

## CURTAINS TOO SQL UPDATE – PAYMENT HOLIDAYS

Given this pandemic many credit unions are having to offer payment holidays to their members who are directly affected by it and may struggle to meet their usual repayments.

In light of this we are advising users that to facilitate this they should forward date the expected repayment due date within Member financial maintenance as shown below.

| Loan details            |                          |
|-------------------------|--------------------------|
| <b>General</b>          |                          |
| Loan number             | 26                       |
| Loan date               | 01/10/18                 |
| Term of loan            | 36                       |
| Original balance        | 359.37                   |
| Last loan value         | 1000.00                  |
| <b>Interest</b>         |                          |
| Paid date               | 01/02/20                 |
| Rate                    | 15.00                    |
| Owing Value             | 0.00                     |
| Pay rebate              | <input type="checkbox"/> |
| Average balance         | 0.00                     |
| <b>Repayment</b>        |                          |
| Manual or Auto          | M                        |
| Frequency               | M                        |
| Amount                  | 48.49                    |
| Next due date           | 01/06/20                 |
| Part paid value         | 33.51                    |
| <b>Security</b>         |                          |
| Taken                   | <input type="checkbox"/> |
| Type                    |                          |
| Value                   | 0.00                     |
| <b>Insurance</b>        |                          |
| Taken/type              |                          |
| Chargeable rate         | 0.00                     |
| Payable rate            | 0.00                     |
| <b>Last Transaction</b> |                          |
| Type                    | 3                        |
| Date                    | 01/02/20                 |
| Value                   | 41.00                    |

Some users have also said that they do not want interest to continue to accrue up to the new repayment date. Equally, therefore you can advance the interest paid date to the point you do want to start accruing interest from. You may also want to still collect the interest that was due upto the point that you awarded the holiday. You can identify this owing value from Member Enquiry and store this value in the Owing Value field after moving on the interest paid date.

If you share your loan book with the various Credit Reference Agencies (CRAs) then their most recent piece of advice was to capture, hold and output on the monthly extract the last status code before the holiday period was granted. Now, future dating the repayment due date alone would generate a status code of 0 on the Equifax structured output. If you're member was 1 months in arrears on the last output, then you may want to record this status 1 on the new field we have introduced into Member Maintenance, labelled Forced CRA status. Within member maintenance, with the member recalled click the UDF button to avail the extended User Defined Fields setup and there you will find the new field.

|                                     |          |
|-------------------------------------|----------|
| <b>Status 1</b>                     | A Active |
| <b>Status 2 &amp; 3</b>             |          |
| <b>More information</b>             | UDF      |
| Country for tax                     |          |
| Tax ID                              |          |
| Forced CRA status                   | 1        |
| <input type="button" value="Hide"/> |          |

This field is held on the MemberMain table and is called ForcedCRAStatus, thus making it queryable via the membership exception report so you can track easily those who you have amended to have a forced status.

If you are unsure about what status has been reported to the CRAs on you last output, you can find this information out via Member Enquiry. Click the Account info. Shortcut on the right hand menu.

Account information

**Details for Loan 1 (Internal ID 330)**

|                        |          |                     |            |
|------------------------|----------|---------------------|------------|
| Loan number:           | 26       | Security taken:     |            |
| Loan date:             | 01/10/18 | Repayment type:     | M          |
| Last loan value:       | 1000.00  | Arrears amount:     | 305.92     |
| Loan balance:          | 1310.07  | Days in arrears:    | 191        |
| Balance + interest:    | 1429.05  | Payments missed:    | 7          |
| Repayment term:        | 36       | Interest paid upto: | 23/09/19   |
| Repayment frequency:   | M        | Int. upto 01/05/20  | 118.98     |
| Repayment value:       | 48.49    | Interest rate:      | 15.00      |
| Next payment due date: | 23/10/19 | Predicted end date: | Cannot say |
| Last tran type:        | 3        | Part payment:       | 33.51      |
| Last tran date:        | 23/09/19 | Insurance type:     | N/A        |
| Last tran value:       | 41.00    | Insurance value:    | 0.00       |

Then click Days in arrears: button/label. A pop will show the last 6 months reported to the agencies. As below, [3] was the last status reported, i.e. 3 months in arrears.

|                         |                         |
|-------------------------|-------------------------|
| 0120 output on 31/01/20 | 100 DAYS IN ARREARS [3] |
| 1219 output on 31/12/19 | 69 DAYS IN ARREARS [2]  |
|                         |                         |
|                         |                         |
|                         |                         |

As mentioned previously, by advancing the repayment due date, the status will be calculated as 0, zero months in arrears, so it is a credit union decision whether to record the last status in the new field or leave blank if you are happy for the repayment due date to establish the status.

