3 month period without further request by the customer, or may require customers experiencing or expecting to experience temporary difficulties with their finances as a result of Covid-19 who wish to continue the support to re-apply.
- 1.26 Where a firm is not automatically extending the duration of the interest free amount for all customers currently receiving it, it should communicate in an appropriate way and in good time before their initial period of support expires about:

- when their support is ending
- the availability of a further period of support, and
- that they need to contact the firm if they require additional support.

- 1.27 Customers may apply for new or increased overdraft facilities in the normal manner. The provision of new or increased arranged overdraft facilities is subject to the standard creditworthiness assessment by lenders. In carrying out this assessment lenders should take into account individual circumstances especially during this exceptional period. Creditworthiness assessments can look beyond current stressed circumstances if it is reasonable to expect the customer's financial position will improve in the future and can take account of historic information. New customers, and existing customers who are offered a new or increased overdraft, should be eligible for the same assistance as existing customers of the firm.
- 1.28 We would expect that customers' access to, and use of, an overdraft facility will be reported on their credit file in the usual way.

Further support for those in temporary difficulty

- 1.29 Those experiencing temporary difficulties with their finances, or who reasonably expect to encounter temporary difficulties with their finances, due to the impact of Covid-19, may benefit from further support in addition to the interest free amount set out above, for example where they have borrowing in excess of the interest free amount.
- 1.30 Firms should ensure that these customers can, on request, access a preferential interest rate in respect of any borrowing that is not interest free. This may be a standard preferential rate offered to all those experiencing temporary difficulties with their finances, or who reasonably expect to encounter temporary difficulties with their finances, due to the impact of Covid-19. The firm should be able to demonstrate that this rate has been determined having particular regard to the need to provide financial assistance to this category of customers. The preferential rate should be no higher than the customer was expected to pay (taking into account any non-contractual waivers of interest) on an overdraft balance when this revised guidance came into force and may need to be lower than it was at that time to demonstrate it is in line with this guidance.
- 1.31 Firms should ensure that eligible customers have an adequate opportunity to indicate that their overdraft remains unaffordable to them. If a customer does so, or another interaction with a customer suggests that the customer is likely to make substantial use of their overdraft in a way that may result in high cumulative charges that are harmful, firms should support these customers as they would a repeat overdraft user under our rules. In particular firms should where appropriate:
- Offer forbearance, such as further reducing interest or waiving interest and other charges (where applicable); or
 - Offer a structured repayment programme to customers on more favourable terms than they would ordinarily receive. This repayment programme might be implemented by way of a repayment plan on the overdraft facility or by way of transfer of overdraft debt (full or part) to a personal loan at a rate of interest lower than they would have been expected to pay on the overdraft (noting the requirement to assess affordability if a personal loan is provided).

Debt help and money guidance

- 1.32 We are providing this guidance on debt help and money guidance to assist firms to help customers in financial difficulty during coronavirus. 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](#) and [CONC 5D.3.2R \(2\)](#).

- 1.33 Firms should help customers to understand what types of debt help and money guidance are available. This should include alerting customers to the availability of free and impartial debt advice and providing contact details for not-for-profit debt advice bodies.
- 1.34 Firms can do this by providing the customer with a link to our information page '[Dealing with financial difficulties during the coronavirus pandemic](#)' and signposting them to the [Money Advice Service coronavirus support page](#) (link is external). Firms should encourage customers to access the help that the customer feels best suits their circumstances.
- 1.35 Some customers experiencing short-term difficulty may feel that they are able to deal with their own debts without the need for full debt advice. For these customers, the firm may also wish to:
- Suggest the customer work out a budget. Firms may find it helpful to refer customers to resources mentioned in our information page referred to above.
 - Firms may wish to offer advice about adjusting payment dates or setting up alerts to assist with money management.
 - 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 refer to online guides such as the [Money Advice Service 'How to prioritise your debts' page \(link is external\)](#).
 - Recommend the customer contacts all their creditors to discuss their repayments.

Firms acting in line with this guidance should have regard to chapter 17 of PERG in [our Handbook](#) which provides guidance on the regulated activity of debt counselling.

Interaction with Handbook rules

- 1.36 Where a customer is in arrears, or is identified by the firm as a repeat user showing signs of actual or potential financial difficulties in circumstances other than those related to Covid-19 our existing forbearance and repeat use rules and guidance in CONC continue to apply.

Transitional Support under CONC 5C.4

- 1.37 [CONC 5C.4.1R](#) requires that where a firm makes a change or has made a change to its charging structure in response to the rules set out in [PS19/16](#), it must ensure it considers the impact of that change on existing customers including those with large arranged overdraft balances and where appropriate treat these customers with forbearance and due consideration. This applies regardless of whether their finances have been adversely impacted by Covid-19.
- 1.38 This is of continuing relevance where a firm has, in response to our Covid-19 guidance, temporarily suspended the application of the overdraft interest rates that would have formed part of the new pricing structure and has not completed delivery of its planned programme of support for customers.

Overdraft Repeat use rules under CONC 5D

- 1.39 Firms should continue to develop and apply their repeat use strategy 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 Covid-19. The rules require firms to take steps to identify these customers and then help them to reduce their overdraft use.
- 1.40 As outlined in [CONC 5D.1.1](#), repeat use refers to a pattern of overdraft use where the frequency and depth of use may result in high cumulative interest charges that are harmful to the customer or indicate that the customer is experiencing or at risk of financial difficulties.
- 1.41 Firms should already have their own strategies for addressing harm from repeat use in place. These strategies are required to be monitored and periodically reviewed to ensure they remain effective. It is likely to be appropriate for firms to do so now in light of the present exceptional circumstances
- 1.42 [CONC 5D.2.3](#) is particularly relevant at this time. This allows firms to decide the frequency with which it reviews previous overdraft use and the length of the preceding period of overdraft use that it considers. In current circumstances, 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.