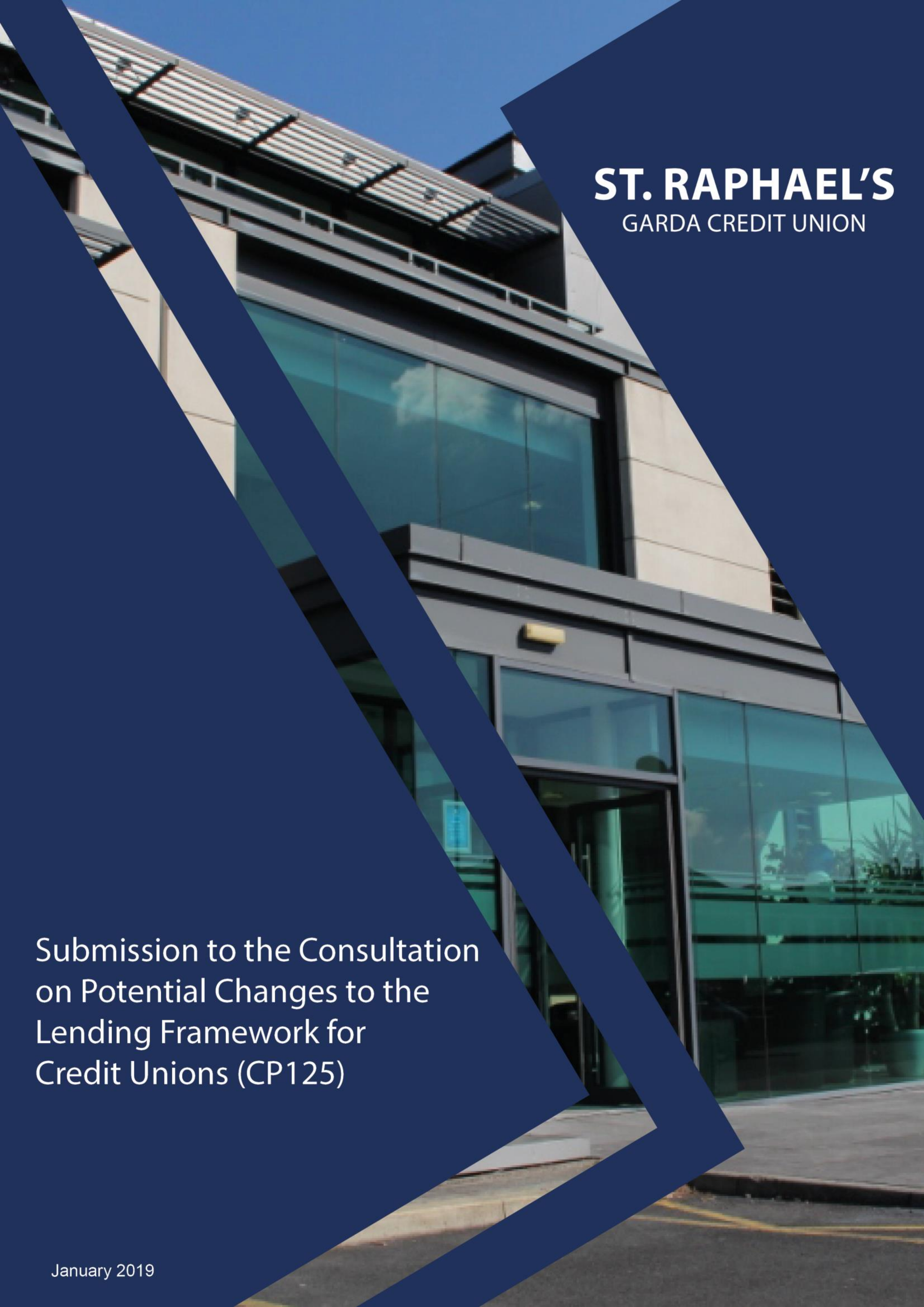

ST. RAPHAEL'S
GARDA CREDIT UNION

Submission to the Consultation on Potential Changes to the Lending Framework for Credit Unions (CP125)

