ICSH Submission:
Consultation on Potential Changes to the Investment Framework for Credit Unions (CP109)

27th June 2017

1. INTRODUCTION

1.1 The Irish Council for Social Housing is the national federation of housing associations. We represent 270 housing association members who provide accommodation for low income families, the elderly, people with disabilities and homeless people. Housing associations collectively manage over 32,000 homes in 500 local communities.

1.2 The ICSH welcomes the opportunity to respond to the Consultation on Potential Changes to the Investment Framework for Credit Unions (CP 109) and welcomes the proposals under consideration by the Central Bank. This papers responds to the questions raised by the Central Bank in CP109 and in the Regulatory Impact Analysis.

1.3 The ICSH view this as a very timely consultation. Housing association new housing supply peaked in 2009 with 2,011 new homes completed that year before the property market collapse. Whilst the traditional funding regime of social housing was 100% state capital funding, since 2011 housing associations have adopted the mixed funding model of up to 30% state finance together with 70% loan finance.

2. RESPONSE TO QUESTIONS RAISED IN CP109

2.1 *Question 8. Do you think it is appropriate for credit unions to undertake investments in AHBs? If so, please provide a rationale.*

The ICSH believe that it is appropriate for credit unions to invest in AHBs. We believe not only is it a very good investment option for credit unions but also matches a solid investment return with a social purpose thus corresponding to the credit union ethos.

By investing in AHBs, credit unions will be assisting in the delivery of social housing in the communities and neighbourhoods where credit unions are actively involved.

It is timely for the Central Bank to consider permitting this investment class for credit unions for a number of reasons. The Government has set an ambitious target for the sector under Rebuilding Ireland of over 15,000 units by 2021. AHBs have been responding to this challenge and to the housing crisis by increasing their capacity and their development pipeline plans. AHBs will have a demand for over €1bn in financing over the next 4-5 years to meet the housing targets.

Also, the funding model for AHBs has changed in recent years away from a 100% Government funded capital model. In 2009 the capital loan and subsidy scheme for family housing was terminated. In 2011, a new mixed funding regime was introduced for AHBs where housing associations could access up to 30% of the construction or acquisition costs from the state, and the remaining 70% was to be raised by the AHB as a long-term loan from either the Housing Finance Agency (HFA) or financial institutions.

Since 2011 AHBs have successfully increased their housing supply under this model. In lending terms loan approvals by the HFA in 2016 reached €260 million with loan advances of €126 million, committed finance for over 1,700 new homes. This scaling up in activity both with HFA financing and with other financial institutions reflects the response of AHBs to Rebuilding Ireland.

Investment by credit unions in AHBs would represent a stable investment opportunity for credit unions whilst also addressing social goals.

2.2 *Question 9. What would the most appropriate structure for investments in AHBs be e.g. investment vehicle?*

There are a number of options for credit unions to lend to AHB including direct lending. The credit union movement can examine ways in which to lend to AHBs, perhaps through an aggregator Fund to facilitate long-term lending.

The ICSH and 6 leading Tier 3 AHBs are advancing a new special purpose vehicle which will enable investors to avail of the opportunity to invest in a vehicle the purpose of which is to provide long term finance for the sector with investors who look to realise a return.

The ICSH/AHB SPV will seek investors such as credit unions for finance at competitive rates in order to raise the finance needed to meet the targets for the sector.

The SPV would be an appropriate structure for credit unions to invest in and will be aimed at investors such as banks and institutional funds. The SPV is supported by Government under Rebuilding Ireland which states:

> *"Support will be provided from this Fund to an Irish Council for Social Housing (ICSH)/sector-led new special purpose vehicle, involving investors, including the Credit Union movement. This new vehicle, which could itself ultimately seek AHB status and charitable recognition, has the potential to deliver significant additional investment funding for the delivery of permanent social housing by AHBs through both acquisition and new build."* (Rebuilding Ireland, DHPCLG, 2016, pg. 53.)

2.3 *Question 10. What do you consider to be the risks associated with this type of investment and what mitigants do you feel are available to manage these risks?*

The ICSH believe potential risks are mitigated by the regulatory environment under which AHBs operate and indeed their track record in development and management is pertinent in demonstrating this.

AHBs have a long track record in developing, managing and maintaining social housing. The development process is underpinned by the CALF and P&A model and in undertaking construction AHBs follow public procurement guidelines. As such development risk is carefully managed by experienced, skilled housing development professionals. The core mission of AHBs is the provision and management of social housing and as such the development process is informed by this long term objective.

The funding model used by AHBs in conjunction with private finance is based on the use of a long term loan by the Department of Housing, Planning, Community and Local Government (DHPCLG) under the Capital Advance Leasing Facility (CALF) to assist with the financing of the construction or acquisition of units that will be provided for social housing use. This loan facility can support up to 30% of the eligible capital cost of the project, where the units will be provided under long-term lease arrangements called a Payment and Availability Agreement with local authorities.

