St Jarlath's Credit Union (SJCU) response to CP125, a consultation on potential changes to the lending framework for credit unions

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)?

SJCU welcomes the proposal to remove the 5 year and 10 year overall maturity lending limits contained in Regulation 14 of the 2016 Regulations and to introduce a combined concentration limit expressed as a percentage of assets for house and commercial lending and a number of other changes to the lending framework.

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?

SJCU considers 10 years an appropriate maximum maturity limit for unsecured loans.

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

SJU considers the definition of a secured loan as appropriate.

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?

SJCU agrees that all commercial loan exposures utilise the concentration limit for commercial lending. SJCU does not agree with the proposal that a loan made for the purchase of buy to let residential or buy to let commercial property be prohibited through revised regulations to the credit union lending framework. Individual credit unions have different risk management and operational capabilities and those with appropriate capabilities should not be precluded from buy to let lending. This type of lending might reasonably be facilitated as part of the tiered concentration limits approval process.

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

SJCU agrees with the Central Bank's intention to introduce board reporting requirements for house loans.

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?

SJCU welcomes the proposal to introduce a base combined concentration limit for house and commercial loans of 7.5% of Total Assets.

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?

SJCU is satisfied with 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.

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?

SJCU welcomes the proposal to facilitate an increased combined concentration limit for credit unions that can demonstrate the necessary financial strength, skills, etc. SJCU considers that those credit unions who have currently been given additional limits under the existing regulations, should automatically be afforded the increased concentration limits under the proposed regulations. Those credit unions have already demonstrated a need and capacity for additional longer term lending, predominantly in the areas of house and commercial loans.

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

Skills

1. **Experienced in assessing large long-term loan applications from PAYE members and Self-Employed members.**
2. **Understanding the difference between property purchases and self builds.**
3. **An understanding of the steps in taking a legal charge on property.**
4. **Familiarity with the various forms and documents involved at each stage of the conveyancing process.**
5. **An accounting qualification can enable a better understanding of I&E accounts.**
6. **A basic understanding of key business sectors in the Common Bond, and associated critical success factors. This includes understanding the 'language' of the business owner(s).**
7. **Highly analytical and highly organised. Essential to have an eye for detail.**
8. **Absolute accuracy in respect of all typed letters, offer letters, and file notes.**

Expertise

1. **The term Expertise implies that one is an expert, and this requires many hours of being involved in the assessment and issue of secured loans.**
2. **Worked in a financial institution that provided secured loans to customers or members.**
3. **Has undergone significant training on underwriting secured loans. This should be on the job practical training as well as external professional training.**
4. **A minimum of APA Loans & regulation, and ideally QFA.**

5. **Ability to know what critical questions to ask of applicants. Equally critical to know how to quickly assess the quality of the answers provided by applicants.**
6. **Familiarity with the terms & types of Insurance on property and life.**
7. **Knowledge of all the relevant legislation and regulation that can impact on a secured proposal.**

Operational Management Capabilities

1. **Acceptance that appropriate human resources need to be in place for interviewing, preparing applications, assessing proposals, managing the documents and follow up with solicitors, accountants, engineers, architects, valuers, insurance brokers, insurance companies, and others.**
2. **Trained staff who can cover for absences of key personnel.**
3. **IT systems to manage the flow of each case as it can take up to 12 months (and longer) from initial application to final drawdown.**
4. **A culture of double checking and double 'sign-off' at all relevant stages.**

Risk Management Capabilities

1. **An appropriate Asset & Liability Management framework.**
2. **Structured approach to analysing the possible risks associated with each application.**
3. **At least one experienced member of the team who understands what can go wrong, based on being an experienced lender, business owner, business advisor, mortgage advisor.**
4. **Non lender input from management for all decisions on secured loans.**
5. **Internal & External auditors who are capable of assessing the quality of loan proposals and systems to professionally manage drawdown and other risks.**
6. **Appropriate ability to adjust the Risk Appetite Statement with the ability to adjust in the face of adverse economic conditions.**
7. **Periodic internal risk monitoring of, and reporting on, the lending function with oversight from Internal Audit.**
8. **Detailed policies and procedures, reviewed on an at least annual basis by the Board of Directors.**
9. **Strong internal controls to ensure that granting of loans is within discretions set out in policy with exceptions reported to Risk Committee/Board.**
10. **Process whereby new products are subject to risk assessment with robust controls in place before they are introduced. New products should be approved by Board.**
11. **Loan book subject to independent external review at least annually.**
12. **Timely and accurate management information system which allows the CU to quantify risk, identify concentrations, report when exposure limits are close to being reached and where credit quality is deteriorating.**

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

SJCU welcomes the proposed increased combined concentration limit but is unclear as to whether there is a proposed maximum individual house or commercial limit as there is with the base level combined limit.

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

SJCU broadly agrees with the outline of the application process as described. The submission of a robust business case that clearly sets out the rationale and an understanding of the financial and risk implications should be a prerequisite. Any such business case should include financial projections on a most likely and stressed case scenario. SJCU would disagree that only credit unions with total assets of €100M would have sufficient scale to avail of the increased concentration limit. There might well be scenarios where credit unions with total asset of less than €100M would have the capability to undertake increased lending on their own or perhaps on a shared services basis.

Definition of Commercial Loans:

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

SJCU considers the existing definition as appropriate and does not agree with the proposed new definition of a commercial loan in the absence of very clear definitions of "small business" and "owner managed".

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

SJCU considers a need for a more explicit definition for a "small business loan".

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?

SJCU agrees with the proposal to prescribe a large exposure 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.

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

Any transitional arrangements need to consider how credit unions who currently have authorisation for additional long term lending limits are facilitated. SJCU believes that those credit unions with authorisation for additional long term limits should be facilitated with the new increased concentration limits.

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?

SJCU accepts that credit unions seeking to undertake additional longer term lending should have appropriate ALM frameworks.