



FINANCIAL REGULATOR  
*Rialtóir Airgeadais*

# Longer Term Lending Limits Explanatory Note & Application Form

October 2007

Registry of Credit Unions

**Credit Union Name:**

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**Registered Number:**

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# Explanatory Note

On 4 February 2007, the Minister for Finance published the Report of the Review Group on longer-term lending limits as provided for by Section 35 of the Credit Union Act 1997, as amended, (the Act).

<http://www.finance.gov.ie/documents/publications/other/creditunionreview.pdf>

The Report recommends that Section 35 lending limits should be increased for loans over five years from 20% to 40% and over ten years from 10% to 15%, for those credit unions approved by the Registrar of Credit Unions as having the necessary controls and safeguards in place and satisfying the following financial ratios in relation to arrears and reserves:

- Loan Arrears are no greater than 5%;
- Statutory Reserves over Total Assets are 6% or greater; and
- Total Reserves over Total Assets are 8% or greater.

The Report was prepared by a Review Group appointed by the Minister with representation from the Irish League of Credit Unions, the Credit Union Development Association and the Registrar of Credit Unions.

In order to apply to the Registrar for approval to avail of the increased lending limits, credit unions must complete an application form signed off by the board which includes:

- Auditor confirmation that the credit union satisfies certain financial ratios;
- Commitment from the board that these financial ratios will be maintained;
- Confirmation that an internal review has taken place and that following the internal review the board is satisfied that the credit processes, resources and operating systems in place are appropriate to the business needs of the credit union.

The application form and notes on how to complete and submit the application are contained in the following sections of this document.

# Notes on Completion and Submission

1. In order to apply for approval to lend under the new longer term lending limits, a credit union must complete this application form and submit a signed hard copy to the following address:

Application for Longer Term Lending Limits,  
Registry of Credit Unions,  
P.O. Box 9138,  
6-8 College Green,  
Dublin 2.

2. The timescale for considering applications will depend on the quality of information provided. Where the application form has been fully completed and all of the information requested is supplied by the credit union, we aim to issue a response within one month of receipt of the application. Unless the Registrar is satisfied in relation to all aspects set out in the application, approval cannot be granted.
3. The board must ensure that the "Auditor Confirmation" section is completed and signed by the credit union's external auditor. The date for which the financial ratios are confirmed as being valid for the credit union should be as close as possible to the date the application is submitted to us and should not be more than one month before the application is received by us. Within this section:
  - All amounts should be rounded to the nearest whole number;
  - All percentages should be rounded to 2 decimal places.
4. The following sections must be completed and approved by the credit union board and signed by the chairman on behalf of the board:
  - Financial Information supporting Auditor Confirmation;
  - Board Statement;
  - Internal Review.

# Glossary

## Commercial Lending

Commercial lending is where the purpose of the loan is to make a profit or the intention to make a profit.

## Connected Borrowers

Connected borrowers means two or more borrowers who constitute a single risk to the credit union because if one of them were to experience financial problems, one or all of the others would be likely to encounter repayment difficulties.

## Exposure

An exposure is the total potential loss that a credit union could incur in the event of non-payment by a borrower. It would include, therefore, all claims on the borrower, both actual and contingent. Contingent claims would include, for example, undrawn committed facilities and guarantees.

## Liquidity

Liquidity is defined as cash and investments with less than three months to maturity over unattached savings.

### Loan Arrears

Loan Arrears are defined as Gross Loans more than 9 Weeks in Arrears divided by Total Gross Loans Outstanding.

### Total Gross Loans Outstanding over 5 Years

Total Gross Loans Outstanding over 5 Years is defined in Section 35 (2) of the Credit Union Act, 1997 (as amended).

### Total Gross Loans Outstanding over 10 Years

Total Gross Loans Outstanding over 10 Years is defined in Section 35 (2) of the Credit Union Act, 1997 (as amended).

### Total Reserves

Total Reserves are defined as Statutory Reserves plus Realised Reserves, less Proposed Dividend and Interest Rebate.

