StepChange Debt Charity response to the Financial Conduct Authority Call for Input: Ongoing support for consumers affected by coronavirus: mortgage and consumer credit

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Introduction

StepChange Debt Charity is the largest specialist debt advice charity operating across the UK. In 2019, over 630,000 people contacted us for advice and information on problem debt. We welcome the opportunity to respond to this FCA call for input about ongoing support for consumers affected by coronavirus: mortgages and consumer credit.

We have welcomed the FCA's temporary guidance for firms on supporting customers through the coronavirus. The prompt introduction of meaningful support has helped millions of households through the past four months or so. The fact that demand for our debt advice service is currently lower than we would normally expect at this time of year, shows that the payment deferrals have bought time for households to weather financial difficulties since lockdown.

However we know that problems are building up. By mid-May 14 million had people experienced a negative financial impact. We estimate that 4.6 million people whose income was negatively affected by coronavirus had accumulated £6 billion of arrears and debt, averaging £1,076 in arrears and £997 in debt per person.

Some of these people will see their income recover and be able to repay arrears and debt without needing much additional help; but it is likely that many people reaching the end of payment deferral periods will need ongoing support for both temporary and longer term financial difficulties. The need to get the right help in place in pressing.

The FCA introduced the concept of exceptional circumstances beyond a customer's control to describe the financial impact of the coronavirus pandemic. This phrase describes the experience of the 70% of our clients every year who say their debt problems were triggered by a life event. So improvements to the forbearance framework to support people affected by coronavirus now can continue to benefit people coping with the financial impact of life events in future.

Responses to the consultation questions

Q1: Do you agree with these propositions?

We partially agree with the propositions and therefore do not fully support the conclusions that follow from them.

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

We partly agree with proposition 1.

As the consultation paper points out, a payment deferral does not reduce the balance and deferred payments will need to be made up later. Lenders may continue to charge default / further interest that will further increase debt balances. Either or both of these features of the current payment deferrals create the risk of an increased payment burden in the future when consumers may still be recovering from temporary difficulties.

For this reason, we agree that further deferrals will not necessarily be the right solution for those still requiring support after 6 months.

However that is not to say that there is currently an unambiguously better alternative. Consumers moving into the forbearance framework should see their payment burden reduce and default interest frozen, however the ambiguity of the forbearance rules (in comparison to the clearly expressed outcomes of entering a payment deferral) makes this option less attractive to consumers than it should do.

In addition, and perhaps more importantly as a barrier to consumers seeking help, people moving into forbearance are likely to see their credit status deteriorate as lenders report them as being in arrears or default.

Credit status will be a less important consideration for people with longer term debt problems, but it does matter for people facing temporary financial difficulties who have a realistic chance of getting back on track in the near future.

Survey work with our clients shows how consumers worry about their credit history status and may delay seeking help with financial difficulties because of these worries. We know that about half or our clients say they were worrying about their debts for a year or more before seeking debt advice. Around one in five survey respondents said they delayed seeking advice because of worries it would affect their credit rating.

People experiencing financial difficulties not getting help may instead use harmful coping strategies like borrowing more to keep up with credit payment commitments. Our *Life Happens* report found using credit cards or overdrafts to cope with in income shock made people ten times more likely to fall into problem debt.

The FCA was right to include credit status protection in the payment deferral guidance. It is an important part of the guidance.

So consumers coming to the end of a deferred payment period still needing further support appear to face three possible choices, each or which has an element of bad outcome:

- A further payment deferral (if available) that will see debts build up
- Move into the forbearance framework that will have longer term consequences for their credit status.
- Cope the best they can, with the risk of using more credit and falling into serious long-term problem debt.

These are difficult choices to force upon people struggling through exceptional circumstances beyond their control.

So we do not fully agree with proposition 1.

The statement is correct, but the key implication that there is a better option available is not necessarily correct for people in temporary financial difficulties. We believe that part of the 'exit strategy' from deferred payments must include better options for consumers to bridge the gap.

