**Bounce Back Loans Due Diligence Questionnaire** September 2020 Version]

**–** *Name of**Participant MM/DD/YY*

This Due Diligence Questionnaire (DDQ) forms part of the eligibility process for Participants wishing to positon Bounce Back Loan Scheme (BBLS) loan pools as collateral with the Bank of England. Answers will be used to inform the Bank’s discussions with Participants on site visits or annual review conference calls.

Due Diligence Questionnaire Guidance

* **Participants should answer all applicable questions with a written response for each**. Whilst Participants may mention a supporting document there should always be an explicit answer to each question provided. This enables the Bank to track changes between reviews.
* **For subsequent reviews, the DDQ should be** **black lined versus the last submission.** This will ensure visits/conference calls focus on changes and minimise any repetition of previously discussed topics.

Supporting Documents

The following documents should be uploaded to the Portal alongside the questionnaire:

* **Lending policy** (including a log of recent changes).
* **Arrears and forbearance policies**.
* **Two recent MI/Board/Risk committee packs covering the asset types being reviewed** (these should provide management information on the risk characteristics of the loan book, origination controls, risk register/limits etc). Please also submit the minutes for each of these meetings.
* **List of all internal audit reports issued since the last visit (or in the case of new participants in the last five years (or 2 internal audit cycles)).** This should include the titles and ratings for each one (focus should be on audits covering systems, processes and controls within underwriting, loan origination, securitisation (if relevant), portfolio monitoring and risk management). Once reviewed the Bank will then specify which reports it would like to be submitted.
* **BoE data tape glossary –** This document should highlight any instances of non-compliance with mandatory fields or particular definitions versus the Bank’s published data tape requirements.
* Any other additional documentation requested by the Bank on a per Participant basis.

Declaration

By submitting this questionnaire, [Name of the participant] confirms that the questionnaire has been completed to the best of its knowledge and the responses have been reviewed prior to submission. [Name of participant] acknowledges that any information found to be incorrect or misleading may result in re-assessment of eligibility resulting in the proposed portfolio being rendered inadmissible as collateral.

**Name:**

**Date:**

1. BoE Collateral Plans
   1. Details of individuals at the Participant responsible for managing collateral positioned with the Bank. These should cover individuals responsible for the funding strategy, data reporting and the payment of legal bills.

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| --- | --- | --- | --- |
| **Name**  *(plus job description)* | **Email Address** | **Phone number** | **Address** |
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* 1. Details of the Participants expected use of BoE schemes over the next twelve months (drawing/repayment plans).
  2. What collateral changes are expected to facilitate this (i.e. top ups, new pools)? Include information on expected values and timings. How does this interact with projected amortisation of existing pools?
  3. What funding plans does the Participant have to repay drawings made or planned to be made in the Term Funding Scheme/Term Funding Scheme with additional incentives for SMEs/Funding for Lending Scheme? How do they interact with the amortisation of Bounce Back Loans and the fact that defaulted Bounce Back Loans are removed from the weekly loan balances?

1. Strategy

**Lending Policy**

* 1. Please outline how the Bounce Back Loan Scheme Guidance is incorporated into your lending policy highlighting, in particular, the following:
     1. BBLS guarantee agreement’s eligibility criteria checks in relation to the applicant and the loan;
     2. Minimum appropriate standards in relation to anti-money laundering, know your customer and application fraud.
  2. Participant must confirm whether Bounce Back Loans are granted to all eligible applicants or only to those with whom an existing customer relationship exists. If they are also granted to new customers, what is the proportion of Bounce Back Loans granted to new vs existing customers?

