



DATA QUALITY WORKING PARTY

Data Quality Reference Guide

Amendments to version 1

Page 5	Transparency and communication with customers
Page 13	Partial settlement flag additional wording

Page 23	Addition of Energy Principles
Page 26 onwards	Addition of Water Principles

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1. Introduction

The purpose of this document is to maintain on an ongoing basis a cross-credit industry reference guide which includes practical information on the implementation of policy decisions and documents agreed by SCOR. It also includes recommended best practice by sector type relating to the provision and quality of shared information within the databases covered by the Principles of Reciprocity. The guide has been written specifically for the industry and therefore should be read in conjunction with credit reference agency reporting manuals.

It is acknowledged that there are many different account and product types within the market place; therefore this document is intended to promote commonality and consistency across the industry.

If practices within your organisation are not aligned to any section of this document, then you must ensure that the information provided to the CRAs is fair, consistent and appropriate to consumers and, if required, you must be in a position to demonstrate this to any regulator.

2. Transparency and Communication with Customers

While every attempt has been made to address a wide range of scenarios in the guide, given the variety of market sectors and product types it has not been possible to recommend practice or provide definitions in all areas, particularly in relation to the management of arrears, arrangements and defaults, and it will therefore be for individual lenders to interpret in line with their policies. What the ICO expects from lenders is transparency, i.e. that they will make customers aware through clear and regular communication strategies explaining the action that has been taken and the **consequences** for the customer.

3. Arrears, Arrangements and Defaults Document

3.1 Background to Document

On 1st January 2014 the "Principles for the Reporting of Arrears, Arrangements and Defaults at Credit Reference Agencies" (PRAAD) were published.

The PRAAD was written by the SCOR Data Quality Working Party, with feedback incorporated from the Information Commissioner's Office (ICO); it has been ratified by SCOR.

The PRAAD clarifies what the industry should be doing now and it has been written so that it can be readily understood by both consumers and lenders.

The Principles of Reciprocity (PoR) require Closed User Group members to report arrears, arrangements and defaults in line with the PRAAD. Lenders should therefore take time to familiarise themselves with its requirements and ensure that they are following them. They should also ensure that their risk, collections and customer service teams are aware of the document.

The arrears, arrangements and defaults principles set out in the PRAAD complement the PoR and there is some overlap between the information. The PRAAD should be used in conjunction with the detailed reporting manuals provided by the Credit Reference Agencies (CRAs) and any other relevant industry documentation.

Appendix 1 contains the full published version of the PRAAD.

1.2 Principles

Principle 1 Data that is reported on your credit file must be fair, accurate, consistent, complete and up-to-date

Information **must** be supplied at the next available monthly update period but, in the case of the correction of errors, should be updated at the earliest feasible opportunity. Whilst CRAs do have online amendments systems these should only be used for correcting errors e.g. incorrectly reporting arrears.

Principle 2: Should a payment not be made as expected, information to reflect this will be recorded on your credit file

Calculating and reporting arrears

Lenders should be aware of the impact of interest rate changes on their calculation of status codes on certain products. Generally interest rate changes should not affect status codes; they should in general only increment by one each month.

Principle 3: If you offer or make a reduced payment, how it is reported will depend on whether it is agreed with the lender

- a. A temporary arrangement does not need to be time specific. However it may be prudent for a Lender to undertake regular reviews with that customer.
- b. It is essential that Lenders can demonstrate that the customer was clearly made aware of the implications of entering into an arrangement and how this will be reflected on their credit file.
- c. In some cases the original agreement may be closed and a new record provided. In this instance, the new account number must be different to the original and provided with the new payment terms.
- d. If after a period of time a permanent change in terms on an account occurs, then if appropriate the revised terms should be recorded at the CRAs and payment performance calculated against the new terms. In such circumstances there will no longer be an arrangement in place and the correct history up to the time of the re-scheduling should be shown.
- e. An arrangement may also be provided when a customer has agreed with the lender to make overpayments to clear historic arrears.
- f. If a customer fails to make the agreed payment against the new arranged terms, lenders may still file a default as soon as a payment is missed as long the customer was at least 3 months in arrears on the original agreement. This should be made clear to the consumer at the time an arrangement is made. The date of the default will reflect the date the arrangement with the Lender broke down.
- g. If the payment is at a level that represents only a token sum in repayment because that is all the customer can afford, the account should be recorded as a default. The record will be removed six years from the date of the default. An example of calculating whether a token payment is acceptable, would be to assess whether it would take longer than 6 years for the debt to be repaid should the consumer continue to pay at that level.

Principle 4: If you fall into arrears on your account, or you do not keep to the revised terms of an arrangement, a default may be recorded to show that the relationship has broken down. A default will remain on a customer's credit file for six years from the default date.

- a. Any default record should be accurate. A lender must keep records that are necessary to show an agreement exists and to support filing a default. A lender should be able to produce evidence to justify a default record

they had placed on a credit reference file. This may include the provision of a default notice.

- b. Not having any supporting records may indicate a breach of the Data Protection Principle requiring personal data to be adequate, relevant and not excessive for the purposes processed. A record that a notice of an intention to file a default was sent, if not a copy of the notice itself, will help lenders to comply with this requirement.
- c. For accounts covered under the Consumer Credit Act (CCA) and regulated by the Financial Conduct Authority, there are legal formats that must be followed and this is also true for some other types of products where the form of words has been agreed with regulators. For other products it can be in the form of a final demand letter or relevant account statement which should make clear not only the intention to file, but also allow the customer time to make a payment to prevent the recording of the default. In all cases, the Default Notice should make it clear how the default balance will be calculated.
- d. The date of default recorded on the file would normally be the date on which a decision to file a default becomes effective. This will be at least 28 days from the date of the notification to the customer of the intention to record a default. A default will not be recorded if a customer makes satisfactory payment in response within 28 days of this notification. An exception to this is when the debt that is owed is to be included in an insolvency measure, e.g. bankruptcy, IVA or similar. In this instance, the default date to be filed must equal the insolvency date.
- e. The default amount filed should normally be the balance amount as quoted on the Default Notice. However, if any payments or charges apply in the interim period, the default balance reported may reflect the outstanding balance at that time. This should not normally change.
- f. The current balance should be updated regularly and reflect any charges added and/or subsequent payments received whether direct to the lender or via a third party organisation (debt collection agency) or, for example, as a result of the sale of a repossessed asset

Appendix 2 contains a sample 'notification to record a default'.

Principle 5: When an account is closed, the record should properly reflect the closing payment status of the account and any agreement between the parties

In all instances, when an account is closed, the current balance must be provided as zero. In the case of partial settlements, the record must be provided with a partial settlement flag

4. Addresses

4.1 UK Addresses and Address Fields

3.3.1 Name and Date of Birth

When providing records to the CRA lenders should include title, full forename, middle initial (where captured), surname and date of birth. These are mandatory requirement on all new records/accounts opened from 24th October 2001.

