



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Guidance Note on the Application Process and Application Form for the 15% Combined Concentration Limit for House and Business Loans

Under the Credit Union Act 1997 (Regulatory
Requirements) Regulations 2016.

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Part 1: Notes on Completion

Terms used in this Guidance Note

Applicant	The credit union making an application to the Central Bank seeking approval for the 15% Limit.
Application Form	This application form, i.e. the “15% Combined Concentration Limit for House and Business Loans Application Form”.
Approval	Approval for the 15% Limit under Regulation 12A(2) of the 2016 Regulations.
Central Bank	Central Bank of Ireland.
Portal	Central Bank of Ireland Portal.
Prudential Returns	The prudential returns made by credit unions to the Central Bank on a quarterly basis under Section 22 of the Central Bank (Supervision and Enforcement) Act 2013.
Request Change	Facility whereby authorised entities can notify the Central Bank of changes to information relating to the entity via the Portal.
7.5% Limit	The 7.5% combined concentration limit for house and business loans referred to in Regulation 12(2) of the 2016 Regulations.
10% Limit	The 10% combined concentration limit for house and business loans referred to in Regulation 12(3) of the 2016 Regulations.
15% Limit	The 15% combined concentration limit for house and business loans referred to in Regulation 12A(1) of the 2016 Regulations.
2016 Regulations	Credit Union Act 1997 (Regulatory Requirements) Regulations 2016, as amended.

Part 2: Introduction

This document is a guidance note for credit unions intending to apply for a grant of approval (Approval) for the 15% combined concentration limit for house loans and business loans (15% Limit) referred to in Regulation 12(A)(2) of the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016, as amended (2016 Regulations). It sets out details on the application process and how the Central Bank of Ireland (Central Bank) will assess a credit union's application. It also gives guidance on the information and detail the Central Bank expects Applicants to provide in the Application Form which must be submitted via the "15% Combined Concentration Limit for House and Business Loans" Request Change facility on the Central Bank of Ireland Portal (the Portal).

The Central Bank is supportive of credit unions engaging prudently in house and business lending as part of a balanced loan portfolio. The provision of house loans and business loans is more complex than shorter term personal lending which to date, generally, has been the credit union sector's core credit offering. House and business lending activities present different risk, income and profitability profiles. Accordingly, credit unions engaging in house and business lending are expected to demonstrate understanding of these risks.

As with other complex product offerings, the provision of house loans and business loans requires significant on-going investment in strategic and operational resources and associated risk management capability. A credit union seeking to increase the scale of their house and / or business lending activities by availing of the 15% Limit must demonstrate that the increased scale of activity aligns with its strategic plan and risk appetite, as well as its nature, scale, complexity and capability.

An Applicant seeking Approval for the 15% Limit is responsible for ensuring that they have an appropriate compliance framework in place in order to comply with all relevant legislation and regulatory requirements. Applicants should review the relevant legislation and regulatory requirements and are advised to seek independent legal advice where they consider this necessary, for example in relation to matters arising on the scope of the relevant legislation or regulatory requirements or about the application of the relevant requirements to their particular activities.

2016 Regulations

The 2016 Regulations prescribe a limit for credit unions in respect of their combined total amount outstanding in relation to house loans and business loans as a percentage of a credit union's assets¹.

¹'Assets' is defined in Regulation 2 of the 2016 Regulations as meaning the total assets referred to in section 85A of the 1997 Act.

In respect of all credit unions the limit is 7.5% of total assets (7.5% Limit)². For credit unions meeting specified objective criteria set out in Regulation 12(4)(a) of the 2016 Regulations, for two or more consecutive quarters, a limit of 10% of the credit union's total assets may apply (10% Limit), subject to the credit union notifying the Central Bank pursuant to Regulation 12(4)(b) of the 2016 Regulations. Within both the 7.5% Limit and the 10% Limit, no more than 5% of total assets can be in respect of business loans.

