9th January 2019

Registry of Credit Unions
Central Bank of Ireland
PO Box 559
New Wapping Street
North Wall Quay
Dublin 1

Dear Sir or Madam,

Consultation on Potential Changes to the Lending Framework for Credit Unions

This submission is being made on behalf of the following credit unions:

Ballinasloe Credit Union Ltd   Glenamaddy Credit Union Ltd   St Columba's Credit Union Ltd

Naomh Brendain Credit Union Ltd   Gort Credit Union Ltd   St Anthony's & Claddagh Credit Union Ltd

St Jarlath's Credit Union Ltd   Comhar Creidmheasa Cholm Cille Teo

The following is the collective response of this group of credit unions to the questions posed in the Consultation Paper.

Removal of 5 and 10 Year Lending Maturity Limits

1. Do you have any comments on the proposal to remove the 5 year and 10 year lending maturity limits contained in Regulation 14 of the 2016 Regulations (taking account of the other changes to the lending framework)?

   The credit unions support this proposal.

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?

   The credit unions believe that this time limit is too short and should be extended to 15 years. Whilst they do not challenge the truism that longer term loans are riskier than short-term loans and that security will reduce the risk inherent in such loans, there re many cases, particularly in respect of Home Improvement Loans where a term > 10 years would be entirely appropriate. Furthermore, *when rescheduling loans to a repayment pattern within the borrower's ability to pay, a term of > 10 years is regularly required.*

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

   The definition proposed seems to categorise all loans as secured loans when it suggests that a loan secured by a pledge of shares should be viewed as secured. Presumably the Bank intends this to read a loan fully secured by shares.

   The credit unions believe that the definition of a secured loan should be revised to include

   - *A loan with any charge on property as well as*
   - *A loan secured by assignment of life/investment policy with guaranteed return of capital at a maturity date within the term of the loan.*

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?

   The credit unions disagree with this proposal. Their history of dealing with <€25,000 commercial does not suggest that these justify being capped in a concentration limit separate and distinct from personal lending. It is only with higher value commercial loans that special and more complex risks arise which justify separate categorization and containment with reference to reserve limits.

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

   The credit unions support this proposal.

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?

   In its Consultation Paper, the Bank's argument for setting a limit of 7.5% (increase-able with Bank consent to 15%) reflects an expectation that some portion of the balance sheet will be invested in AHBs up to 25 years. Whilst the regulatory system has permitted such investments since 2016, no actual investment opportunities of this nature have come available or appear likely to. Therefore to *the extent that scope for investments out to 25 years has impacted the determination of the proposed 7.5%/15% limit, this should be disregarded.*

The credit unions believe that such a limit set at 7.5% is insufficient to permit the development of their business models and that it should be increased to 15% or even 20%. The history of member savings over the past decade has demonstrated that member funding is extremely stable. If necessary, higher limits may be made dependent on implementation of appropriate asset liability management techniques such as lengthening of member savings (with for example term deposits). Furthermore as credit unions' Loan to Assets Ratios continue to increase, a limit of 5% of total assets would be more restrictive than the 40% of gross loans that is currently available (with Bank consent).

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

   The credit unions believe that such a limit is far too low for the reasons set out in the answer to 6 above.

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?

   The credit unions support this proposal however they note with concern the inference that credit unions with total assets of at least €100 million may be indicative of those credit unions who will be capable of demonstrating the necessary scale, available resources and capability to undertake increased house and/or commercial lending. The credit unions, which comprise balance sheets ranging from €22m to €261m reject the suggestion that high standards of quality of governance & risk management are the exclusive preserve of large balance sheets.

   It is the collective view of this group that the Bank should be encouraging all credit unions, regardless of size to develop the financial strength, skills, expertise, operations and risk management capability to manage the risks they face rather than simply excluding smaller credit unions from specific areas. Whether one is driving a car, HGV, tractor, bus or motor *cycle, the same underlying principles apply on top of which specialist expertise may be required. The same principles apply to credit union lending and other areas of risk management. Once the core expertise is in place, the additional specialist expertise can always be accessed (although whether it can be accessed on a cost-effective basis for smaller credit unions is a commercial matter for themselves).*

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

   It is the credit unions' view that the skills, expertise, operational and risk management capabilities necessary for increased house lending are easily accessible to any credit unions which wish to obtain them. Two support tools are currently available one provided by the ILCU and the other by CUDA. These guide credit unions through the operational including compliance processes. The additional due diligence and compliance requirements are not particularly complex or challenging and certainly not as technically challenging as the pricing and balance sheet transformation issues that arise from such lending.

   On the other hand, commercial lending does pose considerable due diligence challenges depending on the nature of the applicant's underlying businesses which can vary enormously from agri stocking loans to a car loan for a taxi. All commercial lending requires

   - *a deep knowledge of cash flow dynamics,*
   - *an ability to decipher who is taking true equity risk and the extent of such risk as well as who is taking true debt risk &*
   - *an ability to understand and assess the quality of security offered where applicable,*

   which together suggest that a technical accounting qualification and/or equivalent lending qualifications should be mandatory. Industry-specialised expertise may be required depending on the particular type of lending involved.

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

    Refer answer to Q 7 above

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

The credit unions support this proposal.

Definition of Commercial Loans

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

The credit unions support this proposal.

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

The credit unions support this proposal.

Large Exposures

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

The credit unions believe that the denominator applied should be Total Realised Reserves excluding Operational Risk Reserves. Total Realised Reserves are the cushion which protects members' funds from risk of balance sheet impairment and restricting exposures to a Large Exposures limit which ignores realized non-regulatory reserves is a blinkered and inappropriate recognition of available capital.

Transitional Arrangements

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

The credit unions support the proposed arrangements.

Liquidity and ALM Considerations

16. Do you have any comments on liquidity and broader ALM considerations for credit unions wishing to increase the proportion of their loan books held in house and commercial loans particularly where those loans have longer maturities?

The credit unions note that no proposals for change are under consideration in respect of this matter and support this position.

Other

The credit unions note the Bank's stated intention to introduce regulations prohibiting buy to let residential and buy to let commercial property lending and wish to express their dissatisfaction that this matter does not seem to be part of the consultation. They are strongly of the view that such lending is simply a further variation of commercial lending which as noted in the response to Question 9 may be entirely appropriate for credit unions with access to persons with accounting or lending qualifications.

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