

# CAR BRO



**Close Brothers**  
Motor Finance

**Product information  
relating to  
Conditional Sale**

## What is Consumer Duty?

The Financial Conduct Authority (FCA) has introduced the Consumer Duty which sets a higher standard of consumer protection across financial services and requires firms to put their customers' first. Further information on the Consumer Duty can be found on the [FCA website](#).

## Why are we sharing the below information with you?

The Consumer Duty requires us, as a manufacturer, to share product and value information with you, as a distributor, to enable you to meet your own obligations under the Consumer Duty. This information is intended for your use only and should not be provided to customers or any other third parties.

## Who are manufacturers and distributors?

The Consumer Duty sets out different requirements for firms who manufacture and distribute products.

**Manufacturer:** Firms that create, develop, design, issue, manages, carries out, operate, or underwrite a product or service, i.e., for Conditional Sale this is **us, Close Brothers Motor Finance (CBMF)**.

**Distributor:** Firms that offer, sell, recommend, advise on, propose, arranges, deals, or provide a product or service, i.e., for Conditional Sale this is **you, the credit broker, including Motor dealers and finance brokers**.

## What is our approach to product governance?

Product governance arrangements are in place to ensure we continue to deliver good outcomes for customers. Product governance arrangements include regular product reviews and Fair Value Assessments to ensure products are fit for purpose, designed to meet the needs of the customers for whom they are intended and represent fair value.

### During product reviews (for products in-scope of Consumer Duty) the following elements are considered:

- The target market and how the product is designed to meet the needs of the target market, including vulnerable customers,
- distribution arrangements,
- Fair Value Assessment,
- consumer understanding obligations,
- consumer support obligations,
- how we are monitoring customer outcomes,
- marketing and financial promotions,
- post-sale customer experience and exit barriers,
- use of third-party debt collection agencies,
- macro and regulatory environment and complaints.

### When completing the Fair Value Assessment, we consider:

- The target market,
- distribution strategy,
- product benefits and limitations,
- how customers with vulnerable characteristics are able to make use of the product benefits,
- complaints,
- monetary costs,
- non-monetary costs,
- and commercial factors.

## Do we (the manufacturer) require information from you (the distributor)?

We may contact you as a distributor to request information to support our product review process. Information requests may include sales information and the results of distribution arrangement reviews.<sup>1</sup>

## If you have any questions about the content of this document, who should you contact?

Please email [consumerduty.faq@closebrothers.com](mailto:consumerduty.faq@closebrothers.com) promptly.

### 1.0 Product characteristics

<b>Name of product</b>	Conditional Sale (CS)
<b>Date of latest product review</b>	01/04/2023
<b>Date of next product review and value assessment</b>	01/02/2024
<b>Is this product intended to be sold as part of a package?<sup>2</sup></b>	No

Ref	Product Information	Description
1.1	<b>Product nature<sup>3</sup></b>	The Conditional Sale product is a motor finance product that is secured against a vehicle of the customers choosing.  It requires the customer to pay a deposit, and the remaining amount borrowed is split into fixed monthly instalments (either equal instalments or slightly lower instalments with one final balloon payment due at the end of the term based on a percentage of the amount borrowed).
1.2	<b>Product benefits<sup>4</sup></b>	There are two benefits to this product; 1. Product allows the customer to borrow the funds and repay it in fixed monthly instalments over the term (either equal instalments or slightly lower instalments with one final balloon payment due at the end of the term). 2. Customer will own the vehicle at the end of the agreement.
1.3	<b>Product limitations<sup>5</sup></b>	The limitation of this product is: 1. A customer will be charged if the amount of a single payment in respect of early settlement exceeds £8,000 or the total of early settlements exceeds £8,000 in any 12-month period. This charge will be the lower of. I. 1% of the amount repaid early where the remaining term of the agreement is more than one year, or 0.5% of the amount repaid early, where the remaining term is equal to or less than one year, and II. the total amount of interest that would have been paid by the customer under the agreement from the date payment is made to the end of the agreement

<sup>1</sup> PRIN 2A.3.18R

<sup>2</sup> PRIN 2A.4.7R (2)

<sup>3</sup> PRIN 2A.3.16R (1)

