SME Banking Supports - through COVID Recovery and Beyond

Banking & Payments Federation Ireland

INTRODUCTION

Small and Medium sized enterprises (SMEs) play a key role in the Irish economy, representing 99% of all enterprises and employing 70% of total employees. They have been severely impacted by the COVID-19 pandemic and their survival and recovery is critical to the economy.

Since March 2020, SMEs have had to cope with partial or complete lockdowns of their business over three prolonged periods of Government COVID-19 restrictions.

They have had to address the challenges of dealing with changing work practices, IT challenges, re-designing operating models, responding to changing customer behaviours, re-imagining delivery models, and crucially, managing their finances.

SMEs have also capitalized on new opportunities, extending customer reach, reducing costs and increasing turnover through accelerated digital adoption.

SMEs have proven themselves to be resilient, adapting rapidly and imaginatively to a level of disruption that no business could have ever foreseen. This augers well for the re-emergence of SMEs and the reshaping and rebuilding of businesses for the future.

The Government has played a critical role in providing much needed COVID-19 supports, all of which have been instrumental in supporting SMEs through the pandemic.

These supports, combined with the most extensive vaccine programme the State has ever implemented, has enabled a rapid economic recovery. SMEs are fundamental to this recovery and now need to be planning, not just for a post pandemic environment, but crucially, they need to be planning for the long-term competitiveness and growth of their business.

This means dealing with the twin challenges of moving to a more digitalized and low-carbon economy. This will require financial investment and lenders are committed to supporting viable businesses by providing the necessary access to finance.

This guide provides information on the range of banking supports available to SMEs, both through the recovery, and beyond into the future.

Banking & Payments Federation Ireland

Sources of Financial Support for SMEs

New/Additional Credit Facilities

ARE LENDERS PROVIDING NEW OR ADDITIONAL CREDIT FACILITIES TO SMEs?

Like SMEs, lenders are businesses, and lending money is a critical part of what they do. SME lending is a core part of lenders market offerings – success for the customer bodes well for the lender and for the wider economy. It is also important to lenders' stakeholder groups, including shareholders, that Banks can sustain their future business and their ability to continue lending.

In essence, lenders regard SMEs as a core and strategic part of their business and they invest heavily in supporting SMEs through their people, their technology, and their sector specific supports.

Strong and resilient SMEs are critical to the Irish economy and will be front and centre in determining the pace and strength of economic recovery and longer-term growth. Lenders are committed to supporting viable businesses, not alone in continuing to trade as is, but in providing access to finance for the investment required to support SMEs in their journey toward a long-term prosperous future.

IS FUNDING AVAILABLE TO SMEs TO INVEST IN DIGITALISATION AND SUSTAINABILITY INITIATIVES?

Lenders are keenly aware of the need for SMEs to remain competitive by embarking or accelerating their journey toward a more digitalized and low-carbon economy.

The challenge of the COVID-19 pandemic brought out a level of resilience, flexibility and ingenuity in SMEs that was clearly visible in the market. Those traits have seen SMEs survive the most unimaginable market disruption with little or no advance warning. But SMEs need to be planning for the long- term competitiveness and growth of their business, which means addressing the challenges in relation to greater digitalization and the transition to a carbon neutral economy.

There is a wide range of lender supports available to SMEs.

Lenders offer a range of credit facilities to SMEs including short-term working capital, longer-term funding for investment, trade finance, asset finance and foreign currency products.

A number of lenders also provide facilities under some or all of the Strategic Banking Corporation of Ireland (SBCI) schemes, such as the SBCI COVID-19 Credit Guarantee Scheme, and the SBCI Brexit Loan Scheme.

https://sbci.gov.ie/products/brexit-loan-scheme

As is the case with SMEs, lenders are also looking to transition to a low-carbon environment by 'greening' their own businesses which includes providing finance for 'green' projects or to 'green' businesses to support their customers on the sustainability journey.

Sector specialists, dedicated teams and contact points are on hand and SMEs should contact their lender to find out what would work best for their business.

MicroFinance Ireland also provides finance to micro-enterprises with fewer than 10 employees and an annual turnover of less than €2m.

USEFUL LINKS

It is always advisable to contact your lender who will be happy to provide you with details of their products and services, and advice and support.

