FCA CP 17/27 – Assessing creditworthiness in consumer credit – Responsible Finance response

31 October 2017

Q1: Do you agree with our proposed changes to the scope of the creditworthiness rules and proposed transitional arrangements?

Yes we agree. Our members, responsible finance providers, already take this approach when assessing credit applications. We welcome the detailed guidance from the FCA. Clear guidance and standards for both defining and assessing affordability and creditworthiness is a step towards establishing more responsible lending practices and ensuring fair treatment of customers.

Q2: Do you agree with our approach to the meaning of affordability and the factors that should be taken into account by firms?

Yes we agree. Responsible finance providers lend to businesses and individuals that cannot access finance from mainstream sources, and would otherwise borrow from high cost credit providers. By providing access to affordable credit and support services, responsible finance providers create economic opportunity and improve their customers' life chances. In 2016 91% of the sector's business customers had been previously declined from a bank and 23% of individuals served used a high cost lender in the past year. To support this market responsible finance providers in some cases must operate on the edge of affordability. In these cases responsible finance providers must make a responsible lending decision based on the information supplied as to whether there will be sufficient income in the future to repay the loan. The FCA's new guidance can ensure that lenders can have appropriate information on a potential borrower's creditworthiness before making a lending decision.

Q3: Do you agree with our proposals on the use of income and expenditure information?

Yes we agree. Responsible finance providers verify income and expenditure by reviewing bank statements as part of the assessment process. However for some clients – both consumers and small businesses – that operate mainly on a cash basis, bank statements will only show payments going in and cash coming out, be difficult to verify non-discretionary expenditure.

Q4: Do you agree with the factors which we propose that firms should have regard to when considering proportionality of processes for assessing creditworthiness including affordability?

Yes we agree. However we also encourage the FCA to apply proportionality in its guidance to firms as well.

Q5: Do you agree with our proposals for open-end and running-account credit, guarantor loans and peer-to-peer loans?

N/A

Q6: Do you have any views on our proposals in relation to firms' policies and procedures for creditworthiness assessment?

N/A

Q7: Do you have any views on the use of CRA data and products, or other data sources, as part of an assessment?

Responsible finance providers often use data from CRAs when assessing a customer's creditworthiness. However for the reasons cited by the FCA in 5.81 this is not the only data point that underpins the creditworthiness and affordability assessment. In addition what is not on a credit file may also be useful information for a lending decision; for example payday loans do not appear on CRA files, but would appear on a customer's bank statement. It would be useful if the Open Banking standards could be transferred to credit reference agencies as well, so there could be open credit, and more data could be shared this way.

Q8: Do you have any other comments on our proposed changes to CONC in relation to creditworthiness including affordability?

No further comments.

Q9: Do you agree with our assessment of the costs and benefits of the proposed changes?

Yes we agree.

Q10: Do you have any comments on the equality and diversity implications or other aspects of our proposals?

N/A