

Mortgages and coronavirus: updated draft guidance for firms – response from UK Finance

Date: 26 May 2020

Sent to: MortgagePolicycorrespondence@fca.org.uk

UK Finance is the collective voice for the banking and finance industry.

Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation. We represent the full range of the industry from the largest lenders to the smallest, high street and challenger banks, building societies as well as non-banks and the regulated third-party administrators who service inactive lenders. Our members include lenders who are fully intermediated and lenders who provide advice directly to customers.

Executive Summary

- Lenders are committed to continuing to help those customers that need assistance at this time. We agree with the FCA's comment that '... where customers can afford to re-start mortgage payments, it is in their best interests to do so ...', given the cost implications for customers who choose to take a payment deferral. We recognise that further deferred payments may be an appropriate outcome for certain customers who have been identified as requiring support in this way.
- The current approach described in the draft guidance, however, contains a presumption that firms should offer all borrowers who have already taken a payment deferral a further payment deferral for three monthly payments. We do not believe that such an approach is in the best interests of customers and that a more tailored approach would be more appropriate at this time. The tests that a firm must meet to rebut this presumption and demonstrate that this approach is not in the customer's best interests are currently set too high and do not allow firms to properly assess a customer's circumstances.
- While different data sets exist, we estimate that around 60%-70% of customers can demonstrate affordability to resume full payments at the end of their current payment deferral. This creates a risk that customers who do not need a full payment deferral for a further 90 days nevertheless self-select to take a further deferral under the proposed guidance, when maintaining repayments, in whole or in part, would be more appropriate for the customer in the longer term, without creating short term financial hardship.
- Given our estimates above, a material proportion of the circa 1.82 million customers who have taken mortgage payment deferrals to date will need some form of further support on expiry and lenders stand ready to offer that support. Notwithstanding the simplicity of a single further payment deferral solution for any customer in need of further support, we believe that individual repayment plans, which can be simply engineered and operationalised without confusion for customers, should be made available to create a more complete range of solutions, better tailored to specific customer circumstances.
- The draft guidance suggests different treatment for customers previously up to date and those who were in payment shortfall prior to 20 March 2020. For customers in payment shortfall, a first period of payment deferral can be automatically capitalised, but any subsequent full or partial deferral cannot and any period of payment deferral beyond three months will be treated as arrears. We think this would be confusing and unfair for customers and complex for firms to operationalise. In line with the draft guidance requirement that '... customers in payment shortfall should not receive less favourable

treatment than other customers ...' we believe customers in payment shortfall should be afforded the same treatment.

- There is a material difference between the new draft guidance and existing guidance for those customers who want a payment deferral for the first time and, in particular, in relation to how customers should be treated if they can resume full payments at the end of the deferral period. We believe that the updated guidance should remain unchanged from the existing guidance in these areas; firms have implemented the existing guidance and customers should be treated consistently.
- We understand that the draft guidance should apply equally to buy-to-let (BTL) borrowers, primarily to provide relief to tenants. We continue to support offering payment deferrals to landlords, but only if that relief for landlords can be shown to be necessary to be able to provide support for struggling tenants, and lenders should be able to apply reasonable checks to verify this.
- We believe that a customer's record at the Credit Reference Agencies should accurately reflect their financial position so that future use of credit scoring is made on an informed basis. We recognise the intent that full or partial payment deferrals should not be reported as a worsening status on the customer's credit file during any new or continuing payment deferral period. Any missed payments once a customer recommences their mortgage payment should be treated as arrears.
- We support the application window for new payment deferrals remaining open until 31 October 2020 in line with the tapering of the job retention scheme. This will continue to provide the opportunity for a breathing space for those customers who need it but have not yet taken it up and will prevent a spike in new customers taking unnecessary payment deferrals in the run up to the current deadline.
- We support the extension of the repossession moratorium until 31 October 2020 to ensure that people are not evicted from their homes during the current crisis. It should be made clearer that repossessions can continue if the customer consents or if the property is empty. Lenders are also concerned that stopping all litigation action completely, as suggested in the draft guidance, will mean some customers could end up in a worse position should their equity reduce, limiting their ability to place a deposit on a new property (purchased or rented) and/or to help clear debts.
- Any ongoing solutions need to recognise the impact on provisioning, capital requirements and funding for lenders, including existing securitisation structures, and we welcome the parallel guidance from the PRA. Solutions that can accommodate the different funding mechanisms and prudential requirements of firms across banks, building societies and non-bank lenders will be of longer-term benefit by reducing calls on capital that could otherwise be lent into the real economy.

