

Appendix B – Update on changes following market engagement

No Interest Loan Scheme

December 2021

Summary of changes following market engagement

The following table summarises the changes we have made to the procurement following the market engagement period.

	Topic of feedback	Changes incorporated into procurement documents
1	Mission and Asset lock as pass/fail criteria	We received feedback from for profit providers on the asset/mission lock criteria. HMT's funding for the pilot was provided to support the affordable credit sector as a way to help consumers in vulnerable circumstances, and we are therefore not able to include for profit providers in the No Interest Loan Scheme at this stage. However, as part of this tender, we are also inviting providers to apply to work with Fair4All Finance on wider innovative affordable finance solutions (lot 9), and we are really pleased to welcome bids from for profit providers for that work.
2	NILS - small loans in a separate lot	We have shifted to have a more flexible approach where bidders for each of the NILS lots can bid to offer to deliver a volume of loans across all loan principals and we have reserved the right to partially accept bids if there is a compelling way of doing this across all four nations which represents better value for money.
3	Use of CRA data	We have continued with CRA data being a mandatory part of the NILS process because of our obligations to HM Treasury to ensure each NILS borrower only has one NILS loan at a time. We have had constructive discussions with CRAs about how to treat NILS and are working with them on this.
4	Average loan size of £500	We have shifted to have a more flexible approach where bidders for each of the NILS lots can bid to offer to deliver a volume of loans across all loan principals which will determine the average value for each lot that they think is appropriate to the customer demand that they anticipate. The volume of lending will be constrained by our bad debt guarantee and outcome based payment budget, and potentially, by the lending capital where providers wish to use our lending capital (provided by Fair4All Finance or the Devolved Administrations). The pricing template sets out these constraints for bidders to test with the loan volumes and averages they wish to bid for.
5	Loan eligibility should be via lending criteria,	Our original design allowed for eligibility where borrowers were declined for lending criteria reasons but this now seems more prominent a route. We have stressed the importance of NILS allowing more flexible credit-worthiness, for

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	not only marginal affordability	example lending to borrowers who do not meet lenders criteria but appear to be in circumstances that warrants a NIL eg credit risk file shows close to expiring CCJ but borrowers circumstances have improved since
6	Timeline for bidders to develop bid responses	We have not extended the original duration of the bidding period further but note it is considerably longer than the minimum required under procurement law and we received many responses during the market engagement from potential bidders who have partnership relationships in place. We have noted in the pricing template that co-funding commitments are desirable and advisable but that we do not need co-funding commitments to necessarily be provided in the first year of the pilot, so there is some flexibility about when funds are provided.
7	Lotting structure for non-NILS products	We heard from potential bidders that they should be able to not bid for NILS but bid for other products. We have now set out a separate lot for products that are unrelated to NILS – this is lot 9.
8	For interest loans	Some potential bidders indicated they were interested in delivering a product with interest payable by the borrower. This is not in the scope of the NILS procurement but could be relevant in lot 9.
9	External funding contribution for whole pilot with an additional focus on 1 site in England	We are in the final stages of confirming significant external support for NILS which will benefit all sites and will specifically also focus on location in England for which HMT funding was not available. This has led us to make one of the three English sites specifically focused on London at the request of that potential funder.
10	Feedback that 1 NILS not enough to change borrower's circumstances	We have not explicitly excluded this at present and will consider it further in the product design stage. This may be feasible but it will require careful planning given the pilot lending is constrained to a 2 year period.
11	Cost assumptions and fee structure – noting particularly small, higher risk loans, have a higher cost to serve	<ul style="list-style-type: none"> Proposed changes to fee structure for smaller loans with more frequent payments which also have higher risk profile Guide price of £30 - £70 fee remains for majority of loans given that market engagement feedback and proof of concept procurement also showed that lenders would be able to deliver at this level We have opened up the procurement to invite bidders to counter propose a different fee structure within our budget envelope and we are open up use of co-funding not just to increase scale of pilot / fund admin and bad debt but to also enable other contributions to running costs for lenders
12	Pay lenders equivalent interest to what they would have earned on a commercial loan	<ul style="list-style-type: none"> We have not changed our approach to fees as the delivery is already de-risked through bad debt guarantee and lending capital provided without cost We have opened up the procurement to invite bidders to counter propose a different fee structure within our budget envelope which could include a risk sharing approach to the treatment of bad debts in return for a greater fee closer to the equivalent interest earned We are open up use of co-funding not just to increase scale of pilot / fund admin and bad debt but to also enable other contributions to running costs for lenders

