DÁIL ÉIREANN

AN COMHCHOISTE UM POIST, FIONTAIR AGUS NUÁLAÍOCHT

JOINT COMMITTEE ON JOBS, ENTERPRISE AND INNOVATION

Dé Máirt, 10 Samhain 2015

Tuesday, 10 November 2015

The Joint Committee met at 1.30 p.m.

MEMBERS PRESENT:

Deputy Dara Calleary,	Senator Michael Mullins,
Deputy Seán Kyne,	Senator Hildegarde Naughton,
Deputy Anthony Lawlor,	Senator Feargal Quinn.
Deputy Peadar Tóibín,	

DEPUTY JOHN LYONS IN THE CHAIR.

The joint committee met in private session until 1.45 p.m.

Scrutiny of EU Legislative Proposals

Vice Chairman: The first item on the agenda today is the scrutiny of EU legislative proposals. There are three schedule B proposals for decision. COM (2015) 322 is a proposal for a Council decision establishing the position to be taken by the European Union within the General Council of the World Trade Organization on the accession of the Republic of Kazakhstan to the WTO. COM (2015) 464 is a proposal for a Council decision establishing the position to be taken on behalf of the European Union within the General Council of the World Trade Organization on the United States' request for a WTO waiver to extend the AGOA programme. COM (2015) 483 is a proposal for a Council decision establishing the position to be taken by the European Union within the ministerial conference of the World Trade Organization as regards an extension of the moratorium on customs duties on electronic transmissions and the moratorium on non-violation and situation complaints. COM (2015) 501 is a proposal for a Council decision establishing the position to be taken on behalf of the European Union within the Council for Trade in Services of the World Trade Organization to seek approval for preferential treatment going beyond market access to be unilaterally offered by the European Union to services and services suppliers of least developed countries on the basis of the LDC Services Waiver. It is proposed that the proposals listed in schedule B do not warrant further scrutiny. Is that agreed? Agreed.

I propose the suspension of the meeting for a few minutes to allow witnesses to take their seats. Is that agreed? Agreed.

Sitting suspended at 1.47 p.m. and resumed at 1.48 p.m.

Credit Review Office Report: Discussion

Vice Chairman: I remind members, visitors and those in the Public Gallery to ensure their mobile telephones are switched off for the duration of the meeting as they interfere with the broadcasting equipment, even when in silent mode.

The next item for discussion is the 15th report of the Credit Review Office. I welcome Mr. John Trethowan, head of the office, and Ms Catherine Collins, deputy chief reviewer, to the meeting to discuss the report.

Before we commence, in accordance with procedure I am required to read the following. By virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to so do, they are entitled thereafter only to qualified privilege in respect of their evidence. Witnesses are directed that only evidence connected with the subject matter of these proceedings is to be given and are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable. Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable.

I remind our guests that the presentation should be no more than ten minutes in duration. The presentation was circulated to members in advance and I ask Mr. Trethowan to proceed with it.

Mr. John Trethowan: I thank the Chairman and members for the invitation to discuss my 15th report, copies of which have been circulated. In my opening statement I will refer to the market, the challenges we see and I will comment on some of the cases with which we deal. In addition to the report, I have given the secretariat a copy of the Department of Finance Red C six-monthly surveys. These show an improvement in SMEs trends from the low point of the downturn in Q1 2013. My report also welcomes the improvement my reviewers see in the trading figures of SMEs and farms which used the Credit Review Office during this period. Profits have returned and businesses are now beginning to rebuild their capital – sometimes from a very low base.

The main finding in the survey, and from feedback from the banks and the SME trade bodies, is the lack of demand for credit. I hope this will start to improve as confidence returns to the market. The survey results show that banks are lending, at least to those applicants who make a formal request for credit. In my view the banks are playing their part in assisting the recovery and are helping the majority of SMEs and farms which request credit. Banks have returned to being prudent cash-flow lenders but security is also required. The SME or farmer needs to show a credible plan as to how the cash is to be generated to repay the borrowing and then will need to pledge some tangible assets to ensure that the debt can be covered. Much work has been done - a lot more work needs to be done - on raising the financial management capabilities in smaller SMEs and farms to meet the information demands of the “new normal” in banking today. This should not be viewed as onerous, as the information the banks request is largely the basics of what is required to run a business.

The 2014 report of the Joint Committee on Jobs, Enterprise and Innovation on access to finance for small and medium enterprises recommended that mentoring and coaching in the SME sector should take place. The SME-related State bodies such as the Credit Review Office, the Strategic Banking Corporation of Ireland, SBCI, Microfinance Ireland and the Supporting SMEs team have been working with each other and with the three SME trade organisations. They have undertaken extensive seminars with their members. In addition, each of the banks has been conducting extensive mentoring for their SME customers.

