FINANCIAL CONDUCT AUTHORITY

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FINAL NOTICE

To:	**Amigo Loans Ltd**
Reference Number:	**708284**
Address:	**118-128 Commercial Road, Bournemouth, BH2 5LT**
Date:	**14 February 2023**

1. ACTION

1.1 For the reasons given in this Final Notice, the Financial Conduct Authority ("the Authority") hereby publishes a statement pursuant to section 205 of the Financial Services and Markets Act 2000 ("the Act") that Amigo Loans Ltd ("Amigo") contravened regulatory requirements.

1.2 The serious failings in this case warrant a substantial financial penalty. Amigo has provided verifiable evidence that the payment of such a penalty would cause the firm serious financial hardship. On 23 May 2022, the High Court approved Amigo's scheme of arrangement, which aims to provide redress to customers who were mis-sold loans and who raised a complaint. The Authority is satisfied that the imposition of a penalty could jeopardise Amigo's ability to meet its commitments under the scheme of arrangement. Had it not been for Amigo's financial position, the Authority would have imposed a financial penalty of £72,900,000.

2. SUMMARY OF REASONS

2.1. Amigo's sole business during the Relevant Period was as a guarantor lender. It has strategically positioned itself in the market as a finance provider to consumers who cannot access finance from traditional lenders, due to their circumstances or credit history.

2.2. Firms offering consumer credit are required to make a reasonable assessment of not just whether a customer can repay a proposed loan, but also whether the customer can do so affordably.

2.3. Between 1 November 2018 and 31 March 2020 (the Relevant Period), Amigo breached Principle 2 (skill, care and diligence), Principle 3 (management and control) and Principle 6 (customers' interests) of the Authority's Principles for Businesses (the "Principles").

2.4. By failing to appropriately consider regulatory requirements, recognise emerging trends and adapt its lending approach accordingly, Amigo failed to ensure that its systems and controls adequately assessed and monitored customer affordability.

2.5. Amigo also failed to identify issues with its systems and controls through its own governance and oversight. Amigo was overly focused on profitability and "getting loans out the door". As a result, it failed to give appropriate consideration to the interests of customers and the risk that its business model, if not carefully controlled, could lead to widespread lending that was unaffordable to customers.

2.6. The risk of harm affected both borrowers and guarantors. Amigo did not have appropriate processes in place to ensure it adequately assessed borrower and guarantor circumstances prior to lending, to ensure that lending was affordable and in compliance with its regulatory obligations. Guarantors were entitled to rely upon Amigo's assessment that a loan was affordable for a borrower and undertook to make payments only where the borrower was not able to do so. However, Amigo's assessment did not make sure that the borrower would be able to repay the loan affordably without it impacting their wider financial situation. As a result, there was an increased risk that guarantors would have to step in and make payments.

2.7. By November 2018, Amigo business model involved a heavily automated approach to lending, with increasing reliance placed on pre-programmed IT system decision making. Amigo had gradually increased automation and decreased the involvement of human agents leading up to the Relevant Period. This allowed Amigo to grow its business by increasing its lending volumes and the speed at which it could process applications. It was also intended to increase the consistency of outcomes for customer applications.

2.8. Lending decisions were primarily driven by the parameters within Amigo's IT system. The reduction in human contact as part of Amigo's lending process had potential benefits for customers as it meant they could easily make applications with eligibility quickly and consistently assessed. There were also operational advantages for Amigo as a large part of the underwriting process became automated.

2.9. But there were also significant risks inherent with this approach. The first was that decision making was, to a significant degree, dependent on IT system logic. It was therefore vital that the system incorporated appropriate parameters, triggers and controls around affordability and creditworthiness to prevent Amigo lending to customers in circumstances where it was potentially unaffordable for the customer. Although there were controls of this type in place, they were insufficient and design issues meant that the system approved (subject to final agent sign-off) loan applications in circumstances where there were indicators that the borrower could not afford the loan or where there was insufficient evidence to conclude that the loan was affordable. This unaffordable lending caused harm to both borrowers and guarantors. 1 in 4 of Amigo guarantors were asked to step in and make payments to assist struggling borrowers at some point during the lifecycle of the loan although payments by guarantors accounted for 10% of total loan payments.

2.10. Secondly, although some of the controls built into the system raised flags for further review by human agents, there remained a risk, which crystallised in many cases, of unaffordable lending if the agent did not sufficiently consider information provided by the customer or adequately probe the information they were given before approving the lending. This risk was heightened in circumstances where the reward system for pay-out agents was heavily weighted towards loans paid out.

2.11. Strong governance and oversight of both the IT system configuration and the role played by human agents, was critical to mitigate those risks. It required senior management to fully consider the needs of Amigo's customer base, the relevant regulatory requirements under CONC and the operation and evolution of Amigo's business model. Amigo's governance and oversight mechanisms failed to identify significant weakness in its approach to lending, exposing consumers to a significant risk of large-scale unaffordable lending. In particular:

(1) Amigo did not adequately consider regulatory requirements around affordability, focusing too narrowly on credit risk

2.12. Historically Amigo viewed affordability of a loan as including a strong element of choice for customers. The theory being they could cut back on certain expenses which could be adjusted at the discretion of the customer in order to make a proposed loan affordable. Amigo's assessment focused too heavily on the customer's credit risk. On 1 November 2018 the Authority introduced clarified consumer credit rules which included a clearer articulation of the expectation that firms would look beyond the customer's ability to repay, to their ability to repay affordably. Amigo considered its position at this time and concluded that it was in compliance with the requirements. As a result of this mistaken belief, it made very limited changes to its lending parameters and processes, continuing to focus on credit risk and the prioritisation of commercial results at the expense of customer outcomes.

2.13. Amigo also considered the low proportion and number of upheld FOS decisions in the preceding years as an indication that its assessment of affordability was adequate. However, Amigo failed to ensure that its approach to affordability evolved in line with changes in regulation and market approach. Its horizon scanning failed to recognise emerging trends and adapt its lending approach to ensure that it was lending affordably. This was compounded subsequently by Amigo's failure to act appropriately on the findings of a number of internal and external reviews from mid-2019 which had identified weaknesses in its approach to the assessment of affordability and creditworthiness. Amigo also failed to take on board lessons arising from root cause analysis of the irresponsible lending complaints against the firm. This was in part due to inadequate root cause analysis but also resulted from a failure to apply the learnings Amigo did identify from complaints to its lending approach.

2.14. This was in part due to a lack of visibility of key risks and emerging issues at senior management level. Issue management was re-active and there were no risk indicators that could be used to support risk-based decisions. Amigo failed to give sufficient consideration to affordability in its MI, which would have informed its oversight. The MI metrics it did have in place were geared towards measuring credit risk and did not identify customer detriment.

(2) Amigo's assessment of customer affordability was inadequate

2.15. Affordability was assessed based on Amigo's Budget calculator. However, the information gathered, and the verification of that information was not sufficient to provide assurance as to the customer's affordability and creditworthiness for the following reasons:

a. Amigo unduly relied on information provided by customers in the Budget. The Budget indicated to customers whether they had entered the required income and expenditure to be approved for a loan and allowed them to adjust the entered income and expenditure accordingly.
b. Amigo did not adequately consider the sustainability of income or expenditure in its assessment beyond a tick box requiring customers to confirm that nothing was due to impact the income they received or cause their spending to increase.
c. Amigo's approach to income verification did not provide reasonable assurance as to the customer's income and their ability to afford the loan.
d. Amigo's approach to top up lending was inappropriate and risked getting customers into a spiral of increasing debt. Although customers in arrears could not apply for a top up, Amigo failed to pay due regard to borrowers who had recently been in arrears or who had taken repeated top up loans. It encouraged them to apply for additional lending by text message or email without having sufficient regard for the potential impact of increased lending on their financial circumstances.
e. Amigo's assessment of expenditure was inadequate. Amigo failed to assess the full range of non-discretionary expenditure or consider the composition of a borrower's household. Amigo also failed to ensure that the data it used to verify expenditure was kept up to date.

(3) Amigo failed to ensure that its controls were effective around creditworthiness

2.16. Amigo did not establish and implement effective policies and procedures to enable it to carry out creditworthiness assessments and ensure adequate risk management systems for the following reasons:

a. Amigo's pay and reward system for pay-out agents was heavily weighted towards loans paid out without adequate controls, which risked incentivising the wrong behaviours.
b. Responsibility for ensuring that affordability was adequately assessed was not clear.
c. Concerns raised by Internal Audit and Compliance from mid-2019 were not addressed. These concerns related to:
    i. A lack of effective risk management framework.
    ii. Too narrow a definition of potential customer vulnerability.
    iii. Poor retention of documentary evidence in relation to the assessment of customer affordability where required by Amigo's system; and
    iv. A lack of horizon scanning and compliance advice by the Compliance function.
d. Amigo failed to effectively monitor its lending to ensure that it was affordable for its customers through inadequate quality assurance.

(4) Amigo did not adequately consider the profile of its customer base which increased the risk of potential harm to customers

2.17. A significant proportion of Amigo's customers were potentially vulnerable. Amigo had a responsibility to ensure that vulnerable customers were adequately protected from the risk of harm. This placed additional responsibility on Amigo beyond the responsibility to ensure it was lending affordably. Amigo failed to identify potentially vulnerable customers at the application stage because it relied on its lending system to pick up indicators of vulnerability in the data available to it. However, the system was designed with an unreasonably narrow definition of vulnerability, limited to customers on incapacity benefit for a mental health issue, which Amigo considered might affect the customer's understanding or management of the loan agreement.

2.18. The narrow definition of vulnerability in Amigo's system made it very difficult for Amigo to assess and identify possible signs of vulnerability prior to issuing loans. Amigo was aware that it's lending model would likely attract more vulnerable customers compared to high street lenders, for example a significant proportion of its customers were in receipt of benefits income. However, Amigo only identified 1.11% of customers as vulnerable at the point of lending during the Relevant Period. This was despite Amigo having access to information in the customer's credit file which could have been flagged by its system to indicate that the customer was in financial difficulty. This information, although available, was not considered by Amigo as an indicator of potential vulnerability.

2.19. The Authority considers the failings by Amigo to be serious. Amigo's failure to conduct an effective creditworthiness assessment created a high risk of customer harm. Guarantors should have been able to rely on Amigo's assessment that the borrower could afford the loan. Amigo's Budget assessment did not provide sufficient assurance that a customer could afford to repay their loan. The Authority considers it is likely that there was widespread harm as a result of this. The seriousness of this is compounded by the fact that it is likely that a reasonably significant proportion of Amigo's customers were vulnerable.

2.20. Amigo assessed its risk appetite in light of emerging COVID pandemic and decided to stop lending in March 2020; although a very small amount of lending was permitted to be advanced to key workers until November 2020, over which period approximately 20 loans were written.

2.21. Amigo did not maintain adequate records and on some occasions during the Authority's Enforcement investigation was unable to provide adequate responses to questions by the Authority due to a lack of sufficient records historically. This included negligently, automatically deleting the email accounts of relevant staff that had left the firm after the Authority's investigation commenced, despite the Board acknowledging the Authority's instructions regarding the importance of retaining documents for the Authority's investigation. This was considered to be an aggravating factor for the purposes of the penalty calculation.

2.22. On 23 May 2022, the High Court sanctioned a scheme of arrangement (the "Scheme") which aims to provide redress to Amigo's customers. The majority of eligible customers who voted on Amigo's proposals voted in favour of the Scheme. Amigo has provided verifiable evidence of its financial position and the Authority is satisfied that the imposition of a financial penalty would threaten Amigo's solvency and its obligations under the Scheme. Were it not for Amigo's financial position the Authority would have imposed a financial penalty of £72,900,000. The Authority has therefore decided to reduce the penalty to £nil.

3. DEFINITIONS

3.1. The definitions below are used in this Notice:

“the Act” means the Financial Services and Markets Act 2000;

“Amigo” means Amigo Loans Ltd;

“the Authority” means the Financial Conduct Authority;

“Board” means the Board of Directors of Amigo;

“the Budget” means the income and expenditure section of Amigo’s lending application form;

“CMC” means Claims Management Company;

“Committees” means Amigo’s Audit Committee, Nomination Committee, Remuneration Committee and Risk Committee;

“CONC” means the Consumer Credit sourcebook, part of the Authority’s Handbook;

“CXC” means Customer Experience Coach;

“Default” means where a payment is not made within the terms of a credit agreement and a Notice of Default is issued. Amigo sent a Notice of Default to both the borrower and guarantor on the 15th day in arrears.

“DMP” means Debt Management Plan;

“the FOS” means the Financial Ombudsman Service;

“IVA” means Individual Voluntary Arrangement;

“KRI” means key risk indicator;

“MI” means management information;

“ONS” means the Office for National Statistics;

"Pay-out agents" means underwriting agents as referred to by Amigo;

"QA" means Quality Assurance;

"the Principles" means the Authority's Principles for Businesses, within the Authority's Handbook;

"RCA" means root cause analysis;

"the Relevant Period" means 1 November 2018 to 31 March 2020;

"RMI" means the cost of servicing an Amigo loan;

"top-up lending" means additional lending offered to existing Amigo customers;

"the Scheme" means Amigo's scheme of arrangement approved by the High Court on 23 May 2022; and

"the Tribunal" means the Upper Tribunal (Tax and Chancery Chamber);

4. FACTS AND MATTERS

Background

4.1. At the time of the Relevant Period, Amigo provided only guarantor loans and was a non-prime lender. It had strategically positioned itself in the market as a lender providing finance to consumers who due to their financial circumstances or credit history, cannot borrow from traditional lenders. Amigo's marketing promotes it as a company which makes borrowing possible and affordable for people who would otherwise be excluded from mainstream financing, offering borrowers the opportunity to rebuild their credit scores through its guarantor lending proposition.

4.2. Amigo had ambitious targets for growth following its stock market listing. By the start of the Relevant Period, Amigo's business model was increasingly automated with loan applications submitted online and lending decisions made according to parameters set within a sophisticated IT system. There had been a gradual shift away from a process whereby agents would speak to all borrowers and carry out the affordability assessments manually.

