

13th Report from John Trethowan

1. Report Overview (Press Release)

In his 13th report, Trethowan observes three key trends:

- The first reflects a recovering economy; the majority of the appeal requests for credit are now for working capital increases and for business investment;
- The other main demand factor is for refinancing debts held by foreign banks which are exiting the Irish SME lending market;
- The SME/Farm market is becoming increasingly concentrated with the withdrawal of many foreign banks. This is tending to create a situation whereby those banks which remain can achieve their objectives on lower risk lending, which may not be meeting the needs of the real economy.

55 % of appeals have been found in favour of borrowers and this has resulted in €21.6M credit being made available to SMEs and farms, helping to protect /create 1725 jobs. The Credit Review Office has had appeals in excess of €500K, and up to €3M, following the increase in the appeals limit announced in the budget last year. These larger appeals were for both business investment and bank refinancing reasons.

Credit Availability

As it stands, the market for SME/ Farm Loans has become highly concentrated and the relative lack of competition is not conducive to raising the low risk appetite of the banks which is required to support the needs of the real economy and the recovery. At this point I must caveat my remarks as the Credit Review Office appeals process only sees those borrowers whose applications have failed to receive sanction at the banks. I do not see the majority of applications, which are successfully sanctioned by the banks; this includes refinancing deals with exiting banks.

Ongoing Bank Performance Monitoring

With the expiry of the lending targets for the two main banks that have been in place since the recapitalisation exercise in 2010, questions have been raised as to the wisdom of not imposing fresh targets for the institutions. I believe given the policy framework now in place in relation to the supply of credit to SMEs, fresh targets are

not necessary. That is not to say that challenges don't remain. There is however general agreement across the EU that the 'system capacity' of any economy to take credit is impossible to quantify – given the number of dynamic variables constantly affecting demand for credit. It is important to note that whilst the nominal targets here have expired, the level of scrutiny of the pillar banks lending performance has not changed:

- Monthly figures are still supplied to the Department of Finance as before and lending performance is scrutinised and queried where necessary.
- Individual formal meetings between the Pillar Banks' senior personnel responsible for SME / Farm lending and the Department of Finance, and Credit Review Office still take place each quarter.

I will continue to report lending performance in subsequent reports.

Endorsements of Credit Review Office Service since last report

Dublin Travel Agent

We approached the Credit Review Office in October 2013 after having received what we felt was an unsatisfactory response to our credit application with the Bank.

We were looking at obtaining €20k towards cash flow requirements and €20k towards web development. We were aware on applying to the bank that we had reached our personal guarantee levels with the bank so were looking for finance using the Government Credit Guarantee Scheme.

From our first contact with the Credit Review Office we found them to be very helpful and efficient. Our file was passed onto the bank for review and also to the Reviewer in the Credit Review office. He phoned me immediately he was handed our case and we had a long conversation on the phone so that he could get a "feel" for the business. I found this to be a very fresh approach as you actually got to talk to somebody about your business rather than some anonymous "underwriter" reading a page of data off a screen in the bank head office.

Having furnished the Reviewer with our business plan we felt it was studied and there was a genuine interest in our business, after a few more phone conversations he did up his report and recommendations. This was further reviewed by other CRO reviewers / board, who made suggestions / recommendations to the bank on our behalf. I was subsequently given a copy of this very thorough report and we have since drawn down the €20k cash flow required under the Capital guarantee scheme. The CRO also recommended applying to our local County Enterprise Board for the capital funding.

We found the whole process easy to undergo albeit taking a few months -at one stage documents were mislaid between the bank and the Office - with my belief, based on previous experience that the bank itself are in no hurry to expedite things.

Overall we found the Credit Review Office a friendly, thorough and efficient service, and we got a result!

Jordan Estates, Finance Company, Drogheda

On submitting our application to the Credit Review Office in Oct 2013, we found it most helpful, enlightening and speedy. The request for further information from the Credit Review Office relating to our business was readily available but had not been requested by the bank. We take on board the Credit Review Office's recommendation and we will provide this information to the bank as a matter of course in future.

The Bank granted our request in accordance with the Office's recommendation, for the temporary facility increase for 3 months, Dec 2013 to end Feb 2014.

The company drew down on this facility in the 1st week of Dec 2013 and this additional facility was fully discharged by the end Feb 2014.

Many thanks for the intervention of the CRO in our dealings with the Bank.

Ian Keogh, Gilbert and Wright, Dun Laoghaire

I contacted the Credit Review Office after what I felt was a reasonable loan application was turned down by my bank. This loan application would have helped ensure my business be cost effective for the medium and long-term. However the bank where unwilling to look at the changes to my circumstances which would have come about had I availed of the loan, and instead chose to asses my affordability on my current trading condition Pre-loan.