# Application Form

## Section 1. Auditor Confirmation

*(This section must be completed by the credit union auditor.)*

### Report of factual findings in connection with the Longer Term Lending Application

To: Board of Directors of \_\_\_\_\_ Credit Union Limited

We have performed the procedures agreed with you and enumerated below with respect to the Longer Term Lending Application of \_\_\_\_\_ Credit Union Limited, set forth in the accompanying appendix prepared by you.

Our engagement was undertaken in accordance with International Standard on Related Services 4400 Engagements to Perform Agreed-Upon Procedures Regarding Financial Information<sup>1</sup>. The procedures were performed solely to assist you in evaluating the validity of Section 2, which was produced from the records of the credit union as at (date) \_\_\_\_\_ and are listed as follows:

#### (1) Loan Arrears Ratio

- We obtained the schedules prepared by you (the directors) and verified that the Loan Arrears Ratio is no greater than 5% for the above date.
- We agreed the Gross Loans more than 9 Weeks in Arrears to the Loan Schedule extracted by you from your records for the above date.
- We agreed the Total Gross Loans Outstanding to the Loan Schedule extracted by you from your records for the above date.

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<sup>1</sup> [http://www.ifac.org/Members/Source\\_Files/Auditing\\_Related\\_Services/A340\\_ISRS\\_4400.pdf](http://www.ifac.org/Members/Source_Files/Auditing_Related_Services/A340_ISRS_4400.pdf)

## **(2) Statutory Reserves Ratio**

- We agreed that the Statutory Reserves over Total Assets Ratio is 6% or greater for the above date.
- We agreed the Statutory Reserves amount to the Monthly Management Accounts prepared and approved by the directors for the above date.
- We agreed the Total Assets amount to the Monthly Management Accounts prepared and approved by the directors for the above date.

## **(3) Total Reserves Ratio**

- We agreed that the Total Reserves over Total Assets Ratio is 8% or greater for the above date.
- We agreed the Total Reserves amount to the Monthly Management Accounts prepared and approved by the directors for the above date.
- We agreed the Total Assets amount to the Monthly Management Accounts prepared and approved by the directors for the above date.

## **We report our findings below:**

- (a) With respect to (1) Loan Arrears Ratio, we found the calculation to be correct and the amounts agreed with the Loan Schedules prepared (extracted) by you (the directors).
- (b) With respect to (2) Statutory Reserves Ratio, we found the calculation to be correct and the amounts agreed with the Management Accounts prepared by you (the directors).
- (c) With respect to (3) Total Reserves Ratio, we found the calculation to be correct and the amounts agreed with the Management Accounts prepared by you (the directors).

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Long Term Lending Application as of (date) \_\_\_\_\_.

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties. This report relates only to the accounts and items specified above and does not extend to any financial statements of \_\_\_\_\_ Credit Union Limited, taken as a whole.

Signed By: \_\_\_\_\_

Date of Signature: \_\_\_\_\_

Name of Auditor:	
Professional Accountancy Body:	
Membership Number:	
Audit Firm:	
Firm Address:	

## Section 2. Financial Information supporting Auditor Confirmation

*(This section must be completed and approved by the board of the credit union and signed by the chairman on behalf of the board.)*

Loan Arrears	
Gross Loans more than 9 Weeks in Arrears	€
Total Gross Loans Outstanding	€
Loan Arrears Ratio	%

Statutory Reserves over Total Assets	
Statutory Reserves	€
Total Assets	€
Statutory Reserves over Total Assets Ratio	%

Reserves over Total Assets	
Total Reserves	€
Total Assets	€
Total Reserves over Total Assets Ratio	%

This financial information is produced from the Monthly Management Accounts and Loan Schedule of the credit union as at (date) \_\_\_\_\_ and approved by the board on (date) \_\_\_\_\_.

