

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

The board of the Teachers' Union of Ireland welcome the publication by the Central Bank and view the proposal as a first step to allowing credit unions to fulfil their potential and become a key lender for all loan types to their loyal membership.

The Central Bank is seeking views on the following:

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 board are in agreement with the proposal to remove the 5- and 10-year lending maturity limits.

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 board are in agreement with the proposal to introduce a maximum maturity limit of 10 years for unsecured loans

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

No

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?

No

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

No

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?

The board disagrees with the intention of the Central Bank to introduce a base combined concentration limit for house and commercial loans of 7.5% of Total Assets. This new proposal while increasing the amounts available to lend overall for credit unions in these two

lending categories this credit union believes that without a review process built in to the proposal these limits could impact future growth opportunities for the TUI Credit Union.

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 TUI Credit Union board strongly disagree with the intention to limit the maximum amount of house or commercial lending which a credit union may lend to 5% of Total Assets within the base combined concentration limit.

The board are of the opinion that each credit union should be allowed to utilise the base combined concentration limit of 7.5% to meet its own risk appetite and correlating to member demands. Credit Unions with differing common bonds can utilise the base concentration limit to maximise its product offering to its members.

As an Industrial Credit Union, the demand for the re-named lending category “small business loan” would be non-existent from TUI Credit Union members

TUI Credit Union Risk Impact Assessment (30th September 2018)

Total Assets €40,144,471

Combined concentration limit €3,010,835

Maximum limit 5% €2,007,224

Remaining 2.5% €1,003,612

As previously stated, demand within TUI Credit Union for the re-named commercial lending category “small business loan” is non-existent. However, significant demand would be expressed for the credit union’s house loan product. By imposing the maximum limit of 5% these regulations are inhibiting TUI Credit Union from issuing a further €1m. In an era where credit unions are facing significant competition from traditional financial institutions, Fintech and new unregulated entrants, it is of paramount importance that credit unions can meet the demands and expectations of its members within reasonable parameters such as the 7.5% combined limit.

As of 30th September 2018 TUI Credit Union had €1m outstanding in-house loans. These loans carry an average LTV 39%, LTI 1.3 and issue €82.5k highlighting the prudent nature of these loans.

The proposal to restrict to 5% of Total Assets severely impacts on medium sized credit unions with healthy Loan-to-Asset values as is the case in TUI Credit Union. The impact will be of short-term gain but detrimental to the credit union’s ability to grow in the long term.

Under the new proposals this would allow an extra c€1m to be issued which would easily be utilised within 12 to 18 months even allowing for further growth in total assets.

The board of TUI Credit Union would encourage the Central Bank to remove the maximum limit of 5% per lending class and introduce the combined concentration limit of 7.5% and allow credit unions the ability to appropriately apply this limit to meet its risk appetite and member profile.

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 board of TUI Credit Union are of the opinion that Total Assets is not the ideal mechanism in determining credit unions who may avail of the increased concentration limit. For example, will a credit union with total assets of €40m and that can demonstrate that it has the financial strength, a healthy loan-to-assets portfolio and a resilience that includes strong reserves and liquidity management have a realistic possibility of successfully completing the approval process?

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

*** Board fully briefed on the particular risk profiles of house and commercial loans**

*** Board-approved risk appetite statement in respect of house and commercial loans**

*** Conservative Loan to Value ratio**

*** Appropriate Asset Liability Management framework in place**

*** Comprehensive lending framework of policies, procedures, documentation and professional staff/advisors**

*** Experienced loans officers with APA in mortgage lending qualification**

*** Loans officers experienced in underwriting commercial loan applications (e.g. interpreting business accounts, appraising business plans, projections etc.**

*** Experienced credit control officer (N.B. Consumer Protection Code and MARP)**

*** Product design experience**

*** Sufficient human resources to maintain effective segregation of duties supported by appropriate IT user profiles to limit access accordingly**

*** Appointed property legal advisers experienced in:**

o Conveyancing

o Contract law

o Property repossession

*** Approved property valuer**

*** Life and property insurance provider**

*** Strong system of house loans including:**

o Experienced risk management officer

o Experienced compliance officer

o Experienced internal auditor

o Experienced external auditor

o Established performance management programme for staff and advisers/OSPs

o Extensive system of reporting to the Board (and other stakeholders) on the performance of all parties involved in house and commercial lending

*** Fit-for-purpose IT system to facilitate all of the above**

*** On-going training framework incorporating role specific courses on house and commercial loans for relevant loans officers**

*** Track record in financial strength**

o Strong reserve levels above legal minimum

o Sustained arrears level below PEARLS recommended maximum of 5%

o Stable membership profile (e.g. job security, demonstrated ability and willingness to repay)

o Growing loans-to-asset ratio

* 2018 49.08%

* 2017 44.5%

* 2016 38.3%

o Strong trend in attracting new members

o Savings growth mirroring loan growth

	Shares	Loans
2018	9.3%	20.0%
2017	13.3%	30.3%

2016 7.9% 23.0%

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

The board of TUI Credit Union view the allocation of 15% of Total Assets as a positive starting point for the future evolution of the Irish credit union movement as we restructure our lending profile in line with other developed credit union movements worldwide. The board wish to reiterate the point made previously that it is seeking confirmation as to the limit of €100m being the minimum sized credit union likely to receive approval for the increased concentration limit.

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

Does the Central Bank intend to enforce €100m as the minimum asset sized credit union likely to successfully complete the approval process?

Definition of Commercial Loans:

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

The board support this proposal.

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

The board does not have any comments to make on the proposed definition of a small business.

Board of Directors

Teachers' Union of Ireland Credit Union Ltd