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Review of the Lending Framework for Credit Unions

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Agenda

- Background to the Review
- Objectives of the Review
- Current Lending Framework and Recent Lending Trends
- Overview of Questionnaire and Questionnaire Responses
- Next steps
- Useful Resources



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Background to the Review

- To ensure that the lending regulations for credit unions remain appropriate the Central Bank undertook a review in 2018.
- The review has been informed by:
 - The Central Bank's statutory mandate under the 1997 Act;
 - Sector engagements on business model development and longer term lending;
 - Formal request received from the CUAC Implementation Group requesting the Central Bank to review section 35 lending limits;
 - Recent lending data trends and the current regulatory framework;
 - Broader balance sheet considerations included Asset and Liability Management (ALM);
 - Information gathered via a sector questionnaire issued to credit unions in April 2018.



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Objectives of the Review

- Overall objective is to ensure that **an appropriate lending framework** exists for credit unions which:
 - Facilitates prudent growth in loan to asset ratios;
 - Facilitates development of balanced loan portfolios to underpin sustainable income generation;
 - Allows for the management of duration risk in loan books;
 - Allows for the management of concentration risk in loan books; and
 - Appropriately considers ALM risk.
- Central Bank is supportive of credit unions increasing lending including engaging in increased longer term lending - however we would caution that entry into new types of lending should be carefully planned with all related risks considered and should be approached on a gradual basis.



Current Lending Framework

- The 2016 Regulations prescribe the current lending framework.
- Credit unions can currently undertake lending in the following loan categories:
 - Personal Loans;
 - Commercial Loans;
 - Community Loans;
 - House Loans; and
 - Loans to Other Credit Unions.
- The Regulations prescribe concentration limits for specific categories of lending- commercial loans, community loans and loans to other credit unions.



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Current Lending Framework (continued)

- Lending maturity limits are contained within the Regulations and specify that:
 - (i) No more than 30% of gross loans may be outstanding for a period exceeding 5 years; and
 - (ii) No more than 10% of gross loans may be outstanding for a period exceeding 10 years.

- These percentages may be increased to 40% and 15% where a credit union is granted approval from the Central Bank.

- 15¹ credit unions are currently approved to avail of the increased limits.

- At a sector level, the existing limits and approvals granted under the framework provide that up to c.€1.43bn of sector loans may be outstanding for > 5 years and that up to c.€0.49bn may be outstanding for > 10 years.

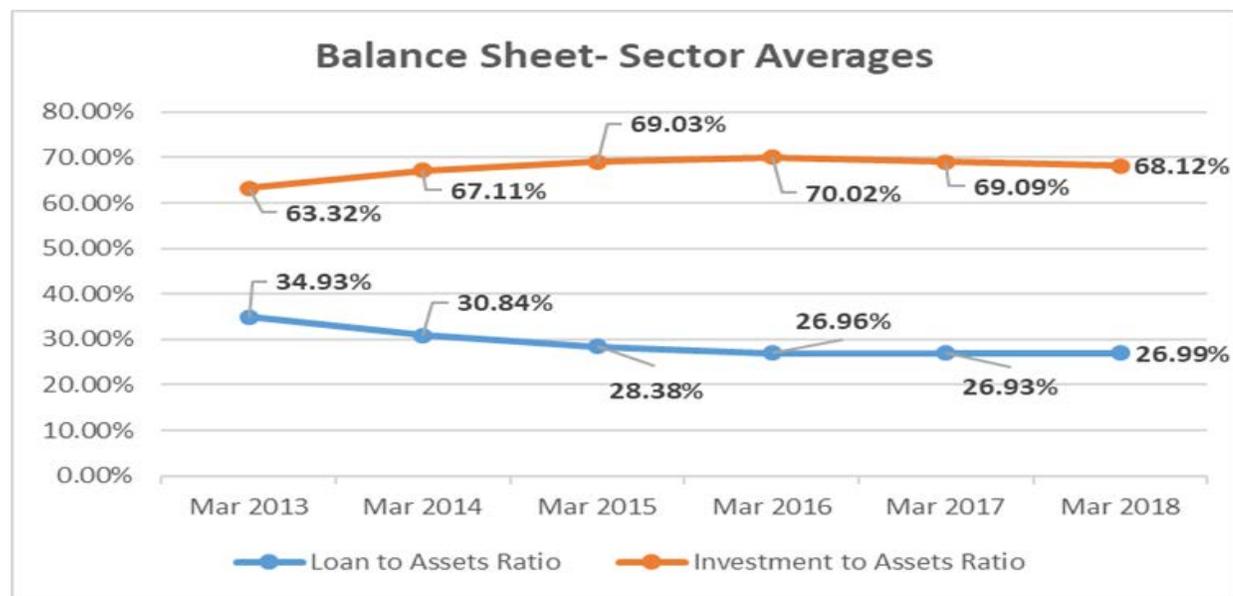
¹ As at 30 September 2018.



