SUBMISSION BY

C.U.M.A.

The Credit Union Managers Association

To the Central Bank of Ireland

Consultation on Potential Changes to the Lending Framework for Credit Unions

Consultation Paper CP 125

9 January 2019

CUMA, the Credit Union Managers Association, welcomes this opportunity to submit it's views on the Consultation on Potential Changes to the Lending Framework for Credit Unions and comment on the potential changes to credit union core business.

CUMA is disappointed by the content of the consultation paper, particularly in the area of setting the maximum maturity limit for personal lending.

CUMA is an association of credit union professional senior managers and CEOs drawn from credit unions in the Republic of Ireland and in Northern Ireland. Our members are front-line people drawn from all sizes and types of credit unions. Our members are the people who, day-to-day, interact with the 3 million members of credit unions on the island of Ireland.

We are the largest movement of co-operatives on the island of Ireland, owned and governed by our members and their representatives, and staffed by committed and highly-qualified professionals. We are "Not-for-Profit" co-ops, born out of our communities and embedded in our communities. Our service to our members, the overwhelming majority of the public, is driven by the member interest of that element of the Irish public. We are, and remain, the original public interest financial institutions operating in the financial services sector.

In its consultation paper, the Central Bank is seeking views on the following:

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)?**

The removal of the five year limit is welcomed. The 10 year limit is re-imposed, only with greater severity later in the Central Bank proposal.

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?**

This is anti-competitive and anti-consumer. It places a blanket restriction on all credit unions. It clearly favours the banking sector and it's entry into personal lending has no equivalent restriction imposed by the Central Bank on other credit institutions.

It is discriminatory in that it severely limits the number of people who can obtain a secured, ten-year-plus loan. Tenants, renters and existing mortgage holders are effectively excluded from this type of loan. It will needlessly add expense to the few borrowers who can avail of this type of loan, forcing them to undertake the expense of a mortgage charge and all associated legal and other costs.

Persons living in the rental or local authority sector with long-term tenancy who wish to enhance their home and pay for it over an extended period will find themselves excluded from this possibility now as a result of the Central Bank restriction. No foresight is displayed by the Central Bank in terms of possible future evolution of the Irish housing market away from home purchase. This restriction will also seriously expose elements of society into higher areas of risk, whereby they will have to pledge their home against loans that hitherto would have been unsecured.

Practical examples of how this limit may negatively impact on members are as follows:

Example 1

Member has a requirement to fund college fees for 2 children: member wishes to borrow for education purposes a total loan amount of €35K (2 children attending college in Dublin).
Total repayments at an APR of 4.99% over 10 years = €170.09 per fortnight.
This is not affordable for the member and does not meet with their repayment capacity.
Alternative Proposal:
Total repayments at an APR of 4.99% over 15 years = €126.48 per fortnight.
This is affordable and complies with the requirement that the member borrows within their repayment capacity.
The member may then, once the children have completed college courses, increase their repayments, this facilitates flexibility and ensures that the member can afford a college education for their children.

Example 2

Member has a requirement to fund college fees for 2 children: member wishes to borrow for education purposes a total loan of €40K (2 children undertaking masters). The member is 55, is a public servant and has plans to retire at 60 where upon she will receive a lump sum. The member has requested that the loan is borrowed for a maximum term in order to ensure repayment affordability.
Total repayments at an APR of 4.99% over 10 years = €194.39 per fortnight.
This is not affordable for the member and does not meet with her repayment capacity.
Alternative Proposal:
Total repayments at an APR pf 4.99% over 15 years = €144.54 per fortnight.
This is affordable and complies with the requirement that the member borrows within their repayment capacity. The member may use their lump sum to clear or substantially reduce the outstanding loan balance when they retire. This facilitates flexibility and ensures that the member can afford a college education for their children.

Example 3

Member has a home improvement loan of €30K over 10 years at an APR of 8.99%.
Current repayments are €172.08 per fortnight.
The member has a sick child and has temporarily reduced their working hours which impacts on their income. The member requests that the credit union reschedules their loan over a longer period to facilitate their circumstances.
Proposal
The member requests that the loan is rescheduled over 15 years reducing their fortnightly payments to €136.89 per fortnight.

