

INVITATION TO COMMENT ON HELP FOR MOTOR FINANCE AND HIGH COST CREDIT CUSTOMERS

APRIL 2020

1. INTRODUCTION

1.1. Fair By Design welcomes the FCA's invitation to comment on help for motor finance and high cost credit customers.

1.2. This submission brings together the combined responses of the following organisations (in alphabetical order):

- Carl Packman, Head of Corporate Engagement, Fair By Design
- Fair4All Finance
- Leonora Miles, Financial Services Policy Manager, Macmillan Cancer Support
- Dominic Lindley, Director of Policy, New City Agenda
- Dr Nicola Sharp Jeffs, Chief Executive Officer, Surviving Economic Abuse
- Sian Williams, Director of Policy and Innovation, Toynbee Hall

1.3. Please note that we consent to public disclosure of this response.

1.4. For more information about this response please contact Carl Packman, c.packman@barrowcadbury.org.uk.

2. ABOUT FAIR BY DESIGN

2.1. Fair by Design is a movement dedicated to reshaping essential services, like energy, credit and insurance, so they don't cost more if you're poor. People in poverty pay more for a range of products including energy, through standard variable tariffs; credit, through pay day loans; and insurance, through post codes considered higher risk. This is known as the poverty premium.

2.2. We collaborate with industry, government, and regulators to design out the poverty premium.

2.3. Our Venture Fund provides capital to help grow new and scalable ventures that are innovating to make markets fairer.

2.4. Fair by Design was conceived by the Joseph Rowntree Foundation and Big Society Capital. The Barrow Cadbury Trust manages the Campaign, and Ascension Ventures manage the Venture Fund.

RESPONSE TO FCA INVITATION TO COMMENT ON HELP FOR MOTOR FINANCE AND HIGH COST CREDIT CUSTOMERS

We welcome the speed at which the FCA has published these draft guidelines for firms.

By way of an introduction it is worth making a general reflection in relation to all three areas covered below. In light of postponed guidance on vulnerability (for reasons related to Covid-19), we note that there is no formal guidance on this in the rules at the moment. However we feel that the subject of vulnerability is of vital importance with the industry in current focus. We would welcome assurances from the FCA that in their updated guidance for firms that they remind them of the particular duty of care they should have towards consumers in vulnerable circumstances.

Motor finance

We welcome the speed at which the Financial Conduct Authority (FCA) has published this set of proposals for motor finance.

The FCA is right to ensure a three month payment break for those negatively impacted by Covid-19. However we are concerned that there are no requirements to suspend interest on the loan charges. This could mean that at the end of the three month process an individual might end up paying the accrued interest with larger regular payments or making payments for longer than anticipated. We would therefore like to see the guidance amended so interest payments are waived.

We welcome assurances that where a payment deferral is agreed with a lender, this will not harm a person's credit record. One point to make in respect of this: we are aware that there have been instances where individuals have had payment deferrals listed on credit records in other consumer credit-related measures. The FCA need to ensure that these cases are not repeated, and responsibility is taken to ensure customer records are not negatively impacted by measures agreed by the regulator.

We also welcome assurances from the FCA that firms should make clear in their communications that payment deferrals are available. We particularly support proactivity by firms to offer temporary payment deferral measures to customers who make it clear they might experience temporary payment difficulties because of Covid-19. We think it's reasonable to expect firms to treat customers fairly by proactively offering this temporary assistance to customers who may experience this issue, rather than waiting for customers to make the first move.

High cost short term credit

We welcome this update of the agreement of a payment deferral period for those HCSTC customers impacted by Covid-19. We particularly welcome the assurance from the regulator that no interest should be accrued in respect of the deferral period, and that the waiver of interest have no impact on the firm's calculation of the total costs of the agreement.

We welcome the regulator's expectation of firms to offer assistance to customers already experiencing, or who can reasonably expect to experience, temporary payment difficulties as a result of circumstances relating to coronavirus. However we are concerned by the one month payment deferral. While we accept that this type of credit is for a shorter time-span than many other forms of consumer credit (which will inform the decision to make the deferral period shorter), we don't believe that one month will be a sufficient period to help all customers regain control of their finances.

Temporary reductions in household income can be terrifically disruptive. This will be no different for customers of high cost short term credit. In fact, given the income status of the majority of HCSTC customers this type of income disruption could take a very long time to repair.

The FCA is right to say that this guidance "does not prevent firms from providing more favourable forms of assistance to the customer if they choose to do so, for example by extending the temporary measures for a period longer than one month". However we feel it's appropriate for the regulator to be explicit about what kind of circumstances qualify for an additional forbearance period. This course of action should be harmonised among lenders in this sector. This should ideally be in line with good practice on showing forbearance to customers that face very disruptive circumstances beyond their control.

While there is no evidence to support this claim at the moment, the period of financial disruption to customers of HCSTC may result in increased demand for high cost credit products. It is therefore an opportunity to remind credit providers that they have a duty to raise consumer awareness of both credit and non-credit options, and that high cost credit might not be the best available option for particular customers facing new and/or temporary periods of personal financial disruption.

While outside of the FCA's formal remit, we note that the FCA has previously addressed organisations that have contact with consumers who are likely to have a need for credit and/or essential household goods. The FCA also noted the part they can play in providing additional support in such a way that helps avoid further usage of high cost credit products¹.

¹ p.16, <https://www.fca.org.uk/publication/research/alternatives-high-cost-credit-report.pdf>

Those organisations include:

- Registered social landlords
- Local authorities
- Charities
- Consumer bodies.

We welcome the FCA's guidance on firms making communications clear to customers about the options for payment deferrals. However, during this period we also think it's reasonable to expect firms to proactively offer this temporary assistance to customers, rather than waiting for customers to make the first move.

In addition to the above, we believe that the FCA should expand the coverage of the FSCS to consumer credit including high-cost credit, rent-to-own, guarantor loans, catalogue credit and Buy-Now-Pay-Later firms.

Rent-to-own, buy-now pay-later and pawnbroking:

We welcome the speed at which the Financial Conduct Authority has published this set of proposals for rent-to-own, buy-now pay-later and pawnbroking agreements.

The FCA is right to ensure a three month payment break for those negatively impacted by Covid-19. For reasons already stated, we do not believe it is in the customer's best interests to be continuing to make interest payments during the time in which they have been granted a payment deferral. Therefore this same consideration should be made in respect of rent-to-own, buy-now pay-later and pawnbroking agreements.

We welcome assurances that where a payment deferral is agreed with a lender, this will not harm a person's credit record.

Finally, as with the previous, while we welcome the FCA's guidance on firms making communications clear to customers about the options for payment deferrals, during this period we also think it's reasonable to expect firms to proactively offer this temporary assistance to customers (using data already held by the firm), rather than waiting for customers to make the first move.