This could include introducing more interest forbearance into an extended payment deferral or (perhaps more practically) improving the forbearance framework to minimise negative longer-term consequences for people in temporary financial difficulties.

We would highlight that the consequences of the pandemic on household incomes will not stop on 31 October. There are likely to be further job losses and income shocks as the government support schemes roll back, perhaps bringing new people into temporary difficulties. We may see new lockdown periods where household will not have the same income support as now. In which case it would seem sensible to retain the payment deferral schemes for new entrants.

If deferred payments are continued, the FCA might look again at the requirements allowing lenders to continue charging default or further interest (on revolving credit) at the agreement rate during a deferred payment period. There is a discussion to be had about the current assumption that this is a fair practice. In contrast, the FCA's responsible lending rules might challenge a firm that profited from lending to someone in financial difficulty who was unable to pay back interest without hardship (although our evidence suggests this is not uncommon). From a consumer's perspective, interest charged during deferred payments looks similar. The FCA's concern with good consumer outcomes, fair treatment of people in vulnerable situations and minimising the long-term consequences of financial difficulty should consider questions on price.

Finally, while support for temporary difficulties is a key issue in this consultation, there does not seem to be a clear view of what a temporary period might be. The assumption in this paper seems to be six months before consumers are moved into a forbearance framework designed to protect people with longer term difficulties. For us, temporary difficulties means the period that someone with a reasonably good chance to get largely back on track needs to financially recover, perhaps through finding another job. We believe that 12 months might be a more realistic starting point to frame temporary difficulties.

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

We strongly agree that firms will need to focus on a broader range of sustainable forbearance options to meet the needs of customers requiring ongoing support. However it is not completely clear how the current CONC and MCOB provisions will necessarily encourage lenders to develop a broader range of support options in a way that consistently delivers good consumer outcomes.

In this consultation paper (para 2.52) the FCA tells us it knows from supervisory work 'in both mortgages and consumer credit that not all firms consistently deliver good outcomes.'

So while the current rules might provide broadly the right framework, we believe there is room for more clarity. For instance:

- As stated above, we do not believe that the current forbearance rules work well for people in temporary financial difficulties, nor do they encourage consumers to seek help early.
- The payment deferral guidance is quite strong on defining clear payoffs for consumers in a particular situation, but the same clarity is not always evident in the forbearance framework. By way of illustration, the key forbearance protection of lenders freezing or waiving interest

is expressed in CONC 7.3.5G as a good practice example that lenders may consider. Is this tone and approach sure to deliver the right outcomes for consumers?

- We note that CONC 8 requires debt advisers to act in their customer's best interest and provide information on all the options available. It is not clear that forbearance rules (particularly CONC 7 perhaps) provide such a clear requirement.
- We agree that the rules should require lenders to offer customers more support before they miss payments. Making support conditional on being in arrears is not going to consistently deliver good outcomes for consumers. Here we note the different language used and requirements stated in CONC 7.3.3G and 7.3.4R as not helpful in appearing to create different arrears 'triggers' for support rather than requiring a focus on what customer's need.
- We urge the FCA to work with firms to develop a clearer and border menu of forbearance support, including a specific focus on the needs of people facing temporary difficulties where the current forbearance framework may look unattractive to consumers. This is likely to require some new urgent new thinking on the way CRA reporting currently works.

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

We agree that firms will need to consider the challenges of dealing with a high number of consumers with different support needs. This also presents a challenge for the FCA to ensure that in adapting to pressure from high volumes firms do not deliver worse consumer outcomes. There is a risk that firms will take less considered approaches to forbearance or engage in more aggressive debt recovery practices to deal with pressure on their balance sheets.

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

We do not fully agree with the proposition that normal CRA reporting should resume. We do agree that prospective lenders need to know when people are getting help with financial difficulties, but that is not necessarily the same is returning to 'normal' CRA reporting.

