

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers

Product sale

September 2024

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.

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 will only be provided with a product that is deemed affordable and which meets the requirements of the business

Firms will achieve this: with systems and controls that ensure the sales process, training and incentives promote the right behaviours and direct their employees, or their agents, to deliver the right customer outcome

1. Firms should ensure that customers are provided with clear guidance on the information and documentation they will need to submit during the application process

Firms offer a variety of information on their websites regarding the application process for a business loan, credit card or overdraft. This is a useful starting point for the customer to explore the product options on offer and to understand whether any eligibility criteria apply for example, if a business current account is required, and what information they will need to provide to support their application.

This should include information as to whether the customer may be required to provide security to support the borrowing and what form that may take, as well as whether a personal guarantee may be needed. This is to enable customers to decide whether the conditions associated with the product are suitable for them.

The LSB recognises that firms will have their own requirements as to the information and documentation they will request during the application process. The type and level of information required will be driven by the complexity of the borrowing, size and sophistication of the business itself. Firms may have eligibility criteria, for example, relating to the entity type and business sector and the LSB would expect this to be clear to the customer.

Consideration should be given as to how this information is presented to the different customer types, taking into account size and sophistication, for example for businesses which are towards the lower end of the scope of the Standards. This could include providing a rationale for the information requested or outlining how the firm will take this into account during the application process. For example:

- whether there are any other business interests, explaining that this information will help the firm to understand what commitments the business or key members of the management team have, which enables the firm to assess how much attention and focus the business will have.
- that the product the customer has applied for may require security to be provided and therefore the firm is requesting information on whether or not this is available.
- where the business has tangible assets which could be provided as security, an explanation as to how this would be taken into account when determining the type of security required.
- an explanation as to whether the customer may be required to provide a personal guarantee to support the lending and why this could be needed.
- where relevant, the owner's investment in the business, which would show the owner's investment relative to the requested borrowing.

2. Firms should inform the customer of the likely time it will take for a lending decision to be made. Following receipt of the required completed documentation, Firms should ensure that customers are kept informed of the progress of their application

The range of customers caught under the new Standards of Lending Practice has increased and within this group there will be varying degrees of sophistication across the different business models, in terms of maturity, size and their understanding of the lending process. Some may lack awareness of the additional requirements which are attached to business lending or may not have accounted for the fact that it can take time for the firm to process their application. Ensuring that the customer is informed of the likely length of time it will take for a decision to be made at the outset will help to aid the customer's understanding of the lending process, regardless of the size or sophistication of the firm.

Wherever possible, the LSB would encourage firms to keep customers updated on the progress of their application, particularly where for example, security is required or the lending has a layer of complexity which will increase the time required to process the application. This Standard is not intended to be overly onerous on firms, the focus is on ensuring that the customer is aware of how long it may take for them to receive a decision and ensuring they remain informed during the process.

There may be situations where it isn't possible to provide a definitive timeframe. However, the LSB would expect that firms are able to provide an indication of the timeframe within which a customer can expect to know whether their application has been successful or not. This can be flexed where required if the lending decision goes beyond the initial timeframe. In these circumstances, the LSB would expect that the customer is kept informed of progress and that firms will be proactive rather than reactive, informing customers of any delays or promptly requesting any additional information which may be required to support the customer's application. Firms are encouraged to be as open as they can as to the reason for the delay and any potential new dates which may apply.

3. Where applicable, customers are informed that checks may be made at Credit Reference Agencies and that information may also be provided to Credit Reference Agencies during the life of the borrowing

When considering smaller business customers, some may lack understanding of how Credit Reference Agencies (CRAs) fit into the application process and that, by applying for business related lending, information is recorded on their credit file. When a customer applies for a product covered under the Standards of Lending Practice, they should be told whether searches will be made at CRAs, whether a record of any search will be retained at the CRA and, if so, that this could impact on their ability to obtain finance elsewhere. The business customer should also be told if the details of the account, if opened, will be passed to CRAs and that the information will be accessed and used by others. This will include information about the running of the account such as the limit and balances as well as payment performance.