Chairman's Signature: \_\_\_\_\_  
(on behalf of the board)

Date of Signature: \_\_\_\_\_

## Section 3. Board Statement

*(This section must be completed and approved by the board of the credit union and signed by the chairman on behalf of the board.)*

We, the board of \_\_\_\_\_ Credit Union Limited, confirm that:

### Financial Ratios

The credit union is and will remain in compliance with the following on an ongoing basis:

- Total Gross Loans Outstanding over 5 Years no greater than 40%;
- Total Gross Loans Outstanding over 10 Years no greater than 15%;
- Loan Arrears no greater than 5%;
- Statutory Reserves over Total Assets of 6% or greater;
- Total Reserves over Total Assets of 8% or greater.

### Legislation

The credit union is and will remain in compliance with Section 35 (2) and all other relevant Sections of the Credit Union Act 1997 (as amended) in relation to the credit and asset and liability management functions.

### Credit Union Rules

The Rules allow the credit union to avail of the increased Section 35 lending limits.

### Internal Review

An internal review of the credit union has been carried out and the board is satisfied that this review confirms that the policies, procedures, processes, systems, controls and resources are appropriate for the credit union to carry out increased longer term lending. **(see Section 4)**

Board Assurances

Following the internal review, the board is satisfied that the credit union has and will maintain on an ongoing basis:

- An appropriate asset and liability system to support the scale and complexity of the credit union's lending;
- An appropriate credit underwriting and control system;
- Appropriate credit and credit risk management policies approved by the board;
- Appropriate IT systems to ensure the maintenance of proper accounting systems and systems of control for the credit union's business;
- Appropriate skills and expertise to match the risk profile of the business conducted by the credit union;
- Prudent levels of liquidity appropriate to the scale of lending activity carried on by the credit union. Liquidity will reach a level of 17.5% within 18 months of approval to commence longer-term lending and maintained at least at that level thereafter.

Chairman's Signature: \_\_\_\_\_

(on behalf of the board)

Date of Signature: \_\_\_\_\_

The board of \_\_\_\_\_ Credit Union Limited acknowledge that we have furnished the information referred to in this application and confirm that to the best of our knowledge the information provided is accurate.

We declare that we:

- to the best of our knowledge have truthfully and fully answered each section of this application and have disclosed any other information which might reasonably be considered relevant for the purposes of this application; and
- will promptly notify the Registrar of Credit Unions of any changes in the information which we have provided and will supply any other relevant information of which we may become aware at any time after the date of this application; and
- acknowledge that a breach of any of the commitments contained in the Board Statement or the provision of false information may result in the approval to avail of the increased Section 35 lending limits being withdrawn.

Chairman's Signature: \_\_\_\_\_

(on behalf of the board)

Date of Signature: \_\_\_\_\_

## Section 4. Internal Review

*(This section must be completed and approved by the board of the credit union and signed by the chairman on behalf of the board.)*

An internal review should be carried out to determine whether appropriate policies, procedures, processes, systems, controls and resources are in place for the credit union to carry out increased longer term lending. The internal review should provide detailed information to support the board assurances set out in the previous Section (Board Statement). This section provides guidance to assist boards in carrying out the internal review. Please note, however, this is not an exhaustive list and each board is responsible for ensuring that the internal review addresses all areas relevant to their particular credit union, given the scale and complexity of their business.

The credit union must retain on file a copy of the internal review which supports this application. Following completion of the internal review, this Section must be completed and submitted as part of the credit union's application.

Where a statement has not been ticked to confirm, supplementary information in relation to the unticked statement must be provided.

Credit Policy and Credit Committee	<i>(Tick to confirm)</i>
1. The credit union has a written credit policy approved by the board that is appropriate to the scale and complexity of the lending undertaken.	<input type="checkbox"/>
2. The credit policy is reviewed at least annually to ensure it is appropriate.	<input type="checkbox"/>
3. The board has appointed a credit committee.	<input type="checkbox"/>

4. The credit union's credit policy includes the following:

- The responsibilities of the credit committee;
- The authority of the credit committee and its credit approval limits;
- The amount and form of security required by the credit union for each type of loan;
- The interest rate(s) to be charged on loans;
- The maximum amount which may be loaned to a single member;
- Procedures to avoid over-exposure to a small number of large and / or connected borrowers;
- The documents required as evidence of member's proof of income and ability to repay;
- The reporting obligations of the credit committee.

