Assessing creditworthiness in consumer credit

Summary of research findings

July 2017

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Summary

As announced in our 2015/16 Business Plan, we have undertaken research to better understand how firms currently assess creditworthiness, including affordability, in the consumer credit market (excluding mortgages).

This has principally involved a firm survey and earlier qualitative research.

Extracts from the research findings are below. We are not publishing the full results because of confidentiality restrictions. Firms may, however, find the extracts useful in illustrating the different types of assessment that are currently used, including the different sources of information and how these can be factored into an assessment.

We are publishing these alongside our consultation paper proposing changes to our rules and guidance on assessing creditworthiness in consumer credit.[1] Chapter 4 of the consultation paper summarises these and other relevant research findings.

[1] CP 17/27 Assessing creditworthiness in consumer credit: Proposed changes to our rules and guidance - www.fca.org.uk/publication/consultation/cp17-27.pdf

Quantitative research (firm survey)

1. We commissioned Critical Research (with John Leston) to carry out a firm survey. This involved interviews with 70 firms across 12 credit sectors, based on an extensive pre-interview questionnaire. The main fieldwork was in February to April 2016, with a final report containing anonymised results in August 2016.

2. The firms interviewed were:

    - 21 motor finance providers
    - 12 personal loan providers
    - 8 guarantor lenders
    - 6 logbook lenders
    - 5 rent-to-own providers
    - 4 high-cost short-term credit (HCSTC) lenders
    - 4 catalogue lenders
    - 3 other retail credit providers
    - 3 home collected credit (HCC) lenders
    - 2 peer-to-peer (P2P) platforms
    - 1 store card provider
    - 1 premium finance provider

3. There was a mix of larger and smaller firms, with 9 having consumer credit lending income below £0.5m (12 below £1m) and 14 above £100m.

4. The firm survey did not cover credit cards as we were collecting data through the credit card market study. It also did not cover overdrafts because of the Competition and Markets Authority's market investigation into retail banking.

The research findings

5. Percentages by sector are indicative, and shown for interest only. The number of observations within each sector is small and therefore may not adequately represent practices in the sector as a whole. In addition, the profile of interviews may not be representative of the overall market.

6. Data are not shown individually for P2P, store card and premium finance firms, as they were represented by only one or two firms in the survey. This ensures that the data remain anonymous, although we do include relevant data in the aggregate figures.

7. As such, the figures and percentages may not always correlate. In addition, these have been rounded where appropriate, for ease of presentation.

Credit risk and affordability

8. All firms stated that they evaluate both credit risk and affordability. Most firms (40/70, 57%) conduct separate credit risk and affordability assessments; 21 (30%) do so concurrently while 19 (27%) do so sequentially.

9. Some variations were found between sectors in what was the most common approach:

Table 1. Integrated or separate assessments by sector

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Separate, at same time	21 30%	5 42%	2 50%	-	4 50%	3 50%	5 24%	1 20%	-	-
Separate, credit risk first	16 23%	1 8%	1 25%	3 100%	3 38%	1 17%	5 24%	-	1 25%	1 33%
Separate, affordability first	3 4%	-	-	-	-	1 17%	1 5%	1 20%	-	-
Integrated	30 43%	6 50%	1 25%	-	1 13%	1 17%	10 48%	3 60%	3 75%	2 67%

Manual interventions

10. Of the 70 firms, 52 (74%) use automated decision-making, although only 3 (4%) do so exclusively. The other 18 (26%) do not use automated processes so their lending decisions are entirely manual.

11. Of the 49 firms that use a mix of automated and manual processes, 13 (19%) always review manually, 19 (27%) do so in some cases and 17 (24%) only in marginal cases.

12. Putting this together, 39 (56%) are essentially automated, 13 (19%) are both automated and manual and 18 (26%) are solely manual.

Table 2. Automated and manual decision processes by sector

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Decision is fully automated – no manual underwriting or only if the applicant appeals against a rejection	3 4%	1 8%	-	-	1 13%	-	-	-	1 25%	-
Decision is essentially automated – but marginal cases are referred for manual underwriting	17 24%	2 17%	1 25%	-	-	-	9 43%	-	2 50%	1 33%
Automated decision is used – but outcome is sometimes reviewed manually and may be overridden	19 27%	6 50%	2 50%	-	-	1 17%	7 33%	-	1 25%	1 33%
Automated decision is used – but always manually reviewed	13 19%	2 17%	-	1 33%	4 50%	1 17%	1 5%	3 60%	-	-
Automated decision is not used – but employees have no discretion as decision rigidly follows pre-determined rules or algorithms	-	-	-	-	-	-	-	-	-	-
Automated decision is not used – employees have some degree of discretion	15 21%	1 8%	1 25%	1 33%	3 38%	3 50%	4 19%	2 40%	-	-
Automated decision is not used – employees have a wide degree of discretion	3 4%	-	-	1 33%	-	1 17%	-	-	-	1 33%

13. Large firms (those with lending income >£100m) all use automated decision-making to some extent, with half (50%) stating that decision-making is essentially automated.

14. While some small firms (those with lending income <£5m) do use automated decision-making, it is much more likely in small firms they do not, instead indicating employees have some degree of discretion (36%).

15. Firms were then asked to estimate in what proportion of cases automated decisions are accepted, and in what proportion automated decisions are reviewed manually, with the balance allocated to cases which are reviewed entirely manually.

16. The average proportions given by firms are shown below. These are not weighted by the number of credit agreements.

Table 3. Automated and manual decision proportions by sector

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	69									
Automated decision is made with no manual intervention	35%	46%	24%	0%	13%	1%	48%	2%	90%	52%
Automated decision is made but is reviewed manually (which may or may not result in a change)	33%	36%	76%	33%	37%	32%	26%	58%	10%	3%
A decision is made entirely manually	31%	18%	0%	67%	50%	67%	26%	40%	0%	44%

17. If automated decisions are reviewed manually, in the majority of cases the decision does not change (74%, unweighted).

18. In terms of company size, large firms are much more likely to state an 'automated decision is made with no manual intervention' (67%) compared to small firms (17%).

19. Where changes do occur, automated acceptances are rejected on manual review more frequently than automated rejections become acceptances. This is true of all sectors except personal loans, logbook loans and motor finance.

Table 4. Changes made to automated decisions

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	43									
No change to automated decision	74%	75%	76%	38%	85%	78%	69%	89%	41%	97.5%
Automated refusal becomes accept (on applied for terms)	9%	12%	2%	0%	0%	18%	14%	1%	21%	0%
Automated refusal becomes accept (on different terms)	2%	2%	0.5%	0%	0%	5%	3%	0.5%	0%	0%
Automated accept becomes refusal	13%	11%	16.5%	42%	13%	0%	11%	10.5%	38%	2.5%
Net refusal change	*+2%*	*-3%*	*+15%*	*+42%*	*+13%*	*-23%*	*-6%*	*+10%*	*+17%*	*+3%*
Automated accept is maintained (on different terms)	2%	0%	6.5%	20%	1%	0%	3%	0%	0%	0%

20. Considering the amount of decision-making freedom those making a manual decision have, the most common description was 'those involved in manual underwriting have some degree of discretion'.

Table 5. Amount of manual discretion involved in decision-making

	Organisations saying 100% of decisions fell into this category	Organisations saying some decisions fell into this category	Organisations saying no decisions fell into this category
Rigidly follows pre-determined rules or algorithms	9%	39%	52%
Some degree of discretion	35%	39%	26%
Wide discretion	12%	12%	76%
Unlimited discretion	3%	2%	95%

21. Firms were asked to estimate the proportion of cases where discretion is involved in the decision-making, by allocating the percentages of cases across categories of discretion. Excluding two firms whose decision-making is fully automated (plus one firm which declined to answer), these percentages can be averaged.

22. Where some manual decision-making is involved, the (unweighted) distribution of decisions by degree of decision-making autonomy for manual decision-makers is shown in the table below.

Table 6. Changes made to automated decisions

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	66									
Pre-determined rules or algorithms	37%	29%	80%	33%	41%	44%	36%	0%	67%	33%
Some degree of discretion	45%	54%	18%	33%	45%	56%	34%	96%	33%	33%
Wide or unlimited discretion	18%	17%	3%	34%	14%	0%	30%	4%	0%	33%

23. Among large firms, staff typically have very little discretion: very few (9%) indicated there was a wide degree of discretion.

24. The different sectors have varying profiles in terms of the type of staff involved in manual decision-making:

Table 7. Staff involved in any manual decision-making

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	67									
Chief risk officer or equivalent	46 69%	6 55%	2 50%	2 67%	7 100%	6 100%	16 76%	4 80%	1 33%	-
Senior specialist underwriter	51 76%	11 100%	4 100%	1 33%	6 86%	4 67%	19 90%	2 40%	1 33%	1 33%
Specialist underwriter	47 70%	10 91%	4 100%	1 33%	4 57%	2 33%	18 86%	2 40%	2 67%	1 33%
Call centre or branch manager	25 37%	5 45%	2 50%	3 100%	2 29%	2 33%	5 24%	4 80%	1 33%	1 33%
Call centre or branch staff[2]	13 19%	4 36%	-	1 33%	1 14%	-	3 14%	-	2 67%	1 33%

[2] 'Branch staff' may include field agents.

25. The proportion of firms involving each level of staff in manual decision-making, either ‘often’ or ‘always’, is shown in the table below.

Table 8. Staff ‘often’ or ‘always’ involved in manual decision-making

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	67									
Chief risk officer or equivalent	7 10%	- 	1 25%	-	2 29%	3 50%	-	-	-	-
Senior specialist underwriter	32 48%	6 55%	3 75%	-	3 43%	4 67%	13 62%	1 20%	-	1 33%
Specialist underwriter	39 58%	10 91%	4 100%	-	3 43%	1 17%	17 81%	2 40%	-	1 33%
Call centre or branch manager	18 27%	3 27%	1 25%	3 100%	1 14%	2 33%	2 10%	4 80%	1 33%	1 33%
Call centre or branch staff	10 15%	2 18%	-	1 33%	1 14%	-	2 10%	-	2 67%	1 33%

External sources of information

Credit reference agencies

26. All but 3 firms out of 70 use credit reference agencies (CRAs). The exceptions are in logbook (2) and rent-to-own (1).

27. The observations below primarily relate to the three main CRAs operating in the UK.

Table 9. CRAs used by sector

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	67									
CRA A	40 60%	9 75%	3 75%	2 67%	6 75%	3 75%	9 43%	2 50%	2 50%	2 67%
CRA B	34 51%	7 58%	1 25%	1 33%	1 13%	-	18 86%	-	2 50%	2 67%
CRA C	27 40%	6 50%	2 50%	-	3 38%	-	9 3%	3 75%	1 5%	1 33%
Other	6 9%	-	2 50%	-	-	1 25%	2 10%	-	-	-

28. No firm uses more than three CRAs. The average number used is 1.6.

Table 10. Number of CRAs used by sector

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	67									
One CRA	35 52%	4 33%	1 25%	3 100%	7 88%	4 100%	7 33%	3 75%	3 75%	2 67%
Two CRAs	24 36%	6 50%	2 50%	-	-	-	11 52%	1 25%	1 25%	-
Three CRAs	8 12%	2 17%	1 25%	-	1 13%	-	3 14%	-	-	1 33%
Mean CRAs	1.6	1.8	2.0	1.0	1.3	1.0	1.8	1.3	1.3	1.7

29. More than half (54%) mentioned using three or more individual CRA products in assessing creditworthiness including affordability.

