Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Feedback Statement on CP125 – Consultation on Potential Changes to the Lending Framework for Credit Unions

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Foreword

In 2018, the Central Bank undertook a review of the lending framework for credit unions to ensure that the scope and parameters are clear, are appropriately calibrated and reflect the competence and capability of credit unions. This resulted in the publication of CP125 – Consultation on Potential Changes to the Lending Framework for Credit Unions on 24 October 2018.

We would like to acknowledge the level of interest in this review. We would like to thank all those who provided input through direct engagement with the Central Bank, responses to the longer term lending questionnaire issued by the Central Bank in April 2018 and/or feedback on the proposals set out in CP125 as part of our public consultation and statutory consultation processes.

The Central Bank is supportive of credit unions increasing lending on a prudent basis, including engaging in new areas of lending and increasing exposure to longer term lending as part of a balanced loan portfolio. While some credit unions have called for increased capacity to engage in longer term lending, the Central Bank remains of the view that this is not the sole solution to the low loan to assets ratio and sustainability challenges facing the sector, such as high cost income metrics and the low interest rate environment. At the time of publication, there is a wide disparity across the sector in terms of individual credit union loan to assets ratios, confirming that commercial challenges are constraining credit unions from advancing their business model and meeting their members' lending needs.

The Central Bank is of the view that a balanced loan portfolio, supported by strong risk management capability, can increase diversification in loan books and help to manage credit concentration risks to which credit unions may be exposed. The Central Bank would caution that all lending should be prudently undertaken, well-managed and in line with each credit union's strategy, capabilities and risk appetite. In particular, credit unions should be aware of the risks and related considerations for new categories of lending including increased longer term lending.

The Central Bank has given detailed consideration to the submissions received on the proposals set out in CP125, and this feedback has influenced our approach, including on the following key areas:

- *Capacity provided for house and commercial lending;*
- *Definition of commercial lending; and*
- *Maturity limit for unsecured lending.*

The regulations we are publishing will introduce important changes to the lending framework for credit unions. These changes have been informed by the Central Bank's statutory mandate in relation to credit unions, which requires that the Central Bank administers the system of regulation and supervision of credit unions with a view to the protection by each credit union of the funds of its members and the maintenance of the financial stability and well-being of credit unions generally. The review of the *lending framework has been extensive and was informed by evidence gathered from credit unions, detailed analysis as well as engagement with relevant stakeholders, in particular as part of the public consultation and statutory consultation processes. The suite of changes, when taken together, will facilitate the management of loan book maturities and concentration risk, facilitate credit risk diversification and clarify the scope and parameters of credit union lending categories, for commercial lending in particular.*

Importantly, the revised lending framework will increase the flexibility of individual credit unions to manage the composition of their loan books through the removal of the limit on personal lending with a maturity between 5 and 10 years, and the provision of scope to gain exposure to specific categories of lending and specific maturity profiles, within the stated risk appetite for lending and risk and operational capabilities of individual credit unions. As part of the changes, we have calibrated the lending capacity provided to take account of the current position of credit unions in terms of their own strategic and business planning goals, the existing risk profile of credit unions, the need to align house and commercial lending capacity with competence and capability, the limited availability of established supports to credit unions through shared service type structures and the macro environment. It is our view that, together with greater credit union ownership of business model transition, the changes to the regulatory framework will enable credit unions to undertake balance sheet transformation in line with their aspirations in terms of serving member needs, while developing well balanced loan portfolios.

The Central Bank is keen to ensure that regulations put in place remain appropriate for the credit union sector. The significant and fundamental structural changes being made to the framework lay the groundwork for potential future changes. The Central Bank is of the view that a gradual stepped approach to providing additional capacity to credit unions for house and commercial lending is appropriate. Where conditions in the sector are such that there is an evidence basis to adjust capacity in the future, this could be achieved by amending the level of the limits. Such conditions would include clearly articulated strategies, sustained delivery of viable house and/or commercial lending business lines, demonstrated alignment of credit unions' risk appetites with business model strategies, highly developed competence and capability, fully embedded governance and risk management frameworks, well established and operationalised shared service type structures and financial resilience. In this regard, we remain committed to re-evaluating the capacity provided for house and commercial lending as the sector evolves and to making any necessary, appropriate and prudent adjustments.

Patrick Casey

Patrick Casey
Registrar of Credit Unions
21 November 2019

1. Introduction

Following a review of the lending framework for credit unions carried out in 2018, the Central Bank of Ireland (the Central Bank) published CP125 "*Consultation on Potential Changes to the Lending Framework for Credit Unions*" (CP125) on 24 October 2018. CP125 set out potential changes to the lending framework for credit unions, along with a Regulatory Impact Analysis (RIA), and sought views from credit unions and other sector stakeholders on the potential changes outlined, together with feedback on liquidity and broader asset and liability management (ALM) considerations for credit unions wishing to increase the proportion of their loan books held in house and commercial loans. The proposed changes were informed by the Central Bank's statutory mandate in relation to credit unions, as set out in section 84 of the Credit Union Act 1997 (the 1997 Act), which requires that the Central Bank shall administer the system of regulation and supervision of credit unions with a view to the protection by each credit union of the funds of its members and the maintenance of the financial stability and well-being of credit unions generally.

CP125 posed 16 specific questions for interested parties. The closing date for submissions was 9 January 2019.

The Central Bank received 36 submissions in response to CP125. The submissions received can be categorised as follows:

- Thirty submissions from individual credit unions;
- Three submissions from credit union bodies;
- Two submissions from groups of credit unions; and
- One submission from a statutory body.

We would like to thank all parties who took the time to make a submission, which is an important part of informing the policy development process. Copies of all submissions received are available on the Central Bank's website at the following link.

Following completion of the public consultation and consideration of the submissions received, in line with section 84A of the 1997 Act, the Central Bank has consulted with the Minister for Finance and the Credit Union Advisory Committee (CUAC). The Central Bank also further consulted with credit union bodies at that time.

This paper summarises the feedback received on CP125 and sets out the Central Bank's considered decisions. It is intended to be read in conjunction with CP125 and makes reference to proposals and terms used in CP125, which can be found on the Central Bank's website here.

In addition to this introduction, the feedback statement comprises four sections (sections 2-5) and two Appendices.

Section 2 provides a high level summary of the changes proposed in CP125, the feedback received and the Central Bank's response to this feedback.

Section 3 provides details on the proposals set out and the questions posed in CP125 together with a summary of the feedback received and a summary of the changes being made to the lending framework.

Section 4 provides an overview of additional feedback provided in submissions and the Central Bank's response to this feedback.

Section 5 provides details on the statutory consultation conducted in line with section 84A of the 1997 Act.

Appendix 1 includes the final draft Credit Union Act 1997 (Regulatory Requirements) (Amendment) Regulations 2020 (the Amending Regulations) which will give effect to changes to the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (the 2016 Regulations).

Appendix 2 sets out a comparison table outlining the key differences between the existing lending framework and the revised lending framework that will apply when the Amending Regulations are made and commenced.

This feedback statement is published to promote understanding of the policy formation process within the Central Bank and is not relevant to assessing compliance with regulatory requirements.

As indicated in CP125, the Central Bank will perform and publish an analysis on credit union sector lending three years post-commencement of these amendments to the lending framework, in order to assess and analyse the actual impact which the changes to the lending regulations have had and to inform any decisions on the need for future change.

2. Executive Summary

Review of Lending Framework for Credit Unions - Background

In order to ensure that the scope and parameters of the lending framework are clear and are calibrated appropriately and reflect the competence and capability of credit unions, in 2018, the Central Bank undertook to review the lending framework for credit unions.

The review was undertaken in the context of:

- The Central Bank's statutory mandate to regulate and supervise credit unions with a view to ensuring the protection by each credit union of the funds of its members and the maintenance of the financial stability and well-being of credit unions generally;
- Sector engagements on business model development and longer term lending;
- Recent lending sector data and trends including data received from a lending questionnaire issued to the sector in 2018 (the 2018 lending questionnaire);
- The current lending framework; and
- Broader balance sheet considerations including ALM.

Consultation on Potential Changes to the Lending Framework for Credit Unions

Following a review of the lending framework for credit unions, on 24 October 2018, the Central Bank published CP125 "*Consultation on Potential Changes to the Lending Framework for Credit Unions*". CP125 set out potential changes to the lending framework for credit unions, along with a RIA, and sought views from credit unions and other sector stakeholders on the potential changes outlined. The Central Bank indicated that it was considering the following potential changes to the lending framework:

- Removal of the 5 year and 10 year lending maturity limits contained in Regulation 14 of the 2016 Regulations;
- Introduction of a maximum loan term of 10 years for unsecured lending;
- Introduction of a combined concentration limit (expressed as a percentage of total assets) for house and commercial lending for all credit unions on a tiered basis;
- Re-naming and re-defining the commercial loan category of lending[1]; and
- Introduction of a prescribed large exposures amount for credit union lending.

[1] For the avoidance of confusion, please note that the 'commercial loan' category of lending is referred to as 'commercial loan' and 'commercial lending' throughout this document.

In addition, CP125 set out information on the Central Bank's intention to state, through revised regulations, that a loan made for the purchase of buy to let (BTL) residential or BTL commercial property would be prohibited under the credit union lending framework.

Further, in CP125 the Central Bank confirmed its intention to rescind the provisioning requirements for rescheduled loans set out in the Section 35 Regulatory Requirements for Credit Unions issued in October 2013, given the application of Accounting Standard FRS102 to credit unions in 2016 and publication of Central Bank Provisioning Guidelines for Credit Unions in April 2018. CP125 also outlined a proposal, for clarity and ease of access, to move the liquidity requirements set out in the Section 35 Regulatory Requirements for Credit Unions into Part 3 of the 2016 Regulations. Finally, it was proposed that requirements for lending practices for rescheduled loans together with systems, controls and reporting would be reflected in the Lending Chapter of the Credit Union Handbook.

Feedback Received

Almost all submissions welcomed the removal of the existing maturity limits for loans with terms greater than 5 and 10 years, which are based on a percentage of a credit union's loan book. Concerns were raised with the proposal to introduce a combined concentration limit for all credit unions for house and commercial lending, with a large number of submissions disagreeing with the proposal to introduce a base combined concentration limit of 7.5%. One of the main concerns put forward in the submissions centred on the proposed concentration limit not providing sufficient additional capacity to credit unions to develop their house and commercial loan books. In this regard, it should be noted that concerns generally focussed on the availability of additional capacity for house loans and concerns around the combined nature of the proposed limit.

Other issues raised included that the proposed limit of 5% (within the 7.5% combined limit) for house or commercial loans would be too restrictive; again, only some submissions agreed with this 5% inner limit proposal.

On the proposed increased combined concentration limit of 15%, a large number of submissions agreed, in principle, with the proposal for an increased limit, with a significant number of submissions agreeing with the proposed application process to the extent that it was outlined in CP125. Feedback was received calling for transparency in the application process for credit unions wishing to avail of such an increased limit and some concerns were raised with the proposal to limit this to credit unions with assets of at least €100m. While some submissions agreed with the proposed concentration limit of 15%, a large number of submissions disagreed with the proposed 15% limit. As with the proposed base concentration limit of 7.5%, some submissions indicated that the proposed 15% increased limit would not provide sufficient capacity.

A number of submissions agreed with our proposals to require all commercial loan exposures, including commercial loans under €25,000, to utilise the concentration limit for commercial lending but some other submissions raised concerns on the impact of this change.

On the proposal to rename the ‘commercial loan’ category of lending to ‘small business loan’, a significant number of submissions agreed with this proposal and some suggestions were received for possible alternative names for this category of lending. A significant number of submissions provided feedback on the proposed definition for this category of lending with some in favour while others objected, generally on the basis of what was viewed as a narrowing in scope of the type of lending that credit unions can currently undertake within the commercial loan category of lending.

On the proposal to prohibit unsecured lending for loans exceeding 10 years, a large number of submissions disagreed with the proposal. While some submissions agreed with the proposed definitions of ‘secured loan’ and ‘unsecured loan’, some clarity was sought, particularly around what could be considered ‘security’ and the proportion of the loan that must be covered by such security.

On the proposals on board reporting and prescribing a large exposures amount, a large number of submissions agreed with the proposal to introduce board reporting requirements for house loans and a significant number agreed with prescribing a large exposure as 2.5% of regulatory reserves.

On the question on the associated risk and ALM considerations, for credit unions wishing to increase the proportion of their loan books held in house and commercial loans, the majority of submissions commented on this and acknowledged the importance of appropriate ALM frameworks to support longer term lending and noted the need for appropriate expertise and resourcing to build these frameworks.

In addition to the above feedback on the specific questions posed in CP125, a significant number of submissions commented on the proposed prohibition on BTL lending for residential or commercial properties. All of the submissions disagreed with the prohibition, generally on the basis that those credit unions with the capability and risk appetite to engage in this activity should be permitted to undertake such lending.

Finally, respondents provided feedback on the existing maturity limit of 25 years for loans provided by credit unions, noting that this would preclude credit unions from entering the first time buyer (FTB) market as the majority of loans to FTBs are for terms of greater than 25 years.