All of the cases with which the Credit Review Office deals involve some degree of financial challenge. We in the Credit Review Office receive good co-operation from the banks in trying to find a solution to these challenges where such a solution can be identified.

My report also identifies that the supply side has stabilised with the announcement that Ulster Bank will remain in Ireland, with Permanent TSB entering the SME market, and the arrival of a number of new small asset finance and creditor finance suppliers, and the developing presence of SBCI. The 2014 report also recommended the establishment of non-banking funding alternatives, and a trade body has now been established and can be accessed at

www.IFPireland.ie, which has brought all of these alternative providers together for the first time.

Ireland has a strong story to tell in its support of the SME sector and, as per the recommendation contained in this committee's report in 2014, we continue to work closely with colleagues from SBCI, Microfinance Ireland, the credit guarantee scheme, Enterprise Ireland and the local enterprise offices, LEOs, in addition to assisting the development of the Supporting SMEs online tool

www.supportingsmes.ie and the communications campaign relating to it.

I will now speak about some of the challenges SMEs and farms continue to face. Some SMEs and farms remain in a weakened state and find it difficult to meet the banks' criteria and risk appetites in areas such as the capital stake they are required to put into a transaction. Banks will not take 100% of the risk in a lending deal. Lack of capital or equity remains the biggest challenge to the SME sector in Ireland. Also, recent improvements in SMEs' cashflows may not satisfy a lender looking for three years' sustained performance. There is often the overhang of failed non-core or buy to let investment debt, although the committee's 2014 recommendation that legacy debt should not be allowed to bring down a viable business is being generally respected by the banks. Given the turmoil many of the businesses and farms have been through, they may have a blemished credit bureau record, which can affect a bank's willingness to lend in some circumstances, particularly regarding asset finance.

Some SMEs, which were in default of their repayments or which had a high level of property-related debt, have had their loans sold on to new lenders such as hedge funds. These loans were purchased at a discount and the likelihood is the new owners will take their profits at some point in the near or medium term by requiring a higher settlement figure or will take the value of the business through a receivership. These businesses will need to access finance from one of the remaining players in the SME and farm market to repay this settlement figure. While many of these businesses will be successful in obtaining refinance, some will still face some form of financing challenge. The Credit Review Office will be required at least until these two challenges, namely, the recovery of weakened SMEs and SMEs which have had their debts sold on to other lenders are resolved.

The number of cases reviewed by the Credit Review Office remains low. However, the number of cases being overturned by the banks in their own internal appeals process has increased and an increasing number of applicants are withdrawing from the Credit Review Office process to successfully renegotiate with the bank. The nature of the cases being reviewed has changed considerably. Since its inception in 2010, the average size of the credit facility being reviewed has increased from €86,000 to €341,000. In addition to increased scale, we also see a large increase in complexity of the cases, with solutions for business and personal debt being sought. In 2015, almost 30% of cases reviewed involved refinance of exiting banks or final restructuring by pillar banks.

Cases, while tracked as overturning bank decisions, more typically resemble a mediation or negotiation to find a solution satisfactory to the business and the bank rather than a straight black and white overturn. This requires more comprehensive engagement by the reviewer with the borrower and bank. Both banks have been co-operating well with this expanded model of engagement.

Vice Chairman: I thank Mr. Trethowan for his presentation and now open the floor to members.

Deputy Dara Calleary: I welcome Mr. Trethowan and Ms Collins. It is great to see some light at the end of the tunnel finally, and I commend the witnesses on their role over the past five years in trying to get there. The potential expansion of the credit guarantee scheme to deal with the issues of legacy debt and debt which has been sold on is being considered. What is the level of such cases coming to the Credit Review Office? Has it dealt with any case where the new owner of a loan has moved to sell it on, or call it in, in unfair or unreasonable circumstances?

The Irish Credit Bureau will be a big issue and Mr. Trethowan has highlighted it on a number of occasions recently. Does he have proposals to make in respect of it given the extent of the crisis in recent years? Many people who once did so no longer have strong credit records and this may be as a result of circumstances outside their control. Should we consider reforming the Irish Credit Bureau to account for the depth of the crisis in banking and its impact on businesses and individuals?

We have spoken briefly about it before but Mr. Trethowan's input into the Central Bank review of the code of conduct for business lending to SMEs was to the effect that the matter of personal guarantees needed to be addressed. The submission from his office stated, "This is a major issue for SMEs and the almost universal requirement for SME credit facilities to be personally guaranteed is stymieing enterprise". Will Mr. Trethowan expand on that view? It is one with which I agree and which has been discussed by the small business review group. Given his banking experience, what alternative would he offer?

