CALL FOR INPUT: ONGOING SUPPORT FOR CONSUMERS AFFECTED BY CORONAVIRUS: MORTGAGES AND CONSUMER CREDIT

AUGUST 2020

INTRODUCTION

Fair By Design and Fair4All Finance welcomes the FCA's invitation to comment on ongoing support for consumers affected by coronavirus.

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

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

ABOUT FAIR BY DESIGN

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.

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

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

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.

ABOUT FAIR4ALL FINANCE

Fair4All Finance was founded in 2019 to support the financial wellbeing of people in vulnerable circumstances with support from DCMS and the Inclusive Economy Partnership. Initially funded by £55m of dormant assets money for financial inclusion, its mission is to increase access to fair, affordable and appropriate financial products and services.

Its initial focus is on addressing the problem of access to affordable credit by providing support and funding for the affordable credit market. Each year, responsible lenders originate just £250m of loans, while over the same period, high-cost short-term credit providers originate £3bn – more than ten times as much. Fair4All Finance's Affordable

Credit Scale-up Programme aims to meet this “10x challenge” of scaling the affordable credit sector to meet existing demand. The programme is designed to support sustainable growth of community finance organisations through a combination of investments, grants and capacity and capability development.

RESPONSE TO CALL FOR INPUT

Do you agree with these propositions?

Proposition 1: Further payment deferrals will not necessarily be the right solution for many of those still in financial difficulty after 6 months

On the propositions specifically, we understand that as things stand “a deferral does not reduce a consumer’s balance and interest can continue to accrue”. At the same time, we agree that there “may be circumstances where a further deferral is the right solution for a consumer who remains in financial difficulty.

The FCA is right to consider further payment deferrals linked to the end of the Coronavirus Job Retention Scheme. There is risk of an increase in redundancies once the scheme closes. For some this will cause temporary payment difficulties, where a payment deferral would be an appropriate solution. Therefore, we agree that there is case for allowing further payment deferrals to those with existing payment deferrals that are due to expire before 31 October 2020, in order to allow a more informed assessment of a customer’s circumstances.

On principle, we feel that interest accrual on outstanding loans should be frozen for anyone who seeks a deferral. We said this in our original response. We call for the FCA to turn it into a rule for firms.

Proposition 2: Firms will need to focus on a broader range of sustainable forbearance options

In cases where further payment deferrals, under the current rules and processes, would lead to a greater risk of detriment to the consumer, other forbearance measures need to be considered. For some, this might include extensions of payment periods, interest freezes, or in some circumstances debt write-offs.

The reason for this is very clear: there are many customers – e.g. those made redundant who worked in very affected industries – whose incomes won’t bounce back, and for whom interest freezes or debt write offs will be the only appropriate and realistic remedy. For many this is not a cash flow problem but an income loss problem.

As the FCA makes clear, these are unprecedented times and many consumers will have experienced significant changes to their lifestyles and finances, quite out of their control. We are particularly concerned that as the £500 overdraft buffers close and rates rise to 40%, and payment deferrals on credit cards come to an end, customers risk being hit with a sudden financial shock.

Credit, and credit providers, need to play their part in providing effective support for consumers in these difficult times. It is clear that sometimes, anything less than interest freezing or debt write-offs, would make a bad situation worse. In unprecedented times, we must act in creative ways to ensure consumers aren't penalised for changes outside of their control.

In answer to Question 1 ("Do you agree with these propositions"?), we agree that payment deferrals after October will not be the correct remedy for all consumers, but we believe that in order to ensure customers experience consistent outcomes across different firms, the FCA could offer guidance on what forbearance measures would be most appropriate to different circumstances.

We would encourage firms to show flexibility in their approach to customers when putting them back onto repayments. Given that individual circumstances will vary considerably, it will be necessary to give some customers a reduced repayment amount if their affordability circumstances have changed. We would encourage the FCA to ask firms to offer a renegotiation of terms as part as their communication to customers at the point of ending deferrals.

Proposition 3: Firms will need to consider the challenges posed by dealing with a high volume of consumers who require further support

Whilst forbearance has been very good for customers, it should be recognised that for the affordable credit sector forbearance has had both a significant financial and administrative cost. We would encourage the FCA to consider these costs for organisations, particularly those in the affordable credit sector such as CDFIs and Credit Unions. In the case that the measures push affordable credit organisations into unsustainable financial positions, the FCA should consider the balance of measures against the strategic need to maintain parts of the credit industry.

For example, in the case of contacting customers in every case of vulnerability, for a smaller loan some of this could be automated for smaller firms and loan amounts. This would also remove stress from the consumer from having a conversation with each one of their creditors. We would encourage the FCA to allow firms to triage the level of contact per for their need, vulnerability and desire to have a phone conversation.

As with the high cost credit guidance, it may be appropriate for the FCA to separate social sector providers from other consumer credit providers given their unique focus on the needs of vulnerable customers by their constitution.

Proposition 4: Normal Credit Reference Agency (CRA) reporting should resume

With regards to credit files, we were glad to see commitments by the FCA that payment deferrals would not harm a consumer's future creditworthiness. However in light of recent reporting[1] about how payment deferrals have been communicated to customers, the FCA must be absolutely clear in its own communication of the risks and precautions of taking on

[1] "Delay in warning about payment holiday credit risk attracts criticism", *Financial Times*, 27 July 2020: https://www.ft.com/content/3eb9fe36-7cad-4a9e-b159-8eb826920880

a payment deferral. This includes customers who have already taken a payment deferral on good faith that it would not impact their credit score.

