Credit Review

Twenty-third Report

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SUMMER 2025

creditreview.ie

INTRODUCTION

Credit Review gives practical support to Irish SMEs, sole traders and farm enterprises who have been refused a loan, whose credit facilities have been reduced or withdrawn or whose bank debt needs restructuring.

This is the twenty-third activity and market commentary report from Credit Review, covering the period 1st January 2023 to 31st December 2024.

Since inception, Credit Review has received 1,425 individual applications for appeals from SME and farm enterprises. In addition, the Credit Review helpline takes calls from borrowers facing challenges securing credit from Irish banks (not all of which become cases). These cases and calls provide an overview of and insights into the SME and farm lending markets which form the basis of these reports.

As well as cases and calls, Credit Review receives activity reports on SME and farm lending from the three main banks (AIB, BOI and PTSB), and meets with them regularly alongside officials from the Department of Finance to discuss market developments. Credit Review also engages in regular dialogue with stakeholders, including the main SME and farming trade bodies, as well as other state bodies and departments working to facilitate credit access for SME's.

THE REPORT

Background

The mandate of Credit Review is to assist viable and potentially viable businesses -that is, ones that can now and will in future be able to service their loans – succeed in accessing credit. Many of the borrowers we see have businesses which face challenges or have current vulnerabilities. We will support those that we assess as having ability to repay their debts over the course of the credit term. Those that cannot be supported are provided with a roadmap which may help them become creditworthy in the future. Often, a key benefit of the review is the detailed information provided by the bank as to why the application was refused, which provides the borrower with essential clarity on the decline.

SME and Farms - Business and Credit Markets - Overview and Outlook

SME and farm businesses play a crucial role in Ireland's economic activity, employing 68%[1] of the workforce across a wide range of sectors. In 2023 and 2024, the Irish economy continued to grow, and domestic demand remained robust despite an uncertain global economic environment. Irish SME's and farms continued to face inflation pressures, climate risks, increasing costs and labour shortages.

Despite the global pressures and uncertainties, indications are that Irish SME's trading performance has recovered to pre-Covid (2019) levels and, overall, Irish SME's continue to be resilient. They have benefitted from sustained economic growth in Ireland post pandemic, which several sources forecast to continue, although at a lower rate in 2025, given the outcome of the US presidential election and its potential impact on global trade and on all businesses operating in Ireland, particularly MNC's.

1 CSO Business in Ireland 2022

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Undoubtedly certain sectors within the broad SME base are more challenged than others, with the Accommodation & Food, and Other Service sectors in particular highly exposed to increased wage and energy costs. During 2024 increasing levels of insolvency, failures and closures were reported, albeit from a low base[2,3]

Irish SMEs Trading [4] Performance %	Sep-2017	Sep-2018	Sep-2019	Sep-2020	Sep-2021	Sep-2022	Jan-Dec 2023	Jan-Dec 2024
Turnover Stable/Increased	86	86	80	29	77	76	82	80
Profitable/Broke Even	88	90	89	61	83	87	88	88

To remain competitive in the future, businesses will need to control costs and improve productivity – which will require investment. While Irish SME's are traditionally inclined to self-finance[5], and the SME sector as a whole appears to have reasonable levels of cash reserves, self-financing has associated risks (discussed in our information notes previously published) and may not be the optimum source of long-term finance for established companies. Recent events such as the pandemic have shown how necessary cash reserves can be to weather unexpected storms. Hence a combination of own funds and external funds, including bank credit, may be appropriate to fund SME investment for sustainable business growth.

The need for Irish SME's and farms to focus on green and digital transformation has been called out from many sources in recent times, and Irish businesses will need to invest in these areas. Bank debt will continue to form part of the funding solution for SME's with an established track record, while start-ups are typically more reliant on investor finance rather than debt.

