

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers – Asset Finance

Product execution

May 2021

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 execution.

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

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. This should be underpinned by appropriately skilled and knowledgeable staff.

- 1. Customers will be provided with written notice of any change in interest rates (where relevant), fees or charges which affect the cost of their product. This requirement does not apply where the increase relates to a published rate, for example, base rate or other benchmark**
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This Standard is seeking to ensure that business customers are better prepared to take account of changes in interest rates or charges and that they have an opportunity to consider whether this will have an impact on the business' ability to maintain its repayments, where relevant. Advanced notification can enable customers to plan ahead and consider the impact a change on their agreement may have on their financial situation.

Providing customers with this information can also help to identify any early indications of financial stress as it may prompt the customer to make contact with the firm, should the business be concerned about the impact of a rate increase, or change to a charging structure may have on their ability to maintain their financial commitments. Firms may wish to consider how the provision of this information links into any monitoring work which is undertaken and, from the information the firm has on the performance of the business, whether an increase will impact upon its ability to maintain its financial commitments. If so, firms should engage with the customer with a view to understanding the nature of the issue for example, whether it is a short term cash flow situation or whether there is a longer term issue which will impact on their ability to maintain their commitments. Firms should encourage customers to engage with them and set out any support which may be available.

The requirement does not apply where the customer is provided with a variable rate which is linked to the Bank of England base rate or any other benchmark or reference rate. Where changes are to the customer's advantage, the LSB would expect that, in the interests of transparency, customers are advised of the change but accept that firms may well make immediate changes in this regard.

- 2. 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**
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Firms can provide Credit Reference Agencies (CRAs) with default information about a customer's debts if:

- the customer has fallen behind with their payments
- the amount owed is not being disputed by the customer (a customer dispute is relevant if it refers to the amount of money owed by the customer and is genuine, reasonable and unresolved) and

- the customer has not made a proposal that satisfies the firm for repaying the debt following the firm's formal demand.

The customer should be given further notice of the intention to disclose the information at least 28 days before the disclosure is made, for example, when a default notice or formal demand is given. At the same time, customers should be provided with an explanation about how default information registered against them may affect their ability to obtain credit in the future. This notice means that customers have 28 days to try to repay or come to some arrangement with the firm before default information is passed to the CRA.

The requirement to share data does not apply in specialist customer segments, where sharing CRA data is not always appropriate. Firms should ensure that data is up-to-date, accurate and complete before it is passed to credit reference agencies and where discovered, any errors are addressed and corrected promptly.

3. Where individual provides a guarantee/indemnity or other security, they should be able to request information regarding their current level of liability, as long as the customer gives their permission and confidentiality is not breached

This Standard applies to situations where an individual offers some form of security such as a personal guarantee or indemnity. The intention being, that the individual providing the guarantee or security is able to access information regarding their level of liability from the firm so that they can assess the likelihood of being called upon to pay. If the individual requests confidential financial information (with the exception of the current level of liability), such as details of balances, copy statements, etc, we would expect that firms seek the customer's consent before providing this information. Firms should also tell the guarantor the extent of their liability, including the addition of interest and charges after demand has been made.

The customer should be made aware that if they want the firm to accept a guarantee or other security from another individual that the firm may ask for permission to give confidential information about the customer's finances to the person providing the guarantee or other security, or to their legal adviser.

What might good practice look like? Firms take steps to ensure that the customer or providers of security are aware of how, at any time, they can refresh their understanding of their own liabilities or potential exposures.

What might poor practice look like? Firms do not make clear where such enquiries should be directed and staff are either unclear how to help customers or are unresponsive to such enquiries when received.

4. Firms should comply with a customer's request to co-operate with their professional adviser(s) during the lifetime of the relationship. All communication with the customer/their adviser will be undertaken in a clear and open manner

This Standard is intended to ensure that a customer's professional advisors - legal, financial or otherwise - are not prohibited from participating in discussions with the firm. Having a third party

present can support the customer during their engagement with their lender providing, for example, explanations, clarifying points of discussion etc. The LSB would expect firms to fully co-operate with the customer's adviser, at whichever stage of the relationship the customer is at. The LSB recognises that there may be circumstances where the customer will not be present and that the firm may need to ask for the customer's consent to engage with the adviser.

5. Any changes to the terms of the customer's agreement should be fair and transparent. The customer should be provided with clear information regarding the reason for the changes and provided with a reasonable amount of time to seek further clarification, or, where appropriate, alternative sources of finance

Customers should be told how they will be notified of changes to terms and conditions when they take out their borrowing. The purpose of this Standard is to ensure that customers are treated fairly and are provided with clear information, which is communicated within an appropriate timeframe, to enable them to consider how any changes will impact upon their business.

