

# HSSCU

"To be the preferred financial institution for our members"



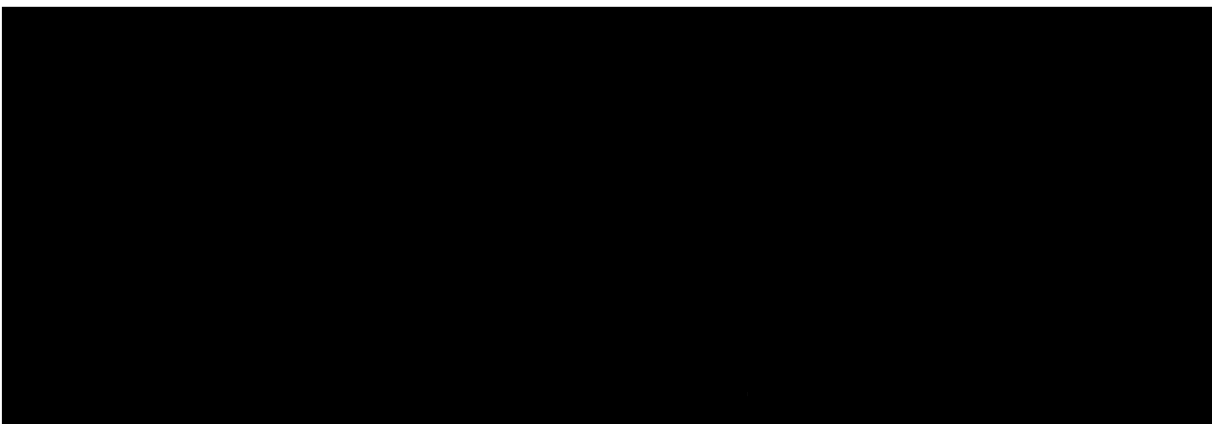
CP 125  
Submission –  
January 2019

Heath Services Staffs Credit Union Limited (HSSCU) is a Dublin based credit union with a nationwide mixed industrial/community common bond. Our credit union now serves 43,000 active members through our branch network of six offices. Our assets at the 30<sup>th</sup> September 2018 amount to € 314.7m, with loans outstanding of € 158m and shares of € 252m. Health Services Staffs Credit union appreciates the opportunity to make a submission on CP125.

HSSCU has always supported appropriate and proportionate credit union regulation and believe it is an appropriate time to review the longer-term lending limits in the sector. We believe that one of the major challenges facing our credit union and our sector is the lack of diversification within our loan portfolio. HSSCU is a recent entrant to the mortgage market and is hoping to grow this portion of our loan book gradually over the coming years while maintaining our growth in personal unsecured lending. We had hoped that CP 125 would present the opportunity to facilitate this growth. Disappointingly we find that the proposals as set out in CP125 reduce the value of longer-term loans that can be issued by HSSCU. We are surprised that the proposals in the document seem to have focused solely on credit unions with lower loan to asset ratios and did not consider credit unions who have actively and responsibly grown their loan books.

The composition of the HSSCU loan book at the 30<sup>th</sup> September 2018 is as follows,

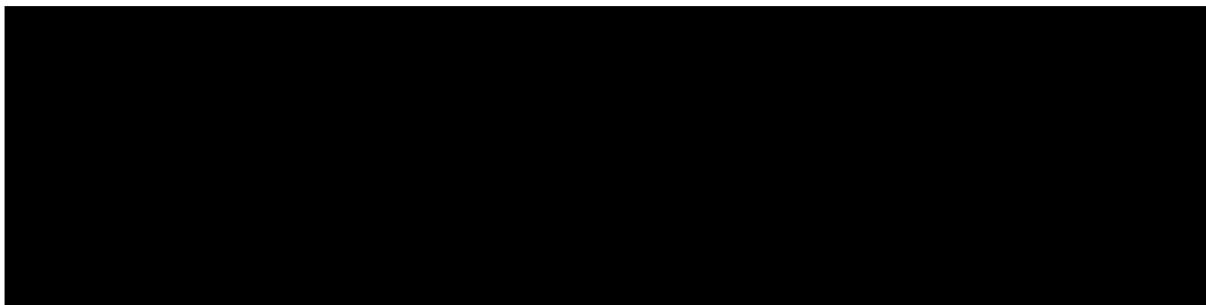
**Table 1 – HSSCU Gross Loans 30/09/2018**



HSSCU introduced home loans in early 2016 and have been gradually growing this section of our loan book. It was our intention to submit an application for an increase in the longer-term lending limits in 2019.

