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Credit union sector – Availing of increased lending limits

Under the Credit Union Act 1997, (Regulatory Requirements) Regulations 2016 (the “Regulations”), the combined total amount of outstanding house loans and business loans advanced by credit unions as a percentage of a credit union’s assets is limited to 7.5%. In certain circumstances this may be increased to 10% (subject to certain criteria and a notification requirement to the Central Bank of Ireland). In each case business loans may not exceed 5% of total assets.

Under Regulation 12(A)(1) of the Regulations a credit union having total assets of at least €100,000,000 for two or more immediate consecutive quarters may apply to have this limit increased further to 15% of total assets.

The Central Bank of Ireland (CBI) has published guidance on the application process for credit unions. This recognises that the provision of house and business loans is more complex than shorter term personal lending, raising different risk, income and profitability profiles which credit unions must demonstrate an understanding where they seek to avail of the approval. In addition, credit unions must demonstrate that the increased scale of activity aligns with the strategic plan and risk appetite, nature, scale, complexity and capability of the credit union.

We have looked at the longer term lending options for credit unions in our previous [credit union updates](#). In this client note we look at the CBI’s expectations of credit unions applying to avail of the increased limit.

Key parts of the application



Key considerations in the application process:



1. Minimum eligibility criteria?

- (i) An applicant credit union must have minimum assets of €100,000,000 (which must be maintained post approval).
- (ii) A 12.5% minimum regulatory reserve requirement applies to credit unions utilising the 10% limit. The CBI will reassess the minimum reserve position as part of an application for the 15% limit.



2. Pre-application preparation

- (i) Undertake a pre-application discussion with the credit union’s supervisor in the CBI before submitting a formal application.
- (ii) Can the credit union demonstrate that its plan will provide adequate protection of members savings and would be effective and proportionate given the nature, scale and complexity of the credit union?



3. Issues to be considered in the application

- (i) Business case and financial projections must reflect the complexity of the business expansion and balance sheet transformation, key associated risks, risk mitigation strategies and risk appetite.
- (ii) Summary of annual arrears and loan write-offs and annual liquidity information for the past 5 years.



4. Determination

- (i) The CBI shall, subject to any additional information deemed necessary, issue a “minded to approve” or “minded to refuse” letter within 3 months of application.
- (ii) A “minded to approve” letter may be subject to conditions related to:
 - a. risk mitigation programme requirements;
 - b. maintenance of minimum regulatory reserves;
 - c. requirements to notify the CBI of changes to the lending strategy in its business case accompanying its application;
 - d. usage of the additional lending capacity within the 15% limit.
 A credit union may make submissions on the “minded to approve” letter/ conditions before the formal grant.
- (iii) A “minded to refuse” letter may issue if the CBI consider additional lending capacity would not be consistent with adequate protection of member savings or be effective and proportionate to the nature, scale and complexity of the credit union. The CBI must clearly set out such decision and its rationale in the letter and a credit union shall have an opportunity to respond before a formal decision is made by the CBI.
- (iii) Consideration of any historical supervisory issues and performance against any risk mitigation programmes.



5. Ongoing compliance

The CBI will monitor compliance utilising a credit unions quarterly prudential returns and any regulatory directions that may be made under Section 87 of the Credit Union Act 1997.

For further information or advice in relation to the above, please contact Simon O’Neill or another member of our financial services regulatory team.



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