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# The Lending Code

Setting standards for banks, building societies and credit card providers



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# Introduction

1. This is a self-regulatory Lending Code setting minimum standards of good practice when dealing with the following customers in the UK:
  - Consumers;
  - Micro-enterprises<sup>1</sup>; or
  - Charities with an annual income of less than £1 million.
2. The Lending Code covers good practice in relation to:
  - loans;
  - credit cards;
  - charge cards<sup>2</sup>; and
  - current account overdrafts.

It does not apply to merchant services, non-business borrowing secured on land, or to sales finance.

3. The Code applies to lending in sterling. However, subscribers are not precluded from applying the Code's standards to lending in other currencies.
4. Compliance with the terms of this Code is independently monitored and enforced by the Lending Standards Board (LSB). A list of subscribers to the Code and contact details for the LSB can be found at [www.lendingstandardsboard.org.uk](http://www.lendingstandardsboard.org.uk).
5. **This Code has not been reviewed by the FSA and the FSA will not have regard to this Code when exercising its regulatory functions.**
6. This Code sets standards of good lending practice but subscribers must - at all times - ensure they are compliant with the Consumer Credit Acts and associated Regulations as well as other relevant legislation (such as the Payment Services Regulations (PSRs) and, for consumers, the Consumer Protection from Unfair Trading Regulations).
7. It is important that, when considering how the Code will affect products and services, all delivery channels are catered for. The Code applies regardless of how a product or service is delivered.
8. It is the responsibility of subscribers to ensure that any third party or agent acting on their behalf complies with the Code in relation to any products or services covered by this Code.
9. Subscribers should make information available to customers to inform them that the subscriber follows the Lending Code. This should include providing a link to the Code on the subscriber's website and, where appropriate, making reference to the Code within relevant literature (for example, within an account-opening pack). The subscriber's website and relevant literature should be amended to include reference to this Code within a six month transitional period that ends on 30 April 2010.
10. Unless otherwise specified all references in this Code to 'customer' or 'customers' apply to personal and micro-enterprise customers.
11. This Code uses the terms 'provide', 'give', 'tell' and 'make available' interchangeably. These terms are not defined to specify how information is made accessible to the customer. Instead, firms should determine the most appropriate way for customers to access information at the right time in order to make informed decisions.
12. However, where this Code requires that certain information is given to customers 'personally', this means that some form of notification is given or sent to them, rather than being told by a general notice or advertisement. Such notification could be made by letter, by e-mail or by an alternative method that reflects the manner in which the product or service is normally operated.

<sup>1</sup> A micro-enterprise is defined as a business that employs fewer than 10 persons and has a turnover or annual balance sheet that does not exceed €2 million. For more information see [http://ec.europa.eu/enterprise/enterprise\\_policy/sme\\_definition/sme\\_user\\_guide.pdf](http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/sme_user_guide.pdf)

<sup>2</sup> Charge cards are subject to the Key Commitments and general provisions of this Code, where a requirement is not specific to another product.

# Section 1: Key commitments

13. Subscribers will act fairly and reasonably in all their dealings with customers by, as a minimum, meeting all the commitments and standards in this Code. The key commitments are shown below.

- Subscribers will make sure that advertising and promotional literature is fair, clear and not misleading and that customers are given clear information about products and services.
- Customers will be given clear information about accounts and services, how they work, their terms and conditions and the interest rates that apply to them.
- Regular statements will be made available to customers (if appropriate). Customers will also be informed about changes to the interest rates, charges or terms and conditions.
- Subscribers will lend money responsibly.
- Subscribers will deal quickly and sympathetically with things that go wrong and act sympathetically and positively when considering a customer's financial difficulties.
- Personal information will be treated as private and confidential, and subscribers will provide secure and reliable banking and payment systems.
- Subscribers will make sure their staff are trained to put this Code into practice.

## Section 2: Communications and financial promotions

14. This section applies to financial promotions for lending products and services and communications to customers during the lifetime of the product or service.
15. The key consideration for subscribers is to ensure communications are clear, fair and not misleading and that customers are provided with appropriate information at the right time in order to make informed decisions.
16. Subscribers should ensure that financial promotions are compliant with relevant advertising legislation and industry codes of practice, such as the Consumer Credit (Advertisements) Regulations 2004 and the Committee of Advertising Practice Codes.
17. For promotions to personal customers that are made at a distance subscribers should follow the requirements of the Financial Services (Distance Marketing) Regulations 2004.
18. For direct sales of credit cards, subscribers should follow the relevant UK Cards Association best practice guidelines, which can be found at [http://www.theukcardsassociation.org.uk/best\\_practices](http://www.theukcardsassociation.org.uk/best_practices)
19. For some unsecured personal loans, key product information within financial promotions and pre-sale information should be available in a standard summary box. Details of which promotions and communications are covered and the format of the summary box are included in Annex A (p.26).
20. To ensure financial promotions and communications are clear, fair and not misleading subscribers should have regard to:
  - presenting information in plain language and wherever possible avoiding the use of technical or legal language
  - the way the communication or financial promotion is being made e.g. direct mail, letter, email, text message, branch or web material
  - the type and complexity of information that is being presented, the actions the information might elicit from the customer, the channels by which the information is accessible and the passage of time, if any, since the information was last provided
  - the appropriate format and content of the communication based on its intended audience. For instance, a communication to a personal customer might include different information to that for a micro-enterprise, where needs may differ.
21. Micro-enterprise customers should be given a copy of the BBA Statement of Principles<sup>3</sup> when they become a customer and at any time they request a copy. The Statement is attached as Annex B for your information and can be ordered from the BBA website at <http://www.bba.org.uk/Statement-of-principles>

### Marketing and advertising

22. Subscribers must have the customer's specific permission to pass the customer's name and address to any company, including other companies in the subscriber's group, for marketing purposes.
23. There are various acceptable methods of obtaining the customer's consent. It may, for example, be given by way of a clear and unambiguous clause above a signature box on an application form, or a positive 'click' on an internet application, or a positive reply to a specific question on the telephone. Subscribers should also be aware of the Information Commissioner's Guidance for Direct Marketers and telecoms licensing requirements. Consent should not be required in return for the provision of standard account services.
24. Subscribers can tell customers about another company's services or products but no confidential information about the customer should be passed to the other company by the subscriber without customer consent.
25. If the customer is interested in the other company's products or services and they respond, then they are themselves releasing confidential information. For example, a subscriber may have a subsidiary which offers general insurance products. The subscriber could send their customer details of those products. The subscriber should make clear to the customer that the third party is a separate legal entity, and is not a division of the subscriber's company, since this will not always be clear to the customer from the name of the third party. It is only if the customer chooses to respond

<sup>3</sup> Subscribers have a six month transitional period to replace the Statement of Principles which references the Banking Code, with the updated version at Annex B, which references the Lending Code.

positively that the subsidiary will learn any details about the customer, or even that the customer has been sent the information in the first place.

26. Customers must be given the opportunity to opt out of receiving the subscriber's marketing information. They should be reminded of this option at least once every three years.
27. Account opening forms (whether paper, internet-based, questions over the telephone, or other 'welcome pack' information) should contain a section or question to allow customers to signify that they do not wish to receive 'marketing approaches.' Examples of marketing approaches include literature through the post, e-mails and telephone calls. The types of approaches could be listed so the customer can object to some rather than all.
28. 'Marketing approaches' means information designed to sell additional products and services. This means that if there is a clear intention to sell a product or service which the customer does not already have it will be caught by this provision, however it is sent. However, the provision of information relating to product or service improvements or the availability of new channels (e.g. that the customer's existing account(s) can be accessed via the internet) are excluded from this provision, as are changes to administrative details, such as new branch or telephone helpline opening hours.
29. As an illustration, advising a customer that they have free annual travel insurance with their credit card is not a marketing approach, whereas promoting an enhanced credit card to a standard credit cardholder is.
30. Subscribers should consider carefully whether the purpose of a customer communication is operational or promotional. Where 'combined' messages are used, a non-promotional version may be needed for customers who have opted out of receiving marketing material.
31. Express consent is not required to send this information, but customers must be given a clear opportunity to opt out of receiving it. Subscribers should, however, be aware (in the case of direct marketing telephone calls) of the Information Commissioner's Guidance in relation to the Privacy and Electronic Communications (EU Directive) Regulations 2003.
32. It will not be sufficient to state only in terms and conditions that customers can opt out by writing to a particular address; however, provided it is clear and unambiguous, a notification can be included in, for example, an account opening pack. In addition, existing customers have to be reminded, at least once every three years, that they can opt out of receiving this information. This reminder could be by letter, e-mail, telephone or other method, such as being included in an annual mailing, provided it is sent personally to each customer and is clear. Whatever notification method is chosen, subscribers should ensure they are familiar with the various pieces of guidance issued by the Information Commissioner under the Data Protection Act 1998.
33. The three year notice can also be covered by subscribers adopting a more frequent approach, for example on all statements and/or marketing material.

