Suite 28, Morrison Chambers
32 Nassau Street
Dublin 2
D02 XF22

11 February 2025

Registry of Credit Unions
Central Bank of Ireland
P.O. Box 559
New Wapping Street
North Wall Quay
Dublin 1

RE: Consultation on Proposed Changes to the Credit Union Lending Regulations (CP159)

CU Mortgage Services DAC ("MSDAC") welcomes the changes to Credit Union Lending Regulations proposed by the Central Bank of Ireland ("the Bank"). In particular, MSDAC welcomes the certainty proposals bring to future lending capacity and the confidence this will give to credit unions to invest in their businesses and collaborative support services.

As a credit union owned entity with a mandate to support up to half the Credit Union sector with the provision of standard mortgage products, we believe additional regulatory changes to those proposed are required to:

(a) ensure increased concentration limits can be fully utilised and
(b) give effect to mortgage related provisions of the Credit Union (Amendment) Act 2023.

Some of these changes can be accommodated within the current review (e.g. large exposure limits, loans to other credit unions) while others may require separate review and consultation (e.g. liquidity, capital adequacy).

We would ask the Bank to consider the additional changes to the regulations put forward by MSDAC as being essential to the full participation of credit unions in the mortgage market. These changes were first raised in a briefing document to the Bank dated September 2022.

We look forward to further engagement with the Bank, if required, and the early implementation of the revised regulations.

Yours sincerely.

Seamus Beirne
Head of Mortgage Services

CP159

Consultation on Proposed Changes to Credit Union Lending Regulations

CU Mortgage Services

Submission by
CU Mortgage Services DAC

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IMPORTANT

This Submission expresses the views of the Board of Directors and Management of CU Mortgage Service DAC as a service provider to Credit Unions.

1. INTRODUCTION

1.1 CU Mortgage Services DAC ("MSDAC")

CU Mortgage Services DAC is a credit union owned shared services organisation incorporated in January 2024.

> The primary goal of the company is to provide standard mortgage products and mortgage lending related shared services to or for the benefit of participating credit unions and support them in making mortgage loans to their members.

The company has 72 credit union shareholders who are also service users. Combined they comprise approximately half the credit union sector in terms of membership and assets. They cover all asset categories and includes credit unions that have yet to offer mortgages.

Credit Unions operate successfully in what might be considered a risky market for unsecured personal loans. According to CP159[1], *"Credit unions, collectively, are the leading providers of personal loans accounting for approximately 58% of personal loans at December 2023; they account for approximately 35% of consumer credit across personal loans in Ireland, asset finance and cards and overdrafts in Ireland."*

In 2023, credit unions had 2% of new lending for house loans and 1.6% for business loans.[2]

The availability of house loans from credit unions to consumers is not a factor of all credit unions utilising one regulatory limit to its maximum. This does not recognise there are credit unions who:

(a) may not wish to offer mortgages.
(b) have large exposure limits that are too low to allow them to compete for first mortgages and are therefore restricted in the amounts and types of mortgages they can offer.
(c) have risk appetites that may not extend to the regulatory limits.
(d) are likely to be constrained by other regulatory limits (e.g. liquidity, capital) before reaching available lending capacity.
(e) are highly unlikely to continue to lend until they reach or breach regulatory limits.

What is important is that individual credit unions who wish to offer mortgages to their members can respond to consumer demand without encountering regulatory constraints that do not apply to their competitors on a like-for-like basis.

Referring to the 2019 Regulations[3] governing credit union lending limits, the Competition and Consumer Protection Commission[4] said:

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[1] CP159 Consultation on Proposed Changes to Credit Union Lending Regulations. p.7
[2] CP159 Consultation on Proposed Changes to Credit Union Lending Regulations. p.8 – New mortgage lending €248m of €12.158bn and new business lending €66m of €4.1bn.
[3] Statutory Instrument N. 642 of 2019, Credit Union Act 1997 (Regulatory Requirements) (Amendment) Regulations 2019
[4] Retail Banking Review, Submission to the Department of Finance, July 2022.

