Good Practice Lending Guide

RM10 Portfolio MI

May 2024

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1 Introduction

1.1 What is Portfolio MI and why is it important?

Portfolio MI (Management Information) is used to record and report information on a portfolio of lending products. This allows for a good understanding of the portfolio overall, the profile of customers both new and existing, and facilitates discussions on lending policies and practices.

A range of reports fall under the broad heading of "Portfolio MI", including:

Report Area	Description
Applications	Information on the volume and value of applicants for a particular product, or range of products. If a credit score or risk grade is available, then a summary by risk score/grade can be included
Policy Refers and Overrides	The number of accounts referred (with reason), and any cases where policy has been overridden (with reason)
Current Portfolio	Information on the volume and value of the current book. If an up to date risk score is available ("behavioural score") then it is possible to get an understanding of the risk profile of the book and how it has changed over time
Strategy Assessment	Ensure that business objectives are being met in line with risk appetite. From a new business perspective, this includes a wide range of metrics as detailed above, plus the performance of different score-based cut-offs, referral rules, manual underwriting and overriding
Arrears, defaults, and other adverse information	Simple volumes and balances of accounts in arrears (usually 1+), default/bad debt (usually 3+) and other adverse information (eg payment holidays or other types of forbearance) give a current view of accounts which are not up to date with their payments. "Dynamic delinquency" charts show the emergence of arrears by vintage, either by month of application or the month when the loan was completed, allowing comparison of the performance of different vintages eg if a recent lending policy decision has led to a particularly high (or low) emergence of arrears
Collections	Collections information – stock, types of accounts, outcomes such as those curing and those moving further into arrears

Impairment	The amount provided for the current book. A Best Practice Lending Guide ("Good Practice Guide: Provisions and Write-off (RM15)") has been produced describing the approach to calculating provisions

Without comprehensive Portfolio MI a business will not be able to understand how the business is performing or how actions taken in the past are impacting the portfolio. This creates risks of things going out of control, and business risks not being identified earlier enough for suitable mitigations to occur.

1.2 Why has Fair4All Finance commissioned this guide?

In our work with community finance lenders, those we have made significant investments into, and those we have funded through grants and capability support, we have come across a range of approaches to portfolio MI and provided consulting support to enhance them in many instances. This guide reflects our intention to document what good practice looks like on portfolio MI to share the insight that has been developed for specific lenders more broadly.

We have reviewed several portfolio MI packs used by community finance lenders as part of developing this "Good Practice Guide", so the good news is that many lenders will not be starting from scratch in developing their packs. In devising this "Best Practice Guide" we have created a synergy of the best parts of these packs and used our experience with a broader range of lenders to develop a "best practice" template. The template has been designed with simplicity in mind, providing a suitable framework for community finance lenders, but also one which can be tailored to the requirements of specific lenders.

1.3 Purpose of this document

This document is intended to support Community Finance lenders in updating their portfolio MI suites to provide a range of information which is considered good practice in the wider credit industry.

Every lender will have their own requirements for MI, depending on the complexity of their lending (particularly the number of different types of products) and the preferences of their management teams.

The approaches to portfolio MI are generally applicable to all UK lenders, but it is primarily intended for small to medium sized organisations who are working to provide fair and affordable credit to sectors of the community who may otherwise struggle to obtain it. For example, not-for-profit community lenders and credit unions. Therefore, it adopts a proportionate approach suitable for these types of organisations.

Organisations can use the Guide in one of two ways:

1. As a reference manual, to help them develop or enhance their own portfolio MI packs
2. To support new organisations in setting up appropriate credit risk based portfolio MI

It is likely that each lender will have its own preferences on the exact form of the report, driven largely by senior management preferences. Some absorb information easier by viewing a table of values, others by viewing charts and others by a combination of the two. We have presented examples of both charts and tables of numbers in this guide in the expectation that each lender will choose the required format for themselves. Further, different splits may be appropriate for different entities, we have illustrated with examples based on "product", which could refer to different loan types or to different customer segments. Again, the exact choice of reporting format will vary from firm to firm, and we expect that each will wish to make their own choices.

The focus of this document is portfolio MI. However, there are clear overlaps with other areas of lending, such as lending policy (eg rules for lending, such as maximum loan sizes, terms or thresholds which a risk based scoring approach will need to clear), arrears processing, governance etc. These are signposted within the relevant sections throughout this guide.

2 Scope

This document covers:

- A discussion of suitable metrics which could be used to report information on a credit portfolio, including applications, existing business, arrears and collections

In the rest of this document, a template for portfolio MI requirements for credit unions, and other not for profit lenders, is described. We include examples of various types of analysis based on fictional but representative data from the All Welcome Credit Union, why those reports are important and the decisions which could be driven by them.

The document covers requirements for:

1. Board level Management Information – key summary metrics and reporting against Credit Risk Appetite statements
2. More granular information to support operational processes and more detailed reviews; this would be expected to be reviewed by lower level committees and overseen by Senior Management

3 Bank of England (FCA and PRA) guidance

The Bank of England (the FCA and PRA) is not prescriptive about what portfolio Management Information (MI) should look like.

Regarding Conduct regulation (FCA PRIN 2.1[1]), portfolio MI supports FCA principles of business. For example, good portfolio MI can be seen to supports principles 2, 3, and 11 (skill care and due diligence, management and control, and Relations with regulators (PRIN 2.1)).

Regarding Prudential regulation (PRA), the available guidance has been focused on new banks and larger credit unions[2,3, 4] but the principles are universally applicable and should be applied proportionally whatever the size and type of your organisation.

The key points that the PRA have made about Management Information relate to board level information and are summarised below:

- The board should have access to good quality Management Information (MI):

  "Appropriate management information (MI) for the board: MI should highlight the key information necessary for the board and not be too lengthy or missing essential information. Good quality MI is essential, as the quality of the decision-making made by the board will, to a large degree, be driven by the information that they receive and on which they base those decisions. Firms should consider how to build and develop their MI so that it is timely, relevant, and accurate, and highlights the most important items for the board's discussion. MI should be reviewed and improved on an ongoing basis."

- The Management Information should be related to the Risk Appetite:

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[1] 1.pdf (fca.org.uk)
[2] PRA (2017) PRA annual assessment of the Category 4 credit union sector. Assessment of Category 4 credit unions (bankofengland.co.uk)
[3] PRA (2017) PRA annual assessment of the credit union sector. Assessment of Category 5 plus credit unions above £15 million (bankofengland.co.uk)
[4] Regulatory Expectations. Regulatory expectations | Bank of England

"The board is provided with management information which clearly indicates the credit union's financial position and whether key financial measures are being met with reference to the board's risk appetite"

Examples of poor practice have been quoted:

"Directors demonstrate a poor understanding of risks facing the credit union (failure to look at or understand management information, lack of understanding of risks attached to investing in certain financial products etc"

"Management information produced for the board is inadequate (eg excessive in detail without providing an overview of key areas or reference to the board's risk appetite)"

As part of good governance, Management Information should be produced at a more granular level to support operational processes and more detailed review, with a high level summary presented to the Board.

4 Strategy

4.1 Credit risk appetite

A key element of MI reporting is a statement of the performance of lending against the Credit Risk Appetite. The setting of the Credit Risk Appetite is described in a separate component of the Good Practice Guide, and that contains a suitable template for Board level reporting. A more detailed version of this is shown below, which shows trends over time, allowing for early warning of potential problems.

Credit Risk Committee: 14th July 2023												
Risk Appetite Status Report. Presented by: Head of Credit Risk.										**RAG Limits**		
Risk Appetite	**Status (12m average)**	**RAG Status**	**Jun-23**	**May-23**	**Apr-23**	**Mar-23**	**Direction of Travel**	**2022**	**Proposed Action**	**Green**	**Amber**	**Red (RAS Breach)**
No more than 10% of new lending to customers with credit score <575	4.20%	GREEN	3.60%	5.20%	4.10%	3.90%	→	4.50%	None	<8% of loans	8-10% of loans	>10% of loans granted.
No more than 20% of loans granted to the unemployed.	22.00%	RED	26%	24%	22%	20%	↑	15%	Review and tighten underwriting guidelines for unemployed applicants.	<15%	15 – 20%	>20%
Default Rate for New Applications no more than 2.5%	2.6%	RED	2.6%	2.5%	2.6%	2.5%	↑	1.8%	Review score cutoffs or realign scorecard	!	2.2% - 2.5%	>2.5%

Credit Risk Committee: 14th July 2023													
Risk Appetite Status Report. Presented by: Head of Credit Risk.											**RAG Limits**		
Risk Appetite	**Status (12m average)**	**RAG Status**	**Jun-23**	**May-23**	**Apr-23**	**Mar-23**	**Direction of Travel**	**2022**	**Proposed Action**	**Green**	**Amber**	**Red (RAS Breach)**
Portfolio arrears (1+ rate) no more than 5%	4.70%	AMBER	5.2%	5.0%	4.8%	4.6%	↑	4.5%	Carryout analysis to identify root cause of rising arrears with a view to tightening lending criteria and/or increasing pre-delinquency collections activity.	<4%	4-5%	>5%
Portfolio default rate no more than 2.5%	1.70%	GREEN	1.73%	1.67%	1.60%	1.53%	↑	1.50%	None	<2%	2-2.5%	>2.5%
Maximum of £50,000 interest free (hardship)[1] loans granted each month.	£37,674 granted last month	GREEN	£25,000	£34,000	£32,000	£14,000	→	£23,000	None	<=£45,000	£45,001 - £50,000	>£50,000

4.2 Score cut offs

A key element of controlling the portfolio credit risk and aligning it to Risk Appetite is setting appropriate strategies. For organisations' who use credit scoring within their lending policy, this is most commonly done through an appropriate score cut off. For organisations that use the credit scores provided by credit reference agencies, model monitoring is covered in the Credit Risk Policy Guide. For organisations that develop and deploy their own in-house credit scoring models, further reference should be made to the Model Monitoring component of the Guide.

As well as impacting default rates, amending the score cut offs will affect volume of loans booked. Therefore, an assessment of this should be provided when if any revisions to cut-offs are proposed based on the monitoring undertaken.

4.3 Policy rules

The example MI presented in Section 5 shows analysis of reasons for accounts being declined due to policy rules. The policy rules should be aligned to the risk appetite.

Other high risk segments should be monitored for default rate trends, and new policy rules put in place where appropriate.

4.4 Early warning indicators

Early warning indicators should be assessed and reported. These should be defined by the lender in line with their experience, but useful examples seen elsewhere in the credit risk industry include:

- Cancelled direct debit – this is a strong indicator of financial distress. This is highly likely to lead to arrears as the customer will need to make a manual payment – this is unlikely as the reason for cancelling the direct debit is usually financial distress, though as it could also be because the customer has changed their bank not all these will lead to arrears, but it is a significant warning sign
- Change to Direct Debit date – a change to direct debit date to be after the customer's salary payment may indicate signs of financial distress that are likely to lead to the emergence of arrears at a later date

4.5 Link Between portfolio MI and strategy

Detailed analysis of portfolio MI will lead to business insights that may not be included in the Credit Risk Appetite. There should be a feedback loop between the detailed MI assessment and the Credit Risk appetite, for example if high risk pockets of business are identified then new Credit Risk Appetite limits can be proposed and then tracked.

Portfolio MI

The table below shows the recommended portfolio Management Information, with a description of the purpose of each report.

Area	Report	Metrics	Purpose
Applications	Summary	Volume, Value, Risk Score	To understand the change in the number and value of applications over time. To understand the change in the risk score of applicants
	Accepts and Declines	Volume, Value, Risk Score	To understand the proportion of applications accepted (volume and value) and their relative risk score (declines will have lower average risk score)
	Decline Reasons	Volume	To understand the reasons why applications were declined eg, low score (below cutoff) or policy rules
	Policy Overrides	Volume	The number of policy override decisions ie, where an application was accepted that would otherwise not fall within lending policy
	Referred Decisions	Volume	The number of applications referred eg, due to marginal score or marginal failure of policy rule
Portfolio	Summary	Volume, Value, Risk Score	To understand the change in the number accounts and the outstanding balance of the book over time, together with the average risk
	Product Mix	Volume, Value	Number of accounts and value by product or customer type
Arrears, Defaults and Adverse Events (eg payment holidays)	Summary	Volume, Value	Number and value of accounts 1+ (arrears), 3+ (default) or on payment holidays. Other required adverse information (eg watchlist) could be added if required
	Emergence	% of volume (or value)	Arrears Emergence (cumulative proportion of accounts in arrears either by number or £ amount) by vintage (loan completion date). Emergence will change depending on economic conditions and the quality of each vintage. This analysis allows an assessment of whether particular vintages are risky and trends over time. It is often referred to as "dynamic delinquency"
	Nils	Volume, Value	The number of accounts which do not make a payment in the first few months of the loan schedule. These are usually considered to be fraudulent applications ie no intention to pay
	New to Arrears (1+)	Volume	Number of accounts new to arrears (1+) as % of book

Area	Report	Metrics	Purpose
		Repeat Offenders	% of accounts new to arrears (1+) which are repeat offenders (have been in arrears before)
		Time on Books	% of accounts new to arrears (1+) by time on books
		Time Since Last Arrears	Time since last arrears for new to arrears (1+) accounts; further detail on repeat offenders
	Arrears Roll Rates	Roll of accounts in arrears last month, by MIA (Months in Arrears)	Outcomes are: - Cure (return to up to date), - "Hold" (Stay the same MIA) - Roll worse (MIA increases) - Write off
	Arrears: Roll Rates Over Time	Trend over time of roll rates of accounts in arrears	Outcomes as above
Collections	Payments	Payments as %CMS, by stage of arrears	To understand the trends in roll rates over time; are collections activities improving?
	Arrangements - # Accounts	Number of accounts on arrangement (eg reduced payments, term extension)	To understand the volume of accounts on arrangements
	Arrangements -Redefault Rates	Redefault rates for accounts on arrangements	To understand whether arrangements are effective
	Write off Rates	Write off rates for accounts entering arrears	To understand the trends in the proportion of accounts written off
Impairment (provisions)	Provision amount and rate	Volume, balance and % of accounts.	To report on the amount of lending that is "at risk" of not being repaid due to being in arrears or other conditions that indicate that the customer may not repay their debt, resulting in a loss in the future.