Main Refinements

The Central Bank has given detailed consideration to all of the submissions received and this feedback has informed changes being made to the lending framework. Arising from this, and having engaged with credit union representative bodies and other relevant stakeholders, some of the proposals set out in CP125 have been refined. The main refinements are summarised below:

- **5% inner limit** - The proposed 5% inner limit (within the 7.5% base limit) for house loans has been removed.
- **10% conditional limit** - In addition to the 7.5% combined concentration limit and the increased 15% concentration limit, a 10% conditional limit has been introduced which credit unions may utilise where they meet objective qualifying criteria (≥€50 million total assets and ≥12.5% regulatory reserves) and provide prior notification to the Central Bank.
- **Unsecured lending (10 year limit)** – The proposal to prohibit unsecured lending over 10 years has been adjusted to ensure that it will not impact on the ability of a credit union to offer appropriate loan rescheduling or restructuring to members experiencing difficulty with the repayment of their loan. In these circumstances, where appropriate, the term of an unsecured loan may be extended beyond the maximum loan term of 10 years.
- **Maximum loan maturity** - Further to feedback received to CP125, the current loan maturity limit will be extended from 25 years to 35 years; this will apply to secured loans only.
- **Definition of 'secured loan'** – Rather than defining a secured loan as *'any loan which is secured by way of: a first legal charge on property; a pledge of shares; or an assignment of a deposit'*, the final definition provides that a secured loan means *'a loan that is secured by a mortgage, charge, assignment, pledge, lien, or other encumbrance in or over any asset or property, but shall not include unsecured guarantees by third parties'*.
- **Re-naming and re-defining the commercial loan category of lending** - Instead of changing the name of the 'commercial loan' category of lending to 'small business loan', as proposed in CP125, it will be re-named 'business loan'. Instead of referring to a loan made for the purpose of financing the working capital or capital investment needs of owner managed small business enterprises, 'business loan' will include a loan made for the purpose of a person's trade, business or profession where it is made to a person who is a micro, small or medium-sized enterprise.

- **BTL lending** - While BTL commercial property will not come within the definition of 'business loan', the definition for 'business loan' will clarify that this category of lending will include a loan to a member that is an approved housing body (AHB). Lending by credit unions to AHBs will therefore not be impacted by the general prohibition on BTL lending.

Having taken account of the feedback received, other proposals put forward in CP125 have been retained with little or no change on the basis that we still consider the approach proposed in CP125 to be the most prudent and appropriate approach at this time.

Table 1 below provides a summary of the main changes proposed in CP125 together with an overview of the final changes being made to the lending framework following consideration of the submissions received and our subsequent engagement with stakeholders.

Table 1 – Final Changes to the Lending Framework

CP125 Proposal	Final Changes to Lending Framework
Maturity limits	Removal of the 5 year and 10 year lending maturity limits contained in Regulation 14 of the 2016 Regulations.
Maximum loan term for unsecured lending	Introduction of a maximum loan term of 10 years for unsecured lending. The change will not impact on the ability of a credit union to offer appropriate loan rescheduling or restructuring to members experiencing difficulty with the repayment of their loan. In these circumstances, where appropriate, the term of an unsecured loan may be extended beyond the maximum loan term of 10 years. On the definition of a 'secured loan' and the types of security that a credit union may rely upon, the definition will provide that a 'secured loan' means '*a loan that is secured by a mortgage, charge, assignment, pledge, lien, or other encumbrance in or over any asset or property, but shall not include unsecured guarantees by third parties'*. The Amending Regulations will not prescribe a fixed proportion of security that must be in place in respect of a loan. However, the level of security required in respect of individual loan applications should reflect the size and risk profile of the proposed loan and take into account the credit union's obligations to protect members' savings under sections 27A and 35 of the 1997 Act, i.e.: • The maintenance of appropriate oversight, policies, procedures, processes, practices, systems, controls, skills, expertise and reporting arrangements; and

	• The management and control of lending to ensure the making of loans does not involve undue risk to members' savings. Further to other feedback received to CP125, we have extended the current loan maturity limit of 25 years to 35 years; this will apply to secured loans.
Combined concentration limits (expressed as a percentage of total assets) for house and commercial lending for all credit unions on a tiered basis	Combined concentration limits (expressed as a percentage of total assets) for house and commercial lending for all credit unions on a tiered basis will be introduced, with a number of post-consultation changes providing additional flexibility. The tiered limits are: • A 7.5% base limit available to all credit unions; • A 10% conditional limit available to credit unions meeting objective criteria relating to asset size and regulatory reserves who provide prior notification to the Central Bank; and • An increased 15% limit for credit unions who meet objective criteria relating to asset size, subject to an application and approval process. On the 7.5% concentration limit, the original proposal would have prevented a credit union exceeding 5% of total assets in respect of either house loans or commercial loans. As part of the final changes, the 5% inner limit will only apply in respect of commercial loans. As above, a 10% concentration limit will also be introduced which credit unions may utilise where they meet objective criteria relating to asset size and regulatory reserves set out in the Regulations and provide prior notification to the Central Bank. In respect of this 10% limit, the 5% inner limit for commercial loans will apply.
Re-naming and re-defining the commercial loan category of lending	The 'commercial loan' category of lending will be renamed and redefined. In order to take account of feedback received to CP125, the 'commercial loan' category of lending will be renamed as the 'business loan' category of lending. A 'business loan' will include a loan made for the purpose of a person's trade, business or profession where it is made to a person who is a micro, small or medium-sized enterprise. While BTL commercial property will not come within the definition of 'business loan', the definition for 'business loan' will clarify that this category of lending will include a loan to a member that is an AHB. Lending by credit unions

	to AHBs will therefore not be impacted by the general prohibition on BTL lending.
Prescribing a large exposures amount for credit union lending	A large exposures amount will not be prescribed in the 2016 Regulations. The Central Bank will update existing guidance in respect of large exposures amounts and require reporting of specific information in this regard to the Central Bank under section 22 of the Central Bank (Supervision and Enforcement) Act 2013. The Central Bank's current guidance in the Lending Chapter of the Credit Union Handbook provides that the Central Bank would consider it appropriate that a credit union should consider any exposure greater than 5% of the regulatory reserve to be an individual large exposure; this will be changed to 2.5% of the regulatory reserve. In addition, the guidance on aggregate individual large exposures will be removed from the Credit Union Handbook.

In summary, having considered feedback received to CP125 and as part of our subsequent engagement with stakeholders, the Amending Regulations will make changes to the lending framework in a number of key areas:

- The existing 5 and 10 year maturity limits will be removed, as will the existing concentration limit for commercial loans (determined as a percentage of a credit union's regulatory reserves);
- Combined concentration limits (expressed as a percentage of total assets) for house and commercial lending for all credit unions on a tiered basis will be introduced;
- A maximum loan term of 10 years for unsecured lending will be introduced;
- The current loan maturity limit of 25 years will be extended to 35 years;
- The 'commercial loan' category of lending will be renamed and redefined; and
- The Central Bank's guidance on large exposures will be updated.

3. Responses to Questions Posed in CP125

3.1 Removal of 5 and 10 Year Lending Maturity Limits

Proposals set out in CP125

Under the existing regulatory framework, there is a limit on the maximum amount of loans which may be outstanding for periods of greater than 5 years and greater than 10 years. These limits are currently 30% and 10% of gross loans for 5 and 10 year maturities respectively, but these limits may be increased to 40% and 15% respectively where a credit union is approved by the Central Bank to avail of increased limits.

While the basis for lending maturity limits is currently expressed as a percentage of total loans, it is viewed that this constrains the capacity available to credit unions to increase their longer term lending as short term lending must be increased in order to provide additional scope for longer term lending.

CP125 proposed the removal of the 5 year and 10 year overall maturity lending limits contained in Regulation 14 of the 2016 Regulations and the introduction of combined concentration limits expressed as a percentage of assets for house and commercial lending.

Question 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)?

Submissions to CP125

Almost all submissions commented on the proposal to remove the existing maturity limits contained in Regulation 14 of the 2016 Regulations, with a large majority of submissions welcoming the proposal, acknowledging the increased flexibility that would be provided to individual credit unions to manage the composition of their loan books. However, some submissions that agreed with the proposal noted that this should be considered in the context of their comments on the proposed replacement concentration limits (referenced above and discussed in further detail in Section 3.3 below).

The limited number of submissions that disagreed with the removal of the maturity limits, commented on the conservative nature of the proposed concentration limits and suggested that these limits were not sufficient to allow credit unions to develop their loan books in a meaningful way.

Central Bank Response

Having taken account of the feedback received, the Central Bank is of the view that the removal of the 5 year and 10 year maturity lending limits contained in Regulation 14 of the 2016 Regulations, in conjunction with the introduction of new combined concentration limits expressed as a percentage of total assets, for house and commercial lending, is appropriate. As set out in CP125 this change will provide flexibility for credit unions in managing loan exposures through the removal of the limit on personal lending with maturity between 5 and 10 years and the provision of scope to gain exposure to specific categories of lending and specific maturity profiles. The Central Bank is supportive of credit unions growing their loan books on a prudent basis, recognising that some of this growth may come from longer term lending as part of a balanced loan portfolio.

3.2 Maximum Loan Maturity for Unsecured Loans

Proposals set out in CP125

The 2016 Regulations place an overall maximum term of 25 years on any loan provided by a credit union. CP125 articulated the Central Bank's view that the 25 year maximum maturity term remains appropriate taking account of the funding profile of credit unions. The removal of the existing lending maturity limits introduces a risk that the maturity profile of other credit union lending will extend and, as a result, increase the level of duration risk in the loan book and, by extension, the overall asset maturity profile of the credit union. In order to mitigate against this risk, CP125 proposed the introduction of a maximum maturity limit for unsecured loans of 10 years.

CP125 also proposed the introduction of a definition for a 'secured loan'[2] in the regulations to provide clarity on what loans are subject to the maximum maturity limit of 10 years.

Question 2

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

Question 3

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

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[2] CP125 proposed that a '*secured loan' would be defined as 'any loan which is secured by way of: i. a first legal charge on property; ii. a pledge of shares; or iii. an assignment of a deposit'.*

Submissions to CP125

Maximum Maturity Limits

The majority of submissions commented on the proposal to introduce a maximum maturity limit of 10 years for unsecured loans with a large proportion of submissions disagreeing with the proposal. Some of the submissions that disagreed with the proposal highlighted the potential impact the limit could have on the ability for credit unions to provide longer term home improvement loans with some of these submissions suggesting that such loans were lower risk than shorter-term personal unsecured loans; in one submission, a case study was provided to support this position. Some submissions proposed alternative maturity limits of 15, 16 or 20 years while others suggested that a small proportion of unsecured lending should be permitted to have maturity over 10 years or that such loans be subject to additional oversight and reporting. Some submissions raised concerns on the impact the limit would have on the ability of credit unions to reschedule or restructure loans, including as part of an arrangement under the Personal Insolvency Act 2012.

Concerns on the impact of the retention of the 25 year maturity for all loans were also raised in some submissions with the average term of FTB mortgages and the impact of this on the ability of credit unions to provide mortgages to FTBs highlighted.

Definition of a Secured Loan

The majority of submissions commented on the proposed definition of a secured loan. While some submissions agreed with the proposed definition, a large number of submissions disagreed with it. Submissions sought more clarity on the definition, with a particular focus on the percentage of attached shares that would be required for a loan to be considered secured. Submissions also suggested amending the definition to include additional forms of security, including second legal charges, solicitors' undertakings, assignments over certain policies and guarantees.

Central Bank Response

Maximum Maturity Limits

Having considered the feedback provided in submissions to CP125, the Central Bank remains of the view that a maximum maturity limit of 10 years for unsecured loans is appropriate to mitigate against the risk of an increase in the level of duration risk in loan books and, by extension, in the overall asset maturity profile of credit union balance sheets. The Central Bank considers that it would not be best practice from an underwriting perspective for an unsecured loan to be advanced for a period of greater than 10 years, reflecting the principle that the term of a loan should be aligned to its purpose. However, the Central Bank acknowledges the potential issues around rescheduling and restructuring loans which were identified in submissions and has drafted the Amending Regulations to ensure that the limit will not impact on the ability of a credit union to offer appropriate loan rescheduling or restructuring to members experiencing difficulty with the repayment of their loan, should such circumstances arise.

The Central Bank is also amending the 25 year maturity limit for all other loans – secured loans - to 35 years in acknowledgement of the impact that the 25 year limit could have on the potential for credit unions to lend to FTBs. Similar to the maximum maturity limit of 10 years for unsecured loans, the limit will not impact on the ability of credit unions to offer appropriate loan rescheduling or restructuring to members experiencing difficulty with the repayment of their loans.

Definition of a Secured Loan

The Central Bank is refining the definition of 'secured loan' proposed in CP125 to define it as *'a loan that is secured by a mortgage, charge, assignment, pledge, lien, or other encumbrance in or over any asset or property, but shall not include unsecured guarantees by third parties'*. For the purpose of the 2016 Regulations, an 'unsecured loan' will include any loan that is not a secured loan. The 2016 Regulations will not prescribe the proportion of a loan that must be secured in order for it to come within the definition. However, in accordance with the Central Bank's guidance set out in the Credit Union Handbook, the level of security required in respect of individual loan applications should reflect the size and risk profile of the proposed loan. It should also take into account the credit union's obligations to protect members' savings under sections 27A and 35 of the 1997 Act, i.e., to:

- Maintain appropriate oversight, policies, procedures, processes, practices, systems, controls, skills, expertise and reporting arrangements to ensure the protection of members' savings and that it complies with requirements imposed under the financial services legislation (section 27A of the 1997 Act); and
- Manage and control lending to ensure the making of loans does not involve undue risk to members' savings taking into account the nature, scale, complexity and risk profile of the credit union (section 35 of the 1997 Act).

Prior to commencement of the Amending Regulations, the Central Bank will develop guidance on the new regulations, including on the definition of 'secured loan'. This guidance will be contained in an updated Lending Chapter of the Credit Union Handbook and will outline the

Central Bank's expectations of credit unions in determining whether a loan may be considered a 'secured loan' within the meaning of the 2016 Regulations.

