

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* to members 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;
- (b) other *credit unions*; and
- (c) 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 total amount of the

outstanding balances on loans made by the *credit union* to corporate members exceeding the percentage of the total amount of the outstanding balances on all loans made by the *credit union* to members specified by or under article 28 of the Credit Unions (Northern Ireland) Order 1985;

(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 or article 14A of the Credit Unions (Northern Ireland) Order 1985 as appropriate.



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.

<p>7.2.7</p> <p>R</p>	<p>(1) A <i>credit union</i> must not make a loan to:</p> <ul style="list-style-type: none"> (a) one of its <i>officers, certification employees or approved persons</i> on terms more favourable than those available to other members of the <i>credit union</i> unless: <ul style="list-style-type: none"> (i) that person is a paid employee (other than a <i>director</i>) of the <i>credit union</i>; and (ii) the registered rules of the <i>credit union</i> provide explicitly for the making of loans to paid employees on such terms; (b) (in the case of a <i>Great Britain credit union</i>) a relative of, or any person otherwise connected with, an <i>officer, certification employee, approved person</i> or paid employee of the <i>credit union</i> on terms more favourable than those available to other members of the <i>credit union</i>; (c) (in the case of a <i>Northern Ireland credit union</i>) a member of the family of, or any person otherwise connected with, an <i>officer, certification employee, approved person</i> or paid employee of the <i>credit union</i> on terms more favourable than those available to other members of the <i>credit union</i>. <p>(2) "Relative" has the same meaning as in section 31 of the Credit Unions Act 1979.</p> <p>(3) "Member of the family" has the same meaning as in article 2 of the Credit Unions (Northern Ireland) Order 1985.</p>
<p>7.2.8</p> <p>G</p>	<p>(1) To prevent conflicts of interest, a <i>credit union</i> should have clear arrangements for dealing with loans to the persons specified in ■ CREDS 7.2.7 R.</p> <p>(2) In relation to staff, the prohibition in ■ CREDS 7.2.7 R applies only to those who are <i>officers, certification employees or approved persons</i>.</p> <p>(3) "Connected" in ■ CREDS 7.2.7 R includes any close business or personal relationship.</p>
<p>7.2.9</p> <p>G</p>	<p>A <i>credit union</i> 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.</p>
<p>7.2.10</p> <p>G</p>	<p>A <i>credit union</i> should have a clear, robust and effective approach to handling arrears and be able to satisfy the <i>FCA</i> on a continuing basis that it has adequate management and control systems in place to monitor arrears.</p>
<p>7.2.11</p> <p>G</p>	<p>[deleted]</p>
<p>7.2.12</p> <p>G</p>	<p>(1) A <i>credit union</i> may make a loan to a member for a business purpose. However, this does not mean that a <i>credit union</i> may make a loan to a member who merely intends to transmit that loan to another body that will actually carry out the purpose.</p>

- (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.