## Section 3: Credit reference agencies

34. When customers apply for a lending product, subscribers should tell them when they may pass the customer's details to credit reference agencies (CRAs) and the checks that subscribers may make with them. For example, customers should be told if a record of the search is kept at the CRA and, if so, that this could impact the customer's ability to obtain credit elsewhere within a short period of time.
35. Subscribers can give CRAs 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; and
  - the customer has not made a proposal that satisfies the subscriber for repaying the debt following the subscriber's formal demand.
36. Whether or not notice was given by the subscriber and consent was obtained from the customer at the time the account was opened, disclosure of default information can be made. But, in all cases, the customer must 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 must be given an explanation about how default information registered against them may affect their ability to obtain credit in the future. This notice will mean that customers have 28 days to try to repay or come to some arrangement with the subscriber before default information is passed to the CRA.
37. For the purposes of the second bullet in paragraph 35, a customer dispute is relevant if it refers to the amount of money owed by the customer and is genuine, reasonable and unresolved. Further detail is provided in paragraph 43 of the ICO guidance referenced below.
38. Subscribers should refer to the Information Commissioner's Data Protection Technical Guidance on Filing Defaults with CRAs ([www.ico.gov.uk](http://www.ico.gov.uk)).
39. With the customer's permission, subscribers can share information about the day-to-day running of the customer's account, including positive data, with CRAs where the firm has agreed to follow the industry's Principles of Reciprocity. It is consistent with the legal position that any other disclosure to CRAs can be made only with the customer's consent, usually by way of a declaration on an application form. The Information Commissioner accepts that such permission may be made a condition of borrowing.
40. The requirement to share data does not apply in specialist customer segments such as private banking where sharing CRA data is not always appropriate.
41. See also the Information Commissioner's Guidance on the Data Protection Act 1998 which requires, in the absence of consent, one of eleven other conditions to be met. The 'permission' can be covered in a number of ways, for example, in terms and conditions, in an account opening pack, or it can be obtained at the time the disclosure is made. (Useful information can be found at [www.ico.gov.uk](http://www.ico.gov.uk))
42. If a customer asks, subscribers should tell them how to get a copy of the information that CRAs hold about them, or should give the customer one of their leaflets that explain how credit referencing works.

# Section 4: Credit assessment

43. Before lending any money; granting or increasing an overdraft, or other borrowing, subscribers should assess whether the customer will be able to repay it.

## Personal customers

44. For personal customers, this assessment should include consideration of information from CRAs plus at least one of the following three points:
  - The customer's income and financial commitments.
  - How they have handled their finances in the past.
  - Internal credit scoring techniques.

Additional useful considerations could include:

- any security provided; and
  - why the customer wants to borrow the money and for how long.
45. Assessment may also include other checks that have not been listed above.
  46. This requirement does not apply in specialist customer segments such as private banking where use of CRA data is not always appropriate.
  47. Where income is one of the factors considered when assessing ability to repay a personal loan and the loan is agreed only if the income of another person is taken into account, normally the loan should be provided on a joint and several basis. However there may be circumstances when it is appropriate to provide a loan on a sole basis.
  48. Subscribers should ensure they are familiar with the requirements of the Code Sponsors' Guide to Credit Scoring and the explanations that need to be given to customers if credit scoring is used, and also the Information Commissioner's Guidance on Credit Referencing.

## Micro-enterprise customers

49. For micro-enterprise customers, this assessment may include looking at:
  - why the business wants to borrow the money
  - the business plan and 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-assessment techniques, such as credit scoring
  - any security provided.
50. Subscribers should also ensure that they follow the BBA Statement of Principles which sets out how banks should work together with micro-enterprises. The Statement is included as Annex B.
51. If the subscriber requires a micro-enterprise customer to hold a current account in order to get a loan the reasons for this should be explained to the customer before the loan application is completed.

# Section 5: Current account overdrafts

## Pre-sale information

52. When providing customers with information, before a contract is entered into, about a current account offering an overdraft facility, subscribers should include clear, fair and not misleading information outlining the availability of the overdraft, including whether there are qualifying criteria for accessing the overdraft.
53. The customer must be provided, where relevant, with details of the interest rate to be applied or, if reference interest 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 rates.
54. This information must be provided either in good time, before the customer is bound by the contract; where the contract concludes at the payment service user's request, using a means of distance communication, immediately after the conclusion of the contract.

## Point of sale and post-sale information

55. If a customer is offered an overdraft, or an increase in their existing overdraft limit, subscribers should tell the customer if the overdraft is repayable on demand. The explanation could be contained in a facility letter or the terms and conditions.
56. If a customer's overdraft application is declined, the subscriber should explain the main reason why if asked by the customer. This could be provided in writing or electronically, if requested.
57. The written explanation could be given in the form of a leaflet if this is sufficiently focused. With regard to refusals based on credit scoring, the Code Sponsors' Guide to Credit Scoring refers and can be found at: <http://www.bba.org.uk/bba/jsp/polopoly.jsp?d=135&a=6612> . Subscribers should have regard to the potential for financial crime in the information they provide and will want to avoid compromising their security procedures.

## Interest rates

58. Subscribers should make information about overdraft interest rates available to customers via:
  - a telephone helpline;
  - a website;
  - notices in branches; or
  - information from staff.
59. If an overdraft is provided subscribers should give customers information on the interest rates which apply and when interest will be collected. If customers ask, subscribers should also give a full explanation of how interest is worked out.
60. Before taking interest, subscribers should give at least 14 days notice of how much will be taken.
61. Subscribers should inform customers about changes to the interest rates on their overdraft in compliance with the relevant regulatory requirement applying to the subscriber's overdraft terms.
62. Within 3 working days of a rate change, notices should be put in branches and newspapers. To help compare rates, the old rate should also be included.
63. Where an overdraft interest rate tracks changes to an index rate, the requirement to inform customers of changes does not apply.

## Charges

64. Subscribers should make available to customers information about any charges for overdrafts via:
  - a telephone helpline;
  - a website; or
  - by asking staff.
65. Subscribers should tell customers personally at least 30 days before increasing an overdraft charge or introducing a new overdraft charge.
66. Further guidance on charges information for current accounts, which are regulated under the Payment Services Regulations, can be found at: [http://www.fsa.gov.uk/pubs/other/PSD\\_approach.pdf](http://www.fsa.gov.uk/pubs/other/PSD_approach.pdf)

# Section 6: Credit cards

## Pre-sale information

67. Information provided to customers should be clear, fair and not mis-leading. Subscribers should present information about the main features of a credit card in a summary box, as set out in The UK Cards Association best practice guidelines [http://www.theukcardsassociation.org.uk/best\\_practices/](http://www.theukcardsassociation.org.uk/best_practices/)
68. The summary box should be provided to the customer prior to their acceptance of the credit agreement.
69. All integral features of the product, such as introductory rates, should be included in the summary box. Information on free-standing or optional product features, such as Payment Protection Insurance, credit card cheques or other free-standing product features should not be shown in the summary box. Information on such free-standing features should be provided separately and should comply with any relevant best practice guidelines.
70. Pre-contract, the summary box should appear prominently on, or within, any application form/pack, acting as a final reminder for the consumer. This will typically cover direct mail pieces, free-standing leaflets, inserts etc. but not media such as television, radio, cinema or outdoor advertising.
71. For internet applications, a click-through to a page containing the summary box should be available.
72. Credit card issuers are not precluded from using the summary box in any advertising media they choose or at any point post-contract.
73. Subscribers should only send a credit card to a customer if they request one or to replace a credit card the customer already has.

## Point of contract information

74. Before a 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;
  - The PSRs require that the customer must be provided, 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. Subscribers 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.

## Chip and PIN

75. Subscribers should issue the customer's PIN separately from their card.
76. Subscribers should have systems in place to allow customers to change their PIN and should tell customers how to do so, for example in account opening packs or on PIN notifications.
77. Subscribers should make reference to the availability of alternatives to chip and PIN in materials accompanying card issuance and in any discussion with the customer where they express difficulty with using a PIN.

## Interest rates

78. Subscribers should make current credit card interest rates available to customers via one or more of the following:
  - a telephone helpline;
  - a website;
  - notices in branches; or
  - by asking staff.
79. Subscribers should inform customers about changes to the interest rates on their credit card in compliance with the relevant regulatory requirement applying to the subscriber's credit card terms.

## Risk-based repricing

This section applies only to credit cards for personal customers where the interest rate is determined individually in accordance to the customer's risk profile.

