SAF
Specialist Automotive Finance

SAF ESSENTIALS

Protecting customers and treating them fairly

Treating customers fairly

- Motor finance providers, retailers and brokers are regulated by the Financial Conduct Authority (FCA) and therefore must adhere to FCA rules and relevant provisions of the Consumer Credit Act (CCA) - outlining how and when credit and hire agreements can be sold to consumers.
- Specific information must also be provided to consumers before, during and after an agreement is signed. This includes providing '**adequate explanations**' of the finance agreement to the customer before they sign it.
- The FCA is a principles-based regulator and it expects regulated firms not only to follow its prescribed Rules, but also to follow the 'spirit' of what the FCA is seeking to achieve. One of the most important Principles the FCA expects from firms is to **pay due regard to the interests of its customers and treat them fairly.**

Responsible lending

- The FCA has rules about how motor finance providers make lending decisions based on information provided by the customer and other sources such as **Credit Reference Agencies** – data companies that keep a record of how creditworthy customers are.
- Before entering into a credit agreement, a finance provider must assess the customer's **creditworthiness** and their ability to afford the monthly payments ('**affordability**'). This means making a lending decision based on the risk of providing the credit to that customer and their ability to repay the credit sustainably:
  - **Prime customers** – have good credit ratings and are therefore more likely to fully repay the credit agreement. Most if not all finance providers will provide finance to prime customers and the rate of interest charged is usually lower.
  - **Non-prime customers** – have poor credit ratings and are therefore riskier to lend to as they are less likely to make all of their payments ('default'). Therefore many finance providers will decline to offer finance to non-prime customers and the rate of interest charged by those that do is usually higher.
- Motor retailers must work with finance companies to make a reasonable assessment of whether customers can afford to make regular payments under a finance agreement.
- Special consideration must be given to a customer if they appear to be vulnerable or have mental capacity limitations which may prevent them from making a particular borrowing decision.

Commission and other fees received by a motor retailer

The FCA has rules about financial incentives, including the amount of commission paid by finance providers to retailers and other brokers for each finance sale. The rules include scenarios in which information about commission earned must be disclosed to the customer.

Commission or '**incentive schemes**' must be properly managed so they do not pose risk or cause harm to customers, for example, by encouraging the sale of a particular motor finance product that might not necessarily be suitable for the customer.