

# **Standard Information Booklet for SME Financial Difficulties**



## Standard Information for Business (SME's) In Financial Difficulties

In St. Jarlath's Credit Union, we appreciate the challenges that may sometimes face our members and their businesses. During the course of lending to businesses, our lending team makes every effort to anticipate potential difficulties which could arise, however, St. Jarlath's Credit Union recognises that it is probable that some businesses will experience cashflow difficulties from time to time, that could lead to their loan falling into arrears.

The longer the term of the loan the greater the probability that something unexpected will happen in the business. While we hope that our member's business circumstances will always change for the better, we accept that there may be instances during the term of the loan where some businesses will experience financial difficulties that affect their ability to meet their loan repayments as expected.

The Central Bank of Ireland, has published Regulations for Business Lending to Small and Medium Sized Enterprises (SME Regulations). This booklet outlines how St. Jarlath's Credit Union deals with SME's who find themselves facing financial difficulties or experiencing financial difficulty. These regulations became applicable to Credit Unions from 1st January 2017.

### The Objectives of SME Regulations;

- A clear definition of the circumstances which define when an SME is regarded as "in financial difficulties".
- Facilitate access to credit for sustainable and productive business propositions.
- To promote fairness and transparency in the treatment of small to medium enterprises.
- To ensure that there is a structured approach that the member understands at the outset, the aim is that St. Jarlath's Credit union will assist the member, and their business to meet their obligations where possible.
- To outline the communication and information requirements when the SME is in financial difficulty

Ultimately, we want to assist members to resolve their financial difficulties and find a way to get them back on a repayment plan that is sustainable and will allow the members business to prosper and grow.

**SME members who are in arrears, or in danger of falling into arrears should call our arrears support unit on 093-24645 or email [asu@sicu.ie](mailto:asu@sicu.ie) to arrange an appointment as soon as possible.**

The information set out in this document outlines our procedures when dealing with our SME members who are in "financial difficulty", and details the support which is available to members.

### The Regulations give the following definitions for "Financial Difficulties" and "Arrears"

- **Financial Difficulties:** This is when the loan facility has been in 'arrears' for 3 consecutive months or in the case of an overdraft facility, where the approved limit has been exceeded by the borrower and remains exceeded for a period of 90 consecutive days.
- **Arrears:** If a payment, or part of a payment due in accordance with the Credit Agreement or alternative arrangement, is not paid by the member by the scheduled date for the payment, the loan is deemed as being in arrears. In the case of an overdraft facility, arrears exist if the agreed overdraft limit has been exceeded for a period of 30 consecutive days.

It is very important that members in financial difficulties, or are facing financial difficulties fully engage and co-operate with the Credit Union. This includes reverting to us and satisfying information requests within specified timelines so that a full and timely assessment of the members financial situation can be made.

## **St. Jarlath's Credit Union Procedure for dealing with SME members in Financial Difficulty.**

### **Step 1: Communication**

Within 10 working days of an SME Member falling into arrears the credit union will write to the member if they have not contacted us first. In that communication, we will inform the member of the amount of arrears outstanding and other important relevant information regarding the loan.

If we contact a SME member it is very important that the member responds promptly to any request so that we can deal with the matter efficiently and effectively.

If following this contact the arrears are brought up to date and the member confirms that there is no difficulty no further action will be required.

If the member confirms that they are in financial difficulty or believe that there is a risk of going into financial difficulty, we will deal with each member on a case by case basis.

We will endeavor to ensure that our communications are easy to understand, and are not aggressive or daunting.

We will keep communications to the minimum amount required and will ensure that they are proportionate to the specifics of each case. In each communication, you will be given a clear instruction as to how to proceed and a timeframe within which, you should have completed the required action. We will allow sufficient time for you to complete that action before any follow up call is made.

The Credit Union will appoint a designated contact who will liaise with you throughout the process. SME members who are in arrears, or in fact in danger of falling into arrears should call 093-24645 or email [asu@sjcu.ie](mailto:asu@sjcu.ie) to arrange an appointment as soon as possible

### **Step 2 Information:**

If the SME member is in financial difficulty, the Credit Union may request some or all of the following information;

- i. Up to date Annual Accounts, and up to date management accounts
- ii. Cashflow projections for the next 12 months
- iii. Latest Notice of Assessment from Revenue Commissioners
- iv. Up to 6 months bank account statements (this may be extended to personal accounts if necessary)
- v. Any other information that is relevant to the review process to properly assess the state of the business
- vi. Confirmation from your accountant regarding your tax position

This list is not exhaustive and we may require independent verification and third-party evidence for information provided. In cases where businesses are of a specialist nature, the Credit Union may require an independent review of the business by a third part professional to assess the viability of the business. In such cases the Credit Union will write to the member in advance and;

- i. Explain the reason for the review.
- ii. Explain the scope of the review and what will be covered.