> *"The effect of these regulations is to facilitate greater volumes of lending by credit unions than was previously the case under the 2016 regulations, but in placing limits they continue to restrict the ability of credit unions to compete for personal loans, mortgages and MSME credit."*

Credit unions face substantial market challenges and investments to create consumer awareness and establish scale and long-term sustainability in the mortgage market. This will be far more difficult to achieve with regulatory requirements that prevent credit unions from fully participating in the market or impose additional regulatory cost burdens (e.g. liquidity, capital) that are applied universally to credit unions and that are more onerous than provisions applicable to competing mortgage lenders.

Capital and liquidity requirements are a cost to mortgage lending and will result in pricing and other competitive disadvantages where regulatory requirements are more stringent for credit unions than other mortgage lenders. Even the same requirements may act as a barrier to entry and impediment to growth for new competitors, such as credit unions. Banking is considered an essential service for consumers. Where scale is a factor in competition, new market entrants for essential services may need to be protected, as is the case for other essential services, namely utilities.

1.2 Collaboration & Standardisation

Collaboration and standardisation have been central to the success of recent credit union initiatives. Credit unions are already offering mortgage products and will continue to do so, therefore universal standardisation may be difficult to achieve, other than on a voluntary basis. That said, credit union lending for house loans is still in its infancy and where possible, changes to legislation and regulations should seek to promote collaboration and standardisation.

COLLABORATION allows credit unions to share set-up and ongoing operating costs which makes projects and services more affordable. It also reduces the risk of fragmentation. Where there are multiple credit union branded products from groups seeking to provide what are essentially the same services, it prevents economies of scale and creates consumer confusion.

STANDARDISATION provides a common framework for Credit Unions, Internal / External Auditors, Risk Management Officers, Compliance Officers and Regulatory Supervisors to follow. This leads to better oversight of services. Standardisation is reflected in policies, procedures and systems which makes it easier to monitor compliance and risk management requirements and to merge credit unions.

MSDAC is a cross-sectoral credit union owned outsourced service provider supporting credit unions offering standard mortgage products to their members. The sector benefits from efficiencies and economies of scale by availing of support services through a single entity across the State. MSDAC aims to enhance the ability of participating credit unions to manage the various risks relevant to mortgage lending.

The absence of a standardised approach to product requirements for mortgages (in the same way as there are product and regulatory standards for current accounts) represents a significant reputational risk for the credit union sector, where minimum standards of prudential and consumer protection are only achieved on a .voluntary basis.

MSDAC aims to make mortgages a core product for credit unions. This will be achieved through collaboration and standardisation. Changes to lending regulations are viewed as a major catalyst to further investment by credit unions in mortgage services and the ability of credit unions to compete with existing mortgage lenders.

1.3 Legislative Changes

Collaboration and standardisation are recognised as the means to achieve economies of scale and provide access to sectoral capacity beyond the capabilities of individual credit unions and small groups of credit unions. This process is at an early stage in Ireland. The risks that regulatory limits are designed to mitigate in individual credit unions can also be mitigated through collaboration. For example, loan referrals and loan participation / syndication arrangements can mitigate loan concentration risks. In addition, a corporate credit union could offer centralised access to liquidity. Legislative changes arising from the Credit Union (Amendment) Act 2023 offers the potential for these arrangements but they will take time, effort and require existing mortgage lending levels that commercially justify further vestments.

In the meantime, the lending regulations applicable to individual credit unions must ensure credible market participation to encourage participation and investment in mortgage lending services.

2. CENTRAL BANK QUESTIONS

2.1 Concentration Limits for House and Business Lending

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

   (a) **Decoupling of concentration limits for house and business lending.**
   YES. The loan amounts, durations, risk profiles and skill requirements for these loan categories have little in common to justify them being combined. Separate limits will encourage credit unions to diversify their loan portfolios while recognising differences in service goals and risk appetites.

   (b) **Remove tiering so all credit unions can avail of the same concentration limits.**
   YES. The application of the same concentration limits to all credit unions will simplify regulatory requirements and allow credit unions to diversify their loan portfolios. The link to assets and other constraints based regulatory reserves arguably preserves the tiering approach to regulation. However, guidance of 2.5% of regulatory reserves for individual large exposures is restrictive and the maximum large exposure limits in the Regulations[5] should apply if credit unions are to participate fully in the mortgage lending market where the average bank mortgage drawdown in 2024 was €303,959.[6] See Section 3.1 below.