The above reports represent a typical reporting suite employed across the credit industry. However, there may be some reports that are not applicable for some lenders due to the way they manage their business or the types of products they offer. Likewise, some lenders may have additional reporting requirements that they need to support specific product or operational features of their business.

5 Portfolio MI template

In this section, we present example reports for the reports outlined in Section 4.5. These are fictional examples for the All Welcome Credit Union, but the format and types of information contained in these reports are typical of good practice, in terms of the reporting that supports good governance and management decision making.

The reporting is presented in both tabular and graphical formats. Both are equally acceptable and which to favour (or to have both) is a decision for each lender to make. Likewise, the style, format and granularity of reporting is lender specific and will depend on how many portfolios and customer segments they have. Lenders do not need to follow the presentational style described here. As long as the information is presented in a way that is clear and meaningful for them then any suitable reporting style/format is acceptable.

5.1 Applications – dashboard

The applications dashboard provides a high level "one page" view of the application pipeline as illustrated below.

Metric	Status (12m average)	Jun-23	May-23	Apr-23	Mar-23	Direction of Travel	2022	Commentary
Application volume	1,054	950	1,000	1,010	940	→	1,054	Steady volume - no action required
Value	£580,983	£503,500	£525,000	£555,500	£446,500	→	£581,050	Steady value - no action required
Average Value	£543	£530	£525	£550	£475	→	£542.50	Consistent average value - no action required
Risk Score (all applications)	546	545	555	540	560	→	546	Consistent risk score - no action required
Accept Rate	54%	53%	57%	61%	50%	→	54%	Consistent accept rate - no action required
Risk Score (accepts)	656	654	666	658	662	→	656	Consistent risk score for accepts - no action required
Overrides	1.0%	1.1%	1.2%	0.8%	1.0%	→	1.0%	Consistent level of overrides - no action required
Refers	0.9%	1.0%	1.1%	0.7%	0.9%	→	0.9%	Consistent level of refers - no action required
Default Rate (3+ in 12 months)	**2.9%**	**3.9%**	**3.3%**	**2.6%**	**2.5%**	**↑**	**2.5%**	**Increasing default rate - consider (risk score) cutoff or strategy change**
Nils (6 months)	0.5%	0.4%	0.3%	0.8%	0.6%	↓	1.0%	Decreasing "Nils" => less fraudulent applications

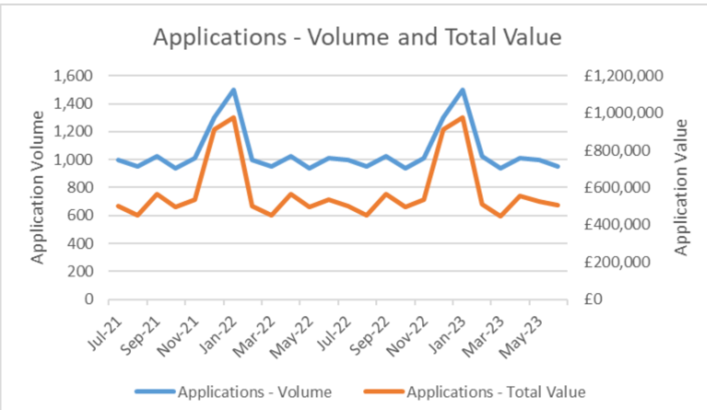
The objective of the Dashboard is to provide senior managers with a simple, high level, view of the status of the portfolio. Good practice is for the Dashboard to focus on a small set of the most important business metrics, and to provide a view over time to see how the application pipeline has changed. In the above example, most metrics for the latest month (June 23) are consistent with previous months. Therefore, are not a concern. However, there has been a steady increase in the default rates for new loans over the last few months. The recommendation (as provided in the commentary) is that this should be addressed via a change to lending policy. This is because default rates, in this example, are already close to the maximum acceptable as detailed in the Risk Appetite. If the organisation had a greater risk appetite and this level of default rate was still acceptable, then a “wait and see” strategy may be more appropriate with a view of seeing if the default rates continue to rise of level off.

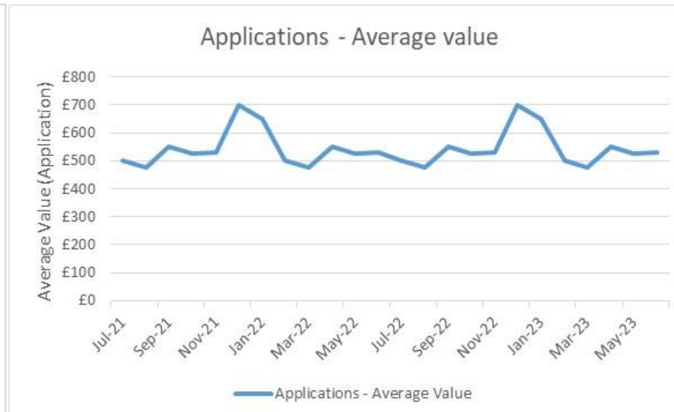
5.2 Applications – summary

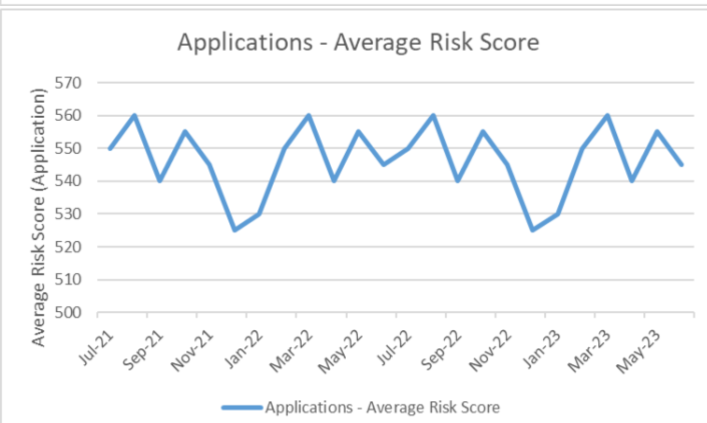
Supporting the Dashboard are number of lower level reports that provide more in-depth analysis. The applications summary provides a long term view of the value and volume of new business. The following provides an illustrative example of an applications report in both tabular and graphical formats

Month of application	Application Volume	Value	Average Value	Average Risk Score (all applications)
Jul-21	1,000	£500,000	£500	550
Aug-21	950	£451,250	£475	560
Sep-21	1,025	£563,750	£550	540
Oct-21	940	£493,500	£525	555
Nov-21	1,010	£535,300	£530	545
Dec-21	1,300	£910,000	£700	525
Jan-22	1,500	£975,000	£650	530
Feb-22	1,000	£500,000	£500	550
Mar-22	950	£451,250	£475	560
Apr-22	1,025	£563,750	£550	540
May-22	940	£493,500	£525	555
Jun-22	1,010	£535,300	£530	545
Jul-22	1,000	£500,000	£500	550
Aug-22	950	£451,250	£475	560
Sep-22	1,025	£563,750	£550	540
Oct-22	940	£493,500	£525	555
Nov-22	1,010	£535,300	£530	545
Dec-22	1,300	£910,000	£700	525
Jan-23	1,500	£975,000	£650	530

Feb-23	1,025	£512,500	£500	550
Mar-23	940	£446,500	£475	560
Apr-23	1,010	£555,500	£550	540
May-23	1,000	£525,000	£525	555
Jun-23	950	£503,500	£530	545







Good practice for this type of report (and most other historical reporting) is to provide a view that spans a period of at least 13 months. This is to allow direct comparisons with the year before. Ideally, the period will be 25 months (or longer) to allow year on year comparisons to be made.

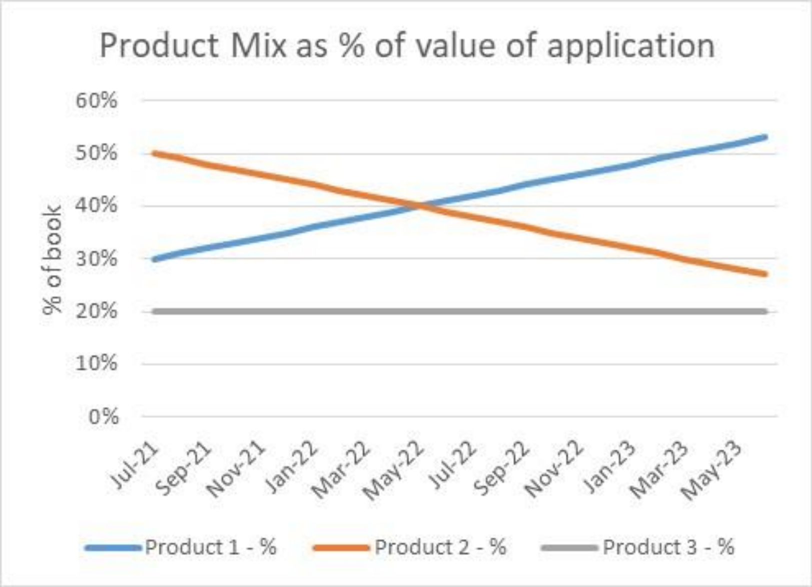
The information in the applications report is presented in both tabular and graphical formats. It is not essential that the information is presented in both ways. However, some people find it easier to interpret tables, others prefer graphs. Therefore, where reporting is being presented to a group of people, it can be useful to provide information in both formats. The tabular reporting has the advantage of allowing the precise figures to be determined, whereas this is more difficult with graphs. However, graphical representations are often better for identifying and observing trends in the data.

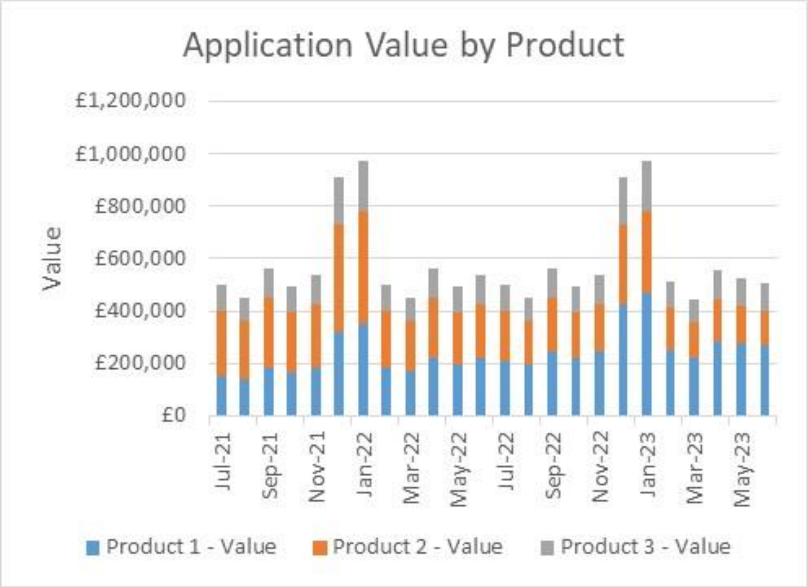
In this example, the main observation is that the volume and value of applications this year, is following the same pattern as the previous year. In particular, the Christmas lending peak occurs at the same time and has the same magnitude. The quality of business also seems to follow this trend with broadly constant credit quality (as represented by the risk score) with dips around the Christmas periods. Given that this is in line with business expectation, no actions are required.

5.3 Applications – product

The product report shows a breakdown of applications by product type for different types of loan granted each month.

Month	Product 1 - Value	Product 2 - Value	Product 3 - Value	Product 1 - %	Product 2 - %	Product 3 - %
Jul-21	£150,000	£250,000	£100,000	30%	50%	20%
Aug-21	£139,888	£221,113	£90,250	31%	49%	20%
Sep-21	£180,400	£270,600	£112,750	32%	48%	20%
Oct-21	£162,855	£231,945	£98,700	33%	47%	20%
Nov-21	£182,002	£246,238	£107,060	34%	46%	20%
Dec-21	£318,500	£409,500	£182,000	35%	45%	20%
Jan-22	£351,000	£429,000	£195,000	36%	44%	20%
Feb-22	£185,000	£215,000	£100,000	37%	43%	20%
Mar-22	£171,475	£189,525	£90,250	38%	42%	20%
Apr-22	£219,863	£231,138	£112,750	39%	41%	20%
May-22	£197,400	£197,400	£98,700	40%	40%	20%
Jun-22	£219,473	£208,767	£107,060	41%	39%	20%
Jul-22	£210,000	£190,000	£100,000	42%	38%	20%
Aug-22	£194,038	£166,963	£90,250	43%	37%	20%
Sep-22	£248,050	£202,950	£112,750	44%	36%	20%
Oct-22	£222,075	£172,725	£98,700	45%	35%	20%
Nov-22	£246,238	£182,002	£107,060	46%	34%	20%
Dec-22	£427,700	£300,300	£182,000	47%	33%	20%
Jan-23	£468,000	£312,000	£195,000	48%	32%	20%
Feb-23	£251,125	£158,875	£102,500	49%	31%	20%
Mar-23	£223,250	£133,950	£89,300	50%	30%	20%
Apr-23	£283,305	£161,095	£111,100	51%	29%	20%
May-23	£273,000	£147,000	£105,000	52%	28%	20%
Jun-23	£266,855	£135,945	£100,700	53%	27%	20%





In this example, the lender defines different products based on the different features/terms that are available to consumers. Product 1 covers low value short term loans with higher APRs (Loans <=18 months, max value £2,000 with an APR of 29.9%). Products 2 and 3 are higher value longer term loans (Terms between 12 and 60 months for values of between £2,000 and 7,500) Product 2 is offered to low risk customers with an APR of 12.9%. Product 3 is for higher risk customers with an APR of 21.9% In this example, the main feature of the report is the change in product mix over time.

