# Tullamore Credit Union Ltd.

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

Further to the request for feedback contained in the above consultation paper, issued on October 24th 2018, please see hereunder our observations on a number of the specific questions posed in that paper. Please note that we have confined our response to dealing specifically with questions posed. We have also responded only to those questions where we hold views that may assist in the process, and not responded to all questions contained in the document.

### 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?

(1) [redacted], we would have concerns around the imposition of a complete ban, and would consider the implementation of a small limit on this category more appropriate. This would make allowance for exceptional circumstances that may arise from time to time.

(2) We would request clarification as to whether this provision relates to new loans only. There may be circumstances where an existing loan requires restructuring and the members means do not allow for this to be covered within a ten- year period. Would an appropriate means related restructure term be permissible under these proposals?

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

We currently provide a Savers Loan, secured by shares, at a special rate for members. We would only consider a loan secured by shares if there is a minimum of 100% cover.

### 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?

A review of potential impact on our credit union indicates that, based on a "most likely scenario" split of [redacted] Housing and [redacted] Commercial, a substantial reduction in potential additional lending in the Commercial market would result. This current maximum allowed is 50% of Regulatory Reserve and under the revised proposal this would, in this most likely scenario, change to a maximum of 2.5% of Assets. In our case we have calculated this would cause a reduction in potential additional lending of [redacted] This could seriously curtail our ability to achieve our strategic objectives into the future and call into question the viability of investing in the resources required to provide lending services to the commercial sector and our ability to adequately diversifying our portfolio.

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?

Given the issue identified under 4 above, we find it difficult to understand why these lending categories are being combined. From a risk perspective, it appears obvious that the risk characteristics of a short term unsecured commercial loan are significantly different to those of a secured, long term, housing loan. On this basis we would consider that separate concentration limits are more appropriate. Alternatively, the removal from the calculations of short- term commercial lending, or retention of the current exclusion of loans under €25,000 should be considered.

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?

See comment under 6 above regarding risk characteristics. Given the above, we would suggest that there should be separate and distinct maximum limits set for each category and would consider 5% for each sector reasonable as a base figure, with higher limits available on application, as proposed. Please note also our comments below on the application process for accessing the proposed increased limit.

A review of the figures for our credit union, based on a likely split of [redacted] Housing and [redacted] Commercial indicate a substantial reduction in potential for new lending in the Commercial market, and, for housing/long term loans, a small improvement against the existing 10% basic limit, with an actual reduction against the current increased 15% figure. Please see item 4 above.

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?

While we support the proposal in principle, it is our view that the more certainty and transparency around the process is required. To fully develop the capabilities and capacity to service the mmercial and housing sectors a substantial investment in resources is required. In deciding on s investment, credit unions must ensure that it not only provides additional services to nbers, but also strengthens the financial position of the credit union. For this to be the case for credit unions, a move to the increased limits proposed will be required. Ideally credit unions l have certainty about the extent of factors limiting the potential market when making their lecision to enter into the market. Therefore, we suggest that clear and open qualifying ls for these increased limits be developed at the outset and communicated to all credit his will assist credit unions in making an informed decision on the potential of the new an early stage.

A review of potential impact on our credit union indicates that the initial 7.5% & 5% limits will not be sufficient for our business requirements beyond an estimated 2 - year window. This implies that an application to increase beyond that figure will be required, with obvious concerns about (i) the phased nature of any increase (ii) lack of certainty and/or transparency around the process and, more importantly, the outcomes.

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

Specialised expertise is required in both the housing and commercial sectors. This relates not only to the underwriting, but also the credit control function. Such specialised expertise can be provided through a combination of in house and outsourced resources. It is our view that a specialist IT resource supported by appropriate human resources can greatly assist credit unions. Give the nature and scale of a move into these market areas, and the costs involved, there is a strong argument for greater co-operation among credit unions involved in the provision of these services. For example, our current involvement in the housing sector is currently supported by the Solutions Centre.

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

Our comments above regarding the rationale for a combined concentration limit are relevant. We would suggest that separate and distinct limits for each market sector be considered.

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

See comments under 8 above.

**<u>Definition of Commercial Loans:</u>**

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

It may be useful to clearly define what is specifically excluded under the proposal. In addition, further clarification may be required in the detailed wording around the exact definition of "owner managed". For example, if a member has more than one business/outlet and employs managers to operate one or more of these, does this impact?

We would also have serious concerns as to whether this restriction may impact on future lending to Approved Housing Bodies with respect to Social Housing. Given the ongoing discussions in this regard that have been ongoing for several years, it may be important to clarify this point specifically.

**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?

**We would support the requirement for a limit to large exposures to protect the credit union, and its members. However, we would query the rationale for linking such limits to Regulatory Reserve. We believe that a limit based on Total reserves should be considered. Alternatively, given the current proposals are moving towards linking limits to Total Assets, it may be appropriate to move this limit in line with this approach.**

**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?

**We hold the view that credit unions should consider a strategy involving restructuring the Liabilities side of the Balance Sheet to reduce the reliance on short term funding through member shares, and to put more medium to long- term funding in place.**