



Affordable Credit Code of Good Practice

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Affordable credit providers are industry leading in their approach to customers, providing unique support to people underserved by mainstream financial services.

Informed by the findings of our scale-up programme and in consultation with stakeholders, we have set down the principles and practices that we believe set good affordable credit providers apart.

This will continue to evolve as we work with more providers and identify more examples of good practice. We want the organisations we work with to strive towards following this code of practice, in order to help people in vulnerable circumstances improve their financial resilience and wellbeing.

The organisation will:

01. Organisation set-up and social purpose	<ul style="list-style-type: none"> • Have a clearly defined social purpose set out in its constitutional documents to increase the financial resilience and wellbeing of people in vulnerable circumstances <ul style="list-style-type: none"> – Affordable lenders may serve broader sections of society alongside people in vulnerable circumstances, and this can help make their lending more sustainable. However, organisations should be able to demonstrate their particular focus on people in more vulnerable circumstances. Fair4All Finance funding will be directed towards supporting these people • Have a clearly defined policy in relation to the distribution of post-tax profits and proceeds from the sale of assets to ensure that surpluses are principally used to achieve its purpose and that the post-tax pay-outs to shareholders are capped at <50% over time to ensure that there is not undue private gain from the activities of the organisation • Be able to demonstrate that the remuneration of its officers and employees, including salaries, benefits and all forms of distribution or other participation, is reasonable, proportionate and relative to market practice for social sector organisations generally and is disclosed • Ensure that all their employees earn a real living wage – or be working towards this • Evaluate and measure its social impact and make reports publicly available <ul style="list-style-type: none"> – Best practice: impact measurement should have a robust methodology, which goes beyond measuring activity and instead looks at customer outcomes • Be open to undertaking an independent social impact audit
02. Approach to customers	<ul style="list-style-type: none"> • Have a customer-centered culture; organisations will understand the needs of their customer base, and will design products and services that suit their needs and help improve their financial resilience and wellbeing. <ul style="list-style-type: none"> – Best practice: some affordable credit providers have developed customer personas to help map the needs and behaviours of their customers, which inform product design and lending activity. These personas are understood by team members across the organisation • Have policies and processes for supporting customers that are fully embedded across the organisation. Organisations will understand the needs of their customers in vulnerable circumstances and this will inform product design and communications with customers. Team members will be well trained in vulnerability policies and in identifying and serving customers in vulnerable circumstances

The organisation will:

03. Lending	<ul style="list-style-type: none"> • Before providing credit, make a detailed assessment of a customer's income and expenditure to determine that the loan is affordable and will not push customers into financial difficulty <ul style="list-style-type: none"> – When determining affordability, organisations should consider leaving customers with enough income after repayment to cover unforeseen expenses. For example, one affordable credit provider requires customers to have a £50 a month 'buffer' left over after repayments • Communicate clearly and transparently with customers, ensuring they have understood how the loan will affect their financial situation. Customers should be provided with tools to understand the costs of repayment over different time periods, including comparison of the total cost of the loan • Charge an APR and an underlying interest rate that is not excessive, taking into consideration risk and social impact objectives <ul style="list-style-type: none"> – APR is likely to reflect the high cost of lending to customers who are excluded from mainstream credit, and may cover the costs of administering the loan and running the organisation sustainably. However, as set out in section 1, organisations will not seek to make undue private gain from lending, particularly from those in the most vulnerable circumstances
04. Repayment and recovery	<ul style="list-style-type: none"> • Allow customers to repay their loan early without incurring a fee or charge. Organisations should encourage customers to repay loans early, where this is affordable • Take an empathetic approach to arrears and debt recovery, centered on agreeing an affordable and sustainable repayment plan with the customer. Customers in financial difficulty will be treated fairly and provided with appropriate support <ul style="list-style-type: none"> – Best practice should include: <ul style="list-style-type: none"> – Not charging arrears fees or charges – Providing payment holidays on request – Freezing or cancelling interest for customers in financial difficulty – Sufficiently considering the mental wellbeing of customers through all recovery communications – Avoiding the outsourcing of debt collection where possible. Where a third-party debt collection agency is used, organisations must ensure it operates in line with their own recovery policies – Never putting the debt in the hands of bailiffs either directly or through a third party
05. Customer support and wrap-around services	<ul style="list-style-type: none"> • Provide support for customers to build their financial resilience, either in house or through partnerships or referrals to a third party. This should include encouraging savings behaviour, building financial capability and helping customers access their full entitlement to grants and benefits <ul style="list-style-type: none"> – Best practice: organisations should consider partnering with or referring to other financial services providers to offer additional products that can improve customer financial resilience, such as basic bank accounts, savings account or insurance. Some affordable lenders encourage customers to make payments towards a linked savings account or contents insurance policy alongside their loan repayments, building their financial resilience and encouraging good money management habits • Provide customers who are declined for credit with information about why the decision has been taken, alongside signposting to relevant guidance or support • Work in partnership with free debt advice providers, maintaining an active channel to refer customers to when they are in financial difficulty at either the application stage or whilst they are a customer