



Lending Policy

Version 1.1

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Signed
Chair, Bedfordshire Credit Union

DOCUMENT REVIEW

DATE	SECTION	COMMENTS	SIGNED

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The following notes apply in this document.

- Bedfordshire Credit Union Limited is referred to as “the Credit Union” in the text.
- The Board of Directors of Bedfordshire Credit Union Limited is referred as “the Board” in the text.
- This document should be read in conjunction with the sanctioning policy which sets out details of loan officers, lending limits and the particular terms applied to different types of loan agreed by the board from time to time.

1 Policy - Loans

Legal Restrictions

- 1.1 Loans may be made to members over the age of 18 including sole traders.
- 1.2 Loans shall not be made to non-members, people under the age of 18 or to businesses other than sole traders.
- 1.3 The maximum interest rate charged on loans shall be no higher than 3% per month on a declining balance. This amount may be varied in the event of a change of legislation and members will be kept informed of any such change.

Regulatory Controls

- 1.4 The maximum loan repayment period for the Credit Union's unsecured loans is 5 years or such other term prescribed by law.
- 1.5 The maximum amount that can be loaned to a member is dependent upon the amount of capital held by the Credit Union and will be determined by the Financial Conduct Authority handbook, CRED.

Rulebook requirements

- 1.6 The Credit Union has Loan Officers responsible for granting loans in accordance with Board policy.
- 1.7 The Credit Union may agree to accept a guarantor for a member's loan in certain circumstances. An officer or employee of the Credit Union shall not act as a guarantor for a member's loan.
- 1.8 An officer or employee of the Credit Union who is a member of the Credit Union may apply for a loan on the same terms and at the same rates as any other member in the Credit Union. Such an applicant or their family member shall not take part in any decision concerning their loan.
- 1.9 The Supervisory Committee shall be informed of loans to officers and employees prior to the loan being approved.

Decisions made by Bedfordshire Credit Union Limited

- 1.10 The Board shall review the loan policy every two years.

- 1.11 The limits and sanctioning parameters for the Credit Unions loan products are set out in the Sanctioning Policy in force at that time. No loan shall be made without the approval of the required level of loan officer and this approval must be recorded in every case.
- 1.12 All members wishing to apply for a loan are required to complete and submit a written application, which may be in electronic format, on the Credit Union's loan application form or portal. Loan officers may assist members to complete applications, but the member must fully understand their application and agree its content.
- 1.13 Members' eligibility for loans will be determined according to their financial circumstances: affordability and their intention and ability to repay the loans to the Credit Union, as well as their saving and borrowing history.
- 1.14 The Credit Union will normally consult a credit reference agency as part of the loan assessment process.
- 1.15 Members will be required to provide full information on their income including benefits and expenditure and to provide evidence of such as required by the Credit Union.
- 1.16 The Credit Union reserves the right to refuse a loan application request.
- 1.17 Loan repayments shall be required to be made on a weekly, fortnightly or monthly basis, in accordance with the loan agreement. The member shall be encouraged to continue a savings relationship with the Credit Union for the duration of the loan. Early repayment may be made without penalty.

2 Procedure - Loan Applications

- 2.1 The loan application procedure begins with the receipt of a loan request from the potential borrower.
- 2.2 The loan request can be made in person at the Credit Union, by phone, over the internet or by post.
- 2.3 The potential borrower shall be required to complete and submit a written loan application form, which may be in electronic format. Information on the member's income and expenditure shall be provided on the loan application form and evidence provided as required.
- 2.4 A volunteer or member of staff will be available to help the member complete the loan application form if required. The Credit Union shall always respond sensitively to the needs of members but must be satisfied that the member has the legal capacity to enter into a contract.
- 2.5 Once all the necessary information has been obtained the completed loan application shall be given to the relevant Loans Officers for review.
- 2.6 All loans will be assessed taking into account the affordability for the member, their ability to repay and also the member's character and their intention to repay.
- 2.7 If the loan application is approved, the Loans Officer will mark the loan application as approved and arrange for the loan to be disbursed.
- 2.8 It is the aim of the Credit Union to provide a loan decision as promptly as is consistent with careful consideration and at any rate within seven days of the request and all necessary information being received.
- 2.9 Prior to receipt of the loan funds, the member and any guarantor shall be required to sign a loan agreement form. Electronic signatures are acceptable and as legally binding as a physical ('wet') signature. The member must keep the Credit Union informed of any change in circumstances.
- 2.10 A copy of the loan agreement shall be provided to the member either on paper or in electronic form.
- 2.11 Loan repayments shall be made in the format, amount and duration agreed within the loan agreement signed by the member. A member shall be