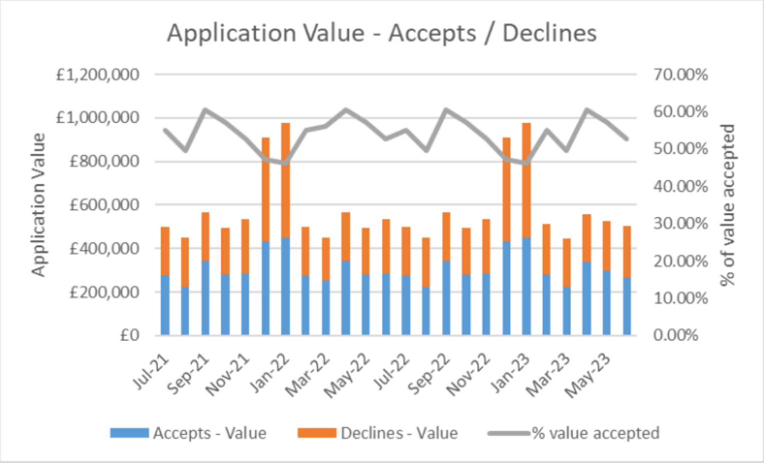
The tabular report shows the long term is for a change in the product mix. Product 1 has becoming increasingly popular product over time, with a corresponding decrease in product 2. Product 3 has maintained a constant 20% share. In this example, the report aligns with the lender's expectation, given a push to market Product 1 more intensively over the last 2-3 years compared to Product 2.

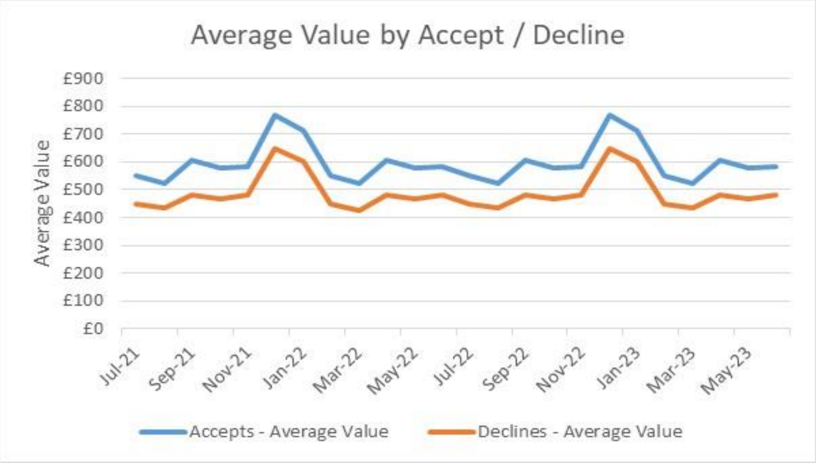
5.4 Applications – accepts and declines

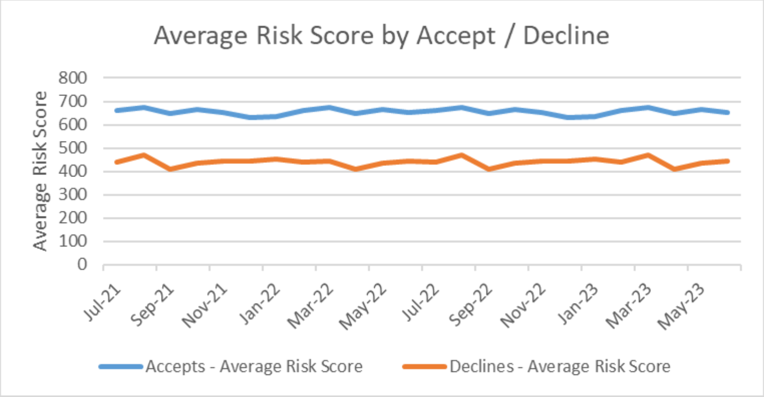
The accept decline report provides details on approved and declined loans.

Application Month	Accepts - Value	Declines - Value	Accepts - Average Value	Declines - Average Value	% value accepted	Accepts - Average Risk Score	Declines - Average Risk Score
Jul-21	£275,000	£225,000	£550	£450	55%	660	440
Aug-21	£223,369	£227,881	£523	£436	50%	672	468
Sep-21	£341,069	£222,681	£605	£483	61%	648	408
Oct-21	£282,282	£211,218	£578	£468	57%	666	435
Nov-21	£282,638	£252,662	£583	£481	53%	654	444
Dec-21	£430,430	£479,570	£770	£647	47%	630	446
Jan-22	£450,450	£524,550	£715	£603	46%	636	453
Feb-22	£275,000	£225,000	£550	£450	55%	660	440
Mar-22	£253,151	£198,099	£523	£426	56%	672	443
Apr-22	£341,069	£222,681	£605	£483	61%	648	408
May-22	£282,282	£211,218	£578	£468	57%	666	435
Jun-22	£282,638	£252,662	£583	£481	53%	654	444
Jul-22	£275,000	£225,000	£550	£450	55%	660	440
Aug-22	£223,369	£227,881	£523	£436	50%	672	468
Sep-22	£341,069	£222,681	£605	£483	61%	648	408
Oct-22	£282,282	£211,218	£578	£468	57%	666	435
Nov-22	£282,638	£252,662	£583	£481	53%	654	444
Dec-22	£430,430	£479,570	£770	£647	47%	630	446
Jan-23	£450,450	£524,550	£715	£603	46%	636	453
Feb-23	£281,875	£230,625	£550	£450	55%	660	440

Mar-23	£221,018	£225,483	£523	£436	50%	662	468
Apr-23	£336,078	£219,423	£605	£483	61%	658	408
May-23	£300,300	£224,700	£578	£468	57%	666	435
Jun-23	£265,848	£237,652	£583	£481	53%	654	444





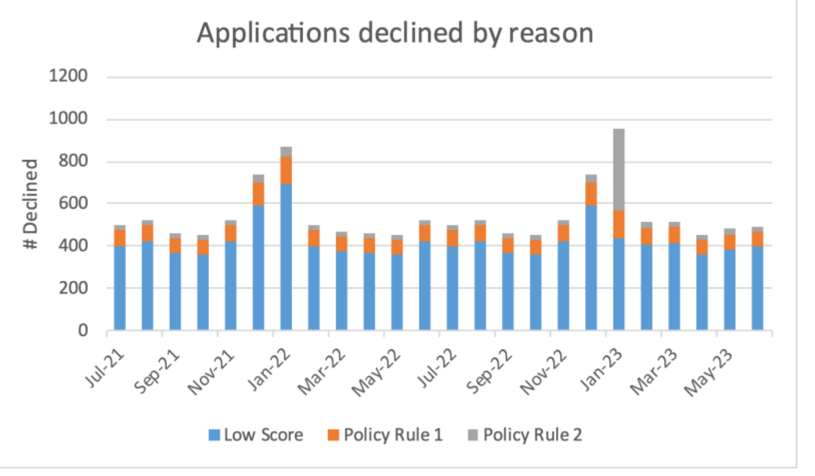


The reporting shows that the average value of accepted and declined loans has remained fairly constant over the long term, with the expected peaks around Christmas over two year periods shown in the reports. The risk profile of accepted and declined loan applications is constant, indicating no change in credit quality of loan applications.

5.5 Applications – decline reasons (policy decline rules)

Reporting on decline reasons is important to understand why customers are considered acceptable for a loan

Application Month	Policy Rule 1 (Low Score)	Policy Rule 2 (Low income)	Policy Rule 3 (Recent app)	TOTAL DECLINES
Jul-21	400	75	25	500
Aug-21	418	78	26	523
Sep-21	369	69	23	461
Oct-21	361	68	23	451
Nov-21	420	79	26	525
Dec-21	593	111	37	741
Jan-22	696	131	44	870
Feb-22	400	75	25	500
Mar-22	372	70	23	466
Apr-22	369	69	23	461
May-22	361	68	23	451
Jun-22	420	79	26	525
Jul-22	400	75	25	500
Aug-22	418	78	26	523
Sep-22	369	69	23	461
Oct-22	361	68	23	451
Nov-22	420	79	26	525
Dec-22	593	111	37	741
Jan-23	**435**	**131**	**392**	**957**
Feb-23	410	77	26	513
Mar-23	414	78	26	517



Apr-23	364	68	23	455
May-23	384	72	24	480
Jun-23	395	74	25	494

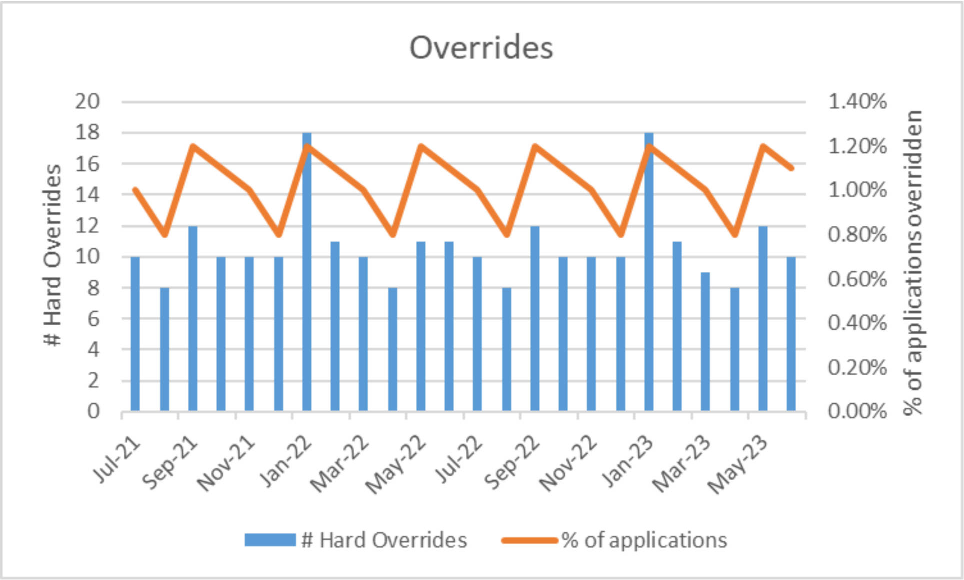
In this example, for simplicity just 3 decline reasons are reported upon (Policy decline rules 1,2 and 3). In practice, the report should have entries for every type of decline reasons in the firm's lending policy. In the above table, decline reasons are reported on in priority order, ie the first rule that the customer hits in the lending policy. If a customer would have been declined due to other reasons as well, these are not reported upon. However, some lenders have additional reporting on every decline rule that customers hit. This additional reporting can be useful for understanding which decline reasons are most commonly hit and can also identify overlaps and redundancies in rules to support revisions and simplifications to lending policy. In particular if all customers that hit one rule, also hit another rule, then only one of those rules is required.

In the above example, the largest reason for decline is a low credit score (risk score). Having a low income also shows a consistent trend as does the recent app rule, which identifies customers that make repeat applications in a short period of time. However, the recent app rule shows a "blip" in Jan 2023, when far more repeat applications were received (and declined) than normal. This triggered an investigation by the head of credit risk, who identified a single applicant who made a very large number of repeat applications over a few days using slightly different application details and loan amounts each time. This was clear a case of fraud that was identified and prevented by the lender's systems. Consequently, it did not result in any losses on this occasion. However, the head of credit has subsequently reviewed the anti-fraud rules to ensure that they remain robust against future fraud attempts.

5.6 Applications – policy overrides (hard overrides)

The policy override report details the trend in decline decisions, as defined in lending policy, which were subsequently overturned by underwriters.

Application Month	# Hard Overrides	% of applications
Jul-21	10	1.00%
Aug-21	8	0.80%
Sep-21	12	1.20%
Oct-21	10	1.10%
Nov-21	10	1.00%
Dec-21	10	0.80%
Jan-22	18	1.20%
Feb-22	11	1.10%
Mar-22	10	1.00%
Apr-22	8	0.80%
May-22	11	1.20%
Jun-22	11	1.10%
Jul-22	10	1.00%
Aug-22	8	0.80%
Sep-22	12	1.20%
Oct-22	10	1.10%
Nov-22	10	1.00%
Dec-22	10	0.80%
Jan-23	18	1.20%



Feb-23	11	1.10%
Mar-23	9	1.00%
Apr-23	8	0.80%
May-23	12	1.20%
Jun-23	10	1.10%

The override report shows that while there some cases of lending policy being overridden, the proportion of overrides remains relatively small and is stable over time, with no specific trend. On average, only around 1% of decline decisions based on lending policy are overridden. If the proportion was very high, or showing an increasing trend, then this should trigger investigative action to understand the cause of that trend. This might then result in a change to lending policy and/or a review of the conditions under which loan officers (underwriters) authorise overriding to occur. However, it may equally be the case that there has been changes to the economy or the types of customers applying the for the loan that have led to the observed changes in which case an increased level of overriding may be deemed to be acceptable. They important thing is that any changes or trends highlighted in the report are understood, and further investigation undertaken if appropriate.