5. The credit committee is comprised of at least three people (at least one of whom must be a director) who are knowledgeable in all areas of credit (loan underwriting) in which the credit union is involved and adopt a prudent approach.

6. The credit committee:

- Observes the credit policy set by the board;
- Meets as often as necessary to carry out their functions;
- Keeps a record of all loan applications and decisions;
- Submits or causes to be submitted a written report to the board of directors at each meeting of the board such that the board may satisfy itself that the credit function and the credit committee are operating effectively.

Commercial Lending	<i>(Tick to confirm)</i>	
7. Does the credit union carry out commercial lending?	Yes	No
	<input type="checkbox"/>	<input type="checkbox"/>
Where the credit union carries out commercial lending, the credit union has:		
<ul style="list-style-type: none"> <li>• Expertise or access to expertise and procedures for evaluating and underwriting commercial lending;</li> </ul>	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>• Proper approval and oversight of commercial lending;</li> </ul>	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>• A restriction on the percentage of the loan book that may be given in commercial loans.</li> </ul>	<input type="checkbox"/>	

Credit Control Policy and Committee	<i>(Tick to confirm)</i>	
8. The credit union has a written credit control policy that has been approved by the board.	<input type="checkbox"/>	
9. The credit control policy is reviewed at least annually to ensure it is appropriate for the credit union.	<input type="checkbox"/>	
10. The board has appointed a credit control committee.	<input type="checkbox"/>	
11. The credit union's credit control policy states:		
<ul style="list-style-type: none"> <li>• The responsibilities of the credit control committee;</li> </ul>	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>• The rescheduling policy of the credit union;</li> </ul>	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>• The bad debts write off policy of the credit union;</li> </ul>	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>• The provisioning policy of the credit union;</li> </ul>	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>• The loan recovery procedure in the credit union;</li> </ul>	<input type="checkbox"/>	
<ul style="list-style-type: none"> <li>• The reporting obligations of the credit control committee.</li> </ul>	<input type="checkbox"/>	

12. The credit control committee is comprised of at least three people (at least one of whom must be a director) who are knowledgeable in the area of credit control and adopt a prudent approach.

13. The credit control committee:

- Observes the credit control policy set by the board;
- Meets as often as necessary to carry out their functions;
- Submits or causes to be submitted a written report on the monitoring of non-performing loans for the monthly board meeting such that the board may satisfy itself that the credit control function and the committee are operating effectively.

## Systems and Controls

*(Tick to confirm)*

14. Proper systems and controls are in place to ensure:

- The credit union maintains asset and liability ratios and structures appropriate to the scale and complexity of the credit union's lending activity;
- Prevention of conflicts of interest in relation to the credit function;
- Segregation of duties in the approval and payment of loans;
- Assessment of borrowers' ability to repay (e.g details of income, credit checks etc.);
- Authorisation by senior management of rescheduling of loans;
- Maintenance of adequate provisions for bad and doubtful debts;
- Obtaining appropriate security for loans granted where required by the credit policy;

- Maintenance of complete and approved loan documentation and records;
- The credit union's information technology policy, practices, procedures, structures and controls are secure, reliable and appropriate to support all areas of business in which the credit union operates;
- Credit union officers involved in the credit function undertake training and guidance where necessary in order that they have the appropriate levels of skills and expertise to manage the risks involved;
- Proper oversight of all activities related to the credit process in order to ensure that the policies and procedures are operating as designed.

15. The accounting records show a true and fair view of the value of the loan book.

16. The credit union has appropriate systems to ensure the integrity of loan records and accounting systems.

We confirm that the information contained in this Section is correct.

Chairman's Signature: \_\_\_\_\_  
(on behalf of the board)

Date of Signature: \_\_\_\_\_