Joint Submission in response to

Consultation Paper 159
Proposed changes to the Credit
Union Lending Regulations

February 2025









CONTENTS

PART 1: INTRODUCTION AND EXECUTIVE SUMMARY

PART 2: RESPONSES TO QUESTIONS IN CP159

PART 3: ADDITIONAL OBSERVATIONS ON THE LENDING FRAMEWORK

PART 4: LIQUIDITY AND ALM CONSIDERATIONS









Introduction

Thank you for the opportunity to respond to CP159 - **Consultation on Proposed Changes to the Credit Union Lending Regulations.** The credit union bodies – CUDA, CUMA, ILCU and NSF – are submitting a Joint Response to the Central Bank of Ireland on behalf of our respective memberships.

In welcoming an opportunity to provide a Joint Submission, we acknowledge the comprehensive work carried out by the Central Bank as part of the review of the regulatory lending framework. In particular we acknowledge the breadth of information detailed across the three papers - CP159, the RIA, and the Credit Union Lending Paper December 2024, and the collation of most recent data, including up to June 2024.

As you will be aware we have been seeking for some time targeted changes to the lending framework for credit unions and have participated actively in the consultation process. This is demonstrated by the Joint Industry Submission in February 2024. We are grateful to the Central Bank for listening to our sector on the consultation. We support the changes to decouple the concentration limits, increase the house lending limits and removal of Regulation 16. We also recognise the Central Bank's caution towards a prudent approach to diversification of the loan book, in particular towards increasing lending with longer maturities without due consideration on the impacts of such changes from both a liquidity and an ALM perspective.

Key recommendations, rationale and detailed commentary are outlined below under Parts 2-4 of this Submission.

Executive Summary

- ► The credit union bodies are in agreement with the changes to Part 4, 2016 Regulations as set out in CP159;
- ► Early commencement of the proposed changes is requested (ie 30th June 2025) our overriding objective is for a faster implementation of these changes given our support for the changes;
- ► Commitment to the commencement of review of the Lending Framework in 2027 is solicited;
- ▶ To permit capacity in business lending for some credit unions to move from 10% to 15% to prevent a hard stop @ 10%.
- ► The sector acknowledges additional exploratory work required on ALM and liquidity management;
- ► The sector would benefit from a specific and detailed ALM Chapter in the Credit Union Handbook;
- ► Early consideration of the criteria for short term liquidity is sought;
- ► Seek sectoral aggregate data on periodic basis.



Part 2: Answer to Questions Posed in CP159

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

Answer:

Yes, we are in agreement with the proposed changes.

We welcome the proposal to decouple house loans and business loans' concentration limits and the overall increase in lending limits. This was our priority recommendation in our February 2024 submission. The rationale made then, and still applicable today, is that these are two different products with different risk profiles; different skill set requirements and the combined concentration limits acts as barrier to entry. It is important to state that not all credit unions have the risk appetite or skill set to enter both house and business lending markets and decoupling the limits allows business model evolution in a prudent manner.

Whilst we acknowledge the removal of tiering and the increase in lending limits, in particular for house loans - which are welcomed, we do raise concerns in Part 3 below with the proposal in CP159 for a *hard stop* for business loans at 10%.

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

Answer:

We would welcome the early commencement of the New Regulations to 30th June 2025.

Rationale:

We do not believe there is a need for transitional arrangements. We acknowledge the timelines as set out in Part 8 of CP159. We also acknowledge the requirements with respect to the S84 Statutory Consultation process and the publication of a Feeback Statement. That said, given the consensus in relation to the proposed changes, the change in the market with the departure of KBC and Ulster Bank since the original 2020 Regulations, and the continued strengthening of the credit union financial and governance performance, we would respectively request that the Central Bank expedite the commencement of the New Regulations and the changes proposed in CP159 to 30th June 2025.

Credit unions have demonstrated a prudent approach to building capacity and risk appetite. This is highlighted by low arrears and a much lower average value of house and business loans compared to the banking sector reflecting the risk averse nature of credit unions. We also note that the lending changes are specifically referred to in the Programme for Government 2025 entitled "Securing Ireland's Future¹" namely Page 20, "This Government will engage with the Central Bank to review credit union lending limits to enhance their ability to serve members."

¹ Available at Programme-for-Government-2025.pdf

CUMA

Divide Union Mensgert Association

First League of Credit Unions

Institutions

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

Answer:

We agree with the proposal to remove Regulation 16(1) and 16(2).

Rationale:

Regulation 16(1) Business Plan Requirement:

Delivering prudent high quality lending growth is a principal focus for credit unions lending to the business and community sector. The existing requirement under Regulation 16(1) for SMEs to provide a business plan to a credit union for all loan amounts of $\[mathbb{e}\]$ 25,000 and greater, along with detailed financial projections, is putting credit unions at a sizable competitive disadvantage². We would note that the average credit union business loan is below this threshold at approximately $\[mathbb{e}\]$ 23,000, so it potentially has acted as a brake on higher value lending. We would also expect credit unions, if appropriate to add additional requirements or stipulations into their credit policies.

