

Consumer Duty Hire Purchase Product Guide



Document Owner	Jon Maycock, Commercial Director
Reviewer	Jennifer Bodey, Director of Compliance & Conduct Risk
Approver(s)	Propel Commercial Management Committee
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1. Product specification

1.1 Product overview

Propel provides asset finance to UK business customers to acquire equipment and vehicles. Propel Finance offers hire purchase products for both regulated and unregulated business customers.

Hire Purchase (HP) is an instalment purchase product for businesses that wish to buy assets (equipment or vehicles) over a set period without paying the full value immediately. The customer pays a deposit, with the rest of the balance and interest paid by fixed payments over an agreed period. When all of the instalment payments have been made and the 'option to purchase fee' has been paid, the customer becomes the owner of the asset.

Key features of Propel's Hire Purchase (HP) product are outlined below:

- Fixed rate business to business asset finance
- Term: Typically 36 months – 60 months, but other terms may be agreed subject to the distribution channel and asset type
- Agreement values: £10,000 - £2 million deal size (unless agreed as an exception)
- Typical APR range based on customer and asset risk – please refer to Propel's Price & Value Assessment for further information
- Security required: Asset and potential guarantees (personal or corporate)
- Payment structure: Can be monthly, quarterly, semi-annually, annually or seasonally
- Deferral period: Typically none, although exceptions may apply for VAT deferral / seasonal payments
- Repayment Structure: Typically equal payments, although exceptions may apply for seasonal payments
- Repayment Frequency: Typically monthly or quarterly, although exceptions may apply for seasonal payments
- Deposit: Flexible initial deposit options, Propel fund up to 100% of the purchase price
- Propel may offer VAT deferrals for up to 3 months for qualifying customers
- Balloon payment structures may be offered subject to the future value of the equipment
- Title: Propel obtain title to the asset either directly from a supplier or, if the asset is already owned by the customer through Sale & HP Back, where the customer has owned the asset for up to 3 months
- For unregulated customers only, where the asset has been owned by the customer for more than 3 months, Propel may consider an asset refinancing, taking title to the asset through Sale and HP Back, where funds advanced will be at Propel's discretion against a validated asset valuation
- The primary location of the asset must be in the UK

1.2 Needs the product is designed to meet

Propel's HP product is designed for business customers buying equipment or vehicles for business purposes, where they want to spread the cost of using the asset over time and wish to own the asset at the end of the contractual period. Product features include:

- Immediate access to assets: Hire purchase enables businesses to immediately acquire assets that they may not have been able to purchase outright due to budget constraints
- Predictable cash flow: With hire purchase, businesses can make regular, fixed payments over a set period of time; which can help them budget and manage their cash flow more effectively

- No need for a large upfront payment: With Hire Purchase there is no need for the customer to make a substantial capital outlay, easing cash flow
- Flexibility: Hire purchase agreements can be tailored to suit the specific needs of the business, such as the length of the repayment term and the size of the instalments
- Asset ownership: At the end of the hire purchase term, the business will own the asset outright, which can be an important consideration for many businesses

Asset Refinance (Sale and HP Back): For unregulated agreements only, a customer may use the product to refinance an existing asset to release additional cash for business investment.

1.3 Product suitability

HP is a comparatively simple and transparent credit product designed to suit a wide range of customers.

Propel's HP product is suitable for:

- UK business customers, including partnerships and sole traders, where the asset is primarily for business use
- Customers who match Propel's affordability requirements and can comply with the product's terms and conditions
- Customers with UK based bank account to make repayments by direct debit in the name of the company financing the agreement

Propel's HP product is not suitable for:

- Retail consumers
- Customers with a poor credit history, who are currently facing or have recently experienced financial difficulties or who do not have sufficient income to cover their expenses and meet their repayment obligations

Propel's HP product is less suitable for:

- Customers who wish to make multiple payments using methods other than direct debit. Although one-off payments such as a card payment over the phone or a cheque may be accepted, there will be a fee charged for this

1.4 Product target market

Propel serves UK business customers, including partnerships and sole traders, who will mainly use the asset for their businesses. The target market does not include retail consumers.

Propel's target market is not restricted by sector, except for any exclusions specified in Propel's Credit Policy. It may also be influenced by the length of the customer's trading history, as outlined in Propel's Credit Policy.

1.5 Packaged product considerations

Propel does not offer packaged products.

1.6 Co-manufactured product considerations

Propel does not offer co-manufactured products.

1.7 Product benefits and risks to customers

Benefits of Propel's HP product

- Customers can access the best equipment for their needs in an affordable way
- Fixed interest rates and fixed rentals make budgeting straightforward
- HP may be cheaper or easier to arrange than other debt alternatives (due to the security provided by the asset)
- Leaves other funding options (such as overdraft options) free to use for other purposes
- Payments can be tailored to the customer's cashflow (e.g. seasonal payment profiles)
- VAT registered business can reclaim VAT on eligible HP equipment
- Simple application process with swift decisions and funds typically made available within 24 hours of receiving the completed documentation
- Customer support model with access to an account manager and dedicated customer service team
- Ability to inform / ensure customer is informed at all stages of the application either directly by Propel or by the Distribution Partner

Risks of Propel's HP product

Overall, HP can be a useful financing option for businesses that want to own the asset at the end of the agreement. However, it is important for customers to carefully consider the risks and benefits of this type of financing before entering into a lease agreement.