Key Lending Trends: 2013 to 2018

■ Year on year decline in average loan to assets ratio for the sector with a corresponding increase in investment to assets ratio. Based on March 2018 PR data:

- Average loan to assets ratio is c.27%.
- 121 credit unions have a loan to assets ratio below 25%.
- 79 credit unions have a loan to assets ratio above 30%.



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Key Lending Trends: 2013 to 2018 (continued)

- 2014 to 2016 saw a decline in the % of total loans outstanding for > 5 and > 10 years. This has increased since 2016 – on average 12.9% of total loans are outstanding for > 5 years and 2.1% of total loans are outstanding for > 10 years.
- Larger credit unions tend to have a higher proportion of total loans outstanding for longer durations.

	Average % of Gross Loans Outstanding > 5 Years	Average % of Gross Loans Outstanding > 10 Years
Credit Unions Total Assets ≥€100 million	17.3%	4.4%
Credit Unions Total Assets ≥€40 million and < €100 million	13.7%	1.8%
Credit Unions Total Assets <€40 million	10.5%	1.4%



Longer Term Lending Questionnaire

- To help inform the review, in April 2018 the Central Bank requested credit unions to complete a longer term lending questionnaire.
- Respondents were provided with 1 month to complete and submit the questionnaire.
- The questionnaire sought further detail on current and forecasted lending and savings in credit unions.
- Central Bank would like to thank all credit unions who responded to the questionnaire.



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Longer Term Lending Questionnaire- Background

Questions 1 to 5 sought detailed information on current lending and savings in the credit union

Question 6 asked if the credit union considered that the current lending limits are sufficient to meet forecasted loan demand out to 30 Sep 2022

Where a credit union answered no to question 6, question 7 to 10 requested forecasted lending and savings information for the credit union over each of the years to 30 Sep 2022 (to be provided on basis that no lending limits exist in the framework)