General Comments

Since the risk posed by the Covid-19 virus first became clear, firms reacted swiftly in response to the Chancellor's announcement on 17 March 2020 launching mortgage payment holidays and have mobilised to provide unprecedented levels of customer support. To date over 1.82 million mortgage payment holidays have been granted and lenders have also extended mortgage offers for three months for those who had exchanged contracts and have also agreed to continue offering product transfers to their existing customers, including those on mortgage payment holidays or who have been furloughed so that they do not revert onto a more expensive reversion rate.

We are grateful for the support of the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) in assisting the industry with pragmatic regulatory interpretation to enable the

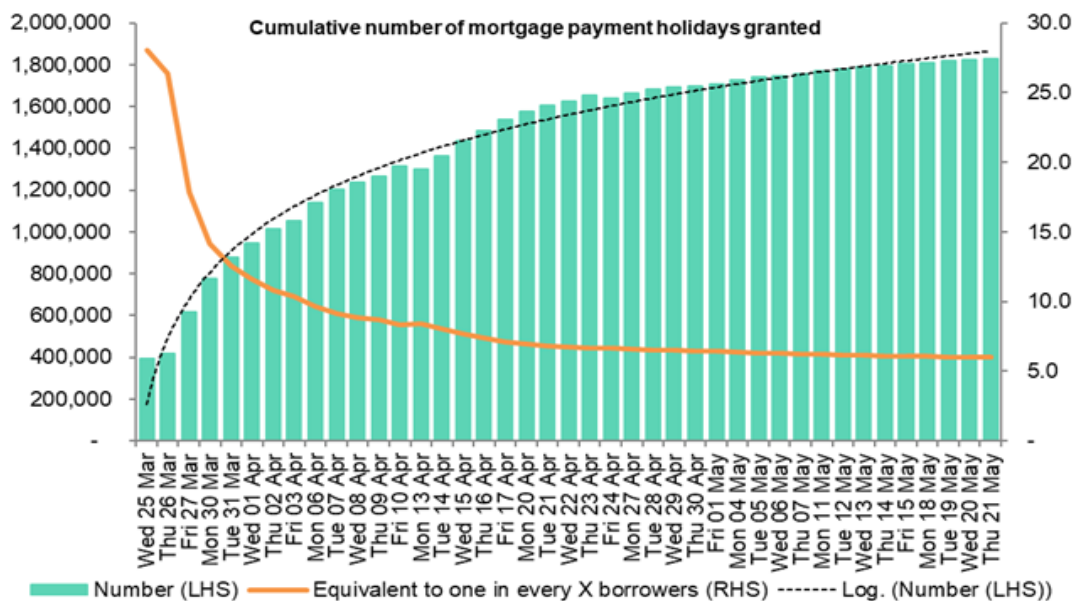
industry to streamline administrative processes and deliver support to customers through temporary short-term forbearance through payment deferrals and the moratorium on possessions.

The pandemic continues to create uncertainty for all. The extension of the Coronavirus Job Retention scheme to 31 October 2020 provides further certainty for workers, while creating a clear transition out of temporary support. Similarly, it is imperative that borrowers who have made use of payment deferrals to be urged to recommence making their mortgage payments, to reduce personal costs and resume control of their finances (see also; FCA Financial Lives Survey 2019).

UK Finance data shows that applications for payment deferrals dropped off as the Coronavirus Job Retention Scheme was implemented, providing evidence that customers are making use of alternative support and that temporary relief on mortgage payments served its purpose (refer to figure 1).

Outside the draft guidance specifically, we have additional comments on the interaction with the PRA statement, shared ownership, and the read-across to other initiatives, including the LIBOR transition and mortgage prisoners, which are included at the end of this response.