3.3.2 UK Addresses

- The address of a customer must be reported to the CRAs; this should include the house name or number in the first line. For all UK addresses the postcode, which is mandatory, must always be in the last 8 bytes and must be eight characters in length.
- The address should be the permanent residence of the applicant. This is especially important in a buy to let scenario where the CRA would not require the mortgage property address.
- The name and address lines should contain no punctuation other than apostrophes or hyphens within a name (e.g. 'Patrick O'Neil').
- It is mandatory that all accounts opened after 24th October 2001 must have a valid UK PAF (Postal Address File) format address. This is necessary to ensure that only data relevant to the credit application is retrieved; therefore any customer credit facility records without this field may not be capable of being accessed.
- Any future address changes must strictly meet the PAF format. It is recommended that organisations processes are reviewed to ensure that appropriate validation can be carried out.
- Organisations should look to put plans in place to update any historical data, both live and settled that does not meet the PAF format to ensure that as much data as possible can be accessed.

4.2 Foreign Addresses

If a lender offers a product to the UK market records should be provided to the CRAs even if the address is outside the UK.

4.3 BFPO Addresses

CRAs require a valid UK address that is consistent with the Royal Mail PAF format. Historically, BFPO (British Forces Post Office) addresses did not form part of the Postcode Address file. As a result in March 2012, in collaboration with Royal Mail, the BFPO introduced UK style postcodes. These new postcodes should enable BFPO addresses to be easily included in address management products or systems.

The goal is to enable members of our Armed Forces, their families and friends to order online, by telephone or obtain other services with ease - in the same way as anyone residing at a UK address. This should also assist with the challenges that Armed Forces personnel face in establishing their credit file and therefore obtaining credit.

Despite this new address system being in place for more than 2 years, there has not been any specific data reporting guidance produced. Therefore this information should be used in order to refine the monthly performance information provided to the CRAs.

The information included in the in the PAF for this exercise is fairly limited. The fields consist of the relevant 'BF' Postcode (e.g. BF1 2AB), a town of 'BFPO', along with a BFPO number (e.g. BFPO10) provided in the street field.

It is accepted that many organisations may need to undertake system changes in order to achieve a preferred format. The following fields should be provided which should enable the CRAs to successfully load and match the data.

In addition to the name and address content, date of birth is also a key requirement.

3.3.1 Mandatory Fields

The CRAs have worked together on this preferred format and have agreed that the following level of information will achieve the best outcome. These fields should be treated as MANDATORY. Should any of these fields be omitted or not provided in line with reporting guidance, this could impair the likelihood of attributing the data to the individual.

Title
Forename
Middle name or initial (where available)
Surname
Date of birth
Valid 'BF' postcode in the Postcode field
Valid BFPO number in address line 2

Example

Title	-	Corporal
Name	-	John Anthony Brown
Address line 1	-	
Address line 2	-	BFPO 13
Address line 3	-	
Address line 4	-	
Postcode	-	BF1 0AA
Date of birth	-	15/02/1992

3.3.2 Identifying Name and Address Changes

As part of standard name and address processing, the CRAS recognise updates or changes to names and addresses. However, due to the unique nature of these addresses, it would be advantageous if data providers prompted the CRAs to match these records when a new or further address is provided. This can be achieved in the following way:

- | | | |
|-----------------|---|--------------------------------------|
| CAIS formats | - | Providing an 'A' flag in position 57 |
| INSIGHT formats | - | Providing an 'A' flag in position 91 |

This flag would be included with the monthly submission.

In the case of new accounts being provided for the first time, the record should be sent for the first month with NO FLAG SET.

On the second monthly update, the flag SHOULD BE provided. The flag should then NOT BE provided on a subsequent file, until such a time when a further change may be required.

3.3.3 Searching on BFPO Addresses

Lenders should adhere to the same standards when undertaking a credit search. In particular, the 'Minimum Mandatory Fields' should be provided.

These details should be provided when entering both current and previous address information.

For more specific details, lenders should contact their primary CRA.

3.4 Head Office/System Addresses

The private residential address of a customer must be reported to the CRAs. This must therefore be captured at point of application and when the customer requests a change of address.

In addition, lenders must ensure that system addresses are not reported to the CRAs unless the appropriate indicator is provided.

A system address is generally used where a lender does not wish to mail a client e.g. deceased or gone away. In these instances the address should not be reported to the CRAs unless accompanied by the appropriate "leave address unchanged" flag.

4 Mandatory Reporting of Flags

4.1 Deceased Flag

The Deceased flag must be reported when a lender receives evidence that an account holder is deceased, (for example a death certificate, probate or letters of administration).

4.2 Arrangement Flag

- If a temporary reduction in the payment amount is agreed, the 'Arrangement' Flag must be recorded at the CRAs.
- The Arrangement Flag can be for any period and indicates that the customer is in financial difficulty but with an expectation that at a future date the account will revert to the normal and agreed terms.

- Depending on the period and amount of the arrangement, arrears may continue to be reported.
- An arrangement should not be provided when the customer is up to date and is simply paying more than the contractual amount e.g. to reduce a term on a mortgage.
- An arrangement can be provided when a customer has agreed with the lender to make overpayments to clear historic arrears.
- Should a customer take advantage of a payment holiday where the holiday is part of the product, the Arrangement Flag should not be reported.
- Should a customer request a payment holiday due to financial difficulty then this should be treated as an arrangement. The customer should also be informed of this fact and that their credit file will be marked accordingly.
- In relation to situations where the customer is either in default or repossession, even if the customer continues to, or commences making payments, the Arrangement Flag should not be used.
- In the case of a suspended possession order, the customer would typically be paying less than the contractual amount and is in financial difficulty; therefore the Arrangement Flag should be provided. Despite the account not being in default, the Arrangement Flag combined with the serious level of arrears will advise other lenders viewing the record that the individual is in financial difficulties.
- If the arrangement is placed on a more formal basis, it is normal practice for some revolving products to "re-age" the account when the arrangement has been maintained satisfactorily. In such cases the status code will reflect the performance of the arrangement. Such cases will continue to have an Arrangement Flag set even if the status code is 0, but will not display an end date for the arrangement thus indicating that it is still operating.
- In a more formal reschedule where a new account is provided, the old account would be closed, a new account created and no Arrangement Flag provided.
- This information is valid irrespective of whether information is provided in CAIS or INSIGHT formats. For clarity, CAIS format reports the 'A' flag, where as the INSIGHT format records arrangements as a status 'I'.

4.3 Debt Management Plan Flag

The Debt Management Plan (DMP) Flag should be used where the lender has been advised from the relevant organisation that a customer has entered into a DMP administered by a third party.

Should a consumer set up a payment plan directly with the lender, this is not a DMP and should be classified as an arrangement. (See section above on arrangements).

It is important to note that this flag must be reported for all DMPs that involve third party organisations, including profit making organisations.

By entering into the plan the customer shows that he is acting more responsibly than someone who makes no effort whatsoever to pay what they owe. What is an acceptable repayment amount depends on each lender and the size of the debt.

If the payment set out in the DMP is at a level that represents only a token sum in repayment because that is all the customer can afford, the account should be recorded as a default. The record will be removed six years from the date of the default. An example of calculating whether a token payment is acceptable, would be to assess whether it would take longer than 6 years for the debt to be repaid should the consumer continue to pay at that level.

Where a customer does not make the repayments agreed under the DMP, and the total value of the arrears was at least three months under the original terms, a default can be recorded and the DMP marker should be removed. This should be made clear to the customer at the time a DMP is agreed. The date of the default will be the date of the breakdown of the DMP.

