EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS

EAPB EUROPEAN ASSOCIATION OF PUBLIC BANKS

EBF European Banking Federation

EMF ECBC

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With the support of

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High-level principles on feedback given by banks on declined SME credit applications

Preamble

The SME sector is a major contributor to growth and employment in the European Union. Banks play a key role in helping businesses to start, trade and grow. Access to finance along with other services and support facilitates the success of enterprises and the creation of jobs. Based on long standing preferences and relationships, European SMEs have chosen bank financing as their main source of external funding. In the wake of the financial crisis, banks have reinforced their strong credit standards amongst others to protect the savings that with which consumers and businesses have entrusted banks with. Banks have also adapted to a very demanding regulatory framework and their business model is evolving. Financial institutions in fact are embracing a digital revolution which can widen the way banks can be accessed.

Despite the continued challenging environment that impacts SME financing, banks continue to fulfil their role as key financers of SME and most SME applications for loan finance are successful.

Nevertheless, as Europe seeks to encourage growth and employment, there is an opportunity to improve the market environment and to improve the finance dialogue through the provision of better information both from a business to a bank when finance is sought and from the bank to the business when finance cannot be provided. In this context, there are good practices in many member states that ensure an efficient, effective and constructive relationship between credit institutions and SMEs.

The feedback that financial providers give to their SME clients is very important to their understanding of the reasons behind credit refusals. This helps SME clients approach lenders better prepared and represents an essential moment of truth in banking relationships as the dialogue underpin the understanding both for the bank and the SME of what needs to be done to put in place the right credit structure to help them trade and invest in the future. It may result in the business adapting their project or, in some specific cases, seeking other sources of funding. Being aware of the reasons why their application has been turned down, ultimately may help to improve SMEs' creditworthiness and the probability of a lender being able to satisfy their financial needs. In this context it is also important that credit providers, including but not limited to banks, communicate clearly with SMEs about their expectations that form the basis for a successful application.

The European Commission announced in its Action Plan to build a Capital Markets Union a comprehensive initiative that, among other issues, tries to overcome information barriers that prevent SMEs and prospective investors from identifying funding or investment opportunities. In this ambitious plan, the European Commission declared that it will work with European banking federations and business organisations on the feedback given by banks declining SME credit applications.
The European banking sector is collaborating with the European Commission and with representatives of business organisations to identify what we describe as high-level principles to ensure that appropriate feedback is given by banks to declined SME credit applications.

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General objective

This European initiative outlines a set of principles agreed by the banking industry after discussion with the European SME organisations, to ensure that the feedback given by banks to their SME clients is sufficient for them to understand the reasons behind the bank's decision process regarding a credit application. The ultimate goal is to contribute to a favourable environment for businesses in Europe, by supporting their financing capacity, improving their financial knowledge and enhancing access to finance for economically sound projects to ensure that they can continue to grow for the benefit of Europe.

Guidelines

- **Subsidiarity and proportionality principles:** It is recognised that there are important differences between Member States and indeed between individual banks and SMEs as to the way the SME financing process and the interaction with SMEs is organised. These high level principles aim to respect these differences and the national frameworks already in place and avoid a one-size-fits-all approach. Several Member States have already implemented different effective initiatives. These principles are designed to improve the situation in particular in regions where such an effective framework does not exist. Many of the existing initiatives have been developed through years of cooperation and discussions between representatives of banks, governments and business associations at national and regional level;

- **Scope:** The loan applications under the scope of this initiative are applications submitted by entities considered as SMEs, which have followed the necessary procedures and completed the required steps to be considered as a full and proper application by the bank and that have been rejected;

- **Competition:** This initiative should leave room for the competitive process in business banking. It should leave room for banks to customise the relationship with their clients, as this is a key element of differentiation and innovation. In other words, it is important to take into account the different existing banking models and the reality of competition;

- **Freedom of contract:** This initiative does not imply a right of access to credit for the applicant. Whilst these high-level principles seek to contribute to a favourable environment for businesses in Europe, it is recognised that it remains the sole responsibility of the bank to decide on whether or not to grant a loan.

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European high-level principles – Banks feedback on SME declined credit applications

a. Prior information

i. Financial institutions shall inform their SME customers and prospective customers on what is expected from them to fulfil a complete and proper credit application (is a non-exhaustive prerequisite for banks to be able to analyse the credit application), explaining in an understandable language the type of information and documentation that is requested.

ii. Additional information may be requested by both, SME and financial institutions, in order to improve the application process and provide the most appropriate feedback.

iii. Financial institutions shall inform their SME customers on the opportunity which is offered to them to get a feedback on their declined credit application. SME customers shall upon request, be informed about the procedure to request such feedback and on communication channels through which it is available, if it differs from the usual one(s) used for communication between the customer and the bank.

b. Format

i. Financial institutions shall provide upon request in an appropriate manner feedback to SME applications which have been declined;

ii. Financial institutions can use whichever communication channel is considered most appropriate to provide the feedback. However, it should be noted that several Member States already have good practices in place that support SME financing.

c. Content

i. Financial institutions shall, upon request, explain their decisions on declined credit applications.

ii. The feedback shall comprise explanations on reasons for rejection in clear language for the SME in order to help the understanding by SME of the reasons behind the rejection of their application.

iii. Where relevant and if requested the credit provider shall provide additional information which could serve the SME to improve its application.

iv. The SME shall have the possibility to have a dialogue with the relationship manager/ the contact person in its bank.

d. Timeline

i. Financial institutions shall, reflecting the complexity of the application, respond to SMEs' feedback request in a timely manner.

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e. Implementation

i. This is a voluntary European banking initiative adopted after discussion with the European SME representative organisations. It constitutes a common set of high-level principles defined by the banking industry (EBF, ESBG, EACB, EAPB, EMF-ECBC) and supported by the European SME representative organisations (BusinessEurope, UEAPME and Eurochambres).

ii. The implementation process of the agreement shall be initiated upon approval of these principles. The members of the EU banking associations shall initiate the discussion at national level and enter into a dialogue with their SMEs representative counterparties.

iii. The EBF, ESBG, EACB, EAPB and EMF-ECBC and European SME representative organisations shall promote the agreed principles at European level.

iv. The EBF, ESBG, EACB, EAPB and EMF-ECBC and European SME representative organisations will continue their dialogue and will undertake a stock taking exercise two years after the approval of these European high-level principles, providing an interim report if and where deemed necessary.

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