2 PwC Insolvency Barometer shows a 25% increase in insolvencies in the first six months of 2024
3 Central Bank Financial Stability Review Dec 2024 Chart 25,26 and 29
4 Department of Finance SME Credit Demand Survey Jan-Dec 2024
5 'Internal funds remain the predominant source of investment financing for SMEs' ESRI SME Investment Report 2024.

THE REPORT (Cont'd)

Somewhat surprisingly, despite the growing economy and post pandemic recovery of SME and farm businesses, and the need for continuous reinvestment, the SME bank credit market has not grown and in fact has continued to contract. According to the Central Bank of Ireland (CBI) Credit and Banking Statistics report, the value of outstanding credit to core SMEs continued to fall in the twelve months ending Dec 2024.[6]

The key questions remain:

- Are Irish SME's and farms underinvesting in their businesses?
  - a demand issue
- Is the Irish banking system (and SME banking services) operating effectively to facilitate necessary investment?
  – a supply problem

Bank Lending to SME's - Overview and Outlook

It is part of Credit Review's role to report on challenges facing SME's seeking to access credit.

Looking at credit demand, it is a feature of the Irish market that 45% of SMEs surveyed have no financial debt, according to the most recent Department of Finance SME Credit Demand survey[7]. Those that do have debt are repaying more than the rate of new borrowings. Up until 2024, SME repayments exceeded drawdowns annually for six consecutive years and bank SME loan books reduced accordingly. Central Bank statistics indicate that overall credit advanced to Irish core SME's is down over 18% from the pre Covid levels of €14.2bn in December 2019.[8]

The Department of Finance SME Credit Demand survey shows that over the last decade, the percentage of SMEs applying for bank finance has dropped substantially, from 35% to 20%. While it is still the case that the majority of bank credit applications succeed, the volume of applications has declined considerably over this period.

6 Central Bank of Ireland Credit and Banking Statistics
7 SME Credit Demand Survey 2024
8 Central Bank of Ireland Credit and Banking Statistics

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SME's will determine the level of credit demand based on whether they apply for credit and it is clear that their appetite remains muted - but banks risk appetite will impact supply. While all banks are on record as being 'open for business', my role is to consider and report on what factors may be impacting on the level of credit in the market, and what consequently may be inhibiting credit demand.

1. **Contracting Supply:** Increased concentration and a reduction in the number of banks providing credit to SME's has likely played a role in the shrinking bank SME credit books: 2023 saw the exit of Ulster Bank and KBC from the Irish market. There are now just three banks lending to SME's in Ireland – AIB, BOI and PTSB. While the banks state they are not constraining supply, in an increasingly uncertain world a reduced number of businesses will successfully access credit. The Central Bank Financial Stability report in June 2024 stated that the latest Bank Lending survey indicated that Irish banks expected to tighten lending standards on mortgage and SME lending in the short term. Our recent experience is that it is becoming more difficult for some businesses to satisfy banks debt service requirements.

   In addition, as previously called out in Credit Review reports (published on our website), customers seeking to access credit with any form of credit challenge will find it more difficult to get credit approval from a smaller pool of remaining providers. Government supports can act as a counterbalance - credit guarantees and specialist longer term products provided by SBCI can help to encourage the provision of bank credit for many of the businesses appealing to Credit Review. Without these supports it is likely that bank decline rates would have increased, and bank credit books would have shrunk further.

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2. Credit Application Processes: Various reports, surveys and focus groups have provided feedback that credit application processes for SME's can be difficult and time consuming. Ibec's Founders Report, surveying individuals who founded businesses in Ireland, indicates that the majority (63%) consider the application process for Debt Funding to be complex or very complex when accessing the appropriate supports for scaling. Five aspects for consideration are outlined below:

    a. **Expertise:** I have commented before on the banks efforts to increase their own efficiency and productivity, which makes sound commercial sense. The move towards online applications and automated decision making can benefit both borrowers and banks – however it does not always facilitate more complex SME and farm lending. The critical expertise often required to make a 'bankable' credit application is no longer available to many SME's who do not have an expert banker/relationship manager to assist and guide them.

