

Registry of Credit Unions

Central Bank of Ireland

PO Box 559

New Wapping Street

North Wall Quay

Dublin 1

10 February 2025

Re: Consultation on Proposed Changes to the Credit Union Lending Regulations (CP 159)

Dear Elaine,

Thank you for the opportunity to provide feedback on the proposed changes to the Credit Union Lending Regulations (CP 159).

Collaborative Finance CLG, ("CF") welcomes the proposed changes to the regulations and the Central Bank of Ireland's ("CBI's") position that it will consider the feedback received as part of this consultation prior to finalising any changes.

The decoupling of house and business lending limits is welcomed and the removal of Regulation 16 and the requirement for a business plan for certain categories of loans. In particular, CF welcomes the removal of tiering whereby all credit unions regardless of asset size may avail of the same concentration limits. This was the specific ask of the CF submission to the CBI as part of the Lending Review.

CF does however have concerns that within the removal of the asset sized based concentration limits, there is an anomaly in the proposed changes, which would see credit unions in the over €100m bracket have a decrease in the amount of business lending that they could do. CF are requesting that the CBI increase the limit to 15% or introduce an application process for credit unions who wish to lend out more than 10% of assets on business loans, up to a set limit.

The rationale for CF's request is that currently credit unions over €100m in asset size, on application and approval by CBI, can lend up to 15% of their assets in business lending. While the 15% limit currently covers both house and business lending there is no restriction to the full 15% being used for business lending. In this regard a credit union in this class will now only be able to lend up to 10%, thus reducing the amount of business lending they can do.

CF acknowledges that currently only credit unions over €100m are impacted by this proposed change. However, taking into account that the changes to be enacted will be in situ for a number of years to come, CF is taking a strategic view of the matter. Whereas the number of credit unions

immediately impacted by the decrease is small, the focus for CF credit unions over the coming years is to grow agri-business and wider business lending prudently within the sector. As the CBI points out in CP159 there is a “need for credit unions to have an indication of the future direction and scope for house and business lending to facilitate their strategic and business planning”.

CF appreciates the CBI’s recognition of the role Collaborative Finance has played in the development of agri-business lending and its inclusion in the Consultation on Proposed Changes to the Credit Union Lending Regulations that “it is worth noting developments on credit union sector collaboration relevant to lending which have progressed and emerged since the 2020 changes to the lending regulations, including the credit union agri-business loan offering under the Cultivate brand provided by a number of credit unions with the support of Collaborative Finance, a credit union shared-service organisation (CUSO)”

This recognition of what CF has achieved with Cultivate is very welcome and is consistent with the ambitions CF has for the development of Cultivate as an agri-business loan offering and a wider business loan offering in its strategy. CF notes the CBI’s concerns that all lending should be prudently undertaken, well-managed and in line with the credit union’s strategy, capabilities and risk-appetite. CF is very cognisant of the importance of a strong lending framework, as credit unions diversify their loan book with different loan types and maturities. In this regard, CF in developing its strategy has placed great emphasis on further working with its member credit unions to enhance training and support to facilitate the growth of a balanced loan portfolio, supported by strong risk management capability.

This strategy is in line with the comments in the ICURN Peer Review Report in 2023, which highlighted the need for increased lending to ensure the future sustainability of the sector. “The Central Bank should continue its engagement with sector stakeholders on any proposals brought forward in this regard and seek to ensure that the regulatory framework evolves. As appropriate and where it is demonstrated that such proposals progressed by credit unions are prudent and sustainable, increased lending should be prioritized to balance the strategic risk associated with the declining profitability of the sector. We are encouraged by the movement towards a supervisory system that provides greater discretion, within a prudent range, for well-performing credit unions with strong risk management cultures”.

Similarly, the Retail Banking Review noted its concerns that the credit union sector and its leadership develop a strategic plan that enables the sector to safely and sustainably provide a universal product and service offering, which is community based. CF is ideally placed to continue to develop its loan offering to meet this need. CF’s strategy which, through collaboration, feeds into the sector’s strategy, is to further develop and grow agri-business lending and wider business lending throughout the country. This strategy is in line with the Program for Government 2025, which states that the Government will position credit unions as community-centric financial institutions integral to their local communities, small businesses and farmers.

CF is respectfully requesting the CBI to revise the 10% business lending limit to ensure diversification of loan books throughout the country now and in the years to come.

Please find below our response to the questions posed on the proposed changes:

1. Do you agree with the proposed changes to the concentration limits for house and business lending?

Yes, we agree with proposed decoupling of house and business loans and increasing the limits for both category of lending subject to observations above in respect of business lending.

2. Do you have any other comments on these proposed changes including on the need for any transitional arrangements related to the changes?

As mentioned above, there is an anomaly, which would see credit unions in the over €100m bracket have a decrease in the amount of business lending that they could do. CF are requesting that the CBI increase the limit to 15% or introduce an application process for credit unions who wish to lend out more than 10% of assets on business loans, up to a set limit.

3. Do you agree with the proposed removal of Regulation 16 of the 2016 Regulations?

Yes, we agree with the proposed removal of Regulation 16 of the 2016 Regulations.

4. Do you have any other comments on this proposed change including on the need for any transitional arrangements related to the change?

CF would like to see the changes come into effect as soon as possible, subject to the above request in relation to business lending limits.

Thank you for the opportunity to respond to this consultation and we are available to meet to discuss further as required.

Yours sincerely,

Therese Conway

CEO

For and on behalf of the Board of Collaborative Finance CLG