1. Risk Management, Monitoring and Controls
   1. Full details on the structure of the risk management division within the organisation, including number of people, previous SME experience and tenure.
   2. Outline the Participants risk management framework and how this applies to the SME business.
   3. Describe the risk function’s activities:
      1. Does the Participant have risk resources devoted to SME credit risk? Is this split per product line or shared with other areas (such as personal loans)?
      2. How is the quality of SME originations monitored within the risk function?
      3. Define the Participant’s credit risk appetite. Outline how this was determined, approved and embedded within the organisation. How does the Participant ensure it is adhered to?
      4. What kind of stress testing does the Participant carry out on its lending book? What levels of cumulative defaults does it forecast for BBLS loans and how does it come up with these?
      5. Does the risk function have oversight/ownership of the firm’s lending criteria and policies?
      6. What is the role of the risk function in live underwriting decision-making?
      7. How does the risk function set, monitor and enforce risk policies on application fraud?
      8. Describe the process by which observed problems with underwriting or servicing observed by Risk Management are fed back to the relevant front or back office in terms of changing criteria, procedures.
   4. What are the main committees responsible for risk management of SME lending and how do they interact? For each group, please provide detail on;
      1. Membership of the group
      2. Terms of reference of the group, including areas of responsibility (e.g. setting lending policy, monitoring MI)
   5. Provide a summary of the MI and risk limits used to monitor the SME book. How are book triggers/limits agreed? Outline any changes to limits made over the last year.
   6. How does the Participant consider concentration risk within the SME book? Including large exposures, geographic and employer concentration.
   7. Detail any developments to the risk function over the last year. What is planned for the next twelve months?
   8. Details of any discussions or actions taken by regulators against the relevant risk management or credit rating systems in the past five years.
   9. How is your firm incorporating the risks from climate change within your risk management framework?
2. Servicing, Arrears and Foreclosures
   1. Details of servicing staff, including location, headcount numbers, training policies and average tenure/experience levels;
   2. Details of servicing operations and policies, including;
      1. Please provide a breakdown of the percentage of accounts paid by direct debit, standing order or other payment methods.
      2. Are all first payments made within 30 days of the advancement of funds, or is there scope for borrowers to roll partial payments into month two or other arrangements such as payment holidays for initial payments?
      3. Details on the frequency of credit reviews and covenant compliance testing. Including details of the parties responsible for carrying out these reviews and what management oversight and reporting is conducted.
      4. What proactive credit management is done of borrowers before accounts are in arrears?
   3. Details of the collections process for Bounce Back Loans, including;
      1. What are the key milestones for an account as it passes through the collections process?
      2. Are accounts with different risk characteristics subject to different collections strategies?
      3. Outline the level of automation within the servicing process. How are arrears cases tracked? How does this link to the core SME system?
   4. Details of forbearance policies in place and forbearance options that are available to borrowers;
      1. Provide management information showing the current and historic levels of forbearance arrangements in place and the effectiveness of forbearance arrangements;
      2. Are accounts with forbearance options still counted as in arrears? Does this include where forbearance was applied prior to an account missing any payments?
      3. Outline the governance process used to agree forbearance.
   5. Details of contingency plans in place to deal with increases in arrears and collections in Bounce Back Loans. What flexibility does your current arrears strategy provide for any unforeseen changes and how would you approach altering staffing levels?
   6. Please detail how the performance of the overall book provided is expected to compare to the performance of the pools being positioned.
   7. Outline the actions taken when covenant breaches are identified. What further actions are taken when borrowers are unable to correct a breach?
   8. Description of any anticipated events which may impact the ability to administer the portfolio of BBLS loans on behalf of the Bank, including any changes in the costs of servicing or compliance with laws and/or regulations;
   9. Details of any outsourcing arrangements that may impact the BBLS loans. This should include information on the day to day management of the outsourced relationship, summary of any service level agreements which have been agreed, details on any mandates for decision making held by the outsource entity, linkages with the Participants core SME systems and information on contract termination;
   10. Please provide an estimate of your servicing costs for BBLS loans (% per annum of outstanding pool balance) and how this compares with your standard servicing costs for similar loans not originated under the guarantee scheme.
3. IT Systems and Reporting

**IT Systems and Processing**

* 1. Provide an overview diagram showing the IT systems (including interfaces) used to capture the end to end process for BBLS loans. For each system summarise its function. Please flag any that are now legacy systems or in the process of being replaced.
     1. The diagram should include processing timelines, details of the software used, the flow of data between systems and key processing controls (e.g. verifications reconciliations, exception reports, checks around data amendments and overwrites).
  2. For business and IT staff, please summarise what controls are in place around system access / roles, user administration and to maintain segregation of duties across IT systems?
  3. How is data input into systems checked (e.g. at loan origination)?