In his submission, Mr. Trethowan stated, "An increasing number of applicants are withdrawing from the Credit Review Office process to successfully renegotiate with the bank." Why were they not able to negotiate with the bank before they became involved in the process? How many are involved?

Mr. John Trethowan: I will deal with the last question first, which is why some cases are being withdrawn from the process after we have become involved. The credit review process begins with a fact-finding process. We spend a bit of time with the banks and ask them for their views on why the loan application was rejected but we spend a lot more time with the borrower, be it a small business person or a farmer, to get his or her view on life and to understand his or her business better. As the process continues, sometimes we find that the reason for the decline of the loan application is not that well understood by the borrower. Once he or she understands it, the borrower can provide answers or we see answers in the work we do with the borrower. When the bank is made aware of these answers, the bank is prepared to lend.

Our objective is to ensure viable or potentially viable businesses have access to credit. I do not mind if it goes through as a credit appeal or the bank decides it has enough information to make the loan of its own volition. It does not appear in the figures and slightly distorts some of the work we do but the borrower has benefited from the process and has obtained credit. I am not too worried if people withdraw and get credit as long as they do not withdraw and are lost, which is the concern.

Deputy Dara Calleary: If they withdraw and obtain credit, can Mr. Trethowan include that in his statistics in terms of engagement or is it seen as an outside occurrence?

Mr. John Trethowan: That is a bank loan. It was not done in the Credit Review Office. The number of cases that would have got credit is slightly higher than appears in our figures. However, my objective is not to have scores but, rather, people who are creditworthy accessing credit. It is just that sometimes we have more time to understand the borrower's affairs and strengths and what is on offer than the bank has had in its first pass through.

On legacy debt, we are starting to see some of the refinancing requested being granted. I must stress that the banks are stepping up to the mark and providing finance to get people out of these situations. They are doing their bit. However, as with applications for credit first time round, some businesses provide challenges to the banks' policies on how they do it. We have to try to find a way forward in that regard.

I will give an example of a transaction to make the point. At the height of the boom, someone may have bought property for €4 million. It was worth €4 million and the borrower was lent 100% of the cost. That property could have fallen in value by 50% to €2 million. The hedge fund may have purchased that loan for €1.5 million and will want to take its profit. It will examine the value of the asset today, which might be €2.2 million. The hedge fund people will say that is what they want to take them out of the debt and the person has to find that amount, which means finding a bank that is going to lend €2.2 million against an asset of €2.2 million. To a bank, that is 100% gearing; it is taking the whole risk. If the borrower has no other assets or security he or she can pledge, the bank is then stuck with that. Banks are generally happy to lend up to approximately 70% of a loan. They would be looking for somewhere in the region of €1.5 million to lend, and it would be up to the borrower to find the other 30%. That is where much of the challenge arises. The Government credit guarantee scheme and the adjustments that are being made to it can be helpful. Where we can see it is viable but the gearing is wrong, the adjusted credit guarantee scheme will be able to help cover the shortfall if the bank is minded to do it. It helps to close the gap.

On the credit bureau reform question, I will hand over to Ms Collins because she knows a lot more about it than I. There are some reforms under way. The Central Bank is working on a project which, I think, will deliver a new system in a year or two. Ms Collins will be able to give the committee a bit more of a feel for how credit bureau information is being used.

Ms Catherine Collins: For something such as asset finance, namely, a simple case of a man going out to buy a white van, the credit bureau is the be all and end all. The banks give very quick answers on those decisions. They look at the credit bureau information and if there is a chequered history, the answer will generally be "No" and will come very promptly in the form of a same-day response. An SME loan is more complex. The banks will look in more depth at the business and its ability to generate cash. They will take into account what has happened with the credit bureau.

There is no way for the credit bureau to assess whether a borrower is co-operating or not. The bank may have agreed a different repayment schedule during the hard times but that will be seen as a black mark on the credit bureau record. Sometimes one has to dig down through that and explain it. That is the work some of our reviewers would do when we are taking on a case. It is one issue for the borrowers to understand.

Very few people are aware of what is on their credit bureau record. The new credit register, which, I understand, is going to be available in 2016 for consumers and at the end of 2017 for incorporated entities, will give one free report each year to each individual or entity. That will be good as people will become more aware of it. We found the lack of awareness to exist even on a personal basis. People who may have had problems with their mortgages, for example, might go to Harvey Norman to buy a washing machine and find they cannot get it on tick because they have a bad credit bureau record, and that is the first they know about it.