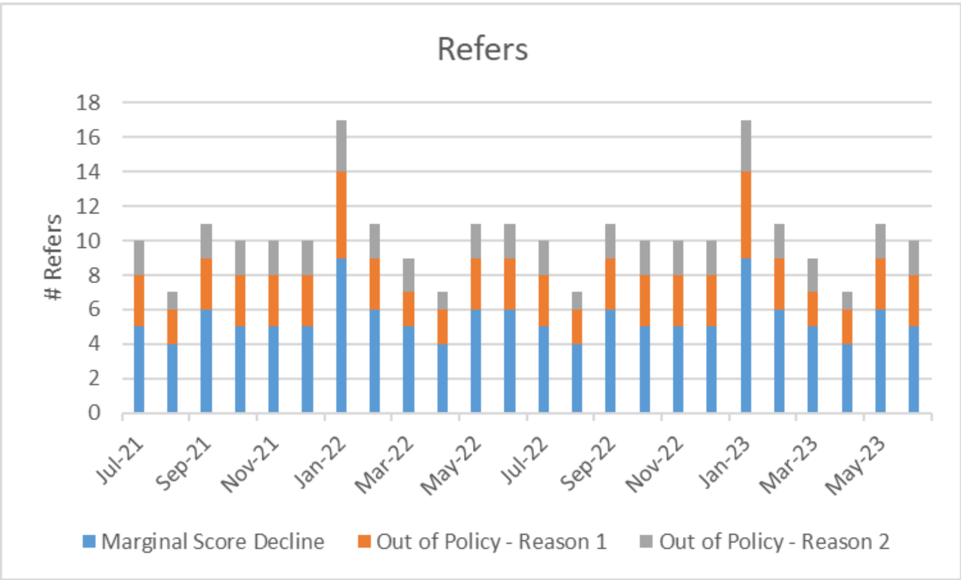
The report also shows some evidence of seasonality, with overriding seemingly increasing on a regular (quarterly) basis before it falls back again. Although the overall pattern is not particularly worrying, it would be prudent to investigate and understand the cause of this seasonality.

5.7 Applications – referred decisions

Similar to declines, the referred decision report reports on the number of cases referred for manual review via lending policy

Application Month	Out of Policy Reason 1 (Marginal Risk Score)	Out of Policy - Reason 1 (recent arrears)	Out of Policy - Reason 2 (PEP)	%applications - Reason 1 (Marginal Risk Score)	%applications - reason 2 (recent arrears)	%applications - reason 3 (PEP)
Jul-21	5	3	2	0.50%	0.25%	0.17%
Aug-21	4	2	1	0.40%	0.20%	0.13%
Sep-21	6	3	2	0.60%	0.30%	0.20%
Oct-21	5	3	2	0.55%	0.28%	0.18%
Nov-21	5	3	2	0.50%	0.25%	0.17%
Dec-21	5	3	2	0.40%	0.20%	0.13%
Jan-22	9	5	3	0.60%	0.30%	0.20%
Feb-22	6	3	2	0.55%	0.28%	0.18%
Mar-22	5	2	2	0.50%	0.25%	0.17%
Apr-22	4	2	1	0.40%	0.20%	0.13%
May-22	6	3	2	0.60%	0.30%	0.20%
Jun-22	6	3	2	0.55%	0.28%	0.18%
Jul-22	5	3	2	0.50%	0.25%	0.17%
Aug-22	4	2	1	0.40%	0.20%	0.13%
Sep-22	6	3	2	0.60%	0.30%	0.20%
Oct-22	5	3	2	0.55%	0.28%	0.18%
Nov-22	5	3	2	0.50%	0.25%	0.17%
Dec-22	5	3	2	0.40%	0.20%	0.13%
Jan-23	9	5	3	0.60%	0.30%	0.20%

Feb-23	6	3	2	0.55%	0.28%	0.18%
Mar-23	5	2	2	0.50%	0.25%	0.17%
Apr-23	4	2	1	0.40%	0.20%	0.13%
May-23	6	3	2	0.60%	0.30%	0.20%
Jun-23	5	3	2	0.55%	0.28%	0.18%



In this example, for simplicity, just 3 refer conditions are reported upon. In practice the report should have entries for every type of refer reasons covered in the lender's lending policy. In the above table, refer reasons are reported in priority order, ie the first refer rule in lending policy that is triggered is the one that is reported upon. If a customer triggers two or more refer rules, the additional reasons are not reported upon. However, some lenders have additional reporting on every refer rule that customers hit. This can be useful for understanding which refer reasons are most commonly applied and can also identify overlaps and redundancies in rules to support revisions and simplifications to lending policy.

In the above example, the largest reason for referring each month is a marginal credit score. Customers with recent arrears are the next group, following by individuals identified as Politically Exposed Persons (PEPs). The first two rules relate to the credit risk that the customer represents, with underwriters reviewing each case to determine if the likelihood of the customer repaying the loan is in line with risk appetite and business objectives. The final rule is a regulatory one, that mandates additional checks on customers if they are identified as PEPS (See the Verification and Fraud Component of the Guide for more information about PEPs). In this example, there is nothing specifically of note, but if there were increasing trend in cases being referred, then good practice would be to instigate more detailed investigation to understand the reason for the increase and if necessary, undertake revisions to lending policy. For example, if the volume of marginal credit score cases increased, this might be managed via a tightening of the definition of marginal credit scores.

5.8 Portfolio - dashboard

The application dashboard, discussed in Section 5.1 provides a view of new applications. The portfolio dashboard provides a view of the portfolio as a whole, covering all loans currently on the books.

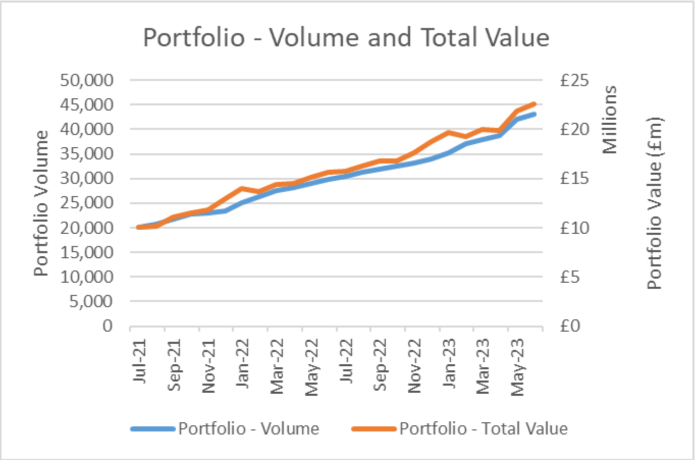
Metric	Status (12m average)	Jun-23	May-23	Apr-23	Mar-23	Direction of Travel	2022	Commentary
Volume	35,608	43,000	42,000	38,700	38,000	↑	29,933	Portfolio increasing
Value	£18,750,958	£22,575,000	£21,840,000	£19,930,500	£19,950,000	↑	£15,760,458	Portfolio value increasing
Average Loan Value	£527	£525	£520	£515	£525	→	£526.67	Consistent average value - no action required
Arrears cases	1,725	2,236	2,100	1,858	1,748	↑	1,670	Number of arrears cases is increasing
Arrears cases %	£0	5.20%	5.00%	4.80%	4.60%	↑	4.66%	Value of arrears cases is increasing
Arrears value	£904,565	£1,173,900	£1,092,000	£956,664	£917,700	↑	£692,008	Value of arrears is increasing
Arrears value %	4.82%	5.20%	5.00%	4.80%	4.60%	↑	4.39%	% of arrears value is increasing
Defaults (3+ arrears) cases	603	745	700	619	583	↑	450	Number of default cases is increasing
Defaults cases %	1.69%	1.73%	1.67%	1.60%	1.53%	↑	1.50%	Value of default cases is increasing
Default value	£ 280,441	£391,300	£364,000	£318,888	£305,900	↑	£ 227,385	Value of defaults is increasing
Default value%	1.50%	1.73%	1.67%	1.60%	1.53%	↑	1.44%	% of default value is increasing

The dashboard shows that while the overall size of the portfolio is steadily increasing in both numbers and value of loans, arrears and defaults are also increasing. This is attributed to an aggressive growth strategy implemented at the start of 2023 resulting in a relaxation of some lending criteria. The default rates are in line with expectation and within risk appetite. Therefore, no action is proposed at the current time.

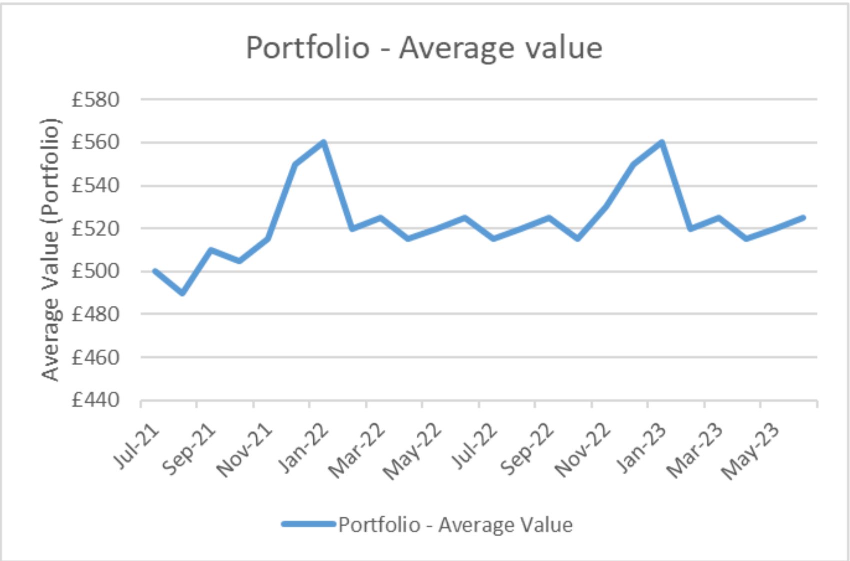
5.9 Portfolio - summary

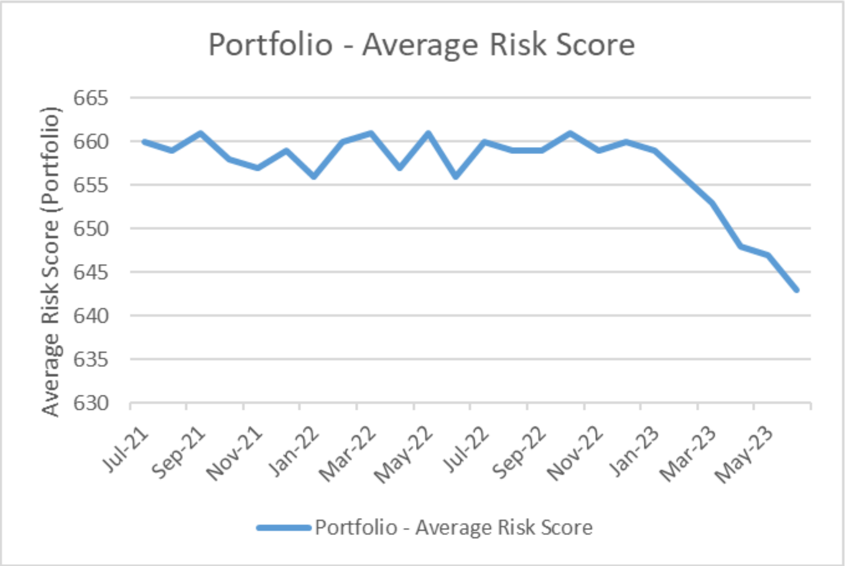
The portfolio summary report provides details of the average portfolio size in terms of numbers and values. In this example, the lender also obtains a monthly credit report refresh which includes an update credit score. This allows them to maintain a view of the overall credit quality of the portfolio that includes their customers' performance with other lenders. A refreshed credit report can therefore provide a lender with an "early warning" of potential changes in the performance of their portfolios, via customers' repayment behaviour with other credit products they have with other lenders.