Summary of CALF / P&A funding model

- *CALF funding up to 30% of eligible capital cost* with remainder raised from funder.
- Loan is supported by a future income stream associated with the CALF funding, the *Payment and Availability Agreement* (P&A). The P&A payment provides AHBs with an income stream of up to 95% of market rent for the properties constructed/acquired by the AHBs for the purpose of providing social housing.
- The P&A income stream provides government backed income stream for each unit. The P&A is set at either 92% or 95% of the market rent.
- The P&A is approved by DHPCLG, and is paid to the relevant Local Authority (LA), who then pays the AHB.
- To manage risk, a *Continuation Agreement* is also entered into by the LA, the AHB and the senior lender whereby the P&A can be transferred to another AHB in case of certain events thus providing another layer of risk management.
- The sector is regulated by the DHPCLG through a voluntary regulatory approach and legislation is advanced to put in place an independent statutory regulator.
- The AHBs also receive rent directly from tenants. This differential rent is based on tenants' income.

2.4 Question 11. How can the ALM issues associated with such investments be addressed by credit unions?

By nature investing in social housing delivery is long-term and provides a long-term return however credit unions can manage their requirements across their investment portfolio with a clear understanding of the stable nature of social housing investment. A proportion of reserves should be designated for use for social housing purposes.

2.5 Questions 13. Do you have any comments on the proposal to include investments in Tier 3 AHBs in the list of authorised classes of investments set out in credit union investment regulations with a 25 year maturity limit?

The duration of P&A Agreements vary by agreement generally up to 30 years duration. It would be beneficial to align the maturity profile on the same basis. A 30 year maturity limit would be a suitable limit bearing in mind the long-term nature of investment in the social housing sector.

In addition to Tier 3 AHBs there are a number of development focussed Tier 2 AHBs who would also be working with financial investors in executing their development plans and would be advantageous not to exclude such AHBs for potential investment.

3. REGULATION OF AHBS

3.1 The Housing Agency has established a Regulation Office, on an interim basis, for regulating Approved Housing Bodies (AHBs). Regulation of the sector is based on a Voluntary Regulation Code (the Code): Building for the Future - A Voluntary Regulation Code For Approved Housing Bodies in Ireland

The Financial Standard and Assessment Framework was launched on 14 July 2015. This Financial Standard further extends the existing Regulatory Framework to provide for robust financial regulation and oversight of the sector.

The Government is advancing legislation to put the regulation of AHBs on a statutory footing with an independent Regulator overseeing the sector.

Regulation is a key element of the enhanced role of AHBs envisaged by the Government and is designed to provide assurance to tenants, Boards, government and potential investors that the AHB sector is stable and well-regulated and to encourage private investment into the sector.

4. BACKGROUND AND CONTEXT

4.1 The Irish Council for Social Housing (ICSH) was established in 1982 and acts as the national representative federation for housing associations in Ireland. Housing associations housing includes the provision of housing and support services for families, older people, homeless households and people with disabilities. Housing associations known as approved housing bodies (AHB's) range from housing associations who provide housing in their local community, often for a specialist group such as older people, the homeless and people with disabilities to those larger housing associations (such as Respond!, Cluid, Tuath, Circle) who provide housing for families often in different locations throughout the country offering choice to housing waiting list applicants. The ICSH supports the Action Plan

Rebuilding Ireland and housing associations are a key pillar in the delivery of the Strategy.

4.2 Housing associations have a long-term commitment to whatever community or neighbourhood they are operating in which is demonstrated by housing associations, such as the Iveagh Trust, who have been providing social rental housing in Dublin since the 1890's. Up until 2011, the traditional model of social housing delivery by housing association was by way of up to 90/100% capital funding from the state. Two successful capital funding schemes were utilised by housing associations. The capital assistance scheme (CAS) focusing on special needs groups such as the homeless, elderly and people with disabilities, and the capital loan and subsidy scheme (CLSS), primarily for families were the key capital funding schemes that were used by housing associations.

4.3 Approved Housing Bodies (AHBs) – also known as housing associations – are non-profit organisations that provide and manage good-quality housing at affordable rents for households in housing need. While housing associations have traditionally focused on social rental housing, a number of larger developing housing associations are pursuing both affordable and cost rental housing options for households who may not choose traditional social housing, or cannot afford to become a homeowner. Housing associations can play an important role in the tenure neutral policy approach that was introduced in 2011. Homes can be developed through acquisition, construction and sourcing completed developments through turnkey projects as well as Part V schemes.

4.4 Social housing waiting lists have spiralled from 43,684 households in 2005, 56,249 to 89,873 households in 2013 to 91,600 households in 2016. Housing associations are working in every community in Ireland to provide homes for people on low incomes and with special needs.

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