Good Practice Lending Guide

RM15 Debt Advice and Financial Literacy

May 2024

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Contents

1 Introduction

The Good Practice Lending Guide is intended to support retail lenders in running their credit risk management processes effectively and in line with UK regulatory requirements. Each component of the guide describes one area of risk management in detail.

This Good Practice Guide discusses debt advice and financial literacy.

- **Debt Advice** includes suggestions to help consumers manage their lending agreements. This includes proactively providing debt advice to customers displaying warning signs of financial difficulties and reactively for those who are already in financial difficulties with the aim of helping them regain control by finding sustainable solutions.
- **Financial Literacy** refers to a consumer's level of comfort and familiarity with a range of financial products, concepts, and practices that enable them to make informed and effective financial decisions. This can be provided proactively as an educational piece and reactively, to ensure the customer fills the gaps in their knowledge to avoid a repeat of any financial difficulties.

This guide will provide some background knowledge relevant to retail lenders, outline regulatory responsibilities and offer suggestions on what an appropriate approach to providing debt advice and financial education may be.

This guide is not prescriptive, and it does not provide a single view on how organisations should provide debt advice and/or financial education. Each lender is free to take a different view of what is appropriate to provide to consumers, what will be hosted on websites or what may be signposted to alternative sources.

1.1 Scope of this document

The scope of this document, as part of the Good Practice Lending Guide, is Debt Advice and Financial Literacy. The document will cover:

- An overview of financial literacy and what is meant by debt advice
- The requirements and obligations of lenders relating to providing debt advice and encouraging good financial literacy
- Various approaches to providing this assistance that are applicable to all lenders

Although significant portions of regulation may not be binding on credit unions, many of the principles behind the regulation are relevant to responsible credit lending of all types.

This document will also contain links to suitable resources for use in consumer-facing communications.

2 Background

2.1 Financial literacy

2.1.1 Overview

According to Hastings[1] et al, **financial literacy** refers to:

- Knowledge of financial products (eg what is a stock vs. a bond; the difference between a fixed vs. an adjustable-rate mortgage)
- Knowledge of financial concepts (inflation, compounding, diversification, credit scores)
- Having the mathematical skills or numeracy necessary for effective financial decision making
- Being engaged in certain activities such as financial planning

Individuals may have different levels of knowledge across each of the four areas defined above. For example:

- An individual may feel comfortable discussing savings accounts and credit scores, but not have the numeracy required for long-term decision making
- A consumer may be comfortable with current and savings accounts, but not be able to appropriately manage a credit card, or
- A seasoned investor may be confused by or not understand cryptocurrencies

Similarly, concepts and terminology associated to one product may not transfer to other products (eg a high interest rate on a savings account acts in a consumer's favour, as opposed to a high interest rate on a mortgage product).

2.1.2 Why is financial literacy important?

Based on the previous definition, low levels of financial literacy can lead to a lack of understanding of financial instruments, negligent or improper handling of money, and poor decision making, which can subsequently lead to bad outcomes for consumers.

Academic research (mainly from the United States) has shown that financial literacy and financial

[1] Hastings, J.S., Madrian, B.C. and Skimmyhorn, W.L. (2013). Financial Literacy, Financial Education, and Economic Outcomes. *Annual Review of Economics*, [online] 5(1), pp.347–373. doi:https://doi.org/10.1146/annurev-economics-082312-125807.

education influences credit outcomes. One study found that borrowers working in the financial industry (and as such, having a higher level of financial knowledge) are less likely to default on mortgages, even when income, education and other characteristics are accounted for[2]. Another study found that teaching required financial education classes in secondary education were associated with fewer defaults and generally higher credit scores in young adults[3].

There are several factors that can adversely affect a customer's risk profile. For instance, a customer who is financially uneducated is less likely to make the right choice when selecting a product that is suited to their financial circumstances. However, a lack of information provided by the lender or a limited choice of products available on the market can make it difficult for a customer to select the right product for them. Circumstances like these mean the customer has a higher chance of falling into arrears and may be unlikely or unable to seek help.

If a customer does not understand the preventative or restorative communications sent by the lender, then their financial difficulties can be exacerbated. Improvements in financial literacy can help customers understand these, but still relies on the lender ensuring the communication is jargon free and does not use overly technical language.

Whilst it is unreasonable to suggest that all consumers should be educated to the level of Financial Advisors, it is in both the consumer's and the lender's interests that consumers have a reasonable level of financial literacy for managing day-to-day decisions.

2.1.3 Financial literacy in the UK

The level of financial literacy varies across the population, and there is likely to be a broad range of comfort with financial products and instruments within the customer base of any institution.

It is important to realise that anyone can fall into debt and there can be a number or reasons why a customer may struggle to manage their debts. One reason is due to a lower level of financial literacy which can mean a customer is more susceptible to mismanaging their money or making suboptimal choices.