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13	Concern from lenders re Financial Ombudsman Service (FOS) complaints on affordability grounds	<ul style="list-style-type: none"> We have had positive and reassuring feedback from FOS that Claims Management Companies (CMC) are highly unlikely to target these loans because the interest which is usually refunded to the borrower is the source of their fee We have commitments from the FCA and FOS to work with us and the lenders we appoint collaboratively during the product refinement process to ensure that affordability is appropriately considered and are working to confirm the arrangements which will apply to NILS
14	Feedback around 3 month holiday seems that it's a bad idea	<ul style="list-style-type: none"> No change needed however will speak with CRAs about encoding more flexibility into NILS in a way which does not require lenders to breach their obligations to CRAs (which some may be doing to provide existing flexibility)
15	Some lenders advocated introducing a linked saving element to accompany the NILS loan -	<ul style="list-style-type: none"> Seems a potentially good idea, and the benefit linked lending could be tested in some pilot locations potentially.
16	Scoring criteria	<ul style="list-style-type: none"> We have accepted feedback that co-funder aims may be ambitious, and agreed 20% maybe too high in the bid scoring for future co-funding The new scoring weighting is set out in the specification and also now includes a section on purpose and strategy
17	Loan agreement for provision of lending capital	<ul style="list-style-type: none"> Lenders wanted to see this which we had not finished drafting during the market engagement period We have issued it with the procurement documentation. Although we are not accepting comments or change requests to the contract (which was consulted on as part of the market engagement) we will accept comments on the draft loan agreement during the procurement period, albeit we do not anticipate significant changes.
18	Concern from a lender that the hiatus between lending to allow for learning, product iteration and bad debt to be monitored would preclude lending to	<ul style="list-style-type: none"> Included in specification limited flexibility for the lender to issue emergency NILS loans during the hiatus period in extremis

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	NILS borrowers in emergency conditions	
19	Procurement being used to determine the delivery locations of the pilot and the CU common bonds further restricting the coverage area if / where CUs are appointed	<ul style="list-style-type: none"> • We are trying to pilot in a limited but still useful scale initially and a national coverage is not being attempted in the pilot • We are prioritising areas of deprivation which are geographically concentrated and a common bond alignment with these seems very feasible • Geography is not the only way in which common bonds are defined and affinity common bonds could be an alternative approach • Credit Unions which want to deliver collaboratively over multiple common bonds with a single CU as the prime contractor • We have asked bidders questions about how they will scale up if we can extend the contacts (by mutual agreement) rather than being prescriptive about what is obligatory
20	Some CUs indicated that they thought that the total number of loans was too high	<ul style="list-style-type: none"> • Revised lotting structure has flexibility for lenders to bid for different volumes per lot to determine what demand they expect locally • We have reserved the right to channel small loans through the national lot (lot 8) if that is the appropriate way to cater to scale for that requirement • We have also indicated we are prepare to accept consortium bids from Credit Unions which want to deliver collaboratively over multiple common bonds with a single CU as the prime contractor

Specific points of feedback about the contract

	Topic of feedback	Comments and considerations
1	Payments - no clause to reflect compensation in the event of late payment by Fair4All Finance	<ul style="list-style-type: none"> • We already have obligations to pay suppliers on time in our grant agreement with HMT

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2	Key Personnel clauses are non standard and are unrealistic	<p>Key Personnel clauses are standard in many public sector contracts where the delivery of a service and quality of that service is dependent on the continuity of the team involved.</p> <p>We expect that the Key Personnel for the delivery of NILS is likely to be the project manager or equivalent role and it will be important that there is an equivalent level of resource available to ensure success if that individual leaves the organisation.</p> <p>The bidding organisation can nominate the Key Personnel during the contracting process, the role types are not mandated by us and are not related at all to the FCA Senior Managers regime.</p>
3	Non-poaching clause should be included	<p>We will consider this further but note that all Fair4All Finance roles are publicly advertised so were we to insert such a clause, it would not apply to people who apply to work for us through an independently and transparently publicly advertised process. So, we are not sure that this clause would achieve much although if a two way clause it might prevent lenders from poaching our own team members.</p>
4	Background IP - what is this?	<p>This will be defined by the lenders we appoint during the contracting process and relates to whatever existing IP they think will be relevant to the delivery of NILS which would remain their own</p>
5	Foreground IP - needs further clarification particularly where existing lender intellectual property rights are applied to NILS.	<p>Foreground IP is the IP created during the course of NILS being delivered and is not related to Lenders existing IP which is background IP</p>
6	Social Impact Audit - clarification required where lenders have existing social impact frameworks and reporting as this may result in potential duplication of work	<p>We do not propose to change this drafting because the clause simply asks lenders to be open to commissioning social impact work and to agreeing terms of reference for this with us to cover a wider scope than NILS we do not have funds available to commission duplicative work.</p>