

# **LURGAN CREDIT UNION LIMITED**

## **LOAN POLICY**

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## **1. Objectives of this Policy**

The objectives of this loans policy are:

- To safeguard the loan assets of the credit union by limiting the credit union's lending risk.
- To promote consistency and objectivity in lending practices.
- To promote a common understanding of the thinking of the Board of Directors and relevant committees' in relation to lending.
- To provide clear procedures and limits for staff, directors and volunteers.
- To minimise the number of loans going to the Credit Committee/Board of Directors for approval.
- To ensure that this credit union provides the most efficient lending service possible for members and maximises the opportunity for staff to determine loan applications.
- To maximise the lending of the credit union and to protect the members interest through sensible lending.

## **2. Loan Credit – Rule 89(b)**

Rule 89(b) states that, subject to law and the rules of the credit union, the Board of Directors shall have the general control, direction and management of the affairs, funds and records of the credit union and more particularly shall:

“Make decisions in regard to applications for loans within the limit on loans prescribed under the Order and for this purpose decide on the appointment of a credit committee, or loan officer or officers if the credit committee so recommends”.

## **3. Credit Committee - Terms of Reference**

Pursuant to Rule 89(b) the board of directors shall appoint a credit committee of three or more members of the credit union to consider and decided on applications for loans, subject to Rule 42.

Where a member of the credit committee is absent or otherwise unable to perform the duties of his office, the directors may by resolution designate another member of the credit union to act temporarily in his place. Any such appointment shall cease upon the resumption by such officer of his duties.

## **4. Credit Committee - Membership**

Pursuant to Rule 92, the membership of the credit committee shall include at least one director but shall not include the president, secretary or treasurer of the credit union.

## **5. Credit Committee – Appointments**

Pursuant to Rule 93, the credit committee shall choose from its number a chairman and a secretary. The secretary shall prepare and have custody of complete records of all meetings of the committee.

## **6. Credit Committee – Meetings**

Pursuant to Rule 94, the credit committee shall hold such meetings as the business of the credit union may require, and not less frequently than once a month. Notice of such meetings shall be given to the committee members in such a manner as the committee may from time to time prescribe.

It is the policy of Lurgan Credit Union for the Credit Committee to meet weekly.

## **7. Credit Committee – Duties**

Pursuant to Rule 95, the credit committee shall carefully inquire into the character and financial condition of each applicant for a loan and the security offered, if any, to ascertain his ability and intent to repay fully and promptly the obligations incurred by him and to determine whether the loan sought is for a provident or productive purpose. The credit committee shall at all times endeavour to assist applicants in solving their financial problems or difficulties arising therefore by counsel or availing of any other advisory services or otherwise in that regard.

## **8. Credit Committee – Approval of Loans**

Pursuant to Rule 96, no loan shall be approved by the credit committee unless the loan application has received the unanimous approval of the members who are present when the application is considered and those members present constitute a majority of the committee.

## **9. Credit Committee Reports to Board of Directors**

Pursuant to Rule 100, the credit committee shall report to the board of directors in writing not less than once in every month, and in the exercise of the functions delegated to it shall conform to any policies and directives of the board of directors.

## **10. Appointment of Loan Officers**

Pursuant to Rule 98, to facilitate the work of the credit committee, the board of directors shall appoint a loan officer or officers who shall not be the chairman or president, secretary or treasurer of the credit union, to work under the supervision of the credit committee, and shall delegate to such officer(s) the power to approve loans, subject to such limitations as to amount, duration, terms or repayment and security required as shall have been established in writing by the board of directors. The loan officer shall furnish to the credit committee a record of each loan approved or not approved by the loan officer within seven days of the date of receiving the application therefore and such record shall be considered by and become part of the records of the credit committee at its next meeting. All applications for loans not approved by the loan officer shall be considered by the credit committee.

## **11. Availability of Funds for Loans**

Pursuant to Rule 99, when funds are not available to make all the loans for which there are applications, preference shall be given to the applications for smaller loans if the need and credit factors are comparable.