       This poses the question of who will fill the knowledge gap to best match the SME credit needs with the most suitable banking solution – one that should also satisfy the banks policy and regulatory requirements. In the cases we see, which are typically more complex and challenged, considerable expertise is required to navigate the path to a solution meeting both borrower and bank needs. There is a cost to the SME borrower of acquiring that expertise that has now been passed across by the bank who are no longer providing it to certain segments of the SME market (typically smaller borrowers).

       While AI has been mooted as a potential aid to improve banking processes, complex banking transactions will continue to be high touch and require a human interaction for now. SME and farm lending is multifaceted and non-standard – one size does not fit all and expert credit assessment is required.

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b. **Communications:** The world of SME credit and banking has become increasingly complex in recent years. It therefore behoves banks and other credit providers to inform effectively and support understanding when SME's and farms seek credit. Using Plain English and Plain Numbers is the way forward rather than providing large volumes of small print where information critical to decision making can be missed. Consideration should be given to the provision of an industry standard key information document similar to that provided by the insurance industry (Insurance Product Information document – general product summary). This would allow comparisons across products and providers and clarify the key issues that SME's need to focus on.

In addition, the responses that I see issued on bank credit decline letters remain generic, high level and unhelpful to many of the borrowers using our services. Typically, the reason the loan is not being approved is because the bank cannot see ability to repay. The specific details behind this high-level response are not shared with the borrower when they apply initially or when they appeal that decision within the bank – indeed detailed case specific information is often only provided to the borrower if they engage in the Credit Review process. In terms of learning for the SME, and seeking to ensure more successful applications in future, the initial bank feedback to borrowers (exclusive of Credit Review involvement) appears to be of limited or no benefit. Prevention is better than cure - straightforward company-specific feedback at a much earlier stage of engagement between bank and borrower would result in more efficient and successful engagements between banks and their SME and farm customers.

THE REPORT (Cont'd)

We also see cases where in the absence of an application form (which it appears banks may no longer use), the borrower and bank disagree on the actual amount of credit applied for. At the conclusion of any engagement, whether in person, virtual or online, a summary of what is being proposed for credit approval, that includes critical details such as this, should be provided by the bank.

c. **Timelines**: According to the latest Department of Finance Credit Demand survey (2024 calendar year data), for Irish lenders regulated by the Central Bank of Ireland (CBI) the average amount of time from application to decision stood at 24 days. This has not seen any significant improvement in recent years despite the move to digital and automated applications and credit decisioning. The survey response indicated just 58% had a turnaround time within 15 days – as required under the regulations for firms lending to SMEs. Non-bank and fintech lenders advise and advertise that they operate significantly shorter decision times, although as many of these providers are not regulated this cannot be quantified. Nonetheless, shorter timelines and simpler approval processes by non-bank credit providers have been reported anecdotally to Credit Review by both SME's and their trade bodies. It may be that the declining bank application rates reflect a move by SME's away from more extensive time-consuming bank application processes towards faster quicker solution providers.

d. **Ability to switch banks:** Irish banks do not all operate in the same way – while the broad principles of lending are common, each bank will have its own specific policies and its own interpretation of governing regulation. This can lead to some varying results for SME's seeking credit. Refinancing with a different bank is often problematic, based on what we see from our appeals. It takes time to build a credit record and a banking relationship with a bank –

THE REPORT (Cont'd)

seeking credit by new-to-bank (switching) customers can be more onerous. This is particularly the case where borrowers are seeking to utilise government backed products that may not be available in their existing bank, requiring them to switch in order to access the products. Concentration in the market reduces options and choices for SME's.

e. **Alternatives/Options:** Non-bank debt providers appear to form an increasingly large part of the credit market for SME's. While they may be subject to different regulatory or reporting requirements, recent analysis by CBI and BPFI indicate they represented 34% of new SME lending in 2023. SME's have indicated to our Office that they provide faster decision making and better customer service albeit at a higher cost/interest rate. Specialist lenders may also provide niche products which can work to fill gaps that are not served by traditional banks. Credit Review welcomes the widening of options for SME's with new players joining the market. It will be important for borrowers to be able to make informed decisions between providers when seeking credit, with clear and transparent information provided by suppliers.

