Secured Arrears Management and Recoveries Policy Overview

2023

The co-operative bank

Contents

1 Introduction

This document forms part of the Bank's Risk Management Framework and details the day to day management of risk, mapped to the requirements of the Arrears Management and Recoveries Control Standard.

This document aims to capture the key principles in relation to forbearance and covers both residential and Buy-to-Let (BTL) property.

This document supports the Bank's regulatory obligations outlined in the Financial Conduct Authority (FCA) Handbook, including the Mortgage Conduct of Business (MCOB), the Consumer Credit Act (CCA) and the Law of Property Act 1925 Receiver (LPAR).

The Bank aims to support customers who are, or, who have indicated that they are in financial difficulties by using a suite of strategies that deal fairly with the variety of customer circumstances, and whilst managing the Bank's Conduct, Reputational and Credit Risks. Whilst customer treatment outcomes are part of all key decisions made, the same commercial consideration will be applied ensuring outcomes are in the best interests of the customer and the Bank.

2 Scope

This Policy details the Bank's Secured Arrears Management and Recoveries policy that applies to:

- All business units and functions within the Bank
- All regulated entities, including any subsidiaries or joint ventures in which the Bank has a 50% or greater interest
- All employees of the Bank, including employees of any subsidiary in which the Bank has a controlling interest
- All organisations and people working on behalf of the Bank including any third party suppliers conducting arrears management activities on behalf of the Bank
- Residential and Buy to Let Mortgages operating under Britannia, Co-operative Bank, Platform and Mortgage Agency Services (MAS)

3 Mortgage Conduct of Business (MCoB)

The Bank is regulated in the way it conducts its mortgage business by the Financial Conduct Authority (FCA). Part of that regulation is through its Mortgage Conduct of Business (MCoB) rules. MCoB chapter 13 sets out how firms should treat mortgage customers who are experiencing financial difficulty. It builds on Principle 6 of the FCA's Principles for Business, which requires the fair treatment of customers and Principle 7, which requires customer communications to be clear, fair and not misleading, in respect of the information and service provided to customers who have payment difficulties.

At a high level, The Bank will:

- MCOB 13.3.1R – Deal fairly with any customer with a payment or sale shortfall
- MCOB 13.3.1A – Where a customer has a payment shortfall in relation to a regulated mortgage contract or home purchase plan, The Bank will not attempt to process more than two direct debit requests (excluding retries) in any one calendar month. Where a Direct Debit request is refused at least once in two consecutive months, the Direct Debit will be closed and reasonable efforts will be made to discuss whether the method of payment remains suitable
- MCOB 13.3.2AR – Make reasonable efforts to reach an agreement with a customer over the method of repaying any payment shortfall and having regard to the desirability of agreeing with the customer an alternative to taking possession of the property. Liaise, if the customer makes arrangements for this, with a third party source of advice regarding the payment or sale shortfall. Allow a reasonable time over which the payment shortfall or sale shortfall should be repaid, having particular regard to the need to establish, where feasible, a payment plan which is practical in terms of the circumstances of the customer. Where no reasonable payment arrangement can be made, allow the customer to remain in possession for a reasonable period to effect a sale. Not repossess the property unless all other reasonable attempts to resolve the position have failed
- MCOB 13.3.3AR – Give customers a reasonable period of time to consider any proposals for dealing with payment difficulties that are presented to them
- MCOB 13.3.4AR – Consider the appropriateness of a wide range of forbearance options, given the individual circumstances of the customer and give customers adequate information to understand the implications of any proposed arrangement
- MCOB 13.3.4BR – Make customers aware of the existence of any applicable Government schemes to assist borrowers in payment difficulties
- MCOB 13.3.9 and MCOB 13.3.10 – Retain records for a minimum of 3 years from the date of dealing and contain, or provide reference to the matters listed under 'Recording Conversations, Outcomes and Record Retention' section of this policy
- MCOB 13.4.1 – Ensure that if a customer falls into arrears on a regulated mortgage, the Bank will as soon as possible, and in any event within 15 business days of becoming aware of that fact, provide the customer with the required documentation as listed under the "Provisional of Information" section of this policy

4 Key Principles

Over forbearance
The Bank will ensure that situations are managed pro-actively and without delays to ensure customers are receiving the right treatment plan for them in a timely fashion or, if appropriate, the right guidance about the affordability of their mortgage.

Complex or non-standard scenarios
The Secured Arrears Management Criteria and Guidance policy provides support in understanding how to deal with complex and non-standard scenarios, e.g. shared ownership mortgages, LPA, mortgages with sensitive and vulnerable circumstances, power of attorney / third party mandates, carers, bankruptcy, non-standard legal jurisdiction, interest only with no repayment strategy in place.

Role of Money Advice and Signposting
Over-indebtedness is a significant driver of arrears. The Bank where appropriate, will encourage customers to contact sources of free independent money advice and examine the possibility of making insurance and/or state benefit claims. The earlier in the process that customers seek help the better.