AIB
https://business.aib.ie

Bank of Ireland
https://businessbanking.bankofireland.com

Permanent TSB
https://www.permanenttsb.ie/business-banking

Ulster Bank
https://digital.ulsterbank.ie/business.html

KBC
https://www.kbc.ie/business

IFPI non-bank lenders
https://www.fpai.ie/independent-finance-providers-of-ireland

Microfinance Ireland
https://microfinanceireland.ie/

For a full list of BPFI Members, please click link below:
https://bpfi.ie/bpfi-members

BPFI Guide to 'Covid-19 Credit Guarantee Scheme', please click link below:
https://www.bpfi.ie/wp-content/uploads/2020/09/SME-Guide-COVID-19-Credit-Guarantee-Scheme-Final.pdf

Banking & Payments Federation Ireland

SMEs Sustainable Success

IRELAND AND CLIMATE CHANGE

Public awareness of threat of climate change continues to increase, prompted by the constant visible reminders of flooding, storms, higher temperatures, bushfires, melting glaciers, rising sea levels etc. These changing weather patterns impact on the public at large and bring home the reality that climate change can have devastating impacts for everyone.

The scientific evidence is that greenhouse gas emissions need to be halved by 2030 and the world needs to achieve net zero emissions by no later than 2050 to avoid the worst effects of climate change. The European Union (EU) has been a leader in the global efforts to deal with climate change and Ireland as part of the EU is committed to achieving net-zero emissions no later than 2050.

The Government introduced the Climate Action Bill in March 2021, which sets Ireland on a legally binding path to net-zero emissions no later than 2050, and to a 51% reduction in emissions by the end of this decade. This will have a widespread impact on businesses and their requirements to set and report on targets.

Importance of SMEs in Ireland's transition to a net-zero economy

SMEs account for 99% of active enterprises in Ireland, 70% of persons employed, and account for 42% of gross value added in the Irish economy.

So small companies mean big business in Ireland and given the uphill battle in term of the pace and scale of the transition to a low-carbon economy, SMEs have the potential to make a significant contribution in paving the way for the transition to a low-carbon economy. It is also in the self-interest of SMEs in terms of their own long-term survival and competitiveness. Large companies which are measuring their own carbon footprint are looking at their supply chain to get a complete view on the full life cycle of their emissions and this will become more prevalent as reporting obligations increase. They will be looking for 'green' certified SME partners in their supply chains.

What can SMEs do to reduce their carbon footprint?

When it comes to climate goals, if everyone does the small things and does them right it will combine to create a major impact at global level.

A study by the European Commission ('SMES and the environment in the EU') showed that *"SMEs contribute 64% of environmental impact in the EU"*, which means there is huge potential for SMEs to make a significant impact in reducing their carbon footprint.

Many SMEs are not sure where to start and they have neither the time or resources for the level of research and analysis that is needed to upskill on the climate change agenda. The good news for SMEs is that there are many resources available to help them find the best way for their own business to start on the journey to being a net-zero emissions business. This may take time, but starting on the journey or accelerating the journey, means first looking inward to measure the current carbon emissions of the business.

The Environmental Protection Agency (EPA) website provides information on carbon footprint calculators which produce an approximation of carbon dioxide produced by a business based on plugging in information about how the business operates. The EPA also has a tool for carrying out a quick overview of the level of resource efficiency in a business.

The Sustainable Energy Authority of Ireland (SEAI) is a rich source information for SMEs, providing grants for SMEs, guides, online learning resources, workshops and training. The SEAI Support Scheme for Energy Audits offers qualifying businesses a €2,000 voucher toward the cost of an energy audit with an annual energy spend of over €10,000.

Enterprise Ireland (EI) is also a very useful source of information and support for SMEs. In April 2021, the Government announced a Climate Enterprise Action Fund with an initial allocation of €10m. The fund, which is administered by Enterprise Ireland, will help businesses to take action to reduce emissions and embed sustainability in how they operate.

The EI 'Green Offer' is designed to help companies incorporate sustainable practices into the day-to-day running of their business – "Better environmental performance leads to improved resource efficiency and direct cost savings and can also increase access to customers who are increasingly demanding more environmentally friendly products and services. Better environmental performance will also increase the agility and resilience of the company to climate change impacts."

