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By email: FCAconsumercredit@fca.org.uk

Dear Sir / Madam,

Financial Services Consumer Panel response to Call for Input: Ongoing support for consumers affected by coronavirus: mortgages and consumer credit

With the temporary guidance on consumer credit and mortgages coming to an end 31 October, the Financial Services Consumer Panel welcomes the FCA publishing a Call for Input to elicit views in advance of consulting on further guidance. There will be consumers in financial difficulty beyond the 31 October deadline and it is essential that the FCA acts to help them cope in these extraordinary circumstances.

A fundamental outcome is that consumers are protected from extreme hardship and poor borrowing decisions. Regulated firms' options and remedies should be sufficiently accessible, attractive and comprehensive such that people who have limited income and few if any borrowing options are able to manage their short-term problems, without recourse to very high cost or risky lending (including from illegal sources), or putting their families in the position of lending to their own detriment.

The Panel believes that current requirements are insufficient, and further guidance in terms of forbearance and customer treatment is necessary.

The guidance should encourage firms to be extremely flexible in their application of forbearance, including waiving or adjusting current internal forbearance rules, ensuring consumers receive the support they need for an appropriate length of time.

Also, it is important that the final guidance makes sure firms think beyond the conventional forbearance toolkit. A wide range of options are required, including:

- Debt forgiveness.
- Continuation of deferrals where appropriate.
- Additional interest-free periods, on overdrafts and other products.
- Switching to cheaper products.

Further, as in our previous responses, the Panel emphasises the importance of the FCA working with other regulators and Government to ensure there is a consistent approach with other creditors where individuals affected by Covid-19 may face affordability difficulties (e.g. rent, council tax, benefit overpayments, utility bills etc.).

The panel welcomes several aspects of the CFI, in particular:

- **Identifying the need for sufficient resources within firms:** Firms will need to consider the challenges posed by dealing with a high volume of customers who

require further support, ensuring that they are appropriately resourced and employees trained to provide a consistent level of fair treatment and good outcomes for all consumers is essential. This includes constant vigilance and gathering information on customers affected to understand which are vulnerable.

- **Encouraging customers to use the Standard Financial Statement (SFS):** The FCA should also encourage all lenders to use and/or accept this form of affordability assessment, as well as budgets built through free money advice providers (such as StepChange and National Debtline). In addition, encouraging the use of a “lite” version of the SFS would be an effective solution for consumers in shorter-term financial difficulty, to gain timely debt advice or money guidance.

In addition, the Panel reiterates its support for the FCAs commitment to continue to monitor overdraft prices.

The panel also makes the following observations:

Debt advice

- **Extending the *breathing space*¹ period:** Lenders should be encouraged to provide additional breathing space (which can include stopping fees, interest and capital payments and even postponing default, in addition to pausing collections activity) to customers, including those going into arrears. Given the impending volumes likely to hit debt advice services, customers need to be given sufficient time to access the right advice and make informed decisions.
- **Potential conflict of interest if lenders act as proxy debt advisors:** In cases where customers have debts to multiple creditors, the Panel is concerned that customers will rely on lenders for debt advice who have a vested interest in the decision customers make, potentially resulting in consumer harm. The Panel believes the onus should be on properly resourcing the Money and Pensions Service and other relevant organisations to deliver impartial money guidance and debt advice through a range of channels to which consumers can be signposted.
- **Clarity on prioritising payments:** Significant numbers of consumers have taken payment deferrals over multiple products. As the Panel has stated previously, there must be clear and consistent messages to consumers about the widely accepted priorities for managing payments obligations from the FCA, lenders and other organisations, along with guidance on dealing with financial difficulties.

Vulnerability

- **Difficulties in identifying vulnerable consumers:** An assumption should not be made that firms of all sizes have the data, or capacity to use it effectively to make decisions, take proactive steps for customers and identify vulnerability. The FCA should be proactive in identifying such firms and ensure their customers are treated fairly and appropriately.
- **Meeting the demands of consumers without internet access:** 12% of UK adults have no internet access at home and 22% do not personally use a smartphone. These figures are significantly higher for those who are older, of lower incomes or disabled.² For the significant numbers of consumers who do not have digital access, it is essential that firms are sufficiently resourced to provide a reliable channel through which customers can engage. Particularly where lenders have a physical presence on the high street, they should be encouraged to use this presence to proactively engage with customers who may otherwise struggle to communicate with them.

¹ For clarity, here we are referring to the forbearance presumption currently provided, not the new Government protection due to come in next year.

² https://www.ofcom.org.uk/__data/assets/pdf_file/0018/132912/Access-and-Inclusion-eport-2018.pdf

Mortgages

- **Fair treatment on borrowers coming to an end of fixed-term products:** The Panel encourages the FCA to ensure that mortgage lenders continue to offer good deals to existing customers who are about to roll off an existing product, but who are unable to switch lender at the current time due to extraordinary circumstances.
- **The end of payment deferrals being seen as a green light for lenders to repossess homes:** It is important that if the FCA does not extend payment deferrals for mortgages through subsequent guidance, that this does not provide firms with the legitimacy to undertake a wave of home repossessions. This must be effectively mitigated.

Credit files

- **Presenting the implication of decisions on credit files transparently:** The implications of a decision by a customer on their credit file, and its impact on future lending decisions, must be presented in a balanced and fair way. Further, lenders and CRAs must treat all information regarding someone's situation in a fair and proportionate way in creditworthiness checks and lending algorithms.
- **Recording successful progress:** Successful progress with a repayment arrangement on a customer's credit file should be included alongside information about any defaults or impairments.

The Panel notes that while firms are already expected to treat vulnerable customers fairly and appropriately, the FCA should not rely on firms to "do the right thing." Based on past experience, including some recent examples as the pandemic has unfolded, the Panel is not optimistic that all firms will behave appropriately.

Given this, assertive supervision will be essential. This includes proactively monitoring the implementation of forbearance rules. It is important that the FCA's Supervision teams are adequately resourced and tasked with ensuring that firms are adhering to the guidance and that all customers are receiving fair treatment and consistent levels of support.

The Panel would expect the Senior Managers and Certification Regime to be an important tool in the FCA's supervision activity in this area.

Yours faithfully,

Wanda Goldwag
Chair, Financial Services Consumer Panel