In addition to the 7.5% Limit and the 10% Limit, **credit unions having total assets of at least €100,000,000 for two or more consecutive quarters immediately preceding an application may apply to the Central Bank for the 15% Limit.**

In its assessment of the application, the information submitted by a credit union through the Application Form and supporting application documentation will be considered by the Central Bank.

The Central Bank may, at the time of granting Approval, or at any other time, make the Approval subject to conditions with which the credit union must comply.

A credit union that has been granted an Approval for the 15% Limit must notify the Central Bank without delay where it no longer complies with the minimum total assets criterion (for two consecutive quarters) or where it has breached any condition of its Approval. In such circumstances, the credit union must not make new house loans or business loans beyond the 7.5% Limit or 10% Limit, as appropriate, except where the credit union has already entered into a legally binding agreement with a member to advance a new house loan or a new business loan.

² Other than where the Central Bank has issued the credit union with a specific regulatory direction in this regard.

Part 3: Notes on Completion

General Notes

1. The Application Form should be completed by an Applicant seeking Approval for the 15% Limit.
2. Prior to submitting an application to the Central Bank, an Applicant should have read and be familiar with:
 - a) This Guidance Note;
 - b) The Central Bank's [Long Term Lending - Guidance for Credit Unions](#);
 - c) The Lending Chapter of the [Credit Union Handbook](#);
 - d) The Outsourcing Chapter of the [Credit Union Handbook](#) and the [Chair Letter](#) issued to credit unions on 7 October 2019 on Investment and Participation in Credit Union Owned Outsourced Service Providers; and
 - e) The [Implementation of the Credit Union Act 1997 \(Regulatory Requirements\) \(Amendment\) Regulations 2019 FAQ](#).
3. This Guidance Note should be read in conjunction with the [Application Form](#).
4. This Guidance Note provides practical guidance to Applicants on the application process and the Central Bank's expectations for the completion of the Application Form. By its nature, the guidance does not impose legally binding requirements on credit unions.
5. The Central Bank seeks to process each application promptly, while meeting its obligation to operate a rigorous and effective gatekeeper function. It aims to ensure that the application process is facilitative and accessible from the perspective of an Applicant and, importantly, that the Applicant has clarity on the process, its requirements and timelines.

If an Applicant has any queries when completing the Application Form, these should be raised with their supervisor in the Registry of Credit Unions.

Part 4: Application Process for Credit Unions seeking the 15% Limit

Eligibility Criterion for the 15% Limit

Before making an application, a credit union must meet the criterion set out below.

Eligibility Category	Criterion
Total Asset Size	Minimum assets of at least €100,000,000

A credit union that has availed of the 10% Limit is required to maintain minimum regulatory reserves of 12.5% to avail of that limit. This regulatory reserves criterion is specific to the 10% Limit and does not apply in respect of the 15% Limit. As set out below, the Central Bank will consider the total realised reserve position of an Applicant as part of the assessment process for the 15% Limit.

Two Stage Application Process

There are two formal stages in the 15% Limit application process. In advance of submitting a completed Application Form, we recommend that the credit union discusses the proposed application with its supervisor in the Registry of Credit Unions who may be in a position to identify issues that the credit union should address prior to completing and submitting an application, for example, progressing delivery on an outstanding risk mitigation programme. Where there are outstanding material risk concerns, the credit union may be required to provide an update on its progress. It may be the case that, due to supervisory concerns relating to the current risk profile of the credit union, the credit union's supervisor will recommend that the credit union not submit an application until specified issues have been addressed.

The two formal stages of the application process are as follows:

Stage 1: Submission of Completed Application and Application Assessment

The Application Form requests the Applicant to provide specific information across a number of headings including:

- Overview of the credit union
- Organisational structure
- Recent lending information
- Business case
- Underwriting and lending practices
- Outsourcing
- Management information systems

- Risk management function
- Risk identification and mitigation
- Appendix 1: Financial Projections
- Appendix 2: Annual Arrears Information
- Appendix 3: Annual Liquidity Information

All sections must be completed for the application to be considered by the Central Bank. Any omissions in the information provided may delay the application process. To assist in this regard, Part 5 of this Guidance Note outlines the information that Applicants should provide in each section of the Application Form.