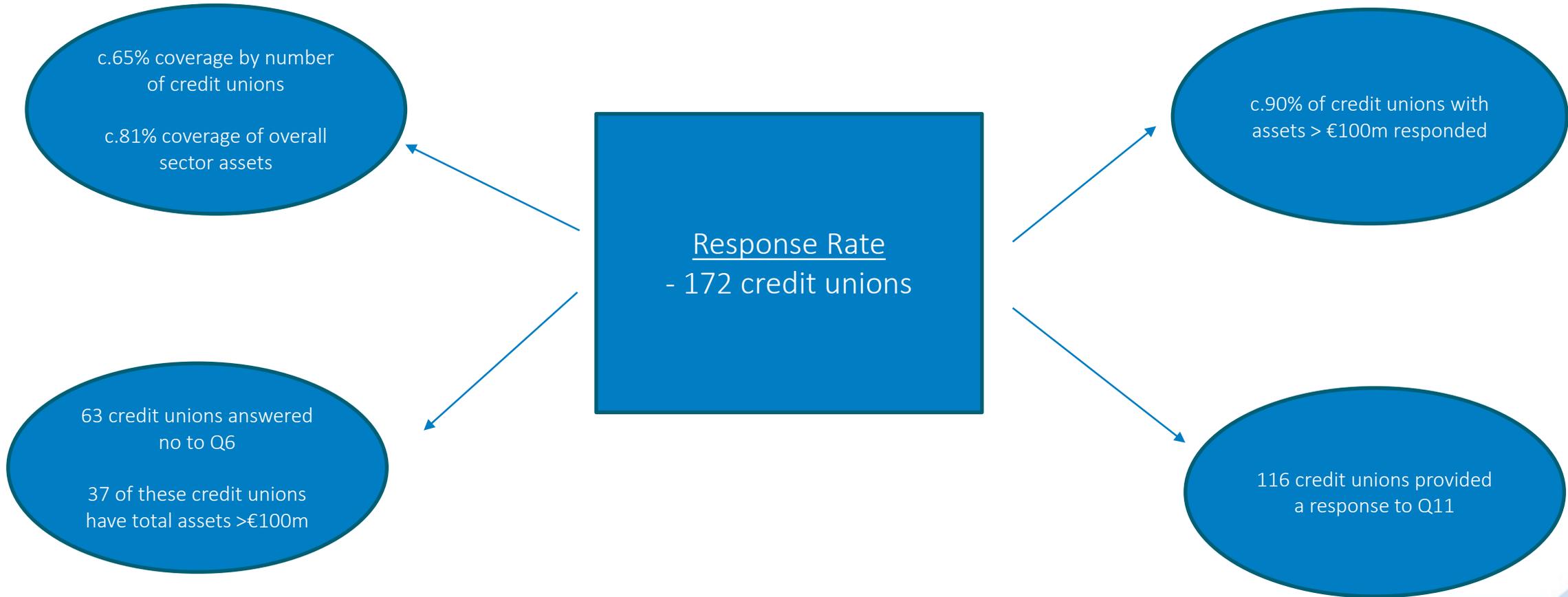
Question 11 provided respondents with an opportunity to provide additional comments on longer term lending



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Longer Term Lending Questionnaire- Response Rate



Longer Term Lending Questionnaire –Data Analysis

■ Information gathered based on current lending and savings (based on 172 questionnaire respondents):

Personal Lending- based on personal loans outstanding

Personal Lending Sub-Category	% of Overall Personal Lending
Car Loans	29.9%
Home Improvement Loans	28.4%
Education Loans	3.5%
Other Personal Loans	38.2%
Total	100%

■ Average Maturity Profile of Personal Loans:

- c.88.3% less than 5 years
- c.10.7% between 5 and 10 years
- c.1% over 10 years



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Longer Term Lending Questionnaire- Data Analysis (continued)

House Lending

- 75 questionnaire respondents engage in house loans.
- Value of house loans reported c.€148 million, c.€55 million advanced in the last full financial year.
- Average value of house loan c.€66K.
- Maturity profile of house loans
 - c.47% outstanding for less than 10 years.
 - c.53% outstanding for greater than 10 years.



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Longer Term Lending Questionnaire- Data Analysis (continued)

Commercial Lending

- 93 questionnaire respondents engage in commercial loans.
- Value of commercial loans reported c.€64 million, c.€28 million advanced in the last full financial year.
- Average value of commercial loan c.€16K.
- Maturity profile of commercial loans
 - c.61% outstanding for less than 5 years.
 - c.39% outstanding for greater than 5 years.
 - c.7% outstanding for greater than 10 years.

