CLAREMORRIS CREDIT UNION BALLINROBE

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Registry of Credit Unions,
The Central Bank of Ireland,
PO Box 559,
New Wapping Street,
North Wall Quay
Dublin 1.

4 February 2025

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

Dear Sirs,

We refer to the above document issued in December 2024 and set out our submissions hereunder for your perusal.

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

Decouple the limits:

This Credit Union is in agreement with the proposed decoupling of lending limits, with respect to house and business lending, but not with the proposed capacity allocations.

Remove Tiering:

This Credit Union is very much in agreement with this proposal to remove the rather convoluted and unnecessary tiering arrangements from 2020.

Adjust the lending capacity available:

House Lending: - This Credit Union is one of the seventy seven members of the Mortgage CUSO and are therefore supportive of the proposed increase in capacity to 30% of total assets, for the benefit of the overall sector.

Business Lending: - We are not in agreement and are of the opinion the proposed changes should be much more positive in offering a realistic, future growth path to those credit unions interested in offering business facilities. While we understand the aggregate approach adopted by the Bank with respect to the sector and recognise Ireland is a relatively small country, nevertheless, different credit unions will pursue varying business models driven by the nature of their common bond and their standing within it. This Credit Union's common bond has a significant agricultural component and following repeated exhortations by the Bank over the years to strengthen the lending business by diversification, we have invested in and developed significant footprints in house and business loans to supplement our core personal lending business. As noted above the Credit Union greatly welcomes the proposed increase in house loan capacity to 30% but is most disappointed that business lending has not been afforded any increase.

As stated, this Credit Union is supportive of the proposed increase in mortgage capacity and is a member of the mortgage CUSO. We understand the political pressure with respect to housing in general has perhaps led to a stronger focus on that market and the need for lending to support. The proposed increase in house lending is far more supportive of credit unions in urban centres than those in a rural setting.

Our strategy with respect to lending is based in part on our geographical location being a rural setting and the needs of our members. To complement and inform our strategy, we have conducted member surveys on three occasions over the past number of years, one question of which was whether members approved of the Credit Union offering both

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house and business lending. We received very significant responses from over 2,000 members in each of the surveys with an overwhelming 95%+ indicating support for both disciplines.

As is the case with business and house lending requiring differing skill sets to underwrite and maintain, there are many subdivisions within business lending (*Agri, business start-up, working capital, business investment, residential & business investment properties as examples*) which also require differing skill sets to address. Our rural location (as with many other credit unions) means we have identified Agri lending as an area much in demand by our members and one we wish to be in a position to offer on a continual basis. The proposed lending capacity adjustment could actually leave us in a less advantageous position when compared to the position relating to a Tier 3 position – Credit Unions with Tier 3 approval could have a business book exposure of 15% of total assets if it so desired, while the proposed changes would limit that to 10%.

The relatively low uptake to date with respect to the sector business book would seem to be informing opinion in the Bank that there is limited appetite to engage in this form of lending in the sector and therefore leading to the far lower capacity level proposed than that relating to house lending. The aggregated approach adopted, though understandable to an extent, is the issue. We are strongly of the opinion that the proposed capacity level needs to be increased to perhaps 20%/25% if not the 30% limit proposed for house loans. If it is difficult for the Bank to do so on a blanket basis across the sector then some authorisation process to facilitate credit unions with an appetite for business lending as part of strategy should be available. It seems slightly ludicrous that we might have one capacity we're unlikely to ever reach in a rural setting where very few new house builds have been completed in close to 20 years while having considerable demand for another type of loan business that we cannot satisfy due to regulatory limits.

The SME lending offerings provided by the banking sector have been considerably impaired in recent years which has been detrimental to SME consumers. Firstly, the withdrawal of Ulster and KBC has reduced competition. Secondly, the pillar banks have withdrawn much of their SME lending underwriting and contact points into the cities and largest provincial towns. These factors have created a significant impediment to SME's access to lending, an impediment which this Credit Union and others have successfully managed to mitigate. This form of low-medium risk SME/Agri lending adds both growth and diversification to the overall loan book. The 'walk-in' service is further appealing to members engaged in this sector in addition to digital offerings for those who prefer that channel of delivery. This Credit Union is also one of those offering facilities under the 'Cultivate' brand, a collaborative approach which the Bank appears to believe is less deserving than the mortgage CUSO in the identification of a dependable future growth path.

As noted above, this Credit Union has invested time, money and expertise over many years to be in a position of real strength with respect to business lending. Much time has been spent strategically planning a diversified loan book which will meet the demands of members in our common bond, yet that strategy seemingly is only as good as regulation will permit. We fully understand the reasons for regulation and virtually all economic sectors operate within a regulatory environment, however and most regrettably this Credit Union's strategic planning is guided almost completely by regulatory constraint rather than by the needs of members and our business.

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

No further comment other than set out above.

3. Do you agree with the proposed removal of Regulation 16 of the 2016 Regulations? This change would remove requirements from the 2016 regulations:

This Credit Union is in full agreement with the proposal to remove the need to obtain a comprehensive business plan and detailed financial projections (supported by evidence-based assumptions) for community & business loans advanced in the amount of €25,000 or higher. Documentation of that nature will always be sought where the situation dictates and to assist with underwriting. The level chosen (€25,000) was far too conservative and left credit unions at a distinct and unfair disadvantage when compared to competitors. The level also gave rise to many anomalies over the years which members had great difficulty understanding.

With respect to board reporting on the performance of loans in writing, including details on the performance of business, community, house and loans to other credit unions, this Credit Union has no strong feelings either way. Loan performance reporting to the board is conducted as a matter of course. As it currently stands, lending is a key credit union activity and therefore boards should expect to be continually appraised of the performance of a key asset which perhaps is of higher risk than other credit union activities.

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

No further comment other than set out above.

Conclusion

We greatly welcome this latest review by the Bank with respect to the lending framework governing the credit union sector and indeed the raised house lending capacity.

We implore the bank to reconsider the business lending aspect and put more thought into how differing business models can be accommodated in this small country rather than use a figure which would appear on the face of it, quite arbitrary.

The Cultivate collaboration and business lending outside of Agri needs to be in a position where a clear future growth path is identifiable. We have now had two lengthy periods since 1 January 2020 where business lending has had to be withdrawn from offer, causing some reputational damage and unease amongst our 21,000 strong membership base.

For and on Behalf of St. Colman's Credit Union