- expected to adhere to the terms of the loan agreement and to make repayments as scheduled.
- 2.12 The credit control procedure shall be followed if a member defaults on their loan. (See Procedure: Credit Control).
 - 2.13 The Credit Union is responsible for ensuring the safety of deposits through the wise use of members' savings. There will therefore be occasions when it is appropriate to refuse a loan application.
 - 2.14 Failure to comply with the terms of the loan agreement may jeopardise future loan applications, and ultimately the individual's membership in the Credit Union.
 - 2.15 All loan applications are subject to the same procedure. In unusual, or extreme and unforeseen circumstances a non-standard loan may be granted. Examples of such include burglary, emergency household repairs, bereavement, as well as no fixed abode, or other circumstances which make the usual enquiries inapplicable. Non-standard loans shall be rare and subject to the similar assessment criteria to any other loan.
 - 2.16 Loan requests may be refused, or a queue for loans shall be formed if occasions occur when the Credit Union does not have sufficient liquidity to meet members' needs for credit.
 - 2.17 If a loan is declined, the reasons must be recorded on the application form in Incuto
 - 2.18 Loan application forms and loan agreement forms are held securely in electronic form on the credit union's systems.

3 Guidelines - Credit Assessment

3.1 A thorough credit assessment is the first line of defence against bad debt. As loan requests are considered it is important to evaluate them bearing in mind the following:

- Character
- Capacity
- Credit Union Savings
- Credit Principle

Character

3.2 The member's reputation is only one of the criteria that the Credit Union uses to judge the member's willingness to repay the loan. In determining someone's character the following information may be considered as appropriate:

- Length of membership
- Length of residence
- Length of employment
- Type of job
- Stability of employment
- Family status – number of dependants
- Personal references
- History of saving with and borrowing from the credit union
- Credit reference

In order to determine the above information all available sources should be used, such as: the loan application, Credit Union files and account history, references and personal knowledge.

Affordability

3.3 This is the most important aspect of the credit assessment. However well known the member is, with the best will in the world they may be unable to repay the loan unless the financial capacity to meet the repayments without undue hardship has been verified. To assess this, the following shall be reviewed:

- Existing credit commitments: amount, type and term
- Disposable income (how much income does the member have spare after essential expenses have been paid)

- Does the requested payment plan correspond with the borrower's cash flow?

Evidence of capacity should be taken in accordance with the loan sanctioning policy, including bank statements (which may be accessed electronically), and further evidence such as credit reference agency reports, pay slips, Credit Union records, rent books, mortgage statements, utility bills, and other loan or credit card statements as applicable.

Credit Principle

3.4 The Credit Union aims to help its members, but irresponsible lending does not achieve this. The onus is on the Credit Union to lend responsibly and not encourage members to enter into debt that they are unable to repay. The Credit Union must be cautious about lending to members with poor credit histories and must ensure that other members' savings will not be unduly put at risk.

4 Procedure – Credit: Internal Controls

- 4.1 It is important to limit opportunities for fraudulent or illegal activities. The following internal controls are adopted alongside the credit policies and procedures.
- 4.2 All original loan documentation is kept as a secure, computerised record. Any paper documentation is kept in a safe fireproof area. These are the assets of the Credit Union and shall be always kept safe.
- 4.3 A copy of the loan agreement documentation shall be kept in branch and there shall also be an electronic copy held securely.
- 4.4 The information for each loan request includes completed application and associated information, bank statement(s) submitted with application or relevant open banking data, date of loan, name of potential borrower, amount of loan request and/or approval, date loan was approved, date loan was issued or reason for denial.
- 4.5 The Supervisory Committee shall periodically review the reports on Loans.
- 4.6 No officer or employee of the Credit Union shall take part in a decision upon their own loan application or that of a family member.
- 4.7 All loans to officers shall be reported to the Supervisory Committee before approval.

5 Policy - Credit Control

Legal Restrictions

5.1.1 In monitoring and controlling loan repayments, the Board will ensure that breaches of confidentiality do not occur, and that members are not subjected to harassment.

Regulatory Controls

5.2 A bad and doubtful debt provision shall be maintained within the accounts of the credit union

5.2.1 Specific provisions:

- 35% of the outstanding balance of loans in arrears for 3 – 6 months
- 60% of the outstanding balance of loans in arrears for 6 – 9 months
- 80% of the outstanding balance of loans in arrears for 9 – 12 months
- 100% of the outstanding balance of loans in arrears for more than 12 months
- These are the minimum provisions that should be maintained, and the credit union may make additional provisions up to 100% of any loan where available information suggests that repayment in full is unlikely.
- Interest is recorded on a cash basis (i.e. not accrued) so unpaid interest does not form part of the specific provision against loans.
- In addition, from time to time the directors may deem it prudent to maintain a general provision not exceeding 3% of gross loans outstanding.