Month	Portfolio - Volume	Portfolio - Total Value	Portfolio - Average Value	Portfolio - Average Risk Score
Jul-21	20,000	£10,000,000	£500	660
Aug-21	20,700	£10,143,000	£490	661
Sep-21	21,700	£11,067,000	£510	659
Oct-21	22,700	£11,463,500	£505	666
Nov-21	23,000	£11,845,000	£515	654
Dec-21	23,500	£12,925,000	£550	630
Jan-22	25,000	£14,000,000	£560	656
Feb-22	26,300	£13,676,000	£520	660
Mar-22	27,500	£14,437,500	£525	661
Apr-22	28,200	£14,523,000	£515	652
May-22	29,000	£15,080,000	£520	666
Jun-22	29,800	£15,645,000	£525	654
Jul-22	30,500	£15,707,500	£515	660
Aug-22	31,200	£16,224,000	£520	659
Sep-22	31,900	£16,747,500	£525	659
Oct-22	32,600	£16,789,000	£515	661
Nov-22	33,200	£17,596,000	£530	659
Dec-22	34,000	£18,700,000	£550	660



Jan-23	35,200	£19,712,000	£560	659
Feb-23	37,000	£19,240,000	£520	656
Mar-23	38,000	£19,950,000	£525	653
Apr-23	38,700	£19,930,500	£515	648
May-23	42,000	£21,840,000	£520	647
Jun-23	43,000	£22,575,000	£525	643





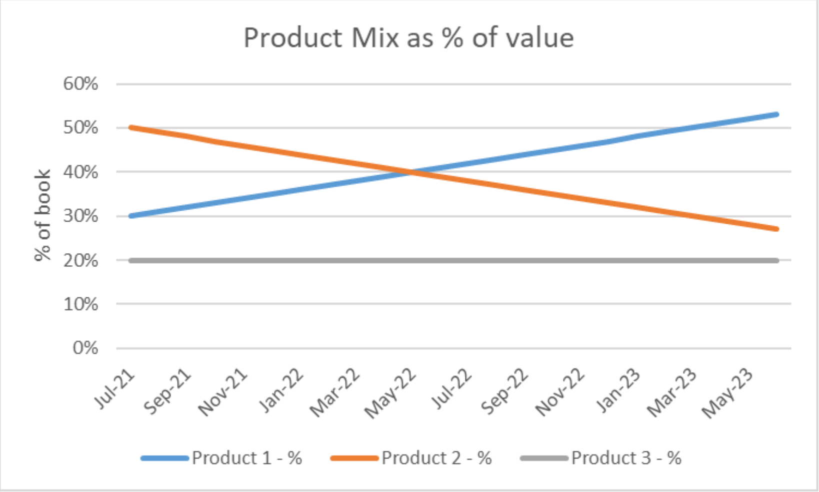
The report shows that the size of the portfolio is increasing, and the average loan value is relatively static. However, the average risk score has fallen. Following on from the dashboard, this is to be expected with the average risk profile of customers having deteriorated with the relaxation of credit policy. As discussed previously, this is not a concern in this case, because of the planned relaxation of lending policy to boost customer numbers. However, if this type of trend was observed in a scenario where a lender was seeking to maintain or improve credit quality, action should be taken, such as a tightening of lending policy.

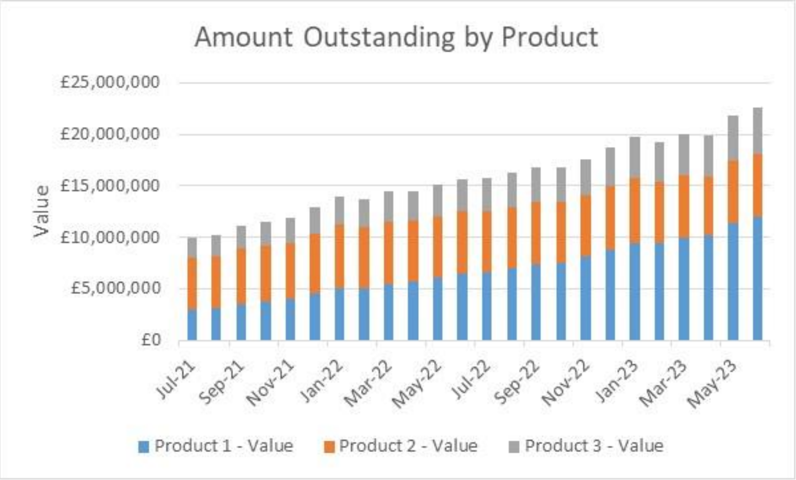
5.10 Portfolio - product mix

The product mix report shows a breakdown of applications by product type for different types of loan in the portfolio month on month.

Month	Product 1 – Value	Product 2 - Value	Product 3 - Value	Product 1 - %	Product 2 - %	Product 3 - %
Jul-21	£3,000,000	£5,000,000	£2,000,000	29%	51%	20%
Aug-21	£3,144,330	£4,970,070	£2,028,600	31%	48%	21%
Sep-21	£3,541,440	£5,312,160	£2,213,400	33%	47%	20%
Oct-21	£3,782,955	£5,387,845	£2,292,700	35%	47%	19%
Nov-21	£4,027,300	£5,448,700	£2,369,000	34%	46%	20%
Dec-21	£4,523,750	£5,816,250	£2,585,000	35%	45%	20%
Jan-22	£5,040,000	£6,160,000	£2,800,000	36%	44%	20%
Feb-22	£5,060,120	£5,880,680	£2,735,200	37%	43%	20%
Mar-22	£5,486,250	£6,063,750	£2,887,500	38%	42%	20%
Apr-22	£5,663,970	£5,954,430	£2,904,600	39%	41%	20%
May-22	£6,032,000	£6,032,000	£3,016,000	40%	40%	20%
Jun-22	£6,414,450	£6,101,550	£3,129,000	41%	39%	20%
Jul-22	£6,597,150	£5,968,850	£3,141,500	42%	38%	20%
Aug-22	£6,976,320	£6,002,880	£3,244,800	43%	37%	20%
Sep-22	£7,368,900	£6,029,100	£3,349,500	44%	36%	20%
Oct-22	£7,555,050	£5,876,150	£3,357,800	45%	35%	20%
Nov-22	£8,094,160	£5,982,640	£3,519,200	46%	34%	20%
Dec-22	£8,789,000	£6,171,000	£3,740,000	47%	33%	20%
Jan-23	£9,461,760	£6,307,840	£3,942,400	48%	32%	20%
Feb-23	£9,427,600	£5,964,400	£3,848,000	49%	31%	20%
Mar-23	£9,975,000	£5,985,000	£3,990,000	50%	30%	20%

Apr-23	£10,164,555	£5,779,845	£3,986,100	51%	29%	20%
May-23	£11,356,800	£6,115,200	£4,368,000	52%	28%	20%
Jun-23	£11,964,750	£6,095,250	£4,515,000	53%	27%	20%





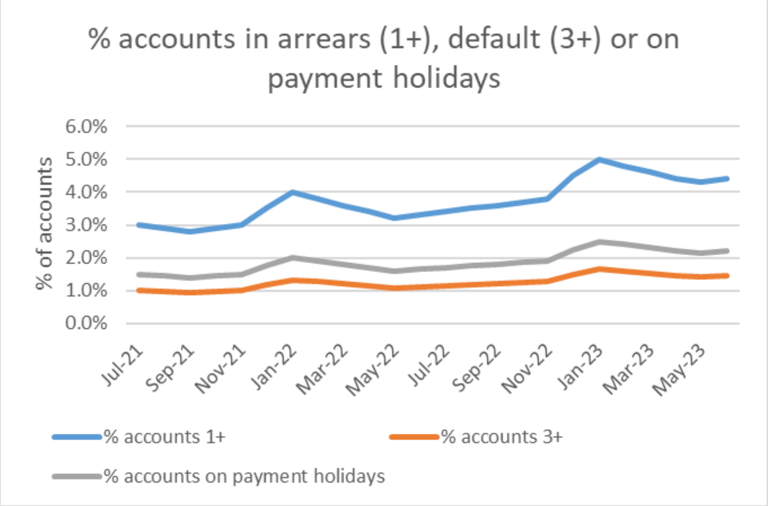
The reports show how the product mix has changed over time. This report would be expected to be similar to the trends observed in the applications reporting on portfolio mix, but lagged, given that it takes time for the portfolio mix to change as new loans are booked and old loans complete.

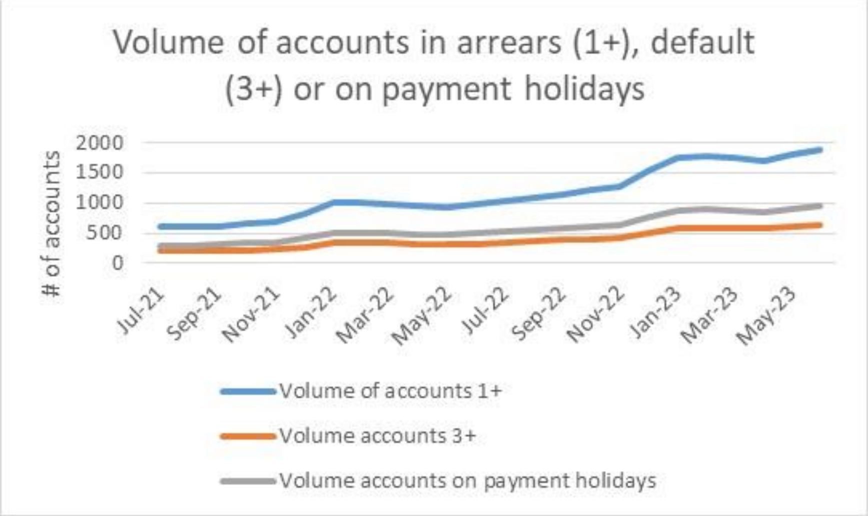
5.11 Arrears, defaults, and payment holidays (forbearance) - arrears stock

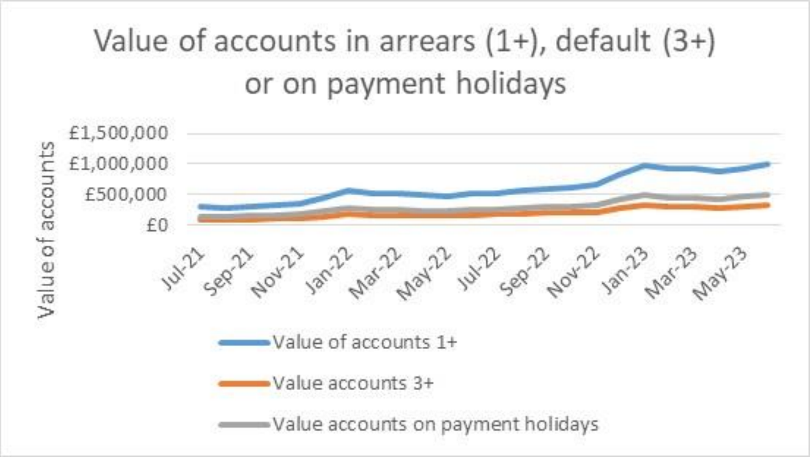
The arrear, defaults and payment holidays report shows the stock position of arrears as at each month end in the past

Month	% accounts 1+	% accounts 3+	% accounts on payment holidays	Value of accounts 1+	Value accounts 3+	Value accounts on payment holidays
Jul-21	3.0%	1.0%	1.5%	£300,000	£100,000	£150,000
Aug-21	2.9%	1.0%	1.5%	£294,147	£98,049	£147,074
Sep-21	2.8%	0.9%	1.4%	£309,876	£103,292	£154,938
Oct-21	2.9%	1.0%	1.5%	£332,442	£110,814	£166,221
Nov-21	3.0%	1.0%	1.5%	£355,350	£118,450	£177,675
Dec-21	3.5%	1.2%	1.8%	£452,375	£150,792	£226,188
Jan-22	4.0%	1.3%	2.0%	£560,000	£186,667	£280,000
Feb-22	3.8%	1.3%	1.9%	£519,688	£173,229	£259,844
Mar-22	3.6%	1.2%	1.8%	£519,750	£173,250	£259,875
Apr-22	3.4%	1.1%	1.7%	£493,782	£164,594	£246,891
May-22	3.2%	1.1%	1.6%	£482,560	£160,853	£241,280
Jun-22	3.3%	1.1%	1.7%	£516,285	£172,095	£258,143
Jul-22	3.4%	1.1%	1.7%	£534,055	£178,018	£267,028
Aug-22	3.5%	1.2%	1.8%	£567,840	£189,280	£283,920
Sep-22	3.6%	1.2%	1.8%	£602,910	£200,970	£301,455
Oct-22	3.7%	1.2%	1.9%	£621,193	£207,064	£310,597
Nov-22	3.8%	1.3%	1.9%	£668,648	£222,883	£334,324
Dec-22	4.5%	1.5%	2.3%	£841,500	£280,500	£420,750
Jan-23	5.0%	1.7%	2.5%	£985,600	£328,533	£492,800
Feb-23	4.8%	1.6%	2.4%	£923,520	£307,840	£461,760
Mar-23	4.6%	1.5%	2.3%	£917,700	£305,900	£458,850

Apr-23	4.4%	1.5%	2.2%	£876,942	£292,314	£438,471
May-23	4.3%	1.4%	2.2%	£939,120	£313,040	£469,560
Jun-23	4.4%	1.5%	2.2%	£993,300	£331,100	£496,650







The report shows that the proportion of accounts in arrears has increased over time. This is for both early arrears (1+m) and late arrears (3+m). In this example, the trends are not unexpected and align with the business plan that was instigated at the start of 2023 to increase lending volumes via a relaxation of lending policy. However, if the policy had not been changed, and these trends were observed, then this would warrant further investigation to establish the root course of the increasing arrears and to undertake corrective action if necessary. For example, a tightening of lending policy.

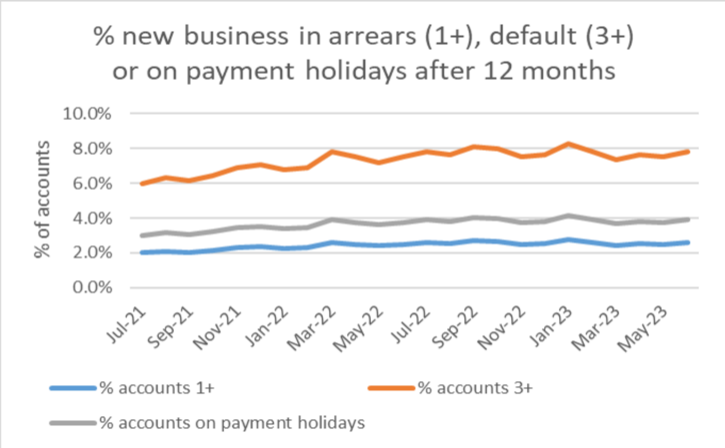
The report also shows the number of accounts subject to forbearance measures (payment holidays). This example shows figures for just a single forbearance measure, but if organisations employ other forbearance measures, such as reduced payments, suspension of interest or loan restructuring, then these should also be reported upon.