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Conclusion

Credit Review remains focussed on ensuring viable SME's and farm businesses can access the credit they need to stay competitive in their markets, continue to grow and expand and remain resilient, particularly in the face of the current heightened global uncertainty.

Challenges remain for viable borrowers to ensure they can make successful credit applications. Ensuring they provide quality financial and business information, both historic and projected, is key. However, banks on their side need to communicate clearly what is required. The expertise gap or void created by the removal of relationship managers and the move to direct banking (digital and callcentre) model for the majority of small businesses remains to be addressed – while the banks reduce their costs, the SME's may be forced to bear the cost of acquiring that expertise externally or internally. Automation of application processes to date does not appear to have reduced turnaround times (see Credit Demand Survey summary table below).

The Irish SME credit market has a limited number of bank providers with some indications from our reviews of a potential tightening of risk appetite in an increasingly uncertain environment. State backed programmes form an important role in the Irish SME credit sector to fill market gaps, including:

- SBCI products with guarantees and longer terms remain key for the challenged cases we see, and we look forward to their continuing development as current products reach the end of their term/availability.
- The increase in Microfinance Ireland's lending capacity to €50k is strongly welcomed and will make a meaningful difference to many microbusinesses seeking credit.

Alternative non-bank providers are a welcome addition to the SME credit market where they provide additional choice and capacity.

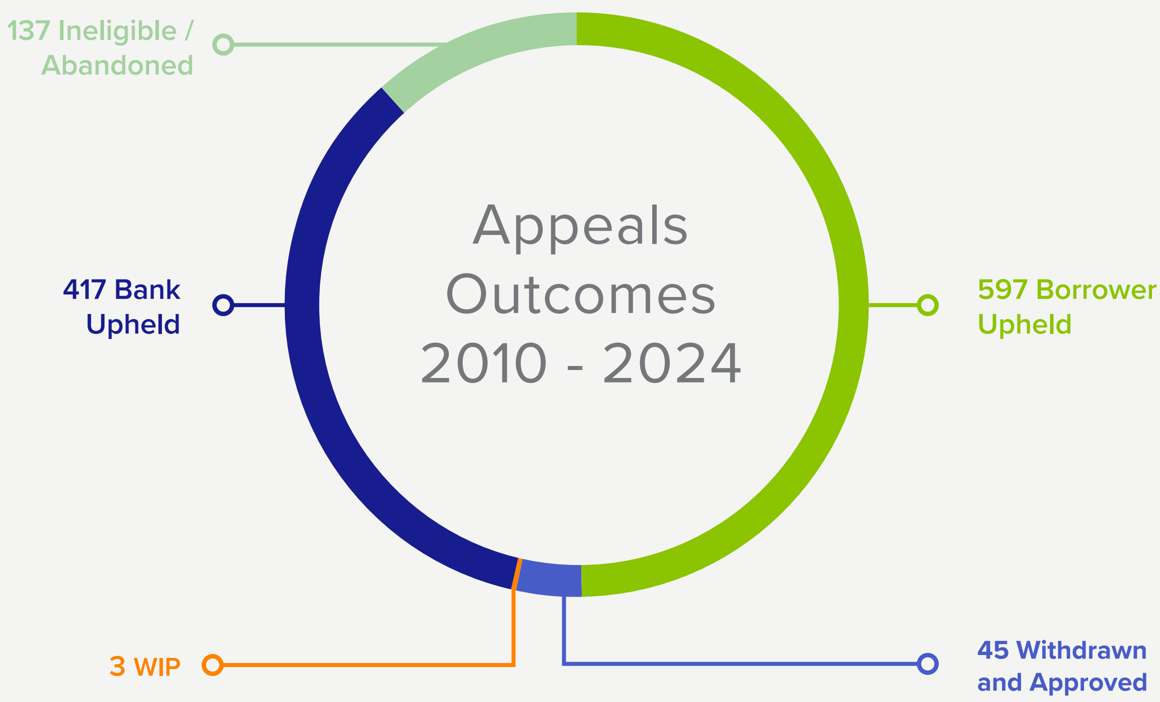
In conclusion, work remains to be done to improve the quality of information and feedback to borrowers by banks and other credit providers, to ensure successful credit applications, and informed decisions (between different products and providers) are made by Irish SME's.

