A driving force FOR CHANGE

An extract from Perspective:
The affordability and responsible lending issue
Essential insights into the issues facing your industry today
With the increased regulation and a focus on affordability and responsible lending, the automotive sector is likely to come under increased scrutiny, as Gary Brown, Head of Automotive at Equifax, explains to Perspective.

The purchase of a new car – whether brand new or second-hand – is likely to be the second largest purchase a consumer makes. As such, the regulator is keen to look at the sector to ensure that the appropriate checks are being made to safeguard against an individual becoming over-indebted if they take out a loan to make the purchase. This might include, for example, being able to provide evidence that the proper checks have been completed and practices adhered to prior to agreeing to the loan.

While keen to be seen to be doing the right thing and to keep the customer at the heart of their lending decisions, there still seems to be reluctance to take the lead on certain initiatives to implement any changes required. This comes, in part, from many in dealerships feeling uncomfortable about asking about income: one of the main ways to check affordability.

There is also a desire for lenders to ensure that any processes they adopt retain operational efficiency and do not negatively impact the sales cycle by decreasing automation. We’re working with our clients to help them reach the right balance between operational efficiency and meeting regulatory compliance requirements.

**Striking the right balance**

While some lenders will scrutinise the application and undertake a variety of checks before confirming a loan, others will collect income but won’t verify it. We are working with many lenders in the automotive sector who are looking to us for guidance to help them get a holistic view of the customer. This can be achieved through checks that include income verification, indebtedness scores, credit capacity and property insights which can all be used to achieve a view of incomings and outgoings, and therefore of expenditure and disposable income.

We’re also working with our clients on achieving the balance between undertaking the appropriate checks with maintaining high service levels and as much automation as possible throughout the originations process. There is a perception that detailed income checks will result in an increase in manual intervention which many dealers want to avoid. Being able to make good decisions, and quickly, remains vital for the sector. Meeting the needs of the dealer, the consumer and the regulator requires ongoing debate and collaborative working.

**Heading in the right direction**

While increased regulation and scrutiny of affordability within the automotive sector is inevitable, there is general optimism about this. It’s seen as a positive contribution to improving the brand of the sector.

As many lenders are preparing to submit their applications to the FCA, we continue to work with them to meet their affordability requirements. We continue to recommend that lenders take the initiative to adopt good practice.

For more information on how we’re working with the automotive sector, please get in touch with Gary Brown at gary.brown@equifax.com or on 07736 782133.