



Banc Ceannais na hÉireann  
Central Bank of Ireland

Eurosystem

# Increase in Lending Maturity Limits Application Form (longer term lending limits)

December 2017

Credit Union Name:

Credit Union No:

# Explanatory Note

## Introduction

On 1 January 2016 [the Credit Union Act 1997 \(Regulatory Requirements\) Regulations 2016 \(the Regulations\)](#) came into effect. Regulation 14(1) on Maturity Limits for lending sets out the percentage of a credit union's loan book that can be outstanding for periods exceeding both five and ten years<sup>1</sup>. Under the Regulations, credit unions may apply to the Central Bank for an extension to these maturity limits to permit the total gross amount outstanding:

- in relation to all loans with more than 5 years to final repayment to be up to 40% of the total gross loan book balance outstanding; and
- in relation to all loans with more than 10 years to final repayment to be up to 15% of the total gross loan book balance outstanding.

Under regulation 14(2) the Central Bank may impose conditions on any approvals granted under regulation 14(1) which the Central Bank considers appropriate. Under regulation 14(3) a credit union shall not make a loan to a member for a period exceeding 25 years.

## Applying for approval

In order for a credit union to apply to the Central Bank for approval to avail of increased lending maturity limits, this Application Form should be completed by the credit union, approved by the board of directors and signed by the chair of the board on behalf of the board of directors and submitted to the Central Bank. The Application Form contains a number of sections as follows:

- Section 1 – Business Case
- Section 2 – Annual Arrears Information to Support Application
- Section 3 – Board Approval
- Appendix 1 – Financial Projections Template
- Appendix 2 – Additional Notes

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<sup>1</sup> Credit unions with lending over five years above 20 per cent of total gross loans outstanding must hold additional liquidity as set out below.

Lending Over Five Years	Minimum Liquidity Ratio
>20% and <25%	at least 25%
≥25% and <29%	over 25%
≥29%	at least 30%

## Indicative Criteria to be Considered by Credit Unions Prior to making an Application

Without prejudice to a credit union's right to apply for approval at any time, before making an application, a credit union should consider the indicative criteria set out below. Where a credit union is of the view that it does not fall within these indicative criteria, including where there are outstanding supervisory matters that are subject to ongoing risk mitigation plans, it is recommended that credit unions contact their supervisor in RCU to discuss any potential application.

	Indicative Criteria*
<b>Total Asset Size</b>	Scale, available resources and capability of credit union to undertake additional longer term lending. This will be particularly relevant where new business lines are proposed e.g. commercial lending/mortgages.
<b>PRISM Overall Risk Rating</b>	Low (L) or Medium Low (ML) - if Medium High (MH) or higher contact supervisor.
<b>Recent Risk Events</b>	Contact supervisor
<b>Supervisory Issue</b> - issues under enquiry of and engagement with the credit union's supervisor	Contact supervisor

\*Criteria are for guidance purposes and are subject to review

## Financial Criteria and Considerations of the Central Bank

In determining whether to grant approval for increased lending maturity limits the Central Bank will give consideration to at least the following:

- i. The business case and accompanying financial projections submitted by the credit union to support its application to increase lending maturity limits;
- ii. The level of Annual Arrears of the credit union for the past three financial years (Annual Arrears are arrears and write offs on loans issued in a specific year expressed as a percentage of all loans issued in that year); and
- iii. Whether any circumstances exist or are likely to arise which, in the opinion of the Central Bank, would undermine the ability of the credit union to appropriately manage loans with longer maturities.

When considering an application from a credit union to increase lending maturity limits, the Central Bank will consider all relevant information which it has gathered through its supervisory interaction with the credit union including the outcome of any PRISM engagements undertaken.

# Application Form Section 1: Business Case

Please outline the business case for the credit union in seeking approval for the increase in lending maturity limits having regard to credit union's strategic plan and the nature, scale, complexity and risk profile of the credit union.

The business case should identify the types of lending the credit union intends undertaking (e.g. personal unsecured/personal secured house loans/mortgage lending/commercial etc.). The credit union should outline specific implications arising from the provision of specific loan types, for example, if the credit union is proposing the provision of house loans/mortgages the business case should include details on how the credit union will address issues such as the expertise required to undertake and underwrite this business, the taking of collateral and the implications arising from ensuring compliance with the significant additional non-credit union specific regulatory requirements which apply to this type of lending (including EU requirements).