Table 11. CRAs products used by sector

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	67									
1 product	18 27%	2 17%	- 	3 100%	1 13%	2 50%	7 33%	1 25%	1 25%	-
2 products	13 19%	1 8%	1 25%	-	3 38%	1 25%	3 14%	1 25%	1 25%	2 67%
3 products	18 27%	3 25%	-	-	4 50%	1 25%	5 24%	2 50%	1 25%	1 33%
4 products	10 15%	5 42%	1 25%	-	-	-	3 14%	-	-	-
5+ products	8 12%	1 8%	2 50%	-	-	-	3 14%	-	1 25%	-
Mean products	2.7	3.2	4.0	1.0	2.4	1.8	2.6	2.3	2.8	2.3

30. On average, large firms tend to use more CRAs (2.1) than their smaller counterparts (1.3). They also use more products (3.2 vs. 2.4).

Other sources

31. 40% of firms mentioned other sources they use for assessments in addition to CRAs. The distribution by sector is shown below.

Table 12. Firms using other sources in their assessments other than CRA information

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Use other third party resources	28 40%	3 25%	1 25%	-	7 87%	3 50%	8 38%	2 40%	1 25%	-
Do not use other third party resources	42 60%	9 75%	3 75%	3 100%	1 13%	3 50%	13 62%	3 60%	3 75%	3 100%

32. Other sources mentioned by firms as important included Office for National Statistics (ONS) data (5 firms) and Cifas[3] (4 firms).

[3] Formerly the Credit Industry Fraud Avoidance Service.

Changes

33. Almost two-thirds of firms (63%) described changes they had made in the last 12 months in their use of data from CRAs or other external sources, or changes they were planning or evaluating.

Table 13. Changes in use of CRA or other external data by sector

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Changes made or planned to assessment practices	44 63%	4 33%	3 75%	2 67%	5 63%	2 33%	15 71%	3 60%	4 100%	3 100%
No changes made or planned to practices	26 37%	8 67%	1 25%	1 33%	3 37%	4 67%	6 29%	2 40%	-	-

34. Reviewing the detailed comments provided by firms produced a number of common themes. These included that firms have:

- changed the CRAs they use, CRA reports, variables or data (20/44 firms)
- improved their income verification processes (9/44 firms)
- updated their policy rules or 'hard-stops' (7/44 firms)
- changed their scorecards or credit scoring decision-making system (7/44 firms)
- updated their application processes or information they request from applicants (3/44 firms)
- investigated changes to income and expenditure (I&E) processes or sought access to online banking transactional data (3/44 firms)
- changed their manual vs. automatic decision-making processes (3/44 firms)

Internal sources of information

Frequency used

35. 88% of firms have some internal information on at least some applicants while 7% have internal information on all applicants. Some variation is apparent by sector.

36. The average percentage of cases where firms have internal information about the applicant was just over one-third (37%).

Table 14. Incidence where internal information about the applicant is held

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	69									
0%	8 12%	1 8%	-	-	-	-	5 24%	-	-	1 33%
1-25%	26 38%	1 8%	1 25%	1 33%	6 75%	1 17%	10 48%	1 20%	2 50%	1 33%
26-50%	13 19%	2 17%	2 50%	-	-	3 50%	5 24%	-	1 25%	-
51-75%	7 10%	2 17%	1 25%	-	-	1 17%	-	2 40%	1 25%	-
76-99%	10 14%	4 33%	-	2 67%	-	-	1 5%	2 40%	-	1 33%
100%	5 7%	2 17%	-	-	2 25%	1 17%	-	-	-	-
Mean %	37%	66%	37%	61%	30%	50%	17%	64%	31%	28%

37. Where firms hold internal information on applicants, it is widely used in creditworthiness assessments: 85% said they always use it.

38. The 15% of firms that do not always use internal information are from the following sectors:

- home collected credit (1 firm: sometimes use)
- guarantor loans (2 firms: 1 usually use, 1 sometimes use)
- logbook loans (2 firms: both usually use)
- motor finance (5 firms: 2 sometimes use, 3 never use)

Relative importance of types

39. The internal information held by firms that was most widely seen as very important was ‘performance on current products’ (81%) followed by ‘previous arrears/defaults’ (74%) and ‘amount of credit outstanding on current products’ (70%).

40. Using the proportion of firms which stated 'very important' to each type of internal information, the rank orders for these internal information types by sector are:

Table 15. Relative importance of internal information types

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	69									
Performance on current products	81% 1st	3rd	2nd =	1st =	3rd	2nd	1st	1st	2nd =	1st =
Previous arrears/defaults	74% 2nd	2nd	1st	4th	5th	1st	3rd	2nd =	2nd =	1st =
Amount of credit outstanding on current products	70% 3rd	1st	2nd =	1st =	2nd	4th	2nd	4th	7th	1st =
Existence of other products currently held	57% 4th	5th	6th	5th	1st	6th	5th	2nd =	1st	5th
Performance on previous products	54% 5th	4th	4th	1st =	4th	3rd	4th	5th	4th	1st =
Previous application data	17% 6th	7th	5th	6th	7th	5th	6th	6th	5th	6th
Previous CRA data	16% 7th	6th	7th	7th	6th	7th	7th	7th	6th	7th

Checks waived

41. The majority of firms (44/67, 66%) stated that existing or previous customers are subject to all the same checks as new customers, even if the firm holds favourable internal information about them.

42. Among firms that said some checks are reduced or waived, in many cases these are identity checks. They would also usually only rely on previous information that was less than six months old.

43. The pattern by firm type was:

Table 16. Number of firms reducing or waiving any checks

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	67									
Number reducing/ waiving any checks	23 34%	5 50%	4 100%	3 100%	2 25%	1 17%	5 24%	1 20%	-	1 50%

44. Based on specific comments provided by firms, the common themes among firms waiving or reducing checks were:

- identity checks and proof of address are waived (7/23 firms)
- no live bureau data or new bureau-driven decision-making is repeated (5/23 firms)
- checks on salary or income are not conducted (4/23 firms)
- banking performance, income and expenditure or current account information is not re-checked (3/23 firms)
- greater flexibility on amount lent or terms granted (2/23 firms)

Changes

45. One-third of firms (22/67, 33%) stated that they had made material changes in the last 12 months in their use of internal information in creditworthiness assessments or that some were planned.

46. The pattern by firm type was:

Table 17. Number of firms making material changes to their use of internal information

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	67									
Made changes/ planning to do so	22 33%	2 17%	1 25%	2 67%	2 29%	1 17%	7 33%	3 60%	2 50%	1 50%

47. A wide variety of changes were described by firms, but common changes were to:

- product limits, number of products or credit commitment rules (5/22 firms)
- the application process or documentation (3/22 firms)
- the I&E assessment process (3/22 firms)
- rules around previous delinquency or arrears (2/22 firms)

Income information

Income information collection

48. Three-quarters of firms (52/70, 74%) stated that they always take account of the applicant's individual income.

Table 18. Frequency with which individual income is taken into account

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Always	52 74%	11 92%	4 100%	3 100%	8 100%	6 100%	10 48%	4 80%	1 25%	3 100%
Usually	1 1%	1 8%	-	-	-	-	-	-	-	-
Sometimes	5 7%	-	-	-	-	-	4 19%	-	-	-
Marginal cases	5 7%	-	-	-	-	-	5 24%	-	-	-
Never	7 10%	-	-	-	-	-	2 10%	1 20%	3 75%	-

49. Firms pay attention to household income much less frequently: 8/70 (11%) always take account of it and 4/70 (6%) usually do so. About half (46%) never take household income into account.

Table 19. Frequency with which household income is taken into account

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Always	8 11%	1 8%	-	-	1 13%	-	2 10%	1 20%	2 50%	-
Usually	4 6%	1 8%	-	-	1 13%	1 17%	-	-	-	-
Sometimes	18 26%	5 42%	-	1 33%	3 38%	3 50%	4 19%	2 40%	-	-
Marginal cases	8 11%	-	-	1 33%	1 13%	-	5 24%	-	-	1 33%
Never	32 46%	5 42%	4 100%	1 33%	2 25%	2 33%	10 48%	2 40%	2 50%	2 67%

50. The table below shows that 9% of firms always consider both individual and household income. However, most take account of only individual income.

Table 20. Firms taking account of individual and/or household income

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Always take account of individual income	52 74%	11 92%	4 100%	3 100%	8 100%	6 100%	10 48%	4 80%	1 25%	3 100%
Always take account of household income	8 11%	1 8%	-	-	1 13%	-	2 10%	1 20%	2 50%	-
Always take account of both	6 9%	1 8%	-	-	1 13%	-	1 5%	1 20%	1 25%	-
Never take account of either	5 7%	-	-	-	-	-	1 5%	1 20%	2 50%	-

51. A small proportion of firms (7%) never take account of either individual or household income. Furthermore, an additional 5 firms refer to income only in marginal cases – making 10 firms in total (15%) which either never take account of income or only take account of income in marginal cases.

52. While 95% of small firms (lending income <£5m) always take account of individual income, this is far less common among large firms (lending income >£100m) with just 36% stating they always take individual income into account.

53. Income information is predominantly obtained from the applicant (75%) and from documentation supplied by the applicant (66%), although just over one-third (38%) obtain income estimates from a CRA. Other sources are used by 18% of firms.

54. Patterns vary somewhat by sector. Excluding the 5 firms which never take account of income in their assessment, the sources of income information for the 65 firms which do are shown in the table below.

Table 21. Obtaining income information by sector

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	65									
Applicant	49 75%	11 92%	4 100%	3 100%	6 75%	5 83%	10 50%	4 100%	1 50%	3 100%
Applicant docs	43 66%	8 67%	2 50%	2 67%	8 100%	6 100%	12 60%	4 100%	-	-
CRA info	25 38%	4 33%	3 75%	2 67%	6 75%	1 17%	3 15%	2 50%	1 50%	2 67%
Other	12 18%	3 25%	1 25%	-	1 13%	-	6 30%	-	-	-
Both from applicant and applicant docs	33 51%	7 58%	2 50%	2 67%	6 75%	5 83%	6 30%	4 100%	-	-
Applicant, not applicant docs	16 25%	4 33%	2 50%	1 33%	-	-	4 20%	-	1 50%	3 100%
Applicant docs, not applicant	10 15%	1 8%	-	-	2 25%	1 17%	6 30%	-	-	-
Either applicant or applicant docs **and** CRA	23 35%	4 33%	3 75%	2 67%	6 75%	1 17%	2 10%	2 50%	-	2 67%

55. Overall, there is substantial overlap (51%) between 'applicant' and 'documentation supplied by the applicant'.

56. A handful of firms (15% overall) request applicant documentation about income but not information directly from the applicant. A greater proportion (25%) request income information from the applicant, without requesting documentation.