The PRA have naturally understood that in these times, arrears levels during this crisis may increase. As a mechanism to ease the financial burden on Credit Unions, they can request from the regulator and easing of the provisioning levels. They will have written to you regarding this.

Thankfully CURTAINS has always offered user the where with all to maintain the provision levels.

Once you launch the My Provision wizard after running a delinquency calculation, you will see the screen below.

**Provision for specific and general debts**

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**Maintaining a suitable provision for specific debts**

Calculate on a net liability basis

Your existing provision settings are as follows:-

| Arrears: Between 3 and 6 months  | Provision nominal             | Code | Value           |
|----------------------------------|-------------------------------|------|-----------------|
| 20 % of 0.00                     | Bad debt provision (specific) | 2150 | 3000.00         |
| Arrears: Between 6 and 9 months  | Bad debt expense              | 7960 | 0.00            |
| 60 % of 19596.49                 |                               |      |                 |
| Arrears: Between 9 and 12 months |                               |      |                 |
| 80 % of 0.00                     |                               |      |                 |
| Arrears: 12 months and over      |                               |      |                 |
| 100 % of 0.00                    |                               |      |                 |
| Member enhanced provision        |                               |      |                 |
| Manual value 0.00                |                               |      |                 |
| Based on net liab. 0.00          |                               |      |                 |
| <b>Recommended provision</b>     |                               |      |                 |
| =                                |                               |      | <b>11757.89</b> |

Based on the delinquency calculation performed, please choose one of the following options:-

Modify my provision to the recommended value.

Modify my provision to the value of

Do not modify my provision.

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**Maintaining a suitable provision for general debts**

| Provision for all other loans | Provision nominal            | Code | Value       |
|-------------------------------|------------------------------|------|-------------|
| 0 % of 0                      | Bad debt provision (general) | 2160 | 0.00        |
| <b>Recommended provision</b>  |                              |      |             |
| =                             |                              |      | <b>0.00</b> |

Modify my provision to the recommended value.

Modify my provision to the value of

Do not modify my provision.

< Back      < Manual provisions      Finish

Simply amend the percentage ranges as applicable. Once you click Finish to make the necessary postings to your provisions, the new rates will be committed too and retained for future calculations.

Below are 2 publications from the CRA and PRA relating to these topics.

## Coronavirus Data Reporting– Emergency Payment Freeze Advice

Due to the current situation with the coronavirus pandemic, the credit reference agencies (CRAs) have been working together on suitable data reporting guidance at this unprecedented time.

CRAs are seeking to minimise the impact to affected consumers, whilst also maintaining the accuracy and integrity of the CRA databases so lending activity can continue.

Previous and existing reporting guidance promotes the use of a payment holiday, and in accordance with CRAs data reporting specifications, the most appropriate status code that should be provided, would be a status code 'U'.

After further discussions between the CRAs and considering the current situation we face, this may not be the most appropriate way of reporting a prolonged period where no payments are expected.

**It should be noted that this unique guidance supersedes any previous guidance surrounding payment holidays and is in relation to the coronavirus pandemic only.**

The CRAs will use the term “emergency payment freeze” to avoid confusion.

It is important to note that this guidance represents the fairest achievable position for the consumer within existing reporting capabilities of the CRAs and lenders. The CRAs cannot guarantee that this will not impact a consumer's ability to get credit, as lender policies will be different across the industry. It does however ensure that the consumer's current credit data position is maintained or frozen for the duration of the emergency payment freeze period.

### **Contributor Policy to Offer an Emergency Payment Freeze**

In line with FCA guidance, there is an expectation that organisations will act in the best interests of their customers and show greater flexibility at this current time. All data contributors will need to decide whether or not to offer affected consumers the benefit of the emergency payment freeze. For some products (e.g. mortgages) this may be necessary to meet FCA guidance. However this guidance is not mortgage specific and should be used for an emergency payment freeze for any product.

If a consumer falls behind without a payment freeze, then the usual CRA position will apply - a worsening status is likely to mean their credit file is impacted.

### **Proposed Reporting Changes**

#### Status Code

Due to the fact that the payment freeze period may be for a minimum period of 3 months, the most appropriate way of recording a payment freeze would be to continue reporting the same status code that was provided before the freeze period commenced. This means that when you have a consumer's payment frozen you also freeze the payment status.

Therefore, if the account was previously up to date (status 0), a status 0 should be provided for this freeze period.

If an account was already in arrears, the same level of arrears should be reported throughout the freeze period.

Should a consumer wish to make a partial payment due to financial difficulties, under normal circumstances, the arrangement status/flag would be provided. At this time, we are recommending that the Arrangement flag/status is NOT PROVIDED, and either a status 0, or the same level of arrears should be reported.

Should an account already be in default, the account would remain in default and any payments made against the default should be reflected in the current balance.

