



Registry of Credit Unions
Central Bank of Ireland
PO Box 559
Dame Street
Dublin 2

25 February 2015

Re: Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act

Dear Sir or Madam

Banking and Payments Federation Ireland (BPFI) welcomes the opportunity to engage with this Consultation, on Regulations for Credit Unions on the commencement of the remaining sections of the 2012 Act (CP 88).

We note these proposals will enable the practical implementation of the existing 2012 Act but also introduce new draft regulations in certain areas. We acknowledge the Central Bank of Ireland's (CBI) interest in strengthening the overall financial regulatory framework.

BPFI's main interest is that the Irish financial sector operates within a consistent framework and that, for competitive purposes, developments in one industry segment would not create an unfair advantage over another.

We have some additional observations on the areas addressed by the consultation, which are provided below.

Specific Requirements

Lending

We note that the customer's ability to repay is a primary consideration for all lending activity, which we support. We would expect affordability tests to apply in respect of Credit Union (CU) lending, in line with CBI expectations of the banking industry.

BPFI thinks it appropriate that Credit Unions adhere to the provisions of CPC 2012 in managing their consumer lending and in particular the management of arrears situations for such lending. A specific reference to this would be relevant in the final draft of CP 88.

Categories of Lending and Maturity Profile

BPFI sees a definite need to link the categories of lending to the maturity profile of the lending portfolio. It is not readily apparent what will be eligible for 5 year, 10 year and 25 year lending. As mentioned in the BPFI CP76 submission on a Tiered Regulatory Approach for Credit Unions, loan terms should reflect the nature of the asset. For example personal loans should be short term; with commercial and community loans possibly carrying a medium term horizon if linked to physical assets with a similar time span, and house loans a possibly longer term (25 year) horizon. We note in Feedback from CP76 that the CBI is revising the definition of commercial lending. We consider that the definition for all categories of lending might be expanded upon and the associated maturities be considered.

Currently the majority of credit union lending is personal lending (Section 7.2.1). With this customer profile, we do not see it as appropriate that up to 30% of lending be over five years, if this relates to personal lending of a short term nature e.g. for car purchase, holidays, cash flow requirements. Relevant time horizons should be set for and within the different categories of lending and loan purposes; e.g. personal lending for holidays as opposed to personal lending for car purchase.

Equally the credit review will require more in-depth analysis and review by appropriately qualified staff and committees as the lending period and so the risk involved increases.

Mortgage Lending

This consultation and other CBI announcements mention that decisions made in relation to the recent CBI consultation on the 'Macro-prudential policy for residential mortgage lending' (CP 87) will be taken into account when finalising the lending regulations for credit unions. We therefore presume the new framework as applies to the banking market will also apply to Credit Unions, for both loan to value (LTV) and loan to income (LTI) requirements on lending for house loans. We would appreciate confirmation of this, in particular as CP 88 does not make any reference to LTI.

We note recent media commentary that credit union home loans might be provided by a centralised service. We acknowledge that as credit unions move into a new and untried market for them, centralised knowledge, product expertise and administrative support would clearly be beneficial in undertaking long-term credit decisions and to ensure compliance with all current and forthcoming regulatory and legislative requirements.

We do not see a reference to Buy-to-Let lending and so are unsure if this is being considered under another heading, e.g. house loans or commercial loans. If included, we would consider that the new CBI macro-prudential lending limits (CP 87) also apply.

Risk Weighting of Lending Exposures and Reserves

Section 5.3.1, refers to the 'regulatory reserve requirement' or the regulatory reserve of a credit union, as expressed as a percentage of the assets of a credit union and prescribed by the CBI. The draft regulations (Section 5.3.2) state that a credit union shall establish and maintain a minimum regulatory reserve requirement of at least 10% of the assets of the credit union.

Different categories of lending have different risk profiles. This is acknowledged in 5.3.1. For example house loans have a different risk profile to Buy-to-Let loans and to commercial loans. However we do not see this risk based approach reflected in calculating the minimum regulatory reserves. A standard minimum reserve of 10% of assets is mentioned, irrespective of risk of the lending category.

We consider that the CBI requirements in relation to risk profile should be identified at this stage, to ensure responsible lending, with the application of an appropriate risk weighting to determine the relevant reserves for the different lending portfolios of credit unions. This can then inform the direction of a credit union's future lending profile, based on an assessment of reserves available relative to the lending risks.

The Feedback Statement on CP76 does mention that consideration will be given to a risk weighted approach for category 2 credit unions, when the restructuring of credit unions takes place, and that the matter will be kept under review. BPFi considers that with credit unions now expanding into a number of different lending categories, that specific and possibly different risk rated weightings now apply for *all* potential categories of credit union lending, to inform credit decisions and link them to appropriate reserve levels.

In addition, the Consultation Paper does not address risk pricing of loans within a product category, e.g. loan pricing varying in terms of LTV. This should be a fundamental requirement of lending. In the absence of a credit union having the ability to reflect risk in their loan pricing, a minimum risk premium by product should be determined by the CBI, as indicated above. This would restrict inappropriate lending practices; particularly where yields on investments are low and a credit union may seek to increase lending, by offering unsustainable rates, in order to achieve a return for members.

Additional Services

The listing of additional services to be provided by credit unions is quite varied. These services carry a wide range of risk profiles; administrative and infrastructure requirements; implementation costs and maintenance; IT and security needs, operational controls and expertise required. For example ATMs are not differentiated from the provision of gift cheques or saving stamps. It may be appropriate to categorise such additional services into categories, to ensure the appropriate structure is in place for the complexity of the product involved. The feedback on CP76 does outline a CBI framework for proposals for such



additional services, but a level of proportionality relative to the complexity involved should be considered.

In addition, as mentioned in our CP 76 submission, any decision to extend the range of services should be accompanied by a requirement to be able to demonstrate that staff have the necessary skills and experience for the services being considered. We also recommend the extension of the Central Bank's Minimum Competency Code to all credit union activities other than share accounts, before permitting a broadening of the services to be offered.

Provisioning

We do not see any reference to provisioning in this consultation, although it was considered as part of CP 76 on the tiered approach. We consider this an important aspect of lending, in particular as credit unions move into product areas which are new to them. The feedback on CP76 did indicate that the CBI would develop a provisioning framework for credit unions. We welcome this proposed framework as a matter for urgent consultation.

BPFI appreciates the opportunity to contribute to this industry consultation process.

Yours sincerely,

A handwritten signature in black ink that reads "Maurice Crowley".

Maurice Crowley
Director, Banking and Payments