80. Subscribers should not increase the standard interest rate on a credit card within the first 12 months after the account is opened<sup>4</sup>. Subscribers should not increase the interest rate on a credit card more often than once every 6 months after its first year of operation.
81. If, after the first year of operation, a subscriber decides to reprice a customer's credit card it should undertake the following procedures prior to any increase:
  - Give the customer at least 30 days advance notice of the increase in the interest rate;
  - Give the customer options which include closing the credit card account and repaying the balance at the existing interest rate, within a reasonable period;
  - Explain, if asked by the customer, why the interest rate is being increased; and
  - Consider offering an alternative product (if there is one available) at an equivalent or lower rate of interest.
82. Subscribers should not increase the interest rate on a credit card if the personal customer:
  - has failed to make two or more consecutive minimum monthly repayments;
  - has agreed a repayment plan for the account; or
  - is engaging with a not-for-profit debt agency to discuss a repayment plan and the issuer has been formally notified.
83. Further guidance on dealing with cases of financial difficulty is included in Section 9.

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<sup>4</sup> This requirement does not apply to an introductory promotional APR that reverts to a standard APR within the first 12 months

## Credit card limits

84. Before giving a customer a credit limit, or increasing an existing limit, subscribers should assess whether they feel the customer will be able to repay it. Subscribers should follow The UK Cards Association best practice guidelines for credit card limit increases [http://www.theukcardsassociation.org.uk/best\\_practices/](http://www.theukcardsassociation.org.uk/best_practices/)
85. Subscribers should give customers notice if they increase the credit limit on their credit card and explain how customers can refuse the increase.
86. Customers can contact the subscriber to reduce their credit card limit or opt-out of the increase.
87. Customers can request an increase to their credit card limit. The request should be considered after subscribers have made appropriate checks.
88. Where an emergency increase to a credit card limit is granted (i.e., when a transaction goes for authorisation and will take the customer over their pre-agreed limit) the issuer should always assess the customer's ability to repay.
89. Issuers should advise customers that checks are made before a limit is increased (the method and timing of advice will be at the issuer's discretion).
90. Credit card limit increases should not be offered on accounts that are in arrears and should not be granted for accounts that fall below credit scoring thresholds.
91. Subscribers should periodically review customers' credit card limits using credit reference agency and internal data. The requirement to use CRA data does not apply in specialist customer segments, such as private banking, where use of credit reference agency data is not always appropriate.
92. Where the subscriber feels it is appropriate, the credit card limit should be reduced and notification given to the customer.

## Credit card promotional period

93. If a credit card has an introductory promotional rate the expiry date of the introductory promotional offer should be shown on the front of the statement or in a separate, prominent personal notification to the customer. This should be given between four and eight weeks before the offer expires.
94. It is acceptable to exceed the four or eight week period if the best way to provide information about the expiry of an introductory promotional rate is by a message in, or with, a monthly statement.
95. This requirement does not apply where the customer is in breach of the terms and conditions of the account and the subscriber is concerned that giving the customer warning that the promotional period is about to end may result in abuse of the card, or where the account is not being used and the customer is not receiving a monthly statement.

## Credit card statements

96. Firms should provide customers with a monthly statement for their credit card unless the account has a zero balance and has not been used. The monthly statement will include information about transactions since the last statement date, any interest which applies, the minimum repayment and other useful information compliant with the Consumer Credit Act 2006, such as the allocation of payments.
97. Subscribers should follow The UK Cards Association Best Practice Guidelines for the Cardholder Statement Summary Box [http://www.theukcardsassociation.org.uk/best\\_practices/](http://www.theukcardsassociation.org.uk/best_practices/)
98. There are a number of specific pieces of information which should be included on every credit card statement (and where appropriate on a link from an electronic statement):
  - Sufficient details to enable customers to pay on time, including via automated payments;
  - 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 subscriber on the last day for payment;
  - A warning about the risk of only making minimum payments – this should be worded as follows, 'If you make only the minimum payment each month, it will take you longer and cost you more to clear your balance.'
99. In addition, in the event that a customer has missed a payment, subscribers should also include in any notification sent to a customer in respect of missing the first payment reference to the option of paying by automated payment to avoid missing future payments.

## Credit card repayments

100. Subscribers should ensure that the minimum monthly repayment covers more than that month's interest. This means that the minimum repayment will cover that month's interest and a proportion of the balance outstanding from the previous month.
101. The principle should be that the minimum repayment on a credit card should reduce month by month if there have been no further transactions on the card and the lower minimum payment threshold of the card has not been reached, assuming all other conditions of the product remain unchanged. The term 'transactions' includes any fees, charges or PPI premiums incurred on the card.
102. The minimum payment amount on the account should be clearly shown. This amount should normally be sufficient to avoid negative amortisation over a period of 12 months (i.e., the sum of 12 minimum payments would exceed the sum of additional interest added to the account over the same 12 month period).
103. It is acceptable for the minimum payment amount to be calculated as a percentage of the balance carried forward, so long as the percentage would normally prevent negative amortisation. Other methods for calculating the minimum payment are also acceptable, provided this principle can be demonstrated.
104. Subscribers may offer payment holidays and should clearly explain the terms and that customers can reject the holiday by continuing payment. 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

105. Subscribers should follow The UK Cards Association best practice guidelines for credit card cheques including the provision of clear information through a summary box provided with all credit card cheques:  
[http://www.theukcardsassociation.org.uk/best\\_practices/](http://www.theukcardsassociation.org.uk/best_practices/)
106. New credit card customers should be given a first time opt-out from receiving credit card cheque mailings.
107. When credit card cheques are provided the customer should be given prominent information about how to opt out of receiving cheques and how to destroy unwanted credit card cheques and supporting material.
108. The following customers should not be issued credit card cheques:
- Customers who are in arrears or over-limit<sup>5</sup>;
  - Customers with limited scope to borrow more or who are at their limit;
  - Customers who have opted out of receiving cheques; and
  - Accounts where there are fraudulent activities or lost/stolen procedures pending.
109. Subscribers should not send out unsolicited credit card cheques with a pre-completed amount.

<sup>5</sup> This means customers who are in arrears with their payments or over-limit at the time of selection for receipt of credit card cheques.

110. In addition to the summary box, subscribers should clearly and transparently highlight in the main body of any communication accompanying the provision of credit card cheques the following (where applicable):
- 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;
  - How to opt-out of receiving credit card cheques in the future; and
  - An alert to the Summary Box (e.g. “see important information overleaf”)

## Unauthorised transactions

111. If the subscriber agrees that a credit card transaction has genuinely not been authorised by the customer then any interest that may have been charged on this transaction will be refunded. Interest will not be refunded if the customer has acted fraudulently or with gross negligence.
112. Unless the subscriber can show that the customer acted fraudulently or with gross negligence, their liability for their credit card being misused will be limited as follows:
- If someone else uses the card, before the customer informs the subscriber 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;
  - If someone else uses the card details without the customer’s permission for a transaction where the cardholder does not need to be present (for example, buying something over the internet), the customer will not have to pay anything; and
  - If the card is used before the customer has received it, the customer will not have to pay anything.
113. The second bullet refers to fraudulent situations where, for example, a customer’s card has been cloned. Unless the customer has acted fraudulently or with gross negligence (which the subscriber must prove – see below), the customer is liable for a maximum of £50 in total (i.e. not for each transaction) before they give notification of loss, etc., if the card is out of their possession.
114. If card details are misused while the card is still in the customer’s possession (i.e., it has not been lost or stolen), the customer cannot be liable, unless they have acted fraudulently or with gross negligence. This would include misuse of card details in the case of distance transactions (this reflects the requirements of the EU Distance Selling Directive). Under the Consumer Credit Act 1974, if the card was used as a credit token, then the consideration of gross negligence is irrelevant.
115. This provision confirms that the burden of proof lies with the subscriber and not with the customer, so the subscriber will have to provide proof if necessary.

# Section 7: Loans

## Declining an application

116. If a customer's loan application is declined, the subscriber should explain the main reason if asked by the customer. This could be provided in writing or electronically, if requested.
117. The written explanation could be given in the form of a leaflet if this is sufficiently focused. In regard to refusals based on credit scoring, the Code Sponsors' Guide to Credit Scoring (in particular, section 6 of the Guide) refers. Subscribers should have regard to the potential for financial crime in the information they provide and will want to avoid compromising their security procedures.
118. If, after declining an application for credit, subscribers wish to refer a customer to another lender, they should make the customer aware that a referral is not an indication that a subsequent application for credit will be successful.