I contacted the Credit Review Office and spoke to a gentleman about my case. I found the conversation was very helpful and informative, I began the process of writing an appeal which was straightforward and easy to understand and I informed the staff member dealing with my case that my application was somewhat time sensitive as a close of sale was due on my property in the very near future.

The Credit Review Office took this on-board and dealt with my case in a very speedy and efficient manner. Within 3 to 4 weeks of supplying all of the relevant documents I had a positive answer to my application. What was also helpful was I even received a more detailed understanding as to what the banks issues where surrounding my application in the first place.

My only issue is had the bank discussed these issues with me in the initial period we could have saved everybody a good bit of time and unnecessary work as I could have supplied then with the answers to their questions in the same way I did to the Credit Review Office.

I am very grateful to the Credit Review Office for its help and assistance in getting my application through my bank. I strongly recommend any person looking for finance that has been recently turned down by their bank, if you feel your application is sound and credit-worthy, please take it to the Credit Review Office.

2. Progress Update - The Quarterly Report

Key Overall Developments / trends in the Quarter:

(ii) Banks' €4bn Sanction targets:

AIB and BoI were targeted with sanctioning €4bn each in 2013.

- Both banks achieved their €4bn loan sanction targets for 2013.
- Quarter four remains the most active period for sanctioning activity with strong demand for car dealer financing; and the continuing robust demand from the farming sector – which received the most sanctions in 2013.
In addition refinancing activity increased, and whilst this is not economically generative lending, it is crucial to the survival of many SMEs and Farms.
- The summer months of 2013 showed sanctioning activity below trend, with both banks reporting poor demand during the period from May to September. The main variable to previous years was that we actually had some good weather last year.
We were able to observe dampened demand for credit during these months from other non bank sources.
- Banks' SME balance sheets continue to contract, through lack of credit demand and deleveraging by many Irish businesses.
- The Department of Finance and the Credit Review Office met with the main SME trade bodies in February, and they confirm their members are cautious about taking on new debt after four very challenging years trading, and at this point in the economic cycle.
- The funds flow statements taken from the banks at the end of each quarter continue to show that the loan repayments and write-offs continue to exceed the amount of new lending being drawn down, and this is the main reason for the decline in the SME balance sheets.

Ongoing Bank Performance Monitoring

- The lending targets expired at the end of 2013 and while there has been some debate on the merits of new targets, I believe that there is no necessity, given the policy framework now in place, for repeating this exercise.
- There is general agreement across the EU that the 'system capacity' of any economy to take credit is impossible to quantify – given the number of dynamic variables constantly affecting demand for credit.
- There was a tactical requirement to set some sort of benchmark for new lending when the target was first introduced in 2010, but this has been surpassed by the accumulation of monthly trend data as part of the monitoring of the banks' lending performance. This establishment of trend data has been the most valuable aspect of the lending targets and the need for a 'nominal' target has been made unnecessary, when any adverse movement away from seasonal trend data will now need to be explained.
- It is important to note that whilst the nominal targets have expired, the level of scrutiny of the pillar banks lending performance has not changed:
 - Monthly figures are still supplied to the Department of Finance as before and lending performance is scrutinised and queried where necessary.
 - Individual formal meetings between the Pillar Banks' senior personnel responsible for SME / Farm lending and the Department of Finance, and Credit Review Office takes place each quarter.
- I will continue to report lending performance in subsequent Credit Review Office formal reports.

(ii) Trends in the supply and demand for credit - The challenge for Banks and SMEs in a recovering economy:

Credit Supply

This report continues to highlight the growing issue of ensuring there is enough banking capacity in Ireland to service the needs of the SME/Farm sectors of the economy and ensure that there is a vibrant banking market in which competition drives up standards and services.

As it stands, the market for SME/ Farm Loans has become highly concentrated and the relative lack of competition is not conducive to raising the low risk appetite of the banks which is required to support the needs of the real economy and the recovery.

At this point I must caveat my remarks, as the Credit Review Office appeals process only sees those borrowers whose applications have failed to receive sanction at the banks. I do not see the majority of applications, which are successfully sanctioned by the banks; this includes refinancing deals with exiting banks.

