

Rt Hon Stephen Timms MP
Chair of Work and Pensions Committee
House of Commons
London
SW1A 0AA

29 September 2020

Dear Mr Timms

Universal Credit: the wait for a first payment

During our contribution to the Work and Pensions Committee's oral evidence session of 2 September 2020, the Committee asked whether we were able to provide any further information on what proportion of income we consider is advisable for consumers to keep aside for loan repayments to allow enough for essential spend.

There are different approaches under our rules in respect of assessing affordability for new lending and assessing the affordability of repayment plans to customers who are behind with payments and require support.

Lending decisions

In the regulated consumer credit market, we do not specify what proportion of income should be available to make loan repayments. However, we do require firms to follow our rules and guidance¹ in assessing what would be suitable for an individual customer.

This means that firms must consider the customer's ability to make repayments without the repayments having a significant adverse impact on the customer's financial situation. Unless it is obvious in the circumstances that the repayments are affordable, firms are required to make a reasonable estimate of a customer's disposable income. In doing so, firms should consider what expenditure items are non-discretionary and take this into account in their assessment.

¹ CONC 5.2A: <https://www.handbook.fca.org.uk/handbook/CONC/5/2A.html#D152>

Our rules provide examples of non-discretionary expenditure including payments needed to meet priority debts and other essential living expenses which it is hard to reduce without affecting basic quality of life. Firms must also take into account other payments the customer has a contractual or statutory obligation to make, such as other credit agreements or a mortgage contract. Our rules also provide for firms to adopt a proportionate approach to their creditworthiness assessments. For example, the scope of the assessment and extent of information required may be informed by factors such as the type, amount and cost of credit.

While our rules are focused on ensuring that lenders consider whether loan repayments are affordable given the customer's individual financial circumstances, in practice lenders will also consider applications against their own criteria and their risk appetite. The level of disposable income required for an application to be successful can therefore vary considerably depending on, amongst other things, the profile of customers for which the particular lending product was designed and the risk appetite of the lender.

Arrears and forbearance

When a customer is experiencing financial difficulty and has agreed a sustainable repayment plan as an appropriate option, the assessment as to what constitutes a suitable repayment plan is made on a different basis to that involved in an initial lending decision. Firms must again follow our rules² and treat these customers with forbearance and due consideration.

When assessing what level of repayments are affordable (if a repayment plan is appropriate) firms should have regard to the customer's financial situation. Our guidance states that firms should have regard to the Standard Financial Statement³ ("SFS") or similar tools. The SFS provides an industry standard for the measurement of income and expenditure and also provides spending guidelines. The categories of expenditure that the SFS takes into account are wide-ranging and include costs such as rent and mortgages; groceries and housekeeping; childcare costs; transport and travel costs; and personal costs such as clothing and toiletries. The SFS also makes provision for individuals to make regular deposits to savings accounts, ahead of calculating any disposable income to be used for debt repayment.

We hope that you find this information helpful. Please do not hesitate to contact us should you require further detail.

Yours sincerely



Jonathan Davidson
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Nisha Arora
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² CONC 7: <https://www.handbook.fca.org.uk/handbook/CONC/7/?view=chapter>

³ Standard Financial Statement: <https://sfs.moneyadviceservice.org.uk/en/what-is-the-standard-financial-statement>