The Local Enterprise Office 'Green for Micro' programme is a new initiative to help prepare micro businesses for the low carbon, more resource efficient economy of the future.

Banking & Payments Federation Ireland

USEFUL LINKS

https://www.epa.ie/take-action/in-the-home/climate-change/carbon-footprint-calculators/

https://greenbusiness.ie/sme-efficiency-and-cost-reduction-questionnaire/

https://www.seai.ie/business-and-public-sector/small-and-medium-business/supports/financial-supports/

https://www.seai.ie/publications/Energy-Management-Guide-for-SMEs.pdf

https://www.enterprise-ireland.com/en/productivity/build-a-green-sustainable-business/

https://globalambition.ie/climate-enterprise-action-fund/

https://www.localenterprise.ie/News-and-Events/LOCAL-ENTERPRISE-OFFICES-WELCOME-ADDITIONAL-FUNDING-FOR-2022.html

https://www.localenterprise.ie/Green/2021-Feb-LEO-Green-For-Micro-Brochure-FINAL-pdf.pdf

What are the typical initiatives undertaken by SMEs to reduce their carbon footprint?

Measure the Carbon Footprint of the business	Know where the business stands
Reduce, Reuse and Recycle	What can be reduced, reused or recycled? Reduce food, water, energy wastage
Switch to Renewable Energy	Choose energy providers using renewable sources
Buy Carbon Offsets	Pay to offset CO2 emissions
Reduce travel-related carbon emissions	Consider Hybrid/Electric cars. Remote working
Educate & Involve Employees	Involve, inform and educate employees

How are lenders supporting SMEs investing in sustainability initiatives?

While there will be Government funding available under National Recovery and Resilience Plan (NRRP) to support SMEs in the green transition, private investment will also be needed. The International Monetary Fund (IMF) estimates that envisaged emission reduction targets in Ireland will require investment close to €20 billion per annum over the next ten years of which about one-third would be public capital spending and the rest would have to come from private investment.

Financial services and particularly the banking sector will play a significant role in providing funding for this required investment over the next number of years. Non-bank finance is also important, including equity.

Lenders are keen to support SMEs wishing to invest in sustainability initiatives which will be good for the business and help to future-proof them in a net-zero carbon economy.

Some lenders have established 'green' funds dedicated to funding climate positive initiatives.

Lenders are providing 'green' business loans to SMEs seeking to finance energy saving initiatives. These 'green' business loans may be offered on discounted terms given the purpose of the finance.

Lenders, like SMEs need to transition to a low-carbon environment by 'greening' their own businesses.

The European Central Bank is developing a climate stress-testing framework which will form an increasingly important incentive for banks to 'green' their balance sheets. They can do this by providing finance to their customers for 'green' projects or to 'green' businesses to help them transition to a net-zero economy.

It is as much in the interest of lenders to be pro-active in helping businesses to make the transition to more sustainable business models, while simultaneously doing the same for their own business.

SMEs should contact their lender to find out what support is available would work best for their business.

Banking & Payments Federation Ireland

Other Sources of Finance for SMEs

ACCESS TO FINANCE

Ireland is a competitive market with an extensive range of Financial Institutions, Non-bank Lenders, Equity Providers, Government Agencies and Fintechs to choose from when seeking to access finance, advice or grant aid.

Finance Providers	Product Range
Domestic Banks International Banks Non-bank Lenders Fintech Companies Venture Capital Business Angels Crowdfunding Stock Market	**Debt Financing** • Short term/Long term loans • Overdraft facilities • Revolving Credit Lines • Standby facilities • Refinance • Bill Pay • Senior debt/Mezzanine funding **Asset Finance** • Plant & Equipment finance • Vehicle finance • Invoice Finance • Aviation finance **Corporate Finance** • Mergers & Acquisitions • Management Buy Outs/Ins • Equity Fundraising • Debt Advisory **Treasury** • Foreign exchange risk management • Interest rate risk management • Trade finance **Cash Management** • Business Credit Cards/ Merchant Services • Payment Files/Direct Debits • Online Banking