The Money and Pensions Service (MaPS) has commissioned a significant amount of research and polling in this area. A 2021 study highlighted that 24 million adults in the UK don't feel confident managing their money, and 36% said thinking about their financial situation caused them to feel worried[4].

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[2] Agarwal, Chomsisengphet, and Zhang (2015), "How Does Financial Literacy Affect Mortgage Default", https://www.cicfconf.org/sites/default/files/paper_593.pdf

[3] Urban, C., Schmeiser, M., Collins, J.M. and Brown, A. (2018). The effects of high school personal financial education policies on financial behavior. Economics of Education Review, 78, p.101786. doi:https://doi.org/10.1016/j.econedurev.2018.03.006.

[4] Money and Pensions Service, 2021, https://moneyandpensionsservice.org.uk/2021/11/10/24-million-uk-adults-dont-feel-confident-managing-their-money-talk-money-week-is-here-to-help/

Per the Financial Times[5], the UK "scores poorly for financial literacy" with "those on low income, young people, women, and ethnic minorities" being most affected. Table 1 gives additional statistics from MaPS [6] highlighting the prevalence of financial illiteracy in the UK.

General	• 19 million people don't have an approach to budgeting that they feel works • One in five could not read a bank statement • Three in ten people do not openly discuss their household finances regularly with anyone
Indebtedness / Arrears	• 8.99 million people - 17% of UK adults - are over indebted, but only around a third receive help • One in ten adults have missed bill payments in three months out of the last six • Around a third of adults have unsecured debts equivalent to more than one month's income It is worth noting that increasing indebtedness/arrears have been exacerbated by the cost-of-living crisis.
Savings / Retirement	• 12 million people are not saving enough for their retirement • Only one in two working-age people are currently paying into a pension or are a member of a previous pension scheme • 43% of people age 65+ aren't engaged with how they would manage financially if they need to go into long-term residential care
Financial Shock	• 27 million people don't have a sufficient savings buffer to allow them to cope with a significant income shock • 12.4 million adults would have to borrow or could not pay when faced with an unexpected £300 bill, for example to replace a

[5] Editorial Board, 2021, "Financial Literacy – learn now, benefit later", *Financial Times*, 4th September 2021
[6] Financial Capability Strategy, "Charities and third-sector organisations", https://www.fincap.org.uk/en/articles/charities-third-sector-organisations

fridge or have a car mended

In addition, barely half of 3,000 respondents were able to correctly compare the costs of borrowing via credit cards or bank overdrafts, regardless of wealth, ethnicity, or gender[7].

Many of the above data points are consequences of a lack in financial education at younger age groups. Attitudes towards money can be shaped from the age of seven, but, according to an Ipsos Mori poll, 90% of people across England learned "nothing at all" or "not very much about money" in school[8]. Similarly, 52% of 7–17-year-olds say they received a meaningful financial education (including at home or other settings)[9].

2.1.3.1 Current initiatives

Given the importance of financial literacy, and the current gaps in the UK, many organisations are operating in this space. A selection of these are highlighted below:

- Improving Financial Literacy has been a key objective of the Money and Pensions Service (MaPS) since 2019. It is "an arm's-length body sponsored by the Department of Work and Pensions" to "help people – particularly those most in need – to improve their financial wellbeing"[10]. MaPS has also developed the UK Strategy for Financial Wellbeing, which is building on the previous work of the Financial Capability Strategy for the UK. The Strategy for Financial Wellbeing looks to improve financial education, increase savings, reduce reliance on credit for food and bills, increase the numbers of people accessing debt advice and increasing the number of people planning for later life[11]. The strategies outlined in their delivery plans around providing Better Debt Advice will be especially relevant to lenders as this develops[12]
- The Financial Times is supporting financial education for young people, women, and disenfranchised groups through its charity the Financial Literacy and Inclusion Campaign (FT FLIC)[13]. FT FLIC seek to support their objectives by creating financial content and learning material to assist educators and individuals.
- In England, financial education has been on the National Curriculum since 2014, but the benefits have been limited to date, with many schools failing to deliver an appropriate level

[7] Ipsos Mori for FT FLIC, Fundraising.co.uk
[8] Ibid.
[9] https://www.fincap.org.uk/en/articles/charities-third-sector-organisations
[10] https://moneyandpensionsservice.org.uk/
[11] Key themes within the strategy, https://moneyandpensionsservice.org.uk/uk-strategy-for-financial-wellbeing/
[12] p16. https://moneyandpensionsservice.org.uk/wp-content/uploads/2022/02/england-delivery-plan-february-2022.pdf Note: other delivery plans exist for Scotland, Wales, and NI.
[13] https://ftflic.com/

of financial literacy[14].

Other initiatives by various banks, credit unions, Community Development Finance Institutions (CFDIs), charities and not-for-profits are also in operation.