January 2019

Contents

Executive Summary

St Raphael’s Garda Credit Union Limited (“St Raphael’s” or “the credit union” or “we” or “our” or “us”) has been calling for a review of longer term lending limits for some time. It is our considered view that developing and enhancing the lending proposition for members is central to the successful and sustainable development of St Raphael’s business model. Therefore we broadly welcome the proposals to remove the 5 and 10 year lending maturity limits and move to a concentration limit based on asset size. This allows for a better balanced portfolio, removes the link between unsecured and secured lending as a concentration limit mechanism, is a better measure of what credit unions have available to lend and goes some way to improving the business model challenges currently faced by the sector.

The credit union also supports the proposal to permit an increased concentration limit for credit unions that meet certain standards. Whilst it is accepted that some form of application process is required here, St Raphael’s suggests that consideration should be given to leveraging the PRISM process to support this. St Raphael’s believes that taking a tiered approach will provide the necessary roadmap for credit unions that aspire to offering a broader range of services for members. It also serves to incentivise credit unions to make the necessary infrastructure investment to meet the required standards. St Raphael’s suggests that the new application process, including details the Central Bank wishes to see in any business case proposal, should be prescribed so that it is clear and consistent for all credit unions. It would also be helpful if such an application process was supported with clear service level agreements for response times to Central Bank decisions.

St Raphael’s does not agree with the proposal to have a combined concentration limit for commercial and house loans and recommends that consideration is given to separate concentration limits for each loan category. Given the substantial differences between these two loan categories, we can see no clear rationale for such a proposal. Furthermore, the credit union feels that a combined concentration limit would undermine the commercial viability of offering such lending categories to members, particularly for a credit union that wishes to engage in both commercial and house loans. St Raphael’s does not agree with the limit of 5% of total assets within the proposed base combined limit. It is our view that every credit union that meets the required standards should be able to participate in providing house and commercial loans, once they fit within the credit union’s overall strategy and risk appetite.

In terms of the proposed increased limit of 15% of total assets, whilst this is clearly a move in the right direction, a higher limit again would enable St Raphael’s achieve the optimum loan to asset ratio of greater than 50%. St Raphael’s believes it is important to have an ongoing review process, where increases can be approved once the required standards are met. This process also needs to take account of the long lead in time from initial enquiry to drawdown of mortgages. This is necessary to avoid credit unions having to disrupt services for members.

The credit union agrees with the proposed renaming of commercial loans and to the inclusion of all commercial loans, regardless of size, in proposed concentration limits. However, it is not clear from the Consultation on Potential Changes to the Lending Framework for Credit Unions (‘The Consultation Paper’), what impact this change could have on the proposed concentration limit and to what extent it could limit a credit union’s headroom for growth in commercial loans.

St Raphael’s is disappointed that the term limit of 25 years is not being reviewed as part of any new proposed lending framework and would suggest that such a term limit should be removed altogether. This term limit could have the unintended consequence of making it difficult for first time buyers to get mortgages from credit unions. It will also cause difficulties for a significant proportion of second time buyers. When considered in the context of the proposed exclusion of buy to let loans, the proposed restrictions on loan size for many credit unions as well as the existing restrictive nature in permissible purposes for equity release, the combined effect of these restrictions could impact a credit union’s ability to bring much needed competition to the mortgage market. Therefore, whilst St Raphael’s welcomes many of the proposals contained in the Consultation Paper, it requests that the Central Bank considers removing the term limit of 25 years altogether, to enable credit unions to better meet the needs of first time and second time buyers.

St Raphael’s is also disappointed to note the Central Bank’s stated intention to prohibit any buy to let loans (BTL) in the new lending framework. This is a significant curtailment on what is permitted today and it is disappointing that no views whatsoever are being sought on such a change. St Raphael’s would respectfully request the Central Bank to give this matter further consideration before any prohibition as proposed is outlined and that some allowance is given for BTL lending to form part of any proposed house loan concentration limit.

