First South Credit Union Limited – Submission on Potential Changes to the Lending Framework for Credit Union (CP125)

First South Credit Union Ltd

Lower Friars Walk

Cork.

Dear Sirs,

Further the published Consultation paper on the Potential Changes to the Lending Framework for Credit Unions (CP125), the following are the observations of the Board of Directors of First South Credit Union.

We look forward to further engagement on the process.

On behalf of First South Credit Union.

George Cantwell

Chief Executive Officer.

Responses / Comments on the Questions put in the Consultation Paper.

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)?

Our Credit Union's main challenges on the proposed maturity limits are as follows:

The current Maturity Limits are linked to a % of a Credit Union's loan book. The ideal change would be to replace the linkage from the Loan Book to the Assets of the Credit union.

This would enable credit unions to enhance the security proffered on loans particularly were the loan is secured on a property by way of first legal charge.

Credit Unions in general will be further restricted by the introduction of the new limits.

2.

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

We believe that 15 years would be more appropriate, particularly for large Home Improvements loans.

3.

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

No issues with these proposals.

The report does not provide a definition of the word 'property'. Property is usually defined as anything that is owned by a person or entity.

We believe that Credit Unions should be able to offer Hire Purchase / Leasing to their members and in so doing mitigate the risks involved in unsecured lending. This is an area that we believe the Central Bank should revisit.

4

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

We believe that the proposed commercial loan exposures are anti-competitive and are set too low.

The report proposes that Credit Unions be prevented from lending for the purpose of 'Buy to Let' properties. We believe Credit Unions must be allowed to set their own risk appetite and tolerance levels. We have seen no analysis on how loans, which have been advanced by Credit Unions into the Buy-to-Let market have performed.

In general, our experience has been that these types of loans perform well with the member having significant equity in the property. In the event of a Buy-to-Let loan not performing, it is significantly easier to call in the loan. We do agree that Credit Unions must ensure that prudent lending be applied when assessing this market and be mindful of not facilitating property speculation.

We facilitated members to enable them to purchase their deceased parents' home or a sibling share of the family home after the demise of the parents. The borrower tends to have significant equity in the property and usually own their home. The member does not want to take a mortgage on their PPR but would be happy for the Credit Union to have a legal charge on the second property. These are an important community-based lending opportunity for Credit Unions and should be allowed to continue.

5.

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

No issues with these proposals.

6.

Do you have any comments on the proposal to introduce a base combined concentration limit for house and commercial loans of 7.5% of Total Assets?

We believe that this proposal is far too restrictive.

Secured and unsecured commercials loans should have different requirements.

The report, whilst quite comprehensive, makes little commentary on the make-up of lending of Credit Unions in USA Canada, Australia. The lending of Credit Unions in these countries is very concentrated in both the Commercial and Mortgage markets. Yet, the proposal for Credit unions in Ireland is to limit the base exposure to 7.5%. We suggest it could be better that Credit Unions maximise the security they can obtain and in so doing reduce overall risks. We believe that, where a commercial loan is secured (as defined in this report) by way of “property”, the base exposure could be set to an amount equal to the Credit Union’s Reserves.

Having a limit of 7.5% of assets on unsecured commercial lending is reasonable.

We believe that the restriction of 7.5% for house loans is also too restrictive. Credit Unions should be allowed to lend up to twice its total reserves on House loans.

7.

Do you have any comments on the proposal to limit the maximum amount of house or commercial lending which a credit union may undertake to 5% of Total Assets within the base combined concentration limit?

As above, we believe the proposals should take into consideration whether “Security” has been obtained.

We believe that the proposed figure of 5% will prevent Credit Unions from participating in these markets in any meaningful way. Credit Unions will be discouraged in investing in supports for these products due to the restrictions proposed.

8 & 9

8. Do you have any comments on the proposal to permit an increased combined concentration limit for house and commercial loans for those credit unions who can demonstrate the necessary financial strength, skills, expertise, operations and risk management capability to undertake increased lending in these loan categories?

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

Credit Unions proposing to offer House Loans and Commercial loans must have adequate resources to manage these loans. It is to be expected that Credit Unions conduct their own risk assessment prior to introducing any new products. This assessment must take into consideration what the Credit Union's risk appetite and tolerance levels are to be set at. The risk assessment must identify what skills, operations and risk management capabilities are required as part of the process.

10.

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

We believe that the proposed limits are step in the wrong direction. Currently a Credit Union with assets of €100million and a loan book of €30Million can lend up to 30% of their loan book for loans greater than 5 years. This equates to €9million. A Credit Union could use this €9Million for House loans. In the new proposals, the maximum a Credit Union could lend for House Loans is set at 7.5% of assets which equates to €7.5Million for the above example.

If the proposed lower level of 7.5% was set at 15%, it would allow a credit union to lend €15million into the mortgage sector (as per the above example).

We believe that where a Credit Union has clearly demonstrated their capacity to manage the risks associated with House lending the option to seek further approval up to 30% would be desirable.

11.

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

It would be important that clearly defined requirements are set down to ensure that the process would be efficient for both Credit Unions and Central Bank. Specific requirements, as opposed to subjective requirements would be preferred. Where a Credit Union fails to show capacity to properly manage House Loans the Bank would have the remit to withdraw the additional limits.