There is an education piece for businesses to learn how important it is to keep the record clean and to work with it. This is just in respect of the credit register and the credit bureau; we are not even talking about credit scoring, which is another kettle of fish. There is a whole body of advice on how to make sure one's credit score is kept in the right way. We will have to get into that when the credit register comes on stream.

Mr. John Trethowan: Most people do not know that if they miss a payment on a loan, it appears on their credit bureau search. The more one misses, the more it can be seen in the outputs of these things. It is not just about defaulting on a loan and not paying it back. If payments are missed, people can see that. I have attended some events in Europe in respect of credit registers and credit bureaus. Some 30% of people know what their credit score or credit bureau record looks like. It is very important for businesses to understand what they do and how it can affect their credit bureau record going forward as well.

Deputy Dara Calleary: A personal guarantee scheme.

Mr. John Trethowan: A personal guarantee scheme would have half of us going to it. When the Central Bank code was being reviewed, we made the comment that it was almost universal to be asked for a personal guarantee as well as everything else. A banker lending a reasonable amount money would want some sort of security. A personal guarantee is only worth the assets one has to back it up. I could give a guarantee for €5 billion but it would not be worth a penny. If a small business or limited company has challenges or a lack of equity but there are some personal assets held by the promoter of the business, a guarantee can help get this across the line. I would be against a *de facto* or blanket request for personal guarantees. This is what was reflected in the response to the Central Bank and in that press article.

I am not seeing as many requests at the moment for appeals because personal guarantees have been asked for, although in the Red C survey, it is something like-----

Ms Catherine Collins: I think it is 47% but I will check that figure.

Mr. John Trethowan: It should come into play where there is a deficit of security elsewhere and there are collateral assets behind the guarantee. That is valid but just taking a guarantee for the sake of a guarantee is not worth much and can frighten the promoter. We will come back to that figure when we get it.

Deputy Peadar Tóibín: Gabhaim míle buíochas leis na finnéithe as a gcur i láthair. For a long time, my view has been that the banking market in Ireland has been an oligopoly. It is a very limited supply side and, therefore, it is a suppliers' market with regard to the entire banking system. I think Mr. Trethowan alluded to how tight it is when he said that it was obviously useful that Ulster Bank had not left the SME sector. Usually the competitive behaviour of firms is improved when there is more competition. Does Mr. Trethowan think it would be a good idea, on a policy basis, for a Government to increase the number of players within the supply side of a banking sector? Allied to that is the fact that SCBI funds and credit guarantee funds seem to be pushed through those banks and this again limits access to those funds. Would it not be better for those funds to be delivered outside that sector in some way?

Why has the credit guarantee scheme been so disastrous with regard to outputs? I know a business person who sought to cut a deal with his bank and offered the bank 50% of the value of the loan. The bank refused it and the businessman is of the view that the bank then sold the loan for 30%. This is a disaster for the business person and the bank is not necessarily realising the maximum amount for that fund. There should be a mechanism where businesses can have a better opportunity to cut a deal and negotiate with a bank.

Mr. Trethowan's figures are very interesting. It is good to see that some sectors are improving but does he have a sectoral analysis of the health of enterprise? It seems that SMEs in the construction sector had a fierce amount of legacy debt - the great majority of it - and yet we still hear they are finding it difficult to get the necessary finance to construct properties. What is the problem here?

It seems amazing that the balance sheets of the banks are still contracting. Are they contracting as a result of Government policy? I know that, initially, the objective was that they would contract significantly. Do they still have to contract to meet that policy objective or it is outside of that?

Mr. John Trethowan: I will start with the issue of an oligopoly in the market. The decision by Ulster Bank to remain, which decision was reflected in the report, was welcome. Had it not chosen to do so we would have had only two banks supplying the market. PTSB will enter the market, but as it is coming from a low base, it will take a while for it to establish a market share. Ulster Bank is different in that it already has a fair chunk of the market. The two dominant Irish banks, probably, command, at least, 80% of the market at this time.

Policywise, the Government has set up the Strategic Banking Corporation of Ireland and the venture capital arm Ireland Strategic Investment Fund, ISIF. We deal mostly with the Strategic Banking Corporation of Ireland. The Deputy is correct that it provides cheap funding via the banks and that the loans that are SBCI-funded remain on the banks' balance sheets, such that they are involved in the credit decision and carry the risk if something goes wrong. The Strategic Banking Corporation of Ireland has only been operational for over a year. Its first offering was cheaper funding, which funding is channelled from the European Union to the Irish banks. It now proposes to provide that funding through other providers also. In this regard, I know that Mr. Nick Ashmore is in discussions with lenders outside of the two main Irish banks, but they will need to be given time to become established and get moving. There will be other SBCI offerings, as well as funding, with a start already having been made.

