

Subject: Loan repayment difficulties due to COVID-19

Dear Executive Vice-President Dombrovskis,

The unprecedented COVID-19 crisis is severely impacting the entire world economy and society. Experts estimate that the financial and economic upheaval resulting from the current crisis will be much stronger than the 2007-2008 crisis. Millions of Europeans have already lost their jobs or have seen a significant drop in their income.

Given the current situation, many consumers have serious concerns about their capacity to keep up with the regular repayment of mortgages and other loans. Helping distressed borrowers is at present one of the most pressing issues and is a top priority for consumer organisations across the EU. That is why, on behalf of BEUC, the European Consumer Organisation, I would like to inform you that the number of consumers that are reaching out to national consumer organisations that are part of our network about loan repayment difficulties is increasing significantly.

EU and national authorities are in the process of adopting measures to mitigate the effects of the crisis for businesses and consumers. While public and/or private initiatives providing temporary relief to borrowers have been implemented in several EU countries, those initiatives are fragmented, do not cover all countries, and are not always well-calibrated.

In order for all distressed consumer borrowers to be treated fairly and in a coherent manner, we call on the European Commission, the European Banking Authority and the European Central Bank to implement the following measures in close cooperation with national authorities:

- EU borrowers in financial difficulties should have the right to defer monthly repayments of their credits for at least six months.
- The right to deferral should apply to mortgage credit and all types of consumer loans, secured and unsecured (car loans, personal loans, credit cards, overdrafts, leasing, etc.) provided by banks and non-banking lenders. It is important to keep in mind that many low-income citizens use consumer loans to meet their daily consumption needs. Helping such vulnerable borrowers is therefore crucial.
- Deferral should cover the repayment of both the loan principal and interest.
- No interest and fees should accrue during the deferral period. The addition of interest accrued to the capital during the deferral period would increase the total cost for consumers and would require paying interest on top of interest.
- Eligibility conditions for the deferral right should not be too strict such as not to exclude or discourage vulnerable borrowers from availing of this right. The precise conditions could be discussed with national consumer organisations.

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- The procedure for getting a repayment deferral should be fast, hassle-free and free of charge.
- There should be no negative impact on the credit rating of consumers who avail of the deferral right, so that consumers are not prevented from obtaining loans in the future.
- The assignment of creditors' claims to third parties (debt collectors) during the COVID-19 crisis should be prohibited.

In a welcome move, the EBA Guidelines published last week stated that, "The EBA sees the payment moratoria as effective tools to address short-term liquidity difficulties caused by the limited or suspended operation of many businesses and individuals resulting from the impact of COVID-19" and clarified that, "... payment moratoria do not trigger classification as forbearance or distressed restructuring if the measures taken are based on the applicable national law or on an industry or sector-wide private initiative agreed and applied broadly by the relevant credit institutions."¹

While the EBA clarification is intended to encourage creditors to find solutions for consumers in financial difficulties, we need a harmonised and mandatory EU-level approach to the solutions that are offered to consumers. We do hope that the EU institutions, in close cooperation with national authorities, will adopt urgent measures based on BEUC proposals. These measures will benefit the financial stability of both consumers and financial institutions by preventing over-indebtedness and the accumulation of non-performing loans on banks' balance sheets.

We remain at your disposal for any questions regarding our proposals and would be happy to support you in this challenging journey.

Yours sincerely,

Monique Goyens
Director General

C/c: Mr Mario Nava, Director (DG FISMA); Mr Eric Ducoulombier, Head of Unit (DG FISMA).

¹ EBA Guidelines on treatment of public and private moratoria in light of COVID-19 measures, 2.04.2020:
<https://eba.europa.eu/eba-publishes-guidelines-treatment-public-and-private-moratoria-light-covid-19-measures>