There is no complacency in Government on the supply issue with new entrants being encouraged, and the various government schemes being examined and enhanced to meet the needs of the real economy

- The Department of Finance and the Credit Review Office have met a number of new small but very innovative debtor finance suppliers, who are breaking the traditional mould of financing a large proportion of an entire debtor book, but instead being prepared to provide finance against single large invoices to Government or other large creditor.
- Work is ongoing to enhance the Government Loan Guarantee Scheme,
- The Credit Review Office asked and was granted an increase in its upper limit from €500k to €3M in anticipation of demand for business growth investment and also to assist some businesses and farms to refinance from exiting banks.
- NPRF/ISIF continues to develop their investment funds portfolios and to make advances in the > €2M investment sector.
- The State training agency Skillnets through its business training initiative, Managementworks, is rolling out the financial capacity building program for SMEs which the Minister for Finance announced in his last Budget.
- Discussions are ongoing in relation to the potential to deploy a funding line to SMEs from the German State Development bank, KfW. This should give borrowers more choice on finding the necessary financing to support their business needs.
- An interactive database of all Government supports for the SME sector will be formally launched shortly. This will assist SMEs but also their advisors and the Local Enterprise Office staff to increase awareness and consequently participation in the relevant Government supports.

Given the levels of government assistance which has developed over the past four years to assist SMEs and Farms in the recovery, there is now a need for some form of co-ordination and monitoring of the performance of all these schemes, and I recommend that this be considered to ensure that we get the best out of all the effort made by various Departments.

Credit Demand

Over the course of the past few months the Department of Finance and the Credit Review Office have had formal meetings with the main SME trade bodies. My Reviewers have also attended and presented at many seminars and SME forums.

The Department of Finance and the Credit Review Office met with the main SME trade bodies in February, and the findings of the Department of Finance bi-annual demand survey are confirmed by reports from the trade bodies' membership. Their members are cautious about taking on new debt after four very challenging years trading, and at this point in the economic cycle. The consensus is that the demand for lending may not recover for some time - until SMEs rebuild their balance sheets and gain confidence that domestic demand will sustain their cashflows to service new loan obligations.

For present borrowers, the trade bodies cite banks' terms and conditions presenting their members with difficulties. At a recent conference the President of the Small Firms Association articulated the criticism on terms and conditions as:

- Requirement for personal guarantees.
- Short drawdown period following the issue of a loan offer letter – typically 3 months
- Level of required equity or non-bank stake in the deal (banks typically are looking for 30% to 35% of the deal to be financed by someone other than the bank).
- The Loan pricing.
- The requirement for life assurance for the term of the loan.

In referring to a survey supporting these criticisms, it was stated that 40% of the SFA members lack confidence in speaking to a bank. This lack of competency and confidence has been recognised in my previous reports and the Government and Credit Review Office have a good track record in providing regular forums and presentations for SMEs across Ireland. These are generally well received but can be poorly attended. As with most such initiatives, it is the 'switched on' players which are hungry and avail of the services and those which would benefit most are least likely to avail of the help.

The SME Funding Consultation Committee, which consists of public and private sector bodies dealing with the SME sector, will be actively participating in the communication strategy to promote State supports for SMEs.

(iv) Credit Review Office activity

My last report was issued on 13th September 2013.

This report covers the period to 24th March 2014.

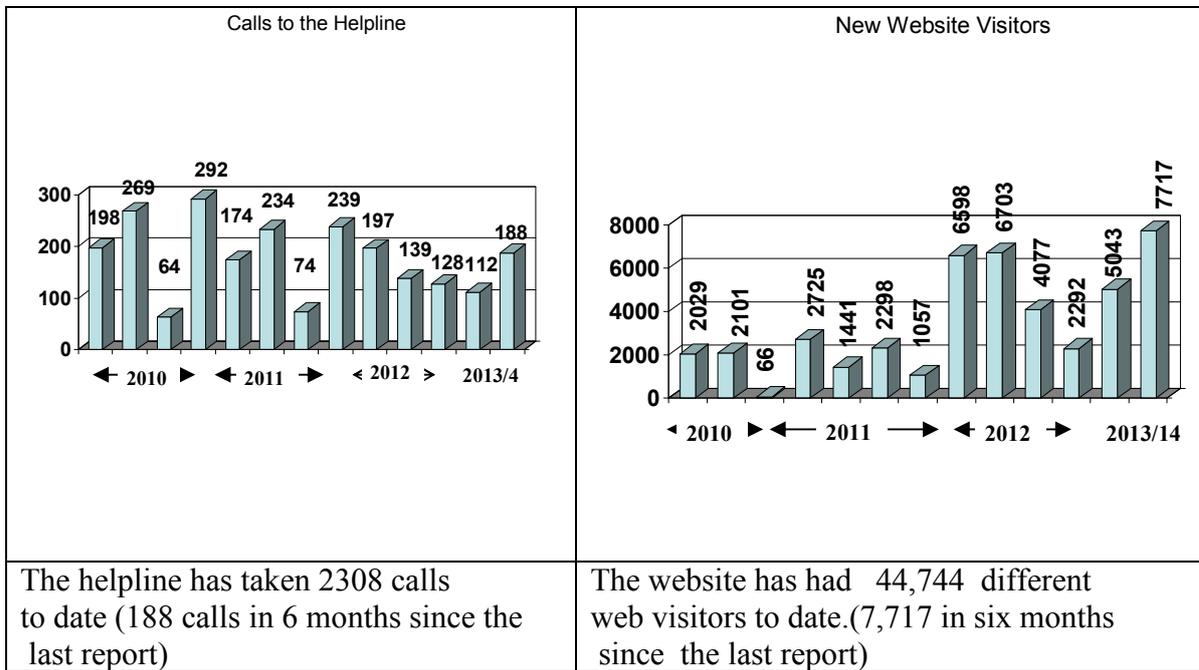
Helpline/ Web Activity:

These charts show the level of activity across the 13 reports issued to date. Note that these figures are influenced by our media advertising activity. The recent ISME survey indicates that 65 % of their respondents are aware of the Credit Review Office.

The Credit Review Office objective to assist viable SMEs/Farms obtain credit is clear, however we only report on formal appeal outcomes.

In addition to this formal reporting the Credit Review Office helpdesk team continue to resolve many bank queries and credit issues on behalf of borrowers by liaising with the banks’ dedicated Credit Review Office liaison teams. While we do not record this activity in these reports; many such cases are resolved without the requirement for a formal appeal and assist in improving the environment for SMEs seeking to access credit.

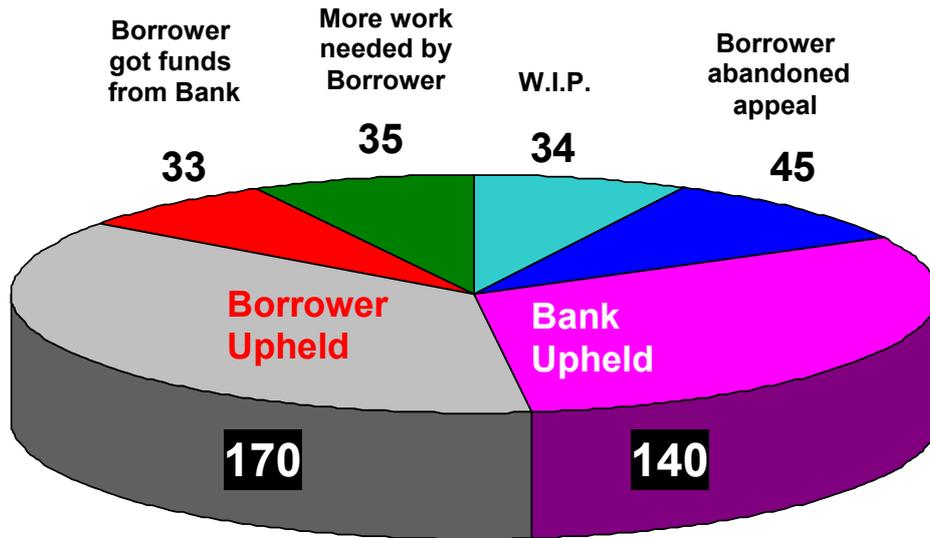
It would be remiss not to recognise the very good cooperation provided by the two dedicated Credit Review Office liaison teams within AIB and BoI.



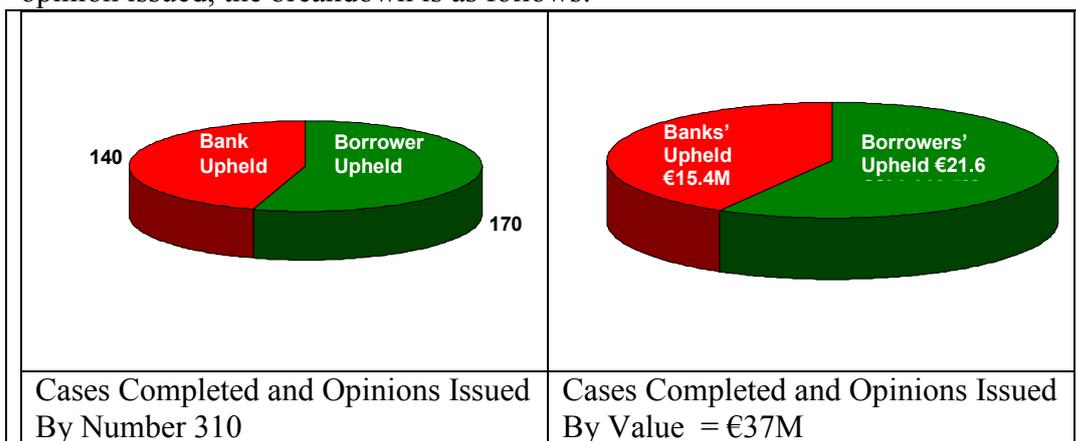
Credit appeals to the Credit Review Office