## 12. Loan Approval Criteria

Loans must be for a productive or provident purpose. Every application will be considered on its own individual merits. Proof of earnings and expenditure may be requested where deemed necessary with the following factors taken into consideration:

- Date of Birth to assess age for insurance and age for legal right for borrowing. For further insurance refer to paragraph 34
- Size of the loan, including existing loans and contingent liabilities / guarantees
- Repayment capacity of the member
  - Net income level of the borrower
  - Expenditure
  - Loans with other financial institutions
  - Nature and duration of employment
  - Total household income where loan is for household purposes
- Number of previous loans
- Loan repayment history
- The purpose of the loan
- Character of member
- Availability of security
- Any other credit information available
- Credit check using business.pro.com if required
- Shareholding

Loan Application forms must be fully completed (Declaration of Health and Promissory Note **ONLY** to be signed when loan is being issued).

All loan applications should be signed by the applicant as soon as possible and before any release of cheque or cash.

Applications can be taken via:

- Telephone
- Website
- Post
- In person in the loans office

The above conditions will apply in addition to the Standard Rules and Legislation for Credit Unions.

### 13. Initial Taking and Checking of Member Details

- Assess account to ensure loan amount is within legal limit – current legal limit is £15,000 in excess of shares.
- A loan is insured to a maximum limit of £30,000.
- Assess account to ensure there is a minimum of 15% in shares for required loan
- Confirm correct address details with member
- Loans Officer to complete loan application requiring the following:
- Proof may be requested to verify any of the details provided for the purpose of assessing the loan application with particular care taken when considering first time applications.

Details to be taken:

- Member Details
  - Marital status
  - Number of dependents
  - Accommodation Code
  - Employer Code
  - Employment position
  - Salary and frequency of salary (proof may be requested in considering application)
- Spouse Details (If applicable)
  - Employer Code
  - Employment position
  - Salary and frequency of salary (proof may be requested in considering application)
- Loan Details
  - Purpose of loan
  - Amount of loan
  - Repayment period and frequency
  - Offer Repayment Protection Insurance
- Guarantor Details (If applicable)
  - Account number
  - Name
  - Address
- Outgoings
  - Rent/Mortgage
  - Other loans
  - Other financial commitments
- Income
  - Any other income other than salary Loan Approval Criteria
  - All benefits should be clarified

A standard loan details form is available for the purpose of telephone applications or postal applications in order for a member to provide loan application details for review by loans officers, credit committee or board of directors.

## 14. Application Assessment

### Accounts in Arrears

If an account is greater than 8 weeks in arrears then no loan application is to be taken. Member should be advised of arrears and referred to credit control personnel for discussion if desired.

### Credit Check Referencing

[www.businesspro.ie](http://www.businesspro.ie) to be checked to ensure there are no judgements outstanding. If there is an outstanding judgement member should be advised by loans officer who will explain implications. If judgement has been cleared then documentation must be provided and loan applications will be considered subject to documentation.

### Bankruptcy/IVA

No application should be taken if our records indicate a bankruptcy charge or Individual Voluntary Arrangement against the member.

### Repayment Record

Member's repayment record to be checked to ascertain that no letters excepting a first missed payment 'A' letter has been received on current loan. If other letters have been received more than 12 months ago then application can proceed providing repayment agreement since last letter has been adhered to.

The last loan was not a refinance loan

There are no arrears of interest or principal on the member's account

Ability to Repay

No refinance loans have been issued within the last 6 months.

Income and outgoings should be reviewed to ascertain the member's ability to repay loan.

A member **under** 80 years of age must have the loan repaid to share level before attaining this age e.g.

A member of 78 years of age has £2,000 in shares. If a loan is granted it is imperative that the member has agreed repayments that will reduce their outstanding loan balance to £2,000 before he/she reaches his/her 80<sup>th</sup> birthday.