Our concern here is that normal CRA reporting does not consistently deliver good consumer outcomes. We have given reasons for this view in our response to the *credit information market study* and in the round tables and discussions with the CIMS team. In summary these are:

- Firstly we are not persuaded that credit reporting is delivering responsible lending or preventing individual over-indebtedness. Consumers have been required to consent to sharing their credit history data around two decades, over which time over-indebtedness has increased, and a substantial sub-prime credit sector has grown. We would argue that stronger more prescriptive affordability rules and closer supervision, rather that credit data per se, reduced the irresponsible lending practices we saw in the mortgage market in the first decade of the millennium. We are still seeing poor lending practices in the consumer credit market.
- Conversely, an impaired credit status can have long term negative consequences for consumers in terms where they access credit and the price they have to pay for credit. In the Open Banking (and Open Finance) debate there is strong presumption that consumers should

have ownership and control of their data. In CRA reporting consumers do not have control and may be harmed by this data. Indeed there is an argument that CRA data primarily benefits lenders (to price risk in a way that maximises profit) and financially resilience consumers at less risk of financial difficulties (who get cheaper credit as a result of de-pooled risk). The FCA has an opportunity to unwind some of this potential for unfair outcomes through steps to minimise the harm CRA reporting can cause consumers facing financial difficulties. We believe there is scope to do so without undermining the CRA system as a whole.

- The issue of credit status can be (and is) 'weaponised' in debt recovery strategies that highlight the consequences of falling into arrears as a way of disciplining payments. We highlighted above how worries about credit status can drive harmful consumer behaviour.
- Credit information may have a disproportionate negative effect on consumers and pay insufficient account of their engagement with creditors and commitment to make debt repayments. For instance, a default on a credit report (which may follow from an event outside the consumer's control – like losing their job) can dominate a person's credit status for years, even where a consumer is making affordable payments towards their debts. The FCA knows that the payment deferral guidance included credit status protection for a reason. The unfair consumer outcomes this decision aimed to address are still there.
- It is not clear that lenders consistently report credit events in the same way. The SCOR guidance appears to acknowledge creditors may report events in different ways and at different times. There may be differences in when and why lenders report arrears or defaults. Lenders can re-age arrears or modify agreements that help customers protect their credit status, but there does not appear to be a common standard or requirement to do so. Lenders can build payment holidays into products or (less commonly now) sell borrowers insurance that stops payment difficulties from worsening a credit history (and we note that in the past PPI policies often provided 12 months cover - a longer definition of financial difficulties than the 6 months suggested in this paper). Given this degree of lender discretion, we suggest that the current integrity of the credit reporting system is not something that can be taken for granted, or used as a reason for returning to a 'normal' that may disproportionately disadvantage consumers experiencing temporary difficulties as a result of the coronavirus epidemic.

Proposition 5: There is a need to prevent a new cohort falling into persistent debt or high cost credit use

There is no proposition 5, but there ought to be a proportion on the need to avoid a new cohort of consumers falling into persistent debt or over-indebtedness as a result of the coronavirus pandemic. This proposition might include:

- A strategy to ensure a new cohort of consumers do not fall into persistent debt, particularly with credit cards.
- A focus on overdrafts, including an evaluation of the effectiveness of firms repeat use strategies so far and how these might adapt to future need (as highlighted in the paper)

- A strategy to ensure financially vulnerable consumers do not fall into using high cost credit or are otherwise 'financially excluded' as a result of the coronavirus pandemic. This would include ensuring that the coronavirus emergency does not create new mortgage prisoners.
- We believe the FCA should publish data on both the persistent debt and overdraft repeat use rules to provider transparency on progress and effectiveness of the remedies.

Q2: Do these propositions apply to both mortgages and unsecured credit?

We believe these propositions apply to both mortgages and unsecured credit, but there may be different challenges in each sector.