The Deputy asked about the reason the credit guarantee scheme "mark one", as I call it, failed. It did not fail completely because we had used it a few times to help to get deals across the line with the banks. There were some issues around what could be covered. For example, re-financing was not covered under the initial scheme. There was an issue for the banks in how the risk was divided up, an issue which was quite complex, but it has been dealt with. It is hoped the revisions provided for in the follow-on scheme will make it less risky for the banks to provide lending through it. It is also hoped this matter will progress through the Houses reasonably soon in order that we can get it in place quickly because we will need it when re-financing really gets going on hedge funds also.

On the settlement of debt, while blocks of debt have been sold off by all of the banks, there have been many personal debt settlements during the years. Bank of Scotland Ireland, through Certus, has been settling debts with people and has even done deals which have involved discounts. Bank of Ireland and Allied Irish Banks have also been dealing with debt settlements. It peaked in 2014 when the majority of debts in AIB, for instance, were settled, but there remains a tail lag of cases to be processed. What is key in this regard is that the bank made the first and final offer and it was only when that offer was not accepted, that difficulties arose.

On block sales, they were strategic sales made by the banks to correct their capital ratios. The banks needed to unload debts from their balance sheets and I do not think they could have done this by providing for personal debt settlements only. They had to do something to correct the ratios.

The Deputy also asked about construction. In 2012, in terms of the business of the Credit Review Office, we were focused on trying to ensure as many people as possible survived. We dealt with many cases that were construction-related but which related in the main to subcontractors rather than contractors. Many subcontractors had one or two big debtors on their balance sheets and when the debtors went bust, the subcontractors were left high and dry and there was not much that could have been done to help them. We saw many good businesses wiped out, although we did try to get some forbearance and leeway for them. It is very difficult for subcontractors to recover when they have lost 50%, 60% or 70% of their debtor book, especially when they have men who need to be paid on a Friday.

The banks are now starting to look at financing building developments and matters of that nature but they are not doing the huge ones they would have done in 2007 or 2008. People have been burnt badly. It is now done on a more phased basis. A number of units will be financed and sold. The proceeds will start to flow and the next phase gets financed as well. That is the sort of model we are starting to see come through in the appeals we see.

The Deputy is right about balance sheet contracting. Based on the surveys carried on the demand side, demand is still subdued. The banks have been completing their restructuring, which included writing down debt either through sales to these hedge fund-type operators or to individuals. Between the amount of repayments being made by businesses just deleveraging themselves - those that can afford to do so - and the debt that is being written down or sold off, it is far exceeding the demand for new credit.

As part of what we do when tracking the numbers of the two banks every month, we receive a funds-flow statement from them at the end of each calendar quarter and this shows where they started the year and quarter, how much interest they have been paid, how much lending they have put out and how much has been written off or repaid. That covers the time from the start of the year to the end of the particular accounting period. So we can see what is happening and how it is being deleveraged on the way through. Until lending demand improves above 30%, the balance will always be tipped to contraction.

Deputy Peadar Tóibín: It has nothing to do with Government-led policy objectives with regard to contracting of balance sheets.

Mr. John Trethowan: Not at this stage. It may have done at the start. Across Europe, banks also have big challenges in meeting CRD IV or Basel III, coming forward under capital requirements as well because distressed loans involve huge capital loadings which the banks also need to bear in mind.

Deputy Seán Kyne: I welcome Mr. Trethowan and Ms Collins and thank them for their report. On the initiative from last year regarding the Strategic Banking Corporation of Ireland supported by the German state bank, KfW, I understand it will lend to Bank of Ireland and AIB. Are those figures included in the report or has there been any analysis of the position in this regard? If, through the normal processes, these banks refuse a loan, I understand they are obliged to mention it to the Strategic Banking Corporation of Ireland. I am obliged to ask whether this is being monitored because I understand that in certain cases that has not happened.

Mr. Trethowan stated that this is the most positive report since the inception of the Credit Review Office and that we continue to see improving trends in turnover and profitability in the majority of businesses. He also pointed to an increase in the number of loans being approved by internal bank processes. Is that down to a relaxation on behalf of the banks, or an improvement in the business cases, profitability, turnover or whatever?

Does Mr. Trethowan believe some of the easier cases are being dealt with internally and that the Credit Review Office is still getting the ones that are more difficult and more outlandish by lenders that have less by way of reserves? Mr. Trethowan mentioned that Ulster Bank and the PTSB voluntarily joined the Credit Review Office's processes. When did that happen? Does he have any early data on that, particularly on Ulster Bank?