## Guarantees for personal and micro-enterprise lending

119. Regular financial information about the person on whose behalf a guarantee/indemnity or other security is given should always be made available to the guarantor or granters of third party security ('granters'), so that they can assess the likelihood of being called upon to pay, as long as permission is given and confidentiality is not breached.
120. 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.
121. It is important that guarantors or granters receive independent legal advice to help them understand the full nature of their commitment and the potential implications of their decision. Case law on this issue is well developed and subscribers should encourage, as far as possible, potential guarantors or granters to take independent advice. Subscribers 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.
122. In relation to guarantees/indemnities, subscribers must also inform guarantors or granters that, by giving the guarantee/indemnity or other third party security, they may have to pay instead of or as well as the customer. Subscribers must also tell the guarantor the extent of their liability, including the addition of interest and charges after demand has been 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. Depending on the nature and structure of facilities, subscribers 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).
123. Subscribers should not take an unlimited guarantee from an individual other than to support a customer's liabilities under a merchant agreement. 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.
124. '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.
125. In the case of limited companies, which are part of the same group structure, subscribers may continue to take unlimited guarantees from the constituent companies in support of borrowing by other companies in the group.

## Security for micro-enterprise lending

126. If a subscriber asks for security to support a business's borrowing or other liabilities it should tell the business why it needs the security and confirm what is needed in writing. Documents should be easy to understand and avoid technical language whenever possible. Micro-enterprise customers should have the opportunity to discuss with the subscriber anything about which they are unsure.
127. If asked by the customer, the subscriber should tell the customer under what circumstances they will agree to release the security. It should be made clear that the security will be released once the facility is repaid – unless contrary instructions are received from the customer (i.e. security should not be retained beyond the life of the borrowing without the customer's express agreement).

## The Statement of Principles for lending to micro-enterprises

128. Subscribers should ensure that they follow the BBA Statement of Principles<sup>6</sup> when lending to micro-enterprises. The Statement is included at Annex B.

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<sup>6</sup> Subscribers have a six month transitional period to replace the Statement of Principles which references the Banking Code, with the updated version at Annex B, which references the Lending Code

## Section 8: Terms and conditions

129. Unless it is impracticable to do so, as in the case of products purchased by telephone, customers should be provided with any product terms and conditions - and be encouraged to read them - before they commit to purchasing the product.
130. All terms and conditions should be written in clear and intelligible language. They should be fair in substance and, when relating to personal lending, should reflect the requirements of the Unfair Terms in Consumer Contracts Regulations.
131. Terms and conditions supplied to customers in paper format should be easy to read by someone with normal or corrected eyesight.
132. Customers should be told how they will be notified of changes to terms and conditions when they become a customer.
133. Subscribers must not insist that a customer buys an insurance product from them as a condition of providing the customer with a lending product.

### Changes to terms and conditions

134. If terms and conditions are changed to the customer's detriment customers should be given at least 30 days personal notice (for example, by letter, e-mail, etc) before the change takes effect. At any time during the 60 days from the date of the notification, the customer must be free to close or switch their account without having to give notice. Customers should also be free to close or switch accounts without any financial penalty.
135. Where a change to terms and conditions is not to the customer's disadvantage it can be made immediately. However, the customer should be notified of the change within 30 days. Notification can be made in a number of ways, for example: by press advertisements; branch notices; information on the website; etc. The method chosen should be appropriate for the distribution channel. So, for example, a branch notice would not be appropriate to advertise changes in the terms of an internet-only account.
136. If a firm makes a major change or a lot of minor changes to terms and conditions in any one year it should provide the customer with a summary of the changes and make available a full copy of the terms and conditions.

## Section 9: Financial difficulties

137. Subscribers should be sympathetic and positive when considering a customer's financial difficulties. Although there is an onus on customers to try to help themselves, the first step, when a subscriber becomes aware of a customer's financial difficulties, should be to try to contact the customer to discuss the matter. This applies to both personal and micro-enterprise customers.
138. Personal customers should be considered to be in financial difficulty when income is insufficient to cover reasonable living expenses and meet financial commitments as they become due. This may result from a change in lifestyle, often accompanied by a fall in disposable income and/or increased expenditure, such as:
- loss of employment;
  - disability;
  - serious illness;
  - relationship breakdown;
  - death of a partner;
  - starting a lower paid job;
  - parental/carer leave;
  - starting full-time education; and
  - imprisonment
139. Financial difficulties may become evident to a subscriber from one or more of the following events:
- Items repeatedly being returned unpaid due to lack of available funds;
  - Failing to meet loan repayments or other commitments;
  - Discontinuation of regular credits;
  - Notification of some form of insolvency or court proceedings;
  - Regular requests for increased borrowing or repeated rescheduling of debts;
  - Making frequent cash withdrawals on a credit card at a non-promotional rate of interest; and
  - Repeatedly exceeding a credit card or overdraft limit without agreement.
140. Additionally, for micro-enterprise customers, financial difficulties may also become evident to subscribers because:
- the customer goes overdrawn without agreement;
  - the customer goes over their agreed overdraft limit, especially more than once;
  - there are large increases or decreases in the business's turnover;
  - the business is trading at a loss;
  - the business suddenly loses a key customer or employee;
  - a large part of the business is sold;
  - a facility is used for purposes other than those agreed with the subscriber;
  - the customer does not keep to conditions set out in the loan agreement;
  - the customer does not supply agreed monitoring information on time; and
  - another creditor brings a winding-up petition or other legal action against the business.

## Proactive contact

141. If, during the course of a customer's account operation, a subscriber becomes aware via their existing systems that the customer may be heading towards financial difficulties, the subscriber should contact the customer to outline their approach to financial difficulties and to encourage the customer to contact the subscriber if the customer is worried about their position. Subscribers should also provide signposts to sources of free, independent money advice.
142. Subscribers should determine the level of intervention required dependent on the individual customer's position.
143. Subscribers should make available to customers straightforward information in plain English on their procedures and systems for dealing with customers in financial difficulty. This might explain, for example, the main rights and responsibilities of customers and subscribers, and what is involved in legal demands or a referral to a debt recovery unit. The BBA publishes a leaflet, *Dealing with Debt*, which is available on the BBA and UK Cards Association websites.
144. Where a customer requests that the subscriber deals with them in writing or e-mail (providing that facility is available) rather than by telephone, they should do so as long as the customer remains co-operative and in regular dialogue.

## Specialist assistance

145. If it becomes clear to the subscriber that the customer needs specialist assistance, the customer should be referred promptly to a specialist team that deals with customers in financial difficulties, if one exists. In some cases, referral to a debt recovery unit may also be necessary.

## Repayment plans

146. The subscriber should explore a range of options with the customer. Usually this will require the customer to disclose to the subscriber details of their income, expenditure, assets and liabilities, including amounts (if any) owed to other creditors. This information will be used to develop a plan for dealing with the liabilities. In cases where there are liabilities to multiple creditors, subscribers should recommend a free money advice service.
147. The initial arrangements for repaying the debt should be in writing or other durable medium. This will not always be treated as a formal debt management plan, and there may be departures from this plan, if it is in the interests of subscribers and customers. There is no need for every small departure from the basic plan to be in writing (for example an agreement to accept a lower repayment for one week), but any amendments that change the fundamental nature of the plan should be in writing. If, at the subscriber's discretion, the plan includes an agreement to accept smaller repayments, the subscriber should tell the customer whether this is regarded as 'falling behind with repayments' and whether information will be passed to Credit Reference Agencies.
148. Repayment plans between subscribers and customers may be subject to regular review. Any review period will be agreed with the customer or their adviser, and subscribers should seek to revise contributions only at the end of the review period or if a customer's personal circumstances change. (Customers and/or their advisers should inform the subscriber if the customer's personal situation changes.)

## Debt Collection Agencies

149. Subscribers should follow a due diligence process when selecting third parties for debt management, which should include third party compliance with data protection legislation, consumer credit legislation, Office of Fair Trading guidance on debt collection and debt management, and the code of the Credit Services Association.
150. Subscribers should use all reasonable endeavours to ensure that the Code standards for handling financial difficulties are applied by such agents. Code compliance standards should form part of all third party contracts.
151. Subscribers should pass on relevant information to enable the third party debt manager to recover the debt.
152. Subscribers should follow a due diligence process when selecting any third party for debt sale. Any new contract should ensure that the third party will comply with data protection legislation, consumer credit legislation, Office of Fair Trading guidance on debt collection and debt management, the code of the Credit Services Association and the Lending Code's standards for handling financial difficulties even if the debt purchaser is not a subscriber. The subscriber will inform the third party of any relevant arrangements currently being complied with by the customer.
153. It is common practice for third parties taking on a debt to request a new statement of income, expenditure and assets to understand the customer's most up-to-date position.

## The Statement of Principles for Micro-enterprise customers

154. In addition to the general requirements above for dealing with financial difficulties, subscribers should ensure that for micro-enterprise customers in financial difficulty they follow the BBA Statement of Principles<sup>7</sup>. The Statement is included as Annex B.