Key Government Agencies	Support Available
Strategic Banking Corporation of Ireland (Delivers funding through its On-Lending Partners)	• Working Capital Loans • Brexit Loan Scheme • Agri Investment Loans • SME Credit Guarantee Scheme
Irish Strategic Investment Fund (Managed by NTMA)	• Sovereign Investment Partner • Long term capital investment
Micro Finance Ireland	• Small loans to micro enterprises which are unable to obtain finance from conventional commercial lenders
Enterprise Ireland State Agency responsible for the development & growth of Irish enterprises in world markets	• Start-up funding • High Potential Start-up Funding • Established SME Funding • Large Company Funding
IDA Ireland Semi-state body promoting foreign direct investment into IRL	• Foreign Direct Investment • Support, Funding & Incentives
Sustainability Energy Authority of Ireland	• Accelerated Capital Allowances - energy saving technology • Project Assistance Grants • EXEED Grant Scheme

WHERE CAN SMES FIND INFORMATION ON GOVERNMENT SUPPORTS FOR 'GREEN' AND DIGITAL INVESTMENTS?

There is a wide range of Government supports available to support SMEs in transitioning to a more digital and low-carbon economy.

The National Development Plan (NDP) published October 2021 sets out a total public investment of €165 billion over the period 2021-2030. Strategic investment priorities to achieve further digitalisation of the economy and transition to a low carbon economy include:

1) a Green Transition Fund for the wider economy and

2) a Digital Transition Fund focused on SMEs.

These two funds are also supported by the National Recovery and Resilience Plan (NRRP) which received formal approval from the European Commission where Ireland is set to receive almost €1 billion over the period 2022-2025.

In April 2021, the Government announced a Climate Enterprise Action Fund with an initial allocation of €10m. The fund, which is administered by Enterprise Ireland, will help businesses to take action to reduce emissions and embed sustainability in how they operate.

Enterprise Ireland also offers a range of digitalization supports for businesses.

Grants and supports are also available for businesses through Sustainable Energy Authority of Ireland (SEAI).

The Ireland Strategic Investment Fund (ISIF) is focused on investment in medium and large-scale enterprises in Ireland through a Pandemic Stabilisation and Recovery Fund (PSRF). The PSRF, worth up to €2 billion, will make capital available to medium and large enterprises on commercial terms.

The Department of Enterprise, Trade and Employment website provides comprehensive information on the range of Government supports available for businesses, including useful booklets, templates, guides and checklists.

USEFUL LINKS:

https://globalambition.ie/digital/

https://globalambition.ie/climate-enterprise-action-fund/

https://www.enterprise-ireland.com/en/productivity/build-a-green-sustainable-business/

https://www.seai.ie/

https://www.gov.ie/en/publication/774e2-national-development-plan-2021-2030/

https://isif.ie/pandemic-stabilisation-and-recovery-fund

https://www.citizensinformation.ie/en/employment/types_of_employment/self_employment/supports_for_businesses_going_green.html

https://enterprise.gov.ie/en/What-We-Do/Supports-for-SMEs/

https://enterprise.gov.ie/en/Publications/Publication-files/Supports-for-businesses-impacted-by-COVID-19.pdf

WHERE CAN SMEs SOURCE EQUITY INVESTMENT FOR THEIR BUSINESS?

While established SMEs have traditionally tended to prefer to use a combination of own funds and debt to finance their businesses, there are other options that may be suitable to help fund their future growth or international expansion ambitions. Likewise for investment in start-ups.

Equity capital can be a useful tool to complement lending in enabling SMEs to move forward with key investment plans more quickly than might otherwise be the case.

Equity finance can be sourced for a range of different investor sources such as seed and venture capital funds, private equity funds, angel investors, crowdfunding or with support from some State bodies such as Enterprise Ireland.

There are a wide range of options available, and SMEs are best advised to engage with professional financial advisors/accountants or directly with equity providers or State bodies to inform themselves about the types of equity finance most suitable to their business.

Banking & Payments Federation Ireland

SME Financial Supports

Existing Credit Facilities

HOW ARE LENDERS SUPPORTING BUSINESSES?

Lenders understand that COVID-19 has brought about an unprecedented economic and financial shock to the SME sector. They also understand that this crisis is not of the SMEs' making.