Table 2 gives an analysis of our loans outstanding by loan terms.

Table 2 – HSSCU Gross Loans by Time Period 30/09/18

A large black rectangular redaction box covers the content of Table 2, which would normally contain the analysis of gross loans by time period as of 30/09/18.

As can be seen in Table 2 [REDACTED]. We have been reluctant to proactively pursue loans in this category of lending as we are restricted in the value of these loans we could issue and decided to take a gradual and sensible approach to building this category of loan. In late 2016 we also introduced a large home improvement loan which is typically issued up to a ten-year term and would make up the bulk of our loans in the 5-10 year category.

## CP 125 - HSSCU views on specific questions put by Central Bank of Ireland.

### Removal of 5 and 10 Year Maturity Limits

1. Do you have any comments on the proposal to remove the 5 year and 10-year lending maturity limits contained in Regulation 14 of the 2016 Regulations?

HSSCU welcomes the decision to remove the 5 and 10 year limits contained in regulation 14 which are calculated as a percentage of the credit union loan book. Notwithstanding the fact that it reduces the amount of longer-term lending we can undertake we feel that it is more appropriate to express these limits as a percentage of assets.

We feel that the proposed base level of 7.5% increased on application to 15% of assets is **not sufficient** to allow credit unions to grow and develop the longer-term section of their loan books.

Table 3 below outlines the HSSCU position under the existing section 35 limits. Under current limits HSSCU can issue € 47.5M under normal limits and € 63.4M under the extended limits. Neither of these limits currently has a concentration limit. The 40% extended limit would represent 20% of assets.

Table 3 – HSSCU limits under 2016 Regulations

HSSCU 30/09/2018					
		30%	10%	40%	15%
Loan Book	158.5m	47.5m	15.8m	63.4m	23.7m

Table 4 below outlines the proposed changes and shows the figures for the proposed base limit of 7.5%, the base concentration limit of 5% and the overall increased limit on approval of 15%.

Table 4 – HSSCU limits under CP 125

HSSCU 30/09/2018				
		7.50%	5%	15%
Assets	314.7m	23.6m	15.7m	47.2m

The proposed changes would see the standard allowable figure decrease from € 47.5m to € 23.6m a 50% reduction. There is a further reduction when you apply the proposed 5% concentration limit to € 15.7m or 67%.

Assuming that HSSCU would qualify for the increased limit of 15%, and assuming the complete 15% could be issued in longer term home loans, we could issue € 47.2m. This is equivalent to the current standard 30% section 35 limit but is a € 16.2m decrease on the 40% limit, a 25.5% decrease. HSSCU believes that this reduction is unnecessary and is contrary to the banks assertion that it is adopting an “earned flexibility approach” to credit unions seeking to deliver a broader range of products and services.

## Maximum Loan Maturity Limit for Unsecured Loans

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

We note from the Regulatory Impact Analysis that 0.9% of the sector's unsecured personal loans has a maturity of greater than 10 years. We would question why the bank feels the need to once again restrict credit unions where there is no problem.

HSSCU continues to reschedule loans and to consolidate other debts to assist members in repairing their credit worthiness and allow them where possible some access to credit. Many of these loans would be written over a 10-15-year term. We also offer a large home improvement loan which as outlined earlier has been quite successful and is pitched as a 10-year loan. We feel that some flexibility in the term of this product is necessary.

**We would not therefore be in favour of a maximum limit of 10 years and would suggest a 15-year limit.**

We also note that under this section the bank expresses a view that the 25-year maximum maturity limit "remains appropriate taking account of the funding profile of credit unions". HSSCU would strongly argue that a 25-year limit excludes us completely from the first-time buyers' market where younger members are being offered 30- and 35-year mortgages by competitors. Credit unions are struggling to attract younger members and we believe that a 25-year maximum limit exacerbates this problem. HSSCU would recommend a 35-year maximum term.

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

The definition requires further clarification particularly in the area of pledged shares/deposits.