Assessment Criteria and Considerations

In addition to the credit union's compliance with the asset size criterion set out in Regulation 12A(2)(a) of the 2016 Regulations, in accordance with Regulation 12A(2)(b), in order to grant an Approval for the 15% Limit, the Central Bank must be satisfied that the credit union has demonstrated that the approval would be:

- Consistent with the adequate protection of the savings of members of that credit union; and
- Effective and proportionate, having regard to the nature, scale and complexity of the credit union.

For the purpose of satisfying itself as to these matters, regulation 12A(3) of the 2016 Regulations provides that the Central Bank must consider the total realised reserve position of the credit union and such other matters it may specify from time to time.

When assessing applications the Central Bank will give consideration to the following:

1. ***The business case and accompanying financial projections.*** In its business case, the Central Bank expects an Applicant to:
 - Demonstrate understanding of the complexity of the business expansion and balance sheet transformation the credit union is proposing and the implications for the credit union;
 - Identify key risks associated with expanded house and / or business lending and demonstrate how the credit union intends to mitigate those risks; and
 - Demonstrate understanding of the identified risks and coherence with the credit union's own strategic plan, risk appetite and capabilities;
2. ***The annual arrears and annual liquidity information of the credit union for the past five financial years.*** Annual arrears are arrears and write offs on loans issued in a specific year expressed as a percentage of all loans issued in that year; and

3. **All relevant information the Central Bank has gathered through its regulatory interaction with the credit union.** As part of its assessment, the Central Bank will consider factors including:
- The total realised reserve position of the Applicant (in accordance with Regulation 12(A)(3) of the 2016 Regulations);
 - Supervisory issues previously communicated to the Applicant as part of a risk mitigation programme, regulatory direction, enforcement action or sanction imposed in respect of the commission of a prescribed contravention;
 - Any other matter the Central Bank may consider relevant to the application and any Approval that may be granted.

Stage 2: Approval / Refusal

Approval

If the Central Bank is proposing to grant the application for approval, or to grant the approval subject to conditions, the Central Bank will notify the applicant credit union by way of a "minded to approve" letter and will invite the applicant to make submissions in relation to the proposal. For example, the Central Bank may propose to grant an Approval subject to one or more of the following conditions:

- The satisfaction of current risk mitigation programme requirements;
- The maintenance of minimum regulatory reserves or total realised reserves;
- A requirement to notify the Central Bank of any intention to alter the credit union's lending strategy away from the one outlined in the business case submitted with the application; and
- The credit union's usage of the additional lending capacity provided by the 15% Limit.

The Central Bank will fully consider any submissions made before reaching a final decision on any conditions that might apply to the grant of the application.

Where a credit union has been granted Approval to avail of the 15% Limit, the credit union will be required to comply, on an ongoing basis, with the asset size criterion required in order to apply for the 15% Limit. A credit union must also comply, on an ongoing basis, with any conditions of approval imposed on it by the Central Bank at the time the Approval was granted and, where relevant, any further conditions subsequently imposed on it in respect of that Approval.

The Central Bank will monitor a credit union's compliance with the conditions using information from the Prudential Returns submitted on a quarterly basis and any other information available to, or requested by, the Central Bank. The ongoing monitoring process will operate without prejudice to the Central Bank's right to exercise its power to give regulatory directions under section 87 of the Credit Union Act, 1997 or to take any other appropriate measure under financial services law, at any time that is deemed appropriate.

Refusal

If, having considered the matters outlined above, the Central Bank considers that the additional house and / or business lending capacity that would be made available under the 15% Limit would not be consistent with the adequate protection of the savings of members of that credit union or be effective and proportionate, having regard to the nature, scale and complexity of the credit union, the Central Bank will issue a "minded to refuse" letter to the Applicant. The minded to refuse letter will clearly set out the decision and the rationale for the decision. The Applicant will have an opportunity to reply to the letter and the specific reasons for the minded to refuse position outlined in the letter.

