

## Lending Policy

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Last updated: January 2024 by the CEO

Authorised: February 2024 by BoD

To be reviewed: February 2025

### 1. Purpose

- 1.1 This Loan/Lending Policy is designed to:
- Safeguard the loan assets of Kingdom Community Bank by limiting lending risk;
  - Ensure fairness, objectivity, and consistency in how we process loans;
  - Provide clarity and parameters for the management and staff in terms of loan processing;
  - Maximise lending whilst protecting Members' interests through ethical and appropriate lending.

### 2. Eligibility

- 2.1 Applicants must be aged 18 years or over and a Kingdom Community Bank (KCB) Member holding a minimum of £5.00 in their shares account;
- 2.2 Applications will not be considered if it would take the Member beyond a combined total across all loans of £15,000;
- 2.3 New Members or established Members with no track record in saving through KCB will ordinarily be limited to £500 first loan;
- 2.4 Members who have not repaid a previous loan in accordance with their Loan Agreement may be refused a loan, have their loan deferred, may be offered a lower loan amount or a higher interest rate;
- 2.5 Applicants who are currently in a Protected Trust Deed or Debt Arrangement Scheme (DAS) (or similar), or are in the process of entering into a Protected Trust Deed or Debt Arrangement Scheme (or similar), or those who have been declared bankrupt or are applying for bankruptcy will typically not be considered for loans;
- 2.6 Applicants with CCJs, Court Decree (or similar) which are 'satisfied' or who have been in a debt management plan (a Protected Trust Deed, Debt Arrangement Scheme, or similar) previously, may be considered for loans at the discretion of management providing 6 months have passed and they have had no adverse credit or other problems with Kingdom Community Bank in the past;
- 2.7 KCB prides itself in being a responsible lender. We have a duty to each loan applicant to ensure that any loan approved does not result in Members facing financial difficulties and struggle with repayments. We also have a duty of care to all our Members that we take no undue risks with their money;
- 2.8 As part of our commitment to being a responsible lender we will normally expect to see a minimum level of disposable income (regular income after regular expenditure has been deducted) of 10% of income for new Members ordinarily and 5% of income for existing Members with a good repayment history. Management can exercise some discretion under justifiable circumstances which should be recorded for transparency;
- 2.9 We assess affordability based on data obtained from some or all of the following sources:
- Open Banking
  - Copies of bank statements
  - Credit Report
  - Fife Council

- e) Income and Expenditure details on our loan application form/online system
- f) Office for National Statistics minimum expenditure per household;

### **3. Conditions**

- 3.1 All loans with KCB are offered subject to the terms and conditions set out in our Loan Agreement which will be updated from time to time and published on our website and available in our branches and access points;
- 3.2 We reserve the right to refuse any application or to refuse a loan for certain purposes as determined by management from time to time;
- 3.3 Members are required to save a minimum of £2.00 per week or £10.00 per month for the duration of the loan;
- 3.4 Loan repayments must be made by either:
  - a) Standing Order / Electronic Payment;
  - b) Payroll Deduction;
  - c) Direct Benefit.
- 3.5 Records will be maintained to establish whether any loans fall within the category of Large Exposures as defined in the PRA Rulebook - Large Exposure definition "means an aggregate net liability of a person to a credit union that meets both the following criteria: (1) it is at least £7,500; and (2) it is at least 10% of the value of the credit union's capital;
- 3.6 A large exposure must not exceed 25% of the credit union's capital.

### **4. Applying**

- 4.1 All loan applications must be made on the appropriate KCB loan application form in hard copy or online via the loan application section of our website;
- 4.2 At least one valid telephone number and an e-mail address (if held) must be provided;
- 4.3 Applicants must submit any supporting documentation/evidence requested during the application process before a loan can be assessed. Typically, this will include recent bank statements and evidence of income and/or expenditure;
- 4.4 Applications must be signed, whether in ink by the Member or electronically using the e-mail address supplied by the Member;
- 4.5 Applications will only be assessed if the application form has been fully and truthfully completed, all requested information has been supplied and there are no known contraventions of this Policy or any other policy in force, or terms and conditions of membership.

### **5. Assessment**

- 5.1 Assessments, where feasible, shall be processed within 5 working days of receipt of a fully completed Loan Application and all required supporting information;
- 5.2 Lending decisions are based on our assessment of eligibility against this policy, the affordability of the loan and applicant's ability to repay, taking into account income and expenditure, and – in many cases, but not necessarily all - the results of credit checks along with the Member's credit history and conduct with us;
- 5.3 We may offer a reduced amount under certain circumstances or suggest alternative options;
- 5.4 We reserve the right to carry out a full credit check and/or Fife Council credit check on any loan applicant and their partner where the partner has consented to be included as part of the loan application;
- 5.5 Management may, at their discretion, and normally where the loan amount exceeds £3,000 request a telephone, video conference call or meeting with a loan applicant to discuss their application as part of the formal application process. Refusal to participate or non-participation is likely to lead to the application being refused;
- 5.6 By submitting a loan application, applicants give KCB permission to check their credit status with Fife Council and give permission to search the records of one or more registered credit reference

agencies. Any information provided is used in assessing the application, verifying the applicant's identity, and preventing or detecting fraud;

