Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Consultation on Proposed Changes to the Credit Union Lending Regulations

CP159

December 2024

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1. Introduction

The Central Bank of Ireland (**Central Bank**) is publishing this consultation paper to consult on proposed changes to the credit union lending regulations set out in Part 4 of the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (**the 2016 Regulations**). The proposed changes have been informed by the Central Bank's statutory mandate in relation to credit unions as set out in section 84 of the Credit Union Act, 1997 (**the 1997 Act**) which requires that the Central Bank administer the system of regulation and supervision of credit unions with a view to (i) the protection by each credit union of the funds of its members, and (ii) the maintenance of the financial stability and well-being of credit unions generally.

As set out in the Central Bank's Regulatory and Supervisory Outlook report[1] published in February 2024, the Central Bank's overarching supervisory objective continues to be ensuring a stable, resilient and trustworthy financial sector, sustainably operating in the best interests of the public, consumers and the wider economy. The Central Bank takes a risk-based approach and does not operate a no-failures regime but rather works to ensure the effective management of risks and the mitigation of impacts should risks crystallise.

From a prudential supervision perspective the Central Bank considers that regulated firms, including credit unions, should:

i. Have sufficient financial resources including under a plausible but severe stress scenario.
ii. Have sustainable business models.
iii. Be well governed, with appropriate cultures, effective risk management and control arrangements in place.

[1] https://www.centralbank.ie/docs/default-source/publications/regulatory-and-supervisory-outlook-reports/regulatory-supervisory-outlook-report-2024.pdf?sfvrsn=e6b1621a_10.

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iv. Be able to recover if they get into difficulty, and if they cannot, they should be resolvable in an orderly manner without significant externalities or taxpayer costs.

Prudential requirements and limits, set out in legislation and regulations, play an important role in driving the adequacy of financial resources, building strong governance and effective risk management frameworks, and providing parameters to contain risks within acceptable levels. In this way the regulatory framework prescribes the minimum standards that industry must meet (with higher standards expected of those who undertake more complex activities) while requiring firms take ownership of their own risk frameworks.

As was the case when the Central Bank last consulted on the lending framework in October 2018 in "CP125 – Consultation on Potential Changes to the Lending Framework for Credit Unions"[2] (**CP125**), in proposing targeted changes to the lending framework for credit unions our overarching goal is to ensure that the scope and parameters of the lending framework are clear and are calibrated appropriately, and reflect the competence and capability of credit unions. An appropriate lending framework should:

- Effectively manage duration risk and consider broader issues such as asset and liability management (**ALM**);
- Effectively manage concentration risk, both at a loan category and an individual borrower level;
- Facilitate credit risk diversification within loan portfolios; and
- Clearly define the scope and parameters of credit union lending categories.

[2] https://www.centralbank.ie/docs/default-source/publications/consultation-papers/cp125/cp125---consultation-on-potential-changes-to-the-lending-framework-for-credit-unions.pdf?sfvrsn=89ccb11d_4.

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Lending Framework for Credit Unions

Sections 35 to 38 of the 1997 Act are the relevant sections of the 1997 Act which address credit union lending. Section 35 provides regulation making powers to the Central Bank in relation to lending. In this regard, the Central Bank has set out lending regulations for credit unions in Part 4 of the 2016 Regulations.

The 2016 Regulations, as amended, prescribe the categories of lending which a credit union can undertake and contain certain limits – including concentration limits for all categories of lending (other than personal loans) and a large exposure limit for lending. They also prescribe specific requirements in relation to maximum loan terms, lending practices for specific categories of lending, lending to related parties and lending policies.

Part 4 of the 2016 Regulations was last reviewed in 2018. In October 2018, the Central Bank published CP125 which included a regulatory impact analysis (**RIA**), and sought views from credit unions and other sector stakeholders on the potential changes to the lending framework outlined. Following the public consultation process, and a subsequent statutory consultation as required under section 84A of the 1997 Act, the Central Bank made the following changes to the 2016 Regulations:

- Removal of 5 year and 10 year lending maturity limits contained in the 2016 Regulations;
- Introduction of a maximum loan term of 10 years for unsecured lending and an increase to the overall maximum loan term to 35 years (relevant to secured lending);
- Introduction of combined concentration limits (expressed as a percentage of total assets) for house and business lending on a tiered basis;
- Re-naming the "commercial loan" category of lending as the "business loan" category and re-defining this category;

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- Inclusion of a general prohibition[3] on a loan being made for the purchase of buy to let (BTL) residential or BTL commercial property; and
- Incorporation into the 2016 Regulations of certain other requirements relevant to lending (and liquidity) from the Section 35 Regulatory Requirements for Credit Unions (and, at the same time, revoking the Section 35 Requirements).

These changes to the lending regulations came into operation on 1 January 2020.

The Feedback Statement on CP125[4] outlined the Central Bank's view that that the changes represented significant and fundamental structural framework changes to the credit union lending framework that would provide sufficient capacity and flexibility to enable safe and sound business model transformation. We stated that where conditions in the sector are such that there is an evidence basis to adjust capacity in the future, this could be achieved by amending the level of the limits and, in this regard, we stated that we remained committed to re-evaluating the capacity provided for house and business lending as the sector evolves and to making any necessary, appropriate and prudent adjustments. The Feedback Statement also set out the Central Bank's intention to perform and publish an analysis of credit union sector lending three years post-commencement of the amendments to the lending regulations, in order to assess and analyse the actual impact which the changes to the lending regulations have had and to inform any decisions on the need for future change.

3 The general prohibition on BTL lending does not preclude a credit union lending to an approved housing body for this purpose.

4 The Feedback Statement on CP125 – Consultation of Potential Changes to the Lending Framework for Credit Unions was published on 21 November 2019.

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The Central Bank commenced the analysis to which we committed in the Feedback Statement on CP125 (**the Review**) in Q4, 2023 and, concurrently with the publication of this consultation paper, has published a report on Credit Union Lending (**the Review Report**) on the Central Bank website.[5] The Review Report should be read in tandem with this consultation paper and RIA; it sets out our analysis of credit union lending data over the period September 2019 to June 2024 (**the Review Period**), in particular, and an overview of sector stakeholder feedback and suggestions for changes to the lending framework, as well as the Central Bank's overall assessment of the impact of the 2020 changes and need for future changes to the lending regulations. Section 4 of this consultation paper sets out more detail on the Review approach and conclusions.

Changing Credit Landscape

On the credit landscape in Ireland, total household debt stood at c.€150.5 billion at end Q4, 2019 (just before the 2020 changes to the lending regulations took effect), representing a c.26% drop since its peak of c.€202.9 billion at the end of Q3, 2008. By end Q2, 2024, household debt had risen to €157.6 billion.[6] New borrowing in Q1, 2024 totalled €7.7 billion, mainly due to the acquisition of new loans and marked the largest quarterly uptake of household debt in Ireland in over a decade.[7]

Credit unions, collectively, are the leading providers of personal loans accounting for approximately 58% of personal loans at December 2023; they account for approximately 35% of consumer

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5 The Review Report - Credit Union Lending (December 2024) - is available in the "Communications" section of the "Credit Unions" area of the Central Bank website (under the "Reports" tab).

6 https://www.centralbank.ie/docs/default-source/statistics/data-and-analysis/financial-accounts/quarterly-financial-accounts-chart-pack/chart-pack-data.xlsx?sfvrsn=a39baa1d_98.

7 https://www.centralbank.ie/docs/default-source/statistics/data-and-analysis/financial-accounts/quarterly-financial-accounts-for-ireland-q1-2024.pdf?sfvrsn=46e4611a_7.

credit across personal loans in Ireland, asset finance and cards and overdrafts in Ireland.[8] New lending to members for house loans by credit unions in 2023 amounted to approximately €248 million[9]; new mortgage lending in Ireland in 2023 by the institutions reporting loan-by-loan data to the Central Bank as part of the macroprudential Mortgage Measures was €12.158 billion[10]. On SME lending, new lending to SMEs by credit unions in 2023 (business loans) was approximately €66 million[11]; overall new lending to SMEs in Ireland in 2023 was €4.1 billion[12].

The Review Report[13] highlights a number of domestic and international developments which have impacted on the domestic economy and which provide relevant broader context for credit union lending activity since the introduction of the amendments to the credit union lending regulations in January 2020. These include developments in the macro environment, including those related to the COVID-19 pandemic and recent geo-political instability, consolidation in the domestic retail banking market and the changing landscape for the provision of financial services in Ireland. It is worth noting developments on credit union sector collaboration relevant to lending which have progressed and emerged since the 2020 changes to the lending regulations, including, the credit union agri-business loan offering under the "Cultivate" brand provided by a number of credit unions with the support of Collaborative Finance, a credit union shared-service organisation (**CUSO**), and the more recent

8 See Financial Stability Notes, An overview of the consumer credit market in Ireland, Edward Gaffney & Paul Lyons Vol. 2024, No. 01 (March 2024).

9 Source: Credit union Prudential Return data.

10 https://www.centralbank.ie/docs/default-source/financial-system/financial-stability/macroprudential-policy/mortgage-measures/data-on-new-mortgage-lending/new-mortgage-lending-data-2023.xlsx?sfvrsn=b933601a_8.

11 Source: Credit union Prudential Return data.

12 Source: Central Bank of Ireland, Quarterly Bulletin QB1 - March 2024 https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/qb-archive/2024/quarterly-bulletin-q1-2024.pdf?sfvrsn=5777631a_8.

