

# Affordable Credit Code of Good Practice

## Update for commercial lenders September 2023

Our Affordable Credit Code of Good Practice was first developed in 2020, codifying what we expected to see not for profit lenders who were part of our initial Scale Up programme to do. This has become a key part of our diligence on organisations we are investing in or funding.

This update to the code incorporates clarifications and positions alternative measures appropriate for all lenders to adopt, be they not for profit, for profit, or for profit with purpose.

We recognise that this code can be read alongside providers' obligations under the consumer duty and regulatory frameworks. We also recognise that where providers are working with us to test new propositions they may not yet comply fully with this code however we expect them to build this into their development and design over time.

The table below sets out the original code on the left, adaptations to it appropriate for profit lenders on the right, and where appropriate acknowledgment that the same standard should apply.

### Original Code – for Not for Profit Lenders

### Adaptation: for profit, or for profit with purpose lenders

#### 1 Organisation set up and social purpose - the organisation will:

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| <p>a Have a clearly defined social purpose set out in its constitutional documents to increase the financial resilience and wellbeing of people in vulnerable circumstances<sup>1</sup>.</p> | <p>We expect commercial organisations that we appoint to have a strategic plan with clear prioritisation to serve customers in vulnerable circumstances effectively, typically with a stated aim of improving customers financial resilience, with the commitment of budget and resources to</p> |
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<sup>1</sup> We may insist on a golden share as a proxy for this mechanism for organisations that are for profit, or profit with purpose.

do so effectively. We anticipate that this will often be included in ESG and CSR framing for these organisations. The reporting and monitoring of these plans will also be in place.

<p>b 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 members are capped at &lt;50% over time to ensure that there is not undue private gain from the activities of the organisation.</p>	<p>We welcome commercial providers commitments to reinvest profit in better serving customers in vulnerable circumstances and we note the evidence from our Covid study showing the positive customer loyalty, and negligible provider costs in proactively supporting customers with adaptations appropriate for that economic cycle eg interest free overdrafts and significant forbearance.</p>
<p>c 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<sup>2</sup> organisations generally and is disclosed.</p>	<p>We typically expect the costs attributed to delivering work we are funding commercial organisations to deliver to be on an appropriately costed basis so that the delivery covers costs incurred but where profit is not excessive and ideally where providers commit to reinvesting in serving these customers. We rely on unit cost transparency and open book accounting to monitor this.</p>
<p>d Ensure that all their employees earn a real living wage or be working towards this.</p>	
<p>e Evaluate and measure its social impact and make reports publicly available.</p>	<p>As above we expect this reporting to be included against clear strategic priorities including specific sections on social impact reporting in annual reports. We are not prescriptive on the measures used but would observe that the impact on customers is key and the improvement of their circumstances over time, rather than the volume of customers served.</p>
<p>f Be open to undertaking an independent social impact audit.</p>	

<sup>2</sup> By which we typically mean not for profit organisations. As part of our due diligence for investment for example, we're typically looking at not for profit organisations where there is a pay ratio between the least and highest paid that is capped.

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## 2 Approach to consumers - the organisation will:

- a Have a customer-centred 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.
  - b Have policies and processes for supporting customers in vulnerable circumstances 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.
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## 3 Lending - the organisation will:

- a 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. We expect this of regulated and unregulated lenders including BNPL providers.
  - b 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. We expect BNPL providers to adopt the same transparency and pre-contract information approach.
  - c Charge an APR and an underlying interest rate that is not excessive, taking into consideration risk and social impact objectives
 

<p>Where risk based pricing applies, we would encourage lenders to demonstrate their provision of fair value to the customer by proactively offering interest rate switches where appropriate and reducing the interest rate where borrower payment performance warrants it</p>	<p>d We expect BNPL providers to utilise and report their data into credit ratings agencies</p>
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## 4 Repayment and recovery - the organisation will:

- a 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.
- b Take an empathetic approach to arrears and debt recovery, centred on agreeing an affordable and sustainable repayment plan with the customer. Customers in financial difficulty will be treated fairly and provided with appropriate support.

c We expect BNPL to waive late fees where customers appear to be showing signs of financial distress

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**5 Customer Support and Wrap around services - the organisation will:**

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- a 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.
- b Provide customers who are declined for credit with information about why the decision has been taken, alongside signposting to relevant guidance or support.
- c 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.
- d consistent with the Consumer Duty we expect providers to monitor whether the product a customer is utilising is appropriate to them and take an approach to referring them to better alternatives which does not leave customers without access to credit, this may entail for example, offering to substitute one product for another, or offering repayment or other adaptations to the customer's current product so it is more suitable for a finite period whilst someone builds up their credit file and therefore ability to shift to better solutions elsewhere

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e we expect BNPL to prominently offer customers a way to turn off their line of credit

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