57. About a third of firms (35%) collect income information from either the applicant or documents they have supplied, and then also seek information from a CRA.

58. The 'other' sources firms mentioned include:

- job checks and other online external data sources such as salary checkers
- the customer's employer's website if they have a careers page with listed jobs and salary
- information from the broker
- documentation supplied by an intermediary
- information from the customer's employer

- analysis of income available for existing customers
- modelling of household income

Income verification

59. Just over half of firms (55%) always verify applicant income, while 73% do so either always or usually.

Table 22. Income verification by sector

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	64									
Always	35 55%	7 58%	1 25%	2 67%	6 75%	4 67%	9 45%	4 100%	1 100%	1 33%
Usually	12 19%	5 42%	1 25%	-	1 13%	2 33%	2 10%	-	-	-
Sometimes	10 16%	-	2 50%	1 33%	1 13%	-	6 30%	-	-	-
Marginal cases	5 8%	-	-	-	-	-	3 15%	-	-	1 33%
Never	2 3%	-	-	-	-	-	-	-	-	1 33%

60. Typically (in 82% of cases), firms verify an applicant's income using payslips.

Table 23. Use of payslips to verify income

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	62									
Use payslips	51 82%	10 83%	2 50%	3 100%	8 100%	6 100%	17 85%	4 100%	-	-
Do not use	11 18%	2 17%	2 50%	-	-	-	3 15%	-	1 100%	2 100%

61. Where payslips are used, it is most common to rely on only one (57%).

Table 24. Number of payslips required

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	51									
One	29 57%	7 70%	2 100%	3 100%	7 88%	-	7 41%	2 50%	-	-
Two	6 12%	-	-	-	1 13%	2 33%	3 18%	-	-	-
Three	15 29%	3 30%	-	-	-	4 67%	6 35%	2 50%	-	-
> three	1 2%	-	-	-	-	-	1 6%	-	-	-

62. Where firms require payslips, a third will only accept the most recent, while almost two-thirds want information from the past three months. Only 3 firms (6%) accept payslips older than this.

Table 25. Oldest payslip that is accepted

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	51									
Last month	17 33%	6 60%	1 50%	1 33%	4 50%	-	4 24%	-	-	-
Last 3 months	31 61%	4 40%	1 50%	2 67%	4 50%	6 100%	10 59%	4 100%	-	-
Last 6 months	3 6%	-	-	-	-	-	3 18%	-	-	-

63. Bank statements are also widely used to verify income (by 87% of firms).

Table 26. Use of bank statements to verify income

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	62									
Bank statements	54 87%	12 100%	2 50%	2 67%	8 100%	6 100%	17 85%	4 100%	-	1 50%
Do not use	8 13%	-	2 50%	1 33%	-	-	3 15%	-	1 100%	1 50%

64. The number of bank statements firms review, on average, is somewhat greater than is the case for payslips – 34% rely on one while 45% review three.

Table 27. Number of bank statements required

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	53									
One	18 34%	3 25%	2 100%	2 100%	6 75%	-	1 6%	2 50%	-	1 100%
Two	10 19%	3 25%	-	-	1 13%	2 40%	3 18%	1 25%	-	-
Three	24 45%	6 50%	-	-	1 13%	3 60%	12 71%	1 25%	-	-
> three	1 2%	-	-	-	-	-	1 6%	-	-	-

65. Again, it is very rare for firms to accept statements older than three months (only 4 firms, or 8%).

Table 28. Oldest bank statement that is accepted

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	53									
Last month	9 17%	3 25%	1 50%	-	3 38%	1 20%	-	-	-	1 100%
Last 3 months	40 75%	7 58%	1 50%	2 100%	5 63%	4 80%	16 94%	3 75%	-	-
Last 6 months	4 8%	2 17%	-	-	-	-	1 6%	1 25%	-	-

66. Only 5 firms (8%) stated that they do not use any means other than payslips and bank statements to verify an applicant's income. The most widely used are P60s, contacting the employer, CRA information and internal information.

Table 29. Other ways income is verified

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	62									
P60/tax record	36 58%	8 67%	-	1 33%	5 63%	5 83%	15 75%	2 50%	-	-
Employer	30 48%	8 67%	3 75%	1 33%	5 63%	2 33%	5 25%	1 25%	1 100%	2 100%
CRA info	26 42%	9 75%	-	-	5 63%	5 83%	7 35%	-	-	-
Internal info	26 42%	8 67%	2 50%	-	4 50%	5 83%	6 30%	-	-	1 50%
Accountant	16 26%	1 8%	-	-	2 25%	5 83%	8 40%	-	-	-
ONS data	11 18%	4 33%	1 25%	2 67%	1 13%	2 33%	1 5%	-	-	-
Current account	6 10%	2 17%	-	-	2 25%	-	2 10%	-	-	-
Other	21 34%	3 25%	2 50%	-	6 75%	1 17%	6 30%	3 75%	-	-
No other ways	5 8%	1 8%	-	1 33%	-	-	3 15%	-	-	-

67. Among other sources firms mentioned, the most common is a review of company/ partnership/sole trader financial accounts or bank statements (6/21 firms). Firms also conduct verifications by seeking proof of benefits (4/21 firms), checking an employment contract or job offer (2/21 firms) or external 'sense checking' of the employer through websites, etc. (2/21 firms). That said, there appear to be many other supplementary ways of checking income that firms may use on occasions.

Summary of income verification methods

68. Firms' approach to verification of income information is summarised in the following table:

Table 30. Summary of methods used by firms to verify income

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	62									
Payslips	51 82%	10 83%	2 50%	3 100%	8 100%	6 100%	17 85%	4 100%	-	-
Bank statements	54 87%	12 100%	2 50%	2 67%	8 100%	6 100%	17 85%	4 100%	-	1 50%
Other sources	57 92%	11 92%	4 100%	2 67%	8 100%	6 100%	17 85%	4 100%	1 100%	2 100%
Payslips **and** bank statements	48 77%	10 83%	2 50%	2 67%	8 100%	6 100%	15 75%	4 100%	-	-
Payslips, bank statements **and** other sources	44 71%	9 75%	2 50%	1 33%	8 100%	6 100%	13 65%	4 100%	-	-

Expenditure information

Expenditure information collected

69. Two-thirds (69%) of firms indicated that they always take account of the applicant's expenditure, either in total or in specific areas such as existing credit commitments.

Table 31. Taking account of applicant's expenditure

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Always	48 69%	9 75%	3 75%	3 100%	8 100%	5 83%	9 43%	4 80%	1 25%	3 100%
Usually	7 10%	3 25%	1 25%	-	-	1 17%	2 10%	-	-	-
Sometimes	3 4%	-	-	-	-	-	2 10%	-	-	-
Marginal cases	6 9%	-	-	-	-	-	6 29%	-	-	-
Never	6 9%	-	-	-	-	-	2 10%	1 20%	3 75%	-

70. Large firms (50%) are less likely to always take account of expenditure than small firms (77%). 5 of the 6 firms which stated they take account of expenditure only in marginal cases are large firms. Indeed, over a third (36%) of large firms take account of expenditure only in marginal cases. Only 36% of firms said they always consider an applicant's household expenditure.

Table 32. Taking account of household expenditure

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Always	25 36%	4 33%	-	2 67%	4 50%	2 33%	6 29%	2 40%	2 50%	1 33%
Usually	6 9%	3 25%	-	-	1 13%	-	1 5%	-	-	-
Sometimes	9 13%	2 17%	-	1 33%	2 25%	3 50%	1 5%	-	-	-
Marginal cases	6 9%	-	-	-	1 13%	-	5 24%	-	-	-
Never	24 34%	3 25%	4 100%	-	-	1 17%	8 38%	3 60%	2 50%	2 67%

71. The proportion of firms that always take account of individual or household expenditure or both was 71%.

Table 33. Highest frequency individual or household expenditure is taken into account

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Always	50 71%	9 75%	3 75%	3 100%	8 100%	5 83%	10 48%	4 80%	2 50%	3 100%
Usually	7 10%	3 25%	1 25%	-	-	1 17%	2 10%	-	-	-
Sometimes	3 4%	-	-	-	-	-	2 10%	-	-	-
Marginal cases	6 9%	-	-	-	-	-	6 29%	-	-	-
Never	4 6%	-	-	-	-	-	1 5%	1 20%	2 50%	-

72. Looking at sources of expenditure information:

- the two most common sources are from the applicant (74%) and from a CRA (70%) – these are ahead of documentation provided by the applicant (50%)
- one-third of firms (32%) use estimates based on ONS data
- motor finance (14/20 vs. 9/20), catalogue (2/2 vs. 1/2) and other retail (3/3 vs. 1/3) firms use CRAs more widely than applicant data
- ONS data is most widely used by personal loan firms (7/12)

Table 34. Sources of expenditure information

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	66									
Applicant	49 74%	11 92%	4 100%	3 100%	8 100%	6 100%	9 45%	4 100%	1 50%	1 33%
CRA info	46 70%	10 83%	2 50%	1 33%	7 88%	3 50%	14 70%	1 25%	2 100%	3 100%
Applicant docs	33 50%	4 33%	-	1 33%	6 75%	6 100%	10 50%	4 100%	-	1 33%
ONS data[4]	21 32%	7 58%	1 25%	-	4 50%	-	5 25%	2 50%	1 50%	-
Other	16 24%	3 25%	1 25%	-	-	2 33%	9 45%	-	-	-
Both from applicant and applicant docs	27 41%	4 33%	-	1 33%	6 75%	6 100%	5 25%	4 100%	-	-
Applicant, not applicant docs	22 33%	7 58%	4 100%	2 67%	2 25%	-	4 20%	-	1 50%	1 33%
Applicant docs, not applicant	6 9%	-	-	-	-	-	5 25%	-	-	1 33%
Either applicant or applicant docs **and** CRA	18 27%	6 50%	1 25%	-	4 50%	-	3 15%	2 50%	1 50%	-

73. Just under half (41%) of firms collect expenditure information from both the applicant and documents the applicant supplies. A few collect this information from documentation without asking the applicant.

74. Just under one-third (27%) of firms collect expenditure information from the applicant or via documentation they supply, and then use a CRA to corroborate it.

75. Small firms tend to obtain information directly from the applicant (77%), more so than large firms (38%).

76. Just under a quarter of firms (16, or 24%) described using other sources to gain expenditure information about applicants. These included using information from the applicant (2 firms said they use an interview process, for example) or documents supplied by the applicant (such as bank statements and I&E assessments).

77. Others said they sometimes use information collected by a broker, and some firms check information provided by applicants against CRA data or other sources.

[4] Note that a firm may also obtain ONS information about expenditure indirectly through CRA products it uses.

Expenditure categories collected

78. The most commonly collected expenditure categories are rent/mortgage (94%) and other credit commitments (90%). These are followed by utilities, council tax, food and car expenses.