## Additional provisions for personal customers in financial difficulty

Paragraphs 155 – 172 outline further requirements that subscribers should follow when relevant in dealing with personal customers in financial difficulty.

### Consolidation loans

155. Where a consolidation loan is being provided to a personal customer and the subscriber considers the customer to be in financial difficulties, the subscriber should reduce or pay off the existing in-house borrowing that it is aware is being consolidated. This applies only where the existence of such in-house borrowing is apparent to subscribers via their existing in-house systems.
156. Exceptionally there may be circumstances in which it is appropriate not to reduce or pay off existing borrowing.

### Breathing space for personal customers

157. Where a not-for-profit debt advice agency has formally notified a subscriber that the customer is in serious discussion with them on a draft debt repayment plan then the subscriber should suspend collections activity related to the customer's current account, credit card and/or unsecured personal loan while these discussions continue, provided that they are concluded within 30 days.
158. In exceptional circumstances where discussions are progressing but have not been concluded within the initial 30 days the debt advice agency can ask the subscriber for an additional 30 days breathing space.

### Communicating with personal customers and advisers

159. Communications with customers and/or their advisers should, wherever possible, acknowledge and reflect any previous discussions that have taken place. Subscribers should be willing to communicate with customers and/or their advisers by phone, post, secure email or fax. Normally, the subscriber will communicate through the adviser, if an authority has been received. This does not preclude subscribers from copying correspondence to customers if they choose. In certain circumstances it may be beneficial for discussions (either face-to-face or over the telephone) between the adviser and subscriber to take place with the customer present.
160. On occasions the subscriber may need to contact the customer directly, even when an authority is in place. These occasions may be the result of the adviser not being available, failing to provide requested information within a reasonable period of time, or other similar circumstances.
161. Subscribers should give a phone number on all communications that will put the customer in contact with a named person or a team dedicated to dealing with cases of financial difficulty.

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<sup>7</sup> Subscribers have a six month transitional period to replace the Statement of Principles which references the Banking Code, with the updated version at Annex B, which references the Lending Code

## Debt recovery procedures

162. If the customer does not co-operate with the subscriber, a plan cannot be developed and the subscriber may proceed with normal debt recovery procedures. Lack of co-operation would include not responding to the subscriber's attempts at contact and unreasonable demands by the customer (for example, a request that the debt be written off or repaid over a very long period, even though the customer could afford to make reasonable repayments).
163. The subscriber should take into consideration any other accounts that the customer may have with the subscriber if these have a credit balance. In addition, if a customer has assets which could reasonably be expected to be sold to reduce outstanding debts, the subscriber may request that the customer, and if appropriate, their adviser, considers this option. Thereafter, the subscriber should acknowledge that income should only be used to repay 'non-priority' debts once provision has been made for any 'priority' debts. The subscriber should leave the customer with sufficient money for reasonable day-to-day expenses, taking into account individual circumstances. Subscribers will not subject customers to harassment or undue pressure when discussing their problems.
164. A debt is considered 'priority' where the customer's failure to pay could lead directly to the loss of one or more of the following:
- The customer's home (e.g., rent, mortgage, secured loans);
  - The customer's liberty (e.g., council tax, child support maintenance, income tax, court fines);
  - The customer's utility supplies (e.g., water, gas, electricity); or
  - The customer's essential goods or services (e.g., a cooker, a fridge, or the means to travel to work).

## Token offers and write offs

165. Token offers may be accepted where the customer has demonstrated they have no surplus income available for their 'non-priority' creditors and there is a realistic prospect of the customer's circumstances improving. A token offer will not necessarily be sufficient to prevent the subscriber from selling the debt to a third party debt recovery agent and to prevent the debt from being registered as a default with the credit reference agencies.
166. Where the subscriber considers the customer's personal and financial circumstances to be exceptional and unlikely to improve, the subscriber may, among other options, consider writing off or not pursuing part or all of the customer's debt(s). Where write-off is requested by a customer or adviser but is not considered appropriate by the subscriber, the subscriber must give their reasons in writing. If the subscriber agrees to a write-off, then the debt may be registered as a default with the credit reference agencies.

## Common Financial Statement

167. If a customer works with a debt-counselling organisation to complete a Common Financial Statement (CFS), the subscriber should accept the CFS as the basis for negotiations with the customer to draw up a debt-management plan.
168. This provision is designed to help people in financial difficulties, and some subscribers may only apply it when accounts have gone into default. Other subscribers may choose to use the provision at an earlier stage if it benefits both them and the customer.
169. Money advisers will use the BBA/MAT/FLA Common Financial Statement format and principles when submitting information to subscribers<sup>8</sup>.
170. Subscribers should accept the CFS (and other similar statements such as that used by the Consumer Credit Counselling Service (CCCS)). The CFS - or equivalent details of the customer's income, expenditure and assets - is necessary to enable the subscriber to gather information to assess if an 'offer to pay' will enable the customer to be accepted onto a formal debt management plan (DMP), or enable the subscriber to reduce or suppress interest and fees.
171. The third party money adviser should ensure that their authority to act on behalf of the customer is promptly sent to all creditors identified by the customer. It is also the responsibility of the adviser to ensure that a CFS or equivalent is sent to the creditors shortly after the authority. In these circumstances, where a money adviser has been appointed and there are debts with many creditors subscribers will not normally be able to work with the customer until a CFS or equivalent has been received.

<sup>8</sup> More information on the BBA/MAT/FLA statement is available from the British Bankers' Association or Money Advice Trust as well as the agencies supported by MAT, e.g., the National Association of Citizens Advice Bureaux Service, Advice UK, Money Advice Association, Money Advice Scotland, and National Debtline.

172. In general, subscribers should then be prepared to accept an offer of repayment which is based on the principle of equitable distribution of available income (after priority payments), in line with the amount outstanding to each creditor. Alternative means of calculating the distribution of available income by the customer or their adviser may be agreed on a case-by-case basis. A subscriber may accept an offer of payment, even though the offer is not sufficient to enable the customer to be accepted onto a formal DMP.

## Debt and mental health

This section of guidance is relevant to both personal and micro-enterprise customers.

173. The impacts of financial difficulty can be especially acute for customers with mental health problems. Subscribers should consider their processes and systems to ensure that they can be responsive to a customer in financial difficulties, from the point at which they are made aware of a mental health problem.

174. The appropriate response will differ in each case and could involve a range of approaches, including:

- working positively with an advice agency
- promptly carrying out agreed actions
- being flexible in responding to offers or schedules of repayment
- sensitively managing communications with the customer (for example preventing unnecessary and unwelcome mailings).

175. Where it is appropriate and with a customer's consent, subscribers should work with advice agencies and health and social care professionals in a joined-up way to exchange information and ensure an effective dialogue.

176. With a customer's explicit consent and in line with requirements of the Data Protection Act, where it is possible and appropriate subscribers should record relevant information about the customer on their account so that staff can deal appropriately with the customer.

177. If a subscriber has specialist staff to deal with cases of debt and mental health problems, they should ensure that appropriate mechanisms exist to refer the customer to the appropriate support.

178. If a customer informs a subscriber that they have a mental health problem that is impacting on their ability to manage their financial difficulties, the subscriber should allow the customer a reasonable period (e.g. 28 days) of time to collect and submit relevant evidence to the subscriber. This evidence will help the subscriber to work with the customer, advice agencies and health/social professionals where appropriate to determine the most appropriate action to deal with the customer's financial difficulties.

179. The Money Advice Liaison Group (MALG) has produced a Debt and Mental Health Evidence Form (DMHEF) which provides a standardised methodology for advisors and creditors to share relevant information about the customer's condition from health and social care professionals<sup>9</sup>.

180. Subscribers are encouraged to consider the DMHEF if it is presented by the customer or their adviser (with the customer's consent).

181. If a subscriber has received appropriate and relevant evidence of a customer's mental health problems they should consider whether it is appropriate to pass or sell the customer's debt to a third party debt collection agency.

182. The subscriber should also only initiate court action to pursue the debt as a last resort and when it is appropriate and fair to do so.

183. Further and more detailed good practice guidelines have been produced by MALG and are available at: <http://www.moneyadvicetrust.org/download.asp>. The MALG guidelines will not be monitored and enforced by the Lending Standards Board.