4.4 Partial Settlement Flag

The Partial Settlement flag must be reported in circumstances where the debt was not fully repaid and in some cases where no payment was made at all. Such scenarios would include:

- The debt was included in an IVA which has been completed successfully
- The debt was included in a bankruptcy which has since been discharged
- A smaller amount has been agreed and accepted in settlement of the account
- Exceptional circumstances involving vulnerable consumers

The recording of the Partial Settlement must be conveyed to the consumer.

In the case of the third scenario, where the account is in default and payment has not been accepted as “full and final settlement” but the remainder of the debt is written off, there is no need to mark the record as settled at all, (partial or otherwise), if it is deemed the debt still exists but will not be further chased.

If however the customer has been informed that the debt has been ‘cleared’ and the amount was accepted as ‘full and final settlement’, then the record should be marked as settled/satisfied, and a Partial Settlement flag added.

5 Minimum Balances and Arrears Status

When reporting arrears and defaults, consideration may be given to the amount the customer owes. It may be inappropriate to report arrears/defaults to the CRAs for a minimal amount; however this value may differ depending on the product type.

The CRAs may impose a minimum default balance of £10.

6 Payment Holidays

Payment holidays can be a feature of a lending product or where the lender chooses to offer a payment holiday in exceptional circumstances outside of the customer's control, for instance Acts of God. During this payment holiday the account should not be recorded as having any form of detrimental arrears.

If the payment holiday was not part of the original product but authorised as a forbearance option, it should be recorded as an arrangement for that particular month. Under this scenario the account should also be recorded as having the appropriate level of arrears.

7 Credit Bureau Amendments

Members of the closed user group are obliged by law to report factual information to the CRAs.

If a lender becomes aware that they are reporting inaccurate information at the CRAs, then a credit bureau amendment must be completed to correct the discrepancy.

Inaccuracies will generally be a result of a system or administrative error by the lender. Alternatively, an amendment may be necessary when events out of the customer's control have occurred.

8 Credit Bureau Disputes

When a consumer disagrees with information held on their credit file they may contact the CRA direct to raise a dispute.

Each CRA operates a dispute process and will forward disputes to the relevant lender for review.

If a consumer chooses to challenge a credit file entry under section 159 CCA, then the CRAs are required to provide a response to the consumer within 28 days, notifying the consumer whether the entry has been deleted or amended, or if no action has been taken.

Upholding consumer rights relies heavily on the cooperation of CRAs and lenders to make this process as simple and efficient as possible.

Lenders must provide a response to each dispute within 14 days, allowing the CRAs a similar length of time to initiate and respond to the dispute.

If the query is not resolved within the 28 days, then the CRAs will have to suppress the record in question, even though the record may subsequently prove to be accurate.

In the event that an error is found as a result of a dispute the lender should correct this inaccuracy via a credit bureau amendment (see Section 6 Credit Bureau Amendments).

Lenders should ensure that a default is not filed where there is a genuine, reasonable and unresolved dispute between the borrower and lender.

9 Right to withdraw from a credit agreement

9.1 Right of Withdrawal

If a consumer exercises their right to withdraw from a credit agreement within the first 14 days, the borrower must repay the credit and any interest that has accrued without undue delay, and in any event no later than 30 days after having given notice.

Once the monies have been repaid, including where relevant any interest, the agreement should be recorded as a settled account with the CRAs.

If the borrower does not repay the money, the lender is entitled to take action to recover, repossess the goods or enforce any security. It is considered a debt to the lender and should be reported to the CRA stating the exact position and if appropriate the relevant arrears information. For example:

- Report monthly arrears
- Report whole amount due
- Set up new agreement

In both instances the borrower is not liable to pay any other fees or charges (except the interest as stated above).

9.2 Additional Payments

During the life of the agreement a consumer will be entitled to make additional payments. These may affect the terms of the account, (reduction in monthly payment, or shortening the repayment period). This will vary from lender to lender depending on product type. If the terms change this must be reported to the CRA. In any instance the Current Balance should be shown as reducing accordingly.

If extra payments are made, this should not affect the receipt of future monthly payments, unless the product allows for this flexibility. As such, in cases where future monthly payments are missed, arrears may be reported.

10 Debt Sale Process

There are various processes for reporting to the CRAs in respect of debt sale. In some cases, the CRAs have different 'preferred' approaches.

Due to the complexities and factors involved in a debt sale it is not possible to stipulate the single "ideal" approach. This section relates to the sale of "bad debts". If a "book sale" is to take place please contact your CRA for guidance.

The frequency of the debt sale is also a key factor in deciding the best course of action. The preferred approach for a bulk, one off sale, can be different to the preferred approach for a regular monthly sale.

Description of Process	Details
Transfer of Records	Cross reference file to be provided normally by the purchaser. The file should include original account number maintained by originator and the new account number to be used by purchaser. The records would be transferred by the agencies at an agreed point in time.
Automatic Transfer of Records	<p>If a sale is between organisations on a regular basis, then an automatic transfer process may be adopted. Each month, the records to be sold would be marked on a submission. Method to be agreed with the appropriate CRA(s). The marker would be used to identify the relevant purchaser and transfer the whole record including any history to the relevant purchaser's portfolio.</p> <p>The only way that this process can be implemented is if the purchaser uses the same account number as the originator.</p>
Seller Deletes and Purchaser Adds	Each month, the seller of the debt, deletes the sold accounts on the monthly update. The purchaser at the same time would load the purchased accounts to their portfolio. If required the CRA can assist with the deletion process.
Seller Debt Assigns but Purchaser does provide to CRA	Upon debt sale, the seller of the debt satisfies the sold accounts with a 'Debt Sold' flag (S). The purchaser at the same time would load the purchased accounts to their portfolio. If required the CRA can

	assist with this process. Method to be agreed with the appropriate CRA(s).
Seller Debt Assigns, Purchaser does not provide to CRA	Upon debt sale, the seller of the debt satisfies the sold accounts with a 'Debt Assigned' flag (C). The purchaser does not provide data to the agency. If required the CRA can assist with this process.

NB. Where a purchaser is to provide the transfer or delete file, approval would be required from the seller.

In all cases, the timing in relation to the sale is crucial. It is imperative that at any one point in time there is only 1 'active' default in relation to the same debt. In order to facilitate a smooth, effective process, both seller and purchaser should communicate with the CRAs as early as possible as to their actions in relation to the sale, and discuss any relevant development costs associated with the process.

The default date and default balance must remain consistent whichever method is adopted.

11 Guarantors

Prior to reporting any information on the guarantor, the lender must ensure that sufficient communication has occurred between all parties on the potential for a guarantor's information to be reported to the CRAs.

The Guarantor must be aware of all implications should the borrower not meet their commitments, including the fact that non-payment can result in their credit file being impacted.

Should the borrower fail to meet their commitment, the guarantor must be given sufficient notice in order for them to remedy the situation (the ICO suggests that this should be a minimum of 28 days), prior to the guarantor's information being provided to the CRAs.

When the guarantor fails to make payments, details should be provided to a CRA. This can either be as an additional holder on the existing account, or as a separate account. The consequence of the former would be that this would create an association link between all parties concerned, therefore the transient association flag should be provided. In both instances, the 'paid by third party flag' could be provided against the primary borrower.

Lenders must adhere to the relevant data reporting specifications provided by the CRA when adding a new holder to an existing account.