2.1.4 Summary

- High financial literacy is associated with lower default rates and higher credit scores
- The level of financial literacy in the UK is poor, with significant numbers of the population saying that they struggle with basic financial tasks or are themselves in risky financial positions
- Studies have shown that those involved in the financial industry have better financial outcomes than the rest of the population. This potentially introduces a bias or overly optimistic outlook on "what people should know" in financial service workers

2.2 Debt advice

Given the levels of financial literacy in the UK, it's not surprising that some consumers will need help managing their finances. This will include borrowers that fall behind with payments and those struggling with an ongoing debt burden.

In these circumstances, a borrower may reach out to their lender for help and/or advice on what to do. Through a combination of factors (including a lack of understanding, perceived shame, or denial), consumers may not do this until difficulties are already well underway.

Lenders may offer proactive and reactive debt advice. Proactive advice is ideally preventative to help consumers manage their finances before they fall into arrears. Reactive advice is how the lender responds when a customer reaches out to them.

There is a diverse landscape of debt advice services in the UK and this document focusses on lenders mostly signposting to advice as opposed to being debt advisors.

The Money and Pensions Service have published a paper in 2017 giving an overview of the key needs someone seeking debt advice may have, and how this wider debt advice market might serve these consumers[15].

In most cases, regulation is much more prescriptive about what lenders can/cannot say or do when it comes to providing debt advice as opposed to general financial literacy materials. This is discussed in the

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[14] Stanton, Bethan (2023), Britain's schools fail legal requirement to teach money matters, *Financial Times*, https://www.ft.com/content/320c43fa-2e12-43d0-baaf-4a37ca93917b

[15] Money Advice Service (2017), "Better Debt Advice: From a moment of crisis to a lifetime of resilience", https://moneyandpensionsservice.org.uk/wp-content/uploads/2021/03/better-debt-advice-from-a-moment-of-crisis-to-a-lifetime-of-resilience.pdf

next section.

3 Regulatory guidelines

The Financial Conduct Authority (FCA) governs the behaviour of financial services firms in the UK, including credit unions, through a set of principles. These principles are crucial for lenders, especially in the context of Debt Advice and Financial Literacy. Some key principles, such as Integrity, Skill, Care and Diligence, and the newly introduced Consumer Duty, are particularly relevant to ensuring transparent and fair practices.

While all the principles are essential, this chapter will focus on those that are most relevant when it comes to providing debt advice and enhancing financial literacy. As well as guiding lenders to act in the best interests of consumers and aligning their practices with regulatory expectations.

This chapter will also discuss the relevance of the Consumer Credit Sourcebook (CONC) and the Credit Union Sourcebook (CREDS) to lenders providing debt advice and financial literacy services.

3.1 FCA principles

The Financial Conduct Authority (FCA) operates under a set of principles that guide the behaviour of firms in the financial sector. They apply to all financial services firms regulated by the FCA (including credit unions[16]).

Although all Principles are important for lenders, in terms of Debt Advice and Financial Literacy, the Principles outlined in Table 2 should be considered as most important[17]. Notably, Principle 12, known as the "Consumer Duty," stands out as a guiding beacon, elevating the requirement for firms to put consumers' needs at the forefront. Introduced in 2022, this Principle underscores the evolving expectations on financial institutions to engage positively and proactively with customers, particularly in guiding them through financial decisions and challenges.

Rather than a rigid or prescriptive rulebook, the Principles offer a flexible framework, guiding lenders in

[16] CREDS 10.1.3

[17] There's an argument that all the Principles could be framed as relevant. For example, 2.1.1.4 (Financial Prudence) could be considered as relevant as the business should set aside resources for education and effective literacy programs, but this isn't necessarily in the spirit of the Principle or what it was intended for. We are limiting the principles discussed to the most directly relevant.

fulfilling their obligations while allowing for adaptation to specific situations and business models.

Table 1: Relevant FCA Principles (FCA PRIN 2.1.1)

	FCA Principle	
1	Integrity	A firm must conduct its business with integrity
2	Skill, care, and diligence	A firm must conduct its business with due skill, care, and diligence
6	Customers' interest	A firm must pay due regard to the interests of its customers and treat them fairly
7	Communications with clients	A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair, and not misleading
8	Conflicts of interest	A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client
9	Customers: relationships of trust	A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment
12	Consumer Duty	A firm must act to deliver good outcomes for retail customers

How these principles are relevant when providing debt advice and financial literacy are discussed in the following sections.

3.1.1 Principle 1 – integrity

"A firm must conduct its business with integrity"

Acting with integrity is crucial in all aspects of consumer lending, and providing debt advice, as well as tools or materials to aid with financial literacy is no exception. To be in accordance with this principle, firms must offer honest and unbiased information, and ensure that content is free from any deceptive or misleading practices.

