

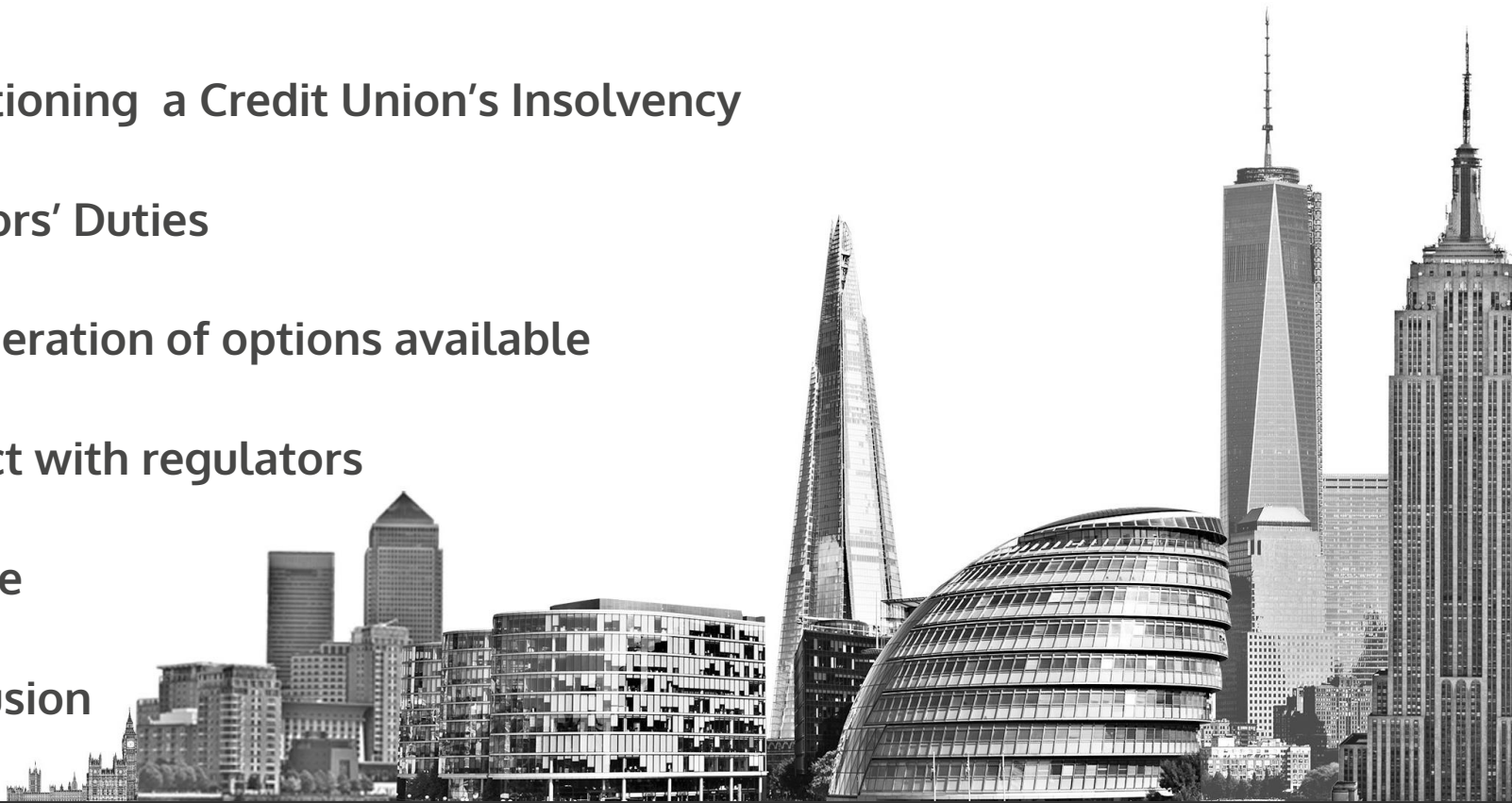
Managing Credit Unions in distress and insolvency



Dina Devalia
Insolvency Practitioner
13 May 2015

Contents

- Importance of prudent lending
- Indicators of financial distress
- Questioning a Credit Union's Insolvency
- Directors' Duties
- Consideration of options available
- Contact with regulators
- SCV file
- Conclusion



Importance of prudent lending

- Affordability checks on applications
- Robust systems and controls re loan approvals



Indicators of financial distress

- Grant funding withdrawal
- Increased capital requirements by the regulator
- High overhead costs and insufficient cash flow
- Loan book arrears and poor credit controls
- Importance of prudent lending
- Breaching regulatory capital to assets ratio
- Breaching other regulatory requirements
- Poor documented systems and controls
- Monthly management accounts showing costs exceeding income

Questioning Credit Unions' solvency position



Managing Credit Unions in distress and insolvency

Dina Devalia
Copyright 2014 cork gully llp. Cork gully – internal proprietary – use pursuant to company instruction

Indicators of potential issues that could result in Insolvency

- Irregularities identified
- Poor credit control management of loan book
- Material decrease in turnover/ income
- Capital resources breached
- Poor systems and controls
- Increase in customer complaints
- Identified misappropriation of assets
- Creditor pressures faced by credit union



