

Affordability assessments: OFT/DECC joint guidance

Green Deal Providers, as creditors, have a statutory obligation under the Consumer Credit Act 1974 to undertake an assessment of creditworthiness before concluding a domestic Green Deal Plan and before increasing significantly the amount of credit advanced.

This must be based on sufficient information, obtained from the borrower where appropriate and from a credit reference agency where necessary.

In addition, creditors are expected to operate in accordance with the OFT's Irresponsible Lending Guidance (ILG), which sets out minimum standards in terms of responsible lending and fitness to hold a consumer credit licence.

The ILG makes clear that, in addition to assessing creditworthiness, all creditors must undertake an adequate assessment of **affordability**.

This involves assessing the individual borrower's ability to undertake a specific credit commitment in a sustainable manner, without the borrower incurring (further) financial difficulties and/or experiencing adverse consequences.

The OFT regards 'in a sustainable manner' as meaning credit that can be repaid by the borrower over the life of the credit agreement and without undue difficulty – in particular, without incurring or increasing problem indebtedness.

Affordability should be based on the borrower's financial position as a whole, with account taken of his individual circumstances and any likely future changes, based on information which the creditor knows or should reasonably be expected to know.

The OFT does not prescribe how an affordability assessment should be made, or what information should be used, as this will depend upon the circumstances. The creditor should however act **reasonably** and be able to justify the practices and procedures used in assessing affordability in the event of a complaint or regulatory challenge.

The ILG makes clear that the creditor should form a view on what is appropriate in any particular circumstance dependent on, for example, the nature and amount of the credit being sought and the potential risks to the borrower.

An affordability assessment must be undertaken in **all** cases.

For the Green Deal, compliance with the 'Golden Rule' is important but not sufficient in terms of affordability. This is because estimated savings are not guaranteed (and may not always exceed repayments particularly if the Green Deal Provider applies a 2% annual uplift) and the individual borrower's energy consumption and/or household circumstances may change (for example, they may decide to use some of the energy savings to heat their home more).

Having satisfied itself that the Golden Rule is likely to be met in the individual case, and having regard to the Occupancy Assessment, the Provider should consider what **additional** information may be required, and what **additional** checks may be needed, to satisfy itself on affordability.

An affordability assessment may, for example, need to be particularly rigorous in cases where:

- the Occupancy Assessment suggests that the Golden Rule may not be met in the individual case (but this has been explained clearly to the prospective borrower so they understand the risks involved)
- there is evidence to suggest that repayments may exceed energy savings in the future (for example, because of a 2% payment uplift)
- there is evidence to suggest that the consumer may adjust his energy usage, following installation of Green Deal measures, and so may not in practice achieve all of the energy savings forecasted
- the consumer has previously been in arrears on energy bills or other household bills or other credit commitments
- the consumer is or may be particularly vulnerable (for example, because of mental capacity limitations) or may have existing financial difficulties which may impact on ability to repay, or
- the consumer is elderly or may be likely to move home in the foreseeable future (a relevant factor here may be the Provider's policy on early repayment charges in the unlikely event this may be triggered).

The OFT expects Green Deal Providers to act reasonably, having regard to all the circumstances and the information available to them.

The ILG also makes clear that creditors are expected to monitor a borrower's repayment record on an ongoing basis, and to take appropriate action if/when there are signs of actual or potential repayment difficulties (for example, following a change in the borrower's circumstances or a change of occupancy).

OFT/DECC

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