The Central Bank will fully consider the Applicant's reply before taking a final decision on the application.

If the Applicant has adequately addressed the Central Bank's concerns as set out in the minded to refuse letter, the Central Bank will begin the process for issuing an Approval, or an Approval subject to conditions - see Approval Section above. The Applicant will be expected to outline any objections it has to any of the proposed conditions of approval or confirm its understanding of the conditions and its intention to comply. Where the Central Bank is satisfied with the Applicant's response to its minded to approve letter, it may then issue a grant of Approval.

Applicants who have previously been refused for the 15% Limit are not prevented from applying again in the future, though the Central Bank recommends that such Applicants have addressed any shortcomings or issues of concern communicated to them as part of a previous application and to speak to their supervisor in the Registry of Credit Unions in advance of making a further application.

Timelines

The timescale for considering applications will depend on the quality of information received. Where the Application Form has been fully completed and the application includes all of the information requested, the Central Bank will endeavour to issue a letter indicating that it is minded to approve or refuse the application within three months of receipt of the complete application.

The Central Bank retains the right to request additional information from Applicants when reviewing an application for the 15% Limit. Where additional information is sought (or where the complexity of a case warrants it), the overall time taken by the Central Bank to assess an application may be impacted.

Part 5: Guidance on Completing an Application Form

This section provides guidance to Applicants to assist them when completing the Application Form. Please note that the numbering sequence set out in the table below follows that of the questions set out in the Application Form.

Applicants should ensure that **all** relevant questions set out in the Application Form are answered succinctly, but fully.

Part 3 of Application Form – Business Case

Question	Guidance
3.	<p>Overview of the credit union Should include at a minimum:</p> <ul style="list-style-type: none"> ● Overview of the credit union's strategic objectives; ● Common bond analysis – including penetration and scope for growth; and ● Membership analysis – including membership size, growth and age profile analysis. <p>The credit union should submit a copy of its current board approved strategic plan.</p>
4.	<p>Organisational structure The credit union should provide at an minimum, the following:</p> <ul style="list-style-type: none"> ● Outline of organisational structure, including details of the lending function; and ● Overview of branch network (if relevant).
5.	<p>Recent lending information The credit union should provide an overview of recent lending trends (last 3 years from most recent quarter). This should include:</p> <ul style="list-style-type: none"> ● Loan product mix and associated yields; ● Loan maturity (determined at the date of loans issuing); and ● Loan provisioning and details of the approach to loan provisioning.
6.	<p>Business case Outline the overall business case for the credit union in seeking approval for the 15% Limit, having regard to the credit union's strategic plan and risk profile, as well as its nature, scale, complexity and capability. At a minimum, the credit union should refer to:</p> <ul style="list-style-type: none"> ● The strategic rationale for seeking the 15% limit; ● How the increased lending capacity will be aligned with its Credit Risk Appetite Statement (a copy of the credit union's board approved Credit Risk Appetite Statement should be submitted with the Application); ● Value proposition for membership; ● Pricing; ● Expected costs; and ● Expected returns. <p>Include a description of the existing and planned house and business loan products covering at a minimum:</p> <ul style="list-style-type: none"> ● Type; ● Value;