St Raphael’s also requests that consideration is given to extending the definition of house loans to include more flexible equity release options and domestic holiday homes for personal use. Whilst we don’t anticipate high demand for these loan categories, nor would they form a significant portion of our house loans, nonetheless we believe that this is an area that credit unions with prudent lending policies should be allowed to compete in. This would enable credit unions to offer members a comprehensive mortgage proposition. St Raphael’s believes that where credit unions are able to demonstrate competence and capability for house loans, then all of these loan types can be effectively managed and monitored by the credit union, taking account of Central Bank guidelines and a credit union’s own internal risk appetite.

Introduction

St Raphael's is Ireland's largest credit union with assets of €428m at December 2018, total reserves of €73m and has continuously operated on a profitable basis since inception. The credit union was established in 1964 to look after the financial welfare of members of An Garda Síochána and their immediate families. A national organisation, St Raphael's has over 36,000 members and provides services remotely and directly through its primary offices located at St Raphael's House, 1-2 Fox & Geese, Naas Road, Dublin 22. Its main services include the provision of loans, savings and budgeting services on a not for profit basis.

Since its establishment almost 55 years ago, St Raphael's has constantly strived to improve the service it offers to members and has often been to the forefront of new developments within the sector. St Raphael's has embraced the extensive regulatory and compliance requirements introduced over recent years and recognises the value of enhanced governance structures. The credit union has always strived for the best possible standards and has made the necessary and significant investment in recent years to achieve these.

Over recent years, St Raphael's has become increasingly concerned about the long term wellbeing of credit unions. This concern has come about as a result of a number of factors including:

- Changes to the treatment of credit union funds by other institutions and to the permissible investment types which permanently reduces potential investment income for credit unions
- Increase in costs largely driven by changes in the governance structure of credit unions as well as increases in regulatory related levies
- Regulatory curtailments in the breadth of services permissible by credit unions
- Lack of successful collaboration and cooperation at an industry level to meet these increasingly complex requirements.

It is our considered view that developing our lending proposition is central to successful and sustainable business model development and in this context we broadly welcome the proposed changes to the existing limits.

In 2016 when new regulations were introduced which specifically referenced 'House Loans' for the first time, St Raphael's launched house loans to members, offering loans of up to €300,000 over a maximum term of 25 years (the maximum term permitted under regulations) at a variable interest rate of 3.75%. To contextualise the response from members, at the time St Raphael's had a loan book of €101m and 15% of that is the extended permissible limit to lend for terms longer than 10 years, i.e. €15.2m. Within a 13 week period, St Raphael's received 823 enquiries representing a value of €151.7m. Immediately, it become clear that there was significant demand from members. Within weeks St Raphael's ceased accepting new enquiries or applications in order to stay within the maximum extended permitted limit of 15% of the total loan book and over subsequent months issued just 123 house loans with a value of €18m. Given that there was clearly more demand than we were permitted to meet, this has been a frustration for us since then. This is particularly acute given the extent of available funds to lend and the inability to earn any reasonable income on these funds. We continue to receive enquiries from members relating to house loans and expect that should these limits be extended, to have the corresponding take up from our members.

Our response to the questions asked as part of this consultation process draw on our experiences to date in house loans. In the main, we are focussing on the questions from a St Raphael's perspective. However where we see how the proposals may impact other credit unions, we will comment on a broader level. We are also taking the opportunity to comment on related areas that the consultation process does not specifically ask about but in our view, could impact on our ability to successfully offer house loans. These are:

- The impact of a maximum term of 25 years on segments of the market, particularly First Time Buyers (FTB's)
- The exclusion of buy to let mortgages
- Clarification of the treatment of holiday homes
- The curtailments on allowable equity release purposes under current regulations that do not exist for other financial institutions
- The overall combined effect that these factors will have on a credit union's ability to compete in this market when compared with other credit institutions
- The impact of a €100,000 maximum regulatory limit on shares which in time could restrict the natural asset growth and therefore in turn the proposed allowable lending limits for mortgages
- Considerations required for any phased approach that may be provided for under changes to the regulations.

