Response to Consultation Paper 125;

Potential Changes to the Lending Framework for Credit Unions

Registry of Credit Unions
Central Bank of Ireland
PO Box 5559
New Wapping Street
North Wall Quay
Dublin 1

Re: Tipperary Credit Union submission on Consultation Paper 125

Dear Registrar,

The Board of Tipperary Credit Union have considered Consultation Paper 125 (*Potential changes to the Lending Framework for Credit Unions*). Below is our submission for your consideration, we look forward to your response.

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)?

TCU are in favour of removing the 5 year and 10 year lending maturity limits as per the 2016 regulations however in the context of the changes set out in CP125 we believe the measures introduced will see an increase in restrictions to lending which in our view will not overcome the challenges facing the sector such as long term viability, low loan to asset ratios, etc.

TCU currently can lend 40% of its loan book over 5 years which equates to [redacted] To reach long term sustainable loan to asset levels we believe we have to increase our long term lending close to the 40% limit. Our strategic plan and financial projections reflect this ambition.

Per the proposals set out in CP125, our ability to lend in the house and commercial categories would be restricted to a combined [redacted] of total assets which equates to [redacted]. Immediately we can see a restriction placed on our ability to lend. Furthermore changes to buy to let and unsecured lending will impact our ability to grow loans and diversify our loan book.

Overall TCU would rather retain the 5 year and 10 year lending maturity limits then forego them to the proposals set out in CP125.

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?

TCU disagree with this proposal.

Per the CP125 document the current average sector lending > 10yrs is 2.1% of loan books. TCU do not see the value of adding another barrier to longer term lending in the context of such extremely short loan books nationwide.

[redacted] TCU are of the view that the blanket restriction of 10 years to unsecured lending is excessive and unwarranted based on published statistics on loan book durations sector wide.

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

TCU are in agreement with the definition of a secured 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?

TCU are in agreement with this proposal as it gives a more accurate representation of commercial lending concentration.

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

TCU have no comments on this point.

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?

- Impact on commercial lending; under current regulations TCU can lend up to 50% of its regulatory reserve to commercial lending, approx. [redacted], with consideration to the overall 5 year and 10 year lending maturity limits. Under the proposal above TCU can lend up to 5% of total assets – approx. [redacted]. TCU are therefore in a worse position regarding ability to lend commercially and worse furthermore due to a reduced limit of 2.5% of total assets available for house lending.

- Impact on house lending; under current regulations there is no direct restriction on house lending however there is an indirect restriction via the 5 year and 10 year lending maturity limits which applies to all lending, not just house or commercial. The proposed max limit of 7.5% of total assets [redacted] would not allow TCU to grow both the house and commercial book to long term sustainable levels.

The base combined concentration limit reduces to overall pool of funds available for TCU to lend to the house and commercial categories. The growth in one category would reduce the ability to lend in the other category even where lending is not long term. TCU believe we would be in a worse position regarding ability to lend should this proposal be introduced. We believe the base limit of 7.5% is too low, particularly for credit unions who have been granted the 40% lending exemption.

Furthermore TCU would like clarification on the intention to prohibit all buy to let loans. We do not see the rational for this as we believe both the current regulations and proposed changes offer sufficient protection to overexposure in these areas. We note that investment in approved housing bodies is permitted up to 50% of regulatory reserve and therefore see a paradox where lending for this purpose is prohibit however investment allowed.

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?

TCU are of the view that house lending and commercial lending should have separate concentration limits. This allows the credit union to grow house / commercial portfolios concurrently and better diversifying the entire loan book.

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?

TCU believe that it is essential that credit unions who can demonstrate the necessary financial strength, skills, expertise, operations and risk management capability are given the opportunity to access increased lending concentrations for house and commercial loans.

However TCU believe that the consultation paper does not provide enough detail on the application process, liquidity requirements or asset and liability management expectations. As such the true extent of the availability of this increased concentration limit is hard to determine. Credit unions already approved for the increased lending maturity limits are impacted substantially by effectively having these exemptions removed.

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

TCU have no comments on this point.

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

TCU are in agreement with the proposed increased limit and believe all current holders of the 40% of loan book lending limit should automatically be granted access to the increased 15% of total assets limit. However it is not clear from CP125 how the Central Bank will handle applications or the detail of asset and liability management expectations. Our view is this should be set out before any consideration to regulatory changes are made.

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

As mentioned already, TCU expect that credit unions that previous held the increased longer term lending limits would automatically be granted the increased base limit of 15% of total assets.

Response to Consultation Paper 125;

Potential Changes to the Lending Framework for Credit Unions

Definition of Commercial Loans:

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

TCU have no comments on this point.

13. Do you have any comments on the proposed definition for a small business loan? Central Bank of Ireland Consultation on Potential Changes to the Lending Framework for Credit Unions

TCU believes that the current definition is clearer than the proposed definition. TCU would like clarification as whether "owner managed" references to sole traders, directors or any business regardless of legal form.

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?

TCU is in agreement with the 2.5% limit.

Transitional Arrangements:

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

TCU have no comments on this point.

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?

TCU believe that the consultation paper has not given adequate regulatory guidance for credit unions wishing to avail of the 15% of total assets increased base concentration rate. Our view is that the Central Bank should set out their liquidity and asset and liability expectations clearly in a framework that can be applied by all credit unions. TCU appreciates that we must ensure adequate liquidity and asset and liability management at all times however believe the Central Bank should set tangible regulatory limits so that all credit unions are adhering to the same standard and expectations.