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The LSB’s Information for Practitioners

The Standards of Lending Practice for personal customers

Account maintenance and servicing

June 2021

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This document has been produced by the LSB and provides non-exhaustive examples of the approach registered firms may wish to take into consideration when seeking to adhere to the Standards of Lending Practice (the Standards) on account maintenance and servicing.

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 Standard cross references to the Consumer Credit Act 1974, as amended (the CCA), the Consumer Credit Sourcebook (CONC) or other Financial Conduct Authority (FCA) requirement, the examples or suggestions which follow represents the LSB's view on how the Standard could be achieved but should not be considered to supersede the wording or intention of the CCA/CONC or the FCA.

This document will be kept under review and will be updated on an ongoing basis where the LSB identifies further examples of the work which is being undertaken by the industry in this area. Account maintenance and servicing is covered in some detail within CONC, the language used within this document, for example, 'should', 'could', 'may' and so on, reflects the fact that firms are required to undertake specific activities to ensure compliance with CONC.

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

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. Information held about, and sent to, the customer is up to date and that this is underpinned by appropriately skilled and knowledgeable staff.

AM1. Firms should provide customers, at an appropriate frequency, with statements which include sufficient information to allow the customer to manage their account

Firms should ensure that, in line with the relevant requirements, customers are provided with statements which contain sufficient information to allow customers to be able to manage their account. This should include information on how to contact the firm if the customer has any questions, or for example requires support to manage their account. Customers should be provided with their monthly, for credit cards and personal overdrafts, or annual, for personal loan, statements in either paper form or electronic form and should be able to access or request access to their statements and the position of their account at any time.

Credit card customers, as required by the Consumer Credit Act, should be provided with a monthly statement for their account unless it has a zero balance and has not been used within the statement period. This process is embedded within firms and those who offer a credit card product will follow the Industry Best Practice Guidelines (BPG) for the Cardholder Statement Summary box. Under the BPG, the table of information is required to appear prominently either on the front or reverse of the cardholders' monthly statement. It provides cardholders' with details of the key features of their credit card to allow them to compare their current card with others should they wish to review whether their existing product continues to best suit their needs.

There are a number of specific pieces of information which are required to be included on every credit card statement (and where appropriate on a link from an online statement):

- sufficient details to enable customers to pay on time, including via automated payments for any amount between the minimum payment and full payment
- the current interest rate should be printed on each statement. Also, if more than one interest rate applies to an outstanding balance (for example, where one rate applies to a transferred balance and different rates to new borrowing and cash transactions) this should be made clear
- a clear statement that if the account is not fully cleared, interest will be charged on the total value of the statement, and not just on the outstanding balance
- a clear statement that interest will be charged on a daily basis and that interest payments therefore increase the longer payment is delayed (even before the monthly payment date)
- a brief summary on the allocation of monthly payments on the front or back of the statement (or a link from an online statement)

- the front of each credit card statement should show a cash figure indicative of the amount of interest which would be payable by the customer if they paid the minimum amount and it reached the firm on the last day for payment; and
- a warning about the risk of only making minimum payments which should include the wording: 'If you make only the minimum payment each month, it will take you longer and cost you more to clear your balance.'

Firms will have processes in place to address missed payments; any notification sent to a customer should remind the customer that they have the option to set up an automated payment to avoid missing future payments.

Allocation of payments

As required under CONC, firms should apply a customer's repayments to the most expensive parts of the credit card balance first. This means that repayments will be applied to the various elements within the balance ranked by order of their annual interest rate (not APR) on a pure high to low basis. In allocating customer repayments, firms will apply them to, at least, statemented transactions.

Payment holidays

If a firm offers payment holidays, the terms associated with the use of this facility should be clearly explained to the customer who should be told that they can reject the holiday by continuing to make repayments. Where a payment holiday is provided, the minimum repayment afterwards should be sufficient to avoid negative amortisation over a period of 12 months from the start of the holiday.

Credit Card Cheques

While the LSB recognises that many firms no longer issue credit card cheques, if a firm does, the customer should be provided with clear information regarding the use of this product. Firms should take account of the UK Cards Association Best Practice Guidelines for credit card cheques. The information provided to a customer regarding this product should be contained within summary box form.

Firms should not send out unsolicited credit card cheques with a pre-completed amount. In addition to the summary box, firms should clearly and transparently highlight, in the main body of any communication sent to the customer accompanying the provision of credit card cheques, the following (where applicable):

- that credit card cheques do not provide the same level of consumer protection as a normal credit card purchase;
- the transaction fee per cheque;
- whether there is an interest free period; and
- an alert to the summary box (e.g. 'see important information overleaf').

AM2. Firms should ensure that where customers have access to an overdraft, they are supported to limit their use of the product, for instance, by allowing customers to reduce their limits and by having in place timely customer alerts

CONC 5D sets out requirements for monitoring and supporting customers who show a pattern of overdraft repeat use.

