Drogheda Credit Union – CU023 - submission to CP125

Drogheda Credit Union welcomes the opportunity to respond to the consultation on potential changes to the Lending Framework for Credit unions. We are also conscious of the review work required in our strategy and risk appetite as part of any potential changes. We envisage these changes will allow our Credit union to provide a more diversified and wide ranging lending service to all our members. [redacted] Drogheda Credit Union believes the existing limits on longer term lending restricts our growth ambition.

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)?

Drogheda Credit Union welcomes the removal of these maturity limits.

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 are not in favour of this 10 year maximum maturity limit of 10 years and propose 15 years to ensure our credit union can avail of this increased term for some of our members.

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

Whilst we support the definition of secured loans, we would like to know if the threshold levels for minimum % cover will be specified. We would also like consideration be given to “a second legal charge” as it may be effective for home improvement loans, and for “irrevocable solicitors letters of undertaking” to be considered for security.

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 would recommend that the existing provision whereby loans of less than €25k are not included in the concentration limit be retained.

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

We support this change.

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 are not in favour of this proposal, given the different risk characteristics of these two types of loans. Rather than combining, a separate base concentration limit should be introduced.

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?

The 5% of total Assets is a sound base concentration limit for commercial loans. For house loans, 5% would not allow our CU develop this a meaningful product for our members, with little headroom for providing this loan product to our CU members. A 10% of Total Assets for owner occupied house loans would be appropriate to allow our CU invest in this product type, through staff training, system requirements and promotions & marketing.

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?

Drogheda Credit union is not in favour of combining the concentration limits as noted above, and believe separate concentration limits make more sense from a risk management perspective.

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

We support increased lending in house loans and consider the following requirements necessary –

- Credit provisioning policy and other credit policies updated
- Risk appetite and business plan with cost/benefit plan updated
- Systems and reporting capability
- Credit control management
- Credit review and loan book review procedure
- Expertise for commercial lending
- Experienced lending officers with appropriate underwriting skills

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

We believe separate concentration limits are best, rather than the proposed combined one.

11. Do you have any comments on the application process referred to above?
Further information may be required regarding the “minimum criteria necessary for approval for the increased concentration”

Definition of Commercial Loans:

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

We support this proposal.

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

The definition is adequate but would request that “buy to let properties” be considered once the risks are mitigated and conservative LTVs are used.

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 support this.

Transitional Arrangements

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

We agree with these.

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?

Prudent and well managed lending policies and procedures are core to Drogheda CU, in respect of these proposed changes noted above. With the ongoing development of credit unions and the ever changing balance sheets, a review should be built into the future to re-assess lending requirements and regulatory limits.