Table 35. Sources of expenditure information

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	63									
Rent/mortgage	59 94%	10 91%	4 100%	3 100%	8 100%	6 100%	17 89%	4 100%	-	3 100%
Other credit commitments	57 90%	11 100%	4 100%	3 100%	8 100%	6 100%	15 79%	4 100%	-	2 67%
Gas/electricity/ water	46 73%	6 55%	4 100%	3 100%	7 88%	5 83%	12 63%	4 100%	-	2 67%
Telephone/ mobile/ broadband	42 67%	6 55%	2 50%	3 100%	7 88%	6 100%	11 58%	4 100%	-	1 33%
Council tax	41 65%	7 64%	2 50%	3 100%	7 88%	6 100%	8 42%	4 100%	-	1 33%
Food	41 65%	6 55%	4 100%	3 100%	7 88%	6 100%	8 42%	4 100%	-	1 33%
Car expenses/ fuel/travel	41 65%	6 55%	4 100%	3 100%	7 88%	6 100%	9 47%	3 75%	-	1 33%
Home/other insurance	34 54%	6 55%	2 50%	1 33%	6 75%	5 83%	7 37%	4 100%	-	-
Television licence	29 46%	5 45%	2 50%	1 33%	4 50%	5 83%	7 37%	3 75%	-	1 33%
Clothes	28 44%	6 55%	1 25%	1 33%	7 88%	4 67%	6 32%	2 50%	-	-
Childcare	28 44%	6 55%	2 50%	1 33%	6 75%	6 100%	5 26%	1 25%	-	-
Entertainment	26 41%	3 27%	2 50%	1 33%	6 75%	4 67%	5 26%	2 50%	-	1 33%
Cable/satellite TV subscription	24 38%	5 45%	2 50%	-	4 50%	4 67%	5 26%	3 75%	-	1 33%
Holidays	13 21%	3 27%	1 25%	1 33%	2 25%	3 50%	2 11%	-	-	-
Anything else	33 52%	6 55%	2 50%	1 33%	6 75%	3 50%	11 58%	1 25%	1 100%	-
Mean categories	8.6	8.4	9.5	9.3	11.5	12.5	6.7	10.8	1.0	4.7

79. Over half of firms also mentioned other expenditure categories not included in the table above. These were diverse, but the most common were:

- school meals/work meals/vouchers (3/33 mentions)
- medical/dental/eye (3/33 mentions)
- cigarettes/smoking (3/33 mentions)
- sports/hobbies/gym membership (3/33 mentions)
- maintenance payments (2/33 mentions)
- arrears payments/legacy default payments (2/33 mentions)
- school fees/university fees/training (2/33 mentions)
- private pension contributions (2/33 mentions)

80. There was a considerable range in the average number of categories on which firms collect information. Overall, the average was 8.6 items, but the number of categories ranged between 1 and 12.5.

Expenditure verification

81. Just over 40% of firms indicated that they always or usually verify expenditure data.

Table 36. Verifying expenditure information

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	66									
Always	21 32%	5 42%	1 25%	1 33%	3 38%	1 17%	5 25%	3 75%	1 50%	-
Usually	6 9%	1 8%	1 25%	-	1 13%	3 50%	-	-	-	-
Sometimes	17 26%	2 17%	1 25%	2 67%	3 38%	2 33%	5 25%	1 25%	-	-
Marginal cases	11 17%	1 8%	1 25%	-	1 13%	-	5 25%	-	-	2 67%
Never	11 17%	3 25%	-	-	-	-	5 25%	-	1 50%	1 33%

82. Four-fifths (80%) of firms which verify expenditure do so using an applicant's bank statements.

Table 37. Verifying expenditure information using bank statements

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	55									
Bank statements	44 80%	8 89%	2 50%	2 67%	6 75%	6 100%	13 87%	4 100%	-	1 50%
Do not use	11 20%	1 11%	2 50%	1 33%	2 25%	-	2 13%	-	1 100%	1 50%

83. Firms most commonly (52%) check three bank statements.

Table 38. Number of bank statements reviewed

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	44									
One	12 27%	1 13%	2 100%	2 100%	3 50%	-	1 8%	2 50%	-	1 100%
Two	9 20%	2 25%	-	-	1 17%	3 50%	2 15%	-	-	-
Three	23 52%	5 63%	-	-	2 33%	3 50%	10 77%	2 50%	-	-
> three	-	-	-	-	-	-	-	-	-	-

84. Only 3 firms will accept bank statements older than the last three months.

Table 39. Oldest bank statement that is accepted

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	44									
Last month	7 16%	1 13%	1 50%	-	1 17%	1 17%	1 8%	-	-	1 100%
Last 3 months	34 77%	6 75%	1 50%	2 100%	5 83%	5 83%	11 85%	3 75%	-	-
Last 6 months	3 7%	1 13%	-	-	-	-	1 8%	1 25%	-	-

85. The most widely used other sources that firms use to verify expenditure are CRA information (62%), current account information (44%) and ONS data (31%).

Table 40. Other ways in which firms verify expenditure

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	55									
CRA info	34 62%	6 67%	3 75%	1 33%	6 75%	2 33%	10 57%	-	1 100%	2 100%
Current account	24 44%	5 56%	2 50%	-	3 38%	5 83%	6 40%	1 25%	-	-
ONS data[5]	17 31%	6 67%	1 25%	-	3 38%	-	3 20%	2 50%	1 100%	-
Internal info	12 22%	3 33%	1 25%	1 33%	1 13%	2 33%	3 20%	1 25%	-	-
Other	11 20%	2 22%	1 25%	2 67%	2 25%	2 33%	2 13%	-	-	-
No other ways	6 11%	1 11%	1 25%	1 33%	-	-	2 13%	1 25%	-	-

86. The firms which provided comments described their use of CRA data, current account information and other internal data. 3 firms said they use a verbal assessment. Some firms said they use information from an applicant's mortgage statement or rent book, and self-declarations.

87. To summarise, firms use the following methods to verify expenditure information:

Table 41. Summary of methods used by firms to verify expenditure

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	55									
Bank statements	44 80%	8 89%	2 50%	2 67%	6 75%	6 100%	13 87%	4 100%	-	1 50%
CRA info	34 62%	6 67%	3 75%	1 33%	6 75%	2 33%	10 57%	-	1 100%	2 100%
Current account	24 44%	5 56%	2 50%	-	3 38%	5 83%	6 40%	1 25%	-	-
Other ways	28 51%	7 78%	2 50%	2 67%	3 38%	3 50%	7 47%	2 50%	1 100%	-
Bank statements **and** any other	39 71%	7 78%	1 25%	2 67%	6 75%	6 100%	11 73%	3 75%	-	1 50%

[5] Note that even if a firm does not verify expenditure information using ONS data directly, it may do so as an element of CRA products it uses.

Other information

88. Firms also collect other information from an applicant, such as their postal address and employment status.

89. Table 42 provides a breakdown of the ‘other information’ firms collect, the number of firms which collect it, the number of firms which use this information in their assessments (in square brackets) and the number of firms which verify it (in round brackets). For example, all of the personal loan firms collect an applicant’s postal address, but only 6 use it in their assessment (and all 6 verify the information).

Table 42. Information collected, used (square brackets) and verified (round brackets) in the assessment by sector

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Postal address	69 [52] (52)	12 [6] (6)	3 [3] (3)	3 [1] (1)	8 [6] (6)	6 [5] (5)	21 [18] (18)	5 [5] (5)	4 [4] (4)	3 [2] (2)
Time at address	66 [50] (33)	10 [6] (2)	3 [2] (1)	3 [2] (2)	8 [5] (2)	6 [3] (2)	21 [20] (16)	5 [4] (3)	4 [4] (2)	3 [2] (2)
Residential status	65 [53] (28)	12 [11] (3)	3 [2] (0)	3 [0]	8 [8] (4)	6 [3] (2)	20 [19] (13)	5 [5] (4)	2 [1] (0)	3 [1] (0)
Name of bank	52 [16] (15)	9 [2] (2)	4 [2] (1)	0	8 [4] (4)	6 [3] (3)	19 [2] (2)	3 [1] (1)	0	0
Time with bank	31 [16] (8)	9 [7] (4)	1 [0]	0	3 [2] (1)	1 [1] (1)	12 [4] (1)	2 [0]	0	1 [0]
Dependants	48 [30] (6)	11 [11] (0)	4 [0]	1 [0]	7 [6] (2)	3 [2] (1)	12 [4] (1)	4 [3] (2)	1 [1] (0)	2 [0]
Age/date of birth	69 [59] (54)	12 [10] (9)	4 [4] (3)	3 [3] (2)	8 [8] (8)	5 [3] (3)	21 [20] (19)	5 [2] (1)	4 [4] (4)	3 [2] (2)
Employment status	66 [57] (32)	12 [11] (3)	4 [4] (3)	3 [1] (1)	8 [8] (6)	6 [6] (5)	21 [20] (11)	5 [1] (1)	1 [1] (0)	3 [2] (0)
Purpose of credit	58 [40] (22)	12 [8] (1)	1 [0]	3 [3] (0)	8 [7] (3)	4 [0]	19 [14] (13)	3 [3] (2)	2 [1] (1)	2 [1] (1)

90. The categories of 'other information' most commonly used by firms in assessments are date of birth (59/70) and employment status (57/70). Residential status (53/70) and postal address (52/70) are also often used.

91. The categories of information most likely to be collected by firms and *not* used in assessments are name of bank (16/52) and time at bank (16/31). Information on dependants is also not commonly used, even though firms usually collect it (30/48). However, all other pieces of information are used by at least 50% of firms.

92. Turning to verification, where firms collect an applicant's postal address, they always verify it (52/52). For the most part firms usually also verify the name of bank (15/16) and date of birth (54/59). Firms are far less likely to verify information about an applicant's dependants (6/30).

Postal address

93. Three-quarters of firms (74%) use an applicant's postal address in their assessment. In all cases firms verify the address.

Table 43. Postal address used in the assessment

	Count	%
Total firms	70	100%
Collected	69	99%
Collected and used in the assessment	52	74%
Collected, used in the assessment and verified	52	74%

94. Firms use various ways to verify an applicant's address, as listed below (some firms provided multiple answers).

Table 44. Methods in which postal address is verified

Type of verification	Count
CRA	27
Utility bill	9
Electoral roll	9
Bank statement	7
Royal Mail PAF[6]	5
Call validate	5
Land Registry	2
Driving licence	2
Tenancy agreement	2
Deliver to the address, SHARE, TAC, Experian Detect, Debit card registered address	1 each

[6] Postcode Address File.

Time at address

95. Over two-thirds of firms (71%) use the time an applicant has lived at their current address in the assessment. It is verified in two-thirds of cases where it is used.

Table 45. Time at address used in the assessment

	Count	%
Total firms	70	100%
Collected	66	94%
Collected and used in the assessment	50	71%
Collected, used in the assessment and verified	33	47%

96. Firms most often verify the time an applicant has lived at their address via CRA and/or electoral roll information.

Residential status

97. Three-quarters of firms (76%) use residential status in their assessment. They verify this information in just over half of cases where it is used.

