



Oldcastle Credit Union's Response to Consultation Paper on potential changes to the Lending Framework for Credit Unions (CP12)

9th January 2019

Background

Oldcastle Credit Union is a medium sized community credit union with a membership of little over 5,100 and assets of almost €29m. Its strategy at this point in time and for the foreseeable future is to continue serving its members as an independent credit union.

Oldcastle Credit Union is affiliated to the Irish League of Credit Unions (ILCU) and has contributed to its response to this consultation paper. It fully supports everything discussed in the ILCU response but would like to take this opportunity to express its individual views as well.

Introduction.

Oldcastle is a small community town in North Meath. Like many small towns it has suffered from the centralisation process of Banks and is lucky to still have one bank still operational in the town. The credit union is still an important source of finance for many. The Credit Union services a large farming community and independent commercial businesses. In that perspective the proposed changes to the Commercial Loans are of particular concern to Oldcastle Credit Union.

We have in the past and continue to service these Commercial Loans through an investment in staff and their skills. It is not in any way a change in the profile of our lending but a continued development of a strategy that ensured our sustainability to date and has allowed us to meet the needs of our community and stay relevant to them. All of this is exercised with the necessary competence and skills and within a supervised risk management framework.

Oldcastle Credit Union acknowledge that the role of the Central Bank is to provide a system of regulation and supervision part of which is ensuring the well-being of credit unions generally. However given the Central Bank's concerns over the Loan to Assets ratio of the movement and the sustainability challenges facing the sector as a whole, we would like to suggest the possibility that the sector would be better served by enhanced guidance and direction in the area of risk management than regulating to prevent risk which only serves to undermine a sustainable business model.

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Response

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

Oldcastle Credit Union welcome the removal of these maturity limits and agrees that risk can be more appropriately managed by the loan purpose. However this support should be taken in the context of the additional responses below.

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

We agree that in general it would not be best practice for the Credit Union sector to be dependent on advancing long term unsecured loans. However, limiting the sector as a whole may also not be the best solution to something that is currently not a wide scale market but more of niche line of business for few. We would like to suggest that possible alternative controls be considered to this to alleviate the concerns the Central Bank may have and that a maximum be set at 15 years.

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

The consultation paper provided very little detail on security which raises some questions already identified by the ILCU, e.g. will clarification be provided on the level of cover required. Also we would seek clarification as to whether property is any asset owned by the borrower or does it seek to potentially limit the security to land or house property. We feel that limits should not be placed on the type of security as long as the Credit Union is given assurance legally that it can be recoverable.

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

Oldcastle Credit Union would be very strongly against such a proposal and feel that any such move would be detrimental to the Credit Union sector as a whole and its future sustainability. We appreciate that the Central Bank is entrusted with the protection of member's funds and the well-being of Credit Unions generally, but also we believe that part of that role includes ensuring they have the scope to build a sustainable business model.

As evidenced by the changing lending environment, this sustainability will need to come from growing the loan to assets ratio which Oldcastle are slowly managing through servicing its commercial base of small farmers and self-employed members. In our experience to date, commercial loans <€25,000 are more in the nature of personal loans to the individual than an investment in the commercial enterprise.

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Our evidence has shown that in general, it is only when you reach loans of €25,000 + that the loan becomes dependent upon the success or failure of the business and therefore you introduce an additional risk factor which must be monitored and appropriate controls put in place.

In Oldcastle, we have built upon our expertise and knowledge in this sector and devised appropriate parameters to control risks within acceptable levels. Consequently our level of arrears in this sector is well below the average personal loan. Our strong farming base means that there are a significant number of short term loans which would be deemed commercial by the Central Bank. The inclusions of these in the concentration limits for commercial lending would mean we would be unable to service our true commercial base going forward. It should be noted that we have invested in operational capabilities to develop this business model. Currently we have almost half of our staff with QFA's and our credit committee is also staffed with commercial lending expertise.

While exclusions to the limits may be sought, we feel that this "earned flexibility" approach is overly restrictive to a sector that needs support and growth in order to survive.

5. Do you have any comments on the CBI's intention to introduce Board reporting requirements for House Loans?

Oldcastle Credit Union supports this change in reporting

6. Do you have any comment on the proposal to introduce a base combined concentration limit for House and Commercial loan of 7.5% of total assets?

Oldcastle Credit Union is not in favour of this. We agree with the rationale expressed by the ILCU that the risk characteristics of these loans are very different and therefore should not be combined.

A separate base concentration limit should be introduced for each sector, 5% for Commercial Loans provided loans <€25,000 are not included in this limit and 10% for House Loans.

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

We believe that a limit of 5% of total assets for Commercial Loans is sufficient for the sector as a whole and should provide sufficient room provided loans <€25,000 are not included in this limit.

We agree with the ILCU in that a limit of 5% for House Loans would be inadequate for the sector to grow and achieve sustainability.

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?

Oldcastle agrees with the ILCU and is supportive of such a mechanism which would enable an increased concentration limit for CU's that have demonstrated the capabilities and financial strength. However, as with the ILCU it is not in favour of combining these concentration limits but feels that they should be managed separately as they have separate risk factors, and indeed expertise required to manage them.

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

Oldcastle Credit Union agrees with the proposals of the ILCU.

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

Oldcastle Credit Union agrees with the ILCU. The concentration limit should not be combined.

Oldcastle also agrees that an upper concentration limit of 15% would be appropriate for House Loans where there is a demonstrated capability and a limit of 5% of Total Assets for Commercial Loans. However this only on the basis that that loans of less than €25,000 are excluded from the concentration limit of 5%.

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

Oldcastle Credit Union agrees with the comments raised by the ILCU

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

Oldcastle Credit Union is supportive of the amendment

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

Oldcastle Credit Union have no comments in addition to the ones made by the ILCU. Oldcastle Credit Union is in agreement with the comments made by the ILCU.

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?

Oldcastle Credit Union is supportive of this amendment proposing additional reporting at this level.

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

Oldcastle Credit Union 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.

We have no comments to add to those made by the ILCU at this point in time.