KINNERTON
CREDIT MANAGEMENT

To whom it may concern

SENT BY EMAIL: rcuconsultation@centralbank.ie

16 June 2017

Dear Sir / Madam,

CONSULTATION ON POTENTIAL CHANGES TO THE INVESTMENT FRAMEWORK FOR CREDIT UNIONS

We are writing in response to the Central Bank's Consultation Paper CP109 dated May 2017 *in respect of potential investments in AHBs (c.f. section 3.3), Investment in Tier 3 Approved Housing Bodies..*

As you may know, we have we been working together with the Irish Council for Social Housing, helping to identify mechanisms to provide long term, sustainable financing for the social housing sector. This culminated in engagement with the Credit Union bodies (both CUDA and ILCU) with a view to establishing an Irish Social Housing Fund.

We also engaged directly with the Central Bank during Q4 last year, with both Anna Marie Finnegan and Frank Brosnan. During the discussions concerning our proposal, it became clear that the Central Bank would need to amend existing regulations. We were therefore delighted to see the proposals set out within the Consultation Paper.

You have sought views on a number of issues, including risk and risk mitigation, appropriate structure for investment and rationale.

Our views are set out below:

1. We would suggest that a nuanced approach is adopted. This would allow for different categories of risk, permitting higher thresholds for investment through a pooled investment vehicle versus direct lending by Credit Unions to AHBs. Accordingly, the risk matrix should take account of lending through a regulated fund versus direct lending by AHBs, where the former should permit a more substantial investment size due to diversification and increased regulation (see 2 below). In summary, quantification and concentration limits should be treated differently depending on the form of investment.

2. In line with above, we would suggest that an investment structured by way of a pooled fund vehicle should allow greater levels of investment. As you are aware, this is because funds are regulated with appropriate policies and procedures in place as required by e.g. CBI and/or the UK's Financial Conduct Authority. By way of example, this includes reporting, valuation policies, anti-money laundering, conflicts of interest and handling of client money among other. Our view is that a regulated fund entity therefore provides risk mitigation through enhanced regulation.

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Likewise, it also means that the risk of each investment is spread over a number of assets/loans, providing additional mitigating through diversification.

3. A fund investment would also allow the Credit Unions to transfer their participation in the fund at any time so as to allow a measure of liquidity. This could be a sell down to existing Credit Union investors on a pro rata basis, to other Credit Unions currently not invested in the project or to external third parties. This would necessarily not be the case if Credit Unions were to invest directly, where sale of an individual loan to an AHB has less market liquidity. Similarly, if Credit Unions are incentivised to invest in a pooled vehicle (e.g. through the ability to invest more funds) liquidity will be enhanced through increased participation.

4. As regards the amount of Credit Union investment, our preference would be to allow the larger Credit Unions to invest a more significant amount of capital. Whilst it is difficult for us to quantify the concentration limits suggested, we would suggest a commitment level ranging from a minimum of €2m to a maximum of €25m. This allows the fund to be administratively efficient, where we would expect to have up to e.g. 30-40 Credit Unions invested with up to €450-500m in total.

5. We believe that a 25 year maturity is appropriate as regards length of loans to AHBs. However, the fund duration may need to be a little longer due to an investment period of e.g. 3-5 years, whereby in the event of a loan being issued in year three of the investment period, total fund life would need to be 28 years. We would therefore suggest some flexibility to allow for the same, perhaps capped at a fund investment of 30 years in total, with underlying investments capped at 25 years.

6. The legislation should not be overly restrictive and should provide flexibility for potential funding developments in the future, especially if the government wishes to refine its policy and accelerate solutions for social housing.

Acknowledging the foregoing, we believe that this represents a unique opportunity for the larger Credit Unions to invest in a low risk, regulated product, with the added benefit of providing a much needed solution to the social housing sector.

We appreciate the proposals contained within the Consultation Paper and please let us know if you have any questions in relation to this letter.

Yours faithfully,

Jens Bisgaard-Frantzen