Table 46. Residential status used in the assessment

	Count	%
Total firms	70	100%
Collected	65	93%
Collected and used in the assessment	53	76%
Collected, used in the assessment and verified	28	40%

98. Most firms which verify an applicant's residential status do so via a CRA.

Table 47. Methods in which residential status is verified

Type of verification	Count
CRA	18
Land Registry	6
Bank statement, mortgage statement, council tax bill, tenancy agreement	4
Electoral roll, landlord confirmation	1 each

Name of bank

99. Although firms widely collect the name of an applicant's bank (74%), they only use this information in their assessment in a quarter of cases (23%).

Table 48. Name of bank used in the assessment

	Count	%
Total firms	70	100%
Collected	52	74%
Collected and used in the assessment	16	23%
Collected, used in the assessment and verified	15	21%

100. Where firms use the name of the applicant's bank in their assessment, they most often verify it via a CRA.

Table 49. Methods in which name of bank is verified

Type of verification	Count
CRA	8
Third party sort code/account number checking software	4
Copy of statement/card	3

Time with bank

101. Firms use information on how long an applicant has been with their bank in 23% of assessments.

Table 50. Time with bank used in the assessment

	Count	%
Total firms	70	100%
Collected	31	44%
Collected and used in the assessment	16	23%
Collected, used in the assessment and verified	8	11%

102. Firms verify how long an applicant has been with their bank in around half of the cases where it is used. They typically do so via CRA or internal data.

Dependants

103. Fewer than half of firms (43%) use information about an applicant's dependants in their assessment.

Table 51. Dependants used in the assessment

	Count	%
Total firms	70	100%
Collected	48	69%
Collected and used in the assessment	30	43%
Collected, used in the assessment and verified	6	9%

104. Firms only rarely verify information about an applicant's dependants (13% of cases where it is collected). They tend not to do this comprehensively, but do so using benefits statements and bank statements showing benefit payments, and by assessing whether the information seems realistic in light of expenditure checks.

Age/Date of birth

105. The age of an applicant is used in assessments by 84% of firms (59/70).

Table 52. Age/date of birth used in the assessment

	Count	%
Total firms	70	100%
Collected	69	99%
Collected and used in the assessment	59	84%
Collected, used in the assessment and verified	54	77%

106. Virtually all firms which collect information on an applicant's age verify it. They do so by comparing the given date of birth against CRA data (40 mentions) and/or using documentation such as a driving licence, passport or birth certificate (19 mentions).

Employment status

107. Four-fifths of firms (81%) consider the employment status of an applicant in their assessment.

Table 53. Employment status used in the assessment

	Count	%
Total firms	70	100%
Collected	66	94%
Collected and used in the assessment	57	81%
Collected, used in the assessment and verified	32	46%

108. They verify an applicant's employment status in slightly more than half of cases.

Table 54. Methods in which employment status is verified

Type of verification	Count
Payslip	15
Bank statement	10
Contact employer	6
CRA	6
Contact applicant at workplace	3
Contract	2
Benefits letter	2
P60/tax return	2

Purpose of credit

109. Overall, just over half of firms (57%) use information about what an applicant will use the credit for in their assessment.

Table 55. Purpose of credit used in the assessment

	Count	%
Total firms	70	100%
Collected	58	83%
Collected and used in the assessment	40	57%
Collected, used in the assessment and verified	22	31%

110. Firms verify information about the purpose of the credit in about half of the cases. The following table summarises the ways in which firms verify this information.

Table 56. Methods in which purpose of credit is verified

Type of verification	Count
Only offer credit for vehicles	9
Only offer credit on own goods/know what is in the customer's basket	7
If consolidating debt – pay the creditors directly	2
Pay product supplier directly	2
Pre pay out call to customer, customer interview	1 each
Confirmed by guarantor, check the invoice for the goods	1 each

Policy rules

111. All bar 3 firms (4%) have policy rules or hard-stops where their policy is not to lend. The firms without these rules are in the motor finance (2) and HCC (1) sectors.

112. The most common policy rules involve the age of the applicant (87%), but there are also rules concerning bankruptcy (83%), individual voluntary arrangements (IVAs, 71%), county court judgments (CCJs, 54%), debt relief orders (DROs) or similar (54%) and other indicators of poor credit history.

113. Credit history is a policy rule in 50% of cases, as compared to income in 39%.

114. Table 57 shows the initial response by firms when asked about their policy rule areas in the form of a checklist. When the questionnaire explored these areas in more detail, asking for specific details of their policy rules, firms updated their initial answers by either indicating they did or did not in fact have some sort of policy rule in place. For example, 87% of firms indicated initially they have a policy on age, but 94% of firms later said they have either a minimum or maximum age at which they will not lend. Table 65 provides a complete summary of policy rules once apparently conflicting responses are addressed.

Table 57. Initial view of policy rules

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Age	61 87%	10 83%	4 100%	2 67%	7 88%	6 100%	17 81%	4 80%	4 100%	3 100%
Location, address or postcode	35 50%	4 33%	1 25%	1 33%	5 63%	4 67%	12 57%	1 20%	3 75%	1 33%
Residential status	11 16%	4 33%	-	-	1 13%	1 17%	3 14%	2 40%	-	-
Employment status	33 47%	9 75%	4 100%	-	3 38%	2 33%	10 48%	-	-	2 67%
Income source	27 39%	6 50%	2 50%	-	4 50%	4 67%	7 33%	1 20%	-	1 33%
Total income	27 39%	7 58%	4 100%	-	6 75%	2 33%	5 24%	-	1 25%	-
Disposable income	31 44%	6 50%	2 50%	-	5 63%	1 17%	9 43%	3 60%	1 25%	1 33%
Loan-to-income ratio	12 17%	3 25%	2 50%	-	-	2 33%	3 14%	-	-	1 33%
Payment-to-income ratio	9 13%	2 17%	-	-	-	-	5 24%	-	-	1 33%
Current indebtedness/ debt-to-income ratio	27 39%	8 67%	2 50%	-	3 38%	1 17%	9 43%	1 20%	-	2 67%
Other credit commitments	25 36%	6 50%	3 75%	-	3 38%	3 50%	5 24%	1 20%	-	2 67%
Credit history (delinquency/	35 50%	9 75%	4 100%	-	1 13%	2 33%	10 48%	1 20%	2 50%	2 67%

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
arrears)										
Credit history (defaults)	37 53%	10 83%	4 100%	-	1 13%	2 33%	9 43%	2 40%	3 75%	2 67%
CRA score	28 40%	6 50%	2 50%	-	3 38%	3 50%	7 33%	2 40%	-	2 67%
County court judgment (CCJ)	38 54%	9 75%	4 100%	1 33%	2 25%	-	12 57%	2 40%	2 50%	3 100%
Individual voluntary arrangement (IVA)	50 71%	9 75%	4 100%	1 33%	8 100%	4 67%	13 62%	3 60%	2 50%	3 100%
Bankruptcy	58 83%	10 83%	4 100%	2 67%	8 100%	4 67%	17 81%	4 80%	3 75%	3 100%
Debt relief order (DRO) or similar	38 54%	6 50%	3 75%	1 33%	6 75%	4 67%	9 43%	2 40%	2 50%	3 100%
Debt management plan (DMP) or similar	34 49%	7 58%	4 100%	1 33%	3 38%	3 50%	7 33%	2 40%	1 25%	3 100%
Joint borrowers not accepted	22 31%	1 8%	2 50%	-	5 63%	2 33%	4 19%	2 40%	1 25%	3 100%
Available to existing customers only	5 7%	3 25%	1 25%	-	-	-	1 5%	-	-	-
Other policy rules	28 40%	3 25%	3 75%	1 33%	4 50%	1 17%	10 48%	2 40%	3 75%	1 33%

Age

115. 83% of firms stated that the minimum age of an applicant they would lend to is 18. A further 11% of firms have higher minimum ages, the highest of which was 23.

Table 58. Minimum age as a policy rule

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
18	58 83%	10 83%	3 75%	1 33%	8 100%	6 100%	16 76%	4 80%	4 100%	3 100%
20, 21	5 7%	2 17%	1 25%	1 33%	-	-	1 5%	-	-	-
>21	3 4%	-	-	-	-	-	2 10%	-	-	-
No minimum age policy	4 6%	-	-	1 33%	-		2 10%	1 20%	-	-

116. Fewer firms have a maximum age beyond which they will not lend. Fewer than 40% of firms have this as a policy restriction, and the maximum age varies from 61 to 99. Where a firm has a maximum age, the average is 75.

Table 59. Maximum age as a policy rule

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
61-65	4 6%	1 8%	1 25%	-	1 13%	-	1 5%	-	-	-
66-70	5 7%	1 8%	-	-	-	-	2 10%	1 20%	-	-
71-75	8 11%	1 8%	-	1 33%	5 63%	1 17%	-	-	-	-
76-80	7 10%	2 17%	1 25%	-	1 13%	1 17%	1 5%	-	-	-
>81	3 4%	-	1 25%	-	-	-	1 5%	-	-	1 33%
No maximum age policy	43 61%	7 58%	1 25%	2 67%	1 13%	4 67%	16 76%	4 80%	4 100%	2 67%

Income

117. Overall about half of firms (44%) stated their cut-off values on their income policies, whether that was individual, household or disposable income.

Table 60. Income as a policy rule

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Individual	25 36%	6 50%	4 100%	-	4 50%	2 33%	5 24%	-	1 25%	1 33%
Household	7 10%	1 8%	-	-	-	-	3 14%	-	1 25%	-
Disposable	13 19%	2 17%	1 25%	-	3 38%	2 33%	2 10%	1 20%	-	1 33%
Any income cut-off provided	31 44%	7 58%	4 100%	-	5 63%	4 67%	5 24%	1 20%	1 25%	2 67%
No income cut-off provided	39 56%	5 42%	-	3 100%	3 38%	2 33%	16 76%	4 80%	3 75%	1 33%

118. However, despite having a policy some firms were unable to provide specific cut-offs, in particular for disposable income, as the income component is part of a wider algorithm.

Among those firms which do have a set income policy, the mean cut-off for individual income was £9,100 per year.

119. Most firms (90%) were unable to provide a specific cut-off for household income. Among the few that did, the typical range was £9,000 to £18,000 annually.

120. Disposable income was similar, with most firms not providing an indication of their cut-off. For those that have a policy rule in this area and provided information, the range was £15 to £9,000, typically reflecting the size of loans offered.

Loan-to-income ratio

121. While 12 firms stated they have a policy rule on loan-to-income ratio, only 9 were able to provide the value. This ranged from 3.5% (motor finance) to 55% (other retail credit), with a median value of 40%.

Debt-to-income ratio/current indebtedness measure

122. More than a third of firms (39%) provided comments about debt-to-income (DTI) ratios that contributed to their policy rules. The majority of firms do not include hard-stops past a certain DTI ratio. Instead, firms use disposable income, Consumer Indebtedness Index (CII) scores and I&E assessments.