**BoE Data Reporting**

* 1. Outline the controls in place to ensure compliance with the Bank’s eligibility criteria will be achieved on an ongoing basis.
  2. How will the portfolio of BBLS loans to be used as collateral in the SMF be readily identifiable and separable from the rest of your portfolio?
  3. How are the cash flows from positioned collateral identified and reconciled in your systems? Is there a specific collection account receiving cash flows from BBLS loans used as collateral? Could they be easily segregated from other cash flows received?
  4. Please provide a diagram showing the process for compiling the Loan Data tapes including:
* Timeline of the process from start to finish – how long does it take in total?
* Indications of all IT systems involved.
* Description of the key controls in place stating whether they are manual or automated (e.g. data validation and plausibility).
* Outline the controls around data amendments / overwrites. What audit trail is in place to monitor this?

**Resources/Support**

* 1. Outline a brief description of the IT Department including staff numbers, location and skills profile?
  2. Explain the support arrangements for the IT systems used in the SME business, including any outsourced / offshored IT.

**Standby / resilience**

* 1. Outline the provision of any disaster management system. What plans does the Participant have in place to deal with unexpected events? How often are they tested?

**Managing Change**

* 1. Please provide information about any planned major changes to the IT systems used for loans reporting and processing in the next 2 years.
  2. Please give an overview of the IT Change Management process including governance, planning, process implementation and deployment and the key staff involved.

1. Audit, Regulation and Ratings
   1. Provide a summary of the internal audit function (including experience and tenure). Is the function outsourced? Is co-sourcing utilised?
   2. How is the audit plan decided?
   3. How are actions tracked and monitored? How are actions closed? What steps are taken when actions are not remediated appropriately?
   4. Details of any action taken by regulators against the SME business or any of its employees in the past five years;
   5. Information about any disputes or issues raised by the *external auditors* that would affect the SME lending business or any transaction under the SMF;
   6. Details of any contingent liabilities, including those which the *external auditors* agreed not to disclose in the latest financial statements, that could impact the SME lending business;
   7. Description of any changes to accounting policies or other accounting changes proposed or contemplated which could impact the SME lending business or any transaction under the SMF.
2. Legal
   1. Details of the number of legal templates which are used in the loan agreements and how these have changed over time.
   2. Please provide details regarding whether the templates used are standardised or have the possibility of being customised for each borrower. If applicable, please outline the process for agreeing amendments and the frequency in which they have been agreed over the last five years.
   3. Description of any pending, threatened or anticipated litigation that, if decided adversely, would impact the SME lending business.
   4. Schedule 6 of the Bank of England’s Loans Assignment Annex and Schedule 4 of the Bank of England’s Loans Declaration of Trust Annex[[1]](#footnote-2) both include representations and warranties to be made in respect of each loan in the proposed portfolio.
      1. For new pools, please confirm that the Participant is able to satisfy these representations and warranties.
      2. For pools currently pre-positioned with the Bank but unencumbered (i.e. not securing any drawings), please confirm the Participant is currently able to satisfy these representations and warranties.
   5. Please confirm that you have a record of and have retained a copy of each set of standard loan documentation (including terms and conditions) and for each type of loan in the portfolio.
3. BBLS Lending Policy Summary

Participants should provide concise information on each lending criterion listed below. Information should relate to the Participant’s current live lending policy. Examples have been included purely to provide guidance on formatting.

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| --- | --- | --- |
| **Lending Criteria** | **Example** | **2018** |
| **Eligibly SME industries** | Professional BTL  Retail  Office Space  Nursing Homes |  |
| **Max loan size** | £50,000 |  |
| **Maximum leverage** | Sustainable EBITDA  2x unsecured  8x secured |  |
| **Minimum Debt Service Coverage Ratio** | 1.3x (net cash flow)  1.4x EBITDA |  |
| **Minimum business track record** | Employed: 6 months  Self-employed: 12 months |  |
| **CCJs** | No more than two single CCJs to a max of £200 within the last 18 months |  |
| **Defaults** | None allowed |  |

1. Both available on the Bank’s website under the ‘Apply to participate in the Sterling Monetary Framework’ heading - [hhttps://www.bankofengland.co.uk/markets/the-sterling-monetary-framework](https://www.bankofengland.co.uk/markets/the-sterling-monetary-framework) [↑](#footnote-ref-2)