Question	Guidance
	<ul style="list-style-type: none"> • Term; • Interest rate; • Loan-to-value (LTV)/Loan-to-Income (LTI) limits; and • Required security. <p>The business case outlined must be prepared on the basis of reasonable and realistic assumptions and aligned to the strategy set out in the credit union's strategic plan. Assumptions should be identified in the information submitted, where relevant. It should also refer to, and align with, the Applicant's financial projections submitted with the application form.</p>
7.	<p>Underwriting and lending practices</p> <p>The credit union should outline its underwriting approach and lending practices. In its answer, the credit union should refer to relevant lending policies, board approved versions of which should be submitted with the Application Form. Credit unions should submit copies of the following policies with the Application Form:</p> <ul style="list-style-type: none"> • Credit Policy; • Credit Control Policy; and • Provisioning Policy. <p>Where the credit union intends to make changes to the above policies (in the event that it is approved to avail of the 15% Limit), it should provide an outline of the nature of the changes envisaged.</p> <p>It is expected that credit unions will operate to best practice when underwriting house loans and business loans. The Financial Stability Board Principles for Sound Residential Mortgage Underwriting Practices are instructive in this regard.</p> <p>Within the underwriting approach and lending practices and policy documents submitted, the credit union should:</p> <ul style="list-style-type: none"> • Demonstrate clear segregation between staff involved in meeting members and preparing applications, and those whose responsibility it is to make the final underwriting decision regarding house and business loans. • Include details on the specific processes in place to manage loan applications over certain thresholds, exceptions and appeals, typically involving sign-off at Credit Committee and /or board of directors level. • Provide information regarding accreditation/qualifications of all staff involved in house and/or business lending, and how it is monitored/managed by the credit union. • Demonstrate how the credit union will ensure all appropriate documentation related to the underwriting process is obtained, verified and retained. • Demonstrate how the credit union manages its compliance with legal and regulatory requirements relevant to house and business lending. • In relation to house loans, set out how they to comply with the Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Housing Loan Requirements) Regulations 2015 (the Mortgage Measures) and demonstrate their policy regarding the management of LTV/LTI limits, including how exceptions will be managed and how income is determined.
8.	<p>Outsourcing</p> <p>In setting out the details of any existing or planned outsourcing activities related to the provision of house and/or business lending, the credit union should demonstrate its appreciation of the distinction between outsourced and in-house roles.</p> <p>Responsibility for all material aspects of house and business lending rests with the board of directors and management.</p>

Question	Guidance
	<p>Many credit unions are exploring the benefits of committing to outsourcing or sharing services for certain aspects of their business, including in the origination and documentation process associated with house loans, in particular. Whilst there are benefits in ensuring standardisation and access to specialised supports, credit unions should appreciate that critical aspects of their business activities may not be outsourced, such as underwriting or product design and, in particular, pricing.</p> <p>Section 76(J) of the Credit Union Act, 1997, which enables outsourcing, sets out credit unions' obligations when outsourcing material business activities (processes, services and activities). Section 76(J)(9) states '<i>where a credit union has outsourced activities, the credit union remains legally responsible for compliance with requirements imposed under financial services legislation in respect of those activities</i>'. The credit union should demonstrate in its application how it maintains oversight of its outsourced activities in order to ensure compliance with requirements imposed under financial services legislation in respect of those activities.</p>
9.	<p>Management information systems</p> <p>The Central Bank expects credit unions to:</p> <ul style="list-style-type: none"> ● outline the reporting and oversight framework of the credit union's lending function, e.g. reporting by the Credit Committee to the board of directors, quality assurance checks, etc.; and ● demonstrate how the credit union has developed, or will develop, and will maintain a suite of reports to support management in monitoring and measuring the credit union's performance in house and / or business lending. <p>Management information to measure and monitor risk, and inform decision-making is a critical aspect of any business initiative. In entering any product / business line or considering material expansion, in particular where the risks could undermine the viability or sustainability of the business, measurement is essential for internal management, but also for supervisory / prudential purposes.</p> <p>In the matter of house or business loans, recording of data at all points from origination (e.g., application, decision, communication of approval / decline, commitment, drawdown), through on-going management (e.g., pricing / re-pricing, refinancing, restructuring), and repayment (e.g., redemption, arrears / default, treatment / foreclosure) informs and enables credit unions to measure progress against all key performance indicators. It also enables external stakeholders to observe and evaluate how the credit union is progressing and managing its business.</p>
10.	<p>Risk management function</p> <p>Provide an overview of the credit union's risk management function including:</p> <ul style="list-style-type: none"> ● Processes, systems and controls in place to manage risk, including the model utilised by the credit union, e.g. three lines of defence; and ● Resources allocated towards this function. <p>The Applicant should provide both a general overview of its risk management function, as set out above, and an overview of any specific processes, systems and controls and resources in place to manage credit risk.</p>
11.	<p>Risk identification and mitigation</p> <p>Identify all relevant risks associated with the credit union's proposed house / business lending lines having specific regard to the credit union's unique profile, characteristics and challenges, as appropriate and set out the actions the credit union has taken and / or will take to mitigate those risks.</p> <p>Key risk considerations related to house and business lending are outlined in the Central Bank's Long Term Lending - Guidance for Credit Unions. Whilst credit unions should refer to this document, it is not exhaustive in terms of risks, in particular at entity level, and credit unions should reflect their own unique profile, characteristics and challenges, including in relation to:</p> <ul style="list-style-type: none"> ● Financial risk ● Credit risk ● Funding & liquidity risk