Areas Where the Central Bank is Seeking Views

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)?*

   It is agreed that the removal of the 5 and 10 year maturity limits is a positive proposal and the credit union broadly welcomes this approach. The credit union considers it appropriate that the link between secured and unsecured lending be removed.

Loan Maturity for Unsecured Loans

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

   In principle St Raphael's has no objection to a maximum maturity limit of 10 years for unsecured loans as it is consistent with our own risk appetite. However, it is our view that this should be considered as part of a three year review in order to fully measure any potential impact it will have on the loan book portfolio.

   We are assuming that the proposed maximum maturity limit applies to loan originations only, i.e. that loan restructures are not affected by the proposed 10 year maturity limit. If this assumption differs with the Central Bank's proposal, then clarity is required on how rescheduled loans should be treated, albeit on an exceptional basis.

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

   St Raphael's has no objection to the proposed definition.

Concentration Limit for House and Commercial Loans on a Tiered Basis

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

   St Raphael's supports the removal of the provision contained in the 2016 Regulations whereby the concentration limit is not utilised for commercial loans granted under

€25,000. Having a single limit for all commercial loans regardless of size is clearer and will simplify the management and monitoring of this loan portfolio.

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

St Raphael's supports the requirement for board reporting on the performance of house loans. It is expected that such board reports will include, inter alia, the following:

- Number and value of applications
- Stage of pipeline
- Classification of drawdowns
- Concentration limits
- Central Bank mortgage measures – LTV, LTI limits
- Portfolio performance reporting

Based on the proposed concentration limits, portfolio numbers even for the largest credit unions will be small and reporting requirements need to take account of this and not be overly burdensome.

It should be noted that given the long term nature of these loans, quarterly performance reporting will yield better trend analysis than monthly reporting as well as being of sufficient frequency to identify any emerging trends in a timely manner. Therefore, St Raphael's would suggest changing the proposed frequency of such board reporting to quarterly instead of monthly.

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?*

Whilst we welcome the change to concentration limits as a percentage of assets, we see no clear rationale for a combined concentration limit of both house loans and commercial loans. Arguably, the risk profile of both loans types is very different, so too is the skill set required to underwrite these loans and to service them on an ongoing basis. The Regulatory Impact Analysis contained in the Consultation Paper indicates further differences:

- The maturity profile of both loan types is very different with 74.3% of all commercial loans having a term of ≤ 7 years compared to just 19.8% of house loans.
- Commercial loans are much smaller in size with the average current loan size of €21,123 compared to €55,471 for house loans.

Combining the concentration limits may also impede a credit union's ability to develop the necessary expertise and infrastructures in two such diverse loan types as the combined concentration limit may not be of sufficient size to justify such an investment for a credit union that may wish to participate in both loan categories. Arguably it would be better to have sufficient separate limits that would allow interested credit unions make the necessary investment in return for a reasonable business opportunity. The Consultation Paper acknowledges that the existing limits may be restricting a credit union's ability to consider more material increases in longer term lending. There is a risk that this restriction will continue under the current proposal to combine concentration limits. Furthermore, it's not clear from the regulatory impact analysis what impact the change to include commercial loans under €25,000 in the new concentration limit will have and to what extent this could impact a credit union's headroom for growth. For all of these reasons, combining the concentration limits for house and commercial loans may restrict a credit union's ability to develop and could also have the counter effect of in fact increasing risk in credit unions that participate in both house and commercial loans, rather than reducing it.

St Raphael's do not at the moment participate in commercial loans and as such are largely unaffected by a proposed combined concentration limit. It could be argued that the current proposed structure of combined concentration limits are an advantage to credit unions that participate in either house loans or commercial loans, but are a disadvantage for those that participate in both.

It is our considered view that separate concentration limits should be applied to each loan type, rather than having a combined concentration. A tiered concentration limit could still be applied. This would allow credit unions make the necessary infrastructure investment to support such lending categories in a commercially viable and risk appropriate manner.

