

Chapter 7

Lending to members



7.1 Application, purpose and interpretation

Application

7.1.1 **R** This chapter applies to all *credit unions*.

Purpose

7.1.2 **G** (1) This chapter seeks to protect the interests of *credit unions'* members in respect of loans to members under section 11 of the Credit Unions Act 1979 or article 28 of the Credit Unions (Northern Ireland) Order 1985. *Principle 4* requires *credit unions* to maintain adequate financial resources.

(2) [deleted]

Interpretation

7.1.3 **G** The *rules* and *guidance* in this chapter are in addition to the provisions of (in relation to *Great Britain credit unions*) section 11 of the Credit Unions Act 1979 and (in relation to *Northern Ireland credit unions*) article 28 of the Credit Unions (Northern Ireland) Order 1985 in relation to loans made by *credit unions*. Under these provisions

(1) a *Great Britain credit union* may make a loan only to:

- (a) a member of the *credit union* who is an individual; and
- (b) a corporate member of the *credit union*, if the *credit union's* rules provide that it may make loans to corporate members and making the loan would not result in the aggregate of the outstanding balances on loans made by the *credit union* to corporate members exceeding the percentage of the aggregate of the outstanding balances on all loans made by the *credit union* specified by or under section 11 of the Credit Unions Act 1979;
- (c) other *credit unions*;

(1A) a *Northern Ireland credit union* may make a loan only to:

- (a) a member of the *credit union* who is an individual; and
- (b) other *credit unions*;

(2) a *credit union* may not make a loan to a member of the *credit union* holding only *deferred shares*.

7.1.4

G

"Corporate member" has the same meaning as in section 5A of the Credit Unions Act 1979.



7.2 General requirements concerning lending policy

- 7.2.1 R [deleted]
- 7.2.1A R A *credit union* must establish, maintain and implement an up-to-date lending policy statement approved by the *governing body* that is prudent and appropriate to the scale and nature of its business.
- 7.2.1B R [deleted]
- 7.2.2 R [deleted]
- 7.2.3 G [deleted]
- 7.2.4 G ■ CREDS 2.2.6 R requires a *credit union* to maintain a manual of its policies and procedures. This should include the policy and procedure for making loans.
- 7.2.5 G [deleted]
- 7.2.5A R The *credit union's governing body* must review and approve its lending policy whenever there is a material change in the circumstances of the *credit union* or its membership or, in the absence of any such change, on an annual basis.
- 7.2.6 G The lending policy should consider the conditions for and amounts of loans to members, individual mandates, and the handling of loan applications.

- 7.2.7** **R** (1) A *credit union* must not make a loan to:
- (a) one of its *officers, certification employees or approved persons* on terms more favourable than those available to other members of the *credit union* unless:
 - (i) that person is a paid employee (other than a *director*) of the *credit union*; and
 - (ii) the registered rules of the *credit union* provide explicitly for the making of loans to paid employees on such terms;
 - (b) (in the case of a *Great Britain credit union*) a relative of, or any person otherwise connected with, an *officer, certification employee, approved person* or paid employee of the *credit union* on terms more favourable than those available to other members of the *credit union*;
 - (c) (in the case of a *Northern Ireland credit union*) a member of the family of, or any person otherwise connected with, an *officer, certification employee, approved person* or paid employee of the *credit union* on terms more favourable than those available to other members of the *credit union*.
- (2) "Relative" has the same meaning as in section 31 of the Credit Unions Act 1979.
- (3) "Member of the family" has the same meaning as in article 2 of the Credit Unions (Northern Ireland) Order 1985.
- 7.2.8** **G** (1) To prevent conflicts of interest, a *credit union* should have clear arrangements for dealing with loans to the persons specified in ■ CREDS 7.2.7 R.
- (2) In relation to staff, the prohibition in ■ CREDS 7.2.7 R applies only to those who are *officers, certification employees or approved persons*.
- (3) "Connected" in ■ CREDS 7.2.7 R includes any close business or personal relationship.
- 7.2.9** **G** A *credit union* should have a documented arrears management policy, setting out the procedures and process for dealing with borrowers who fall into arrears. This should be reviewed regularly and promptly in the light of experience.
- 7.2.10** **G** A *credit union* should have a clear, robust and effective approach to handling arrears and be able to satisfy the *FCA* on a continuing basis that it has adequate management and control systems in place to monitor arrears.
- 7.2.11** **G** [deleted]
- 7.2.12** **G** (1) A *credit union* may make a loan to a member for a business purpose. However, this does not mean that a *credit union* may make a loan to a member who merely intends to transmit that loan to another body that will actually carry out the purpose.

-
- (2) A *credit union* should not make loans to members who are acting together to achieve an aggregate loan that exceeds the limits in the lending policy.