Arrears or default incidents

123. As with income, some firms with policies in the area of arrears or default incidents could not easily describe their rules as they were not as straightforward as having a set frequency of events. Nonetheless, 14 firms were able to describe their policy on arrears and 16 on defaults:

- 2 of the 14 firms indicated that they allowed no delinquency events: any delinquency event meant they would not lend
- typically, the unacceptable level of delinquency was one event in three months (sometimes expressed as two events in six months)
- 6 of the 16 firms indicated that no defaults over a period of one to two years were allowable
- of the remainder, firms gave the following tolerances: 1 or 2 defaults in 6 months or 12 months, 4 defaults in 12 months, 6 defaults in 75 months

Income source

124. About a third of firms (36%) have no set policy on income source.

125. Where firms do have a policy on income source (64%) these are mostly concerned with benefits. Most have rules that will not accept applications from people on certain types of benefit or whose benefits exceed a certain proportion of income. Other firms allow some income from benefits in their assessment, but typically only state pension, carer's allowance and disability living allowance.

126. About a quarter of all firms (23%) will not lend to students, although some qualified this by suggesting they do accept students in paid employment for a certain number of hours each week or with a verifiable income.

Table 61. Policy rules on income source[7]

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Some benefits	26 37%	8 67%	3 75%	-	4 50%	4 67%	7 33%	-	-	-
Benefits > x%	5 7%	1 8%	-	-	1 13%	-	3 14%	-	-	-
No students	16 23%	5 42%	2 50%	-	-	1 17%	5 24%	-	-	1 33%
No retired	6 9%	1 8%	2 50%	-	-	-	3 14%	-	-	-
No self-employed	2 3%	-	2 50%	-	-	-	-	-	-	-
Other policy	30 43%	6 50%	2 50%	-	4 50%	3 50%	12 57%	1 20%	-	2 67%
No policy	25 36%	2 17%	-	3 100%	2 25%	2 33%	6 29%	4 80%	4 100%	-

Residential status

127. 84% of firms said they have no set policy on residential status, although this fell to 67% once they described their policies in more detail.

128. Where policies exist, they vary considerably. There are some commonalities, however, such as no applicants without a formal address, or no applicants with a temporary address (such as boats, mobile homes, farm workers; 10%) or no applicants living in high-rise flats (3%). Not owning a home does not automatically lead to rejection, with just 3% of firms stating they 'accept home-owners only'.

Employment status

129. Initially 47% of firms indicated they have a policy on employment status, which increased to 53% when asked to describe policies in more detail.

130. The most common hard-stop is not accepting unemployed applicants (43% of all firms). A handful also have other employment-based policy rules such as not accepting self-employed people (6%) or not accepting zero-hour contract workers (4%). Other firms combine employment status with income source and income amount to create more complex hard-stops.

[7] Some firms provided more than one answer.

131. Firms which have a set policy about not accepting unemployed applicants are shown in the following table:

Table 62. Policy rules on employment status: accepting unemployed applicants

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Have a policy: do not accept unemployed	30 43%	8 67%	3 75%	-	2 25%	2 33%	10 48%	-	-	2 67%
No such policy stated	40 57%	4 33%	1 25%	3 100%	6 75%	4 67%	11 52%	5 100%	4 100%	1 33%

Credit reference agency score

132. While 96% of firms use CRA scores in their assessments, only a third of firms (29%) provided a minimum CRA score below which they would not lend. These ranged from as low as 45 to 780, but the median threshold was 350.

133. Where stated, these CRA score thresholds are shown in the table below.

Table 63. Policy rules on CRA score

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	20									
<100	5 25%	1 20%	-	-	-	1 100%	2 40%	-	-	-
100-300	3 15%	-	-	-	-	-	2 40%	1 50%	-	-
301-500	7 35%	3 60%	-	-	1 50%	-	1 20%	1 50%	-	-
501+	5 25%	1 20%	-	-	1 50%	-	-	-	-	2 100%

CCJs, DROs and bankruptcy

134. Initially, just over half of firms (54%) stated they have a rule on CCJs. However, when asked to describe any rules on CCJs, this increased to 63%. Their policy rules fall into five categories, as listed in the following table:

Table 64. Policy rules for CCJs

	% all
Any CCJ results in automatic decline	14%
CCJ can be considered if certain thresholds met (number, time period, amount)	36%
CCJ reviewed on case-by-case basis	13%
Any CCJ is ignored, does not influence decision to lend	13%
No set policy (or no information provided about policy)	24%

135. 14% of firms will automatically reject an applicant with a CCJ, but the remainder will consider the application on its merits or if certain other conditions are met.

136. Rules for IVA, DRO and bankruptcy largely follow the same pattern, with firms seeing each of these either as a red flag, one of many factors to take into account or something that doesn't really influence their decision to lend.

Other credit commitments outstanding

137. Initially, just over a third (36%) of firms stated they had policies on outstanding credit commitments. All firms were asked to describe any policy in more detail and 43% provided detailed comments.

138. Firms mostly expanded on their rules governing I&E assessment and whether they feel there is sufficient disposable income to repay the new loan. However, some also stated they have a hard-stop if the applicant currently has three or more other loans, or a single payday loan.

139. Again, in terms of the maximum amount borrowed or outstanding, firms providing comments largely reinforced their comments around I&E assessment rather than provide specific figures. 35% of firms provided comments, of which 6 (9%) provided specific cut-off amounts.

140. Other notable policy rules on additional credit commitments concern measurements of indebtedness either from internal scorecards or via CRAs. 7 firms use scorecards and/or CRA data to establish policy rules on credit commitments.

Other policy rules

141. Many firms use internal information, but very few have a hard-stop associated with it, with the exception of previous defaults, write-offs or repossessions (6 firms, 9%).

142. Most firms said 'previous account performance is reviewed and taken into consideration' (22 firms, 31%). This was expressed using terms such as 'recipient of forbearance', 'payment history reviewed', 'any delinquencies in last six months' and similar.

143. Some firms when considering new applications from existing customers will automatically refer the application to a manual decision (4%) while others will add the existing outstanding amount to the new requested amount and reassess (6%).

144. Other policy rules listed by firms not covered elsewhere included mental health, UK residency and length of time in employment.

Summary view of policy rules

145. In some cases, basic qualification rules such as 'over 18' and 'not on benefits' were overlooked by firms as being hard-stops when asked initially. However, from answers to the entire section on policy rules (including review of open responses) the following can be deduced:

Table 65. Summary of policy rules

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
No policy rules or hard-stops	3 4%	-	-	1 33%	-	-	2 10%	-	-	-
Any policy rules or hard-stops	67 96%	12 100%	4 100%	2 67%	8 100%	6 100%	19 90%	5 100%	4 100%	3 100%
Minimum age	66 94%	12 100%	4 100%	2 100%	8 100%	6 100%	19 90%	4 80%	4 100%	3 100%
Income source and/or benefits	52 74%	10 83%	4 100%	3 100%	6 75%	5 83%	18 86%	1 20%	-	3 100%
Employment status (any policy)	37 53%	9 75%	4 100%	-	4 50%	2 33%	13 62%	-	-	2 67%
Individual, household or disposable income	31 44%	7 58%	4 100%	-	5 63%	4 67%	5 24%	1 20%	1 25%	2 67%
Employment status (do not accept unemployed)	30 43%	8 67%	3 75%	-	2 25%	2 33%	10 48%	-	-	2 67%
Maximum age	27 39%	5 42%	3 75%	1 33%	7 87%	2 33%	5 24%	1 20%	-	1 33%
CRA score	20 29%	5 42%	-	-	2 25%	1 17%	5 24%	2 40%	-	2 67%
Residential status	23 33%	6 50%	-	2 67%	3 38%	2 33%	8 38%	2 40%	-	-

Assessment practices and scorecards

Important factors influencing assessment

146. The table below shows the relative importance rating provided by firms for each factor that may influence assessments.

Table 66. Comparative importance of factors influencing assessments

	Single most	Extremely	Very	Fairly	Not very/at all
Residential status	1 1%	12 17%	11 16%	16 23%	30 43%
Employment status	3 4%	14 20%	15 21%	14 20%	24 34%
Income source	2 3%	9 13%	17 24%	12 17%	30 43%
Total income	2 3%	16 23%	15 21%	16 23%	21 30%
Disposable income	8 14%	22 38%	8 14%	4 7%	16 28%
Loan-to-income ratio	-	9 13%	11 16%	8 11%	42 60%
Payment-to-income ratio	1 2%	8 14%	6 10%	7 12%	36 62%
Current indebtedness/debt-to-income ratio	-	23 33%	19 27%	7 10%	21 30%
Other credit commitments	2 3%	33 47%	28 40%	1 1%	6 9%
Credit history (delinquency/arrears)	4 6%	38 54%	14 20%	8 11%	6 9%
Credit history (defaults)	4 6%	35 50%	10 14%	12 17%	9 13%
CRA score	7 10%	19 27%	7 10%	8 11%	29 41%
County court judgment (CCJ)	1 1%	26 37%	12 17%	12 17%	19 27%
Individual voluntary arrangement (IVA)	8 11%	32 46%	13 19%	3 4%	14 20%
Bankruptcy	11 16%	33 47%	10 14%	3 4%	13 19%
Debt relief order (DRO) or similar	8 11%	31 44%	11 16%	4 6%	16 23%
Debt management plan (DMP) or similar	7 10%	30 43%	11 16%	6 9%	16 23%
Loan amount requested	1 1%	27 39%	16 23%	15 21%	11 16%

	Single most	Extremely	Very	Fairly	Not very/at all
Loan purpose	1 1%	7 10%	8 11%	17 24%	37 53%
Previous dealings with applicant	2 3%	25 36%	17 24%	8 11%	18 26%

147. Any evidence of poor payment history is among the most important factors firms consider, but the most important is 'other credit commitments'.

148. Factors considered in assessments are presented in the table below and grouped together by importance according to their rating as 'single most', 'extremely' or 'very'.

Table 67. Factors considered the single most, extremely or very important when assessing applicants

Importance of factors in assessment	Single most + extremely + very
Other credit commitments	90%
Credit history (delinquency/arrears)	80%
Bankruptcy	77%
Individual voluntary arrangement (IVA)	76%
Debt relief order (DRO) or similar	71%
Credit history (defaults)	70%
Debt management plan (DMP) or similar	69%
Disposable income	66%
Loan amount requested	63%
Previous dealings with applicant	63%
Current indebtedness (debt-to-income ratio)	60%
County court judgment (CCJ)	56%
CRA score	47%
Income amount/total income	47%
Employment status	46%
Income source	40%
Loan-to-income ratio	29%
Payment-to-income ratio	26%
Residential status	24%
Loan purpose	23%

149. Almost all firms (90%) consider 'other credit commitments' to be either the single most important or an extremely or very important factor in their assessment.

150. There were some differences by sector:

- Personal loan providers are more likely to consider as important delinquency history (83%), default history (67%) and CRA score (50%). The loan amount is less important (25%).

