

SME Lending

Central Bank Regulations regarding Lending to Small & Medium Sized Enterprises.

Background to the Regulations

In 2016 the Central Bank of Ireland (the "Central Bank") issued the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Lending to Small and Medium Sized Enterprises) Regulations 2015 (the "Regulations").

The purpose of the Regulations is to enhance the protections for small and medium sized enterprises ("SME"s) when borrowing from regulated financial service providers, including credit unions, which are providing credit to or entering into an arrangement to modify the terms of a loan with SMEs. The Regulations became operational on 1 July 2016 for regulated entities and became applicable to credit unions from 1 January 2017.

Essentially the Regulations augment the protections applicable to micro and small enterprises. However, the protections of the existing SME Code, as they appear in the SME Regulations, will continue to apply for the benefit of medium-sized enterprises. Under the Regulations, guarantors will also benefit from the enhanced protections, regardless of the size of the enterprise seeking or availing of credit.

Brief Overview

Part 1 of the Regulations contains preliminary and general provisions; Part 2 of the Regulations details provisions applicable to micro and small enterprises and Part 3 of the Regulations deals with medium sized enterprises. For the purposes of clarity, please note the definitions below.

- A micro and small enterprise is an enterprise which employs fewer than 50 persons and which has an annual turnover and an annual balance sheet total which does not exceed €10,000,000 (a "Micro Enterprise").
- A medium sized enterprise is an enterprise which employs fewer than 250 persons and which has an annual turnover not exceeding €50,000,000 and an annual balance sheet total not exceeding €43,000,000 and which is not a Micro Enterprise.

Background to SME code

Originally introduced in 2009, the SME code applies to all SME lending by regulated bodies within the state. We trust the information contained herein will assist with an understanding of aspects of the relationship between the credit union and members in this economic sector. The information will inform on our processes and procedures used in the provision of credit facilities in addition to assisting those experiencing financial difficulty.

Applying for Credit Facilities

The principal delivery channel for the credit union is generally the arranged meeting, we pride ourselves on the personal interactive method which seems to be welcomed currently by our members. Applications can also be taken over the phone and a full online SME application process will be rolled out in due course.

We will acknowledge all loan applications submitted within 5 days of receipt. We pride ourselves on quick turnaround service times and undertake to revert with our credit decision within 15 days (or sooner) of receipt of all documentation required to assess the application, in line with the Regulatory requirement.

What Information is needed to assist our underwriting process?

The credit union must give proper consideration to the application by gathering sufficient information on which to assess the loan application. The nature of documentation may well differ from case to case but might typically include and not necessarily limited to the following;

- Most recent/Up-to-date financials/trading accounts.
- Business plan where the request for facilities is in excess of €25,000.
- Confirmation of tax position.
- Confirmations of additional sources of income.
- Statement of net worth.
- Up-to-date bank statements.

Separately, you should have a good understanding about the funds needed in terms of the amount required and the purpose for which the funds are being requested.

Underwriting Process

We will carry out a detailed assessment of your application following receipt of all required documentation and will revert as previously stated within 15 days (or sooner) with our decision.

We usually assess credit applications based on a number of underwriting criteria;

- Repayment capacity.
- Full banking credit history.
- Purpose of facility and amount requested.
- Credit union's risk profile as reflected in our policies.
- Security offered (if applicable).

We will confirm a sanctioned decision by letter to you which will also details the various terms and conditions applying to your facility.

Where we are unable to sanction your facility, we will also confirm this decision in writing providing you with the reason(s) for decline, specific to your application or part thereof.

Appeals

The Credit union has in place an internal appeals process in compliance with the Credit Union Act 1997 (as amended). An SME borrower will be entitled to appeal;

- A decision has been made to refuse a credit application;
- A special term or condition has been imposed by the credit union with respect to the granting of credit or an alternative arrangement;
- A credit facility has been withdrawn or reduced;
- The refusal to offer an alternative arrangement; and
- Where the borrower has been classified as not co-operating.

You may be eligible to avail of the appeals process provided by the Credit Review Office following our internal process. Please see www.creditreview.ie for further details.

Complaints

The Credit Union maintains and adheres to a written procedure for the proper handling of complaints, recognising that while we continually strive to provide an excellent service, things can go wrong from time to time.

We undertake to resolve complaints as quickly as possible and also to;

- Acknowledge your complaint in writing within 5 working days.
- Provide you with the name of the Officer appointed by the credit union to deal with your complaint.
- Have your complaint resolved within 40 working days of having received the complaint.
- Update you on progress of the investigation of the complaint every 20 working days.
- Write to you if we cannot resolved the complaint within 40 days explaining the reason for the delay and outlining when we expect to have a resolution.

If you are unhappy with our response at this stage, we will also outline that you may take your case to the Financial Services Ombudsman together with the relevant details (www.financialombudsman.ie)

Financial Difficulties

Each SME needs to be considered on a case by case basis, given the variety of enterprise size e.g. Self-Employer Farmer and a trading business employing 45 personnel.

A borrower is deemed to be in 'financial difficulty' under SME Regulations when a credit facility is in arrears for three consecutive months, whether full or partial repayments. There are classifications pertaining to overdraft credit facilities, however the credit union does not currently offer these facilities.

The Regulations applying to SME lending are available to download from the Central Bank website at www.centralbank.ie.

Non Co-operation

It is extremely important that borrowers facing 'financial difficulties' fully co-operate with the credit union throughout the process.

Under the SME Regulations a borrower may be classified as 'not co-operating' where;

- The borrower has failed to make a full and truthful disclosure to the credit union of the information required to assess the borrower's financial situation, within the timeframe specified by the credit union,
- The warning letter, required in accordance with Regulation 20(8), has been issued to the borrower, and
- The borrower has not carried out the action or actions within the timeframes specified in the letter referred to above.

Where the credit union considers a borrower to be 'not cooperating', we will write to the borrower and any Guarantor, advising that the borrower will be classified as 'not co-operating' if the borrower does not perform specific actions within a designated timeframe as detailed in the letter or email. The implications for borrowers of 'not co-operating' are that the credit union will be unable to put in place an alternative arrangement and will have no option other than to commence the process of seeking repayment of all sums outstanding which may lead to the credit union ultimately having to enforce any security held it. Where security is realised, the borrower will remain liable for any outstanding debt.

Useful Resources

www.smallbusinessfinance.ie

www.isme.ie

www.sfa.ie

www.creditreview.ie

www.teagasc.ie

www.localenterprise.ie

www.enterprise-ireland.com/en

www.centralbank.ie

www.agriland.ie

www.agriculture.gov.ie