13 See section 4 of the Review Report.

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establishment and role of a separate mortgage CUSO for credit unions.

Review of the Lending Regulations

Having concluded the Review, the Central Bank considers that some targeted material changes to the credit union lending regulations are warranted to ensure they remain appropriate for the sector, including that they provide sufficient flexibility to those credit unions who wish to undertake house lending and business lending, taking account of the broader legislative requirements. The Central Bank is therefore consulting in this consultation paper on proposed changes in the following areas:

1. Concentration limits for house and business lending; and
2. Lending practices for specific categories of lending.

The proposed changes to the concentration limits for house and business lending would represent a material change to the approach adopted by the Central Bank in 2020. In particular, these changes would adopt a longer term view with regard to overall available capacity and provide considerably greater agency to individual credit unions on the extent to which they may, should they so wish, include house lending, business lending and more diversified loan maturities within their loan books. It is a matter for individual credit unions to consider and decide upon whether to avail of the opportunities the changes proposed in this consultation paper would provide (as well as the business model development opportunities that recent changes to the 1997 Act are providing), and the extent to which and how they may avail of these opportunities. With such considerations and decisions comes increased responsibility for individual credit unions. As set out in the Central Bank's current Regulatory and Supervisory Outlook report, proactive risk management and consumer-centric leadership of firms is a supervisory priority for the

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Central Bank[14]. In this regard, the outcome the Central Bank seeks is that the leadership of regulated entities, including credit unions, adopt a more proactive and forward looking approach to managing the risks and uncertainties facing their organisations and their customers / members. This includes regulated entities evolving their approaches in line with the scale and complexity of their business models, the changing operating environment, the heightened risks and uncertainties they face while actively considering their customers' / members' interests throughout.

In proposing the changes set out in this consultation paper, the Central Bank has adopted an evidence-based approach on the need for changes to the regulatory framework, and in this regard, we have considered the analysis undertaken as part of the Review and sector stakeholder feedback and suggestions received on the lending framework, including information on credit unions' lending pipeline (on house lending, in particular). We have taken into account an improved sectoral reserves position and the experience gained by a number of credit unions in house and business lending since the 2020 changes to the credit union lending regulations commenced in addition to other factors and considerations addressed in section 4 of this consultation paper.

The Central Bank will consider the feedback received as part of this consultation prior to finalising any changes to the credit union lending regulations set out in the 2016 Regulations and publishing a statutory instrument giving effect to the final changes.

[14] The other supervisory priorities set out in the Supervisory Outlook Report are: firms are resilient to the macro environment; firms address operating framework deficiencies, firms manage change effectively, climate change and Net Zero transition are addressed; and the Central Bank enhances how it regulates and supervises.

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The consultation paper is structured as follows:

- Section 2 sets out the purpose of this consultation;
- Section 3 provides an overview of recent regulatory changes for credit unions;
- Section 4 provides an overview of the Review;
- Section 5 provides an overview of the Central Bank's proposed changes to the lending regulations;
- Section 6 addresses particular considerations to be addressed and considered by credit unions seeking to change the profile of their loan books;
- Section 7 provides an overview of the RIA undertaken;
- Section 8 outlines next steps in relation to the consultation;
- Section 9 summarises the areas where the Central Bank is seeking views;
- Section 10 sets out how to make submissions to the Central Bank;
- Appendix A sets out the lending requirements contained in the 2016 Regulations;
- Appendix B contains a table which compares relevant aspects of the current lending regulations to the proposals contained in the consultation paper; and
- Appendix C contains the full RIA.

2. Purpose of the Consultation

Following the Review, the Central Bank is proposing some targeted material changes to the credit union lending regulations set out in the 2016 Regulations. In this regard, section 5 of this consultation paper sets out an overview of the proposed changes to Part 4 of the 2016 Regulations and seeks views on these.

The specific questions that credit unions and stakeholders are asked to respond to are set out in section 9.

Detail on the RIA, that assesses the likely impact of these proposed changes to Part 4 of the 2016 Regulations, is set out in section 7. The full RIA is contained in Appendix C. Credit unions and other sector stakeholders may wish to provide additional information or analysis they may have on the likely impact of the proposed changes to the lending regulations. This can be included in submissions to this consultation process.

3. Regulatory changes for credit unions

Since the financial crisis, considerable progress has been made to improve the financial and operational resilience of credit unions and strengthen their governance via enhanced prudential requirements and updates to the 1997 Act.

In the context of regulation, there have been a number of important regulatory changes relevant to credit unions since the 2020 changes to the credit union lending framework; these are summarised below.

- **Macroprudential Mortgage Measures -** In 2021 and 2022, the Central Bank conducted a review of the macroprudential mortgage measures framework (the **Mortgage Measures**) to ensure that the Mortgage Measures continue to remain fit for purpose, in light of the evolution of the financial system and the broader economy since the measures were first introduced in 2015. The review concluded in October 2022 and the revised Mortgage Measures arising from the review came into effect on 1 January 2023.[15]

- **Individual Accountability Framework -** Following enactment of the Central Bank (Individual Accountability Framework) Bill 2022 in March 2023, and a public consultation process[16], in November 2023 the Central Bank published a Feedback Statement and issued Regulations and Guidance on the Individual Accountability Framework (**the IAF**). The IAF includes: the Senior Executive Accountability Regime (**SEAR**)[17];

15 Credit unions must comply with the Mortgage Measures. More information on the Mortgage Measures is available here on the Central Bank website.

16 "CP153 - Enhanced governance, performance and accountability in financial services Regulation and Guidance under the Central Bank (Individual Accountability Framework) Act 2023".

17 Credit unions are not in scope of SEAR at this time.

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Conduct Standards to apply to individuals in all regulated firms with senior executives also having Additional Conduct Standards; enhancements to the Fitness & Probity (**F&P**) Regime[18]; and amendments to the Administrative Sanctions Procedure **(ASP)**. The Central Bank also made changes to how we run our ASP with consolidated Administrative Sanctions Procedure Guidelines[19] published in this regard in December 2023.[20]

- **Minimum Competency Standards** - From 1 October 2024 (with a four year transition period until 1 October 2028), new requirements for certain credit union staff in the Minimum Competency Code 2017 and the Minimum Competency Regulations 2017 (together, **the Standards**) apply to all relevant in-scope credit union services. Credit union staff providing services within the scope of the Standards, including, but not limited to, lending and term deposits, must meet minimum knowledge and competence standards. As the Standards apply to persons exercising certain F&P Controlled Functions, amendments were made to the tailored F&P Regime for credit unions to introduce additional controlled functions for credit unions.[21]

- **1997 Act** - On the principal legislation under which credit unions are registered and regulated – the 1997 Act - the Credit Union (Amendment) Act 2023 (**the 2023 Amendment Act**)

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18 The Conduct Standards and enhancements to the Fitness and Probity Regime are set out in legislation and have applied to firms, including credit unions, since 29 December 2023.

19 https://www.centralbank.ie/docs/default-source/regulation/how-we-regulate/fitness-probity/enforcement/administrative-sanctions-procedure-guidelines-december-2023.pdf?sfvrsn=e447621a_8.

20 Further details on the IAF are available here on the Central Bank website.

21 The changes to the F&P Regime for credit unions – more specifically, to the Central Bank Reform Act 2010 (Sections 20 and 22 - Credit Unions) Regulations 2013 - also took effect on 1 October 2024.

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amends the 1997 Act to make a number of changes to credit union governance requirements, broaden the ability of credit unions to provide member services (such as allowing credit unions, where their rules so provide, to refer members to other credit unions for services, including loans) and to support sector collaboration by formally recognising credit union shared service entities within section 43 of the 1997 Act (Investments) and introducing a new credit union type – a corporate credit union - the members of which would be other credit unions, which may be registered under the 1997 Act. The majority of the changes to the 1997 Act outlined above have been commenced under three initial commencement phases. Those changes to the 1997 Act which are aimed at supporting sector collaboration will be commenced under further commencement phases.

- **Credit Union Exempt Services** – Following a public consultation process[22], additional engagement with sector stakeholders in 2024 on aspects of feedback received to the public consultation and a statutory consultation process on draft amending regulations, the Central Bank published a Feedback Statement and final draft amending regulations to amend the 2016 Regulations in November 2024. The final changes, once commenced will mean that credit unions may, subject to relevant conditions set out in Schedule 2 of the 2016 Regulations, provide broader intermediation services (including insurance, investment and mortgage type intermediation services) and current account services (which may include the provision of overdraft services) to members without requiring an additional services approval. [23]

[22] Consultation Paper 148 - Consultation on Credit Union Exempt Services.
[23] Depending on the nature of the services provided, credit unions may require authorisation under other legislation.

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4. The Review

This section provides an overview of the background (including an overview of salient aspects of the current credit union lending framework), approach and conclusions of the Review undertaken by the Central Bank to assess and analyse the actual impact which the 2020 changes to the lending regulations have had. The Review, a report on which the Central Bank is publishing concurrently with this consultation paper, in addition to other factors and considerations, has informed the Central Bank's view that some targeted, material, changes to the credit union lending regulations are warranted.

4.1. Background

In November 2019, following a review and a public consultation process under CP125, the Central Bank issued a Feedback Statement and Amending Regulations setting out new lending regulations for credit unions. The new lending regulations, which came into effect on 1 January 2020, among other things, removed the previous lending maturity limits which capped the percentage of credit union lending which could be outstanding for periods of greater than 5 and 10 years. They also introduced new combined concentration limits, on a tiered basis, for house and business loans, expressed as a percentage of total assets.