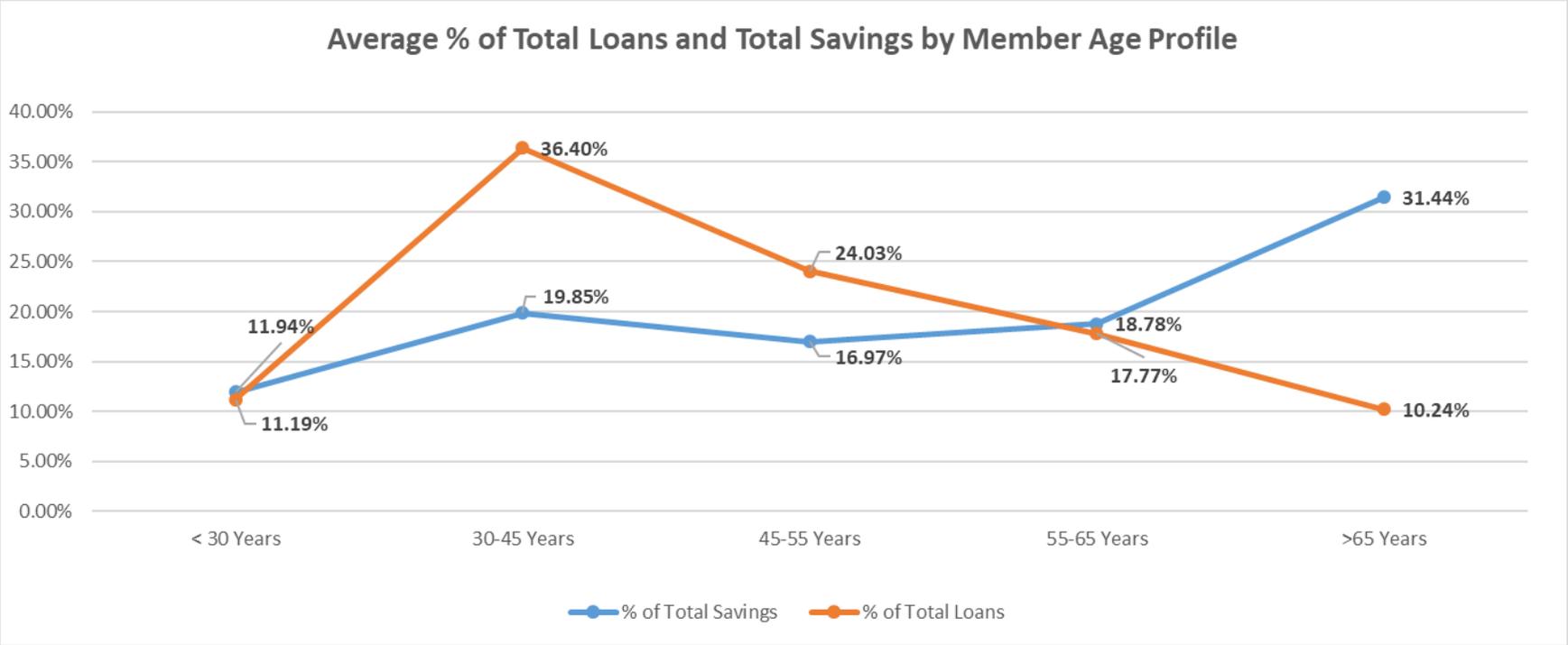


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Longer Term Lending Questionnaire- Data Analysis (continued)

