

**Product name: Lombard Hire Purchase**

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## **Our approach to meeting the Products & Services Outcome and Price & Value Outcome – Information for distributors of the Product**

This summary document is being provided to you to fulfil our responsibilities under PRIN 2A.4.15R and PRIN 2A.3.12 R (2).

It is designed to support you to comply with your responsibilities under PRIN 2A.3.16 R and PRIN 2A.4.16 R. Please note that you are ultimately responsible for meeting your obligations under ‘The Consumer Duty’.

This information is intended for intermediary use only and should not be provided to customers.

### **1. Summary of our assessment**

We have assessed that:

- Our Lombard Hire Purchase product currently meets the identified needs, characteristics, and objectives of customers in the intended target market.
- The current distribution strategy remains appropriate for the intended target market.
- The product currently provides fair value to customers in the intended target market (i.e., the total benefits are proportionate to the total costs).

### **2. Product characteristics and benefits**

The product is currently designed to meet the needs of the intended target group, i.e., Asset Finance product that provides funding for sole traders, partnerships, unincorporated bodies, Limited Companies and LLP's that require funds to purchase an asset. The current product features and criteria are designed to support these needs.

| Features  | Benefits  |
|---|---|
| <ul style="list-style-type: none"> <li>• When the final payment has been made and the Option to Purchase Fee has been paid the title to the goods passes to the customer</li> </ul> | <ul style="list-style-type: none"> <li>• Once all payments have been made the customer will own the asset</li> </ul>  |
| <ul style="list-style-type: none"> <li>• Payment profiles can include a final lump sum ‘balloon’ payment</li> </ul>   | <ul style="list-style-type: none"> <li>• Having a ‘balloon’ payment reduces the monthly payment, helping customers manage their cashflow and preserve cash for other use</li> </ul> |
| <ul style="list-style-type: none"> <li>• Structured payment profiles</li> </ul>   | <ul style="list-style-type: none"> <li>• Payment profiles are available to support cash flow e.g., seasonal businesses</li> </ul>   |

|  |  |
|--|--|
| <ul style="list-style-type: none"> <li>Repayment type is Capital &amp; Interest</li> </ul>   | <ul style="list-style-type: none"> <li>At the end of the term the agreement will be paid in full, with no outstanding balance and the customer will own the asset</li> </ul>   |
| <ul style="list-style-type: none"> <li>Fixed interest rate</li> </ul>  | <ul style="list-style-type: none"> <li>Repayments and interest are fixed throughout the term of the agreement regardless of interest rate variations, which allows customers to budget</li> </ul>                    |
| <ul style="list-style-type: none"> <li>Variable Interest rate</li> </ul>   | <ul style="list-style-type: none"> <li>Customers benefit from lower payments / interest charges should interest rates fall</li> </ul>  |
| <ul style="list-style-type: none"> <li>Term is up to 10 years (subject to asset age)</li> </ul>  | <ul style="list-style-type: none"> <li>Customer has flexibility in choosing a term that best suits their needs</li> </ul>  |
| <ul style="list-style-type: none"> <li>Monthly repayments made by Direct Debit</li> </ul>  | <ul style="list-style-type: none"> <li>Payments are automatically collected on time and no action is required from the customer, which mitigates the risk of a customer potentially making a late payment</li> </ul> |
| <ul style="list-style-type: none"> <li>Lombard is registered with the Lending Standards Board and adheres to its Code for Asset Finance</li> </ul> | <ul style="list-style-type: none"> <li>Product meets and adheres to the Lending Standards Board Code for Asset Finance*</li> </ul>   |
| <ul style="list-style-type: none"> <li>Credit line facilities are available</li> </ul>   | <ul style="list-style-type: none"> <li>Credit line provides access to finance in line with the customers future purchasing plans</li> </ul>  |
| <ul style="list-style-type: none"> <li>Lump sum payments</li> </ul>  | <ul style="list-style-type: none"> <li>Lump sum payments can be made to reduce the customer's monthly payment or reduce the term of the agreement.</li> </ul>  |
| <ul style="list-style-type: none"> <li>Early Termination</li> </ul>  | <ul style="list-style-type: none"> <li>Customers can terminate the agreement early by paying off the outstanding capital and interest, plus any early repayment charges and taking ownership of the asset</li> </ul> |

Full eligibility criteria can be accessed on our intermediary website via this link

<https://www.lombard.co.uk/finance-options/hire-purchase.html>

\*The protections of the Standards of Lending Practice apply to businesses and organisations, which at the point of lending:

- have an annual turnover of no more than £6.5 million in its last financial year (exclusive of VAT and other turnover related taxes)
- does not have a complex ownership structure (, e.g., businesses with overseas, multiple, or layered ownership structures).

