

To Whom It May Concern

We have been made aware of the ongoing Government review into the Community Banking model, to assess its potential viability for the Irish market.

Having had recent, direct and very unsatisfactory experience as an SME trying to engage with one of the two main Irish banks to secure a modest loan to expand our operation, we believe that our experience should be of interest to this project.

We have provided below a brief background to our organisation and the project we were seeking funding for, as well as a (sadly, less brief) timeline of events from the start of our loan application to its eventual outcome, 12 months later.

Company Background & Proposed Project

We are an outdoor leisure retail and online operation, based in a medium-sized town in the Mid-West. We established in 1994 and incorporated in 1999. The company currently employs 2 full-time and 2 part-time staff.

In early 2016, the Directors identified a gap in the market for a similar retail operation in the nearest city, where none currently exists and where there is a population 12 times larger than where we currently operate. We identified a very well-located premises and entered into preliminary dialogue with the landlord, as a result of which we reached preliminary agreement on an excellent deal on the rent.

Loan Application Process - Timeline

- *February 2016* - we approached our local AIB branch to discuss our proposal and to canvass their interest in supporting this.
- *April 2016* - we submitted our Business Plan, along with all requested supporting documentation, requesting a loan of €135k. We were aware that the European Investment Bank had made funds available to the Irish banking sector specifically for the purpose of supporting SMEs (SBCI), and we referenced this in our application.
- *April-August 2016* - we supplied additional supporting data on multiple occasions as requested by AIB, and twice revised downwards the amount of credit sought, at AIB's behest. NB - the application was being reviewed by AIB in Dublin, reducing our local (familiar) AIB contacts to mere intermediaries in the process. However, at no point during any of the proceedings did the lenders in Dublin ask to speak to us directly to ask questions or to clarify any aspect of our proposal.

- *20th August 2016* - we were verbally advised that we needed to further reduce the amount of capital sought. Believing that we had been realistic in our original request, and that the new business could fail due to lack of adequate capital, we declined to proceed and asked for a formal letter of refusal from AIB so that we could pursue their internal appeal process. At the same time, we had heard Catherine Moroney (AIB Head of Business Banking) speak at a conference about the need for SMEs to speak to their banks about their lending requirements, and above all, to seek sufficient capital when looking for a loan. Following the conference, we made contact with Catherine Moroney to point out how at odds her advice was with our actual experience. She noted our comments, but referred us back to the AIB's loan/appeal process.
- *23rd August 2016* - we received the requested letter of refusal, in which AIB stated that they were unconvinced about our ability to repay the credit - a decision we flatly disagreed with, given our long-standing status as an AIB business and personal banking customer of impeccable standing and repayment history.
- *24th August 2016* - we appealed this decision and asked that it be subject to AIB's internal appeal process. At the same time, we opened dialogue with the Credit Review Office.
- *7th September 2016* - we received a letter from AIB upholding the original decision to refuse our application, and citing the same reasons as the refusal of 23rd August.

Credit Review Office Intervention

- *15th September 2016* - we submitted our case to the CRO for review (Case No 613).
- *Early December 2016* - both we and AIB received verbal notification that the CRO was supporting our application.
- *24th December 2016* - written confirmation from CRO recommending to AIB that we be given the full, original loan amount that we had requested in our Business Plan of April.
- *January 2017* - despite the CRO recommendation, AIB continued to vacillate, requesting yet more financial data from us and persisting in not making us the recommended loan offer.

European Investment Bank Intervention

- *2nd February 2017* - we contacted Mr. John Moran of the European Investment Bank (formerly Director General of the Department of Finance). As mentioned

earlier, we were aware that EIB/SBCI funding had been provided to the Irish banks specifically for the purpose of supporting SMEs and had referenced this in our loan application. Mr. Moran made direct contact with the CEO of AIB, Mr. Bernard Byrne to express his concern that an application upheld by the Credit Review Office had not been progressed and that EIB funding was perhaps not being used for the purposes for which it had been provided.

- *Early March 2017* - Following this intervention - and we believe solely as a result of this - AIB contacted us to advise that they would be sending “local market lenders” to meet with us.
- *15th March 2017* - As a result of this meeting, we were finally made a loan offer in March 2017, over one full year after our dialogue with AIB began.

Summary

- We have a solid, profitable, long-standing business which survived the recession, when many of our competitors didn't.
- We have an unimpeachable track record as a personal and business customer of AIB, going back many years.
- The CRO reviewed and strongly supported our application, therefore there is no business reason for AIB not to have made us our loan offer in the first place.
- We strongly believe that AIB never had any intention of doing so. We believe we were strung along throughout 2016 with a series of requests for more and more supporting data (all of which cost us significant time and money as a small enterprise to produce). We have been independently advised that the data requested by the bank was, in accounting terms, on a forensic level and far beyond what any SME should, or could be reasonably expected to provide for a loan application of this size.
- We do not feel there is any circumstance under which a simple business loan application should take one full year to conclude, and require the intervention of both the CRO and the Head of the European Investment Bank. The CRO report states clearly that a loan application of this nature should have taken 15 days to process.
- As a result of the delaying tactics and the overall time this project has taken to date, we have:
 - Lost two potential experienced staff we had identified for the new operation;

- Lost the proposed business premises we had identified and negotiated a rent saving of €75k pa on (compared to peak-time rents). We will not easily be able to source a similar premises of similar prominence.
- Spent approximately €8k on accountant, bookkeeping and secretarial time to produce the level of data that AIB continued to ask us for.
- We feel very strongly, given our experience with AIB and that of other SMEs known to us with similar stories, that the marquee banks are not currently fit for purpose in terms of SME lending. The Dublin-centric, hands-off, zero-dialogue approach that we experienced contributed to the length of the overall process and prohibited the type of normal business negotiation that one would expect.
- We very strongly believe that there is a genuine and urgent need for a new model of community-based banking; one that is accessible to and engages with its customers, that takes account of their existing reputations and business track records, and that understands the dynamics of the rural business community. We understand that the German Sparkassen approach represents exactly this type of local/regional relationship-based model that we believe to be vital to the future of rural Ireland.

We would be more than happy to contribute further to this current investigation in any way you feel would be useful. We include below our contact details should you require any further assistance, or clarification on any aspect of our submission.

Thank you and regards,

Kevin McSherry

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