4.3. Guarantor lending introduces a second individual into a lending relationship, typically a family member or friend with a stronger credit profile than the borrower. The guarantor then guarantees that if the borrower is unable to make a payment under the loan, the guarantor becomes liable and must make that payment on the borrower's behalf. Both borrowers and guarantors needed to pass Amigo's affordability checks. Amigo's borrowers and guarantors generally had a worse credit profile than the UK average.

4.4. Amigo typically offered loans from £2,000 to £10,000 over terms between 12 and 60 months, with a fixed Annual Percentage Rate of 49.9%. Amigo assessed affordability through its Budget calculator with its loans being deemed affordable for customers who had a monthly net disposable income (which was above a minimum buffer amount). Amigo specified the costs categories to be included in its application form and included the monthly cost of the loan and a buffer in the Budget calculation.

4.5. In addition to issuing new loans to new customers, Amigo offered additional lending to existing customers. This was referred to as top-up lending. If a borrower took out a top-up loan, this would replace the original loan so there would only ever be one loan outstanding per customer.

4.6. A significant amount of Amigo's lending was top-up lending, with 41% of loans issued in the Relevant Period being top-up loans. Top-up lending was part of Amigo's lending strategy and was inherent in the design of its business model. It was a driver for the growth of the business and was actively promoted to borrowers. However, at the beginning of 2019, top up lending became a focus of customer complaints and was also considered in some decisions by the FOS. In July 2019, with respect to a selected number of cases, Amigo changed its eligibility criteria to top up, increasing the number of payments that had to be made on a loan to 6 before a borrower would be eligible. Prior to that, the majority of customers were required to have made 3 monthly payments.

4.7. Amigo's underwriting process was predominantly task and system driven. This meant that the system would make decisions according to parameters set and underwriting agents, referred to by Amigo as pay-out agents, would be allocated tasks where the borrower or guarantor profile was outside the parameters. This created a risk if the system did not have the right parameters, triggers and controls around affordability and creditworthiness, that customers could be deemed to be affordable, in circumstances where in fact Amigo should not have lent. There was a further risk that even where flags or triggers were appropriately raised, that agents might not deal with issues appropriately.

4.8. Strong governance and oversight were critical to mitigate those risks. The Authority's requirements around consumer credit, under CONC and as outlined in the Authority's guidance, noted that proportionate and appropriate affordability assessments were key to avoiding harm in this area, and firms should ensure they were making responsible assessments of the sustainability of borrowing by taking into account the particular circumstances.

4.9. Without robust oversight of the system and the tasks completed by agents, there was a serious risk that issues with Amigo's approach to lending would not be picked up. In addition to this, without proper horizon scanning around the assessment of affordability and creditworthiness, there was a clear risk that the parameters in the system, the tasks raised, and the approach taken by agents would not necessarily be sufficient to ensure lending was affordable.

Interventions by the Authority

4.10. On 25 November 2019, following a review of guarantor lending, in which Amigo participated, the Authority wrote to Amigo setting out a number of findings and points to be actioned. The findings included concerns about the increase in guarantors having to make payments which suggested a fall in the standard of lending decisions being made, and lack of affordability for customers. The Authority requested that Amigo review the increase in the number of guarantors having to make payments, identifying any issues relating to affordability checks carried out and asked the firm to put in place a plan to reduce the proportion of guarantors required to make payments.

4.11. Despite this, there was no review of the processes by which Amigo assessed affordability. Amigo relied instead on MI around the guarantor payments in the first 6 months of a loan remaining fairly constant as an indicator that its affordability assessments were adequate. Amigo considered that arrears after 6 months would have indicated a change in the borrower's circumstances.

4.12. From the beginning of 2020, the Authority increased its interaction with Amigo initially concerning its creditworthiness and forbearance policies, and then also its complaints handling processes.

4.13. Following further correspondence and site visits, the Authority wrote to Amigo to set out 3 broad categories of concern:

1. The first related to potential for unfair customer outcomes as a result of Amigo's affordability assessments and ensuring that income and expenditure assessments were reasonable and properly verified.
2. The second related to various aspects of Amigo's complaints handling, including concerns that Amigo had changed its approach to complaint handing and that it might not be handling complaints in line with the Authority's DISP rules, which require that firms must take reasonable steps to identify and remedy any recurring or systemic issues; and
3. The third related to the provision of information to guarantors and concerns that guarantors were not receiving appropriate information about their potential obligations.

4.14. The Authority conducted a review of 15 loan files and provided feedback on its findings to Amigo in April 2020. The Authority found that in 11 out of 15 loans (73%) there had been inadequate affordability assessments on at least one of the parties. 40% of these customers subsequently experienced an adverse event in their repayment history. In several instances, the files showed that Amigo did not adhere to its own policies and procedures, leading to customer harm. The file reviews also flagged a potential lack of appropriate oversight and governance. The review also identified issues with the firm's interpretation of borrower credit files.

4.15. It was noted that Amigo's focus was on credit risk, with policies and procedures set around reducing the likelihood of a customer failing to pay within the terms of their credit agreement and a Notice of Default being issued as a result (i.e., the risk of default) with inadequate consideration of whether the customer could afford the loan. Further, the Authority found that several areas of Amigo's affordability policies were weak, and the governance and oversight of these areas was poor. For example, when completing the online application, the customer was notified when their expenditure exceeded their income or if an expenditure item was lower than the ONS average. This allowed customers an opportunity to manipulate the application to secure credit. Also, the Authority was informed that there had been no due diligence carried out by Amigo on the data it relied on to verify customer income.

4.16. Amigo stopped lending in March 2020, although a very small amount of lending continued to be advanced to key workers until November 2020. Amigo was referred to Enforcement and formally placed under investigation by the Authority in May 2020.

4.17. As part of its investigation into Amigo, the Authority completed a file review of a further 37 customer files. These files demonstrated significant failings by Amigo to adhere to the rules in CONC and to adequately consider customer interests. The files highlighted the poor outcomes that its customers experienced as a result of Amigo's failings. The Authority found key failings in relation to:

a. Inadequate verification to provide evidence of the customer's current income as required by CONC 5.2A.15R.
b. Inadequate verification of expenditure meaning that Amigo did not have a reasonable estimate of a customer's non-discretionary expenditure as required by CONC 5.2A.17R.
c. Lack of consideration by Amigo of customer credit history and indicators of financial difficulty; and
d. Marketing of top-up loans to borrowers who had been in arrears or had taken several top-ups in a short period of time. This may not have been in the borrower's best interests and exposed guarantors to an increased chance of needing to make payments.

4.18. A summary of the Authority's findings is detailed at **Annex B** together with 3 detailed customer file examples highlighting typical issues and failings.

Vulnerable Customers

4.19. A significant proportion of Amigo's customer base during the Relevant Period had low financial resilience and many displayed aspects of vulnerability. Amigo had a responsibility to ensure that vulnerable customers were adequately protected. Prior to the Relevant Period, the Authority defined vulnerability as something that could be temporary, sporadic or permanent in nature noting that many people in vulnerable situations would not diagnose themselves as vulnerable. The Authority accepts that defining vulnerability can be difficult, but Amigo's view was too narrow. Amigo's borrowers were individuals who did not always have access to traditional forms of credit due to their credit history. Amigo's borrowers were often reliant on benefit income and around a quarter of loans made were for the purpose of debt consolidation. Accordingly, a significant proportion of its customers would have been financially vulnerable but were not flagged as such by Amigo on its system.

4.20. On 6 March 2019, the Authority issued a Portfolio Strategy Letter to firms providing high-cost lending products. Notably, the letter stated that customers who use high-cost credit products tend to share some key characteristics – for example, they tend to have poor credit histories and low financial resilience and many of them are also likely to be vulnerable. It noted that there was a risk of considerable harm given these characteristics, lack of appropriate affordability checks and poor treatment of customers who were behind on payments (in arrears) or who had failed to pay within the time required under the credit agreement and a Notice of Default had been issued (in default). The letter reminded firms of their obligations to treat customers fairly and appropriately.

4.21. Despite this, Amigo did not flag the high likelihood of potential vulnerability in its customer base during the Relevant Period. Amigo primarily identified vulnerable customers through contact after a lending decision had already been made, through calls between a customer and a Collections agent. Amigo was aware that its lending model would likely attract more vulnerable customers compared to high street lenders, for example a significant proportion of its customers were in receipt of benefits income. However, Amigo only identified 1.11% of customers as vulnerable at the point of lending during the Relevant Period. The Authority expects firms to pay attention to indicators of potential vulnerability. Amigo did not do this. Amigo relied primarily on its lending system to pick up indicators of vulnerability in the data available to it. However, the system was designed with an unreasonably narrow definition of vulnerability. The only information that would prompt Amigo to make any further enquiry from a vulnerability perspective was if a customer declared receipt of incapacity benefit. On checking, only if the incapacity benefit was received for a mental health issue which might affect the customer's understanding or management of the loan agreement, would the agent flag the customer as vulnerable.

4.22. The narrow definition of vulnerability in Amigo's system made it very difficult for Amigo to assess and identify possible signs of vulnerability prior to issuing loans. Amigo has subsequently acknowledged that it should have taken a wider view of vulnerability in respect of its customer base.

4.23. In July 2019, Amigo's narrow view of vulnerability was raised in a report by its outsourced Internal Audit function and was rated 'high', with several recommendations for improvement. This report noted that vulnerable customers' circumstances may mean that they are significantly less able to represent their own interests and more likely to suffer harm than the average consumer. The report identified the risk that if indicators of vulnerability were not identified by Amigo, customers in vulnerable circumstances may not have been adequately protected or treated fairly.

4.24. Amigo implemented additional training to ensure (i) consistency in defining vulnerability and (ii) treating vulnerable customers fairly. However, this did not address the narrow definition of vulnerability in Amigo's lending system and would have been more likely to identify customers as vulnerable after a lending decision had been made on the basis that it was primarily through customer calls with the Collections team that vulnerability was identified.

4.25. Amigo's Compliance function also expressed concern that some customers were not being recognised as vulnerable who should be. It was also proposed that Amigo flag as potentially vulnerable all customers in receipt of benefits income in line with recent FOS decisions at that time.

4.26. No further action was taken on that point and no further triggers beyond the receipt of benefit relating to disability were included in Amigo's system to flag potential vulnerability.

4.27. Information from the customer's credit file was not considered for potential indicators of vulnerability during the Relevant Period. Amigo had access to information in the credit file which could have been flagged by its system to indicate that the customer was in financial difficulty. That information should have been considered as part of the assessment of affordability as it would have been relevant to whether repayment was affordable for the customer. Where customers are in financial difficulty, they could also be potentially vulnerable. Resilience is a key driver of vulnerability and includes low or erratic income, over indebtedness and low savings as factors. These indicators of potential vulnerability could have been seen from the information Amigo held but were not considered.

4.28. In 67.5% (25 out of 37) of loan files reviewed by the Authority, the Authority assessed that there were indicators of potential vulnerability on the customer's credit file. These were indicators which would have suggested the customer may have been in financial difficulty and susceptible to detriment. Despite this, none of the customers were identified as potentially vulnerable by Amigo.

4.29. For example, in one of the files, the borrower's credit file showed a 126% balance to limit ratio, 3 accounts in Default (including over-the-limit credit cards). This information would suggest that the customer was possibly vulnerable due to over-indebtedness, but they were not identified as such by Amigo and as such no further assessment or contact took place prior to lending.

Lending Process

Process Overview

4.30. Customers applied for guarantor loans through Amigo's website. The application form contained a series of questions requiring customers to input personal details and details of their income and expenditure. The income and expenditure section of the application form was referred to as the "Budget".

4.31. The underwriting process was predominantly task and system driven. The level of automation meant that agents would focus on specific tasks raised by the system and typically call customers with queries on their application or deal with questions from customers rather than talk through the entire application.

4.32. The parameters and triggers in the system around affordability and creditworthiness were critical to ensuring that customers were able to afford the money they applied to borrow. It was also important that where tasks were raised by the system, Amigo's agents probed sufficiently to ensure the customer could afford to borrow. Together, these issues contributed to Amigo's failure to ask for more information about the customer's financial position before lending.

Loan application form

4.33. Amigo's loan application form required borrowers to specify the purpose of the loan and customers to provide details of their income and expenditure on specified items in the Budget and to declare that these were complete and true.

4.34. The application form did not ask customers about their household circumstances until after the end of the Relevant Period. This meant that during the Relevant Period, Amigo did not gather information about the composition of a customer's household and therefore its assessment of expenditure and customer circumstances did not consider this. Amigo did gather information about the number of children in the household in certain circumstances, but only used this information in relation to the assessment of food costs and not other household expenditure.

4.35. Customers were able to modify the details they had entered in their Budget until they submitted it. A banner at the bottom of the Budget page would show red if the Budget meant the loan being applied for was unaffordable, turning to green when the customer entered values which meant the loan would be affordable. This meant customers were alerted to their affordability status and were able to manipulate their income and expenditure entries, before submitting the Budget. Amigo was aware that if used incorrectly this feature could lead to customers undervaluing their expenditure items to get a loan. However, Amigo did not remove this feature from the Budget until April 2020, after the Relevant Period.

4.36. The Budget asked customers to provide details of their income and expenditure. In relation to income, this included their employment status, types of income and corresponding amounts. Types of income included earned income, overtime, self-employment income and benefits income. Notably, overtime income was included in Amigo's assessment of affordability. However, there were no checks to determine whether overtime income was regular or only occasional, which presented a risk that irregular income was used to secure credit.

4.37. Expenditure was divided into 2 categories: credit file expenses and household outgoings. Credit file expenses were pre-populated from the credit agency check. If a monthly repayment appeared on the credit search, this would be imported into the application form. However, for defaulted credit accounts, Amigo calculated the repayment amount for the Budget. This showed the amount Amigo expected to be repaid and not necessarily the amount that customers would actually pay against defaulted balances. Customers could also edit the figures if they chose to. This feature, alongside the indicator of affordability built into the Budget calculator, increased the risk that customers would underrepresent their expenditure. This was particularly acute given that many of Amigo's customers were vulnerable due to financial stress.