The LSB recognises that amendments to the terms of the agreement may be required for a variety of reasons and in line with PRIN, the LSB would expect a firm to have regard to the information needs of its customers, and communicate with them in a way which is clear, fair and not misleading.

A reasonable amount of time will depend on the individual circumstances and may take into account a number of factors such as, the terms of the agreement, the sophistication of the customer and the amount and complexity of the borrowing.

6. Where a customer is relationship managed and a change is made to this process which will impact on the customer, they will be provided with advance notice, and the reason for the change. Where this will require action from the customer, they should be allowed sufficient time to complete this, taking into account the channel currently used

This Standard is intended to capture wholesale change where the customer may be moving from a relationship managed environment to telephony based, or where a business has matured and/or undergone significant growth which warrants a relationship managed approach. It is not intending to capture changes due to a change in personnel, where there hasn't been a change in the channel through which the customer's account is managed.

As a minimum, the LSB would expect the customer to be provided with not less than two months' notice in order to provide time to consider what other options, if any, they wish to pursue. Firms may wish to take into account information which is known about the customer prior to the change in approach, this could include non-exhaustive examples such as:

- whether the customer is experiencing financial stress
- whether any applications are in train and if there would be a benefit to have these concluded prior to the move
- where known, any significant changes to the overall control of the business which may warrant a longer lead in time to prevent additional impact on the business customer
- whether the firm knows, or has reason to suspect, that the customer may be vulnerable.

This information could be used to more closely manage the transition or may prompt the firm to consider whether the customer would benefit from additional support.

The move to a new channel may require changes in the type and regularity of information provided by the business customer to the firm. The LSB would expect that where these changes place additional obligations on the customer, that any timeline associated with this is agreed with the customer and that they are provided with an explanation of why this is required.

7. Firms should comply with a customer’s request to have access to the basic information held by the Firm about their products/accounts. The request should be dealt with in a timely and efficient manner

This Standard is intended to capture the requirement for banks to respond to requests from their customers in an open and transparent manner, in relation to information it holds about the customer’s products. It is not intended that the customer is provided with access to sensitive information relating to, for example, risk appetite, internal monitoring or underwriting policies, but they should be provided with sufficient amount of information to answer their query in an open and transparent way.

This could include information regarding the application or operation of covenants, guarantees, security, or other forms of information which will help the customer to understand what their obligations and liabilities are. Other examples may include repayment history, information held on the performance of the business or other information required to enable them to effectively manage their account/products with the firm. The LSB acknowledges that not all information held by firms is suitable for disclosure but would encourage firms to consider any request from the customer in the spirit of this Standard.

What might good practice look like? Easy access is provided for the customer/security providers to obtain, as appropriate, information such as balances outstanding; early settlement figures; copies of invoices/statements etc. within reasonable time frames.

What might poor practice look like? Firms have insufficient resources or unsuitable systems which limit their ability to respond to the customer’s request in a reasonable timeframe, and staff are not sufficiently trained to deal with such routine customer enquiries promptly.

8. In line with the industry protocol, requests for a Deed of Priority or Waiver should be dealt with quickly and efficiently

The protocol sets out the requirements regarding a request for Deed of Priority or Waiver which reflects the industry’s commitment to making sure the process of responding to the request for a Deed of Priority or Waiver is handled as quickly and efficiently as possible, and to ensure a customer is given a response as quickly as possible as regards the agreement to proceed with the request or otherwise.

9. Ahead of the expiry of their primary agreement, the customer should be aware of what will happen to the asset and what action, if any, they need to take

Firms should ensure that the customer is notified of the steps it may take at the end of the primary agreement. This information should be communicated in a clear and timely manner, to allow the customer to make an informed business decision. The timing of this notification, should allow the customer a reasonable opportunity to weigh up their options and seek alternative arrangements, should they wish to do so.

Where the customer has the option to extend their agreement into a secondary period for a rental amount or the agreement allow for a purchase or sale of an asset firms should ensure that the customer has time to make and communicate this decision based on the needs of the business.

What might good practice look like? The customer is given sufficient notice prior to the end of any agreement, as to what will occur or what options will then be available. The options presented reflect what was agreed with the customer at the outset of the agreement.

What might poor practice look like? A firm only contacts the customer with any options available right at the end of a Lease or Rental agreement, leaving very little time for the customer to consider their options. This results in the customer feeling pressurised to make a decision or incurring additional costs while they consider the options. This may particularly happen where customers may wish to retain use of the equipment but may have no contractual right to do so.