The Feedback Statement on CP125 sets out the Central Bank's intention to perform and publish an analysis of credit union sector lending three years post commencement of the new lending regulations to assess and analyse the actual impact which the changes to the lending regulations have had and to inform any decisions on the need for future change. In the Feedback Statement on CP125 the Central Bank stated that "a gradual stepped approach to providing additional capacity to credit unions for house and commercial lending is appropriate. The structural changes being

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introduced to the lending framework by the Amending Regulations can facilitate future changes where there is evidence that these are required and appropriate taking account of competence, capability and support structures available in the sector". We also stated that "Where conditions in the sector are such that there is an evidence basis to adjust capacity in the future, this could be achieved by amending the level of the limits".

Accordingly, the Review was informed by what we articulated in the Feedback Statement on CP125, in particular on the need for an evidence basis for any future changes. Our approach to the Review, including our assessment of the need for future changes to the lending regulations, was also informed by our statutory mandate in respect of credit unions and the potential impact that broader macroeconomic environment conditions may have had during the Review Period on individual credit unions' lending and the sector more generally.

4.1.1. The current lending framework for credit unions

Section 35 of the 1997 Act sets out provisions in relation to credit union lending and provides the Central Bank with regulation making powers in relation to lending. The lending section of the 2016 Regulations sets out, among other things, provisions in relation to the following matters:

- the categories of loans that a credit union may provide;
    - personal loans;
    - business loans;
    - community loans;
    - house loans; and
    - loans to other credit unions.

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- concentration limits for certain categories of lending including combined concentration limits for house and business lending on a tiered basis, as follows:
  - A 7.5% of total assets limit available to all credit unions. Features:
    - A combined concentration limit for house and business lending available to all credit unions and calculated as a percentage of total assets;
    - Entire limit may be utilised by the credit union for house lending; and
    - Up to a maximum of 5% of total assets may be utilised by the credit union for business lending.
  - A 10% of total assets limit available to credit unions meeting objective asset size criteria (minimum total asset size of €50 million) and holding regulatory reserves of at least 12.5%. Features:
    - A combined concentration limit for house and business lending and calculated as a percentage of total assets;
    - Credit union must notify the Central Bank at least one month in advance;
    - Entire limit may be utilised by the credit union for house lending; and
    - Up to a maximum of 5% of total assets may be utilised by the credit union for business lending.
  - A 15% limit of total assets for credit unions with assets of at least €100 million. Features:
    - A combined concentration limit for house and business lending and calculated as a percentage of total assets;
    - Subject to an application and approval process;

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    - The entire limit may be utilised by the credit union for either house or business lending, subject to any conditions attaching to a Central Bank approval;
- A large exposure limit – maximum exposure to a borrower or group of borrowers who are connected of €39,000 or 10% of the regulatory reserve of the credit union, whichever is greater;
- A loan term limit of 10 years for unsecured loans and a loan term limit of 35 years for secured loans; and
- A general prohibition on residential and commercial property BTL lending.

4.2. Approach to the Review

As part of the Review, the Central Bank analysed and considered quantitative (data analysis) and qualitative (sector engagement) information.

4.2.1. Data Analysis

Quantitatively, the Review was informed by data analysis of credit union lending data reported by credit unions in quarterly Prudential Returns over the Review Period. This analysis focused on key lending metrics including loan to asset (LTA) ratios, the profile of gross loans outstanding and new lending (including maturity profile and loan category profile), composition of credit union loan books, utilisation of concentration limits for house and business lending and credit quality (based on loan arrears data). The Review analysis was primarily undertaken with reference to aggregate sector lending and lending for specific cohorts of credit unions by reference to asset size.

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4.2.2. Sector Engagement

In the context of qualitative inputs, we reviewed and analysed feedback received from credit union sector stakeholders on the lending framework since the introduction of the revised lending regulations in 2020. In addition, we sought views from sector stakeholders on the current lending framework and on the impact that the 2020 changes have had on credit union lending and the need for future change.[24] Following this engagement with sector stakeholders in November 2023, we also received submissions from a number of stakeholders which included suggestions for changes to the lending regulations, which were also considered as part of the Review.

4.3. Review Conclusions

As set out in the Review Report, which provides more detail on the underlying analysis, stakeholder feedback and suggestions for change received, our analysis to assess and analyse the impact of the changes made to the lending regulations in 2020 highlights a number of key themes over the Review Period, as follows:

- **Total gross loans outstanding** have grown strongly in this period with total gross loans outstanding at 30 June 2024 of €6.9 billion (compared to €5.1 billion at September 2019).
- **Evolution in the profile of credit union lending** can be observed, specifically across loan category and maturity, with no strong indication of an impact from the 2020 changes on the credit quality profile of credit union lending (through observance of arrears data).

[24] Stakeholder view and suggestions for change were received during a series of bilateral meetings held specifically to inform the Review in November 2023. The Registry of Credit Unions within the Central Bank met with the Department of Finance, the Credit Union Advisory Committee, the Irish League of Credit Unions, the Credit Union Development Association, the Credit Union Managers' Association and the National Supervisors Forum.

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- **The maturity profile** of credit union lending has shifted significantly with a higher proportion of gross loans outstanding and new lending issued having a maturity of greater than 5 years. At 30 June 2024, 37% of total gross loans outstanding have a maturity profile of greater than 5 years compared to 21% at 30 September 2019.
- Resulting from the lending decisions taken by individual credit unions, facilitated by changes to the maturity limits for credit union lending, an increased number of credit unions are **required to maintain a higher minimum liquidity ratio** (in line with the liquidity requirements contained in Part 3 of the 2016 Regulations).
- Credit unions **have increased the diversification** of their loan portfolios. While credit union lending remains predominately for personal loans, there has been a material increase in the proportion of gross loans outstanding for house loans which represent 9.8% of gross loans outstanding at 30 June 2024 (compared to 3.7% at 30 September 2019).
- The introduction of **the combined concentration limits** for house and business lending have provided scope for credit unions to increase their lending in both of these areas. This scope appears to have been utilised more for house lending than business lending.
    - **house lending -** gross loans outstanding have grown from c. €187 million at 30 September 2019 to c. €674 million at 30 June 2024 representing overall growth of 261%.
    - **business lending** - gross loans outstanding have grown from c. €114 million at 30 September 2019 to c. €179 million at 30 June 2024 representing overall growth of 57%.
- Following the introduction of the combined concentration limits for house and business lending, **credit unions have utilised the scope provided to them to increase house and**

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business lending to varying extents, most likely as a result of member demand for these categories of lending and individual credit union risk appetite. Varying levels of house and business lending have been observed with the cohort of larger credit unions (those with total assets of at least €100 million) having a higher proportion of their lending exposed to house and business lending.

- Based on sector stakeholder feedback, it does not appear that those changes related to the **re-naming and re-defining of the business loan category** have resulted in any significant impact on individual credit unions or on overall credit union lending, either positive or negative.
- The **changes introduced to large exposures** and on **board reporting requirements** for house loans do not appear to have had any material impact on credit union lending over the Review Period.

Our analysis of credit union lending data suggests that, at a sectoral level - whether taking into account all credit unions or only those credit unions actively engaged in house and / or business lending - considerable capacity remains available for house and business lending within the existing combined concentration limits. However, the Central Bank has considered additional information submitted by stakeholders on credit unions' lending pipeline (for house lending, in particular) and the considerable sector stakeholder feedback we have received in this area, including suggestions for change and other recent developments. We have taken into account an improved sectoral reserves position and the experience gained by a number of credit unions in house and business lending since the 2020 changes to the credit union lending regulations commenced, in addition to other factors and considerations. Taking all of these considerations into account, it is the Central Bank's view that some changes to the credit union lending regulations are warranted at this time. The

Central Bank is therefore proposing a number of targeted changes to the credit union lending regulations which are set out in Section 5 of this consultation paper. The proposed changes will seek to ensure that the credit union lending framework remains appropriate for the sector, with guardrails, while providing flexibility to those credit unions who wish to undertake house lending and business lending, taking account of the broader legislative requirements.

5. Lending Proposals

Section 84 of the 1997 Act outlines that the Central Bank shall administer the system of regulation and supervision of credit unions with a view to ensuring (i) the protection by each credit union of the funds of its members, and (ii) the maintenance of the financial stability and well-being of credit unions generally.

Having concluded the Review outlined in Section 4 of this consultation paper, and in the context of our statutory mandate in respect of credit unions, the Central Bank considers that changes to the lending regulations are warranted. In this regard, the Central Bank is consulting on some proposed targeted material changes to the credit union lending regulations in the following areas:

1. Concentration limits for house and business lending; and
2. Lending practices for specific categories of lending.

Before finalising any Amendment Regulations to make changes to the lending regulations contained in Part 4 of the 2016 Regulations, the Central Bank will give consideration to the need to include any associated transitional arrangements in these Amendment Regulations to address circumstances where credit unions would not otherwise be in compliance with the new requirements when they take effect.

Further detail and the rationale for each of the proposals is outlined in sections 5.1 and 5.2 below.