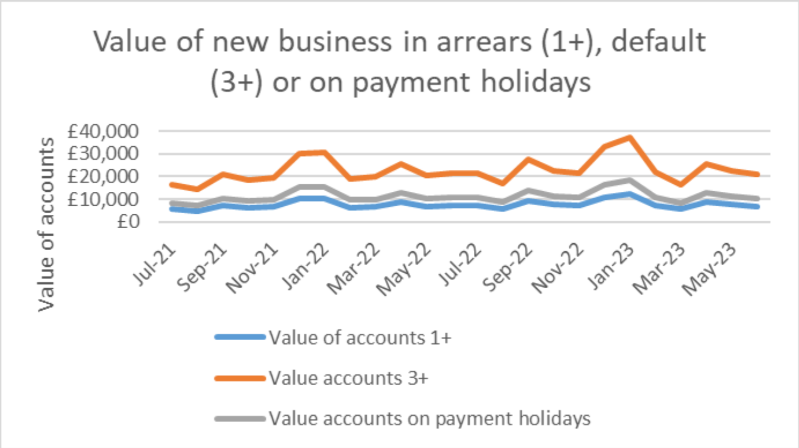
5.12 Arrears, defaults, and payment holidays - arrears (1+) for applications

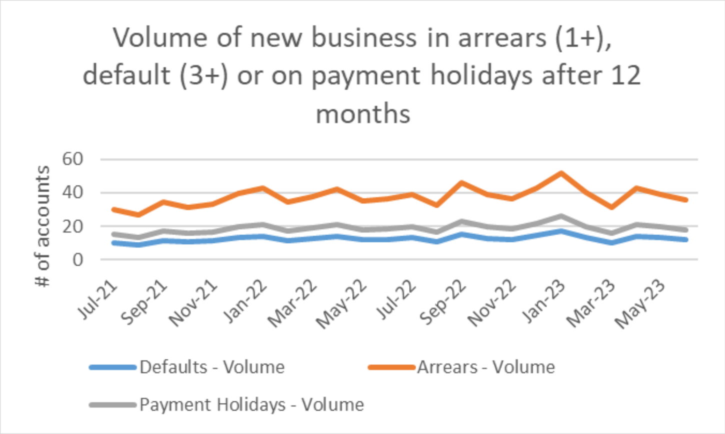
The following report is similar to the previous one but reports on the status of loans granted each month, rather than the portfolio position each month.

Vintage	% accounts 1+	% accounts 3+	% accounts on payment holidays	Value of accounts 1+	Value accounts 3+	Value accounts on payment holidays
Jul-21	2.0%	6.0%	3.0%	£5,500	£16,500	£8,250
Aug-21	2.1%	6.3%	3.2%	£4,691	£14,072	£7,036
Sep-21	2.1%	6.2%	3.1%	£6,992	£20,976	£10,488
Oct-21	2.2%	6.5%	3.2%	£6,069	£18,207	£9,104
Nov-21	2.3%	6.9%	3.5%	£6,501	£19,502	£9,751
Dec-21	2.4%	7.1%	3.5%	£10,115	£30,345	£15,173
Jan-22	2.3%	6.8%	3.4%	£10,135	£30,405	£15,203
Feb-22	2.3%	6.9%	3.5%	£6,325	£18,975	£9,488
Mar-22	2.6%	7.8%	3.9%	£6,582	£19,746	£9,873
Apr-22	2.5%	7.5%	3.8%	£8,527	£25,580	£12,790
May-22	2.4%	7.2%	3.6%	£6,775	£20,324	£10,162
Jun-22	2.5%	7.5%	3.8%	£7,066	£21,198	£10,599
Jul-22	2.6%	7.8%	3.9%	£7,150	£21,450	£10,725
Aug-22	2.6%	7.7%	3.8%	£5,696	£17,088	£8,544
Sep-22	2.7%	8.1%	4.1%	£9,209	£27,627	£13,813
Oct-22	2.7%	8.0%	4.0%	£7,480	£22,441	£11,221
Nov-22	2.5%	7.5%	3.8%	£7,066	£21,198	£10,599
Dec-22	2.6%	7.7%	3.8%	£10,976	£32,928	£16,464
Jan-23	2.8%	8.3%	4.1%	£12,387	£37,162	£18,581
Feb-23	2.6%	7.8%	3.9%	£7,329	£21,986	£10,993
Mar-23	2.5%	7.4%	3.7%	£5,415	£16,245	£8,122

Apr-23	2.6%	7.7%	3.8%	£8,570	£25,710	£12,855
May-23	2.5%	7.5%	3.8%	£7,508	£22,523	£11,261
Jun-23	2.6%	7.8%	3.9%	£6,912	£20,736	£10,368





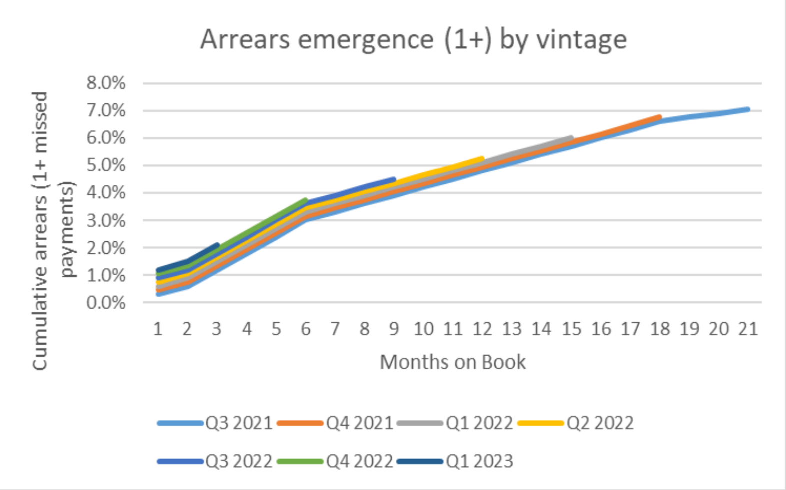


The report provides further confirmation of the rising arrears rates over time, as reported on the Portfolio Dashboard.

5.13 Arrears (1+ and 3+) emergence

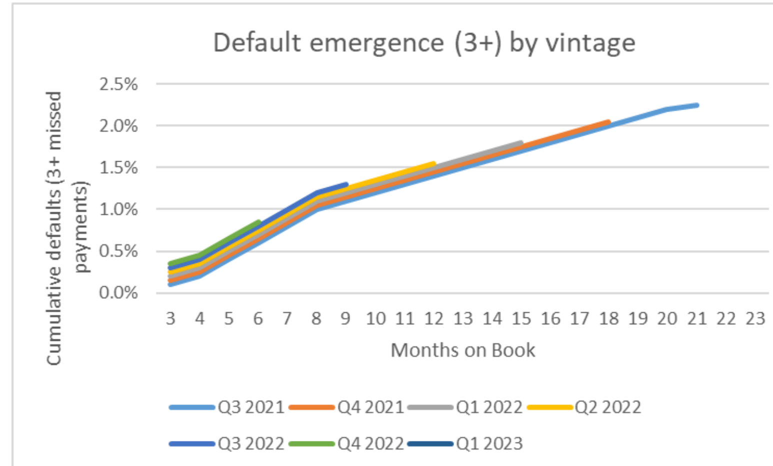
Emergence reports show the relative performance of different cohorts of business that the business booked at different times, as accounts mature. This allows the performance of difference cohorts to be compared and any differences matched back to changes in lending policy or other factors that occurred historically.

	Vintage						
Months on book	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
1	0.30%	0.45%	0.60%	0.75%	0.90%	1.05%	1.20%
2	0.60%	0.75%	0.90%	1.05%	1.20%	1.35%	1.50%
3	1.20%	1.35%	1.50%	1.65%	1.80%	1.95%	2.10%
4	1.80%	1.95%	2.10%	2.25%	2.40%	2.55%	
5	2.40%	2.55%	2.70%	2.85%	3.00%	3.15%	
6	3.00%	3.15%	3.30%	3.45%	3.60%	3.75%	
7	3.30%	3.45%	3.60%	3.75%	3.90%		
8	3.60%	3.75%	3.90%	4.05%	4.20%		
9	3.90%	4.05%	4.20%	4.35%	4.50%		
10	4.20%	4.35%	4.50%	4.65%			
11	4.50%	4.65%	4.80%	4.95%			
12	4.80%	4.95%	5.10%	5.25%			



Note that it can be useful to produce this analysis by affordability band to assess whether there are issues with the affordability assessment that may be leading to early emergence of arrears

13	5.10%	5.25%	5.40%				
14	5.40%	5.55%	5.70%				
15	5.70%	5.85%	6.00%				
16	6.00%	6.15%					
17	6.30%	6.45%					
18	6.60%	6.75%					
19	6.75%						
20	6.90%						
21	7.05%						



In this example, the report shows how the arrears rates develop month on month after loans are booked. For example, after loans have been on the books for 6 months, loans booked in Q3 2021 have an arrears rate of 3.00% For later cohorts booked in Q42021 onwards, there is an increasing trend in the arrears rate. Similar trends in arrears rates are observed after 7,8,9… months on the books across the cohorts. This suggests that more recent loans have a worse risk profile than loans booked from earlier times.

The following table shows the same report, but reporting on 3+ arrears rather than 1+arrears

	Vintage						
Months on book	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
3	0.10%	0.15%	0.20%	0.25%	0.30%	0.35%	0.40%
4	0.20%	0.25%	0.30%	0.35%	0.40%	0.45%	

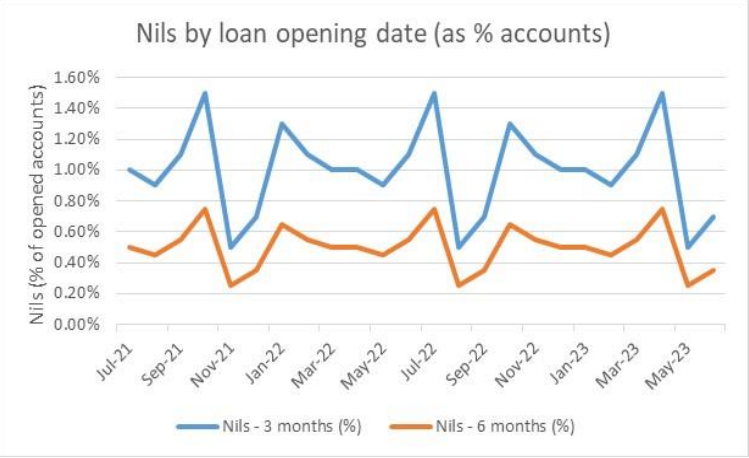
5	0.40%	0.45%	0.50%	0.55%	0.60%	0.65%	
6	0.60%	0.65%	0.70%	0.75%	0.80%	0.85%	
7	0.80%	0.85%	0.90%	0.95%	1.00%		
8	1.00%	1.05%	1.10%	1.15%	1.20%		
9	1.10%	1.15%	1.20%	1.25%	1.30%		
10	1.20%	1.25%	1.30%	1.35%			
11	1.30%	1.35%	1.40%	1.45%			
12	1.40%	1.45%	1.50%	1.55%			
13	1.50%	1.55%	1.60%				
14	1.60%	1.65%	1.70%				
15	1.70%	1.75%	1.80%				
16	1.80%	1.85%					
17	1.90%	1.95%					
18	2.00%	2.05%					
17	2.10%						
18	2.20%						
19	2.25%						

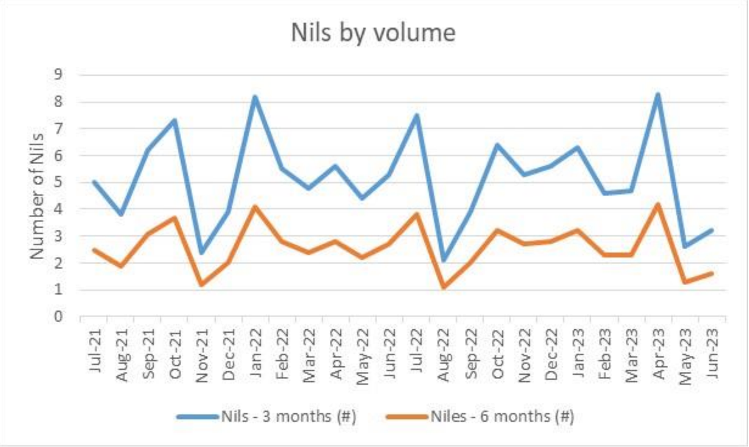
Note that in this case, the report only begins after 3 months on books because cases can't reach 3 months in arrears until this time. The report shows similar trends to the 1+ with older cohorts showing better performance (lower arrears rates) then newer cohorts over time.

5.14 Nils (no payments defaulters)

Nils customers are often reported upon separately from other arrears cases because they represent a potentially fraudulent group of customers who took out a loan knowing that they would not be able, or willing, to pay it back.