Figure 1



Source: UK Finance

Non-bank funding

In extending payment deferrals for a further four months both in terms of granting payment deferrals to customers who have already had one and allowing new payment deferral applications, it is important that the authorities consider the impact on, and provide the appropriate support to, the non-bank sector. Non-banks cannot currently access government support schemes to support residential and buy-to-let lending and are unable to access their core funding source given the disruption to securitisation markets and a likely reduced appetite by banks to provide wholesale finance to non-bank lenders. The non-bank sector is supportive of helping its customers, many of whom are self-employed, vulnerable, or who have specialist financing needs through the crisis and have done so to date without government support. UK Finance data shows that these customers are more likely to have taken a payment deferral. As payment deferrals continue, funding issues and operational difficulties will be exacerbated (including the need to negotiate waivers on existing

facilities in respect of covenants and other funding facility conditions impacted as a result of offering/ extending such payment deferrals) and serving the significant cohort of customers who have specialist financing needs that cannot be met by high street banks and building societies will become more difficult.

UK Finance, together with Innovate Finance, IMLA, the FLA and AABF, have submitted detailed proposals to the authorities outlining support scheme options. It is vital that authorities now allow non-banks to access government support schemes to ensure they are ready and able to continue to support customers, who otherwise may not be able to access mortgage, cards or specialist products from (high street) bank lenders, as we move towards recovery.

Application of the draft guidance

- **We believe that clarity is needed to address that:**
 - **The guidance is intended to apply to any account where a first or subsequent payment deferral is agreed prior to 31 October 2020 and continues to the end of that deferral payment period (i.e. for no longer than 31 January 2021)**
 - **Firms are only expected to review any cases where action was taken at the end of a payment deferral prior to this guidance coming into effect**
 - **Customers who resume payments following a payment deferral but subsequently miss payments should be treated under normal forbearance rather than under the guidance.**

We welcome the clear end date for new applications for an initial payment deferral. We ask the FCA to make clear that the updated guidance applies to any account where an initial or subsequent payment deferral is agreed prior to 31 October 2020 and continues until the end of that deferred payment period (i.e. until no later than 31 January 2021).

The FCA should also clarify that the policy intent is that firms will only need to look back at what was offered where someone has rolled off a payment deferral before this updated guidance takes effect.

The draft guidance and updated FCA information for customers makes clear that a partial payment deferral is permissible. This needs to flow through to rest of the draft guidance so that a partial payment deferral may be offered for customers requesting an initial period of payment deferral (as is the case in the existing guidance) and those seeking an extension.

The draft guidance sets expectations on firms for borrowers who, after indicating that they are able to resume payments and recommences doing so, subsequently misses a payment at some point in the future. We consider that a return to the Handbook rules is important rather than prolonging the application of the guidance on an account, and MCOB 13 should apply to these customers in the usual way. The same should apply where a partial payment deferral has been agreed with the customers and the customer does not maintain this payment.

Customers who have not yet had a payment deferral

- **We strongly encourage that the guidance should remain unchanged from the existing guidance in this area. Firms have implemented the existing guidance and customers should be treated consistently.**

This section significantly deviates from existing guidance. We assume this has been done to reflect the updated guidance for further deferred payments for those customers who are unable to resume payment. However, this will create inconsistency of treatment between those customers who are already in receipt of a payment deferral/temporary forbearance and those yet to do so and creates both operational and conduct risks for firms. Customers, firms, consumer groups, the Financial Ombudsman Service (FOS), other stakeholders are clear about the expectations and terms of the existing payment deferral and to change this three months into the process (without clear evidence of need) will cause confusion, uncertainty and administrative burdens. We strongly recommend that the FCA returns to the current approach and processes for customers seeking a payment deferral in the existing guidance.

Specifically, the revised guidance emphasises that customers are to receive a 'full' payment deferral for three monthly payments. This deviates from existing guidance where firms were able to provide an up to three month deferral and alternatives, such as a partial payment deferral or temporary switch to interest-only. Lenders are concerned about the lack of flexibility in the revised guidance and inconsistency with existing guidance. This will potentially require a "look-back" at the treatment of the large volume of customers already on a payment deferral or receiving Covid-related support.

Under the existing guidance, firms should provide customers with adequate information to understand the implications of the payment deferral, the impact of capitalisation, any deferred payments on the mortgage (including monthly payment) and the ability to opt-out. This information may be provided at any time ahead of the end of the deferral period and before the monthly payment is increased. It is imperative that the same spirit is retained in the revised guidance.

Customers will have already received communications from their lender covering some or all of the information required in the three months that the current guidance has existed. Changing the expectations now, as is the case in the revised guidance, will mean substantial remediation work for firms and, more importantly, confusing outcomes for customers, not least given that the majority of payment deferrals were taken in the first few weeks of the scheme and are therefore due to roll off shortly.