- The need for effective forbearance for temporary difficulties will apply to both.
- The potential need for further periods of deferred payment may apply to both
- The challenge of dealing with a high volume of consumers facing financial difficulties may apply to both – through owner-occupiers are significantly under-represented in our debt advice caseload right now.
- Consumer concerns about their credit status will apply to both but worries about reduced access to mortgage markets may raise particular concerns, given the ongoing debate on mortgage prisoners.
- Longer term forbearance will be an issue for both but will be particularly challenging in the mortgage sector if we see a marked increase in people struggling with mortgage payments. The magnitude of payments and secured nature of the borrowing puts limits on the forbearance options or consumers with ongoing support needs. Previous research evaluating mortgage repossessions after the 2008/09 recession highlighted both interest rate reductions and the policy response around safety nets and forbearance as important in keeping repossession numbers down[1]. With the base rate near zero and severe cuts to the welfare mortgage interest safety net, forbearance will need to do more of the work is mortgage arrears spike.
- The experience of the last recession suggests that court action for mortgage arrears most likely among more recent borrowers; so the 'most at risk' group might be a lot smaller than the group at risk of difficulties with unsecured credit.

Q3: Do you have views on the appropriateness of a further payment deferral linked to the end of the Government's Coronavirus Job Retention Scheme?

As highlighted in our comments above, we believe that there is a case for a further payment deferral scheme. The end of the Job Retention Scheme may see more people needing support with financial difficulties. The FCA might consider whether firms are now in a position to do more assessment on

[1] https://www.ox.ac.uk/news/2012-02-22-levers-cut-rate-home-repossessions-uk

the suitability of payment deferral schemes; or whether consumers will need more information on the benefits and possible downsides before entering the scheme.

It is possible that further payment deferrals will be needed in the event of 'local lockdowns' where household incomes may not be supported through the measures introduced for the national lockdown.

In both cases we would urge the FCA to reconsider the design of an extended payment deferral scheme to minimise the risks of additional interest increasing debt balances.

Q4: 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?

We believe the benefits to extending the application of MCOB 13 and CONC 7 to customers who have not yet missed a payment will include:

- This would allow a potentially seamless transition from the payment deferral into the next stage of support. There is nothing to be gained from waiting until customers have fallen behind on payments.
- Customers exiting a period of payment deferral are likely to have a backlog of deferred payment to deal with. Applying the MCOB 13 and CONC 7 provisions to this would help frame the expectations for the support lenders should provide with this.
- We believe this would also be helpful for people who may experience financial difficulties but have not yet had a payment deferral.
- Lenders are already required to monitor for signs of potential financial difficulties which might include a reference to consumers exiting a payment deferral.
- The existing coronavirus support guidance includes a requirement for firms to contact customers reaching the end of a payment deferral period. The FCA might consider revising these requirements in light of the draft guidance on fair treatment of vulnerable customers on the steps firms might take to anticipate the needs of vulnerable consumers who have difficulty responding.
- Following from our comments in question 1 on the propositions, we would urge the FCA to consider how MCON and CONC might be revised to encourage lenders to consider the needs of consumers facing temporary financial difficulties and tailor that support in a way that will encourage those consumers to seek help early. We believe that this is likely to require further guidance on credit reporting.

Q5: How should firms be recognising and responding to the needs of vulnerable consumers at the end of a period of temporary support?

The FCA are currently consulting on revised guidance on the fair treatment of vulnerable customers and we presume that the contents of that guidance provides most of the answer to this question.

As a result we believe that FCA should ensure that firms are taking full account of that guidance by 31 October.

We note from our initial reading of the revised vulnerability guidance, that the FCA wants firms to be more proactive in anticipating the needs of vulnerable consumers, but there is no requirement for firms to be pro-active in identifying individual consumers.

However we believe it would be reasonable to require firms to consider customers coming to the end of a period of deferred payments to be at high risk of vulnerability as a result of life events and likely low financial resilience. This should shape the way that firms think about the support they will offer for their customers going forward.

The excerpt from Financial Lives reproduced in this consultation (para 2.33) highlighting the dynamic nature of vulnerability is useful in reminding firms that customers can and do recover form financial difficulty. An emphasis on helping people recover from life events and get 'back on track' with their lives with as little pain as possible should be a key outcome of the 'next steps' support firms design for customers.

Q6: Will different groups of customers need different levels of support? If so, how should they be identified?