   (c) **Adjust the lending capacity available to all credit unions.**
   YES – subject to an amended 15% limit for business lending.
   Current lending limits allow credit unions with assets in excess of €100m to apply for combined limits of 15% for house and business lending. Once approved a credit union can utilise the full 15% for business lending. If the concentration limits are to be truly decoupled then credit unions should be allowed to avail of a 15% limit for business lending, as this may be their sole route to loan diversification where they do not offer house loans.

2. **Do you have any other comments on these proposed changes including on the need for any transitional arrangements related to the changes?**
   Some credit unions have reached current regulatory limits and have suspended offering mortgages. Early implementation of the regulations will allow these credit unions to resume mortgage lending. In the interim, a greatly simplified application for the 15% combined limit would be beneficial for service continuity.

[5] Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (S.I. 1 of 2016)
[6] BPFI Mortgage Drawdowns Report – Q4 2024.

In CP159 (p.45) the Bank referring to the Consumer Protection Code ("CPC") states:

> *"The Central Bank expects to consult on the application of the Code to credit unions in 2025. It is the Central Bank's position that the changes being proposed in this consultation paper in relation to the credit union lending regulations must be accompanied by enhanced consumer protections for credit union members. Looking forward, the Central Bank's intention is to apply the Code (including the CCMA) to all credit union activities in due course."*

Transitional arrangements will be required in respect of the full application of CPC (encompassing CCMA) to the existing mortgage book and new mortgages issued by credit unions. This requirement should not act as an impediment to credit unions availing of increased lending limits.

2.2 Lending Practices for Specific Categories of Lending

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

YES. Agreed on the basis that Regulation 16(3) is also being deleted as it cannot stand alone if 16(1) and 16(2) are deleted. Although referenced in footnotes, it is not specifically listed for deletion with the other parts of the Regulation. The requirements of S.35(10) and updated guidance in the Credit Union Handbook should fulfil the stated purpose of Regulation 16. The deletion of 16(3) in relation to business lending will remove a regulatory burden for credit unions and prospective borrowers that does not exist for competing lenders.

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

No further comment.

3. ADDITONAL CONSIDERATIONS

3.1 Large Exposure Limits

Lending limits on individual loans have always existed for credit unions. Under the **Credit Union Act 1997**, **S.35(3)** the maximum loan was the greater of IR£30,000 and 1.5% of total assets, which would be equivalent to 15% of the minimum regulatory reserve of a credit union.

S.35(7)(c) of the **Credit Union Act 1997** (as amended) states the Bank may prescribe:

> *"the matters relating to large exposures of credit unions and limits relating to such exposures."* These matters are prescribed in regulations.

The **2016 Regulations** introduced a new limit:

> *"13. (1) A credit union shall not make a loan to a borrower or a group of borrowers who are connected which would cause the credit union to have a total exposure to the borrower or group of borrowers who are connected of greater than €39,000 or 10 per cent of the regulatory reserve of the credit union"*

The regulation refers to the "total exposure" to the borrower or group of borrowers who are connected and not to an individual large exposure. The distinction is made in guidance provided by the Bank. **Lending Paragraph 3.11.2** (p.36) of the **Credit Union Handbook**[7] states:

> *"The Central Bank considers it appropriate that a credit union should consider any exposure greater than 2.5% of the regulatory reserve to be an individual large exposure.*
>
> *The relationship between the large exposure limit (as defined in the Regulations) and an individual large exposure is best illustrated by way of example -*
>
> *In a credit union with total assets of €50 million and regulatory reserves of €5 million (10% Regulatory Reserve Ratio):*
>
> - *The maximum large exposure to a borrower or group of connected borrowers permitted under the Regulations would be €0.5 million (maximum of 10% of regulatory reserves or €39,000, whichever is the greater); and*
> - *An individual large exposure would be defined as €0.125 million (2.5% of regulatory reserves)."*

In the **2016 Regulations**, the guidance was initially 5.0% of regulatory reserves with an aggregate of individual large exposures not greater than 500% of regulatory reserves (i.e. circa 50% of assets based on minimum regulatory reserves). In the **2019 Regulations**, the individual large exposure limit was reduced to 2.5% of regulatory reserves and the guidance on aggregate limits removed.