The business case should also clearly set out how the credit union intends to mitigate identified risks. This should include for example details on risk management systems and proposed controls. Risks considered should include:

- Compliance and legal risks; and
- ALM risks
- Liquidity risks
- Funding risks

Credit unions will find further information on key risk considerations related to longer term lending in the Central Bank's publication "[Long Term Lending - Guidance for Credit Unions](#)". Credit unions should refer to this document where they are considering an increase in longer term lending and the material covered in this paper should inform the development of their business case.

Financial projections, along with underlying assumptions and linked to the credit union's strategic plan, should accompany the business case for a period covering the next 5 financial years. These should illustrate the potential balance sheet impact of an increase in longer maturity lending and include:

- the projected lending over 5 years and 10 years (broken down by loan category and by new and existing lending) which the credit union estimates will be undertaken in each of the next 5 financial years;
- the maturity profile of the credit union's projected funding taking account of the age profile of savers for each of the next 5 financial years;
- projected liquidity levels for each of the next 5 financial years;

- a detailed breakdown of projected income and costs, including the cost of funding, and projected resulting surplus/deficit for each financial year for each of the next 5 financial years;
- a projected balance sheet showing in detail the assets, liabilities and reserves of the credit union for each of the financial years which should reflect the financial projections; and
- projections under a stressed scenario – stressing the assumptions underlying the projections set out above

Appendix 1 contains an example of how the financial projections should be provided. The individual line items included in the templates in Appendix 1 should be provided at a minimum but the credit union may include any additional line items or information in its financial projections which it deems relevant to support its business case relating to an application for approval for an increase in lending maturity limits.

The business case, including the supporting financial projections, should be provided in a separate document appended to this application form.

## Application Form Section 2: Annual Arrears<sup>2</sup> Information to Support Application

Please complete the table below for the last 3 full financial years at a minimum. The credit union may wish to provide additional arrears information for additional periods.

	Financial Year 1 <sup>3</sup>	Financial Year 2 <sup>3</sup>	Financial Year 3 <sup>3</sup>
A. Gross loans issued in:			
B. Gross loans in arrears greater than 9 weeks issued in:			
C. Gross loans written off issued in:			
Annual Arrears % (B+C/A)			

<sup>2</sup> **Annual Arrears** are gross loans in arrears greater than 9 weeks and gross loans written off from all loans issued in a specific year expressed as a percentage of all loans issued in that year.

<sup>3</sup> Please specify which financial year data relates to.

# Application Form Section 3: Board Approval

(This section must be reviewed and approved by the board of directors of the credit union and signed by the chair on behalf of the board of directors.)

\_\_\_\_\_ (insert credit union name) confirm that;

- i. The business case and financial projections provided as required by Section 1 of this application are prepared on the basis of reasonable and realistic assumptions and aligned to the strategy set out in the credit union's strategic plan; and
- ii. The information provided in Section 2 of this application, accurately reflects the annual arrears position of the credit union.

If the credit union is successful in its application to increase lending maturity limits:

- i. The credit union will use all reasonable endeavours to ensure that it will remain in compliance on an ongoing basis with the conditions, on the basis of which the Central Bank has granted approval; and
- ii. Where the situation arises that the credit union ceases to meet one or all of the conditions, on the basis of which the Central Bank has granted approval, the credit union will notify the Central Bank immediately outlining the appropriate measures which the credit union will take to resume compliance with these criteria.

The credit union has and will use all reasonable endeavours to maintain on an ongoing basis, taking account of the level and maturity of lending outstanding:

- An asset and liability management (ALM) policy to ensure appropriate asset and liability management and to support the scale and complexity of the credit union's lending;
- taking account of the strategic plan of the credit union;
- taking account of the funding strategy proposed to support the projected balance sheet structure;
- including a process for measuring and monitoring risks arising from asset and liability mismatches and ensuring the credit union maintains prudent levels of liquidity appropriate to the scale of lending outstanding in the credit union; and

- Appropriate information systems and management information policies to ensure the maintenance of proper accounting records for the credit union's business taking account of the scale and complexity of the credit union's proposed lending.