- iii. Advise the SME member of the name of the person carrying out the review.
- iv. Give information on the cost of the review to be borne by the member.

### **Step 3 - Assessment.**

Once the Credit Union has received all the information requested, we will assess your circumstances and determine whether any of our alternative repayment arrangements are suitable to the SME member. At this stage of the process, we will consider several factors which will include;

- The viability of the business.
- The circumstances that have given rise to the difficulty.
- Any links to personal debt of the named borrowers, shareholders or guarantors that impacts the business of the member.
- Any business debt that related to property and other investments.
- Current and future repayment capacity.
- Previous repayment history.
- Whether there is any other business debt.
- Any other case specific relevant information.

We may require further information or clarification at this stage and will contact you if this is the case. The key objective of the Credit Union in this process, is to assist the SME member to resolve their financial difficulties. Each case will be assessed on its own merits.

The designated contact will consider the most appropriate alternative arrangement. This is based on the nature of the difficulty facing the SME member, and the strength of the financial, and other supporting information submitted to the Credit Union.

### **Step 4 Alternative Arrangement**

Once a thorough review has been completed, we will write to you outlining the most suitable alternative arrangement (AA) based on your specific circumstances. If a decision is not possible within 15 working days of receiving all of the financial information, we will write to you to confirm that a review is ongoing and give you an indication of how long it will take and why it has taken longer than 15 working days. While we can't guarantee that an AA will be possible in every case, we are committed to explore other avenues to find a resolution to your financial difficulty, that is fair and sustainable and will assist you in your financial recovery.

If the Credit Union is not able to recommend an alternative arrangement we will write to inform the SME member of the reasons why the proposal was not approved and their right to appeal this decision. Where the Credit Union offers an alternative arrangement, which the SME member chooses to decline, the Credit Union will write to the SME member, advising them of the next steps that will be taken and the right of the SME member to appeal the terms and conditions of the Alternative Arrangement.

## Possible Alternative Arrangements:

	<b>Advantages</b>	<b>Disadvantages</b>
<p><b>Interest Only Payments:</b> An agreement for a specific period to pay interest only on the loan. This may be considered suitable for members whose change in circumstances are short term in nature and will be in a position to resume normal payments after that time period</p>	<p>Payments will be at a reduced level that the SME member can afford for an agreed length of time</p>	<p>Loan balance will not reduce during the agreed time period for interest only payments, therefore the member will pay a higher level of interest over the term of the loan. When the agreed time period comes to an end, the contracted repayment amount will be increased to an amount that will ensure the loan is cleared over the remaining term of the loan.</p>
<p><b>Moratorium:</b> No repayments for an agreed period of time</p>	<p>Member will not have to make repayments for an agreed period to allow them to focus on the resolving the difficulties</p>	<p>The balance plus accrued interest will be outstanding at the end of the period. A higher repayment will be required to ensure the loan is cleared within the term of the loan. The member will pay a higher amount of interest over the term of the loan.</p>
<p><b>Loan Reschedule</b> The term of the loan will be extended thus reducing the repayment amount. (this option is a long term option and will only be offered where there is evidence of ability to service the lower repayment over the longer term)</p>	<p>Payments will be reduced to an affordable level.</p>	<p>The term of the loan will be extended, therefore the loan will take longer to repay</p> <p>The member will pay more interest as the term is extended</p>
<p><b>Reduced Payments</b> This is a short-term arrangement during which the member will make reduced repayments which will cover the interest and a portion of capital. This is suitable for members whose financial difficulties are considered to be short term/temporary and after a period of time their circumstances are expected to return to normal.</p>	<p>Payment will be reduced for an agreed (usually short) period of time e.g. 1-3 months</p>	<p>Loan balance will not reduce in line with original contract therefore the member will pay more interest over the course of the loan. When full payments resume, the will be increased to ensure the loan is cleared over the remaining term.</p>