Different groups of customers will need different levels of support. For instance our June report on the financial impact of the coronavirus pandemic on households since lockdown illustrated different degrees of financial difficulty among the estimated 14 million people experiencing a negative financial impact[2].

- In problem debt pre-crisis (700,000 people): Those who were in severe problem debt pre-crisis.
- In financial difficulty pre-crisis (3.4 million people): A wider group of people were showing some sign of difficulty pre-crisis.
- New struggling (970,000 people): Those who were not in financial difficulty pre-crisis but have since fallen behind (or expect to) or have borrowed to pay for essentials.
- Growing financial fragility (2.4 million people): This group has been affected negatively but was not in difficulty pre-crisis and has not fallen behind or borrowed; however, they are worried that they will struggle financially later this year.
- Coping (6.7 million people): Those who have been affected negatively by coronavirus but have not shown any indication of financial distress and do not expect to struggle later this year.

The precise numbers and proportions will have changed since we commissioned this polling in mid-May, but there is still likely to be a distribution of households in different degrees of financial difficulty.

[2] https://www.stepchange.org/Portals/0/assets/pdf/coronavirus-policy-briefing-stepchange.pdf

The same polling highlighted different degrees of financial difficulty among people taking a payment deferral Of those people who had taken a payment deferral, 26% were already in problem debt at the beginning of the outbreak (and a further 12% were showing signs of financial distress). 36% expected to have fallen behind on regular bills before the end of June.

The examples of very low financial resilience cited in para 2.42 seem sensible and reflect issues we see with our clients and in our polling. For instance we estimate some 4.2 million people had used credit to make ends end in the first two months or so of lockdown.

Different degrees of financial difficulty, different risks from vulnerability and different dynamics in and out of vulnerability (including financial difficulty) will determine a range of customer support needs.

Firms may be in a position to identify some of these support needs from existing data, for instance customers who were in problem debt pre-lockdown, and tailor their response and triage appropriately. Firms should be encouraged to anticipate the likelihood of other support needs (such as early stage financial difficulties, acute temporary financial difficulties) and develop appropriate responses before 31 October.

Delivering consistently good consumer outcomes for this range of needs may require firms to consider a menu of support options that will help frame their support for each individual customer.

Lenders may offer support options, such as alternative products, modifying agreements or other refinancing. These approaches might give effective support for people coming out of payment deferrals to reduce payment burdens and protect their credit status. However, we note the review published on 6th August finding problems with refinancing by high cost lenders goes to highlight the potential dangers of such approaches if not focused on customer interests. This is despite the important protections set out in CONC 6.7.17R that aim to ensure lenders only refinance where this delivers support in the customer's best interest.

So the FCA might consider revising the forbearance framework both to better reflect the range of options that lenders may offer for different needs, and to ensure that broader support options offered by lenders work in the customer's best interest.

A streamlined form of support could fit into this framework to helps firms deal with increased demand for support around 31 October. Extending a payment deferral for a few weeks could be helpful; but it would be more helpful if default / further interest were waived or reduced. Likewise a fixed time period approach could help mitigate some of the risks associated with meeting the support needs of a large volume of customers in a short period. However this implies a need for firms to submit their menu of support options for approval to ensure streamlined support works in their customer's best interest.

Q7: Do firms expect to automate aspects of their process? If so, do they anticipate challenges in meeting MCOB 13, CONC 6 or CONC 7 and would further guidance be helpful?

We do not have a specific response to this question at this time.

Q8: Do firms anticipate challenges in collecting the necessary information from their customers?

Our debt advice experience suggests that firms may find it challenging to gather information on incomes and expenditure where customers are experiencing changes to their income now or are uncertain about income and expenditure levels in the immediate future. Firms may need to show some flexibility and may need additional guidance on appropriate support for people dealing with changing and uncertain financial circumstances. The FCA should ensure that firms do not use difficulties with getting clear income and expenditure details as an excuse not to provide appropriate support.

Q9: Is further guidance supplementing our forbearance rules needed to ensure good outcomes?