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

Firms should request the level and detail of information required to fully assess the customer's ability to repay borrowing without it causing the customer financial difficulties. Taking into account the actual and/or anticipated turnover of the business, existing debt commitments and any known future changes which could be reasonably expected to have a significant financial impact on the customer, to ensure that the business can service any debt. This assessment will take into account whether any security is provided, although, the LSB would not expect a firm to lend to a customer based on the level of security provided alone. When providing lending under a regulated agreement, firms should have regard to CONC requirements on the assessment of guarantors.

Firms may also require additional information to satisfy themselves that the customer can meet their obligations as they fall due. The LSB acknowledges that firms may have additional requirements in place, depending on the type and level of borrowing requested and any information the firm already has about the customer, taking into account the size and sophistication of the customer. Firms may wish to consider the following factors:

- why the business wants to borrow the money
- the length of borrowing
- the business plan and annual accounts
- the business's cash flow, profitability and existing financial commitments
- any personal financial commitments which may affect the business
- how the customer has handled their finances in the past
- information from credit reference agencies and, with the customer's permission, others, such as other lenders and the customer's landlord (where relevant)
- credit scoring
- any security provided *and the implications if called on*
- any future changes which could be reasonably expected to have a significant financial impact on the customer
- personal indebtedness indicators
- total credit exposure
- adverse information e.g. CCI/bankruptcy.

Where firms are offering products as part of a government backed lending scheme, firms may be expected to take into account wider considerations that reflect government policy and to ensure the customer's circumstances meets the appropriate criteria for lending. Given the nature of guarantee schemes, it may be the case that firms are able to, at their discretion, disregard certain considerations which might have otherwise meant the customer would not be eligible for finance. Where this is the case, firms should still rely on a range of appropriate information to consider whether the lending is affordable.

5. If a Firm offers a product which includes an indicative quotation facility, it should provide the customer with clear information as to what this is, and that any quotation provided will be linked to the customer's financial circumstances

Firms may wish to consider whether they can offer business customers the ability to obtain indicative price quotations for the lending products provided. Doing so will enable customers to better determine whether products available are affordable and suitable for their needs.

Where a firm offers an indicative quotation facility relating to a product captured under the Standards of Lending Practice, the LSB would expect the customer to be informed that the headline rate may not

be available and any quotation will be linked to the business' financial circumstances as known to the firm and where relevant, CRAs, prior to the customer commencing a formal application.

The LSB would expect where a customer asks for an indication of the likely interest rate for a product, the firm should either:

- as industry best practice, provide an indicative quotation, in respect of which any credit search undertaken is not registered as a full application search at CRAs i.e. it is not used by lenders in their risk assessment; or
- inform the customer that it does not offer an indicative quotation facility and ensure that the customer is aware that, if they proceed, an application search will be registered at the CRA(s).

6. Firms providing a credit card product should present information about the main features of a credit card in a summary box form, where appropriate

There will be some customers for whom the provision of the summary box information will not be appropriate; however for customers who are at the smaller end of the Standards scope and for those who fall under CONC and CCA oversight, due to the way the business is structured, this information should be provided in line with the Best Practice Guidelines (issued by The UK Card Association, now part of UK Finance).

The primary objective of the summary box is to provide the customer with consistent and succinct summary of the key features of the credit card they are considering and to enable to customers to compare different products more easily. This should be provided to the customer prior to their acceptance of the agreement.

Before a relevant customer enters into the contract for a credit card (and when they accept the product for the first time) they should be given information relating to the following:

- an explanation of how interest is calculated and charged; for example, whether it is charged on the full statement balance or only on any balance remaining after the customer has made the monthly payment;
- where relevant, with details of the interest and exchange rates to be applied or, if reference interest and exchange rates are to be used, the method for calculating the actual interest and the relevant date and index or base for determining such reference interest or exchange rates;
- this information must be provided either in good time before the customer is bound by the contract, or where the contract is concluded at the payment service user's request, using a means of distance communication, immediately after the conclusion of the contract;
- details of how monthly payments are applied to any outstanding balance across transaction types including promotional offers;
- an explanation of recurring transactions;
- details of charges for the day-to-day running of the account, including any annual fee, dormancy fee, charge for exceeding credit limit, charge for delayed monthly payment, charges for overseas transactions, cash withdrawal fees for card usage at an ATM or over the counter, fees for any cash equivalent transactions, balance transfer fees, returned payment fees due to insufficient funds, and any other applicable fees;