Once the Guarantor has been provided as an additional holder, they could remain as an active party on the account. Future updates to the CRAs should include the guarantor until the whole debt is fully repaid. This may not be appropriate for long-term loans and mortgages.

Should further guidance be needed, lenders should refer to their CRA.

12 Irremediably Unenforceable Agreements

In the court case of 'Black Horse v Grace', the Court of Appeal concluded that it was incorrect to record a default that was unenforceable without the record being flagged appropriately, and was not accurate to do so once a competent court had decided that the record was irremediably unenforceable.

The industry has worked together with the ICO on a process to mark the record as unenforceable.

The CRAs are using the Notice of Correction facility to flag these records.

Only the LENDER can ask for a flag to be added to a default which is deemed to be irremediably unenforceable.

The agreed wording is "Please note that this default relates to an agreement which is deemed to be irremediably unenforceable under the Consumer Credit Act."

If a client wishes to provide an Irremediably Unenforceable Defaults flag/notice of correction, then they should provide the name, address, account information on the default to the CRAs.

13 Joint Accounts

It is a data protection requirement that all jointly liable parties on an account are provided as part of credit reference data.

All CRAs expect data providers to provide a separate CRA record per party to an account and not single records in the name of both parties e.g. Mr & Mrs Brian Smith.

CRAs require a unique account number to be supplied for each individual party. This would be used by the CRA as a key matching field when updating a client's data on a monthly basis. This unique number would include any joint account indicator. Refer to the criteria section for further details.

Once the unique number is provided it should in general remain precisely the same throughout the life of the agreement.

It should be remembered that closed accounts and default records remain on a CRA database for 6 years from the closed or default date. As a result clients should avoid the re-use of account numbers.

CRA's provide a facility to amend CRA account numbers as part of a client's monthly submissions. However, care needs to be taken when changing the numbering of joint account parties as this can generate issues such as:

- Invalid name and address links
- Historical data could be adopted by the incorrect party
- Unmatched Actives/Dotted accounts
- Duplicated Accounts

Should a client wish to change the numbering of joint account parties on a larger scale, it is recommended then this should initially be discussed with the CRA's. However, individual changes are referenced below in the transfer section.

Note: The credit reference account number does not necessarily need to be a consumer's current account, mortgage or credit card number especially where a client can more easily provide another unique number for an account e.g. customer numbers, internal reference number.

13.1 Reporting insolvencies for joint accounts when only one party is insolvent

Where there is joint liability then:

- if only one party is the subject of an insolvency order, the account should not automatically be marked as in default if it is being maintained by the other party
- if the account is not being maintained the non-insolvent party will be given 28 days' notice of the intention to file a default
- if no response/suitable offer is received then a default should be filed at CRA
- if a suitable offer is received, no default should be filed whilst payments are maintained.
- if this account subsequently breaks down then the appropriate default dates should be filed for each party.

14 Mortgages

14.1 Interest Only Mortgage Concessions (temporary reduction to monthly mortgage payment)

In cases where the customer is experiencing financial difficulty and they request a reduction in their mortgage payment for a short period of time until their financial situation improves, such customers should be reported as having an arrangement

in place. During this period, the shortfall in capital payment will accrue as arrears and be reported relative to the original contractual repayment. This is deemed the most accurate way of reporting such a scenario.

14.2 Interest Only Mortgage Concessions

In cases where the customer is experiencing financial difficulty and they request to pay just the interest on their mortgage for a short period of time until their financial situation improves, and the lender administers the mortgage payments as a "Repayment Capitalisation" (as described in FG11/15), such customers should be reported as having an arrangement in place. During this period, the shortfall in capital payment does not accrue as arrears and will not therefore be reflected in an increasing arrears status. This is deemed the most accurate way of reporting such a scenario.

Where there is no sign of financial distress in the restructure, the account should not be reported as an arrangement

14.3 End of Term Interest Only Mortgages

Where Interest Only Mortgages reach the end of their term, the customer will be expected to pay the outstanding capital in full, thereby settling the account. If the customer is unable to settle the account, e.g. via a repayment vehicle, there are a number of options the lender may consider:

- Agree a new "capital plus interest" repayment mortgage over a new extended repayment period. This might just involve converting part of the shortfall on capital plus interest. Any such rescheduling should be assessed against existing credit policy and affordability criteria;
- Repossess the property, recover the debt, and default the customer;
- Extend the term of the repayment period, continue to allow the customer to pay the interest only mortgage for the lifetime of the customer.

14.4 Interest Only Term Expired and Part and Part mortgages

At present the data reporting framework allows for the sending of multiple mortgage types, however an 'interest only' account type is not available. The introduction of a new account type will be considered for the future, but this scenario needs to be reflected as accurately as possible based on current reporting practices.

The three key financial fields that are provided as part of standard monthly updates are:

- Current Balance - total outstanding balance
- Repayment Amount - monthly payment amount
- Repayment Period - the term of the agreement in months

Going forward:

- where the interest only term has expired, the repayment period should subsequently be provided as zero.

- The remaining two fields should be updated as normal.
- Should the lender formally agree to extend the term of the interest only mortgage, the new extended term should be provided.
- In the event of the mortgage being split between more than one product; e.g. part interest only, part repayment, the repayment period should be reported based on the longest remaining active term and only recorded as zero once all parts reach maturity.
- The 'status' of the account and potential arrears, should there be any, should be provided in line with current reporting practices, however consideration should be given to how such customers are treated, even more so, if they continue to meet the previous level of monthly payments.
- Prior to reporting these scenarios, lenders should consider a period of time to allow for any endowment funds to be made available.

This guidance does not involve any changes by the CRAs; therefore mortgage providers are able to submit such changes as soon as is practically possible. A target date of the end of 2016 has initially been proposed.

14.5 Ground Rent and Property Service Charges

Lenders should not treat the payment of ground rent and/or service charges (or other similar expenses) as a further advance as a matter of course. However, they can be added to the outstanding balance of the mortgage. Non-payment of ground rent or service charges should not be reflected in the arrears status report.

14.6 Voluntary Repossession/Hand-Backs

Voluntary surrender of a mortgage should be reported in the same way as repossession. Accounts should be reported as defaulted and monies recovered through the sale of the property. Fully paid mortgages should then be reported as satisfied defaults. Should there be a shortfall in the amount recovered, debt recovery may still continue (see below). These should be defaulted at the point where the customer voluntarily surrenders the property and indicates their intention to vacate the property and leave the lender to repossess.

Where a customer works with the lender to sell the property themselves (e.g. not repossessed) and this results in a shortfall with no means of repaying back the outstanding debt, a default on that mortgage may be reported to the agencies.

14.7 Shortfall Sales following Repossession

Should a property be repossessed and the sale results in a shortfall of the outstanding debt, the account should be defaulted for the amount still outstanding. Collection and recovery of this debt may still continue. The reported latest balance should be updated to reflect monies already recovered, with the remaining amount still outstanding.

If the lender agrees to write-off the remaining balance, this should be shown as a Partial Settlement with a zero outstanding balance.

14.8 Deed Retention and the Redemption of Mortgages

Accounts where the mortgage commitment is satisfied and no further credit facility exists should be reported as closed/settled with a zero balance as the customer has satisfied their mortgage commitment.

14.9 Possession Dates

Defaults should be filed and dated as at the date of repossession. It may take a considerable time from litigation action to the point of repossession, so it is important to ensure that any adverse data is reported regularly to alert other lenders of the customer's financial difficulties.