In addition to the introduction of definitions for 'secured loan' and 'unsecured loan' and updated guidance, in response to feedback received in CP125, changes are being made to the 2016 Regulations in order to allow credit unions to provide home improvement house loans[3] without the requirement to have a first legal charge over the property in question. Under the current regulations, where a credit union provides a loan for the purpose of home improvements, such loans may be provided within either the 'personal loan' or 'house loan' category of lending. Currently, where such a loan is provided as a 'house loan', the credit union must hold security in the form of a first legal charge on the property. Where such a loan is provided as a 'personal loan' there is no requirement to hold the first legal charge on the property. Further to the Amending Regulations commencing, credit unions will no longer be required to hold the first legal charge on the property for a home improvement loan when the loan is provided as a 'house loan'. Under the revised lending framework, credit unions can therefore continue to provide a loan for the purpose of home improvements either as an unsecured 'personal loan' with a maturity of up to 10 years or as a 'house loan' for a term greater than 10 years where it is a secured loan. Where provided as a 'house loan', the loan will not have to be secured by way of a first legal charge on the property. For all other types of loans coming within the definition of 'house loan', the requirement for the credit union to hold the first legal charge will remain unchanged.

3.3 Concentration Limit for House and Commercial Loans on a Tiered Basis – 7.5% Base Limit

Proposals set out in CP125

All Commercial Loan Exposures utilise the Concentration Limit for Commercial Lending

Under the existing lending framework, the concentration limit for commercial lending is 50% of regulatory reserves. However, any commercial loan issued with a value of less than €25,000 does not utilise this concentration limit. CP125 proposed to remove this provision from the 2016 Regulations to ensure that all exposures to commercial loans are captured under the new concentration limits.

The 2016 Regulations also contain lending practices for specific categories of lending whereby a commercial loan may only be granted where a comprehensive business plan and detailed financial projections, appropriate for the scale and complexity of the loan, are provided and in

[3] For the purpose of this document, a home improvement house loan is a house loan coming within the meaning of paragraph b) of the definition of house loan in the 2016 Regulations, i.e. home improvement house loans or a loan provided for the purpose of refinancing such a loan.

place before granting the loan. Further, it is required that a performance report on such loans must be provided in writing to the board of directors on a monthly basis. Commercial loans granted for less than €25,000[4] are currently excluded from these lending practice requirements and, as set out in CP125, the Central Bank is not making any changes to the 2016 Regulations in this regard. The Central Bank's expectation is that more comprehensive business plans and detailed financial projections are sought by credit unions for more complex and larger scale loans. The Central Bank will consider further communication on our expectations on this matter through our engagements with the sector and guidance, if necessary.

Board reporting requirements on the performance of house loans

CP125 proposed the introduction of board reporting requirements on the performance of house loans, similar to the reporting requirements contained in the 2016 Regulations for commercial loans. The requirement reflects the different credit risk profile which these loans present versus traditional credit union lending.

Introduction of a base combined concentration limit

CP125 proposed the introduction of a combined house loan and commercial loan concentration limit of 7.5% of total assets of the credit union (the 7.5% base limit). This limit would be available to all credit unions. The rationale for linking this limit to total assets is that it would ensure that a credit union's potential to engage in house and commercial lending is not constrained by reference to its overall lending. It would also provide increased flexibility to credit unions in terms of the composition of their loan books.

Limit the maximum amount of house or commercial lending which a credit union may undertake to 5% of Total Assets

Within the 7.5% base limit, the Central Bank proposed an inner limit such that no more than 5% of total assets may be exposed to a specific category of lending i.e. no more than 5% of total assets may be in either house or commercial loans.

Question 4

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

[4] Commercial loans granted for less than €25,000 represented c.38% of commercial lending according to June 2019 Prudential Returns submitted by credit unions.

Question 5

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

Question 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?

Question 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?

Submissions to CP125

All commercial loan exposures utilise the concentration limit for commercial lending

A large number of the submissions to CP125 commented on the proposal to require that all commercial loan exposures utilise the concentration limit for commercial lending. A number of submissions agreed with the proposal indicating that it enables a more consistent approach in overall portfolio management of concentration risk within a credit union's loan book and that the proposal gives a more accurate representation of commercial lending concentration. Others, while agreeing with the proposal in principle, only supported it on the basis of certain conditions, e.g., that the difference between personal and commercial loans be clearly defined.

A significant number of submissions disagreed with the proposal; the reasons provided in the submissions were varied. Some asserted that commercial loans of less than €25,000 are often advanced on the strength of the individual and are more akin to personal loans involving less complex risks. Concerns were also raised that the proposed concentration limit for commercial lending is lower than the amount permitted under the existing limit for commercial lending. On a similar theme, we received comments that the limit is too low, could significantly hamper credit unions' potential for additional lending in this loan category and would introduce more barriers to smaller scale commercial lending by credit unions.

Board reporting requirements on the performance of house loans

Almost all submissions agreed with the proposal to introduce board reporting requirements for house loans.

In supporting the proposal, a limited number of submissions also stated that such reporting requirements should not be overly onerous on the credit union. A small number of these submissions expressed the view that directors should not become too involved in operational matters, or in reviewing the performance of loans.

One submission disagreed with the proposal to introduce reporting requirements, expressing concern regarding the level of reporting required under new regulations.

Introduction of a base combined concentration limit

Almost all submissions commented on the proposal to introduce a 7.5% base combined concentration limit for house and commercial loans. While some of the submissions expressed agreement with the proposal to introduce a base combined concentration limit, a large number of submissions disagreed with the proposed introduction of the limit.

In expressing agreement with the introduction of the limit, one of the submissions noted that the proposed limits would allow the credit union to achieve their stated strategic objectives. Another submission which agreed with the proposal noted that the concentration limits, as proposed, were prudent.

A significant number of the submissions in disagreement expressed the view that separate concentration limits would be more appropriate, given the nature of the two loan categories.

Some submissions stated that the proposed limit was too conservative and suggested a number of different levels at which to establish the base combined concentration limit. Another issue raised in one submission was the potential for the proposed approach to create an unnecessary layer of operational complexity for such loans. This submission expressed the view that managing volumes within each type of lending in order to ensure compliance could be difficult.

A small number of submissions provided analysis to support the views expressed in relation to this proposal. This analysis considered the increase in lending capacity for credit unions of various asset sizes, depending on the level of additional capacity permitted. Further analysis was provided on potential loan book diversification under each proposed concentration limit, illustrating the potential impact on loan portfolio composition and loans-to-asset ratios if maximum capacity was utilised in each case.

A limited number of submissions expressed the view that the proposals within CP125 did not consider credit unions in other jurisdictions and the associated limits they may be subject to. One submission, whilst noting that the credit union does not currently engage in this type of lending, expressed the view that the 7.5% base limit would not afford credit unions the opportunity to enter this lending market in a meaningful way.

Limit the maximum amount of house or commercial lending which a credit union may undertake to 5% of Total Assets

Almost all of the submissions commented on the proposal to introduce a 5% inner limit within the 7.5% base limit, with a small number of submissions agreeing with the proposal to limit the maximum amount of house or commercial loans at 5%.

As with the responses to Question 6, many submissions once again took the opportunity to express the view that the proposed concentration limits for house and commercial lending should be separated, given the profile and characteristics of each type of lending.

Many credit unions made submissions expressing the view that the 7.5% base limit should be set at different levels for both house and commercial lending. In some of these cases, credit unions stated that they should be permitted to set their own limits, reflective of their risk appetite relative to these categories of lending.

Whilst expressing disagreement with the proposed limit, some credit unions expressed the view that a 5% inner limit would be sufficient for commercial lending, but that greater scope was required for house lending.

Many credit unions expressed the view that the proposed 7.5% base limit was too low, conservative and would not allow for meaningful entry into this market. A small number of submissions stated that whilst the proposed limits were sufficient to satisfy demand at this point, they may become a constraining factor in future for these types of lending.

A limited number of submissions expressed the view that they were satisfied with the proposed limits, as well as the 5% inner limit for the maximum amount of either house or commercial lending which a credit union would be permitted to undertake within the 7.5% base limit.

One credit union submission stated that it had no issue with the proposal to limit the maximum amount of lending in either loan category. One submission expressed the view that the new basis for the limits was seen as a positive development; the submission suggested that where a credit union waives the opportunity for commercial lending, that it should be permitted to utilise a greater percentage of the base concentration limit for house lending.

Central Bank Response

All commercial loan exposures utilise the concentration limit for commercial lending

Having considered the feedback received in submissions, the Central Bank has decided to proceed with this proposal such that all commercial loan exposures will utilise the concentration limits. This will ensure that all exposures to commercial loans are captured under the new concentration limits.

On the concern that the proposed concentration limit for commercial lending is lower than the amount permitted under the existing limit for commercial lending, the RIA published with CP125 clarified that where assessment was made by reference to commercial loans, this was a reference to *all* commercial loans outstanding. In other words, it also included those commercial loans less than €25,000.[5]

Specifically on headroom available for commercial lending, based on June 2019 Prudential Returns, our analysis suggests that 2 credit unions out of 245 (at that time) had commercial loans outstanding of greater than 5% of total assets. The vast majority of credit unions (221) had commercial loans outstanding of 2% of total assets, or less. This suggests that significant headroom would still be available for credit unions to increase their commercial lending under the proposed 7.5% base concentration limit, if this is aligned with their strategy, capability and risk appetite.

Board reporting requirements on the performance of house loans

Having considered the feedback received, it is considered appropriate to introduce the proposed reporting requirements. The performance of house loans represents a new risk area for credit unions under the framework. The introduction of board reporting requirements will enable enhancement to the current reporting framework to facilitate credit unions in identifying, monitoring and analysing any risk indicators on a timely basis.

Introduction of a base combined concentration limit and limit the maximum amount of house or commercial lending which a credit union may undertake to 5% of Total Assets

Having considered the feedback, the Central Bank considers it appropriate to introduce a base combined concentration limit for house and commercial lending for all credit unions. The base concentration limit will be set at 7.5% of total assets of the credit union. This 7.5% base limit will be available to all credit unions. Based on responses we received to the 2018 lending

[5] Commercial loans less than €25,000 are not included in the existing concentration limit for commercial loans expressed as a percentage of the credit union's regulatory reserves.

questionnaire, the 7.5% limit would satisfy the majority of credit unions' forecasted lending to September 2022.[6]

An adjusted inner concentration limit is being included, which specifies that no more than 5% of total assets may be exposed to commercial lending. Therefore, whilst this inner concentration limit will apply to commercial lending, the Central Bank has decided to exclude it for house loans so that a credit union may undertake up to 7.5% of total assets in house lending if it wishes to do so. This approach will therefore allow greater flexibility for those credit unions that may not wish to undertake commercial lending, or to do so on a more limited basis, to utilise the available capacity for house lending.

A comparison between the base concentration limit and inner concentration limit proposed in CP125 and those included within the final changes to the lending framework is set out in Table 2 below.

Table 2 – CP125 base concentration limit proposal and changes made in Amending Regulations

	Original CP125 Proposal	Change made in Amending Regulations
Limits	• Combined concentration limit for house and commercial lending. • Maximum 7.5% of total assets, of which: ○ Up to a maximum 5% of total assets may be in either lending category.	• Combined concentration limit for house and commercial lending. • Maximum 7.5% of total assets, of which: ○ All may be utilised for house loans; and ○ Up to a maximum 5% of total assets may be in commercial loans.

The Central Bank is including another option for credit unions. Credit unions that satisfy certain objective criteria (set out in Table 3 below) and provide one month's advance notice to the Central Bank, will be permitted additional lending capacity for house and commercial lending of 2.5% over the 7.5% base limit, without having to seek approval from the Central Bank. Such credit unions will therefore be permitted to provide house and commercial lending up to 10% of

[6] Based on June 2019 Prudential Returns from credit unions, our analysis indicates that the 7.5% base limit would provide sufficient capacity for 43 of the 63 questionnaire respondents who indicated that a change in the existing maturity limits was necessary (note: in total, 172 credit union respondents were included within the 2018 lending questionnaire dataset for analysis). The base limit is not sufficient for forecasted lending out to September 2022 for 20 credit unions; 11 of these credit unions have assets > €100 million and 9 of these credit unions have assets <€50 million. With the introduction of a 10% conditional limit for credit unions with assets ≥ €50m and regulatory reserves ≥ 12.5%, it is worth noting that of the 11 credit unions with assets of at least €100 million for which the base limit is not sufficient for forecasted lending, the 10% limit would provide sufficient capacity for 6 of these credit unions and the increased concentration limit of 15% of total assets would provide sufficient capacity for the forecasted lending activity of 4 of the remaining 5 credit unions.

total assets, with an inner concentration limit of 5% of total assets applying to commercial lending.

The changes to the framework will mean that the current long term lending maturity limits will be replaced with three tiers of combined concentration limits for house and commercial lending, prescribed as a percentage of total loans; specifically there will be combined 7.5%, 10% and 15% limits, as summarised in Table 3 below.

Table 3 – Tiered combined concentration limits for house and commercial lending

Limit	Available to:	Features
7.5% base limit	All credit unions.	A combined concentration limit for house and commercial lending available to all credit unions and calculated as a percentage of total assets. Entire limit may be utilised by the credit union for house lending. Up to a maximum of 5% of total assets may be in commercial loans.
10% conditional limit	Credit unions meeting objective asset size criteria (minimum total asset size of €50 million) and holding regulatory reserves of 12.5% or greater.	A conditional combined concentration limit for house and commercial lending and calculated as a percentage of total assets. Credit union must notify the Central Bank at least one month in advance. Entire limit may be utilised by the credit union for house lending. Up to a maximum of 5% of total assets may be in commercial loans.
Increased 15% limit	Credit unions with assets of at least €100 million.	An increased combined concentration limit for house and commercial lending and calculated as a percentage of total assets. Subject to an application and approval process. The entire limit may be utilised by the credit union for either house or commercial lending, subject to any conditions attaching to a Central Bank approval.

