



Regulatory Overview of Logbook Lending Limited¹ (LBL)

This Regulatory Report has been drafted by Compliance4u Limited. This is the company of Mrs Suzanna Walker, a Compliance Consultant. She provides a range of regulatory compliance solutions to authorised businesses. Mrs Walker has 20 years' experience as a compliance specialist focusing on consumer credit and mortgage authorised firms with the Financial Services Authority and latterly the Financial Conduct Authority. She provides ongoing risk and compliance support to Logbook Lending Limited. Her services commenced when the firm was applying to the FCA for authorisation in 2014 when the FCA became the regulator for all firms that used the Bill of Sale model of lending. She assisted the firm and Andrew Lazarus in obtaining their authorisation. She has continued since authorisation to provide ongoing compliance support:

- completes and submits the regulatory reports to 'Connect' and "Reg Data', the notice systems of the FCA, on a quarterly and annual basis.
- investigates any complaints that are escalated from the internal complaint handler.
- provides regulatory training to staff.
- signs off financial promotion content.
- liaises with the FCA in supervisory reviews on behalf of LBL.
- keeps LBL informed of regulatory changes and initiatives and provides support in addressing those initiatives.

BACKGROUND

Any business that must be authorised by the Financial Conduct Authority has to go through one of the most robust due diligence exercises in order to be authorised. The high level of commitment to apply in the first place involves weeks of preparation and self auditing.

All systems and controls were examined closely. How LBL approach and market their service is scrutinised and measured against exacting standards to achieve the right customer outcomes.

Their fee structure and the pre contract material must contain legislated content.

The cost of approval runs into the thousands for compliance, auditing and the FCA ongoing fees and levy. Being approved means that the firm is compulsorily under the Financial Ombudsman Service and all borrowers have the right to refer a complaint to them if LBL is unable to resolve any dispute.

Logbook Lending Limited (LBL) was formed in 2010 by Andrew Lazarus and Spencer Dryer to provide finance to individuals secured on vehicles. They have been authorised by the FCA since August 2016 and their registration number is FRN: 673568². The company is a wholly owned subsidiary of AF Premier Ltd (AFP). Spencer Dryer left the business in 2016.

ACCOUNTING RECORDS

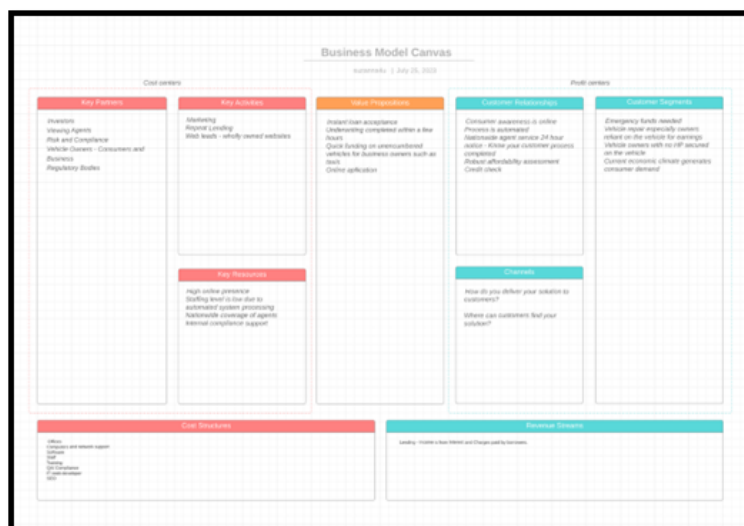
LBL and AFP use the services of Dean Cooper who maintains the accounting records and payroll. His email address is dean@logbookloans247.co.uk (Dean is based in US so contactable pm due to time difference). The company records were transferred to Xero from Sage 50 and access is available through the xero@mckelvieco.co.uk login. Dean prepares monthly management accounts which include the lending book movements. The companies are not VAT registered as exempt trade.

BUSINESS MODEL

The business model is based on lending on DVLA V5 logbooks as security until the logbook loan is repaid in full. During the term of the logbook loan, the vehicle remains in possession and use by the customer whilst payments due are made. The company uses agents to view and assess the condition of the car and obtain the relevant documents, a bill of sale is entered into as security. The agents confirm identity of the owner and the given address of the vehicle by taking photographic evidence of the owner and the vehicle, (Registration and VIN number). The loans are from £500 to £50,000 with a minimum of 1 month, but with standard agreements running over 18 months. Longer terms can be agreed if suitable. Logbook loans are offered for all kinds of vehicles, including luxury cars, vintage cars, vans and taxis.

The FCA consider this type of lending as high risk and is termed as short-term high-cost lending.

As a result of this risk profile, LBL are subject to regular and ongoing supervision by the FCA. The latest supervisory review was in 2022.



