

**Update to the Standards of Lending Practice for business customers - Coronavirus Business Interruption Loans Scheme (CBILS) and Bounce Back Loan Scheme (BBLs)
5 August 2020**

This update to the Standards was issued on 5 August 2020. The update, which applies only to products offered under the Government's Coronavirus Business Interruption Loans Scheme (CBILS) and Bounce Back Loan Scheme (BBLs), is recognised by the FCA as part of the Standards of Lending for business customers. Further details of the recognition can be found on the [FCA website](#).

1. Background

The LSB recognises that registered firms are prepared to support business customers experiencing disruption caused by the coronavirus pandemic, and in doing so may be prepared to offer products under Government established Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLs).

To support our registered firms, the LSB issued an update to the Standards of Lending for business customers on 4 May 2020 to take account of the Government's new CBILS and BBLs. This update to the Standards was supported by updates to the relevant sections of the Information to Practitioners. When the update was published, the LSB set out that the update would be reviewed as appropriate.

Since the publication of the update on 4 May 2020, the LSB has worked with the FCA to ensure that the update to the Standards is recognised, as it is our view that this recognition will provide firms with clarity regarding their SM&CR obligation to observe proper standards of market conduct.

As part of the process of seeking FCA recognition the LSB reviewed the update to the Standards issued on 4 May 2020, and the supporting updates to the Information for Practitioners, and has made some changes to provide firms with further clarity regarding the application of the Standards to products offered to customers under CBILS and BBLs. The changes also recognise that further guidance relating to CBILS and BBLs may still be issued by the Government.

These changes are incorporated in the following updates to the Standards of Lending Practice for business customers and the supporting Information for Practitioners, issued on 5 August 2020.

2. Update to the Standards of Lending Practice for business customers, issued on 5 August 2020.

Update to take account of measures introduced by the Government to support lending to SMEs impacted by the Covid-19 pandemic, issued on 5 August 2020.

It is recognised that registered firms are prepared to support business customers experiencing disruption caused by the coronavirus pandemic, and in doing so may be prepared to offer products under Government established Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLs) in reliance on the Government guarantee under each scheme.

The LSB is clear that in order for firms to meet their obligations under the relevant schemes, there is a need to facilitate fast and efficient lending decisions. The LSB would, therefore, consider participating firms' compliance with the requirements of the Government's schemes to be compliant with paragraph 4 of the provisions on **Product sale** and with the provisions on **Product information**.

The LSB also recognises that by participating in the Government schemes firms may not be able to apply in full effect some provisions within the Standards as certain aspects of the products have been determined by Government, and as such firms will have a limited role in the design and review of these products. This applies to the following provisions within the Standards:

- paragraph 3 on **Credit monitoring**, for the first 12 months of an agreement under these schemes;
- paragraph 1 and 2 on **Treatment of customers in financial difficulty**, so far as they relate to the identification of customers in financial difficulty or vulnerable circumstances, at the point of origination and for the first 12 months of an agreement under these schemes;
- paragraph 8 and 9 on **Governance and oversight**, so far as they relate to the design and review of products; and
- the provisions on **Customers in vulnerable circumstances**, so far as they relate to the identification of customers in vulnerable circumstances and the design and review of products.

However, where it is reasonably practicable and where doing so is in accordance with the guarantee agreement under each scheme and is in line with relevant guidance or directions that may be issued by the Government from time to time, firms should continue to apply any relevant provisions of the Standards to lending under the Government schemes.

This update is a temporary measure relating to the Covid-19 pandemic and is designed to support firms in delivering products to business customers under the Government schemes. The update will be reviewed as appropriate. It does not apply to any other products offered by firms.

3. Update to the Information for Practitioners, issued on 5 August 2020.

For ease of reference, the relevant wording from the section of the Standards to which the update applies has been included.

Product information

Customer outcome: *all product information presented to business customers will be clear, fair and not misleading and enable the customer to understand the key features of the product, such as the interest rates, fees and charges that apply*

Update to take account of measures introduced by the Government to support lending to SMEs impacted by the Covid-19 pandemic.

HM Government has established the Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLs) to support the continued provision of finance to SMEs throughout the Covid-19 pandemic. It is recognised that registered firms are prepared to support business customers experiencing disruption caused by the coronavirus pandemic, and in doing so may be prepared to offer products under CBILS and BBLs in reliance on the Government guarantee under each scheme.

The Government, as part of these initiatives, has drafted portions of the documentation firms are required to provide when lending under these schemes. It has also set requirements relating to the disclosure of information relevant to the products and the associated documentation. The LSB considers these to be compliant with this section of the Standards.

Product sale

(Paragraph 4) *Before providing any form of credit, granting a limit or increasing the customer's borrowing, Firms should assess, from the information available at the time, whether the customer will be able to repay it in a sustainable manner without incurring financial difficulty.*

Update to take account of measures introduced by the Government to support lending to SMEs impacted by the Covid-19 pandemic.