5.7 Loan applications are considered as per the loan officer authorities below:

Singular Authority:

- Loans Officer – up to a maximum of £1,000 (net liability)
- Senior Loans Officer – up to a maximum of £2,000 (net liability)

Dual Authority:

- Loans Officers and Senior Loans Officers – up to a maximum of £5,000 (net liability)
- Senior Loans Officer and Operations Manager – up to a maximum of £10,000 (net liability)
- Senior Loans Officer or Operations Manager and CEO (or such person with delegated authority) – up to £15,000 (net liability)

5.8 If there are material discrepancies or any concerns about the loan application, then the loan will be considered by the next level of authorising officer(s) in the list at 5.7 above. In all cases, the CEO shall have the ability to take the final decision;

5.9 In assessing the loan application, staff will consider the relevant loan criteria and:

- I) that the loan application has been correctly and truthfully completed
- II) the Member's stated share and loan balances agree with KCB records/systems
- III) the following determines the maximum loan term:

up to £500 ( <i>first loan</i> )	=	12 months maximum
£250 - £2,000	=	18 months maximum
£2,001 - £5,000	=	36 months maximum
£5,001 - £10,000	=	60 months maximum
£10,001 - £15,000	=	60 months maximum

5.10 Management's decision is final.

5.11 Members can request a decision to be reviewed if they believe that this Policy has not been followed and can specify which part(s) of the Policy have not been adhered to. Such a review will be conducted by a minimum of two Directors, and they will have the authority to accept or change the original decision.

5.12 The review shall be conducted within 5 working days, and the decision communicated to the Member within 1 working day of the completion of the review. There shall be no further routes of appeal on a loan decision;

5.13 **Subsequent Loans (commonly called top-ups) and Refinanced Loans**

5.14 Subject to 2.3, the first loan, ordinarily capped at £500, must be repaid by at least 50%, before any subsequent loans can be considered, although officers may exercise discretion in cases of hardship that can be evidenced;

5.15 Subsequent top-up loans may be considered after one-third of the existing loan has been paid off in accordance with the loan repayment schedule. Top-ups are only available on personal loan products and are subject to the maximum lending amount (across all loans) of £15,000;

5.16 When a loan is topped up, we set up a new Loan Agreement for the remaining balance of the existing loan plus the extra amount the Member wishes to borrow. The new loan may have a different interest rate from the initial loan and the term might be different too. This may mean the Member could pay more or less interest than before. This will be set out in the Loan Agreement;

5.17 Minimum additional borrowing for any top-up loan is £250;

5.18 Members may apply to top-up an existing loan up to the original loan amount once they have paid off a minimum of one-third of the original loan amount;

- 5.19 Members must pay off a minimum of two-thirds of the existing loan, if a top-up request is for a greater amount than the original loan amount;
- 5.20 In some cases, it may be possible for a Senior Loans Officer, Operations Manager or CEO to agree to variations to 5.15, 5.18 and 5.19 and agree to loans greater than the original loan amount, or to agree to a top-up before the normal minimum repayment proportions have been met where the assessment shows an acceptable level of risk to the organisation, an ability for the Member to afford the loan and other policy requirements are also met.
- 5.21 Members who are already in a payment or re-finance agreement with KCB or who enter such an agreement with us, will not be considered for any further borrowing until their existing loan(s) is repaid in full;
- 5.22 Members who re-join the credit union, having had adverse credit or bad debt with us in the past, will not be considered for new loans until any prior loan balance owing at the point of rejoining has been repaid in full.
- 5.23 In any event, Members are not guaranteed to get any subsequent loan for the same amount, term or interest rate as any previous loan.

## **6. Approvals**

- 6.1 Loans granted will only be paid to a nominated bank account. In exceptional circumstances, alternative payment methods may be agreed with management approval;
- 6.2 If approved, suitable arrangements will be made to sign a Loan Agreement which will include loan amount, interest rate, repayment amounts, term and terms and conditions for the loan;
- 6.3 Any loan offer made by KCB will be subject to the applicant signing a Loan Agreement and returning it to us;
- 6.4 The staff member(s) involved in assessing the loan will not be permitted to pay out the loan.

## **7. Collateral/Additional Savings**

- 7.1 Savings in the Member's 'Additional Savings Account' (Share 1) at the time of loan will be locked and held as collateral security against any loan(s) the Member may have;
- 7.2 The locked amount will be agreed with the Member and noted on the Loan Agreement. For the avoidance of doubt, the Member is still required to save the compulsory minimum of £2.00 per week (£10.00 per month) for the duration of the loan;
- 7.3 Savings held in the Membership Savings Account (Share 2) are available to be withdrawn by the Member subject to our Rules around minimum balances.