- HP can be more expensive than buying the asset outright up front. This is because the asset finance provider must recover the full cost of the asset, plus interest and any additional fees, over the lease term
- Obligation to maintain the asset: Under a Finance Lease, the customer is typically responsible for maintaining the asset and ensuring it remains in good condition
- Early settlement fees apply
- The finance agreement must be settled in full if the asset is sold during the term of the agreement (unlike a loan)
- The customer decides the suitability of asset and must do their own due diligence to ensure that the asset and the supplier are appropriate to their needs
- The agreement is secured against the asset, therefore if payments are not received the asset may be repossessed. Propel may take legal proceedings to recover sums due and pass on reasonable costs in enforcing its rights. Unlike a loan, with hire purchase, customers do not receive any part of the sale proceeds that recognise the payments they have made so far
- If the customer pays the agreement late or fails to pay, it can have negative consequences for them. This can include increasing the cost and duration of borrowing overall, as well as having a negative impact on their credit report with credit referencing agencies. This may make it more difficult and expensive for the customer to access other forms of credit in the future

2. Customer considerations

2.1 Statutory rights & protections

Regulated HP Agreements

HP Agreements with sole traders, partnerships with only 2 or 3 partners and / or unincorporated associations are likely to be regulated by the Consumer Credit Act 1974 unless (i) the total credit or rentals (including VAT) payable over the minimum or fixed term is more than £25,000; and (ii) the goods are wholly or predominantly for business purposes.

Propel has a bespoke Regulated HP Agreement document, which clearly sets out all the customer's statutory rights including pre-contract information requirements, right to early settle, right to withdraw and voluntary termination.

Unregulated HP agreements

HP Agreements will be unregulated if (i) the business exemption or (ii) high net worth exemption applies.

Although customers do not have a statutory right to early settle, Propel allows customers to settle unregulated HP agreements early and receive a rebate on future interest due. Propel can also be more flexible with 'varying' unregulated agreements (at the customer's request) and will consider customer requests on a case by case basis.

2.2 Quality of product and customer communication

The Hire Purchase agreement offered by Propel is a commonly used and accepted product in the market.

Propel is highly regarded for its service proposition, which features its application and decision making technology platform, Propeller, and its dedicated customer service team.

Propeller is Propel's proprietary front-end application and decision-making engine. It has been designed to interface with the company's distribution partners.

Propeller is accessible 24/7 and facilitates a fast application process, swift decisions, electronic document processing with e-signatures, and real-time updates on the customer journey for the distribution partner. This technology, coupled with the company's account relationship model, enables Propel to provide high-quality service to its customers.

After the agreement has been activated, servicing is led by our dedicated customer service team and enables direct contact with distribution partners via telephone or email. All written communications are routinely reviewed to ensure that they are clear, fair and not misleading and therefore accessible to the Propel customer base.

2.3 Customer understanding: limitations and risks associated with the product

Propel provides its HP product in a competitive market with multiple providers which ensures customer choice. Propel follows standard industry practice by disclosing to the customer through the agreement that commission may be paid by Propel, but does not disclose the amount payable.

Regulated HP agreements, but not regulated Lease agreements, require a statement of APR (Annual Percentage Rate). This can make it difficult to compare such agreements across product types except for a comparison of monthly rentals. However, this may include additional factors such as commission and, therefore, it may not be a direct like-for-like comparison.

The Consumer Credit Act and other supporting legislation heavily dictate the content of the documentation. However, some of the required terms may be difficult for some customers to understand. To overcome this issue, Propel offers clear explanations of its products and provides enhanced support to ensure that customers understand the risks and limitations associated with the product. When Propel provides quotes directly to the customer, they are transparent and use plain English to make it easy for customers to understand. Where a Distribution Partner is responsible for presenting the quote to the customer, they are required to ensure that the quotes meet the required standards. Propel's documents contain important information such as the fixed monthly/periodic payments, the total amount repayable, and the term.

2.4 Customer considerations: vulnerability

Vulnerable customers may face difficulties in understanding the product and/or comparing it with similar products, which may affect their ability to assess the product's risks or benefits and make informed purchasing decisions.

This could continue throughout the term of the product. If customers experience a change in their circumstances, including financial difficulties, they may face risks associated with missing or making late payments.

3 Product testing and customer satisfaction

Propel regularly reviews its pricing in line with a range of benchmarks, including key market indices such as term Sonia rates and other market intelligence.

Propel reserves the right to contact customers periodically to test its product is performing as expected; and that customers are receiving clear information in advance of entering into agreements with Propel. Propel will do this through customer satisfaction surveys, monitoring of distributors complaints statistics as it relates to customers introduced to Propel and through its Trust Pilot reviews.

Get in touch

For more details

Call: 01633 982922

Email: contact@propelfinance.co.uk

For more information, visit www.propelfinance.co.uk

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