

A guide to the Lending Code



For micro-enterprises



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Introduction

This guide gives you an introduction to the standards you should expect from banks, building societies and credit-card providers who follow the Lending Code.

The Lending Code covers:

- business loans;
- credit cards and charge cards; and
- current account overdrafts.

These standards apply to 'micro-enterprises'. These are small businesses with a turnover of no more than €2 million a year and with fewer than 10 employees.

The code is monitored by the independent Lending Standards Board (LSB). You can find out about the LSB and the lenders who follow the code at: www.lendingstandardsboard.org.uk.

Where to find the code

You can download the Lending Code from your bank's website or from the LSB.

Key commitments to you

Lenders will act fairly and reasonably in all their dealings with you.

They will make sure:

- their advertising and promotional material is fair, clear and not misleading;
- they give you clear information about their products and services – how they work, their terms and conditions and the interest rates and charges that apply to them;
- you can bring your professional advisers with you to support you in your discussions with them;
- that if you ask, they will give you an in-house guide or industry-standard literature on the factors that determine how they set their prices;
- they will tell you how long it will take for them to make a lending decision, starting from the point when you give them the information needed to complete the application;
- they lend money responsibly;
- wherever practical, they will give you clear feedback when they have decided to decline (refuse) a request for credit, including what steps you might take next;

- they have a fair and effective appeals process in place to review decisions to decline a credit request;
- they tell you about your right to appeal if your application is declined;
- they give you regular statements and tell you about changes to interest rates, charges or the terms and conditions for your account;
- they deal quickly and sympathetically with things that go wrong;
- they act sympathetically and positively when considering your financial difficulties; and
- your personal information is treated as private and confidential.

Communicating with you

Your lender will provide you with useful information at the right time so you can make informed decisions. They will use plain language and avoid using technical or legal language wherever possible.

Before you accept a credit product, they will give you important information about:

- how the product works and its main features, including how and when you must repay the credit provided;
- any conditions you must meet before they provide the credit;
- the interest and charges (including any introductory rates) you must pay for the credit – how the lender will work these out and how you can pay them; and
- how they will tell you about changes to interest rates, charges and terms and conditions.

Assessing if you can afford to borrow

You should always consider whether you can afford to repay any money you borrow.

Before lending you any money, lenders will assess whether they feel you can afford to repay it. This may include looking at:

- why you want to borrow the money;
- your business plan and accounts;
- your business's cash flow, profitability and existing financial commitments;

- any personal financial commitments which may affect the business;
- how you have handled your finances in the past;
- information held by credit reference agencies (CRAs) and, with your permission, others, such as other lenders and your landlord (if this is relevant);
- credit-assessment techniques, such as credit scoring; and
- any security provided.

Your lender will tell you:

- when they might pass information about you to CRAs;
- whether a record of a credit search will be kept and the checks that may be made; and
- how to get a copy of the information that CRAs hold about you and how credit reference works.

If they decline your application for credit or for an increase to your existing credit limit, your lender will explain the main reason why and how you can appeal against this decision.

Loans and security

Before you accept a credit product, your lender will agree with you what sort of information they will need from you to monitor how your business is performing and how often you will need to provide it.

For your benefit and to avoid the possibility of misunderstandings in the future, they will write to you setting out the agreement. What is appropriate will vary from case to case, and they will make their needs clear.

The information they need might include:

- a comparison of the forecasts in your business plan with the actual results;
- progress on important parts of your business plan such as renewing contracts;
- revised cash-flow forecasts;
- major capital spending proposals;
- yearly accounts and management accounts;
- details of how much you owe to creditors and how much you are owed by debtors, and for how long; and
- evidence that you are meeting any special terms agreed with them.

Your lender will recommend that you get independent advice before accepting the facility.

If your lender asks you for security to support your borrowing or other liabilities, they will tell you why they need this security and will confirm it in writing.

Help if you are experiencing financial difficulties

Financial difficulties can happen for a number of reasons. Each organisation that follows the code is committed to acting sympathetically and positively if you are experiencing financial difficulties. In considering these cases, lenders will:

- let you know in writing if they have concerns about your business or their relationship with you and offer to discuss these concerns with you and your advisors personally;
- support a rescue plan, if they believe it will succeed; and
- do everything they can to help you overcome your difficulties.

The actions needed to deal with financial difficulty will depend on how serious your problems are. Your lender is likely to look at a range of options.

How to make a complaint

If you are unhappy with your lender's service, they will tell you how to make a complaint and how quickly they will deal with it. If they cannot settle the complaint to your satisfaction, you may ask the free, independent Financial Ombudsman Service to look into it.

Their contact details are:

Financial Ombudsman Service

South Quay Plaza

183 Marsh Wall

London

E14 9SR.

Phone: 0845 080 1800

Website: www.financial-ombudsman.org.uk



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