5.1. Changes to the Concentration Limits for House and Business Lending

As set out in Section 4 of this consultation paper, the current lending regulations set out in Part 4 of the 2016 Regulations include concentration limits for the permitted categories of lending by credit unions. In respect of the house loan[25] and business loan[26] categories of lending, the Central Bank amended the lending regulations in 2020 to prescribe combined concentration limits for house and business lending on a tiered basis, incorporating:

- A 7.5% of total assets combined concentration limit for house and business lending. Within this, total business loans cannot exceed more than 5% of total assets.
- A 10% of total assets combined concentration limit for house and business lending, subject to the credit union satisfying objective qualifying criteria relating to asset size and reserves (≥€50 million total assets and ≥12.5% regulatory reserve). Within this, total business loans cannot exceed more than 5% of total assets.

[25] The 2016 Regulations define "house loan" as meaning "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".

[26] The 2016 Regulations define "business loan" as meaning "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".

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- A 15% of total assets combined concentration limit for house and business lending for credit unions with total assets of at least €100 million, subject to approval from the Central Bank.

The previous longer term lending maturity limits - which capped the percentage of credit union lending which could be outstanding for periods of greater than 5 and 10 years - were removed from the 2016 Regulations from 1 January 2020.

Over the Review Period, at a sectoral level, gross loans house and business loans outstanding increased from €0.30 billion in September 2019 to €0.65 billion in September 2023 and to €0.9 billion in June 2024 (of an overall capacity of €2.9 billion at 30 June 2024).

The combined concentration limits for house and business lending are expressed in terms of a credit union's total assets in order to ensure that a credit union's potential to engage in house and business lending is not constrained by reference to its overall lending (which had been the basis on which the previous 5 and 10 year loan maturity limits, removed from 1 January 2020, had been calibrated). The limits were formulated to provide increased flexibility to credit unions in terms of the composition of their loan books, where this is aligned with their strategy, capability and risk appetite. The limits made additional capacity available to larger credit unions (i.e. those with assets of at least €100 million) that can demonstrate with appropriate evidence that they have strong core foundations, including the skills, expertise, risk management and operational capability to undertake an increased element of lending in these loan categories via a Central Bank application and approval process. In line with the dynamic nature of capacity available under the combined concentration limits which, for example, increase / decrease according to the value of a credit union's total assets, the

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potential maximum total capacity for house and business lending at a sectoral level has increased from €2.5 billion to €2.8 billion over the period between September 2020 to September 2023, and stood at €2.9 billion at June 2024.

On the structure of the combined concentration limits, analysis carried out by the Central Bank as part of the review that preceded CP125 indicated that it was house and business loans that primarily had maturities of over 5 and 10 years. Combining the concentration limits for house and business lending was intended to:

- help to mitigate ALM impacts;
- help to ensure that the maturity profile of credit union lending remained appropriate and that there is not a disproportionate amount of credit union balance sheets being held in longer term assets; and
- afford flexibility to credit unions to determine how they wish to utilise the headroom made available to them, whether this be in house lending, business lending or both.

In the Feedback Statement on CP125, the Central Bank stated that the significant and fundamental structural changes being made to the framework were laying the groundwork for potential future changes and that a gradual stepped approach to providing additional capacity to credit unions for house and business lending was appropriate. In addition, we stated that where conditions in the sector are such that there is an evidence basis to adjust capacity in the future, this could be achieved by amending the level of the limits and, in this regard, we stated that we remained committed to re-evaluating the capacity provided for house and business lending as the sector evolves and to making any necessary, appropriate and prudent adjustments.

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5.1.1. Proposed Changes

On the concentration limits for house and business lending, the Central Bank is now consulting on the following proposals for change:

- **decouple the limits** to prescribe new separate concentration limits for house lending and business lending;
- **remove tiering** whereby all credit unions regardless of asset size may avail of the same concentration limits;
- **adjust the lending capacity available** to all credit unions for house and business lending, within the new concentration limits, as follows:
  - house lending - 30% of total assets
  - business lending - 10% of total assets

These changes would result in significant overall capacity for house and business lending (€8.6 billion capacity compared to the €2.9 billion available under the current concentration limits, based on sector total assets at June 2024 – see the RIA at Appendix C of this consultation paper for further details).

Our analysis of credit union lending data undertaken as part of the Review suggests that, at a sectoral level - whether taking into account all credit unions or only those credit unions actively engaged in house and / or business lending - considerable capacity remains available for house and business lending within the existing combined concentration limits. However, in proposing the above changes to the existing combined concentration limits for house and business lending, the Central Bank has considered additional information submitted by stakeholders on credit unions' lending pipeline (house lending, in particular) and the considerable sector stakeholder feedback we have received in this area, including suggestions for change as outlined in the Review Report.

As articulated by the Central Bank in CP125, an appropriate lending framework should, among other things, facilitate credit risk diversification within loan portfolios. The changes made to the credit union lending regulations in 2020 have facilitated greater credit risk diversification, in particular diversification to categories of lending beyond personal loans and across different loan maturities. However, the Central Bank recognises the need to consider whether the lending capacity available to all credit unions for house and business lending should be further adjusted to better facilitate credit unions in diversifying their credit risk and to take account of other factors and considerations (outlined in the Review Report the Central Bank is publishing concurrently with this consultation paper). In this regard, as set out in the Review Report, the Central Bank recognises:

- The need for credit unions to have an indication of the future direction and scope for house and business lending to facilitate their strategic and business planning.
- That house loans and / or business loans are not offered by all credit unions at present (which is relevant in referring to overall sector lending capacity available for these categories of lending).
- Recommendation 5.2 of the Retail Banking Review (November 2022)[27], which states that the credit union sector and its leadership should develop a strategic plan[28] that enables the sector to safely and sustainably provide a universal product and service offering, which is community based, and which is

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[27] Department of Finance, Retail Banking Review (November 2022) - https://www.gov.ie/en/publication/28cf9-retail-banking-review-november-2022/

[28] The report states that such a strategic plan should demonstrate how credit unions can:
- Scale their business model in a viable manner in key product areas such as mortgages and SME lending;
- Invest in expertise, systems, controls and processes such that the sector can deliver standard products and services across all credit unions, in a manner that manages risks arising and continues to protect members' savings; and
- Provide the option of in-branch services for members of all credit unions.

offered to all credit union members, directly or on a referral basis.

- Developments relevant to credit union collaboration which have progressed and emerged since 2020, including the credit union agri-business loan offering under the "Cultivate" brand and the establishment and role of a mortgage CUSO for credit unions.
- Legislative changes arising from the 2023 Amendment Act, including on governance, allowing referrals for services including loans from one credit union to another and allowing credit unions to enter into loan participation and loan syndication-type arrangements.
- Recommendations and additional observations for the Central Bank's consideration relevant to the credit union lending framework included in the International Credit Union Regulators' Network (ICURN) 2023 Peer Review Report on the Central Bank's performance of its regulatory functions in relation to credit unions.[29] These included ICURN's view that without some liberalisation of the lending limits and flexibility, the Credit Union (Amendment) Bill 2022[30] may not have the anticipated positive impact and ICURN's support for separating the concentration limits for house and business lending.

We consider that the changes are warranted in order to ensure the lending regulations remain appropriate for the credit union sector into the future, including that they provide sufficient flexibility to those credit unions who wish to undertake increased house lending and business lending, taking account of the broader legislative requirements, in particular section 35 of the Credit Union Act, 1997.

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[29] The ICURN 2023 Peer Review Report on the Central Bank's performance of its regulatory functions in relation to credit unions is available in the "Communications" section of the "Credit Unions" area of the Central Bank website (under the "Reports" tab).

[30] On 13 December 2023 the Credit Union (Amendment) Bill 2022 was enacted.

While the proposed changes to the concentration limits would build upon the existing lending framework for credit unions, and in particular the combined lending concentration limits, the proposed changes, which would decouple the limits, remove the current tiered approach and adjust the lending capacity available, would represent a material change to the approach adopted by the Central Bank in 2020, including by:

- adopting a longer term view with regard to overall available capacity – in contrast to the stepped approach referred to in CP125 and the Feedback Statement on CP125; and
- provide considerably greater agency to individual credit unions on the extent to which they may, should they so wish, develop business models that incorporate house lending, business lending and more diversified loan maturities within their loan books.

The proposed changes are underpinned by the Central Bank's risk-based, outcomes focused, supervisory approach under which we supervise credit unions, and our supervisory powers to intervene, where necessary, with a view to the protection by each credit union of the funds of its members and the maintenance of the financial stability and well-being of credit unions generally - in line with our statutory mandate under the 1997 Act.

The Central Bank has previously noted the sector's average LTA ratio as one of the key sustainability challenges facing the sector. While the sector average LTA has increased over the Review Period, we have received considerable feedback from stakeholders that the combined nature of the concentration limits for house and business lending are operating to restrict credit unions from taking up, or growing, their house and / or business loan portfolios and that the maximum capacity available within these limits is not adequate and

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does not provide a clear pathway for growth in these lending categories.

The Central Bank is supportive of credit unions increasing lending on a prudent basis, including personal lending (which has traditionally been, and remains, credit unions' area of focus), house lending and business lending as well as exposure to longer term lending as part of a balanced loan portfolio. A balanced loan portfolio, supported by strong risk management capability may deliver diversification within loan books and help to manage credit concentration risks to which credit unions may be exposed. However, all lending should be prudently undertaken, well-managed and in line with the credit union's strategy, capabilities and risk appetite. Credit unions should be aware of the risks and related considerations for all categories of lending they undertake, including categories of lending that entail increased longer term lending,

Changes to the regulatory framework are not the sole solution to the low sectoral average LTA ratio and associated sustainability challenges facing the sector. Low LTA ratios, if not addressed by credit unions, will continue to impact on sustainability. In the context of the sustainability challenges facing the sector, it is critical for all credit unions to carefully consider their strategic priorities and reflect these priorities in their strategic plans.