4.38. Household outgoings were requested from the customer for rent, food, gas, electricity, water, travel, home insurance, media, childcare and clothing. These were the only outgoings that Amigo identified as non-discretionary expenses.

4.39. The questions on the application form in relation to expenditure did not create a full or clear picture of the customer's financial position in terms of affordability. The form did not request details of all items of non-discretionary expenditure, such as those required to meet essential living expenses and other expenditure which is hard to reduce to give a basic quality of life, like healthcare costs, car maintenance costs or household essentials beyond food.

4.40. The application form also did not ask any questions about future known events with a view to assessing reasonably foreseeable reductions in income or increases in expenditure. This meant that Amigo could not accurately assess whether repayments would be affordable over the life of the agreement.

4.41. Amigo's assessment of borrower affordability was based solely on assessment of the Budget until November 2019, when Amigo introduced rules into its system to identify any credit behaviours in the past 6 months which increased borrower affordability risk. Customers were able to amend the Budget during the application process and, as explored below, there was only very limited verification. Given the issues set out above, there was a clear risk that Amigo could not rely on the Budget to assess affordability.

The decision engine

4.42. Once a customer filled in their details and Budget in the application form, Amigo's system would assess the application against lending parameters.

4.43. The first stage of checks determined whether customers met basic lending criteria. This was to confirm that:

a. The borrower was a UK resident.
b. The borrower was aged 18 to 75; and
c. The borrower was not bankrupt, subject to an IVA or DMP.

During the Relevant Period, no minimum income was required for customers- but the loan still had to be considered affordable.

4.44. Failure to meet the eligibility criteria resulted in borrowers being declined without proceeding to any affordability assessments.

4.45. Once the customer Budget was submitted, Amigo's system would compare the data provided by customers on their application form against credit file information and data sourced from third parties. For guarantors, the system would look in detail at their credit file to assess creditworthiness. However, there were no such checks for borrowers until November 2019. After this date, Amigo introduced 8 "RAG rules" to identify any recent credit behaviours which increased borrower affordability risk. Amigo's system reviewed information from the borrower's credit file to consider factors including accounts in debt management, arrears and limit utilisation on new accounts in order to categorise them as red, amber or green risk. The intention was that red customers would be automatically declined without an affordability assessment, amber customers would be subject to a more detailed assessment to understand the customer's situation in relation to debt consolidation, consider whether additional verification was required and establish whether Amigo was lending proportionally. In practice, both amber and red customers were declined. Green customers followed the existing affordability assessment based on the Budget.

Affordability assessment

4.46. Amigo considered that a loan would be affordable for a customer if they had a net disposable income once the expenditure named on their Budget, the RMI and a buffer were deducted, represented by the following formula.

Income > (Expenditure (being non-discretionary expenditure and existing credit commitments) + RMI + Buffer)

4.47. Amigo's affordability assessment was the same for borrowers and guarantors, except for the level of buffer. The purpose of the buffer was to address unexpected and unforeseeable expenses.

4.48. If a customer submitted a Budget where the income was not sufficient to meet the above formula, the lending was considered unaffordable to the customer and the application would be declined.

4.49. Alternatively, the application was flagged to an agent to contact the customer. The aim of the agent's contact was to see if there was a way for Amigo to still lend to the customer whether that was through a loan for a lesser amount or for a longer term.

Verification of income

4.50. From 1 November 2018, Amigo introduced 5 categories of higher risk customers where enhanced income verification checks were required to ensure the customer could afford the loan. Amigo initially anticipated that these changes would affect only between 5 – 7% of its customers for the enhanced check and mean that for higher risk customers, the total income declared by the customer was verified. However, for lower-risk customers (approximately 90% of Amigo's loan book), Amigo only validated whether the amount of income stated by the customer was enough to cover their expenditure (which was non-discretionary expenditure plus credit commitments), the RMI and the buffer.

4.51. For the majority of the Relevant Period, Amigo sought to verify customers' declared income using 1 of 3 methods for customers it assessed at lower risk:

a. An income confidence score of 4 or above using credit reference agency data.
b. Income matrices; or
c. Document proof.

4.52. These methodologies were applied sequentially. If a customer's income generated a score of 4 or above using credit reference agency data, the loan moved forward for approval. However, if it fell below 4, then the system would move on to check the stated income against the income matrices. If that did not provide what Amigo considered sufficient assurance, a task was created for an agent to request documentary proof of income from the customer. If after the verification exercise, insufficient income was verified for a customer to pass the affordability assessment, a task was raised for an agent to call the customer. During that call an agent could review the Budget with the customer in order to make the lending affordable. This could involve the agent offering a lower loan amount or a longer term and /or attempting to explore with the customer whether they could make lifestyle changes to lower their expenses for the Budget to make the lending affordable. If this call could not be completed, the application was declined.

4.53. Where the customer was identified as higher risk, the process for verifying their income was different. If their full income could not be verified using a score of 4 or higher, the customer had to be verified by document proof. It therefore skipped the income matrices step.

Credit reference agency data checks

4.54. Amigo used a credit reference agency data tool which analysed a customer's current account turnover data over a 12-month period and could provide independent evidence of income. However, the threshold set by Amigo for customers to pass this check was too low to provide independent evidence of income.

4.55. The check used generates a confidence figure in the level of stated income (the confidence figure) and an indication of whether the income figure checked was an under or over-statement as compared to the customer's current account income (the under/over statement). The confidence figure factor looks at a customer's application salary and current account and considers the age, source and volatility of the income into the account as compared to the figure being checked. A confidence figure score of 8 or 9 provides assurance of sole income.

4.56. Where a customer had a confidence figure score of 7, this could include joint income. The software used by Amigo did not exclude joint income.

4.57. The Authority considers that it was unreasonable for Amigo to rely on a score of 7 or below as verification of income because such confidence figure scores can include joint income. A score of 7 could only provide independent verification of income if a firm undertakes further checks to ensure that partner income is available and to take account of partner expenditure.

4.58. Amigo did not use credit reference agency data checks appropriately in that it relied on confidence figure scores that the Authority considers provided a low level of assurance to justify lending to customers. Amigo verified income using a confidence figure score of 4 or above. A confidence figure score of 4 would be triggered where there were factors which undermined the confidence figure score such as a large mortgage or a financial associate with a larger income. This could indicate over-indebtedness or dependence on another person's income. The majority of customers with a confidence figure score of between 4 and 7 were approved for loans without any interaction with agents to test the reliability of the data that had been provided. This applied to 49.72% (108,832) of borrowers and 47.1% (103,295) guarantors for loans issued during the Relevant Period.

4.59. The under/over statement check generated a red (high), amber (medium) or green (low) rating to show whether the income figure checked was understated (green or low) or overstated (amber/medium or red/high) when compared to the customer's current account data. This would have provided some assurance about the reliability of the income declared by the customer and their ability to afford the loan. However, the value of this check was undermined by the fact that Amigo checked a lower figure than the customer's income on the application form, just the amount needed to cover outgoings, for the majority of its customers (see paragraph 4.50 above). As a result, the under/over statement would be more likely to generate a green or amber score but that showed sufficient income to meet the costs in Amigo's budget calculator.

4.60. Where a customer had a red-rated (high) under/over statement score, this would mean the income checked was overstated as compared to the customer's current account and it was Amigo's practice in those circumstances to decline the customer. Due to poor document and knowledge retention (due to lack of adequate records historically), Amigo has been unable to confirm whether this was the case throughout the Relevant Period. However, in 15 out of 37 loans (40.5%) in the Authority's file review customers had a red / high under/over statement score but Amigo lent money instead of declining the customer. There was a clear risk of customer harm in these instances because Amigo's assessment that these customers could afford to borrow was based on its Budget, which it knew was likely to include an overstated income.

Income Matrices (for lower risk customers only)

4.61. When the customer had a credit reference agency data check confidence figure score of 1, 2 or 3 (indicating significant volatility in their accounts), employment income would next be compared against 'income matrices'. As noted in paragraph 4.53, income matrices were only used for low-risk customers. Amigo purchased the income matrices from a third party, and they showed average salaries for various job titles. These average national salaries were by role only and did not allow for regional divergence.

4.62. The Authority considers that it was unreasonable for Amigo to rely on income matrices because they provided only nationalised salary figures for specific job types, and they were not tailored to the borrower or guarantor. Income matrices also relied on the accuracy of the job role entered by the customer from a pre-populated list, and Amigo had no way of identifying if this had been entered correctly or if the categories available were appropriate for the borrower or guarantor in question.

4.63. Amigo's systems compared the amount of income declared by the customer against the average figure contained for that role in the income matrices. If the figure declared by the customer was more than 20% above the average figure, the income was deemed not to have been verified by the income matrix. Any amount below 120% of the average, nationalised salary figure was deemed verified.

Benefit matrix

4.64. Non-employment income (i.e., certain benefits and pensions (both state and private) were compared to stated values against the 'benefits matrix'. Like the income matrix (see paragraph 4.62), the benefit matrix placed reliance on the accuracy of information provided by the customer regarding the type and amount of benefit income they received.

4.65. Benefit income was counted as available funds for affordability purposes irrespective of the purpose for which the benefit was given, provided it fell within the expected threshold for that benefit. Except for child benefit, there was no consideration given, in the application form or the affordability assessment, to whether a benefit was intended for a specific purpose, except in circumstances where the customer included child benefit income but no childcare cost, where Amigo's system would raise an agent task to explore this further. This would mean that customers in receipt of benefits which also had associated costs would be able to count the income from these benefits but not the associated expense except for the circumstance outlined at paragraph 4.34 where the comparator for food costs was increased where a customer disclosed child benefit income. This could lead to overstated income and therefore lending being deemed affordable by Amigo when it should not have been, resulting in irresponsible lending unless they added it to their expenditure (e.g., travel costs).

Document proof

4.66. If income was still unverified, pay-out agents were prompted to request document proof from customers, for example, payslips or bank statements. Amigo specified requirements for the documentary evidence in its Logic Manuals. These required documents to be provided to prove income within the last 100 days.

4.67. Once provided, agents would review the documents to confirm whether the declared income could be verified for the purpose of affordability. If the documents provided did not support the necessary amount of income, the application should have been declined. However, Amigo's policies allowed for customers to self-certify income in some cases through a process called 'manager reconciliation' where the underwriting manager reviewed the self-certification. Concerns with Amigo continuing to take this approach were raised by its Compliance function in July 2019, but it was not until February 2020 that Amigo stopped accepting manager reconciliation as a way to verify income.

4.68. Amigo's outsourced Internal Audit function's report on affordability in March 2019 made a finding that documentary evidence retention by Amigo to assess affordability was insufficient. This was noted again in December 2019.

4.69. This issue was a consistent feature of the review of customer files by the Authority. In 10 out of 37 loan files, customers were recorded as having been income-verified by document proof. This related to 7 borrowers and 4 guarantors. In 3 out of 11 files no document proof was recorded on the file. The Authority could not review whether income verification was adequate in those cases.

Top up loans

4.70. Amigo pre-populated previous income details for further lending within 6 months of the last income verification, although it gave the customer the option to change the amount. In addition, the customer was presented with a tick box that asked them to confirm that their income remained the same since their previous application. The Authority considers that this approach was inappropriate because Amigo did not carry out updated income verification checks at this time, in circumstances where the customer's income was stated to be the same or higher than a previous application. This was of particular concern as a large proportion of Amigo's customers were financially vulnerable and may have fluctuating levels of income and expenditure.

4.71. Amigo sent borrowers a text or email to inform them when they became eligible for a top up. Where a borrower had recently been in arrears or taken several top ups with Amigo within a short period of time, the Authority considers that such marketing by Amigo may not have paid due regard to the interests of those customers and could have resulted in potential detriment.

4.72. Analysis of Amigo's lending over the Relevant Period by the Authority shows that where borrowers topped up within 6 months of their original loan, they were more likely to go into arrears or Default on the loan. Amigo made changes in July 2019 to its eligibility criteria for top-ups, increasing the number of payments that had to be made to 6 before a customer would be eligible to top up. Amigo accepts that it did not do enough to understand why repeat lending was happening or to understand the potential detriment. An example of this can be seen in the case study of **Customer 2** in **Annex B**. That borrower took a total of 7 loans from Amigo and although he was clearly in financial difficulty from the fifth loan, Amigo continued to lend, contributing to the borrower's spiralling debt.

Verification of expenditure

4.73. Once the customer Budget was submitted, Amigo's system would compare the expenditure data provided by customers on their application forms against credit file information and data sourced from third parties, including data from the Office for National Statistics ("ONS") relating to average household expenditure. The calibration of tasks to be flagged was a key element of Amigo's controls in relation to the assessment of expenditure. Inconsistencies identified by Amigo's system would either:

a. in relation household outgoings (verified by comparing the declared amounts against ONS national averages), require a customer to select a reason for that inconsistency from a pre-populated drop-down menu which would typically be approved by the system without interrogation by an agent; or
b. in relation to credit file information where the customer had reduced any pre-populated amount, raise a 'flag', requiring an agent to contact the customer to address those issues.

4.74. If no tasks were flagged, agents would not be required to speak to borrowers as part of the affordability assessment.

4.75. The Authority considers that Amigo did not take reasonable steps to determine the amount, or make a reasonable estimate of a customer's non-discretionary expenditure for the following reasons:

a. Save as noted at paragraph 4.34 above, Amigo did not consider the composition of the customer's household when checking customer expenditure. This meant that the expenditure recorded by the customer could have been too low, but this would not have been flagged by Amigo's system because it only considered expenditure per adult in an average household. This was the case even when Amigo knew the household was larger because the customer had declared they were in receipt of child benefit income.
b. In relation to the cost of food, if a customer entered zero for this cost, Amigo's system assumed the customer's food cost would be £88 per month. This figure was well below the ONS figure of £133.90 per month.
c. Amigo failed to update the ONS data annually from at least 2016 until 2020 with the resulting cumulative effect of inflation meaning that the comparative data relied upon by Amigo's systems was undervalued. As noted at paragraph 4.73, Amigo's system would require an explanation to be selected by a customer if their expenditure was below 80% of the ONS average. The oversight by Amigo in updating its ONS data meant that an explanation was not required until the customer data was 74% to 76% below ONS, a considerable decrease on Amigo's own policy.

Documentary Proof

4.76. Documentary proof was rarely required for the purpose of verifying expenditure from the beginning of the Relevant Period until at least 5 February 2020 and was not sought for any loans issued during the Relevant Period.

Pay-out Agents

4.77. Amigo referred to its underwriters as pay-out agents. Pay-out agents were an important element of the lending process. They were responsible for dealing with tasks raised by Amigo's system in respect of a loan application. They also reviewed all loan applications before loans were paid out. Pay-out agents had the final say on whether to approve a customer's explanation of an affordability 'flag' or to re-budget the relevant income or expenditure items.

4.78. The pay-out agent role was entry-level with a high turnover of staff. Agents received training on joining the firm that lasted around 3 weeks, this was known as the Academy. This was supplemented by e-learning training for ongoing general training needs. Training was also provided in certain key areas, for example, how agents should examine documentary proof requested from customers when assessing affordability.

4.79. A buddy system existed for pay-out agents after they had completed the Academy. Coaching (by coaches known as CXCs) and mentoring was available to new agents. CXCs acted as Deputy Team Managers and were expected to dedicate the majority of their time to training and coaching. In addition, Team Managers were also expected to dedicate a significant proportion of their time to training and coaching. That being said, agents still complained there was insufficient time with coaches and that coaching did not focus on improvement but instead on auditing mistakes. This should have raised concerns that pay-out agents needed a greater level of support and guidance in their role.

4.80. When Amigo's decision engine could not approve (or underwrite) the loan from an affordability perspective, pay-out agents would be prompted to contact a borrower and/or guarantor. Applications were assigned to pay-out agents on a round-robin basis and an agent was expected to deal with all tasks on an application. The agent contacted the customer to address all issues/tasks raised individually and if satisfied, approved the loan from an affordability perspective.

4.81. Amigo's tasks were recorded in a detailed and regularly updated "Logic Manual". This collated the procedures and considerations relevant to tasks generated by the system. While the Logic Manuals provided details of the tasks that Amigo's systems might flag, these were not available to pay-out agents. Any changes would be communicated by the Head of Department to the managers of each of the underwriting/pay-out teams who would deliver training to their team of agents.

4.82. Pay-out agents were solely reliant on the details provided on the agent-facing page of the application form, including whichever questions or directions were provided on the screen as prompts to the agent for each specific tasks at the relevant time during the Relevant Period. Agents were given limited guidance by these on-screen details. Often, the prompts did not clearly direct agents on what to do where they had concerns about the customer's explanation. The wording prompted agents to test information provided by a customer to find a way to lend, rather than test the customer's affordability.

4.83. During the Relevant Period, there were a total of 39 income or expenditure tasks that could be raised. These tasks raised by the system were added or removed in an inconsistent manner across the Relevant Period. Some tasks disappeared and reappeared from month to month. For example, the task "£0 for travel but does travel sometimes" would be triggered only if the customer input zero for travel and this task was not in place in April 2019, June 2019, August 2019 and October 2019 but was in place for the rest of the Relevant Period.

4.84. The guidance in the Logic Manuals on these tasks only required an agent to probe whether the figure was "*probable, believable, realistic and sustainable*". For example, the task "*childcare expense contradicts their income*" raised the question *"People in your area normally spend £X on childcare. We need to understand why you pay less than that*." There was nothing further on this point in the Logic Manuals. There was limited guidance as to the sorts of questions an agent should be asking or relevant factors for consideration. This required a significant level of judgement from the pay-out agent which the policies and processes within Amigo's system did not support them to make.

4.85. Amigo viewed pay-out agents as less skilled than collections agents. Amigo's rationale for this was that the pay-out agent role was task-based (i.e. responsive to known tasks identified by Amigo's logic) whereas the collections role had to adapt to unknown issues raised by customers and was therefore more difficult, requiring additional skill and knowledge.

4.86. Issues in relation to the narrow, task-based focus of agents and associated lack of probing by agents of information provided by customers was raised by Compliance in September 2019. On review of 10 customer files, Compliance found that in 8 cases, documents revealed information which was not adequately queried and, as a result, the loan was granted on the basis of incomplete information which could have led to a different lending outcome had the full picture been known.

4.87. This is consistent with the Authority's file review which found an unacceptable lack of questioning by agents of information provided by customers. This was particularly serious in instances where the information provided by the customer clearly contradicted the loan application form. For instance, in customer file 3 (detailed in Annex B), the borrower mentioned in a call that they had 3 children but only 2 were included on their loan application form.

4.88. In addition to this, the level of automation of Amigo's system meant that Amigo was less able to evidence why a loan was considered to be affordable. A third-party review commissioned by Amigo found that this was due to a reduction in the number of questions that agents were asking about anomalies in customer affordability assessments.

4.89. Amigo pay-out agents approved an average total of around 12,800 loans per month. The average size of the team responsible for approving this many loans during the Relevant Period was around 10 people per team working within 4 main pay-out teams. These figures take no account of the number of declines following pay-out agent interaction. In order to deal with this number of applications, the pay-out agents were task-focused, responding to triggers in isolation as dictated by the IT system, and did not generally look at all the circumstances of applications. This was not something they were trained to do or would have had time to do. The need for enhanced skills at agent level was raised by Amigo's Compliance function in September 2019. Despite this, there was limited change in the number of pay-out agents during the Relevant Period meaning that this issue persisted throughout.

4.90. The Authority considers that the way pay-out agents were rewarded during the Relevant Period was unlikely to drive the right behaviours. Pay-out agents received pay that could vary considerably based on performance. This did appear to change in the Relevant Period, however until around mid-2019 a large part of agent pay was dependent on how they ranked against targets and their peers on a rolling 3-month basis. A significant part of the ranking related to volume, meaning that pay-out agent's variable pay was heavily weighted towards 'loans paid out'.

Impact on guarantors

4.91. Guarantors were entitled to rely on Amigo's assessment that a loan was affordable for a borrower and undertook to make payments only where the borrower was not able to. Amigo's promotional material echoed this and stated that it would "*make sure the repayments are affordable*" for the borrower. Due to the failings outlined above at paragraphs 4.30 to 4.90, Amigo did not do this and accordingly exposed guarantors to a much greater risk of having to make payments on the borrower's loan than they may have envisaged.

4.92. Guarantors were always telephoned as part of the lending process prior to payment. The pre-pay-out call would largely follow a script and its purpose was to assess that the prospective guarantor understood their obligations as a guarantor and was comfortable for the loan to be paid out. In November 2019, the Authority, as part of its Guarantor Understanding Multi Firm Work, raised concerns that Amigo may not be providing an adequate explanation to the potential guarantor to allow them to understand the key associated risks to be able to make an informed decision on being a guarantor. Changes to address this issue were not made until July 2020, in co-ordination with the rest of the industry.

4.93. The Authority raised concerns with the wider industry, including Amigo, that firms did not adequately consider the necessary level and extent of information provided to the guarantor. The Authority highlighted that:

a. An explanation of whether the borrower can afford the loan including information about the borrower's monthly disposable income.
b. This could include an explanation of the borrower's credit score, missed payments by the borrower on other debts in the last 12 months or recent CCJs.

Amigo was concerned that providing this information to the guarantor could lead to data protection issues.

4.94. The absence of that information and the inadequacy of Amigo's affordability assessment meant that guarantors were exposed to a higher risk of making payments than they expected.

4.95. Amigo's checks around creditworthiness were much more focused on the guarantor than the borrower. A longer-term view of the guarantor's credit file was taken by Amigo as compared to the limited, short-term focus on borrowers because Amigo knew that borrowers had poor credit files.

4.96. Increasing the pool of potential guarantors was a key element of Amigo's business growth. It did this through its decision engine which assessed in detail, through sequential questions, whether a potential guarantor met Amigo's creditworthiness criteria. Amigo knew that borrowers had poor credit files and only assessed them on the Budget to determine if they could afford a loan.

4.97. The disparity in approach by Amigo suggests to the Authority that Amigo was much more concerned about the financial position of the guarantor than the borrower when making the decision to lend. It was only if the guarantor defaulted that Amigo stood to lose money. This mindset fed into Amigo's approach to lending and resulted in 1 in 4 guarantors being asked to make a payment for a borrower during the loan term in relation to loans issued during the Relevant Period. Although payments by guarantors accounted for 10% of total loan payments.

Complaints and root cause analysis

4.98. During the Relevant Period, Amigo saw a significant increase in complaints, particularly about the affordability of its loans. In April 2019, the FOS noted that it had seen complaints against Amigo triple, from what had been a low base. By mid-2019, the volume of complaints against Amigo had increased substantially. The increase in complaints and the increase in published decisions by the FOS against Amigo after 31 May 2019 was accompanied by an increase in CMC involvement in complaints, and a backlog of complaints. By the middle of 2020, CMC cases made up the majority of new cases that Amigo was receiving.

4.99. Amigo pointed to its low historic volumes of complaints and the low proportion and number of upheld FOS decisions in the preceding years to suggest there was no historic issue with irresponsible lending and its assessment of affordability was adequate. However, as noted in the Authority's thematic review of Complaint Handling TR14/18, quality metrics are an important element of complaints monitoring management information. The Authority's Consultation Paper CP14/30 on Improving Complaints handling outlined that the reasons, or root causes of complaints, as well as the volume of complaints, are important metrics for analysing fair treatment of customers.

4.100. For that reason, it is always important to also look at the reasons for complaints and carry out root cause analysis to understand if an issue flagged in one complaint indicates a systemic problem.

4.101. Although a low proportion and number of FOS decisions had been upheld against Amigo before May 2019, a clear theme around insufficient checks being completed by Amigo could be seen in the complaints received. By the start of the Relevant Period, Amigo had received a small number of FOS decisions which contained comments on Amigo's affordability assessment processes. These decisions should have drawn Amigo's attention to deficiencies in its affordability assessment processes, particularly around its income and expenditure checks.

4.102. In June 2019, Amigo’s Internal Audit function issued a report on its first in-depth internal audit review of complaints handling. The report was classified as “critical” and identified serious weaknesses in both the design and operation of controls with Amigo’s complaints handling. There were issues around complaints logging and complaints numbers being underreported and a lack of audit trail of complaints decisions. The report also noted that Amigo had no complaint handling QA framework and practices contrary to the Authority’s requirements for complaints handling in DISP.

4.103. The report found that Amigo’s system did not allow for root causes of complaints to be captured. This meant that Amigo could not produce MI with the result that senior management did not have an accurate view of causes for complaints and inadequate assurance that root causes had been addressed.

4.104. Findings from FOS decisions were also not being effectively fed back as learning into the business while Amigo sought advice and assurance from third parties on the potential implications for its business. In June 2019, Amigo’s Compliance function noted that root cause analysis for themes from FOS decisions was not adequate, and identification of themes across complaints had come from the FOS rather than internally. That report also recommended that Amigo’s approach to lending and its general approach to the verification of customers circumstances should be examined.

4.105. In July 2019, Amigo set up an RCA team. However, the approach to root cause analysis and the work done by the RCA team was not adequate. Consequently, the lessons learned were limited and they were not fed back into the business as quickly as required. These issues were not addressed because senior management considered that they were not systemic as they did not affect a particular cohort of borrower. However, the issues revealed clear failings across Amigo’s systems and controls which should have been addressed.

4.106. By late 2019, complaints volumes were still increasing, particularly for irresponsible lending. On 1 November 2019, Amigo stopped processing complaints until it could determine new affordability rules which could be applied back to complaint cases. At this point, Amigo decided to re-evaluate its approach to lending, while it considered the FOS decisions, but it continued to lend.

4.107. In December 2019, Amigo's Risk Committee noted that it would be more appropriate for the complaints policy to be used to revise the lending policy, rather than vice versa. Amigo also accepted at that point that sometimes there was little or no documentary evidence to confirm the information on which it relied in order to make the lending decision.

4.108. In January 2020, Amigo adopted a different approach to complaints handling. This approach diverged further from FOS decisions and was not aligned with customer outcomes. Complaint handlers believed the new approach was to reject all irresponsible lending complaints in breach of DISP 1.4.1R (2) which required firms to investigate complaints competently, diligently, impartially and fairly, obtaining additional evidence as necessary. The irresponsible lending complaints uphold rate reduced to 2% following a shift in approach to defend complaints where Amigo's Budget calculator had assessed the loan as affordable to the customer and the customer had provided evidence that the information had been incomplete or incorrect. This was a clear failing by Amigo to pay proper regard to the interests of its customers and to treat them fairly.

Governance and oversight

4.109. Overall responsibility for affordability within Amigo was unclear. Neither the Board nor any of the Committees were expressly responsible for affordability or creditworthiness. Historically, the Compliance function had responsibility for these issues and there was an intention to move the focus on customer outcomes into Operations, but this did not occur. Responsibility for credit risk was clearly defined and sat with the Data Science Team throughout.

4.110. There were significant management and leadership changes within the business across the Relevant Period. The various changes in management marked significant shifts in approach towards affordability and customer focus. In mid-2019, Amigo was seeking to change its culture having identified that the previous culture and past practices could have encouraged bad agent behaviours and poor customer outcomes. However, irresponsible lending complaints continued to rise (see paragraph 4.98 above).

4.111. Amigo's approach to affordability was reactive, whether as a result of FOS decisions or the Authority's interventions. However, Amigo did make changes to its top up lending approach before the Authority intervened. In certain instances, proactive management of affordability issues could have ensured lessons were both learned and applied to lending practices sooner.

4.112. Amigo carried out a review of its systems and processes prior to the introduction of the affordability rules in November 2018. This review was narrow and did not adequately consider Amigo's affordability processes ahead of the clarification of the CONC rules on 1 November 2018. As mentioned in paragraph 4.50 above, Amigo made minimal changes to its affordability assessment (and related processes) at that time as it believed it was already compliant.

4.113. The Compliance function also failed to complete its planned review of affordability, which was intended, among other things, to review irresponsible lending complaints and review training and guidance available to agents concerning customer affordability. The Board did not chase for the outstanding work product.

4.114. A significant internal review of affordability was completed in September 2019. This review led to the introduction of the RAG rules in November 2019 that, as mentioned in paragraph 4.45, considered indicators on the customer's credit file to suggest an increased affordability risk in the prior 6 months. This was the first time Amigo considered the borrower's recent credit history. This change was reactive and driven by FOS decisions on complaints.

4.115. Even at this time, Amigo's new lending parameters were significantly influenced by commercial factors. The rules adopted did not reflect the recommendations of its external auditors who suggested more evidence could be gathered in support of lending decisions around income and the investigation of expenses. The external auditors also specifically advised that Amigo should assess a potential customer's bad debt performance over 12 months rather than 6. Management did not explain the reasons for this divergence; instead, it noted the RAG rules would *"likely need to be adjusted over time"*. They did not focus on customer outcomes or the risk of customer harm.

4.116. Amigo commissioned several external reviews though none of these reviewed the parameters within its lending system. The reviews identified that:

a. affordability assessments were inaccurate and did not take adequate consideration of expenditure or income.
b. red flags about indebtedness were not being adequately investigated; and

c. Amigo's horizon scanning failed to recognise emerging trends in relation to affordability issues.

4.117. Each of these issues is serious and pointed to clear failings in Amigo's systems and controls in relation to creditworthiness and affordability assessments. There was insufficient action taken by senior management in relation to these findings to mitigate the risk of potential harm to customers prior to the end of the Relevant Period.

MI

4.118. Amigo's MI on affordability was deficient. Amigo used the guarantor payment rate as one of the indicators that loans were affordable. This looked at the payments by guarantors in a given month, as a percentage of all loan payments. However, it did not consider circumstances where the borrower took a top up loan. Where a guarantor paid off the remaining balance of the loan, this appears to have been treated as a single payment. This narrow view did not provide enough insight into affordability for senior management to understand whether lending was affordable for the borrower.

4.119. This issue was made worse by the lack of MI around root cause analysis of complaints which could have identified key issues around affordability assessments. As noted at paragraph 4.103, there was no MI on the root causes of complaints, which meant that senior management was not able to see trends or address them.

4.120. No specific KRI was developed in relation to affordability. After receiving the Affordability Review in September 2019, the Board asked management to review the MI used to monitor affordability and develop a KRI looking specifically at affordability in addition to Amigo's existing metrics. Amigo's MI metrics were too narrowly focused on credit risk and did not adequately consider customer detriment. Affordability risk was not prioritised either by the Risk function, or input was not provided to Risk from other parts of the business.

Amigo's policies and procedures

4.121. Amigo's policies and procedures in relation to affordability were not adequate. No specific affordability policy was created either in readiness for the CONC rules introduced on 1 November 2018, or during the Relevant Period. A draft

Affordability & Creditworthiness Policy was prepared by 29 August 2019; however, this was never approved.

4.122. Amigo's overarching framework for lending was its Responsible Lending Policy. This required separate creditworthiness assessments of borrowers and guarantors, taking account of credit risk (for guarantors) and affordability (for borrowers and guarantors). The policy provided a framework for creditworthiness assessment reflecting the CONC rules. However, the detailed implementation of that framework into practices and procedures for the assessment of affordability and creditworthiness at a customer level was inadequate.

4.123. There were clear issues with how Amigo translated and implemented its Responsible Lending Policy into practice. Specifically:

a. in relation to sustainability, Amigo's process did not appropriately consider the sustainability of income or expenditure. No direct questions about future events were put to customers and Amigo only considered sustainability through a confirmation box at the end of its online Budget.

b. Amigo's policy required it to consider (i) the potential adverse impact on the customer's financial situation of any loan commitments and (ii) the customer's ability to make repayments as they fell due when carrying out the creditworthiness assessment. Amigo's consideration of the borrower's financial circumstances was very limited until November 2019 and even then, only the recent adverse credit information was considered.

4.124. The Responsible Lending Policy did not set out the specific processes or criteria for the creditworthiness and affordability assessment. These were set out in the Underwriting Logic Manual. As mentioned in paragraph 4.81 above, the Logic Manuals provided details of specific tasks and some instructions, but they did not contain the criteria or parameters used for the creditworthiness and affordability assessment. These were hard-coded as parameters into the IT system's logic by Amigo's engineering department – these have not been shared, nor have they been independently tested by any third party. From a governance perspective, it is unclear to the Authority who had oversight of this and was checking that the system (a) operated in line with the Logic Manuals and (b) operated in accordance with the Responsible Lending Policy.

4.125. Amigo's policies were to be reviewed annually with material changes to be approved and policies checked to ensure that the business was managed in accordance with those policies. Amigo failed to follow its own process and conduct annual reviews of its policies and reviews which evidence its procedures were compliant with its policies.

3 lines of defence

4.126. Amigo did not apply an appropriate 3 lines of defence risk management framework to its business. As a result, it failed to put in place effective monitoring and controls capable of managing and mitigating risk of customer harm due to inadequate assessment of affordability.

4.127. The 3 lines of defence risk management framework is a model for governing the lines of responsibility for risk management and control activities. The model stipulates that the first line of defence in terms of risk management is the commercial business, in Amigo's case this became the QA teams in Operations. The second line of defence is usually a committee or business area that is not engaged in commercial sales and instead helps develop and monitor the first line of defence risk controls. In this case, it was the Compliance function. The third line of defence sits above the other 2 lines and should provide independent review, challenge and assurance on the effectiveness of both. This was an outsourced Internal Audit function.

First and Second lines of defence

4.128. Until at least July 2019, in respect of monitoring, Amigo operated a 3 lines of defence framework with a hybrid of the first and second line of defence. The QA activities that were first line activities were conducted by the second line. This blurred the distinction between these lines of defence so there was no independent checking by the second line of defence. In practice, Amigo's quality assurance exercise was essentially call listening to check whether (i) internal policies had been followed or (ii) a customer's experience on the call was poor. Although the QA form contained questions looking at whether the affordability of the loan to the customer had been appropriately assessed, in practice the review was deficient.

4.129. Concerns were raised in June 2019 about the lack of an effective risk management framework. This also highlighted a lack of deep dive thematic reviews. A new 3 lines of defence structure was proposed with a new Compliance Quality Assurance team as an independent line of monitoring with a significantly increased remit.

Senior management approved the proposal and accepted that there had been a lack of investment in the second line defence capabilities which had hindered objective challenge of decision making.

4.130. Internal Audit also reported in October 2019 on the proposals to restructure the Compliance function. The report noted serious flaws in Amigo's Compliance function and supported Amigo's proposals for change. The report noted:

a. deficiencies in knowledge and skill in the function and the need for external compliance specialist hires to address skill gaps within the department; and
b. that there was a clear lack of compliance advice and horizon scanning responsibility in the function.

4.131. Although Amigo took steps to improve its three 3 lines of defence model, it remained unsophisticated and was not embedded within the business by the end of the Relevant Period with issues highlighted by Internal Audit around risk identification, analysis and monitoring resulting in potentially sub-optimal management of risk and the lack of a clear escalation process outside normal Board activities.

Document management and knowledge retention

4.132. Under SYSC 9.1.1R, firms are required to maintain orderly records to enable the Authority to monitor the firm's compliance with regulatory requirements. This obligation is particularly important in the context of an ongoing Enforcement investigation by the Authority.

4.133. The Notice of Appointment of Investigators sent to Amigo at the outset of the investigation in May 2020 highlighted the importance of preserving documents relevant to the Authority's investigation. The importance of this requirement was acknowledged by Amigo's senior management at the outset of the investigation by the Authority. Despite this, Amigo did not maintain adequate records and on some occasions was unable to provide adequate responses to questions by the Authority (due to a lack of adequate records historically).

4.134. In addition to this, Amigo failed to retain staff email accounts after key staff members had left the firm. This is a serious failing. This was after Amigo had been notified of the Authority's investigation and the suspected breaches. Although the Authority has no reason to believe that this action by Amigo was deliberate, the oversight was unacceptable and hampered the Authority's ability to investigate certain matters.

4.135. Amigo's poor retention of documents has been considered as an aggravating factor for the calculation of penalty (see paragraph 6.14).

Customer redress

4.136. On 23 May 2022 the High Court approved Amigo's scheme of arrangement (the "Scheme") to provide redress to customers who were mis-sold loans and who raised a claim by 26 November 2022. The Authority made clear to Amigo that it needed to provide the best possible outcome for customers in seeking to limit its liabilities through the Scheme. This would need to include the maximum amount of funding possible to meet compensation claims by customers. Amigo's Scheme is intended to provide creditors with appropriate redress and more than they would receive if the firm was to go into administration.

5. FAILINGS

5.1. The regulatory provisions relevant to this Notice are referred to in Annex A.

Breach of Principle 2

5.2. Principle 2 requires a firm to conduct its business with due skill, care and diligence.

5.3. Amigo failed to conduct its business with due skill, care and diligence, in that it:

a) Failed to act appropriately on the findings of a number of internal and external reviews which had identified weaknesses in its approach to the assessment of affordability and creditworthiness; and

b) Failed to retain documents and adequately record its historic processes relating to its approach to affordability and creditworthiness. This included negligently deleting the email accounts of relevant staff after the Authority's investigation commenced. This was despite the Board acknowledging the Authority's instructions regarding the importance of retaining documents for the Authority's investigation. As a consequence, Amigo:

   (1) Was unable to fully comply with information requirements issued by the Authority; and

   (2) Failed to retain corporate knowledge relating to important elements of its historic business, systems and controls.

Breach of Principle 3

5.4. Principle 3 requires a firm to take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.

5.5. Amigo failed to take reasonable care to organise and control its affairs responsibly and effectively because it failed to:

a) Establish clear lines of responsibility and oversight for ensuring that affordability was adequately assessed prior to lending.
b) Adequately record, monitor or review regulatory or operational risks arising from its approach to affordability.
c) Carry out adequate root cause analysis on affordability complaints, and therefore failed to take reasonable steps to ensure that in handing complaints it identified and remedied any recurring or systemic problems, as required by DISP 1.3.3R.
d) Produce clear MI relating to the causes of affordability complaints, such that its senior management could not effectively identify recurring or systemic problems.
e) Failed to ensure that its pay-out agents were dealing appropriately with flags and triggers raised by the automated system.

Breach of Principle 6

5.6. Principle 6 requires that a firm pay due regard to the interests of its customers and treat them fairly.

5.7. Amigo failed to undertake reasonable creditworthiness assessments and have proper regard to the outcome of those assessments in respect of affordability risk, as required by CONC 5.2A.5R. It also failed to determine, or reasonably estimate, the income and expenditure of borrowers, as required by CONC 5.2A.15R and 5.2A.17R. In particular:

a) Amigo unduly relied on information provided by customers in the Budget. The Budget indicated to customers whether they had entered the required income and expenditure to be approved for a loan and allowed them to adjust the entered income and expenditure accordingly.
b) Amigo's income verification processes were insufficient in that they accepted unreasonably low credit reference agency scores as evidence of income for the assessment of affordability of lending to a customer. They

also relied on nationalised average salary data as a basis for approving large volumes of loans.

c) Amigo failed to assess the full range of non-discretionary expenditure or adequately consider the composition of a borrower's household. It did not seek documentary proof of expenditure from customers regardless of the circumstances, and its only verification method relied on out-of-date ONS data.

d) Amigo failed throughout the Relevant Period to gather information about future known events which might have impacted the borrower's ability to make repayments.

5.8. Amigo failed to pay regard to the interests of its guarantors by representing to them on its website that when assessing borrowers, it would "*make sure the repayments are affordable*". It failed to do this, and 1 in 4 guarantors were asked to make a payment for a borrower in relation to loans issued during the Relevant Period.

5.9. Amigo failed to pay due regard to borrowers who had recently been in arrears or who had taken repeated top up loans. Although customers in arrears could not apply for a top up, Amigo encouraged customers not in arrears to apply for additional lending by text message or email often within a month or two of the previous lending without having sufficient regard for the potential impact of increased lending on their financial circumstances.

5.10. Amigo's culture sometimes prioritised commercial results at the expense of customer outcomes. Its pay and reward system for pay-out agents was heavily weighted towards loans paid out, which risked incentivising the wrong behaviours.

5.11. Amigo failed to identify potentially vulnerable customers at the application stage because it had an unreasonably narrow definition of vulnerability within its system, limited to customers on incapacity benefit for a mental health issue, which Amigo considered might affect the customer's understanding or management of the loan agreement. The issues with the automated system's identification of vulnerability were particularly serious given approximately 50% of Amigo's borrowers were approved for lending without any human interaction. Human interaction provided a further opportunity for vulnerability to be identified. In circumstances where such a high proportion of customers did not interact with a human agent, the onus on the ability of the automated system to identify vulnerability was significantly increased meaning that Amigo had extremely limited opportunity to identify obvious signs of vulnerability prior to agreeing to lend.

5.12. Amigo also failed to pay due regard to the interests of consumers and treat them fairly in relation to complaints about its affordability process. In November 2019, complaint handlers stopped upholding irresponsible lending complaints for approximately 2 months while Amigo assessed the situation. Amigo therefore failed to investigate affordability complaints competently, diligently and impartially, as required by DISP 1.4.1R.

6. SANCTION

6.1. The Authority's policy for imposing a financial penalty is set out in Chapter 6 of DEPP. In respect of conduct occurring on or after 6 March 2010, the Authority applies a five-step framework to determine the appropriate level of financial penalty. DEPP 6.5A sets out the details of the five-step framework that applies in respect of financial penalties imposed on firms.

Step 1: disgorgement

6.2. Pursuant to DEPP 6.5A.1G, at Step 1 the Authority seeks to deprive a firm of the financial benefit derived directly from the breach where it is practicable to quantify this.

6.3. The Authority has not identified any financial benefit that Amigo derived directly from its breach.

6.4. The Step 1 figure is therefore £0.

Step 2: the seriousness of the breach

6.5. Pursuant to DEPP 6.5A.2G, at Step 2 the Authority determines a figure that reflects the seriousness of the breach. Where the amount of revenue generated by a firm from a particular product line or business area is indicative of the harm or potential harm that its breach may cause, that figure will be based on a percentage of the firm's revenue from the relevant products or business area.

6.6. The Authority considers that the revenue generated by Amigo is indicative of the harm or potential harm caused by its breach. The Authority has therefore determined a figure based on a percentage of Amigo's relevant revenue. Amigo's relevant revenue is the revenue derived by Amigo during the period of the breach. The period of Amigo's breach was from 1 November 2018 to 31 March 2020. The Authority considers Amigo's relevant revenue for this period to be £405,000,000.

6.7. In deciding on the percentage of the relevant revenue that forms the basis of the step 2 figure, the Authority considers the seriousness of the breach and chooses a percentage between 0% and 20%. This range is divided into five fixed levels which represent, on a sliding scale, the seriousness of the breach; the more serious the breach, the higher the level. For penalties imposed on firms there are the following five levels:

Level 1 – 0%
Level 2 – 5%
Level 3 – 10%
Level 4 – 15%
Level 5 – 20%

6.8. In assessing the seriousness level, the Authority takes into account various factors which reflect the impact and nature of the breach, and whether it was committed deliberately or recklessly. The factors that the Authority considers to be relevant to Amigo's breaches are set out below:

<u>The impact of the breaches</u>

i. There was loss or risk of loss caused to individual consumers caused by Amigo's breaches. Amigo failed to appropriately consider customer interests and mitigate the risk of customer harm through lending that would be unaffordable to the customer. (DEPP 6.5A. 2G(6)(c)).
ii. The breaches potentially had an effect on particularly vulnerable people, whether intentionally or otherwise. A significant proportion of Amigo's customer base had low financial resilience and many displayed aspects of vulnerability. Amigo failed to ensure that it identified potentially vulnerable customers. (DEPP 6.5A. 2G(6)(d)).
iii. The breaches caused inconvenience or distress to consumers. Amigo's inadequate affordability assessment failed to ensure that the borrower would be able to repay the loan affordably without it impacting their wider financial situation, thereby causing inconvenience or distress to its borrowers, many of whom were financially vulnerable and often reliant on

benefit income. In some cases, this was exacerbated by top up loans, which had the effect of entrenching the borrower in ongoing debt. This in turn led to an increased risk that guarantors would have to step in and make payments.

Guarantors were reliant on Amigo's assessment that a loan was affordable for a borrower and undertook to make payments only where the borrower was not able to. Amigo's promotional material echoed this and stated that the firm would "make sure the repayments are affordable" for the borrower. Amigo did not do this and accordingly exposed guarantors to a much greater risk of having to make payments on the borrower's loan than they would have envisaged. (DEPP 6.5A. 2G(6)(e)).

<u>The nature of the breaches</u>

i. The nature of the rules, requirements or provisions breached. The requirements of CONC should be a fundamental consideration in everything that those who are authorised to provide consumer credit do. Amigo's lack of compliance with the rules around creditworthiness falls below the standard expected of the industry (DEPP 6.5A. 2G(7)(a)).
ii. The frequency of the breaches. The breaches occurred throughout the Relevant Period and affected a significant number of the customers that Amigo dealt with (DEPP 6.5A. 2G(7)(b)).
iii. The breaches revealed serious or systemic weaknesses in the Amigo's procedures and in the management systems and internal controls relating to the firm's business (DEPP 6.5A. 2G(7)(c)).
iv. In committing the breaches, the firm failed to take adequate steps to comply with FCA rules. The market and regulations concerning affordability both evolved, but Amigo failed to keep pace. Amigo's horizon scanning failed to recognise emerging trends in this regard. This was compounded by Amigo's failure to take lessons from the root cause analysis for the irresponsible lending complaints against the firm (DEPP 6.5A. 2G(7)(h)).

6.9. DEPP 6.5A.2G(11) lists factors likely to be considered 'level 4 or 5 factors'. Of these, the Authority considers the following factors to be relevant to the impact and the nature of the breaches:

i. The breaches caused a risk of loss to individual consumers (DEPP 6.5A.2G(11)(a)).

ii. The breaches revealed serious or systemic weaknesses in the firm's procedures or in the management systems or internal controls relating to all or part of the firm's business (DEPP 6.5A.2G(11)(b)).

6.10. DEPP 6.5A.2G(12) lists factors likely to be considered 'level 1, 2 or 3 factors'. Of these, the Authority considers the following factors to be relevant:

i. The breaches were committed negligently or inadvertently (DEPP 6.5A.2G(12)(e)).

6.11. Taking all of these factors into account, the Authority considers the seriousness of the breach to be level 4 and so the Step 2 figure is 15% of £405,000,000.

6.12. The Step 2 figure is therefore £60,750,000.

Step 3: mitigating and aggravating factors

6.13. Pursuant to DEPP 6.5A.3G, at Step 3 the Authority may increase or decrease the amount of the financial penalty arrived at after Step 2, but not including any amount to be disgorged as set out in Step 1, to take into account factors which aggravate or mitigate the breach.

6.14. The Authority considers that the following factors aggravate the breach:

i. Amigo failed to respond effectively to the FCA's published amended rules and guidance in PS18/19, in November 2018, and related public announcements for improvements in standards in relation to behaviour constituting the breaches. Amigo failed to ensure that its approach to affordability evolved in line with changes in regulation and market approach. Its horizon scanning failed to recognise emerging trends and adapt its lending approach to ensure that it was lending affordably. This was compounded by Amigo's failure to take lessons from the root cause analysis for the irresponsible lending complaints against the firm (DEPP 6.5A.3 G (k) and (l)).

ii. Amigo took too long to consider and adapt to the decisions against it by the Financial Ombudsman Service during a key period of time in the Relevant Period, with a negative impact on its customers (DEPP 6.5A.3 G (b)).

iii. Amigo failed to fully co-operate with the Authority's investigation by its inability to provide certain information and documents, as a result of poor document retention practices and a lack of adequate records historically.

Further, e-mail accounts of relevant personnel were deleted after the commencement of the Authority's Enforcement action despite instructions not to do so. (DEPP 6.5A.3 G (b)).

6.15. Amigo cooperated with the Authority's investigation by providing open admissions of various failings relating to its historic lending practices (DEPP 6.5A.3 G (b)). There are no other mitigating factors.

6.16. Having taken into account these aggravating and mitigating factors, the Authority considers that the Step 2 figure should be increased by 20%.

6.17. The Step 3 figure is therefore £72,900,000.

Step 4: adjustment for deterrence

6.18. Pursuant to DEPP 6.5A.4G, if the Authority considers the figure arrived at after Step 3 is insufficient to deter the firm who committed the breach, or others, from committing further or similar breaches, then the Authority may increase the penalty.

6.19. The Authority considers that the Step 3 figure of £72,900,000 represents a sufficient deterrent to Amigo and others, and so has not increased the penalty at Step 4.

6.20. The Step 4 figure is therefore £72,900,000.

Serious financial hardship

6.21. Pursuant to DEPP 6.5D.4G, the Authority will consider reducing the amount of a penalty if a firm will suffer serious financial hardship as a result of having to pay the entire penalty. In deciding whether it is appropriate to reduce the penalty, the Authority will take into consideration the firm's financial circumstances, including whether the penalty would render the firm insolvent or threaten the firm's solvency. The Authority will also take into account its statutory objectives.

6.22. On 23 May 2022, the High Court sanctioned a scheme of arrangement (the "Scheme") which aims to provide redress to Amigo's customers. The majority of eligible customers who voted on Amigo's proposals voted in favour of the Scheme. Amigo has provided verifiable evidence of its financial position and the Authority is satisfied that the imposition of a financial penalty would threaten Amigo's solvency and its obligations under the Scheme. Were it not for Amigo's financial position the Authority would have imposed a financial penalty of £72,900,000. The Authority has therefore decided to reduce the penalty to £nil.

Step 5: settlement discount

6.23. Pursuant to DEPP 6.5A.5G, if the Authority and the firm on whom a penalty is to be imposed agree the amount of the financial penalty and other terms, DEPP 6.7 provides that the amount of the financial penalty which might otherwise have been payable will be reduced to reflect the stage at which the Authority and the firm reached agreement. The settlement discount does not apply to the disgorgement of any benefit calculated at Step 1.

6.24. No settlement discount applies as the proposed financial penalty is £nil.

6.25. The Step 5 figure is therefore £nil.

Penalty

6.26. The Authority therefore has decided not to impose a financial penalty on Amigo for breaching Principles 2, 3, and 6. But for its financial circumstances, the Authority would have imposed a financial penalty on Amigo of £72,900,000.

Public censure

6.27. The Authority's position in relation to the imposition of a public censure is set out in Chapter 6 of DEPP. DEPP sets out non-exhaustive factors that may be of particular relevance in determining whether it is appropriate to issue a public censure rather than a financial penalty. DEPP 6.4.2G(1) indicates that whether or not deterrence may be effectively achieved by issuing a public censure may be a relevant consideration.

6.28. As explained in paragraph 6.22 above, the Authority has had regard to the need to balance deterrence with the need to ensure that customers who are creditors under the Scheme are not adversely affected by the imposition of a financial penalty. This is consistent with the Authority's approach in previous cases where the imposition of a penalty would impact adversely on creditors. Instead, the Authority has decided to issue a statement censuring Amigo pursuant to section 205 of the Act.

7. PROCEDURAL MATTERS

7.1. This Notice is given to Amigo under section 205 and in accordance with the section 390 of the Act.

7.2. The following statutory rights are important.

Decision maker

7.3. The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.

Publicity

7.4. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the Authority must publish such information about the matter to which this notice relates as the Authority considers appropriate. The information may be published in such manner as the Authority considers appropriate. However, the Authority may not publish information if such publication would, in the opinion of the Authority, be unfair to you or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.

7.5. The Authority intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

Authority contacts

7.6. For more information concerning this matter generally, contact Rory Neary at the Authority (direct line: 020 7066 7972/email: Rory.Neary2@fca.org.uk).

Kerralie Wallbridge

Head of Department

Financial Conduct Authority, Enforcement and Market Oversight Division

ANNEX A

RELEVANT STATUTORY AND REGULATORY PROVISIONS

1.1. The Authority's statutory objectives, set out in section 1B(3) of the Act, include the strategic objective to ensure that the relevant markets function well and the operational consumer protection objective[s].

1.2. Section 206(1) of the Act provides:

"If the Authority considers that an authorised person has contravened a requirement imposed on him by or under this Act… it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate."

RELEVANT REGULATORY PROVISIONS

Principles for Businesses

1.3. The "Principles" are a general statement of the fundamental obligations of firms under the regulatory system and are set out in the Authority's Handbook. They derive their authority from the Authority's rule-making powers set out in the Act. The relevant Principles, in force from 03/01/2018 throughout the Relevant Period, are as follows.

1.4. Principle 2 provides:

"A firm must conduct its business with due skill, care and diligence".

1.5. Principle 3 provides:

"A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems".

1.6. Principle 6 provides:

"A firm must pay due regard to the interests of its customers and treat them fairly".

Specialist Sourcebook: Consumer Credit Sourcebook ("CONC")

1.7. CONC 5.2A.4R, in force from 01/11/2018 throughout the Relevant Period, regarding creditworthiness assessments, stated:

"A firm must undertake a reasonable assessment of the creditworthiness of a customer before:

(1) entering into a regulated credit agreement; or

(2) significantly increasing the amount of credit provided under a regulated credit agreement; or

(3) significantly increasing a credit limit for running-account credit under a regulated credit agreement".

1.8. CONC 5.2A.5R, in force from 01/11/2018 throughout the relevant period, regarding creditworthiness assessments, stated:

"The firm must not take a step in CONC 5.2A.4R(1) to (3) unless it can demonstrate that it has, before doing so:

(1) undertaken a creditworthiness assessment and, where relevant, the assessment under CONC 5.2A.31R(2) (guarantors) in accordance with the rules set out in this section; and

(2) had proper regard to the outcome of that assessment in respect of affordability risk."

1.9. CONC 5.2A.6G, in place from 01/11/2018 throughout the Relevant Period, stated:

"*If an increase in the amount of credit or in the credit limit is not itself significant but would result in there having been, since the last creditworthiness assessment, a cumulative increase that is significant, then a further creditworthiness assessment is required. This may be the case, for example, where a number of consecutive increases have been made over a period, none of which is significant when considered in isolation but the aggregate sum of which is significant*".

1.10. CONC 5.2A.7R, in force from 01/11/2018 throughout the Relevant Period, regarding creditworthiness assessments, stated:

"A firm must base its creditworthiness assessment on sufficient information:

(1) of which it is aware at the time the creditworthiness assessment is carried out.

(2) obtained, where appropriate, from the customer, and where necessary from a credit reference agency, and

the information must enable the firm to carry out a reasonable creditworthiness assessment."

1.11. CONC 5.2A.8G, in place from 01/11/2018 throughout the Relevant Period, stated:

"*CONC 5.2A.20R to CONC 5.2A.25G contain rules and guidance in relation to the factors that should be taken into account in an individual case when deciding how much information is sufficient for the purposes of the creditworthiness assessment, what information it is appropriate and proportionate to obtain and assess, and whether and how the accuracy of the information should be verified*".

1.12. CONC 5.2A.12R (2)(b), in force from 01/11/2018 throughout the Relevant Period, regarding creditworthiness assessments, stated:

"*The firm must consider the customer's ability to make repayments under the agreement:*

(2) out of, or using, one or more of the following:

(b) income from savings or assets jointly held by the customer with another person, income received by the customer jointly with another person or income received by another person in so far as it is reasonable to expect such income to be available to the customer to make repayments under the agreement".

1.13. CONC 5.2A.15R, in force from 01/11/2018 throughout the Relevant Period, regarding customer's income and expenditure, stated:

"*(1) This rule applies unless:*

(a) the firm can demonstrate that it is obvious in the circumstances of the particular case that the customer is able to make repayments in accordance with CONC 5.2A.12R, so as to make the actions described in (2) to (4) disproportionate; or

(b) the customer has indicated clearly an intention to repay wholly using savings or other assets (see CONC 5.2A.13R).

(2) The firm must take reasonable steps to determine the amount, or make a reasonable estimate, of the customer's current income.

(3) Where it is reasonably foreseeable that there is likely to be a reduction in the customer's income:

(a) during the term of the agreement; or

(b) in the case of an open-end agreement, during the likely duration of the credit (see CONC 5.2A.26R),

which could have a material impact on affordability risk, the firm must take reasonable steps to estimate the amount of that reduction.

(4) The firm must take account of the customer's income it has determined or estimated in accordance with (2) and (3).

(5) The firm may only take into account an expected future increase in the customer's income where the firm reasonably believes on the basis of appropriate evidence that the increase is likely to happen during the term of the agreement or, in the case of an open-end agreement, during the likely duration of the credit."

1.14. CONC 5.2A.16G, in place from 01/11/2018 throughout the Relevant Period, stated:

"*(1) A firm that proposes to rely on the exception in CONC 5.2A.15R(1)(a) should keep in mind that the burden would be on the firm to demonstrate, if challenged, that the absence of a material affordability risk was obvious such as to make the process of determination or estimation of the customer's income disproportionate.*

(2) An estimate of the customer's income may include a minimum amount or a range, provided that any assumptions on which the estimate is based are reasonable in the circumstances.

(3) For the purpose of considering the customer's income under CONC 5.2A.15R, it is not generally sufficient to rely solely on a statement of current income made by the customer without independent evidence (for example, in the form of information supplied by a credit reference agency or documentation of a third party supplied by the third party or by the customer).

(4) An example of where it may be reasonable to take into account an expected future increase in income would be a loan to fund the provision of further or higher education, provided that an appropriate assessment required by this section is carried out. If, in such a case, the customer's income does not increase in line with expectations, the firm should consider deferring or limiting the obligation to repay until the customer's income has reached an appropriate level.

(5) Income can include income other than salary and wages."

1.15. CONC 5.2A.17R, in force from 01/11/2018 throughout the Relevant Period, regarding customer's income and expenditure, stated:

"*(1) This rule:*

(a) applies only where CONC 5.2A.15R also applies; and

(b) does not apply where the firm can demonstrate that it is obvious in the circumstances of the particular case that the customer's non-discretionary expenditure is unlikely to have a material impact on affordability risk, so as to make the actions described in (2) to (4) disproportionate.

(2) The firm must take reasonable steps to determine the amount, or make a reasonable estimate, of the customer's current non-discretionary expenditure.

(3) Where it is reasonably foreseeable that there is likely to be an increase in the customer's non-discretionary expenditure:

(a) during the term of the agreement; or

(b) in the case of an open-end agreement, during the likely duration of the credit (see CONC 5.2A.26R),

which could have a material impact on affordability risk, the firm must take reasonable steps to estimate the amount of that increase.

(4) The firm must take account of the customer's non-discretionary expenditure it has determined or estimated in accordance with (2) and (3).

(5) The firm may only take into account an expected future decrease in non-discretionary expenditure where the firm reasonably believes on the basis of appropriate evidence that the decrease is likely to happen during the term of the agreement or, in the case of an open-end agreement, during the likely duration of the credit."

1.16. CONC 5.2A.19G, in place from 01/11/2018 throughout the Relevant Period, stated:

"*(1) For the purpose of considering the customer's non-discretionary expenditure under CONC 5.2A.17R, the firm may take into account statistical data unless it knows or has reasonable cause to suspect that the customer's non-discretionary* *expenditure is significantly higher than that described in the data or that the data are unlikely to be reasonably representative of the customer's situation.*

(2) It is unlikely to be appropriate to place reliance on statistical data, for example, where the firm is aware, or has reasonable cause to be aware from information in its possession, that the composition of the customer's household, or the number of dependants that the customer has, or the level of the customer's existing indebtedness, differs significantly from that of the sample of persons on which the statistical data were based".

1.17. CONC 5.2A.33R, in force from 01/11/2018 throughout the Relevant Period, regarding policies and procedures for creditworthiness assessments, stated:

"A firm must:

(1) establish, implement and maintain clear and effective policies and procedures:

(a) to enable it to carry out creditworthiness assessments or assessments under CONC 5.2A.31R(2); and

(b) setting out the principal factors it will take into account in carrying out creditworthiness assessments or assessments under CONC 5.2A.31R(2).

(2) set out the policies and procedures in (1) in writing, and (other than in the case of a sole trader) have them approved by its governing body or senior personnel.

(3) assess and periodically review:

(a) the effectiveness of the policies and procedures in (1); and

(b) the firm's compliance with those policies and procedures and with its obligations under CONC 5.2A.

(4) in the light of (3), take appropriate measures to address any deficiencies in the policies and procedures or in the firm's compliance with its obligations.

(5) maintain a record, on paper or in electronic form, of each transaction where a regulated credit agreement is entered into, or where there is a significant increase in the amount of credit provided under a regulated credit agreement or a credit limit for running-account credit under a regulated credit agreement, sufficient to demonstrate that:

(a) a creditworthiness assessment or an assessment under CONC 5.2A.31R(2) was carried out where required; and

(b) the creditworthiness assessment or the assessment under CONC 5.2A.31R(2) was reasonable and was undertaken in accordance with CONC 5.2A,

and so, to enable the FCA to monitor the firm's compliance with its obligations under CONC 5.2A; and

(6) (other than in the case of a sole trader) establish, implement and maintain robust governance arrangements and internal control mechanisms designed to ensure the firm's compliance with (1) to (5)".

1.18. CONC 5.2A.34G, in place from 01/11/2018 throughout the Relevant Period, stated:

"*Firms are reminded of the guidance on record-keeping in SYSC 9.1.4G and 9.1.5G*".

Dispute Resolution: Complaints (DISP)

1.19. DISP 1.3.3, in force from 03/01/2018 throughout the Relevant Period, regarding complaints handing procedures for respondents, stated:

"*A respondent must put in place appropriate management controls and take reasonable steps to ensure that in handling complaints it identifies and remedies any recurring or systemic problems, for example, by:*

(1) analysing the causes of individual complaints so as to identify root causes common to types of complaint.

(2) considering whether such root causes may also affect other processes or products, including those not directly complained of; and

(3) correcting, where reasonable to do so, such root causes."

1.20. DISP 1.3.3BG, in place from 01/08/2016 throughout the Relevant Period stated:

"*The processes that a firm or CBTL firm should have in place in order to comply with DISP 1.3.3 R may include, taking into account the nature, scale and complexity of the firm's or CBTL firm's business including, in particular, the number of complaints the firm or CBTL firm receives:*

(1) the collection of management information on the causes of complaints and the products and services complaints relate to, including information about complaints that are resolved by the firm by close of business on the third business day following the day on which it is received.

(2) a process to identify the root causes of complaints (DISP 1.3.3 R (1)).

(3) a process to prioritise dealing with the root causes of complaints.

(4) a process to consider whether the root causes identified may affect other processes or products (DISP 1.3.3 R (2)).

(5) a process for deciding whether root causes discovered should be corrected and how this should be done (DISP 1.3.3 R (3)).

(6) regular reporting to the senior personnel where information on recurring or systemic problems may be needed for them to play their part in identifying, measuring, managing and controlling risks of regulatory concern; and

(7) keeping records of analysis and decisions taken by senior personnel in response to management information on the root causes of complaints."

1.21. DISP 1.3.6G, in place from 01/09/2011 to 31/03/2019, covering the beginning of the Relevant Period stated:

"Where a firm identifies (from its complaints or otherwise) recurring or systemic problems in its provision of, or failure to provide, a financial service, it should (in accordance with Principle 6 (Customers' interests) and to the extent that it applies) consider whether it ought to act with regard to the position of customers who may have suffered detriment from, or been potentially disadvantaged by, such problems but who have not complained and, if so, take appropriate and proportionate measures to ensure that those customers are given appropriate redress or a proper opportunity to obtain it. In particular, the firm should:

(1) ascertain the scope and severity of the consumer detriment that might have arisen; and

(2) consider whether it is fair and reasonable for the firm to undertake proactively a redress or remediation exercise, which may include contacting customers who have not complained."

1.22. DISP 1.3.6G, in place from 01/04/2019 beyond the end of the Relevant Period stated:

"*Where a firm identifies (from its complaints or otherwise) recurring or systemic problems in its provision of, or failure to provide, a financial service or claims management service, it should (in accordance with Principle 6 (Customers' interests) and to the extent that it applies) consider whether it ought to act with regard to the position of customers who may have suffered detriment from, or been potentially disadvantaged by, such problems but who have not complained and, if so, take appropriate and proportionate measures to ensure that those customers are given appropriate redress or a proper opportunity to obtain it. In particular, the firm should:*

(1) ascertain the scope and severity of the consumer detriment that might have arisen; and

(2) consider whether it is fair and reasonable for the firm to undertake proactively a redress or remediation exercise, which may include contacting customers who have not complained."

1.23. DISP 1.4.1R, in force from 01/09/2011 throughout the Relevant Period, regarding investigating, assessing and resolving complaints, stated:

"*Once a complaint has been received by a respondent, it must:*

(1) investigate the complaint competently, diligently and impartially, obtaining additional information as necessary.

(2) assess fairly, consistently and promptly:

(a) the subject matter of the complaint.

(b) whether the complaint should be upheld.

(c) what remedial action or redress (or both) may be appropriate.

(d) if appropriate, whether it has reasonable grounds to be satisfied that another respondent may be solely or jointly responsible for the matter alleged in the complaint.

taking into account all relevant factors.

(3) offer redress or remedial action when it decides this is appropriate.

(4) explain to the complainant promptly and, in a way that is fair, clear and not misleading, its assessment of the complaint, its decision on it, and any offer of remedial action or redress; and

(5) comply promptly with any offer of remedial action or redress accepted by the complainant".

1.24. DISP 1.4.2G, in place from 01/04/2013, covering the start of the Relevant Period to 26/09/2019 stated:

"*Factors that may be relevant in the assessment of a complaint under DISP 1.4.1R (2) include the following:*

(1) all the evidence available and the particular circumstances of the complaint.

(2) similarities with other complaints received by the respondent.

(3) relevant guidance published by the FCA, other relevant regulators, the Financial Ombudsman Service or former schemes; and

(4) appropriate analysis of decisions by the Financial Ombudsman Service concerning similar complaints received by the respondent (procedures for which are described in DISP 1.3.2A G)."

1.25. DISP 1.4.2G, in place from 27/09/2019 beyond the end of the Relevant Period, stated:

"*Factors that may be relevant in the assessment of a complaint under DISP 1.4.1R (2) include the following:*

(1) all the evidence available and the particular circumstances of the complaint.

(2) similarities with other complaints received by the respondent.

(3) relevant guidance published by the FCA, other relevant regulators, the Financial Ombudsman Service or former schemes; and

(4) appropriate analysis of decisions by the Financial Ombudsman Service concerning similar complaints received by the respondent (procedures for which are described in DISP 1.3.2A G)".

1.26. DISP 1.4.3G, in place from 01/11/2007 throughout the Relevant Period, stated:

"*The respondent should aim to resolve complaints at the earliest possible opportunity, minimising the number of unresolved complaints which need to be referred to the Financial Ombudsman Service".*

Decision Procedure and Penalties Manual (DEPP)

1.27. Chapter 6 of DEPP, which forms part of the Authority's Handbook, sets out the Authority's statement of policy with respect to the imposition and amount of financial penalties under the Act.

The Enforcement Guide

1.28. The Enforcement Guide sets out the Authority's approach to exercising its main enforcement powers under the Act.

1.29. Chapter 7 of the Enforcement Guide sets out the Authority's approach to exercising its power to impose a financial a penalty.

ANNEX B

1.1 In addition to the 15 files discussed at Paragraph 4.14 above, the Authority reviewed 37 customer files for loans underwritten during the Relevant Period. This included the borrower and guarantor files for each loan. These were not selected at random.

1.2 The Authority sets out the rules for firms in the consumer credit sector in the CONC Consumer Credit Sourcebook. The overall aim is to ensure that firms undertake adequate creditworthiness assessments to determine whether a proposed loan is affordable. In addition, to make sure firms treat customers fairly when offering credit to customers.

1.3 The rules require lenders to conduct an assessment on both a borrower and guarantor and to ensure that the loan does not negatively impact their financial situation. This assessment does not need to be identical, but it must be based on sufficient information to prevent any adverse impact or financial detriment.

1.4 As a consumer credit lender, Amigo was required to adhere to the CONC rules. However, the customer files reviewed by the Authority demonstrate significant failings. The files also highlight the poor outcomes that its customers experienced as a result of Amigo's failings.

1.5 The detailed findings of 3 customer file reviews are set out below. These detailed examples clearly illustrate some of the deficiencies the Authority identified in Amigo's approach to assessing creditworthiness and affordability.

1.6 The Authority found the following key failings in its review of customer files:

Income verification failings

1.7 CONC 5.2A.15R requires Firms to take reasonable steps to determine or estimate the amount of a customer's current income. The supporting guidance outlined in CONC 5.2A.16G, confirms it is not sufficient for a firm to rely solely on an amount declared by a customer without verifying this with independent evidence (e.g., CRA data, third party or customer documentation). Throughout the Relevant Period, Amigo verified the income of borrower's and guarantor's using either credit reference agency data, its income/benefit matrix or document proof (see paragraphs 4.54 to 4.69).

