By email to:
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credit union development association

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Central Bank of Ireland
Dame Street
Dublin 2

31st August 2016

Re: Submission on the Loan-to-Value and Loan-to-Income Regulations

Dear Sirs,

Credit unions are moving into a new phase of product expansion, including mortgage lending. As this is a relatively new business area for us, we have not gathered sufficient data of our own to meet the requirement of an evidence-based submission. We would however like to make the follows remarks.

CUDA has studied with interest the **Macroprudential Measures and Irish Mortgage Lending: A Review of Recent Data** as published by the Central Bank of Ireland in July 2016. The report is detailed in its description of the borrowers who made it into the data and in this context has provided us with a greater understanding of the mortgage lending market in Ireland. We would welcome a further study on potential borrowers that have not made the data report and the impact the macroprudential measures are having on their ability to purchase a home. We would also like to see further research being carried out on establishing as an alternative component to marcoprudential measures the borrower's capacity to service his or her debt obligations in a timely manner as a basis for mortgage lending.

There is a misconception that credit unions are prohibited from mortgage lending. Credit union lending has to date focused on unsecured short term lending, and to reiterate our opening paragraph, this is now changing. Developments in business models dictate a greater volume of long term lending. As a result of this progression into the housing finance market, CUDA is developing supports to assist credit unions prudently lend in a compliant manner. At this early stage, evidence of the impact of the macroprudential Regulations is limited and in this regard we reserve our view. That said, the approach taken to date by credit unions would be one of low risk appetite, and CUDA is recommending this position.

In the original 2014 consultation paper on macroprudential policy for residential mortgage lending (CP87), the Central Bank posed various alternatives to LTV and LTI ratios. Whilst the macroprudential LTI measures are adopted by credit unions they are, at this early stage, proving inappropriate in some cases. A fundamental component of prudent underwriting is an accurate assessment of the adequacy of a borrower's income, taking into account the relevant mortgage payments and all debt commitments. When assessed against debt serviceability metrics more realistic basis emerges for prudent residential mortgage underwriting. In our development of mortgage support for credit unions, total debt service ratio (TDSR) is a key component in determining the mortgage repayment percentage. We would like to see a set of prudent measures for calculating debt serviceability ratios for the purposes of assessing affordability in place of the every so often unfitting application of LTI ratios.

Future developments to the Regulations must be cognisant of lenders of all sizes. Some of the inflexibilities within the Regulations are acutely borne by credit unions – examples that are brought to our attention are often done so by aggrieved borrowers trying to find a solution to strict parameters. The most recent example being, borrowers that are within shares and whose loans also fall within the Regulation's definition of a housing loan, cannot meet the LTV requirements, thus negating the lenders ability to approve the loan[1]. Credit unions are required to obtain a first legal charge – resulting in an unnecessary cash charge and a legal charge over the same property. There may be scope to examine small loan amounts that come under the definition of a housing loan falling within the exemptions from LTV limits.

Finally, CUDA, yet again, calls for macroprudential requirements to be introduced in a manner that takes account of existing prudential rules for sub groups of lenders. Your recently published data states the *aim of the measures* is to strengthen the resilience of households and banks to financial shocks. They also act as a safeguard to over-lending. Strict prudential measures already exist that *satisfy these aims* for credit unions[2]. These prudential measures include:

- Term limits on all home loans
- Limitations on volume of all long term lending to 10% of the loan book

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[1] The Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (S.I. No. 1 of 2016) Defines a "house loan" *as a loan made to a member secured by property for the purpose of enabling the member to: (a) have a house constructed on the property as their principal residence; (b) improve or renovate a house on the property that is already used as their principal residence, (c) buy a house that is already constructed on the property for use as their principal residence, or (d) refinance a loan previously provided for one of the purposes specified in (a), (b) or (c) for the same purpose.* A "personal loan" in the same Regulations is described as "*a loan to a natural person, once the loan is for purposes unrelated to the person's trade, business, profession or the purchase of property*".

[2] Prudential measures for credit union lending are set out in Part 4 Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (S.I. No. 1 of 2016).

- Requirements to hold the first legal charge on all loans that fall under the definition of a house loan
- As well as the above limits on loans for BTL properties, a concentration limit of 50% of a credit union's regulatory reserve applies on all commercial lending.

The excessive application of prudential measures and layering of rules prevents fair competition and a more diverse market for the consumer.

Layering of prudential measures prevents credit unions applying competitive interest rates and actively competing in this market. The former Governor of the Central Bank, Patrick Honohan, has stated that it is vital that "official policy does not inadvertently deter competition" This is especially true, as also noted, where competition is the borrower's main protection against increases in variable rates[3].

We welcome data of the nature recently published on an annual basis. As our experience is limited in relation to the impacts of LTV and LTI ratios we await with interest submissions from other stakeholders. In particular we note, in aggregate, the LTV discretions and LTI discretions (15% and 20% for new lending respectively) are not exhausted. Submissions from mortgage lenders obligated to submit mortgage data will be of particular interest in relation to their individual experiences of the operation to the LTV and LTI limits on their organisation. We would also fear that aggregate figures negate the true impact of the macroprudential measures on urban areas.

We welcome the opportunity to correspond with you in relation to the macroprudential Regulations and are happy to meet with you to discuss our concerns in relation to layering of prudential requirements through Regulations which have an adverse effect on the sector and competition as a whole.

Yours sincerely,

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Credit Union Development Association

[3] Introductory statement by Governor Honohan at the Oireachtas Committee on Finance, Public Expenditure & Reform, 28 May 2015. This speech can be found on the Central Bank of Ireland official website under Press Area.