Furthermore, as is recognised in CP159, credit unions also comply with SME Regulations³ - providing additional protections and transparency for SME's when applying for and obtaining credit. We are confident that the removal of Regulation 16(1) will not only enhance member engagement, but help deliver increased lending growth and allow for further growth of new competition into the SME market.

Regulation 16(2): Monthly Reporting on the Performance of Loans:

The removal of the mandatory reporting to the Board on the performance of specific categories of lending is consistent with changes introduced under the Credit Union (Amendment) Act 2023⁴. We note in CP159 that resulting from the removal of Regulation 16(2) the Central Bank intends to update the Credit Union Handbook. We welcome guidance on appropriate "reporting arrangements" as required under Section 35(10), Credit Union Act 1997.

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

We do not believe there is a need for transitional arrangements. In addition to the removal of reporting requirements in Regulation 16(2), we also provide commentary in Part 3 of this Submission below, on the removal of other reporting requirements to the Board, in particular under Regulation 21.

⁴ Section 28, CUAA 2023 amends Section 54, CUA 1997 to provide that the Board shall hold at least six meetings in any given year.



² incl. delay of application for the borrower until the business plan and projections are completed; application stalled when a borrower realizes a business plan is required; accountant proposals to clients to shift the application to bank; loss of business to bank who does not have onerous requirement; credit union becomes lender of last resort.

³ Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Lending to Small and Medium-Sized Enterprises) Regulations 2015.

Part 3: Additional Observations/Recommendations on the Lending Framework

As set out above, the credit union bodies are in agreement with the proposals as set out in CP159. Given the need to expedite the proposed changes, in particular the concentration limits, we are not advancing additional changes to the Lending Framework that could potentially jeopardise the speedy implementation of the New Regulations.

With this in mind we ask that the Central Bank keeps the Lending Framework under review and would engage with the credit union bodies as part of a commencement of a formal review of the Lending Framework in 2027 and the sharing of sectoral aggregate data with the credit union bodies to better inform this engagement.

We have set out below a number of additional observations with respect to the lending framework under Part 4, 2016 Regulations. We would ask that the Central Bank considers these observations with a view of further discussions and evolution of the lending framework. Should one or more of the observations be implemented as part of the New Regulations we would welcome the advancement of same.

1) Potential Impact on Business Loans

Currently, a credit union with over €100million in assets on application and approval by the Central Bank, can lend up to 15% of their assets. There is no restriction on the quantum of business lending in this category. This means that theoretically a credit union with €100 million in assets could have less headroom to lend to businesses after these changes - namely 15% compared to 10% of assets. Table 6 of CP159 on Page 26 replicated below shows a €479 million decrease in potential business lending.

Table 6 | Difference in capacity under the existing and proposed concentration limits | Data as at 30 June 2024

		House Lending			Business Lending		
		Existing	Proposed		Existing	Proposed	
		Capacity*	Capacity	Difference	Capacity**	Capacity	Difference
Asset Bucket	< €40M	€93.13M	€372.53M	€279.39M	€62.09M	€124.18M	€62.09M
	€40M - €100M	€451.27M	€1,397.05M	€945.78M	€232.84M	€465.68M	€232.84M
	≥€100M	€2,322.25M	€4,644.50M	€2,322.25M	€2,322.25M	€1,548.17M	-€774.08M
Total Sector		€2,866.65M	€6,414.07M	€3,547.42M	€2,617.18M	€2,138.02M	-€479.15M

Source: Credit Union Prudential Return data.



Proposal: Introduce a Central Bank application process for credit unions who wish to lend out more than 10% of assets on business loans up to a maximum of 15% of assets.

Rationale: Gives the Central Bank control over what and how many credit unions could lend over 10% for business lending with regard to the Business model, risk and sophistication of credit unions while allowing those credit unions whom have proven that they can meet the demands of their members and are considering lending above 10% to demonstrate their evidence based case considering risk and asset liability management.

Data: There has been a notable year on year increase in business lending by credit unions. In the year to end September 2024, there has been a 11.5% increase in commercial lending value and this is an increase on the 10% annual growth rates to end September 2023.

Programme for Government commitments⁵: The recently agreed Programme for Government introduces a number of innovations to help Small and Medium Sized Enterprises (SMEs) namely a new unit and a forum to consult businesses before any proposals that may impact them. It also contains a new SME test "Rigorously implement the SME test to scrutinise every new piece of legislation and regulation for its impact on SMEs, ensuring that any obligations that increase business costs are phased in and that there is consideration of the broader implications of any decisions affecting businesses across government."

