

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers

Product sale

Declined applications

July 2019

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 for business customers (the Standards) on product sale, declined applications.

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 reference is made to the Consumer Credit Act 1974, as amended (the CCA), the Consumer Credit Sourcebook (CONC), other Financial Conduct Authority (FCA) requirement or wider legislation, the examples or suggestions which follow represent the LSB's view on how the Standard could be achieved.

This document will be kept under review and updated to reflect examples of good practice being undertaken across the industry in this area.

Customer outcome: business customers whose applications are declined are provided with the right of appeal and are aware of the alternative sources of finance available

Firms will achieve this: with systems and controls that promote the right behaviours to ensure that their employees, or their agents, are able to treat declined business customers fairly and appropriately

- 1. If an application for a product is declined, the Firm should ensure that it understands the reason(s) behind it in order to be able to convey, where appropriate, this information to the customer. As a minimum, the customer should be provided with the primary reason in writing as to why they have been declined**
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This Standard is seeking to ensure that Firms have processes in place to enable them to better understand the reason why a customer's application has been declined and that this information can in turn be used to facilitate a 'better conversation' with the customer. That is, one which enables the Firm to provide an explanation which is beyond a 'computer says no' scenario. The Firm is therefore able to offer more specific information to satisfy the customer's enquiry as to why the Firm has been unable to lend to them. The expectation is not that Firms are required to disclose information regarding underwriting policies, scorecards, risk appetite etc, but there should be a sufficient understanding to enable the customer to be provided with an appropriate level of information which will satisfy their enquiry as to why they have been unsuccessful. Firms may wish to consider the size and sophistication of the business customer when deciding the appropriate level of information.

In line with Professor Griggs' work on the lending appeals process, the LSB would encourage Firms to support declined customers, in as far as possible, to understand how their application could be improved with a view to making a new or revised application. This could include non-exhaustive examples such as: consideration as to whether the level of information provided by the customer was appropriate, if the business plan could be developed or whether the customer could have demonstrated a greater understanding of how their business will operate within their chosen market place etc so that they are able to put forward the strongest case they can.

Where an application is declined on the basis of affordability, the Firm could consider whether the individual would benefit from a referral to, where offered and appropriate, free, independent debt advice for example, business debt line. 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 business may be showing financial stress, and appropriate for the circumstances, they may benefit from a referral.

- 2. If the application was declined due to information obtained from a Credit Reference Agency search, firms should either:**
 - a. apply the requirements of s157 of the Consumer Credit Act for relevant customers; or**
 - b. provide the customer with the names of the Credit Reference Agencies used by the firm**
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Some business customers may lack understanding of how Credit Reference Agencies (CRAs) fit into the application process and how the process of applying for credit requires that information is recorded on their credit file. Firms may wish to direct the customer to any information produced by the firm or directed to relevant pages of the firm's website which explain how credit referencing works.

- 3. Firms should inform the customer of their right of appeal and have fair and effective processes in place to review a decision to decline an application. These should, as a minimum, reflect the Lending Appeals process**
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The Lending Appeals process, previously headed up by Professor Russel Griggs, is well established and those firms which are captured within it will be subject to oversight by Professor Griggs and his team. Where a firm is not yet within the appeals process, the LSB would expect these Firms to offer customers a right of appeal and opportunity for the decision to decline to be reviewed, which aligns with the Lending Appeals process.

- 4. Firms may, where appropriate, signpost a declined customer to alternative source of finance or third party. The customer should be made aware that the signposting is not an indication that any subsequent application would be successful**
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Firms may have arrangements in place with third parties which enables them to provide a signpost to another lender or raise awareness about the financial solutions they may wish to consider. The customer should be informed that the third party will undertake its own assessment and that what has been provided is a signpost to an organisation which may be able to help, subject to relevant affordability checks etc.

- 5. Firm who are designated banks under the Small and Medium Sized Business (Finance Platforms) Regulations 2015 should offer a customer declined for finance the opportunity for their details to be referred to government designated finance platforms**
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Firms to whom these regulations apply will already be aware of their obligations under Small and Medium Sized Business (Finance Platforms) Regulations 2015, which can be found at: http://www.legislation.gov.uk/uksi/2015/1946/pdfs/uksi_20151946_en.pdf