## **8. Loan Interest Rates**

- 8.1 3.00% per month (42.6% APR) is the Default Rate on Personal Unsecured Loans;
- 8.2 £250 - £2,000 is 2.50% per month (34.5% APR);
- 8.3 £2,001 - £5,000 is 2.00% per month (26.8% APR);
- 8.4 £5,001 - £10,000 is 1.160% per month (14.9% APR);
- 8.5 £10,001- £15,000 is from 0.56% per month (6.9% APR), depending on individual circumstances and our credit assessment. The maximum APR under this product is 16.1%APR
- 8.6 33% (one-third) or more of the loan amount secured reduces the interest rate by one-third – Loyalty Loans;
- 8.7 100% (fully) secured loan amount reduces the interest rate to:
- 8.8 £250 - £5,000 is 0.48% per month (5.9% APR);
- 8.9 £5,001 - £15,000 is 0.33% per month (4.0% APR);
- 8.10 Approved persons, certification officers or officers are not able to receive loans on terms more favourable than Members 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;
- 8.11 Relatives of, or any person otherwise connected with (including close business or personal relationships), approved persons, certification officers or officers of KCB will not receive loans on terms more favourable than Members;
- 8.12 Paid staff members are able to receive loans at the lowest rate available to members, 0.33% pm – 4.0% APR;
- 8.13 Any loans made to those persons detailed in 8.10 and 8.11 must be authorised by the CEO, or in the case of the relationship being with the CEO, an office bearer Director who is not related to the CEO. Loans made to those persons must be dealt with transparently and objectively, using the same process as would be used for Members.
- 8.14 For the avoidance of doubt, the terminology and definitions used in CREDS 7.2.7R and 7.2.8G shall apply when interpreting 8.10, 8.11, 8.12 and 8.13.

## **9. Early Repayments**

- 9.1 Members can repay their loan in full before the date set out in the Loan Agreement, without penalty or additional charge.
- 9.2 Members can also make additional deposits to reduce the value of their outstanding loan at any time during the term of the Loan Agreement, without penalty or charge.
- 9.3 The above clauses in Section 9 are applicable so long as all other terms of the Loan Agreement have been complied with.

## **10. Declined Loans**

- 10.1 If declined, Members may be offered the opportunity to be referred to an advice agency or similar;
- 10.2 Members will be encouraged to save;
- 10.3 There is no appeals process save that detailed at 5.11 above, for a breach of Policy rather than a disagreement with the decision;
- 10.4 Members may be eligible to re-apply after a period of 12 weeks.

## **11. Training and Competence**

- 11.1 All KCB Directors, staff or volunteers who are involved in taking lending decisions must be trained to do so and demonstrate an excellent working knowledge of the relevant policies and procedures in place, particularly this Lending Policy.
- 11.2 Normally, only fully trained loans officers, the Operations Manager or the CEO will be involved in decision-making in relation to a loan application.
- 11.3 Training must involve shadowing an existing, experienced colleague in the use of our internal loan management system (KiLTS) and processing loans in accordance with our policies and procedures.
- 11.4 The organisation will maintain a list of compulsory and advised training for each job role, alongside the frequency for refresher training, where relevant. For example, anti-money laundering training is compulsory for all staff involved in loan decisions, and they must undertake refresher training within 15 months.
- 11.5 All staff training will be recorded and reviewed, at least twice a year, and checked against the training list at 11.4 above, to ensure staff have undertaken relevant training for their role.

- 11.6 The KiLTS system strictly controls access to loan applications, data about loan applications and the workflow for processing loan applications.
- 11.7 All interactions with loan applications are recorded and it is evident who has been involved in all aspects of decision-making in relation to a loan application.

## **12. Monitoring Loans and Record-Keeping**

- 12.1 The KiLTS system records all loan applications and all activity undertaken against a loan application is maintained in an audit log.
- 12.2 The KiLTS system is backed-up in a secure cloud location, in two geographically different data centres to ensure a high level of redundancy.
- 12.3 Nobody can amend or delete audit log entries for any loan application - the KiLTS system does not provide such functionality to any user, regardless of levels of authority within the organisation.
- 12.4 All staff members involved in processing loans are trained in the level of note taking expected, and this is periodically sample checked to ensure consistency and quality. Any issues will be raised at team meetings or in individual support sessions with staff.
- 12.5 Periodically, the CEO will monitor loans and review the decisions and reasons recorded for the decision to ensure compliance with this Lending Policy and with the guidance and training provided to staff on note-taking and record-keeping.
- 12.6 The Board of Directors will ensure that there is a sufficiently robust internal audit system in place to review compliance with this policy, reporting findings and recommendations to the Board.

## **13. Reviewing this Policy**

- 13.1 The CEO will ensure an operational review of this policy is undertaken around 12 months from the date it was last adopted by the Board of Directors, or sooner in the event of a change in legislation or regulation that affects lending, or in the event of a significant issue or complaint relating to lending to ensure this policy remains fit for purpose and compliant.
- 13.2 The CEO will then present the output of that review to the Board of Directors. This will either be a copy of the existing policy with a recommendation that no changes are required, or to present Directors a copy with proposed amendments for consideration.
- 13.3 The Policy document shall state at the top the date upon which it was last reviewed and adopted by Directors.