We would argue for flexibility to be introduced for the potential number of credit unions who may be negatively impacted by these changes.

Modelling

Given the number of successful collaborations that have taken place in the sector specifically the success of the Cultivate initiative⁶ where the average Cultivate loan application for January to June 2024 was €38,059 up 20%, from €31,711 in 2023⁷, we would expect the pace of business lending to increase specifically given the ability to refer members and loan participations as now permitted under the Credit Union (Amendment) Act 2023. The table below shows the aggregate sector business loan book at 11.5% per annum growth, 15% per annum growth and 20% per annum growth rates out to end September 2029. This does not breakdown the impact on the 18 credit unions that have more than 2.5% of assets out on business loans currently.

Cultivate CU | Agricultural Loans

⁷ <u>Cultivate-2024-H1-Review-Brouchure.pdf</u>



⁵ 2025-Programme-for-Government.pdf

⁶ Cultivate is an initiative of a group of Credit Unions that provides short to medium term loan opportunities built specifically around the growing needs of our farming members.

Table showing cumulative potential growth rates of Credit Union Commercial loan portfolio

Forecast Commercial lending at Annual Growth Rates							
	11.5%	15 %	20%				
Sep-24	Commercial loan book €180 million						
Sep-25	201	207	216				
Sep-26	224	238	259				
Sep-27	250	274	311				
Sep-28	278	315	373				
Sep-29	310	362	448				
Cumulative							
growth 2024-							
2029	72%	101%	149%				
all figures in €	millions						

The table above takes the 11.5% y-o-y growth rate and applies this as a base case going forward. At 11.5% growth rates per annum the Credit union commercial loan book will expand to approximately €310 million by end September 2029. Likewise taking the 20% annual growth rate achieved by Cultivate this would lead to the commercial loan book growing to €448 million by end September 2029.

We are also seeing similar growth across BizFin's Business Lending Framework, with renewed enquiries to join this framework due to the decoupling of the Business Lending limit.

2) Related party Lending - Targeted changes to Regulations 19, 20 and 21 of S.I 1 of 2016

Proposal: We would ask for consideration to make targeted changes to the related party lending regulations in Regulations 19, 20 and 21 of the 2016 Regulations, as follows:

- 19. (1) Subject to Regulation 18, a credit union shall ensure that the making of a loan to a related party is subject to individual prior approval in writing by either the credit officer, the credit committee or a special committee created for the purpose by the credit union and that actions in relation to the management of a loan are subject to individual prior approval in writing by the credit officer, or the credit control committee, or a special committee created for the purpose by the credit union as appropriate.
- (2) A credit union shall exclude individuals on the credit committee or the credit control committee with conflicts of interest in relation to matters specified in paragraph (1).
- 20. (1) Regulations 19 and 21 do not apply where the total credit union exposure to the related party is not greater than €2,000 €10,000.



21. (1) A credit union shall record and monitor loans made to related parties and report, in writing, to the board of directors on related party loans on a monthly quarterly basis. Such a report shall include details of loans advanced to related parties during the month quarter, total loans outstanding to related parties, the performance of loans to related parties and actions in respect of the management of loans to related parties.

Rationale: To amend Regulation 19 to align with the revised provisions of the Credit Union Act as amended which allows credit unions to form a special committee set up for the purpose to deal with officer loans thereby streamlining to process and ensuring consistency of approaches. Amending Regulation 20 to increase the threshold from €2,000 to €10,000 to align to the increasing average loan value of credit unions and also to future proof the provision.

Amending Regulation 21 to take into account the frequency of board meeting changes proposed in Section 54 of the Credit Union Act as amended by Credit Union (Amendment) Act and to align with Regulation 20(2) of S.I 1 of 2016.

3) Business Loans – Expanding the definitions to include ownership of second properties

We reiterate our proposal in our February 2024 submission for the provision of loans for the purchase of second homes - the ability to lend for holiday homes within the State without reliance on rental income for repayment capacity, and, the ability to lend for BTLs within the State with a defined LTV cap and where a credit union has mortgage lending expertise.

Whilst the fact that we raised these matters were highlighted in the Credit Union Lending December 2024 paper, they were not addressed in that paper or in CP159.

4) Business loans – Broadening the definition to support credit unions meet industry best practice

We reiterate our proposal in our February 2024 submission for the provision of loans to purchase or enhance properties owned in the name of a 'holding company' where the 'operating company' is owned by the same shareholders / largely the same shareholders, and defined LTV cap as required.

Whilst the fact that we raised this matter was highlighted in the Credit Union Lending December 2024 paper, it was not addressed in that paper or in CP159.

