



## Best Practice

# GUIDANCE FOR ASSESSING CREDITWORTHINESS AND AFFORDABILITY





## **MFD POLICY GROUP**

### **GUIDANCE FOR ASSESSING CREDITWORTHINESS AND AFFORDABILITY**

1. This non-binding FLA guidance is aimed at describing good practice in assessing creditworthiness and affordability for consumer credit lenders, in line with FCA requirements and expectations, in the particular context of the motor finance market.
2. FLA motor finance members should undertake appropriate creditworthiness and affordability assessments that:
  - are based on clear and effective written policies and procedures for assessing affordability;
  - ensure those policies are approved, assessed and reviewed periodically by the lender's governing body;
  - evidence why each individual lending decision was appropriate in the circumstances (and evidence that a reasonable assumption of the customer's affordability was made where further affordability checks were not considered appropriate);
  - include an assessment of a customer's income and non-discretionary expenditure, where proportionate, to ensure that the credit is affordable and can be repaid in a sustainable manner (including, where necessary, a reasonable assessment that a customer will not have to borrow unsustainably to meet repayments or other financial commitments);
  - take account of a customer's income including non-salary sources where appropriate, or savings / other assets where the customer has clearly indicated an intention to repay using those (taking into account the purpose for which these savings or assets are held, the likelihood of these being available to make the repayments under the agreement, and the likelihood of significant adverse impact on the customer's financial situation if these savings or assets are used), and
  - consider reasonably foreseeable changes in circumstances – such as likely economic changes, or changes in the customer's personal circumstances.
3. FLA motor finance members should:
  - a. undertake a check to assess the creditworthiness of the customer which takes into account their credit risk or propensity to repay based on a credit score (internally modelled or externally sourced) and policy rules aligned to a lender's own credit risk appetite, and

- b. unless it is obvious in the particular circumstances that the credit is affordable<sup>1</sup>, apply one or more of the following approaches to obtain, estimate or verify income and expenditure information in order to assess the affordability of the credit agreement:
- i. **evidence of income** – in order to verify sustainable income, demonstrable evidence should be provided such as wage slips, bank statements or other documents. Household income may be taken into account;
  - ii. **affordability questions** – evidence the customer responding to questions which obtain information on their monthly or annual income, non-discretionary expenditure, employment situation and, where appropriate, expected changing circumstances, the answers to which should be verified, where appropriate, using robust data sources;
  - iii. **enhanced income and expenditure verification** – use a data product that can verify a customer's income and expenditure, making sure that the data held is robust and applicable to the customer being assessed;
  - iv. **open banking data services** – use services whereby the customer agrees to share their bank account data with lenders through data service providers powered by open banking APIs, or
  - v. **other publicly available data** – use data which, when combined with data analysis, can give an accurate assessment of income and expenditure based on the customer's characteristics.

The number and intensity of these approaches used in particular circumstances should be proportionate to the risk of the type of lending being undertaken: most or all may be necessary in a high-risk sector, while only one may be necessary in a low-risk sector. Other additional approaches to obtain, estimate or verify income and expenditure information may also be appropriate in particular circumstances.

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<sup>1</sup> This may be the case, for example, where a relatively small amount of credit is offered to a customer who shows no signs of financial difficulties and in relation to whom no adverse information is apparent from the application or a CRA check. See CONC 5.2A.15R in [PS18/19](#) and Chapter 5 of [CP17/27](#).