## Concentration Limits for House and Commercial loans

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

HSSCU issues a small amount of commercial loans < €25,000. These loans are issued normally to members for part time small business start-ups. Normally the member will maintain their main employment while operating the business. These loans are advanced on the strength of the main employment income as opposed to the business income. We would suggest therefore that the current provisions for lending < 25,000 are retained and would not be in favour of the change.

- 5 Do you have any comments on the CBIs intention to introduce Board reporting requirements for house loans?

HSSCU has already introduced such reporting requirements and supports this change.

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

HSSCU cannot see any rationale for combining two completely different type of loans into the one concentration figure. Commercial and home loans have completely different risk profiles and underwriting processes. We feel it is a matter for the Board of Directors to decide what concentration levels should apply within an overall regulatory limit and we would suggest that a base limit of 15% should be allowed with an increased limit of 25% of assets.

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

As outlined in our reply to question 6 we do not believe that concentration limits should be set by regulation and are a matter for the board of directors within an overall regulatory limit. HSSCU believes that the overall base rate is not sufficient and would be recommending a rate of 15% with concentration levels to be decided by individual credit unions based on their lending profile, ability and expertise.

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?

HSSCU would be in favour of an increased limit for credit unions that can demonstrate the capabilities to undertake such lending but would again suggest that concentration levels should be a matter for individual credit union boards. We would also suggest that the proposed 15% is not sufficient to meet potential demand or to allow such credit unions to grow and develop their loan books. As pointed out earlier HSSCU could under the extended limits of section 35 issue 20% of its assets in longer term lending without concentration restrictions. We would therefore suggest an increased limit of 25% of assets. This would allow HSSCU to issue € 75M in longer term loans which would represent 34.5% of our current loan book. This we believe would give us a well-balanced portfolio as evidenced by credit union loan books in other jurisdictions.

HSSCU would also be concerned that once the limit is exhausted there appears to be no further options other than to stop offering the product which is the situation that exists at present and brings reputational issues for credit unions.

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

HSSCU believes that the criteria set out in the longer term lending document issued by the bank in December 2017 should form the basis for any application for increased lending.

- ☐ A detailed Business Plan with a cost/benefit analysis of growing this business line.
- ☐ A Risk Appetite Statement which would set limits and time lines in relation to the growth of the business.
- ☐ Robust Credit Policies which will include key lending criteria and best practice guidelines having regard to Longer Term Lending
- ☐ An Asset/Liability Management Policy which would reflect the impact that longer term lending might have on the CUs liquidity position.
- ☐ An independent Credit Review Process as a second line of defence to regularly review the overall performance of the loan book.
- ☐ A Credit Provisioning Policy should be adopted, embedded and be consistent and transparent.
- ☐ An Operational Risk Plan to ensure that internal processes, people and systems are adequate to support growth in house loans.
- ☐ Arrears Management and Support unit for the proactive management of distressed cases
- ☐ Staff qualified and fully trained on all aspects of home and commercial lending
- ☐ All supported by a robust IT System capable of providing accurate and timely credit risk management information to support the monitoring, management and reporting of all lending activity to the management and board of the credit union.



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

As previously stated, we do not support a combined concentration limit. We do believe that it is appropriate to permit an increased limit of 25% and for the board of directors of to decide on concentration levels in individual credit unions.

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

The application process in the document is quite high level and needs more clarity, HSSCU is agreeable in principle.

## **Definition of Commercial Loans**

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

HSSCU has no issue with the renaming of commercial loan to small business loan.

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

HSSCU feels the definition “a loan made for the purpose of financing the working capital or capital investment needs of owner managed small business enterprise” is reasonable.

## Large Exposure

14. Do you agree with a large exposure being prescribed as an exposure to a borrower or a group of borrowers who are connected, of 2.5% or greater of the regulatory reserves of the credit union?

HSSCU agree with the proposal to prescribe large exposure as outlined.

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

HSSCU agrees with the transitional arrangements proposed.

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?

The current model where loan repayments are quite rapid underpins the liquid position of the sector in general. This will potentially change somewhat over time as the % of loans with longer maturities increases. HSSCU currently operates a liquidity requirement of 25%. We believe that as our long-term lending begins to increase, and investment returns begin to normalise that longer term deposit products could be offered to members to match against the longer term loan portfolio. It is worth noting that throughout the financial crisis our members continued to save with the credit union sector.