

# 1. Report Overview (Press Release)

In his 12<sup>th</sup> report, Trethowan observes more appeal requests for credit for working capital increases and for business investment in response to improving confidence in the economy. In common with other recovering economies, his credit reviewers report that economic activity is recovering fastest around the major cities, but that conditions remain very challenging outside of these locations.

55% of appeals have been found in favour of borrowers and this has resulted in €18.5M credit being made available to SMEs and farms, helping to protect /create 1,521 jobs.

In previous reports Trethowan has pointed to the pressures arising from the reduced number of banks servicing the SME/ Farm markets; these pressures are increasing with more frequent refinancing appeal requests, and feedback from SMEs and farms on the stress and difficulty in refinancing their debt, particularly with the timescales and approach being used by some foreign banks in withdrawing from the SME market. This raises the importance of the three remaining banks providing credit to the SMEs and Farms.

The Government is working to improve the supply side for finance with the introduction of the microfinance loan scheme, which makes loans of up to €25K to smaller firms; and has recently reviewed the operation of the Loan Guarantee Scheme to improve its criteria to assist SMEs. There is also a continuing need for the Credit Review Office as an independent arbiter for SMEs and Farms, and the 12 reviewers recruited in the Spring have all been working on appeals during the summer.

## **Credit Availability**

Trethowan continues to observe that the remaining Banks continue to lend to low/medium risk credit applications, however he states that credit conditions remain tight and his credit reviewers see too many cases which may not ‘tick all the boxes’ on current bank lending policies and criteria, but are still bankable propositions - perhaps with some advice and banking expertise from the lender to improve the proposal.

From the Department of Finance bi-annual research, and the cases he has reviewed, he further observes that we operate in an SME/ farm market where a sizeable minority of enterprises face some form of financial challenge. Where core viability in these businesses can be demonstrated, Trethowan expects that the banks can ensure that adequate, necessary but creditworthy finance should be available to support the business and associated employment.

Beyond the availability of credit, Trethowan continues to hear from SMEs of unsatisfactory engagement at the customer interface. While the banks have indicated to him that procedures, policies and training have been made available to frontline staff to address this issue, there remains unfinished work in this area. Trethowan suggests that this is an area which the Central Bank needs to focus on in reviewing its

Code of Practice on SME lending. Whilst Trethowan is aware of the pressures bank Boards and Executives face in dealing with their own problems, he cautions that there is a need to better focus on the requirements of the real economy and the part the banks must play in ensuring that the maximum number of enterprises can benefit from the recovery.

**(ii) Banks' €4bn Sanction targets:**

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

- Both banks are on track to achieve their €4bn loan sanction targets, assuming the pattern of previous years of a strong Q4 performance is repeated.
- Not all of the monies sanctioned gets drawn down by businesses / farms – this is a decision for the borrower not the banks.  
Examples of this are where overdraft limits are not fully utilised (normally all overdrafts should swing between their limit and being in credit); or if a business /farm is for sale where a number of bidders seek credit to purchase and only one bid is successful, the others' sanctions are not required.
- Following a couple of months in the early spring when the SME balance sheets of both banks showed some growth, this quarter has resumed the decline however at a slower pace than previously.
- The funds flow statements taken from the banks at the end of each quarter 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.
- 34% of the sanctions in 2013 are reported as new lending
- Of the new lending reported to date in 2013, c. 22% is farm related (up from 20% in overall 2012).

The targets will be met from new lending, restructuring existing debt, and refinancing loans from other non active banks. All are important for the economy.

## **Endorsements of Credit Review Office Service this quarter**

‘My first impressions of the Credit Review Office was that this would be another Government Agency that would go through the motions but would deliver nothing, fortunately I was wrong!

I was having great difficulty in agreeing an overdraft interest rate which was being increased by 400% approximately on my annual review, I brought the matter to the attention of the Credit Review Office and after giving all of the information that was requested so that the office could evaluate what was happening between my Bank and my Company, the Credit Review Office was able to secure an interest rate that was acceptable to both parties.

My thanks to the Credit Review Office and to the Bank for accepting their recommendations’.

**Frank McDonagh – Mileage Tyre Wholesalers**

‘We were very happy with the Credit Review Office process, the reviewer was very detailed in his response and the report fairly reflected our company’s point of view along with the banks point of view. The reviewer was also correct to point out the excellent working relationship we have with our Bank and with this matter now cleared up we are looking forward to a long continued relationship.

I would have no hesitation recommending the Credit Review Board to anyone.’

**Fergal Lawlor – Alpha Wireless**

‘I highly recommend this service. The staff at the Credit Review office were very helpful & we got the result we were looking for. Thanks again for all your help’.