Question	Guidance
	<ul style="list-style-type: none"> ● Market risk ● Governance & management risk ● Operational & conduct risk ● Regulatory & compliance risk <p>In responding to this question, the credit union must demonstrate that it can manage risks on an ongoing holistic basis and not merely demonstrate that it meets the minimum regulatory requirements at the time of submitting its application e.g., meeting prescribed liquidity percentages.</p> <p>A copy of the credit union's board approved Asset and Liability Management Policy should be submitted with its Application Form. Where the credit union intends to make changes to its Asset and Liability Management Policy (in the event that it is approved to avail of the 15% Limit), it should provide an outline of the nature of the changes envisaged.</p> <p>Applicants are reminded that all questions should be answered succinctly, but fully. In line with the Central Bank's Long Term Lending - Guidance for Credit Unions, Applicants should give particular attention in their responses to the principal risk considerations for long term lending outlined in the guidance, i.e. Financial Risk, Credit Risk and Funding and Liquidity Risk.</p>
<p>Appendix 1</p>	<p>Financial Projections</p> <p>Appendix 1 of the Application Form contains an example of how the specific documents submitted to demonstrate the credit union's financial projections should be provided. This information should be provided in Microsoft Excel format and submitted with the credit union's application. The Central Bank has made available on its website an Excel version of the template (see here).</p> <p>The individual line items included in the templates in Appendix 1 should be provided at a minimum but the credit union may include any additional line items or information in its financial projections which it deems relevant to support its business case. Details should be provided about the source/sources of other income.</p> <p>The financial projections provided must be prepared on the basis of reasonable and realistic assumptions and aligned to the strategy set out in the credit union's strategic plan. The assumptions supporting the financial projections should be briefly outlined in the template, as indicated.</p>
<p>Appendix 2</p>	<p>Annual Arrears Information</p> <p>Appendix 2 contains an example of how the arrears information should be provided. If it wishes, the credit union may add columns to provide information for additional periods.</p> <p>This information should be provided in Microsoft Excel format and submitted with the credit union's application. The Central Bank has made available on its website an Excel version of the template (see here).</p>
<p>Appendix 3</p>	<p>Annual Liquidity Information</p> <p>Appendix 3 contains an example of how liquidity information should be provided. This information should be the year end ratios based on the Applicant's audited year end accounts for the relevant financial year and align with the Applicant's response to Q11 relating to funding & liquidity risk. This information should be submitted with the credit union's application - the Central Bank has made available on its website a Microsoft Excel version of the template (see here).</p>

Part 6: Submitting an Application

Electronic copies of the completed Application Form, along with all relevant accompanying documentation, should be submitted to the Central Bank via the “15% Combined Concentration Limit for House and Business Loans” Request Change facility on the Portal.

If an Applicant has any queries in respect of the application process, they should contact their supervisor in the Registry of Credit Unions. If you have any queries on the Portal, please check the help section on the Central Bank of Ireland Portal webpage of the Central Bank’s website at this [link](#) or contact portalsupport@centralbank.ie.

Registry of Credit Unions

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