- Guarantor loan firms are more concerned with income source (38%), income amount (75%) and the level of disposable income (80%). For these firms credit history (delinquency 25%, defaults 25%) is less important.
- Logbook firms consider disposable income (75%), employment status (67%), and income amount (60%) to be more important than do other lenders. Credit history, for example, delinquency (17%) and defaults (17%), together with residential status (0%), are far less important in this sector.
- Motor finance providers consider the loan amount to be the most important factor (62%), much more so than average, whereas previous dealings (19%) is far less important compared to, for example, logbook lenders (67%).
- In the rent-to-own sector, the important factors are credit history (e.g. delinquency, 80%), disposable income (75%) and previous dealings with the applicant (60%).

151. A number of firms commented that it is these factors in combination which influences their decision to lend.[8]

152. Additional factors that firms consider are listed in the following table.

Table 68. Additional factors which are the single most, extremely or very important in the decision to lend

Factor	%
Number of previous credit searches in a set time period	6%
Record history, stability, time on bureau or electoral roll	6%
Personal situation, vulnerability, geo-demographic data	6%
Applicant age	4%
Age of asset	4%

Use of scorecard

153. Three-quarters of firms (74%) use some form of scorecard.

154. The types of scorecard used are shown in the table below. Note that firms occasionally use more than one type of scorecard, so the sum of the percentages exceeds 100%.

[8] For this reason, the analysis combines 'single most important', 'extremely important' and 'very important'.

Table 69. Use of scorecards in the creditworthiness assessment

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Do not use a scorecard	18 26%	1 8%	-	2 67%	2 25%	4 67%	4 19%	2 40%	-	1 33%
Own internal scorecard developed in house	26 37%	6 50%	3 75%	1 33%	3 38%	1 17%	10 48%	-	1 25%	-
Own internal scorecard developed by a third party	16 23%	5 42%	2 50%	-	1 13%	-	3 14%	2 40%	2 50%	-
Standard scorecard supplied by CRA	15 21%	4 33%	1 25%	-	2 25%	1 17%	4 19%	-	-	2 67%
Scorecard from CRA customised for my firm	5 7%	-	1 25%	-	1 13%	-	2 10%	1 20%	-	-
Other	3 4%	1 8%	-	-	-	-	1 5%	-	1 25%	-
Any scorecard	52 74%	11 92%	4 100%	1 33%	6 75%	2 33%	17 81%	3 60%	4 100%	2 67%

155. Among those with a scorecard, the principal outputs are a score or a number (83%), a probability of default or delinquency (40%) or allocation to a credit risk group or category (35%).

Table 70. Principal outputs of scorecards

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	52									
A score or number	43 83%	10 91%	4 100%	1 100%	6 100%	1 50%	12 71%	2 67%	4 100%	2 100%
A probability of default or delinquency	21 40%	9 82%	1 25%	-	1 17%	-	5 29%	2 67%	3 75%	-
Allocation to a credit risk group or category	18 35%	3 27%	-	1 100%	1 17%	-	8 47%	2 67%	3 75%	-
A RAG rating (red/amber/ green)	2 4%	-	-	-	-	-	-	1 33%	-	1 50%
Something else	7 13%	2 18%	1 25%	-	-	1 50%	2 12%	-	-	-

156. Other scorecard outputs (single mentions) included: maximum loan value, maximum instalment value, payment schedule and probability of payment.

Target limits

157. Half (51%) of the firms with a scorecard have target limits based on default or delinquency rates. These are primarily set on default rates, with delinquency rates slightly less common as an output.

158. A third (35%) of firms provided additional information, which largely clarified that, while it is based around default and delinquency rates, the output is more complex than simple rates.

159. Firms have primarily adopted these target limits to 'avoid bad debt', but others went on to explain the benefits of maintaining a healthy loan book by monitoring early, mid and late arrears. Other firms explained how these target limits are constantly reviewed and feed back into the assessment process.

160. 23 firms provided an indication of how frequently they review the target limits for default or delinquency:

- monthly (11/23 firms)
- annually (7/23 firms)
- quarterly (3/23 firms)
- six-monthly (2/23 firms)

161. 2 firms indicated other circumstances when the limits would be reviewed:

- when a new pricing model is introduced

- if operational changes or loan book performance increase pressure on the agreed limits

162. Despite the frequency of review for the majority of firms, in terms of changes to the target limits, most firms (16/24 firms) said that they have made no recent changes and have no plans to do so.

Summary of policy rules and factors important in the assessment

163. There are some factors firms consider important, for which they do not have set policy rules, but for the most part where a factor is important the firm has a set policy.

164. Combining the information provided by firms about their policy rules with factors stated as important (either single most, extremely or very) in the assessments produces the following table:

Table 71. Policy rules and important assessment factors

	Have policy rule	Consider important	Both rule and important
Residential status	33%	24%	10%
Employment status	53%	46%	31%
Income source	74%	40%	24%
Total income	39%	47%	27%
Disposable income	44%	66%	41%
Loan-to-income ratio	17%	29%	16%
Payment-to-income ratio	13%	26%	10%
Current indebtedness (debt-to-income ratio)	39%	60%	31%
Other credit commitments	43%	90%	34%
Credit history (delinquency/arrears)	50%	80%	44%
Credit history (defaults)	53%	70%	39%
CRA score	29%	47%	26%
County court judgment (CCJ)	63%	56%	37%
Individual voluntary arrangement (IVA)	71%	76%	57%
Bankruptcy	83%	77%	66%
Debt relief order (DRO) or similar	54%	71%	43%
Debt management plan (DMP) or similar	49%	69%	39%

Monitoring effectiveness

165. All except 3 firms (4%) monitor the effectiveness of their assessments. Those that do not are one firm from each of the personal loan, logbook loan and other retail credit sectors, and are a mix of sizes.

166. On average, firms make changes to their assessment practices every 13 months. Those with automated assessment processes, and those with a scorecard, tend to change their assessments more frequently.

167. Firms were asked how they monitor effectiveness, what criteria they use and how they are measured. A summary of the themes is shown in the table below.

Table 72. Criteria for monitoring effectiveness of assessments

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	67									
Rates of arrears/ delinquency	31 46%	7 64%	1 25%	1 33%	3 38%	2 40%	11 52%	3 60%	1 25%	-
Scorecards and outputs	23 34%	2 18%	2 50%	-	1 13%	1 20%	10 48%	1 20%	4 100%	1 50%
Default rates	16 24%	4 36%	1 25%	1 33%	3 38%	2 40%	4 19%	-	-	-
Cohort or vintage analysis	11 16%	1 9%	-	1 33%	2 25%	1 20%	3 14%	-	1 25%	2 100%
Customer outcomes	9 13%	3 27%	-	-	2 25%	-	3 14%	1 20%	-	-
Review of underwriting	9 13%	1 9%	-	-	3 38%	1 20%	3 14%	-	-	-
Branch/other staff review	7 10%	-	-	-	1 13%	-	3 14%	2 40%	-	-
Indebtedness scores	5 7%	2 18%	-	-	-	-	3 14%	-	-	-
Overall portfolio performance	6 9%	1 9%	2 50%	-	-	1 20%	1 5%	-	-	-
Review of I&E categories	4 6%	-	-	1 33%	1 13%	-	2 10%	-	-	-
Review inbound applications	3 4%	-	-	1 33%	1 13%	-	-	-	-	-
Other	2 3%	-	-	-	1 13%	-	1 5%	-	-	-

168. Monitoring rates of delinquency and arrears was the most frequent response, mentioned by about half of firms (46%) overall. Scorecard performance was mentioned by a third overall (34%). Firms also employ more subtle techniques to evaluate their assessments,

including measuring customer outcomes (13%) and reviewing the performance of branch staff (including agents and brokers working on their behalf, 10%).

169. Firms provided a range of methods for implementing changes identified by their effectiveness monitoring. These are listed in the table below.

Table 73. Implementation of effectiveness monitoring

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	67									
Internal credit performance reports	16 24%	6 55%	1 25%	-	1 13%	2 40%	4 19%	1 20%	-	1 50%
Routine or regular reviews held	9 13%	-	1 25%	-	2 25%	-	4 19%	1 20%	-	-
Statistical analysis of loan book	7 10%	-	3 75%	-	1 13%	1 20%	1 5%	-	-	1 50%
Sub-committee/ committee review	5 7%	-	-	-	-	-	5 24%	-	-	-
Sample of accounts/ agreements for full review	4 6%	-	-	1 33%	1 13%	-	2 10%	-	-	-
External review of loan book	3 4%	-	1 25%	-	1 13%	-	1 5%	-	-	-
Other	11 16%	3 27%	-	-	1 13%	-	3 14%	3 60%	1 25%	-
No method stated	19 28%	2 18%	-	2 67%	2 25%	2 40%	5 24%	-	3 75%	-

170. While many firms focused on the measures they use, some commented on various internal credit performance reports (e.g. 'portfolio tracking reports') that are regularly reviewed by their board (24%). Some firms also hold regular reviews (13%) and internal committees e.g. 'default inquest sub-committee' (7%).

171. Most firms (91%) monitor effectiveness regularly:

- just under half of firms (46%) monitor effectiveness regularly
- a similar proportion (45%) monitor regularly *and* in response to events

172. A further 5% of firms monitor only in response to events, and 4% do not monitor effectiveness at all. Events that prompt a review tend to be changes in profiles, such as defaults, arrears and applications profiles.

Table 74. Events which tend to trigger a review in assessment practice

Events	Mentions
Changes in arrears profile	9
Credit risk appetite or other internal policy change	4
Customer complaints	4
Unusual changes in other activities, emerging market trends	3
Specific individual customer arrears or default are investigated	3
Change in application rates, customer demand	3
Changes in industry regulation	2
Larger than usual number of defaults	2
Changes in internal systems such as applications and review systems	2

Changes in assessment practices

173. Typically, internal monitoring causes firms to change how they conduct their assessments just over once every 12 months.

Table 75. Frequency with which monitoring leads to change

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	67									
Every month	5 7%	-	1 25%	1 33%	1 13%	-	2 10%	-	-	-
Every 3 months	14 21%	2 18%	3 75%	1 33%	3 38%	1 20%	-	1 20%	1 25%	-
Every 6 months	13 19%	5 45%	-	-	1 13%	1 20%	4 19%	-	1 25%	1 50%
Every 12 months	18 27%	2 18%	-	-	1 13%	1 20%	8 38%	3 60%	1 25%	1 50%
Every 24 months	3 4%	-	-	-	-	-	3 14%	-	-	-
Less often	12 18%	2 18%	-	1 33%	2 25%	1 20%	3 14%	1 20%	1 25%	-
Other	2 3%	-	-	-	-	1 20%	1 5%	-	-	-
Mean months	13.0	12.0	2.5	13.3	12.5	14.3	15.1	15.0	14.3	9.0

174. Firms that have scorecards and lending algorithms tend to also have systems which have changed the most frequently in the last 12 months. The main categories of changes are summarised in the following table:

Table 76. Changes made to assessment practices

Changes made	Mentions
Scorecard input or assessment algorithms (e.g. debt indicators, lending models, affordability calculations, decision-making array input)	18
New or amended policy rules, cut-offs or referral triggers	17
Application form changes, mandatory question changes	5
Use of CRAs	4
Validation or verification rules or process changes	4

175. Almost two-thirds (64%) of firms provided answers that suggest they have changed their assessment practices as a result of monitoring effectiveness.