Our responses to question above and below explain our belief that further guidance (and perhaps rule changes) will be needed to ensure good outcomes for consumers. The timescale of this consultation does not allow very detailed or comprehensive analysis, but we have highlighted some key areas for change throughout this response.

We have argued that the CONC 6 & 7 forbearance framework for unsecured debt does not currently work well for people in temporary financial difficulties and we feel this is a priority for change. Our work on debt advice outcomes highlights a group of people seeking debt advice who show improved welfare and progress in dealing with their debts shortly after receiving debt advice. Encouraging people to seek help earlier could reduce harm and help aid quicker recovery; but the current forbearance framework does reward early engagement and CRA reporting appears to actively discourage it.

The forbearance framework for unsecured credit is currently spread out over CON 6 & 7 in a confusing and unhelpful way. As the consultation paper points out, this creates a situation where firms may not be providing enough help pre-arrears or considering a full range of options post arrears. The FCA should consider creating a single 'forbearance framework' chapter in CONC from relevant CONC 6, CONC 7 and other provisions. This could help clarify expectations on good customer outcomes.

CONC 6.7.2R (1) and 6.7.3C R on monitoring signs of actual or potential financial difficulty look weak provisions, with no directive requirement on lenders other than to 'take appropriate action', which does not set an expectation or a standard. The pre arrears provisions for credit cards are more comprehensive, however our *Red Card* report on sub-prime cards found evidence suggesting the provisions are not effective in preventing card users from falling further into difficulties[3].

We would urge the FCA to review CONC 7.3.4R and 7.3.5G. These provisions set out a good deal of the parameters of the unsecured credit forbearance framework in a very condensed way. The provisions are not outcome focused, instead presenting a brief and arguably incomplete list of options. The language of the provisions gives the impression that lenders have broad discretion on

[3] https://www.stepchange.org/Portals/0/assets/pdf/red-card-report-subprime-credit-cards-stepchange-debt-charity.pdf

what help to offer, without framing this discretion firmly in the context of the customer's best interest. Directing firms to 'consider' forbearance (7.3.5G) is not a strong message.

Increased forbearance following the 2008/09 recession is cited as one of the key factors keeping mortgage repossessions below the level otherwise expected. So there are reasons to believe that MCOB 13 works reasonably well. We would argue that MCOB 13 (coupled with the pre-action protocol and statutory protections against repossession) provides a reasonably good forbearance framework in 'current plus' cases where the borrower is able to pay the contractual amount plus an amount to clear arrears.

However it is not so clear how MCOB 13 supports borrowers who are unable to meet the contractual mortgage payment for a period of time. While the FCA will be concerned to ensure that forbearance is in a customer's interest, MCOB 13 could perhaps be amended to include more explicit discussion and requirements on the help lenders should offer people who are unable to pay the full current contractual payment for a temporary period. The FCA might draw on the 'time order' provisions of the Consumer Credit Act to help frame this support.

That said, we are concerned that the MCOB 13 forbearance framework may not be sufficient to support consumers falling into arrears on mortgages or secured loans as a result of coronavirus.

Forbearance for mortgages will only work if financial difficulties are relatively short term or the borrower can draw on safety nets and other resources to keep arrears at a manageable level. Last time round, policy support from government was vital in supporting forbearance and keeping repossessions down.

The FCA might consider what further public policy support will be needed to avoid coronavirus related repossessions if mortgage arrears begin to spike when payment deferrals, the repossession ban and the Job Retention Scheme wind down.

We would also highlight the group of people who are likely to be drawn into, or further into, long term unmanageable debt as a result of coronavirus.

Forbearance can deliver important benefits, such as reducing repayments to manageable levels, freezing interest and charges, stopping enforcement action and alleviating anxiety. Our research shows people falling behind on utility bills, rent, and council tax, as well as increasing consumer credit in the period since lockdown. This will require a strong and co-ordinated forbearance response across regulators and government.

However, our experience of household debt problems shows us that forbearance strategies are not by themselves capable of preventing all the negative outcomes associated with problem debt like reduced living standards, reduced wellbeing, reduced financial resilience, and increased financial and social exclusion.