In addition to the requirements in CONC, firms should consider steps to help all customers to limit their use of credit where, from the information available to the firm, that it would be appropriate for them. Customers may, for instance, wish to opt out of or place limits on their overdrafts as a way of seeking to exert further control over their financial situation.

Firms should ensure that customers who do this are made aware of the potential implications of doing so for their account. For instance, where they exceed any overdraft limit or have insufficient funds to cover a transaction that this may result in the payment being declined. This could then have a negative impact on their credit file. The information may be provided electronically, by letter or by a leaflet, according to the normal channel of communication with the customer.

Where customers do want to opt out of or limit overdraft spending, firms should not, in response, offer the customer a Basic Bank Account unless the limited functionality of this product is appropriate for the customer's circumstances.

Customers also may not be aware of the implications that opting out of access to an overdraft will have on their account. For example, a firm's policy may require their particular account to be closed and another re-opened. If this is the case, the customer should be provided with a clear explanation of what this entails, and any change over should be as smooth as possible.

Although a customer's decision to make changes to their overdrafts is capable of being revoked by the customer, a firm may place restrictions on the number and frequency of permitted changes that a customer may make in respect to their overdrafts.

Should a firm adopt an approach that requires customers to opt-in to overdrafts, it should ensure that this is underpinned by a clear communication strategy for reminding customers that this is the approach which has been taken and, by having opted-in that they have the right to change their mind. This reminder should also include clear information on what this means in practice for them and their account and if they wish to do so, how they can go about changing their preference.

AM3. Firms should provide credit card customers with written notice of any interest rate increase, unless this relates to a base rate tracker product, and how they can reject this if they wish to do so. The customer should be advised what happens to the account if they choose to reject the increase [CONC 6]

The provision of information to customers regarding a change in the interest rate applicable to their credit card will help to support customers to manage their account more effectively. Written notice should be provided at least 30 days before the interest rate increase takes effect and should explain

in clear language how the rate is changing, what it will cost, the options available to the customer and the following information:

- current interest rate;
- the new increased interest rate;
- an indicative cost impact of the increase (by either a generic or personalised example);
- notification of the customer's ability to reject the increase during the period of 60 days specified in the notice and pay the outstanding balance in full at the current rate.

The requirement to notify the customer does not apply if:

- The change is to an interest rate which is set to track the movement in an external index, such a base rate, which has been clearly stated in the terms and conditions associated with the product.
- A promotional rate has come to the end of its term or has been revoked early because, for example, a payment has been missed.
- There is an interest rate decrease.

If the firm offers alternative lending products, it may also provide the customer with the option to transfer the balance to such a product at the existing (or lower) rate of interest.

For a risk-based rate increase, the notice of interest rate increase should be sent separately from any account statement. For a general interest rate increase, the notice may be sent with the customer's statement, via a separate communication or online message.

The 60 day rejection period may run concurrently with the 30 day notice period and if this is the case, the written notice will make this clear to the customer. During the 60 day rejection period, the firm should remind the customer of their right to reject the interest rate increase and what this means in terms of their account - that this will require the firm to close the account and the customer will be required to repay the outstanding balance. This reminder may be included on or with the customer's account statement and does not need to repeat the detail included in the original notification.

The customer may tell the firm, at any time during the 60 day rejection period specified in the notice of increase that they wish to reject the interest rate increase. Where the customer rejects the rate increase, this means that:

- the customer's credit card account will be closed; and
- the customer will be permitted to pay their outstanding credit card balance at their pre-notification interest rate within a reasonable period. This will take into account the level of minimum payments and the customer's financial situation.

A firm should not increase a customer's interest rate where it is aware that:

- the customer is currently two or more payments in arrears;
- an agreed repayment plan is in place in respect of the customer's account; or
- the customer has engaged a debt management firm to act on their behalf, and the firm has been notified of this.

Firms are encouraged to periodically review customers' credit card limits to ensure that they remain suitable for the customer's situation and that they are not showing signs of financial distress.

If asked by the customer, firms should explain why the interest rate is being increased and make available an industry standard explanation of how credit card re-pricing works.

Selection of accounts for re-pricing

Where a customer manages their account within the firm's terms and conditions, the firm will not increase interest rates:

- for risk-based re-pricing – within the first 12 months of a customer having the credit card; or
- for risk-based re-pricing and general re-pricing – more often than 6 monthly, other than in exceptional circumstances. The exception applies to general re-pricing only and, for example, may be due to rapid escalation in underlying interest rates, or a change to legislation/regulation, that significantly increases costs, or decreases income.

AM4. Firms should proactively work to combat fraud and scams and have processes in place to deal with unauthorised or fraudulent transactions and payments. If customer fraud is suspected, the burden of proof is on the firm to prove this is the case

Firms will have policies and processes in place regarding **unauthorised credit card transactions**. The Payment Service Regulations (PSRs) contains a carve out for unauthorised credit card transactions as these are regulated by the Consumer Credit Act (CCA). Under the CCA, a customer's liability for any transactions made by someone who has used their card without their consent is limited to £50. When considering a customer's claim that they have not authorised a transaction on their account, the burden of proof lies with the firm and not with the customer. The LSB would expect the firm to provide proof that it has reason to believe that the customer has provided authorisation for any relevant transactions.