In accordance with the 1997 Act, and other regulatory requirements and guidance, credit unions must manage and control lending to ensure the making of loans does not involve undue risk to members' savings (i.e. lend prudently) and, more generally, maintain capital strength, adequate liquidity and strong governance, and understand, identify and mitigate relevant risks within an appropriate risk management framework. Section 6 of this consultation paper addresses particular areas credit unions need to consider and address.

The Central Bank is seeking views on the following:

1. **Do you agree with the proposed changes to the concentration limits for house and business lending? These changes would:**
   - **decouple the limits** to prescribe new separate concentration limits for house lending and business lending;
   - **remove tiering** whereby all credit unions regardless of asset size may avail of the same concentration limits;
   - **adjust the lending capacity available** to all credit unions for house and business lending, within the new concentration limits, as follows:
     - house lending - 30% of total assets
     - business lending - 10% of total assets

   Please provide reasons for your answer.

2. **Do you have any other comments on these proposed changes including on the need for any transitional arrangements related to the changes?**

   Please provide reasons for your answer.

5.2. Removal of Regulation 16 of the 2016 Regulations

On lending practices for specific categories of lending, Regulation 16 of the 2016 Regulations currently provides the following:

- a credit union may only grant a business loan, a community loan or a 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 it grants the relevant loan; and

- a credit union must report on the performance of loans, in writing, to the board of directors of the credit union on a monthly basis, and such report must include details on the performance of business loans, community loans, house loans and loans to other credit unions.

Regulation 16 does not apply to a business loan granted by a credit union where the total amount of business loans granted to a borrower, or group of borrowers who are connected, is less than €25,000.

5.2.1. Proposed Changes

The Central Bank is proposing to remove Regulation 16 from the 2016 Regulations. Related to this change, the Central Bank plans to develop and include new guidance in the Credit Union Handbook setting out our expectations on credit unions reporting to their boards of directors on the performance of loans.

In proposing to remove Regulation 16 of the 2016 Regulations, the Central Bank recognises the following:

- The rigidity of Regulation 16, which requires that credit unions obtain comprehensive business plans and detailed financial projections for certain business loans as well as for community loans and loans to other credit unions;
- The overarching requirement in section 35 of the 1997 Act, which states that the ability of the loan applicant to repay a loan shall be the primary consideration in the underwriting process of the credit union making the loan or participating in the loan, as the case may be (as well as other requirements which apply for business lending and lending generally)– e.g. Central Bank

(Supervision and Enforcement) Act 2013 (Section 48) (Lending to Small and Medium-Sized Enterprises) Regulations 2015.

- On reporting to the board on the performance of specific categories of lending, that these requirements may benefit from some refinement and that it would be appropriate, having regard to various overarching requirements in the 1997 Act including section 35(10)[31], to outline the Central Bank's expectations in this regard in new and updated guidance in the Credit Union Handbook.

The Central Bank is seeking views on the following:

3. **Do you agree with the proposed removal of Regulation 16 of the 2016 Regulations? This change would remove the following requirements from the 2016 Regulations:**
    - a credit union may only grant certain business loans[32], a community loan or a 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 it grants the relevant loan; and
    - a credit union must report on the performance of loans, in writing, to the board of directors of the credit union on a monthly basis, and such report must include details on the performance of business loans, community loans, house loans and loans to other credit unions.

    Please provide reasons for your answer.

[31] Section 35(10) of the 1997 Act provides that a credit union shall ensure that it has appropriate processes, procedures, systems, controls and reporting arrangements to monitor compliance with the requirements of this section and any requirement imposed under this section.

[32] Regulation 16(3) states that "This Regulation does not apply to a business loan granted by a credit union where the total amount of business loans granted to a borrower, or group of borrowers who are connected, is less than €25,000".

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4. Do you have any other comments on this proposed change including on the need for any transitional arrangements related to the change?

Please provide reasons for your answer.

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6. Asset and Liability Management, Liquidity and Other Considerations

The Central Bank recognises that the provision of loans to members is a core function of credit unions. The proposals for amendments to the credit union lending regulations contained in this consultation paper are guided by what the Central Bank considers to be prudentially appropriate for credit union lending.

The Central Bank continues to be supportive of credit unions growing their loan books on a prudent basis, recognising that some of this growth may be outside the personal loan category of lending. Credit unions may choose, in line with their own risk appetite and business strategy, to increase lending in house loans and / or business loans as part of a balanced loan portfolio, to diversify credit risk by borrower, loan category and duration. Such lending decisions, particularly those related to house lending, will likely result in increasing the maturity profile of their loan books.

The Central Bank would continue to caution that growth in loan books should not result in imbalanced loan portfolios with excessive exposures to a particular category of loan, a particular borrower or group of connected borrowers or a specific maturity category. Credit unions entering into new areas of lending, or increasing their exposure to same (including longer term lending exposures) need to consider the ALM implications of growth in longer term lending as part of a balanced loan portfolio. It is important that credit unions who wish to change the profile of their loan books understand the specific risks and profitability profiles and how this change fits within the credit union's lending strategy, risk appetite and capabilities. Changes to the lending profile of a credit union must be supported by

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critical enablers such as the necessary competence, skills, expertise, risk management and operational frameworks to ensure that all lending undertaken is appropriately managed. It is important that credit unions understand and identify the risk factors specific to lending activities they are engaging in and how they would mitigate these risks. In this regard, we highlight a recommendation, made by ICURN in the 2023 Peer Review report, relating to risk management, where it stated that "Further work is required by credit unions to strengthen their core foundations across governance, risk management and operational capabilities for an effective risk management framework as highlighted in Guiding Principles 4 and 5. Although the responsibility rests with boards and management of credit unions to ensure that their governance, compliance and risk management frameworks support operations as well as proposed business model changes, the Registry has an important role to play in providing guidance and overseeing the risk management environment in credit unions…".

6.1. Asset and Liability Management

As set out in CP125, balance sheet transformation towards a higher proportion of longer term lending requires appreciation of the associated risks including liquidity and ALM considerations and how to mitigate these risks. When considering balance sheet transformation credit unions also need to consider the combined impact of longer term investments and longer term lending on ALM.

Any proposal that has the potential to lengthen the maturity of assets needs to be considered in a broader asset and liability management context. Credit unions should be cognisant of their obligation under section 85A(2) of the 1997 Act to ensure that at all times they keep a proportion of their total assets in liquid form so as to enable the credit union to meet its obligations as they arise and

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that the proportion of assets kept in liquid form takes into account the nature, scale and complexity of the credit union and the composition and maturity of its assets and liabilities. Consideration needs to be given to the profile of funding with appropriate monitoring and evaluation of asset and liability mismatches.

6.2. Liquidity

In March 2018 the liquidity requirements for credit unions were amended to broaden the definition of "relevant liquid assets", allowing credit unions to include certain bonds when calculating liquidity subject to applicable discounts and reducing the short term liquidity requirement from 5% to 2.5% of unattached savings. The changes were made in response to "CP109 - Consultation on Potential Changes to the Investment Framework for Credit Unions"[33] stakeholder feedback (including significant feedback highlighting the challenges being encountered from an investment perspective with the negative rates being offered at that time on short term investments and the decreasing appetite of domestic financial institutions for such investments) and following additional analysis undertaken by the Central Bank, and to encourage both an increased level of diversification in credit union investment portfolios and a more proactive approach to liquidity management.

At the same time as the 2020 changes to the credit union lending regulations were introduced, the Section 35 Regulatory Requirements for Credit Unions[34] were revoked. The liquidity requirements contained in the Section 35 Regulatory Requirements for Credit Unions which required credit unions with lending over 5

[33] CP 109 was published in May 2017 and consultation on potential changes to the investment framework for credit unions.

[34] Further detail on the previous Section 35 Regulatory Requirements for Credit Unions can be found in CP125.

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years above 20% of total gross loans outstanding to hold additional liquidity were incorporated into Part 3 of the 2016 Regulations.[35]

The liquidity requirements were further revised in December 2020 in order to ensure that funds held in credit union's minimum reserve deposit accounts with the Central Bank in excess of the minimum reserve requirement come within the meaning of "relevant liquid assets" for the purpose of the liquidity requirements in the 2016 Regulations – such funds are available within less than 8 days and therefore count towards credit unions meeting their minimum liquidity requirements and short term liquidity requirements.

As outlined in the Review Report, resulting from the lending decisions taken by individual credit unions during the Review Period (which were facilitated by the 2020 changes to the maturity limits for credit union lending), as at June 2024 an increased number of credit unions are required to maintain a higher minimum liquidity ratio (in line with the liquidity requirements contained in Part 3 of the 2016 Regulations) since the 2020 changes were commenced.