Customers who had a payment shortfall prior to 20 March 2020

- **Customers who had a payment shortfall prior to 20 March 2020 should be treated in the same way as customers not previously in payment shortfall with regards to a second period of payment deferral and to be able to have that capitalised with their consent.**

Firms consider that they should treat customers the same whether they were up to date or in payment shortfall and do not support the proposed mixed approach of pre- and post- 20 March 2020. A customer previously in payment shortfall who takes a further payment deferral should be allowed to capitalise the full amount rather than capitalise the first part and not the second, which would be confusing for customers (and will be operationally difficult for firms). We consider this as potentially unfair and inconsistent with the principle that customers in payment shortfall should be treated no less favourably than other customers.

If the distinction between customers in payment shortfall and up to date customers is to be retained, the draft guidance specifies that firms need not (but may) offer a further full or partial deferral to pre-20 March 2020 customers in payment shortfall if this would be appropriate under MCOB 13. Outside of Covid-19, many lenders would not usually deploy payment deferrals

(typically referred to as concessions) under MCOB 13, as the rules require lenders to offer forbearance that best meets the customer's needs, and a concession is not usually considered as the best option over alternative forbearance measures.

The distinction for customers who had a payment shortfall prior to 20 March 2020 should be removed. This will also have the benefit of ensuring that customers who were up to date at 20 March 2020 but who have subsequently fallen into payment shortfall to receive the same treatment under the guidance as those who are up to date. Any existing shortfall prior to the payment deferral will be treated under MCOB 13, as per the expectation in the existing guidance.

For those customers in payment shortfall prior to a payment deferral and able to resume payments, we ask that firms be allowed to reinstate a previously performing arrangement to pay without the need for a full re-assessment of their circumstances.

We seek confirmation that firms can use a digital income and expenditure assessment for customers in arrears, prior to a conversation with collections staff.

Fair treatment of customers at the end of a payment deferral period

- **We would welcome confirmation of the policy intent to provide the same treatment for customers in short term/temporary difficulty as those in longer term difficulty – but note that this could have consequential prudential implications.**

For those customers who are unable to resume full payments there is no distinction in the draft guidance between those in temporary payment difficulties and those who might be in more permanent or longer-term difficulty. This might lead to those in longer-term difficulty not receiving fuller support at this stage (because they have been able to self-declare their circumstances). Lenders have anticipated the need to provide fuller support for these customers now.

This might also have other implications. EBA Implementing Technical Standards allow banks to grant forbearance measures where they can prevent the borrower defaulting due to a temporary liquidity shortage or allow the exposure to be repaid to a significant extent in the medium to long term. Customers with more permanent payment difficulties likely to result in a diminished financial obligation should be classified as defaulted, so it is important for banks to be able to distinguish between these two states.

Understanding customers' needs and circumstances at the end of a payment deferral period

- **We strongly encourage that this section remains unchanged from the existing guidance.**

We are surprised by the new emphasis placed by the FCA on customers who are able to resume full payments. Issuing new, additional, complex expectations on firms for customers who are able to resume full payments diverts resources that should be preserved and prioritised for those who require further support and longer-term help. This is inconsistent with the FCA's Approach to Consumers and Fair Treatment of Vulnerable Consumers.

The existing guidance allows firms to automatically capitalise the payment deferral having given the customer information on the impact of the payment deferral, impact of capitalisation and the ability to opt-out. This strategy needs to be retained in the revised guidance.

We disagree that firms should attempt to find out if all customers on a payment deferral are able to resume payments. An opt-out strategy, which was agreed with the FCA at the time of the original guidance, relies on customers to contact the firm and is essential given the volume of payment deferrals granted and the fact that the majority of payment deferrals were granted in the first few weeks of the scheme. Delays in issuing this revised guidance means little time to implement changes to this approach. Firms stand ready to support customers when they do contact their lender, through a range of channels including websites and digitised journeys, while maintaining branch access and phone support for those who do not have access to online services.

Customers able to resume full payments

- **We strongly encourage that this section remains unchanged from the existing guidance.**

As above, we ask that the ability to capitalise on an opt-out basis is retained, as per the existing guidance. Requiring firms to include additional repayment options creates confusion for customers and is counter-intuitive to a simple, clear process for customers rolling off a payment deferral. It is also the case that not all firms can offer all options for legal and/or funding reasons.