Profile of Lending and Savings- per age profile of credit union member



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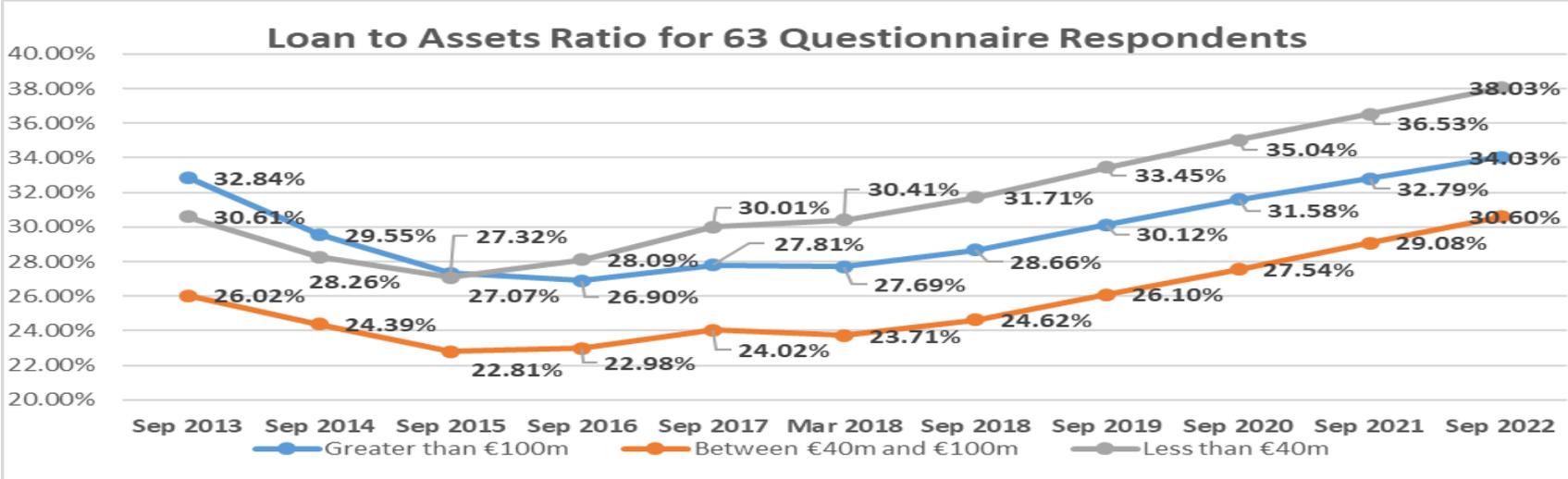
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Longer Term Lending Questionnaire- Data Analysis (continued)

Information gathered based on forecasted lending and savings (based on the 63 respondents who answered no to Q6):

Forecasted Loan to Assets Ratio:

- Current LTA ratio of these credit unions is broadly in line with sector average at c.27.4%
- LTA ratio is forecast to grow to c.34.2% by Sep 2022



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Longer Term Lending Questionnaire- Data Analysis (continued)

Forecasted Maturity Profile of Credit Union Lending (based on the 63 respondents who answered no to Q6):

- These credit unions have a higher proportion of lending outstanding for longer maturities with c.19.2% and c.4.6% outstanding for periods greater than 5 and 10 years respectively
 - Lending > 5 years forecast to increase to an average of 31.6% of gross loans outstanding
 - Lending > 10 years forecast to increase to an average of 11.4% of gross loans outstanding

This is split as follows across credit unions of various asset size:

	Average % of Gross Loans Outstanding > 5 Years as a % Total Forecasted Loans	Average % of Gross Loans Outstanding > 10 Years as a % Total Forecasted Loans	Average % of Gross Loans Outstanding > 5 Years as a % Total Forecasted Assets	Average % of Gross Loans Outstanding > 10 Years as a % Total Forecasted Assets
Credit Unions Total Assets ≥€100 million	32.3%	12.7%	11.3%	4.6%
Credit Unions Total Assets ≥€40 million and <€100 million	30.3%	9.8%	9.3%	2.9%
Credit Unions Total Assets <€40 million	31.0%	9.3%	12.4%	4.0%



Longer Term Lending Questionnaire - Data Analysis (continued)

- Forecasted change in lending per loan category is illustrated on the below table (based on the 63 respondents who answered no to Q6).
- Total forecast loans are c.€3.5bn for 30 Sep 2022 compared to c.€2.3bn at 30 Sep 2018.
- House loans forecast c.€486m (currently c.€131m) and Commercial loans forecast c.€136m (currently c.€49m).