In the example above, while a maximum large exposure limit of €500,000 would apply to <u>all loans</u> to a single borrower or group of connected borrowers (e.g. joint applicants for a mortgage) the limit for any <u>single loan</u> as expressed by the individual large exposure limit of 2.5% of the minimum regulatory reserve is €125,000. The individual large exposure

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[7] Credit Union Handbook, Chapter 13, Central Bank of Ireland March 2020.

limit as expressed in the Credit Union Handbook is inadequate for mortgage lending for the majority of credit unions, based on the current average value of mortgage applications and drawdowns in the market.

> **PROPOSAL**
> That the statutory large exposure limit in Regulation 13(1) should be the sole exposure limit applying to a borrower or group of connected borrowers' total exposure to a credit union for all their borrowings, including mortgage lending.

The exposure limits are important as they must be listed in the credit union's Credit Policy which the Bank states must include:

> *"systems of control to ensure a credit union does not breach any limits including concentration limits, large exposure limits, maximum loan terms and loan-to-income and loan-to-value limits."*[8]

3.2 Loans to other Credit Unions

Loans to other credit unions are a potential source of funds for capital expenditure, liquidity and lending. In the case of mortgages, credit unions who do not have the scale or staff resources to offer mortgages could refer members to another credit union for mortgages and provide the funding for these mortgages, in whole or in part, resulting in a benefit to both credit unions. Service referrals were a key aspect of the Credit Union (Amendment) Act 2023. The legislative provisions have commenced but referrals have yet to happen at scale.

There hasn't been a single loan from a credit union to another credit union.[9] Feedback suggests the concentration limits are too low and the costs of putting arrangements in place are prohibitive relative to the value of such loans. A more flexible approach is needed.

Under current concentration limits

> *12. (1) A credit union shall not make:*
> *(a) a community loan, where such a loan would cause the total amount of outstanding community loans of the credit union to exceed 25 per cent of the credit union's regulatory reserve, or*
> *(b) a loan to another credit union, where such a loan would cause the total amount of outstanding loans of the credit union to other credit unions to exceed 12.5 per cent of the credit union's regulatory reserves.*

Applying the minimum regulatory reserve requirement of 10% of total assets for two of five lending categories, this means the total of all outstanding community loans can be a maximum of 2.5% of assets and the total of all loans to other credit unions cannot exceed 1.25% of assets.

[8] Central Bank of Ireland, Credit Union Handbook, Lending March 2020, p.19
[9] Regulatory Impact Analysis on Proposed Changes to the Credit Union Lending Regulations, December 2024, p.37

Unlike the proposed increases in concentration limits for house loans (30% of assets) and business loans (10% of assets), these limits in most cases are of low value in practical terms and make a very limited contribution to loan diversification.

In comparison,

> *"40. A credit union may borrow money, on security or otherwise, so long as the total amount outstanding in respect of monies so borrowed does not at any time exceed 25 per cent of the total savings of the credit union."*

The amount outstanding in respect of monies borrowed does not include bank overdrafts. However, banks have yet to accede to requests from credit unions for funding to meet liquidity or lending requirements. Commercial bank borrowing other than standard overdrafts does not appear to be an option for credit unions.

Regulation 12(1)(b) restricts credit unions from obtaining sources of funding from within the credit union sector. A change to the limit would empower credit unions towards greater utilisation of resources from within the sector.

While this matter may be addressed in time by corporate credit unions, there is an immediate need for inter credit union loans to be set at realistic levels in terms of exposure limits. A limit of 5% of total assets (expressed in terms of regulatory reserves) would be reasonable.

PROPOSAL
That Regulation 12(1)(b) be amended to a minimum total exposure limit for one or more loans to other credit unions to 50% of regulatory reserves.