Firms will be able to communicate to customers an illustration of their new monthly payment prior to the end of their payment deferral. Until the period of payment deferral has ended the cost of repayment via capitalisation cannot be known with certainty and so a personalised illustration would not be possible at the start of a payment deferral. Firms will communicate the new monthly payment to the customer at the end of the payment deferral well in advance of the payment falling due, not least to meet the advance notice period required to change a direct debit payment. The specifics in the draft guidance does not allow firms the flexibility to provide meaningful information to customers within the constraints of existing systems. We recommend that this is amended so that customers receive the most salient information on recommencing their mortgage payments.

For those who miss payments after opting out of further support (a clear indication that they expect to be able to pay), customers should be treated as all other customers would be under MCOB 13. It is unclear why customers should be treated differently when they fall into payment shortfall depending on whether they had a payment deferral in the past or not.

Customers unable to resume full payments

- **We accept that further payment deferrals may be appropriate for some customers and stand ready to offer them, but where customers can afford to re-start mortgage payments, it is in their best interests to do so.**
- **It seems likely that around 60%-70% of customers can demonstrate affordability to resume full payments at the end of their payment deferral. Therefore, a presumption towards a further payment deferral is unnecessary and may even be detrimental to a customer who is able to resume payments.**
- **The tests that a firm must meet to rebut this presumption and demonstrate that this approach is not in the customer's best interests are currently set too high and do not allow firms to properly assess a customer's circumstances.**

- **In relation to BTL landlords the intention of payment deferral support for landlords is primarily to provide relief to tenants. We support offering payment deferrals to landlords, but this support should be predicated on relief for struggling tenants, and lenders should be able to apply reasonable checks to verify this.**

We maintain that a further payment deferral should sit within a menu of options offered to customers following a triage process. The expectation to offer a payment deferral is inconsistent with the assertion that more favourable forms of assistance are possible. We ask that the draft guidance is revised to make clear that all options have equal weight.

While it was accepted that the first payment deferral could be granted quickly and easily, if the principle is that where customers can afford to re-start mortgage payments, it is in their best interests to do so, then the firm needs to ask some questions (without a full income and expenditure assessment) to confirm that the payment difficulty remains Covid-19 related and in order to understand their ability to pay in the current environment. Allowing a customer to take a further three-month payment deferral when they do not need it is not in their best interests and appears contrary to Principle 6. If, ultimately, it is for the customer to make the final decision about whether they need a further payment deferral this brings with it conduct and complaints risk and we have included a section later in this response about interaction with the FOS.

The proposed test to demonstrate that a payment deferral may not be in the customer's best interest includes a requirement for firms to assess the customer's ability to repay any accrued interest once the deferral period ends. This implies a need to conduct a full income and expenditure assessment, one that may not be feasible if the customer continues to be impacted by Covid-19 in the short term (i.e. on furlough or temporary impact on income). This is inconsistent with the assertion that the firm is not required to investigate a customer's individual circumstances beyond the customer's own assessment of their ability to pay.

We welcome the clarification in the draft guidance that firms will be able to offer information and non-forbearance solutions (whether reduced payments, a move to interest only for a period or term extension) using customer self-declaration, flexibility and the ability to digitize where possible. However, this seems to be at odds with the presumption of a payment deferral. We believe this simplification of process is necessary to retain capacity for customers to speak to fully qualified agents for the most complex cases of difficulty and vulnerability, or where online servicing is not an option for them.

Interaction with MCOB provision

We welcome the clarification in the draft guidance that a variation of the contract for the purposes of forbearance or to avoid a payment shortfall does not require provision of an illustration (i.e. ESIS) and can be completed as execution-only. Where there is a change to the monthly payment, disclosures under MCOB 7.6.28R and MCOB 7.6.28AR applies.

As above, we maintain that customers in arrears prior to 20 March should not be treated differently to other customers.

Training, monitoring, record keeping and credit reference reporting

- **We request confirmation that firms can use trained, but not fully collections qualified staff for customers requiring further payment deferral.**

- **We believe that a customer’s record at the Credit Reference Agencies should accurately reflect their financial position so that future use of credit scoring is made on an informed basis. We recognise the intent that full or partial payment deferrals should not be reported as a worsening status on the customer’s credit file during any new or continuing payment deferral period. Any missed payments once a customer recommences their mortgage payment should be treated as arrears.**

We note that a longer period where a payment deferral is not reported as a worsening status makes it challenging to interpret the data which has been built into decision making scorecards across the industry, including for unsecured lending and accounting requirements. We ask that the updated data reporting guidance considers the potential implications for all users of the CRA data and we look forward to working with the FCA on updated data reporting guidance.

