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3 April 2020

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Dear Charlotte and Ruby,

## **FCA proposals for temporary measures to support users of certain consumer credit products during Covid-19 crisis**

This response sets out the Financial Services Consumer Panel's response to the FCA's proposed guidance in relation to credit cards and retail revolving credit, arranged overdrafts, and personal loans.

The Panel welcomes the measures and the speediness with which they have been brought forward, which have the potential to make a real difference to consumers who are experiencing financial difficulties as a result of Covid-19. The Panel's comments are intended to ensure the proposed measures are as effective as possible.

Comments on each piece of guidance are set out below, but the Panel's key points are:

- **Access to the measures is critical.** There is little point in designing complex systems of assistance if consumers are unable to gain access to them. Banks' and lenders' contact centres are already struggling to cope with the unprecedented demand at a time when they may be experiencing staff shortages. Given this, it will be essential that other methods of requesting help are implemented immediately. Some firms offer online forms for consumers to apply for a mortgage payment holiday. A similar approach should be adopted for overdrafts and consumer credit measures. Offering online applications to those who can access them should help to reduce demand for the contact centres, enabling those who have no other option to get through more easily.
- **Temporary measures must build on, not replace, existing FCA principles, rules and guidance.** The FCA must make clear that the principles for businesses - and principle 6 (Treating Customers Fairly) in particular - and the FCA's existing forbearance rules and guidance in CONC rules continue to be applied. Banks and lenders must be left in no doubt that adhering solely to the newly issued guidance is unacceptable. The FCA should be proactive in investigating how the new guidance has been implemented and to identify emerging issues or unintended consequences, and take rapid and robust action to address these.
- **As an immediate next step, the FCA should prioritise action for HCSTC customers** - The Panel understands that the FCA is considering proposals to introduce similar temporary relief for consumers with products such as Rent-To-Own, Buy Now Pay Later,

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High Cost Short-term loans, and motor finance. The Panel recognises that the features of some of these products mean that tailored solutions are required, but they are a priority for protecting vulnerable consumers. Similarly, the Panel encourages the FCA to prioritise credit union customers with overdrafts as these are not covered by the current proposals but are likely to be among the more vulnerable segments of society.

- **Temporary relief measures should not create long-term problems.** The FCA must think carefully about what happens at the end of the 3-month period when the temporary measures are withdrawn. Currently, the FCA is rightly focused on delivering immediate assistance to consumers. However, once the temporary measures are in place, the FCA should issue further guidance. This should set out how, once the crisis has receded, banks and lenders must help their consumers to return to normal, and extricate themselves from any temporary borrowing in a way which does not create more consumer harm.

Detailed comments on the proposed measures are included in the Annex below.

The Panel hopes that this response is helpful to the FCA as it takes forward its work. Panel members would be very happy to discuss any part of its response if it would be helpful.

Yours sincerely,

Wanda Goldwag  
Chair, Financial Services Consumer Panel

## ANNEX

### Financial Services Consumer Panel's detailed comments on the temporary measures to support users of certain consumer credit products during Covid-19 crisis

#### All Products

- **Definition of pre-existing financial difficulty** - the guidance suggests that standard forbearance would apply to these customers, however there is a significant difference in a customer who is 1-2 months in arrears and someone who is 3-4 months or post default. The FCA should strongly encourage firms to differentiate treatments for these consumers and consider payment holidays for those in early stages of arrears.
- **Adequate information** - Ideally firms would disclose the additional cost and expected increase in payments prior to a customer accepting a payment holiday. Assuming this may delay implementation, at a minimum, firms should be required to advise customers of extra costs prior to the end of the payment holiday. This would include additional interest accrued, any additional costs (there should be none), and principal to be repaid, including expected increase in remaining payments (in the case of a personal loan). This will enable customers to make more informed decisions as to what additional help they may require at the end of the 3 months. Customers with funds at that point may choose to repay some or all of the accrued interest or deferred principal to reduce future payments. Alternatively, they may need to request additional help as noted in the guidance.
- **Credit reporting** - the Panel is pleased to note that there will be no negative impact to consumers who take a payment holiday. However, there should be a clear reminder to firms that if they recommend, or a customer requests, an alternative forbearance programme that this may have a negative impact on the credit file. This is already an FCA rule, but the FCA should remind firms, as well as customers, since customers may not fully understand the difference between a payment holiday and a forbearance programme.
- **Future forbearance options** - Most firms have limits to the number of forbearance programmes they will offer a customer in a 12-month period over the life of the loan. The FCA should be explicit that this payment holiday cannot be counted as forbearance so it does not limit future forbearance options for the consumer.

#### Personal Loans

- **Post 3 months (i.e. after temporary measures withdrawn)** - where a customer requests a payment holiday, the customer should be given the choice to have the deferred payments and interest spread over the remaining term of the loan, with increased payments, or elect to have the payments added to the end of the loan (loan extension). Firms should also be required to clearly explain the advantages and disadvantages of both options. In the event that implementing this option would delay a banks' or lenders' ability to support a consumer, this could also be done when firms notify consumers near the end of the payment holiday period.

#### Credit Cards

- **Access to credit line** - it is not clear from the guidance what the FCA expects in terms of access to credit. Normally, a customer would have their card suspended when on a payment holiday, however, this may not be in the interest of the customer. Firms should, at a minimum, be required to ensure that customers have access to other funds before limiting access to the credit line.
- **Acting in consumer interests** - Firms should prompt customers into thinking about whether borrowing more on a credit card is a good move. Where the card provider offers other products, switches should be offered.

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- **Interaction with persistent debt rules** - the thinking on how the temporary relief measures interact with the FCA's persistent debt measures is not clear. The FCA should clarify whether the temporary measures count towards the persistent debt definition, set out how this will be dealt with at a later date, and confirm whether the persistent debt letters which are mandated at set timescales will be paused or continue as planned.

## **Overdrafts**

- Private banks and credit unions are not included in the temporary relief measures. When and how does the FCA plan to assist these consumers since those with overdrafts at a credit union are potentially more vulnerable than those with high street accounts?
- The Panel assumes that people using unarranged overdrafts will be put back on to the higher pre-6 April rule change pricing. Since they are likely to struggle to get through to contact centres to arrange an interest-free £500 overdraft, the FCA should consider making the facility to request a £500 overdraft an automatic offer to consumers. Where a consumer takes out a new unarranged overdraft, firms should treat it as arranged.
- The FCA should ensure that the range of returned transaction charges and fees which apply to bank accounts and overdrafts should stop for the duration of the temporary measures.