- the distinction between being the principal cardholder and an additional cardholder should be explained i.e., that the principal cardholder is responsible for all spending, including that by additional cardholders, and is responsible for repayments on the credit card;
- the interest rates applicable to different types of transactions (e.g., purchases, balance transfers, credit card cheque transactions and cash transactions) and the ways in which customers will be told about changes in interest rates; and
- sufficient details to enable customers to pay on time, including via automated payments. Registered firms should also ensure that, where customers are offered the facility to pay by cheque by post, sufficient time is given to allow payments to be made in time, taking account of the postal delivery system and the length of the clearing cycle.

7. At the point of sale, firms should provide clear information to the customer regarding the key features of a product and any breakage or early repayment fees/costs associated with it. This information should be made available to the customer upon request, throughout the lifetime of the borrowing

This Standard follows on from paragraph 5 of Product Information and is intended to ensure that there is a consistent approach to the provision of information around the key features and costs associated with the use of the product. The intention is that the customer should be in a position to make an informed decision and have opportunities to review and ask questions should they need to do so, as they move through the application process.

Issues relating to lender's explanations of break costs, customers' awareness of their existence and the associated costs, are well documented. Historically, where disclosure of break costs have been made and detailed information provided, there has been evidence to suggest that some customers may not have understood what the term meant or how these costs would be applied to their loan.

The provision of clear information on the way the product works and the costs associated with it, will enable the customer to assess whether the business will be able to sustain the borrowing. This could include informing customers that, for fixed rate loans, if they decide to pay early or cancel the fixed interest rate, that they may have to pay breakage cost in addition to other fees such as early repayment fees. This information also raises early awareness of the costs, which the customer may not have been taken into account, and prompt them to consider what impact these could have, on the business at a future point in time. The customer should be able to request information on the costs associated with repaying their loan early throughout the life of the product.

8. Firms should inform the customer if any security, for example, a guarantee/debenture/indemnity, is required to support the borrowing or other liabilities and the reason why. The level of security required by the Firm should be appropriate to the amount borrowed

Individual firms may have a range of products available with different attributes and requirements designed to serve a diverse range of business customers with a wide variety of needs. Similarly, the range of businesses seeking finance - whether to support with working capital, to purchase equipment, to grow the business or for other reasons - will also vary. This diverse group includes

start-ups, young businesses which may have a shorter trading history, through to more established and mature businesses. Therefore, the products available will reflect the different needs and circumstances of SMEs and have different features and requirements.

The information provided may include whether security is needed and what form and level that security will take, e.g. whether it is over business assets, a debenture or in some other form, or whether a personal guarantee is required, or a combination of security and a guarantee. The key is for the attributes of a product to be clear and transparent so that customers can make a choice about whether to proceed.

Customers may not always understand why they are required to provide security to support their borrowing or fully understand the obligations and liabilities associated with doing so. Therefore, where a firm requires security to support with the lending, the customer should be provided with a clear explanation as to why this is needed and what the effect on the proposition is (for example, if not taking it would reduce the amount available to borrow). This should also include an explanation as to why the particular type of security is required relative to the customer's circumstances. An explanation of the circumstances in which the security might be called upon and the implications for the customer if this happens should also be provided. In doing so, firms should take into account the size and sophistication of the business to inform the level of explanation provided, for example larger and more sophisticated businesses may not need as detailed an explanation as smaller ones.

Firms cannot and are not expected to provide or replicate independent legal advice to a customer/potential guarantor. Where a personal guarantee is required, firms should be able to provide a clear explanation as to why it is needed. A high-level explanation of the types of circumstances in which a personal guarantee might be called upon and the potential implications for the customer/guarantor if this happens should also be provided. In doing so, firms should take into account the size and sophistication of the business to inform the level of explanation provided.

Firms should have policies in place setting out when a form of security, a personal guarantee, or combination of both may be required to support a lending decision, any thresholds which may apply and the rationale for their use. Relevant policies related to the taking of security and personal guarantees should be kept under regular review. As part of the review process, firms could draw on available MI e.g. on the type, volume and value of security held, and similarly on the volume and value of personal guarantees held to inform the firm's understanding of how these policies are working and provide assurance that they are supporting the firm to deliver good customer outcomes.