More detail is also required on expectations of credit reporting of supports other than a payment deferral and reporting at exit, for example:

- if a customer wishes to overpay, how is the accrued payment deferral amounts and overpayments reported without detriment to the credit file (e.g. at months 4 or 7 do non-capitalised deferred amounts materialise on the credit file as arrears?)
- for partial payment deferral, how are the accrued amounts reported at the end of the deferral period and does this differ between those able to clear the accrued amounts and those unable to?
- if a period of temporary interest-only is provided to a customer rather than a payment deferral should this continue to be reported as an ‘arrangement’ at the CRAs even though payment deferrals are not reported?

We note that firms are already implementing processes to confirm whether those who missed payments or cancelled direct debits were seeking a payment deferral and applying any payment deferrals retrospectively, including rectification of any necessary credit files.

Repossessions

- **We support the extension of the repossession moratorium until 31 October, but it should be made clearer that repossessions can continue if the customer consents or if the property is empty.**
- **Lenders are concerned that stopping all litigation action completely, could mean some customers end up in a worse position by remaining in their existing home and eroding their equity rather than if they permitted it to be sold to help clear debts.**

We support the extension of the repossession moratorium. The moratorium should be extended under the same terms of the current one, retaining the two exemptions that firms be allowed to proceed with repossession where the customer requests it or where the property is vacant. We also ask the FCA to engage with the Ministry of Justice and the courts to ensure that the Practice Direction reflects the moratorium and a joined-up approach for customers, as we are aware that some courts have rescheduled court dates, and this may cause concern for customers. For example, one large lender has seen several possession cases re-listed for hearing (and the customer informed by the court) despite the lender informing the court to adjourn proceedings until further notice. A lender has also experienced the courts refusing to adjourn proceedings until they get evidence that the customer agrees.

We ask that litigation is allowed to continue but pause before repossession. Firms are concerned that stopping all litigation action means that some customers will stop paying knowing that no action can be taken against them. This is not in their best interests as it means that their debt will grow. Firms do not consider that simply informing customers of the possible consequences will be sufficient to encourage them to pay. This will also enable swift action to be taken when the moratorium lifts, should it become apparent that equity might be diluted, e.g. through house-price deflation.

Debt help

We welcome this section of the revised guidance. We are not sure if PERG 17 and debt counselling is relevant in the context of mortgages. If it is not, we recommend these references are removed.

Shared ownership

The draft guidance suggests that borrowers who can resume full payments should be able to access a term extension. Technically the lenders ability to extend the term on a Shared Ownership mortgage is subject to approval by the Housing Association, which should not be withheld but can take months to secure and most often at a cost to the customer. To avoid long delays for these customers, we ask the FCA to urgently seek agreement from HM Treasury that a term extension in such circumstances would not adversely affect the lender's ability to otherwise make a claim under the Mortgagee Protection Clause.

Interaction with other initiatives

LIBOR transition – the extension of the payment deferral scheme means that some firms might be dealing with customers on payment deferrals/in arrears as well as trying to migrate them away from LIBOR mortgage facilities in 2021. We ask the FCA and PRA to consider the treatment of customers impacted by both Covid-19 and LIBOR transition.

Mortgage Prisoner contacts – extension of the payment deferral scheme means some mortgage prisoners will still be subject to a payment deferral by the revised deadline of 1 December 2020 for notifying them that they may be able to remortgage under the modified affordability rules. The appropriateness of customers being prompted to consider remortgaging while in payment deferral (and firms' willingness to lend in these circumstances) requires further regulatory consideration.

Interaction with the Financial Ombudsman Service (FOS)

It is important that the FCA continues to liaise with the FOS to ensure that the prevailing circumstances under which payment deferrals have been provided is recognised, in case of future complaints, particularly if it is ultimately the customer who makes that decision.

The basis on which financial support has been provided has been positioned by the FCA as distinct from business as usual arrears, and this principle has been further extended with the option for customers to self-select a holiday/deferral, where normally this might not be an option considered by lenders.