Chair's Signature: \_\_\_\_\_

(on behalf of the board)

Date of Signature: \_\_\_\_\_

Any follow up questions in relation to the application form and supporting documentation can be addressed to the following contact in the credit union:

Name: \_\_\_\_\_

Role in the credit union: \_\_\_\_\_

Phone number: \_\_\_\_\_

Email: \_\_\_\_\_

# Appendix 1: Financial Projections Template

The following templates are provided for illustration only. Each of the line items outlined in the below templates should be included in the credit unions financial projections at a minimum. The financial projections may include additional line items or information which the credit union considers relevant to support its business case.

As outlined in Section 1 of this application the business case, with supporting financial projections, should be provided in a separate document appended to this application. The financial projections should also be provided in excel format and uploaded via the secure file upload facility available through the Online Reporting System.

For the purpose of the templates below:

T1= the credit union's current financial position

T2= the credit union's projected financial position in 1 year

T3= the credit union's projected financial position in 2 years

T4= the credit union's projected financial position in 3 years

T5= the credit union's projected financial position in 4 years

T6= the credit union's projected financial position in 5 years

## Template Income and Expenditure Account

	T 1	T 2	T 3	T 4	T 5	T 6
Loan Interest Income						
Investment Income						
Other Income						
<b>Total Income</b>						
Operating Expenses						
Deposit Interest Expense						
Provision for Bad Debts						
Bad Debts Written Off						
Bad Debts Recovered						
Other Losses						
<b>Total Expenses</b>						
<b>Surplus/Deficit for the Year</b>						
Dividend Payment						
Loan Interest Rebate Payment						
<b>Surplus/Deficit for the Year post dividend and loan interest rebate payment</b>						

## Template Balance Sheet

	T1	T2	T3	T4	T5	T6
Cash and Current Accounts						
Fixed Assets						
Gross Loans by maturity profile:						
≤ 3 months						
> 3 months and ≤ 1 year						
> 1 year and ≤ 3 years						
> 3 year and ≤ 5 years						
> 5 year and ≤ 10 years						
≥ 10 years						
Provisions for Bad Debts						
Investments by maturity profile:						
≤ 3 months						
> 3 months and ≤ 1 year						
> 1 year and ≤ 3 years						
> 3 year and ≤ 5 years						
> 5 year and ≤ 10 years						
≥ 10 years						
Other Assets						
<b>Total Assets</b>						
Total Members Savings by maturity profile:						
≤ 3 months						
> 3 months and ≤ 1 year						
> 1 year and ≤ 3 years						
> 3 year and ≤ 5 years						
> 5 year and ≤ 10 years						
≥ 10 years						
Other Liabilities						
<b>Total Liabilities</b>						
Regulatory Reserve						
Operational Risk Reserve						
Other Realised Reserves						
Unrealised Reserves						
<b>Total Reserves post dividend and loan interest rebate</b>						

## Appendix 2: Additional Notes

### Application Process

1. In order to apply for approval to avail of increased lending maturity limits, a credit union must complete this Application Form and submit a signed copy by e-mail or post to:

Application for Longer Term Lending Limits,  
Registry of Credit Unions,  
P.O. Box 559,  
New Wapping Street,  
North Wall Quay,  
Dublin 1.  
rcu@centralbank.ie

2. The timescale for considering applications will depend on the quality of information provided. Where the application form has been fully completed and contains or includes all of the information requested the Central Bank will endeavour to issue a letter indicating that the Central Bank is minded to approve or refuse the application within two months of receipt of the complete application.
3. The Central Bank retains the right to request additional information from individual credit unions when reviewing their applications to avail of increased lending maturity limits. Notwithstanding paragraph 2 where further additional information is sought, the Central Bank will endeavour to issue a letter indicating that the Central Bank is minded to approve or refuse the application within one month of the receipt of the further additional information.
4. Unless the Registrar is satisfied in relation to all aspects set out in the application, approval cannot be granted.

### Ongoing Monitoring

Where a credit union is granted approval to avail of increased lending maturity limits, it is expected that the credit union will comply with the conditions, on the basis of which the Central Bank has granted approval, on an ongoing basis. Without prejudice to any conditions contained in this Application Form the Central Bank may, at any time, subject any approval to additional conditions with which the credit union shall comply. The Central Bank will monitor credit union compliance by reference to the conditions using information extracted from the Prudential Returns submitted on a quarterly basis and any other information available to the Central Bank.

The ongoing monitoring process will operate without prejudice to the Central Bank's right to exercise its power to give regulatory directions under section 87 of the Credit Union Act, 1997 at any time that it is deemed appropriate.



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