14.10 Payment by Third Parties

Where Mortgages are being paid or part-paid by third parties such as the benefit agency or an insurance policy or via an LPA Receiver, this needs to be reflected with the appropriate flag status on CRA reports. An Arrangement should not be recorded where payments are being maintained and the account is not in arrears. However, should an arrangement with the customer be made due to financial difficulties, the Arrangement flag should override the Third Party Payment Flag.

15 Payday/Short Term Lenders

Payday Loans are normally short term loans that are re-paid on a weekly basis, however, similar to home credit accounts, they can also be flexible in nature in that payments can often be rolled over to the following week. Due to this they are fairly unique in nature.

The first time such a record is reported to the credit reference agencies, accounts should be reported as a status '0'. However there is a potential that depending on the length of the agreement and timing, a new account can also be sent as a settled status. This may be the case on agreements that only last for a few weeks.

15.1 Monthly Payment

The Monthly Payment field indicates the value of and is equivalent to, one month of weekly payments. The monthly payment value can be established by multiplying the weekly payment by 4.33. It is accepted that in cases where the product is revolving, the monthly amount may not be provided.

15.2 Repayment Period

The Repayment Period field indicates the term of the loan. This field should be calculated in months. Therefore the monthly value should be established by dividing the weekly term by 4.33 and rounding up, i.e. 12 week loan would be recorded as 3 months. It is also accepted that in cases where for certain product types the repayment period may be sent as 1 month due to the term being 4 weeks or less.

15.3 Frequency

The frequency provided should be based on the expected frequency of payments i.e. monthly, weekly, fortnightly etc

15.4 Account Type

Where possible the account type provided should be sent as 'Pay Day loans'; else, an 'unsecured loan'.

15.5 Revolving Products

If an account is revolving in nature then in the period where the credit facility is still available but not been drawn down, a dormant status should be provided.

15.6 Defaults

Defaults should be provided in line with the Principles for the Reporting of Arrears, Arrangements and Defaults at CRAs i.e. Minimum of 3 month of arrears before a default can be reported.

16 Utilities

Utilities generally cover the provision of gas, electricity and/or water services (to include the collection of sewerage).

The complexities of energy and water providers that do not have the choice of ceasing to do business with a defaulting consumer may lead to them continuing to provide the service and potentially find themselves in a similar position of default from that customer again. This could give rise to some differences in the way that such accounts are recorded at CRAs.

However, in common with other data providers, as far as is possible, consistency should be observed and the registration of a default should still occur after 90 days of non-payment and before 180 days.

In accordance with already documented discussions there are a number of triggers which, as long as they are clearly communicated to the consumer or business, may be considered to be grounds for the registration of a default being:

- Where the supplier takes or has taken steps to cut off the service provided (or would do so if they were not prevented on social rather than commercial grounds or by other regulations, codes of practice or statute). This will normally be the stage at which the provider has applied for a warrant, or the forced installation of a prepayment or reduced flow meter has taken place.
- Actual cessation of supply through disconnection or the installation of a prepayment meter

In all case, at least 28 days' notice of the intention to file a default is still required.

FORIn cases where the service cannot be disconnected, the registration of a default should still occur within the normal timescales of between 90 - 180 days past due but the continued provision of such services may be required by statute. This is always true for water and sometimes true for gas and electricity. In these cases a new account or agreement will be commenced to register the ongoing supply. For those providers supplying positive as well as negative data this will result in a second account being registered at the CRAs. The performance on that account will be supplied as normal. In cases where payment is not forthcoming that account too could go into arrears culminating in a default.

16.1 Energy Providers

This information must be read in conjunction with the Principles for Reporting Arrears, Arrangements and Defaults (PRAAD) published by the Steering Committee on Reciprocity (SCOR) and provides supplementary guidance on the reporting of Energy accounts to the Credit Reference Agencies for the purpose of full datasharing. This details the standards that all Energy providers will follow but recognises that there may be a transition period whilst providers work towards these standards.

Principle 1 – Consumer Awareness and Communication

1. Energy providers must ensure that consumers are advised how information will be reported on their credit file in accordance with the Data Protection Act and GDPR and the Principles for Reporting Arrears, Arrangements and Defaults at Credit Reference Agencies.
2. This will be achieved through privacy notices, terms and conditions, demands for payments and other forms of communication.
3. Communication strategies will be designed to ensure that providers advise consumers that their credit file, credit worthiness and ability to obtain credit in the future may be impacted if payments are not received when expected.
4. Energy providers must ensure that consumers are aware of their responsibilities regarding communicating in a timely manner to their Energy providers in a number of circumstances, such as entering the property, moving home, providing meter readings or to discuss payment difficulties.
5. In the absence of an actual meter reading Energy providers are entitled to report the estimated amount as the actual outstanding amount.

Principle 2 – General Principle on Account Administration

1. Consumers on a standard meter (not pre-payment meter) will be reported to the Credit Reference Agencies irrespective of whether the account is paid on time or not.
2. A consumer with a pre-payment meter who is using this to repay debt or arrears will be reported to the Credit Reference Agencies.

3. Depending on the type of agreement, separate records may be reported for consumers who are supplied with more than one type of fuel (including dual fuel) at each address supplied with Energy.
4. Joint account reporting will follow whereby separate records are reported for each individual named on the account. So, for example, an account with two named consumers where gas and electricity is supplied (or dual fuel) may report four records in total.
5. In general, the residential address of the account holder will be supplied to the Credit Reference Agency.

Principle 3 - Payments

1. If payments are made as requested (including monthly direct debit, pre-payment, payment schemes) and no demand for payment has been made, then accounts will be reported as up to date at the Credit Reference Agencies.
2. Unlike any other credit product, to cater for ongoing supply, any payments received may be split, where a proportion will be taken to repay outstanding debt (oldest first) and the remainder will be allocated for ongoing consumption in accordance with applicable terms and conditions.

Principle 4 – Reporting Arrears

1. Consumers must have been issued with a demand for payment that stipulates a due date prior to arrears being reported.
2. If full payment is not made by the due date (incorporating a grace period of typically 7-14 days), the account may be reported in arrears. If this continues over time, the level of arrears will increase, based on the age of the debt.
3. Arrears may also be reported when an arrangement to repay the outstanding debt is in place, see Principle 5 – Arrangements.
4. In line with the Principles of Reporting Arrears, Arrangements and Defaults arrears will increase incrementally each month, however at the onset of an Energy provider reporting to a Credit Reference Agency accounts will be reported at the arrears level at that point. The provider will have notified the consumer that the data will be shared.
5. If a complaint has been raised due to a disputed reading/bill or missing payment etc, no further arrears will be reported until the complaint has been resolved.
6. A complaint is considered resolved when the Energy provider can demonstrate that the complaint has been investigated and reasonable steps have been taken to confirm the amount outstanding is valid.

7. Following receipt of a consumer query or complaint regarding arrears reported, Energy providers will consider payments made during the query period and prior to its resolution. For example, the arrears reported may be amended if regular payments were received during the query period even if they did not include the disputed amount.