3.1.2 Principle 2 – skill, care, and diligence

> *"A firm must conduct its business with due skill, care and diligence"*

Lenders must demonstrate their compliance (and competence) with this principle across the consumer life cycle. For debt advice, skill, care, and diligence can be demonstrated by evaluating a borrower's financial situation, providing relevant advice in a thoughtful, empathetic, and suitable manner, and ensuring that all available options to a customer are fully explored.

For financial literacy, they can be demonstrated through accessible communication of financial literacy materials, which are free of unnecessary jargon, relevant, unbiased, and up to date with current best practices.

3.1.3 Principle 6 – customers' interest

> *"A firm must pay due regard to the interests of its customers and treat them fairly"*

Principle 6 is extremely relevant to lenders. It is undoubtedly within the customers interest for them to be fully informed of any risks when making financial decisions. Lenders will almost always be more knowledgeable than consumers and it would not be fair to abuse that fact for commercial advantage.

When providing debt advice, lenders should prioritise the borrowers' interests and ensure that any advice given is suitable to their circumstances and not prioritise recovery of monies owed above all else, especially if this would put further financial strain or hardship on the consumer[18]. If a firm is unable to do this, it would be better to signpost to an organisation that can do this effectively.

3.1.4 Principle 7 – communications with clients

> *"A firm must pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading"*

Levels of financial literacy will vary across a lender's portfolio and this principle sets out that communications with consumers should be able to be understood by them. Using technical language and verbose text where not appropriate would not be in keeping within the spirit of this principle.

When providing debt advice, lenders should ensure that options and risk are clearly presented without bias. The advice should also be directly relevant and tailored to the customer.

Lenders may opt to share financial education materials to improve financial literacy. These also need to

[18] Appropriate measurers for debt collection and arrears management are covered in Chapter 12.

be accessible to consumers.

3.1.5 Principle 8 – conflicts of interest

> *"A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client"*

In the context of debt advice, firms should ensure that the advice they are giving to customers is impartial, especially where a good outcome for the consumer and the business may be at odds. This could be considered as an extension of Principle 6.

3.1.6 Principle 9 – customers: relationships of trust

> *"A firm must take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment"*

Particularly relevant when providing debt advice, firms must make sure that the information provided to consumers is suitable for them. Generic advice for debt management may not be suitable for all consumers, so care should be taken when being prescriptive with actions a consumer could take.

3.1.7 Principle 12 – Consumer Duty

> *"A firm must act to deliver good outcomes for retail customers"*

Principle 12 was introduced in 2022 to set "higher and clearer standards of consumer protection across financial services and require firms to put their customers' needs first"[19]. According to the FCA, it "sets a higher standard" than both Principle 6 and Principle 7 and reflects "positive and proactive expectations for firm conduct"[20].

The Duty only applies to regulated lenders and is not applicable to credit products outside of the FCA's remit[21].

The final guidance around this principle states that[22]:

- "[Consumers] need help to understand products and service, and they need the confidence that

[19] https://www.fca.org.uk/firms/consumer-duty (Accessed Aug 2023)
[20] 4.2 & 4.3, https://www.fca.org.uk/publication/finalised-guidance/fg22-5.pdf
[21] Ibid, 2.41. The regulation does apply to "ancillary activities", detailed in 2.4.2.
[22] Ibid. 4.20, 4.21, 4.22.

firms will act in a way that helps, rather than hinders, their ability to make decisions in line with their needs and financial objectives"

- "Firms are responsible for enabling and empowering consumers to take responsibility for their actions and decisions".
- "Firms must understand and take account of behavioural biases and the impact characteristics of vulnerability[23] can have on consumer needs and decisions"

Under the Duty, the importance of clear, unbiased debt advice prioritising the interests of consumers is further highlighted. Firms can "empower customers" through financial education to improve their literacy.

Please refer to RM7 Consumer Duty and Complaints Handling Good Practice Guide for more information on Consumer Duty.

3.2 CONC

The Consumer Credit Sourcebook (CONC) is part of the FCA's handbook and contains the rules and guidance that firms must follow when providing consumer credit products and services.

Although CONC is not applicable to unregulated lending, the requirements are insightful for how the FCA expects or views options for compliance with the principles. For credit unions, despite being outside of this regulation, it's still expected that they will support their members when they are experiencing financial difficulties. Failure to do so may raise concerns about the commitment to members welfare.

Consumers in default or arrears should be informed by lenders that free and impartial debt advice is available from not-for-profit bodies and refer the customer to an appropriate one[24]. Lenders are also encouraged to contact consumers directly where the sole purpose is to signpost a not-for-profit advice body[25].

Chapter 8 of CONC specifically relates to debt counselling and adjusting, but also stresses that firms should give appropriate advice, ensure debt solutions are affordable and not discourage customers from considering alternate sources of debt counselling[26].

