Credit Union Plus Ltd.

RESPONSES TO THE CENTRAL BANK'S QUESTIONS ON CP125

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)?**

Credit Union Plus welcomes the proposal to remove the 5 and 10 year lending maturity limits. The proposal to move away from Loan Book balances is less restricting.

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 the imposition of a 10 year limit for unsecured loans may remove opportunities to satisfy members' particular requirements and the credit union's ability to enter into specific markets in the future (e.g. ecological building conversions, should Ireland not meet its carbon footprint obligations etc). This is with the proviso that all loans meet appropriate underwriting standards. We do not agree with this proposal and we believe that underwriting and policy should dictate the individual loan maturity limit.

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

The three proposed "secured loan" categories do not state the level of security. The Loan to Value may fluctuate during the term of a first legal charge giving rise to a negative security situation. Further clarity is required e.g. many personal loans have pledged shares.

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?**

It is recognised that commercial loans of less than €25k are treated differently to those greater than €25k in respect of the reporting requirements although it is unclear if the rationale supporting this limit is arbitrary. We would propose that small loans for members to assist in "earning a livelihood" as opposed to "making a profit" should be excluded from the calculations.

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

We believe that this is appropriate, given the risk profile of these loans.

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 believe that these two loan categories are mutually exclusive, require different underwriting approaches and skills and that they should not be combined. The present Commercial Lending limit, attaching to the Regulatory Reserves, at a de facto 5%, is adequate from Credit Union Plus' perspective. However, we do not agree with the overall base limit of 7.5% and believe that this is too low for future development.

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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?**

We believe that the base combined concentration limit is too low and that individual Boards should have discretion on the split, relative to their Risk Appetite.

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?**

As stated above we do not agree with the proposal to group these two lending Categories together for the purposes of determining the appropriate business model. The enforced merging of these two categories seems contrary to contemporary opinion from various credit union reviews and the "earned flexibility" hypothesis as advocated recently by the Registrar of Credit Unions.

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

We believe that the requisite operating elements for each of these two Lending Categories are different and would require sufficient appropriate resources depending on the strategy, scale and reach of the credit union. From Credit Union Plus' perspective, appropriate policies, standards and procedures would be put in place to satisfy the business cases and resource requirements.

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

We acknowledge the perception that credit unions should largely concentrate on personal lending. However, many members have additional financing requirements and should be able to access their credit unions should the opportunity arise. We fundamentally disagree that the Housing and Commercial lending categories should be consolidated but in the absence of any alternative we would concur with CUDA's suggestion of a separate home loan limit of 20% of assets.

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

The application process could be enhanced considerably by including a schematic whereby credit unions could ascertain in advance the likelihood of meeting the selection criteria and therefore the likelihood of successful application.

Definition of Commercial Loans:

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

As we do not agree with the proposal to prohibit buy to let residential and commercial property we cannot agree with the re-naming proposal. There is some ambiguity between the proposed definition and that contained in the Credit Union Handbook (section 4.3)

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

We would argue that the proposed definition would severely restrict the potential of the credit union to capitalise on opportunities which may be brought about by changing legislation, especially in relation to any common bond re-alignment legislation, and from non-owner managed enterprises.

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 agree that this proposal is appropriate.

Transitional Arrangements

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

Any loans which are subject to S35 rescheduling should be included in 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?**

While credit union savings are deemed, in theory, to be on demand, in practice, a considerable proportion of these savings are de facto longer term Liabilities. Assessing the Asset element of the ALM equation is a relatively simple task whereas determining the Liabilities element is considerably more complicated. Credit unions wishing to increase their longer term lending should have access to enterprise technology which will monitor, analyse and manage liquidity and interest rate risks and handle regulatory reporting and compliance issues.

Credit Union Plus endorses the CP125 submission of CUDA (The Credit Union Development Association)

We thank you for the opportunity to respond to this Consultation Paper.

John Grogan

Chief Executive Officer