The two previous speakers referred to selling on loans. Yesterday, I spoke to someone whose loan has been sold on. We have heard that some loans have been sold on for 20 cent in the euro. Is there an obligation for information to be disclosed in this regard or is such information viewed as being commercially sensitive and case specific? Does Mr. Trethowan think those involved in the sale should be obliged to pass on that information to the original borrower?

Vice Chairman: Before Ms Collins comes back with a response, did she manage to find that figure Deputy Calleary asked about from the Red C poll?

Ms Catherine Collins: Yes, it was 47%. Personal guarantees, PGs, were set as a term and condition for the facilities.

Deputy Dara Calleary: So the first figure was right. It was 47%.

Mr. John Trethowan: I will start with the Strategic Banking Corporation of Ireland, SBCI, loans that are being made by the banks. As I said before, the bank holds the risk. The SBCI provides cheaper funding. Typically, it is around 4.5% and banks will charge perhaps around 6.5% or 7%, so it is a cheaper form of funding. The credit risk still remains with the bank. If the loan goes wrong, it is a bad debt for the bank not for SBCI, so it is held on its balance sheet. Some of the SBCI money will now start to be put out through alternative lenders. I have some information on a slide from the presentation relating to purchase of stock right through to customer payment. One can see there are a number of players at each stage of the business cycle. Some of those companies will now start to get some of the funding through SBCI. They will have to be approved by SBCI but there is more than just the four banks that are making SME lending.

Deputy Seán Kyne: Who else is mentioned there? Who else is in line for that?

Mr. John Trethowan: SBCI would have to answer that question because I do not have the names. SBCI approves people who have to go through a vetting process. It will not be solely the two main banks that will be the channel for SBCI money. It will largely go through them but there will be other alternatives as well.

I will speak about how some of that money can help. If one has a deal which requires a credit guarantee scheme, it has an insurance premium which the borrower has to pay. It is typically around 2% of the loan value, so there is a cost to the borrower to have his or her loan guaranteed by the Government but if one can get it with SBCI funding then it takes that cost back out again for the borrower. We will be using all of those tools to try to help borrowers get across the line.

Ms Catherine Collins: I will make a point on the SBCI. Last week it announced two additional lenders, one a leasing company, Merrion Fleet, and Finance Ireland. There has been an announcement and it is in discussion with Bibby Ireland. That was in the newspapers last June. SBCI is looking at non-banking lenders. That is step 2. Step 1 was to get the money out into the market at a cheaper rate. Step 2 is very much to encourage new entrants to the market.

Mr. John Trethowan: The next question relates to improved sanctioning levels. I can answer the question but I cannot be specific with numbers because they are commercially sensitive, not just for each bank on the market but between each bank because they are competing with each other as well. The sanctioned amounts have come back slightly this year because of the level of restructuring which went on last year was included in those. The amounts have decreased this year but the key thing is the amount of new money which the banks are making within those sanctioned figures has increased. Last year it was slightly less than 40% and now it is in the mid-40s as a composite number so the new money that has gone out there, which is very positive, is increasing as well, as are the number of sales or loans both banks are making.

In terms of the challenge to lending, I will reiterate that the key challenge for SMEs and firms is a lack of capital. We are seeing balance sheets with negative capital on them far too often. It is a case now of trying to get those to make some profit, keep it in the business and to restructure the capital accounts of those businesses. The other thing we see a lot of is directors' loans. Balance sheets may have a challenge on them, including huge directors' loans. These are salaries that the owners of the business did not take out for a number of years. We always have to ask the business owner to subordinate that to the bank lending because if they take that out of the business, the balance sheet falls over. That is another condition which has to be met. The bank needs to come first, if it lent the money.

Ulster Bank and Permanent TSB joined the process voluntarily during the summer. I do not believe we have yet had any cases from Ulster Bank. It does have a reference to the office on its decline letters.

Ms Catherine Collins: As far as I know, it has put it in place but we have not had any cases through yet.

Mr. John Trethowan: That might not be a bad thing. One point about the Credit Review Office is that no matter how many or how few cases we have, it must be remembered that just being here puts a discipline on the banks. They do not know who is going to come to us and what we will find. Over the course of the past five years, it has improved the behaviour of the banks, especially in the first few years. Being here is enough of a safeguard.

On the sold-on percentages, as there are so many deals done at so many rates and it would be commercially sensitive to each bank, I do not know the answer to that.

Ms Catherine Collins: On the last point, the loan books in question are sold as a conglomeration of a number of loans. As far as I am aware, they do not get down to individual prices on the individual loans.

Senator Hildegarde Naughton: I thank Mr. Trethowan for his presentation and commend him on the work he has done.

