

# **OUSBA**

## **LENDING & UNDERWRITING MANUAL**

March 2015

The Open University Student Budget Accounts Ltd (OUSBA) is engaged in specialist lending activity that allows students of the Open University (OU) to spread the cost of their study over a year. Credit is offered on a single set of terms at a low fixed rate of interest and over relatively short periods of time – up to 12 months. This manual sets out the lending criteria and underwriting procedures that are required to be followed for providing this credit facility to the prospective customers, who comprise the applicants for the various study courses offered by OU.

OUSBA sources its applicants both from its website and through introduction from the OU.

OUSBA Loans are unsecured regulated borrower-lender-supplier credit agreements for restricted –use credit. Unlike conventional loans the student does not receive the loan in the form of a cash payment in the event that the loan application is approved; OUSBA transfers the agreed amount directly to the OU hence enabling the student to complete their registration on their chosen course.

Credit is offered on a single set of terms at the very low fixed rate of interest of 5.0% per annum (5.1% APR) and over relatively short periods of time – up to 12 months.

A full explanation is given in the form of written adequate explanations for each credit agreement together with other required pre-contractual information (SECCI) and the Consumer Credit Agreement.

OUSBA gives the customer the opportunity to ask any further questions and when they receive the documents how the borrower can ask for further information and explanation about the agreement from OUSBA.

New business team will give a further explanation if required and the application is then processed.

## RESPONSIBLE LENDING

OUSBA is committed to lending in a responsible way, because quite simply, we feel this is the only fair way to lend. Our strict lending criteria help us to prevent our customers from taking on more credit than they are able to cope with. A sophisticated credit scoring systems is used to determine the customers' ability to pay.

Our clear lending criteria help us to prevent our customers from taking on more credit than they are able to cope with. OUSBA worked with a team of dedicated consulting analysts from Equifax to build a bespoke score card by analysing the previous 2 years of loan data. We then reviewed the decision outcome on the applications that are rejected, underwritten and accepted along with any reject codes and alerts that Equifax returned.

Equifax hold coded consumer credit data known as QCB. The QCB data group is flexible mechanism that enables Equifax to supply a selection of coded consumer credit data from the risk navigator engine. OUSBA currently refers to 340 QCB Blocks.

Each enquiry then simply requests the appropriate QCB block number and the corresponding characteristics will be returned. The QCB are weighted and feed into an overall score which deliver three possible outcomes accept, refer or decline.

A customer may refer because they are not confirmed on the voter's role or may be declined in the case of outstanding defaults or judgements

## DEALING WITH VULNERABLE CUSTOMERS

At no time will vulnerable customers be targeted for our product.

We recognise our duty of care towards vulnerable customers, to ensure their specific needs are identified and met with appropriate consideration at the earliest opportunity. We recognise that vulnerable customers may require additional assistance, such as more advice, support or simply patience. We have identified that vulnerable customers may be those experiencing permanent or short term mental or other health issues, such as:

- Visually impaired customers who may be unable to read correspondence received from OUSBA and prefer matters to be discussed verbally or have information provided in large font;
- Hearing impaired clients who may require all correspondence in writing;
- Educational or mental health issues may prevent the customer from fully understanding our processes or legislation, and have a Power of Attorney to handle their personal matters as a result.

We recognise that we have a duty to ensure all customers understand correspondence and other information provided to them and, if at any point it is brought to our attention that a customer is vulnerable, we will ensure that we assist them as much as possible. In some cases it may be deemed necessary to direct customers to seek further advice from free or not-for-profit organisations such as the Citizens Advice Bureau, Step Change Debt Charity or the Money Advice Service.

The Money Advice Service (MAS) is a free, independent service, set up by the government and funded by a levy on the financial services industry. The aim of MAS is to help people manage their money better by providing clear and unbiased advice and information.

The Citizens Advice Bureau ("CAB") helps people resolve legal, financial or personal problems providing free independent, impartial and confidential advice and information to everyone on their rights and responsibilities.