3.3 Liquidity

In general, credit unions need liquidity to meet requests for withdrawal of savings and to issue new loans. Liquidity calculations should be applied under normal business conditions and in the case of stress scenarios. The quality of liquid assets, durations to maturity and short-term availability of investments held in liquid funds should match predicted net cashflows. The relationship between duration and interest rates is inverse so excess liquidity or a mismatch against business requirements can have a major impact on investment returns and profitability.

Liquidity in credit unions is linked to unattached savings and allowable liquidity is largely driven by durations of investments to maturity and to a lesser extent, asset quality. The percentage of unattached savings a credit union has to hold is linked to the maturity of its loan balances.

A minimum liquidity requirement of 20% is prescribed, rising to 30% where outstanding loan balances with a maturity greater than 5 years exceed 29% of total loans outstanding. It is important to note that the maturity of loan balances is based on the contractual term to maturity which does not normally coincide with repayment behaviour and the actual term of a loan. For example, most credit union personal loans are cleared earlier than the agreed duration and the market average duration of a 25 to 30 year mortgage agreement is a fraction of the term.

Even before large scale mortgage lending,117 of 187 credit unions are already subject to the 30% regulatory requirement and hold an average of 37% liquidity[10]. The Bank has identified that only 16 of 187 credit unions do not currently meet the 30% liquidity requirements and given a gradual approach to longer term lending by these credit unions, the Bank suggests:

> *"that the current liquidity requirements would not present an impediment to credit unions increasing their lending, including increasing the maturity profile of their loan books, in line with the opportunities that the proposals for change to the concentration limits would provide."*[11]

This may not be strictly accurate and does not reflect the acknowledged feedback to the Bank from stakeholders.[12]

> *"Stakeholders highlighted broader concerns with the liquidity framework for credit unions suggesting that it was an impediment to credit unions growing their loan books and engaging further in longer term lending."*

The levels of investments credit unions are required to hold to achieve a 30% liquidity ratio is greater than 30% unless a credit union opts to hold all of its investments in cash or investments with maturities of less than 3 months. Investments held beyond 3 months are discounted by factors of 10% to 50% depending on their duration to maturity. In addition, no more than 10% of unattached savings after maturity discounts can come from investments with maturities greater than 3 months. This means the remaining 20% of unattached savings and any excess above the 30% requirement has to be held in investments that are immediately liquid or have maturities of less than 3 months. In 2022, of €13.1bn in credit union investments, 70% was held in bank deposit accounts and 24.5% held in Bank Bonds / Government Securities.[13] As such, credit unions are acting as deposit aggregators for banks and getting limited returns while taking on the deposit risks.

Longer term investments with higher returns that are held to maturity may provide better returns and income for a credit union but a trade-off is lesser recognition for the purposes of liquidity calculations. As at 30 June 2024, the sector had assets of €21.4bn, unattached savings of €16.5bn (77%) and investments of €13.7bn (64%) of which €5.9bn were considered relevant liquid assets as defined in the 2016 Regulations. Although liquid assets represented 36% of unattached savings, they accounted for 43% of investments. This illustrates the levels at which investments may need to be held beyond 30% of unattached savings. Currently, more than twice the level. Accepting that credit unions require and should hold adequate levels of liquidity to meet cash flow requirements, as a percentage of assets, the current figures for investments (64%) and liquid assets (28%) appear to be excessive. Furthermore, an increase in mortgage lending may increase the liquidity requirement while making it more difficult to fulfil it with lower overall levels of investments.

The sector has loans of €6.9bn and savings of €17.9bn (of which €16.5bn are unattached). This means there is €1.4bn in attached savings (i.e. an average of 20% of loan balances). However, the figure for attached savings on mortgages is less than 1%. An example in **Appendix A – Liquidity Requirement** illustrates the challenge for credit unions to meet liquidity requirements with a growing mortgage book:

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[10] Regulatory Impact Analysis on Proposed Changes to the Credit Union Lending Regulations, December 2024, p.32

[11] Regulatory Impact Analysis on Proposed Changes to the Credit Union Lending Regulations, December 2024, p.34

[12] Credit Union Lending, December 2024 p.25

[13] ICURN Peer Review Report, November 2023 p.16

Currently, credit unions can increase their mortgage lending by using:
(a) Existing liquid funds held in investments (i.e. cash or cash equivalents).
(b) Newly acquired savings.