3.4 Concentration Limit for House and Commercial Loans on a Tiered Basis – Increased Concentration Limit

Proposals set out in CP125

Increased Concentration Limit for House and Commercial Loans

The Central Bank articulated its view in CP125 that it may be appropriate to make available an increased combined concentration limit for house and commercial lending to certain credit unions who can demonstrate with appropriate evidence that they have strong core foundations, including the skills, expertise, risk management and operational capability to undertake an increased element of lending in these loan categories via an approval process. In addition, CP125 proposed that credit unions seeking to avail of this increased combined concentration limit would be required to demonstrate that they have the financial strength and resilience, including a strong reserve and liquidity position and a clear understanding and appreciation of the specific risks associated with this type of lending. They would also be required to outline how they would propose to address and mitigate these specific risks.

CP125 set out the Central Bank's view that it is only those credit unions of sufficient scale who would have the capability to avail of this increased concentration limit and, in this regard, credit unions with total assets of at least €100m may be indicative of those credit unions who would be capable of demonstrating the necessary scale, available resources and capability to undertake increased house and/or commercial lending.

An Increased Combined Concentration Limit of 15%

The Central Bank proposed that the increased combined concentration limit for house and commercial loans, for those credit unions who could demonstrate that they have strong core foundations to undertake additional house and commercial lending, would be 15% of total assets.

Application Process for the Increased Concentration Limit

As part of the proposal put forward in CP125, the Central Bank indicated credit unions seeking to avail of an increased 15% limit would be required to submit an application to the Central Bank, accompanied by a robust business case clearly setting out the rationale for requesting the additional capacity and a clear understanding of the profitability implications of entering into these lending markets to a more significant degree. Additionally, it was proposed that applicant credit unions would need to be able to demonstrate that they clearly understand the risks associated with this type of lending and have the capabilities and systems to mitigate these risks appropriately. This application would need to include financial projections on how the credit union would make use of an increased lending capacity in house and commercial lending and give consideration to broader ALM implications. Subject to approval, the credit union would be permitted to avail of the increased 15% limit. As set out in CP125, a phased approach to utilisation of additional capacity to undertake house and commercial lending can play an important role in mitigating some of the related risks by ensuring that such lending is originated over the economic cycle. In CP125, the Central Bank set out its intention to require credit unions to use the additional capacity to issue house and commercial loans in a gradual/phased way.

Question 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 loans categories?

Question 9

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

Question 10

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

Question 11

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

Submissions to CP125

Increased Concentration Limit for House and Commercial Loans

The majority of submissions commented on this proposal. A large number of submissions supported, in principle, making an increased combined concentration limit for house and commercial loans available to those credit unions who demonstrate the necessary financial strength, skills, expertise, operational and risk management capability to undertake increased lending in these loan categories. A limited number of submissions disagreed with the proposal.

A significant number of submissions that agreed with the proposal in principle articulated a number of concerns with the calibration of the limit and the implementation of an application process. As with the base concentration limit, some submissions raised concerns on the combined nature of the increased concentration limit. Similarly, some submissions disagreed with the proposal that credit unions with total assets of at least €100m would be indicative of those credit unions with the necessary scale, available resources and capability to avail of an increased concentration limit. One submission argued that it would be unfair to exclude smaller credit unions from the application process simply on the grounds of asset size, noting this approach would not reward initiative, skills, good governance and competent risk management.

A small number of submissions were of the view that there was insufficient detail provided in CP125 on the application process and associated requirements to enable a proper assessment of the proposal. Another submission suggested that those credit unions with total assets above a predetermined amount that achieve a certain risk profile arising from supervisory assessment under PRISM should be automatically permitted to avail of an increased concentration limit.

A small number of submissions considered that the proposed increased limit of 15% is too low for a credit union that is seeking to engage fully in both types of lending. One submission noted that once the increased 15% limit is exhausted, there appeared to be no further options for a credit union other than to stop offering house or commercial loans.

A limited number of submissions commented on the impact of the proposed changes on those credit unions already approved for the increased lending maturity limits under the existing lending framework. One submission noted that credit unions already approved for the increased lending maturity limits are impacted substantially by effectively having these exemptions removed. Another submission suggested that those credit unions with approval to do increased longer term lending under the existing regulations should be automatically permitted to avail of the increased limits of the proposed regulations.

Skills, Expertise, Operational and Risk Management Capabilities necessary to avail of an Increased Concentration Limit

Almost all submissions commented on this question. The submissions provided a range of views on the skills, expertise, operational and risk management capabilities deemed necessary to support increased lending in house and commercial loans. Broadly speaking, comments provided outlined a need for specific skills and expertise in the areas of governance, strategy, underwriting, arrears management, provisioning, IT and risk management.

Some submissions commented on the need for a robust purpose built IT system capable of providing accurate and timely credit risk management information to support credit unions in monitoring, managing and reporting on lending activity.

A small number of submissions suggested engaging external expertise, including the utilisation of shared services, as a means of accessing the skills and expertise necessary to support increased house and commercial lending. One submission noted that if sufficient scope and easing of restrictions is permitted by the Central Bank, then credit unions could invest in the necessary skills and expertise to support increased lending in these categories of lending.

A small number of submissions specifically referenced the considerations set out in the Central Bank's *'Long Term Lending Guidance for Credit Unions'* as a guide as to what skills and expertise should be required in order for credit unions to avail of the increased combined concentration limit.

Introducing the Increased Concentration Limit at 15% of Total Assets

Almost all submissions commented on the proposed increased combined concentration limit for house and commercial lending of 15% of total assets. A large number of submissions disagreed with the proposed limit, while some submissions agreed with the proposal.

A number of submissions did not agree with the combined nature of the increased combined concentration limit citing the very different risk characteristics of house and commercial loans. A significant number of submissions considered the proposed increased combined limit for house and commercial lending of 15% of total assets to be too low. The rationale provided included that the increased limit would not provide enough additional scope for house lending for those that demonstrate capacity to do more lending. In addition, the increased limit would not go far enough to assist credit unions improve their loan to asset (LTA) ratios and address viability concerns. A significant number of submissions proposed alternative increased combined concentration limits to the limit proposed in CP125, including;

- Separate concentration limits of 5% of total assets for commercial lending and a 7.5% or 10% increased limit for house lending, depending on credit union asset size;
- Separate concentration limits of 5% of total assets for commercial lending and 15% for house lending;
- An increased combined concentration limit of 25% or 30% of total assets; and
- A base limit of 10% of total asset for each category with a 15% increased limit for each category of lending.

One submission suggested not quantifying the limits in regulations, but rather that the limits should be set by the Central Bank on a bilateral basis with each credit union, as part of the approval process. The same submission suggested that this approach would also allow the Central Bank to amend the limits quickly in the future, if required. Another submission proposed that there should be no upper limit on the increased limit, suggesting instead that this limit should be decided by the board of directors of each credit union.

Application Process for the Increased Concentration Limit

A large number of submissions commented on the application process proposed in CP125 for credit unions that may seek to avail of the increased 15% limit. Some submissions provided additional comments on the design and implementation of the application process.

A significant number of submissions requested that the Central Bank clearly define the application requirements and criteria and communicate these to the sector to ensure a transparent application process that is efficient for both credit unions and the Central Bank. Other suggestions from the submissions on the design of the application process include the following:

- There should be a balance between objective and subjective criteria as some objective criteria can be inflexible;
- Outputs from the PRISM process should be incorporated into the objective criteria used to assess the application;
- The application process should have clear timelines and maximum turnaround times;
- The Central Bank should provide full templates for all elements of the application process to ensure consistency and transparency for all interested credit unions;
- The Central Bank should publish a guidance note that defines regulatory expectations for the increased limit;
- A forum or work-shop on the application process and regulatory expectations should be held for interested credit unions; and
- The Central Bank should provide detailed feedback to unsuccessful applicants.

One respondent was concerned that the proposed phased utilisation of the increased limit may not be in the best interests of the sector or individual credit unions.

Central Bank Response

Increased Concentration Limit for House and Commercial Loans

The Central Bank considers it appropriate to introduce an increased concentration limit for house and commercial lending and to make this available to those credit unions who meet certain prescribed asset size criteria, i.e. minimum total assets of at least €100m. Such credit unions must be able to demonstrate with appropriate evidence that they have strong core foundations, including the skills, expertise, risk management and operational capability to undertake an increased element of lending in these loan categories via an approval process.

Skills, expertise, operational and risk management capabilities necessary to avail of an increased concentration limit

The Central Bank welcomes the views provided in the submissions on what skills, expertise, operational and risk management capabilities credit unions should have to support increased lending in house and commercial loans. The feedback provided will inform the development of the application process. The Central Bank will publish an application form and guidance for the increased limit shortly after publishing this Feedback Statement.

Introducing the Increased Concentration Limit at 15% of Total Assets

The Central Bank considers that an increased combined limit for house and commercial lending of 15% of total assets provides an appropriate level of additional capacity at this time for eligible credit unions wishing to undertake additional lending in these loan categories. The final calibration of the limits (including the increased 15% limit) takes account of a number of factors including:

- The current position of credit unions in terms of their own strategic and business planning goals, bearing in mind existing low capacity utilisation (both in house and commercial lending)[7], individual credit union risk appetites, member loan demand, common bond dynamics and competitive factors. The 2018 lending questionnaire provided a credit union outlook in this regard, an evidence basis to support the capacity proposed;
- The existing risk profile of credit unions, summarised in our most recent Supervisory Commentary paper[8], which evidences material risk vulnerabilities, including in credit underwriting;
- The need to align house and commercial lending capacity with competence and capability. Generally credit unions provide a basic savings and loans offering, with some more recently engaging in house lending to a greater extent.[9] The Central Bank believes it is prudent to ensure a safe and sound transition of business models, particularly where this is towards a more complex offering;

[7] While there is currently no specific concentration limit in relation to house lending, at a sectoral level credit unions can currently lend up to €1.63 billion over 5 years and, of this, €566 million can be lent over 10 years. Total utilisation of this capacity is €997 million and €210 million respectively (as at 30 June 2019). In terms of commercial lending, at a sectoral level credit unions can lend up to €991 million; total utilisation of this capacity is currently €113 million (as at 30 June 2019 - capacity utilised is taken to include all commercial loans).
[8] https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/credit-unions/communications/supervisorycommentary/prism-supervisory-commentary-april-2019.pdf?sfvrsn=5
[9] As set out in the Central Bank's latest *'Financial Conditions of Credit Unions'* publication – 5th Edition (August 2019), incremental changes in the overall lending profile continue to be reported by some credit unions, with early indications of an increase in credit risk appetite and an increase in the proportion of larger loans and loans of a longer duration.

- Availability of key supports to credit unions through shared service type structures, which are under-developed in an Irish context. This contrasts to established international peer movements, where credit unions rely on highly developed centralised supports; and
- The macro environment - the outlook for Ireland's open economy is uncertain given factors such as Brexit, global trade tensions, international tax changes and domestic capacity constraints. Against this backdrop, a prudent approach to facilitating increased house and commercial lending capacity is essential, particularly in light of the already cyclically advanced stage of the economy, and the fact that the materialisation of certain downside risks could disproportionately impact specific regions and sectors (bearing in mind credit union common bonds).

The Central Bank is of the view that a gradual stepped approach to providing additional capacity to credit unions for house and commercial lending is appropriate. The structural changes being introduced to the lending framework by the Amending Regulations can facilitate future changes where there is evidence that these are required and appropriate taking account of competence, capability and support structures available in the sector. As set out above, the Central Bank remains committed to performing and publishing an analysis on credit union sector lending three years post-commencement of the changes to the 2016 Regulations, to assess and analyse the actual impact which these changes to the regulations have had. This future review will demonstrate the appropriateness, or otherwise, of the concentration limits and inform any decisions on the need for change.

Application Process for the Increased Concentration Limit

The Central Bank welcomes the many useful and constructive comments provided on the design of the application process for the increased 15% limit. The view expressed in many of the submissions was that the application process should be a fair and transparent process. We will clearly articulate the application requirements to the sector through the publication of a new application form and associated guidance document. Applicant credit unions will be kept updated on the progress of their applications. Any applicants that are considered unsuccessful on the basis of their application will receive, in the first instance, a 'minded to refuse' letter that will clearly outline the rationale for the proposed decision. Such credit unions will be provided with an opportunity to respond to the Central Bank to correct any factual inaccuracies or provide additional relevant information which will be considered by the Central Bank prior to making a final decision.

As articulated in CP125, lending should be originated over the economic cycle. While the revised 2016 Regulations will not specifically limit credit unions in respect of the rate at which they utilise any additional capacity for house and business loans under the various combined concentration limits, the Central Bank expects credit unions to use additional lending capacity in a gradual/phased manner. In this regard, and as set out above, section 27A(1) of the 1997 Act provides that a credit union must maintain appropriate oversight, policies, procedures, processes, practices, systems, controls, skills, expertise and reporting arrangements to ensure the protection of members' savings and that it complies with requirements imposed under the financial services legislation. Under section 35 of the 1997 Act, a credit union must manage and control lending to ensure the making of loans does not involve undue risk to members' savings taking into account the nature, scale, complexity and risk profile of the credit union. With these existing requirements already in place under the 1997 Act, it is the Central Bank's expectation that credit unions engaging in house and commercial lending address all associated risks within their risk management systems.[10] This includes a credit union's approach to utilising capacity available within the relevant combined concentration limit in a gradual/phased way. Notwithstanding the requirements set out in the 1997 Act, in respect of an application to avail of the increased 15% limit, it should be noted that the Central Bank may make an approval subject to conditions in relation to the phasing of capacity utilisation, with which the credit union must comply.