The LSB would not expect a firm to require a business customer to provide security which is excessive when considered in light of the level of the customer's borrowing. If the only security the customer can offer is in excess of the figure being borrowed, this does not preclude the security from being taken. In such circumstances, however, the LSB would expect firms to explain to the customer what this means in terms of their situation and the implications for them if the business was unable to pay so that they can decide whether it is a product that is suitable for their needs. The customer should also be encouraged to seek legal advice to ensure that they fully understand their obligations under the agreement.

Where the firm requires security to support a business's borrowing or other liabilities, it should confirm what is needed in writing. The LSB would expect that any documentation provided should be easy to understand and avoid technical language whenever possible. The customer should have the opportunity to discuss the terms of the agreement with the firm and to ask questions on anything they are unsure about.

If a personal guarantee is required to support the lending the LSB would expect firms to consider whether it is proportionate and in-line with the firm's approach for the level of borrowing.

Where a guarantee is provided, the LSB would expect firms to tell the guarantor the extent of their liability, including the addition of interest and charges if a demand is 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 provide a generic explanation of the guarantee's features to a guarantor who has declined independent legal advice. It is recognised that firms cannot and are not expected to provide legal advice to guarantors who have declined to seek it nor are firms expected to replicate any independent legal advice they have received. However, to support with any explanation, a firm could sign post guarantors to generic information held on their own website or to relevant external resources to support their understanding of how guarantees work.

9. Firms should ensure that the customer is provided with clear information on the circumstances under which the security will be released. The security should not be relied upon beyond the life of the borrowing

This Standard follows on from paragraph 8 and the LSB would expect that where security and/or a personal guarantee is taken, the granter/guarantor is informed that this will not be retained beyond the life of the borrowing without their consent. It should be made clear that the security and/or personal guarantee will be released once the facility has been repaid in full – unless contrary instructions are received from the granter/guarantor.

Firms should ensure that policies and processes are in place to undertake a regular cycle of reviews of any personal guarantees held. Where a review identifies that a personal guarantee is held and will remain in place where underlying borrowing has been repaid, the guarantor should be contacted to confirm their instructions, in the event these are not known.

10. Firms should confirm the conditions of any facility in writing and recommend that the customer seeks independent advice before accepting the facility

Independent advice can support the customer to make an informed decision about the terms of the agreement they are being provided with and enable them to better understand their obligations under it. Independent advice may include independent legal advice, professional financial advisors, or other qualified third parties. The application process, across all available channels, should provide customers with appropriate opportunity to seek advice on the conditions of any lending and opportunities to seek clarification, as required, from the firm on any elements of the lending agreement.

The application process, through all available channels, should enable the customer to step outside of it to seek independent advice, should they wish to do so, and provide appropriate time for this to take place. The process should not work in a way that discourages a customer from seeking advice, for example, by not including the option as early as possible in the process, or by making a customer restart an application if they pause the process to do so (for example, if an online application cannot be saved at the stage independent legal advice may be wanted).

The exact conditions will be dependent on the circumstances of the borrowing but the LSB would consider that the following is included as appropriate:

- the amount and purpose of the facility;
- whether the facility is for a particular period or whether it is repayable on demand;
- details of repayments;
- the interest rate and any other charges for the facility, and whether these are variable;
- when the facility will normally be reviewed;
- the existing or new security and guarantees, including any minimum values to be maintained;
- what sort of circumstances will lead to an earlier review or require repayment;
- the information the customer will need to give before they can use the facility; and
- what action the firm will take if repayments are not met.

The customer should be encouraged to obtain independent advice before accepting the facility to ensure that they understand their liabilities under the agreement.

Where a customer decides not to seek independent advice, the firm should record this to support with any queries or future engagement with the customer in relation to the facility. We recognise that the form this record keeping takes will need to suit the application process the customer has followed, for example in a wholly digital journey the customer may have to attest to reading and understanding the option to seek advice, whereas with a face-to-face or telephone application process this could be recorded by the firm in notes and call recordings.

