

Update to Standards of Lending Practice for business customers – asset finance
Coronavirus Business Interruption Loans Scheme
4 May 2020

1. 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, including asset finance products, under the Government established Coronavirus Business Interruption Loan Scheme (CBILS) in reliance on the Government guarantee under the scheme.

The LSB is clear that in order for firms to meet their obligations under the scheme, 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 scheme 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 scheme 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: **product information, credit risk management, vulnerability, 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 CBILS. The update will be reviewed as appropriate. It does not apply to any other products offered by firms.

2. Information for Practitioners

The following updated wording (set out in the boxes) will be added to the specified sections of the **Information for Practitioners – asset finance** 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

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HM Government has established the Coronavirus Business Interruption Loan Scheme (CBILS) 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 in reliance on the Government guarantee under the scheme.

The Government has drafted portions of the documentation that firms are required to provide when lending under CBILS. 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

(Paragraph 4) Before providing an asset finance product, an assessment should be made, from the information available at the time, whether the customer will be able to maintain their payments or rentals in a sustainable manner without incurring financial difficulty.

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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 customer will maintain their payments or rentals 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.

The LSB considers participating firms' compliance with the requirements of CBILS 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 risk management

(Paragraph 3) Firms should have appropriate triggers and processes in place to help identify customers who are showing signs of financial stress and should engage with these customers in a supportive and open manner.

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scheme.

Firms offering products under CBILS 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 and will have reduced visibility on the financial situation and previous performance of the business.

Firms will have to rely on any information made available during the application process and internal MI to inform what triggers and processes could be in place to help identify customers who are showing signs of financial stress. If monitoring processes are in place 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.

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.

At that point, 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 within a business 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.

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.

Vulnerability

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).

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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 the schemes require firms to make decisions outside of their normal processes and with access to limited amounts of 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.

It is recognised that by participating in CBILS firms may not be able to apply in full effect all provisions within this section of the Standards. Certain aspects of the products offered under the scheme 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.

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 scheme 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 as the parameters of the products are set out by the Government.