The proposals for changes to the concentration limits contained in section 5 of this consultation paper take account of the current liquidity position of credit unions, the composition of liquidity and the quality of liquid assets held across the sector. The RIA in

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[35] Regulation 8(2) of the 2016 Regulations requires the following:
A credit union shall establish and maintain a liquidity ratio of –
(a) at least 25 per cent, where the total gross loan amount outstanding to that credit union with more than 5 years to the final repayment date exceeds 20 per cent but is less than 25 per cent of the total gross amount outstanding in relation to all loans,
(b) greater than 25 per cent, where the total gross loan amount outstanding to that credit union with more than 5 years to the final repayment date is equal to or exceeds 25 per cent but is less than 29 per cent of the total gross amount outstanding in relation to all loans, or
(c) at least 30 per cent, where the total gross loan amount outstanding to that credit union with more than 5 years to the final repayment date is equal or exceeds 29 per cent of the total gross amount outstanding in relation to all loans.

Appendix C of this consultation paper considers the impact the proposals for change to the concentration limits contained in this consultation paper may have, taking account of the potential impact on the current liquidity position of credit unions and the composition of liquidity across the sector. The analysis in the RIA notes that the average liquidity ratio for the sector was 36% at 30 June 2024, with all credit unions holding liquidity in excess of the applicable minimum liquidity requirement under the 2016 Regulations. The analysis set out in the RIA suggests that the current liquidity requirements would not present an impediment to credit unions increasing their lending, including increasing the maturity profile of their loan books, in line with the opportunities that the proposals for change to the concentration limits would provide. In addition, the RIA highlights that credit unions may need to take certain actions to ensure appropriate ALM which may include changes to investment strategy, reallocation of assets from investments to lending, raising of additional funding and / or transformation of the existing funding base (for example by a shift from predominately on demand funding to increased levels of term deposit funding).

On increased exposure to longer term lending within credit union look books, any strategic plans a credit union may have for balance sheet transformation including increased exposure to longer term lending should consider maturity transformation, the credit union's liquidity requirements and ALM.

The Central Bank is of the view that the proposals for changes to the concentration limits set out in Section 5 of this consultation paper introduce an appropriate level of additional flexibility to the lending framework for credit unions, including an increase in the capacity for credit unions to undertake house lending and business lending. Utilising lending capacity to provide house loans or business loans is a matter for individual credit unions; credit unions are not obliged to

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engage in these types of lending. Such increased capacity should only be availed of by credit unions with strong core foundations backed up by financial resilience including a strong capital and liquidity position, and where such lending is aligned with the overall strategic plan of the credit union.

6.3. Other Considerations

A number of other additional considerations for credit unions seeking to change the composition of their loan books and expand lending in specific loan categories which may be longer term in nature, including increased lending in house loans and business loans, were outlined in CP125. These considerations continue to be relevant in the context of the proposals contained in this consultation paper.

Some existing requirements that apply to credit unions – e.g. requirements related to liquidity, ALM, risk management systems, compliance, outsourcing, governance (generally), fitness and probity, competence and consumer protection, will become increasingly relevant for credit unions seeking to increase their exposures to house and / or business lending.

6.3.1. Risk considerations

As set out in CP125, there is a need for credit unions to fully understand the risks associated with all lending and ensure that it is in line with the risk appetite of the credit union. Credit unions are required to develop, implement, document and maintain risk management systems with such governance arrangements and systems and controls to allow them identify, assess, measure, monitor, report and manage the risks which they are, or might reasonably be, exposed to. In addition, credit unions are required to implement systems and controls to manage and mitigate the risks identified by their risk management systems.

The decision to proceed with investment in new or expanded loan products and / or expansion into new ventures requires critical assessment of the costs and benefits as they apply to the credit union and its individual situation in terms of member profile, common bond and operational and financial capabilities. In relation to house lending specifically, as set out in the RIA in Appendix C of this consultation paper, credit unions should note that expanding house lending, given these are loans that are generally longer term, carries specific financial risks - if forecasted revenues fail to materialise to the extent anticipated, and / or the associated costs are higher than anticipated, it may result in a deterioration of the overall financial position of the credit union. It is essential, therefore, that revenue and cost models are comprehensive and realistic at the outset before the lending profile of the credit union evolves further.

In December 2017 the Central Bank published a "Long Term Lending – Guidance for Credit Unions"[36] document that sets out the Central Bank's guidance on what credit union boards seeking to increase longer term lending and provide house loans are expected to consider and address, including an overview of some of the main risk factors associated with longer term lending. As highlighted in this guidance, house loans for home purchase, as a distinct longer term lending product, present particular challenges and additional risk factors – including in relation to the key risk areas: financial risks,

[36] https://www.centralbank.ie/docs/default-source/Regulation/industry-market-sectors/credit-unions/applying-for-approvals/long-term-lending-guidance-for-credit-unions.pdf?sfvrsn=3.

credit risk and funding and liquidity risk - which need to be considered.[37]

A phased approach to utilisation of additional capacity to undertake lending in specific loan categories can play an important role in mitigating some of these risks by ensuring that such lending is originated over the economic cycle. It is our expectation therefore that credit unions planning to avail of the increased flexibility to engage in house lending and business lending, under the proposals contained in the consultation paper, would do so in a gradual / phased manner.

Where credit unions are considering increasing longer term lending and expanding or commencing house loan (for home purchase) lending, it is important that they identify the risk factors specific to this type of lending. Credit union boards should appreciate these and incorporate them into their strategic planning, business execution, governance and management systems, and policies and processes.

6.3.2. Consumer Protection

The Consumer Protection Code 2012 (the Code) currently applies to credit unions authorised as insurance intermediaries with respect to their insurance intermediary business. The Code of Conduct on Mortgage Arrears (CCMA) does not currently apply to credit unions, however we understand that many credit unions adhere to the provisions of the CCMA on a voluntary basis.

Following the launch of a consultation paper “CP158 - Consultation on the Consumer Protection Code” on 7 March 2024, the Central Bank is at an advanced stage of its review of the Code. As noted in CP158, we will undertake further engagement with the credit union

[37] Other risks referred to in the paper include market risk, governance & management risk, Operational / Conduct Risk and Regulatory / Compliance Risk.

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sector on the extension of the scope of the Code to all credit union activities - in order to ensure their members are afforded the same protections as other consumers - when the revised Code (which will encompass the CCMA) is close to finalisation.

The Central Bank expects to consult on the application of the Code to credit unions in 2025.

It is the Central Bank's position that the changes being proposed in this consultation paper in relation to the credit union lending regulations must be accompanied by enhanced consumer protections for credit union members. Looking forward, the Central Bank's intention is to apply the Code (including the CCMA) to all credit union activities in due course. This will be subject to a full consultation process and a subsequent statutory consultation process. In this regard, if the proposed changes set out in this consultation paper are made, the Central Bank will endeavour to ensure than the time between those changes taking effect and the application of the Code in full to all credit union activities is minimised insofar as possible.

6.3.3. Reporting / Supervision

It is the Central Bank's intention to ensure that our reporting framework and supervisory approach reflect any changes made to the lending regulations with a view to the early identification of risks arising. The Central Bank is amending the Prudential Return in 2025 and will require enhanced data from credit unions in relation to their lending, including loan book maturities by specific loan category and additional information on large exposures. Such enhancements will support our risk-based, outcomes focussed, supervisory approach including the monitoring and analysis of credit risk, with supervisory actions being taken in response to risks that emerge.

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7. Regulatory Impact Analysis

In accordance with the Consultation Protocol for Credit Unions[38], the Central Bank has conducted a RIA to assess the impact of the proposed changes to the lending regulations set out in this consultation paper.

The full RIA is set out in Appendix C. Credit unions and other sector stakeholders may also wish to provide additional information or analysis they may have on the likely impact of the proposed changes to the lending regulations.

[38] https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/credit-unions/consultation-protocol-for-credit-unions.pdf?sfvrsn=4.

8. Next Steps

The table below sets out proposed next steps and indicative timelines for the introduction of the proposed changes to the lending regulations for credit unions set out in this consultation paper.

Indicative Date	Step
11 December 2024	Consultation Paper published
11 February 2025	Consultation period closes
Q2 2025	Undertake statutory consultation as required under S84A of the Credit Union Act, 1997
Q2 2025	Publish Feedback Statement and Draft Regulations
Q3 2025	Commencement of Final Regulations

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9. Summary of areas where Central Bank is seeking views

The Central Bank is seeking views on the following:

Concentration Limits for House and Business Loans:

1. **Do you agree with the proposed changes to the concentration limits for house and business lending? These changes would:**
   - **decouple the limits** to prescribe new separate concentration limits for house lending and business lending;
   - **remove tiering** whereby all credit unions regardless of asset size may avail of the same concentration limits;
   - **adjust the lending capacity available** to all credit unions for house and business lending, within the new concentration limits, as follows:
     - house lending - 30% of total assets
     - business lending - 10% of total assets

   Please provide reasons for your answer.

2. **Do you have any other comments on these proposed changes including on the need for any transitional arrangements related to the changes?**

   Please provide reasons for your answer.

Lending Practices for Specific Categories of Lending:

3. **Do you agree with the proposed removal of Regulation 16 of the 2016 Regulations? This change would remove the following requirements from the 2016 Regulations:**

- a credit union may only grant a business loan[39], a community loan or a 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 it grants the relevant loan; and
- a credit union must report on the performance of loans, in writing, to the board of directors of the credit union on a monthly basis, and such report must include details on the performance of business loans, community loans, house loans and loans to other credit unions.

Please provide reasons for your answer.

4. **Do you have any other comments on this proposed change including on the need for any transitional arrangements related to the change?**

Please provide reasons for your answer.

[39] Regulation 16(3) states that "This Regulation does not apply to a business loan granted by a credit union where the total amount of business loans granted to a borrower, or group of borrowers who are connected, is less than €25,000".

