

The LSB's Information for Practitioners

The Standards of Lending Practice for
personal customers

Product sale

September 2016

This document has been produced by the LSB and provides non-exhaustive examples of the approach Registered Firms (Firms) may wish to take into consideration when seeking to adhere to the Standards of Lending Practice (the Standards) on product sale.

Registered Firms must be able to demonstrate to the LSB that they are adhering to the Standards of Lending Practice; however the LSB does not monitor compliance with the content of this document and as such, it is not intended to be prescriptive nor binding on Registered Firms. The LSB acknowledges that each Firm will have its own way of demonstrating that it is adhering to the Standards without the need to refer to, or take account of, the content of this document.

Where a Standard cross references to the Consumer Credit Act 1974, as amended (the CCA), the Consumer Credit Sourcebook (CONC) or other Financial Conduct Authority (FCA) requirement, the examples or suggestions which follow represents the LSB's view on how the Standard could be achieved but should not be considered to supersede the wording or intention of the CCA/CONC or the FCA.

This document will be kept under review and will be updated on an ongoing basis as and when the LSB identifies further examples of the work which is being undertaken by the industry in this area. The Standards contained within *account maintenance and servicing* are covered in some detail within CONC, therefore the language used within this document reflects the fact that Firms are required to, and already are undertaking specific activities, to ensure compliance with CONC.

1. Firms should ensure that when a customer applies for a credit product, they are advised that checks will be made at, and information provided to, Credit Reference Agencies [CONC 4]

In line with the requirements of CONC, when a customer applies for a product covered under the Standards of Lending Practice, they should be told whether searches will be made at Credit Reference Agencies (CRAs), whether a record of any search will be retained at the CRA and, if so, that this could impact on the customer's ability to obtain credit elsewhere. The customer should also be told if the details of the account, if opened, will be passed to CRAs and that the information will be accessed and used by others. This will include information about the running of the account such as the limit and balances as well as payment performance.

2. Firms should ensure that customers are provided with sufficient information which enables them to decide whether the product they are applying for meets their needs and is suitable for their financial situation [CONC 4]

CONC sets out the rules and guidance regarding information which should be provided to customer at the pre-application stage. Applicants should be told how they will be notified of changes to terms and conditions when they become a customer. The LSB would expect that where a customer has been advised of an adverse change to the terms and conditions of their product, a freephone number should be provided for the customer to contact the Firm, should they wish to do so. However, if the customer operates their account online, this would be the usual method of contact for the customer.

If a customer applies for a **basic bank account**, they should not be upsold to a full service current account, unless during the course of the application, it becomes apparent that the features of the basic bank account are not suitable for their needs.

In order to help the customer make an informed decision, where a Firm provides within its current account range one or more accounts that provide customers with the **ability to opt out from unarranged overdrafts**, details of such accounts should be provided to customers applying for a new current account, together with a comparison of this type of account against other current accounts offered by the Firm without such facility. The comparison only needs to include comparable current account products on which overdrafts are permitted. However, where the Firm is told, or has reason to believe, that the customer has already decided on another current account product in the Firm's range of current accounts (e.g. a basic bank account), this information does not need to be provided.

Consolidation loans

Where a consolidation loan is provided to a customer and the Firm considers the customer to be in financial difficulty, the LSB would expect the Firm to:

- reduce or pay off the existing in-house borrowing that it is aware is being consolidated where the existence of such borrowing is apparent to a Firm via their systems. Exceptionally there may be circumstances in which it is appropriate not to reduce or pay off existing borrowing.
- the monthly repayments on the consolidation loan should not exceed the total monthly repayments of the debts being consolidated, unless exceptional circumstances apply, for example where the customer has a repayment holiday or an interest-free period under their existing arrangement, which is shortly to end.

3. If the customer's application is declined due to information obtained from a Credit Reference Agency search, Firms should direct the customer to obtain a copy of the information held about them from the relevant Credit Reference Agencies, prior to making any further applications

Some customers may lack understanding of how CRAs fit into the application process and how the process of applying for credit requires that information is recorded on their credit file. If a customer's application is declined, they should be advised of the main reasons why their application has been unsuccessful, told which CRA(s) the Firm uses and how to get a copy of the information the relevant CRA(s) hold about them. The customer should be provided with any leaflets produced by the Firm or directed to relevant pages of the Firm's website which explain how credit referencing works. The ICO's guidance for consumers¹ advises that if an application is declined and they have additional information which may alter the decision, they can request that the Firm reviews its decision.

What might good practice look like: where applications or requests for credit limit increases are declined the individual should be provided with clear information about the factors that will have influenced the decision and where relevant, are recommended to check their file at the CRAs. This could include a set of suggested actions for the consumer to take such as making sure they are on the electoral register.

¹ <https://ico.org.uk/media/for-the-public/documents/1282/credit-explained-dp-guidance.pdf>

4. If a Firm offers a credit product which includes an indicative quotation facility, it should provide the customer with clear information as to how this works

If a Firm offers an indicative quotation facility for a credit product, the LSB would expect the customer to be informed that the headline rate may not be available and any quotation will be linked to their own financial circumstances as known to the Firm and CRAs, prior to the customer commencing a formal application.

If asked by a customer for an indication of the likely interest rate for a product, a Firm should either:

- as industry best practice, provide an indicative quotation, in respect of which any credit search undertaken is not registered as a full application search at CRAs i.e. it is not used by lenders in their risk assessment; or
- inform the customer that it does not offer an indicative quotation facility and ensure that the customer is aware that, if they proceed, an application search will be registered at the CRA(s).

5. Before providing any form of credit, granting or increasing an overdraft or other borrowing, Firms should assess, from the information available to the Firm at the time, whether the customer will be able to repay it in a sustainable manner without the customer incurring financial difficulty or experiencing significant adverse consequences [CONC 5]

CONC 5 and 6 contain rules and guidance in relation to the assessment of affordability and creditworthiness. Consideration could be given to the type and amount of credit being sought, how the customer has handled their finances in the past, any known further commitments of the customer, any future changes which could be reasonably expected to have a significant financial impact on the customer, internal credit scoring techniques, the customer's income, the reasons for the borrowing and for how long and where relevant, any security provided.

Where an application is declined, the Firm could consider whether the individual would benefit from a referral to free, independent debt advice. The LSB acknowledges that not every decline will be on the basis of a lack of affordability but where the information available to a Firm suggests that the customer may be showing financial stress, they may benefit from a referral.

Credit card limit increases

Before setting a customer's credit limit, or increasing an existing limit, Firms should follow The UK Cards Association Best Practice Guidelines for [credit card limit increases](#).

Overdraft limits

If a customer applies for an increase in their overdraft limit, they should not be provided with more than they have requested.

6. Firms' application processes should ensure that a customer is not at a disadvantage because they are serving/have recently served in the British Armed Forces

Members of the Armed Forces who are based overseas or in a UK barracks can find it difficult to build a credit history and therefore may experience difficulties in demonstrating creditworthiness. This could be because their address is outside of the UK; they move regularly or have a British Forces Postcode. The LSB would expect that Firms' systems and process, where possible, should be able to take account of the different types of information service personnel may provide, such as a British Forces Postcode, so that applications can be processed in line with standard processes and procedures. When considering an application for credit from a member of the Armed Forces, Firms should take account of the key principles contained within the [Ministry of Defence's Guidance](#).

7. When providing a credit card product, Firms should present information about the main features of a credit card in a summary box, as set out in the UK Cards Best Practice Guidelines

Information provided to customers should be clear, fair and not misleading. Firms should present information about the main features of a credit card in a summary box, as set out in [The UK Cards Association Best Practice Guidelines](#).

This should be provided to the customer prior to their acceptance of the agreement. For online applications, a click-through to a page containing the summary box should be available. For telephone based applications, Firms should consider how this information can be conveyed in a way which enables the customer to follow and understand the information provided.

All integral features of the product, such as introductory rates, should be included in the summary box. Information on free-standing or optional product features, if offered, protection insurances, credit card cheques or other free-standing product features should not be shown in the summary box. Information on such free-standing features should be provided separately and should comply with any relevant best practice guidelines.

Pre-contract, the summary box should appear prominently on, or within, any application form/pack, acting as a final reminder for the consumer.

Before a customer enters into the contract for a credit card (and when they accept the product for the first time) they should be given information relating to the following:

- an explanation of how interest is calculated and charged; for example, whether it is charged on the full statement balance or only on any balance remaining after the customer has made the monthly payment
- the Payment Services Regulations (PSR)s require that the customer should be provided, where relevant, with details of the interest and exchange rates to be applied or, if reference interest and exchange rates are to be used, the method for calculating the actual interest and the relevant date and index or base for determining such reference interest or exchange rates

- this information should be provided either in good time before the customer is bound by the contract, or where the contract is concluded at the payment service user's request, using a means of distance communication, immediately after the conclusion of the contract;
- details of how monthly payments are applied to any outstanding balance across transaction types including promotional offers;
- an explanation of recurring transactions
- details of charges for the day-to-day running of the account, including any annual fee, dormancy fee, charge for exceeding credit limit, charge for delayed monthly payment, charges for overseas transactions, cash withdrawal fees for card usage at an ATM or over the counter, fees for any cash equivalent transactions, balance transfer fees, returned payment fees due to insufficient funds, and any other applicable fees
- the distinction between being the principal cardholder and an additional cardholder should be explained i.e., that the principal cardholder is responsible for all spending, including that by additional cardholders, and is responsible for repayments on the credit card
- the interest rates applicable to different types of transactions (e.g., purchases, balance transfers, credit card cheque transactions and cash transactions) and the ways in which customers will be told about changes in interest rates; and
- sufficient details to enable customers to pay on time, including via automated payments. Firms should also ensure that, where customers are offered the facility to pay by cheque by post, sufficient time is given to allow payments to be made in time, taking account of the postal delivery system and the length of the clearing cycle.