### Assess if Guarantor Required

A guarantor may be required for:

- Accounts whose previous record was unsatisfactory
- At the discretion of the officer(s) considering the application for any other valid reason

Guarantors will be assessed using the following criteria

- Member – Account to be assessed
- Non member – photographic identification / proof of earnings to be provided
- Collateral – security to be considered
- Character of guarantor
- Financial History (if available)
- Loans Refused by Loans Officers

If a guarantor is required then they must where possible be present with the member when collecting the loan. If the guarantor cannot be present at the same time then the member must sign for the loan issue in order for the loan promissory note to be printed and the cheque/cash will be held by the office until the guarantor completes the relevant paperwork. The guarantor must be made aware of their responsibilities as set out in paragraph 26 and must sign that they understand their responsibilities on the Notice to Guarantor Form.

A member will have the right to have their loan re-considered by the Credit Committee and/or Board of Directors should they wish to appeal the decision of the Loans Officer.

A guarantor may be released by loans officers, credit committee or board of directors if a satisfactory loan record has been established.

### **15. Transfers From Another Credit Union**

In the case of a member who transfers from another Credit Union, their previous record may be taken into consideration, at the discretion of the Loans Officers considering the loan.

### **16. Loan Approval Limits**

The following are the authorised upper loan limits for the various loan approvers. Under no circumstances should these limits be exceeded by any individual or group.

- Loans Officers/Credit Committee/Board of Directors
  - Unsecured loans up to current legal limit - £15,000 in excess of shares
  - Secured loans up to current legal limit - £15,000 in excess of shares

If an individual or group are unable to make a decision on a loan they may refer the loan application up to the next management level.

### **17. Loans Officers**

Loans officers are appointed by the Board of Directors and their appointment is recorded in the minutes of the relevant Board meetings. A list is available from the office on request.

They are authorised to approve loans, subject to the following criteria:

- The maximum period within which a loan by the Credit Union must be repaid is as follows:
  - Unsecured loan            5 years

- Secured loan                      5 years
- The last loan was not written-off
- The approval of a loan within these categories requires the signature of any 2 of the designated Loans Officers.
- Loans authorised by Loans Officers will be reported on the Credit Committee minutes each week.

**18. Credit Committee**

The names of the Credit Committee are recorded in the minutes of the relevant Board meetings. A list is available from the office on request.

In addition to the Loan Approval Criteria listed under Section 13 the Credit Committee will consider Loans using the following conditions.

- A minimum of 15% in savings is recommended but in exceptional circumstances this can be reduced at the discretion of the Credit Committee.
- Loans approved in respect of transfers to clear loan balances with other lenders will be paid out by cheque made payable to those lenders.
- In keeping with Rule 95 the Committee may ask for a Guarantor.
- In addition to condition under Section 14 Guarantors - Where a Guarantor has been requested the Promissory Note must be accompanied by a 'Notice to Guarantor Form'. Both the member and Guarantor must attend again when the Promissory note is being signed for collection of the loan.

The maximum period within which a loan by the Credit Union must be repaid is as follows:

Unsecured loan	5 years
Secured loan	5 years

The Credit Committee can make recommendations to a member and shall reconsider the loan if these are fulfilled.

**19. Board of Directors**

The Board of Directors will consider any loans not approvable by Loans Officers or Credit Committee. Where a loan is to be considered by the Board, a member of the Credit Committee will present the application to the Board of Directors together with full details of loan history and repayment ability.

**20. Appeals Procedure**

A Loan refused by Loans Officers or Credit Committee or in the case of an officer, the special committee may be appealed to the Board. The appellate body must consist of a supervisor and a majority of the board excluding any officer who was a member of the committee that refused the application. To approve the loan a decision of the appellate body must be unanimous.

**21. Refinance Loans**

A Refinance Loan is authorised by a member of Management to assist members in the following circumstances:

- To assist a delinquent member to re-establish their repayments
- To correct an internal administration error.

A member of the Management Team can only administer refinance loans. A list of management is recorded in the board of directors minutes.

A refinance loan consists of granting and issuing a loan for the amount of £1, which will enable a rescheduling of payments to suit the member. If the member's account has interest arrears then this amount will also be included in the loan issue.