<sup>9</sup> The DMHEF and relevant guidance can be found at <http://www.moneyadvicetrust.org/section.asp?sid=12>

## Section 10: Complaints

184. In line with the FSA DISP Rules, all subscribers should have a set of internal procedures for handling complaints, and staff dealing with customers should know what these are so that customers can be informed if the need arises. Procedures should be clear and well defined.
185. On entering a contract, customers should be informed about where they can find details of the subscriber's complaints handling procedures.
186. Details of the internal complaints procedures should be given to customers who wish to make a complaint.
187. If a subscriber is unable to resolve a complaint to the customer's satisfaction by the close of business on the day following receipt of the complaint, the subscriber should provide a prompt written acknowledgement that the complaint is being considered.
188. Customers should be kept informed about the subscriber's progress in dealing with the complaint and within eight weeks should receive a final response or an explanation as to why a final response has not yet been reached. The Customer should also be informed that they can refer their complaint to the Financial Ombudsman Service (where applicable) and how to do so.
189. Enforcement of compliance with these requirements is the FSA's responsibility.

## Section 11: Monitoring

190. Subscribers should appoint a Code Compliance Officer who is likely to be the contact person for co-ordinating the annual statement of compliance, compliance visits and other contact with the Lending Standards Board.
191. Further details about the Lending Standards Board can be found at [www.lendingstandardsboard.org.uk](http://www.lendingstandardsboard.org.uk).

# Annex A: Unsecured personal loan(s) – summary box

When pre-sale information that includes any of paragraphs 5-7 of Schedule 2 of the Consumer Credit Advertisements Regulations 2004 is presented to customers in a written and/or online format, it should be available in a standard summary box. This applies to unsecured loans but not to sales finance, overdrafts or credit cards.

This requirement does not apply to Schedule 2 information contained in pre-contract information because this is prescribed by the Consumer Credit (Disclosure of Information) Regulations 2004 and the Financial Service (Distance Marketing) Regulations 2004.

A summary box does not have to be available in specialist customer segments such as private banking where its use may not be appropriate.

The content and order of the summary box is outlined below and should be relevant to the features of the financial promotion to which it relates.

<b>SUMMARY BOX</b>				
<b>Key Information for our xxx personal loan(s) from £x to £xx</b>				
<b>APR</b>	<p><i>If priced by risk:-</i></p> <p><b>Typical x.x % APR</b></p> <p>If successful, the interest rate you will pay is based on your personal circumstances, [the time period over which the loan is repaid] and [the amount you choose to borrow].</p> <p><i>Or, if not priced by risk:-</i></p> <p><b>Typical x.x % APR</b></p> <p>If successful, the interest rate you will pay is based on the amount you choose to borrow, [and the time period over which the loan is repaid].</p>			
<b>Interest rate ranges</b>	<b>Loan size range</b>	<b>From %</b>	<b>To %</b>	<b>Representative APR</b>
	<b>£5000 – 7500</b>	<b>17.3</b>	<b>19.9</b>	<b>18.0</b>
	<b>£7501 - 10000</b>	<b>14.9</b>	<b>18.9</b>	<b>16.0</b>
	<p><i>(To include sufficient information for the consumer to see the interest rates / ranges for all the loan size bands /tiers used in the financial promotion. If price is affected by the repayment period the From % and To % should fully reflect this )</i></p>			

<b>Interest charging information</b>	To include :-  Is rate fixed for life of loan?  Basis of interest calculation: (daily/monthly/annual balance; in arrears/advance)																				
<b>Repayment information</b>	To include :-  Method and frequency of repayment  Date when first repayment is due  Are payment holidays permitted?  Is deferral of payments permitted at start of loan?																				
<b>Repayment period</b>	To include the range of time periods over which a loan can be repaid																				
<b>Amount of loan available</b>	To include the range of £ amounts for which loans are available and applicable increments																				
<b>Application/Arrangement fee</b>	To include the £ amount of any set up fees, whatever they may be called.																				
<b>Other fees</b>	To include any optional fees, such as “fast delivery” costs, “payment date change fees” & “fees for paying by credit card”																				
<b>Default fees</b>	To include a list of all default charges applied by the loan provider, their £ costs, and any rules about when charged. “Default” to be defined so customer knows when applicable.  If none are charged then show: “none”.  (Examples might include: returned item charges for unpaid standing orders / direct debits.)																				
<b>Early settlement</b>	To include details of any early settlement fees																				
<b>Illustrative example</b>	<table border="1"> <thead> <tr> <th>Loan amount</th> <th>Representative APR</th> <th>Term</th> <th>Monthly repayment</th> <th>Total payable</th> </tr> </thead> <tbody> <tr> <td>£3000</td> <td>X%</td> <td>36 months</td> <td>£x</td> <td>£xx</td> </tr> <tr> <td>£5000</td> <td>X%</td> <td>36 months</td> <td>£x</td> <td>£xx</td> </tr> <tr> <td>£10000</td> <td>X%</td> <td>60 months</td> <td>£x</td> <td>£xx</td> </tr> </tbody> </table> <p>The example loan amounts and terms above should be used when they are relevant to the loan bands for the financial promotion. If the example loan amounts above are not relevant they should be replaced by three relevant example loan amounts.</p> <p>The example loan terms used should be 36 months for amounts under £10,000 and 60 months for £10,000 and above. However, different illustrative examples may be provided if the financial promotion is for a loan product that does not allow either of the example loan terms</p>	Loan amount	Representative APR	Term	Monthly repayment	Total payable	£3000	X%	36 months	£x	£xx	£5000	X%	36 months	£x	£xx	£10000	X%	60 months	£x	£xx
Loan amount	Representative APR	Term	Monthly repayment	Total payable																	
£3000	X%	36 months	£x	£xx																	
£5000	X%	36 months	£x	£xx																	
£10000	X%	60 months	£x	£xx																	

Presentation should be clear and legible and in compliance with the Consumer Credit Advertising Regulations. The summary box can include key product information for more than one of the subscriber's unsecured loan products, but information for each product should be presented in an individual column.

Subscribers are encouraged to use the standardised wording shown above, where applicable.

## Left hand column

The sequence of information presented in the left hand column should be the same for each product and in the order outlined above.

## Right hand column

This text provides examples of the types of information that should be presented for each key product feature, but these examples are not prescriptive or exhaustive. Subscribers should ensure that information relevant to the key product feature (left hand column) is included in the right hand column. Subscribers are not required to include information in the right hand column on features that the product does not include e.g. 'Not applicable' can be inserted. Subscribers should ensure that they are compliant with customer information requirements under relevant consumer credit legislation.

## APR

Subscribers need only show whichever of the two suggested examples is relevant to the way the product is priced.

Subscribers are encouraged to include whichever of the variables included in the example summary box above is relevant to the way the product is priced i.e. personal circumstances; time period over which the loan is repaid; the amount you choose to borrow.

## Interest rate ranges

The ranges should be based on the price bands used in the financial promotion. In the example above, the financial promotion is for loans of £5000 to £10,000.

If the interest rate will be affected by the repayment period this should be articulated.

## Interest charging information

An example of the way in which this information could be presented is:

Once agreed, the APR is fixed and guaranteed for the life of your loan. The interest, at the agreed rate, will be calculated on the amount of loan outstanding each day and debited from your account monthly in arrears.

## Other fees

This should include any fees that can be incurred by the customer which are not outlined in other sections of the summary box. Information should include whether fees are added to the loan; paid monthly; paid in advance/arrears; interest bearing etc

## Illustrative example

Subscribers should include three examples to allow customers to see the potential costs of repaying these loans.

The interest rate used should be the rate at or below which 66% of loans of this amount and length are priced, or the actual rate for such loans if not priced by risk.

**Any additional product information which the subscriber feels should be given to the customer may be presented in close proximity to, but not within, the summary box.**

## Usage

The summary box should appear prominently on or within pre-sale material where any Schedule 2 paragraphs 5-7 information is triggered.

This will typically cover direct mail pieces: free standing leaflets; marketing inserts, etc. A summary box is not required for personal quotations requested by the customer or in media such as newspapers, posters, television, radio, cinema and outdoor advertising, although subscribers can choose to provide the summary box in these and other additional circumstances.

For promotions via the internet that include any of paragraphs 5-7 of Schedule 2, a link to the subscribers' webpage containing the summary box should be available.

Provision of a summary box is not required where the subscriber is providing the customer with presale information in an oral form e.g. via telephone.

# Annex B: Statement of Principles

The Statement of Principles is available in leaflet form, but we have reproduced the copy here for convenience. Subscribers have a six month transitional period to replace the old Statement of Principles, which references the Banking Code, with the updated version below (which references the Lending Code).

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## A Statement of Principles: Banks and micro-enterprises – working together

### Foreword

The original Statement of Principles came into force on 1 July 1997, having been drafted after the recession in the early 90s when many lessons were learned. In light of the current economic climate, the Principles have been reviewed by all key stakeholders to ensure that they continue to show real commitment from banks and highlight the responsibilities of micro-enterprises\*.