In the immediate onset of the COVID-19 pandemic, BPFI member retail banks, non-banks and specialist lenders and credit servicing firms announced the availability of payment breaks which provided businesses with some breathing space as they addressed the challenges of dealing with their employees, operations, suppliers, customers and delivery channels, as well as their cashflow management.

A significant number of SME payment breaks were put in place by the industry, most of which have now expired. A high percentage of SME borrowers were in a position to revert to repaying full capital and interest within their original loan term, while the balance largely reverted to repaying capital and interest over an extended term.

A relatively small percentage of SMEs were not in a position to repay in full on expiry of the payment break and needed extended support. This is not surprising given the profound impact of the pandemic on SMEs in general, and in particular the scale of impact in the sectors most impacted by the crisis, such as hospitality, tourism, retail and wholesale trade, transport, entertainment, and professional and personal services.

Lenders are keen to do their utmost to support businesses through this unprecedented and difficult time. They have a deep insight into the different issues being faced by businesses, understanding the particular challenges across the various sectors. Their business teams include dedicated sector specialists who can provide the type of support and advice needed.

Lenders are committed to engaging with SMEs in an empathetic manner, in terms of both existing and new credit facilities. It is in lenders' best interests as much as borrowers' best interests to support SMEs through to recovery and beyond.

WHAT ARE THE TYPICAL FORBEARANCE MEASURES AVAILABLE FOR BUSINESS CUSTOMERS?

All businesses have ups and downs over time, and operating in normal times can be challenging enough, but combined with the dual hit of COVID-19 and Brexit, it is not surprising that many SMEs are experiencing financial stress. Some SMEs may require support in terms of dealing with their existing credit facilities, or they may require, additional working capital or longer-term funding to support the transition of their business to a post-COVID-19 and post Brexit environment.

Lenders understand that any financial difficulties will be unique to individual borrowers and their approach is to work with SMEs to develop solutions that are tailored to meet their individual circumstances.

There are a number of options that may be considered when agreeing an alternative repayment arrangement, typically including the following:

- **Interest Only** – borrower pays the interest on the loan as it arises, but not any capital for an agreed period of time. The loan balance will not reduce during this period
- **Fixed/Reduced Repayment** – usually an agreed set repayment covering interest and part of the capital for an agreed period
- **Payment Moratorium** – the full loan repayment is postponed for an agreed period of time so that the borrower does not pay any capital or interest during the period of the payment moratorium
- **Arrears/interest capitalisation** – loan payment arrears and/or accrued interest arrears may be added to the outstanding principal balance for repayment under a sustainable alternative repayment arrangement
- **Term Extension** – extends the expiry date of the loan thereby reducing the borrower's repayments
- **Debt consolidation** – a number of loan exposures and security may be combined or restructured into an alternative repayment arrangement

ENGAGE WITH YOUR LENDER

It is always advisable for businesses to engage early with lenders where support is needed in relation to existing credit facilities. Lenders are dealing with many businesses which have been adversely impacted by COVID-19 and Brexit, they understand the issues and will be supportive in identifying potential solutions from the range of different options available.

SME REGULATIONS

In dealing with SMEs in financial difficulty, lenders must comply with the SME Regulations which set out the framework within which lenders must operate when providing credit facilities and in dealing with SMEs in financial difficulty. All lenders have information booklets on the SME Regulations available on their websites, which outline their approach to dealing with SMEs in financial difficulty and provide information on the type of supports that they provide to customers in this situation.

Banking & Payments Federation Ireland

Credit Application Process

WHAT WILL HELP AN SME DEMONSTRATE TO A LENDER THAT THEIR BUSINESS IS GOOD FOR NEW/ADDITIONAL CREDIT FACILITIES?

The COVID-19 pandemic and Brexit have resulted in a huge amount of uncertainty for businesses, much of which was beyond an SMEs control, but lenders will want to see businesses managing the things that are within their control and taking necessary action.

This can be challenging – while difficult decisions and actions had to be taken to stabilise businesses, in many ways the harder part for some businesses has been and still is around emerging from lockdown into the recovery and rebuilding phase. Business operating models have to be significantly adapted to meet the health and safety needs of employees, customers and suppliers. There can be substantial costs for businesses in reopening, suppliers who may have been patient while businesses were closed or partially closed will be seeking the payment of outstanding bills, and new stock needs to be purchased, all of which means that managing cashflow is a critical priority.