Example 4
Member is in his early 30s, has a long-term tenancy and wishes to implement enhancements to his home with the agreement of his social-housing body. The member wishes to borrow €25,000 and finds that it is comfortably affordable over a 15 year period. At 10 years it would be unaffordable. The member believes that the investment in his home will enhance his life experience and that of his family. The restriction being imposed by the Central Bank of Ireland will deny this individual this opportunity to improve his family's circumstances.

Clearly, the examples given above, detail how credit unions work with members to prudently manage their circumstances. Imposing a 10 year limit on unsecured lending would potentially diminish, frustrate and incapacitate credit unions and their members.

The Central Bank has indicated that no other financial institution would be required to operate within these limits.

There is no substantive evidence to demonstrate that credit unions have in any way abused their capacity to give unsecured loans in excess of 10 years.

Credit unions have a proven history of responding to members needs and this proposal effectively pulls the rug from under their feet.

CUMA strongly objects to this proposal. It is anti-competitive, unfair and is anti-consumer.

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

This is far too restrictive. There are other forms of security that could be used, including but not confined to second charges, liens, undertakings and guarantees. The concept of partial security should be allowed.

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?

The €25,000 is set too low. This needs to be revisited and moved upwards. There are no similar restrictions placed on banks. Extending this restriction downwards is simply introducing more barriers to lending to smaller-scale commercial lending and limiting the amounts that can be loaned to genuine commercial projects.

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

The levels of Board Reporting required by the Central Bank serves only to impose more pressure on unremunerated, non-executive directors.

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?**

There is no discernible logic in linking home lending to commercial lending in the determination of limits. Restricting these categories to 5% and 2.5% severely limits competition and favours the banking sector in this country. These limits combine with further restrictions in the area of so-called "large exposure". Commercial and home loans have completely different risk profiles and underwriting processes. Credit Unions are supposedly independent entities, and should be allowed to compete for member and consumer business on a fair basis with competitor institutions.

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?**

Commercial and Mortgage loans should not be connected, and both should have a minimum of 15% of asset capability. CUMA does not agree with the proposal to limit the maximum amount of house loans which a credit union may undertake to 5% of Total Assets and feel it is totally inadequate to allow credit unions to properly and meaningfully provide this as a product line which they can market to members. CUMA also notes that included in the consultation paper is reference to the fact that "the Central Bank's intention to state in the regulations that buy to let residential lending and buy to let commercial lending is prohibited under the lending framework for credit unions". CUMA does not agree with this prohibition on lending for buy to let properties.

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?**

This should not become another vehicle of restriction. CUMA would not be in favour of combining the concentration levels on the two types of loans. CUMA would be concerned that once the limit is exhausted there appears to be no further options other than to stop offering the product which is the situation that exists currently, which brings about reputational issues for credit unions.

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

CUMA considers the following necessary to support increased lending in house loans:

- Strong and robust risk assessment, together with a cost/benefit analysis of this loan category;
- A clearly defined credit policy, which covers the key lending criteria and best practice in relation to longer term lending; and supported by clear procedures on credit assessment;
- A clearly defined asset/liability management policy, covering the impact that longer term lending may have on the credit unions liquidity position;
- A clearly defined credit control and provisioning policy, with specific reference to house loans and arrears management *and* support unit for distressed cases.
- A supporting IT system that is robust and able to produce accurate and timely credit risk management reports for onward reporting to the Board on a monthly basis.
- Staff qualified and fully trained on all aspects in relation to house and commercial lending and arrears collection.

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

We do not agree with combining those concentration limits. There should be no upper limit on enhanced limits. That should be a decision for the democratically elected directors of the credit union, not the Central Bank.

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

The application process should not be necessary. If however it is imposed, it should be transparent and time-bound, with an SLA standard in place.

Definition of Commercial Loans

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

No, CUMA does not agree with the proposal to rename the commercial loan lending to small business loan and sees no logic to this proposal.

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

    There are circumstances where the proposed definition will constrain legitimate opportunities e.g. where a member has a primary source of income from employment, and where the loan is for "business" purposes, such as a part-time farmer.

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?**

    This is a further restriction on credit unions and further limits competition and consumer choice. It cuts the maximum loan from 1% of assets to 0.25% of assets. It further limits commercial and mortgage lending.

Transitional Arrangements

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

    No, CUMA does not have any comment on the proposed 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?**

    They should not be used to further restrict lending. Credit unions currently have high levels of liquidity. CUMA are cognisant that longer term lending will undoubtedly impact ALM in the future.