On the number of cases his office handles, is he confident that its message is getting out there and there is sufficient awareness about the services it provides? We have all heard the radio adverts and so forth. Is there any analysis of where people would have heard of the service?

He made reference to the Strategic Banking Corporation of Ireland and welcomed its establishment. Are there any ways of making its offerings more attractive or is it too early to comment on that? I understand Mr. Trethowan meets quarterly with the Department of Finance on the progress made in loan sanctioning by the pillar banks. Is risk assessment part of that review? He has welcomed the banks' lending performance, but, like many people, there is a fear of going back to the boom-and-bust cycle of the past. Is he satisfied with the lending performance of the banks?

Mr. Trethowan highlighted the need for improved awareness among small and medium-sized enterprises and their advisers of the advantages of checking that their credit information is accurate. Is there anything this committee can do to assist the Credit Review Office in raising awareness in this area?

Ms Catherine Collins: We have a national and local radio campaign with three to four bursts a year. It is, unfortunately, very expensive to do a lot of such advertising. Interestingly, most of the calls we get tell us that they heard it on the radio. What we have found is that if people are looking for finance, they tend to hear the advertisement. If they are not actually in the market for finance, however, the radio advertisement is white noise in the background and they do not take it in. It is quite hard to get that message across. We drill down beyond that and try and work with the various trade bodies.

We also advertise online and in the trade magazines. We work closely with the three trade bodies, as well as the other SME initiatives the Government has put in place. A gang of four of us provide a roadshow, talking to local chambers of commerce and the local enterprise offices. Our key focus is the accountancy bodies and the advisers to get information out to them because they can then tell their clients about it too. A comprehensive amount of work is being done in this area. We will go out with Microfinance Ireland and the Strategic Banking Corporation of Ireland to talk about the credit guarantee scheme and the supporting SME's online tool. We will do an hour-long presentation to SMEs to show how all these tools can be used together to provide a more powerful access to finance. That is what we are doing on the communications front to get the message out. However, it is a hard message to get across.

Many of those who call the helpline tell us the banks did not tell them about the Credit Review Office. They tend to read the first line in the rejection letter that they did not get the facility. They may not necessarily drill down to the end to see the reference to the Credit Review Office or see our green brochure enclosed. Sometimes things get lost in translation.

Mr. John Trethowan: The stronger we can make the SME sector in Ireland, then the stronger the economy will be. There is much work to be done on raising capability, especially for smaller businesses, and much hard work has been done by the three main small business trade bodies already and that will continue. As I said in my presentation, the banks do a lot of mentoring and provide a lot of self-help advice on their web pages. I know from experience that those who seek that help are probably not the people who need it the most. It is the people who do not go to trade shows or read the advice available on the websites of banks that need the most help. Many farmers who have come to us have not used the Teagasc advisory service but if they had done so, they probably would not have had to come to us in the first place. The issue is trying to reach the people who do not engage because they are probably the ones who need the most help.

The SBCI offerings were mentioned. That is a question for the SBCI because it is a different organisation which works in this area. We work closely with it but it will decide what it is going to do next on the offering side. There will be more offerings. One must start somewhere and the funding line was the first product that it issued. It will develop other offerings as time goes on.

The Senator asked about policy. If there are policy gaps, perhaps that is where the SBCI can start to think about funding lines.

I will return to my old hobby horse. The main challenge for many small businesses and farms is a lack of capital. However, capital of more than €3 million is available for larger businesses but most of the businesses that we see - this applies to the vast majority of SMEs in Ireland - need capital of between €50,000 and €1 million. It becomes very difficult to assess a business for venture capital when there are not big numbers behind it. We need a product to try to help bridge the capital deficit and at the moment, the loan guarantee scheme is a sort of pseudo instrument to do so. Perhaps the SBCI can provide such a product somewhere down the line.

The Senator is right that we meet the banks every quarter. I will meet the Bank of Ireland tomorrow and AIB next week, along with the Department of Finance. We will go through their figures for the quarter. We will also discuss how the banks see the market and what challenges they see because they are on the front line. That will provide us with interesting information which will be reflected in the reports the committees will see.

I do not think we will have a boom to bust landing because lessons have been learned. Bankers are contrite at this point in time and until such time as someone encourages them to increase their return on equity, increase their dividends or whatever, then I cannot see things moving forward. Certainly, the Central Bank now has hawk eyes on the lending quality as well. In fact, some of the things we do and suggest to the banks would probably lean against the far edge of what their risk tolerance would be for lending but we still think the deals are doable.