Principle 5 – Arrangements

1. Where a consumer is unable to make payments in line with their terms and conditions, or agreed payment terms, an arrangement may be put in place and reported to the Credit Reference Agencies.
2. If a discrepancy arises between consumption and estimate (bill shock) Energy providers will endeavour to provide a period of time (typically around 12 months) in which arrears or arrangements (assuming a regular payment plan is in place i.e. direct debit) will not be shared with the Credit Reference Agencies as long as expected payments are made.
3. If the amount owed cannot be repaid within a reasonable period (typically around 12 months) Energy providers may report an arrangement to the Credit Reference Agencies for the duration of the arrangement. It may, in some circumstances, be more appropriate to report a default if the time period to repay the total debt is greater than 6 years e.g. token payment.
4. When an arrangement is in place, Energy providers may continue to report arrears in line with the original terms. For clarity, in line with the Principles for Reporting Arrears, Arrangements and Defaults Energy providers will treat this as a temporary arrangement.
5. Following a satisfactory period of payments (typically around 12 months) the arrears may be reset (at the discretion of the Energy provider) but the arrangement will still be reported for the duration of the term.
6. If the consumer fails to meet the requirements of the arrangement arrears may continue to accrue and the arrangement flag removed.

Principle 6 – Pre-payment Meter

1. Debt being repaid via a pre-payment meter will only be reported where the debt has first been accrued or transferred from a credit meter.
2. Any on-going consumption including standing charges via a pre-payment meter will not be reported.
3. An amount of the monies paid onto a pre-payment meter will be used to reduce the debt and the remainder will be used for on-going consumption. This will be clearly communicated to the consumer.
4. Any balance transferred from a credit meter may have arrears reported for the life time of the debt in line with arrangement reporting. If payments are

less frequent, this will impact the length of time it takes to repay the debt and clear the arrears. However, the Energy provider should carry out periodic reviews to ensure that the levels of payment remain appropriate.

5. If the consumer does not repay the debt in accordance with the arrangement, then (further) arrears or a default may be reported.
6. Once all the debt is repaid the account will be reported as settled or satisfied.

Principle 7 – Defaults

1. Generally, when an account is between 3 or 6 months in arrears, a default will be recorded.
2. For consumers on supply of Energy and the account is 3 or more months in arrears then a default can occur in the following scenarios;
 - a. Commencement of legal proceedings
 - b. Force fitting of a pre-payment meter
3. Where consumers have left supply of Energy and the account is 3 or more months in arrears then a default can occur in the following scenarios;
 - a. Commencement of legal proceedings
 - b. Referral to a debt collection agency
4. There are circumstances whereby a default may be recorded prior to 3 months in arrears (see Principles for Reporting Arrears, Arrangements and Defaults);
 - a. The account is in arrears and the provider receives an indication that the consumer has left the address without providing notification
 - b. Evidence of fraud
 - c. The account has been included in a bankruptcy, CCJ, IVA or similar

16.2 Water Companies

In order to ensure that this initiative has the support of all stakeholders, there has been an agreement by OFWAT, CC Water, Water Companies and Water UK of a set of 7 Principles to define how water companies should approach data sharing and should reflect this within their published information on their debt recovery procedures (the Code of Practice and Procedure on Debt Recovery) and their debt recovery practices.

Principles for Domestic Customers

Principle 1 – Code of Practice

- Every water company's Code of Practice and Procedure on Debt recovery must reflect data sharing and be agreed with the Regulator prior to the issue of privacy notices.

Principle 2 - Communication

- In accordance with the data protection requirements on fair processing and the *Principles for Reporting of Arrears, Arrangements and Defaults at Credit Reference Agencies (appendix 2)*, water companies must ensure that customers are advised how information will be reported on their credit file.
- This will be achieved through privacy notices at the outset and communications at each stage where applicable e.g. If payments are missed or “arrangements” set up.
- The Water companies will consult with CC Water on communication strategies.
- Communication strategies will be designed to ensure that companies provide clear communications on the impact of data sharing and the availability of the Code of practice and Procedure on debt Recovery to their customers throughout the collections process.

Principle 3 – Payment

- Unless there is an “arrangement” or court order is in place, any payment made by the customer will always be posted against the oldest outstanding balance.

Principle 4 – Standard Arrangement

- Where a customer makes payments in accordance to the agreed arrangements (no matter the value) Water companies will never file a default.

Principle 5 – Financially vulnerable

- The Water companies must at least accept the equivalent of DWP deductions, where the customer is defined as vulnerable by the company.
- The company may accept a lower payment at their discretion.
- In such cases it will be marked as an “Arrangement” in accordance with the agreed processes and will not progress to default until and unless the arrangement fails.

Principle 6 – No Multiple Defaults

- Only 1 outstanding default can be filed against a customer at any one time, for any one property.
- Any future debt will be posted against the existing default
- In cases where a customer subsequently defaults after satisfying a default, a second default may be recorded

Principle 7 – Reasonably Disputed Accounts

- Where the liability or accuracy of a bill that is reported to the credit bureau is reasonably disputed by a customer, no default will be registered until the dispute is resolved.

The dispute will be reported to the credit bureau in accordance with the reporting rules set out in the data protection regulations.

Further Guidance

- The ICO is aware that the range of data contributors extends beyond traditional lenders of consumer credit (e.g. banks and building societies), to also allow eligibility to service providers who extend credit without making loans, including water companies.
- Positive data shared along with any missed payments and arrears will be reported in a similar way to a standard credit product. e.g. arrears will increase month on month.
- If an agreement is not expected to be paid on a monthly basis, a status code of 'U' or '0' should still be provided for each month where no payment is due. Once the agreed payment date is missed, irrespective of how many months the bill covers, the monthly increment of status codes should be adhered to.
- If all or part of the arrears forms part of an arrangement or debt management plan or a combination of both, an arrangement flag should be provided.
- Water companies are unable to cut off the service provided due to social rather than commercial grounds or by other regulations, codes of practice or statute, therefore a default may be filed when the financial relationship breaks down in line with the below time period
- In common with other data providers, as far as is possible, consistency should be observed and the registration of a default, at CRAs, should still occur after 90 days of non-payment and before 180 days.
- The default date shared with the CRA will be the date the default notice becomes effective assuming the corrective action required was not taken. e.g. 28 days notice of the intention to file a default. The default balance will be the outstanding balance at the time the default is shared with the CRA. e.g. the amount quoted on the notice including any other costs and charges incurred in the 28 day notice period
- In line with industry and ICO guidance, at any time during a 6 year period, a customer should only have 1 open default account and (potentially) one open active full data record.

- When the next payment is due (post default), a new account should be registered with the CRA. If payments are not received on this subsequent account, the above arrears reporting will commence.
- When this second or subsequent account goes into default, this account should not be marked as a default, the account should be settled and the outstanding balance on this account should be added to the existing default.(Default and current)
- Normally, once 6 years has passed since the original Default Date, a record will automatically be removed from a CRA. To ensure that customers who fall into the above scenario, who are continually not making payments, do not have the default disappear, a running default will effectively be created. This will involve the oldest default details dropping off at year 6 and the newest default adding in. In order to manage this process there needs to be some changes made to the Default Balance and the Default Date field.

APPENDIX 1

Principles for the Reporting of Arrears, Arrangements and Defaults at Credit Reference Agencies

Foreword by the Information Commissioner's Office

The Information Commissioner's Office (ICO) published Data Protection Technical Guidance: Filing defaults with credit reference agencies in 2007. This guidance now needs updating to take into account developments in the methods used to file arrears, arrangements and defaults. However, rather than updating our own guidance, we thought it best for this 'principles' document to become the main source of advice for the public on the reporting of arrears, arrangements and defaults with the credit reference agencies (CRAs).