As drafted the updated guidance is open to interpretation, which will lead to lenders taking different approaches based on their operating model, IT capabilities, market niches in their portfolio, etc. The industry has developed solutions at pace, which has not allowed for extensive IT and/or

process re-engineering or testing, which may mean that information provision has been provided by way of generic rather than specific examples (albeit that each customer will get information on what it means for their monthly payment before it changes). These operational considerations should not be material to any complaint, provided the objective to support customers with temporary cash flow issues and maintain a roof over their heads is achieved.

The clear steer in the draft guidance is to allow a customer to choose their preferred option, which may lead to sub-optimal outcomes, especially given that the test to allow firms to challenge these decisions is quite high. Ultimately some customers may make choices that would not otherwise be available to them under MCOB 13, which we recognise is necessary in the current environment but will nonetheless be difficult to decline. This is an important consideration for any future complaints,

Interaction with PRA Statement: recognising the impacts on accounting credit provision and prudential capital

Forming judgements about customers' ability to pay

- **The authorities should work closely with the Financial Reporting Council and individual auditors to ensure that firms judgements are subject to suitable challenge and review but that buffers of conservatism are not automatically added just because a customer had accepted an offer of partial or full payment deferral.**

The presumption in the guidance of a further payment deferral makes it very difficult for firms to explore with customers the range of options open to them as they come to the end of their mortgage payment holiday. Deferral of payment may give rise to accounting and regulatory adjustments which decrease banks' available prudential capital. Should the customer be determined to have suffered such significant increase in credit risk (SICR), the customer would migrate from 12 month credit loss (Stage 1) to lifetime credit loss (Stage 2 or Stage 3 for defaults) under IFRS 9, reflecting the forbearance or distressed restructuring relief being offered. Such Stage transfers will result in increased IFRS 9 expected credit losses and hence, reduction in regulatory capital.

There is likely to be inconsistency in the level of information available for firms to determine SICR, including a reliance on data provided by the customer based on their own assessment of their circumstances. In order to form a judgment, firms should be able to capture some basic information about the customer's circumstances which might include information provided through a triage process. Having made judgements about their customer's status in good faith, firms may subsequently face significant challenge from their auditors about their decisions not to move customers into a lifetime credit loss category (Stage 2 or Stage 3) and to be able to demonstrate that there has not been any indication of a SICR.

The PRA is requested to make clear any minimum standards that they expect to be in place to evidence judgement and that this aligns with the expectations set in the FCA guidance. Alternatively, that the FCA agrees with the PRA the data collection requirements that are necessary and reflects these in the updated guidance.

Impacting funding sources and risk transfer

- **The authorities should provide confirmation that the implementation of Covid-19 payment deferral measures, which may or may not lead to a delay in the declaration**

of a loss claim in significant risk transfer securitisation transactions, will not be construed as implicit credit support.

Traditional and/or synthetic securitisation structures are used by our members as a source of funding and as a mechanism for transferring risk of their mortgage and other portfolios, including credit cards, for regulatory capital purposes. Their current view is that if customers accept a three-month payment holiday, or an extension thereof, then no payment is due and therefore no payments will become past due.

Although a firm has offered a payment deferral under direction of the regulator, the terms of the securitisation funding structure may interpret this as a 'credit event' which would normally require the originating bank to claim against investors for the losses they expect to incur. As it is not possible to estimate long run losses arising from Covid-19, it is probable that banks will believe it is appropriate not to make a claim on investors immediately, and instead take other actions such as extending the term of underlying loans. (This assessment is supported in the case of credit card transactions in particular, because the levels of Excess Spread available to fund cash flow shortfalls are significant.)

For securitisations where Significant Risk Transfer (SRT) has been achieved, if a voluntary delay in claiming against investors were to be constituted as 'implicit support' of the securitisations structure by the bank, then the SRT and associated Risk Weighted Asset reduction would be lost. Similarly, in the case of banks or non-bank lenders that have used true sale securitisation to fund themselves, a payment deferral should not result in the amounts which are subject to deferral being treated as arrears or delinquency. This approach should be consistent across both private warehouse facilities and public/term residential mortgage-backed securitisations.

--

If you have any questions relating to this response, please contact Jackie Bennett, Senior Advisor, Mortgages at jackie.bennett@ukfinance.org.uk, Sonia Fernandes, Manager, Mortgages at sonia.fernandes@ukfinance.org.uk or Simon Hills, Director, Prudential Policy at simon.hills@ukfinance.org.uk

Eric Leenders

Managing Director, Personal Finance
UK Finance