Loan Category	% of Total Loans Mar 2018	% of Total Loans Sep 2022
Car Loans	28.1%	24.5%
Home Improvement Loans	25.6%	24.8%
Education Loans	3.3%	3.5%
Other Personal Loans	35.6%	30.8%
House Loans	4.5%	10.8%
Commercial Loans	2.9%	5.6%



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Longer Term Lending Questionnaire- Data Analysis (continued)

■ Forecasted maturity profile of loans by loan category (based on the 63 respondents who answered no to Q6):

	< 5 Year Maturity	5-10 Year Maturity	> 10 Year Maturity
Personal Loans	78.4%	19.0%	2.6%
Commercial Loans	42.8%	41.2%	16.0%
House Loans	7.8%	18.8%	73.4%

■ No significant change in forecasted funding profile of credit unions- c.98% of funding currently on demand, forecast to decrease slightly to c.94%.



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Longer Term Lending Questionnaire- Commentary

....we believe lending limits need to be widened for the sake of the credit union movement as a whole.

....the Board of Directors of X CU have a low appetite for Credit Risk. As per our strategic plan to 2022 the Board have no plans to expand into longer term lending as our primary source of income....

Based on the forecasts completed out to year 2022, the lending limits as per regulation 2016 should be sufficient for this credit union.

....At present our Credit Union is satisfied that the 2016 Regulations are sufficient for this credit union to meet loan demand over the next 5 years....

...We understand there is a higher level of risk associated with house and commercial lending and therefore additional credit underwriting expertise/training will be required...

Longer term lending limits should be based on a % of Asset Size rather than Loan Book Size.

...Increased lending limits would enable the credit union to have a greater portfolio mix in terms of scale of loans and maturity levels...

In order for the Irish credit union sector to grow and develop it will be necessary to evolve the business model to incorporate more longer term lending.

....The business case for investing in appropriate systems and skilled staff to offer longer term lending would be significantly strengthened if the loan duration limits were lifted or increased....

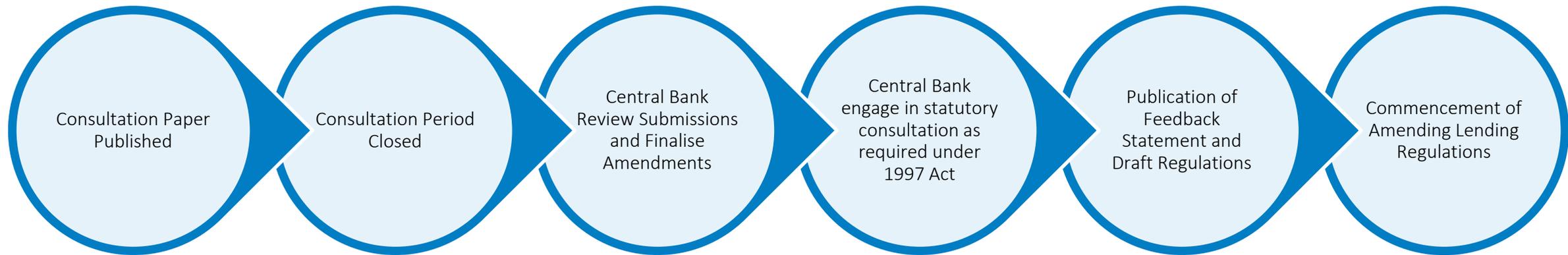
Credit unions are operating in a competitive and challenging marketplace but not always on a level playing field with other financial institutions. It is imperative that credit unions can offer a suite of products that are reflective of members needs and form a broad diversified and balanced loan portfolio...



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Planned Next Steps



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Useful Resources

- Thematic Review- House Loans

<https://www.centralbank.ie/docs/default-source/Regulation/industry-market-sectors/credit-unions/communications/reports/house-loans-in-credit-unions---thematic-review-findings---january-2018.pdf?sfvrsn=4>

- Longer Term Lending- Guidance for Credit Unions

<https://www.centralbank.ie/docs/default-source/Regulation/industry-market-sectors/credit-unions/applying-for-approvals/long-term-lending-guidance-for-credit-unions.pdf?sfvrsn=3%20>



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Q&A



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Thank you



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