The last time I was here there had been a bit of a spat on the loan defaults and appeals of the Credit Review Office but we pushed back a bit. We have worked with the banks in a more mature fashion since then. In terms of the deals we suggest and which the banks do, some of them will be stressed from time to time. All of the cases that come to us are challenged before we get them. In most parts, the lending is still there and the banks are not taking huge losses on what we suggest that they do and it is reasonably safe. I think I have answered all of the Senator's questions.

Senator Hildegarde Naughton: I thank the delegation.

Vice Chairman: I thank Mr. Trethowan. I call Senator Feargal Quinn.

Senator Feargal Quinn: I welcome the witnesses.

Mr. John Trethowan: I thank the Senator.

Senator Feargal Quinn: I thank the delegation for all these explanations. There were two or three things that I did not understand. Will Mr. Trethowan explain the following: credit register, the credit bureau and credit scoring and why it will not be introduced for one, two or three years. What is happening in other countries with those same systems? Are we copying what others are doing or are we trying to do our own thing? Are we way behind what others have done in this area?

I hear many good reports - and I do not hear of many failures - with crowd funding and the ability to get finance from other sources rather than just banks and lending institutions. Does Mr. Trethowan have experience of it, does he recommend it and would he comment on it?

Mr. John Trethowan: I ask my colleague, Ms Collins, to speak on the credit register.

Ms Catherine Collins: In Ireland we have the Irish Credit Bureau. The United Kingdom has a different procedure and does much more credit scoring and there are companies that provide credit scores and train others how to achieve a better credit score. One will hear advertising campaigns on the radio and see campaigns on the television for that service.

The Credit Bureau comprises members who come together and put the information on lenders or regulated entities up and they can run their reports on what has been happening. As I understand it, the credit register will be a slightly bigger animal as it will also include information on credit union lending.

The banks are telling us is that they will take a certain amount of that into account. When the bureau gets a report from that, it gives the lending history of the customer in the past five years, stating whether the customer is in arrears, has defaulted, reached a settlement, and whether the legals were involved. An individual can sign on and download his or her own credit report, which I think costs €6. There is a very low awareness of this service and people do not realise that this may be the sticking point, when they are looking for credit.

The credit register is coming down the track and it will provide a service for individuals in late 2016-17, but it will be late 2017 to early 2018 before incorporated entities are included. There will be one free report every year which will be a big plus, because people will be able to see that report without even having to pay a small fee for it. I hope some awareness raising will happen at that time and people will know a little bit more about it.

Credit scoring is all about trying to assess the risk of the loan going into default. Information such as the number of credit applications that have been made will have an impact. A person making a significant number of credit applications apparently gives that person a bad credit score. In the United Kingdom it depends on a person's postal code and if one has the correct postal code, one has a much better credit score and if one has the wrong postal code one has a very poor credit score. I am not sure how that will work in this country. We are a much smaller country and we do not have the same scale. I am not sure statistically how that would work if one tried to replicate that model here. What the banks in Ireland tend to do is to look at the actual performance, how one has performed in terms of repayments of the lending and so on, rather than actual scores..

Mr. John Trethowan: In France and Holland they take a one stop shop approach and all the information on a company would flow into one place, so the annual accounts, report and account, the credit scores and-or tax records are in one place. These countries are probably the most advanced in this field. A lender can see whatever he or she needs to see about a business. Across Europe, with credit bureaus and credit registers, it is a bit of a mishmash. I do not think that we are that far behind. The work being done by the Central Bank, which Ms Collins described, will bring us back up. If the Senator is interested, the French and the Dutch are the two countries that have really cracked it. It is big business.

Senator Feargal Quinn: As it will not come until 2017, who actually does the work?

Mr. John Trethowan: It is a Central Bank project and I think it has sent out the project to tender. The tender process in the public sector is slow. I think that has been part of the reason. The work has been done and we are now at the stage of getting the project started. The data collection is starting. We meet people regularly to keep ourselves abreast of what is happening on it, but the Senator would have to put questions to the Central Bank.

Senator Feargal Quinn: On the issue of crowd funding, does Mr. Trethowan have any experience of it?

Mr. John Trethowan: Not a lot, at present it seems to have taken off more in the United Kingdom because the government pumped some money into some of the players. We have not seen that as a solution to some of the problems we are trying to solve with SMEs and farms here, although it may be in the future. It may be that the risk appetite of the crowd funders is limited as well. I again refer the committee to the website, which lists the crowd funders and other innovative product specific players involved. There is probably more happening in regard to new players than has been publicised in the market. We will forward the website address so that members can have a look at it.

Vice Chairman: I thank the witnesses for their engagement today with the committee. It is good to see that things are improving.

The joint committee adjourned at 2.45 p.m. until 1.30 p.m. on Tuesday, 17 November 2015.