Firms should consider a customer's claim on the basis of the individual circumstances. The LSB would expect that unless the firm can show that the customer has acted fraudulently, the customer's liability for their credit card being misused should be limited as follows:

- If someone else uses the card before the customer informs the firm that it has been lost or stolen or that someone else knows the PIN, the most the customer will have to pay is £50.

- If someone else uses the card details without the customer's permission, and the card has not been lost or stolen, the customer will not have to pay anything; this would include where a customer's card has been cloned.

- If the card is used before the customer has received it, the customer will not have to pay anything, unless the firm can show that the customer acted fraudulently.

- In the event that card details are used by someone else without the customer's permission, for a transaction where the cardholder does not need to be present (including contactless payments), the customer will not have to pay anything.
- Where a credit card transaction has not been authorised by the customer, any interest or other charges that may have been applied as a result of the transaction will be refunded, unless the firm can show that the customer acted fraudulently.

What might good practice look like? The use of targeted 'pop-up' or 'just in time' warnings to protect customers from the possibility of being scammed while making payments or authorising transactions from their account. These warnings are triggered where transactions are most at risk of being a result of fraudulent activity, prompting the customer to consider and/or confirm whether they wish to proceed with the transaction.

Where firms provide current accounts, the LSB would expect firms to be taking steps to prevent authorised push payment scams, in line with the requirements of the Contingent Reimbursement Model Code for Authorised Push Payment Scams (the CRM Code) and to have a policy in place so customers who are victims of such scams know how they can protect themselves, including whether they may be able to seek reimbursement. The LSB would particularly encourage relevant registered firms to become signatories to the CRM Code.

AM5. Firms should inform customers of any changes to the interest rates and fees on their overdraft. To help the customer to compare costs, the old interest rates and fees should be included within the information provided

If an overdraft facility is offered, firms should provide customers with information on the interest rates which apply and when this will be collected. If a customer asks, the firm should also provide the customer with a full explanation of how interest is worked out.

Before taking any interest and overdraft charges incurred by the customer, firms should provide a minimum of 14 days' notice to the customer of how much will be taken. Firms should also consider including a specific date on which this charge will be applied to support customers in the management of their account. Firms should inform customers about changes to the interest rates on their overdraft as required under the CCA/CONC.

Firms should make available to customers information about any charges for overdrafts through all the channels they offer. Customers should be personally notified at least 30 days before any increase in an overdraft charge or the introduction of a new overdraft charge.

AM6. Firms will maintain the security of customers' data and 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 [CONC 5]

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 such as private banking 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 any errors are addressed and corrected efficiently once discovered.

AM7. Firms should ensure that where an individual provides a guarantee/indemnity or other security, they have access to regular financial information on their current level of liability

This standard applies to individuals who offer personal guarantees or indemnities.[1] Firms should also refer to CONC which provides further requirements in relation to the guarantor lending.

Firms should ensure that regular financial information about the individual on whose behalf a guarantee/indemnity or other security is being given, is always made available to the guarantor or granters of third-party security, so that they can assess the likelihood of being called upon to pay. If the guarantor or granter requests confidential financial information (with the exception of the current level of liability), such as details of balances, copy statements, etc, the customer's consent should first be obtained.

[1] A guarantee is different from an indemnity which is also a promise to be responsible for another's loss. However, an indemnity is a primary obligation which is not contingent on the obligations of the borrower.

Independent legal advice

Prior to entering into an agreement, guarantors or granters should be told that by giving the guarantee or other security they may become liable instead of, or as well as, the individual; and what the extent of their liability will be. Depending on the nature of the guarantee, some guarantors or granters may wish to seek independent legal advice before signing an agreement and should be provided with the opportunity to do so. Whilst acknowledging that not all customers will require it, firms should encourage potential guarantors or granters to take independent advice. The recommendation to take independent legal advice, and the potential consequences of their decision, could be stated on appropriate documents that the guarantor or granter is asked to sign.

Area for consideration: Depending upon the circumstances, firms may wish to go further than what is covered in this section and require a potential guarantor or granter who refuses to take legal advice to sign a declaration to that effect.

Firms must also tell the guarantor the extent of their liability, including the addition of interest and charges after demand has been made. Where independent legal advice has been given, it may be assumed that the solicitor will have explained the nature of all monies and continuing security, if appropriate. Depending on the nature and structure of facilities, firms may choose to explain these features to those customers who have declined independent legal advice (and should always do so when requested by any guarantor).

The LSB would not expect a firm to take an unlimited guarantee from an individual. However, other forms of unlimited third-party security may be taken from an individual, provided that the limit of the granter's liability is explained in a side letter. This is to avoid the need to take fresh security, with the associated expense and inconvenience to customers, each time a facility changes. 'Unlimited' applies to the capital amount of the loan and excludes interest, charges and arrears etc. An explanation of this should be covered in the guarantee/indemnity or other security documents that the guarantor is asked to sign.