On the basis that utilisation of the 7.5% and 10% limits do not require approval and the Central Bank's expectations for credit unions to use capacity in a gradual/phased way, the Central Bank envisages that larger credit unions that meet the objective criteria to avail of the 10% limit may choose to avail of the 10% initially, before applying for the increased 15% limit.

3.5 Re-naming and Re-defining the Commercial Loan Category of Lending

Proposals set out in CP125

Re-naming and Re-defining the Commercial Loan Category of Lending

The 2016 Regulations define a commercial loan as a loan, the primary objective of which is to fund an activity whose purpose is to make a profit. Given that credit unions currently undertake a small amount of commercial lending which is predominantly small scale in nature and focusing on small business and agricultural lending, in CP125, the Central Bank proposed to re-name and re-define the 'commercial loan' category of lending. CP125 proposed to re-name this category of lending as the 'small business loan' category in order to more accurately reflect the lending

[10] Prior to commencement of the Amending Regulations, the Central Bank intends to develop guidance on the new regulations to be contained in an updated version of the Credit Union Handbook and this will include an outline of the Central Bank's expectations regarding phased usage of additional lending capacity.

which credit unions undertake in this area. It was also proposed that 'small business loan' would be defined as '*a loan made for the purpose of financing the working capital or capital investment needs of owner managed small business enterprise*' and that the term 'small business enterprise' would be defined, most likely, to reflect the definitional approach to micro and small sized enterprises under European Union law.

Question 12

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

Question 13

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

Submissions to CP125

Re-naming the Commercial Loan Category of Lending

Almost all submissions received provided views on the proposal to re-name the commercial loan category of lending with a significant number of submissions expressing agreement with the proposal.

However, a number of submissions disagreed with the re-naming proposal, with a limited number of submissions failing to see any logic in it. We received feedback in a limited number of submissions that the new name may be too restrictive and credit unions can promote commercial loans as small business loans without the need to rename them. We also received feedback in a limited number of submissions that the proposed new name for this category of lending infers that credit unions will only lend, or are only fit to lend, small amounts of money to businesses.

Re-defining the Commercial Loan Category of Lending

Almost all submissions commented on the proposal to amend the current definition for 'commercial loan'. Some of the submissions broadly agreed with the proposed definition, or aspects of it, while a limited number of the submissions disagreed with the proposal. Overall, a significant number of submissions called for changes or clarifications to address a number of concerns regarding the proposed definition.

Feedback received in support of the proposed new definition, or aspects of it, included that the proposed definition was reasonable, it was in line with industry, more appropriate and would bring more clarity. Of those respondents who expressed clear disagreement with the proposal, the reasons provided included a view that no valid reason for changing the definition has been demonstrated and that the current definition is clearer. A number of submissions focused on the proposed definition limiting loans in this category of lending to 'owner managed' businesses. Generally, submissions expressed a view that the very limited corporate structure requirements of 'owner managed' businesses could curtail lending opportunities and other initiatives. We also received feedback that the proposed definition was too restrictive and would not take into account future lending opportunities in commercial lending.

Other feedback received included that the definition needs to be clearer or more explicit, e.g. on the boundaries between personal loans and commercial loans, provide examples, clearly indicate what is excluded and that the proposed definition was not appropriate for smaller loans of €25,000 or less. Concerns were raised in some submissions about BTL loans no longer coming within the definition for commercial loans. We also received feedback from a limited number of submissions around the potential impact of the proposed definition on the ability of credit unions to provide loans to AHBs that may fall within a credit union's common bond. Finally, we received feedback that credit unions with the appetite and skills to manage higher value lending should be accommodated to do so.

Central Bank Response

Re-naming the Commercial Loan Category of Lending

Having considered the feedback, we consider it appropriate to re-name the commercial loan category of lending from 'commercial loan' to 'business loan' (instead of to 'small business loan') to better reflect the types of business lending in which credit unions may engage.

Re-defining the Commercial Loan Category of Lending

To address the concerns around limiting loans in this category to 'owner managed' businesses, we have removed the reference to 'owner managed'. This also addresses, in part, the concerns raised about loans to AHBs within a credit union's common bond being precluded (addressed further below). Under the changes being made, 'business loan' will include a loan, other than a community loan, that is made to a person who is a micro, small or medium-sized enterprise, within the meaning of Commission Recommendation 2003/361/EC, for the purposes of the member's trade, business or profession. In this regard, it should be noted that:

- The terms 'micro, small or medium-sized enterprise' and 'member' can include both sole traders and incorporated entities provided, of course, they come within the common bond of the credit union and meet the requirements of, and qualifications for, membership;
- The new definition includes lending to micro, small and medium-sized enterprises (i.e. SMEs), expanding on what was consulted on in CP125 to take account of the feedback received in submissions;

- Given the new definition of business loan refers to the purpose of the loan being for the member's trade, business or profession and the existing definition of personal loan specifically excludes loans made for these purposes, this should provide clarity on lending that comes within these respective categories of lending; and
- Loans for the purpose of purchasing BTL properties will not come within the meaning of a business loan under the new definition. The new definition clarifies that the business loan category of lending will include a loan to a member that is an AHB. Lending by credit unions to AHBs will therefore not be impacted by the general prohibition on BTL lending. BTL loans are discussed further in Section 4.1 below.

3.6 Large Exposures

Proposals set out in CP125

In CP125, the Central Bank proposed to amend the 2016 Regulations to embed the principle of large exposures in regulations. We proposed to prescribe a large exposure amount as any 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 also set out our intention to enhance the existing reporting framework to gather additional information on large exposures to require reporting to the Central Bank on, at a minimum, the number and aggregate value of all large exposures held by the credit union including reporting such large exposures on a loan category basis.

Question 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?

Submissions to CP125

A significant number of submissions agreed with the proposal and a number of submissions disagreed with it.

Based on the responses received, there appeared to be some confusion within a small number of submissions that the Central Bank's proposal was to introduce a large exposure *limit* of 2.5% of the regulatory reserves of a credit union. CP125 indicated that the existing maximum large exposure limit of €39,000 or 10% of the regulatory reserves of the credit union under Regulation 13 of the 2016 Regulations was to remain in place under the revised lending framework.

Feedback received included concerns around clarity of the meaning of the term 'group' for the purpose of the large exposures requirements which featured in a limited number of submissions. A limited number of submissions also provided suggestions that large exposures be prescribed on an alternative basis e.g. total realised reserves excluding operational risk reserves, total reserves or total assets. One submission suggested that the existing large exposures limit on secured loans should be higher than on unsecured commercial loans.

Central Bank Response

Having considered the feedback received, and noting that a significant number of submissions agreed with the proposal, the Central Bank has decided to update its existing guidance in respect of large exposures amounts (set out in the Lending Chapter of the Credit Union Handbook) to confirm that the Central Bank would consider it appropriate that a credit union should consider any exposure greater than 2.5% of the regulatory reserve to be an individual large exposure. Separately, in line with the proposal set out in CP125, the Central Bank will require credit unions to report specific information on large exposures (as defined in the revised guidance) to the Central Bank, pursuant to section 22 of the Central Bank (Supervision and Enforcement) Act 2013.

Updating the existing guidance on large exposures will ensure that a proportionate approach is taken in the application of the additional large exposures reporting requirements to credit unions, as the value of total exposures coming within the meaning of a large exposures amount will increase as the assets and, accordingly, the regulatory reserves, of the credit union increase. From a prudential perspective, this approach will allow for the management and monitoring of borrower concentration risk by credit unions.

In the context of the changes being made in respect of large exposures amounts, the Central Bank is also removing the current guidance included in the Credit Union Handbook in respect of an aggregated individual large exposures limit. This change to the guidance is on the basis that concentration limits for house and commercial lending will act as an effective limit on the number of large exposures that a credit union may grant, as these are the loans that are likely to be of higher value for credit union lending.

Finally, in respect of the meaning of the term 'group' for the purpose of the large exposure requirements, 'group of borrowers who are connected' is defined in section 35 of the 1997 Act. Credit unions should interpret references to 'group of borrowers who are connected' in the 2016 Regulations or the associated guidance in the Credit Union Handbook in line with this definition.

3.7 Transitional Arrangements

Proposals set out in CP125

The Central Bank proposed in CP125 to introduce a transitional arrangement which would allow for any loans which are not in compliance with the amended lending framework to be held to maturity. This transitional arrangement would only apply to those loans which were in compliance with the applicable lending framework at the time the loan was granted.

Question 15

Do you have any comments on the proposed transitional arrangements?

Submissions to CP125

A large number of submissions commented on the transitional arrangement proposals set out in CP125 with a significant number of submissions agreeing with the proposed approach. Comments noted that the approach outlined is sensible, a reasonable way forward and would provide adequate opportunity to migrate to any new requirements. A small number of submissions disagreed, with a concern raised that a hard line on the retention of loans that are not in compliance with the existing framework may force crystallisation of a loss unnecessarily. Another respondent commented that the transitional arrangements will pose a significant burden for credit unions that are currently maximising the current limits. We received a number of suggestions including:

- Credit unions with authorisation for additional long term limits should be facilitated within the new increased combined concentration limits;
- The applicable lending framework at the time the loan was granted should apply in the event of a restructuring or loan rescheduling; and
- Loans subject to section 35 rescheduling should be included in the transitional arrangements.

Central Bank Response

The Central Bank has decided to adopt the approach consulted on in CP125. While it was suggested that those credit unions with authorisation for additional long term limits under the existing lending framework should be facilitated with the new increased combined concentration limit for house and commercial lending, the transitional arrangements will not 'grandfather' those credit unions who have been approved for increased lending limits under the existing framework. It would not be appropriate to put in place such transitional arrangements as the basis for determining capacity for house and commercial lending will be fundamentally different under the revised lending framework. On the suggestion that the applicable lending framework at the time the loan was granted should apply in the event of a restructuring or loan rescheduling, such an approach could be difficult to implement, and monitor, and there is no obvious basis to apply such an approach. Finally, on loans subject to section 35 rescheduling requirements, the transitional arrangements will apply to a loan that has been rescheduled under the existing lending framework in the same manner as any other loan.

In addition to the transitional arrangements consulted on in CP125, the Amending Regulations include transitional arrangements for the relevant qualifying criteria to avail of the 10% limit and to apply for the increased 15% limit. The relevant qualifying criteria must be satisfied by the credit unions for at least two consecutive quarters immediately prior to notifying the Central Bank in respect of the 10% limit, or applying to the Central Bank in respect of the increased 15% limit. The Amending Regulations therefore clarify that such credit unions that satisfy the criteria can notify or, as appropriate, apply to the Central Bank from the date the Amending Regulations come into operation, i.e. such credit unions do not have to wait for two quarters to pass.

3.8 Liquidity and Asset and Liability Management

Proposals set out in CP125

CP125 indicated the Central Bank's view that the existing liquidity framework was deemed appropriate for credit unions seeking to undertake house and commercial lending up to the base combined concentration limit. This view took account of the changes introduced to the definition of relevant liquid assets for credit unions from 1 March 2018, the capacity of credit unions to grow their LTA ratios, the permitted classes of investment for credit unions under the investment framework which supports the availability of high quality liquid assets and the scope for longer term lending being provided under the proposed changes for all credit unions.

CP125 also indicated that those credit unions who wish to undertake additional longer term lending and/or additional longer term investments will be required to have more advanced ALM frameworks, liquidity contingency plans and will be required to monitor and report on asset and liability mismatches regularly to the Central Bank. Credit unions will be required to demonstrate their understanding of ALM and provide an overview of their ALM frameworks in any application submitted to avail of the increased combined concentration limit for house and commercial lending.

CP125 also noted that credit unions do not have access to alternative sources of liquidity such as a centralised liquidity mechanism which impacts on their ability to manage and access liquidity on an on-going basis. This impacts on the appropriate level of asset and liability mismatch for credit unions and has informed the calibration of the limits set out in CP125.

Question 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?

Submissions to CP125

The majority of submissions responded to question 16. Feedback acknowledged the importance of appropriate ALM frameworks to support longer term lending and noted the need for appropriate expertise and resourcing to build these frameworks. Submissions also highlighted the sticky nature of member savings noting the impact of coverage by the Deposit Guarantee Scheme (DGS). In addition, submissions noted the lack of access to wholesale money markets and the fact that there is no centralised liquidity facility for the credit union sector. Term funding, through fixed-term savings, was suggested as a tool to address ALM risks.

Central Bank Response

The Central Bank is not making any changes to the proposals relating to liquidity set out in CP125.

4. Other Feedback

The main topics raised in submissions to CP125 outside the specific questions asked included concerns around the current restriction which places a maximum loan maturity of 25 years on all credit union loans. This feedback is addressed above at Section 3.2. The other topic which drew comments from a significant number of submissions was in the area of loans made for the purchase of BTL residential and commercial property and this is specifically addressed at Section 4.1 below. Other topics commented on in the submissions are set out in Section 4.2 and additional analysis provided in submissions is discussed in Section 4.3.

4.1 Prohibition on Loans for Residential or Commercial Buy to Let Property

Proposals set out in CP125

In CP125, the Central Bank set out its intention to state, through revised regulations, that a loan made for the purchase of BTL residential or BTL commercial property is prohibited under the credit union lending framework.

