

Enniscorthy Credit Union Limited (ECU)

“Consultation on Potential Changes to the Lending Framework for Credit Unions (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)?

ECU Submission

We see the lifting of these limits on 5 and 10 year lending as a positive development and open the possibility to secure a greater share, particularly in the house loan market, driven by increased spending on Administration and control systems together with increased marketing and promotion of the product.

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?

ECU Submission

ECU would not be totally in favour with this limit. It has the potential to impact on Credit Control where it may be necessary in certain circumstances to tailor repayments to a period in excess of 10 years.

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

ECU Submission

ECU feels there is some clarification required. For example in relation to minimum required for pledged shares. Also there are instances where a second legal charge may be acceptable or an irrevocable solicitor's letter may be accepted.

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?

ECU Submission

It makes little sense to include the smaller (lower risk) commercial loans, say under €10,000 included when calculating for the commercial concentration limit.

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

ECU Submission

Credit unions will have little difficulties 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?

ECU Submission

We do not see sufficient headroom even after applying the new criteria. Even those limits ought to be improved upon to give credit unions scope to set up, manage and maintain the administration and control systems necessary to manage such long term loans and to afford credit unions margins to invest in the concerted and sustained marketing effort necessary to attract members to take up such 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?

ECU Submission

We believe the 5% limit on house loans or commercial loans does not allow for sufficient scope for either house loans or commercial loans as stated at question 6 above. It would be helpful if this limit were increased to 7.5% for house loans, or Commercial loans or for any combination thereof. Even those limits ought to be improved upon to give credit unions scope to set up, manage and maintain the administration and control systems necessary to manage such long term loans and to afford credit unions margins to invest in the concerted and sustained marketing effort necessary to attract members to such loans. Even in this scenario any increase in the bottom line will be meagre and a CU would need to weigh carefully the likely return against the significant risk involved.

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?

ECU Submission

This would certainly be a further step in the right direction and indeed we believe many larger credit unions can make available the necessary skills, expertise, operations and risk management capability to undertake increased levels of lending in the categories of house and small business lending.

The increase would give an extra incentive for credit unions to commit significant and sustained resources on Administration and control systems as well as marketing and promotion necessary to attract the borrowers in these categories. Collaboration with other credit unions becomes a very real possibility in terms of marketing and promotion.

Assuming credit unions use the full permitted level of lending in the categories mentioned this would go some way towards remediating the deficit in lending that all credit unions are currently experiencing.

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

ECU Submission

ECU would see skills enhancements required in the area of Asset Liability Management and possibly

Risk Management

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

ECU Submission

Lending of a further 7.5% of Total Assets or indeed perhaps an increase of 10% of Total Assets, with the approval of the Central Bank, for those credit union who only lend one or other of these categories, bringing the total to 15% of assets would certainly be a further step in the right direction

and would represent a significant level of lending in the categories of house and/or small business lending. This necessary increase would give an extra incentive for credit unions to commit a significant and sustained spend on Administration and control systems as well as marketing and promotion necessary to attract the borrowers in these categories of lending. It would give credit unions assurance that there is a substantial upside here and give them confidence to go after this market and commit the necessary resources to deliver the increased lending all credit unions need. Collaboration with other credit unions becomes a very real possibility in terms of marketing and promotion given the increased limits under consideration.

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

ECU Submission

Seems rather standard

Definition of Commercial Loans:

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

ECU Submission

We believe this is a welcome development and is a more appropriate name for this type of lending, given that such lending is likely to be for small businesses.

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

ECU Submission

Whilst we understand the sentiment in the definition we feel the words "owner managed small business enterprises" may cause practical difficulties for credit unions and indeed for borrowers. Issues may arise where for instances there are several owners of a business but only one (or indeed his/her son or daughter) is managing the business. Other owners of the business may or may not be involved in the management of the business. In the farming sector a retired farmer might be the owner of the farm but his son or daughter might be managing the business. Other examples can easily be found but perhaps it is the Bank's intention to cater for such occurrences.

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?

ECU Submission

It is assumed that employees of the same company or organisation the connected persons. In that case one would feel the limit of 2.5% is far too low as there are situations where that limit will be

easily equalled or exceeded. For example where a large employer or state organisation in an area has several hundred employees, many are likely to be borrowing from their credit union. Even for large credit unions where the regulatory reserve might be €15m or €20m (Total Assets of say €150m or €200m) then the limit of 2.5% of Regulatory Reserves will give rise to a prescribed exposure of between €375,000 and €500,000. Even a large or extended family could well have borrowing in excess of this figure. One would feel that a limit of nearer to 10% of Regulatory Reserve would be more appropriate.

Transitional Arrangements

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

ECU Submission

This seems to be a reasonable way forward.

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?

ECU Submission

A calculation shows that even after the 15% (assuming CBI approved such an application) of house or small business loans have been fully lent, many credit unions would still have of the order of 40% of Total assets still remaining to lend to members and that is after allowing for the necessary 25% liquidity requirements. Hence there is a great need for credit unions to have this additional 15% house and small business loans available to them for lending.

The matter of long-term lending being funded by members' savings on short term deposits is an issue that on the face of it could be a concern. However the history of the ever increasing shareholdings of members is something that goes back to the beginnings of the credit union movement and shares have grown almost every year since. As we know credit unions are trusted by members as a safe and secure place to invest their savings and even though dividends might be small that has little bearing on members deciding to place their savings with credit unions. Hence this apparent mis-match ought to be of little concern to credit unions or indeed Central Bank of Ireland.