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A photograph of a modern building with a glass and metal facade, viewed from a low angle against a clear blue sky. The building's structure is composed of vertical and horizontal lines, creating a grid-like pattern.

# Update on Changes to the Lending Framework (including risk considerations for credit unions)

*Colm Henry / John Meagher*

# Update on changes to the credit union lending framework

Colm Henry – Policy, Assurance & Regulatory Approvals Team

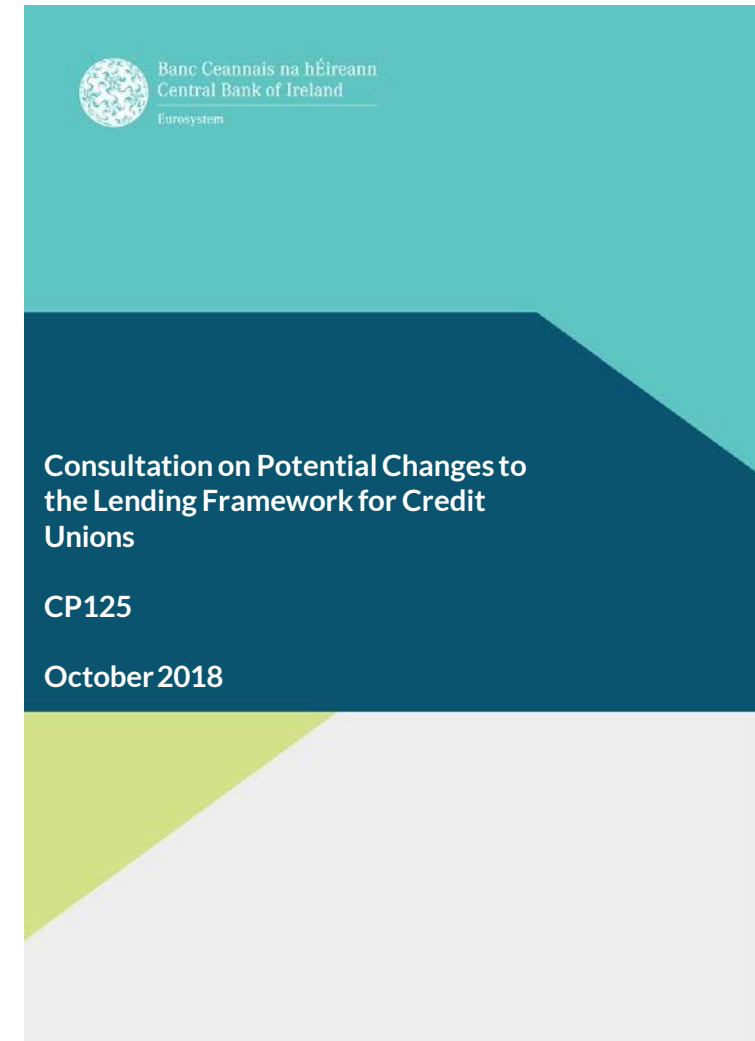


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# Consultation on Potential Changes to the Lending Framework for Credit Unions (CP125) – Recap

- Review commenced Q1 2018
- CP125 published 24 October 2018
- Objective of the review
- Review informed by number of factors
- Feedback Statement & final draft Amendment Regulations published November 2019



- Final changes to the lending framework included the following:
  - ❑ Removal **5 & 10 year lending maturity limits**
  - ❑ New **combined concentration limits** for house & business lending
  - ❑ Introduction of a max loan maturity for **unsecured loans**
  - ❑ Extension of max loan maturity for **secured loans**
  - ❑ Re-naming of '**commercial loan**' category of lending, re-defining this category
  - ❑ All **business loans** now use combined concentration limits
  - ❑ Additional **board reporting requirements for house loans**
  - ❑ Updated guidance in Credit Union Handbook on **large exposure amounts**
  - ❑ **Buy to let** residential & commercial lending prohibited
  - ❑ Rescission of **Section 35 Regulatory Requirements** for Credit Unions