The principles in this document have been drawn up by the credit industry in collaboration with the ICO. The ICO will continue to work with the industry to ensure that these principles remain up to date and that the privacy rights of individuals are respected.

ICO will retain a keen interest in how personal data is processed within the credit industry, given the significance for individuals of decisions based on CRA information. A record lodged with a CRA must be a reliable reflection of an individual's credit standing. The Data Protection Act 1998 is likely to have been breached where, for example, inaccurate, out of date or excessive personal data is being used to assess your credit-worthiness.

Where there is a problem with the content of a CRA record, you should contact the organisation concerned to give it an opportunity to put things right. If that fails, you can contact the ICO helpline on 0303 123 1113. Please note though that we can only deal with issues to do with the accuracy etc. of your record, not with lending decisions based on it.

Introduction

Credit Reference Agencies (CRAs) hold databases of debts and payments on products offered to consumers and businesses that relate to financial commitments. These will include credit agreements such as mortgages, loans, credit cards or current accounts, and commitments such as telephone agreements, energy and water utilities.

Information about the limits, balances and how these agreements are managed, are shared by the provider with CRAs. They in turn can provide a copy of your credit reference file to other organisations to be used by them to help make decisions about you or your business (if you have one). Your credit reference file may only be used for agreed and specific purposes.

You can see a copy of your credit file on request and on payment of a minimal fee. There is specific legislation which sets out what must be supplied and how quickly the file must be sent to you.

The operation of CRAs in the UK is regulated by the Financial Conduct Authority, but the day to day activities are governed by several laws that cover aspects of credit referencing such as:

- The Data Protection Act 1998
- The Representation of the People Act
- The Consumer Credit Act
- The Companies Act

However, the main legislation is the Data Protection Act 1998 and the Regulator is the Information Commissioner's Office (ICO).

How CRAs operate is agreed with the ICO and the purpose of this document is to set out the principles under which information about **arrears, arrangements and defaults** are filed with the CRAs.

These principles will be of interest to regulators, lenders and consumers and their representatives.

The principles set out in this document have been reached after extensive consultation with the ICO, lenders, CRAs and trade associations. Adherence to these Principles will be periodically reviewed in line with the credit industry's data sharing governance procedures.

You, as a customer, will be told in the terms and conditions of your credit product how your information may be used by your credit provider, CRAs and others.

The Principles

1. Data that is reported on your credit file must be fair, accurate, consistent, complete and up to date.

Lenders that supply data to the CRAs are required to ensure that the data is accurate, up to date and meets agreed quality standards.

The types of product that are reported all relate to forms of credit, but the features of one product type may be very different to another. Rules are in place to ensure that arrears information from different providers, but on the same product type, has the same or a similar meaning.

Rules are also in place to require that the reporting of information on different products is provided in such a way as to mean the same, irrespective of type.

For each product type there are required levels of data (mandatory fields) that must be supplied in order for the data to be loaded and/or updated.

Whilst most credit products are repaid monthly, some are not, such as home credit¹. In these cases, the information will be adapted to meet the monthly reporting standards of the credit reference industry.

Should your account be sold or referred to another lending organisation or a debt collection agency, the record(s) provided to a CRA by the creditor/and or purchaser must still be accurate

¹ Home collected credit includes informal flexibility as standard to help debtors cope with unexpected budget pressures. In effect, the home credit agent can - during the weekly home visit - agree missed or part payments on the spot (normally at no extra cost). These informal variations are not themselves reported. However, when the debtor has - in aggregate - missed to the value of 4.33 weekly repayments (equivalent to one month's arrears), that is reported (as arrears). Only the larger home credit companies use the reporting agencies.

and up to date. In all instances you should be told whether and how the information will be reported on your credit file.

2. Should a payment not be made as expected, information to reflect this will be recorded on your credit file

If you do not make your regular expected payment by the agreed time and/or for the agreed amount according to your terms and conditions, the account may be reported to the CRAs as being in arrears.

If this continues over time, the level of reported arrears will increase, which may result in the lender taking some form of action. This could include notification of their intention to report the account as “defaulted” (see Principle 4 below).

Calculating and reporting arrears

In general, the reporting of arrears indicates that the account has not been maintained according to the terms and conditions.

The purpose of reporting arrears is to indicate at the earliest reasonable opportunity that a customer is showing signs of potential financial difficulty or inability to manage his/her finances.

Conduct outside the terms and conditions are reported through status codes such as 1, 2 etc. which are based on the monthly performance of the account.

Status can be based on missed payments, months past repayment date and in the case of a current account it can be calculated as continual unauthorised excess over the agreed overdraft.

Generally, by the time the account is at least three months in arrears the lender may be taking further action such as reporting the account as defaulted (see Principle 4 below).

Status codes may continue to rise and be reported up to a maximum of 6. On some products this may continue to show as 6 until either the lender takes action and reports the account as being in default or the consumer brings the account back in order.

Current balance

This information relates to the amount owed at a given point in time.

It may be made up of a combination of the amount borrowed, interest and charges depending on the terms of the product.

Due to the nature of some revolving products, the current balance (owed) may show as zero even though the account is still active e.g. mobile phones, credit cards and mail order.

Reporting of arrears over time

Arrears should generally only increase by one month at a time e.g. status code 1 to 2, 2 to 3 etc. There can be exceptions to this such as fraud, bankruptcy, county court judgments (CCJs), returned cheques or direct debits.

In the event that repayments are made and the arrears reduce, the change in arrears status should be recorded in the next monthly update.

In contrast to the reporting of increasing arrears, reducing arrears may legitimately “jump” status codes if significant payments are made and/or capitalisation occurs (see Principle 3 below).

3. If you offer or make a reduced payment, how it is reported will depend on whether it is agreed with the lender.

Agreed reduced or revised payments

If, due to financial difficulty, your lender agrees a reduced or revised payment with you, this will be reflected on your credit file. How revised or reduced payments are shown on your credit file will depend on whether it is a temporary or permanent change to the agreement. The account may or may not be in arrears at the time of the change.

Should a *permanent* change in the payment terms be agreed by the lender, there will normally be a new agreement signed and the revised terms will be reported going forward.

This may mean that a new limit, account and/or term is shown on your credit file and performance will be reported against that going forward.

As long as you comply with the revised terms, arrears will not accrue further or be shown although any arrears reported under the previous terms will stay on your credit file.

Should a *temporary* reduction in the payment amount be jointly agreed between you and your lender, this ‘arrangement’ will be recorded at the CRAs.

This may also occur if there is a temporary change in terms (that is not part of the product) such as a payment holiday or change to interest only.

An arrangement may also be provided when a customer has agreed with the lender to make overpayments to clear historic arrears

Depending on the period and amount of the arrangement, arrears may continue to be reported. Such temporary arrangements may last for some time but are generally expected to revert to the contracted terms at some future point. For such accounts arrears may continue to be calculated in accordance with the contracted terms.

The record must show that the account is the subject of special terms. The reporting of this fact may be different depending on the product and the CRA.

It is important that you are made aware when such arrangements are made and maintained, that it will show on your credit file and that whilst arrears may accrue and increase, a default will not be recorded.