Directors – Duties, Effect and Insolvency Risk

- Statutory duties
- Senior Managers Regime
- Risks to directors of not winding up
- Disqualification of directors
- Enforcement action by regulator against key individuals



Consideration of options available to Credit Unions

- Seeking alternative sources of funding
- Steps to enhance income and cost reductions
- Possibility of mergers with other credit unions
- Seek guidance from professionals
- If no solution then will have to consider insolvency procedures



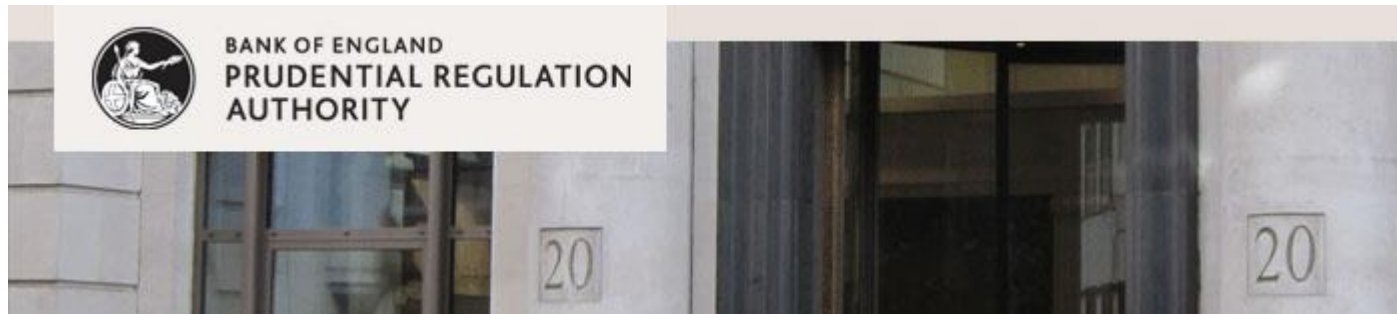
Contact with the Regulator

- Regulatory aspects
- Has credit union breached its capital requirements?
- PRA encourages early planning
- Information required to assess for insolvency and evidential barriers
- Status of SCV file



Contact details for PRA

- PRA contact details:
- The website is www.bankofengland.co.uk/creditunions
- Firm Enquiries Team Phone: 020 3461 7000 (operating hours 9am-5pm)
- Email: PRA.FirmEnquiries@bankofengland.co.uk.



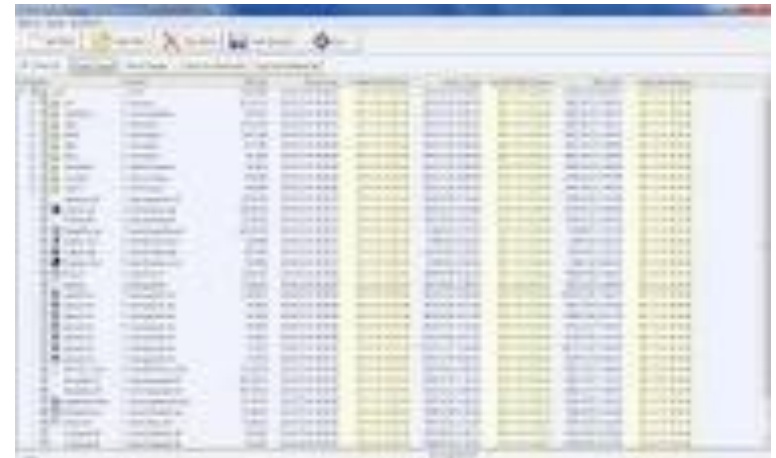
Assessing solvency position of a Credit Union

- Accurate financial information and explanations
- Calculate test for insolvency – consider need for expert assistance
- Assess implications on consumer detriment



SCV (Single Customer View)

- Purpose of the SCV file
- Liaison with FSCS as to status of SCV file
- Need to submit sample files for checking
- Has data been accurately maintained by CU?



The image shows a screenshot of a data table with multiple columns and rows. The table is displayed in a windowed application. The columns are labeled with various identifiers and data points, and the rows contain individual customer records. The data is organized in a grid format, typical of a spreadsheet or database viewer.

FSCS contact details for SCV queries

- FSCS can answer questions on the SCV file by emailing
- fasterpayoutenquiries@fscs.org.uk



The image shows a screenshot of a data table, likely an Excel spreadsheet, with multiple columns and rows. The table contains numerical and text data, but the specific values are not legible due to the low resolution and blurring of the image. The table appears to be a structured list of information, possibly related to the SCV file mentioned in the text.

Conclusion

- Need to anticipate issues on income withdrawal and loan arrears as soon as possible
- Consider options to remedy trading position of credit union
- If all options fail then need to assess whether insolvency procedure is the only alternative option to pursue
- Keep regulator informed of all material developments



Questions and Answers

- Dina Devalia
- dinadevalia@corkgully.com
- 077 3312 8572



Managing Credit Unions in distress and insolvency

Dina Devalia
Copyright 2016 – internal proprietary – use pursuant to company instruction