### 3. Target market assessment and distribution strategy

This intended target market assessment matrix segments the target customers for the product, recognising their different needs to enable you to tailor the services you provide when you distribute the product.

| Customer Circumstances  | Distribution Strategy   | Customer Needs & Objectives   |
|---|---|---|
| <ul style="list-style-type: none"> <li>Customer looking to purchase a new or used asset to grow their business</li> </ul> | <ul style="list-style-type: none"> <li>Available through Direct Relationship Manager, Direct Digital and Telephony and via Intermediary channels</li> </ul> | <ul style="list-style-type: none"> <li>Customers with a need for medium to long term finance and looking to take ownership of the asset at the end of the term</li> <li>Flexible repayment options to suit individual business customer circumstances</li> <li>Variable interest: if interest rates fall, the total amount needed to pay to fully repay the loan will decrease and monthly payments reduce</li> <li>Fixed Interest: customers may want to fix their monthly payments with a fixed rate of interest</li> <li>Customers who require credit line facility to support the business purchasing plans</li> <li>Customers who want to borrow funds in sterling</li> <li>Customers with a need for the intended usage of the product - e.g., maintain cash flow while investing in an asset or looking to replace a previous asset and grow their business</li> </ul> |

The product **is not** designed for customers who are:

- Sole traders, Partnerships (3 or less) or unincorporated bodies requiring finance of  $\leq$ £25,000

- Requiring short term finance (such as an overdraft)
- Requiring a lease product
- Require an asset that is not durable, identifiable, moveable and stand alone

#### 4. Customers with characteristics of vulnerability

The product is designed for customers with a need for medium to long term finance and looking to take ownership of the asset at the end of the term, which is likely to include some customers with characteristics of vulnerability or who may experience vulnerability over time, such as:

- When an in-life event causes a change in the customer's ability to repay the agreement, and/or manage their business
- Personal ill health resulting in a sole trader being unable to work, causing financial difficulties
- Key business asset fails, resulting in loss of income and customers not being able to maintain monthly payments
- A key person is unable to work impacting the business and causes financial difficulties
- Death of a partner, leaving the remaining partner(s) in a vulnerable financial position
- Business falling into financial difficulties, and customers requiring support to maintain their monthly payments

Customers facing financial difficulties at any time from the finance being set up and throughout the life of the agreement can receive support through our Financial Health & Support team (FH&S). In the event the FH&S team identify a customer falling into financial difficulties they will provide the appropriate support.

Intermediaries should continue to comply with their obligations to ensure that they treat customers in vulnerable circumstances fairly.

Please contact us if you need any further information about how we support the needs of all our customers in relation to the product.

#### 5. Our assessment of value

In reviewing the intended value of our Lombard Hire Purchase product, we have considered the product benefits, price, costs, and limitations to ascertain if the product delivers fair value for its intended target market.

A summary of the key areas considered during our value assessment are set out in the table below:

| Benefits   | Price   | Costs   | Limitations  |
|--|---|---|--|
| <p><b>Fixed Rate</b></p> <ul style="list-style-type: none"> <li>Repayments and interest are fixed throughout the term of the agreement</li> <li>Fixed payments allow customers to budget without payment fluctuations or interest rate increases</li> <li>Removes the risk of interest rate increases and increasing monthly payments</li> </ul> <p><b>Variable Rate</b></p> <ul style="list-style-type: none"> <li>The rate of interest will vary in accordance with the NWB base rate</li> <li>Variable interest rates allowing the customer to benefit from lower payments if interest rates fall, however, if rates increase payments will also increase</li> </ul> <p><b>All Products</b></p> <ul style="list-style-type: none"> <li>No fees charged if customers make lump sum payments to reduce the term of the agreement</li> <li>Risk Based Pricing</li> </ul> | <p><b>Fixed Rate</b></p> <ul style="list-style-type: none"> <li>Customers are charged a fixed price based on the banks perceived risk to the business and its funding costs</li> <li>There is an arrangement fee charged on Hire Purchase agreements</li> <li>An early repayment charge is applicable if the agreement is settled early</li> </ul> <p><b>Variable Rate</b></p> <ul style="list-style-type: none"> <li>Customers are charged NatWest base rate, plus a margin based on the banks perceived risk to the business and its funding costs</li> <li>There is an arrangement fee charged on Hire Purchase agreements</li> <li>An early repayment charge is applicable if the agreement is settled early</li> <li>Pricing is based on the individual customers credit rating and quality of the asset being funded</li> </ul> | <p>The primary drivers of costs are:</p> <ul style="list-style-type: none"> <li>Funding rate</li> <li>Capital costs (driven primarily by customer credit risk classification, asset type and term of loan)</li> <li>Operational costs</li> <li>Any fees paid to Intermediaries for the referral</li> <li>Fees paid to Intermediaries for this product/product range require the customers informed consent to be obtained;</li> <li>The fee model used with this product/product range is a fixed percentage of the amount financed;</li> <li>Intermediary fees are included in customer repayments.</li> </ul> | <ul style="list-style-type: none"> <li>Product limitations have been put in place based on the needs of the target market</li> <li>Hire Purchase minimum amount of finance of £25,001 for sole traders, partnerships (3 or less) and unincorporated bodies</li> <li>Minimum amount finance is £5,000</li> <li>Minimum finance term is 1 year</li> <li>Only lend in Sterling</li> </ul> |

### Results of our assessment

Based on the above factors the product currently delivers fair value for its intended target market.