

Registry of Credit Unions
Central Bank of Ireland
PO Box 559
New Wapping Street
North Wall Quay
Dublin 1

9 January 2019

**Submission in relation to Consultation Paper CP125 -
Consultation on Potential Changes to the Lending Framework for Credit Unions**

On behalf of An Post Employees' Credit Union

Dear Sir or Madam

An Post Employees' Credit Union (APCU) aims to meet the savings and personal borrowing needs of those who have made their livelihoods through the postal service and their families. Established in 1968, it has 6,500 members and assets of €53M. A member owned co-operative, it is run independently from An Post.

APCU welcomes the opportunity to comment on consultation paper CP125. Our comments and feedback are set out below.

Removal of 5 and 10 Year Lending Maturity Limits:

1. Do you have any comments on the proposal to remove the 5 year and 10 year lending maturity limits contained in Regulation 14 of the 2016 Regulations (taking account of the other changes to the lending framework)?

APCU agrees with the principle of relating longer term loan limits to the total assets of the credit union rather than to the size of the existing loan book. We have reservations about some of the other proposed changes to the lending framework, as set out below.

Maximum Loan Maturity Limit for Unsecured Loans:

2. Do you have any comments on the proposal to introduce a maximum maturity limit of 10 years for unsecured loans?

We believe that such a new limit is completely unnecessary – your data shows that few personal loans are written for longer than ten years. The argument that there is a risk of a drift towards longer term personal loans appears very weak. Such a limit would reduce

the ability of credit unions to meet the longer term borrowing needs of those who have no property to act as security. It would also reduce the flexibility of credit unions to reschedule a loan over a longer period where a member's financial position changes significantly.

3. Do you have any comments on the proposed definition of a secured loan?

APCU believes that the proposed definition of a secured loan is confusing. Is a loan partly secured by shares or deposits to be considered a "secured loan"?

Concentration Limits for House and Commercial Loans:

4. Do you have any comments on the proposal to require that all commercial loan exposures utilise the concentration limit for commercial lending?

We believe that this is unnecessary and perhaps problematic. While not as relevant at industrial credit unions such as APCU, credit unions provide loans to the self-employed for small scale needs such as tools and small amounts of working capital – forcing these loans to be set up in isolation from their existing "topped-up" loan for reporting purposes is an unnecessary burden on credit unions and the self-employed.

5. Do you have any comments on the Central Bank's intention to introduce board reporting requirements for house loans?

APCU has no issues with this.

6. Do you have any comments on the proposal to introduce a base combined concentration limit for house and commercial loans of 7.5% of Total Assets?

We don't see a good case from Central Bank as to why this limit should be a combined one for both house and commercial loans.

7. Do you have any comments on the proposal to limit the maximum amount of house or commercial lending which a credit union may undertake to 5% of Total Assets within the base combined concentration limit?

It appears to be a very conservative figure, particularly when taken in conjunction with the large exposure limit (see question 14 below). For example a credit union with assets of €80M and with a long term loan to assets ratio of 50% may want to build a house loan component of 20% of their loan book i.e. €8M. Your proposals would limit them to half this amount.

8. Do you have any comments on the proposal to permit an increased combined concentration limit for house and commercial loans for those credit unions who can demonstrate the necessary financial strength, skills, expertise, operations and risk management capability to undertake increased lending in these loan categories?

We welcome this, assuming that the bar in relation to capability is set at a practical level.

9. What skills, expertise, operational and risk management capabilities do you consider necessary to support increased lending in house and commercial loans?

In-house financial accounting, financial analysis and risk management skills.

10. Do you have any comments on the proposed increased combined concentration limit for house and commercial lending of 15% of Total Assets?

For the benefit of the credit union movement as a whole and to facilitate the largest credit unions, APCU believes that this limit should be higher, perhaps 30% of assets.

11. Do you have any comments on the application process referred to above?

No comments to add.

Definition of Commercial Loans:

12. Do you agree with the proposal to re-name the commercial loan lending category to small business loan?

APCU has no issues with renaming commercial lending to small business lending. It reflects the reality of credit union business lending.

13. Do you have any comments on the proposed definition for a small business loan?

It is an unnecessary restriction to limit small business loans to "owner managed small business enterprise". Most small business loans will be to owner-managed businesses but the restriction is unnecessary.

Large Exposures:

14. Do you agree with a large exposure being prescribed as an exposure to a borrower or group of borrowers who are connected of 2.5% or greater of the regulatory reserves of the credit union?

We do not agree with this proposal. The effect of the 2.5% limit would be to restrict the house lending capacity of medium sized credit unions to very low levels. For example, an €60M credit union with a 10% regulatory reserve could offer a maximum house loan of €150,000.

Transitional Arrangements

15. Do you have any comments on the proposed transitional arrangements?

We agree with the transitional arrangements.

Liquidity and ALM Considerations

16. Do you have any comments on liquidity and broader ALM considerations for credit unions wishing to increase the proportion of their loan books held in house and commercial loans particularly where those loans have longer maturities?

APCU welcomes this focus on ALM and liquidity in the interests of the financial stability of the sector.

The Board and management of An Post Employees' Credit Union hope that the above comments are useful in your discussions.

Yours faithfully

PS Alan Whelan

PAUL DOLAN
Secretary

Paul Ryan

PAUL RYAN
Manager