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10. Making Submissions

Please make your submissions in writing, if possible electronically as a word document or a .pdf document by email, on or before 11 February 2025.

When addressing the questions raised in this Consultation Paper, please use the relevant section heading to identify the section you are referring to and clearly set out the basis for your views.

The Central Bank intends to make all submissions available on the Central Bank website. Information deemed to be potentially libellous or defamatory will not be published. The Central Bank will accept no liability in respect of any information provided which is subsequently released, or in respect of any consequential damage suffered as a result. Submissions should be marked "Consultation on Proposed Changes to the Credit Union Lending Regulations (CP159)" and sent by email to rcuconsultation@centralbank.ie.

In the event that you are unable to send your response electronically, please forward it by post before 11 February 2025 to:

Registry of Credit Unions
Central Bank of Ireland
PO Box 559
New Wapping Street
North Wall Quay
Dublin 1

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Appendix A: Existing Lending Regulations

CREDIT UNION ACT 1997 (REGULATORY REQUIREMENTS) REGULATIONS 2016

(S.I. No. 1 of 2016)

(The entirety of Part 1 of the 2016 Regulations is not reproduced below – please consult the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 for the full provisions.)

PART 1

PRELIMINARY AND GENERAL

Interpretation

2. (1) In these Regulations, unless the context otherwise required:-

"approved housing body" means a housing body granted approval status under section 6 of the Housing (Miscellaneous Provisions) Act, 1992;

"the Bank" means the Central Bank of Ireland;

"business loan" means 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;

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"Commission Recommendation 2003/361/EC" means the Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises[40];

"community loan" means a loan to a community or voluntary organisation which is established for the express purpose of furthering the social, economic or environmental well-being of individuals within the common bond of the credit union in any of the following areas -

(a) sport and recreation;

(b) culture and heritage;

(c) the arts (within the meaning of the Arts Act 2003);

(d) health of the community;

(e) youth, welfare and amenities; and

(f) natural environment;

"final repayment date" means the date on which the loan is due to expire, as indicated on the relevant credit agreement in accordance with section 37C(1)(j) of the Act or any subsequent date agreed between the credit union and the member to whom the loan has been made;

"house" means any building or part of a building that does not have a commercial use as its primary purpose and is used or suitable for use as a dwelling and any outhouse, yard, garden or other land appurtenant thereto or usually enjoyed therewith;

"house loan" means 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;

"member" includes a person in respect of whom services are being offered or provided by a credit union –

(a) as part of an agreement referred to in section 35(2)(c) of the Act; or

[40] OJ No. L124, 20.5.2003, p.36.

(b) pursuant to the receipt of a referral from another credit union in accordance with section 51A of the Act;

"member of the family" means in relation to any person, that person's father, mother, spouse or civil partner, cohabitant, son, daughter, brother, or sister;

"personal loan" means 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;

"related company" means companies related within the meaning of section 2(1) of the Companies Act 2014;

"related party" means -

(a) a member of the board of directors or the management team of a credit union;

(b) a member of the family of a member of the board of directors or the management team of a credit union; or

(c) a business in which a member of the board of directors or the management team of a credit union has a significant shareholding;

"secured loan" means 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;

"significant shareholding" means 10 per cent or more of the shares or voting rights in the business;

"the Act" means the Credit Union Act, 1997;

"unattached savings" means those total savings which are not attached to loans or otherwise pledged as security and are withdrawable by members;

"unsecured loan" means a loan that is not a secured loan.

PART 4

LENDING

Categories of Lending

11. (1) A credit union shall only make loans that fall within the following categories:

(a) personal loans;

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(b) business loans;

(c) community loans;

(d) house loans;

(e) loans to other credit unions.

Concentration Limits

12. (1) A credit union shall not make –

(a) a community loan, where such a loan would cause the total amount of outstanding community loans of the credit union to exceed 25 per cent of the credit union's regulatory reserve, or

(b) a loan to another credit union, where such a loan would cause the total amount of outstanding loans of the credit union to other credit unions to exceed 12.5 per cent of the credit union's regulatory reserves.

(2) Subject to paragraph (3), a credit union shall not make a house loan or a business loan where such loan would cause the combined total gross amount outstanding in relation to house loans and business loans to exceed 7.5 per cent of the assets of the credit union.

(3) A credit union that satisfies all of the requirements in paragraph (4) can increase its combined total gross amount outstanding in relation to house loans and business loans to 10 per cent of the assets of the credit union.

(4) The requirements referred to in paragraph (3) are the following:

(a) the credit union has maintained, for 2 or more consecutive quarters immediately preceding the date on which the notification referred to in subparagraph (b) is made -

(i) a minimum asset size of €50,000,000, and

(ii) regulatory reserves of at least 12.5 per cent of the assets of the credit union;

(*b*) the credit union has provided the Bank with at least one month's prior notification in writing that the credit union –

(i) is satisfied that it is compliant with the criteria in paragraph (a) at the time of the notification, and

(ii) intends to increase lending in respect of house loans and business loans in accordance with paragraph (3).

(5) A credit union that is subject to the limits set out in paragraph (2) or paragraph (3) shall not make a business loan where such a loan would cause the total gross amount outstanding in relation to business loans to exceed 5 per cent of the assets of the credit union.

(6) A credit union that has made a notification to the Bank under paragraph (4)(b) but no longer complies with the criteria in paragraph (4)(a), shall –

(a) notify the Bank in writing without delay, and

(b) cease making new house loans or new business loans in breach of paragraph (2) except where the credit union has already entered into a legally binding agreement with a member to advance a new house loan or a new business loan."

Approval for increasing Combined Lending Capacity to 15 per cent

12A. (1) A credit union may apply to the Bank for approval to increase its combined total gross amount outstanding in relation to house loans and business loans to 15 per cent of the assets of the credit union.

(2) The Bank may grant an approval referred to in paragraph (1) where –

(a) the credit union had assets of at least €100,000,000 for 2 or more consecutive quarters immediately preceding the date on which the application was submitted under paragraph (1), and

(b) the Bank is satisfied that the credit union has demonstrated that the approval would be -

(i) consistent with the adequate protection of the savings of the members of that credit union, and

(ii) effective and proportionate, having regard to the nature, scale and complexity of the credit union.

(3) For the purpose of paragraph (2)(b), the Bank shall consider the following:

(a) the total realised reserve position of the credit union;

(b) such other matters that the Bank may specify from time to time.

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(4) Where the Bank grants an approval under paragraph (2), it may, at that time or at any other time, make the approval subject to conditions with which the credit union shall comply.

(5) A credit union that is approved by the Bank pursuant to paragraph (2) shall notify the Bank in writing without delay where it no longer complies with any of the requirements in paragraph (2) or any condition imposed on the approval under paragraph (4).

(6) Subject to paragraph (7), a credit union that has made a notification pursuant to paragraph (5) shall –

(a) not make new house loans or new business loans that would cause the combined total gross amount outstanding in relation to house loans and business loans to exceed -

(i) 10 per cent of the assets of the credit union if the credit union complied with the requirements of Regulation 12(4)(a)(i) and (ii) for 2 or more consecutive quarters immediately prior to the date that the notification referred to in paragraph (5) is made, or

(ii) 7.5 per cent of the assets of the credit union in all other cases,

and

(b) not make new business loans that would cause the total gross amount outstanding in relation to business loans to exceed 5 per cent of the assets of the credit union.

(7) Paragraph (6) shall not apply where the credit union has already entered into a legally binding agreement with a member to advance a new house loan or a new business loan.

Large Exposure Limit

13. (1) A credit union shall not make a loan to a borrower or a group of borrowers who are connected which would cause the credit union to have a total exposure to the borrower or group of borrowers who are connected of greater than €39,000 or 10 per cent of the regulatory reserve of the credit union.

(2) Where an exposure to a borrower or group of borrowers who are connected exceeds the limit set out in paragraph (1), the credit union must hold the amount of the exposure that is in excess of the limit in a realised reserve, separate from the regulatory reserve of the credit union.

(3) The requirement specified in paragraph (2) shall not apply, to exposures existing at the time of commencement of these Regulations, for a period of 2 years from the commencement of these Regulations.

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Maximum Loan Terms

14. (1) Subject to paragraph (2), a credit union shall not make -

(a) an unsecured loan to a member where the period from the date on which the loan is made until the final repayment date exceeds 10 years, or

(b) a secured loan to a member where the period from the date on which the loan is made to the final repayment date exceeds 35 years.

(2) With respect to a loan made to a member, a credit union may, with the consent of the member or of a person acting under the member's written authority, alter the repayment conditions to extend the term of the loan beyond the limit set down in paragraph (1) in either of the following circumstances:

(a) the loan is in arrears at the time the repayment conditions are altered;

(b) the loan would fall into arrears if the repayment conditions were not altered because the terms of the original loan agreement would no longer be met.

Requirement for House Loans

15. A credit union shall only make a house loan-

(a) for one or more of the purposes specified in subparagraph (a) or (c) of the definition of 'house loan', or

(b) to refinance a loan previously provided for one or more of the purposes specified in subparagraph (a) or (c) of the definition of 'house loan',

where that loan will be secured as a first legal charge on the property.

Lending Practices for Specific Categories of Lending

16. (1) A credit union shall only grant a business loan, a community loan or a 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 it grants the relevant loan.