We have made the case elsewhere for exceptional public policy intervention to support those with coronavirus-related arrears and debts; with targeted grants for those with low incomes and a formal no-interest, income-contingent loan scheme for those who are less financially vulnerable. The case for this support rests on an equity argument: some people have been disproportionately affected by coronavirus and deserve exceptional support to ensure that they do not experience long-term harm and detriment; and a moral and pragmatic argument that more help is needed to prevent the long-term individual and social costs of problem debt caused by coronavirus.

Implementing effective support for those most affected financially by coronavirus cannot be achieved by any individual regulator in isolation and requires coordinated, cross sector and cross government action. We would welcome further dialogue on the need for exceptional support measures.

Q10: 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?

We very much welcome this attention to ensuring people with multiple debts get the help they need and the end of payment deferral. Our observations on what needs to be done are as follows:

Firstly we would urge the FCA to work with firms to establish the number of people with multiple debts who will end a period of payment deferral each month from September onwards. A solid base line of likely demand will help to plan the support response and help debt advice charities to plan for that demand.

Second, StepChange and other debt advice charities are gearing for growth supported by the additional funding recently announced by HM Treasury. StepChange currently has capacity to support clients, as demand for our service remains below the level we would normally expect at this time of year (in part due to the payment deferrals buying time for consumers in financial difficulty). If firms could start to reach out to their customers identified as likely to need help with multiple debts and begin to refer to debt advice before October 31, that will help avoid a demand bottle neck later on.

Third, StepChange already has arrangements in place with a range for firms to 'warm transfer' calls to advisers. This is an effective and efficient way of getting clients to advice. We would be very happy to talk to the FCA in more detail about this if that is useful.

Fourth, while we currently have telephone advice capacity, it will take some time to scale this up beyond our 'full capacity' to deal with further telephone demand. So we would urge the FCA to encourage firms to direct their customers to digital debt advice services where appropriate. Online debt advice does not face the same capacity constraints as telephone or face to face advice. People can use our (or another debt advice provider's) online advice tools to complete a budget and get advice on different options for dealing with multiple debt. This would free up adviser time for clients who need phone support.

Fifth, StepChange is developing a streamlined online forbearance payment plan that will help people with multiple debts needing forbearance get into a fixed period solution. This plan aims to help people manage the transition out of a payment deferral where more help is needed, either to a return to full payment or migrate to a longer-term debt solution as appropriate. However this plan, and the equivalent support delivered by other debt advice providers, would benefit from more support from the FCA in terms of stronger forbearance guidance and new guidance on CRA reporting aimed at avoiding the possible longer term negative impact of current CRA reporting. We believe it should be possible for CRA reporting to give lenders visibility that a person is in a temporary forbearance scheme without creating a long-term impact on credit files.

Sixth, lenders may be able to support customers by modifying agreements in a way that reduces payment burden but does not increase over-indebtedness. This may need some support from the FCA, perhaps to reduce any re-papering burden on lenders, and certainly to ensure that modified agreements work in the customer's best interest. However consumers with multiple credit products may not be helped much if only some individual lenders modify only some of their agreements. The FCA should consider the case for guidance capable of co-ordinating loan modifications across multiple lenders and agreements.

Debt advice providers could have a key role in establishing whether such an option (given affordability parameters, the nature of financial difficulties and availability of other potential options) is feasible and helping multiple lenders to co-operate to deliver good customer outcomes. The FCA would need to support the development of this option.

Q11: Can firms provide customers with a copy of a completed Standard Financial Statement so that a customer does not have to repeat the process multiple time? Or are there alternative ways to deliver the same outcome?

We welcome the FCA considering other support options, such as lenders providing copies of a standard financial statement, but we have some reservations about the efficiency and effectiveness of this proposal.