PROCESSES AND PROCEDURES

Regulation requires a robust policy and procedure framework. LBL's policy manual is comprehensive and covers the following business functions:

Policy	Version	Revision Date
Anti Money Laundering Regulations	V4	June 2023
AML Training Content	V3	June 2023
AML Assessment Matrix	V3	June 2023
AML Identity verification (Personal)	V4	June 2023
AML Identity verification (Corporate)	V4	June 2023
AML Internal Report Form	V1	June 2023
AML Policy	V4	June 2023
AML Register	V1	June 2023
AML Board Report	V1	June 2023
Anti Bribery Policy	V4	June 2023
Complaint Policy	V5	June 2023
Communication Policy	V2	June 2023
Consumer Duty Policy	V1	June 2023
Consumer Duty Action Plan	V1	July 2023
Continuity Policy	V3	June 2023
Data Protection Policy	V4	June 2023
DPA Privacy Policy	V4	June 2023
Financial Promotion Policy	V3	June 2023
TCF Policy	V2	June 2023
Underwriting Policy	V2	June 2023
Vulnerability Policy	V4	June 2023
Whistleblower Policy	V1	June 2023
Wind Down Policy	V2	June 2023

UNDERWRITING

Due to the nature of the lending being high risk, underwriting must cover affordability. Prior to regulation, lending was assessed only on the vehicle's value and a very brief assessment of affordability. Since regulation the underwriting process had to change drastically, and it now includes a full affordability assessment. This has been developed by LBL and compliance to ensure consistency in lending decisions, appropriate and proportionate affordability assessment on the borrower and sharing credit data with credit reference agencies in order to obtain a comprehensive credit report to base assessment upon. Each application requires a credit check, identification and residency documents, 3-month bank statements (open banking) and proof of ownership. An assessment form has been developed which is loaded to the CRM. Each application for borrowing must go through the same robust process.

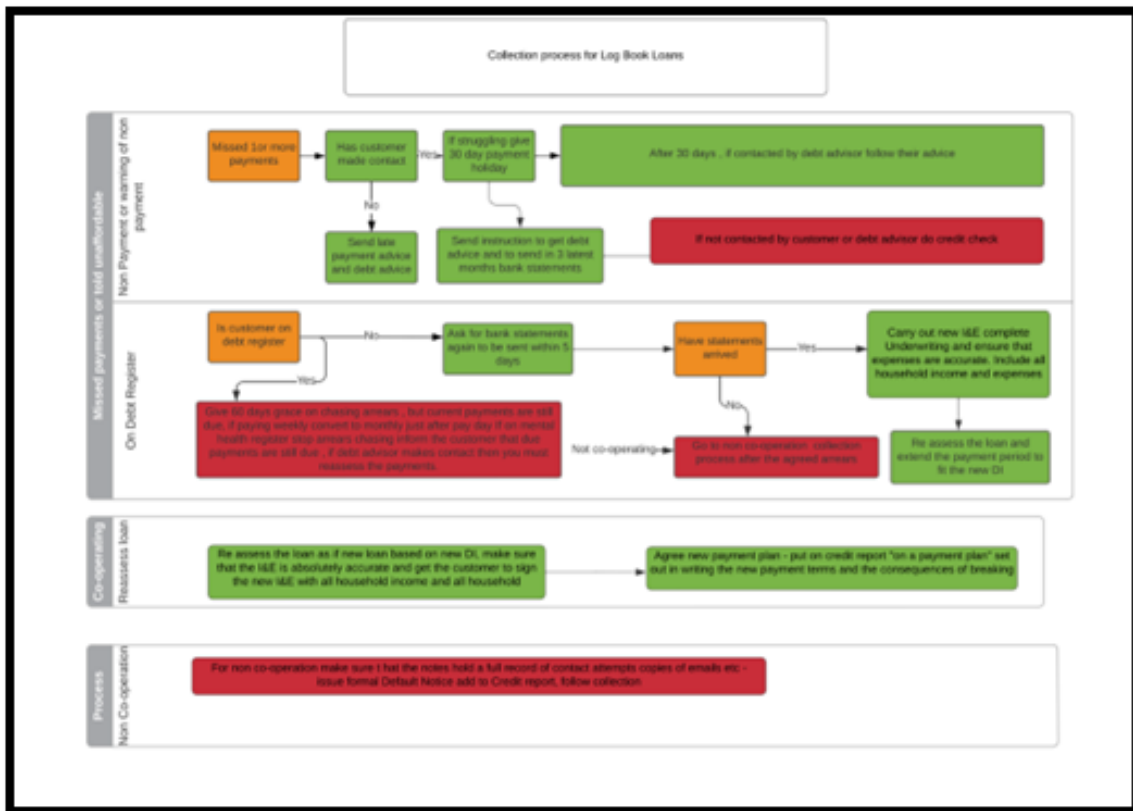
Staff have been trained on how to analyse the documentation provided, what to look for with regards to vulnerabilities, such as gambling for example and how to then make a good lending decision which mitigates the risk to LBL in nonpayment. Ratios have been set to ensure that loan repayments represent less than 50% of the borrower's disposable income, this allows for stress testing a significant drop in the borrower's income. To further mitigate risk, ratios are set on the loan to value of the asset being charged. Once the underwriting data has been loaded into the assessment form it gives a lending decision based on company policy. If this is followed, then problematic lending is reduced considerably.