We have received 457 formal applications to date. Of these, 310 reached final conclusion and the Credit Review Office has upheld 55% of the appeals in favour of borrowers. Some of the other appeals are work in progress, others are resolved between the borrower and the bank before opinions need to be issued. The breakdown is as follows:

All Cases = 457



From the above chart of the 310 cases which have been finalised as formal reviews with opinion issued, the breakdown is as follows:



The upheld appeals have resulted in €21.6M credit being made available to SMEs and farms, helping to protect /create 1,725 jobs

Banks' Internal Appeals:

AIB	Appeals WIP	Borrower Appeals Upheld	Borrower Appeals Declined	Total Internal Appeals	BoI	Appeals WIP	Borrower Appeals Upheld	Borrower Appeals Declined	Total Internal Appeals
2010		22	45	67			6	83	89
2011		68	85	153			12	167	179
2012		93	191	284			7	101	108
2013		79	173	252			45	95	140
2014	8	3	6	17		0	5	8	13
TOTAL	8	265	500	773		0	75	454	529

Other Credit Review Office activity during the quarter

As part of the Office's activities, in order to gain feedback from all stakeholders and SMEs, the following groups were met with, or their member conferences and seminars addressed/attended in the last quarter:

Updates/ Meetings

- Weekly reports to Department of Finance
- Update meeting with the Minister for Jobs, Enterprise and Innovation.
- Meeting with the N.I. Ministers of Finance, and Department of Economy, Trade and Investment
- Liaison meeting with Central Bank Prudential Risk team
- Update meeting with Chambers Ireland, ISME, SFA
- Attendance at Dept of Finance AIB & BoI quarterly formal reviews on lending performance
- Contribution as part of Dept of Finance team at Troika briefing sessions on SMEs.
- Meetings with Senior Executives in AIB, Ulster and IBF
- Housekeeping meetings with AIB and BoI on interaction with Credit Review Office
- Meeting with two new providers of SME Debtor Finance.

Research Assistance

- Attendance at the Credit Guarantee Scheme Steering Group
- Input into the design and implementation of the SME database

Contributions at Conferences etc

- Attendance at 2 IBF sponsored conferences – the future of banking, and on SME lending.
- Addressing well over 100 Chartered Accountants on SME lending in various venues across Ireland

General progress since last report.

We continue to implement the findings of the Grant Thornton Report into the Credit Review Office effectiveness.

1. **Review the CRO application process**
Complete and ongoing
Working to use the borrowers application form as the main form the Credit Review Office needs from appellants
2. **CRO initiated review of certain cases following the bank internal appeals process**
This would apply to borrowers who chose to appeal to the covered banks' internal appeal process, but not to the Credit Review Office for review, (at present @70% of cases choose only the bank internal appeal route). Awaiting Dept of Finance decision.
3. **Increased proactive profile raising and stakeholder support of Credit Review Office**
Complete and ongoing
The recent ISME survey indicates that 65% of their respondents are aware of the Credit Review Office .
All reviewers are active in engaging with Government Departments, Trade Representative Bodies and directly with SMEs /Farms at meetings to promote the Credit Review Office. Our new reviewer team have good regional coverage and have attended functions to also promote and take feedback on the credit market and the Credit Review Office.
4. **Leveraging the visibility/expertise of the Credit Review Office**
Complete and ongoing
The Credit Review Office is part of the Dept of Finance team on SME matters including briefing the Troika, developing the new state assistance database and being part of the Loan Guarantee Scheme Steering Group.
Credit Review Office staff routinely attend the State Bodies Group, and the Action Group for Small Business.
5. **Expand the number of participating banks**
We would be willing to provide this service more widely however my understanding is that this will require a change in legislation beyond the amendment of the Statutory Order.
At present the Credit Review Office covers only 75%+ of the SME and Farm market.
6. **Increase the resources of the CRO to meet its expanded remit.**
This is completed with the recruitment of 12 credit reviewers which report to Catherine Collins and myself in credit committees and finalising reviews.