

“Central to responsible lending is an assessment of customer affordability. Managing affordability is a significant challenge for the UK credit industry and is a top priority for the FCA”

Experian 2014

I am sure you will have heard or read news articles in recent days in respect of action taken by Wonga to write-off over 300,000 customer loans with a total value of £220 million. Whilst the business model operated by Wonga is significantly different to that of Hyundai Capital, this nonetheless highlights how the marketplace is changing under the new regime operated by the Financial Conduct Authority (FCA), and in particular the importance they place on giving appropriate consideration to **Affordability** and **Sustainability**.

What is Affordability and Sustainability?

The FCA is clear that all firms involved in credit broking (providing information, advice or recommendations), lending or collecting repayments in relation to consumer credit, must give regard to both affordability and sustainability.

From an affordability perspective this means that when exploring different finance options with a customer, consideration should be given as to whether that customer could repay the commitment without putting themselves in financial difficulties.

Thought should also be given as to the sustainability of a loan, that being any events that could occur during the term of the agreement which could affect a customer’s financial situation. Examples might include planned retirement, pending redundancy, dependents going to university, or any changes to salary that could be reasonably foreseen.

What does this mean in practice?

Rules established in the new Consumer Credit Source Book (CONC), specifically sections 5.2 and 5.4, together with the FCA’s Principles for Businesses (PRIN) put onus on both lenders and brokers.

As a lender we will continue to use robust and well tested loan assessment techniques that take into account information from credit reference agencies along with a series of other factors. Whilst it is expected that an automated decision will still be provided in the majority of cases, you will be asked to provide confirmation of a customer’s gross income in some instances in order for additional automated validation checks to be carried out. If, as a result of those checks, we are unable to validate the income amount we will require you to collect proof and supply electronically. Depending upon the customer’s circumstances, proof of income could include one or more of the following:

- P60 (most recent financial year end)
- Tax return (most recent financial year end)
- Wage slip (dated within the last 6 months)
- Additional income confirmations (pension statements, annuity income etc.)
- Ltd company accounts showing director’s emoluments and dividends

In terms of your responsibility, if the subject of affordability and sustainability is not discussed within your existing sales process, it is advised that you introduce this topic. To assist you and in order to provide you with an auditable process that can be evidenced to the FCA if required, a clear and concise declaration will in due course be added within the Hyundai Capital point of sale system at customer application stage. In the interim your local Business Development Manager will contact you to discuss how to include this within your current sales process.

What next?

As mentioned in the previous paragraph, your local Business Development Manager will shortly be in contact with you to discuss the topic of affordability and sustainability. In addition, I am happy to confirm that two other key FCA related items I have made mention of in earlier bulletins will be brought to market in November, specifically:

- A product descriptor tool. This tool will interface directly with the existing Hyundai Capital point of sale finance system and, through a short audio-visual presentation and typical example quotations, assist in ensuring that customers make an informed product choice.
- A revised Hyundai Capital commission model.

And finally

Within the Hyundai Capital website (www.hyundaicapital.co.uk) a number of documents and links already exist that provide information in respect of the FCA full permissions authorisation process. In order to provide further help and guidance, a series of eight regional workshops will also be run by Hyundai Capital during January and February. Dates and full details will be made available in due course.

I hope you have found this latest bulletin to be informative and I hope that it once again demonstrates our commitment to delivering a market leading business proposition. By working in partnership and refining our business practices, I am confident that we will operate in a manner that not only drives good customer outcomes, but that also delivers a great customer experience.

Kind Regards



Stewart Grant
Managing Director
Hyundai Capital (UK) Limited

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