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'Transparent and responsible lending' central to FCA motor finance investigation

09/04/2018

The Financial Conduct Authority has re-stated its intention to focus on transparency, affordability and car dealers' comission arrangements in its Business Plan 2018/19 as an investigation continues into the motor finance sector.

The FCA, which published a sector-specific update on its investigation into finance lending in new and used car sales last month, expects to complete its scrutiny of the sector by the end of this year, it said in the Business Plan, which was published via the FCA website this morning. (https://www.fca.org.uk/publications/corporate-documents/our-business-plan-2018-19)

The motor finance market grew 8.2% in the twelve months to April 2017 with new point-of-sale lending for car purchases totalling £32.6 billion in the twelve months to the end of Q1 2017, the FCA said.

It added: "Our recently published update explains that we want to identify whether consumers have sufficient, timely and transparent information when taking out motor finance. We are testing this in a number of ways, including through a mystery shopping exercise.

"We are undertaking further work on responsible lending, particularly the approach taken by motor finance lenders to assessing creditworthiness (including affordability). Our work will primarily focus on higher credit-risk consumers, but we will test how lenders assess affordability and whether current procedures are working in the interests of all consumers.

"We are also doing further work on commission arrangements. Some commission structures create a strong link between the dealer commission and the interest rate charged to consumers. We are therefore assessing whether lender controls and current regulatory requirements minimise the potential for harm to consumers."

In its FCA motor finance investigation update, published last month, the FCA revealed that it had already concluded that "the largest lenders' approach to credit risk and asset values appears robust" and that "consumers in the lowest credit score range account for a relatively small share of motor finance lending".

But a rise in payment arrears and concerns surrounding the car retailers' commission arrangements with lenders has prompted further scrutiny of the sector.

Investigations already carried out by the FCA found that consumers in the lowest 30% of credit score range accounted for only 2% of outstanding motor finance lending in December 2014 and 3% in December 2016, adding that motor finance lending to consumers in the highest credit score range (lower credit risk) has grown more than lending to consumers in the lowest credit score range (higher credit risk).

Consumers in the highest 30% of credit score range accounted for 54% of outstanding motor finance lending in December 2016, up from 49% in December 2014, it said.

However, 2.4% of accounts in the FCA's data had one or two missed payments and 0.4% of accounts had between three and five missed payments in the 12 months to December 2016.

By comparison, 1.6% of mortgage accounts were in arrears in Q4 of 2016. For personal loans and credit cards, around 0.3% and 2.2% of customers respectively are two or more payments behind.

The FCA said: "We are mindful that arrears and default rates have increased, in particular for higher credit risk (lower credit score) consumers.

"These rises have been in the context of benign credit and macro-economic conditions. This means that consumer circumstances and their ability to meet repayments could change as a result of changing conditions."

Author: Tom Sharpe

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FCA stops 38 dealers offering finance to customers for compliance failures

04/07/2018

The Financial Conduct Authority (FCA) has issued 38 final notices to dealers in the first half of this year.

It will mean those dealers will have their consumer credit permissions cancelled. The notices have been posted on the FCA's website. (https://www.fca.org.uk/search-results?search_term=final%20notice&start=11&sort_by=dmetaZ)

In only the past six weeks, there has been at least one case per week, accounting for eight motor dealers losing their permissions to offer finance to customers.

Paul Speakman, Automotive Compliance director, said: “With all the FCA activity and ongoing consultations in the consumer credit market, it is common knowledge that the regulator is carrying out research into a number of areas of motor finance and dealers need to be mindful and review their current processes to understand if they have of any shortfalls.”

The FCA gave the following reasons for the removal of the motor dealers:

- Failure to satisfy the suitable threshold conditions
- Not being open and co-operative with the FCA
- Failed to comply with Principle 11 – ‘Relations with regulators’; “A firm must deal with its regulators in an open and cooperative way and must disclose to the FCA appropriately anything relating to the firm of which that regulator would reasonably expect notice”
- Lead the FCA to conclude the firm has failed to manage its business in such a way as to ensure that its affairs were conducted in a sound and prudent manner, that it is not a fit and proper person.

Speakman said it was becoming clear that some dealers have been treating credit authorisation applications in the same way as under The Office of Fair Trading (OFT), which was is a completely different regime to the FCA.

He said: “On the surface, it may appear to be relatively easy to submit an application for authorisation particularly for limited permissions, which covers the motor dealers credit broking activities.

"However, that is just the start, motor dealers need to have clear documentation and processes around Treating Customers Fairly, complaints procedures and financial promotions for their website and social media activity."

Author: Tom Seymour

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