The Principles show how banks will work with micro-enterprises to get the relationship right from the start and help if the business gets into difficulties. They set out the industry's best practice, showing business customers what they can expect from their bank and, in return, what they can do to build a strong relationship with their bank.

The Principles show that banks are committed to working with business customers to find ways of overcoming the difficulties they may face in changing markets and through the economic cycle. All businesses experience these challenges. The Principles also emphasise that if the owners and managers of the business take early advice and action, they can work with the bank to sort out difficulties.

All our major banks have skilled specialists to deal with customers in difficulties. They will be involved in the small number of cases when, despite everyone's efforts, a business is failing. The industry and its customers are well aware that good managers and responsible banks are beneficial to everyone concerned, directly benefiting not only most of the businesses that succeed but also the wider community. Professional advisers and business support organisations have an important role to play in building trusted relationships between businesses and banks.

### Overview

The Statement of Principles defines how banks will work together with their micro-enterprise customers when they need finance for the first time, and later as their needs change. The Principles show how banks will work with micro-enterprise customers to get the relationship right from the start and help if the business gets into difficulties, and how businesses can work most effectively with their bank.

The Statement of Principles is followed by banks that subscribe to the Lending Code and provide micro-enterprise lending. The Lending Code sets out how banks will deal with customers in the UK. It includes banks' responsibilities involving:

- Credit assessment
- business loans and overdrafts
- credit cards
- charges and interest rates
- financial difficulties.

All relevant banks that subscribe to the Lending Code will ensure that every appropriate member of their staff receives a copy of this Statement. Copies of the Statement will also be given to all micro-enterprise customers and are freely available in bank branches. The Lending Code is freely available online at [www.bba.org.uk](http://www.bba.org.uk)

The Principles cover:

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\* A micro-enterprise is defined as a business that employs fewer than 10 persons and has a turnover or annual balance sheet that does not exceed €2 million. Further information about this definition can be found on the EU Commission's website at [http://ec.europa.eu/enterprise/enterprise\\_policy/sme\\_definition/index\\_en.htm](http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm)

1. Getting things right at the start
2. Sharing concerns
3. Agreeing the way forward
4. Making a complaint
5. Switching your current account to another bank.

## Introduction

The relationship between a bank and a customer is a partnership. It needs careful thought and openness on both sides from the start, and particularly in difficult times.

Micro-enterprises are important to banks because they represent a significant proportion of their customers and use a wide range of bank services. If a customer does get into difficulties and its bank becomes aware, the bank will discuss with the customer the advice and action that may be necessary. In most cases, this should allow the bank and customer to agree the terms of the bank's support and to return to running the business successfully. However, if the customer does not ask for or act on advice, or take part in meaningful discussions, the bank may have to take action to protect its own position.

The Principles set out, in general terms, how the customer and bank can tackle financial difficulties in a positive way. Many factors can contribute to this but the single most important step is for customers to speak to their bank at the earliest opportunity, take appropriate advice and act as soon as something goes wrong. Banks will contact micro-enterprise customers as soon as they know of difficulties and will offer to discuss these personally with the customer.

A meaningful business plan is often the basis for successful discussions, both at the start and if things begin to go wrong. When a bank tells a customer about its concerns, it will be as relevant and specific as possible, because that will help the customer to work with the bank to sort them out.

It is in the interests of both the bank and the customer to address concerns as soon as possible and agree a way forward. Sometimes, only selling the business or changing management can save the main business and save jobs for the benefit of the whole community. Where the business is not viable as structured, formal insolvency procedures may have to be considered to restructure or wind down the business. It is not in anyone's interests for banks to continue to support businesses that cannot survive. The Enterprise Act 2002 recognises this and banks will work with management to use the best legal framework to achieve a fair outcome.

Banks will continue to reinforce these Principles within their own systems and publications, and make sure that all relevant staff within their organisations understand and apply them. The Lending Standards Board (LSB) independently monitors banks' compliance with the Lending Code, including a commitment to follow the Statement of Principles. The LSB will monitor banks' application of this Statement in their operational procedures; including ensuring relevant staff receive a copy of the Statement and providing the Principles to new and existing customers.

In the following Principles, 'we' means the banks agreeing to follow these Principles, and 'you' means the micro-enterprise customers of those banks.

## The Principles

### 1 Getting things right at the start

#### **a We will confirm the conditions of any facility (borrowing, guarantees, bonds and so on) in writing.**

We will make sure that the documents detailing the facility are easy to understand, using technical language only when necessary. We will be happy to explain anything you are not sure about.

It is important that you read the documents carefully. Please feel free to ask questions and get independent advice.

The documents legally bind both of us. If you are asked, you should only sign them if you fully understand what you are doing. They will normally include:

- the amount and purpose of the facility
- whether the facility is for a particular period or whether you will have to repay it when asked
- when any repayments are to be made and the amount of those repayments
- the interest rate and any other charges for the facility, and whether these are variable
- when we will normally review the facility with you
- 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 you will need to give us before you can use the facility
- what action we might take if you fail to meet repayments

If the documents do not fully reflect any aspect of the negotiated agreement, discuss this with us before signing. Although banks always commit to first consider business assets before determining whether personal assets are appropriate, if you are providing personal security make sure that you and anybody else giving security understand the documents. Anyone providing security is also encouraged to get independent legal advice.

#### **b We will recommend that you get independent advice before accepting the facility.**

The documents relating to your facility are important and form the agreement between us. Independent advice can help you to make an informed choice about the facility and understand the risks and responsibilities involved.

You can get legal advice from solicitors. Other sources of advice include accountants, Business Link, Business Gateway Scotland, Highlands and Islands Enterprise Scotland, Flexible Support for Business in Wales and Invest Northern Ireland. If you want, we can give you details of where you can get advice locally.

Whoever you choose to get advice from, you will be responsible for the costs involved. We will be happy to discuss any issues with your adviser if you ask us to.

A list of useful contact details is included at the end of this publication.

#### **c We will co-operate with your advisers to explain the facility and to clarify anything during the relationship.**

You are free to involve your advisers in discussions with us. You may need to give us specific permission to talk to them if you will not be present. Advisers can help both you and the bank to fully understand each other's position.

#### **d Before you accept the facility, we will agree with you what sort of monitoring information we need and how often we need it.**

We will need to see information that tells us how your business is performing. You need to know how your business is running and should be able to show us that you are keeping on top of developments.

We will write to you setting out what information is required by us and when. This is for the benefit of both of us and to avoid the possibility of future misunderstandings. What is appropriate will vary from case to case and we will make our needs clear. We believe best business practice includes a business plan and performance monitoring. We anticipate that you will have already produced what we ask you for, to help you run your business. It is not our aim to add unnecessary costs and burdens and we will limit these where possible. Examples of what we might need are:

- a comparison of the forecasts in your business plan, 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 you owe creditors, and are owed by debtors, and for how long these have been due
- proof that you are meeting any special conditions we and you have agreed.

If your circumstances change, we will talk to you about any new information we will need from you.

**e If we are not able to offer you a facility we will explain the key reasons why, if you ask us to.**

There may be occasions when we are not able to offer you a facility. If this is the case, we will give you the key reasons why in writing if you ask us to and in person if you wish (unless we cannot do so for legal reasons).

## 2 Sharing concerns

**a You should discuss any concerns you have about your current or future business performance with us as soon as possible. We will consider any financial difficulties you have sympathetically and positively and, if we have concerns about your business or our relationship with you, we will let you know in writing and offer to discuss these with you personally.**

You manage the business and should be the first to realise that problems are developing. You should talk to us as soon as possible about your concerns and your plans. In addition, we will use our wide experience and account monitoring systems to try to spot problems before they become obvious. If we do so we will contact you to discuss possible actions.

Although these discussions may be difficult, we will be constructive and positive. Speaking to the bank about financial difficulties at your earliest opportunity will, in many cases, help us to agree terms of the bank's support and return to running the business successfully. Not telling us about problems is likely to lead to unnecessary or serious difficulties. Occasionally we may need to contact you urgently, and we may do so by phone if possible, or by fax or e-mail.

This list gives a few examples of what can cause us concern, particularly if you do not explain what is happening.

- If you go overdrawn without our agreement.
- If you go over your agreed overdraft limit, especially more than once.
- If there are large increases or decreases in turnover.
- If you are trading at a loss.
- If you suddenly lose a key customer, contract or employee.
- If you restructure your business through reorganisation, acquisition or sale.
- If you use a facility for purposes other than agreed with us.
- If you fail to make a loan repayment.
- If you do not keep to conditions set out in the facility letter or loan agreement.
- If you do not supply agreed monitoring information on time.
- If another creditor commences legal action against your business.

You may want to get independent advice when you become aware of problems. We will remind you of the benefits of getting independent advice when we contact you to tell you our concerns about your business or our relationship with you.