5) House Loans – Broadening the definition of house loans to align with MCD

Relevant Section:

S.I. No. 1 of 2016, Section 2 Interpretation "house loan" proposed changes as follows:



- "house loan" means a loan made to a member secured by property for the purpose of enabling the member to:
- (a) have a house constructed on the property as their principal residence;
- (b) improve or renovate a house on the property that is already used as their principal residence,
- (c) buy, acquire or retain property rights in a house that is already constructed on the property for use as their principal residence, or
- (d) refinance a loan previously provided for one of the purposes specified in (a), (b) or (c) for the same purpose;

Rationale for Amendment:

In cases of inheritance, a loan applicant can fall under the definition of "house loan" where that person is, for example, buying-out siblings or other beneficiaries. In other cases of inheritance, the loan applicant requires a house loan in order to acquire or retain an interest in a house (eg discharge CAT tax liability).

Working Example:

Member bequeathed a house from uncle. Member applies to credit union for a house loan of €120,000 to discharge the €80,000 CAT tax liability and €40,000 for renovation work to the property. Property to become member's principal residence. Good LTV. Under existing wording of "house loan" the application cannot proceed to underwriting as the application does not meet the definition of a "house loan" i.e the member is not buying a house (nor can he avail of (d) refinance a loan at a later stage).

European Union (Consumer Mortgage Credit Agreements) Regulations 2016:

The proposed amendment aligns the wording in S.I. No 1 of 2016, Section 2 with the wording in EU (Consumer Mortgage Credit Agreements) Regulations 2016, Section 5. Section 5 reads,

"…

(b) a credit agreement the purpose of which is to acquire or retain property rights in land or in an existing or projected building, and where the person to whom the credit is provided is a consumer."

6) Large Exposure Limit

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 exposure⁸. This limit is restrictive and the maximum large exposure limits in the Regulations of 10% of the regulatory reserve 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.

⁸ Credit Union Handbook, Chapter 13, Lending, Para 3.11.2 Limits on large exposures



7) Monthly reporting - updated guidance in the Credit Union Handbook

CP159 provides that the Central Bank intends to provide new and updated guidance in the Credit Union Handbook on the performance of loans, and in light of the removal of Regulation 16(2). We have also proposed amendments to Regulation 21 above re Board reporting. In light of the amendments introduced under Credit Union (Amendment) Act 2023, which allows for a minimum of 6 meetings per annum, we ask that the Central Bank considers other requirements for monthly reporting as set out in the Credit Union Handbook including rescheduled loans (@ 3.13 Systems, Controls and Reporting for Rescheduled Loans).

Part 4: Liquidity and ALM Considerations

Whilst the changes to the Lending Framework are welcome developments, the credit union bodies acknowledge the challenges and risks (incl. liquidity risk) for individual credit unions and the wider sector with the diversification of the loan books towards increasing lending with longer maturities. Some credit unions have little appetite to go beyond the current regulatory limits without a more advanced ALM model in place.

As noted in CP159, for house lending, gross loans outstanding have grown from c.€187 million at 30th September 2019 to c.€674 million at 30th June 2024. Over this period representing an overall growth of 261%. With this pace of growth, the credit union bodies acknowledge the need for a more advanced ALM model to assist credit unions in loan maturity transformation.

The sector is committed to undertaking this exploratory work, and note that some work has commenced under different guises across the sector. Part of the transformation work is training and awareness, incl of the different risks - CUDA, CUMA and ILCU have provided and will continue to provide training and webinars in this regard.

The credit union bodies recognise the reasons in CP159 for not bringing forward changes to the liquidity bands. That said, and as set out in the February 2024 submission, early discussion on changes to liquidity criteria would be welcome by the sector. The current regulations are creating inefficiencies across the sector impinging the value delivered to members.

Areas for consideration by the credit union sector:

- → Defining the requirements of a ALM model (funding, liquidity, risks)
- → Determining the mechanism in which it can be delivered
- → Considering how a Corporate Credit Union can be utilised (incl. role and functionality)
- → Engaging with Central Bank on delivery of an advanced ALM model and informing consultation / draft regulations (incl. revisions to Part 3 Liquidity and Part 2 Reserves of the 2016 Regulations).



Overall, the credit union sector needs a centralised liquidity support mechanism to provide alternative funding options than members' savings with the increasing lending and maturity limits albeit the historic behavioural life of members' savings and section 32(1) & (2)⁹. Consideration also needs to be given to the mechanism - whether this is at credit union level or Corporate Credit Union level.

As part of the development and ongoing exploratory work, more detailed guidance from the Central Bank in the Credit Union Handbook on ALM management would be welcome. The sector is also keen to engage in workshops with the Central Bank.

Thank you for the opportunity to respond to this consultation and we re-iterate our support for the key aspects of CP159 and are available to meet to discuss further as required. We look forward to ongoing engagement with the Central Bank on the evolution of the lending framework and ALM / liquidity support mechanisms.

⁹ 2012 Commission on Credit Unions recommended a liquidity support mechanism