When engaging with lenders to seek new/additional credit facilities, it is important that businesses can demonstrate that:

- they have a solid understanding of their financial situation
- they were operating successfully pre-COVID-19 where Covid-19 has hit them negatively
- they are assessing current and future issues and risks
- they are identifying and implementing mitigating actions to deal with business challenges and threats
- they are scenario planning for the future, recognising that all may not go to the optimum plan and contingency funding may be required

OPTIMISING CASHFLOW MANAGEMENT

Many Irish SMEs tend to rely heavily on Overdraft facilities to fund not just day to day working capital, but to fund longer term investment needs. This can tie up working capital and put pressure on cashflow. Overdrafts are designed to accommodate fluctuating working capital requirements and to fund unexpected or short-term expenditures.

There are other options for businesses which may be more suitable when financing investment in fixed assets such as equipment or vehicles, as matching the financing with the life of the asset can take pressure off the overdraft utilisation. It can make a real difference to cashflow management to avail of 3–5 year funding (loans/leasing/hire-purchase) and spread the repayments over the life of the asset and this can also be more cost effective.

Similarly, the use of financing such as debtor financing can also provide the flexibility to finance growing sales without putting cashflow under too much pressure. Debtor finance/ invoice finance is commonly used by businesses to release capital that is tied up in debtors.

Some key actions from a finance and cashflow perspective:
- Assessing working capital and liquidity needs on an ongoing basis is an important exercise for SMEs. Regular review of the cash needs of the business will help keep a handle on all cash inflows and outflows and may identify upcoming cashflow issues that need to be addressed or may identify opportunities to help free up cash, making it available for investment
- Lenders are happy to provide information and advice on the range of financing options available

WHAT TYPE OF INFORMATION WILL A BUSINESS NEED TO PROVIDE TO A LENDER?

Below are the key areas of information* for SMEs to provide when requesting new loan facilities from your Bank.

**Note – if you have a long-standing relationship with your Bank and are looking for a short-term facility (or indeed a renewal of a facility), you may not need all of this information. At a minimum you will need your trading/financial information and an explanation of what you are seeking to do with the funding in all cases.*

1. Your Business Plan

A well-prepared Business Plan is vital to any credit application. Often businesses only provide financial data, but ideally a business plan for 'new monies for a new project' should also set out the following, in summary format:
- Details about the ownership and management of the business
- A Summary of what the core business is about, i.e. what you do and what is the unique selling point of your business. Outline the key opportunities, challenges, and potential risks for the business and how they are managed/mitigated (customers, supply chain, key staff, exchange rates, finance etc)
- Market and sector challenges and opportunities (position in the market, competitors, pricing, trends, technology impact & use)
- The trading history of the business, current operation, and future plans. This would normally be in the form of a three-year trading history of the business (ideally audited financial accounts and latest management accounts - including Balance Sheet, Profit and Loss Account and Cashflow). If the business is not trading that long, then trading to date then becomes the time period for assessment
- The future financial projections of the business are also important and are dealt with separately in the next section

2. Financial Performance/Projections

Providing the information needed by the bank to assess the credit request is very important. The information required will depend on the size of the business and the size of the loan request:

- Up-to-date financial and management accounts (as outlined above)
- Cashflow projections/Projected Profit & Loss Account showing that the business has the necessary repayment capacity to meet financial obligations – usually for a minimum of the time period of the loan term
- Provide underlying assumptions for any projected growth, e.g. new contract etc.
- Up-to-date aged list of creditors/debtors
- Asset/Liability profile
- Tax Compliance/Status with Revenue
- Details of any other Loan Facilities, Term, Provider, Special conditions

3. Details of the Requested Loan Facilities

- Details of the purpose of the credit facilities sought, how much is needed, how that figure has been arrived at, the nature of the credit and how long it is expected to take for the business to repay the loan
- Outlining the additional capital invested in the company is important, including additional monies to be invested (and the source of that investment) to support the purpose of the credit facility sought
- The repayment capacity of the business to meet the loan repayments on the facilities sought is critical – this is dealt with through the Financial Projections, demonstrating how the cashflow will be generated to repay the loan within the agreed timeframe
- The security that is available for the loan if required

WHAT WILL HAPPEN IF A BUSINESS DOES NOT HAVE AUDITED ACCOUNTS FOR THE FINANCIAL YEAR 2020?