If there is a guarantee on the loan, then the guarantor will be asked to sign for the refinance loan also.

A new Promissory Note is completed and signed by the member and guarantor (if applicable) for all refinance loans.

Refinance loans are checked and recorded in the Register of Loan Repayment amendments by a member of management that has not amended the repayment.

A message will be recorded on the computer system for the purposes of Credit Committee and Credit Control as follows:

- Refinance – delinquent member and the amount of arrears at the time of the refinance.
- Refinance – admin error and the amount of arrears at the time of the refinance.
- Refinance – member paying and the amount of arrears at the time of the refinance.

## **22. Reduced Payments**

A member of management is authorised to reduce payments in accordance with our Credit Control Policy.

In order for a member to obtain a reduced repayment either temporarily or permanently, they must provide proof of reduced income where appropriate. Management can use their discretion when asking and accepting for proof or reduced income.

A new Promissory Note needs to be completed and if there is a guarantor then they too have to sign acknowledgement of the new Promissory Note agreement.

If a reduction is carried out without proof a memo needs to be attached by management outlining the details for the reduced repayment for the Credit Control Committee and for the Supervisory Committee.

The member's account will be updated detailing the amount of the agreed repayment and the new reduced amount along with the expiry date if temporary or permanent. Use the expiry date facility on the message screen if it is a temporary reduction.

### **23. Loans to Members outside of the Common Bond**

Loans to members who cease to qualify for the common bond may retain full borrowing rights.

In such cases an application form will be completed by telephone, post or website.

Once approved the application will be posted to the member for signing.

On receipt of the completed application a cheque will be forwarded to the member.

### **24. Loans to Officers**

The term “officer” includes directors, supervisors, volunteers, loans officers, membership officers, members of any committee, manager, employee or servant other than a servant appointed by the board of directors.

A loan to an officer that is in excess of his share holding must receive the unanimous approval of a special committee. This special committee must be made up of a majority of the credit committee and at least two members of the board of directors and at least one member of the supervisory committee.

The applicant must be absent when the application is being considered. Reference Rule 42 of the Standard Rules for Credit Unions.

The Loans to Officers book must be updated and signed at the relevant Special Committee Meeting.

Loans to officers for amounts within their share balance can be approved by a Loans Officer, Manager, staff member (excluding Bookkeeper) and Credit Committee.

The Credit Committee is to ensure that loans to officers within shares during the month are also entered in the Loans to Officers book upon approval.

### **25. Prohibition on Guarantee**

The Credit Union shall not accept from a person who is an officer or employee of the credit Union a guarantee for a loan by the Credit Union to a member.

As best practice an officer or employee should not accompany a member whilst making a loan application.

### **26. Guarantors**

The Credit Committee may request that a loan be guaranteed by a parent, spouse or other suitable person. The guarantor may or may not be a member of the Credit Union. If the guarantor is not a member of Lurgan Credit Union Limited then proof of their income and identification will be required to confirm identity and address. A guarantor may apply for a loan in their own right but the existence of the guarantee will be taken into account by the Credit Committee or Loan Officer.

Where a loan is guaranteed by a non-member a special document guaranteeing the loan should be drafted by a solicitor.

Where the guarantor of a loan in arrears dies the credit union should inform the estate of the deceased that it intends to enforce the guarantee. The assistant manager that deals with notification of a deceased member will check to see if they are guaranteeing another account and will advise the board of directors accordingly.

Where a married member has no income in their own name, a guarantee may be required from their spouse. This requirement may be waived at the discretion of the loans officer/credit committee considering the loan if a very good credit history exists.

When accepting a guarantee, the credit union official dealing with the application must take appropriate steps to ensure that the guarantor understands:

- The nature of the guarantee
- That he / she may be called upon to repay the loan if the borrower defaults
- That the signing of guarantee may affect his / her ability to borrow in the future
- That the signing of a guarantee will impose restrictions on the guarantor's ability to withdraw from his / her savings (reference Rule 21 of the Standard Rules for Credit Unions)

Both the borrower and the guarantor should be reminded that, in the event of a default, the guarantor must be informed of the default as per the procedures in the credit control policy. If a guarantor is required then they must where possible be present with the member when the loan is being issued. If the guarantor cannot be present at the same time then the member must sign for the loan issue in order for the loan promissory note to be printed and the cheque/cash will be held by the office until the guarantor completes the relevant paperwork. The guarantor must be made aware of their responsibilities as set out above and must sign that they understand their responsibilities on the Notice to Guarantor Form.