1.8 Amigo's use of credit reference agency data checks was insufficient as its policy permitted it to approve loans based on a score between 4 and 7, which provided an inadequate level of assurance that borrowers and/or guarantors could afford the proposed repayments under the loans advanced (see paragraphs 4.54 to 4.60). Of the 37 customer files reviewed, Amigo approved the loan with a credit reference agency data income confidence score below 7 for 7 of the 37 borrowers (18.9%) and 4 of the 37 guarantors (10.8%). This impacted 11 files in total (29.7%).

1.9 Where Amigo was unable to verify income using credit reference agency data, it used one of two additional methods, namely its income/benefit matrix or document proof (see paragraphs 4.61 to 4.69). The income/benefit matrix was significantly flawed, it was a crude tool with estimated income bands for different job types. As such it was not tailored to the borrower or guarantor. It also placed reliance on the accuracy of the information provided by the customer regarding their job role and benefit entitlement. In the event that this information was incorrect, Amigo had no method of identifying this. The Authority considers this to be an example of Amigo's non-compliance with CONC 5.2A15R.

1.10 Where Amigo sought to verify a customer's income via document proof, its policy required it to obtain three months' worth of data. However, of the 11 customer files that were verified via this method, only two of the documents provided were over a three-month duration. This confirms Amigo failed to follow its own policy when verifying income. The Authority considers that this failing is particularly detrimental where a customer is self-employed or in receipt of inconsistent income. This impacted 1 of the 37 files.

Inadequate expenditure verification

1.11 CONC 5.2A17R provides that Firms must take reasonable steps to determine or estimate a customer's non-discretionary expenditure. CONC 5.2A18G confirms this includes other expenditure required to give a basic quality of life. However, Amigo's assessment was not sufficient to meet this requirement as it did not explicitly account for items, which in the majority of cases would be considered a necessity.

1.12 Amigo told the Authority that it verified a customer's expenditure using ONS statistical data. However, for all of the 37 files reviewed, the ONS data used was significantly out of date as Amigo applied statistical data from 2013 to loans approved throughout 2018 and 2019.

1.13 CONC 5.2A19G confirms it is inappropriate for a firm to rely on statistical data when it is aware of, or in possession of information which suggests that a customer's expenses may be higher. For example, where a Firm has information on the customer's number of dependents. The customer files demonstrate that Amigo did not take this guidance into consideration. Of the 37 files reviewed, there were 12 where Amigo was aware of the number of dependents for either the borrower and/or guarantor. For these customers, Amigo only adjusted its assessment against ONS data for the cost of food and did not adjust its standard ONS data for any other household costs to take account of the number of dependents.

Consideration of customer credit history and financial difficulty

1.14 In line with CONC 5.2A7R, Amigo was required to base its creditworthiness assessment on sufficient information. This includes information obtained from the customer, and where necessary a credit reference agency. Although Amigo did obtain its customer's credit reports, in the majority of files reviewed, Amigo merely used this to determine the amounts paid towards credit items.

1.15 CONC 5.2A22G encourages Firms to consider whether a customer is in, has been in or is likely to experience financial difficulty. A credit report is a key method of identifying this, as it will include common indicators such as accounts over the limit, in significant arrears, in default or sometimes with a debt collection agency. Despite this, there is limited evidence that Amigo used credit reports in this manner. The Authority identified 25/37 customer files with indicators that Amigo should have explored, but in all of these instances, the customer was not probed to determine the impact of this. Of these customers 22/25 (88%) subsequently cycled into arrears or defaulted on the Amigo loan.

Top-up lending

1.16 During the Relevant Period, Amigo sent borrowers a text or email to inform them when they became eligible for a top up. The Authority considers that this may not have been in a borrower's best interests, where they had recently been in arrears or taken several top ups within a short period of time. There were 7 customer files where this occurred.

Customer file 1

1.17 Borrower [A] had 2 dependents when she applied for the loan in July 2019. At the time, she was working part time and receiving benefit income. The guarantor was Borrower [A]'s parent, Guarantor [B], who was unemployed. Guarantor [B] was also receiving benefit income. The loan reviewed was the second loan in a chain of 2 top up loans that Borrower [A] took out with Amigo.

1.18 The first loan was taken out 4 months prior to Borrower [A]'s second loan from Amigo reviewed by the Authority in customer file 1. Although Borrower [A] missed a payment on their first loan during the four months that they had it, Amigo failed to exercise caution before agreeing any further borrowing. Instead, Amigo prompted Borrower[A] to apply for the top up loan, as it sent them a text informing them that they were eligible, the same day Borrower [A] applied for the top up. The Authority considers it is likely Amigo's text was contributing factor in Borrower [A]'s decision to apply for the top-up.

1.19 Borrower [A] stated during a call regarding their application, that the purpose of the loan was to cover the arrears on her car insurance, council tax and water bills. However, it does not appear that Amigo considered this as an indication of financial difficulty. Or that Borrower [A] was likely vulnerable at the time of the application. This is supported by the information on Borrower [A]'s credit file which showed they were also in arrears on an advance against income account. In addition, the fact that Borrower [A] told Amigo that the arrears on their bills were a result of recent separation from an abusive ex-partner. This was a further, clear indicator of potential vulnerability that was not acted on by Amigo.

1.20 Amigo also made several errors when assessing the affordability of Borrower [A] and Guarantor [B] as its agents did not question all the expenses which were below ONS figures or recorded as £0 with the rationale that a third party pays. Amigo's policy states a task would have been raised in the system for any 'unrealistic costs'. However, it only questioned Borrower [A] on their travel expenditure. Between Borrower [A] and Guarantor [B] there were expenses which the Authority considers should have been questioned further, some of which were more than 50% below the national average. However, this did not occur. As a result, there was no meaningful expenditure verification check.

1.21 Amigo deemed Borrower [A]'s original Budget to be unaffordable. However, rather than declining the application, Amigo re-budgeted the loan by lowering the overall amount from £4,000 to £3,750. Outside of asking Borrower [A] whether this would still be enough to cover her bills, Amigo's agents did not probe and question Borrower [A] sufficiently about this.

1.22 The loan fell into arrears on its second payment in August 2019. Borrower [A] told Amigo that this was because they had been off work and receiving statutory sick pay. Amigo agreed with Borrower [A] an arrangement to pay the arrears back over the next three months· However, this arrangement failed. Amigo placed Borrower [A] on 4 further arrangements, this time to pay a reduced amount of £16 per week (£69.33 per month) rather than their usual payment of £182.96. However, these arrangements also failed. In fact, Borrower [A] only ever made 2 reduced payments towards the loan throughout its entire duration. There were no payments from the guarantor.

1.23 Amigo issued a Notice of Default in October 2019 when payments required under the credit agreement had not been made. The account was then over 3 payments behind and passed to a specialist team within Amigo in December 2019 which sought to agree an arrangement with Borrower [A] to pay off the outstanding balance. This was just five months after the loan was agreed. Despite this action, Amigo were unable to obtain any further payments. At the time the Authority reviewed the file, there was an outstanding balance of £4,765.27 on the loan.

1.24 The fact that neither Borrower [A] nor their guarantor ever paid the full contractual amount towards the loan suggests this may not have been affordable. This is supported by the fact that Borrower [A] failed their forbearance arrangements, even when this was for a reduced amount of £16 per week (£69.33 per month). Amigo conducted a credit search on Borrower [A] in June 2020, which showed a worsened financial position. For example, Borrower [A] had an increased number of delinquent and defaulted accounts.

Customer file 2

1.25 Borrower [E] took out this loan in February 2019, for the purpose of "business". At the time, Borrower [E] was employed full-time with a declared income of £8,500. Guarantor [F] was employed full time with a monthly income of £6,800.

1.26 In total, Borrower [E] took out 7 loans with Amigo between February 2018 and October 2019. Of the 7 loans, 4 of them were for an amount of £10,000. This includes the loan reviewed which was loan number 5. The Authority considers that Amigo may not have acted in Borrower [E]'s best interests as it appears to have encouraged Borrower [E]'s top ups on at least 3 occasions, by sending an SMS and/or email to inform Borrower [E] that they were eligible in the days before they took out the top up loan.

1.27 When assessing Borrower [E]'s income, Amigo also placed reliance on a credit reference agency income confidence score of 5. In the absence of any other form of verification, the Authority considers that this would have been insufficient. Particularly as there is a possibility that this included other non-employment income or was based on unreliable data. However, it does not appear that Amigo considered this possibility and as such the figure used could be incorrect.

1.28 Amigo also failed to consider Borrower [E]'s pattern of borrowing when conducting its affordability assessment. The fact that this was the third loan that they had taken out over a period of five 5 months, and that each loan was for an amount of £10,000 should have alerted Amigo that Borrower [E] may have been experiencing financial difficulty. Or that their declared disposable income of £3,539.63 may have been incorrect. Although each loan was for an amount of £10,000, the majority of these funds were used to pay off the previous loan and Borrower [E] only would have received around £500. Yet, Amigo's agents failed to question Borrower [E] about this.

1.29 There were also other indicators that Borrower [E] was in financial difficulty at the point of application. Borrower [E]'s credit report showed advances against income accounts and an increasing number of new credit accounts. Again, this was inconsistent with the information that Borrower [E] provided to Amigo in terms of the amount of his disposable income. However, it does not appear that this was considered.

1.30 The file confirms some of Borrower [E]'s declared expenditure was inconsistent with the amounts shown on their credit file. The amounts recorded for their advance against income repayments on the Budget, was lower than the amount shown on Borrower [E]'s credit file. It appears Amigo did not identify this, as it did not record an explanation on file. As a result, Borrower [E]'s expenditure may have been understated by at least £520.

1.31 There were also flaws in Amigo's assessment of Guarantor [F]'s affordability as it is not clear how it verified his income. Additionally, although Guarantor [F] told Amigo that they paid their spouse £1,000 per month towards household expenses, this was not recorded on the Budget or verified. As such, Guarantor [F]'s expenditure has been understated by at least £1,000.

1.32 As Amigo also failed to question Borrower [E] and Guarantor [F] on their high disposable incomes compared to the loan amount in line with its own policy. The Authority considers that its assessment was flawed.

1.33 Borrower [E] made 2 contractual payments, before this loan was refinanced into loan 6, in April 2019. There were no payments from the guarantor. Although there were no arrears on the loan during its 2-month duration, Borrower [E] did fall into arrears on their subsequent loans. On loan 6 they fell into arrears on the first payment, before clearing this the following month. That loan was also topped up into Borrower [E]'s last loan (loan 7) which also entered arrears.

1.34 Borrower [E] requested additional borrowing in May 2020, however, by this point Amigo identified the indicators that Borrower [E] may be experiencing financial difficulty and declined to lend. The Authority considers that these indications were present on the loan reviewed (the fifth loan). Amigo should have identified this earlier, and at least before the subsequent top up loans were taken out.

Customer file 3

1.35 Borrower [C] took out a new loan with Amigo in March 2019, to consolidate existing debts. At the time, Borrower [C] had 3 dependents (including a 4-month-old baby) and was working part time.

1.36 The guarantor was Borrower [C]'s sibling, Guarantor [D], whose income was £1,700 per month. They both worked for the same employer. Borrower [C]'s loan was for an amount of £750. Although they stated that this would be used to consolidate existing debts, their credit file confirms that they only had 1 credit item at the time. This was a hire purchase agreement that she had taken out a month before with a balance just under £3,000. Amigo did not question Borrower [C] about this.

1.37 Amigo overlooked information that Borrower [C] provided regarding their income and future employment. During a call from the application, Amigo questioned Borrower [C] about their income, as their bank statement showed a lower income than the amount than recorded on their Budget. In response, Borrower [C] told Amigo that they had "three children one who's four months" which meant they has a "substantial amount of time off work". Borrower[C] also stated they were hoping to move to a "salary-based job" within the next two weeks. This should have raised concerns about the sustainability of Borrower [C]'s income. However, Amigo's agents did not discuss this further with Borrower [C] to understand their expected change in circumstance or determine the extent to which their income was varied in nature. Amigo only confirmed that the weekly income of £84 (as per the bank statement), was the minimum that Borrower [C] would receive.

1.38 Amigo also failed to follow its own policy, as it verified Borrower [C]'s income with a bank statement which showed just one weekly payment from their employer. However, according to the policy that was in place at the time, Amigo was required to obtain bank statements over a period of three months.

1.39 The Authority considers that Amigo also failed to record the information that Borrower [C] provided regarding their dependants during a telephone call. Although Borrower[C] told an Amigo agent that they had three children, it incorrectly recorded the number of dependents as two. As a result, any assessment that Amigo conducted on her expenditure figures (e.g., food) would have based on incorrect data.

1.40 There were also deficiencies in the affordability assessment of Guarantor [D]. They declared several items of expenditure as £0 providing justification such as 'lives at home' or 'other'. This includes individual expenditure such as 'Phone / Mobile / Internet' and 'Clothing'. However, there is nothing on the file to demonstrate that Guarantor [D] was questioned about this.

1.41 The loan fell into arrears on its first payment. Although Borrower [C] cleared the arrears that same month, the failure to make the first payment in line with the agreement, suggests the loan may not have been affordable for them. In total, Borrower [C] missed [14] payments throughout the loan's entire duration. This includes a period where Borrower [C] made no payment for 6 months from March until August 2020 when Borrower [C] cleared the loan in full. The file does not confirm Borrower[C]'s financial position at the time they cleared the loan, and it is unclear whether they used their own funds to do so. The Guarantor [D] was never asked to make a payment.

1.42 The Authority recognises that the issues Borrower [C] experienced in March 2020 when they stopped making payments, were likely due to the pandemic and a change in their circumstances as they told Amigo that they were unemployed. It also came to light that Borrower [C] was vulnerable at the time, as they suffered with a mental health condition. However, Borrower [C]'s file demonstrates that Amigo did not do enough to determine the nature and frequency of Borrower [C]'s income at the outset of the consumer credit relationship, and their erratic payment behaviour suggests Borrower [C] struggled with payments. Had Amigo explored Borrower [C]'s comments around their employment, and obtained sufficient information on their expenditure, it is likely that it would have identified that Borrower [C] was likely to encounter issues maintaining repayments.