- We do not think this will be more efficient than online debt advice that can help people draw up a Standard Financial Statement and get advice on solutions for multiple debts.
- There is a potential regulatory issue about who would be responsible for a shared SFS. We also note that the requirements in CONC 8 on financial assessment and best interests appear to provide more robust consumer safeguard than the requirements in CONC 7, where lenders are only asked to have regard to the SFS.

So we think that a referral to debt advice will remain the best way to help people with an SFS, so the focus should remain on ensuring debt advice providers have the capacity to do this. Beyond funding requirements the FCA can support debt advice capacity by giving lenders guidance on appropriate referrals (including deferrals to digital services where appropriate) and ensuring the regulatory environment helps get our clients the outcomes they need.

Q12: Is any further guidance on credit reporting needed?

We have raised the problems we see with the fairness and consistency of CRA reporting at length in this response. We are very clear in our belief that change is needed in the way that CRA reporting works for consumers, so we would very strongly support new guidance that can support that change. In brief summary, the outcome we would look for from new guidance include the following:

- While it important that lenders can see people receiving additional support for payment difficulties, this should not be recorded in a way that has disproportionate consequences for consumers, particularly in cases of temporary financial difficulty (as the payment deferral guidance recognised).
- A significant part of the purpose of the payment deferrals may be undermined if consumers experience negative CRA reporting with a longer-term impact while still recovering from the temporary difficulties that prompted them to take out the payment deferral.
- The current SCOR guidance appears to give lenders a significant amount of discretion on how they report, but this does not necessarily work in the interest of consumers. We would like to see the concept of consumer's best interest introduced into CRA reporting guidance (within the context of the need for lender visibility)
- Open Banking (and possibly Open Finance) works on the principle that consumers should own and control their data. We believe that this principle could be stronger in CRA data.

13: Is any further guidance necessary to ensure that those who have taken payment deferrals under our guidance are treated fairly when their financial circumstances are being considered by lenders in future?

We would support further guidance from the FCA to ensure consumers who have taken a payment deferral are treated fairly in future. However, given the limited transparency for consumers on the detail of lending decisions and rules, how would consumers who had taken a payment deferral know if they had been treated unfairly on this basis? Guidance would need to consider how to give consumers sufficient information to be confident that they have been treated fairly.

Q14: 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?

StepChange Debt Charity campaigned strongly for an end to unauthorised overdraft charges and a requirement for PCA providers to act earlier to prevent people getting trapped in overdraft debt and offer a safe way out for those that do get trapped in overdraft debt.

So we welcomed the repeat use rules as a good step forward.

However, as consumer advocates with a keen interest in this issue, we cannot answer this question as we have seen little or no information on firms repeat use strategies or data published on the outcomes these have delivered for consumers.

Without more transparency and data on the outcomes of this remedy, we have to assume that consumers may well be harmed by the increase in overdraft borrowing costs.

Q15: Do you have views on whether and how further temporary support should be provided?

We would support the proposals in para 3.4 that the guidance might be extended beyond 31 October where consumers could benefit from a payment deferral. Otherwise October 31 looks like a fairly arbitrary cut off point for consumers with ongoing difficulties.

Introducing further guidance on payment deferrals into MOCB and CONC also seems sensible. Consumers will continue to experience exceptional circumstances outside their control into the future and a payment deferral period could continue to give appropriate support for some consumers.

However, as stated above we believe the FCA could do better. At the moment consumers needing temporary support have to choose between a payment deferral that meets some but not all of their needs, forbearance that meets some but not all needs, or their own coping strategies. All of these may deliver poor consumer outcomes.

We would argue that a fair outcome for consumers in temporary financial difficulty would involve four things that no current option delivers all of:

- a reduction in payment burden,
- protection from collections and enforcement action by creditors,
- protection from unduly escalating debt balances,
- protection from a negative longer-term impact to their credit status.

We do not believe that building a better framework of temporary support alongside or in the MCOB and CONC rules would confuse consumers. But the weaknesses of the current arrangements currently drive harmful coping behaviours, cause people to delay seeking help and fail to consistently deliver good outcomes for consumers.

Q16: Do you have views on the factors we have set out?

We have no additional view on these factors at this time.