Under CONC, lenders must not refuse to deal with a debt advice body without an objectively justifiable reason[27].

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[23] In this case, "characteristics of vulnerability" should be read to include poor financial literacy.
[24] CONC – 7.3.7A (1)
[25] Ibid – 7.12.3 (4b)
[26] Ibid – 8.2.2
[27] Ibid – 7.12.2 (1)

3.3 CREDS

CREDS, or the Credit Unions Sourcebook, is part of the Financial Conduct Authority's (FCA) Handbook. It contains specific rules and guidelines tailored to credit unions, focusing on areas like capital requirements, governance, record-keeping, and members' interests.

While CREDS do not directly address the provision of debt advice or financial literacy in the same way as other parts of the FCA's Handbook, such as CONC, it does encompass principles and rules that are relevant to these areas.

Credit unions may consider providing their own or providing signposting to debt advice or financial literacy materials as part of their arrears management policy[28], or feed into the management of risks of regulatory concern[29].

As many credit unions are member-owned and orientated towards serving their member's financial needs, providing accessible, transparent, and appropriate debt advice and financial literacy materials might be seen as fulfilling a core purpose.

[28] CREDS – 7.2.9
[29] Ibid – 2.2.54

4 Approaches and recommendations

Credit unions, as community-based financial institutions, have the unique opportunity and responsibility to support their members' financial well-being. This support extends to ensuring access to impartial debt advice and promoting financial literacy.

Many lenders will have different views on what level of support is appropriate to provide to their customers, as well as different levels of resource available to provide this support. Ultimately, all lenders will have to decide what approach is right for them, but there are some clear expectations that both regulators and customers will have of lenders. These expectations should be considered as part of a good overall lending strategy.

Beyond the specific context of financial literacy and debt advice, lenders must ensure that all communications with consumers are clear and tailored to their individual circumstances. Whether addressing financial literacy, debt advice, or other matters, the information should be presented in a manner that is comprehensible and relevant to each consumers unique situation.

4.1 Debt advice

Providing detailed, transparent, and appropriate debt advice to individual customers is very difficult, and likely beyond the resources and capabilities of most lenders. If firms are unable to provide tailored and unbiased debt advice, then the best option would be to signpost the customer towards impartial not-for-profit services that can help. Signposting a customer towards free advice from a reputable not-for-profit organisation is more beneficial for the borrower (see Principles 6 and 12), compared to offering generic advice that may not be suitable. Even firms that can offer tailored advice may still wish to signpost towards an impartial service to avoid the appearance of bias or any conflicts of interest.

4.1.1 Debt advice policy

Lenders should initially outline their policy on providing debt advice. This should include the principles, guidelines, and procedures they should follow when providing any advice to customers who are experiencing financial difficulties or are seeking assistance with their debt obligations. A critical part of the policy is to define what situation or circumstance requires signposting the customer to an external debt advice service. This aspect of the policy should be driven by the skills, qualifications, and legal rights of the lenders advisors to provide advice across a range of different customer circumstances. Consulting with legal and compliance experts is advisable to ensure the policy is comprehensive and compliant with the relevant regulations. As a pragmatic measure, the policy on debt advice could be articulated within a pre-existing policy such as an arrears or debt management policy.

4.1.2 Selection of debt advisors

Most lenders will opt to signpost their customers to qualified debt advisors in some or even all instances where debt advice is required. Lenders must therefore decide which debt advisor or advisors to signpost their customers to. This decision is very important for a lender, as incorrect or substandard advice can have a significant impact on your customer's financial health and decision-making process. There may be good cause to use more than one debt advice service given the range of circumstances for which a customer might require debt advice. Here are some steps to consider when selecting a debt advisor/(s):

1. **Define Your Needs:** Before looking for a debt advisor, a lender should clearly define their needs and objectives. Is advice required for a particular type of loan product with a particular customer profile? Is specific support required, for instance with debt management or refinancing? Understanding the needs helps the lender narrow down the range and type of advisors required
2. **Reputation and Credentials:** Lenders should look for debt advisors with strong credentials, relevant industry experience and importantly the authorisation to provide debt advice. For certain types of debt advice, such as the provision of debt management services, the advice organisations must be regulated by the Financial Conduct Authority (FCA). Lenders should ask for references or check online reviews and testimonials from previous clients and check the organisation has the necessary accreditations
3. **Not-for-profit:** Lenders are encouraged to signpost their customers to not-for-profit debt advisors as their advice won't incur any costs for the customer. These charitable organisations are established to provide impartial advice and are driven by achieving the best possible outcome for debtors

MoneyHelper is an appropriate resource to signpost customers to. It is provided by MaPS and brings together the (formerly separate) Money Advice Service, The Pensions Advisory Service, and Pension Wise. It can act as a "central hub" to direct customers to, with MoneyHelper able to recommend specific debt advisers and organisations based on a customer's location and contact preferences.