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?*

For the reasons set out in the answer to question 6 above, we don't believe that a further concentration limit should be applied here. The Consultation Paper sets out that these limits have been arrived at taking account of the governance, risk management and related capabilities of credit unions to engage in these categories of lending, evidenced through the Central Bank's supervisory findings across the sector. If this is the case, then it seems counterintuitive to allow credit unions that don't meet the necessary standards to be permitted to participate at all.

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?*

St Raphael's welcomes the proposal to permit an increased concentration limit for credit unions that can demonstrate the necessary financial strength, skills, expertise, operations and risk management capability required to undertake increased lending in these loan categories. This provides the necessary incentive for a credit union to invest in their core infrastructure and to improve skills and capabilities. Furthermore, the need for a tiered regulatory approach has been well documented since the Credit Union Commission Report in 2012. Up to now, tiered regulation has been applied in a way that arguably curtails existing services and limits for many credit unions[i]. However, this is the first time we have seen proposals of how a tiered approach could be taken to enhance the services provided by credit unions and this a welcome development.

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

Credit unions are well versed in the provision of credit to their members and many will already have experience of providing house and commercial loans. While this expertise can be leveraged, where material changes in volumes are proposed, the existing capabilities would most likely need to be supplemented. Assignment of focussed and dedicated resources would need to be considered as the skill set to deliver a house loan proposition in particular is significantly more complex. In most cases credit unions will need to expand and supplement their existing capability and possibly capacity with personnel that are experienced in these specialist areas. This may involve leveraging a level of external expertise or outsourcing process elements to specialist providers.

While the process for the provision of credit for all product types is considered generic, there are specific and significant differences in all the key stages of the end to end process that each credit union would need to consider depending on the profile of business its business model envisages pursuing.

A robust lending framework is required to support increased house and commercial loan activity, given the longer term and more specialised nature of this credit. The framework needs to specify how long term relationships are to be managed and sustained through the member debt life cycle. At a minimum, credit unions need to ensure procedures allow for the unique requirements of house and commercial loans in terms of underwriting considerations, pre-drawdown checking, and treatment in line with the required arrears management regulations.

In particular, credit assessment and decisioning, security obtainment and fulfilment capabilities would need to be reviewed to ensure the knowledge and skills are available. In addition, the approach and skills required within Credit Control would need to be broadened as there are different treatment strategies required where house and commercial loans difficulties arise.

The operational elements of the process need to be underpinned by strong risk management capabilities incorporating the 3 Lines of Defence model. This would allow credit unions to identify, assess, monitor, manage and report upon risks within the business across all PRISM risk categories for this specialist lending.

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

As already set out, St Raphael's has considered increases to long term lending to be a key component in addressing long term business model challenges. In this context, the proposed changes are welcome and it is our intention to apply for extended limits at the earliest possible opportunity. It is our understanding that the base concentration limit does not apply to the proposed increased combined concentration limit and we would welcome absolute clarity on this in the final proposed regulations. Given that we don't participate in commercial lending, this will allow St Raphael's to increase its mortgage loan portfolio to 15% of total assets and to an extent where it will make a meaningful impact on the existing loan to asset ratio. Assuming an increase in long term lending to 15% of total assets, it is forecast that this will bring the loans to asset ratio from 32% in year end 2019 to c.45% by year end 2022. Whilst this is a welcome improvement in the loan to asset ratio for St Raphael's, arguably it does not go far enough.

Ireland has one of the lowest loan to asset ratios for credit unions in the world[ii]. Whilst a loan to asset ratio on its own is not a full measure of a credit union's financial health, nonetheless it is widely considered a key measure of viability. In the CUAC Review of Implementation of the Recommendations in the Commission on Credit Unions Report, June 2016, it is highlighted that Irish credit unions have one of the worst loan to asset ratios in the world. According to the report, there are only 5 countries out of the 105 countries assessed with a loan to asset ratio lower than Ireland and the credit union movement in each of these countries is extremely small. Given this, the extended combined limit of 15% may not go far enough to address viability issues for some credit unions.

Therefore it is suggested that higher and separate concentration limits apply to house and commercial loans, on a credit union by credit union basis, determined by a risk-based approval processed and underpinned by PRISM. To illustrate the impact this would have, should St Raphael's be in a position to extend house loans to 20% of assets, this would shift the forecast loan to asset ratio from 45% by year end 2022 as highlighted above to c.50%, all other assumptions remaining unchanged.

