

The Standards of Lending Practice

Personal Customers



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Introduction

The Standards of Lending Practice, which replace the Lending Code, are composed of seven main areas. These set out standards of good practice in relation to credit card, overdraft and unsecured loan products provided to customers, across the lifecycle from the initial offering of the product through to dealing with customers who find themselves in financial difficulty.

The principles for lending outline the overarching areas of focus for Registered Firms and underpinning these are the more detailed Standards of Lending Practice which are broken down into the following topics:

- Financial promotions and communications
- Product sale
- Account maintenance and servicing
- Money management
- Financial difficulty
- Consumer vulnerability

There is also a separate section on Governance and Oversight, which sets out the framework Registered Firms should have in place to ensure that the Standards are implemented and operate effectively.

The Standards represent a move away from its predecessor, which was focused more on compliance with provisions than customer outcomes. This acknowledges that there may be several ways to achieve the right customer outcome and that the best solution in a specific situation may differ depending on the customer's individual circumstances. This avoids Firms having to rigidly follow a set of rules which may not always be appropriate and allow for flexibility. The LSB's oversight regime will recognise this and will focus on how Firms are demonstrating that they are meeting the outcomes.

Each section contains both a 'customer outcome' and an overall statement of how a Firm will achieve this; both are supported by a more detailed set of standards to enable Firms to demonstrate how they achieve the desired outcome. While a number of these areas are well established within Firms, there are some newer, emerging areas where the Standards of Lending Practice help Firms in developing their approach to these.

One example is consumer vulnerability where the Standards of Lending Practice seek to support Firms in applying a consistent approach to the provision of inclusive products and services which is embedded across all operations. This means that the products offered therefore work well for the majority of customers but which also contain sufficient flexibility to enable the needs of customers who are, or who find themselves in, a vulnerable situation to be met.

Alignment with statutory regulation

Registered Firms are regulated by the Financial Conduct Authority (FCA) and will already be required to adhere to the Consumer Credit Sourcebook (CONC). For completeness, the Standards of Lending Practice also include where relevant, references to CONC and the Consumer Credit Act 1974, as amended (CCA). The Governance and Oversight section acknowledges that the FCA's Senior Management Arrangements, Systems and Controls (SYSC) requires Firms to have adequate governance arrangements in place. The intention is that the Standards of Lending Practice provide an overview of the entire lending process but adherence to any CCA/FCA/CONC requirement is outside of the LSB's oversight regime.

Application

The Standards of Lending Practice apply to lending undertaken in the UK and across all delivery channels. Those Firms which agree to adhere to the Standards should ensure that any third party or agent acting on their behalf adheres to these in relation to any products or services which are covered by the Standards of Lending Practice.

Lending to micro-enterprise customers

Work is underway on developing Standards of Lending Practice for lending to micro-enterprises; in the interim the existing protections of the current Lending Code will continue to apply for these customers.

Principles for lending

Application

Below are the overarching principles that Registered Firms which lend, and/or undertake associated debt collection activities, to personal customers should use to govern their relationship with their customers.

The principles for lending and Standards of Lending Practice apply to:

- Credit card, overdraft and unsecured loan products.
- Registered Firms and any third parties that retail and service the lending products listed above on behalf of a Registered Firm.
- In the event that a third party takes over responsibility for any products the customer has with a Registered Firm, the existing consumer protections will continue to apply.

Registered Firms will ensure that their customers:

- a. Are told about the lending products the Firm has to offer, they will not face unreasonable barriers to accessing these and will be provided with clear information to enable them to choose a product that meets their needs.
- b. Will be assured that Firms are committed to promoting their products responsibly.
- c. Are provided with clear information about how to apply for the different lending products a Firm offers; what the application process entails and any other requirements a Firm may have. Customers should be made aware of what implications the application could have on their credit rating.
- d. Are aware of the high level basis on which the Firm will make its decision to lend to them. If the customer's application is declined the main reason for this will be provided, if requested by the customer.
- e. Will be provided with clear and understandable documentation along with information which clearly sets out both parties' rights and obligations during the lifetime of the product.
- f. Will be supported if they anticipate, or a Firm becomes aware, that they will have or are experiencing difficulty in repaying their borrowing.
- g. Will know what happens when they have repaid their borrowing or do not require it any longer.

Financial promotions and communications

Customer outcome: all product information presented to the customer will be clear, fair and not misleading and enable the customer to understand the key features and risks of the product including the interest rates, fees and charges that apply.

Firms will achieve this: with systems and controls at product design, financial promotion and product review stages that assess product performance and ensure product information is clear, fair and not misleading.