Prior to the payment freeze period, should a consumer's account already have been in arrears, and they brought their account back up to date within the freeze period, standard reporting rules would apply, and the account should then be brought up to date. This is likely to be a rare event, but the consumer should be given the benefit of having made those additional payments.

## Status Code Examples

Working on the basis that, in these examples, a 3 month payment freeze commences in March 2020:

### Scenario 1 – Up to Date

Customer A is up to date and was been provided as a status '0' in February 2020

No payments are made in March, April and May due to payment freeze

For the months of March, April and May, a status '0' should be reported

### Scenario 2 – Existing Arrears

Customer B has been reported as a status '2' in February 2020

No payments are made in March, April and May because of payment freeze

For the months of March, April and May, a status '2' should still be reported

### Scenario 3 – Account in an existing Arrangement

Customer C has been reported as a status '2' with an arrangement flag (or status I) in February 2020

No payments are made in March, April and May because of payment freeze

For the months of March, April and May, a status '2' with an arrangement flag (or status I) should still be reported

### Scenario 4 – Account making a partial payment

Customer D has been reported as a status 0 in February 2020

The customer has payment difficulties because of coronavirus but (rather than pay nothing) wants to make a partial payment in March, April and May. This would normally involve an Arrangement being reported.

For the months of March, April and May, a status '0' should still be reported. The Arrangement flag/status would NOT BE reported.

### Scenario 5 - Default

Customer E has been reported as a status 'D / 8' in February 2020

No payments are made in March, April and May

For the months of March, April and May, a status 'D / 8' should still be reported

### Scenario 6 – Existing Arrears being reduced during payment freeze period

An account that enters a payment freeze period as a status 2, which then sees a payment made that would bring the status code to a 1, should have the new status code of 1 reported despite still being in the payment freeze period. Although as previously stated, this is likely to be a rare event.

## Current Balance

The current balance reported will be based on the policy rules agreed within your organisation.

## Monthly Repayment Amount

The monthly repayment amount should still be provided inline with the contractual obligations. It should not be set to zero. This could be the original repayment amount, or an agreed renegotiated amount.

### Repayment Period

The repayment period should reflect the contracted term. This could be the original repayment period or an agreed renegotiated term.

### Next Steps

The CRAs are reviewing the situation on a regular basis. This will mean that the guidance may need to be reviewed to ascertain whether it is suitable if the emergency payment freeze period is likely to extend beyond three months.

If you require any further clarification on these changes or any part of this communication, please contact your trade association, SCOR or the CRAs. The CRAs will review questions and clarifications regularly and will route any amendments through SCOR and the trade associations.

### Version Control

| Version | Date       | Comments        |
|---------|------------|-----------------|
| 1.0     | 25/03/2020 | Initial Version |



8 April 2020

Dear Directors, staff members and volunteers,

We recognise that credit unions (CUs) across the UK are facing period of unprecedented operational and financial challenges. We appreciate that this could therefore be a time of personal stress for you all. We ask that CU directors and members of their senior management teams read this letter carefully and consider what it means for your CU.

This letter:

- sets out details of a PRA rule modification available to all CUs from today's date until 1 January 2021;
- explains the PRA's supervisory focus and priorities for CUs in this period of stress; and
- reiterates messages on regulatory reporting.

We also take this opportunity to remind you that, as regulated entities, you are obliged to be open, transparent and honest with the PRA.<sup>1</sup> We are committed to engaging with CUs on regulatory matters in a proportionate and practical way, but we can only do this effectively with a full understanding of the problems you are facing. **Should you wish to notify us of particular problems you are facing, please use our mailbox address: [prudential\\_creditunions@bankofengland.co.uk](mailto:prudential_creditunions@bankofengland.co.uk).**

Provisioning requirements – modification by consent

The PRA has published a model direction modifying a PRA rule on minimum provisioning requirements. The modification is available for all consenting CUs from today until 1 January 2021.

CUs have the option to consent to this modification such that the minimum provisioning requirements for bad debt will be reduced in line with the rates set out below:

| Percentage of the net liability to the CU of borrowers... | Rule 3.11 (unmodified)<br>A CU must make specific provision...of at least | Modification of Rule 3.11<br>A CU must make specific provision...of at least |
|---|---|--|
| where the amount is more than three months in arrears.    | 35%   | 20%  |
| where the amount is more than six months in arrears.      | 60%   | 40%  |
| where the amount is more than nine months in arrears.     | 80%   | 60%  |
| where the amount is more than twelve months in arrears.   | 100%  | 100%   |

<sup>1</sup> Fundamental Rules 2.7: "A firm must deal with its regulators in an open and cooperative way and must disclose to the PRA appropriately anything relating to the firm of which the PRA would reasonably expect notice."