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

It is accepted that some form of application should be required from interested credit unions. It is important that the application process is consistent and transparent for all interested credit unions. To ensure this, the Central Bank should consider providing full templates for all elements of the application process, including the business case. Consideration should also be given to supporting such an application process with clearly reported service level agreements (SLAs). Given the extensive effort the PRISM process requires on both the part of the Central Bank and a credit union, it may be helpful if the outputs from this process could be leveraged for assessing suitable credit unions. In the Consultation Paper, the Central Bank already indicated that the combined concentration limits are informed by supervisory findings across the sector. Therefore it would seem a missed opportunity not to leverage the outputs from the PRISM process in determining suitability for the proposed increase in concentration limits on a credit union by credit union basis.

Re-name and Re-define Commercial Loan Category

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

Whilst St Raphael's are happy to re-name the commercial loan lending category to small business loan as proposed, the credit union is not happy with the change in definition of Commercial Loans which as proposed will restrict the credit union from BTL mortgages. The Central Bank intends to state in the regulations that buy to let residential and buy to let commercial property lending is prohibited under the new lending framework. In the Consultation Paper, the Central Bank states that it has come to the attention of the Central Bank that in some instances loans are being granted for BTL property purchases under the commercial loan category. Yet, in the Credit Union Handbook[iii], it is clearly outlined that BTL loans fall under the definition of commercial loans. Therefore, this is a substantial change to what is currently permitted and it is disappointing that no comment or consultation is sought on such a fundamental change. The credit union would like the Central Bank to re-consider its position on BTL properties or at minimum consult on this significant change, prior to any changes to regulations in this respect. It would be more appropriate to permit credit unions to manage their own risk appetite for such loans within the concentration limits for house loans.

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

It makes sense that the definition of small business loans reflects the approach to defining small and medium enterprises under European Law. Therefore, St Raphael's is satisfied with this approach provided that the definition of house loans can now take account of BTL mortgages which are currently provided for under the definition of commercial loans.

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?*

It is unclear from the Consultation Paper what the relationship will be between the proposed new limit and the existing limit (€39,000 or 10% of regulatory reserves, whichever is greater) as the Consultation Paper states that the existing maximum large exposure limit will remain in the regulations and clarity on this is required. Notwithstanding this, the proposed large exposure limit of 2.5% of regulatory reserves would not impact on St. Raphael's in light of our size and risk appetite. However, the proposed changes may impact upon other credit unions particularly when considered in the context of the large increases in property prices over the last number of years in the cities and urban areas.

The Q4 2018 Daft.ie House Price Report shows the average asking price for a 3 bed semi-detached house nationally now stands at €254,000. Based on this, a credit union would need assets of more than €90m to be able to provide such a house loan to a first time buyer. The size requirement is even more pronounced when looking at the major cities as outlined overleaf. Therefore, the proposed limit will restrict a large number of credit unions altogether from offering house loans to members.

Location	**Average Asking Price** 3 bed-semi detached	**1st Time Buyer Mortgage** Min. 10% deposit	**Minimum Credit Union Asset Size**	**2nd Time Buyer Mortgage** Min. 20% deposit	**Minimum Credit Union Asset Size**
Dublin	€408,200	€367,380	€147m	€326,560	€131m
National*	€254,000	€228,600	€91m	€203,200	€81m
Cork	€239,000	€215,100	€86m	€191,200	€76m
Galway	€232,000	€208,800	€84m	€185,600	€74m
Limerick	€174,000	€156,600	€63m	€139,200	€56m
Waterford	€151,000	€135,900	€55m	€120,800	€48m

Source: Q4 2018 Daft.ie House Price Report. * Average list price nationally (not a specific property type)

Transitional Arrangements

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

St Raphael's has no objection to the proposed transitional arrangement.

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 loans books held in house and commercial loans particularly where those loans have longer maturities?

