



# The FairLife Charity

## Fair Trading in Finance



### Business Loans

#### The FairLife Pledge

The fair-trading mark represents a pledge to price honestly and trade fairly with your customers. Any product or service displaying the FairLife Mark must be fairly traded and honestly priced in a way that is business practical:

- a) The provider must follow the spirit as well as the letter of any agreed regulator's rules and principles with an emphasis on treating customers fairly.
- b) The provider must adhere to agreed sources of profit as detailed in the PANA criteria below. Any extra fees or charges must be designed only to cover additional costs and not to generate additional profits.

In essence you agree to embrace good practice within the constraints of the market and to avoid poor practice which although legal is considered avoidable on a voluntary basis by your peers. Nothing in the FairLife initiative should put you at a commercial disadvantage.

#### Peer agreed and nationally approved (PANA) criteria for fair trading in business loans

PANA stands for Peer Agreed and Nationally Approved meaning that the criteria have been agreed by a peer group of providers and approved by the FairLife Charity. The resulting standards combine fairness to the public with business practicality. PANA criteria evidence that FairLife-marked products and services meet the FairLife Pledge.

1. The lender must either follow the Lending Standards Board Standards of Lending Practice for business customers or be validated by a FairLife Agent.
2. The FCA's Principles of Business will be considered to apply to firms undertaking business loans that carry the Fairlife Mark.
3. Loan fees or charges, other than the interest rate and any upfront fee, must be designed only to cover additional costs and not to generate additional profits (this excludes charges for additional borrowing or facilities).
4. Customers must be able to overpay their loans without charges in excess of reasonable costs.
  - a. Where repaying a loan would incur a breakout cost, this must be explained to the customer.
  - b. Where a customer opts to pay a breakout cost, the fee charged must be reflective of the cost.
5. If the interest rate charged exceeds 3% per month AND the customer may pay more in fees and interest than the amount they originally borrowed, the lender must be validated by a FairLife Agent to confirm that the interest rate charged is justified within the fair-trading initiative.

6. The provider must be fair if customers' debt is restructured due to payment difficulties.
  - a. Unless considered contrary to the client's best interests the provider must:
    - i. Provide reasonable time for the customer to return their business to health.
    - ii. Offer flexibility to existing arrangements where possible.
    - iii. Not raise loan margins on existing facilities if a business is experiencing financial difficulty.
    - iv. Not default a business if it is up to date on its loan payments, but a valuation change impacts a loan-to-value covenant and other covenants are not breached.
  - b. No business area focused on supporting vulnerable customers must be a profit centre.
7. The provider must be fair to customers in debt recovery:
  - a. A customer in debt recovery must be less valuable to the provider than when their loan was performing.
  - b. If the customer has a personal guarantee and the personal guarantee is triggered:
    - i. The provider must inform the guarantor that they can get free personal debt advice.
    - ii. The provider must not make a profit from the guarantor.
    - iii. If the guarantor debt collection is fully outsourced to an external debt recovery firm the debt burden must be frozen at this point and not incremented further with interest, fees or costs (with the exception of court fees and costs). The frozen amount can include all interest and costs incurred by the provider up to this point. This criterion is met automatically if the debt is sold or outsourced to a FairLife debt recovery firm.
8. If the provider sells the loan, any benefits the customer has through the FairLife Mark must be included in the sale transfer.

If peer agreement can be secured in the future, the charity will seek introduce standardised terminology. This will build public trust and help FairLife schools, colleges and universities to teach financial education.

The FairLife Mark is a mark of integrity that can be awarded based on the provider's own declarations. The licensee may use the mark on selected products and cancel at any time.

*The FairLife Mark is on your side*