Lenders are aware that 2020 has been a write-off for many businesses and they will be more interested in the track record of the business prior to the start of the pandemic.

The financial accounts for 2019 will therefore be an important part of any credit application.

It is still very much in the interests of the business, however, to have available the most up-to-date financial information, particularly if seeking new or increased credit facilities. So even if still not signed off by an accountant, the 2020 accounts in draft form or at least management accounts for that period are likely to be required by lenders in order to carry out a credit assessment for new or additional finance.

As mentioned above, forward looking financials will be very important to show that the business has the repayment capacity for the facilities sought.

CREDIT HISTORY

Maintaining a good credit history is very important. In particular, the operation of a business current account is a key factor, as it is an indicator of good control of finances. Where there is pressure on the current account, it is advisable for a business to engage early with their lender to help avoid a situation where there are unpaid direct debits, cheques and other key bills. This is important, as these raise 'red flags' automatically and impact on behaviour scoring/predicative scoring models used by lenders to assess risk, based on the pattern of behaviour observed.

Credit reports are a good indication of likeliness to repay, as they reflect previous performance on loan repayments. Lenders are obliged by law to submit information about repayments made or missed each month to the Central Credit Register. It is also compulsory for banks to check a potential borrower's credit report in the Central Credit Register when they are considering any loan of €2,000 or more.

In short, the better a business's credit history, the more likely the business is to be successful in its credit application.

Central Credit Register

The Central Credit Register (CCR) is a database of credit information, established in 2017 and operated by the Central Bank of Ireland under the Credit Reporting Act 2013.

Under this law, Banks, credit unions and other lenders are required to submit information to the CCR on a monthly basis, on loans of €500 or more and they are also required by law to consult the CCR before approving a loan of €2,000 or more. This information is kept on the register for five years.

The Register provides information to borrowers and lenders:

- Borrowers can request an individual credit report detailing their credit agreements
- Lenders have access to comprehensive information about borrowers to help with credit assessments

Please note that the information provided by the CCR is a credit report. The CCR does not produce a credit score or a credit rating. It is factual, impartial record, reflecting a borrower's credit history. It is a good idea for businesses to request their own credit report when applying for credit facilities so that any incorrect information can be identified and corrected.

Where an alternative repayment arrangement is put in place, lenders must report this credit event to the CCR.

While a credit report plays a key part in the credit assessment process, it is just one tool among a range of factors considered by lenders when assessing SME credit applications. These factors include track record, the business and financial information the business provides to the lender when making the credit application, lenders' internal credit scoring systems and the availability or otherwise of collateral.
Prior to the establishment of the Central Credit Register, the Irish Credit Bureau (ICB) was the main credit reference agency. The ICB ceased its credit reference service on 1st October 2021.

Further information on the CCR and credit reports is available at:

https://www.centralcreditregister.ie

PRIMARY REASONS WHY BORROWERS ARE NOT SUCCESSFUL IN THEIR CREDIT APPLICATIONS

- Lack of repayment capacity/Inadequate cash flow
- Outside the lender's credit risk policy/risk tolerance level
- Sufficiently indebted already/Limited collateral
- Inadequate information
- Poor credit history/Missed repayments

Where a bank is unable to lend to a business, that business should ask whether any other schemes are available to support its needs, or indeed in what circumstances, if any, the bank will reconsider its decision.

CREDIT APPEALS

Where an SME borrower has submitted a formal business credit application which is refused, reduced or withdrawn by a bank, they have the right to appeal this decision through the lender's internal appeals process. If the appeal is unsuccessful, the borrower may be eligible to appeal their case to Credit Review. This is an independent government-financed service that accepts requests for review of a bank's credit decisions for facilities between €1,000 -€3,000,000.

Banking & Payments Federation Ireland,
Floor 3, One Molesworth Street, Dublin 2, D02 RF29, Ireland.
Phone: +353 1 671 53 11 Email: info@bpfi.ie Website: www.bpfi.ie

Dublin • Brussels • Frankfurt