CREDIT REVIEW ACTIVITY

Credit Appeals to Credit Review

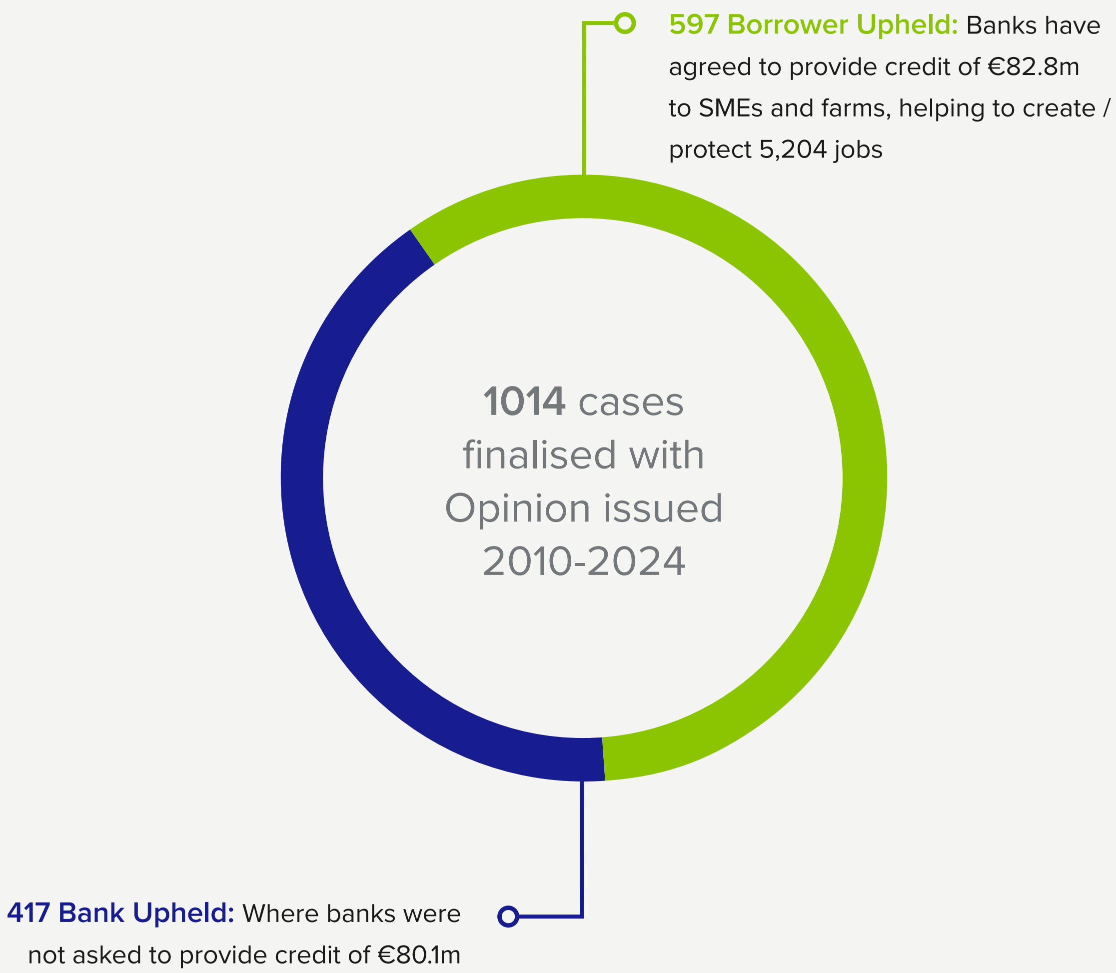
We have received 1,425 formal applications to 31st December 2024 of which 1,199 proceeded to be reviewed. Of these 1,014 completed the review process and Credit Review has upheld the appeals in favour of 597 ("disputed") borrowers. A further 45 were withdrawn and approved by the bank (credit value €7m).