### Loan Criteria

#### **Loan Size**

Loans are granted for up to full value of a course, depending on the needs and circumstances of the student, with typical loans ranging from £800 to £2,500

#### **Term**

Usual term of the loan is 10 to 12 months though a different term is considered if warranted by the circumstances of an applicant and the nature of study course.

### **Purpose of Loan**

The purpose of the loan is for a prospective candidate to spread the cost of his/ her higher education course offered by the Open University.

### **Fees**

OUSBA does not charge any arrangement or administration fee for its loan.

## **AFFORDABILITY ASSESSMENT**

The staff must ensure that they make a reasonable assessment of the applicant's ability to repay the loan from their own present/ future resources and to that end we apply the principles of good underwriting and the FCA's rules for responsible lending set out in CONC 5 in a proportionate manner, as appropriate to our product.

To ensure customers are treated fairly and only offered affordable products in an affordable and transparent way, an affordability and credit worthiness check is completed.

The income (both present and estimated after completion of the course) of each applicant will be verified with reference to documentary evidence produced by the applicant and/ or by using the income validator provided by our selected Credit Bureau. The affordability criteria applied to our loans are detailed below;

#### **Affordability Calculation**

Take 80% of the net monthly income (NMI).

Add all expenses recorded

From 80% NMI take all expenses recorded = Disposable Income (DI)

From DI less loan instalment amount (Residual=R)- If positive accept loan on affordability.

If R negative by less than deposit factor (currently 17%) accept loan on affordability.

If R negative by greater than 25% decline loan.

If R negative in the range 17% to 25% = deposit of R.

Essentially, a prospective customer's disposable income is calculated by taking 80% of his or her net monthly income (NMI) and subtracting all recorded expenses, which are disclosed by the applicant through the website. The proposed loan instalment is then subtracted from the disposable income to provide what is termed the "residual income" (R). If R is positive the loan is accepted on affordability.

If R is negative by less than the "deposit factor", which is currently 17%, the loan is accepted on affordability but the student is required to pay a 17% deposit (and a deposit of up to a negative R of 25% may be paid) to ensure that the loan repayments are affordable for the customer. This means that the customer pays a

larger initial instalment in advance, known often as an “advance payment” to ensure that the remaining repayments are affordable. This allows the customer to fund much of the cost of a course or module through OUSBA but limits the risk of financial difficulty by ensuring that a larger proportion is paid up front and the student can use other funds or obtain assistance from family etc. to make the advance payment, if possible. This maximises the potential for a customer to fund the course using OUSBA, but at the same time in a sustainable manner.

The calculation used to determine affordability has been compiled by using the information provided by the UK’s Office for National Statistics and taking into consideration the sector and service that OUSBA provides.

Credit Report searches are undertaken by Equifax which, as well as confirming the applicant's name, address and the presence of any adverse public data, the credit reports show the applicant's payment history on their credit commitments - bank accounts, loans, credit cards, mortgages and other finance agreements. OUSBA utilises Equifax’s income verification product to further validate our customers’ income and expenditure. It enables OUSBA to base their customer management decisions on a view of potential over-indebtedness rather than simply assessing our customer's history.

Affordability checks and CRA searches are carried out initially and at any subsequent application for further credit.

Customers are required to provide detail of income and outgoings as per the Application Form for loan. Additional “drop-downs” explain in more detail the information required.

There are “reasonableness” checks in place that will prompt the customer to review. If the net disposable income is insufficient to service the applied for loan according to our criteria, the application will be immediately rejected. Controls are in place to prevent customers “gaming” the system by changing data to manipulate the decision.

## SUMMARY

OUSBA is a responsible lender and reserves the right to decline any application to ensure we only lend to individuals with the financial ability to meet their commitments. There may be instances when additional evidence may be requested to justify an application and to meet our policy on responsible lending.