<sup>4</sup> PRIN 2A.4.16R (2a)

<sup>5</sup> PRIN 2A.4.8R (2)

Ref	Product Information	Description
1.3	<b>Product limitations<sup>5</sup></b>	2. The vehicle cannot be used as a taxi 3. The customer cannot abandon, sell, gift, or transfer the ownership of the vehicle to a third party. 4. The vehicle cannot be removed from the UK without Close Brothers Motor Finance's consent. 5. The vehicle cannot be sold or used as a security (e.g. for a logbook loan).
1.4	<b>Summary of overall fees and charges<sup>6</sup></b>	<p>The CS product includes a number of standard charges that apply to all customers:</p> <ol style="list-style-type: none"> <li>1. Acceptance fee</li> <li>2. Title transfer fee - a flat amount paid by the customer with the final monthly instalment in order for CBMF to release title to the customer, so they become the legal owner of the vehicle.</li> </ol> <p>There are a number of other fees/charges that will only be applied in certain circumstances during the term of the agreement (for example missed payment, plate change fee etc).</p> <p>Plate Change Fee            Missed Payment            Arrears Letter Fee            Notice of default fee            House Visit Fee            Late Payment Interest</p> <p>All fees/charges are found to be justified based on cost to serve and comparison with fees charges across similar other Close Brothers Motor Finance (CBMF) products (PCP) or competitor offerings.</p>
1.5	<b>Summary of how the product represents fair value<sup>7</sup></b>	<p>A detailed review of costs, pricing and product nature, benefits and limitations has concluded that the CS product provides fair value to customers, and the amount customers pay is reasonable relative to the benefits/service they receive.</p> <p>Customers with characteristics of vulnerability make up a small proportion of the CS customer base, these customers are at increased risk of harm as they may have difficulty understanding product terms/documentation however, appropriate processes are in place to support those customers where needed. Whilst this assessment has highlighted that vulnerable customers are less likely to have complaints upheld, an action has been taken to review the complaints management process and how vulnerabilities are considered when reviewing complaints to ensure these customers aren't receiving a lesser service.</p> <p>One element of the annual product review includes updates to some customer communications to support customer understanding. A key area of focus has been on ensuring the product nature, benefits, limitations and the associated costs and pricing are clear and enable customers to make a timely and informed decision.</p> <p>The product pricing is based on the credit risk of the customer and in consideration of the customers' ability to sustainably repay. Brokers and Dealers do not set the price and instead are paid a fixed commission. Remuneration paid is proportionate to the work involved by credit broker/dealer partners. As a result of the Fair Value Assessment, the business has not found evidence that the pricing structure could lead to foreseeable harm.</p> <p>Considering the costs to CBMF, customers incurring all fees related to this product are still able to realise benefits and are receiving fair value.</p>

<sup>5</sup> PRIN 2A.4.8R (2)

<sup>6</sup> PRIN 2A.4.15 R

<sup>7</sup> PRIN 2A.4.15 R

## 2.0 Target market

Ref	Product Information	Description
2.1	<b>Characteristics, objectives and needs of the target market<sup>8</sup></b>	<p><b>The Target Market</b></p> <p>A retail customer, including natural persons, sole traders and partnerships of two or three people, aged 18 or over, who would like to purchase a vehicle using finance with no mileage restriction and spread the cost over a fixed monthly period, up to 60 months (either by equal monthly payments, or slightly reduced monthly payments with a final balloon payment due at the end) and who would like to own the vehicle at the end of the agreement.</p> <p>Characteristics/needs of a potential customer could include:</p> <ul style="list-style-type: none"> <li>• Less experienced customers who are borrowing for the first time as well as more experienced borrowers</li> <li>• Customers with limited disposable income (albeit sufficient to meet affordability criteria) as well as those with more disposable income</li> <li>• Customers who have a range of ability to understand the product and therefore may require additional support from the credit broker</li> </ul> <p><b>Not the Target Market:</b></p> <p>Customers who fall outside the target market are:</p> <ol style="list-style-type: none"> <li>1. Customers would do not want to own the vehicle at the end of the agreement</li> <li>2. Customers who fail to meet the affordability criteria CBMF operate and/or fall outside of the credit appetite for the product</li> <li>3. Customers who are unemployed or under the age of 18</li> <li>4. Customers who would prefer a finance product that is not secured against the asset</li> <li>5. Customers who prefer to pay for the vehicle using means other than CS finance</li> <li>6. Customers who are a Limited company</li> </ol>