Submissions to CP125

All submissions, which took the opportunity to comment on the Central Bank's intended approach to BTL lending, disagreed with the proposed approach. The feedback provided in these submissions mostly focused on calls to permit those credit unions with the appropriate skill-set and risk appetite to engage in this type of lending. A small number of submissions commented that credit unions must be allowed to set their own risk appetite and tolerance levels. A small number of submissions also included comments on the current definition for house loans, which precludes BTL lending, suggesting this is unnecessary and restrictive. A limited number of submissions suggested that BTL lending risk can be mitigated by lending only to very well established members, the right candidate at conservative loan to value percentages, where cash flow via rental income can be clearly established, verified and stress tested to ensure repayment capacity and only following specific approaches from members. We received feedback that BTL lending does not necessarily represent elevated risk, given these loans can be supported by more than one income source and the member may have significant equity in the property or no mortgage on their primary residence. There was some criticism too that there was no analysis to show how BTL loans have performed. Suggestions received in the submissions included postponing the prohibition on BTL lending until the framework is next reviewed, permitting lending for the purpose of members purchasing holiday homes or to facilitate BTL lending through concentration limits or as part of the tiered concentration limits approval process.

Central Bank Response

Having considered the feedback received from stakeholders, the Central Bank intends to proceed with the proposal to prohibit BTL lending. While it is acknowledged that the level of risk involved in every BTL loan will not be the same, we continue to be of the view that the prohibition is reflective of credit union risk management and operational capabilities and what is prudentially appropriate for credit union lending given the generally higher risk profile of this type of lending. Central Bank research has shown that BTL mortgages were more likely to be in arrears and default.[11] Credit unions should be cautious about engaging in new areas where established incumbents, with size and scale advantages, have themselves encountered difficulties. A gradual approach to new and developing areas such as house and commercial lending is considered prudent, until competence is developed. It is in this context that BTL lending is being excluded from the lending framework for credit unions.[12] The Central Bank will consider this matter again as part of a future review of the revised lending framework.

4.2 Other Feedback

Other topics commented on in the submissions are summarised in Table 4 below, together with the Central Bank's responses to the feedback received.

Table 4 – Other feedback topics

Other Feedback Topics	Central Bank Comments
Ongoing challenges facing the credit union sector, such as low LTA ratios, low investment income and high levels of loan repayments. The predominance of small, personal loans and the need for more diversification in credit unions' loan portfolios.	The Central Bank is supportive of credit unions growing their loan books on a prudent basis, recognising that some of this growth may come from longer term lending as part of a balanced loan portfolio, to diversify credit risk by borrower, loan category and duration. However, it is important to recognise that increasing longer term lending, including the provision of house loans, will not on its own address the sector's sustainability challenges. The changes to the lending framework for credit unions are intended to support diversification in credit union loan portfolios, while effectively managing duration and concentration risk at the same time.
Competition faced by credit unions in the personal loan market with specific reference	The revised lending framework for credit unions is necessarily tailored to credit unions

[11] MCCARTHY, Y., 2014. "Dis-entangling the Mortgage Arrears Crisis: The Role of the Labour Market, Income Volatility and Negative Equity", *Journal of the Statistical and Social Inquiry Society of Ireland*, Vol. XLIII.
[12] This will not impact on the ability of credit unions to provide loans to AHBs.

to retail banks and providers of personal contract plan (PCP) finance and the effect of the revised framework for lending by credit unions on credit unions' ability to compete in the house loan market.	and is grounded in the Central Bank's specific statutory mandate as regards credit unions, i.e. to ensure the protection by each credit union of the funds of its members and maintenance of the financial stability and well-being of credit unions generally. In revising the lending framework, the Central Bank has adopted an evidenced-based and proportionate approach to providing additional flexibility for business model development and house and commercial lending capacity to the sector.
Concerns that the basis for the changes to the lending framework appear to be limited to the current business model and may not provide sufficient scale or flexibility to allow credit unions launch a commercially viable mortgage proposition.	Data analysis of forecasted lending activity provided by credit unions as part of the 2018 lending questionnaire indicated that the limits proposed in CP125 would be sufficient to facilitate forecasted house and commercial lending of the majority of credit unions who provided forecasts out to September 2022. The structural changes being introduced to the framework can facilitate future changes where there is evidence that these are required and appropriate taking account of competence, capability and support structures available in the sector. As set out in CP125, the Central Bank is committed to performing and publishing an analysis on credit union sector lending three years post-commencement of the new lending regulations for credit unions to assess and analyse the actual impact which the changes to the lending regulations have had. This future review will demonstrate the appropriateness, or otherwise, of the concentration limits and inform any decisions on the need for future change.
That there is a necessity for a progressive, responsive and dynamic regulatory framework to enable the credit union business model to develop and evolve and calls for the revised framework to be subject to regular reviews to reflect changing circumstances.	As set out in CP125, and above, the Central Bank is committed to performing and publishing an analysis on credit union sector lending three years post-commencement of the new lending regulations for credit unions to assess and analyse the actual impact which the changes to the lending regulations have had.
A tiered approach to regulation providing the necessary roadmap for credit unions that aspire to offering a broader range of services for members and serving to incentivise credit	The Central Bank's regulatory powers have facilitated practical forms of tiering to enhance the proportionality of the credit union framework. The new concentration limits for house and commercial loans reflect

unions to make the necessary infrastructure investment to meet the required standards.	an element of such tiering. Credit unions that meet prescribed qualifying criteria can qualify for an additional capacity of 2.5% of total assets for house loans, over and above the 7.5% base limit, without having to apply to the Central Bank for approval. In addition, an increased 15% limit is also available to those credit unions that meet prescribed asset size criteria and demonstrate that they have strong core foundations to undertake an increased element of lending in these loan categories via an approval process.
Extending the definition of 'house loan' to include more flexible equity release options and domestic holiday homes for personal use.	A 'house loan' loan includes inter alia a loan made to a member secured by property for the purpose of enabling the member to improve or renovate a house on the property that is already used as their principle private residence. Such a loan clearly permits equity release in the property. A 'personal loan', as defined, excludes any loan related to the purchase of property and so excludes loans made to members for the purpose of purchase of a holiday home for personal use. The Central Bank does not intend to amend the definition of 'house loan' (or 'personal loan') to include equity release for purposes other than those currently permitted under the existing definition or to include loans for domestic holiday homes for personal use within the definition. The current approach is reflective of credit union risk management and operational capabilities and what is currently prudentially appropriate for credit union lending.
The impact of the €100,000 maximum regulatory limit on deposits which, in time, could restrict the natural asset growth of credit unions and, in turn, the revised lending concentration limits for house loans.	The regulatory limit on savings was put in place to address financial stability concerns (impact on member confidence generally if any member were to lose uninsured savings), liquidity risks and concentration risks. The current requirements allow applications from credit unions with minimum total assets size of €100 million to permit them to accept savings over €100,000 from members. The restriction has been taken into consideration as part of the Central Bank's proposals set out in CP125, as well as in our consideration of the responses received.
The use of shared services lending facilities by credit unions.	The Central Bank is supportive of properly structured and efficiently run collaborative

	arrangements. Such shared service initiatives can result in improved scale efficiencies and access to technical resources and competence that may not be affordable for many credit unions on a stand-alone basis. We are supportive of these developments, where the real costs and legal obligations are understood, and where they provide realisable benefits for participating credit unions and their members.
Potential application of the Minimum Competency Code and Consumer Protection Code requirements to credit unions.	The Minimum Competency Code 2019 (MCC) and Minimum Competency Regulations 2017 (MCR) apply to the mortgage lending business of credit unions. As set out in CP125, the Central Bank has previously articulated its intention, following further consultation, to apply the MCC/MCR to credit unions for their core lending and term deposit business. In addition, in CP125, we referred to the Central Bank's: • Intention to commence a review of the Consumer Protection Code 2012; and • Expectation that credit unions adopt a consumer focused culture when advancing credit and when dealing with borrowers in arrears and treat borrowers fairly and sympathetically, with the objective of assisting the borrower to meet their lending obligations.

4.3 Additional Analysis Provided

Submissions to CP125

A small number of respondents provided financial analysis on a number of proposals set out in CP125. Analysis provided included: analysis on comparative capital levels for other financial institutions versus that of credit unions; analysis comparing non-performing loans in other financial institutions versus the associated level of arrears in credit unions; data on rates of loan book returns across varying sample sizes of credit unions; analysis on how the proposed additional headroom would affect credit unions of varying assets sizes. This analysis provided detail on the possible effect on LTA ratios and portfolio diversification if the additional lending capacity proposed under CP125 was fully utilised.

A limited number of submissions provided analysis comparing capacity under the existing lending framework to capacity under the proposed changes set out in CP125 and how this would impact the loan book within the credit union. Some of these submissions noted that the proposed changes would have a negative impact on the ability to provide house and commercial loans for those credit unions with stronger than average LTA ratios as such credit unions have considerable capacity available to them for lending greater than 5 years and lending greater than 10 years under the current loan maturity limits.

One submission provided additional analysis on the credit union movement in the United States, outlining LTA ratios and the diversity of loan books for credit unions in that jurisdiction.

Central Bank Response

The Central Bank would like to acknowledge the work undertaken by all of those who submitted additional analysis, which has been considered in finalising the changes to the lending framework for credit unions.

The Central Bank's review under CP125 has been extensive and was informed by evidence gathered from credit unions, detailed analysis and engagement with relevant stakeholders. As indicated in CP125, the impact of each of the changes to credit union limits was assessed to identify how they will affect credit union lending capacity. Calculations were performed to assess the potential overall sector impact and the impact on credit unions of varying asset sizes. In addition to this analysis, where practical, an assessment of the impact of the proposed limits was also assessed by reference to the lending data forecast by respondents to the 2018 lending questionnaire.

In terms of capacity being provided by the changes and the potential impact of LTA ratios, the Central Bank remains of the view that increased provision of longer term lending is not the sole solution to the low LTA ratio and sustainability challenges facing the sector. The Central Bank is of the view that expressing limits for longer term lending as a percentage of total assets addresses the rigidity associated with the current calibration of the longer term lending limits and introduces an appropriate level of flexibility to the lending framework for credit unions, including an increase in the capacity for some credit unions to undertake longer term lending including house loans.

In CP125, we set out analysis which suggested that there were 3 credit unions with an exposure to house or commercial loans of greater than 5% of total assets (based on the March 2018 Prudential Return data). In addition, our analysis in CP125 indicated that all credit unions (with the exception of 2) would have additional scope for increasing their combined house and commercial lending within the 7.5% combined concentration limit. As set out above, as part of the final changes to the lending framework, a higher combined concentration limit of 10% (with an inner limit of 5% of total assets for commercial lending) will be available to those credit unions who meet the qualifying criteria. This is in addition to the availability of an increased 15% limit for credit unions who meet objective criteria relating to asset size (subject to application and approval by the Central Bank). In response to the feedback received, the final changes provide additional flexibility, in particular, the removal of an inner limit for house loans for the 7.5% base limit.

The Central Bank has also undertaken analysis to assess the adequacy of the proposed concentration limits relative to the forecasted lending activity of credit unions based on the data provided by credit unions in their responses to the 2018 lending questionnaire. Of the 172 questionnaire respondents included within the dataset for analysis, 63 indicated that a change in the existing maturity limits was necessary in order for them to meet lending demand out to 30 September 2022. In other words, 109 of the 172 questionnaire respondents, based on their own strategic planning and risk appetites, did not require a change in the existing maturity limits in order for them to meet lending demand out to 30 September 2022. The 63 respondents who indicated that a change in the existing maturity limits was necessary in order for them to meet lending demand out to 30 September 2022 also provided forecasted lending data.

Since consulting on the original proposals set out in CP125, we have updated our analysis to reflect data reported by credit unions in their June 2019 Prudential Returns. This analysis indicates that the 7.5% base limit would provide sufficient capacity for 43 of the 63 questionnaire respondents who indicated that a change in the existing maturity limits was necessary. Of the 20 credit unions for which the base limit is not sufficient for forecasted lending out to September 2022, 9 have assets of less than €50 million and 11 have assets of at least €100 million. Of the 11 credit unions with assets of at least €100 million for which the base limit is not sufficient for forecasted lending, the 10% concentration limit would provide sufficient capacity for 6 of these credit unions and the increased concentration limit of 15% of total assets would provide sufficient capacity for the forecasted lending activity of 4 of the remaining 5 credit unions. This would leave one credit union with assets of at least €100 million, where the limits would not provide sufficient capacity for forecasted lending out to September 2022.

While our analysis suggests that there are 9 credit unions with assets of less than €50 million for which the base limit is not sufficient for forecasted lending out to September 2022, the feedback we received via the 2018 lending questionnaire does not evidence significant demand for additional capacity for the majority of smaller credit unions. In calibrating the limits, the Central Bank considered the potential that the house and commercial loan categories of lending have to generate concentration risks in lending portfolios, which are particularly relevant in respect of smaller credit unions for whom any losses on larger scale loans could have a significant financial impact.

Overall, the Amending Regulations represent significant and fundamental structural framework changes and will provide sufficient capacity and flexibility to enable safe and sound business model transformation.

5. Consultation under section 84A of the Credit Union Act, 1997

Following consideration of the submissions received on CP125, the Central Bank provided draft Amending Regulations, along with an overview of the feedback received on CP125 and changes made following consideration of submissions, to the Minister for Finance and CUAC in line with the statutory consultation required under section 84A of the 1997 Act. In addition, while a number of the credit union organisations made detailed submissions on CP125, these organisations were also provided with the draft regulations and related documentation and invited to provide any additional comments ahead of finalisation of the Amending Regulations.

