

FCA proposal for temporary financial relief (including credit cards) for those impacted by Coronavirus

Citizens Advice response to FCA draft guidance and rules for firms

Summary

Recommendations

1. The FCA should consider further measures including the freezing of interest during the payment holiday for those in financial difficulty.
2. The FCA should provide clarity on whether the proposed 0% interest rate on up to £500 arranged overdrafts will also apply to unarranged overdrafts.
3. Customers who are digitally excluded and traditionally relied on accessing banking services through their branch may struggle to get in touch with their bank or lender. These customers should be treated fairly, for example provided with a payment holiday or interest free overdraft if there are indicators of financial difficulty.
4. The FCA should extend the payment holiday proposals to include motor finance agreements and ensure customers are protected from repossession of vehicles.
5. The FCA needs to clarify the expectations on guarantor lending firms in relation to the fair treatment of guarantors who are impacted by coronavirus.
6. The FCA may well need to extend its measures beyond a 3 month period to ensure all customers are protected until they can get their finances back on track.

The proposals and guidance set out by the FCA offer a welcome short-term reprieve for many of those suddenly facing the immediate financial shock of coronavirus. However, we feel in a number of areas, there is a need for greater clarity on what these changes will mean in practice.

Those who are already in debt are likely to see financial strain worsen as a result of COVID-19. This is due to falling incomes and rising expenditure on essentials like energy. These issues will be particularly acute for those with caring responsibilities, people who have recently lost their jobs or faced workplace closure and those who have had to self-isolate due to vulnerability. Compared to the general population, people who come to Citizens Advice for help with debt are 2 times as likely to be disabled or have a long term health condition (37% compared to 18%). They are also more likely to be women (58% vs 51%).

38% of Citizens Advice debt clients already have a negative budget. This means they don't have enough money to cover ongoing essential expenditure or debt repayments. The demographic trends among these people broadly reflect those for debt clients, but are more pronounced - 60% are women and 53% are disabled. Again, these people are particularly likely to be vulnerable due to needing to self-isolate.

While the proposed measures are a positive step forward in helping those who are struggling financially in this unprecedented time, the debt will still be there at the end of the 3 month period with borrowers facing higher repayments due to the interest added onto people's debts.

It is also crucial that the FCA monitors the impact of these changes in the coming months to mitigate the risk of deferring or compounding the issue of problem debt for those who are struggling in light of the exceptional circumstances arising out of COVID-19.

Credit cards (including retail revolving credit)

We note the FCA acknowledges in its guidance that consumers who choose to defer their payments should also not have the use of their credit facility suspended and customers should not be liable to pay any fees and charges in connection to the payment deferral. While we welcome these positive steps, we're concerned that the guidance doesn't go far enough in protecting consumers from problem debt further on, by not considering the freezing of interest within the payment holiday period.

Citizens Advice helped almost 60,000 people with 65,774 issues relating to credit, store and charge card debts last year. This makes it the most common consumer credit issue we help people with.

For many, the unprecedented circumstances arising from coronavirus will be a significant test of household finances and their financial resilience. Price increases worth £4.2bn are set to hit households in April through household bills¹ which will place further burdens on already stretched household incomes. Sudden income shocks and increased costs are likely to result in households adapting their transactional behaviours to become temporarily more reliant on available credit facilities such as credit cards.

¹ The Telegraph, [Price hikes worth £4.2bn to hit households in April – here's how to avoid them](#), 31 March 2020

Low income households - and those who would struggle to repay further levels of borrowing - will be especially vulnerable in the coming months, and we are concerned that this is an issue which will impact many households.

The guidance states 'firms would be entitled to charge a reasonable rate of interest where a customer requests a temporary payment freeze.' We feel there is a lack of clarity for both firms and consumers as to what would be considered 'reasonable'. It is difficult to understand how the charging of interest during a payment freeze (required because a customer is in financial difficulty due to the impact of coronavirus) would meet the requirements of Principle 6 - 'A firm must pay due regard to the interests of its customers and treat them fairly'.