5 Mortgage Forbearance

The aim of residential mortgage forbearance is to help the customer through a temporary period of financial difficulty and return the account to a sustainable position where the facility can be serviced through to full repayment. Where this aim cannot be achieved, the secondary aim is to maximise recovery of the debt within the original mortgage term, in a manner that is affordable to the customer.

Sustainable is not the same as **affordable now**. Sustainable means that the repayment plan and future mortgage payments are viable in the long term, taking into account changes to interest rates and other household expenditure with inflation.

Mortgage forbearance principles

There are a number of principles that underpin all the activities undertaken by the Bank in relation to mortgage forbearance:

1. Mortgage forbearance must meet the FCA requirements as referred to in the Mortgage Conduct of Business (MCoB) handbook
2. Forbearance solutions must be tailored to meet the needs of the customer
3. Forbearance must never be applied automatically
4. Forbearance should avoid placing the customer in a worse position, either financially or otherwise (based upon the information available to us at the time)

Consequences and implications of the Bank getting it wrong

The Bank is aware that not acting appropriately in relation to the customer's situation could have negative consequences for the customer and/or the Bank, these are as follows:

Customer:

- Unsuitable forbearance may result in an unaffordable arrangement, incurring further interest and costs
- Inaction and delays could inadvertently impact credit files and delay any planned exit strategy
- Unclear or misleading information may lead to detriment resulting in increased complaints and reduced confidence

Bank:

The Bank may breach regulatory requirements or suffer reputational damage, which may have commercial impacts. At a high level, there are three main ways in which the Bank can get it wrong:

- Not offering appropriate forbearance, e.g. not offering customers a reasonable time, relative to their circumstances, to repay the arrears
- Over-forbearance, where the customer is allowed a treatment that is not appropriate resulting in additional interest being applied to the account, or where there is no real possibility of the position improving
- Inappropriate handling of properties taken into possession, resulting in delays, reputational damage and reduced sale prices achieved

6 Provision of Information

If a customer falls into arrears on a regulated mortgage contract, the Bank will as soon as possible, and in any event within 15 business days of becoming aware of that fact, provide the customer with the following in a durable medium:

- The current MoneyHelper information sheet "Problems paying your mortgage";
- A list of the due payments either missed or only paid in part;
- The total sum of the payment shortfall;
- The charges incurred as a result of the payment shortfall;
- The total outstanding debt, excluding charges that may be added on redemption; and

- An indication of the nature (and where possible the level) of charges the customer is likely to incur unless the payment shortfall is cleared.

7 Undue Pressure

The Bank will:

- Avoid undue pressure on a customer through excessive telephone calls or correspondence, or by contact at an unreasonable hour
- Have regard to the circumstances of the customer and any knowledge they have of the customer's work pattern and/or religious faith which might make it unreasonable to contact the customer during these hours
- Ensure our documentation does not resemble a court summons or any other official document, which could lead the customer to the believe they have come from or have the authority of court
- Ensure our correspondence is fair, clear and not misleading

8 Credit Reference Agency Impact

The Bank will share customer account information with the credit reference agencies in line with the 'Principles of Reciprocity'. This means that each month we reflect customers' payment patterns with the credit reference agencies, even for customers who are in an up to date position with their mortgage (which is reflected positively in customer's credit scores).

If the customer has been in financial difficulty during the life cycle of their mortgage account this will be reflected in the monthly submissions to the Credit Reference Agencies.

9 Team Hand Offs / Out of Policy

In order to offer the most suitable solution for a specific customer situation. The Bank where required will hand off the case to a more suitable/specialist area of the Bank. These include:

- Cases where litigation activity has or will be taken
- Cases with sensitive and vulnerable circumstances
- Cases where an activity/solution is required outside of policy or mandate
- Cases with complex circumstances, such as a breach of terms

10 Vulnerable Customers

The Bank will provide adequate training to ensure it recognises any customer that might be considered vulnerable, or in a sensitive situation, as early as possible. These customers will be afforded extra care in line with the sensitive and vulnerable criteria and will be referred to the appropriate team within the Bank

While this is NOT an exhaustive list, examples of circumstances that might indicate potential vulnerability include:

- Caring responsibilities (including Power of Attorney)
- Change in circumstances / life changing events e.g. job loss, bereavement, divorce
- Reduction in income
- Persons with cognitive or dexterity impairment, sensory impairments such as hearing or sight, onset of ill-health, not being comfortable with new technology
- Low literacy, numeracy and financial capability skills
- Physical disability
- Mental health problems
- Severe or long term illness
- Non-standard requirements or credit history (e.g. armed forces personnel returning from abroad, ex-offenders; care-home leavers, recent immigrants)

Where a mortgage holder passes away, the Bank will look to offer a three month grace period to halt any arrears activity and prevent any interest from becoming due, allowing any remaining borrower or the estate the time and dignity to grieve and to make the necessary arrangements.