### ■ Changes came into effect **1 January 2020**

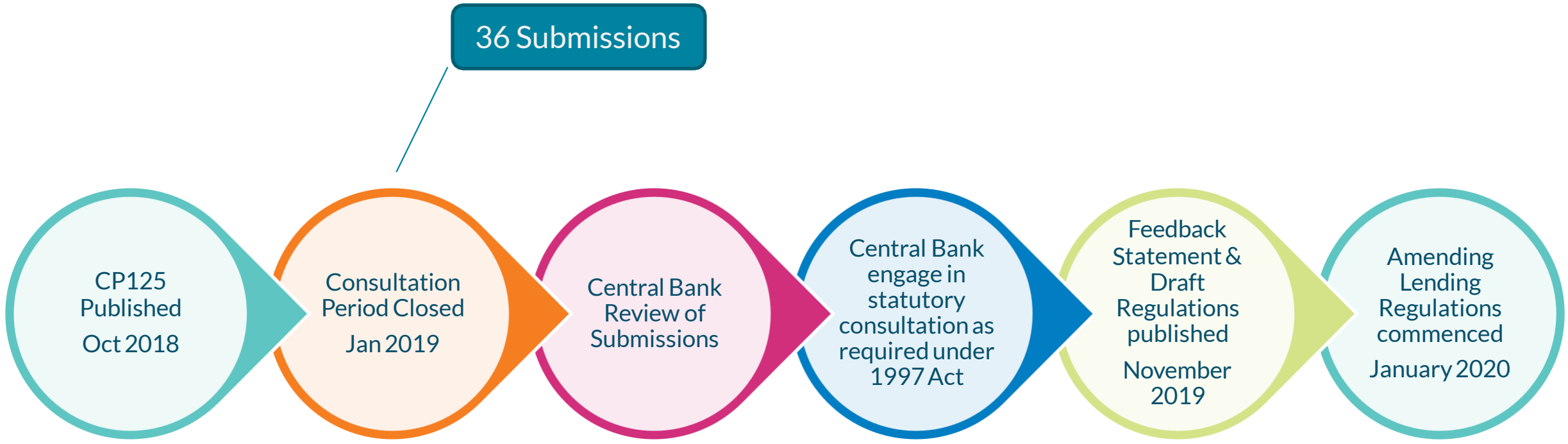


## CP125 – Recap (Cont.)

- Comprehensive review
- Increased longer term lending supporting increased diversification
- Additional capacity for larger, stronger credit unions subject to application process
- Important credit unions understand the risks
- Significant & fundamental structural framework changes, providing sufficient capacity & flexibility to enable safe & sound business model transformation on a sustainable basis serving members' long term interests
- Potential to adjust capacity in the future



# Review of the Lending Framework for Credit Unions



# Applications for the 15% Combined Concentration Limit for House & Business Loans

- Credit unions with total assets of at least €100m
- Central Bank must be satisfied that the credit union has demonstrated the approval would be:
  - consistent with the adequate protection of the savings of members of that credit union, &
  - effective & proportionate, having regard to the nature, scale & complexity of the credit union
- Complete application form approved by the Board & signed by the Chair
- Two formal stages of the application process:
  - Stage 1: Submission of Completed Application & Application Assessment
  - Stage 2: Approval / Refusal
- Recommend advance discussion with supervisor in Registry of Credit Unions



# Credit union lending framework – useful resources

- [CP125 & Feedback Statement on CP125](#)
- [Frequently Asked Questions \(FAQs\)](#)
- Credit Union Handbook, [Lending](#) & [Liquidity](#) chapters
- [Consolidated 2016 Regulations](#)
- [Application Form](#) & associated [Guidance Note](#) for 15% Limit





# Risk Considerations

John Meagher – Business Model and Engagement Team



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# Business Model Considerations

## ■ Demonstrate:

- ❑ Understanding of the new concentration limits
- ❑ Understanding of the relevant regulatory framework(s) underpinning house & business lending
- ❑ Consistency with business model positioning, as reflected in Strategic Plan

## ■ Illustrate:

- ❑ How you propose to utilise the new enhanced capacity, by business category & by specific sub-group(s)
- ❑ Over what timeframe you propose to expand your business in house & / or business lending segments
- ❑ Anticipated activity & support framework(s) proposed to manage new / expanded product lines
- ❑ Impact on revenue, costs & balance sheet profile over the relevant timeframe(s)
- ❑ Supporting policies, documented & adopted



# Longer Maturity Lending – Risk Considerations

## ■ Focus on risk considerations, including:

- Financial
- Credit
- Funding & Liquidity
- Market
- Governance & Management
- Operational / Conduct
- Regulatory / Compliance



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



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# New Product / Service Development

- Product / Service Development now integrated internal governance issue, specifically:
  - At a high level –
    - **EBA ‘Guidelines on internal governance under Directive 2013/36/EU’** – Revised 26 September 2017 EBA / GL / 2017 / 11 – entered into force 30 June 2018, &
  - At a more detailed level –
    - **EBA ‘Guidelines on product oversight & governance arrangements for retail banking products’** – EBA / GL / 2015 / 18