We urge the FCA that further measures be considered, including the freezing of interest during the payment holiday for those in financial difficulty.

Case study

Dan has aspergers, depression and anxiety. He works part time in a cinema and lives with his partner, who is an NHS administrator. He has 5 debts, including a budgeting loan, benefits overpayment, council tax arrears and several store card debts. On 20th March, the cinema where he works closed due to COVID-19. Employees were offered a week's full pay, but he is unsure what will happen after this, or when he will be able to start working again. Dan came to Citizens Advice for help managing his ongoing bills, and his debts, while waiting for his first Universal Credit payment to come in. He was incredibly anxious and said this was impacting his mental health.

Overdrafts

The FCA states consumers who need additional financial support because of coronavirus with an existing arranged overdraft will be able to request that up to £500, on their main personal current account, is provided at 0% for up to 3 months. Customers who don't currently have an overdraft facility will also be able to request this from their bank. The overdraft rules that come into force on 6 April mean firms can only charge a single annual interest rate for both arranged and unarranged overdrafts. **Can the FCA therefore provide clarity on whether the 0% interest rate will also apply to unarranged overdrafts.**

Many customers will have been reliant on paying their bills through Direct Debits and may find themselves being caught out by a sudden reduction of income. They may not have been able to communicate their need for an overdraft facility

in time with their bank - especially those customers who are vulnerable and self-isolating.

We also have a concern on how these proposals will offer protections to customers who are digitally excluded and traditionally relied on accessing banking services through their branch. We are aware from our discussions with banks and other creditors, there is an increased demand for telephone banking services, but reduced resource capacity to meet the demand. Many creditors have responded by navigating their customers online, however we know that many of the people we help, may not be able to access digital services.

Customers who are struggling to get in touch with their bank or lender will need to be treated fairly, for example provided with a payment holiday or interest free overdraft if there are indicators of financial difficulty.

Motor Finance

The difficult circumstances arising from the coronavirus pandemic and the use of public transport being restricted, make it increasingly likely many will be more reliant on their car than before - key workers traveling to work, those providing care responsibilities etc. The fear of losing access to a vehicle through repossession or the application of unaffordable fees and charges due to having to surrender a vehicle, may acutely influence consumers into prioritising motor finance repayments, despite a lack of affordability from reduced household incomes. **We would therefore urge the FCA to also consider extending the payment holiday proposals to include motor finance agreements.** This should include all types of motor finance such as hire purchase, personal contract purchase, conditional sale and bills of sale. **It should additionally be ensured that customers are protected from repossession of vehicles during the payment holiday, regardless of type of credit agreement.**

High interest and guarantor loans

Another major concern is that the protections set out by the FCA don't seem to cover the most vulnerable borrowers, such as those with payday loans, high-cost personal loans or guarantor loans. Whilst the FCA have indicated those with guarantor loans will be able to apply for the 3-month payment freeze where needed, we understand the business model for guarantor lending is reliant on the guarantor taking on liability to maintain debt repayments should the original borrower encounter financial difficulty. We know from the experiences of the clients we help, guarantors are not always subject to adequate creditworthiness assessments and where guarantors struggle to afford the debt repayments, some firms seek to enforce agreements through court action. We are concerned that circumstances arising from COVID-19 will pose additional burdens on

guarantors and do not feel that the FCA's proposed guidance provides adequate protection for guarantors. **The FCA should clarify the expectations on firms in the fair treatment of guarantors who are impacted by coronavirus.**

Final comments

We have seen an unprecedented demand for advice and debt advice in the last few weeks in light of the impact of coronavirus. We will be looking at more detailed product specific issues in the coming weeks which we may want to raise with the FCA where we see evidence of risk of harm to consumers.

In addition, as the impact of the crisis on people's finances becomes clearer, the FCA may need to take further action to extend its measures to ensure all customers are protected until they can get their finances back on track.

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