HM Government has established the Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLs) to support the continued provision of finance to SMEs throughout the Covid-19 pandemic. It is recognised that registered firms are prepared to support business customers experiencing disruption caused by the coronavirus pandemic, and in doing so may be prepared to offer products under CBILS and BBLs in reliance on the Government guarantee under each scheme. On 27 April 2020, changes to the criteria firms are required to apply when considering businesses for a loan under CBILS were announced.

Products offered under CBILS

The criteria for assessing affordability of a product under CBILS is different to that set by the Standards. When considering an application for a CBILS product firms should ensure that processes for assessing whether the product is affordable for the business align with the requirements of the scheme. Firms should consider the range of information available to them, examples include: the performance of the business prior to the Covid-19 outbreak; a view of how the loan will be repaid in due course, relying on judgement in the absence of financial forecast information; and the general prospects for the sector in which the business operates once the effects of the pandemic have receded.

Firms are reminded that they should only request information relating to the performance of the business where the customer might reasonably be able to provide the requested information at speed. The LSB recognises that some business customers may wish to provide the firm with forward-looking financial and business plans. If a business customer chooses to do so, this information can be used to support the better assessment as to the appropriateness of lending under the Government's schemes, the level of borrowing and duration required and the affordability of the financing applied for.

Products offered under BBLs

It is recognised that this product does not require firms to assess whether the product is affordable for the business, firms will therefore apply the terms of the scheme over the requirements set out in this section of the Standards.

The LSB considers participating firms' compliance with the requirements of the Government's schemes to be compliant with this provision of the Standards of Lending Practice. In line with the requirements of the wider Standards, the LSB would expect participating firms to continue to ensure that the customer is provided with clear information on how the product works and its key features (see also paragraph 7, Product sale).

Credit monitoring

(Paragraph 3) *Firms should ensure that a sufficient level of monitoring, underpinned by appropriate triggers and processes, of a customer's borrowing is undertaken to help determine if the customer is exhibiting signs of financial stress. Where relevant, firms should engage with these customers in a sensitive and supportive manner*

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Firms offering products under CBILS and BBLs will have adapted or introduced new processes, as appropriate, to meet the requirement of the schemes. It is therefore recognised that firms may not have access to the same level of information as they would under their usual terms of lending and will have reduced visibility on the financial situation and previous performance of the business. Due to the automatic interest and principal holiday provided to borrowers under the terms of BBLs, the LSB would not expect firms to apply this requirement of the Standards to this product during this period.

Products offered under CBILS

Firms will have to rely on any information made available during the application process and internal MI to inform the level of monitoring that could be undertaken. If monitoring is undertaken and the customer exhibits signs of, or informs their firm that the business is in, financial distress ahead of the first repayment falling due, the LSB would expect the firm to engage with the business in line with existing policies and processes.

Products offered under BBLs

The way this product is designed to operate, and in the absence of a relationship management model, means that firms will have very little/if any information about the business upon which to base monitoring activity, ahead of the customer's first repayment date falling due. The LSB acknowledges that firms providing this product will be unable to meet this provision as drafted in the initial 12 months of the agreement and, as above, the monitoring requirements set out in the Standards are not considered applicable. This is because the information that customers are required to provide at the point of application under the BBLs is not enough to allow firms to undertake the sufficient levels of monitoring required under paragraph 3.

If, after a customer has accessed funding, a firm does identify a customer as showing signs of financial distress, the LSB would expect the firm to take reasonable steps to support the customer in line with the provisions set out in this section of the Standards and/or paragraphs 3 to 7 of the Standards on the treatment of customers in financial difficulty. This may be the case where a customer informs a firm that the business is showing signs of financial distress, or where a firm becomes aware of such signs through any systems

and processes that they have in place (in line with the Standards) to enable them to identify and support business customers showing signs of financial stress.

Firms should ensure that any support offered is permitted under the guarantee agreement for the scheme and is in line with any relevant guidance or directions that may be issued by the Government from time to time.

Treatment of customers in financial difficulty

(Paragraph 1) *Firms should have triggers and processes in place to help identify customers who may be in financial difficulty and should act promptly and efficiently to address the situation with the customer*

Update to take account of measures introduced by the Government to support lending to SMEs impacted by the Covid-19 pandemic.

HM Government has established the Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back Loan Scheme (BBLs) to support the continued provision of finance to SMEs throughout the Covid-19 pandemic. It is recognised that registered firms are prepared to support business customers experiencing disruption caused by the coronavirus pandemic, and in doing so may be prepared to offer products under CBILS and BBLs in reliance on the Government guarantee under each scheme.

For products offered under CBILS, firms will have access to a limited range of information, depending upon the type and level of information the customer was able to provide at the application stage and what, if anything, is known about the business. However, it is recognised that in the absence of a pre-existing relationship with the customer, the ability to identify financial difficulty may only arise at the point the customer misses a payment.

For products offered under BBLs, it is acknowledged that under the terms of BBLs, firms are not required to obtain any current or historic information on the performance of the business. Therefore, firms may be unaware as to whether or not the business is in financial difficulty during the initial 12 months of the agreement.