Completion Month	Nils - 3 months (%)	Nils - 6 months (%)	Nils - 3 months (#)	Nils - 6 months (#)
Jul-21	1.0%	0.5%	5	3
Aug-21	0.9%	0.5%	4	2
Sep-21	1.1%	0.6%	6	3
Oct-21	1.5%	0.8%	7	4
Nov-21	0.5%	0.3%	2	1
Dec-21	0.7%	0.4%	4	2
Jan-22	1.3%	0.7%	8	4
Feb-22	1.1%	0.6%	6	3
Mar-22	1.0%	0.5%	5	2
Apr-22	1.0%	0.5%	6	3
May-22	0.9%	0.5%	4	2
Jun-22	1.1%	0.6%	5	3
Jul-22	1.5%	0.8%	8	4
Aug-22	0.5%	0.3%	2	1
Sep-22	0.7%	0.4%	4	2
Oct-22	1.3%	0.7%	6	3
Nov-22	1.1%	0.6%	5	3
Dec-22	1.0%	0.5%	6	3
Jan-23	1.0%	0.5%	6	3
Feb-23	0.9%	0.5%	5	2





Mar-23	1.1%	0.6%	5	2
Apr-23	1.5%	0.8%	8	4
May-23	0.5%	0.3%	3	1
Jun-23	0.7%	0.4%	3	2

The NILS report in this example, shows that relatively few arrears cases are NILS. This suggests that no intention to pay fraud is relatively rare. Given the low numbers, the report shows a degree of volatility. However, there does appear to be a recent downward trend in the numbers in May and June-23. This aligns with changes to lending policy that occurred at the End of April when Open Banking became mandatory, which the lender believes has led to improved levels of customer verification.

The report also shows some recoveries from early NILS with the 6m NILS rate (no payments in the first 6 months) lower than the 3m rate. This suggests that not all NILS cases are clear cases of fraud, and some customers who miss all 3 of their initial payments do then go on to pay something. Investigation of these cases may be useful to understand the nature of the customers repayment difficulty and to determine if there are any changes to lending policy or customer contact strategies that could further reduce these cases.

5.15 Collections - dashboard

The focus of the collections dashboard (which in some cases may be a subset of the portfolio dashboard as described in section 5.9) is providing a summary of the performance of customers in arrears and the actions taken to support them recovering, or action taken to recover outstanding debts for defaulted customers.

Metric	Status (12m average)	Jun-23	May-23	Apr-23	Mar-23	Direction of Travel	2022	Commentary
No payment - early arrears 0 – 2m)	30%	30%	30%	32%	30%	à	31%	No change in recent months
No payment - mid arrears (3-5m)	39%	40%	40%	40%	39%	à	38%	No change in recent months
No payment - late arrears (6+m)	48%	44%	45%	50%	49%	↓	49%	Reducing values since April-23 reflecting new DCA employed at that time.
Arrangements to pay - as % arrears book	31%	34%	34%	33%	32%	à	32%	No change in recent months
Arrangements to pay- brake rate	23%	23.9%	22.5%	21.3%	19.0%	á	21.6%	Redefault rate increasing - consider strategy for arrangements
Write off rate (12 months)	7.1%	6.7%	7.1%	7.3%	7.5%	↓	7.2%	Write off rates decreasing. Impact of DCA activity

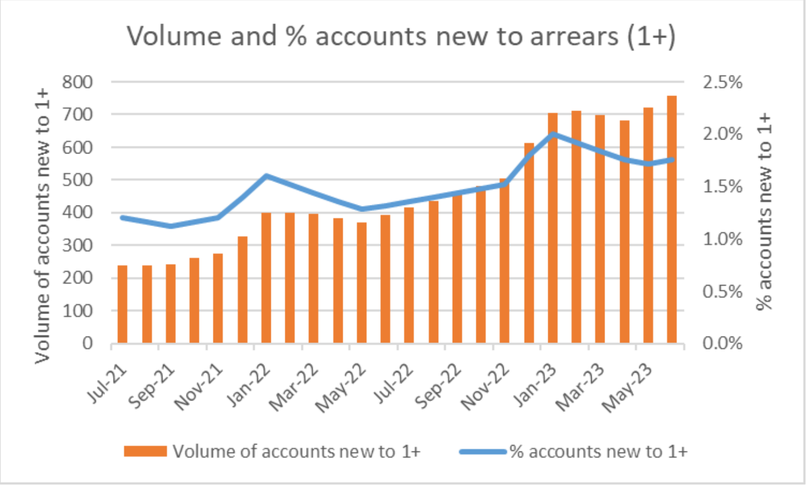
The collections report shows the performance of cases in arrears and the treatments being applied. For cases that are in early or mid arrears, the performance (cases that have made no payments while in arrears) has been relatively static over the last few months. However, there has been an improvement in payments from more serious years cases (6+ months in arrears). This is attributed to the performance of the new Third Party DCA that was engaged during April-23. Another feature to highlight in the dashboard is the increase in broken arrangements (where a revised repayment schedule is agreed over a few months to clear the arrears owing and bring the account back up to date). The proportion of broken arrangements has shown an increasing trend over the last few months. A review by the head of collections has highlighted changes in customer's finances during the cost of living crisis in 2022/3 has reduced customers disposable income. Consequently, the affordability assessment used within collections is to be reviewed and it is expected that the current affordability buffer (spare disposable income required) will be increased to improve the affordability of the arrangements, and hence, reduce the number of broken arrangements.

Write-off rates are also following a downward trend, which is also attributed to the performance of the new DCA.

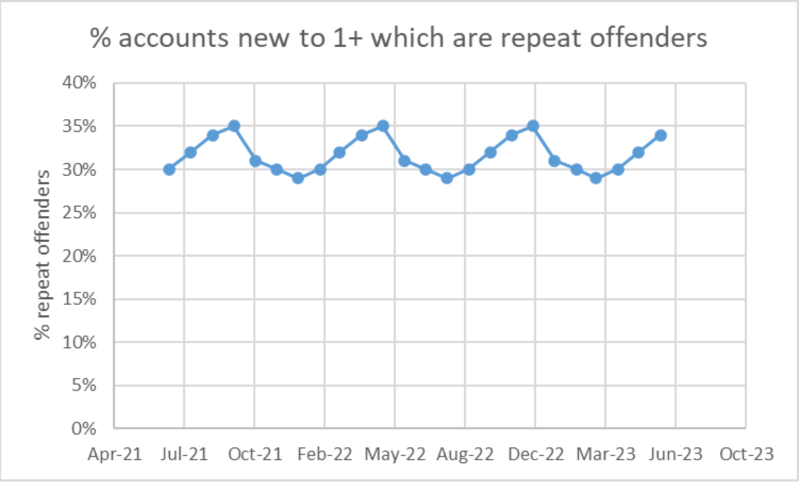
5.16 New to arrears – volume and repeat cases (repeat arrears)

New to arrears reporting focuses on accounts that have moved from being up to date to being in arrears between the previous and current reporting periods.

Month of Entry into Arrears	% accounts new to 1+	Volume of accounts new to 1+	% repeat cases (L12m)
Jul-21	1.2%	240	30.0%
Aug-21	1.2%	240	32.0%
Sep-21	1.1%	243	34.0%
Oct-21	1.2%	263	35.0%
Nov-21	1.2%	276	31.0%
Dec-21	1.4%	329	30.0%
Jan-22	1.6%	400	29.0%
Feb-22	1.5%	400	30.0%
Mar-22	1.4%	396	32.0%
Apr-22	1.4%	384	34.0%
May-22	1.3%	371	35.0%
Jun-22	1.3%	393	31.0%

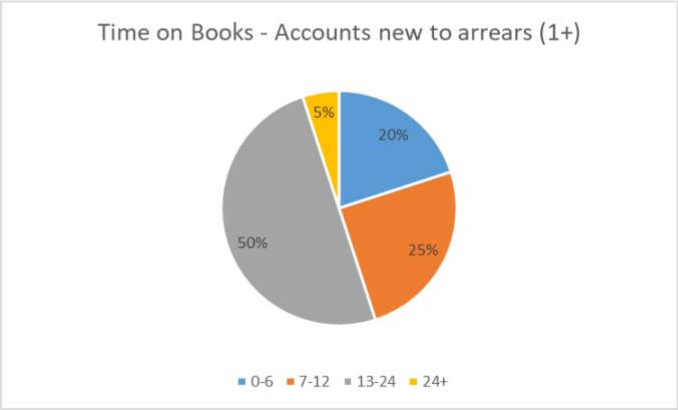


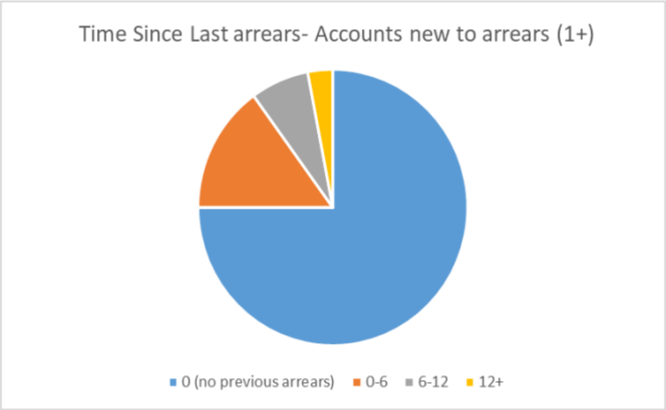
Jul-22	1.4%	415	30.0%
Aug-22	1.4%	437	29.0%
Sep-22	1.4%	459	30.0%
Oct-22	1.5%	482	32.0%
Nov-22	1.5%	505	34.0%
Dec-22	1.8%	612	35.0%
Jan-23	2.0%	704	31.0%
Feb-23	1.9%	710	30.0%
Mar-23	1.8%	699	29.0%
Apr-23	1.8%	681	30.0%
May-23	1.7%	722	32.0%
Jun-23	1.8%	757	34.0%



The report shows two sets of information. Total number of cases that have entered arrear that month and the proportion of those that have re-entered in the last 12 months. Increasing rates of new arrears cases is often the first sign of increasing risk within the portfolio (if a refreshed credit score is not available). The report shows that arrears rates are increasing over time, but that the repeat rate remains constant. This indicates a general worsening of the portfolio. In this example, this is explained by relaxation in lending policy that occurred to increase the number of loans granted. However, if the firm was already operating close to its risk appetite or the arrears rate was higher than its stated business objectives, then corrective action would need to be considered, such as a tighten of lending policy and/or a review of pre-delinquency strategies.

An extension to the above reporting can be to provide a more detailed examination of the profile of the new arrears cases. This could be by product type, customer characteristics such as age or residential status. The examples below report on the time on the average time on books for new arrears cases and the average time since the last arrears.





The left figure shows that most arrears is occurring with older accounts. The rightmost figure shows that the majority of new arrears cases have not been in arrears before.

5.17 Arrears - roll rates

Roll rate reporting looks at the movement in arrears status between reporting periods. In particular, how many cases in a given arrears state improve (cure) or move (roll) further into arrears and eventually are written off. Roll rate analysis and reporting is often used to support provision calculation (as described in the Provision and Write-off component of the Guide – from which the following example is taken) and to understand the trajectory of arrears and recoveries more broadly.

Previous Reporting Period (Months in Arrears) % Movement	Current Reporting Period (Months in Arrears) % Movement										
	0 (Up to date)	1	2	3	4	5	6	7-11	Write-off	Total	Prob. eventual write-off
0 (Up to date)	92%	8%	0%	0%	0%	0%	0%	0%	0%	100%	0.0%
1	51%	19%	30%	0%	0%	0%	0%	0%	0%	100%	1.6%
2	14%	31%	25%	30%	0%	0%	0%	0%	0%	100%	4.9%
3	9%	4%	6%	27%	54%	0%		0%	0%	100%	16.3%
4	4%	3%	4%	9%	21%	59%	0%	0%	0%	100%	30.1%
5	3%	3%	2%	3%	4%	18%	67%	0%	0%	100%	51.1%
6	2%	2%	2%	1%	2%	2%	7%	82%	0%	100%	76.3%
7 - 11	1%	0%	0%	0%	0%	0%	0%	6%	93%	100%	93.0%
Write-off	0%	0%	0%	0%	0%	0%	0%	0%	100%	100%	100%

In this example, the report has been produced by looking at the change in arrears states between the previous reporting period (previous month) and the current reporting period (current month). For example, for accounts that were up to date last month, 92% remained up to date and 8% missed a payment, becoming 1 month in arrears. For accounts already 1 month in arrears, 51% recovered to an up-to-date status, 19% remained 1 month in arrears and 30% rolled further into arrears. At the lower end of the table, 93% of accounts that were 7-11 months moved to write-off, with only 1% fully recovering and 6% remaining in arrears. The figure for write-off is 100% given that accounts cannot recover once write-off has occurred.

