Capital Credit Union response to Consultation Paper (CP 125)

Capital Credit Union welcomes the publication of CP 125 on potential changes to the Lending framework for Credit Unions and notes some positive proposals in the area of enabling credit unions to have a higher level of exposure to housing loans in particular.
If credit unions are to develop their business model in line with other credit union movements internationally, it is essential that any revisions of the lending framework are positive and enabling, and that reform in one area is not counterbalanced by restrictions in another.
Consequently, Capital Credit Union notes with concern the introduction of further proposed restrictions in CP125, particularly in relation to maturity limits on unsecured lending, and views this as unnecessary and potentially damaging to the credit union business model.

Capital Credit Union's response to the specific questions in CP125.

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?**

   Capital Credit Union welcomes the removal of these maturity limits.

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

   Capital Credit Union is not in favour of this proposal.
   Credit unions currently provide longer term unsecured loans to members primarily to finance improvements to members' homes. In the current environment of a critical shortage in housing, any restriction that prevents credit unions from meeting the needs of their members in this area would be very unwelcome.
   CBI state that 'the 25 year maximum maturity term remains appropriate taking account of the funding profile of credit unions.' CBI then go on to state that 'the removal of the lending maturity limits introduces a risk that the maturity profile of other credit union lending extends and as a result could increase the level of duration risk in the loan book'.
   CBI propose to introduce a maximum maturity limit of 10 years for unsecured loans in order to 'mitigate against this risk'.
   It must be noted that these longer-term, personal loans are among the best performing loans in the credit union loan book portfolio.
   These longer-term personal loans currently comprise only 1% of credit union lending.
   Some credit unions may decide not to enter the housing loan market. These credit unions could suffer significantly if they are no longer able to offer members longer term, unsecured, personal loans.
   In the event of a changing economic environment, increased competition, regulatory requirements, entering the housing loan market may not have the positive impact on the credit union business model that is forecast.
   In that case, if credit unions are no longer permitted to issue unsecured loans for longer than ten years, the negative effect on the credit union business model could be significant.
   The CBI proposals on concentration limits are an effective method of mitigating credit union exposure to risks and a similar method could be used if the CBI are concerned at the risk posed by this category of loans, rather than imposing an overall ban on all personal lending over 10 years.

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

   With regard to the proposed definition, we would request clarification on whether a pledge of any amount of shares would make the loan a 'secured loan' or will there be a minimum percentage required?
   We believe a second charge could be sufficient security in certain cases

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

   Capital Credit Union welcome the proposal to continue with the practice of not insisting on a business plan for commercial loans under €25,000.

5. **Do you have any comments on the CBIs intention to introduce Board reporting requirements for house loans?**

   Capital Credit Union welcomes this proposal.

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?**

   Capital Credit Union believe that separate concentration limits are the best way to monitor and manage the exposures for these categories of lending.
   Although combining the limits may appear to give credit unions greater flexibility, we believe they are completely different categories and should not be combined.

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

   Capital Credit Union supports the proposal to limit the maximum amount of commercial lending which a CU may undertake to 5% of Total Assets as a base concentration limit.
   Capital Credit Union believe a limit of 10% of Total Assets as a base concentration limit is more appropriate for House Loans.

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?**

   Capital Credit Union supports an increased 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

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

Robust systems and controls must be in place to ensure that Credit Unions exercise sufficient skills, expertise, operational and risk management capabilities to support increased lending in House and Commercial loans, in keeping with the criteria set out, inter alia, in the Long-Term Lending Guidance for Credit Unions, Credit Union Act, Credit Union Handbook, Credit Union Act 1997 (Regulatory Requirements) Regulations 2016.

Many Credit Unions do not currently have the expertise / skills to support significant growth in Housing Loans and Commercial Lending. Capital Credit Union believes that sufficient scope and easing of restrictions should be allowed in order to build this aspect of credit union loan books. In such a scenario, the necessary skills and expertise would be bought-in to achieve this loan growth, while developing the required operational and risk management capabilities.

Furthermore, credit unions need to be permitted to develop other models that would be more cost effective and that would allow greater economies of scale and mitigation of risk, such as Mortgage CUSOs, structures such as Volksbank, or centralised funds that would allow credit unions to spread the financial risk. The Central Bank should facilitate such developments, particularly in terms of a centralised fund system, where the centralised body undertakes the lending.

Simply easing the restrictions for each individual credit union will only help those credit unions with the appropriate skills, expertise, operational and risk management capabilities, whereas a centralised system that credit unions could jointly fund, would allow for risk mitigation at the same time as enabling smaller credit unions to participate in the housing loan market.

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

Capital Credit Union does not support a combined concentration limit.

Capital Credit Union would support an increased concentration limit of 15% for House Loans, in addition to a 5% limit for Commercial Loans, for those CUs which can demonstrate the necessary financial strength, skills operations and risk management capability.

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

Capital Credit Union supports an application process for increased concentration limits that includes reasonable maximum timelines for the process.

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

Capital Credit Union does not support this proposal as it may prove to be restrictive. Credit Unions can promote commercial loans as small business loans, without the need to re-name them from a regulatory perspective.

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

Capital Credit Union believes the definition may be too restrictive.

Capital Credit Union does not support the proposed prohibition on lending for buy to let properties for either residential or commercial purposes.
There are no statistics provided to show that these loans are performing any worse than other categories of loans in credit union loan portfolios.
Any concerns over the 'higher risk profile' for buy to let loans can be dealt with through concentration limits rather than an outright prohibition.
Any lending in this category could be included in the concentration limit for commercial loans.

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

Capital Credit Union supports this proposal.

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

Capital Credit Union supports this proposal.

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.

Capital Credit Union believes that the current liquidity requirements are sufficient to cater for the longer-term lending proposals outlined in CP 125.

Credit Unions will need to review their investment policies to ensure they retain sufficient liquidity, especially in stressed scenarios.

Overall, Capital Credit Union welcomes the publication of CP 125 and the proposals to enable credit unions to engage in a greater level of longer term lending.

However, we are of the view that now is not the time to also introduce any further limits or restrictions on credit union lending, that do not currently exist.

The proposals to extend longer term limits should be allowed to go ahead and the other proposed restrictions, such as the prohibition on unsecured loans over 10 years and the ban on buy to let loans, should be deferred until a review of the effect of the implementation of the measures to increase longer term lending is undertaken.