Glossary

Adequate explanations
Information the customer needs to be aware of when entering a credit agreement. FCA rules require consumers to receive adequate explanations before the credit agreement is signed.

Affordability
The ability for the customer to afford the finance repayments over the term of the agreement. The FCA expects the customer not to have to borrow money to be able to meet the repayments.

Annual Percentage Rate of charge (APR)
An APR is the total percentage rate of interest that is charged against the amount of finance borrowed by a customer. The APR includes the flat/fixed interest rate charged by the lender, plus any other administration fees or charges incorporated into the agreement. APRs were introduced as a means to give the customer the chance to compare the cost of one credit agreement with another on a fair basis.

Commission/incentive schemes
A payment or gift provided to incentivise and reward sales activity. Finance providers pay commission to retailers and brokers for arranging finance sales.

Credit Reference Agencies
Agencies that collect, store and provide credit history data that help finance providers understand whether their customers are creditworthy enough to lend to and can afford to meet all of their contractual repayments. The largest agencies are Equifax, Experian and TransUnion in the UK.

Creditworthiness
A measure of the likelihood the customer will make all of their contractual repayments based on their credit history and other factors.

Default
The failure or inability for the customer to repay the finance provided to them.

Depreciation
The value the vehicle loses over the term of the finance agreement.

Equity
Equity (positive equity) occurs when a vehicle is worth more than the outstanding finance the customer must pay to settle the agreement. Equity can be used as a deposit towards a replacement vehicle.

Fees
Fees can include charges for arranging the finance and administrating the relevant documents. The cost will be included in the total amount payable and taken into account when the Annual Percentage Rate (APR) is calculated.

Finance
Motor finance helps to spread the cost of a new or used car. Instead of paying the full amount upfront, customers pay monthly.

Finance agreement
A document that details all the terms and conditions of a financial arrangement as well as vehicle and customer details.

Specialist Automotive Finance

ESSENTIALS

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Guaranteed Minimum Future Value (GMFV)

The optional final balloon payment a customer makes at the end of the agreement to take ownership. The GMFV is set by the finance provider at the beginning of the agreement and is a fixed amount.

Interest

An amount of money payable to the finance provider in addition to the amount of capital borrowed.

Lessee

The user of leased goods (customer).

Lessor

The owner of goods that are leased such as vehicles (finance provider / bank / leasing company).

Sale of goods agreement

The contract for the sale of the vehicle, governed by the Sale of Goods Act 1979.

Secured finance agreements

Finance agreements that are secured against an asset such as a vehicle. They provide security to the finance provider because if the customer does not make the repayments the vehicle can be repossessed. Ownership remains with the finance provider throughout the agreement until all payments are made.

Tripartite structure

This is a term used to describe a finance agreement where there are three parties involved in the process of its provision - the creditor (finance provider); the supplier (retailer); and the debtor (customer).

Unsecured finance agreements

Unsecured finance agreements such as personal loans are not secured against the vehicle. This means customers who purchase a car using a personal loan will own the vehicle as soon as they take possession.

Vulnerable customers

All individuals can be or become “vulnerable” at some point in their lives, for a variety of reasons. This includes but is not limited to mental capacity limitations. Finance providers and retailers need to be aware of vulnerability and add additional protections into their processes to help mitigate the risks to vulnerable customers.