Response to FCA consultation:

Assessing Creditworthiness in Consumer Credit

The Money Charity is the UK's leading financial capability charity.

We believe that being on top of your money means you are more in control of your life, your finances and your debts, reducing stress and hardship. And that being on top of your money increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.

Our vision is for everyone to be on top of their money as a part of everyday life. So, we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.

We believe financially capable people are on top of and make the most of their money in five key areas:

- Planning (including budgeting)
- Saving
- Debt
- Financial services products
- Everyday money (including wages, cash, bank accounts)

Introduction

1. We are pleased to see the FCA propose changes to the rules and guidance around creditworthiness, and welcome the opportunity to feed into the formulation of this policy.

2. Consumers and lenders need rules that both prevent detriment, non-payment and systemic risk, as well as ensure that a market which serves consumers who require income smoothing and credit for large purchases can function. Inevitably this is a balance that, in broad terms, the FCA gets right.

3. Efforts to consolidate, clarify and make more consistent Guidance in CONC are welcome and overdue. With a rapidly changing makeup of consumer credit products, where markets shrink and grow in short spaces of time, a flexible, easy to understand and consistent set up rules are necessary. We believe that the proposals outlined here meet that threshold.

4. The argument for a principles-based, proportional and balanced set of requirements for firms is well made. Overly strict or prescriptive rules risk both deterring market activity and unfairly favoring certain forms of credit over others without regard to their use to consumers. So the broad, generally prescriptive outline which allows firms to undertake and justify their own affordability checks to the regulator is the most viable course of action.

5. Despite welcoming the approach, intent and much of what is proposed, we retain fears about the effectiveness of the proposed rules and their capacity to ensure that credit products meet the stated definition of affordability.

6. Our two central concerns are that:

    1. The reliance on CRAs and lack of requirement to check income, other debt, assets or life circumstances means that firms simply will not be able to make a reasonable assessment of whether the full definition of affordability is met.

    2. The positive step of outlining factors that firms must take into account is undermined by not requiring that that these are treated with equal weight. Without some commitment to a threshold or ratio for specific factors when assessing creditworthiness, there is no assurance that firms will consider all factors outlined in the paper with equal weight. It is entirely possible that some factors are virtually ignored, and firms only choose ones which do not stop the acceptance of credit applications which are not affordable for consumers.

7. Without these factors being addressed, we do not believe that the laudable intent will be properly met. It is possible that the supervisory regime will be administered in vigilant enough a way that affordability checks are made to be sufficient in practice, but the current proposals leave too much room for firms to set and justify their own

affordability criteria without necessarily fulfilling the expectations the FCA rightly lays out in this document.

8. Below we answer the questions for which we have expertise and a view to provide.

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

9. The aim set out is commendable, and the transitional arrangements are sufficient.

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

10. The meaning is absolutely fine, but firms are not required to find the information they would need to know to be able to tell if this standard is met. In order for the firms to meet the standard laid out in this paper, we recommend that the FCA require checks on other factors such as other debts, current income and life circumstances. In doing so, firms should be able to make a much more evidence-based decision on the affordability of credit.

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

11. We do not agree with the proposals set out in the paper for the use of income and expenditure information. Firms should be required to check income or show that they have made evidence based calculations as to who is deemed creditworthy.

12. Without doing so, there is no guarantee that firms will meet the principles set out in the paper when it comes to an effective idea of what affordability is.

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

13. We agree with the list of factors outlined to determine a creditworthiness assessment, but not the failure to mandate specific ratios.

14. As the paper does not set out any kind of ratio between each of these factors, there is no assurance that the firms in question will consider them all fairly and equally. We are concerned that this could lead to heavy focus on one factor in particular, and little to no focus on another, despite all of the factors being of high importance for a creditworthiness assessment.

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

15. We agree with the proposals for these relatively new (or growing) markets, as they need to be regulated in a manner consistent with other forms of consumer credit…

16. The rules laid out for the specific loan and credit agreements should provide significant protections for consumers, which match with regulations on other consumer credit.