Decisions made by Bedfordshire Credit Union Limited

- 5.3 The daily operation of the credit control policy and procedures shall be delegated to the General Manager.
- 5.4 The Board shall ensure that adequate resources are available to enable efficient credit control and debt collection to take place.
- 5.5 The Board shall ensure that sufficient credit control procedures are in place to ensure immediate identification of missed payments followed by action to recover monies due.
- 5.6 The Board shall require monthly reports from the Treasurer on the status of delinquent loans, and the current stage of any recovery action being taken.
- 5.7 The Board requires a register of written off loans to be maintained.
- 5.8 Irrecoverable loans shall be considered quarterly for writing-off against the bad and doubtful debt provision.

- 5.9 The Board shall review the credit control policy and procedures at least every 2 years and amend as required in the light of lessons learned from experience.

6 Procedure - Credit Control

- 6.1 The Board has delegated the daily operation, maintenance and reporting on credit control to the General Manager.

Understanding Members' Circumstances

- 6.2 It is recognised that irregular payments may occur as a result of sickness, accident, holiday, maternity leave, etc. Members are encouraged to discuss their circumstances with the Credit Union to enable appropriate arrangements to be made in respect of the anticipated loan repayment schedule. Irregular payments may be ignored if appropriate.
- 6.3 At all credit control stages, when the member appears to be in some degree of financial difficulties, alternative methods of repayment and/or reduced repayments whilst on reduced income shall be discussed.
- 6.4 Each case shall be considered individually, and the member's situation explored in detail.
- 6.5 While making reduced payments, albeit with the agreement of the Credit Union, the loan will remain on the delinquent list unless it is rescheduled.

Rescheduling Loans

- 6.6 If an alternative repayment schedule is agreed, a new loan application shall be completed, and the member shall be required to sign a new loan agreement.
- 6.7 Using funds from the new loan, the original loan shall then be closed, and the member will therefore no longer be delinquent. However, provisions may be maintained at the discretion of the Credit Union and as required by regulatory authorities.
- 6.8 Repayments on the new loan shall cover the interest plus a contribution to the loan capital.
- 6.9 In occasional cases of real and proven hardship the General Manager may agree that interest may be frozen temporarily, with repayment continuing of the loan principal only.
- 6.10 All rescheduled loans shall be reported to the Board and to the supervisory committee.

Controlling Arrears

- 6.11 This is the schedule of actions to be taken in respect of a member who is in breach of their loan agreement: if at any stage a response from the member leads to a resolution whether by payment in full or through an agreed arrangement then the situation is normalised, and no further action is needed provided the member adheres to the agreed arrangement. A further missed payment will lead to escalation and the Credit Union reserves the right to continue as if in pursuit of the original missed payment i.e. there is no need to start again from stage 1.

Schedule Timetable	Action	Contact Reference	Response from member
1 missed payment (more than 7 days past due)	Telephone call or an email if phone number is unavailable	<i>Voicemail message / bespoke email</i>	None
Within 14 days of first contact	Further telephone call or email	<i>Importance of payment and or contact stressed</i>	None
	Potential for 'stop cash out' to be added		
4 weeks from first missed payment	Last attempt at contact via phone call or email	<i>Advised if no payment or contact received within 7 days then potential for passing to external Debt Collector and registering a County Court Judgement against their name</i>	None

Schedule Timetable	Action	Contact Reference	Response from member
6 weeks from first missed payment	Phone call / email / 2 nd class letter	<i>Advised that the debt is being passed to an external Debt Collector and a County Court Judgement is to be registered if appropriate</i>	None
At a weekly review by MT and KMG	All outstanding arrears are reviewed and where considered appropriate cases are passed to the external Debt Collector and if required County Court proceedings are started	<i>All relevant action to be added to diary in member's section of Curtains</i>	N/A

6.13 A diary shall be maintained of the actions taken in respect of each defaulter.

6.14 The Credit Union in accordance with GDPR 2018, can pass on the information of any member to a debt collection agency.

6.15 Any savings may be transferred to the loan balance as appropriate, but only with the authority of the Treasurer.

Writing off Loans

6.16 Loans will be considered for writing-off after all credit control and debt recovery proceedings have been taken and have consistently failed or when passed for court action.

6.17 All write offs must be proposed by the Treasurer and approved by the board.

- 6.18 After approval, the amount of bad debts written off shall be charged against the Bad Debt Provision.
- 6.19 Any amounts recovered will be applied to the revenue account Income – Bad Debts Recovered.

Bad Debt Provision

- 6.20 Transfers to the bad debt provision shall be made from the revenue account on a monthly basis.
- 6.21 The Credit Union shall maintain at least the minimum amount of provision required by the Financial Conduct Authority, in accordance with paragraph 5.2 above. The amount of this provision shall be reported to the Board of Directors.
- 6.22 The Credit Union employs the services of a Debt Collection Agency as appropriate.