There are alternative sources for debt advice and some of these are listed in Appendix A.

4.1.3 Debt advice signposting

A responsible lender should signpost a customer to debt advice when they detect signs of financial difficulty or distress in the customer's repayment behaviour or personal circumstances. The goal is to provide support and resources that help the customer manage their debt and financial situation effectively. Some situations when a lender should consider signposting a customer to debt advice are outlined in the following sections.

4.1.3.1 Proactive debt advice

Proactive debt advice should happen when the lender detects that the customer may be in financial distress. This may be based on a conversation with the customer or through the lender being alert to typical leading indicators of financial issues. Under these circumstances the lender should follow their policy on debt advice tactfully given the customer hasn't failed to fulfil their credit commitments thus far. The right debt advice given at the right time can help to prevent the customer falling into arrears or getting into a default situation, both of which benefit the customer and the lender financially. A landing page or section on the lender's website, specifically designed to provide advice or signpost to a debt advisor, is one proactive measure that several lenders adopt.

Examples of situations where proactive advice may be appropriate during the loan agreement are detailed below.

Please note, that examples within the remaining sections are focussed on the providing and signposting of debt advice. It does not discuss all the other steps a lender should take to ensure a good outcome for the customer, such flexible payment options, revised terms, alternatives methods of communication etc.

Stage	Example	Signposting
Application – Preliminary Checks	A customer enters their local branch and explains that they need a loan to cover debts that they have incurred. After further discussion with the employee the customer admits that they are struggling with gambling problems and have accrued a lot of debt that they are worried they won't be able to afford.	The employee should inform the customer of the gambling help and advice that is available to them. For instance, the lender could direct the customer to "GamCare" which is advice and resources for those suffering with problem gambling.
During the Lending Agreement - Indebtedness	The lender has seen a noticeable increase in a customer's overall indebtedness, via the Credit Reference Agency indebtedness indicators the lender receives (please refer to the Credit Reference Agency Guidance for more information on CRAs). The lender recalculates the customer affordability, and the customer shows lower affordability than when the loan	Increased debt levels can indicate that a customer is accumulating debt faster than they can manage and may struggle to manage their payments in the near future. Early intervention is key to avoiding this and the lender should direct the customer to debt advice services such as "MoneyHelper" that can help the customer manage their debt and

	originated (please refer to the Affordability Lending Policy Guide for further information).	contains budgeting tools and calculators.
During the Lending Agreement - Increased Credit Usage or Requests	The lender notices that a customer is starting to use more credit to cover existing debts and is requesting an increase to their credit limits, despite having an increase only a few months before.	When a customer applies for multiple loans or credit products in a short period, it can suggest that they are struggling to manage their existing debt and that they need help with debt management or debt consolidation. The lender should signpost the customer to debt advice and debt consolidation services, for example, "StepChange" provides debt consolidation advice and a debt consolidation calculator.
Application/During the Lending Agreement – Customer in Vulnerable Circumstances	During a conversation with the customer, an employee finds out that they have experienced a job loss.	The employee should be understanding and discuss the current lending agreement as well as being proactive in providing information on debt management and budgeting calculators to help the customer manage their current credit commitments. For instance, "MoneyHelper" has a webpage with resources specifically for what to do about debt if you experience a job loss.
During the Lending Agreement – Communication Breakdown	A lender is having trouble contacting a customer about their current lending agreement. Numerous forms of communication have been attempted and the customer has failed to respond to any of the attempts made by the lender.	If the customer is avoiding any forms of communication, it can be a sign that they are facing financial challenges. In this case it is good practice to provide signposting to the debt advice resources in any communication that is provided. The customer may use these, even if they are not responding to the lender directly.

General – Economic or Political	An economic event such as a cost-of-living crisis or a change in benefit packages such as Universal Credit and push a customer into financial difficulties, or it can exacerbate problems for those already facing challenges.	In situations like this it is prudent to be proactive and anticipate that a larger proportion of customers that are going to struggle financially. Providing customers with resources and services that they can access can help the customer manage their commitments and help them to feel supported. For instance, the "National Debtline" has a Cost of living hub online, which provides information to help individuals deal with the increasing cost of living.

4.1.3.2 Reactive debt advice

Reactive debt advice would be issued in response to a tangible indication that the customer is in financial distress such as missing payments on their loan. The below provides examples of when reactive debt advice could be given during the loan agreement.

Stage	Reason	Signposting
During the Loan Agreement - Missed Payment	A customer has missed one or more of their payment obligations.	This can be an indication the customer if under financial strain. When the lender reaches out to the customer to discuss the missed payments and the implication of these, the lender should also make the customer aware of the debt advise organisations the customer can reach out to for further help.
During the Loan Agreement - Forbearance	A customer is experiences financial difficulties and reaches out to their lender to negotiate a payment plan.	In addition to discussing payment plan options, the lender should be alert that this is a signal the customer is struggling. The lender should try to identify the reason for these, and sign post the customer to debt advice tools that are available.