We agree that credit unions who wish to undertake higher levels of longer term lending should be required to have a more advanced ALM framework, liquidity contingency plan and report upon asset and liability mismatches to the Central Bank.

At present, credit unions who have received approval to issue up to 15% of its loan book over a 10 year term are required to maintain a minimum liquidity ratio of 30%.

While the proposed changes to the current lending framework would result in a larger proportion of credit union loans being issued over longer terms, the current liquidity requirements in relation to long term lending would appear appropriate, even for the extended concentration limit of 15% of total assets in the following context:

- Firstly, credit union funds have been proven to be stable historically, regardless of economic conditions. Based on historical data issued by the Central Bank[iv] in relation to financial conditions of credit unions during 2011 to 2018, evidence would suggest that credit union funding is stable and has continued to grow during this period
- Secondly, although Basel III is not a requirement for credit unions, nonetheless when calculating the liquidity coverage ratio, the calculation of Net Cash

Outflows over the next 30 days requires an estimate of the run-off rate for retail deposits. As part of this estimate, financial institutions are required to categorise retail deposits (the definition of which includes demand deposits) as "stable" and "less stable". Credit union unattached savings would appear to meet the definition of "stable" retail deposits. Under Basel III rules, a run-off rate of 3% or higher is applied to stable deposits. At 30% liquidity levels, this suggests that the current liquidity level is appropriate given the stable nature of credit union funds.

In terms of an enhanced ALM Framework and liquidity contingency plan, St Raphael's suggest giving consideration to, inter alia, the following measures:

- Undertake a quarterly review of its investments portfolio to identify the proportion of its investments considered high quality liquid assets
- Develop a waterfall of all assets which prioritises those most liquid first for disposal in the event that they are required
- Undertake a monthly review of the maturity profile of its investment profile and loan book to monitor the asset and liability mismatches. This should be reported to the credit unions Board and the Central Bank on a quarterly basis
- Undertake analysis of the credit unions membership profile and related funding profile on an annual basis. This will enable credit unions to identify, inter alia, any concentrations within its current and future funding profile.

It would be helpful if the Central Bank set out in detail the requirements they consider appropriate under an enhanced ALM framework, liquidity contingency plan and relevant reporting.

Other Areas for Comment

25 Year Term

The credit union has significant concerns about the current term limit of 25 years, particularly the impact it will have in meeting the needs of first time buyers within our membership. According to a recent Central Bank report[v], c. 80% of new first time buyer loans by number had a term of greater than 25 years. Furthermore, the figures are also strong for second time buyers with c.50% of second time buyers opting for terms of ≥25 years. Therefore, restricting the maximum term to 25 years effectively removes credit unions from being able to offer house loans to FTB's altogether and to a significant proportion of second time buyers. Arguably, it could undermine a credit union's ability to participate in house loans at all. Furthermore, the credit union has given consideration to the assets and liability mismatch and has concluded that whether the term limit is 25 years or longer, this doesn't materially exacerbate this issue; a term limit restriction of 25 years does not act as a risk mitigant here. Therefore, for all of these reasons, St Raphael's respectfully requests that the Central Bank considers removing this term restriction altogether.

Impact of €100k limit

The credit union agrees with the proposal to move to an asset based mechanism for determining concentration limits for house loans. However, this highlights the inequitable nature of the €100k limit that applies only to credit unions. Taking a long term view, this could potentially restrict the natural asset growth of the credit union and therefore in turn, the proposed allowable lending limits for mortgages.

Definition of House Loans

The current definition of house loans is as follows:

"house loan" means a loan made to a member secured by property for the purpose of enabling the member to:

a. *have a house constructed on the property as their principal residence;*
b. *improve or renovate a house on the property that is already used as their principal residence,*
c. *buy a house that is already constructed on the property for use as their principal residence, or*
d. *refinance a loan previously provided for one of the purposes specified in (a), (b) or (c) for the same purpose;"*

In light of the responses given throughout this paper, St Raphael's respectfully requests that the central bank give consideration to extending the definition of house loans to include the following:

1. Equity Release:

Equity release is currently restricted to renovating a borrower's principle private residence only. No such restriction applies to other credit institutions. Credit unions should be able to facilitate prudent and responsible equity release to members for other appropriate reasons such as funding significant education expenses, improving a second home such as a holiday home or gifting a relative.

