

**Update to Standards of Lending Practice for business customers**  
**Coronavirus Business Interruption Loans Scheme and Bounce Back Loan Scheme**  
**4 May 2020**

**1. Coronavirus Business Interruption Loans Scheme (CBILS) and Bounce Back Loan Scheme (BBLS)**

On 24 March, the LSB issued a revised copy of the Information for Practitioners – Product Sale to take account of the launch of the Coronavirus Business Interruption Loans Scheme (CBILS).

Following the Chancellor's announcement on 27 April regarding changes to CBILS and the introduction of the new Bounce Bank Loan Scheme (BBLS) from 4 May 2020, the LSB has made further revisions to the Information for Practitioners to take account of the way that these products operate within the following sections of the Standards: product information, product sale, treatment of customers in financial difficulty, customers in vulnerable circumstances, and governance and oversight.

**Application to the Standards of Lending Practice**

In addition, we have added a positioning statement to the Standards of Lending Practice for business customers (the Standards) to clarify that the requirements of the Government's schemes supersede relevant provisions set out within the Standards.

Below are the extracts and updates for the relevant sections of the Standards for business customers and Information for Practitioners. Similar updates will be included within the Standards of Lending Practice for business customers –asset finance to take account of CBILS.

The LSB website will shortly be updated to reflect these changes. Should further updates be required over the coming period, the LSB will make these as and when needed.

## 2. Standards of Lending Practice for business customers

The following update will be included in the **introduction to the Standards of Lending Practice**. A similar version of the text will be included within the Standards of Lending Practice for business customers – asset finance.

### **Update to take account of measures introduced by the Government to support lending to SMEs impacted by 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 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 the relevant provisions of the Standards of Lending Practice. This applies, in particular, to paragraph 4 of product sale.

The LSB also recognises 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 have been determined by Government, and as such firms will have a limited role in the design and review of these products. The relevant sections of the Standards being: **customers in vulnerable circumstances, treatment of customers in financial difficulty** and paragraph 8 of the provisions on **governance and oversight**.

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. Information for Practitioners

The following updated wording (set out in the boxes) will be added to the specified sections of the **Information for Practitioners** which accompanies the Standards. 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**

This update will replace the previous update to this section of the Information for Practitioners made following the establishment of the Coronavirus Business Interruption Loan Scheme (CBILS) and now also contains reference to the Bounce Back Loan Scheme (BBLS).

*(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**

### 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.

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.

## ***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**

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**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 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.

At the end of the 12 month period, the LSB would expect firms to apply the requirements of the Standards when carrying out recoveries activity, unless directed otherwise by Government.

**(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 will be unable to identify such customers. However, where a firm becomes aware during the course of the relationship with the customer, the LSB would expect the firm to treat the customer in line with existing policies and procedures.

## ***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).***

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

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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.