During the Loan Agreement - Collections and Recoveries	A customer has been unable to maintain their contractual payments and as such the customer has entered the lenders collections/debt recovery process.	The customer should be directed to a debt advice service to help them better understand their situation, legal rights and get information to help them navigate out of their debt issues. For instance, "Stepchange" offers information about the rules and regulations for debt collection to help the customer understand their rights.
During the Loan Agreement – High Debt Levels	A customer is struggling to make their payments. After further investigation by the lender, the customer has taken out multiple high interest lending agreements elsewhere.	This is a clear signal the customer is in financial difficulties. The lender should signpost the customer to debt consolidation resources. These programs can help simplify repayments and lower interest rates, making it easier for customers to manage their debt. For instance, "Moneyadvice" offers debt consolidation advice and solutions.

4.2 Financial literacy

Lenders can play a crucial role in improving their customers' financial literacy. When borrowers have a better understanding of their personal finances and the lending agreements in the market, they are more able to make informed decisions about borrowing and managing their debt. The following sections describe ways in which lenders can help customers with financial literacy.

4.2.1 Lending agreement transparency

Clarity and transparency regarding loan terms and conditions have become even more important following the introduction of the FCA's Consumer Duty principles in July 2023. Lenders must now fully explain the interest rates, fees, and repayment terms in a simple language and avoid using complex financial jargon that may confuse borrowers. Please refer to the Consumer Duty and Complaints Handling Good Practice Guide for more information on Consumer Duty.

Below provides an example of good and bad practices when outlining the terms of a loan.

Bad practice example	A loan with a principal amount of £1,000 for a term of 3 years will incur an interest rate of 5% and a processing fee of £100.

Good practice example	A loan where £1,000 is borrowed to be repaid over a 3-year period will have an Annual Percentage Rate (APR) of 5.18%. The loan will be repaid with an initial one-off charge of £100 followed by 36 monthly payments of £60.43 each. The total amount repayable will be £2,175.64. The APR is the interest rate and any additional fees, shown as a percentage, giving you the total cost of the loan. It can be used as a standard measure to compare the cost of loans across a range of loan providers.

Below details the improvements made to the loan terms, comparing the bad practice to the good practice example:

- Avoid the use of technical jargon or complicated language. The bad practice example uses the term 'principle' when a simpler description in the use of 'total loan amount' can be used. Similar terms such as 'incur' should be avoided and replaced with more commonly used language, so customers have a better chance of understanding the important details of the loan
- Where more technical terms are unavoidable, such as the APR, lenders should ensure an explanation is provided in plain English, as per the final paragraph of the "good practice" example
- Transparency. The bad practice example doesn't include any important loan repayment information whereas the good practice example outlines both the monthly payments due and the total amount to be repaid over the term of the loan
- Comparability. Include any information that enables your customer to compare credit products against other providers to ensure they get the best deal. The example above cites the APR which is a standardised way of representing the costs of a loan

Once the design of the loan and the terms and conditions have been developed, it is prudent to get feedback from customers, including individuals who have lower financial literacy. This may take the form of a focus group or survey to ensure the product is inclusive and understandable to all.

4.2.2 Provision of financial literacy education

Lenders can provide both proactive and reactive financial literacy education to customers. These are discussed in more detail in the following sections.

4.2.2.1 Proactive education

Lenders could provide educational materials, such as brochures, pamphlets, or online resources, that explain basic financial concepts and their benefits. These could include information about budgeting, saving, investing and credit management, including the importance of building and maintaining a good credit history.

Proactive education could extend to organising workshops, webinars, or seminars on the above financial concepts for the good of the customer and the wider community. Partnering with local community organisations and schools to promote financial literacy can have significant long-term benefits for schools and the broader community. This can include sponsoring financial literacy programs in schools or participating in community events to provide financial education.

Another method that lenders could use to support their customer base could be to develop or recommend financial literacy apps and tools that customers can use to track their spending, set financial goals, and monitor their credit scores. Some fintech companies offer the integration of such tools into lender's services.

Periodic updates and tips on financial literacy via email, SMS, or in-app notifications can keep customers informed about changes in interest rates, new financial products, or relevant regulatory updates to community lenders or credit unions.

It is understood that lenders, including credit unions, may not have the capacity to develop, maintain and organise these types of materials and workshops, but there are many existing resources that the lender can make the customer aware of. For instance, the "Money Charity" provides workshops, webinars, and bespoke training to help people develop the skills, knowledge, and attitudes to manage their money well.