## 3.0 Vulnerable customers

Ref	Product Information	Description
3.1	<p><b>Needs, characteristics and objectives of retail customers in the target market with characteristics of vulnerability<sup>9</sup></b></p> <p>You (distributors) are required to identify potential vulnerability and share this information with Close Brothers Motor Finance (manufacturer)</p>	<p>Customers with characteristics of vulnerability are within the target market. Vulnerable customers are able to benefit from the CS product in the same way as non-vulnerable customers.</p> <p>Vulnerable customers have different characteristics to non-vulnerable customers and may require additional support. As a result, they are handled by a specialist team with additional training on how to support vulnerable customers cases to ensure they continue to receive good customer outcomes.</p> <p>In FY22 (Aug 2021 – July 2022), the proportion of customers with characteristics of vulnerability represented 1% of active customers that held the CS product. Types of vulnerability include health, life events, resilience, and capability.</p> <p>The assessment determined that customers with characteristics of vulnerability received the same level of value as non-vulnerable customers. If you identify that a customer may have a potential vulnerability, then you should notify CBMF when submitting the customers application.</p>

<sup>8</sup> PRIN 2A.3.16R (2)

<sup>9</sup> 2A.3.16R (3) & 2A.4.16R (2b)

## 4.0 Distribution

Ref	Product Information	Description
4.1	<b>Product distribution strategy<sup>10</sup></b>	<p>The distributor, a third-party credit broker (a motor dealer or Broker) distributes the CS product to customers who are purchasing a vehicle. The credit broker introduces the customer to the CS product, with the customers ownership aims and requirements being established during the sales process.</p> <p>The credit broker seeks to understand if the customer would like to buy the vehicle, how they intend to use the vehicle, and their vehicle change cycle to match the product to the customers finance needs.</p> <p>The credit broker provides sufficient information for the customer to make an informed choice about whether the product meets their needs. Where a customer chooses to proceed with the CS product, the credit broker is responsible for the pre-contractual disclosures and arranging for the customer to review and sign the credit agreement.</p> <p>The product is not sold on an advised basis.</p> <p>CBMF has literature available for a credit broker to ensure they understand the products provided, as well as information and product videos on the website for a credit broker to access to aid their explanations of the products.</p> <p>An Account Manager is assigned to every credit broker and is responsible for ensuring they fully understand the products offered and sales process requirements and provide support where credit brokers do not demonstrate a good understanding and/or where they have questions about the product. Where CBMF identify that the product is being sold to customers outside of the target market then the credit broker would be contacted and educated further.</p> <p>CBMF has intermediary oversight processes in place in order to determine that third party credit brokers are acting to deliver good customer outcomes, this includes the review of intermediaries that trigger against set KRIs and the completion of site-based reviews and intermediary questionnaires in order to identify concerns that require addressing.</p> <p>CBMF attempts to call all CS customers in what is known as a welcome call. One of the purposes of the call is to validate the accuracy of the data in the application and correct any discrepancies and customer misunderstanding.</p> <p>CBMF has in place additional system controls to prevent outside target market customers for applying for CS. These include restrictions of products based on customer type (e.g. customers that are not subject to regulation will not be presented with a CS finance option). CBMF also complete credit checks and affordability assessments on all applicants to ensure the product is not offered to those outside of the target market.</p> <p>All distributors have to be authorised and regulated by the FCA to act as a credit broker. This is a prerequisite for being permitted to introduce CBMF products to their retail customers.</p> <p>Third party credit brokers do not set the price the customer receives, this is set by Close Brothers Motor Finance.</p>
4.2	<b>Interaction between the price paid and the extent and quality of any services provided by the distributor and whether the impact that the distribution arrangements (including remuneration) would result in the product ceasing to provide fair value.<sup>11</sup></b>	<p>Distributing partners are paid a fixed commission percentage on each new motor finance agreement introduced through them as agreed in the partnership agreement. Commission is a fixed percentage of the amount financed by the customer for their new vehicle. Commission is intended to represent the cost of that distributor in proposing the loan on CBMF systems, training, resourcing staff in their business to complete the application, sign-up process, and an appropriate level of profit.</p> <p>CBMF also sources new finance agreements through finance brokers. Finance brokers typically act as an intermediary between the originating dealer and CBMF to broker finance for the dealer. CBMF pay the broker a commission for the new agreement. The commission paid to the broker is to meet their operating costs and an appropriate level of profit</p> <p>Actual distributor commission is commercially sensitive data so no external data is available for comparison with other similar products on the market.</p>