The breakdown of the appeals are as follows:



CREDIT REVIEW ACTIVITY (Cont'd)

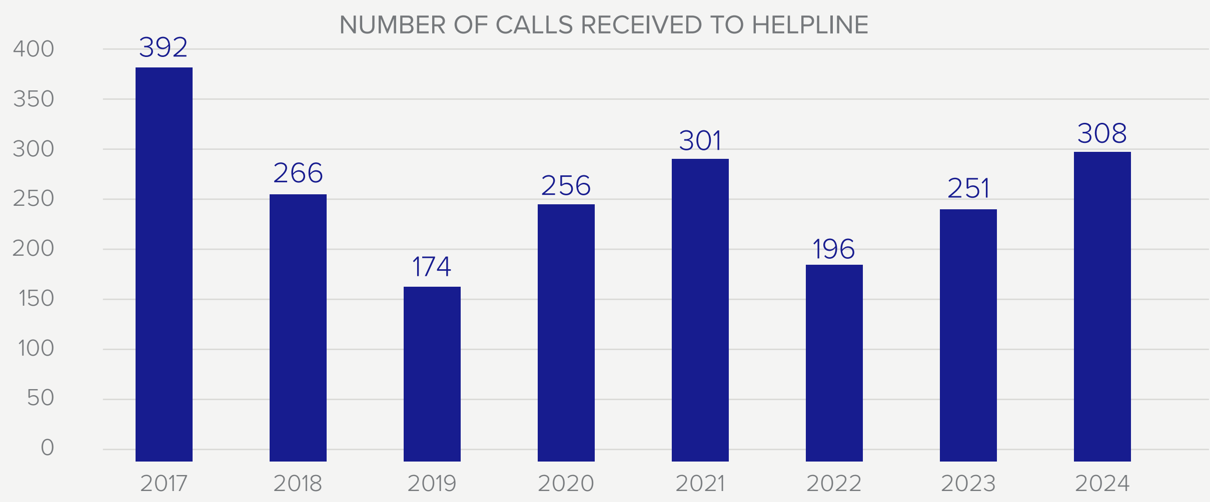
From the preceding chart – 1014 cases finalised with Opinion issued
- the breakdown is as follows:

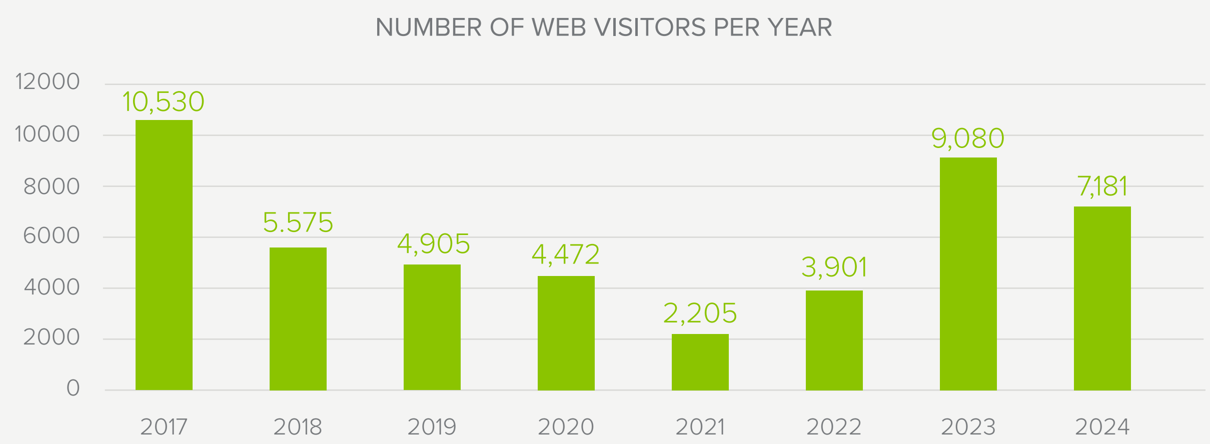


From its inception in April 2010 to end December 2024, Credit Review has supported 59% of businesses and farms that have completed appeals of credit decisions.

CREDIT REVIEW ACTIVITY (Cont'd)

In addition to undertaking formal reviews Credit Review also operates an informal "Help Line" service where the Reviewers engage directly with SMEs/farmers who have credit/banking related issues, providing information and updates. Many of these conversations do not result in formal appeals but the feedback from the individuals who avail of the service is that it provides an invaluable source of assistance.





MONITORING BANK LENDING

Currently, SME demand for bank debt and expectations of future demand remains low, with 20% of SME's seeking credit in the last 12 months, and just 17% expecting to borrow in the next 12 months, according to the most recent SME Credit Demand Survey. The trend is captured in the table below.

Credit Performance[9]	Sep-2015	Sep-2016	Sep-2017	Sep-2018	Sep-2019	Sep-2020	Sep-2021	Sep-2022	Jan-Dec 2023	Jan-Dec 2024
SMEs requesting credit	30	23	23	20	20	18	17	17	18	20
Anticipate seeking credit (next 6/12 months)	27	20	20	19	18	12	7	17	19	17
Credit approved / partially approved	85	84	85	86	85	85	90	90	88	92
Approved loan facilities not drawn	16	25	24	16	24	-	27	18	16	17
Average loan size	€478k	€105k	€138k	€228k	€266k	€192k	€268k	€279k	€186k	€260k

Central Bank figures showing credit advanced to Irish resident small and medium sized enterprises are set out below[10]:

Outstanding Credit Balance (bn's)	Dec-2015	Dec-2016	Dec-2017	Dec-2018	Dec-2019	Dec-2020	Dec-2021	Dec-2022	Dec-2023	Dec-2024
Core SME's*	18.2	16.2	15.8	15.0	14.2	12.7	12.6	12.5	11.6	11.3

* excluding Financial Intermediation and Property Related Sectors

This shows a substantial decrease in the size of the Irish banking sectors SME loan books over the past 10 years.

9 Department of Finance SME Credit Demand Survey 2024
10 https://www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics/business-credit-and-deposits

MONITORING BANK LENDING

Bank Internal Appeals

Before an application for review can be considered by Credit Review, the borrower must ask the bank to review their initial decision by a separate team within the bank. These internal appeals may overturn the original bank decline.

AIB[11]	Borrower Appeals Upheld	Borrower Appeals Declined	Total Internal Appeals Completed
2010	22	45	67
2011	67	85	152
2012	95	191	286
2013	85	175	260
2014	63	190	253
2015	58	202	260
2016	48	148	196
2017	28	137	165
2018	47	137	184
2019	94	168	262
2020	26	183	209
2021	57	177	234
2022	68	170	238
2023	38	151	189
2024	24	130	154

BOI	Borrower Appeals Upheld	Borrower Appeals Declined	Total Internal Appeals Completed
2010	6	83	89
2011	12	167	179
2012	7	101	108
2013	45	95	140
2014	27	101	128
2015	33	90	123
2016	38	161	199
2017	57	213	270
2018	56	198	254
2019	34	127	161
2020	38	72	110
2021	50	61	111
2022	21	29	50
2023	31	18	49
2024	14	26	40

11 Figures restated to reflect Appeal Statistics provided by AIB in February 2025

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