The scheme has been designed as a mass market product without a relationship management model which means that even where there is a pre-existing relationship with the business, firms will be unable, due to the way the scheme operates, to take this information into account at the point of lending. In addition, the application of an automatic interest and principal holiday means that firms will be further limited in the types of information which would normally feed into the triggers and processes already in place to identify signs of potential or actual financial difficulty. It is recognised that, based on the information that customers are required to provide to firms under the BBLs, firms, at the point of application and for the first 12 months of the agreement, will be unable to identify if a customer is in financial difficulty unless proactively contacted by the customer.

If, after a customer has accessed funding, a firm does identify a customer as showing signs of financial difficulty, the LSB would expect the firm to take reasonable steps to apply the provisions set out in paragraphs 3 to 7 of the Standards on the treatment of customers in

financial difficulty. This may be the case where a customer informs a firm that the business is showing signs of financial difficulty, or where a firm becomes aware of such signs through any systems and processes that they have in place (in line with the Standards) to enable them to identify and support business customers in financial difficulty.

Firms should ensure that any support offered is permitted under the guarantee agreement for the scheme and is in line with any relevant guidance or directions that may be issued by the Government from time to time.

As set out in the BBLs guarantee agreement, the LSB would expect firms to apply the requirements of the Standards when carrying out recoveries activity where the debt collection is unregulated, unless directed otherwise by Government.

The LSB recognises that, when the Government issues new guidance or directions, firms may need to review or adapt their approach to supporting customers or to undertaking recoveries activities.

(Paragraph 2) *Firms should have appropriate policies and procedures in place to identify and support vulnerable individuals where this impacts on the customer's ability to pay*

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Given the requirements of CBILS, it is acknowledged that unless there is a pre-existing relationship with the business, firms will have limited access to information on both the business and the circumstances of the business owner.

As set out in the Standards, the impact of the individual's vulnerability on the business customer's relationship with their registered firm will depend on a number of non-exhaustive factors such as: the legal structure of the business, its sophistication, the role and level of responsibility of the individual within it and the extent of the individual's vulnerability.

For lending under BBLs, it is recognised that unless this information is proactively provided by the customer, firms may be unable to identify such customers at the point of origination. However, if at any point during the course of the relationship with the customer, a firm becomes aware that a customer is, or may be, in a vulnerable situation the LSB would expect the firm to act in accordance with the relevant Standards.

Customers in vulnerable circumstances

Customer outcome: inclusive products and services take into account the broad range of business customers to which they may apply and contain appropriate flexibility to meet the needs of customers who may be, or are in, a vulnerable situation. Where customers are identified as, or the Firm has reason to believe that they may be, vulnerable, appropriate adjustments are made to ensure that their individual circumstances are accommodated to enable the customer, or their authorised third party, to manage their account(s).

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The Covid-19 pandemic has driven the need to develop products to facilitate fast and efficient lending to impacted businesses with responsibility for the design and application of the products sitting outside of firms' control. The terms of lending for the schemes requires firms to make lending decisions outside of their normal processes and with access to a limited amount/no information on the performance of the business. Similarly, firms are unlikely to have information on the business owner's personal circumstances which may impact on the running of the business. The LSB recognises that firms' ability to apply particular elements of the Standards may be reduced. This is particularly relevant in relation to the application of the Standards on customers in vulnerable circumstances. As set out in the Standards, the impact of the individual's vulnerability on the business customer's relationship with their registered firm will depend on a number of non-exhaustive factors such as: the legal structure of the business, its sophistication, the role and level of responsibility of the individual within it and the extent of the individual's vulnerability.

The LSB recognises that when lending under BBLs, firms will not have the ability to identify an individual in vulnerable circumstances. Similarly, the LSB has taken into account that the design of the scheme as a digital proposition only is outside of firms' control.

It is recognised that by participating in the schemes firms may not be able to apply in full effect all provisions within this section of the Standards. Certain aspects of the products are determined by the Government, and as such firms will have a limited role in the design and review process. Given this, the LSB accepts that firms cannot reasonably be expected to give full consideration to the design or review of products offered under CBILS and BBLs.

Governance and oversight

(Paragraph 8) *Firms should ensure that the product design stage takes into account internal and external risks which could impact upon a customer’s ability to maintain their repayments so that new products do not lead to unsustainable borrowing.*

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It is recognised that by participating in the Government schemes firms may not be able to apply in full effect all provisions within this section of the Standards as certain aspects of the products are determined by the Government, and as such firms have a limited or no role in the design of products.

Given this firms cannot reasonably be expected to apply the provisions of paragraph 8. to the design of products offered under CBILS and BBLs as the parameters of the products are set out by the Government.

(Paragraph 9) *Firms should undertake both post-launch and cyclical product reviews to ensure that their products are, and remain, fit for purpose.*

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It is recognised that by participating in the Government schemes firms may not be able to apply in full effect all provisions within the Standards as certain aspects of the products are determined by the Government.

Given this firms are not able to determine design or the duration of the availability of the product, they will not reasonably be expected to undertake products reviews in a normal way. However, the LSB would encourage firms to take account of the schemes within the product review process.