Feedback Received

The **Minister for Finance** commented that the proposed changes are a positive step forward for the sector, particularly regarding an increase in credit union house lending capacity. The changes to limits expressed as a percentage of assets and the simplification of maturity limits generally were also welcomed. Concerns were raised that the changes should allow credit unions to develop sustainable LTAs in a diversified loan book for the medium to long term in order to allow the sector to plan and invest for the long term. We were called on to ensure that capacity to lend will be increased and not restricted and that capacity for business lending to meet Programme for Government objectives should be sufficient to allow for investment required. A view was expressed that all credit unions should be afforded the opportunity to apply for additional capacity. In addition, it was recommended that the regulations be simplified and reduce, not increase, the burden on the Regulator and the sector. It was requested that further consideration be given to CUAC Implementation Group recommendations relating to requiring ALM (incorporating liquidity requirements) to be managed on an entity basis and to automatic tiering based on asset size and risk profile and that capable smaller and mid-size credit unions be permitted to apply. Clarification was sought on the rationale for combined limits and a request made to re-visit the wording of Regulation 16 of the 2016 Regulations (specifically the requirement for a comprehensive business plan and detailed financial projections for loans over €25,000), in the context of a level playing field for credit unions, was also made. It was noted that there are several areas where the regulations impose a requirement on credit unions which could restrict the development of a loan to compete with other providers who are not subject to the same restrictions. The prohibition on BTL lending by credit unions and the loan maturity limits were provided as examples. A call was made for the Central Bank to consider whether BTL lending by individual credit unions could be available subject to approval by the Central Bank. A concern was raised about the potential impact of the 10 year loan term limit for unsecured loans and the interaction of this with the European Investment Bank (EIB) Scheme[13] for young farmers.

CUAC supported a number of the proposed changes. In particular, it supported linking the concentration limits to asset size, extending the permitted loan term to 35 years and the approach to re-naming and re-defining the 'commercial loan' category of lending. A number of concerns were raised on the proposed regulations potentially having unintended consequences which could result in restricting a credit union's ability to grow and diversify its loan book. CUAC raised concerns with the combined nature of the proposed concentration limits for house and commercial loans, noting that it may act as a barrier to entry for some credit unions, that they are fundamentally different and that the investment required to pursue both lines of business may not be commercially viable. It was also noted that the combined limits may be difficult to implement and manage. Other issues raised included the increased regulatory reserves required to avail of the 10% limit, a review of regulatory requirements for reserves, disagreement with the restrictions on BTL lending and unsecured lending over ten years (it was recommended that this be dealt with in the risk appetite and policies and procedures of credit unions). On the increased 15% limit, it was suggested that any phasing requirements for this limit should be practical and that there should be transparency in relation to any standard conditions of approval that are financial in nature to be made available for consideration. A call was made for a clear and transparent application process with agreed timelines. Finally, a concern was raised that the €50m size threshold for the 10% conditional limit may be perceived as a measure to diminish smaller credit unions and a suggestion made for the criteria for the upper limits to be introduced as guidance.

The Irish League of Credit Unions (ILCU) commented that the review of the regulations is the single most critical component of the infrastructure to facilitate and enable business model development across the sector and that the proposed amendments fall short of the required regulatory framework to support fundamental business model development. There was disagreement with combined limits for house and commercial loans and a view expressed that setting individual concentration limits by lending type is a more appropriate model. Views were expressed that the proposed limit structure and base limit are far too restrictive, noting in particular the inclusion of commercial loans under €25,000 in the calculation of commercial loan exposure. An inner limit for business loans was objected to on the basis that if a combined based limit is implemented, the limit should be fully fungible across the constituent components. In addition, ILCU expressed a view that the proposed limits will not allow sufficient headroom for

[13] https://ec.europa.eu/ireland/news/young-farmers-one-billion-to-facilitate-access-to-finance_en

credit unions to increase house or commercial lending and that the impact on business model development and longer term viability is very marginal. Examples were provided to demonstrate how the proposed increased capacity would impact LTA ratios for credit unions of different sizes, with a view expressed that the capacity proposed would not go far enough and will not satisfy demand - suggestions for alternative limits were provided. The €50 million asset size criteria was objected to as being discriminatory against smaller viable credit unions and codifying a minimum viability parameter. The 12.5% regulatory reserve was viewed as possibly setting a de facto minimum regulatory reserve requirement. A view was expressed that both criteria for the 10% conditional limit would add complexity and cost. On reserves, it was noted that the existing reserve requirement is not risk weighted and credit unions are therefore disadvantaged relative to other financial service providers. On the increased 15% limit, similar concerns regarding the structure of, and capacity provided by, the base limit were raised. A view was expressed that the requirements for a comprehensive business plan and detailed financial projections for loans over €25,000 are confusing and ambiguous and should be deleted.

The **Credit Union Development Association (CUDA)** commented that it believed the proposed regulations will encourage loan diversification. CUDA acknowledged a number of positive changes, including the extended 25 year loan maturity limit, the removal of the inner limit for house loans, the introduction of the 10% limit and the amendment of the definition of commercial loans (with some reservations), the change to the requirement for a first legal change on house loans for home renovations and the changes to the definition of secured loan. Three key areas to allow meaningful balance sheet transformation were highlighted; the concentration limits, business loans and prohibitions. On the concentration limits, a view was expressed that the introduction of unrelated loan category grouping with outer and inner limits, and additional regulatory reserve requirements, gives rise to a convoluted drafting and variance in interpretation. A more simplified approach was requested and alternative standalone concentration limits and criteria for the 10% limit were suggested. Increased capacity for commercial lending was requested with a need to avoid stifling the volume of commercial lending to AHBs raised. Clarification was sought to ensure that the prohibition of BTL lending does not exclude lending to AHBs for social and affordable housing. Objections were raised on the exclusion of holiday home lending, BTL lending and unsecured lending over 10 years from the framework.

The Credit Union Managers' Association (CUMA) broadly supported a number of the proposed changes. The additional flexibility provided by the 7.5% limit, the additional capacity being provided under the 10% limit and the extension of the maximum loan term to 35 years were supported. A suggestion was provided for an alternative approach to the requirement to hold additional regulatory reserves for the 10% limit. Concerns were raised about the possibility of unintended non-compliance with a combined concentration limit expressed as a percentage of total assets, the potential impact of the 10 year loan term limit for unsecured loans and the interaction of this with the EIB Scheme for young farmers. CUMA also opposed the exclusion of BTL lending from the framework.

Central Bank Response

Having considered the feedback received through the statutory consultation process, the Central Bank made some further amendments to the draft regulations. Specifically, the final draft Amending Regulations (included at Appendix 1) have been refined to:

- Simplify the regulations, where appropriate, and to the extent that this has been reasonably possible;
- Clarify that lending to AHBs comes within the definition of 'business loan' (a loan to an AHB will therefore not be impacted by the general prohibition on BTL lending); and
- Refine the definition of 'secured loan' with a view to supporting the revised definition with clear guidance to the sector on having adequate and appropriate collateral in place for such loans.

As outlined in Section 3.4, on capacity, the Central Bank is of the view that a gradual stepped approach to providing additional capacity to credit unions for house and commercial lending is appropriate. The structural changes being introduced to the lending framework by the Amending Regulations can facilitate future changes where there is evidence that these are required and appropriate, taking account of competence, capability and support structures available in the sector. On the structure of the combined concentration limit, analysis carried out by the Central Bank as part of the review demonstrates that it is house loans and commercial loans that primarily have maturities of over 5 and 10 years. Combining the concentration limits for house and commercial lending will help to ensure that ALM impacts can be mitigated, the maturity profile of credit union lending remains appropriate and that there is not a disproportionate amount of credit union balance sheets being held in longer term assets. Importantly, the combined nature of the limits also affords flexibility to credit unions to determine how they wish to utilise the headroom made available to them, whether this be in house lending, commercial lending or both. Adopting an approach of two distinct concentration limits for house and commercial lending would necessarily result in separate smaller concentration limits for each category of loan.

On unsecured lending over 10 years, as set out at Section 3.2 above, the Central Bank remains of the view that a maximum maturity limit of 10 years for unsecured loans is appropriate to mitigate against the risk of an increase in the level of duration risk in loan books and, by extension, in the overall asset maturity profile of credit union balance sheets. The Central Bank considers that it would not be best practice from an underwriting perspective for an unsecured loan to be advanced for a period of greater than 10 years, reflecting the principle that the term of a loan should be aligned to its purpose.

On BTL lending, as set out above at Section 4.1, the Central Bank remains of the view that it is not currently appropriate for credit unions to undertake such lending given the specific risk characteristics of BTL lending.

On the EIB funding initiative for young farmers, we note that the purpose of the initiative is to improve access to funding for European Young Farmers and that the initiative outlines a number of possible EIB financing arrangements that can be made available to young farmers via financial intermediaries in member states including Group Risk Sharing Instruments and Guarantees. It does not appear that the intention of the initiative is to encourage longer term unsecured lending to young farmers. Rather, the initiative seeks to reduce the risk for the financial intermediaries the benefit of which can be passed on to young farmers via a reduced level of required collateral. The Amending Regulations will not prescribe the level of security a credit union must take for loans over 10 years, as we are of the view that the amount of security required for a loan must be assessed on a case by case basis taking account of the risk characteristics of the loan. Therefore, if there are formal risk mitigation mechanisms in place such as those outlined in the EIB initiative, a credit union should take these into consideration when calculating how much security to require.

The regulation making powers of the Central Bank afford flexibility to ensure that all regulations applicable to credit unions remain fit for purpose and proportionate. We keep all regulations under review on an ongoing basis and, as indicated in CP125, we remain committed to performing and publishing an analysis on credit union sector lending three years post-commencement of the new lending regulations to assess and analyse the actual impact which the changes to the lending regulations have had.

The Central Bank is of the view that the amendments being made to the 2016 Regulations introduce important and significant changes to the lending framework for credit unions, informed by feedback received as part of the consultation process.

Appendix 1: Credit Union Act 1997 (Regulatory Requirements) (Amendment) Regulations 2020

STATUTORY INSTRUMENTS.

S.I. No. of 2020

CREDIT UNION ACT 1997 (REGULATORY REQUIREMENTS)
(AMENDMENT) REGULATIONS 2020

S.I. No. of 2020

CREDIT UNION ACT 1997 (REGULATORY REQUIREMENTS) (AMENDMENT) REGULATIONS 2020

In exercise of the powers conferred on the Central Bank of Ireland (the "Bank") by section 182A of the Credit Union Act 1997 (No. 15 of 1997) (the "Act"), the Bank, having consulted the Minister for Finance, the Credit Union Advisory Committee and other bodies that appear to the Bank to have expertise or knowledge of credit unions generally and that the Bank considers appropriate to consult in the circumstances, hereby makes the following regulations:

1. (1) These Regulations may be cited as the Credit Union Act 1997 (Regulatory Requirements) (Amendment) Regulations 2020.

   (2) These Regulations come into operation on [Insert].

2. In these Regulations "Principal Regulations" means the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (S.I. No. 1 of 2016).

3. Regulation 2(1) of the Principal Regulations is amended –

   (a) by deleting the definition of "commercial loan",

   (b) by replacing the definition of "house" with the following:

   "'house' means any building or part of a building that does not have a commercial use as its primary purpose and is used or suitable for use as a dwelling and any outhouse, yard, garden or other land appurtenant thereto or usually enjoyed therewith;", and

   (c) by inserting the following definitions:

   "'business loan' means a loan other than a community loan, that is made to:

   (a) a member of the credit union that is an approved housing body; or

   (b) a member, or where there is more than one member, at least one of those members, that satisfies the following conditions:

(i) the loan is made for purposes of the person's trade, business or profession;

(ii) the person is a micro, small or medium-sized enterprise within the meaning of Commission Recommendation 2003/361/EC;

(iii) the loan is not made for the purpose of financing, in whole or in part, the purchase, construction or refinancing of buildings or the purchase or refinancing of land that the person intends to rent to a third party in order to generate income;

'Commission Recommendation 2003/361/EC' means the Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises[1];

'secured loan' means a loan that is secured by a mortgage, charge, assignment, pledge, lien, or other encumbrance in or over any asset or property, but shall not include unsecured guarantees by third parties;

'unsecured loan' means a loan that is not a secured loan;".

4. Regulation 7(2) of the Principal Regulations is amended by substituting "Regulation 8" for "Regulation 8(1)".

5. The Principal Regulations are amended by substituting for Regulation 8 the following -

"*Liquidity Requirements*

8. (1) Subject to paragraph (2), a credit union shall establish and maintain a liquidity ratio of at least 20 per cent.

(2) A credit union shall establish and maintain a liquidity ratio of -

(a) at least 25 per cent, where the total gross loan amount outstanding to that credit union with more than 5 years to the final repayment date exceeds 20 per cent but is less than 25 per cent of the total gross amount outstanding in relation to all loans,

(b) greater than 25 per cent, where the total gross loan amount outstanding to that credit union with more than 5 years to the final

[1] OJ No. L124, 20.5.2003, p.36.

repayment date is equal to or exceeds 25 per cent but is less than 29 per cent of the total gross amount outstanding in relation to all loans,

(c) at least 30 per cent, where the total gross loan amount outstanding to that credit union with more than 5 years to the final repayment date is equal to or exceeds 29 per cent of the total gross amount outstanding in relation to all loans.

(3) Where a credit union fails to comply with paragraph (2), it shall not make any new loan with more than 5 years to the final repayment date unless it has obtained the Bank's prior approval in writing to make such a loan.