1. Firms should ensure that all financial promotions, across all channels, are clear, fair and not misleading. This includes material provided to price comparison websites. [CONC 3]
2. Firms should ensure that all marketing and advertising material adheres to Data Protection legislation and the requirements of the Information Commissioner's Office. [CONC 3]

Product sale

Customer outcome: customers will only be provided with a product that is affordable and which meets their needs or requirements.

Firms will achieve this: with systems and controls that ensure the sales process, training and incentives promote the right behaviours and directs their employees, or their agents, to deliver the right customer outcome.

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]
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]
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.
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.
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]
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.
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 Association Best Practice Guidelines.

Account maintenance and servicing

Customer outcome: customer requests will be dealt with in a timely, secure and accurate manner. Information provided to customers will be clear in terms of presentation and in clarifying any action that the customer needs to take.

Firms will achieve this: with systems, processes and controls that aim to provide an accurate view of the customer's relationship with the Firm and the relevant lending products they hold. Information held about, and sent to, the customer is up to date and that this is underpinned by appropriately skilled and knowledgeable staff.

1. Firms should provide customers with a monthly credit card statement which includes sufficient information to allow the customer to manage their account [CCA]
2. The minimum payment due on a credit card account should be clearly shown on the customer's statement. [CONC 6]
3. If a current account customer wishes to opt out of an unarranged overdraft, where this facility is offered, Firms should enable the customer to exercise this option and inform them of the effect this will have on the operation of their account.
4. Firms should provide credit card customers with written notice of any interest rate increase, unless this relates to a base rate tracker product, and how they can reject this if they wish to do so. The customer should be advised what happens to the account if they choose to reject the increase. [CONC 6]
5. Firms should have processes in place to deal with unauthorised credit card transactions. If customer fraud is suspected; the burden of proof is on the Firm to prove this is the case. [CCA]
6. Firms should inform customers of any changes to the interest rates and fees on their overdraft. To help the customer to compare costs, the old interest rates and fees should be included within the information provided.
7. Firms will maintain the security of customers' data but may share information about the day-to-day running of a customer's account(s), including positive data, with credit reference agencies where the Firm has agreed to follow the principles of reciprocity. [CONC 5]
8. Firms should ensure that where an individual provides a guarantee/indemnity or other security, they have access to regular financial information on their current level of liability.

Money management

Customer outcome: customers will be helped with managing their finances through pro-active and reactive measures designed to identify signs of financial stress and to help them avoid falling into financial difficulty.

Firms will achieve this: with systems and controls that are capable of identifying, across the relevant products held, where customers may be showing signs of financial stress at any point in the customer life-cycle, and pro-actively engaging with the customer to provide an appropriate solution.

1. 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.
2. Firms should undertake both post-launch and cyclical product reviews to ensure that their products are, and remain, fit for purpose.
3. Firms should monitor customers' credit card and overdraft limits to ensure that the customer is not exhibiting signs of financial stress and where relevant, offer appropriate support.
4. Firms should ensure that customer facing employees and third parties are sufficiently trained and skilled to help them to identify and deal with those customers who may be showing signs of financial stress.
5. Firms should undertake monitoring and assurance work to ensure that their policies and processes are designed and are operating effectively in identifying and supporting customers who are showing signs of financial stress.

Financial difficulty

Customer outcome: customers in financial difficulty, or in the early stages of the collections process, will receive appropriate support and fair treatment, across the different communication channels offered, in order to help them deal with their debts in the most suitable way.

Firms will achieve this: with systems and controls that are capable of identifying and subsequently, supporting customers in financial difficulty. Firms should be able to demonstrate that a sympathetic and positive approach has been applied when considering a customer's financial situation.

1. Firms should have triggers and processes in place to identify customers who may be in financial difficulty and should act promptly and efficiently to address the situation with the customer. [CONC 7]
2. Customers identified as being in financial difficulty should be provided with clear information setting out the support available to them and should not be subject to harassment or undue pressure when discussing their problems. [CONC 7]
3. Firms should demonstrate an empathetic approach to the customer's situation; listening to and acting upon information provided by the customer with a view to developing an affordable and appropriate solution.
4. If an offer of repayment is made via the common financial statement/standard financial statement, this should be used as the basis for pro-rata distribution amongst creditors covered by the plan. [CONC 7]
5. Firms should have appropriate policies and procedures in place to identify and support vulnerable customers where this impacts on their ability to pay. [See also consumer vulnerability]
6. Customers who are in financial difficulty will, where appropriate, be signposted to free, impartial debt advice. [CONC 7]
7. Firms should apply an appropriate level of forbearance, where, after having made contact with the customer, it is clear that this would be appropriate for their situation. [CONC 7]
8. Where a customer remains engaged with the Firm and maintains their repayment plan, they will not be subject to unnecessary contact.
9. Firms should consider freezing or reducing interest and charges when a customer is in financial difficulty. [CONC 7]
10. All communication with the customer/their authorised third party will be undertaken in a clear and open manner, via the customer's/third party's preferred method of communication (where this is known, appropriate and available). [CONC 7]
11. Firms should take into account the customer's circumstances and consider whether it would amount to a fair customer outcome to pursue, or to continue to pursue, the amount owed.

Financial difficulty

12. Firms should follow a robust due diligence process when selecting third parties for debt collection or when selling a debt.
 - a. Firms should ensure that when a customer's debt is sold, the purchaser continues to apply the relevant protections provided by the Standards of Lending Practice. Monitoring should be undertaken at least annually where a Firm continues to sell debt to a purchaser, and for a further two years after a Firm has stopped selling debt to that purchaser.
 - b. If a customer has provided appropriate and relevant evidence of an ongoing mental health or critical illness that affects the customer's ability to repay their debts, the debt(s) should not be sold.
 - c. Where a Firm is aware that a customer is terminally ill, the debt(s) should not be sold.

Consumer vulnerability

Customer outcome: inclusive products and services take into account the broad range of 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).

Firms will achieve this: with systems and controls that are capable of assisting in the identification of customers who are, or may be, in a vulnerable situation, and having appropriate measures, referral points and skilled staff to deal appropriately with the customer once identified.

1. Firms should have a vulnerability strategy, which defines its approach to the identification and treatment of customers considered to be vulnerable, through whichever channel they choose to engage.
2. Firms should have policies and processes governing the identification and treatment of customers in vulnerable circumstances. These should take into account: the channel, where the customer is within the customer journey and the varying nature and degrees of permanence of different vulnerabilities.
3. (a) Firms should ensure that their employees and their agents are sufficiently trained to help them to identify vulnerability and deal with the customer in accordance with their policies and processes, with appropriate escalation points, where the circumstances require this.

(b) When a customer is identified as potentially vulnerable a Firm should ensure that its employees or its agents have appropriate referral and escalation points and are aware of how to access them.
4. Where appropriate, Firms should develop triggers and management information to assist employees in the identification and subsequent monitoring of customers who may be vulnerable.
5. Where a Firm is developing a new product or reviewing an existing product it should consider vulnerability as part of the design or review process, paying regard to target market, clarity, accessibility and the operation of the product.
6. Firms' sales policies and processes should take account of the impact vulnerability may have on a customer's ability to make an informed decision about a product, and provide relevant support to customers during the credit application process.
7. Where customers in financial difficulty are considered vulnerable they should be dealt with positively and sympathetically. [See also financial difficulty]
8. Firms should undertake monitoring and assurance work to ensure that the vulnerability policies, processes and controls are designed and operating effectively and delivering fair customer outcomes.

Governance and oversight

Customer outcome: customers will receive a fair outcome when taking out a consumer credit product and throughout the whole customer lifecycle, wherever the interaction with the customer takes place.

Firms will achieve this: with systems, controls and governance arrangements that ensure that there is effective senior management oversight of the Firm's achievement of the customer outcomes contained in the Standards of Lending Practice.

1. Firms should have adequate governance, policies, processes, management information and controls to enable effective oversight of adherence to standards and delivery of fair customer outcomes.
2. Firms should have an effective risk management framework appropriate to the size of the Firm to ensure that the Standards of Lending Practice are achieved.
3. Firms should ensure that their employees and their agents are adequately trained to deliver the Standards of Lending Practice's customer outcomes, and that any incentive schemes are driving the right behaviours to ensure fair customer outcomes.
4. Firms should have systems in place to ensure that any failure to adhere to the Standards of Lending Practice are identified, and assessed for materiality and root cause. Where the materiality threshold is met, these are reported to the LSB and remediated in a timely manner.
5. Firms should have processes in place to identify when changes to the Standards of Lending Practice are made and to ensure that these are effectively incorporated within policies, processes and systems.
6. Firms should ensure that when systems or processes are changed, or products are introduced or changed, the impact on meeting the Standards of Lending Practice is adequately assessed.
7. Where part of the credit process/life cycle is outsourced, Firms should:
 - a. undertake effective and robust due diligence in selecting a third party to ensure that it can meet the Standards of Lending Practice and deliver the required customer outcomes; and
 - b. exercise effective ongoing oversight of the third party to ensure that it is meeting the Standards of Lending Practice and delivering the required customer outcomes.
8. Firms should have a robust complaints management process in place to deal with Standards of Lending Practice-related complaints and to undertake root cause analysis. [DISP]
9. Firms should assign an appropriately skilled and senior individual with accountability for overseeing that the Standards of Lending Practice are being adhered to and customer outcomes achieved, and for ensuring that remedial action is instigated where this is not happening.