**Noel Kelly – Tyres R Us**

## 2. Progress Update - The Quarterly Report

### Key Overall Developments / trends in the Quarter:

#### (i) Credit Availability

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## **(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.

There is no complacency in Government on this issue with various initiatives already introduced including the Credit Review Office and the microenterprise loan scheme; and the review underway of the Loan Guarantee Scheme to make it more effective. Work is ongoing to see how capital markets and non-bank sources of finance can further supplement the supply of credit, but banks will continue to be key players in credit supply.

As well as reviewing appeals made by SMEs which have been refused credit, my reviewers attend public meetings to speak on credit matters - but also to listen to the feedback from SME promoters and farmers; we also meet with the main SME trade bodies and the IFA to share views on the marketplace. The outcomes of the feedback and discussions is that there is real worry and concern on how **some** SMEs are being treated by their banks, both in terms of availability of credit and in the how they are treated when applying for a loan.

A sizeable minority of SMEs and farms face some degree of financial challenge whether it be capital adequacy or cashflow- they simply cannot tick all the boxes which current bank policies dictate, and yet many of these enterprises are viable or have a credible plan to return to viability and fail to get bank support.

When reviewing appeals from these borrowers my review team pose the following questions:

- (i) Will the bank lose money on this deal?
- (ii) If it were my money would I lend it to this business/farm?

In too many cases my review team can see the challenges which the business has and where it fails to tick some of the boxes in banks' lending policies, but can still answer these questions positively to support the lending.

A question which banks should be able to respond in the affirmative is 'if they have done all that they can to make any deal bankable'? At this time, I do not believe that they can say that, and they have a significant number of appeals where this is clearly not the case, which points to the continuing need for the Credit Review Office.

#### (iv) Credit Review Office activity

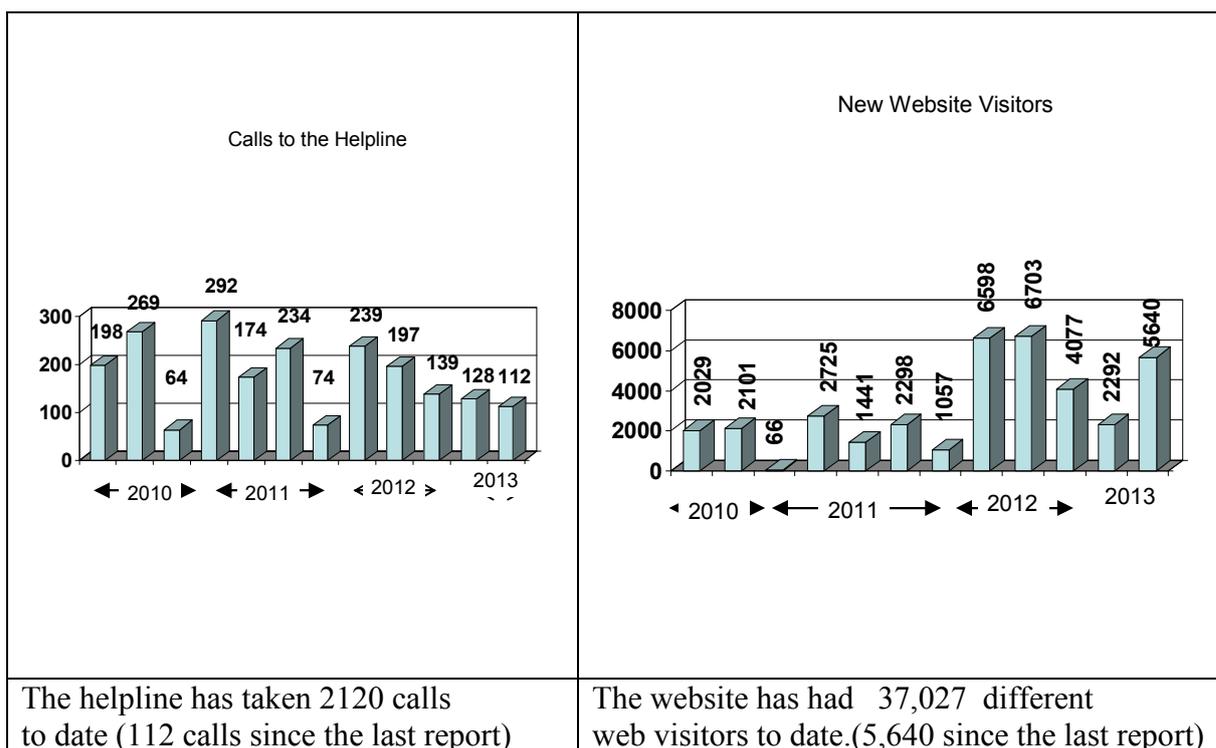
My last report was issued on 11<sup>th</sup> June 2013.

