



Banc Ceannais na hÉireann
Central Bank of Ireland

Eurosystem

Implementation of the Credit Union Act 1997 (Regulatory Requirements) (Amendment) Regulations 2019 for Credit Unions

Frequently Asked Questions

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Introduction

This document (the FAQs) is drawn up by the Central Bank of Ireland (the Central Bank) to address questions which credit unions may have in relation to the implementation of the changes to the lending framework for credit unions outlined in the Credit Union Act 1997 (Regulatory Requirements) (Amendment) Regulations 2019 (the Amending Regulations).

The FAQs have no legal status. Credit unions should consult their legal advisers concerning any matter of legal interpretation of the Credit Union Act, 1997 (the 1997 Act) or Regulations issued under that Act.

Where extracts from the 1997 Act, the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (the 2016 Regulations) and the Amending Regulations are included in the FAQs, these are shown in quotes and italics. The Appendix to the FAQs provides a comparison of the lending requirements contained in the 2016 Regulations prior to the 2019 amendments commencing versus the requirements after the amendments commenced.

The Central Bank will update these FAQs as necessary. Please see a version history below which sets out amendments made from time to time to these FAQs to reflect any common questions that arise.

Version	Date	Amendments
1.0	19 December 2019	Initial version
1.1	13 January 2020	Reference to '5 years' on page 6 corrected to '35 years'.
1.2	10 March 2020	FAQs amended to: <ul style="list-style-type: none"> • Reflect that the Amending Regulations have taken effect and the Section 35 Regulatory Requirements for Credit Unions have been rescinded; • Reflect that the Central Bank has updated the Lending Chapter of the Credit Union Handbook and to direct readers to this, where appropriate; • Include a new FAQ relating to the meaning of total realised reserves (Q9); and • Update the responses to Q25 and Q26 regarding secured/unsecured loans and security for home improvement loans.
1.3	22 October 2021	FAQs amended to: <ul style="list-style-type: none"> • Reflect that the Central Bank requires a relevant credit union to submit - <ul style="list-style-type: none"> ○ a notification in respect of the 10% Limit; ○ an application to avail of the 15% Limit; and ○ a notification that it no longer satisfies the relevant qualifying criteria for the 10% Limit or the 15% Limit or that it is no longer in adherence with a condition/s of approval for the 15% Limit via the Central Bank of Ireland Portal (Q4, Q7, Q8, Q12, Q13, Q14 and Q15); and • Update information on additional reporting requirements further to the changes to the lending framework on 1 January 2020 (Q30, Q37 and the Appendix).

Application of the Regulations

1. When did the Amending Regulations commence?

The Amending Regulations commenced on 1 January 2020.

The Amending Regulations contain transitional arrangements for certain matters - please see the Transitional Arrangements section on page 21 for further details.

On 10 March 2020, the Central Bank published an updated version of the Credit Union Handbook on its website, incorporating updates to the Lending Chapter and Liquidity Chapter and an unofficial consolidated version of the 2016 Regulations.

2. What are the main updates to the lending framework made under the Amending Regulations?

The Amending Regulations amend the lending requirements set out in the 2016 Regulations by:

- Removing the maturity limits based on the percentage of outstanding loans and introducing combined concentration limits for house and business loans, expressed as a percentage of total assets, on a tiered basis - 7.5%, 10% and 15% combined limits with a maximum of 5% for business loans under the 7.5% and 10% limits;
- Re-naming and re-defining the 'commercial loan' category of lending and providing that all such loans utilise the new combined concentration limits for house and business lending;
- Introducing a maximum loan term of 10 years for unsecured lending and amending the maximum loan term to 35 years for other loans (secured loans), and introducing associated definitions for 'unsecured loan' and 'secured loan' for these purposes;
- Providing that credit unions will not be required to hold a first legal charge in respect of a house loan provided for the purpose of home improvement or for the purpose of refinancing such a loan;
- Prohibiting buy to let residential and buy to let commercial property lending under the credit union lending framework;
- Including some of the liquidity and provisioning requirements from the Section 35 Requirements for Credit Unions (the Section 35 Requirements) in the 2016 Regulations;
- Updating references to the European Communities (Insurance Mediation) Regulations 2005 with the European Union (Insurance Distribution) Regulations 2018; and
- Providing for transitional arrangements in respect of the changes to the lending framework made by the Amending Regulations.

The table in the Appendix to the FAQs provides more details on the previous framework and the changes made to the framework by the Amending Regulations.

Combined Concentration Limits for House and Business Loans

3. How does the combined 7.5% concentration limit for house and business loans work?

Prior to the Amending Regulations commencing, the 2016 Regulations placed a restriction on the maximum amount of loans which could be outstanding for periods of greater than 5 years and greater than 10 years. These limits were 30% and 10% of gross loans for 5 and 10 year maturities respectively, but could be increased to 40% and 15% respectively where a credit union was approved by the Central Bank to avail of the increased limits. Further to the amendments made by the Amending Regulations, these maturity limits have been removed from the lending framework. In place, a combined concentration limit for house and business loans of 7.5% of total assets of the credit union has been introduced (the 7.5% base limit). The linking of this limit to total assets ensures that a credit union's potential to engage in house and business lending is not constrained by reference to its overall lending and provides increased flexibility to credit unions as regards loan book composition.

The 7.5% base limit is available to all credit unions. Within this concentration limit, no more than 5% of total assets may be in business loans. Any house or business loans that issued prior to the Amending Regulations commencing count towards a credit union's utilisation of the combined concentration limits for house and business lending.

4. How does the 10% combined concentration limit for house and business loans work and what criteria must the credit union satisfy in order to avail of the 10% limit?

Qualifying credit unions are eligible to use a higher combined concentration limit for house and business loans of 10% of total assets. Within this concentration limit, no more than 5% of total assets may be in business loans.

In order to avail of the 10% limit, a credit union must, for two or more consecutive quarters immediately prior to making a notification to the Central Bank, maintain minimum total assets of at least €50m and a total regulatory reserve of at least 12.5%. It must notify the Central Bank, in writing, at least one month before availing of any additional capacity for house and business loan lending that the 10% limit would provide. The credit union should submit its notification via the "Request Changes" facility on the Central Bank of Ireland Portal. For this purpose, the Central Bank will consider the credit union to have complied with the requirement to provide the notification in writing. Within the notification period, the Central Bank will provide an acknowledgement (via the Central Bank of Ireland Portal) of a credit union's notification in respect of the 10% limit. A credit union should ensure that such an acknowledgement has been received before it begins to utilise any additional capacity available under the 10% limit.

5. For the purpose of the minimum regulatory reserve criterion, can the credit union include any operational risk reserve or other reserves it holds as part of the 12.5%?

The minimum regulatory reserve that credit unions must hold to avail of the 10% lending limit cannot include the credit union's operational risk reserve or any other reserves.

6. When can the credit union start availing of the 10% limit?

A credit union may commence availing of the 10% limit where it:

- meets the specified criteria set out in the 2016 Regulations for at least two consecutive quarters immediately prior to notifying the Central Bank;
- has notified the Central Bank at least one month before availing of any additional capacity for house and business loan lending that the 10% limit would provide; and
- has received an acknowledgement of the notification from the Central Bank.

For information in relation to specific transitional arrangements for the 10% limit, please see the Transitional Arrangements section on page 21.

7. What information does the Central Bank require in respect of a credit union's notification that it intends to avail of the 10% limit?

A credit union's notification that it intends to avail of the 10% limit should be made via the "Request Changes" facility on the Central Bank of Ireland Portal. The notification should include confirmation that the credit union meets the total assets criterion of €50m and the minimum regulatory reserve criterion of 12.5% for at least two consecutive quarters immediately before making the notification.

It is the credit union's responsibility to satisfy itself that it has met the relevant criteria before making a notification to the Central Bank. In this regard, on the basis that a credit union has submitted its quarterly Prudential Returns to the Central Bank (and the information submitted is correct), the credit union may rely upon the two quarterly Prudential Returns it submitted to the Central Bank immediately before making the notification.

The Central Bank will acknowledge receipt of the credit union's notification via the Central Bank of Ireland Portal. A credit union should ensure that such an acknowledgement has been received before it begins to avail of any additional capacity available under the 10% limit.

8. How does the increased 15% combined concentration limit for house and business loans work?

Credit unions with total assets of at least €100m for two or more consecutive quarters (immediately prior to making an application for approval) are eligible to apply to the Central Bank to avail of an increased 15% combined concentration limit for house and business loans (the increased 15% limit). In order to avail of the increased 15% limit, a credit union is required to make an application to the Central Bank. The credit union should submit its application via the "Request Changes" facility on the Central Bank of Ireland Portal. The Central Bank will assess the credit union's application and may grant approval for the increased 15% limit where it is satisfied that the credit union has demonstrated that the approval would be consistent with the adequate protection of the savings of the members of that credit union and effective and proportionate, having regard to the nature, scale and complexity of the credit union. In carrying out this assessment, the Central Bank will consider the total realised reserve position of the credit union and such other matters that it may specify from time to time.

9. What is meant by “total realised reserves”?

In accordance with regulation 2(1) of the 2016 Regulations, “total realised reserves” means the regulatory reserves of the credit union held in accordance with, and for the purposes of, Part 2 of those regulations and section 45 of the 1997 Act, plus any other realised reserves held by the credit union. Typically, this will include a credit union’s regulatory reserve, its operational risk reserve and other realised reserves as identified in the credit union’s management accounts.

10. Is there an inner limit for house loans or business loans within the increased 15% limit?

No, there is no inner limit for house loans or business loans within the increased 15% limit. However, it should be noted that where the Central Bank grants approval, it may impose conditions on approval at that time or at any other time. This could include conditions relating to usage of the additional lending capacity. A decision on whether to impose any such condition will be on a case by case basis and based on the application for approval made by the credit union.

11. Can a credit union avail of the 10% limit or apply for the increased 15% limit immediately?

A credit union that satisfies the relevant qualifying criteria to avail of the 10% limit may notify the Central Bank that it wishes to avail of the 10% limit at any time. Similarly, a credit union that satisfies the relevant criterion to apply for the increased 15% limit may apply to the Central Bank for approval at any time. Credit unions are not required to wait until they have utilised most, or all, of the capacity available to them under the 7.5% base limit or the 10% limit. However, on the basis that utilisation of the 7.5% and 10% limits does not require approval from the Central Bank and the Central Bank’s expectations on gradual/phased usage of the limits (see Q16 on page 12), larger credit unions that meet the objective criteria to avail of the 10% limit may choose to avail of the 10% limit initially, before applying for the increased 15% limit.

12. What if the credit union no longer satisfies the criteria to avail of the 10% combined concentration limit?

A credit union that no longer meets the criteria to avail of the 10% combined concentration limit is required to notify the Central Bank in writing without delay and, except for any new house or business loan in respect of which the credit union has already entered into a legally binding agreement with a member, immediately stop making any new house or business loans above the 7.5% base limit.

It is the credit union’s ongoing responsibility to satisfy itself that it continues to meet the relevant criteria. For the purpose of the requirements to notify the Central Bank and stop making new house and business loans, on the basis that the credit union has submitted its quarterly Prudential Returns to the Central Bank and that the information is

correct, the Central Bank will consider that a credit union no longer complies with the criteria where it does not meet the criteria for two consecutive quarters in accordance with the information submitted.

A credit union's notification that it no longer satisfies the qualifying criteria to avail of the 10% limit should be made via the "Request Changes" facility on the Central Bank of Ireland Portal. For this purpose, the credit union should make the notification via the original "Request Change" submitted when the credit union notified the Central Bank of its intention to avail of the 10% limit. By submitting this notification in this manner, the Central Bank will consider the credit union to have complied with the requirement to provide the notification in writing.

The notification should include the following information:

1. Confirmation that the credit union no longer satisfies the minimum total assets criterion of €50m and/or the minimum regulatory reserve criterion for two consecutive quarters;
2. Information on the number of legally binding house and business loan agreements the credit union has entered into where the full loan amount has not been drawn down by the member and the loan agreement is still within the period for drawdown by the member and the individual loan amounts sanctioned under these agreements;
3. Confirmation that, other than in respect of any legally binding agreements referred to above, the credit union has ceased availing of the 10% limit; and
4. Confirmation that before availing of the 10% limit in future, the credit union will comply with the notification requirements under regulation 12(4)(b) of the 2016 Regulations.

13. Where a credit union has notified the Central Bank that it no longer satisfies the criteria to avail of the 10% limit, does the credit union have to notify the Central Bank of its intention to avail of the 10% limit again?

Yes, a credit union that has notified the Central Bank that it no longer satisfies the criteria to avail of the 10% limit is required to notify the Central Bank where it subsequently satisfies the criteria and intends to provide additional loans within the 10% limit. Please see Q4 and Q7 on pages 7 and 8 for information on how such notifications should be submitted and the Central Bank's expectations on what credit unions include in such notifications under regulation 12(4)(b) of the 2016 Regulations.

14. What if a credit union no longer meets the €100m total assets criterion to apply for the increased 15% limit or fails to meet Central Bank conditions of approval?

A credit union that no longer meets the €100m total assets criterion to apply for the increased 15% limit, or fails to meet Central Bank conditions of approval, is no longer entitled to avail of the limit. In accordance with regulation 12A(5) of the 2016 Regulations, such a credit union will be required to notify the Central Bank in writing without delay. In addition, except for any house or business loan in respect of which the credit union has already entered into a legally binding agreement with a member, the credit union must immediately stop making any new house or business loans above the 7.5% base limit, or the 10% limit where the credit union meets the relevant qualifying criteria for the 10% limit.

It is the credit union's ongoing responsibility to satisfy itself that it continues to meet the asset size criterion to apply for the increased 15% limit and any conditions of approval imposed on it by the Central Bank. For the purpose of the requirements to notify the Central Bank and stop making new house and business loans, the Central Bank will consider that a credit union no longer complies with the asset size criterion to apply for the increased 15% limit where it does not meet it for two consecutive quarters. On the basis that the credit union has submitted its quarterly Prudential Returns to the Central Bank and that the information is correct, the credit union may rely on the information it provides under those returns to determine its asset size for the relevant quarter.

A credit union's notification that it no longer meets the criterion to avail of the increased 15% limit or that it is no longer in adherence with conditions of approval should be made via the "Request Changes" facility on the Central Bank of Ireland Portal. For this purpose, the credit union should make the notification via the original "Request Change" submitted when the credit union applied to avail of the 15% limit. By submitting this notification in this manner, the Central Bank will consider the credit union to have complied with the requirement to provide the notification in writing. The notification should include the following information:

1. Confirmation that the credit union did not satisfy the total assets criterion for two consecutive quarters or is not in adherence with a condition of approval (identifying the relevant condition/s of approval);
2. Information on the number of legally binding agreements for house and business loans that the credit union has entered into where the full loan amount has not been drawn down by the member and the loan agreement is still within the period for drawdown by the member and the individual loan amounts sanctioned under these loans;
3. Confirmation that, other than in respect of any legally binding agreements referred to above, the credit union has ceased availing of the increased 15% limit.

Where a credit union has notified the Central Bank that it no longer meets the asset size criterion to avail of the increased 15% limit or that it is no longer in adherence with a condition/s of approval, and subsequently wishes to avail of the 15% limit, it may be required to re-apply for the increased 15% limit. The credit union should contact its supervisor in the Registry of Credit Unions in these circumstances.

15. Where a credit union has notified the Central Bank that it no longer meets the €100m total assets criterion to apply for the increased 15% limit or fails to satisfy the conditions of approval, in what circumstances can that credit union avail of the 10% limit.

A credit union may continue to provide house or business loans within the 10% limit where it satisfies the relevant criteria set out in regulation 12(4)(a) at the time of the notification the credit union makes under regulation 12A(5). Such credit unions may immediately avail of the 10% limit. In all other cases, credit unions seeking to avail of the 10% limit are required to notify the Central Bank in accordance with regulation 12(4)(b) of the 2016 Regulations. Please see Q4 and Q7 on pages 7 and 8 for information on how such notifications should be submitted and the Central Bank's expectations on what information credit unions include in them.

16. Are there any requirements on the gradual/phased utilisation of additional capacity for house and business lending under the various combined concentration limits?

The revised lending framework does not specifically limit credit unions in respect of the rate at which they utilise any additional capacity for house and business loans under the various combined concentration limits. However, adopting a gradual/phased approach to utilisation of additional capacity to undertake lending in specific loan categories facilitates a credit union in aligning its house and business lending activity with its competence and capability to undertake lending in these loan categories, as these develop. It can also play an important role in mitigating some of the related risks (e.g. financial risk, credit risk and funding and liquidity risk) by ensuring that such lending is originated over the economic cycle – [Long Term Lending – Guidance for Credit Unions](#) published in December 2017 provides an overview of some of the main risk factors associated with longer term lending. The Central Bank expects credit unions to use the additional capacity to issue house and business loans in a gradual/phased way.

For the increased 15% limit, the Central Bank may impose a condition of approval on the usage of the additional lending capacity this limit provides the individual credit union, having considered the circumstances of the case and based on the application for approval made by the credit union.

Business Loans

17. Is there a 'commercial loan' category of lending under the Amending Regulations?

Further to the Amending Regulations commencing, the category of loan previously referred to as 'commercial loan' has been re-named 'business loan'. While the name of this category of lending has changed, credit unions are still able to make loans to members for business purposes under the revised lending framework.

18. What loans come within the meaning of 'business loan'?

Section 6 of the 1997 Act sets out a number of conditions for registration as a credit union and includes a condition that membership be restricted to those who have a common bond. In the context of business lending, it is worth noting that incorporated and unincorporated bodies, including companies, can be eligible to become members of, and thus borrow from, credit unions. Section 17(7) of the 1997 Act states *"Notwithstanding any other provision of this Act, a body (whether incorporated or unincorporated), the majority of the members of which are, and continue to be, eligible for membership of a credit union may itself be admitted to, and retain membership of, that credit union, with the same rights and obligations as a natural person"*.

Further to the Amending Regulations commencing, a loan made to a member that is a micro, small or medium-sized enterprise (an SME), within the meaning of [Commission Recommendation 2003/361/EC](#), for the purposes of the member's trade, business or profession comes within the 'business loan' category of lending.

The definition of 'business loan' defines an SME in accordance with European Commission Recommendation 2003/361/EC. Under the Recommendation, an enterprise can include any entity engaged in an economic activity, irrespective of its legal form. European Commission guidance on the Recommendation is available [here](#).

A loan that comes within the meaning of a 'personal loan', a 'community loan', a 'house loan' or a 'loan to another credit union' cannot be categorised as a business loan.

Where more than one member is borrowing under a loan agreement and the loan is being made for the purpose of the trade, business or profession of at least one of the members concerned, the loan must be categorised as a business loan even if one or more parties to the agreement is not an SME. In such cases, the credit union must include the loan in calculating its usage of the combined concentration limit and comply with all requirements relating to business loans.

While European Commission Recommendation 2003/361/EC is subject to being updated or replaced by the European Commission, the definition of 'business loan' relies on the current 2003 version of the Recommendation. In the event that the current version is updated or replaced, the Central Bank will consider the merit of updating the reference to the 2003 version of the Recommendation in the 2016 Regulations.

The 2016 Regulations, as amended, clarify that a business loan will include a loan made to a member of the credit union that is an approved housing body. Lending by credit unions to approved housing bodies is therefore not impacted by the general prohibition on buy to let lending.

19. Do all business loans utilise the combined concentration limits for house and business loans?

Yes, all business loans utilise the combined concentration limits for house and business loans. The exemption from utilisation of the commercial loan concentration limit for commercial loans for amounts less than €25,000 under the previous lending framework no longer applies.

20. In what circumstances does a credit union have to require a comprehensive business plan and detailed financial projections from a member seeking a business loan?

Regulation 16(1) of the 2016 Regulations provides that a credit union can only grant a business loan, community loan or 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 granting the relevant loan. However, Regulation 16(3) provides an exception to this requirement for a business loan granted where the total amount of business loans granted to a member, or group of members who are connected, is less than €25,000. Neither the requirement nor the exception are affected by the changes made to the lending framework under the Amending Regulations. Where the requirement applies, the Central Bank's expectation is that credit unions obtain more comprehensive business plans and detailed financial projections from members for more complex and larger scale business loans. Both the business plan and the financial projections should be supported by evidence-based assumptions.

21. Does a credit union have to report on the performance of all loans to the board of directors on a monthly basis under the lending framework?

A credit union is required to report on the performance of business loans, community loans, house loans and loans to other credit unions, in writing, to the board of directors of the credit union on a monthly basis. Regulation 16(3) provides an exception to this requirement for a business loan granted where the total amount of business loans granted to a member, or group of members who are connected, is less than €25,000. Other than the addition of 'house loans' to the categories of loans on which credit unions will be required to report monthly, this requirement has not been affected by the changes made to the lending framework. Credit unions should note that other reporting requirements, such as the requirement under Regulation 21 of the 2016 Regulations, to record and monitor loans made to related parties and report, in writing, to the board of directors on such loans on a monthly basis, have not been affected by the Amending Regulations.

Maximum Loan Terms, Secured and Unsecured Loans

22. What is the maximum loan term for unsecured loans under the revised lending framework?

The maximum loan term for unsecured loans under the revised lending framework is 10 years.

23. What is the maximum loan term for secured loans under the revised lending framework?

The maximum loan term for secured loans under the revised lending framework is 35 years.

24. Are there any exceptions to the maximum loan terms for secured and unsecured loans?

Yes, under the revised lending framework, where a loan is in arrears or the loan would fall into arrears unless the repayment conditions are altered, a credit union may alter the repayment conditions of the loan such that the term of the loan may be extended beyond 10 years in the case of an unsecured loan and 35 years in the case of a secured loan. Where the repayment terms of a loan are being altered, this must only occur with the consent of the member or a person acting under the member's written authority.

25. How should a credit union determine whether a loan should be considered a 'secured loan' or an 'unsecured loan' for the purpose of the 2016 Regulations?

Further to the amendments made by the Amending Regulations, the 2016 Regulations include definitions for 'secured loan' and 'unsecured loan'. A 'secured loan' includes *'a loan that is secured by a mortgage, charge, assignment, pledge, lien, or other encumbrance in or over any asset or property, but shall not include unsecured guarantees by third parties'*. An 'unsecured loan' means a loan that is not a secured loan.

In determining whether a loan can be considered secured for the purpose of the 2016 Regulations, the credit union should take into account the underlying quality and value of the security.

A credit union should only consider a loan to be secured where it is secured by a readily-realizable asset for which market value is ascertainable and verifiable. In the context of credit union lending, such assets could, for example include member savings and immovable property, such as a house or a business premises.

For more information on security, including guidance on the term 'secured loan' in the context of the maximum loan term for secured loans, see the Central Bank's guidance in the Lending Chapter of the [Credit Union Handbook](#).

26. When is security required for home improvement loans?

Prior to the Amending Regulations commencing, where a credit union provided a loan for the purpose of home improvements, such loans could be provided within either the 'personal loan' or 'house loan' category of lending. Where such a loan was provided as a 'house loan', the credit union was required to hold security in the form of a first legal charge on the property. Where such a loan was provided as a 'personal loan', this could be unsecured or secured over other property e.g. a member's shares - there was no requirement to hold the first legal charge on the property.

Further to the Amending Regulations commencing, credit unions are no longer required to hold the first legal charge on the property for a home improvement loan when the loan is provided as a 'house loan'. Under the revised lending framework, credit unions can therefore continue to provide a loan for the purpose of home improvements as:

- An unsecured 'personal loan' – as the loan is unsecured, a maximum loan term of 10 years applies;
- A secured 'personal loan'; or
- A 'house loan', where the loan is secured on the property.

Where the home improvement loan is provided as a 'house loan', the loan will not have to be secured by way of a first legal charge on the property. For all other types of loans coming within the definition of 'house loan', the requirement for the credit union to hold the first legal charge has not changed.

For more information on security for house loans, see the Central Bank's guidance in the Lending Chapter of the [Credit Union Handbook](#).

Loans to Finance Buy to Let Property

27. Can a credit union lend to members for the purpose of financing a buy to let residential or commercial property?

The Central Bank previously provided guidance in the Credit Union Handbook that buy to let loans do not fall under the definition of house loans and that they fall under the definition of commercial loans. Under the revised lending framework, credit unions are not permitted to lend to members for the purpose of financing buy to let residential or commercial property. While a loan for the purpose of financing a buy to let property does not come within the definition of 'business loan' under the revised lending framework, the definition of 'business loan' clarifies that this category of lending includes a loan to a member that is an approved housing body. Lending by credit unions to approved housing bodies is therefore not impacted by the general prohibition on buy to let lending.

28. Can a credit union retain existing buy to let loans provided prior to the changes made to the lending framework by the Amending Regulations?

Yes, the Amending Regulations include transitional arrangements which allow a credit union to hold a loan made in accordance with the legislative requirements applicable at the time the loan was made, or restructured, until the loan has been paid or discharged in full. Under the revised lending framework, it should be noted that the prohibition on buy to let lending does not prevent a credit union from altering the repayment conditions of such a loan where a loan is in arrears or the loan would fall into arrears unless the repayment conditions are altered.

Large Exposure Limit and Large Exposure Amount

29. Do the Amending Regulations make any changes to the large exposure limit requirements that credit unions must comply with?

The Amending Regulations have not made any changes to the large exposure limit requirements contained in the 2016 Regulations. The maximum exposure to a borrower or group of borrowers who are connected remains at €39,000 or 10% of the regulatory reserve of the credit union, whichever is greater.¹ The Central Bank has updated its guidance on large exposures in the Lending Chapter of the Credit Union Handbook to set out its expectations in relation to what loan exposures credit unions should consider to be a 'large exposure amount'. A large exposure amount will include an exposure to a borrower or group of borrowers who are connected of 2.5% of the regulatory reserves of the credit union; under the previous guidance, this was 5% of the regulatory reserves of the credit union. While the 2016 Regulations do not include an aggregate of individual large exposures limit, it is important that credit unions assess and monitor their exposures and diversify their exposures appropriately.

30. What requirements do credit unions have to comply with in relation to large exposure amounts?

The introduction of large exposures guidance will facilitate credit unions to better manage and monitor borrower concentration risk. In addition to the expectation that credit unions manage and monitor large exposure amounts, the Central Bank will be requiring credit unions to regularly report specific information on large exposure amounts; the Central Bank will communicate its requirements in this regard in advance of such requirements coming into effect. The Central Bank expects that the information that a credit union will be required to report to the Central Bank will include the number and aggregate value of all large exposures held by the credit union and large exposures on a loan category basis.

31. What is the difference between the large exposure limit set out in the 2016 Regulations and the large exposure amount referenced in the Credit Union Handbook?

The **large exposure limit** set out in the 2016 Regulations places a limit on the maximum total exposure a credit union can have to a borrower or group of borrowers who are connected. The **large exposure amount** referred to in the Central Bank's guidance on large exposures in the Lending Chapter of the Credit Union Handbook sets out the Central Bank's expectations in relation to what loan exposures credit unions should consider to be a significant large exposure amount. The Central Bank's updated guidance on what it expects credit unions to consider to be a large exposure amount is intended to facilitate credit unions to better manage and monitor borrower concentration risk in lending portfolios.

¹ Where an exposure exceeds the large exposure limit, the credit union must hold the amount of the exposure that is in excess of the limit in a realised reserve, separate from the credit union's regulatory reserve.

32. Does a credit union have to report on the performance of large exposures to its board of directors?

As set out in the response to Q21 above, credit unions are required to report on the performance of business loans (with some exceptions), community loans, house loans and loans to other credit unions to the board on a monthly basis. In the context of credit unions better managing and monitoring borrower concentration risk, it is reasonable to expect that, as a matter of good governance and risk management, credit unions would incorporate an element of reporting on large exposure amounts to the board, bearing in mind the nature, scale, complexity and risk profile of the credit union. On reporting on large exposures to the board, it is a matter for an individual credit union to determine what reporting is appropriate for their credit union.

Section 35 Regulatory Requirements

33. Do the Section 35 Regulatory Requirements still apply?

In conjunction with the changes to the lending framework on 1 January 2020, the Section 35 Regulatory Requirements no longer apply. Some of the liquidity and systems, controls and reporting/provisioning requirements have been adapted and incorporated into the 2016 Regulations (see regulations 8(2), 8(3) and 23(2) and 23(3)). In addition, some of the requirements for lending practices for rescheduled loans and other systems, controls and reporting requirements are now reflected in updated guidance in the Lending Chapter of the Credit Union Handbook.

34. Has the Central Bank included all of the liquidity requirements from the Section 35 Regulatory Requirements in the 2016 Regulations?

The Central Bank has not included some of the liquidity requirements from the Section 35 Regulatory Requirements in the 2016 Regulations on the basis that some of the requirements referred to the Credit Union Act (Section 85) Rules 2010 (which are no longer in operation) and others were considered to be adequately covered elsewhere in the regulatory framework, e.g. under section 85A of the 1997 Act and regulation 8(1) of the 2016 Regulations.

35. Do the Amending Regulations introduce new liquidity or provisioning requirements to the framework?

No, the Amending Regulations do not introduce any new liquidity or provisioning requirements. The liquidity and provisioning requirements now included in the 2016 Regulations are requirements that had applied under the Section 35 Regulatory Requirements, namely provisions 1.5 and 1.6 (liquidity) and 4.3 (systems, controls and reporting/provisioning).

Transitional Arrangements

36. What are the transitional arrangements for the Amending Regulations?

The Amending Regulations include transitional arrangements which confirm that a credit union may continue to hold loans made in accordance with the legislative requirements applicable at the time the loan was made or restructured until the loan has been paid or discharged in full. Example 1 below sets out how these transitional arrangements might operate in practice.

Example 1 - Application of the transitional arrangements to an unsecured loan with a loan term greater than 10 years

In 2018, ABC Credit Union provided Josephine Bloggs with a loan to finance home improvements. The loan was for a term of 12 years and was not secured. At the time, the credit union was in compliance with regulation 14 of the 2016 Regulations on maturity limits, as loans with more than 10 years to the final repayment date represented less than 10% of the credit union's total loan book balance outstanding. The Amending Regulations come into effect in January 2020, removing the maturity limits and replacing these with new combined concentration limits for house and business loans and introducing a maximum loan term of 10 years for unsecured loans.

Although an unsecured loan cannot be granted for a term of more than 10 years under the revised lending framework, as the credit union was operating in compliance with the relevant legislative requirements in place at the time the loan was granted, it may continue to hold the loan until it has been paid or discharged in full.

The Amending Regulations also include transitional arrangements in respect of the criteria which credit unions seeking to avail of the 10% limit or apply for the increased 15% limit must satisfy. In respect of both the 10% limit and the increased 15% limit, credit unions are required to meet the respective criteria for two consecutive quarters immediately prior to making a notification or application for approval to the Central Bank. The transitional arrangements clarify that a credit union that satisfies the relevant criteria in the two quarters immediately before the Amending Regulations commence does not have to wait for two consecutive quarters after the Amending Regulations come into operation. In these circumstances, credit unions can notify the Central Bank in respect of their intention to utilise the 10% limit or apply for approval in respect of the increased 15% limit from 1 January 2020. Example 2 below illustrates the transitional arrangements in this regard.

Example 2 - Application of the transitional arrangements to a credit union's notification to the Central Bank in respect of the 10% limit

Throughout the period July 2019 to January 2020, ABC Credit Union had total assets of at least €50m and held regulatory reserves of 12.5% or more. On 1 January 2020, the Amending Regulations come into effect. Prior to the Amending Regulations commencing, ABC Credit Union had been actively involved in house and business lending and, for this purpose, had availed of increased maturity limits for lending over 5 and 10 years under the 2016 Regulations. By March 2020, ABC Credit Union is close to using its full lending capacity under the newly introduced 7.5% combined concentration limit for house and business loans and wants to provide additional loans in these loan categories. Although the Amending Regulations have not yet been in operation for two quarters, the credit union is satisfied that it would satisfy the qualifying criteria to avail of the 10% limit for two consecutive quarters. In these circumstances, the credit union does not have to wait until the Amending Regulations have been in place for two quarters; the credit union is entitled to notify the Central Bank in accordance with Regulation 12(4) of the 2016 Regulations that it intends to avail of the 10% limit.

General Lending and Regulatory Framework for Credit Unions

37. Will credit unions have to report more information to the Central Bank following the 2019 changes to the lending framework?

Yes, further to the 2019 changes to the lending framework, the Central Bank intends to require credit unions to report additional information to reflect the changes and intends to communicate its requirements in this regard in advance of such requirements coming into effect. The Central Bank will require credit unions to submit a supplemental return on a quarterly basis in tandem with the quarterly Prudential Returns currently submitted by credit unions. The information gathered will likely include information on loan book maturities by specific loan category as well as additional information on house loans, business loans, arrears and large exposures in order to support our ongoing analysis and supervision of credit union lending.

38. Why has the reference in the 2016 Regulations to the European Communities (Insurance Mediation) Regulations 2005 been replaced?

The European Communities (Insurance Mediation) Regulations 2005 have been replaced by the European Union (Insurance Distribution) Regulations 2018. The 2016 Regulations have been updated to reflect this change.

39. How do the specific requirements for house loans under the lending framework for credit unions interact with the Central Bank's Mortgage Measures?

The Central Bank's [Mortgage Measures](#) were issued under Section 48 of the Central Bank (Supervision and Enforcement) Act 2013. The purpose of the Mortgage Measures is to increase the resilience of borrowers and the financial system so that they can better withstand any future economic shocks. Credit unions are within scope of the Mortgage Measures and must ensure full compliance with these requirements where they are engaging in the provision of house loans. The Mortgage Measures are designed to stop house buyers from borrowing more than they can afford and prevent excess credit from building up within the Irish financial system through the setting of limits on the size of mortgages that consumers can borrow through the use of loan-to-value (LTV) and loan-to-income (LTI) limits.

The Central Bank is of the view that LTV and LTI limits represent an important risk mitigant that can potentially protect both credit unions and their members where credit unions increase their exposure to house loans. Individual credit unions should determine and include in their credit policies clear parameters in relation to LTV and LTI for house loans.

Credit unions should note that lenders, including credit unions, with total mortgages advanced in excess of €50m in a reporting period (six months) are required to make a detailed return to the Central Bank. In addition, further to the changes to the lending framework in January 2020, the Central Bank intends to gather additional information from

credit unions who engage in house loans, whereby they will be required to provide data on a quarterly basis on all house loans issued.

Appendix

Comparison of the 2016 Regulations and the Amending Regulations

Area	Previous requirements under the 2016 Regulations	Requirements following changes made by the Amending Regulations
<p>Categories of Lending</p>	<p>Framework permits:</p> <ul style="list-style-type: none"> i. Personal Loans ii. Commercial Loans iii. Community Loans iv. House Loans v. Loans to Other Credit Unions <p>'commercial loan' is defined as meaning 'a loan, the primary objective of which is to fund an activity whose purpose is to make a profit'.</p> <p>Buy to let loans do not fall under the definition of house loans and fall under the definition of commercial loans.</p>	<p>Framework permits:</p> <ul style="list-style-type: none"> i. Personal Loans ii. Business Loans (see below) iii. Community Loans iv. House Loans v. Loans to Other Credit Unions <p>i. Amendment to the naming and definition of commercial loans. Commercial loan category of lending renamed and redefined.</p> <p>Rename as 'business loan'. Redefine as: a loan other than a community loan, that is made to - (a) a member of the credit union that is an approved housing body, or (b) a member, or where there is more than one member, at least one of those members, that satisfies the following conditions: (i) the loan is made for purposes of the person's trade, business or profession; (ii) the person is a micro, small or medium-sized enterprise within the meaning of Commission Recommendation 2003/361/EC; (iii) the loan is not made for the purpose of financing, in whole or in part, the purchase, construction or refinancing of buildings or the purchase or refinancing of land that the person intends to rent to a third party in order to generate income;</p> <p>ii. Buy to let residential and buy to let commercial lending is prohibited under the lending framework for credit unions (clarified under paragraph (b)(iii) of the new definition for 'business loan' above). Paragraph (a) of the new definition clarifies that a loan to a member that is an approved housing body comes within the definition of 'business loan' and is not impacted by the general prohibition on buy to let lending under paragraph (b)(iii).</p>
<p>Maturity Limits for Lending</p>	<ul style="list-style-type: none"> i. No more than 30% of gross loans outstanding can have a maturity of > 5 years; and no more than 10% of gross loans outstanding can have a maturity of > 10 years. <p>With additional approval:</p> <ul style="list-style-type: none"> No more than 40% of gross loans outstanding can have a maturity of > 5 years; and no more than 15% of gross loans outstanding can have a maturity of > 10 years. ii. A credit union cannot make a loan to a member for a period exceeding 25 years. <p>Overall maximum term of 25 years on any credit union loan.</p>	<ul style="list-style-type: none"> i. Removal of the lending maturity limits (the 30%/40% and 10%/15% limits). ii. Extend the existing 25-year loan maturity limit for credit unions to 35 years. iii. Introduction of a maximum loan term for unsecured loans of 10 years, clarifying that the limit does not impact on the ability of credit unions to offer appropriate loan rescheduling or restructuring to members experiencing difficulty with the repayment of their loan. iv. Introduction of a definition for a 'secured loan' as 'a loan that is secured by a mortgage, charge, assignment, pledge, lien, or other encumbrance in or over any asset or property, but shall not include unsecured guarantees by third parties'. 'Unsecured loan' is defined as 'a loan that is not a secured loan'.

Area	Previous requirements under the 2016 Regulations	Requirements following changes made by the Amending Regulations
Security for house loans	A credit union can only grant a house loan where it holds the first legal charge on the property in respect of which the loan is to be provided.	<p>Credit unions are not required to hold the first legal charge for a house loan provided for the purpose of enabling a member to improve or renovate a house on a property that is already used as their principal residence or a loan for the purpose of enabling a member to refinance such a loan.</p> <p>For all other types of loans coming within the definition of 'house loan', the requirement for the credit union to hold the first legal charge remains unchanged. Credit unions can continue to provide a home improvement loan as a unsecured personal loan provided the term of the loan does not exceed 10 years.</p>
Concentration Limits for Lending	<p>i. Total commercial loans cannot represent more than 50% of the regulatory reserves of the credit union.</p> <p>ii. Total community loans cannot represent more than 25% of the regulatory reserves of the credit union.</p> <p>iii. Total loans to another credit union cannot represent more than 12.5% of the regulatory reserves of the credit union.</p> <p>iv. A commercial loan granted by a credit union, where the total amount of commercial loans granted to a borrower, or group of borrowers who are connected, is less than €25,000, does not utilise the commercial loan concentration limit.</p>	<p>i. The concentration limit for commercial loans is replaced with combined concentration limits (expressed as a percentage of total assets) for house and business lending for all credit unions on a tiered basis. The tiered limits include:</p> <ul style="list-style-type: none"> • A 7.5% base limit available to all credit unions; • A 10% limit available to credit unions meeting objective criteria relating to asset size and regulatory reserves who provide prior notification to the Central Bank; and • An increased 15% limit for credit unions who meet objective criteria relating to asset size, subject to an application and approval process. <p>Within the 7.5% base limit and 10% limit, no more than 5% of the total assets of the credit union may be held in business loans.</p> <p>The 7.5% base limit or 10% limit may be increased to 15% of total assets for credit unions with total assets of at least €100m, subject to approval from the Central Bank.</p> <p>ii. Total community loans cannot represent more than 25% of the regulatory reserves of the credit union.</p> <p>iii. Total loans to another credit union cannot represent more than 12.5% of the regulatory reserves of the credit union.</p> <p>iv. All business loans granted, regardless of size utilise the combined concentration limits for house and business lending.</p>
Large Exposures	<p>i. A maximum exposure to a borrower or group of borrowers who are connected is limited to the greater of €39,000 or 10% of regulatory reserves of the credit union – this is the maximum exposure limit.</p> <p>ii. The Credit Union Handbook provided 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.</p> <p>iii. The Credit Union Handbook provided guidance that the aggregate of individual large exposures (including contingent liabilities) of a credit union should not be greater than 500% of regulatory reserves.</p>	<p>i. A maximum exposure to a borrower or group of borrowers who are connected is limited to the greater of €39,000 or 10% of regulatory reserves of the credit union – this is the maximum exposure limit.</p> <p>ii. Guidance in the Credit Union Handbook outlines that a large exposure amount should be considered to include any exposure to a borrower or group of borrowers who are connected representing at least 2.5% of the regulatory reserves of the credit union.</p> <p>iii. Removal of guidance in the Credit Union Handbook on aggregate large exposures .</p> <p>iv. Enhanced reporting by credit unions, including enhanced reporting on large exposures, will be introduced to reflect the changes to the lending framework.</p>

Area	Previous requirements under the 2016 Regulations	Requirements following changes made by the Amending Regulations
	iv. Credit unions make quarterly Prudential Returns as well as annual returns to the Central Bank and report, among other information, details of their largest exposures and the largest exposures in more than 90 days arrears.	

Indicates a change introduced by the Amending Regulations.



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