

Central Bank Regulations regarding Lending to Small & Medium Sized Enterprises

Page 1 of 3

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 and include:

- › Giving SME borrowers greater transparency around the application process.
- › Providing SME borrowers with reasons for declining credit, in writing, that are specific to their application.
- › Providing greater protections for guarantors.
- › Contacting SME borrowers who have been in arrears for 15 working days.
- › Warning SME borrowers if they are in danger of being classified as "not-co-operating".
- › Expanding the grounds for appeal and setting up an internal appeals panel.

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.

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, online via our website at www.claremorriscu.ie or via our online app at CU247.

We will acknowledge all loan applications submitted in a manner other than in person 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.

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.

Central Bank Regulations regarding Lending to Small & Medium Sized Enterprises

Page 2 of 3

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 including ICB and CCR check.
- › 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 detail 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.

Annual Review

All SME borrowers have the opportunity of an annual review of their facilities. We endeavour to contact all our SME borrowers on the anniversary of their facilities offering a full review. This is an opportunity to address repayment profile and any issues concerning the member or lender. For a full review to be conducted up to date documentation maybe required as follows:

- › Bank statements
- › Tax confirmation
- › Credit check

The review can be conducted in person, by telephone or by other electronic means. Any outcome of the review meeting will be communicated to the member in writing.

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 resolve 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

Central Bank Regulations regarding Lending to Small & Medium Sized Enterprises

Page 3 of 3

Useful Information Sources

www.smallbusinessfinance.ie	www.sfa.ie
www.enterprise-ireland.com/en/	www.centralbank.ie
www.localenterprise.ie	www.isme.ie
www.creditreview.ie	www.agriland.ie
www.agriculture.gov.ie	www.teagasc.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

We want to work with our members and recommend any member that sees themselves falling into this category to contact us as soon as possible. We will work with our member in putting a solution in place, see our "SME Financial Difficulties" page for more details.