11 Recording Conversations, Outcomes and Record Retention

The Bank will ensure all conversations and outcomes are recorded in order to create an audit trail supporting the forbearance solution that has been agreed. The **MCoB** record keeping requirements must also be met. The key requirement is as follows:

'A mortgage lender must make and retain an adequate record of its dealings with a customer whose account has a payment shortfall or a sale shortfall, which will enable the firm to show its compliance with this chapter. That record must include a recording of all telephone conversations between the firm and the customer which discuss any amount in arrears or any amount subject to payment shortfall charges'

Records will be kept for a minimum of 3 years from the date of dealing and contain, or provide reference to:

- the date of first communication with the *customer* after the account was identified as having a *payment shortfall*;
- in relation to correspondence issued to a *customer* with a *payment shortfall*, the name and contact number of the employee dealing with that correspondence, where known;
- the basis for issuing tailored information in accordance with *MCOB 13.7.1 R* in relation to a loan solely for a business purpose;
- information relating to any new payment arrangements proposed;
- the date of issue of any legal documents;
- the arrangements made for sale after the *repossession* (whether legal or voluntary);
- the date of any communication summarising the *customer's* outstanding debt after sale of the *repossessed* property; and the date and time of each call for the purposes of *MCOB 13.3.9R(1)*.

12 Litigation

The Bank will only look to litigate (apply for repossession of the property via the courts) when:

- All other avenues have been explored and it is evident that the mortgage is no longer sustainable and there has been no agreed customer led exit strategy, such as an assisted voluntary sale of the property
- All attempts of contact have been exhausted and there is no arrangement in place to repay the arrears outstanding
- Where the property is deemed to be abandoned, the Bank would consider obtaining possession to protect our security, with the support of our third party suppliers
- Where there has been a breach of the mortgage terms and conditions
- Where the BTL account has been evidenced not to work in LPA receivership

13 Repossession and Shortfall Recoveries

When the Bank takes possession of a property (whether via enforcing an order or voluntarily surrender) we'll ensure the property is marketed for sale as soon as possible and look to obtain the best possible price, taking into account of market conditions.

If the proceeds are less than the mortgage amount due, The Bank will inform the customer as soon as possible of the shortfall amount due and where relevant, the fact that a sale shortfall may be pursued by another company.

14 Fees and Charges

Fees and Charges are applied in accordance with the Tariff of Mortgages Charges and will be reasonable estimate of the underlying costs incurred by the Bank.

The Bank does not at present apply monthly arrears fees, however, litigation and possession fees do apply on mortgages managed under Platform and Mortgage Agency Services. Fees and Charges will be reviewed by the Bank annually and customers will be advised of any applicable changes.

Any fee charged in association with collections or recoveries will be applied to the either the mortgage balance or a non-interest bearing sub account (known as Debt Recovery Costs) where applicable and brand dependant.

15 Quality Assurance and Monitoring

The Bank will operate in accordance with the documented Risk Management Framework utilising three lines of defence, with each business area have defined responsibilities. The arrears portfolio and risk appetite management information (MI) will be reviewed in the appropriate forums and escalated where required.

The Bank will ensure:

- Processing Authority Limits and mandate controls are operated in accordance to the Training and Competency schemes documented to better manage credit and operational risks
- All decisions made outside of the Processing Authority Limits are referred and approved by appropriately mandated Bank specialist
- Third party performance is managed and tracked in line with the documented Service Level Agreement and steps will be taken where required to address any areas of performance concerns
- That all the QC/QA results are reported monthly and reviewed against key performance indicators. Current or emerging risks will be discussed, tracked and escalated where necessary
- All remedial actions are completed within a reasonable time from identification

16 Document Ownership

The Secured Arrears and Recoveries Policy and the Secured Arrears Management Criteria and Guidance document are owned by Retail Credit Risk. All changes to these documents will be approved by the Credit Risk Director. Where the changes required are subject to a change in Secured Arrears Policy or Secured Arrears Strategy, the change request will have to be approved by the Credit Risk Director and noted into the [CROC] Credit Risk Operating Committee.

Any changes that have a regulatory impact or legal implications for the Bank will be sent to the relevant business area to review and provide sign off for the changes.

17 Document Governance and Change Control

To ensure that this document and other relevant documents, for example the Secured Arrears Management Criteria and Guidance document, are kept up to date with regulatory changes and any other applicable legislation, an annual review of this document will be conducted by Retail Credit Risk, if there have been no changes in the intervening period.

Changes to this document can be agreed between annual reviews via correspondence with the Credit Risk Director. Proposed criteria changes must be submitted to and approved by Retail Credit Risk and incorporated within this document owned by Retail Credit Risk.

Any material changes will be communicated to all relevant stakeholders and third parties in the business by Retail Credit Risk as detailed within the documented Change Framework