One application of the roll rate report is to provide an estimate of eventual write-off. The highlighted cells in the report illustrate how this would occur for accounts that are 2 months in arrears. The estimated likelihood of accounts currently 2 months in arrears being written off is calculated as:

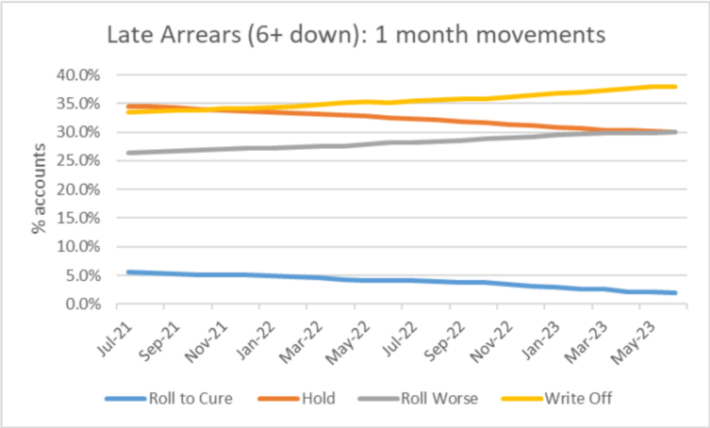
- (Probability of account 2m in arrears rolling to 3m in arrears) *

- (Probability of account 3m in arrears rolling to 4m in arrears)*
- (Probability of account 4m in arrears rolling to 5m in arrears)*
- (Probability of account 5m in arrears rolling to 6m in arrears)*
- (Probability of account 7-11m in arrears rolling to write-off)

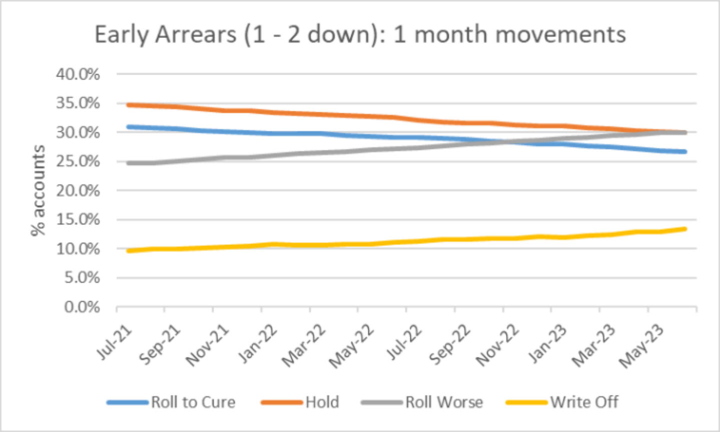
Which is equal to: 30% * 54% * 59% * 67% * 82% * 93% = **4.9**%

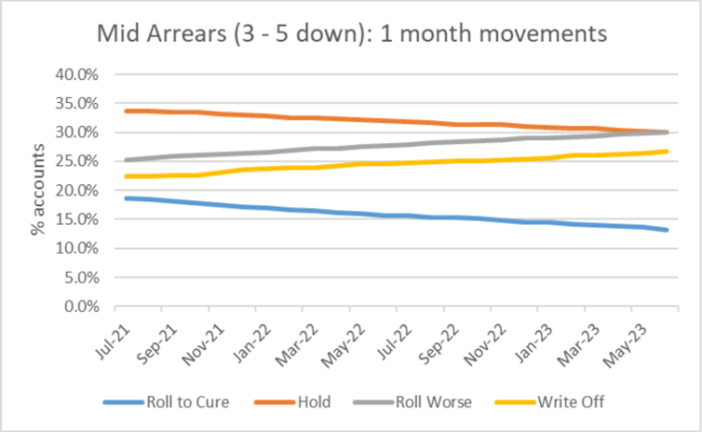
Therefore, for accounts that are currently 2m in arrears as at today, 4.9% are estimated to write-off eventually. The roll rate report is updated each reporting with changes in estimated write-off rates (or movements to other arrears status) being reported. Similar calculations can be applied for other arrears positions to provide a view of the total proportion of the book expected to write-off.

The above report reports on the roll rates from a single period, looking at the current Vs previous month. Trends over time can also be produced as shown in the reports below.



In the above reports, the roll rate data has been accumulated to show rolls from arrears to up to date (cure), stay the same (hold), roll to a worse arrears status and roll to write-off, over time. In the above examples, the rolls for cases in early (1-2m), mid (3-5m) and late arrears (6+) are shown. All the reports show a generally worsening position, with cases showing greater rolls to worse arrears states over time, and this type of trend should warrant investigation. There

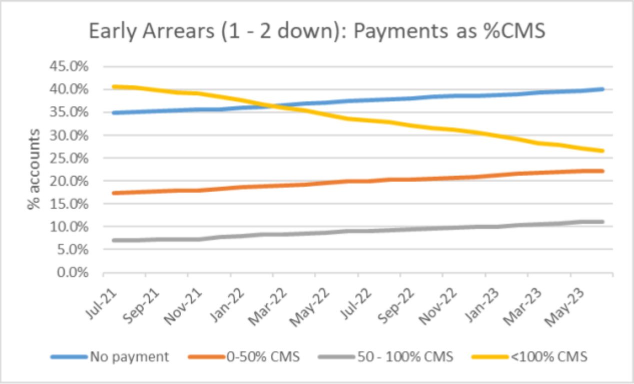


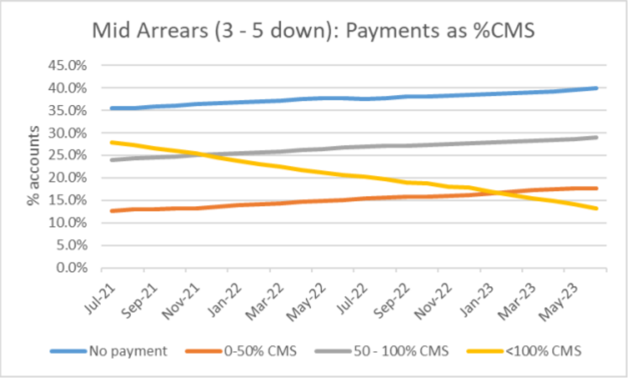


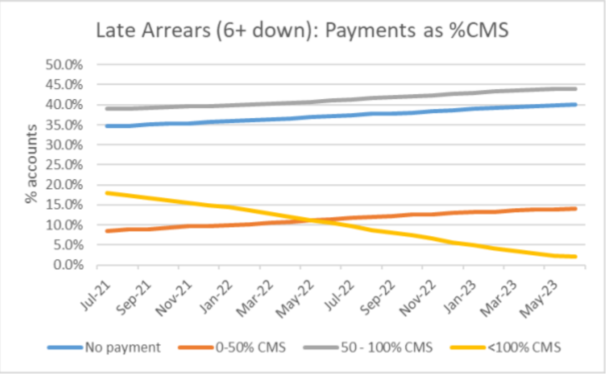
could be several reasons for these trends. These include, a worsening of the macro-economic environment, changes to the lender's collections processes or a relaxation of lending policy driving a worse performing population over time.

5.18 Collections – payments

Payments (repayment) reporting shows the amount of arrears collected (recovered/repaid) from customers at different arrears status.





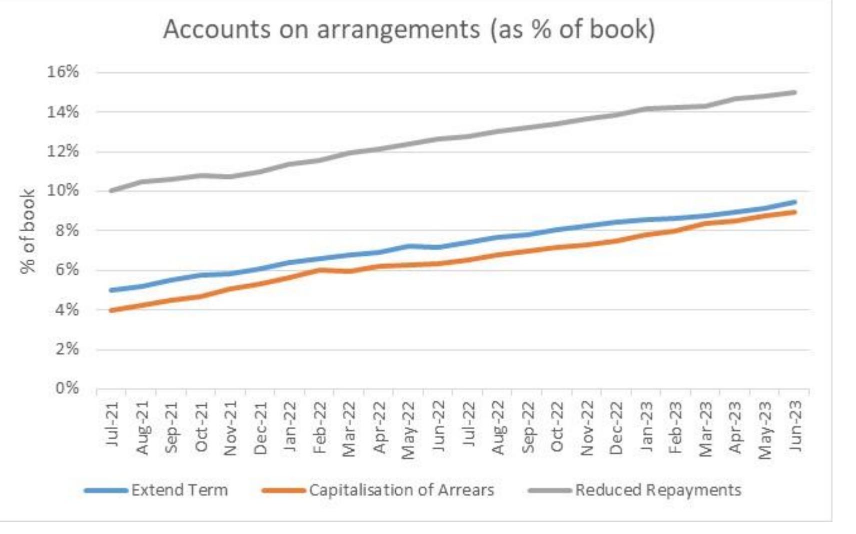


In the above examples, the recoveries for cases in early (1-2m), mid (3-5m) and late arrears (6+) are shown. All the reports show a generally worsening position, with decreasing recoveries over time and should normally warrant investigation. There could be several reasons for these trends. These include, a worsening of the macro-economic environment, changes to the lender's collections processes or a relaxation of lending policy driving a worse performing population over time.

5.19 Collections - arrangements - # accounts

Arrangements reporting shows the number and/or proportion of accounts on different types of forbearance arrangement

	Extend Term	Capitalisation of Arrears	Reduced Repayments
Jul-21	5.0%	4%	10%
Aug-21	5.3%	4.1%	10.0%
Sep-21	5.4%	4.3%	10.4%
Oct-21	5.7%	4.5%	10.7%
Nov-21	5.8%	4.8%	11.0%
Dec-21	6.1%	5.0%	11.1%
Jan-22	6.3%	5.3%	11.4%
Feb-22	6.7%	5.6%	11.6%
Mar-22	7.0%	5.8%	12.0%
Apr-22	7.3%	6.1%	12.3%
May-22	7.4%	6.5%	12.2%
Jun-22	7.5%	6.8%	12.4%
Jul-22	7.9%	7.1%	12.7%
Aug-22	8.3%	7.3%	12.8%
Sep-22	8.3%	7.3%	13.0%
Oct-22	8.5%	7.4%	13.3%
Nov-22	8.7%	7.7%	13.5%
Dec-22	8.9%	7.8%	13.7%



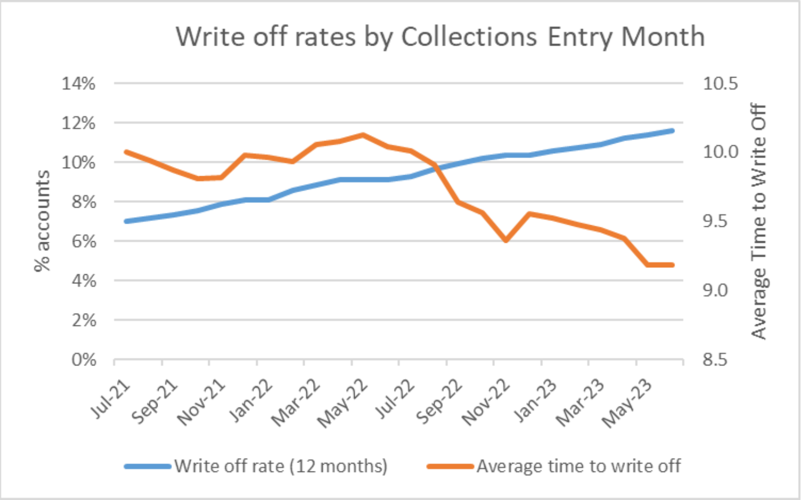
Jan-23	9.2%	7.9%	14.1%
Feb-23	9.4%	8.2%	14.3%
Mar-23	9.6%	8.3%	14.6%
Apr-23	10.0%	8.6%	14.7%
May-23	10.1%	8.9%	14.8%
Jun-23	10.3%	8.9%	15.1%

In this example, there are 3 main types of forbearance offered by the lender. The report shows a rising proportion of the book on arrangements of all types, which is consistent with the worsening arrears position seen on previous reports.

5.20 Collections - write off rates

The write-off report shows the proportion of loans being written off each month, and the average time to write-off.

Collections Entry	Write off rate (12 months)	Average time to write off
Jul-21	7.0%	10
Aug-21	7.2%	9.9
Sep-21	7.3%	9.9
Oct-21	7.6%	9.8
Nov-21	7.9%	9.8
Dec-21	8.1%	10.0
Jan-22	8.1%	10.0
Feb-22	8.6%	9.9
Mar-22	8.8%	10.1
Apr-22	9.1%	10.1
May-22	9.1%	10.1
Jun-22	9.1%	10.0
Jul-22	9.3%	10.0
Aug-22	9.7%	9.9
Sep-22	9.9%	9.6
Oct-22	10.2%	9.6
Nov-22	10.3%	9.4
Dec-22	10.4%	9.6
Jan-23	10.6%	9.5



Feb-23	10.7%	9.5
Mar-23	10.9%	9.4
Apr-23	11.2%	9.4
May-23	11.4%	9.2
Jun-23	11.6%	9.2

The reports show a deteriorating posting, with increasing write-offs occurring more quickly over time. This requires further investigation to identify the reason for the deterioration and what, if any, remedial activity is required. However, this may be due to changes in lending policy, the product mix, or a downturn in economic conditions.

5.21 Impairment (provisions)

For credit unions, minimum impairment (provisions) allocations are set by the PRA according to how far an account is in arrears (see "Good Practice Guide: Provisions and Write-off (RM15)"). The impairment reporting should align to the categories set by the PRA. As the PRA specify minimum values, it's possible that actual values held can be higher due to other conditions that impact the likelihood of repayment. The table below gives an example.

Arrears	PRA Requirement	Actual	Volume of Accounts	Balance
Up to Date	N/A	3%	43,000	£22,575,000
<3 months	N/A	5%	1,708	£896,899
3 - 6 months	35%	36%	569	£298,966
6 - 9 months	60%	61%	5	£2,847
9 - 12 months	80%	85%	11	£5,695
12+ months	100%	100%	16	£8,542

In this example, additional provisions are held for Nil payers and where fraud is suspect which accounts for the provisions held for up to date accounts and accounts in early arrears. For older accounts, additional provisions are held against cases that are bankrupt or deceased, or the customer is in prison.