**b We may ask you for more financial information to help us work together to understand any problems.**

Financial information will help us to analyse the problems and understand your business' needs and the main factors which affect its ability to remain viable and successful. It is often an advantage to have someone outside the business help you to decide how your business should proceed.

If you have told us about problems at an early stage, there will be time to discuss and agree on any actions that need to be taken.

### **c We may suggest an independent review of your business.**

If we suggest that an independent review should be carried out, we will explain the reasons why, what we think should be done and will discuss with you how the review will take place, who should carry out the review and the costs you will have to pay.

A review will be valuable to both of us as it will provide an independent view of the future prospects of the business. Someone with experience of these situations will be able to carry out the review fairly.

The review will usually cover all the options, including assessing:

- opportunities for improving cash flow and profitability
- the main business activities or new markets
- investment needs and refinancing options
- recommendations for the future.

### **3 Agreeing the way forward**

#### **a If your business is reviewed, we will discuss with you (and your advisers) the information provided before reaching any conclusions or taking any action.**

We would expect the reviewer to have discussed the report with you before sending it to us. Discussions with us should give you a further opportunity to highlight any facts or opinions in the report that you disagree with. It is important that we both consider all the available information and all the options. We will take account of any other independent advice that you have received.

If we agree on a way forward, you will need to prepare a new business plan to put that strategy into practice and to agree any new facilities. Sometimes the reviewer may be responsible for preparing, testing and monitoring this plan.

If we cannot reach an agreement, we will make it clear why we feel unable to continue to support you. We will tell you when we will withdraw our support and will communicate these changes personally.

#### **b We will support a rescue plan, if we believe it will succeed.**

The key for both of us is to find a way forward that provides a lasting solution to the real problems and not just a quick fix. We will discuss with you the elements of the rescue plan and how it will achieve this aim. A successful rescue plan may involve changes to the business and its management, as well as changes to your facilities with us and we would expect you and others involved in running the business to view these changes positively.

A rescue plan usually involves providing extra time, security and investment. A bank is unlikely to increase its risk as part of the arrangements, so you may need extra security if we agree extra lending, although we will always look at business assets for security first. It is possible that the cost of your borrowing may increase - if so, we will explain the reasons why.

#### **c If we do not think that the rescue plan will succeed, we will explain the reasons why and help you and your advisers to consider other options.**

In most cases, by continuing to work together, we will find an acceptable alternative way forward. If we cannot support your plan, we will discuss the possibility of giving you time to find other bankers.

In serious situations, the way forward may involve an insolvency process.

To protect businesses (directors and owners) experiencing financial difficulty, there is a range of insolvency procedures, including voluntary arrangements, administration and administrative receivership (but see paragraph 3e, below).

All these procedures can allow the business to be restructured. If a restructure or a sale is not possible, we will help achieve an orderly wind-down using the most appropriate insolvency route. This is in the interests of all stakeholders, including directors and owners whose responsibilities are clearly recognised in law.

If you want any information or advice about insolvency procedures, you should contact the Insolvency Service or a licensed insolvency practitioner.

#### **d If you make the changes agreed between us early enough to save the main business, we will not, other than in exceptional circumstances, start action to recover the amount you have borrowed.**

Throughout the rescue plan, we will continue to work positively with you to support a lasting solution for a successful running of the business. To help us do this, it is important that you:

- act in good faith
- keep us informed about developments
- keep to your agreements with us
- carefully consider what your own and any independent advisers say
- are prepared to make the necessary changes early enough.

If we find, for example, that you have withheld important information or done something which affects the security we hold, we may have to start recovery action. This action may include appointing an administrative receiver (receiver in Scotland) or an administrator (if a company is involved), and will depend on the type of security we hold.

A final decision not to continue to provide support is made at a senior level in the bank, on the recommendation of the relationship manager. We will explain the decision to you and provide a written explanation if you ask us to, unless we cannot do so for legal reasons.

**e If, after reviewing all the options with you, appointing an administrator or an administrative receiver (receiver in Scotland) is considered to be the most appropriate action to take, the decision to appoint the receiver will be confirmed within the bank at a senior level.**

The decision to appoint an administrator or receiver (either by the directors or us) is often taken in the light of a recommendation from an independent accountant who has knowledge of the business.

In most cases, the directors invite the bank to appoint an administrator or administrative receiver after accepting that it is the most appropriate insolvency process based on very careful consideration of all the options available to protect the interests of the business, including the employees and creditors.

Insolvency practitioners will decide whether to accept a formal appointment after considering guidance on ethical standards. As a result of the Enterprise Act, an administrative receiver can only be appointed under security taken before 15 September 2003.

If you give us good reasons why a member of the firm that has carried out an independent review should not be appointed as administrator, we will appoint a different administrator (unless there are exceptional circumstances). The same principle applies for administrative receivers and receivers in Scotland.

#### 4 Making a complaint

**a We have procedures to help sort out complaints and disagreements. We will act fairly and reasonably, and try to sort out problems quickly.**

We recognise that disagreements need to be dealt with quickly. Each bank's procedures include your right to appeal to a higher authority in the bank if you feel that you have not been dealt with properly.

We will communicate with you using plain language, and you are free to ask questions if you do not understand the complaints process or anything we are telling you.

You are free to include your independent advisers in any discussions with us and we will talk directly to them if you authorise us to do so.

Further information about our complaints process is available in branches or online.

**b You can complain to the Financial Ombudsman Service if you are not happy with something we have done (or failed to do) and we are not able to sort out the problem to your satisfaction.**

The Financial Ombudsman Service is available to micro-enterprise businesses i.e. a business that employs fewer than 10 persons and has a turnover or annual balance sheet that does not exceed €2 million.

To complain to the Ombudsman you must have received a final response from us (or have waited more than eight weeks for a final response).

If you are still not happy, you should fill in a complaint form and send it to the service. We will give you details of the service, or you may contact the Financial Ombudsman Service direct ([www.financialombudsman.org.uk](http://www.financialombudsman.org.uk)).

## 5 Switching your account to another bank

**a If you decide to move your current account to another bank, we will give them information on your standing orders and direct debits within three working days of receiving their request to do this.**

We realise that if you are not happy with the service we give you, you might want to move your current account to another bank. Therefore, if asked by the new bank, we will send, within three working days, all the information necessary to transfer your direct debits and standing orders.

**b In the absence of exceptional circumstances relating to the transfer of charges or securities, the lenders will complete the transfer of accounts within five working days, when timely information is provided by the customer.**

Once your application for a new account has been successfully completed and the old and new bank have swapped information on your direct debits and standing orders, both banks will ensure that, unless there are exceptional circumstances relating to the transfer of charges or securities, the transfer of your account will be complete in five working days.

## Useful contacts

For businesses that experience difficulties with their banks at branch level, banks have provided a central point of contact to discuss your concerns. Details of each bank's central telephone number are available on the bank's website.

If you are in difficulties, you can also get help from debt-counselling and business support organisations. We will tell you where you can get advice, some of which may be free. If you ask us to, we will work with your advisers. The contact details for some organisations which may be able to help are as follows.

Advice UK - 020 7469 5700 ([www.adviceuk.org.uk](http://www.adviceuk.org.uk))

Business Debtline – 0800 197 6026 ([www.bdl.org.uk](http://www.bdl.org.uk))

Business Link – 0845 600 9 006 ([www.businesslink.gov.uk](http://www.businesslink.gov.uk))

Citizens Advice - You can get the phone number of your local bureau from the phone book, the local library or [www.citizensadvice.org.uk](http://www.citizensadvice.org.uk)

Citizens Advice Scotland - 0131 550 1000 ([www.cas.org.uk](http://www.cas.org.uk))

Federation of Small Businesses - <http://www.fsb.org.uk>

Financial Services Authority – 020 7066 1000 ([www.fsa.gov.uk](http://www.fsa.gov.uk))

Money Advice Scotland - 0141 572 0237 ([www.moneyadvicescotland.org.uk](http://www.moneyadvicescotland.org.uk))

National Federation of Enterprise Agencies - 01234 831623 ([www.nfea.com](http://www.nfea.com))

Northern Ireland Citizens Advice Bureau - 028 9023 1120 ([www.citizensadvice.co.uk](http://www.citizensadvice.co.uk))

The British Chambers of Commerce – 024 7669 4484 ([www.chamberonline.co.uk](http://www.chamberonline.co.uk))

The Insolvency Service - 0845 601 3546 ([www.insolvency.gov.uk](http://www.insolvency.gov.uk))

The Forum of Private Business – 0845 612 6266 ([www.fpb.co.uk](http://www.fpb.co.uk))

The Institute of Directors 020 7766 8866 ([www.iod.com](http://www.iod.com))