Even where credit unions already have 30%+ liquidity, the use of existing liquidity funds for mortgage lending reduces the available pool of investments from which credit unions can achieve their liquidity requirements and will move remaining investments towards shorter maturities.

Where credit unions opt to attract additional savings to fund mortgage lending, they are faced with two immediate effects:

(a) A liquidity requirement of 30% in respect of these savings regardless of whether or not they are immediately withdrawable. As credit unions move to introduce notice and fixed term deposits as part of their ALM strategies, these forms of funding need to be reflected in liquidity calculations.
(b) A regulatory reserve requirement of 10% which can be met from existing accumulated reserves or a transfer from operating surplus. Clearly it would take several years for mortgage net interest income to meet the minimum reserve requirement, therefore credit unions face a reduction in their reserve ratios, at least in the short-term, where they decide to fund mortgages from additional savings.

The regulatory reserve requirement is immediate and takes no apparent account of the risk or quality of the underlying assets that savings are being used to fund. Many credit unions already have savings caps in place that are below the statutory savings limit of €100,000 because of the impact additional savings can have on liquidity and reserves requirements.

The current liquidity requirement is not fit for purpose and places individual credit unions and the sector at a competitive disadvantage. A new approach is needed that takes account of net cashflows, quality of liquid assets and the stability and run-off of savings, loans and investments. The ICURN Peer Review Report[14] made reference to a greater focus on asset quality rather than short maturity:

> *"The Registry's approach to interest rate risk, and liquidity management, has been requiring higher levels of liquid assets to be held when credit unions undertake higher proportions of longer-term lending, cognizant of the on-demand funding profile of credit unions. However, a greater focus on "marketable assets" that can be reliably liquidated rather than assets with a short maturity would be useful, provided that risks from any variation in the market value of those assets is appropriately managed."*

The Bank has looked at the sector's ability to meet the current regulatory requirement. The ability of credit unions to continue to meet the requirement is not in doubt and the bank is correct in concluding there isn't a need for additional liquidity. However, the impact of the requirement as a constraint to mortgage lending and the ability of credit unions to compete in the mortgage market is an issue.

PROPOSAL
That the Bank reviews and considers credit union liquidity requirements as an impediment to mortgage lending and full utilisation of concentration limits.

[14] ICURN Peer Review Report, November 2023 p.60

3.4 Capital Adequacy

A credit union's minimum capital requirement in the form of the minimum regulatory reserve requirement is 10% of total assets. Capital is derived from retained earnings, therefore a period of rapid growth in assets, as occurred with inflows of savings during Covid-19 resulted in an increase in the value of the minimum capital requirement. Some credit unions introduced savings caps to manage the requirement, negatively impacting on credit unions as a place for savings.

The capital requirement is a flat 10% and does not take account of the quality of the credit union assets in terms of risk and security. Secured house loans have the same capital requirement as unsecured personal loans. This requirement places credit unions at a significant competitive disadvantage as mortgage lenders in having to place higher levels of funds in reserves.

In 2021, the Credit Union CEO Forum[15] articulated the position for credit unions:

> *"As set out in Table 2, the average capital requirements for European bank mortgages are 2.1%; it is 5.7% for Irish bank mortgages, while ratios of between 10% and 12.5% plus an operational risk reserve apply to Irish credit union house loans. This is despite credit unions being excluded by regulation from mortgage lending such as 'buy to lets', 'residential investment properties', 'holiday homes' and 'SME business premises. Table 2 is stark and demonstrates the enormous structural competitive disadvantage experienced by Irish credit unions."*

Table 2: House lending capital requirements

House loan/mortgage assets	Capital Requirement
European bank mortgages	2.1%
Irish bank mortgages	5.7%
Irish credit union house loan requirements	Minimum 10%
Credit unions (extended house Loan limits – CU Total Assets €75 -100M)	Minimum 12.5% *

* The increased capital requirement of 12.5% applies to the credit unions total assets and not on specific house loan assets.