11. Firms should ensure that customers are kept informed of the estimated timescales which may apply to the issuing of facility letters or for obtaining any security that may be required to support the borrowing

The LSB's expectation is that customers are kept updated of the progress of their application so that they are better placed to understand when they will have formal notification of their borrowing and any conditions which may be attached to it. Customers may not have an understanding of the legal element which sits around the process of obtaining security and that this can take time to complete.

The LSB recognises that the timescales will be dependent on the individual circumstances, level and complexity of the borrowing and that while an indication can be provided, the firm may have to go beyond this. The Standard does not preclude firms from flexing any timescales provided, but the intention is that the customer is aware of how their application is progressing and when they can expect this element of the process to be completed. This will allow them to better manage onward elements which may be required, such as obtaining legal advice in relation to the facility letter and in relation to any security or personal guarantee which may be required.

12. Before a customer accepts the facility, firms should agree with the customer as to what form of monitoring information they will require about the business' performance and how often this will be required.

The nature of business lending means that the size and experience of the business customer can vary from highly qualified and experienced individuals running a large company to a sole trader who has

recently set up in business or who maybe hasn't required any additional funding up until now. Information such as management accounts and/or cashflow projections may be requested on a regular basis and will require time and potentially costs, to prepare if, for example, information is required from external sources such as accountants. Therefore, ensuring that the customer is aware of these requirements means they can factor this into their internal processes.

The type of monitoring information will depend on the form of the lending and firms will have a view on what is appropriate in the circumstances, examples include:

- a comparison of the forecasts with actual results;
- progress on important aspects of the business plan, such as contract renewals;
- revised cash-flow forecasts;
- major capital spending proposals;
- annual accounts and regular management accounts;
- details of how much the customer owes creditors, and are owed by debtors, and for how long these have been due; and
- evidence that the customer is meeting any special conditions agreed.

Firms will have their own monitoring requirements, in addition to, or instead of the above depending on the type of lending, complexity of the business and risk to the lender. Firms should ensure that the customer understands what is expected of them and if further down the track, additional information is required, which is on top of what has been agreed, the LSB would expect firms to provide customers with a reasonable amount of time to provide this. Firms should confirm in writing what information is to be provided and by when.

13. If an individual or a business agrees to be a guarantor or to provide an indemnity, the Firm should make the individual/business aware of their obligations under the agreement and that they have the option to seek legal advice, should they wish to do so

Firms may accept a guarantee or other form of security provided by another person to support the business' liabilities. It is important that, in addition to the firm providing an explanation of why the guarantee or security is needed and the obligations under it, guarantors or granters understand the full nature of their commitment and the potential implications of their decision, to do this firms should ensure that a guarantor has the option to seek independent advice and should be encouraged to take it.

The LSB would expect that guarantors are told that by giving the guarantee or security they may become liable instead of, or as well as, the customer and told what their liability will be, including the addition of interest and charges if a demand is made. When 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.

The LSB recognises that some guarantors may not wish to seek legal advice because, for example, they are a director providing a guarantee for their own business and believe that they understand what they are committing to. Firms should document that the customer/guarantor has been provided with the opportunity to seek advice but has declined to do so and document any explanation provided to the guarantor on their obligations and liability. Firms cannot and are not expected to provide legal advice to guarantors. However, a firm may wish to signpost guarantors who have declined legal advice

to generic information held on their own website or to relevant external resources to support their understanding of how guarantees work.

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. In any case, the recommendation to take independent legal advice and the potential consequences of their decision should be stated clearly on all appropriate documents that the guarantor or granter is asked to sign.

14. Firms should not accept unlimited guarantees for an individual/business unless it is to support the customer's liabilities under a merchant agreement; however other forms of unlimited third party security may be taken, if available

In order to ensure that the individual is able to identify the limit of their liabilities under any guarantee they have provided, registered firms should not take an unlimited guarantee from an individual other than to support a customer's liabilities under a merchant agreement where a lender will offer unsecured advances of cash, based on future credit and debit card sales. In this context, unlimited guarantees are permitted. '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.

Where other forms of unlimited third party security are available this can be taken, 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.

In the case of limited companies, which are part of the same group structure, firms may continue to take unlimited guarantees from the constituent companies in support of borrowing by other companies in the group.