2. Domestic Holiday Homes:

In our experience, the number of members enquiring about finance for holiday homes is very low. Notwithstanding this, they tend to be long standing members and typically represent a good credit risk for the credit union. In all enquiries we received, the members already owned their family home outright and wanted to either release equity on the family home to purchase a holiday home or to raise a mortgage directly on the holiday home. The existing definition prohibits either method of lending which is disappointing.

3. Including Buy to Let:

The Central Bank intends to state in the regulations that buy to let residential and buy to let commercial property lending is prohibited under the new lending framework. In the Consultation Paper, the Central Bank states that it has come to the attention of the Central Bank that in some instances loans are being granted for BTL property purchases under the commercial loan category. Yet, in the Credit Union Handbook[vi], it is clearly outlined that BTL loans fall under the definition of commercial loans. Therefore, this is a substantial change to what is currently permitted and it is disappointing that no comment or consultation is sought on such a fundamental change. The credit union would like the Central Bank to re-consider its position on BTL properties. St Raphael's has a limited risk appetite for this type of lending but there are occasions when it appropriate on a selective basis where ability to repay is clearly evident. It is our considered view that BTL's should be managed within the risk appetite of the credit union, like other credit institutions and therefore St Raphael's would welcome the inclusion of BTL under the definition of house loans.

St Raphael's is concerned that the combined effect of all these restrictions will undermine a credit unions ability to compete in the house loan market. The Central Bank already acknowledge in the Consultation Paper that increased competitive pressures will present challenges. CU's need to be able to compete on a like for like basis if they are to stand any chance of success.

Considerations required for a phased approach

We note on page 29 of the Consultation Paper that the Central Bank intends to require credit unions to use the additional capacity to issue house loans in a phased way in order to address financial, credit, funding and liquidity risk. We encourage the Central Bank to take into account the practical considerations when implementing such a requirement. Such considerations include the following:

- Managing a pipeline of mortgage enquiries and applications will of itself impose a natural phasing.
- The processing of house loans from initial enquiry to origination varies significantly in time, is outside of the control of the lender and can take as long as twelve months to fulfil.
- Once a loan offer is issued, a credit union is contractually obliged from that time, even though the funds might not issue for some weeks thereafter.
- House loans are often issued in stages particularly when renovation or remedial work is required.

It is important that credit unions can sustain an ongoing proposition for members over time. As outlined in our introduction, St Raphael's have had to cease accepting enquiries for house loans from members in the past in order to ensure that regulatory limits were not breached. This was disruptive for members and for the credit union. It was operationally challenging to manage and also had some reputational impact on St Raphael's. Any phasing needs to take account of the potential impact any disruption to service would have. Consideration should also be given to having a route to apply for further extensions, once it is clear that existing permitted funding levels will be reached.

[i] In January 2016, credit unions with assets in excess of €100m could apply to retain individual share accounts with balances in excess of €100k as at 1/1/2016. Up to this point, no such restriction applied.

ii Review of Implementation of the Recommendations in the Commission on Credit Unions Report, Credit Union Advisory Committee, June 2016.

[iii] Credit Union Handbook, Central Bank of Ireland, Lending Chapter, 4.3 House Loans, Page 17 of 26, Publication Date: April 2018

[iv] Financial Conditions of credit unions: 2011 – 2016, Central Bank of Ireland, Issue 1, February 2017; Financial Conditions of Credit Unions:2012 -2017 Issue 2, December 2017; Financial Conditions of Credit Unions:2013 -2018 Issue 3, August 2018; Financial Conditions of Credit Unions:2013 -2018 Issue 4, December 2018

[v] Household Credit Market Report 2018, Central Bank of Ireland, Page 8

[vi] Credit Union Handbook, Central Bank of Ireland, Lending Chapter, 4.3 House Loans, Page 17 of 26, Publication Date: April 2018