Table 77. Summary of whether changes made in the last 12 months

	Total	Persl Loans	HCSTC	HCC	Guarantor	Logbook	Motor	Rent-to-own	Catalogue	Other retail
Observations	70									
Changes made in last 12 months	45 64%	6 50%	4 100%	2 67%	5 63%	2 40%	15 71%	4 80%	3 75%	2 67%
No changes made in last 12 months	25 36%	6 50%	-	1 33%	3 37%	4 60%	6 29%	1 20%	1 25%	1 33%

176. Clearly the vast majority of firms (96%) do review their assessment practices regularly or at least in response to changes in customer profiles or external factors. In the last 12 months, however, 36% have not made any changes to their assessment practices.

Qualitative research

177. The firm survey was largely quantitative, but informed by and built on earlier qualitative research with 27 firms across 7 sectors. This was conducted by The Development Team Ltd (TDT) between October 2014 and March 2015, again on an anonymised basis.

178. The firms comprised:

- 6 personal loan providers
- 6 credit card providers
- 5 high-cost short-term credit (HCSTC) lenders
- 3 guarantor lenders
- 3 peer-to-peer (P2P) platforms
- 2 home collected credit (HCC) lenders
- 2 pawnbrokers

179. The firms were identified by the FCA and reflected a spread of size, channel usage, products, trading history and customer profiles.

180. In total 102 extended in-depth interviews were undertaken, spread across senior decision makers and key influencers (when combined these two groups accounted for around three quarters of the sample) and those involved in implementing policies.

Variations in behaviour

181. Even among such a relatively small sample, the research uncovered a great diversity of behaviour on how creditworthiness and affordability assessments are conducted.

182. The key parameters on which firms differ include:

- what they understand is meant by creditworthiness and affordability
- whether their focus is primarily on creditworthiness, affordability or both
- whether they view creditworthiness and affordability as essentially the same or different or intertwined in a complex manner
- whether they conduct creditworthiness and affordability assessments as a single assessment, separately or in a hybrid manner
- whether they rely on creditworthiness to reassure on affordability
- the relative weight they attach to information gathered from the applicant, in-house information and third party information (notably from CRAs)
- to what extent, and how, they devote effort to verifying information provided by applicants

- the attention they pay to different potential components of creditworthiness/ affordability assessment, in particular:
  - measuring income
  - measuring expenditure
  - calculating disposable income
  - predicting likely future changes in income/expenditure
  - measuring existing levels of indebtedness
  - projecting likely future levels of indebtedness

Drivers of behaviour

183. The main factors that influence firms' approach to creditworthiness/affordability assessments and so explain the diversity are:

- risk appetite of a firm (including its translation into risk-based pricing and/or risk-based products)
- target market (especially prime vs. not prime)
- channel (especially face-to-face/telephone vs. online)
- product type and duration
- amount and cost of credit (in absolute terms and relative to the borrower's resources)
- firm's resources and longevity
- firm's heritage and ethos

184. However, arguably the most important parameter is whether the market the firm operates in is prime or non-prime.

185. Those serving a prime market:

- Tend to rely more on the accuracy and predictive nature of CRA data for reassurance that creditworthiness assessment alone is sufficient to ensure the possibility of default falls within their risk appetite.
- Such assessments are likely to include some aspects relevant to affordability. However, the motivation for including them will usually be driven by creditworthiness concerns and not affordability in itself.
- Firms may have integrated or separate affordability assessments, but may undertake these largely to reassure themselves that customers 'will pay' rather than 'can pay' – although meeting regulatory requirements is likely to be another reason.
- P2P firms tend to deal with the prime market, but place greater emphasis on affordability as they claim their business model is different.

186. There are a number of reasons why those targeting prime markets may be unsure how much resource to commit to affordability assessment:

- Affordability is difficult to define and to measure:
  - incomes may change
  - expenditure may change
  - consumers may choose to adjust their historical spending patterns to accommodate a new credit obligation
  - consumers may not provide accurate or full information, and documentation may be unreliable
  - affordability proxies from CRAs and ONS etc. are not consistently viewed as being reliable
- There are difficult issues about where responsibility lies for ensuring that credit is affordable. For example, whether a firm should decline an apparently creditworthy customer who feels able to take on a credit obligation, and what can be expected from customers in terms of responsible borrowing.
- Measuring affordability is likely to be expensive. Firms often see it as likely to require one or more of:
  - intrusive and lengthy processes for customers that may well result in fewer applications that may also be worse due to adverse selection[9]
  - investment in manual underwriting processes that are expensive and require higher levels of resources, potentially reversing what for many firms has been a successful move from manual to automated decision-making
  - investment in complex investigation and analysis of information proxies (to use instead of detailed income and expenditure audits) that, in many cases, are currently believed not to be fit for purpose
  - including 'affordability' related data points into currently successful creditworthiness scorecards and criteria that, it is feared, might result in less rather than more successful decisions (measured in terms of default, delinquency or profitability)

187. Those serving non-prime markets face a different situation. By definition, they cannot rely to the same extent on a creditworthiness assessment alone to reassure themselves as to the nature and likely profitability of the risk they will be taking with a new customer, in particular those with a 'thin' credit file. As a result, affordability assessment assumes a much greater importance for firms in non-prime markets as it provides a vital insight into a potential customer's current situation. This can reassure a firm that the potential customer 'can pay' even if creditworthiness information is not available to say whether it is likely, on past performance, that the customer 'will pay'. Firms are, however, unsure how far they are either able to go or expected to go in forecasting likely future changes in the customer's situation.

188. Although the CRAs are making progress in broadening the information they have on consumers who are not prime, some of the firms surveyed are serving customers whose lifestyle is such that it is unlikely that the firm will ever be able to build up a clear picture

[9] Adverse selection is where it is the less creditworthy or more 'desperate' applicants who are willing to persevere with a more onerous application process.

via CRA data. For example, some payment methods such as cash or 'pay as you go' are not traceable and make this arena problematic for firms and CRAs.

189. Therefore, in the same way that those serving prime segments have a commercial motivation to invest in creditworthiness assessments, firms in non-prime segments see a direct commercial benefit in investing specifically in assessing affordability – even if that requires relatively expensive manual data capture and underwriting. However, the firms value the flexibility afforded by the current CONC rules[10] so they can apply underwriting standards differently in different cases. Some are unsure, though, to what extent they are expected to document processes and criteria in individual cases to demonstrate compliance.

190. Firms are also predisposed to different attitudes regarding the importance of affordability assessments, and how to conduct them, by the nature of the sales channel that they use. For example, organisations that have, and rely on, a branch network, or rely on call centres, appear generally more willing to make greater use of manual processes. This, in turn, makes them relatively more prepared to seek detailed information from applicants, which makes it easier to undertake income and expenditure (I&E) assessments.

191. Some of this is driven by the nature of the market they serve. Many firms dealing with non-prime, for example, either have to invest in 'manual' channels or rely on a strict 'low and grow' approach to limit their risk exposure until the customer has built up creditworthiness credentials by their behaviour on the specific account. Some firms adopt both routes.

192. Organisations with branch networks serving prime segments appear more willing to seek greater amounts of affordability-related information from customers than those serving prime segments primarily or solely online. This was more apparent for some sectors e.g. personal loans versus credit cards.

193. However, the view from organisations that are online only is different. Some, for example, may require customers to submit documentation (including electronically) in marginal cases, but essentially tend to avoid anything that will make the application process more onerous, and lengthier, for the applicant and the business. The target for online organisations is speed and ease of application, and this gives them an incentive to seek a means of assessing affordability that is as automated as possible. However, their retail competitors are concerned that this means that the playing field in relation to the customer journey and/or the nature and level of information firms obtain is not level.

194. Product type and scale of commitment also influence a firm's approach to affordability.

195. In several sectors, firms were concerned that a perceived greater emphasis on affordability coming from the FCA could result in requirements that customers would feel to be disproportionate to the credit obligation they were considering, and so could deter applications. This concern was heightened by the following factors:

- The FCA was perceived to be placing a great deal of emphasis on affordability. There was a sense that we might expect a detailed, or more detailed, I&E analysis with supporting evidence.
- There were concerns/expectations that our actions in relation to HCSTC and the Mortgage Market Review would be generalised into other sectors.

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[10] The FCA's Consumer Credit sourcebook (CONC).

- Some firms felt that such requirements would be inappropriate and risk significantly increasing costs and reducing credit availability.

196. Concerns that they might be forced to introduce burdensome affordability requirements were strongest among firms providing credit cards, home collected credit and generally those serving prime customers:

- In the case of credit cards, the general view was that introducing more onerous information collection from applicants would significantly reduce applications and shopping around, and would weaken the competitive position of credit cards overall.
- In HCC it was felt that, in response to CONC, greater affordability questioning had already been introduced that was unnecessary, given the high level of insight into the customer's financial situation that agents have on an 'informal' basis, and this was being received negatively, particularly by long-standing customers.
- In the case of personal loans, particularly for prime customers, firms felt that the current level of affordability checks was satisfactory and further expenditure reviews would be unnecessary and, for some customers, unacceptable.
- In guarantor loans, implementation of detailed I&E assessments with guarantors was sometimes being received badly. Conversely, where large credit obligations were concerned, customer acceptance tended to be higher.

197. Smaller, newer firms are more likely to use manual processes, but in most (although not all) cases want to move to ever more automation:

- If affordability is seen to equal detailed I&E then that is felt to mandate significant use of manual processes, but the trend is for firms to want to move towards greater automation and the reduction of manual processes.
- This is not only because automation, given sufficient economies of scale, is viewed as more cost-effective and so keeps prices down, but, certainly in the creditworthiness space, is also believed to be more accurate and consistent.
- Consequently, in most sectors, firms are likely to be more open to affordability-related requirements if these build on, or accept, the use of proxies for income and expenditure rather than requiring the gathering and validation of detailed information from applicants directly.
- Accurate validation is a key concern, particularly for those operating online and those without access to full current account information.

198. Scorecards do not, in and of themselves, necessarily mean lower rates of delinquency and default. There are many other factors that contribute to delinquency rates, including a firm's risk appetite. This in turn can affect the firm's policies, how the firm implements its policies (with and without scorecards) and the firm's channels and target markets.

199. While there may be an assumption that scorecards generate more reliable and consistent decisions, and there is considerable evidence to support this across many of the sectors (particularly credit cards and personal loans), there is also evidence that firms may have lower delinquency rates without sole reliance, or high levels of reliance, on scorecards. The few examples supporting this latter perspective were firms operating in HCC and HCSTC. They cited manual inputs and/or staff or management-led decision-making as influencing the process and having a positive impact on outcomes with these firms demonstrating lower delinquency rates than some others in their sectors.