Stage	Example	Signposting
Application - Credit Risk Assessment	A customer applies online and fails the credit risk assessment because their credit score falls below the minimum cut off, as defined in the lenders lending	The online page should make the customer aware that a problem with their credit score that has caused their application to be declined.

	policy.	The online webpage should then direct the customer to materials to help them improve their credit score. For instance, the credit scoring website "ClearScore" which enables the customer to check their credit score and provides help and support to improve their score.
Application - Affordability Assessment	During an affordability assessment, the lender notices that their disposable income is low due to a high level of non-essential spending.	The customer shows signs that they are not living within their means. In these circumstances the lender could direct the customer to budgeting resources to help the customer manage their monthly spending. This can help them understand where they could make savings and put themselves in a better financial circumstance. For instance, "Practical Money Skills" offers information on expense tracking and spending within your means.
Application - Preliminary Stage	A customer explains to the lender that they are currently on part time hours due to an injury. They are not sure if they should get a loan to tide them over until they are fully recovered and are unsure on the loans available.	The lender should direct the customer to resources that offer information on benefits and benefits calculators, as the customer may be entitled to support due to their injury. In addition, they should provide the customer with the relevant information the loans that they offer and the pros and cons of each product. For instance, "Citizens Advice" offer information on the benefits that individuals are entitled to in instances such as unemployment, sickness, or disability.

Examples of financial literacy materials available online are listed in Appendix A.

4.2.2.2 Reactive education

It is important that lenders offer financial literacy support to customers who are already experiencing financial difficulties.

As previously mentioned, there are several reasons why a customer may find themselves in financial difficulties. Regardless of the reason, a lender should offer a customer the necessary support tailored to the circumstances.

If the customer is in financial difficulties due to a lack of lack of knowledge and/or understanding of the financial product they may not have realised the implications of not fulfilling their credit obligations. It is important to improve their understanding to prevent the customer getting into difficulties again.

Reactive support mechanisms such as one-on-one financial counselling sessions, or more digital solutions such as virtual meetings, support tools and tailored chat boxes can be helpful. Trained financial counsellors from debt advice companies and online support tools can help customers create budgets, understand credit reports, and create a plan to improve their financial health. Encouraging customers to save and invest their money wisely can help the customer avoid falling into difficulties in the future. Providing information on various savings accounts, investment options, and retirement plans can help customers grow their wealth over time.

As previously mentioned, lenders, including credit unions, don't have to create their own financial education material as there are plenty of resources already available. However, it is important for lenders to help customer access the relevant materials to give them a better understanding and financial literacy. Better understanding leads to more informed decisions, responsible borrowing, and improved overall financial stability.

5 Appendix A: resources and links

The below details resources and links for debt advice and financial literacy resources that lenders can signpost customers to throughout the customer journey.

Please note, this is not an exhaustive list and there are other available sources.

5.1 Debt advice

Organisation	Website	Description
MoneyHelper	https://www.moneyhelper.org.uk/	MoneyHelper brings together 3 government backed financial guidance provides: the Money Advice Service, the Pensions Advisory Service and Pension wise to make it quicker and easier for individual to get money and pension guidance.
Step Change	https://www.stepchange.org/	Step Change is the leading debt charity in the UK, which provides free advice, help with budgets and debt management plans tailored to the individual.
Citizens Advice	https://www.citizensadvice.org.uk/	Citizens Advice provide free, independent, and confidential debt, pension, benefits advice, and other financial advice. They are available to everyone online, over the phone or in one of their many branches across the UK.

Christians Against Poverty	https://www.capuk.org/	Provides free professional debt help through local churches across the UK.
National Debtline	https://www.nationaldebtline.org/	A debt charity that provides free, confidential advice and a library of online resources such as budget planning, cost of living advice and sample letters.
PayPlan	https://www.payplan.com/	Offers free, simple debt advice to anyone who needs it. They can set up debt solutions that help consumers get rid of debt and move forwards debt free.
Inbest	https://benefits.inbest.ai/	Provides a benefits calculator to help individuals get free and impartial assessment of all the benefits an individual may be entitled to.
GamCare	https://www.gamcare.org.uk/	The National Gambling Helpline, providing confidential information, advice, and support for anyone affected by problem gambling in Great Britain.

5.2 Financial Literacy

Organisation	Website	Description
The Money Charity	https://themoneycharity.org.uk/	The Money Charity has been the UK's Financial Capability charity for the last 25 years. They aim to help everyone achieve Financial Wellbeing by managing their money well.
ClearScore	https://www.clearscore.com/	The UKs number 1 free credit score and report app. It provides free credit scores and reports updated weekly and help and support in improving an individual score.

Practical Money Skills	https://www.practicalmoneyskills.org/	A private sector leader in financial literacy, Visa has developed educational programs, interactive tools, and educational resources to help individuals and communities build stronger financial futures.