<sup>10</sup> PRIN 2A.3.16R (4)

<sup>11</sup> PRIN 2A.4.16R (2c)

## For information only - summary of manufacturer and distributor information sharing obligations

**Note:** this is a summary only. You should ensure that you have read and understood the rules and how they apply to you.

Manufacturer obligations (Close Brothers)	Distributor obligations (You)
<p>Must provide adequate information in good time to enable distributors to meet their own obligations.<sup>12</sup></p> <p>The information shared will include information regarding the product and the product approval process.<sup>13</sup></p>	<p>Must obtain sufficient, adequate, and reliable product information from the manufacturer to:</p> <ol style="list-style-type: none"> <li>(1) Understand the characteristics of the product</li> <li>(2) Understand the identified target market</li> <li>(3) Consider the needs, characteristics, and objectives of any retail customers in the target market with characteristics of vulnerability</li> <li>(4) Identify the intended distribution strategy for the product, and,</li> <li>(5) Ensure the product is distributed in accordance with the needs, characteristics, and objectives of the target market.<sup>14</sup></li> </ol> <p>Must regularly review the distribution arrangements to verify that it is only distributing the product to the intended target market.<sup>15</sup></p> <p>If an issue is identified following a review, a distributor must make appropriate amendments to the product distribution arrangements and where harm has been identified, take appropriate action to mitigate the situation and prevent any further harm. Distributors must also promptly inform all relevant persons in the distribution chain, including Close Brothers Motor Finance, about any action taken.<sup>16</sup></p> <p>To support product reviews carried out by manufacturers, distributors must, upon request, provide manufacturers with relevant information including, where appropriate, sales information and information on the regular reviews of the product distribution arrangements.<sup>17</sup></p>
<p>Must ensure that firms distributing the product have all necessary information to understand the value that the product is intended to provide to a retail customer.<sup>18</sup></p>	<p>Must not distribute a product unless its distribution arrangements are consistent with the product providing fair value to retail customers.<sup>19</sup></p> <p>Obtain enough information from the manufacturer to understand the outcome of the value assessment and in particular identify:</p> <ol style="list-style-type: none"> <li>(1) The benefits the product is intended to provide to a retail customer</li> <li>(2) The characteristics, objectives and needs of the target market</li> <li>(3) The interaction between the price paid by the retail customer and the extent and quality of any services provided by the distributor, and,</li> <li>(4) Whether the impact that the distribution arrangements (including any remuneration) would result in the product ceasing to provide fair value to retail customers<sup>20</sup></li> </ol> <p>A firm which distributes products to other distributors must ensure that all information relevant to the value assessment is passed to the distributor at the end of the distribution chain.<sup>21</sup></p> <p>Where a distributor identifies that the product no longer provides fair value, whether that is due to aspects of the product or the distribution arrangements, it must take appropriate action to inform any relevant manufacturers and other distributors in the chain promptly about any concerns they have and any action the distributor is taking.<sup>22</sup></p>



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<sup>12</sup> PRIN 2A.3.12R (2)

<sup>13</sup> PRIN 2A.3.12R (3)

<sup>14</sup> PRIN 2A.3.16R

<sup>15</sup> PRIN 2A.3.19R

<sup>16</sup> PRIN 2A.3.20R

<sup>17</sup> PRIN 2A.3.18R

<sup>18</sup> PRIN 2A.4.15R

<sup>19</sup> PRIN 2A.4.16R (1)

<sup>20</sup> PRIN 2A.4.16R (2)

<sup>21</sup> PRIN 2A.4.18R (2)

<sup>22</sup> PRIN 2A.4.27R