The lending decision can only be overridden by Andrew Lazarus, his intervention was dipped tested.

This was previously covered by the Treating Customers Fairly Policy but has been replaced by the Consumer Duty Policy which has been drafted. A Fair Value Assessment has been created and amendments to both processes, company policy and consumer communications are being made.

CREDIT CONTROL

Further steps have been taken by LBL to ensure that credit control applies sufficient measures to borrowers without contravening the regulations or by placing undue pressure on a borrower which could cause detriment. Documentation to consumers was revised in 2022 to ensure that communications were not threatening or misleading but explained fully the consequences of nonpayment and the timetables the borrower must adhere to. The new regulation on Breathing Space was incorporated into LBL's credit control policy and collection processes and due to staff training, their awareness to set the breathing space as soon possible means that credit control has seen little if no further delay in collection at all.



DIP TESTING

Cases were reviewed to evidence that company policy and procedures were being followed and whether any overridden cases by Andrew had created any regulatory or financial issues.

The figures for April to June 2023 are the latest figures to be reported to the FCA. In that period 84 new cases had been agreed with a total book value of £283,625.00. Out of those 84 cases only 1 case late in payment. The whole loan book at the end of June represented 329 cases with a value of £834,275.00 and a total of 22 cases that had missed more than 2 payments.

LBL do not take monthly payments but weekly ones, this means that a late payment is less than seven days late not 30 days. It also means that weekly payments give quicker warning that issues are occurring with the borrower.

Out of the 22 cases reviewed none were in Breathing Space of 30 days, known as Forbearance Period.

The one case that was late during April - June 2023 uptake had by the timing of this report made payment and the account was up to-date.

None of the late payment cases were overridden underwriting decisions by Andrew.

COMPLAINTS

The current ratio of business cases to complaint is 3.34% of all onboarded cases. The industry normal level is around 4%. Therefore, LBL is below the industry normal level. There were 11 complaint cases in 2022 out of 329 cases, the compensation cost was £2049. Even though 8 cases were not upheld out of the three cases that were upheld 2 were overridden underwriting decisions. The cost to settle those cases did not outweigh the profit made, however the regulator would probably take a differing view on the matter.

If you consider that every case that is presented to the Ombudsman costs £650 then a further cost of £1300 must be added to the compensation value as two cases were referred to the Ombudsman one is still open but the other was not upheld by the Ombudsman who agreed with LBL's findings. This is because the underwriting process had been followed exactly and the complaint investigation process is robust and follows the Ombudsman's own process.

The reason for the complaints were split into:

Affordability - loan should not have been given - 9 cases but 4 cases had all used the same template from the internet with no real evidence of any affordability issues.

APR issue - 1 case

Stress of losing job - 1 case

Out of the affordability grievance cases, 3 should not have been afforded loans, this is because small points in the underwriting process had been missed in 2 cases and 1 case was underwritten prior to the major policy changes in 2022. The staff member responsible for the errors was re-trained and the same errors have not been repeated.

SUMMARY

The firm acts responsibly and follows company policy and procedure. Its last supervisory review did not result in any undertakings or requirements from the Regulator. It's number of complaints is below the industry norm and the nature of the complaints is typical of consumers in this market who obtain social media guidance and are influenced in making complaints in the hope of receiving some sort of compensation.

The regulator is looking to review the Consumer Credit Act in 2024, whether this will include any changes involving Bill of Sales is unknown. A review of the Bill of Sales Act was refused by the government in 2022, mainly because the market is not big enough to be concerned about and complaints to the Ombudsman are low in comparison to other high-risk short-term lending.

Suzanna Walker

Compliance4u, 17 Porterfield Drive Tyldesley M29 8RJ. Telephone; 07730791640. Website; www.compliance4u.co.uk

Specialist Compliance Service Provider in Consumer Credit, Lending and Mortgages.



Logbook Lending Ltd.

Logbook Lending Limited, registered in England and Wales.Co.Hse. 7409180.

Registered Office: 82 Wandsworth Bridge Road,
London, SW6 2TF.

