

New lending standards for business customers published

Changes to the voluntary code of practice covering lending to small business customers followed by the main providers of loans, overdrafts, credit cards and charge cards are being published today [28 March 2017]. The publication of the Standards of Lending Practice follows the review of the Lending Code which led to the launch of the voluntary code of practice for personal customers in July 2016.

Recognising the gaps in the existing regulatory framework, the new Standards of Lending Practice for business customers, which replace the Lending Code, extends protections beyond micro-enterprise customers to small businesses with a turnover of up to £6.5m.

The new Standards will, therefore, bring enhanced protections for a much wider range of businesses, supporting organisations in achieving fairer customer outcomes, from the initial product offering and application process through to account servicing, portfolio management and identifying signs of financial stress. They represent an opportunity for the industry to rebuild trust and confidence with customers.

The new Standards of Lending Practice will become effective 1 July 2017, with the applicable provisions within the existing Lending Code remaining in force until then. They will be independently monitored and enforced by the Lending Standards Board, and like the Lending Code, are being sponsored by two industry trade bodies, the BBA and The UK Cards Association.

Chris Pond, Chair of the Lending Standards Board, said:

“The new Standards of Lending Practice provide a clear framework that supports lenders in achieving fair outcomes for their business customers. Through the seven core principles which underpin the Standards, business customers will know exactly what they can expect from their lenders, placing a strong focus on firms to be clear, supportive and fair when it comes to lending to small businesses.

In response to changes in the marketplace and the regulatory environment, we are confident that the new Standards will bring positive change to Registered Firms and increased protections for their customers.

The Lending Standards Board will continue to provide independent oversight of adherence to the Standards and challenge the industry to improve”.

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Notes to editors:

1. Under the seven core principles of the Standards of Lending Practice, registered firms will ensure that their customers: a) are told about the products the Firm has to offer and provided with clear information to enable them to choose a product that meets their needs. b) are provided with information about how to apply for the different products a Firm offers; what the application process entails and any other requirements a Firm may have. c) 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 primary reason for this will be provided. d) are aware that they have the right to appeal a Firm's decision to decline their application and, where appropriate, have the option to be referred to alternative sources of finance. e) will be provided with clear and understandable documentation which sets out their obligations under their agreement with the Firm. f) are aware of the options open to them 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 no longer require it.

2. The Lending Standards Board has, since 2009, independently monitored and enforced the Lending Code, and subsequently the Standards of Lending Practice, taking action where lenders fall short of requirements. The LSB has a range of sanctions available to it ranging from private warnings through to, in the most serious cases, public censure. In all cases action plans will be required to address areas of non-compliance.

The LSB's directors include a majority of independent members as well as representatives of the Code sponsors. Details of the Board members can be found on the LSB website.

3. The BBA is the leading trade association for the UK banking sector with 200 member banks headquartered in over 50 countries with operations in 180 jurisdictions worldwide. Eighty per cent of global systemically important banks are members of the BBA. As the representative of the world's largest international banking cluster the BBA is the voice of UK banking.

4. The UK Cards Association is the trade body for the card payments industry in the UK, representing financial institutions which act as card issuers and acquirers. Members of the Association account for the vast majority of debit and credit cards issued in the UK - issuing in excess of 59 million credit cards and 98 million debit cards - and cover the whole of the payment card acquiring market.