Unlike banking competitors, credit unions cannot avail of risk weighting of assets or discounted calculations for mortgage lending. There is concern that current liquidity and capital requirements, other regulatory constraints and inherent risks of mortgage lending will result in credit unions continuing to invest in structured deposits and bank bonds rather than engaging in mortgage lending to members.

Since the financial crisis, credit unions have been encouraged to increase total reserves in lieu of paying dividends on members shares. At the 30 September 2023[16], average total reserves stood at 16.2% of which average regulatory reserves were 13.2%. Although several regulatory limits are linked to regulatory reserves, these reserves are non-distributable and credit unions require reserves for other purposes, such as strategic development, operational risk and future dividend payments. Despite having additional discretionary reserves and high levels of liquid assets, large exposure limits and concentration limits for certain lending categories are restrictively linked to regulatory reserves.

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[15] Regulatory Capital for Irish Credit Unions: Time for Change?, Credit Union CEO Forum, 2021

[16] Financial Conditions of Credit Unions 2023, 10 April 2024 p.12

PROPOSAL
That the Bank reviews and considers credit union regulatory reserve requirements as an impediment to mortgage lending and full utilisation of concentration limits.

3.5 Statutory Savings Limit

The statutory savings limit for a member under S.27(4) of the Credit Union Act 1997 was £50,000 or 1% of the total assets of the credit union, whichever was the greater.

Part 6 Savings of the 2016 Regulations states:

"35. Subject to Regulation 36 and 37, a credit union shall ensure that no member shall have total savings which exceed €100,000."

"37. (1) A credit union may apply to the Bank for approval to increase individual member total savings in excess of €100,000."

The statutory savings limit has implications for mortgage lending. Members need to be able to save the minimum deposit to apply for a mortgage at their credit union or lodge the proceeds of a house sale to the credit union in preparation for the purchase of another property. The combination of savings, current account balances and once-off deposits cannot exceed the statutory savings limit of €100,000 or lower savings cap.

The Deposit Guarantee Scheme takes account of balances resulting from mortgage activity. The statutory savings limit of €100,000 does not. A credit union may make an application to the Central Bank for approval to increase the limit for an individual member. However, this is not a practical solution for balances accruing from mortgage lending activity.

The Deposit Guarantee Scheme allows for payment of compensation for 'temporary high balances' in respect of deposits resulting from real estate transactions relating to private residential properties, to include, monies deposited in preparation for the purchase of a private residential property by the depositor, monies which represent the proceeds of sale of a private residential property of the depositor, or monies which represent the proceeds of an equity release by the depositor in a private residential property. Qualifying deposits are protected for up to 6 months after the deposit has been credited to an account.

PROPOSAL
That the statutory limit for savings needs to take account of mortgage activity in a similar manner to the Deposit Guarantee Scheme.

3.6 Asset & Liability Management ("ALM")

MSDAC recognises that credit unions will require appropriate tools to manage the risk of longer terms and fixed rate lending and deposit products. Apart from matching funding for savings and loans, credit unions will also have to manage interest rate risks.

Removal of savings caps to encourage an inflow of savings to credit unions that operate caps and a move by some credit unions to offer term deposit accounts as a more stable means of funding longer term lending, have been put forward as ALM solutions. It is MSDAC's view that the cost / benefit impact of such solutions is not universally positive and proposals should be financially modelled and carefully considered.

MSDAC's view is that liquidity and interest rate risks resulting from the provision of credit union mortgages are best addressed through a collaborative approach where products are standardised and there is a shared understanding of how the resulting risks can be managed locally and on a group basis. This approach is beneficial for the Bank and credit unions as regulated entities. It facilitates a sectoral approach to compliance and risk management where expertise, risk mitigants, financial instruments and reporting to manage risks are available to credit unions collectively that might not otherwise be available to individual credit unions acting independently.