## **27. Loans to Family**

A staff loan officer shall not have any involvement in the processing or approval of a loan to a family member (spouse, child, parent, sibling,). A member of the Credit Committee or the Board of Directors shall not be present while the loan a family member (as defined above) is discussed by the group.

## **28. Family Confidentiality**

There is no objection to informing a member by email or telephone that a loan is approved. In the case of telephone communication, the member's identity should be checked with reference to personnel details on our computer systems.

## **29. Maximum Loan Size**

The maximum loan that may granted currently under this policy is as stated in section 16 Loan Approval Limits.

### **30. Maximum Loan Duration**

As far as possible, loans duration is to be matched to the purpose of the loan.

Annual loans for Christmas, holiday, school fees and insurance ideally should be repaid within one year.

### **31. Loan Approval Lapse**

A member will have 4 weeks from loan approval to have loan issued. If the loan is not drawn down within 4 weeks, the approval will be withdrawn and the member will have to re-apply unless member has specified a timescale in which they want us to hold the loan.

### **32. Disclosure of Reasons for Loan Refusal**

A member is entitled to join a credit union once the member has qualified for membership under Standard Rule 16. The member is also entitled to apply for a loan. A member however is not automatically entitled to be granted a loan by the credit union. The member does have the right of a loan appeal under Standard Rule 97 and as outlined in paragraph 20 of this document.

### **33. Security**

The credit union reserves the right to look for security in any circumstances that it deems fit. The Credit Committee and Board of Directors will use their discretion on considering the loan application

The credit union will accept the following items as security:

- Member's shares - Refer to Rule 21 of The Standard Rules dealing with restrictions on the withdrawal of shares
- Guarantees from members - The credit union may seek collateral from a guarantor to back the guarantee
- The credit union will take steps to ensure that both the borrower and the guarantor are aware of the nature and implications of the guarantee
- Guarantees from non-members
- Life Assurance Policies - To be taken by way of assignment
- Equitable Deposits of Deeds/Land Certificates
- Solicitor Letters of Undertaking

### **34. Loan Protection Insurance - Age Limits for Cover**

Member 80 years of age and over can only have a "Loan Against Shares", as Insurance is unobtainable after this age. A non-insured statement must be completed by the member in such circumstances acknowledging that they are not insured for the loan and in the event of their demise will clear the outstanding loan amount with a transfer from shares (I suggest we have a more formalised legal document to cover this procedure).

Lurgan Credit Union Limited operates the ‘Over 70’ Rider which means that loans are insured from the age of 18 until the age of 80. All loan cover ceases on the member’s 80<sup>th</sup> birthday even if there is an outstanding loan balance.

- Loan Balances up to £3,000

All members within the above age limits are automatically insured up to a total individual loan balance of £3,000. This is regardless of whether or not the member is working or is in good health.

A Declaration of Health form is not required for loans less than £3,000 except in cases where ECCU has paid a disability claim to a member.

If a disability claim has been paid to a member then all future loans require the member to complete a Declaration of Health form, which is submitted to the ILCU for approval before the loan can be issued. If the Declaration of Health form is rejected the loan cannot be issued.

- Loan Balances over £3,000 up to £30,000

The following automatic limits apply:

**Members who are in paid employment and actively at work**

For members aged 65 years and under	£30,000
For members aged over 65	£25,000

**Members who are not in paid employment**

For members aged 55 years and under	£30,000
For members aged over 55	£25,000

There is no need for a Declaration of Health form or a Worker Declaration to be completed provided that the member is in good health.