(4) A credit union shall ensure that relevant liquid assets held in compliance with this Regulation shall have the following composition:

(a) at least 2.5 per cent of unattached savings shall comprise cash and investments with a maturity of less than 8 days;

(b) no more than 10 per cent of unattached savings shall comprise the relevant liquid assets specified in Regulation 7(1)(c), after application of the applicable discounts specified in Regulation 7(2).

(5) In this Regulation, 'liquidity ratio' means relevant liquid assets as a percentage of unattached savings."

6. The Principal Regulations are amended by substituting for Regulation 11 the following:

"*Categories of Lending*

11. A credit union shall only make loans that fall within the following categories:

(a) personal loans;
(b) business loans;
(c) community loans;
(d) house loans;
(e) loans to other credit unions."

7. The Principal Regulations are amended by -

(a) substituting for Regulation 12 the following:

"Concentration Limits

12. (1) A credit union shall not make –

(a) a community loan, where such a loan would cause the total amount of outstanding community loans of the credit union to exceed 25 per cent of the credit union's regulatory reserve, or

(b) a loan to another credit union, where such a loan would cause the total amount of outstanding loans of the credit union to other credit unions to exceed 12.5 per cent of the credit union's regulatory reserves.

(2) Subject to paragraph (3), a credit union shall not make a house loan or a business loan where such loan would cause the combined total gross amount outstanding in relation to house loans and business loans to exceed 7.5 per cent of the assets of the credit union.

(3) A credit union that satisfies all of the requirements in paragraph (4) can increase its combined total gross amount outstanding in relation to house loans and business loans to 10 per cent of the assets of the credit union.

(4) The requirements referred to in paragraph (3) are the following:

(a) the credit union has maintained, for 2 or more consecutive quarters immediately preceding the date on which the notification referred to in subparagraph (b) is made -

(i) a minimum asset size of €50,000,000, and

(ii) regulatory reserves of at least 12.5 per cent of the assets of the credit union;

(b) the credit union has provided the Bank with at least one month's prior notification in writing that the credit union –

(i) is satisfied that it is compliant with the criteria in paragraph (a) at the time of the notification, and

(ii) intends to increase lending in respect of house loans and business loans in accordance with paragraph (3).

(5) A credit union that is subject to the limits set out in paragraph (2) or paragraph (3) shall not make a business loan where such a loan would cause the total gross amount outstanding in relation to business loans to exceed 5 per cent of the assets of the credit union.

(6) A credit union that has made a notification to the Bank under paragraph (4)(b) but no longer complies with the criteria in paragraph (4)(a), shall –

(a) notify the Bank in writing without delay, and

(b) cease making new house loans or new business loans in breach of paragraph (2) except where the credit union has already entered into a legally binding loan agreement with a member to advance a new house loan or a new business loan."

(b) inserting the following Regulation after Regulation 12:

"*Approval for increasing Combined Lending Capacity to 15 per cent*

12A. (1) A credit union may apply to the Bank for approval to increase its combined total gross amount outstanding in relation to house loans and business loans to 15 per cent of the assets of the credit union.

(2) The Bank may grant an approval referred to in paragraph (1) where –

(a) the credit union had assets of at least €100,000,000 for 2 or more consecutive quarters immediately preceding the date on which the application was submitted under paragraph (1), and

(b) the Bank is satisfied that the credit union has demonstrated that the approval would be -

(i) consistent with the adequate protection of the savings of the members of that credit union, and

(ii) effective and proportionate, having regard to the nature, scale and complexity of the credit union.

(3) For the purpose of paragraph (2)(b), the Bank shall consider the following:

(a) the total realised reserve position of the credit union;

(b) such other matters that the Bank may specify from time to time.

(4) Where the Bank grants an approval under paragraph (2), it may, at that time or at any other time, make the approval subject to conditions with which the credit union shall comply.

(5) A credit union that is approved by the Bank pursuant to paragraph (2) shall notify the Bank in writing without delay where it no longer complies with any of the requirements in paragraph (2) or any condition imposed on the approval under paragraph (4).

(6) Subject to paragraph (7), a credit union that has made a notification pursuant to paragraph (5) shall -

(a) not make new house loans or new business loans that would cause the combined total gross amount outstanding in relation to house loans and business loans to exceed -

(i) 10 per cent of the assets of the credit union if the credit union complied with the requirements of Regulation 12(4)(a)(i) and (ii) for 2 or more consecutive quarters immediately prior to the date that the notification referred to in paragraph (5) is made, or

(ii) 7.5 per cent of the assets of the credit union in all other cases,

and

(b) not make new business loans that would cause the total gross amount outstanding in relation to business loans to exceed 5 per cent of the assets of the credit union.

(7) Paragraph (6) shall not apply where the credit union has already entered into a legally binding loan agreement with a member to advance a new house loan or a new business loan."

8. The Principal Regulations are amended by substituting for Regulation 14 the following:

"*Maximum Loan Terms*

14. (1) Subject to paragraph (2), a credit union shall not make -

(a) an unsecured loan to a member where the period from the date on which the loan is made until the final repayment date exceeds 10 years, or

(b) a secured loan to a member where the period from the date on which the loan is made to the final repayment date exceeds 35 years.

(2) With respect to a loan made to a member, a credit union may, with the consent of the member or of a person acting under the member's written authority, alter the repayment conditions to extend the term of the loan beyond the limit set down in paragraph (1) in either of the following circumstances:

(a) the loan is in arrears at the time the repayment conditions are altered;

(b) the loan would fall into arrears if the repayment conditions were not altered because the terms of the original loan agreement would no longer be met."

9. The Principal Regulations are amended by substituting for Regulation 15 the following:

"*Requirement for House Loans*

15. A credit union shall only make a house loan:

(a) for one or more of the purposes specified in subparagraph (a) or (c) of the definition of 'house loan', or
(b) to refinance a loan previously provided for one or more of the purposes specified in subparagraph (a) or (c) of the definition of 'house loan',

where that loan will be secured as a first legal charge on the property."

10. The Principal Regulations are amended by substituting for Regulation 16 the following:

"*Lending Practices for Specific Categories of Lending*

16. (1) A credit union shall only grant a business loan, a community loan or a loan to another credit union where a comprehensive business plan and detailed financial projections (supported by evidence-based assumptions), appropriate for the scale and complexity of the loan, have been provided to it before it grants the relevant loan.

(2) A credit union shall report on the performance of loans, in writing, to the board of directors of the credit union on a monthly basis. Such report shall include details on the performance of business loans, community loans, house loans and loans to other credit unions.

(3) This Regulation does not apply to a business loan granted by a credit union where the total amount of business loans granted to a borrower, or group of borrowers who are connected, is less than €25,000."

11. Regulation 17(2)(a) of the Principal Regulations is amended by substituting "business lending" for "commercial lending".

12. The Principal Regulations are amended by substituting for Regulation 23 the following:

"*Lending Policies*

23. (1) A credit union shall, at a minimum, establish and maintain the following written lending policies:

(a) a credit policy;
(b) a credit control policy;
(c) a provisioning policy.

(2) A credit union shall assess the adequacy of its provisioning for bad and doubtful debts on a quarterly basis, having regard to its provisioning policy.

(3) A credit union shall, without delay, make any adjustments to its provisioning for bad or doubtful debts deemed necessary as a result of a review provided for by paragraph (2)."

13. Regulation 24 of the Principal Regulations is amended by substituting for paragraph (1) the following paragraph:

"(1) Nothing in these Regulations shall render unlawful any loan that conflicts with these Regulations but was made or restructured by a credit union in accordance with the legislative requirements applicable at the time the loan was made or restructured, and the credit union may continue to hold such loan until it has been paid or discharged in full."

14. Schedule 2 to the Principal Regulations is amended by substituting "European Union (Insurance Distribution) Regulations 2018" for "European Communities (Insurance Mediation) Regulations 2005" in each place where it occurs.

15. (1) A credit union that has satisfied the requirements in Regulation 12(4)(a)(i) and (ii) of the Principal Regulations for at least 2 consecutive quarters immediately prior to the commencement of these Regulations shall be taken to comply with those requirements as at the date of commencement of these Regulations.

(2) A credit union that has assets of at least €100,000,000 for at least 2 consecutive quarters immediately prior to the commencement of these Regulations shall be taken to satisfy the assets requirement under Regulation 12A(2)(a)

of the Principal Regulations as at the date of commencement of these Regulations.

16. The revocation, amendment or substitution of any enactment, or part of enactment, by these Regulations –

(a) shall not affect any direction given by the Bank, any investigation or any disciplinary, sanctioning or enforcement action undertaken by the Bank or by any other person, in respect of any matter in existence at, or before, the time of the revocation, amendment or substitution; and

(b) shall not preclude the taking of any legal proceedings, or the undertaking of any investigation, or disciplinary, sanctioning or enforcement action by the Bank or any other person, in respect of any contravention of an enactment (including anything revoked, amended or substituted by these Regulations) or any misconduct which may have been committed before the time of the revocation, amendment or substitution.

Signed for and on behalf of the CENTRAL BANK OF IRELAND

on [insert date]

PATRICK CASEY,
Registrar of Credit Unions

EXPLANATORY NOTE

(This note does not form part of the Instrument and does not purport to be a legal interpretation)

The purpose of these Regulations is to amend the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (S.I. No. 1 of 2016).

Appendix 2: Comparison Table

Lending Framework under the 2016 Regulations

Area	2016 Regulations	Requirements in Amending Regulations
Categories of lending	**Permitted categories of lending:** Framework permits: i. Personal Loans ii. Commercial Loans iii. Community Loans iv. House Loans v. Loans to Other Credit Unions	**Permitted categories of lending:** Framework permits: i. Personal Loans ii. Business Loans iii. Community Loans iv. House Loans v. Loans to Other Credit Unions Amended definition for the 'commercial loan' category of lending, as renamed (i.e. 'business loan').
Loan maturity limits	**5 & 10 year loan maturity limits:** No more than 30% of gross loans outstanding can have a maturity of > 5 years. No more than 10% of gross loans outstanding can have a maturity of > 10 years. With additional approval: No more than 40% of gross loans outstanding can have a maturity of > 5 years. No more than 15% of gross loans outstanding can have a maturity of > 10 years.	**5 & 10 year loan maturity limits:** Removal of the lending maturity limits.
	Unsecured loans: No maximum loan	**Unsecured loans:** Maximum loan term for unsecured loans of

	term for unsecured loans.	10 years and a definition for 'unsecured loan'.
	Overall maximum loan term: 25 years.	**Overall maximum loan term:** 35 years on secured loans and a definition for 'secured loan'.
Security	**House loans:** First legal change for all loans coming within the definition of 'house loan'.	**House loans:** First legal charge for all loans coming within the definition of 'house loan', except a house loan provided for the purpose of enabling a member to improve or renovate a house that is already used as their principal residence or a loan that is for the purpose of refinancing such a loan.
Concentration Limits	**Concentration Limit:** Outstanding commercial loans cannot exceed 50% of regulatory reserves. (Only commercial loans of €25,000 or more utilise the limit). Outstanding community loans cannot exceed 25% of regulatory reserves. Outstanding loans to other credit unions cannot exceed 12.5% of regulatory reserves.	**Concentration Limit:** Base combined concentration limit for house and business loans - 7.5% of total assets. Within this, no more than 5% of total assets in business loans. 10% combined concentration limit for house and business loans, subject to the credit union satisfying objective qualifying criteria relating to asset size and reserves (≥50 million total assets and ≥12.5% regulatory reserve). Within this, no more than 5% of total assets in business loans. 15% combined concentration limit for house and business loans for credit unions with total assets of at least €100 million, subject to approval from the Central Bank. All business loans utilise the combined concentration limits. Outstanding community loans cannot exceed 25% of regulatory reserves – no change. Outstanding loans to other credit unions cannot exceed

		12.5% of regulatory reserves – no change.
Large Exposures	**Large Exposure Limit:** Maximum exposure to a borrower or group of borrowers who are connected is limited to the greater of €39,000 or 10% of regulatory reserves of the credit union.	**Large Exposure Limit:** No change to the large exposure limit.
	Large Exposures Amounts: The Credit Union Handbook provides guidance on large exposure amounts to confirm that the Central Bank would consider it appropriate that a credit union should consider any exposure greater than 5% of the regulatory reserve to be an individual large exposure.	**Large Exposures Amounts:** The Credit Union Handbook will be updated to provide guidance on large exposure amounts to confirm that the Central Bank would consider it appropriate that a credit union should consider any exposure greater than 2.5% of the regulatory reserve to be an individual large exposure. The existing reporting framework will be enhanced to gather additional information on large exposures to require reporting to the Central Bank on, at a minimum, the number and aggregate value of all large exposures held by the credit union including reporting such large exposures on a loan category basis.
	Aggregate individual large exposures: The Credit Union Handbook provides guidance that the aggregate of individual large exposures (including contingent liabilities) of a credit union should not be greater than	**Aggregate individual large exposures:** Guidance on aggregate individual large exposures will be removed from the Credit Union Handbook in conjunction with the commencement of the Amending Regulations.

	500% of regulatory reserves.	
Section 35 Regulatory Requirements for Credit Unions	**Section 35 Regulatory Requirements** issued in October 2013 currently set out requirements for credit unions relating to: • Liquidity; • Lending Practices for Rescheduled Loans; • Provisioning for Rescheduled Loans; and • Systems, Controls and Reporting.	**Section 35 Regulatory Requirements** will be revoked in conjunction with the commencement of the Amending Regulations; however, elements of paragraphs 1.5 and 1.6 (liquidity) and paragraph 4.3 (Systems, Controls and Reporting/Provisioning), have been transferred to the 2016 Regulations under the Amending Regulations. Requirements for lending practices for rescheduled loans and systems, controls and reporting will be reflected in the Lending Chapter of the Credit Union Handbook.

Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem