Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Credit Union Lending

December 2024

Contents

1. Executive Summary

The purpose of this report is to set out analysis undertaken by the Central Bank of Ireland (Central Bank) to assess and analyse the impact of changes introduced in 2020 to the credit union lending regulations – set out in Part 4 of the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (the 2016 Regulations) – on credit union lending and the Central Bank's assessment of the need for future changes to the lending regulations.

Background

For the adequate protection of the savings of members, the Central Bank may prescribe, among other things, the classes of lending in which a credit union may engage, in addition to concentration limits for such classes of lending. Following a Central Bank review of the lending framework and public[1] and statutory consultation processes, from 1 January 2020 a number of amendments were made to the lending regulations. The 2020 changes included the removal of the lending maturity limits which limited the amount of loans a credit union could have outstanding for periods of greater than 5 and 10 years and the introduction of combined concentration limits for house and business lending (on a tiered basis). Further detail on the lending framework for credit unions is contained in section 3.

The Review

At the time of publishing the changes to the credit union lending framework in November 2019, the Central Bank committed to perform and publish an analysis on credit union sector lending three years post-commencement of the amendments to the lending regulations, in order to assess and analyse the actual impact which the changes to the lending regulations have had and to inform any decisions on the need for future change (the Review).

The Central Bank commenced work on the Review in Q4, 2023. In carrying out the Review, the Central Bank has undertaken the following analysis:

- **Data analysis of credit union lending data** reported by credit unions in quarterly Prudential Returns;

[1] Consultation Paper 125- Consultation on Potential Changes to the Lending Framework for Credit Unions was published on 24 October 2018.

- **Analysis of feedback received from credit union sector stakeholders** on the lending framework since the introduction of the changes to the lending regulations in 2020; and
- **Analysis of stakeholder feedback received during a series of bilateral meetings, focused on the Review** and held in November 2023 (within this analysis, we also considered post-meeting submissions made to us by a number of sector stakeholders in relation to the Review).

Further detail on the approach to the Review is outlined in section 5.1.

Further Context to the Review

The Review has been considered against the backdrop of other recent developments, which have impacted or have the potential to impact on credit union lending. As outlined in section 4, these include developments in the macro environment including those related to the COVID-19 pandemic (the pandemic) and recent geo-political instability, consolidation in the domestic retail banking market and the changing landscape for the provision of financial services in Ireland. In addition, the Review has been informed by other developments as set out in section 5.2 related to changes to credit union legislation resulting from the Credit Union (Amendment) Act 2023 (the 2023 Amendment Act), the recommendation from the Retail Banking Review[2] with respect to credit unions and the recommendations and additional observations from the recent peer review[3] of the Central Bank's performance of its functions in the regulation and supervision of credit unions.

Overview of Data Analysis

Our analysis of credit union lending data provided by individual credit unions in the quarterly Prudential Returns over the period 2017-2024 highlighted a number of key themes and trends, including the following:

- **Gross loans outstanding –** the level of total gross loans outstanding has increased from €4.5 billion at September 2017 to €6.3 billion at September 2023 and €6.9 billion at June 2024;

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[2] Department of Finance, Retail Banking Review (November 2022) - https://www.gov.ie/pdf/?file=https://assets.gov.ie/240770/d8b98fef-fe6a-4df8-b7d6-2f63e9f224b8.pdf#page=null.

[3] International Credit Union Regulators' Network (ICURN) 2023 Peer Review Report on the Central Bank's performance of its regulatory functions in relation to credit unions - https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/credit-unions/communications/reports/icurn-peer-review-report.pdf.

- **Loan growth –** notwithstanding a number of macroeconomic developments that have occurred since the 2020 changes were made, growth in lending has recovered strongly since 2020; the growth rate experienced in the full year to September 2023 was the highest annual growth rate observed over the period;
- **Loan to asset (LTA) ratio** – due to a higher rate of growth in lending compared to member savings, the sector average LTA ratio has increased since 2020, standing at 32.2% at June 2024 - an increase from 28.4% at September 2019 (i.e. the year-end immediately preceding the 2020 changes to the lending regulations);
- **Maturity profile of credit union lending –** there has been a significant shift in the maturity profile of credit union lending with a higher proportion of loans advanced and outstanding for periods of greater than 5 years at June 2024 compared to 2019;
- **Loan diversification** – there has been increased diversification in credit union loan books, with credit unions more actively involved in newer areas of lending including house loans and, to a lesser extent, business loans. House loans outstanding at June 2024 accounted for 9.8% of total gross loans outstanding compared to 3.7% at September 2019 and represents the category with the second-highest proportion of credit union loans outstanding;
- **House and business lending** – at sectoral level, there remains significant capacity for credit unions to undertake increased house and business lending within the combined concentration limits for house and business lending. While there has been increased activity in house and business lending by credit unions, this varies from credit union to credit union with larger credit unions accounting for a significantly higher proportion of lending in these categories. Growth in house lending has significantly outpaced growth in business lending since September 2019.

Further detail on the data analysis is included in section 5.3 and Appendix 1.

Overview of Stakeholder Feedback

Looking to the stakeholder feedback[4] on the current lending framework, on the impact that the 2020 changes have had on credit union lending and

[4] In this report the Central Bank has endeavoured to accurately and fairly represent the views received from stakeholders. Please see Appendix 2 for more information on stakeholder feedback received.

the need for future change to the lending regulations, a number of key themes and suggestions were relayed by stakeholders:

- **Credit union lending and the impact of the 2020 changes generally** – demand for personal lending remains strong, more credit unions are providing house loans for home purchase, there has been growth also – albeit low growth – in business lending, loan amounts have increased and there has been a prudent growth in credit unions' risk appetites. Stakeholders were generally uncertain on the extent to which changes in credit union lending activity since the 2020 regulatory changes were made are due to those regulatory changes or due to some other factors, though they considered that the regulatory changes have generally contributed to lending growth.
- **Loan maturity** – removal of the previous maturity limits for lending greater than 5 and 10 years has provided credit unions with greater flexibility to engage in longer term lending and the changes may have facilitated credit unions to better meet member needs. There has been increased lending with a maturity of between 5 and 10 years, which stakeholders viewed as having been driven by home improvement, car, agri-business and education loans. The increasing maturity profile of credit union loan books presents a number of challenges, including asset and liability management (ALM) challenges, with credit unions undertaking some steps to address these challenges.
- **Loan categories** – credit unions are more active in house lending compared to when the 2020 changes were made. Stakeholders called for Regulation 16[5] of the 2016 Regulations (in particular, those aspects of Regulation 16 which requires a comprehensive business plan and detailed financial projections to be provided for certain business loans) to be either removed or amended.

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[5] Regulation 16 of the 2016 Regulations provides as follows:
16. (1) A credit union shall only grant a business loan, a community loan or a loan to another credit union where a comprehensive business plan and detailed financial projections (supported by evidence-based assumptions), appropriate for the scale and complexity of the loan, have been provided to it before it grants the relevant loan.
(2) A credit union shall report on the performance of loans, in writing, to the board of directors of the credit union on a monthly basis, and such report shall include details on the performance of business loans, community loans, house loans and loans to other credit unions.
(3) This Regulation does not apply to a business loan granted by a credit union where the total amount of business loans granted to a borrower, or group of borrowers who are connected, is less than €25,000.

Stakeholders viewed that it should be permitted for credit unions to lend for holiday home and second home purposes and that the prohibition on buy to let (BTL) lending should be removed.

- **Concentration limits** – the combined nature of the concentration limit for house and business lending was highlighted as a concern for reasons including the limits this places on credit unions wishing to develop and undertake both lines of business and the different risk profile of these two categories of lending. Stakeholders shared views that the existing limits are barriers to entry to engaging in these categories of lending and are restricting credit unions from issuing any significant level of house loans. Among their calls for changes to the concentration limits, stakeholders suggested decoupling of the limits, the removal of tiering, higher limits / capacity and the removal of the application process for increased capacity.
- **Other considerations –** stakeholders expressed views on the length of time between reviews and the time needed to make changes to the regulations, and feedback also included an assertion that increased competition from credit unions would enhance consumer protection and highlighted the need to consider the future interaction between the credit union lending regulations and various changes to the Credit Union Act, 1997 (the 1997 Act) by the 2023 Amendment Act related to lending. Among the suggestions, stakeholders called for greater flexibility in the regulatory framework by moving some requirements to guidance.

Further detail on the stakeholder engagement and feedback which has informed the Review is included in section 5.3 and Appendix 2.

Summary, Conclusions and Next Steps

Having concluded the Review, as outlined in section 6, the Central Bank considers that a number of targeted material changes to the lending regulations should be considered.

Our analysis of credit union lending data suggests that, at a sectoral level – whether taking into account all credit unions or only those credit unions actively engaged in house and / or business lending – considerable capacity remains available for house and business lending within the existing combined concentration limits. However, the Central Bank has considered additional information submitted by stakeholders on credit unions' lending pipelines (on house lending, in particular) and the considerable sector stakeholder feedback and suggestions for change we have received in this area. Recent sector developments have also been considered including a number of positive developments since 2019 when the changes arising from CP125 were finalised, such as an improved reserves position and experience gained by a number of credit unions in house and business lending. In addition, the Central Bank has taken into account other factors and considerations including the need for credit unions to have greater visibility of future house and business lending scope, the relevant recommendation of the Retail Banking Review, sector collaboration, recent legislative changes under the 2023 Amendment Act and recommendations and additional observations from the International Credit Union Regulators' Network (ICURN) in its 2023 Peer Review Report on the Central Bank's performance of its regulatory functions in relation to credit unions. Taking all of these considerations into account, it is the Central Bank's view that changes to the credit union lending regulations are warranted to ensure they remain appropriate for the sector, including that they provide sufficient flexibility to those credit unions who wish to undertake house lending and business lending.

The Central Bank is therefore proposing a number of targeted material changes to the credit union lending regulations in the following areas:

1. Concentration limits for house and business lending; and
2. Lending practices for specific categories of lending.

In accordance with the 1997 Act, other regulatory requirements and guidance, credit unions must manage and control lending to ensure the making of loans does not involve undue risk to members' savings (i.e. lend prudently) and, more generally, maintain capital strength, adequate liquidity and strong governance, and understand, identify and mitigate relevant risks within an appropriate risk management framework.

In tandem with the publication of this analysis report, the Central Bank has published a Consultation Paper 159 on Proposed Changes to the Credit Union Lending Regulations (CP159), which sets out in more detail the matters considered by the Central Bank in bringing forward these proposed targeted changes, and a regulatory impact analysis (RIA) on the proposed changes. Following completion of the public consultation process, the Central Bank will decide on any final changes to be made to the lending regulations, undertake the statutory consultation process required under section 84A of the 1997 Act and publish any final amending regulations.

2. Introduction

This report sets out analysis undertaken to assess and analyse the impact of the changes to the lending regulations introduced in 2020 on credit union lending and the Central Bank's views on the need for changes to the lending regulations.

This report presents both quantitative analysis (based on data reported to the Central Bank by credit unions in quarterly Prudential Returns) and an overview of qualitative stakeholder feedback on the impact that the 2020 changes have had.

This report is published further to the commitment contained in the Feedback Statement on CP125[6] which outlined the Central Bank's intention to perform and publish an analysis on credit union sector lending three years post commencement of the new lending regulations to assess and analyse the actual impact which the changes to the lending regulations have had.

This report presents both quantitative analysis (based on data reported to the Central Bank by credit unions in quarterly Prudential Returns) and an overview of qualitative stakeholder feedback received on the impact that the 2020 changes have had on credit union lending (and suggestions for change).

The analysis and feedback set out in this report highlights key themes and trends in credit union lending over the period September 2019 to June 2024 (also referred to as the 'Review Period' in this report), in particular, including trends on the utilisation by credit unions of lending capacity available to them within the combined concentration limits for house and business lending introduced to the lending regulations on 1 January 2020.

This report sets out the Central Bank's view on whether changes to the lending regulations are warranted at this time.

This report also sets out the Central Bank's view on whether changes to the lending regulations are warranted at this time.

[6] Feedback Statement on CP125 - Consultation on Potential Changes to the Credit Union Lending Framework was published on 21 November 2019.

3. Background – Lending Framework for Credit Unions

This section sets out relevant background on the credit union lending framework and a reminder of the changes made to the regulations in January 2020.

Sections 35 to 38 of the 1997 Act are the relevant sections of the 1997 Act which specifically deal with credit union lending.

Section 35 sets out provisions relating to the making of loans by credit unions. Section 35(2) provides that a credit union may make a loan to a member for such purpose as the credit union considers appropriate and upon such security (or without security) and terms as the rules of the credit union may provide. Section 35(2A) provides that the ability of the loan applicant to repay shall be the primary consideration in the underwriting process of the credit union making the loan. Under section 35(7), for the adequate protection of the savings of members, the Central Bank may prescribe a number of requirements in relation to credit union lending including the classes of lending in which a credit union may engage, the limits on the total amount of loans and the limits on the concentration of lending, including concentration limits on loan classes.

Further information on the lending requirements for credit unions, including guidance in this area, is available in the Lending Chapter of the Credit Union Handbook.

The Central Bank has prescribed a number of requirements in relation to credit union lending which are contained in Part 4 of the 2016 Regulations. These requirements include permitted loan categories, concentration limits for certain categories of loan, maximum loan terms and large exposure limits.

Further information on the lending requirements for credit unions, including guidance in this area, is available in the Lending Chapter of the Credit Union Handbook.

At a credit union level, a credit union's lending policies should be aligned with its risk appetite and strategic plan and credit decisions should reflect appropriate levels of credit risk for credit unions consistent with the requirements under section 35 of the 1997 Act and should reflect the objects of credit unions[7].

[7] The objects of a credit union are contained in section 6(2) of the 1997 Act.

The 2018 Review and subsequent 2020 changes to the credit union lending regulations

In order to ensure that the lending regulations remained appropriate for the credit union sector, the Central Bank undertook a review of the lending framework in 2018. At the time of that review the Central Bank articulated that an appropriate lending framework should:

(i) effectively manage duration risk and consider broader issues such as ALM;
(ii) effectively manage concentration risk, both at a loan category and an individual borrower level;
(iii) facilitate credit risk diversification within loan portfolios; and
(iv) clearly define the scope and parameters of credit union lending categories.

Following the 2018 review, which included a public and a statutory consultation process, a number of changes were introduced to the lending regulations for credit unions from 1 January 2020. These included:

- Removal of the 5 year and 10 year lending maturity limits contained in the 2016 Regulations;
- Introduction of a maximum loan term of 10 years for unsecured lending and an increase in the overall maximum loan term to 35 years (relevant to secured lending);
- Introduction of combined concentration limits (expressed as a percentage of total assets) for house and business lending on a tiered basis;
- Re-naming of the ‘commercial loan’ category of lending as the ‘business loan’ category and re-defining this category;
- Inclusion of a general prohibition[8] on a loan being made for the purchase of BTL residential or BTL commercial property; and
- Incorporation into the 2016 Regulations of certain other requirements relevant to lending (and liquidity) from the Section 35 Requirements (and, at the same time, revoking the Section 35 Requirements).

The 2020 changes to the lending regulations included the introduction of combined concentration limits, on a tiered basis, for house and business lending.

At the time of the introduction of the changes to the lending regulations, the Central Bank committed to perform and publish an analysis on credit union sector lending three years post-commencement of these

[8] The general prohibition on BTL lending does not preclude a credit union lending to an approved housing body for this purpose.

amendments to the lending regulations, in order to assess and analyse the actual impact of these changes to the lending regulations and to inform any decisions on the need for future change.

4. 2020 – 2024 Broader Context

Since the introduction of amendments to the credit union lending regulations in January 2020 there have been a number of domestic and international developments that are worth highlighting given the impact they have had on the domestic economy and to provide some relevant context for credit union lending activity since 2020.

There have been a number of domestic and international developments that are worth highlighting given the impact they have had on the domestic economy and to provide some relevant context for credit union lending activity since January 2020 .

Domestic

(i) *COVID-19 Pandemic*

The domestic impact of the pandemic presented an unprecedented macroeconomic shock with initial widespread impacts on unemployment rates, consumer and business sentiment, consumer spending and general economic activity. Most notably, financial impacts in 2020 saw a surge in customer deposits against lower credit demand. Government policy supports played a pivotal role in absorbing the shock to incomes and, coupled with forbearance measures provided by financial institutions, supported borrowers most impacted by the pandemic.

(ii) *Retail Banking Consolidation*

In 2021, both Ulster Bank DAC and KBC Bank Ireland announced their intention to leave the Irish market. This has led to further concentration in both the mortgage lending and business loan lending markets in Ireland. However, concentration and competition are not necessarily synonymous, and price competition is possible in relatively concentrated markets, particularly in homogenous product lines such as mortgage loans.[9] This was evident in the Irish mortgage market over the period 2018 to 2021 where substantial price competition arose despite a relatively concentrated number of lenders, owing partly to the entry of non-bank mortgage lenders.[10]

(iii) *Evolving Landscape of Financial Services and Changing Customer Expectations*

The manner in which banking services are provided has and will continue to change. In response to the challenge of structural inefficiencies and the

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9 Ryan, R., O'Toole, C. & McCann, F. (2014). Does bank market power affect SME financing constraints?

10 Gaffney, E., Hennessy, C. & McCann, F. (2022). Central Bank of Ireland Financial Stability Notes Vol. 2022, No. 3, Non-bank mortgage lending in Ireland: recent developments and macroprudential considerations.

changing preferences of customers, Irish lenders are increasingly providing credit through digital channels, a trend expedited by the pandemic.

The banking ecosystem is in transition. A transformational shift is taking place, away from a market almost fully served by traditional participants (including banks, credit unions and An Post), to one being served by a combination of full service banks and other traditional participants, partial service providers and new value chain (offering mostly digital and branchless customer experiences) disrupters. Non-bank lenders also play a role in the provision of financial services and consumer credit (including mortgages) in Ireland.

Recent developments in the provision of credit have also seen a broadening of products offered in response to consumer expectations and demand stemming, in part, from the role of the financial system in funding the transition to a net zero carbon economy.

International

(i) *Russia Ukraine War and Resultant Impacts*

In early 2022 and following the rapid economic recovery from the pandemic downturn, Russia's invasion of Ukraine led to lower global growth expectations and intensified inflationary pressures. In response, the European Central Bank tightened monetary policy, which resulted in increased interest rates and associated impacts on loan and deposit pricing by financial system participants.

Other

Following a review of the Mortgage Measures framework undertaken by the Central Bank, a number of targeted changes were introduced to the framework from January 2023.[11] The changes introduced included an increase to allow first time borrowers to borrow up to 4 times of gross income and an increase to 90% for the loan to value allowable for second and subsequent buyers.

Changes to credit union legislation will provide a number of business model development opportunities to the sector.

Domestically, the legislative framework for credit unions has also undergone change with the introduction of the 2023 Amendment Act. When fully commenced, it will provide a number of business model

[11] https://www.centralbank.ie/financial-system/financial-stability/macro-prudential-policy/mortgage-measures/mortgage-measures-framework-review-public-engagement.

development opportunities to the sector including in respect of collaboration via credit union shared-service organisations (CUSOs) and for the establishment of a new credit union type (i.e. a corporate credit union). Since 8 April 2024, the maximum interest rate which a credit union may charge on a loan has increased from the previous cap set out in section 38(1)(a) of the 1997 Act of one per cent per month on the amount of the loan outstanding to a cap now specified by the Minister for Finance in accordance with amended section 38(1)(a), i.e. two per cent per month.[12] Since 30 September 2024, the 2023 Amendment Act allows credit unions to refer members to other credit unions for services and to engage in loan participation and loan syndication type arrangements.

The Central Bank recognises that some of the above mentioned developments will continue to impact on the broader financial services landscape for credit unions including on lending to members and that the impact of these developments will vary from credit union to credit union.

12 Credit Union Act 1997 (Section 38) Order 2024, S.I. No. 137/2024,

5. Lending Review

In this section we set out further context to the Review and our approach. We also set out an overview of the key trends and findings arising from our quantitative (data-centred) analysis and a high-level overview of views received from sector stakeholders on the impact of the 2020 changes and the need for future change to the lending regulations and other stakeholder feedback.

5.1 Approach to the Review

The Review approach has been informed by what the Central Bank articulated in the Feedback Statement on CP125, in particular on the need for an evidence basis for any future changes to the lending framework.

The Review approach has been informed by what the Central Bank articulated in the Feedback Statement on CP125, in particular on the need for an evidence basis for any future changes.

As part of the Review, the Central Bank has analysed and considered quantitative and qualitative information.

Quantitatively, the Review has been informed by data analysis of credit union lending data reported by credit unions in quarterly Prudential Returns. This analysis focused on key lending metrics including LTA ratios, the profile of gross loans outstanding and new lending (including maturity profile), composition of credit union loan books by category, utilisation of concentration limits for house and business lending and credit quality / arrears. Our analysis has been undertaken with reference to aggregate sector lending and lending for specific cohorts of credit union by reference to asset size.

In the context of qualitative inputs, we reviewed and analysed feedback received from credit union sector stakeholders on the lending framework since the introduction of the new lending regulations in 2020. In addition, aligned with the Central Bank's strategic theme[13] of being *Open and Engaged*, we sought views from sector stakeholders on the impact that the 2020 changes have had on credit union lending and the need for future changes to the lending regulations. This aspect of the Review included the following:

[13] https://www.centralbank.ie/docs/default-source/publications/corporate-reports/strategic-plan/our-strategy/central-bank-of-ireland---our-strategy-2024.pdf?sfvrsn=d64b671a_3.

- **Analysis of feedback received from engagement with credit union sector stakeholders** on the lending framework since introduction of the new lending regulations in 2020; and
- **Consideration and analysis of feedback received during a series of bilateral meetings held in November 2023** between the Registry of Credit Unions within the Central Bank and credit union stakeholders including: the Department of Finance, the Credit Union Advisory Committee (CUAC), the Irish League of Credit Unions (ILCU), the Credit Union Development Association (CUDA), the Credit Union Managers' Association (CUMA) and the National Supervisors Forum (NSF). As part of these meetings, stakeholders provided views on credit union lending and the impact of the 2020 changes to the lending framework on credit union lending, and provided suggestions for changes to the lending regulations.

As part of the Review the Central Bank held bi-lateral meetings with credit union sector stakeholders in November 2023.

Following the November 2023 stakeholder meetings, we received submissions from a number of stakeholders, which have also been considered as part of the Review.[14]

The Central Bank would like to acknowledge the significant input from, and engagement by, sector stakeholders on the Review.

The Central Bank has analysed and assessed the quantitative and qualitative inputs with a view to assessing the impact of the 2020 changes and, together with other factors and considerations as set out in section 5.2, whether changes to the lending regulations may be warranted at this time.

An overview of the key trends and findings arising from the data analysis, as well as a high-level overview of views received from credit union stakeholders are set out in section 5.3.

5.2 Further Context to the Review

In the context of the Review and the future lending framework for credit unions, the Central Bank recognises:

- The need for credit unions to have an indication of the future direction and scope for house and business lending to facilitate their strategic and business planning.

[14] A submission made by Collaborative Finance and a joint submission made on behalf of credit union bodies (CUDA, CUMA, ILCU and NSF) to the Central Bank are published in the 'Communications' section of the 'Credit Unions' area of the Central Bank website (under the 'Sector Stakeholder Dialogues' tab).

- House loans and / or business loans are not offered by all credit unions at present (which is relevant in referring to overall sector lending capacity available for these categories of lending).
- Recommendation 5.2 of the Retail Banking Review (November 2022) states that the credit union sector and its leadership should develop a strategic plan[15] that enables the sector to safely and sustainably provide a universal product and service offering, which is community based, and which is offered to all credit union members, directly or on a referral basis.
- Developments relevant to credit union collaboration which have progressed and emerged since 2020, including the credit union agri-business loan offering under the 'Cultivate' brand and the establishment and role of a mortgage CUSO for credit unions.
- Legislative changes arising from the 2023 Amendment Act, in particular those in relation to allowing referrals for services, including loans, from one credit union to another and allowing for credit unions to enter into loan participation and loan syndication-type arrangements.
- Recommendations and additional observations for the Central Bank's consideration relevant to the credit union lending framework included in ICURN's 2023 Peer Review Report on the Central Bank's performance of its regulatory functions in relation to credit unions.

A number of other developments have informed the Review including recommendations from the Retail Banking Review and the ICURN Peer Review of the Central Bank's functions in relation to credit unions.

5.3 Analysis overview

This section sets out a high-level overview of the key trends and observations arising from:

- the analysis of the impact the 2020 changes to the lending regulations based on data analysis of credit union lending over the Review Period – which represents the period of time between the year-end Prudential Return reporting period immediately prior to the introduction of the 2020 changes and the latest Prudential Return reporting period date available to the Central Bank when

[15] The report states that such a strategic plan should demonstrate how credit unions can:
- Scale their business model in a viable manner in key product areas such as mortgages and SME lending;
- Invest in expertise, systems, controls and processes such that the sector can deliver standard products and services across all credit unions, in a manner that manages risks arising and continues to protect members' savings; and
- Provide the option of in-branch services for members of all credit unions.

compiling this report), and extending back further to September 2017 where appropriate; and

- views received from sector stakeholders on the impact of the 2020 changes and need for future changes to the lending regulations (including suggestions for change) and other stakeholder feedback.

Analysis and feedback is presented across the following key themes:

1. Total lending
2. Lending by maturity
3. Lending by category
4. Concentration limits
5. Other considerations.

A more detailed presentation of the data analysis completed and stakeholder feedback received as part of the Review is set out in Appendices 1 and 2 respectively.

5.3.1 Total Lending

Within this theme we have analysed the impact of the 2020 changes to the lending regulations on the following:

- gross loans outstanding;
- LTA ratio;
- new loans advanced;
- average loan size;
- arrears profile of credit union loans.

Further details of the data analysis completed on the theme of Total Lending is set out in Sections 1.1 to 1.5 of Appendix 1, and further details of stakeholder feedback received on this theme is set out in Section 1 of Part B of Appendix 2.

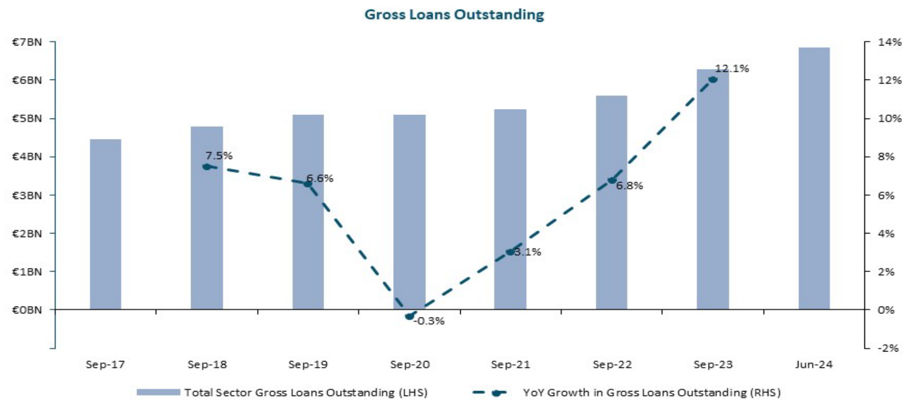
Summary Analysis

- At a sectoral level total gross loans outstanding have materially increased since September 2017 and over the Review Period notwithstanding the wider context, as outlined in Section 4, with total gross loans outstanding of €6.9 billion at 30 June 2024. Stakeholder feedback indicated that demand for personal lending remains strong, more credit unions are providing house loans for home purchase, that there has been growth – albeit low growth – in business lending and that there has been a steady prudent growth in credit unions' risk appetites.

- While there was a strong growth in member savings, a stronger annual growth rate of lending occurred over the Review Period, leading to an increase in the sector average LTA ratio, an increase from 28.4% at September 2019 to 32.2% at June 2024.
- Growth in credit union lending has recovered strongly since a decline in the year to September 2020; the growth rate experienced over the full year to September 2023 was the highest annual growth rate observed over the period (Chart 1).

Over the Review Period there has been growth in lending leading to an increase in the sector average loan to asset ratio – an increase from 28.4% at September 2019 to 32.2% at June 2024.

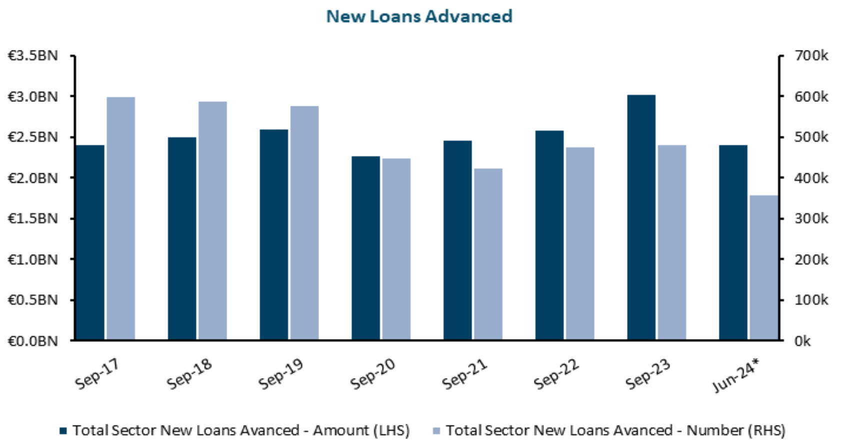
Chart 1



Source: Credit Union Prudential Return data

- There has been a change in the profile of new lending – while the value of loans advanced was higher in the year to September 2023 compared to the year to September 2019, the number of new loans advanced in 2023 was 17% below that reported in 2019 reflecting an increase in the average new loan size (Chart 2). This aligns with stakeholder feedback received that individual loan amounts have increased linked to higher prices for goods and services.

Chart 2



Source: Credit Union Prudential Return data
** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024.*

- On the arrears profile, which may be considered an indicator of credit quality, albeit partial only, the average sector arrears has improved year on year since 2017 (with the exception of the year to September 2020). The proportion of loans in arrears at least 53 weeks has decreased since 2019; stakeholders provided views that credit unions are engaging in prudent lending.
- Stakeholders noted that there have been a number of developments impacting credit union lending since the 2020 changes to the credit union lending regulations, including macro-economic and geo-political developments, changing borrower demands and consolidation in the market.
- Stakeholders were generally uncertain on the extent to which changes in credit union lending activity since the 2020 regulatory changes were made are due to those regulatory changes or due to some other factors, though they considered the regulatory changes have generally contributed to lending growth.

5.3.2 Lending by Maturity

Within this theme we analysed the impact of the removal of the previous 5 and 10 year loan maturity limits from the 2016 Regulations and the changes relating to maximum loan terms. The relevant changes introduced in 2020 in relation to maturity are outlined in Box A below, and include the removal of the loan maturity limits for lending over 5 and 10 years, as well as the introduction of definitions for 'secured loan' and 'unsecured loan' and a maximum loan term of 10 years for unsecured

The changes introduced in 2020 included the removal of the loan maturity limits which limited the amount of gross loans outstanding for periods of greater than 5 and 10 years.

loans and the extension of the overall maximum loan term from 25 years to 35 years (relevant to secured loans).

Box A

2016 Regulations (applicable prior to January 2020)		Requirements in 2019 Amendment Regulations (applicable since 1 January 2020)
Loan maturity limits	5 & 10 year loan maturity limits: - No more than 30% of gross loans outstanding can have a maturity of > 5 years. - No more than 10% of gross loans outstanding can have a maturity of > 10 years.	Removal of the loan maturity limits
	With additional approval from the Central Bank: - No more than 40% of gross loans outstanding can have a maturity of > 5 years. - No more than 15% of gross loans outstanding can have a maturity of > 10 years.	
A maximum loan term of 25 years		Introduction of definitions for 'secured loan' and 'unsecured loan' and introduction of a maximum loan term of 10 years for unsecured loans. Amendment to maximum loan term to 35 years (relevant to secured loans).

Further details of the data analysis completed on the theme of Lending by Maturity is set out in Sections 2.1 to 2.5 of Appendix 1, and further details of stakeholder feedback received on the same theme is set out in Section 2 of Part B of Appendix 2.

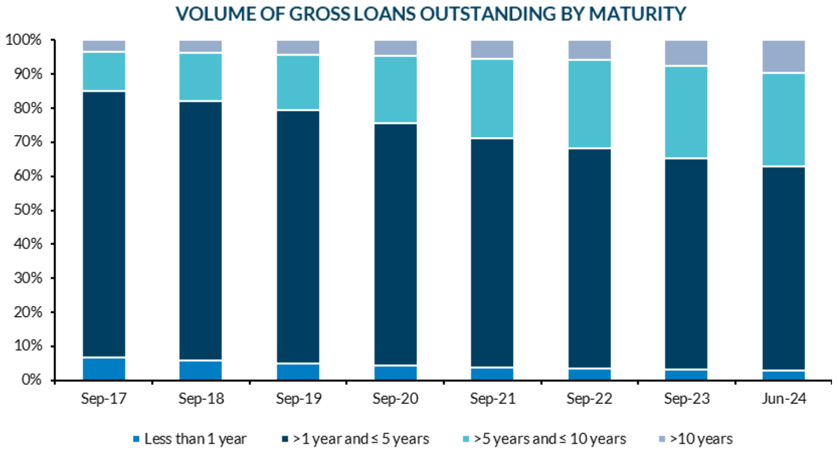
Summary Analysis

- The lending data shows that there has been a significant shift in the maturity profile of credit union gross loans outstanding since September 2019. In this regard, it appears that the removal of the 5 year and 10 year lending maturity limits has contributed to this shift in maturity profile of gross loans outstanding (Chart 3) and to the material growth in longer maturity new lending in the sector. This aligns with stakeholder feedback which noted that the removal of

The lending data shows that there has been a significant shift in the maturity profile of credit union gross loans outstanding since September 2019.

the previous limits has provided credit unions with greater flexibility to engage in longer term lending.

Chart 3



Source: Credit Union Prudential Return data

- Stakeholder feedback suggested that the impact of the loan maturity-related changes to the lending regulations has generally been positive, and that they may have facilitated credit unions to better meet member needs in circumstances where affordability within a shorter term, for example within a 5 year loan term, might otherwise have been an issue. Stakeholders also acknowledged that the changes provided credit unions with scope to increase lending in newer categories including house loans.
- Linked to the trend observed with respect to the maturity of gross loans outstanding, there has been a shift in the maturity profile of new loans advanced. In the year to September 2023 compared to the year to September 2019, there has been a decrease in the proportion of total sector new loans advanced with a maturity of up to 5 years and an increase in the proportion of new loans advanced with a maturity of between 5 and 10 years (Data Table 1).

Data Table 1 | Volume of New Loans Advanced by Maturity

	Sep-19		Sep-23		Jun-24*	
	Volume (€)	%	Volume (€)	%	Volume (€)	%
Less than 1 year	€152.28M	6%	€115.29M	4%	€86.28M	4%
>1 year and ≤ 3 years	€583.26M	22%	€512.73M	17%	€375.17M	15%
>3 years and ≤ 5 years	€1,387.67M	53%	€1,453.08M	48%	€1,142.67M	47%
>5 years and ≤ 10 years	€409.38M	16%	€738.02M	24%	€583.59M	24%
>10 years and ≤ 25 years	€79.29M	3%	€135.71M	4%	€142.63M	6%
>25 years	€0.98M	0%	€78.19M	3%	€91.34M	4%
Total	**€2,612.86M**		**€3,033.00M**		**€2,421.67M**	

Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

- There has been a notable increase in the number of loans outstanding in the 'greater than 10 years' maturity bucket; however, this is predominately attributable to larger credit unions (credit unions with total assets of at least €100 million).
- The value of the average loan outstanding with a maturity of between 5 and 10 years has increased from c. €26k at September 2019 to c. €31k at June 2024.
- Credit unions are lending for terms of greater than 25 years, coinciding with the extension of the maximum permitted term for (secured) loans from 25 years to 35 years.
- On the maximum loan maturity limits, stakeholders generally viewed these as appropriate; however, they indicated that the 10 year maximum term for unsecured lending should be increased to facilitate certain categories of loan which may not be affordable within a 10 year loan term.
- In line with the liquidity requirements contained in Part 3 of the 2016 Regulations[16], a number of credit unions have seen an increase in the minimum liquidity ratio which they are required to maintain as a direct consequence of increasing the maturity profile

[16] Regulation 8(2) of the 2016 Regulations states-
A credit union shall establish and maintain a liquidity ratio of –
(a) at least 25 per cent, where the total gross loan amount outstanding to that credit union with more than 5 years to the final repayment date exceeds 20 per cent but is less than 25 per cent of the total gross amount outstanding in relation to all loans,
(b) greater than 25 per cent, where the total gross loan amount outstanding to that credit union with more than 5 years to the final repayment date is equal to or exceeds 25 per cent but is less than 29 per cent of the total gross amount outstanding in relation to all loans, or
(c) at least 30 per cent where the total gross loan amount outstanding to that credit union with more than 5 years to the final repayment date is equal or exceeds 29 per cent of the total gross amount outstanding in relation to all loans.

of their lending. 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. At 30 June 2024, the average liquidity ratio based on data reported by credit unions was 36%. At 30 June 2024 all credit unions were holding liquidity in excess of the applicable minimum liquidity requirement.

- Stakeholders highlighted challenges specifically related to ALM with respect to credit unions extending the maturity profile of lending. They noted that credit unions are taking steps to address this challenge. Examples provided included removal of savings caps to encourage an inflow of savings to the credit union and a move by some credit unions to offer term deposit accounts to members, which would secure funding for specific periods and reduce the level of savings available on demand. Stakeholders also referenced the role of the mortgage CUSO and the potential future role of corporate credit unions, which may provide support to credit unions on ALM-related matters.

A number of credit unions have seen an increase in the minimum liquidity ratio which they are required to maintain as a direct consequence of increasing the maturity profile of their lending.

5.3.3 Lending by Category

Within this theme we analysed the profile of credit union loans outstanding and new loans advanced by category over the period September 2017 to June 2024. This analysis includes a focus on the level of participation by credit unions in house and business lending, the number of new business loans granted subject to the requirement for a comprehensive business plan and detailed financial projections (as required under Regulation 16 of the 2016 Regulations) and the number of credit unions reporting large exposures as part of their loan book following the changes to the guidance on large exposures in the Credit Union Handbook.

Box B below outlines the changes made to the 2016 Regulations relating to the categories of credit union lending permitted by the Central Bank and changes to the Credit Union Handbook related to identification of large exposures.

Box B

2016 Regulations (applicable prior to January 2020)	Requirements in Amendment Regulations (applicable since 1 January 2020)
Permitted categories of lending: i. Personal Loans ii. Commercial Loans iii. Community Loans iv. House Loans v. Loans to Other Credit Unions "commercial loan" means a loan, the primary objective of which is to fund an activity whose purpose is to make a profit.	Permitted categories of lending: i. Personal Loans ii. Business Loans iii. Community Loans iv. House Loans v. Loans to Other Credit Unions Amendment to definition of "commercial loan" and renaming of this category of lending as "business loan".
Security required for house loans: First legal change for all loans coming within the definition of 'house loan'.	Amendment to security required for house loans: First legal charge for all loans coming within the definition of 'house loan', except a house loan provided for the purpose of enabling a member to improve or renovate a house that is already used as their principal residence or a loan that is for the purpose of refinancing such a loan.
Lending Practices for Specific Categories of Lending: Requirement for credit unions to report on the performance of loans, in writing, to the board of directors on a monthly basis, to include details on the performance of commercial loans, community loans and loans to other credit unions.	Board reporting requirements extended to include house loans.
Large Exposures Amounts: The Credit Union Handbook provides guidance on large exposure amounts to confirm that the Central Bank would consider it appropriate that a credit union should consider any exposure greater than 5% of the regulatory reserve to be an individual large exposure.	Amendment to guidance on Large Exposures Amounts: The Credit Union Handbook has been updated to provide guidance on large exposure amounts to confirm that the Central Bank would consider it appropriate that a credit union should consider any exposure greater than 2.5% of the regulatory reserve to be an individual large exposure.
Aggregate Individual Large Exposures: The Credit Union Handbook provides guidance that the aggregate of individual large exposures (including contingent liabilities) of a credit union should not be greater than 500% of regulatory reserves.	Removal of Guidance on aggregate individual large exposures from the Credit Union Handbook

Further details of the data analysis completed on the theme of Lending by Category is set out in Sections 3.1 to 3.6 of Appendix 1, and further details of stakeholder feedback received on the same theme is set out in Section 3 of Part B of Appendix 2.

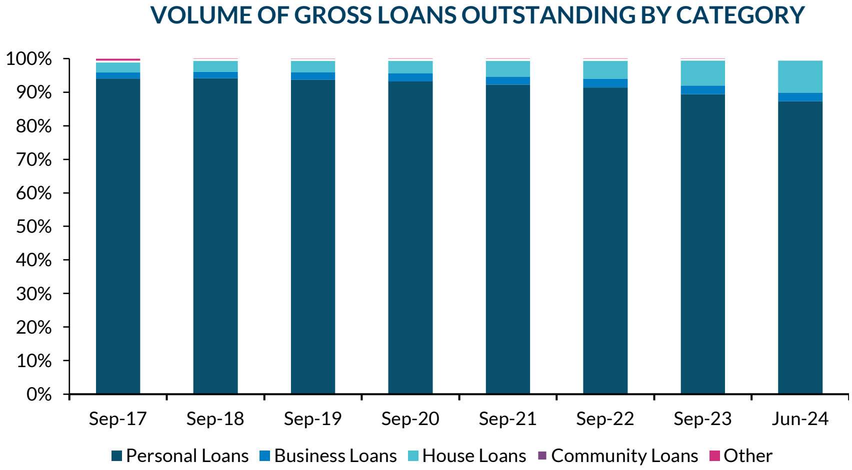
Personal loans remain the predominant category of lending outstanding by credit unions.

Summary Analysis

- Personal loans remain the predominant category of lending outstanding by credit unions, accounting for 87.3% of all gross loans outstanding at June 2024 compared to 93.7% at September 2019.
- Aligned with stakeholder feedback that credit unions are more active than before (the 2020 changes) in house lending and likely linked with the opportunities provided to credit unions through the removal of the lending maturity limits in 2020, house loans outstanding have grown in recent years and stood at 9.8% of sector outstanding gross loans at June 2024, representing the second largest category of loans outstanding (Chart 4).

House loans outstanding have grown in recent years and stood at 9.8% of sector gross loans outstanding at June 2024, representing the second largest category of loans outstanding.

Chart 4



Source: Credit Union Prudential Return data

- In the year to September 2019, 1.7% and 1.9% of new loans were reported as house and business loans respectively; in contrast, of the new loans advanced in the 9 months to 30 June 2024, 9.4% were reported as house loans and 2.3% were reported as business loans.
- With specific reference to **house lending**, our data analysis shows the following:
  - The cohort of larger credit unions (with assets of at least €100 million) are more active in house lending than the cohorts of smaller credit unions. These credit unions accounted for the highest proportion of activity in new house lending in the nine months to June 2024 with a 91% share of new house loans issued by the sector.

The cohort of larger credit unions (with assets of at least €100 million) are more active in house lending than the cohorts of smaller credit unions.

  - Over the Review Period, there has been a year-on-year increase in the number of house loans outstanding, with the most signficant increase in the year to September 2023, and with a further increase in the 9 months to June 2024.
  - The value of the average house loan outstanding has increased year-on-year since 2020 to €120,136 at June 2024; however, there is a significant variation in the value of the average house loan outstanding across the three credit union asset buckets. The value of the average house loan outstanding for credit unions with assets of less than €40 million was €64,901, versus €125,603 for the cohort of credit unions with assets of at least €100 million at June 2024.
  - A significant jump in the value of the average new house loan is also observable, with the data showing the value of the average house loan advanced being €154,396 for the 9 months to June 2024 (again with variations across the asset cohorts).
- With specific reference to **business lending**, our data analysis shows the following:
  - While a high number of credit unions are active in business lending (73% of credit unions), total business loans outstanding account for a very small proportion of overall credit union lending standing at c. 2.6% at June 2024.
  - Business lending as a proportion of sector gross loans outstanding has grown over the Review Period, though the growth in this loan category has been modest compared to house lending growth over the same period, and considering the low base at the start of the Review Period.
  - While the number of new business loans advanced in the year to September 2023 at 2,782 was lower than in the year to September 2019 when it was 3,115, the value of the new business loans advanced by the sector has increased over the Review Period from €49 million in the year to September 2019 to €64 million in the year to September 2023.
  - The value of the average business loan advanced has increased year-on-year since 2019 and as a result there are more business loans coming within the requirement under Regulation 16 of the 2016 Regulations for a comprehensive business plan and detailed financial projections to be provided to a credit union before the business loan is granted.

While a high number of credit unions are active in business lending, total business loans outstanding account for a very small proportion of overall credit union lending standing at c. 2.6% at June 2024.

- In stakeholder feedback, we received calls to allow new categories of house loan to include holiday homes and second homes and calls to remove the prohibition on credit unions undertaking BTL lending.
- With respect to the re-naming and re-defining of the business loan category and the amendment to the guidance in the Credit Union Handbook on large exposures, stakeholders did not have any specific feedback on the impact these 2020 changes have had.
- In their feedback, stakeholders have called for Regulation 16 to be either removed or amended.

5.3.4 Concentration Limits

Within this theme we analysed the impact of the changes made to the 2016 Regulations relating to the combined concentration limits for house and business lending. This analysis included the impact of these changes on the capacity for house and business lending for the sector since the introduction of the limits, house and business loan activity over the period, utilisation of the concentration limits at a sectoral level and the level of participation by individual credit unions in house and business lending.

Box C below outlines the 2020 amendments to the 2016 Regulations introducing the combined concentration limits (expressed as a percentage of total assets) for house and business lending for all credit unions on a tiered basis.

Box C

2016 Regulations (applicable prior to January 2020)	Requirements in Amendment Regulations (applicable since 1 January 2020)
Concentration Limit: Outstanding commercial loans cannot exceed 50% of regulatory reserves. (Only commercial loan exposures of €25,000 or more utilise the limit)	Introduction of combined concentration limits for house and business lending: (i) 7.5% of total assets limit available to all credit unions: - Entire limit may be utilised by the credit union for house lending - Up to a maximum of 5% of total assets may be utilised by the credit union for business lending (ii) 10% of total assets limit available to credit unions meeting objective asset size criteria (minimum total asset size of €50 million) and holding regulatory reserves of 12.5% or greater: - Entire limit may be utilised by the credit union for house lending

2016 Regulations (applicable prior to January 2020)	Requirements in Amendment Regulations (applicable since 1 January 2020)
	- Up to a maximum of 5% of total assets may be utilised by the credit union for business lending (iii) A 15% of total assets limit for credit unions with assets of at least €100 million: - Subject to an application and approval process - The entire limit may be utilised by the credit union for either house or business lending, subject to any conditions attaching to a Central Bank approval

Further details of the data analysis completed on the theme of Concentration Limits is set out in Sections 4.1 to 4.9 of Appendix 1, and further details of stakeholder feedback received on the same theme is set out in Section 4 of Part B of Appendix 2.

Based on the values reported for house and business loans outstanding at June 2024, €853 million of the €2.9 billion potential capacity for house and business lending was utilised at a sectoral level.

Summary Analysis

- To date, the number of notifications and applications for utilisation of the increased concentration limits received by the Bank is low (25[17] and 24[18] respectively), relative to the number of credit unions eligible to avail of the increased concentration limits (55 and 70 respectively[19]).
- In line with the dynamic nature of the capacity available under the combined concentration limits (which, for example, increase / decrease according to the value of assets), the potential maximum capacity for house and business lending at a sectoral level has increased from €2.5 billion to €2.8 billion over the period between

17 As at 30 November 2024, the Central Bank had received 25 notifications from credit unions (24 credit unions) notifying the Central Bank of their intention to avail of the 10% combined concentration limit for house and business loans. Ten notifications had lapsed on the basis that the credit union no longer meets one or both of the qualifying criteria to avail of the 10% limit or the credit union has been approved for the 15% combined concentration limit for house and business loans. As at 30 November 2024, 14 notifications were active and 1 notification is not yet active.

18 As at 30 November 2024, the Central Bank had received 24 applications from credit unions (22 credit unions) seeking Central Bank approval to avail of the 15% combined concentration limit for house and business loans. As at 30 November 2024, the Central Bank has approved 18 applications and 3 applications were under consideration and three applications have been withdrawn.

19 Based on those credit unions meeting the asset size criteria to avail of the increased limits per Prudential Return data at 30 September 2024 (note: credit union asset size information here refers to data available on 3 December 2024).

September 2020 to September 2023, and stood at €2.9 billion at June 2024.

- Based on the values reported for house and business loans outstanding at June 2024, €853 million of the €2.9 billion potential capacity for house and business lending was utilised at a sectoral level. Of this €853 million, credit unions with assets of at least €100 million accounted for €738 million of the combined house and business lending outstanding (Data Table 2).

<u>Data Table 2 | Utilisation of Capacity for House and Business Lending | data as at 30 June 2024</u>

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Total Capacity for House and Business Loans	€93.13M	€451.27M	€2,322.25M	€2,866.65M
Total House and Business Loans	€10.99M	€103.59M	€738.45M	€853.03M
% Capacity Used	11.8%	23.0%	31.8%	29.8%

Source: Credit Union Prudential Return data

There is varying levels of utilisation of the combined concentration limit for house and business lending across credit unions.

- At a sectoral level, utilised capacity for house and business lending increased from €0.33 billion at September 2020 to €0.65 billion at September 2023 and €0.9 billion at June 2024 suggesting that the removal of the lending maturity limits and the concurrent introduction of the combined concentration limits for house and business lending has provided credit unions with increased scope to undertake lending in these areas. There has been a notable uptick in recent quarters in the pace of utilisation of available capacity.
- Excluding those 76 credit unions that have reported zero house loans outstanding at June 2024, the average level of house loans outstanding as a proportion of total assets was 2.9% at 30 June 2024.
- Excluding those 51 credit unions that have reported zero business loans outstanding at June 2024, the average level of business loans outstanding as a proportion of total assets was 1.13% at June 2024.
- The lending data shows that business loans advanced by credit unions are repaid by borrowers at a faster rate than house loans and that higher volumes of new lending in business loans are required in order to increase gross business loans outstanding than is the case for house loans.

- At June 2024, 60% of credit unions reported utilisation of the combined concentration limits between zero and less than 2.5% of total assets, 20% of credit unions reported usage between 2.5% and less than 5%, and 20% of credit unions reported concentration limit usage of 5% or greater (Data table 3).

Data Table 3 | Breakdown of the number of credit unions by combined house and business loans as a % total assets | data as at 30 June 2024

		Asset Bucket			Total Sector
		< €40M	€40M - €100M	≥ €100M	
Combined House/Business Loan as a % Total Assets	0%	17	13	0	30
	>0%, <2.5%	27	32	24	83
	≥2.5%, <5%	5	14	18	37
	≥5%, <7.5%	0	9	18	27
	≥7.5%, <10%	0	1	5	6
	≥10%, <12.5%	0	0	3	3
	≥12.5%, <15%	0	0	1	1

Source: Credit Union Prudential Return data

- Participation in terms of gross house loans and business loans outstanding is dominated by a relatively small number of credit unions.
- Focusing on 'active participants' (i.e. defined for the purpose of this analysis as those credit unions with at least 10 house loans and / or at least 10 business loans outstanding), 51% of the 123 active participants are those with assets of at least €100 million, 36% are those with assets of between €40 million and €100 million and 13% are those with assets of less than €40 million.
- When those credit unions that have not been categorised as 'active participants' are excluded from the calculation, the potential capacity available across active participants for house and business lending, based on the prescribed concentration limits, is €2.52 billion, compared to €2.87 billion across all individual credit unions in the sector. This represents a 12% difference in capacity. At 30 June 2024, active participants utilised 34% of their potential capacity for house and business lending, compared to 30% utilisation when all credit unions are taken into account.
- 90% of credit unions reported business loans outstanding of between zero and less than 2.5% of total assets at 30 June 2024.

- In their feedback, stakeholders shared views that the combined nature of the limits for house and business lending was unhelpful and that they were not in favour of this (calling for decoupling / separation of the limits). They also suggested that the calibration of the limits is a potential barrier to credit unions becoming more active participants in house and/or business lending, highlighting that the cost of investment to become more actively involved is prohibitive at the level of the current limits. Stakeholders also raised concerns with the Central Bank's articulation of the available capacity for house and business lending highlighting that not all credit unions are involved in these areas of lending and that the Central Bank's articulation of available capacity overstates the position. In addition, stakeholders highlighted that a number of individual credit unions are close to meeting the regulatory limits when their pipeline for new lending is taken into account and, as such, they will have to cease these areas of lending which has the potential to result in reputational damage to relevant credit unions.
- Stakeholders called for a number of specific changes to the combined concentration limits for house and business lending including:
    - De-coupling of the concentration limits to create two separate concentration limits, one for house lending and one for business lending.
    - Standard concentration limit of 15% of total assets to be available to all credit unions for house lending.
    - Increased concentration limit of 30% of total assets to be available to all credit unions for house lending, subject to a Central Bank application and approval process.
    - Making available increased business lending capacity including a request for a separate business lending concentration limit of 10% of total assets and a separate request for access for all credit unions to apply for the existing 15% combined concentration limit for house and business lending (by removing the €100 million size threshold that credit unions must meet before they can apply to the Central Bank for same).

Stakeholders have called for a number of specific changes to the combined concentration limits for house and business lending.

5.3.5 Other considerations

Within this theme we set out an overview of other stakeholder feedback received as part of the targeted stakeholder meetings (and post-meeting submissions from stakeholders) on the lending framework more generally and, separately, on other areas of the regulatory framework.

Further details of the stakeholder feedback received in relation to *Other Considerations* is set out in Section 5 of Part B of Appendix 2.

On the Review and related to the lending framework, topics raised as part of this feedback included:

- the extent of changes needed, the length of time between reviews and the time needed to make changes;
- asking that, in the Review, the Central Bank give consideration to the fact that credit unions have not rushed into new areas of lending in an uninhibited manner;
- an assertion that increased competition from credit unions would result in enhanced consumer protection;
- future interaction between the credit union lending regulations and various changes to the 1997 Act by the 2023 Amendment Act related to lending – that the changes to the 1997 Act should be considered, in particular referrals of members to other credit unions for services (including loans), loan participation and loan syndication type arrangements and the maximum loan interest rate that may be charged; and
- calls to allow for greater regulatory flexibility by moving some of the requirements from the 2016 Regulations to guidance, so as to maintain the status quo but allow for greater flexibility for change in future.

We also received other feedback not directly related to the credit union lending framework, including in relation to credit union governance, credit union business models, the financial viability of credit unions and weakened competition in the financial services / banking market.

6. Summary, Conclusions and Next Steps

Summary – Key Themes

Our analysis and assessment of the impact of the changes to the lending regulations in 2020 highlights a number of key themes over the Review Period September 2019 to June 2024. These are as follows:

- **Total gross loans outstanding** have grown strongly in this period with total gross loans outstanding at 30 June 2024 of €6.9 billion (compared to €5.1 billion at September 2019).
- **Evolution in the profile of credit union lending** can be observed, specifically across loan category and maturity profile, with no strong indication of an impact from the 2020 changes on the credit quality profile of credit union lending (through observance of arrears data).
- **The maturity profile** of credit union lending has shifted significantly with a higher proportion of gross loans outstanding and new lending having a maturity profile of greater than 5 years compared to September 2019. At June 2024, 37% of total gross loans outstanding have a maturity profile of greater than 5 years compared to 21% at September 2019.
- Resulting from the lending decisions taken by individual credit unions (facilitated by changes to the maturity limits for credit union lending), an increased number of credit unions are **required to maintain a higher minimum liquidity ratio** (in line with the liquidity requirements contained in Part 3 of the 2016 Regulations).
- Credit unions **have increased the diversification** of their loan portfolios. While credit union lending remains predominately for personal loans, there has been a material increase in the proportion of gross loans outstanding for house loans which now represent 9.8% of gross loans outstanding at June 2024 (compared to 3.7% at September 2019).
- The introduction of **the combined concentration limits** for house and business lending has provided scope for credit unions to increase their lending in both of these areas. This scope appears to have been utilised more for house lending than business lending.
  - **house lending –** gross loans outstanding have grown from c. €187 million at September 2019 to c. €674 million at June 2024 representing overall growth of 261%.

  - **business lending** – gross loans outstanding have grown from c. €114 million at September 2019 to c. €179 million at June 2024 representing overall growth of 57%.
- Following the introduction of the combined concentration limits for house and business lending, **credit unions have utilised the scope provided to them to increase house and business lending to varying extents**, most likely as a result of member demand for these categories of lending and individual credit union risk appetite. Varying levels of house and business lending have been observed with the cohort of larger credit unions (those with total assets of at least €100 million) having a higher proportion of their lending exposed to house and business lending.
- Based on sector stakeholder feedback, it does not appear that those changes related to the **re-naming and re-defining of the business loan category** have resulted in a significant impact on overall credit union lending, either positive or negative.
- The **changes introduced relating to large exposures** and board reporting requirements for house loans do not appear to have had any material impact on credit union lending over the Review Period.

Conclusions / Next Steps

In concluding the Review and considering whether changes to the lending regulations are warranted at this time, our data analysis and consideration of stakeholder feedback (including information on credit unions' lending pipeline and suggestions for change) have informed the Central Bank's conclusions on the need for future changes to the lending regulations. While stakeholder feedback on the extent to which the concentration limits restrict credit unions from issuing any significant level of house loans in particular is not borne out in the data, the Central Bank recognises that the data analysis (based, as it is, on historic data) does not take account of lending pipelines / future activity.

The Review conclusions have also been informed against the backdrop of other recent developments – including a number of positive developments since 2019 such as the improved average reserves position and experience gained by a number of credit unions in house and business lending. The Central Bank has also taken into account other factors and considerations, such as the need for credit unions to have greater visibility of future house and business lending scope, the relevant recommendation of the Retail Banking Review, sector collaboration, recent legislative changes under the 2023 Amendment Act and recommendations and additional observations made by ICURN in its 2023 Peer Review Report.

Arising from the Review, and having regard to recent developments and other factors and considerations, it is the Central Bank's view that changes to the lending regulations are warranted at this time. More specifically, the Central Bank is proposing a number of targeted changes to the lending regulations in the following areas:

1. Concentration limits for house and business lending; and
2. Lending practices for specific categories of lending.

The proposed changes will seek to ensure that the credit union lending framework remains appropriate for the sector, with guardrails including the revised concentration limits and the existing large exposure limit. The proposed changes will also seek to provide sufficient flexibility to those credit unions who wish to undertake house lending and business lending, taking account of the broader legislative requirements which require credit unions to lend prudently, maintain capital strength, maintain adequate liquidity and strong governance and to understand, identify and mitigate relevant risks within an appropriate risk management framework.

The proposals for change to the lending concentration limits also recognise the need for individual credit unions to own their own business models (which reflect their own individual risk management and operational capabilities and support structures available to them in the sector).

Further detail on the proposals for change and the matters considered by the Central Bank in bringing forward the proposed changes is contained in **CP159 –** Consultation on Proposed Changes to the Credit Union Lending Regulations. This consultation is open for submissions until **11 February 2025**.

Appendix 1 – Overview of Data Analysis

Introduction

Following a Central Bank of Ireland (Central Bank) review of the lending framework and public and statutory consultation processes, from 1 January 2020 a number of amendments were made to the lending regulations. At the time of publishing the changes in November 2019, the Central Bank committed to perform and publish an analysis on credit union sector lending in order to assess and analyse the impact of changes introduced in 2020 to the lending regulations - set out in Part 4 of the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (the 2016 Regulations) - on credit union lending and the Central Bank's assessment of the need for future changes to the lending regulations.

This appendix sets out the analysis of data completed as part of this reivew.

Analysis in this Appendix is presented across the following key themes, in line with the report on Credit Union Lending (the Review Report):
1. Total lending
2. Lending by maturity
3. Lending by category
4. Concentration limits

This quantitative analysis of the impact the 2020 changes to the 2016 Regulations is based on data analysis of credit union lending over the period 30 September 2019 to 30 June 2024 in particular- which represents the period of time between the year-end Prudential Return reporting period immediately prior to the introduction of the 2020 changes to the 2016 Regulations and the latest Prudential Return reporting period date available to the Central Bank when compiling this report - and extending back further to September 2017 where appropriate. This analysis has been undertaken with reference to aggregate sector lending and lending for specific cohorts of credit unions by reference to asset size.

<u>Notes on the data:</u>

◦ The data contained and presented in this publication is derived from data routinely submitted by credit unions to the Registry of Credit Unions in the Central Bank. This data is sourced from the quarterly regulatory submissions and has been collated and consolidated by the Registry of Credit Unions.

◦ Unless otherwise stated, prudential return data is as at 30 September of the relevant year and also includes prudential return data as at 30 June 2024 (this document refers to data available on 22 August 2024).

◦ Unless otherwise stated, trends are for the period 2017 to 2024. Some trends are varied based on the relevance and availability of the data.

◦ Unless otherwise stated, the aggregate credit union data refers to all credit unions operating in the Republic of Ireland that submitted a prudential return in the relevant quarter.

◦ The list of registered credit unions is updated monthly and available at http://registers.centralbank.ie/.

◦ Unless otherwise stated, "≥ €100M" relates to those credit unions with total assets of €100 million or more, "€40M - €100M" relates to credit unions with total assets between €40 million and €100 million and "<€40M" relates to credit unions with total assets of under €40 million as at the relevant reporting date.

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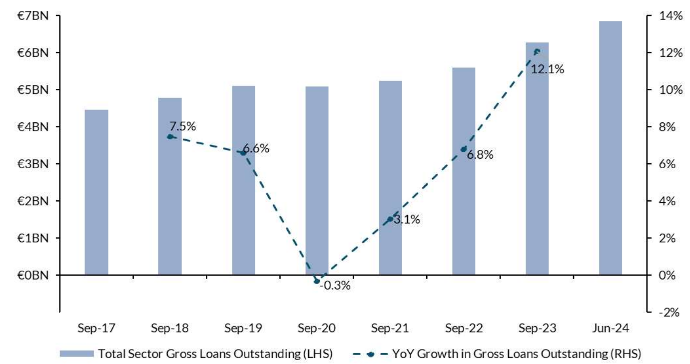
Note 1 | Definitions

The Review Report	*The Report on Credit Union Lending*
2016 Regulations	*Credit Union Act 1997 (Regulatory Requirements) Regulations 2016*
Total Savings	*Sum of 'Members' Shares Regular', 'Members' Shares Term', 'Members' Shares Special', 'Members' Deposits' and 'Other Members' Funds' reported by individual credit unions in the quarterly prudential returns*
Compound Annual Growth Rate	*Mean annual growth rate over a period longer than one year*
Average Loan to Asset Ratio	*Average of credit union loan to asset ratio as calculated from data points reported by individual credit unions in the quarterly prudential returns. The loan to assets calculation is total gross loans outstanding divided by total assets*
Average Arrears > 9 Weeks	*Average of credit union arrears as calculated from data points reported by individual credit unions in the quarterly prudential returns. Arrears calculation is 'Gross Loans in Arrears > 9 weeks' divided by total gross loans outstanding*
Average Loan	*Sum of total gross loans outstanding divided by the sum of total number of loans outstanding reported by individual credit unions in the quarterly prudential returns*
Average New Loan	*Sum of total amount of new loans advanced (year-to-date) divided by sum of total of number of new loans advanced (year-to-date) reported by individual credit unions in the quarterly prudential returns*
Average Liquidity	*Average liquidity is calculated based on relevant liquid assets, as reported by individual credit unions in the quarterly prudential returns, as a percentage of unattached savings. Relevant liquid assets are prescribed in the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 and amendments.*
Average House Loans as a proportion of Total Assets	*Average of credit union house loans to total assets as calculated from data points reported by individual credit unions in the quarterly prudential returns. The house loans to total assets calculation is total house loans outstanding divided by total assets*
Average Business Loans as a proportion of Total Assets	*Average of credit union business loans to total assets as calculated from data points reported by individual credit unions in the quarterly prudential returns. The business loans to total assets calculation is total business loans outstanding divided by total assets*
Combined House/Business Loan as a % Total Assets	*Sum of total business loans outstanding and total house loans outstanding divided by total assets*

1. Total Lending

1.1 Gross Loans Outstanding

Chart 1 | Gross Loans Outstanding



Source: Credit Union Prudential Return data

Trends

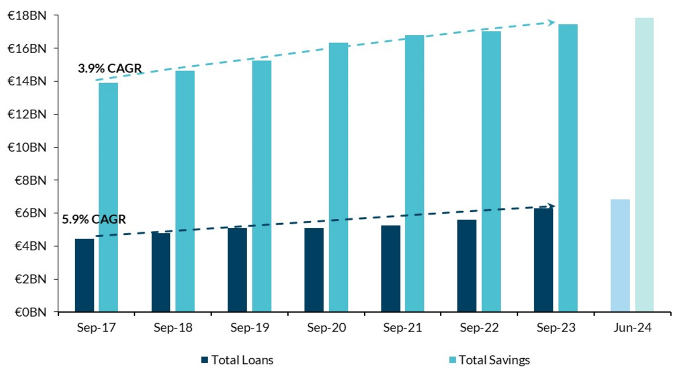
- At a sectoral level total gross loans outstanding have increased from €4.5 billion at September 2017 to €5.1 billion at September 2019, €6.3 billion at September 2023 and €6.9 billion at June 2024.

- Growth in total sector gross loans outstanding was experienced in the year to September 2018. A slower rate of growth was experienced in the year to September 2019.

- Decline in total sector gross loans outstanding experienced in the year to September 2020. As outlined in section 4 of the Review Report, since the introduction of the changes to the 2016 Regulations in January 2020, a number of macroeconomic developments have occurred that have had the potential to impact on credit union lending.

- Despite this, growth in credit union lending has recovered strongly since the decline in 2020; the growth rate experienced in the year to 30 September 2023 was the highest rate observed over the period.

Chart 2 | Compound Annual Growth Rate of Loans and Savings



Source: Credit Union Prudential Return data

Trends

- The growth in savings at credit unions, whilst positive in the years prior to 2020, was substantial from 2020 to 2022 in particular, coinciding with the impact of the COVID-19 pandemic (the pandemic) and the increase in savings in the economy generally.

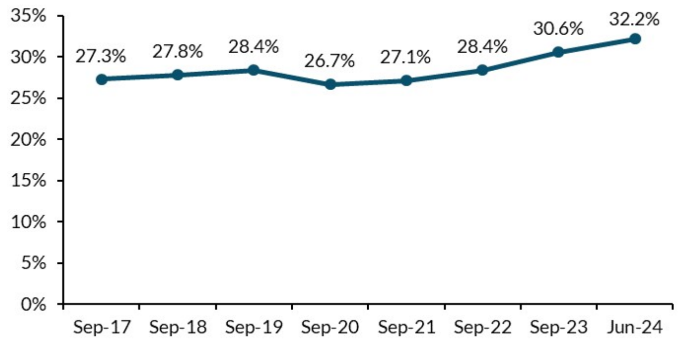
- The compounded annual growth rate for loans and savings over the period 2017 to 2023 shows a stronger annual growth rate prevailing in lending over the period.

- In the year to September 2023, the rate of growth in lending was 12.1% whilst the growth in savings was significantly less at 2.6%.

1. Total Lending

1.2 Loan to Asset Ratio

Chart 3 | Sector Average Loan to Asset Ratio



Source: Credit Union Prudential Return data

Trends

- Due to the higher rate of growth in lending compared to savings, the sector average loan to asset ratio has improved since 2020, standing at 30.6% at September 2023 and 32.2% at June 2024.

- This represents an increase from 28.4% at September 2019 (i.e. the credit union prudential return reporting period immediately preceding the 2020 change to the 2016 Regulations) and further improvement since September 2017 when the sector average loan to asset ratio was 27.3%.

- The decline in the average sector loan to asset ratio in 2020 is likely attributable to the impact of the pandemic, when total sector gross loans outstanding reduced against an increase in savings.

Data Table 1 | Overview of Lending and Loan to Asset Ratios | Data as at 30 June 2024

		Asset Bucket			Total Sector
		< €40M	€40M - €100M	≥ €100M	
No. of Credit Unions		49	69	69	187
Total Assets		€1.24BN	€4.66BN	€15.48BN	€21.38BN
Gross Loans Outstanding		€0.41BN	€1.57BN	€4.88BN	€6.85BN
Average Loan to Asset Ratio		32.9%	33.2%	30.6%	32.2%
Number of Credit Unions - Breakdown by LTA Bucket	*< 20%*	*3*	*3*	*9*	*15*
	20% - 30%	*17*	*32*	*24*	*73*
	30% - 40%	*19*	*20*	*27*	*66*
	40% - 50%	*7*	*7*	*7*	*21*
	50% - 60%	*2*	*5*	*2*	*9*
	≥ 60%	*1*	*2*	*0*	*3*

Source: Credit Union Prudential Return data

Key Points

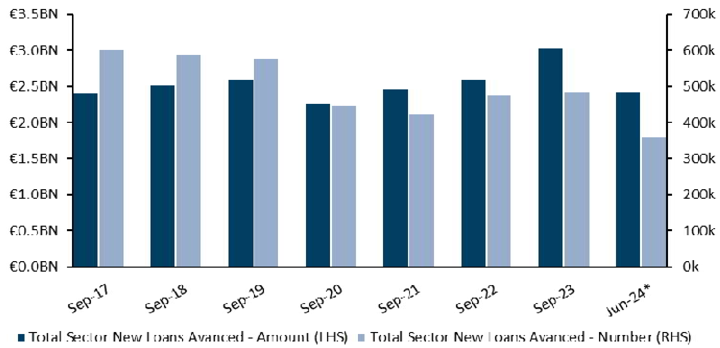
- At 30 June 2024, 71.2% of gross loans outstanding are accounted for by the 69 credit unions with total assets of at least €100 million (representing 36.9% of credit unions in the sector in terms of the number of credit unions and accounting for 72.4% of overall sector assets).

- While the sector average loan to asset ratio is 32.2%, 88 credit unions reported a loan to asset ratio of less than 30% at 30 June 2024 and 33 credit unions reported a loan to asset ratio above 40%. Of these 33 credit unions, 9 reported assets of at least €100 million at 30 June 2024.

1. Total Lending

1.3 New Loans Advanced

Chart 4 | New Loans Advanced



Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

Trends

- The number of new loans advanced by credit unions remained reasonably unchanged in the years immediately preceding the introduction of the 2020 changes to the 2016 Regulations.

- In the year to September 2020 there was a substantial 23% reduction in the number of new loans advanced by credit unions. The decline in the number of loans advanced was accompanied by a decrease in the total sector value for new loans advanced.

- These decreases are likely attributable to the impact of the pandemic, however following the 2020 changes to the 2016 Regulations, from 2021 in particular, the number of new loans advanced has been steadily increasing and the value of loans advanced was 16% higher in the year to September 2023 than in the year to September 2019. However the number of new loans advanced in 2023 was still 17% below that recorded in 2019.

- The amount of new loans advanced in the year to September 2023 of €3.03 billion is 16% higher than the amount advanced in the year to September 2019 of €2.61 billion.

Data Table 2 | New Loans Advanced by Asset Cohort | Data as at June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Number of Credit Unions	49	69	69	187
Total New Lending: € Amount	€0.15BN	€0.57BN	€1.71BN	€2.42BN
Total New Lending: Number of Loans	24.19k	89.07k	246.57k	359.83k

Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

Key Points

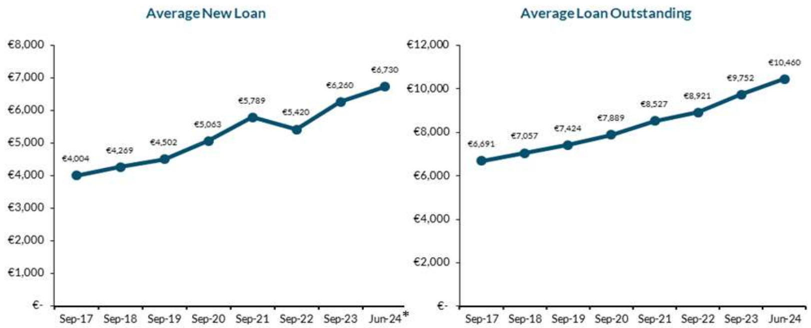
- The 69 credit unions with total assets of at least €100 million accounted for 70.5% of all new loans advanced by value and 68.5% by number of new loans advanced in the 9 months to 30 June 2024.

- The 49 credit unions with total assets of less than €40m accounted for only 6% of new lending by value and 7% of new lending by number of loans in the same period.

1. Total Lending

1.4 Loan Averages

Chart 5 | Average New Loan and Average Loan Outstanding



Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

Trends

- Linked to the trend observed with the number and volume of new loans advanced since 2020 there has been an increase in the value of the average new loan advanced and the value of the average loan outstanding for the sector.
- The value of the average new loan advanced has been increasing, notwithstanding a reduced level in the number of new loans advanced, since 2022.
- The sector average new loan advanced was €4,502 in the year to 30 September 2019 and this has increased to €6,260 in the year to 30 September 2023.
- For the 9 months to June 2024, the value of the average new loan advanced increased further, to €6,730. The value of the average gross loan outstanding has also increased over this period - from €7,424 at September 2019 to €9,752 at September 2023 and €10,460 at 30 June 2024.

Data Table 3 | Average Loan Values by Asset Cohort | Data as at 30 June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Average New Loan*	€6,134	€6,363	€6,921	€6,730
Average Loan Outstanding	€9,034	€9,945	€10,782	€10,460

Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

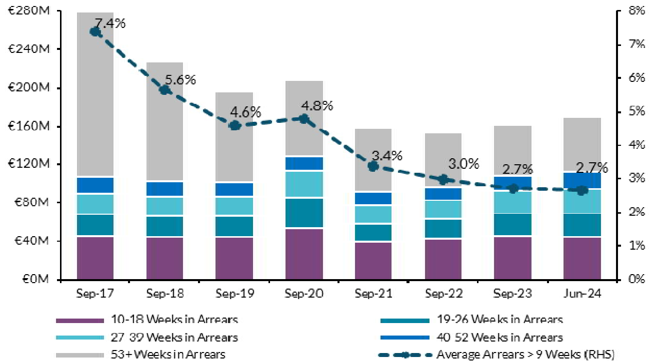
Key Points

- The value of the average new loan advanced and the average loan outstanding is higher for credit unions with assets of at least €100 million compared to credit unions in the smaller asset buckets.

1. Total Lending

1.5 Arrears Profile

Chart 6 | Arrears Greater than 9 Weeks



Source: Credit Union Prudential Return data

Trends

- The average sector arrears has improved year on year since 2017, with the exception of 2020, where the increase in the sector average arrears is likely attributable to the initial impact of the pandemic.

- Additionally, the composition of total sector arrears has changed over the same period as, of the total loans in arrears in the sector, the proportion in arrears at least 53 week has decreased since 2019.

- While sector arrears data shows no significant deterioration in the credit quality of sector lending since introduction of the 2020 changes to the 2016 Regulations, credit quality can be impacted by a number of factors including broader macro-economic developments. Consequently the impact of factors affecting total sector arrears may take a longer period to evidence in the lending data.

- Note that arrears data is reported by individual credit unions on an aggregate basis across all loan categories. There may be variation in the arrears profile across different categories of loans.

Data Table 4 | Average Arrears > 9 Weeks as a % of Gross Loans Outstanding by Asset Cohort | Data as at June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Average Arrears > 9 Weeks	2.8%	2.7%	2.5%	2.7%

Source: Credit Union Prudential Return data

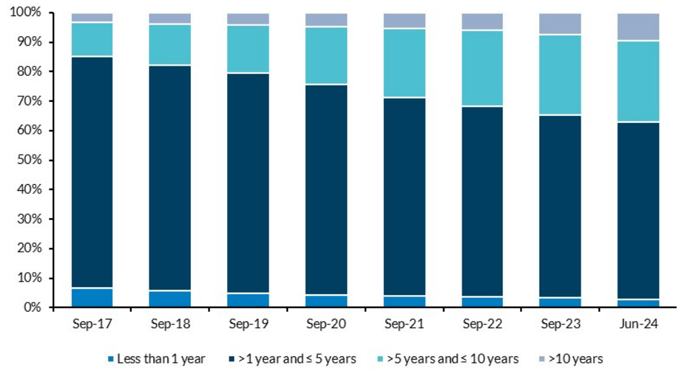
Key Points

- At June 2024 there is no material difference in the arrears profile of the credit unions based on asset size.

2. Lending by Maturity

2.1 Maturity Profile - Gross Loans Outstanding

Chart 7 | Volume of Gross Loans Outstanding by Maturity



Source: Credit Union Prudential Return data

Trends

- There has been a significant shift in the maturity profile of credit union gross loans outstanding since September 2019, prior to the 2020 changes to the 2016 Regulations that removed the 5-year and 10-year maturity lending limits.

- Prior to the 2020 changes to the 2016 Regulations, at September 2019 79% of gross loans outstanding had a maturity of up to and including 5 years, 16% had a maturity of between 5 and 10 years, and 4% had a maturity of longer than 10 years.

- Following the removal of the 5-year and 10-year maturity lending limits, there has been a steady increase in the proportion of total sector gross loans outstanding in the 5 to 10 years and greater than 10-year maturity buckets from 2020 to 2023.

- At June 2024, 63% of gross loans outstanding had a maturity of up to and including 5 years, 27% had a maturity of between 5 and 10 years, and 10% had a maturity of longer than 10 years.

Data Table 5 | Volume of Gross Loans Outstanding by Maturity | Data as at 30 June 2024

		Asset Bucket			Total Sector
		< €40M	€40M - €100M	≥ €100M	
Less than 1 year	Volume (€)	€13.22M	€43.51M	€137.55M	€194.27M
	%	3.2%	2.8%	2.8%	2.8%
>1 year and ≤ 3 years	Volume (€)	€94.13M	€312.62M	€933.89M	€1,340.65M
	%	23.0%	20.0%	19.2%	19.6%
>3 years and ≤ 5 years	Volume (€)	€179.84M	€654.58M	€1,944.96M	€2,779.38M
	%	43.9%	41.8%	39.9%	40.6%
>5 years and ≤ 10 years	Volume (€)	€116.31M	€502.51M	€1,255.15M	€1,873.97M
	%	28.4%	32.1%	25.7%	27.4%
>10 years and ≤ 25 years	Volume (€)	€5.81M	€44.27M	€418.51M	€468.59M
	%	1.4%	2.8%	8.6%	6.8%
>25 years	Volume (€)	€0.25M	€7.77M	€185.15M	€193.17M
	%	0.1%	0.5%	3.8%	2.8%

Source: Credit Union Prudential Return data

Key Points

- At 30 June 2024, credit unions with total assets of less than €40 million reported a smaller proportion of their gross loans outstanding with a maturity of longer than 5 years, relative to the proportion reported in the other asset buckets.

- This variation is most pronounced in the proportion of gross loans outstanding with a maturity longer than 10 years.

2. Lending by Maturity

2.2 Maturity Profile – New Loans Advanced

Data Table 6 | Volume of New Loans Advanced by Maturity

	Sep-19		Sep-23		Jun-24*	
	Volume (€)	%	Volume (€)	%	Volume (€)	%
Less than 1 year	€152.28M	6%	€115.29M	4%	€86.28M	4%
>1 year and ≤ 3 years	€583.26M	22%	€512.73M	17%	€375.17M	15%
>3 years and ≤ 5 years	€1,387.67M	53%	€1,453.08M	48%	€1,142.67M	47%
>5 years and ≤ 10 years	€409.38M	16%	€738.02M	24%	€583.59M	24%
>10 years and ≤ 25 years	€79.29M	3%	€135.71M	4%	€142.63M	6%
>25 years	€0.98M	0%	€78.19M	3%	€91.34M	4%
Total	€2,612.86M		€3,033.00M		€2,421.67M	

Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

Trends

- New loans advanced with a maturity between 3 and 5 years represent the maturity bucket with the highest proportion of total sector new loans advanced in both the year to September 2019 and the year to September 2023, as well as in the 9 months to June 2024.

- However, since the introduction of the 2020 changes to the 2016 Regulations that included the removal of the 5-year and 10-year maturity lending limits, there has been a decrease in the proportion of total sector new loans advanced with a maturity of up to and including 5 years, decreasing from 81% for the year to September 2019 to 69% for the year to September 2023, and 66% for the 9 months to June 2024.

- It appears that the removal of the 5-year and 10-year lending maturity limits with effect from January 2020 has contributed to material growth in longer maturity new lending, particularly in the 5 to 10 year maturity bucket. Prior to the 2020 changes to the 2016 Regulations, for the year to September 2019, 16% of total sector new loans advanced had a maturity of 5 to 10 years, which has increased to 24% for the year to September 2023 and for the 9 months to June 2024.

- Additionally, lending with a maturity longer than 10 years, whilst still proportionately minor overall, has increased from 3% of total sector new lending for the year to September 2020 to 7% for the year to September 2023 and 10% for the 9 months to June 2024.

Data Table 7 | Volume of New Loans Advanced by Maturity | Data as at 30 June 2024

		Asset Bucket			Total Sector
		< €40M	€40M - €100M	≥ €100M	
Less than 1 year	Volume (€)	€5.66M	€21.00M	€59.62M	€86.28M
	%	3.8%	3.7%	3.5%	3.6%
>1 year and ≤ 3 years	Volume (€)	€27.18M	€93.18M	€254.81M	€375.17M
	%	18.3%	16.4%	14.9%	15.5%
>3 years and ≤ 5 years	Volume (€)	€78.02M	€276.16M	€788.49M	€1,142.67M
	%	52.6%	48.7%	46.2%	47.2%
>5 years and ≤ 10 years	Volume (€)	€36.86M	€156.91M	€389.83M	€583.59M
	%	24.8%	27.7%	22.8%	24.1%
>10 years and ≤ 25 years	Volume (€)	€0.69M	€16.16M	€125.78M	€142.63M
	%	0.5%	2.9%	7.4%	5.9%
>25 years	Volume (€)	€0.00M	€3.32M	€88.01M	€91.34M
	%	0.0%	0.6%	5.2%	3.8%

Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

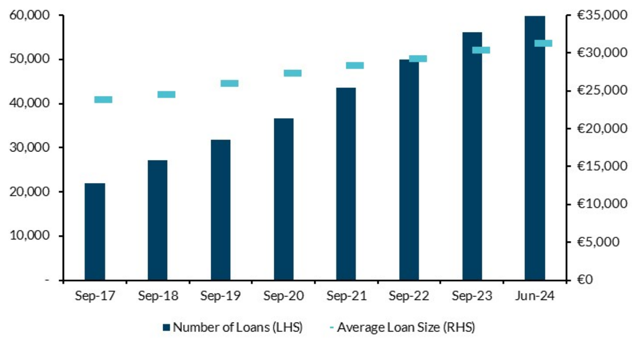
Key Points

- Similar to the breakdown of the maturity profile of gross loans outstanding outlined in Data Table 5 in section 2.1 above, the cohort of smaller credit unions with total assets less than €40 million have reported a shorter-term maturity profile of new lending with 0.5% of new lending advanced by this cohort having a maturity longer than 10 years in the 9 months to June 2024 compared to 12.5% of new loans advanced for credit unions with total assets of at least €100 million.

2. Lending by Maturity

2.3 Focus on Longer Maturity Lending - Lending with Maturity of 5-10 Years

Chart 8 | Gross Loans Outstanding 5 - 10 Years



Source: Credit Union Prudential Return data

Trends

- Since removal of the lending maturity limits, there has been an 89% increase in the number of loans outstanding with a maturity of between 5 and 10 years, from c. 32K at 30 September 2019 to c. 60K at 30 of June 2024.

- The value of the average loan outstanding with a maturity of between 5 and 10 years has increased from c. €26k to c. €31k over the same period.

Data Table 8 | Number of loans and Average Loan Size of Gross Loans Outstanding with a Maturity of 5 – 10 Years | Data as at 30 June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Number of loans	4.21k	15.89k	39.77k	59.87k
Average Loan	€27,626	€31,635	€31,557	€31,301

Source: Credit Union Prudential Return data

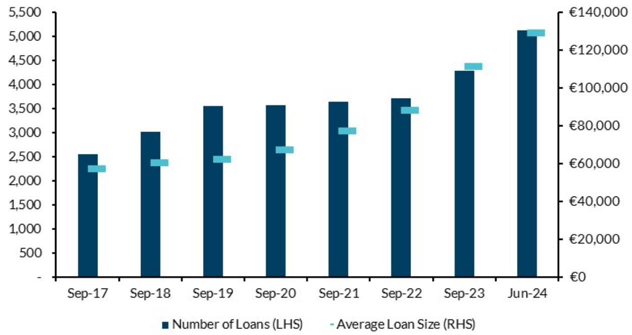
Key Points

- At 30 June 2024, credit unions with total assets of at least €100 million account for a higher proportion of sector loans by number within this maturity category and the value of the average loan outstanding with a maturity of 5 to 10 years for this cohort of credit unions is c. €32k.

2. Lending by Maturity

2.4 Focus on Longer Maturity Lending - Lending with Maturity of >10 Years

Chart 9 | Gross Loans Outstanding



Source: Credit Union Prudential Return data

Trends

- In addition to the removal of the 5-year and 10-year maturity lending limits, the 2020 changes to the 2016 Regulations introduced a maximum loan term for secured loans of 10 years and amended the overall maximum loan term from 25 to 35 years.

- Since the 2020 changes to the 2016 Regulations there has been a 45% increase in the number of loans outstanding in this maturity bucket from c. 3.5k at September 2019 to c. 5.1k at end of June 2024.

- The value of the average loan outstanding with a maturity of greater than 10 years has increased substantially, from c. €62k to c. €129k over the same period. This coincides with the extension of the maximum maturity for secured loans up to 35 years, with €121 million of gross loans outstanding in September 2023 and €193 million in June 2024 with a maturity longer than 25 years, compared to just c. €0.6 million in September 2019.

Data Table 9 | Number of loans and Average Loan Size of Gross Loans Outstanding with a Maturity of Greater than 10 Years | Data as at 30 June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Number of credit unions reporting gross loans	18	50	68	136
as a % of credit unions in this asset bucket	*36.7%*	*72.5%*	*98.6%*	*72.7%*
Number of loans	0.14k	0.62k	4.37k	5.13k
Average Loan	€44,207	€84,471	€138,012	€129,072

Source: Credit Union Prudential Return data

Key Points

- Almost all - 68 of the 69 - credit unions with assets of at least €100 million have loans outstanding with a maturity of greater than 10 years, while only 18 of the 49 credit unions with assets of less than €40 million have reported loans outstanding in this maturity category.

- The number of loans outstanding with a maturity greater than 10 years is materially attributable to credit unions with total assets of at least €100 million, with 85% of loans outstanding in this maturity bucket held with credit unions in this cohort.

- Additionally, the value of the average loan outstanding with a maturity of greater than 10 years is €138,012 for credit unions with assets of at least €100 million, compared to €44,207 for credit unions with assets of less than €40 million and c. €84,471 for credit unions with assets between €40 million and €100 million.

Data Table 10 | Breakdown of liquidity requirements for the 187 credit unions that were active at June 2024 prior to the changes to the lending framework at September 2019, and also at June 2024

		Sep-19		Jun-24	
		No. of Credit Unions	% of Credit Unions	No. of Credit Unions	% of Credit Unions
Gross loans outstanding with maturity > 5 years: ≤ 20%	*Liquidity requirement: ≥ 20%*	87	47%	26	14%
Gross loans outstanding with maturity > 5 years: > 20% and < 25%	*Liquidity requirement: ≥ 25%*	48	26%	20	11%
Gross loans outstanding with maturity > 5 years: ≥ 25% and < 29%	*Liquidity requirement: > 25%*	36	19%	24	13%
Gross loans outstanding with maturity > 5 years: ≥ 29%	*Liquidity requirement: ≥ 30%*	16	9%	117	63%

Source: Credit Union Prudential Return data

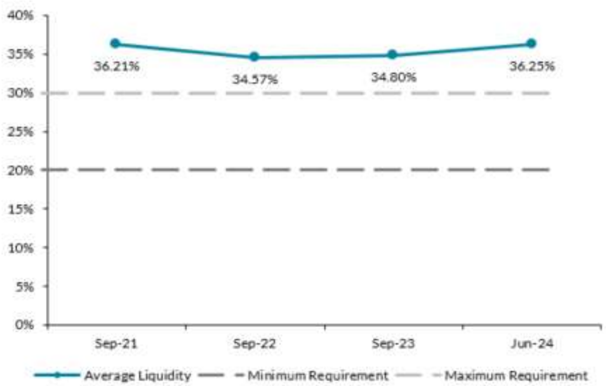
Trends

- Credit unions are required to maintain a liquidity ratio of at least 20% of total unattached savings. Aligned with the 2016 Regulations, credit unions who engage in higher proportions of lending over 5 years are required to maintain a higher liquidity ratio.

- In 2019, 100 credit unions were subject to a higher liquidity requirement of greater than 20% on the basis of their level of longer-term lending. In June 2024, 161 credit unions were subject to a higher liquidity requirement. This increase reflects the change in the maturity profile of credit union lending since the introduction of the 2020 changes to the 2016 Regulations.

- The number of credit unions with greater than or equal to 29% of total gross loans outstanding with a maturity of greater than 5 years, that are required to maintain a liquidity ratio of at least 30% under the regulatory framework, has increased from 16 credit unions (9% of active credit unions) at 30 September 2019 to 117 credit unions (63% of active credit unions) at 30 June 2024.

Chart 10 | Average Liquidity



Source: Credit Union Prudential Return data

Note that information in this graph refers to data available on 10 October 2024

Trends

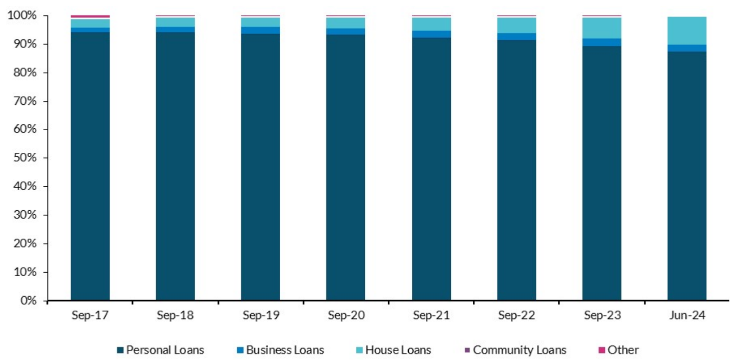
- At 30 June 2024, the average liquidity ratio for the sector was 36%.

- At 30 June 2024 all credit unions were holding liquidity in excess of the applicable minimum liquidity requirement.

3. Lending by Category

3.1 Gross Loans Outstanding by Category

Chart 11 | Volume of Gross Loans Outstanding by Category



Source: Credit Union Prudential Return data

Trends

- Personal loans remain the predominant category of lending outstanding by credit unions, accounting for 87.3% of all gross loans outstanding at June 2024. In 2019, the year immediately preceding the 2020 changes to the 2016 Regulations, the proportion of gross loans outstanding in personal loans was 93.7%.

- House loans outstanding have grown in recent years and stand at 9.8% of sector outstanding gross loans at June 2024, representing the second largest category of loans outstanding.

- Business loans as a proportion of sector gross loans outstanding has grown modestly, from 2.2% in 2019 to 2.6% of overall lending outstanding in 2024.

Data Table 11 | Volume of Gross Loans Outstanding by Category | Data as at 30 June 2024

		Asset Bucket			Total Sector
		< €40M	€40M - €100M	≥ €100M	
Personal Loans	Volume (€)	€396.84M	€1,456.35M	€4,123.62M	€5,976.80M
	%	96.9%	93.0%	84.6%	87.3%
Business Loans	Volume (€)	€7.22M	€48.59M	€123.24M	€179.06M
	%	1.8%	3.1%	2.5%	2.6%
House Loans	Volume (€)	€3.76M	€55.00M	€615.20M	€673.96M
	%	0.9%	3.5%	12.6%	9.8%
Community Loans	Volume (€)	€1.70M	€4.94M	€12.32M	€18.96M
	%	0.4%	0.3%	0.3%	0.3%
Other Loans	Volume (€)	€0.02M	€0.39M	€0.83M	€1.24M
	%	0.0%	0.0%	0.0%	0.0%

Source: Credit Union Prudential Return data

Key Points

- The cohort of credit unions with total assets of at least €100 million has the highest proportion of house loans at 12.6% of their total loans outstanding in June 2024.

- In contrast, those credit unions with total assets less than €40 million, reported only 0.9% of their total loans as house loans. This cohort also reported the lowest proportion of business loans, at 1.8% of their total loans outstanding,

3. Lending by Category

3.2 New Loans Advanced by Category

Data Table 12 | Volume of New Loans Advanced by Category

	Sep-19		Sep-23		Jun-24*	
	Volume (€)	%	Volume (€)	%	Volume (€)	%
Personal Loans	€2,510.19M	96.1%	€2,754.13M	90.8%	€2,133.12M	88.1%
Business Loans	€49.00M	1.9%	€64.09M	2.1%	€55.21M	2.3%
House Loans	€45.34M	1.7%	€206.24M	6.8%	€228.04M	9.4%
Community Loans	€5.89M	0.2%	€8.43M	0.3%	€5.28M	0.2%
Other	€2.44M	0.1%	€0.12M	0.0%	€0.01M	0.0%
Total	€2,612.86M		€3,033.00M		€2,421.67M	

Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

Trends

- In the year to 2019, the year immediately preceding the 2020 changes to the 2016 Regulations, 96.1% of new loans advanced were reported as personal loans with 1.7% and 1.9% reported as house and business loans respectively.

- In the year to September 2023, house loans accounted for 6.8% of all new credit union lending while business loans accounted for 2.1% of all new credit union lending.

- 9.4% of the new loans advanced in the 9 months to 30 June 2024 were reported as house loans, 2.3% of new loans advanced over the same period were reported as business loans.

Data Table 13 | Volume of New Loans Advanced by Category | Data as at 30 June 2024

		Asset Bucket			Total Sector
		< €40M	€40M - €100M	≥ €100M	
Personal Loans	Volume (€)	€144.97M	€530.26M	€1,457.89M	€2,133.12M
	%	97.7%	93.6%	85.4%	88.1%
Business Loans	Volume (€)	€2.06M	€15.59M	€37.57M	€55.21M
	%	1.4%	2.8%	2.2%	2.3%
House Loans	Volume (€)	€0.73M	€19.62M	€207.70M	€228.04M
	%	0.5%	3.5%	12.2%	9.4%
Community Loans	Volume (€)	€0.65M	€1.28M	€3.36M	€5.28M
	%	0.4%	0.2%	0.2%	0.2%
Other Loans	Volume (€)	€0.00M	€0.00M	€0.01M	€0.01M
	%	0.0%	0.0%	0.0%	0.0%

Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

Key Points

- Larger credit unions with assets of at least €100 million reported the highest proportion of new house and business loans by value in the 9 months to 30 June 2024.

- The cohort of credit unions with asset size of less than €40 million reported that 98% of their new lending was for personal loans in the 9-month period.

- The equivalent percentage for the cohort of larger credit unions with total assets of at least €100 million is 85%.

3. Lending by Category

3.3 Focus on Specific Categories of Lending- House Loans

Data Table 14 | Number of Credit Unions Reporting Gross Loans Outstanding in House Loans | Data as at 30 June 2024

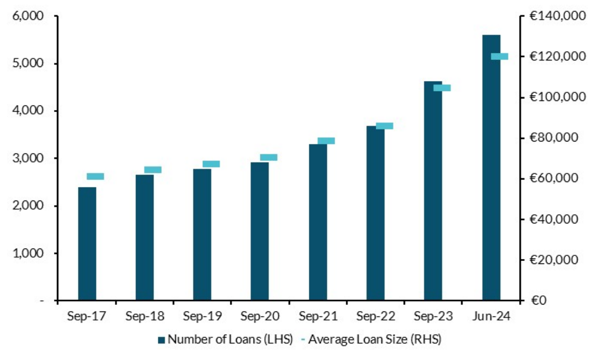
		Asset Bucket			Total Sector	Volume of House Loans Outstanding
		< €40M	€40M - €100M	≥ €100M		
Number of credit unions reporting gross loans outstanding in house loans		8	40	63	111	
as a % of credit unions in this asset bucket		16.3%	58.0%	91.3%	59.4%	
Breakdown of credit unions reporting house loans outstanding by the number of loans outstanding in this category	*1 -5 house loans*	*3*	*15*	*5*	*23*	€1.60M
	5 - 10 house loans	*2*	*6*	*6*	*14*	€7.81M
	10 - 15 house loans	*2*	*1*	*1*	*4*	€5.33M
	15-20 house loans	*1*	*4*	*1*	*6*	€11.93M
	≥ 20 house loans	*0*	*14*	*50*	*64*	€647.30M
Volume of House Loans Outstanding		€3.76M	€55.00M	€615.20M		€673.96M

Source: Credit Union Prudential Return data

Key Points

- At 30 June 2024, 111 credit unions reported at least one house loan outstanding, representing 59% of all credit unions.
- At this date 64 credit unions, or 34% of all credit unions, reported having 20 or more house loans outstanding.
- House loan activity is concentrated amongst a relatively small number of credit unions, with €615.2 million (91%) of total house loans reported attributable to those credit unions with total assets of at least €100 million.

Chart 12 | House Loans Outstanding



Source: Credit Union Prudential Return data

Trends

- Since the introduction of the changes to the lending framework there has been a year-on-year increase in the number of house loans outstanding with the most signficant increase in the year to September 2023, and with a further increase in the 9 months to June 2024.
- The value of the average house loan outstanding has also increased year-on-year since 2020, and at 30 June 2024 the value of the average house loan outstanding was €120,136.

Data Table 15 | Number and Average Loan Size of House Loans Outstanding | Data as at 30 June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Number of loans	0.06k	0.65k	4.90k	5.61k
Average Loan	€64,901	€84,094	€125,603	€120,136

Source: Credit Union Prudential Return data

Key Points

- The value of the average house loan outstanding for credit unions with assets of at least €100 million of €125,603 at June 2024 is almost double that of the value of the average house loan outstanding for credit unions with assets of less than €40 million of €64,901.

3. Lending by Category

3.3 Focus on Specific Categories of Lending- House Loans (continued)

Data Table 16 | Number of Credit Unions Reporting New Loans Advanced in House Loans | Data as at 30 June 2024

		Asset Bucket			Total Sector	Volume of New House Loans Advanced
		< €40M	€40M - €100M	≥ €100M		
Number of credit unions reporting new loans advanced in house loans		4	23	53	80	
as a % of credit unions in this asset bucket		8.2%	33.3%	76.8%	42.8%	
Breakdown of credit unions reporting new loans advanced in house loans by the number of new loans in this category	*1 - 5 house loans*	*3*	*9*	*2*	*14*	€3.08M
	5 - 10 house loans	*1*	*7*	*7*	*15*	€14.05M
	10 - 15 house loans	*0*	*6*	*7*	*13*	€23.01M
	15-20 house loans	*0*	*1*	*10*	*11*	€28.98M
	≥ 20 house loans	*0*	*0*	*27*	*27*	€158.92M
Volume of New House Loans Advanced		€0.73M	€19.62M	€207.70M		€228.04M

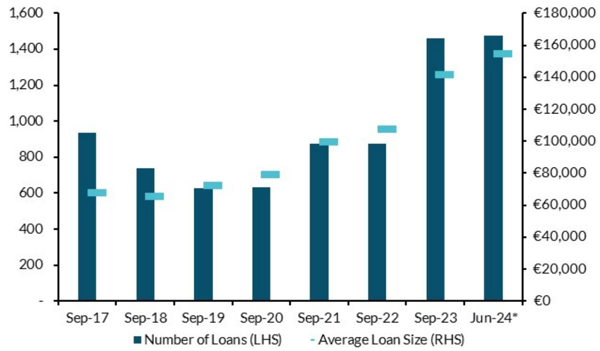
Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

Key Points

- In the 9 months to June, 80 credit unions (43% of credit unions) reported advancing at least one new house loan, showing that not all credit unions are actively involved in the provision of house loans.
- Credit unions with assets of at least €100 million account for the highest proportion of activity in new house lending in 2024, accounting for 91% of the new house loans advanced in the 9 months to June 2024.

Chart 13 | New House Loans Advanced



Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

Trends

- A notable increase in new house loan activity occurred in the year to September 2023 and, following this, a higher number of new house loans were advanced in the 9 months to June 2024 compared to the year to September 2023.
- A significant jump in the value of the value of the average new house loan is also observable, with the value of the average house loan advanced €141,358 for the year to September 2023 and €154,396 for the 9 months to June 2024

Data Table 17 | Number and Average Loan Size of New House Loans Advanced | Data as at 30 June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Number of loans	0.01k	0.15k	1.31k	1.48k
Average Loan	€55,865	€127,371	€158,550	€154,396

Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

Key Points

- The value of the average new house loan advanced for credit unions with assets of at least €100 million of €158,550 was c. 2.8 times the value of the average house loan advanced for the cohort of credit unions with assets of less than €40 million of €55,865 for the in the 9 months to 30 June 2024.

3. Lending by Category

3.4 Focus on Specific Categories of Lending- Business Loans

Data Table 18 | Number of Credit Unions Reporting Gross Loans Outstanding in Business Loans | Data as at 30 June 2024

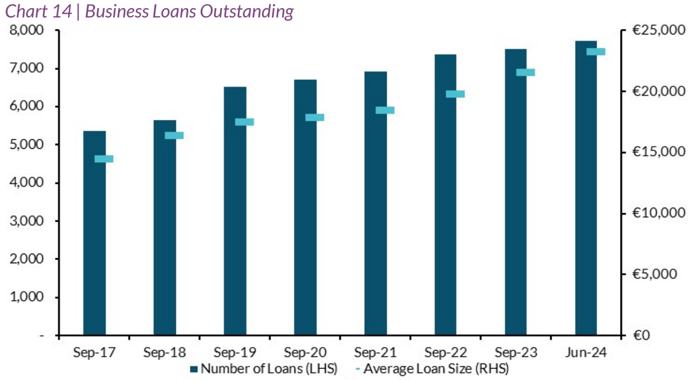
		Asset Bucket			Total Sector	Volume of Business Loans Outstanding
		< €40M	€40M - €100M	≥ €100M		
Number of credit unions reporting gross loans outstanding in business loans		29	48	59	136	
as a % of credit unions in this asset bucket		59.2%	69.6%	85.5%	72.7%	
Breakdown of credit unions reporting business loans outstanding by the number of loans outstanding in this category	*1 - 5 business loans*	*9*	*6*	*8*	*23*	€1.66M
	5 - 10 business loans	*7*	*3*	*5*	*15*	€1.76M
	10 - 15 business loans	*5*	*5*	*2*	*12*	€4.90M
	15-20 business loans	*1*	*0*	*3*	*4*	€1.15M
	≥ 20 business loans	*7*	*34*	*41*	*82*	€169.60M
Volume of Business Loans Outstanding		€7.22M	€48.59M	€123.24M		€179.06M

Source: Credit Union Prudential Return data

Key Points

- At 30 June 2024, 73% of all credit unions reported have at least one business loan outstanding.
- The cohort of credit unions with assets of at least €100 million has the highest rate of participation in business lending with 86% of credit unions in this category reporting business loans outstanding, whilst 70% of credit unions with assets between €40 million and €100 million and 59% of credit unions with assets between below €40 million reported at least one business loan outstanding.

Chart 14 | Business Loans Outstanding



Source: Credit Union Prudential Return data

Trends

- The number of business loans outstanding and the value of the average business loan outstanding have grown slightly year-on-year over the period with the average business loan €21,521 at 30 September 2023 and €23,218 at 30 June 2024.

Data Table 19 | Number and Average Loan Size of Business Loans Outstanding | Data as at 30 June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Number of loans	0.42k	2.30k	4.99k	7.71k
Average Loan	€17,119	€21,100	€24,713	€23,218

Source: Credit Union Prudential Return data

Key Points

- The value of the average business loan outstanding for credit unions with assets of at least €100 million is higher than the value of the average business loan outstanding for the other asset cohorts of credit unions at June 2024.

Data Table 20 | Number of Credit Unions Reporting New Business Loans Advanced | Year to 30 June 2024

		Asset Bucket			Total Sector	Volume of New Business Loans Advanced
		< €40M	€40M - €100M	≥ €100M		
Number of credit unions reporting new loans advanced in business loans		20	41	49	110	
as a % of credit unions in this asset bucket		40.8%	59.4%	71.0%	58.8%	
Breakdown of credit unions reporting new loans advanced in business loans by the number	*1 - 5 business loans*	*13*	*10*	*9*	*32*	€2.91M
	5 - 10 business loans	*5*	*5*	*6*	*16*	€2.00M
	10 - 15 business loans	*1*	*7*	*7*	*15*	€4.39M
	15-20 business loans	*1*	*3*	*3*	*7*	€2.82M
	≥ 20 business loans	*0*	*16*	*24*	*40*	€43.10M
Volume of New Business Loans Advanced		€2.06M	€15.59M	€37.57M		€55.21M

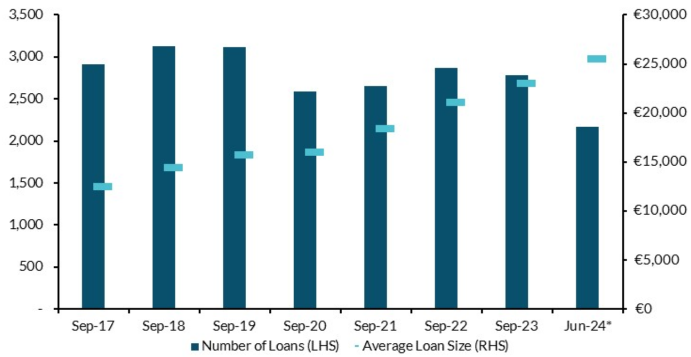
Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

Key Points

• The provision of new business loans in the 9 months to 30 June 2024 was dominated by credit unions with assets between €40 million and €100 million, and credit unions with assets of at least €100 million which combined accounted for 96% of all new business loans advanced in the period.

Chart 15 | New Business Loans Advanced



Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

Trends

• The number of new business loans advanced for the year has fluctuated (but within a narrow range) over the period 2017 to 2023.

• The number of new business loans advanced in the year to September 2019, prior to the introduction of the 2020 changes to the 2016 Regulations, was 3,115.

• There was a reduction in the number of new business loans advanced in the year to September 2023 compared to September 2022, with 2,782 new business loans advanced by credit unions in the year to 30 September 2023.

• 2,167 new business loans have been advanced in the 9 months to June 2024.

• The value of the average business loan advanced has however increased year-on-year since 2019.

Data Table 21 | Number and Average Loan Size of New Business Loans Advanced | Data as at 30 June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Number of loans	0.09k	0.71k	1.36k	2.17k
Average Loan	€22,873	€21,833	€27,561	€25,479

Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

Key Points

• The value of the average business loan advanced for credit unions with assets of at least €100 million is 20% higher than the value of the average business loan advanced by credit unions with assets of €40 million for the 9 months to 30 June 2024.

3. Lending by Category

3.5 Business Loans ≥€25,000

Data Table 22 | Number New Business Loans Advanced

	Sep-19		Sep-23		Jun-24*	
	No. of Loans	% of Business Loans	No. of Loans	% of Business Loans	No. of Loans	% of Business Loans
Business Loans issued for less than €25,000	2,502	80%	1,929	69%	1,392	64%
Business Loans issued for €25,000 or greater	613	20%	853	31%	775	36%
Total Business Loans	3,115		2,782		2,167	

Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

Trends

- Where the total amount of business loans granted to a borrower (or group of borrowers who are connected) is greater than or equal to €25,000, Regulation 16 of the 2016 Regulations provides that a comprehensive business plan and detailed financial projections (supported by evidence-based assumptions), appropriate for the scale and complexity of the loan, must be provided to the credit union before it grants the relevant loan.

- The number of business loans advanced in the year to 30 September has decreased from 3,115 for the year to 30 September 2019 (prior to the 2020 changes to the 2016 Regulations) to 2,782 for the year to 30 September 2023.

- The proportion of the total number of new business loans advanced where the amount of the new loan granted was €25,000 or more has increased from 20% of new business loans advanced in the year to 30 September 2019 to 31% of new business loans advanced for the year to 30 September 2023.

Data Table 23 | Large exposures 2019 vs 2024

	Sep-19	Jun-24
No. of credit unions reporting at least 1 large exposure under the previous definition (any exposure greater than 5% of the regulatory reserve)	9	*6*
No. of credit unions reporting at least 1 large exposure under the current definition (any exposure greater than 2.5% of the regulatory reserve)	*49*	57

Source: Credit Union Prudential Return data

Key Points

- Accompanying the 2020 changes to the 2016 Regulations, the Central Bank issued updated guidance in respect of large exposure amounts.

- Prior to this change, the Central Bank guidance stated that a credit union should consider any exposure greater than 5% of the regulatory reserve to be an individual large exposure and the aggregate of individual large exposures of a credit union should not be greater than 500% of regulatory reserves. The updated guidance on large exposures provided by the Central Bank in 2020 states that any exposure greater than 2.5% of the regulatory reserve should be considered a large exposure by a credit union. Additionally, the guidance on aggregate larger exposures was removed in 2020.

- Focussing on the 187 active credit unions at 30 June 2024, at 30 September 2019 under the definition relevant at the time (i.e. as outlined in the Central Bank guidance prior to 2020), 9 credit unions reported at least one large exposure.

- At 30 June 2024, under the amended definition, 57 credit unions have reported at least one large exposure. At 30 September 2019, 49 of the 187 active credit unions reported at least one exposure greater than 2.5% of the regulatory reserve.

Data table 24 | Large exposures by category | Data as at 30 June 2024

	Number of credit unions which have at least one large exposure
Personal	26
House	22
Business	7
Community	9

Source: Credit Union Prudential Return data

Key Points

- At 30 June 2024, 22 credit unions reported at least one large exposure within the loan category of house loans.

- At this date, 7 credit unions reported at least one large exposure within the loan category of business loans.

4. Concentration Limits

4.1 Concentration Limits – Overview of Capacity for House and Business Lending

Data Table 25 | Capacity for House and Business Lending | data as at 30 June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Capacity for House and Business Lending at 7.5%	€93.13M	€349.26M	€1,161.12M	€1,603.52M
Additional Capacity for Credit Unions with total assets > €50m		€102.00M		€102.00M
Additional Capacity for Credit Unions with total assets >€100m			€1,161.12M	€1,161.12M
Total Maximum Capacity	€93.13M	€451.27M	€2,322.25M	€2,866.65M

Source: Credit Union Prudential Return data

Key Points

- The total sector capacity for combined house and business lending at the 7.5% concentration limit is €1.6 billion in gross loans outstanding. The capacity within this for business lending, taking account of the 5% inner limit, is €1.07 billion.

- Focusing within the cohort of credit unions with assets between €40 million and €100 million, there are 56 credit unions with total assets of at least €50 million potentially eligible (subject to the minimum regulatory reserve of 12.5%), to avail of the 10% concentration limit by notification to the Central Bank. The total potential capacity for combined house and business lending for these credit unions at the 10% limit is €451 million, representing an additional €102 million available capacity over the 7.5 % limit for these credit unions (assuming that all credit unions with total assets between €50 million and €100 million are eligible to notify the Central Bank to avail of the 10 % limit and do so).

- Assuming that all credit unions with total assets of at least €100 million are approved by the Central Bank to avail of the 15% concentration limit, the total potential capacity for combined house and business lending of these credit unions is €2,322 million, representing an additional €1,161 million available capacity over the 7.5% limit.

- Credit unions with assets of at least €100 million account for 72 % of total sector assets at June 2024. This, coupled with the tiered nature of the concentration limits for house and business lending introduced as part of the 2020 changes to the 2016 Regulations, provide this cohort of credit unions with the majority of the capacity available in the sector for house and business lending. At June 2024, 81% of the maximum potential available capacity for house and business lending in the sector was available to credit unions with assets of at least €100 million.

Data Table 26 | Utilisation of Capacity for House and Business Lending | data as at 30 June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Total Capacity for House and Business Loans	€93.13M	€451.27M	€2,322.25M	€2,866.65M
Total House and Business Loans	€10.99M	€103.59M	€738.45M	€853.03M
% Capacity Used	11.8%	23.0%	31.8%	29.8%

Source: Credit Union Prudential Return data

Key Points

- Based on the values reported for house and business loans outstanding at 30 June 2024, €853 million of the €2,867 million potential capacity for house and business lending identified in Data Table 25 is utilised.

- An additional €2,014 million of capacity for house and business lending is unutilised and is available across individual credit unions in the sector at 30 June 2024 to advance further loans in the house and/or business loan categories.

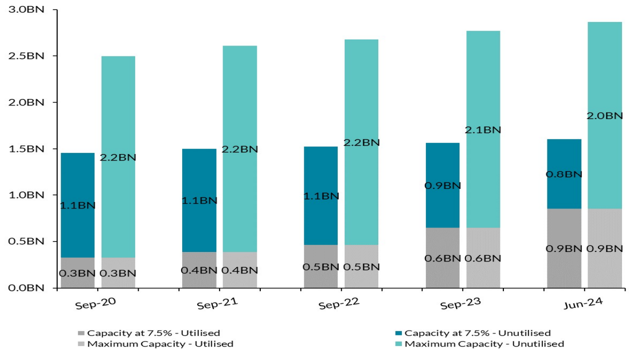
- The cohort of credit unions with assets of at least €100 million have reported €738 million house plus business loans outstanding at 30 June 2024. Comparing this to the €2,322 million potential capacity for house and business lending available to credit unions in this cohort, these credit unions have utilised 32% of the potential capacity under the 15% concentration limit on house and business lending.

- The cohort of credit unions with assets of at least €100 million have the highest percentage of total maximum potential capacity utilised compared to the two smaller asset cohorts.

4. Concentration Limits

4.2 Concentration Limits – Capacity since 2020

Chart 16 | Unutilised Capacity



Source: Credit Union Prudential Return data

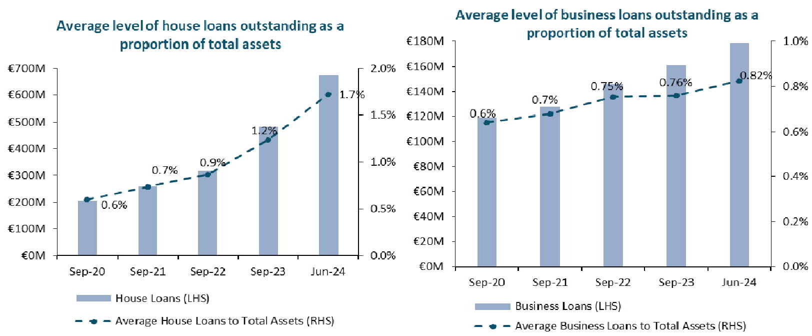
Trends

- Chart 16 illustrates the capacity available at the 7.5% concentration limit and the potential maximum capacity available in the sector, split out by utilised and unutilised capacity.
- Total potential maximum capacity across individual credit unions in the sector has increased from €2.5 billion to €2.8 billion over the period between September 2020 and 2023 following the 2020 changes to the 2016 Regulations, and stood at €2.9 billion at June 2024, illustrating the dynamic nature of the limits.
- Utilised capacity comprises the total sector combined house and business loans outstanding. The utilised capacity for house and business lending increased from €0.33 billion in September 2020, to €0.65 billion in September 2023 and €0.9 billion in June 2024.

4. Concentration Limits

4.3 House and Business Loan Activity

Chart 17 | Average Level of House and Business Loans Outstanding to Total Assets



Source: Credit Union Prudential Return data

Trends

- Focusing on house loans, the average level of house loans outstanding as a proportion of total assets has increased since September 2020, and stands at 1.2% at September 2023 and 1.7% at June 2024. Excluding those 76 credit unions that have reported zero house loans outstanding at June 2024, the average level of house loans outstanding as a proportion of total assets was 2.9% at 30 June 2024.

- A significant increase in the average level of house loans outstanding as a proportion of total assets for credit unions occurred in the year to September 2023 and in the 9 months to June 2024.

- Focusing on business loans, the average level of business loans outstanding as a proportion of total assets has also increased over the period September 2020 to June 2024, albeit at a much lower rate than the average proportion of house loans. The average level of business loans outstanding as a proportion of total assets for the sector is 0.76% at September 2023 and 0.82% at June 2024. Excluding those 51 credit unions that have reported zero business loans outstanding at June 2024, the average level of business loans outstanding as a proportion of total assets was 1.06% at 30 September 2023 and 1.13% at June 2024.

Data Table 27 | Average House and Business Loans Outstanding as a Proportion of Total Assets | Data as at 30 June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Average House Loans to Total Assets	0.2%	1.1%	3.4%	1.7%
Average Business Loans to Total Assets	0.6%	1.0%	0.9%	0.8%

Source: Credit Union Prudential Return data

Key Points

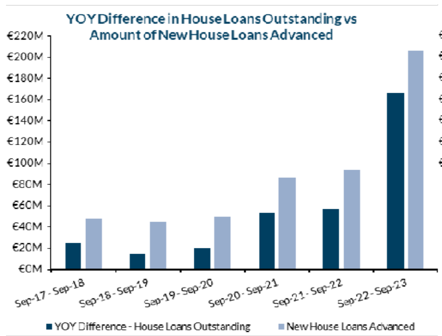
- By asset cohort, the average level of house loans outstanding as a proportion of total assets is largest for the cohort of credit unions with assets of at least €100 million at 3.4% in June 2024.

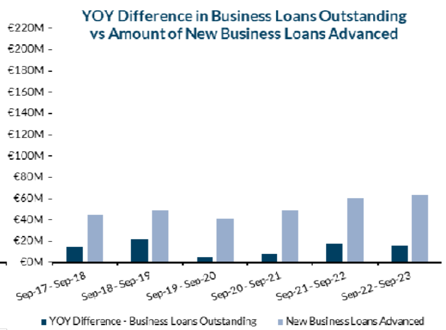
- The cohort of credit unions with assets between €40 million and €100 million has the highest average level of business loans outstanding as a proportion of total assets at 30 June 2024 at 1%.

4. Concentration Limits

4.4 House and Business Loan Activity Year on Year

Chart 18 | Difference in House and business Loans outstanding YOY vs amount of new house and business loans advanced





Source: Credit Union Prudential Return data

Trends

- Chart 18 illustrates the difference between the year-on-year change in gross loans outstanding versus the amount of new loans advanced in that year which contributed to that overall change in gross loans outstanding for house and business lending.

- Credit unions advanced €651.4 million in new house and business loans (€436.5 million house loans advanced and €214.8 million business loans advanced) between September 2019 and September 2023 to achieve net growth of €344.7 million in house and business lending outstanding (growth of €297.1 million in house loans outstanding and €47.6 million in business loans outstanding).

- The value of new house loans advanced for the year to 30 September 2023 (€206.2 million) is 1.2 times the value of the growth in house loans outstanding for the year to 30 September 2023 (€166.4 million).

- The value of new business loans advanced for the year to 30 September 2023 (€64.1 million) is 4 times the value of the growth in business loans outstanding for the year to 30 September 2023 (€15.9 million).

- This suggests that business loans repay at a faster rate to house loans and would indicate that higher volumes of new lending in business loans are required to increase gross loans outstanding than is the case for house loans.

4. Concentration Limits

4.5 House and Business Lending- Utilisation of Concentration Limits by Asset Size

Data Table 28 | Breakdown of the number of credit unions by combined house and business loans as a % total assets | data as at 30 June 2024

		Asset Bucket			Total Sector
		< €40M	€40M - €100M	≥ €100M	
Combined House/Business Loan as a % Total Assets	0%	17	13	0	30
	>0%, <2.5%	27	32	24	83
	≥2.5%, <5%	5	14	18	37
	≥5%, <7.5%	0	9	18	27
	≥7.5%, <10%	0	1	5	6
	≥10%, <12.5%	0	0	3	3
	≥12.5%, <15%	0	0	1	1

Source: Credit Union Prudential Return data

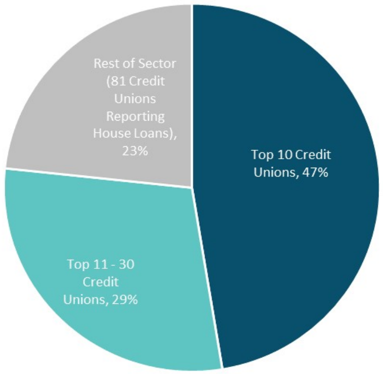
Key Points

- At June 2024, 60% of credit unions reported concentration limit usage between zero and less than 2.5% of total assets.
- 20% of credit unions reported usage between 2.5% and less than 5%, and 20% of credit unions reported concentration limit usage of 5% or more.
- 10 credit unions have reported concentration limit usage of 7.5% or more. 9 of these credit unions have assets of at least €100 million.

4. Concentration Limits

4.6 House and Business Lending- Participation by Credit Unions

Chart 19 | House Loans Outstanding | Breakdown of Volume by Credit Unions June 2024



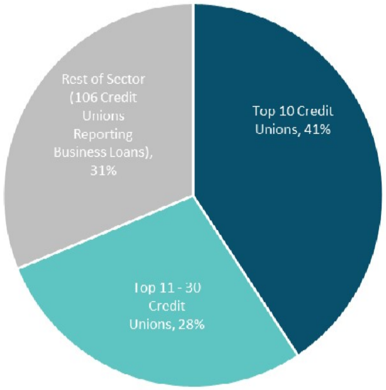
Source: Credit Union Prudential Return data

Key Points

- At 30 June 2024,

› 10 credit unions (5 % of sector) accounted for 47 % of all house loans outstanding
› 30 credit unions (16 % of sector) accounted for 77 % of all house loans outstanding
› 76 credit unions (41 % of sector) reported zero house loans

Chart 20 | Business Loans Outstanding | Breakdown of Volume by Credit Unions June 2024



Source: Credit Union Prudential Return data

Key Points

- At 30 June 2024,

› 10 credit unions (5 % of sector) accounted for 41 % of all business loans outstanding
› 30 credit unions (16 % of sector) accounted for 69 % of all business loans outstanding
› 51 credit unions (27 % of sector) reported zero business loans

4. Concentration Limits

4.7 Credit Unions Actively Participating in House and Business Lending

Note 2 | Credit unions categorised as 'active participants' in house or business lending (for the purpose of this sections 4.7 and 4.8)

The Central Bank recognises that not all credit unions are actively engaging in house or business lending. Presentation of sector capacity and utilisation for house and business lending which includes the lending capacity of credit unions that are not participating in house and business lending (as illustrated above) may not provide the full picture.

For the purpose of the analysis in sections 4.7 and 4.8, and by way of adopting a reasonable proxy to categorise those credit unions that are / are not 'active participants' in house or business lending, the Central Bank has categorised those credit unions that have 10 or more house loans **or** 10 or more business loans outstanding (at 30 June 2024) as representing those credit unions that are 'active participants' in house and business lending.

Data Table 29 | Number of Credit Unions Reporting House or Business Loans Outstanding | Data as at 30 June 2024

		Asset Bucket			Total Sector
		< €40M	€40M - €100M	≥ €100M	
Breakdown of credit unions reporting combined house loans outstanding and business loans outstanding by the number of loans outstanding	0 house loans and 0 business loans	17	13	0	30
	<10 house loans and < 10 business loans	16	12	6	34
	≥ 10 house loans or ≥ 10 business loans	16	44	63	123

Source: Credit Union Prudential Return data

Key Points

- At 30 June 2024, 30 credit unions reported zero house loans and zero business loans outstanding.
- Of the 157 credit unions reporting house loans outstanding or business loans outstanding, 123 credit unions reported at least 10 house loans or at least 10 business loans outstanding. These credit unions represent the 'active participants' in house or business lending for the purpose of sections 4.7 and 4.8.
- Focusing on these 123 'active participants', 51% of these active participants (63 credit unions) are those with assets of at least €100 million, 36% (44 credit unions) are those with assets of between €40 million and €100 million and 13% (16 credit unions) are those with assets of less than €40 million.
- At 30 June 2024, only 33 % of credit unions with assets less than €40 million are 'active participants' in house or business lending, compared to 91 % of credit unions with assets of at least €100 million.

4. Concentration Limits

4.8 Active Credit Unions- Capacity and Utilisation

Data Table 30 | Capacity for House and Business Lending - Active Participant Credit Unions, House/Business Lending | data as at 30 June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Capacity for House and Business Lending at 7.5%	€34.93M	€232.64M	€1,091.01M	€1,358.59M
Additional Capacity for Credit Unions with total assets >50m		€70.68M		€70.68M
Additional Capacity for Credit Unions with total assets >100m			€1,091.01M	€1,091.01M
Total Maximum Capacity	€34.93M	€303.32M	€2,182.03M	€2,520.28M

Source: Credit Union Prudential Return data

Key Points

- When those credit unions that have not been categorised as 'active participants' are excluded from the calculation, the potential capacity available across active participants for house and business lending, based on the prescribed concentration limits is €2.52bn, compared to €2.87 billion (as described in Data Table 25) across all individual credit unions in the sector. This represents a 12% difference in capacity.

Data Table 31 | Utilisation of Capacity for House and Business Lending - Active Participant Credit Unions | data as at 30 June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Total Capacity for House and Business Loans	€34.93M	€303.32M	€2,182.03M	€2,520.28M
Total House and Business Loans	€9.53M	€100.78M	€737.35M	€847.66M
% Capacity Used	27.3%	33.2%	33.8%	33.6%

Source: Credit Union Prudential Return data

Key Points

- The cohort of credit unions with assets of at least €100 million have reported €738 million in house loans and business loans outstanding at 30 June 2024. Comparing this to the €2,322 million potential capacity for house and business lending available to credit unions in this cohort, these credit unions have utilised 25% the potential capacity under the 15% concentration limit on house and business lending.

- The percentage total maximum potential capacity utilised for credit unions actively participating in house and business lending is 34%, compared to 30% when taking all credit unions in to consideration (as outlined in Data Table 26 above).

4. Concentration Limits

4.9 Business Loans- Utilisation of the 5% of Total Assets Concentration Limit

Data Table 32 | Business Loans Outstanding as a proportion of Total Assets | Data as at 30 June 2024

		Asset Bucket			Total Sector
		< €40M	€40M - €100M	≥ €100M	
Average business loans outstanding to total assets (of those Credit Unions reporting business loans)		0.93%	1.42%	1.00%	1.13%
Breakdown of credit unions by the business loans outstanding to total assets	*0%*	*20*	*21*	*10*	*51*
	0-2.5%	*26*	*39*	*53*	*118*
	2.5%-5%	*3*	*9*	*5*	*17*
	> 5%	*0*	*0*	*1*	*1*

Source: Credit Union Prudential Return data

Key Points

- In line with the 2016 Regulations, credit unions subject to the 7.5% and 10% concentration limits for house and business lending cannot make a business loan where such a loan would cause the total gross amount outstanding in relation to business loans to exceed 5% of the assets of the credit union.

- 90 % of credit unions reported business loans outstanding of zero or less than 2.5% of total assets at 30 June 2024.

- 18 credit unions reported business loans outstanding of greater than 2.5 % of total assets, 3 of which reported assets of less than €40 million, 9 of which reported assets of between €40 million and €100 million and 6 of which reported total assets of at least €100 million.

Appendix 2 – Overview of Stakeholder Feedback

This Appendix sets out:

A. An overview of sector stakeholder feedback received since the final changes to the lending regulations were published in November 2019 up to the commencement of the Review in Q4, 2023.

B. An overview of sector stakeholder feedback provided at a series of bi-lateral meetings held with stakeholders on the Review in November 2023[1] and submissions received from a number of stakeholders after those meetings [2]. (This overview is structured across five themes – total lending, lending by maturity, lending by category, concentration limits and other considerations – and addresses the changes made to the lending regulations in 2020).

On the overview of stakeholder feedback set out below, and within this report more generally, we have endeavoured to accurately and fairly represent the views received from stakeholders. The following points should be noted in this regard:

- While we have sought to make reference to all substantive feedback we received from sector stakeholders, it was not feasible to include an overview of every point of feedback we received.
- We have sought to present the feedback received from stakeholders according to themes aligned to aspects of the credit union lending framework and the 2020 changes; however, the feedback is otherwise presented in no particular order. Similarly, not all feedback, e.g. feedback in relation to challenges and opportunities for credit unions, should be viewed as being applicable or equally relevant to all credit unions.
- While we set out in this report the identity of the stakeholders we engaged with to inform the Review, we do not, generally speaking, identify individual stakeholders in connection with the specific

[1] The Central Bank met with the Department of Finance, the Credit Union Advisory Committee, the Irish League of Credit Unions, the Credit Union Development Association, the Credit Union Managers' Association and the National Supervisors Forum.

[2] A submission was received after the November 2023 meetings from Collaborative Finance on 26 January 2024 and a separate submission was received from credit union bodies (i.e. a joint submission from CUMA, CUDA, ILCU and NSF) on 7 February 2024.

feedback and suggestions we received. As we have, with permission, published the submissions we received on the Review from credit union bodies (joint submission) and Collaborative Finance on the Central Bank website, we identify those suggestions we received in the joint submission from credit union bodies and in the submission from Collaborative Finance as having been received from those stakeholders.

- We refer in this report to 'stakeholders' in the plural, though the feedback referred to may have been received by one stakeholder or more than one stakeholder.
- The overview below includes views received from different stakeholders, reflecting different and in some cases contrasting views of stakeholders on certain matters. Relatedly, it should not be assumed that all stakeholders shared the same views on a particular point or topic.

A. Overview of sector stakeholder feedback received since the final changes to the lending regulations were published in November 2019 up to the commencement of the Review

Since the final changes to the lending regulations were published in November 2019, the Central Bank has received feedback from stakeholders, including credit unions, credit union bodies, the Department of Finance and the Credit Union Advisory Committee as part of our ongoing regulation and supervision of credit unions and engagement with sector stakeholders. Feedback over that period covered the following topics, in particular:

- **the role of credit unions –** the fundamental role credit unions play within the financial services landscape in Ireland;
- **the lending regulations –** the need for the lending regulations to not restrict those credit unions aiming to diversify and grow their loan books in a controlled manner from doing so;
- **the combined concentration limits for house and business lending** – the headroom available for credit unions within the combined concentration limits, the combined nature of the limits, the 5% inner limit (within the 7.5% and 10% combined concentration limits) for business lending and the inability of those credit unions that do not meet the asset size criterion to apply for the 15% limit to avail of greater house and business lending capacity;

- **the challenges of adapting the regulations to the changing lending landscape** – for example the growth of agri-business lending among credit unions that are 'Cultivate' members, the potential for credit unions to engage in Strategic Banking Corporation of Ireland schemes, the exit of two retail banks from the Irish market and the closure by banks of some bank branches which had previously supported small businesses;
- **the broader regulatory framework for credit unions** – the importance of aligning other related prudential requirements with the lending regulations in order to enable credit unions to fully avail of the scope provided within the 2020 changes (in particular, the additional capacity those changes provided) while remaining financially sound and competitive;
- **liquidity requirements** – calls for greater understanding by credit unions of the regulatory liquidity requirements which apply to them and for the Central Bank to review these requirements; and
- **other legislative changes to the 1997 Act relevant to credit union lending**, some of which have been addressed through the 2023 Amendment Act.[3]

Suggestions we received included the following:

- Remove the 5% inner limit for business lending, which would allow all credit unions to utilise the full 7.5% limit or 10% limit (depending on the total asset size of the credit union) for business lending;
- Remove the €100 million asset size criterion for applications to avail of the 15% concentration limit;
- Decouple the combined house and business lending limits to result in two separate concentration limits for house and business lending; and
- In respect of business loans, remove the regulatory requirement under Regulation 16 of the 2016 Regulations for a comprehensive business plan and detailed financial projections to be provided to a credit union before certain business loans are granted.[4]

[3] Changes to the 1997 Act are a matter for the Oireachtas.
[4] For business loans, this requirement currently applies where the total amount of business loans granted to a borrower (or group of borrowers who are connected) is €25,000 or more.

B. *Thematic overview of sector stakeholder feedback provided as part of the Review*

1. Total Lending

We set out below an overview of the feedback received from sector stakeholders within this theme, including general views on the impacts of the 2020 changes to the lending regulations, as part of the Review. Within this theme, we asked stakeholders for their views on how credit union lending has changed since 1 January 2020 – and, of these changes, which in their view are related to the 2020 changes – and the key challenges to credit unions in growing their loan books and increasing LTA ratios.

Stakeholders shared the following views and suggestions:

- On the **context** within which credit unions are undertaking lending activities:
  - It is a **different environment**[5] compared to when the framework was last reviewed and the 2020 changes introduced – highlighting the ongoing reduction in the number of credit unions, the exit of two retail banks from the Irish market, bank branch closures, the impacts of the pandemic (negative, but noting also that the pandemic acted as a catalyst for greater digital offerings from credit unions), the increased cost of delivering services, the changed interest rate environment and geo-political instability.
  - The **landscape has in some ways changed for the better**, presenting opportunities for credit unions, e.g. green lending.
  - There has been a steady prudent **growth in credit unions' risk appetites**.
- On **changes to credit union lending** since the 2020 changes were introduced:
  - Demand for **personal lending** is still strong. The market for car loans has changed in recent times with continued competition from Personal Contract Plan (or 'PCP') finance providers. The increasing prevalence of buy-now-pay-later loans was also referenced.
  - On **house lending**, more credit unions are providing mortgages prudently, and in this regard, house loans provided by credit unions have typically been provided on comparatively low

[5] It should be noted that the feedback was received in November 2023.

loan-to-income and loan-to-value ratios compared to other lenders. The increase in house lending has been marginal in absolute market terms (on the basis that it has increased from a low base). Credit union house lending was still low in the context of the size of the overall mortgage lending market in Ireland. A more recent uptick in the level of house lending being undertaken by credit unions was highlighted.

  - On **business lending**, there has been low growth in this category of lending. The success of the 'Cultivate' agri-business lending initiative was noted, with the credit union brand and the exit of Ulster Bank Ireland DAC viewed as having supported that success.
  - **Loan terms have increased**, for loans granted for car purchase and home retrofit purposes, for example. Loan amounts have also increased due to higher prices for goods and services. Stakeholders shared their views that, in some cases, having regard to the maximum permitted term for unsecured loans (i.e. 10 years), this has resulted in affordability constraints for such loans within the confines of the maximum loan term.
- **On challenges** for credit unions growing their loan-books, feedback included the limited potential for credit unions to grow their share of the **personal lending market**, the lack of **standard product offerings**, **level-playing field** issues with other lenders in the small loans space, **macro-economic factors,** member saving and borrowing trends, **liquidity regulatory requirements,** keeping pace with **technology change and member expectations in this regard**. On responding to the **challenges**, feedback highlighted that increasing LTA ratios should not be thoughtlessly pursued by credit unions.
- Overall, on the extent to which changes to credit union lending since the 2020 regulatory changes were made are **due to the regulatory changes** or due to some other factors, stakeholders were generally uncertain – the overarching sentiment conveyed by stakeholders was that the changes observed were likely partially due to the regulatory changes and partially due to other broader factors.
- Stakeholders made the following suggestions:
  - The changes to the lending landscape since January 2020 should be factored into the Review.

- The regulations need to keep pace with the changes to personal and house lending observed.
- Any changes to the framework need to adjust to allow for an appropriate period for credit unions to grow lending – in order to allow credit unions to remain competitive, changes should be forward looking.

2. Lending by Maturity

On credit union lending by maturity, we sought sector stakeholders' views on whether the removal of the previous 5 and 10 year lending maturity limits has been a positive or negative change, the types of lending behind the growth in loans of between 5-10 year maturities, and the challenges and risks of continuing to increase longer term lending. We also asked stakeholders for their views on the funding base that underpins the higher level of longer term lending and credit unions' ALM approaches. In addition, we asked for stakeholders' views on whether the maximum loan term of 10 years for unsecured lending and 35 years for secured lending are appropriate.

Stakeholders shared the following views and suggestions:

- **The removal of the previous lending maturity limits** was generally viewed as positive. The growth in longer term lending, resulting from the removal of the previous lending maturity limits, in particular in the 5-10 year maturity bucket has facilitated credit unions in moving to a more balanced loan portfolio with increased lending in newer categories of lending including house loans, in a prudent way. As a result of this change, credit unions are better able to offer members loan terms of 5 years or more; in some cases, this has facilitated credit unions to provide affordable personal loans to members where the loan can be offered for a term greater than 5 years.
- Increased lending in the **5 – 10 year** maturity bucket has been driven by home improvement loans, car loans, agri-business / 'Cultivate' branded agri-business loans and education loans.
- On the **challenges and risks** of continuing to increase the maturity profile of credit union lending:
  - The topic of **ALM** was raised. It was noted that one of the objectives of the new mortgage CUSO will be to support credit unions on ALM-related matters; more specifically, the new mortgage CUSO will also address pricing. It was also noted

that some credit unions are looking at introducing or increasing term deposit offerings to help address assets and liabilities mismatch risk. A corporate credit union was noted as another possible funding solution in the future.

- **Liquidity** was noted as a challenge for credit unions with stakeholders providing the following views:
  - That the regulatory liquidity requirements are a barrier to lending growth and negatively impacting as credit unions increase their exposure to lending greater than 5 years. There are some cases of credit unions stopping their lending over 5 years in order to comply with the liquidity regulations with some other credit unions having had to exit investments early in order to meet the liquidity requirements.
  - While the lending framework was modernised as part of the January 2020 changes, the liquidity requirements were not. The 'lower for longer' interest rate environment that prevailed up until July 2022 exerted pressure on credit unions in terms of the maturity profile of their investments (i.e. credit unions could choose between lower returns on shorter term investments or invest for longer durations in order to obtain better returns). Some of the liquidity challenge is driven by relevant credit unions having increased their exposures to longer term investments.
  - The inflow of member savings has slowed down. In order to increase their liquidity, some credit unions are cautiously unwinding members' savings caps – i.e. the savings caps individual credit unions had themselves put in place, separate to the individual members' savings limit of €100K set out in the 2016 Regulations.
- Other challenges noted included **credit union's risk appetites** / desire to avoid significant losses, the need for **stricter credit control** and **matching loan purpose with the term of the loan**.

- In relation to **the prescribed maximum loan terms** of 10 years (unsecured loans) and 35 years (secured loans), stakeholders were generally satisfied that the loan maturity limits were not raising any issues. Stakeholders suggested the following changes:
  - the introduction of a greater than 10 years unsecured maturity limit for certain categories of loans such as home

improvement loans, including home retrofit loans, on the basis that such loans may not be affordable for borrowers within a 10 year term and borrowers themselves can have a preference to pay over a term greater than ten years; and

- a new category of personal loan for special life events, e.g. home re-purposing and home retrofitting, that can run longer than 10 years – with a term limit of 15 years (received from credit union bodies in their joint 2024 submission).

3. Lending by Category

On credit union lending by category, we sought sector stakeholders views on whether the re-naming and re-defining of the business loan category of lending has provided greater clarity on the loans that come within this lending category or presented any particular difficulties. We also sought feedback on Regulation 16 of the 2016 Regulations, our updated guidance on large exposures and the general prohibition on credit unions undertaking BTL lending.

Stakeholders shared the following views and suggestions:

- On the **re-naming of the 'commercial loan' category of lending** to 'business loan' and the updated definition of this category of lending, stakeholders were not aware of, and had not encountered, any difficulties.
- On the **Regulation 16(1) requirement in the 2016 Regulations –** which provides that a credit union shall only grant a business loan (where the total amount of business loans granted to a borrower, or group of borrowers who are connected, is €25,000 or more), a community loan or a loan to another credit union where a comprehensive business plan and detailed financial projections have been provided – we received mixed views from stakeholders. Most stakeholders sought the removal of the requirement on the basis that it is prohibitive (for both borrowers and credit unions), potentially disproportionate and a barrier to credit unions competing for small business loans (given that the same regulatory requirement does not apply to banks and the requirement adds to the affordability assessment cost for credit unions). It was viewed that establishing a member's ability to repay a business loan should be a matter for a credit union's own lending policies. We also received separate feedback that the existing monetary threshold that must be met before the requirement applies to business loans

should be increased as the current threshold is too low for this type of loan and the value of money has changed; it was suggested that the threshold be increased to €50,000.

- On the updates to the Central Bank's guidance on **large exposures**, stakeholders had no specific feedback.
- On the general **prohibition on BTL lending**, there were mixed views. Consistent with the stakeholder feedback received to CP125, most stakeholders continued to disagree with this (with some also calling for credit unions to be permitted to lend to members for the purpose of holiday homes, second homes and property as a pension investment). It was viewed that allowing credit unions to engage in BTL lending should not be an issue, subject to it being done prudently and any argument that credit unions have not yet demonstrated competence and capability to undertake this type of lending is no longer true. It was suggested that the prohibition should be removed and managed appropriately through regulatory guidance and direction if necessary. In contrast, we also received feedback that credit unions should continue to focus on personal lending and not get involved in BTL lending at this time, the prohibition does not appear to be a significant issue for credit unions and that some credit unions had indicated that they might not be comfortable undertaking BTL lending.
- Stakeholders also expressed disagreement with credit unions being precluded from lending to members for the purpose of purchasing **holiday homes**. In their joint submission, credit union bodies stated that the prohibition neglects a significant market segment of empty nester and mortgage free members who have the means and desire to invest in holiday homes in Ireland.

Stakeholders suggested the following changes:

- Regulation16(1):
  - remove the requirement; and
  - increase the threshold for the requirement – from the current **€25,000 threshold to a threshold of €50,000.**
- Allow credit unions, within the business loan category of lending, to lend to a member for the purpose of **purchasing or enhancing properties owned in the name of a 'holding company'** where the 'operating company' is owned by the same shareholders / largely the same shareholders (within a defined LTV cap and where credit

union has mortgage lending expertise) (received from credit union bodies in their joint submission).

- Holiday home lending:
    - **Reintroduce loans for holiday homes** within the State (without reliance on rental income for repayment capacity) (received from credit union bodies in their joint 2024 submission).
    - **Allow equity release on principal residences in order to fund the purchase of holiday homes** (where first legal charge is in place) (received from credit union bodies in their joint submission).
- **BTL lending: Re-introduce loans for BTL** within the State with a defined LTV cap and where a credit union has mortgage lending expertise (received from credit union bodies in their joint 2024 submission).

4. Concentration Limits

On the combined house and business lending concentration limits, we sought sector stakeholders views on whether the combined concentration limits have provided greater flexibility for credit unions to engage in house and business loans, why more credit unions have not chosen to introduce house loans or materially increase their level of house lending since the 2020 changes were made and what stakeholders would consider to be appropriate concentration limits.

Stakeholders shared the following views and suggestions with us:

- On the **basis for the combined concentration limits** introduced in 2020, the move to the combined concentration lending limits based on credit unions' total assets has provided credit unions with greater flexibility to engage in house and business lending and has had a positive impact on loan portfolios. These impacts were linked to the increased lending observed in the 5-10 year loan maturity bucket since the 2020 changes were introduced.
- On the **combined nature of the concentration limits for house and business lending**, stakeholders considered this unhelpful and were not in favour of it; reasons provided included the following:
    - It inhibits / prevents credit unions that wish to undertake both house and business lending from developing both business lines;

    - It is not rational to combine the limits for these two categories of loan given their very different business and risk profile in addition to differences related to loan duration and approach to security;
    - It creates a risk of misperception that the risk profiles of house and business lending are similar (even though business lending is higher risk);
    - It results in unnecessary complexity in the lending regulations.
- On the **capacity for house and business lending** available within the combined concentration limits, stakeholders' views included the following:
    - That for credit unions with less than €40 million assets, the economics of getting involved in house and business lending does not really make sense at the limits permitted;
    - Doubts about whether the combined concentration limits, as structured and calibrated, have provided more flexibility for credit unions to engage in business lending. In this regard, it was noted that those credit unions engaged in business lending, with assets of less than €100 million, cannot increase their business lending beyond the inner 5% limit (as they do not meet the asset size criterion to apply for the 15% limit). In contrast, we received feedback that the 2020 changes have enabled credit unions to achieve greater diversification in their loan-books including increased business lending portfolios;
    - The number of loans, particularly house loans, that could be provided within the limits is low (with it being noted that the average size of mortgages has increased since the 2020 changes to the lending regulations);
    - The existing lending limits are not fit for purpose, are barriers to entry and are restricting credit unions (from issuing any significant level of mortgages) and can lead to increased reputational risk (where a credit union needs to cease providing mortgage loans with only a 'tiny proportion' of their members being provided with mortgages).
- On the **flexibility of the limits in the context of house lending and the reasons why more credit unions have not chosen to introduce house loans or materially increase their level of house lending** since the 2020 changes, we received the following feedback:

  - In the context of individual credit unions' own risk appetites, some do not see a value in engaging in house lending, (preferring to continue their focus on personal lending); decisions not to engage in house lending are due to risk considerations and the staff-training costs involved and profitability of such lending.
  - **Uncertainty on the evolution of limits is inhibiting credit unions' ability to invest resources**. There does not appear to be a pathway beyond the current lending limits to grow house lending. Credit unions face a reputational risk if forced to switch off house or business lending when lending limits are reached and this is a reason why some credit unions are concerned, or not engaging in these categories of lending at all.
  - For credit unions trying to strategically manage their lending activities and invest members' funds into resources, the Central Bank needs to de-risk these choices for credit unions. It would help if credit unions could better understand the conditions – articulated in the Feedback Statement on CP125 – for future flexing of the limits.
  - The key to greater engagement in house and business lending will be getting the **corporate credit union and the referral system** – changes under the 2023 Amendment Act – working, and the regulated system working and using controlled growth.
  - For **smaller credit unions**, some already have strong LTA ratios. There is plenty of opportunity for these credit unions but it is difficult to unlock capacity or feasibly enter the market. The mortgage CUSO may help to unlock that capacity for smaller credit unions; in this regard, 'signalling' from the Central Bank as regards the mortgage CUSO would be useful. In contrast, other feedback queried whether smaller credit unions should be engaging in mortgage lending at all and endorsed the tiered approach to the limits.
  - For **larger credit unions with assets of at least €100 million,** there is an associated costs factor in making applications to the Central Bank to avail of the 15% limit. Credit unions can be nervous of the process and concerned about the potential refusal of an application.
- On the **pace of utilisation of the capacity already provided for house lending and future capacity needs**, we received feedback in

support of the phased approach to increased lending in this category. Further, where credit unions are choosing to engage in house lending, they are doing so on the basis of a **gradual build**.

- On the **pipeline of new mortgage loans**, credit union bodies emphasised that, based on the credit union lending pipeline data they had sampled, the pipeline demonstrated a significant increase in house lending. Stakeholders indicated that when the pipeline of house lending is taken into account some credit unions would be at, or close to, utilising their limits.
- On **the calibration within the individual tiered limits**, we received feedback that:
    - the **5% inner limit for business lending** (relevant to the 7.5% and 10% concentration limits) has been particularly constraining;
    - the **7.5% limit** is too restrictive in terms of the overall capacity this provides, including for larger credit unions (for example, in the context of an assumed average house loan amount of €150K);
    - the **10% limit** adds regulatory complexity, provides no extra capacity for business lending which is the focus for some medium sized community credit unions and the additional 2.5% regulatory reserves required to be held in order to avail of this limit may be disproportionate and resulting in limited uptake;
    - On the **15% limit**, while considered positive by some compared to the previous limits, it appears underutilised. In addition, the asset size criterion to apply for this limit is unfair and precludes credit unions with assets of less than €100 million that are providing business lending in locations where there is limited competition from availing of any increased business lending capacity under this limit.
- On **articulation by the Central Bank of lending capacity** available for house and business lending under the combined concentration limits, it was noted that the Central Bank bases this on sector aggregate figures – in this regard, it was pointed out that there is no facility for an individual credit union to transfer its individual unutilised limits to other credit unions. Stakeholders viewed the Central Bank's articulation of the capacity available as overstating the position. In addition to some credit unions not being involved in, or materially involved in, house and / or business lending, credit

unions with 'industrial' type common bonds are unlikely to undertake business lending and should not be included in sectoral business lending capacity under the combined concentration limits.

- In their feedback, stakeholders suggested the following changes:
  - **Consider a standardised approach by removing tiering** – i.e. have no differentiation of capacity available based on a credit union's asset size.
  - **Make the 15% limit available to all – i.e. remove the asset size based qualifying criterion.** We also received a contrasting suggestion to **make the 15% limit 'automatic'** – i.e. make the limit available to a credit union once it meets the asset size criterion, and without placing any requirements on the credit union.
  - **Separate / decouple the limits** – on the basis that individual credit unions have different business models and common bonds and are not homogenous entities.
  - **Address the pressing need for an increase in limits** – based on competence, capability and support structures available in the sector (asserting that there are many supports in the sector and more in development).
  - **Increase lending limits on a transitional basis to 20% of assets for business, house and community lending** – in year 1 to 15% of assets per category, in year 2 to 17.5% of assets per category and in year 3 to 20% of assets per category.
  - Make **targeted changes** whereby all credit unions would have **separate / decoupled limits** with **increased capacity over a phased period** and **no application process**– specifically, separate 15% limits for house loans and business loans (with no application process), with a phased approach whereby the 15% limit would be increased to 20% in time; this suggestion was made on the basis that it would future proof the limits, provide credit unions with certainty, assist with strategy setting over a 3, 5, and 7 year time horizon and result in reduced complexity and a level playing field.
  - **Increase the limits for certain credit unions**, i.e. make further increased capacity available to larger credit unions and corporate credit unions.[6]

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[6] It should be noted that changes to the 1997 Act related to the introduction of a new credit union type, corporate credit unions, under the 2023 Amendment Act have not yet been commenced, and no corporate credit union has been registered on the

- **Increase the 15% limit to 25% / 30% on a case-by-case basis** with access to the increased capacity under same to be based on considerations such as credit unions' processes, experience, etc.

- **The joint 2024 submission from credit union bodies** called for targeted prudent changes to the lending framework related to the concentration limits, as follows:
  (i) **Decouple** housing loans and business loans concentration limits.
  (ii) **Deemed consent to lend for house loans to 15% of assets for all credit unions.**
  (iii) **Introduce a Central Bank application process** for credit unions who wish to lend out more than 15% of assets on house loans up to a maximum of **30% of assets.**
  (iv) **Exclude Strategic Banking Corporation of Ireland lending from the lending limits** (on the basis that, among other things, these schemes are guaranteed and have a lower risk profile for credit unions).
  (v) **Increase the business lending limit to 10% of assets for all credit unions**.[7]

- **Collaborative Finance** in its submission sought **removal of the €100 million qualifying criterion for the 15% limit**, noting:
  - The progress made in respect of those conditions for future adjustment of the limits set out in the Feedback Statement on CP125.
  - Developments in sectoral collaboration – in particular, credit unions participating in 'Cultivate' have the benefits of access to scale and cost economies which are unattainable for individual credit unions; however, without potential access to the 15% limit, credit unions having total assets of less than €100 million have no pathway to apply for a higher limit and this is a barrier to loan growth and diversification.

Register of Credit Unions by the Central Bank, at the time of publication of this report.

[7] The other four suggestions related to: the Regulation 16 requirement in the 2016 Regulations (on business plans and financial projections for business loans); liquidity; introducing a new lending category with a maturity of less than 15 years; and requirements in the 2016 Regulation regarding review of credit union policies (connected to changes made to section 55(1)(o) the 1997 Act by section 29 of the 2023 Amendment Act).

- Some credit unions participating in ‘Cultivate’ are approaching the inner 5% limit and, without the possibility of applying for additional capacity under the 15% limit are facing potential reputational damage in their communities.
- Some credit unions have no incentive to join the ‘Cultivate’ initiative in the first place because they have no capacity to grow their business loan books and are therefore deprived of the benefits of access to scale and cost.
- The suggested change would support credit unions to deliver a broader range of products.

5. Other Considerations

In this section, we set out an overview of feedback received from sector stakeholders within this theme. We sought from sector stakeholders any other views they had on the lending framework (outside those related to the previous maturity limits, the combined concentration limits introduced in January 2020 and the other 2020 changes) and, separately, for any views they had on how the planned changes to the 1997 Act will impact on credit union loan books. We set out an overview of this feedback below.

We also received feedback not directly related to the credit union lending framework. We set out an overview of this feedback separately below.

Other Considerations – Lending Framework for Credit Unions

On other views on the lending framework for credit unions, feedback received in this regard was diverse and addressed the following:

- The **aims of the lending framework** and the need for credit unions to move to more balanced loan portfolios, the avoidance of credit concentration risks, and ensuring that credit unions undertaking new categories of lending have the competency and capacity to engage in more specialised lending.
- **Community lending** – an observation that take-up is low.
- **Improved consumer protection and increased competition** – there is a real opportunity for credit unions to prudently grow their lending portfolios while improving consumer protection and providing real competition.

- **Realising security on house loans**, where necessary, and the **challenges** of maintaining focus on community needs, the credit union ethos and ensuring adequate consumer protection.
- **The extent of changes needed** – now is an opportune time to make a number of targeted changes; in contrast, other feedback suggested that only small changes should be made at this time.
- **The length of time between the previous review of the credit union lending framework and the current review**, in the context of a weakened and ever-changing competitive market for consumer lending, being too long – the Central Bank was urged to exercise greater expediency in terms of concluding the current review and to consider a balanced approach on the extent of public consultation required.
- **Interaction of the lending framework with changes to the 1997 Act by the 2023 Amendment Act** – the lending review needs to take account of changes being introduced to the 1997 Act by the 2023 Amendment Act, in particular the new initiatives such as corporate credit unions (and CUSOs, including 'Cultivate' and the mortgage CUSO, in which credit unions may already participate), loan participation and syndication type arrangements and referrals for services. We received feedback that the changes to the 1997 Act will enable further opportunities for the provision by credit unions of services to more people – including businesses and their communities, and that it is vital that the regulatory framework also continues to evolve to allow credit unions to prudently develop their service offerings.
- Stakeholders provided the following **other suggestions for change**:
    - **Change the concentration limit for community lending** from the existing 25% of regulatory reserves limit to a 15 / 20% of total assets limit.
    - **Replace some of the requirements currently in the 2016 Regulations with guidance**, thereby allowing for greater regulatory flexibility in the lending framework.

Other feedback not directly related to the credit union lending framework

The Central Bank also received feedback that was not directly related to the credit union lending framework which addressed the following matters:

- **Other aspects of the regulatory framework for credit unions** including:

  - the need for review of other aspects of the credit union regulatory framework; and
  - a call for regular reviews of all regulations, especially those related to liquidity, reserves and investments.
- **Governance** – that strong governance remains crucial to credit union sustainability.
- **Financial viability** – improvements have been made, but that remaining challenges are to an extent masked by the recent recovery in investment returns.
- **Credit union business models** – that credit unions must come forward with ownership of their own business models and, separately, that credit unions are potentially not ambitious enough regarding lending and that they need to compete better in the personal loans space given the benefits they offer, such as loan protection.
- **Weakened competitive financial services / banking market** – this has created less choice for consumers and highlights the need for the credit union sector to become a more significant participant in the financial services market.

Stakeholder feedback - acknowledgement

The sector stakeholder feedback we received since the final changes to the lending regulations were published, and at bi-lateral meetings held with stakeholders in November 2023 (and subsequent submissions), provided significant qualitative information to support the Review. In particular, it provided the Central Bank with a clear sense of the impacts of the 2020 changes to the lending regulations from the perspective of a number of sector stakeholders and, importantly, to inform the need for future changes. The Central Bank would like to take the opportunity to thank all sector stakeholders for their constructive engagement with us, including the time taken to meet with us on the Review and to provide follow up information and written submissions.

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