A Declaration of Health form must be completed and submitted to the league office for consideration, in respect of members aged over 65, and members aged over 55 who do not have a paid occupation, if they require cover for loans in excess of £25,000.

NOTE: Lurgan Credit Union Limited only insures loans to a maximum loan balance of £30,000 at present.

- Loan balances over £30,000 up to £172,500

Where a member is in paid employment a Worker Declaration is required up to the following limits:

For members aged up to 40 <sup>th</sup> birthday	£105,000
For members aged between 40 <sup>th</sup> and 50 <sup>th</sup> birthday	£90,000
For members aged between 50 <sup>th</sup> and 55 <sup>th</sup> birthday	£75,000
For members aged between 55 <sup>th</sup> and 60 <sup>th</sup> birthday	£56,000
For members aged between 60 <sup>th</sup> and 65 <sup>th</sup> birthday	£30,000

The Worker Declaration must be completed by the member and retained on the member file by the credit union and submitted to the League office in the event of a claim being made.

Where a member is not in paid employment, a Declaration of Health form must be completed and submitted to the League office for consideration in respect of any loan over £30,000.

- Disability cover

Maximum disability cover limit is £30,000

Disability cover ceases at age 60

### **35. Loans to Members Over 70**

Lurgan Credit Union Limited has taken the additional over 70's loan insurance cover members loans up to their 80<sup>th</sup> birthday provided they either are in good health or are carrying out their normal duties in the normal manner.

However note that loans over £30,000 cannot be insured if the member is 70 or over.

If an older member is looking for a large loan the loan will not be issued until Declaration of Health clearance is received from the League Office.

Only guaranteed loans are to be granted to those over the age of 80. A suitable guarantor must sign all loans granted to over 80's.

Loans in excess of shares must have a completed non-insurance statement signed by the member before proceeding.

### **36. Repayment Protection Insurance**

Repayment Protection Insurance is to be offered to all members applying for a loan. The member should first be quoted with a repayment figure, which is inclusive of the RPI insurance. All members taking out an RPI policy must be given an RPI policy document. A member cannot be forced to take out RPI insurance on a loan. Under the terms of the RPI policy, the member can cancel the policy at any time. If he / she does so within 42 days, the premium is refunded in full. Thereafter, the premium is refunded on a pro-rata basis.

Posters promoting RPI are to be placed in the general office and in loan interview rooms. A supply of RPI leaflets should also be available in loan interview rooms and at counters where possible.

Staff should make themselves aware of the benefits of RPI for members and the benefits for the credit union.

### **37. Loan Interest Rate**

A loan interest rate of 0.8% per month (10.1% APR) is to be charged on the outstanding loan balance, or such other rate as may be decided by the Board of Directors from time to time. Interest is to be calculated at the end of each working week day and updated to the member's account.

The credit union must ensure that the rate of interest on loans on the computer system is not in excess of maximum allowed by law i.e. 1% per month or 0.229099% per week on the loan balance outstanding on the member's loan account. Any rate higher than this must be rectified immediately and reported to the board.

Interest is to be charged on outstanding principal only, not on outstanding interest. All new loans must be quoted repayment terms on an "inclusive basis", as defined by the ILCU.

When a loan payment is received, the payment is to be first applied against the outstanding interest before being applied to loan repayment and shares.

### **38. Loan Repayments**

Loans are to be repaid either weekly, fortnightly or monthly. Repayments may be made at the counter, by bank transfer or by payroll deduction, where this facility is available. When granting a loan, members are to be encouraged to continue adding to their shares while repaying the loan, so as to provide the security for larger loans in the future.

### **39. Credit Limits**

Credit Officers and Credit Committee can set Credit Limits for members where they consider loan exposure to be getting too high. A member's credit limit can be capped at a certain amount. Usually a member is requested to increase their shares and/or reduce their loan balance before any further advances are made. A memo must be made on the member's file that there is a cap in place and a copy given to member.

### **40. Policy Review**

This Lending Policy will be reviewed every two years by the Board of Directors.

### **41. Loan Repayment Default**

Please refer to the Credit Control Policy for procedure for loan repayment defaults.