In relation to normal credit reference agency reporting resuming, it should only resume when remedies to help consumers impacted by Covid-19 comes to an end. For some consumers, as per the guidance above, that might not stop in October if a payment deferral is seen as the correct remedy after that date. In principle that may mean that normal CRA reporting starts again on a case-by-case basis. In practice, that might make it easier to determine which consumers have sought remedies upon being impacted by covid-19. This poses a major problem, since consumers were told seeking a remedy would not affect their credit score. We feel this aspect of the guidance requires much more thinking by the FCA.

We recognise that a return to normal credit referencing is important to future affordability checks and responsible lending. However, we want to avoid people's access to credit being curtailed as a result of the unprecedented impact of coronavirus. Therefore, we believe it is important that where firms agree reduced payment plans with customers, as we have argued for above, these should not be recorded as arrears or a form of default, but simply as an ongoing credit commitment.

Are there benefits to extending the application of MCOB 13 and CONC 7 to customers who have benefitted from payment deferrals under our guidance but not yet missed a payment? Are there practical barriers for firms in doing so?

As a result of the crisis, customers' financial circumstances may have changed greatly during the period of their payment deferral, and they may be at risk of entering financial difficulty. It is important for firms to seek to identify where this may be the case and intervene early before this becomes serious. We agree that this support should extend to applying CONC 7 to customers who have yet to miss a payment.

How should firms be recognising and responding to the needs of vulnerable consumers at the end of a period of temporary support?

We agree with the FCA that firms need to take particular care to ensure they meet the needs of consumers at the greatest risk of harm, including those in vulnerable circumstances. We are pleased to see in the latest FCA vulnerability guidance document reference to 'common harms' to which consumers can be vulnerable, rather than seeing vulnerability as a single 'type' that an individual possesses alone. In this respect, Covid-19 has made the financial situation for many people even harder, so appropriate care and sensitivity by firms during this period should be taken.

We are also glad to see the FCA reiterate that firms should pay consideration to the needs of consumers with protected characteristics under the Equality Act 2010 such as physical or mental health disabilities. In unpublished research by the Personal Finance Research Centre, commissioned by Fair By Design, there is evidence to show that those with Protected Characteristics are much more likely to be exposed to the poverty premium and being in poverty generally.

Will different groups of customers need different levels of support? If so, how should they be identified?

We agree that different groups of customers need different levels of support. We feel firms should be proactive in reaching out, through relevant communications channels, to customers it feels might fall into financially detrimental circumstances due to Covid-19.

We agree that firms should be proactive in reaching out to customers who display the following characteristics:

- were already in arrears pre-coronavirus
- are highly indebted
- have only a short term remaining on their mortgage or credit product (and no or limited scope to extend)
- are unemployed
- are relying on credit for essential spending
- are unable to meet other priority debts.

However, firms should be aware that prioritisation of certain groups to manage volume may not address the transient and complex nature of vulnerable circumstances, and vital signs could be missed.

Firms should understand that (regardless of their efforts) some consumers do not always feel comfortable disclosing their needs, and so should follow the guidance and recommendations put out by expert organisations to support vulnerable customers and to look for signs of vulnerability (for example, the Money and Mental Health Policy Institute lays out guidelines for firms to recognise vulnerability by looking at financial behaviour).

Firms expecting to automate these processes of triage and prioritisation must consider the risks of poor outcomes for customers in vulnerable circumstances, as the customer effort required to share circumstances in enough detail to meet CONC could create a high drop off rate. There is also a risk of customers ending up with the wrong support journey because they have unintentionally supplied incorrect data.

What can firms, the debt advice sector and FCA do to ensure customers with multiple debts get the support they need at the end of a payment deferral?

This difficult period has highlighted the vital need for a strong and responsive debt advice sector.

The regulator has acted fast to set emergency remedies. Credit firms have acted fast to deal the high number of Covid-related cases coming into its customer contact centres. But never the less indebtedness will be very a difficult issue to tackle. We see that consumers will have accumulated a variety debt over this period among a number of different creditors, and as a result the challenges will be much more complex.

In consultation with the debt advice sector, we would like to see an agreement drawn up by the regulator, firms, and the advice sector on what the best course of action is. This should ensure the advice sector has the resource to deal effectively with the challenges many more consumers will face, and already face today.

In order to support customers with multiple debts, firms should consider offering low-cost consolidation products to reduce costs for their customers. A consolidation product would collate debts across multiple firms to make it easier for customers to repay given the challenging current environment. Some customers will have 5+ debts across as many providers, and if all forbearance ends simultaneously, repaying these on previously agreed terms will be both a mental health and financial burden for customers. Fair4All Finance along with parts of the affordable credit industry would be interested in supporting a consolidation loan approach to helping customers.

Additionally, the FCA should consider the impact that other parts of the credit market will have on customer outcomes. For example, advertising of high cost credit during the crisis has continued to be prevalent. In addition, some commercial firms offer IVAs to customers when this is not an appropriate customer solution but is in their commercial interests. Therefore we would encourage the FCA to look at predatory advertising and IVA practices as part of the package of Covid-19 customer support.

Are the current repeat use rules sufficient to enable firms to identify and address potential harm caused by an increase in the cost of borrowing for those coming to the end of their temporary support under these measures?

While we are not in possession of any evidence suggesting specifically that repeat use rules are working well in the consumer credit market, in principle we support rules set out in CONC 5D that state firms must identify and monitor the repeat use of overdrafts. We feel it would be fitting for the FCA to be more prescriptive about what triggers consumer credit firms more broadly should be acting upon, and in what manner, to ensure a consistent set of outcomes for consumers across firms.