Mortgage products introduce complexity and new risks to credit union balance sheets. MSDAC is supporting credit unions in identifying, measuring and managing these risks. New and amended policies are required (ALM, Credit, Liquidity, Capital).

Credit unions will have to identify and understand the risks associated with mortgage-related assets and measure them. This will involve establishing and monitoring interest rate exposure limits, balance sheet limits and concentration limits for lending and investment categories. These limits will be included in ALM policies.

The level of risk measurement sophistication and credit union understanding should increase proportional to the amount of balance sheet risk exposure. Risk management policies should include reports on interest rate risk exposure to Boards of Directors.

Monitoring, measuring and managing risks will require accurate and timely access to data that is consistent in its definition between credit unions. The starting points are clarity in relation to the definition of 'House Loan' with consistent data sets and systems reporting, allowing for individual credit union assessment and peer group comparisons. Far more granular data will be required to allow credit unions and regulators to monitor activity and risks associated with more complex products, pricing and balance sheets, not just for mortgages but a range of assets and liabilities with different risk and maturity profiles.

In the U.S. there is heavy reliance on the published data from quarterly NCUA call reports for data analytics, trends, asset and liability management and peer group comparisons. The reports are used to develop a shared understanding by regulators, credit unions, representative bodies and professional advisers of the issues facing the sector. Here in Ireland, credit union Prudential Returns to the Bank are a useful building block from which to set policy and reporting requirements. Mortgages will be the catalyst for asset growth and business model development, as they have been in the U.S.

APPENDIX A – LIQUIDITY REQUIREMENT

Credit Union Balance Sheet €100m in Assets)

Savings	84,000,000	Fixed Assets	2,000,000
Current Accounts	2,000,000	Loans	30,000,000
Regulatory Reserves	11,500,000	Cash & ST Investments	17,000,000
Other Reserves	2,500,000	Investments	51,000,000
	100,000,000		100,000,000

Attached Savings	6,000,000	20% of Loans
Unattached Savings	80,000,000	

Key Ratios at or near sector averages for 30 September 2023 (per CBI Financial Conditions Report)

Loans to Assets Ratio	30.0%
Regulatory Reserve Ratio	13.4%
Total Reserve Ratio	16.3%
Liquidity	34.8%
Loan Maturity > 5 years	31.1%
Investment Maturity < 3m	25.0%

As Loan Maturity > 5 years exceeds 29%, liquidity requirement is 30% of unattached savings:
= 30% x 80,0000,000 = 24,000,000

			Notes
covered by:	17,000,000	Cash and ST Investments	Must be >= 2.5% of unattached savings with maturity < 8 days
	8,000,000	Investments > 3 months discounted	<= 10% of unattached savings after discounts
	25,000,000	31.3% Liquidity	

Assuming the CU doesn't have mortgage loans currently and maintains its current level of personal lending at €30m,
it will be able to avail of a proposed limit of 30% of assets €30m for mortgage lending and 10% of assets €10m for business lending.
Meeting the demand for €30m in mortgages will require careful management of investment maturities to ensure funds are available for lending.

New Credit Union Balance Sheet €100m in Assets)

Savings	84,000,000	Fixed Assets	2,000,000
Current Accounts	2,000,000	Loans	70,000,000
Regulatory Reserves	11,500,000	Cash & ST Investments	17,000,000
Other Reserves	2,500,000	Investments	11,000,000
	100,000,000		100,000,000

Minimum liquidity level would stay the same at 30% of unattached savings = €24,000,000
Minimum €16m < 3 months with minimum €2m (2.5% of unattahed savings) less than 8 days to maturity
Maximum discounted €8m allowed (i.e. equivalent to no more than 10% of unattached savings)
The level of attached savings for mortgage lending is < 1% giving minimal impact on attached savings and the calculation of liquidity requirements.

On a daily basis, CUs are obliged to hold at least 20% of all the savings that could be withdrawn.
The more credit unions lend the samller the investment pool from which liquid funds must be maintained.
The most a credit union could lend and maintain the minimum 30% requirement is €74m with €24m liquidity completely in cash and short term investments to meet the minimum 30% requirement. Howver, no credit union will operate at a minimum and risk even a temporary breach.