Following a satisfactory period of payments under a temporary arrangement, and if the lender agrees, the status on your account may be set to zero; although the history will remain. This can be described as capitalisation, re-scheduling or re-aging. Depending on the product this could result in adjustments to how your account is reported on your credit file e.g. the payment amount, repayment period as well as the status. Should you make full payments from this point onwards your account will be classified as being up to date.

If after a period of time a permanent change in terms on an account occurs then if appropriate, the revised terms should be recorded at the CRAs and payment performance calculated against the new terms; in such circumstances there will no longer be an arrangement in place.

If your lender agrees to give you a temporary arrangement, but you fail to make the agreed payment against the new terms, they may still file a default (see Principle 4 below) as soon as a payment is missed, as long you were at least 3 months in arrears on the original agreement.

If you are subject to a debt management programme managed by a third party (such as StepChange) this will be shown on your credit file so that lenders know you are subject to this type of arrangement.

Debt Management Programme

A debt management programme (DMP) is when a third party debt adviser negotiates a repayment schedule for all or a number of a consumer's credit agreements.

If the plan is accepted by the lender, the record filed at the credit reference agencies must reflect that the consumer is on a DMP. For such accounts arrears may continue to be calculated in accordance with the contracted terms, but the account marked as under a DMP.

Unacceptable or Token payments

If your lender does not agree a reduced or revised payment with you because the amount you offer to the lender is not acceptable, for example, a very low or token payment, the account will not be reported as an arrangement or a DMP negotiated by a third party.

Any payments you make will be reflected in the current balance, arrears will continue to accrue and a default may be recorded.

4. If you fall into arrears on your account, or you do not keep to the revised terms of an arrangement, a default may be recorded to show that the relationship has broken down.

As a general guide, this may occur when you are 3 months in arrears, and normally by the time you are 6 months in arrears.

There are exceptions to this which may result in a default being recorded at a later stage, such as secured or long term loans e.g. mortgages, or if the product operates in a more flexible way e.g. current accounts, student loans, home credit.

If an arrangement is agreed (see Principle 3 above), a default would not normally be registered unless the terms of that arrangement are broken.

Apart from being 3 or more months in arrears there are other circumstances which may lead to the recording of a default:

1. Property such as a house or vehicle has been repossessed or handed back with no indication to pay a remaining balance.
2. The provider takes steps to cut off a service.
3. The account is in arrears and the provider receives an indication that you have left your address without notifying them.
4. Evidence of fraud.
5. The account is or has been included in a bankruptcy, CCJ, Individual Voluntary Arrangement (IVA) or similar.

The lender must have notified you of their intention to register a default against you at least 28 days before doing so, in order to give you time to make an acceptable payment or reach an agreement with them on an arrangement. This also applies in cases 1 - 3 above. However, in 4 - 5 the lender or provider does not need to provide a notice and can file a default as soon as they become aware of the situation.

Lenders will report the default amount and the default date to the CRAs.

The current balance then shows the actual amount due (which may include interest and charges) and must be updated over time until the account is satisfied (settled).

A default will remain on your credit file for 6 years from the default date.

A default should not be filed:

- If you make a payment, in time, that fully meets the terms set out in the default notice
- If jointly with the lender an agreement is reached for an arrangement and you keep to the terms of that arrangement
- If the amount outstanding is solely made up of fees or charges
- If a lender is given evidence that a customer is deceased (for example a verifiable death certificate, probate or letter of administration)

The date of default recorded on the file would normally be the date on which a decision to file a default becomes effective, e.g. 28 days from the date of the default notice.

The default amount filed should normally be the balance amount as quoted on the default notice. However, if any payments or charges apply in the interim period, the default balance reported may reflect the outstanding balance at that time.

The current balance should be updated regularly and reflect any charges added and/or subsequent payments received whether direct to the lender or via a third party organisation (debt collection agency) or, for example, as a result of the sale of a repossessed asset.

Relationship of defaults to CCJs, decrees, bankruptcies, IVAs and similar arrangements

A default can be registered for debts which the lender has also tried to recover through a CCJ or decree.

In normal circumstances lenders will be notified when the debt that is owed to them is to be included in an insolvency e.g. bankruptcy, IVA or similar and should be marked as included in that by filing a default as soon as is practical.

The default date must be consistent with that of the CCJ/bankruptcy or IVA; therefore a default should be filed as being no later than the date of the insolvency order. In circumstances where the lender is not immediately aware, the default can be filed at that point in time. If evidence of the insolvency date is provided, the default date recorded at the CRA will be aligned.

If a default has already been filed and a CCJ or other insolvency or similar is subsequently registered, no further action is needed.

Where there is joint liability and only one party is the subject of an insolvency order, then the account should not automatically be marked in default if it is being maintained by the other party.

5. When an account is closed, the record should properly reflect the closing payment status of the account and any agreement between the parties

If you make a full or part payment and no further money is expected, the account should be closed unless you have agreed with your provider to continue your relationship.

If the account is to be closed, your record should be marked as fully paid if:

- You have paid the money owed in full
- A CCJ or decree was granted and you have paid in full the money owed as determined by the court

Your record should be closed and marked as partially settled if:

- The lender accepts final settlement of the account for less than the balance outstanding
- Your account is included in an insolvency such as a bankruptcy or IVA which is discharged / completed and less than the full amount is paid

The fact that the account was previously in default will remain on your credit file for 6 years from the date of default. If the account was not in default, the record would remain on your credit file for 6 years from the date of closure.

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Appendix 2

Notice of Default Wording and Information Sheet

Notification of intention to file a Default

[Full name and address of organisation]
[Date]

[Full name and address of debtor]

FINAL DEMAND: NOTICE OF DEFAULT

We note that you have failed to pay the sums owed to us in relation to your You owe the sum of [£x]. This sum became due and payable on [date] but has not yet been paid, despite reminders sent to you on [date and date].

Since you have failed to pay the sums due to us, you are in breach of the agreement between us. If you fail to pay the amount due to us in full by [date] *[Drafting note: This date should be at least 28 days after the date of service of this letter, such service will be deemed to have taken place two working days after the date on which it was sent]*, then we will be entitled to file data about you at credit reference agencies and/or bring a claim before the County Courts for the sums due.

To make a payment, please [insert details of how to make payment].

This is a legal document and sets out important information in relation to your rights and legal obligations. For more information about how to respond to this document, please refer to the information sheet enclosed.

Information Sheet

DEFAULT

You have been sent a Final Demand and Notice of Intention to File a Default at credit reference agencies and pointing out that we are entitled to take action against you. This Information Sheet sets out some important information to help you.

DON'T IGNORE THE PROBLEM

There are things you can do and people who can help.

BUT YOU NEED TO ACT NOW!

- **Read the default notice carefully.** It explains what you need to do, and what could happen if you don't respond. If you are not sure what it means, get in touch with us.
- **Get free help and advice.** Your rights and options depend on the type of agreement in place, and the law can be complex. You can get free independent help and advice from a number of organisations whose details are set out below.
- **A debt adviser may be able to negotiate on your behalf.** They can suggest ways to deal with the problem and to make sure the most important debts are paid first.
- **You may be able to ask a court for more time to repay a debt** – but only in some circumstances. Speak to a debt adviser before considering court action. Keep copies of letters and emails in case these are needed by the court.