### Non Co-Operation:

As previously mentioned, St. Jarlath's Credit Union cannot stress enough the importance of the SME member fully engaging and cooperating, to enable a comprehensive and timely review and assessment of the situation with the ultimate aim of achieving an appropriate resolution for the member as efficiently as possible. Under the SME Regulations a borrower may be classified as '**not co-operating**' where:

- 1) the borrower has failed to make a full and truthful disclosure to St. Jarlath's Credit Union of the information required by St. Jarlath's Credit Union to assess the borrower's financial situation, within the timeframe specified by St. Jarlath's Credit Union,
- 2) the warning letter, required in accordance with Regulation 20(8), has been issued to the borrower, and
- 3) the borrower has not carried out the action or actions within the timeframes specified in the letter referred to in subparagraph (2) above.

Where St. Jarlath's Credit Union considers a borrower to be 'not cooperating', St. Jarlath's Credit Union 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 St. Jarlath's 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 Bank ultimately having to enforce any security held by St. Jarlath's Credit Union. Where security is realised, the borrower will remain liable for any outstanding debt.

### Appeals

If the SME member is unhappy with the outcome of the process, they may appeal the decision to the appeals committee of St. Jarlath's Credit Union within 30 days. The appeal should be in writing and addressed to the CEO of the Credit Union for the attention of the Appeals Committee.

The Appeals Committee will consider the appeal and will respond with the outcome of the appeal within 15 working days.

The appeal should clearly explain any concerns that the SME member had with the process, and if applicable, any specific information they feel was overlooked in arriving at the decision.

If the appeal is unsuccessful the SME Member may, subject to eligibility, refer the decision to the Credit Review office. The Credit review office provides an independent appeals process for SME's.

For more information visit [www.creditreview.ie](http://www.creditreview.ie) or call 1850 211 789.

### Complaints

If the SME member has a complaint about any aspect of this process, they should address their complaint to the Complaints Officer, St. Jarlath's Credit Union, Hermitage, Dublin Road, Tuam, Co. Galway.

We will acknowledge the complaint in writing within 5 working days and advise the member of the name of the person dealing with the complaint. It is our intention, where possible to investigate and resolve the complaint within 40 working days and you will receive regular updates on progress every 20 working days. If we cannot resolve the complaint within 40 days we will write and explain the reason for the delay and indicate when we might expect to have a resolution. This procedure does not apply where the complaint is resolved to the borrower's satisfaction within 5 working days.

If the member is not happy with our response, they may take their case to the Financial Services Ombudsman who will act as an independent arbitrator and provides the service free of charge ([www.financialombudsman.ie](http://www.financialombudsman.ie)).

### Impact of arrears on credit rating

If your business goes into financial difficulties data relating to arrears may be shared with relevant credit reference agency or credit register where permitted by contract or required by law. If arrears arise on your account, your credit rating may be adversely affected. Where applicable, the Irish Credit Bureau and Central Credit Register are updated when arrears arise on accounts. This may impact on your ability to obtain future credit.

### Other Information Sources:

The following is a list of other information sources which may be of assistance to you:

<a href="http://www.centralbank.ie">www.centralbank.ie</a>	1890 777 777
<a href="http://www.citizensinformation.ie">www.citizensinformation.ie</a>	076 107 4000
<a href="http://www.mabs.ie">www.mabs.ie</a>	076 107 2000
<a href="http://www.flac.ie">www.flac.ie</a>	1890 350 250
<a href="http://www.consumerhelp.ie">www.consumerhelp.ie</a>	1890 432 432
<a href="http://www.isi.gov.ie">www.isi.gov.ie</a>	076 106 4200
<a href="http://www.financialombudsman.ie">www.financialombudsman.ie</a>	1890 88 20 90
<a href="http://www.revenue.ie">www.revenue.ie</a>	
<a href="http://www.enterprise-ireland.com">www.enterprise-ireland.com</a>	
<a href="http://www.enterprise-ireland.com">www.enterprise-ireland.com</a>	
<a href="http://www.sfa.ie">www.sfa.ie</a>	
<a href="http://www.agriland.ie">www.agriland.ie</a>	
<a href="http://www.localenterprise.ie">www.localenterprise.ie</a>	
<a href="http://www.isme.ie">www.isme.ie</a>	
<a href="http://www.teagasc.ie">www.teagasc.ie</a>	
<a href="http://www.agriculture.gov.ie">www.agriculture.gov.ie</a>	