This report covers the period to 13<sup>th</sup> September 2013.

#### Helpline/ Web Activity

These charts show the level of activity across the 12 reports issued to date. Note that these figures are influenced by our media advertising activity. During this quarter we recommenced media campaigns following the appointment of the additional 12 reviewers. The recent ISME survey indicates that 71% of their respondents are aware of the Credit Review Office .

The Credit Review Office objective to assist viable SMEs/Farms obtain credit is clear, and 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. It would be remiss not to recognise the very good cooperation provided by these two dedicated teams within AIB and BoI.



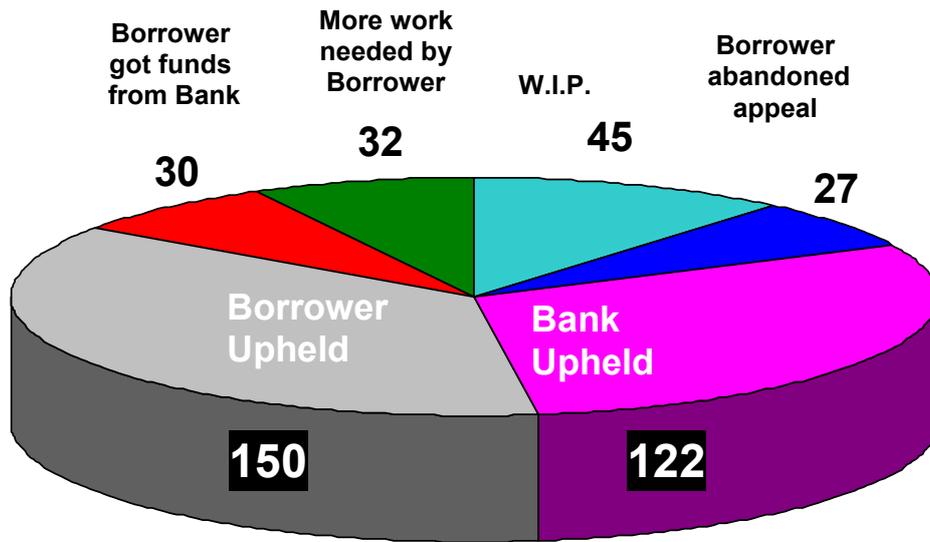
#### Banks' Internal Appeals

2010-2013	Cases Reviewed	Bank Decision Upheld	Bank Decision Overturned	% Overturned
AIB Bank	686	445	241	35%
BOI	388	345	43	11%
Total	1074	790	284	26%

### Credit appeals to the Credit Review Office

We have received 406 formal applications to date. Of these, 272 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 = 406



From the above chart of the 272 cases which have been finalised as formal reviews with opinion issued, the breakdown is as follows:

<p>Cases Completed and Opinions Issued By Number 272</p>	<p>Cases Completed and Opinions Issued By Value = €30M</p>

- The upheld appeals have resulted in €18.5M credit being made available to SMEs and farms, helping to protect /create 1,521 jobs.

### **Other Credit Review Office activity during the quarter**

As part of the Office's activities, in order to gain feedback from all stakeholders and SME's, 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
- Department of Jobs, Enterprise and Innovation.
- Meeting with Minister Bruton
- Central Bank Prudential Risk team
- Chambers Ireland, ISME, SFA
- IFA
- Irish Restaurateurs Association
- Irish Farm Contractors Group
- Troika
- AIB & BoI re lending plans

#### **Research Assistance**

- Submission to the review of the Credit Guarantee Scheme
- 8 Recommendations submitted for the Action Plan for Jobs 2014
- Department of Finance on Medium Term Economic Strategy
- Interview with consultant acting on behalf of the EIB and Institute of International Finance, into EU wide cause and effects of the banking crisis on SMEs.

#### **Contributions at Conferences etc**

- CAI Accountants CPD in Sligo
- CEDRA workshop Bray-presentation and attendance
- Rathgar Small Business Association
- Cork Chamber of Commerce presentation
- Primetime Interview on bank lending to SMEs
- Phoenix Magazine article on SME lending

#### **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  
Work is constantly ongoing to reflect the feedback form Borrowers to simplify the process as far as possible.
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).

3. **Increased proactive profile raising and stakeholder support of Credit Review Office**  
Complete and ongoing  
The recent ISME survey indicates that 71% of their respondents are aware of the Credit Review Office .  
We continue to engage 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 they will be asked to attend 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 established as one of the key bodies to be consulted on lending in the Irish credit market.
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 60%-65% 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.