(2) A credit union shall report on the performance of loans, in writing, to the board of directors of the credit union on a monthly basis, and such report shall include details on the performance of business loans, community loans, house loans and loans to other credit unions.

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(3) This Regulation does not apply to a business loan granted by a credit union where the total amount of business loans granted to a borrower, or group of borrowers who are connected, is less than €25,000.

General Lending Practices

17. (1) A credit union shall permit a member to repay a loan on any day that the credit union is open for business (including opening hours of branch or otherwise available for business).

(2) A credit union shall establish and maintain the matters specified below in writing:

(a) limits in respect of credit concentration and loan portfolio diversification including the maximum amount of business lending, community lending and lending to other credit unions; and

(b) processes which the credit union will follow in relation to arrears management and rescheduling.

(3) A credit union shall ensure that its credit assessment process is based on coherent and clearly defined criteria and that the process of approving loans and amending loans is clearly established and documented in its credit policy.

Related Parties-General

18. (1) A credit union shall not make a loan to a related party which would provide that party with more favourable terms than a loan by the credit union to non-related parties (including, without limitation, terms as to credit assessment, duration, interest rates, amortisation schedules, collateral requirements).

(2) A credit union shall not manage a loan to a related party on more favourable terms than a loan by the credit union to non-related parties (including but not limited to varying the terms of a loan, permitting rescheduling, interest roll-up, granting a grace period for payment, loan write-off in whole or in part, provisioning against a loan, decisions to take or not to take enforcement action).

Related Parties-Specific

19. (1) Subject to Regulation 18, a credit union shall ensure that the making of a loan to a related party is subject to individual prior approval in writing by the credit committee and that actions in relation to the management of a loan are subject to individual prior approval in writing by the credit committee or the credit control committee of the credit union as appropriate.

(2) A credit union shall exclude individuals on the credit committee or the credit control committee with conflicts of interest in relation to matters specified in paragraph (1).

Related Parties-Exempt Exposures

20. (1) Regulations 19 and 21 do not apply where the total credit union exposure to the related party is not greater than €2,000.

(2) In relation to exempt exposures referred to in paragraph (1), a credit union shall ensure that:-

(a) the credit union monitors these loans to ensure that the limit imposed is not exceeded;

(b) a register of these loans recording how it has complied with this requirement is maintained by the credit union; and

(c) a report on these loans is reviewed and approved by the board of directors of the credit union on a quarterly basis.

Related Parties- Recording and Monitoring Requirements

21. (1) A credit union shall record and monitor loans made to related parties and report, in writing, to the board of directors on related party loans on a monthly basis. Such a report shall include details of loans advanced to related parties during the month, total loans outstanding to related parties, the performance of loans to related parties and actions in respect of the management of loans to related parties.

(2) A credit union shall ensure that the internal audit function assesses, at least annually, the compliance or otherwise by a credit union with Regulation 19 and paragraph (1) of this Regulation and, after each assessment, submit a written report to the board of directors indicating their findings and conclusions and, where appropriate, making recommendations on any changes required.

Related Parties- Credit Policy

22. A credit union shall include the process in relation to lending to a related party in its Credit Policy.

Lending Policies

23. (1) A credit union shall, at a minimum, establish and maintain the following written lending policies:

(a) a credit policy;

(b) a credit control policy;

(c) a provisioning policy.

(2) A credit union shall assess the adequacy of its provisioning for bad and doubtful debts on a quarterly basis, having regard to its provisioning policy.

(3) A credit union shall, without delay, make any adjustments to its provisioning for bad or doubtful debts deemed necessary as a result of a review provided for by paragraph (2).

Transitional Arrangements

24. (1) Nothing in these Regulations shall render unlawful any loan that conflicts with these Regulations but was made or restructured by a credit union in accordance with the legislative requirements applicable at the time the loan was made or restructured, and the credit union may continue to hold such loan until it has been paid or discharged in full.

(2) Where, at the commencement of these Regulations, a credit union is failing to comply with the requirements in this Part, that credit union shall only make a loan where the making of such a loan would not cause the credit union to either fail to comply or exacerbate a failure to comply with any of the requirements in this Part.

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Appendix B: Comparison Table of Current Lending Regulations versus Proposals

Lending Area	Existing Lending Regulations	Proposals for Amendment to Existing Lending Regulations
Concentration Limits for Lending	Combined concentration limits for house and business lending on a tiered basis as follows: • A 7.5% of total assets limit available to all credit unions. Features: ○ Calculated as a percentage of total assets; ○ Entire limit may be utilised by the credit union for house lending; and ○ Up to a maximum of 5% of total assets may be utilised by the credit union for business lending. • A 10% of total assets limit available to credit unions meeting objective asset size criteria (minimum total asset size of €50 million) and holding regulatory reserves of 12.5% or greater. Features: ○ Calculated as a percentage of total assets; ○ Credit union must notify the Central Bank at least one month in advance; ○ Entire limit may be utilised by the credit union for house lending; and ○ Up to a maximum of 5% of total assets may be utilised by the credit union for business lending. • A 15% of total assets limit for credit unions with assets of at least €100 million. Features: ○ Calculated as a percentage of total assets; ○ Subject to an application and approval process;	**i.** Decouple the concentration limits for house and business lending to prescribe new separate concentration limits for house and business lending. **ii.** Remove tiering whereby all credit unions regardless of assets size may avail of the same concentration limits. **iii.** Adjust the lending capacity available to credit unions for house and business lending, as follows: **a)** House lending – 30% of total assets; and **b)** Business lending – 10% of total assets.

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	○ The entire limit may be utilised by the credit union for either house or business lending, subject to any conditions attaching to a Central Bank approval.	
Lending practices for specific categories of lending	A credit union shall only grant a business loan[41], community loan or loan to another credit union where a comprehensive business plan and detailed financial projections are provided. ii. A credit union shall report on the performance of certain business loans, community loans and loans to other credit unions to the board on a monthly basis.	**i.** Removal of Regulation 16 of the 2016 regulations with clear new guidance on reporting to the board on the performance of loans to be developed and included in Credit Union Handbook.

41 Regulation 16(3) states that "This Regulation does not apply to a business loan granted by a credit union where the total amount of business loans granted to a borrower, or group of borrowers who are connected, is less than €25,000".

Appendix C: Regulatory Impact Analysis

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Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Regulatory Impact Analysis on Proposed Changes to the Credit Union Lending Regulations

December 2024

Contents

1. Introduction

Section 35 of the Credit Union Act, 1997 (the 1997 Act) provides regulation making power to the Central Bank in relation to lending. Part 4 of the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 (the 2016 Regulations) sets out, among other things, permitted categories of lending for credit unions and the concentration limits for specific lending categories. The 2016 Regulations also outline lending practices for specific categories of lending.

In January 2020, following a public consultation in "CP125 – Consultation on Potential Changes to the Lending Framework for Credit Unions" (CP125), the Central Bank introduced changes to Part 4 of the 2016 Regulations. To ensure that the lending regulations for credit unions remain appropriate the Central Bank committed, in the Feedback Statement to CP125, to perform and publish an analysis of credit union sector lending three years post-commencement of the changes to the 2016 Regulations to assess and analyse the actual impact which these changes to the regulations have had and to inform any decisions on the need for future change (the Review). The Review commenced in Q4, 2023 and concluded in 2024 with a Report on Credit Union Lending (the Review Report) published by the Central Bank in December 2024. The Review identified that the Central Bank considers that targeted changes to the lending framework are warranted to ensure it remains appropriate for the sector, including that it provides sufficient flexibility to those credit unions who wish to undertake house lending and business lending, taking account of the broader legislative requirements.

In line with our Consultation Protocol for Credit Unions (the Consultation Protocol), the Central Bank is now undertaking a consultation on proposed changes to the lending regulations "CP159 - Consultation on Proposed Changes to the Credit Union Lending Regulations" (CP159). These proposed changes have been informed by the Central Bank's statutory mandate in relation to credit unions as set out in section 84 of the 1997 Act which requires that the Central Bank shall administer the system of regulation and supervision of credit unions with a view to (i) the protection by each credit union of the funds of its members, and (ii) the maintenance of the financial stability and well-being of credit unions generally.

The Consultation Protocol outlines that a Regulatory Impact Analysis (RIA) will be carried out by the Central Bank, where practicable, when consulting on new regulations.

The Central Bank has undertaken a RIA, set out below, to examine the impact of proposed changes to the credit union lending regulations including, but not limited to:

- the potential benefits to credit unions (e.g. increased flexibility for credit union loan books, adjusted capacity in house and business loan categories and less prescription with respect to lending practices for specific categories of lending);
- the potential costs to credit unions (e.g. operating costs associated with the strategic decisions made by credit unions in relation to the category and maturity profiles of their loan book, investment in Credit Union Shared Service Organisations (CUSOs) and potential costs associated with changes to loan book compositions, which may include changes to provisioning and the arrears profiles); and
- the potential impacts on credit unions (e.g. the capacity for house and business lending, the headroom available for increased lending under the proposals and the liquidity impacts).

The RIA is structured as follows:

- Section 2 sets out the policy context and provides an overview of the credit union sector based on Prudential Returns submitted by credit unions to the Central Bank;
- Section 3 outlines the proposed changes to the credit union lending regulations;
- Section 4 analyses the potential costs, benefits and impacts of the proposed changes to the lending regulations;
- Section 5 provides detail on the consultation paper related to this RIA;
- Section 6 specifies the responsibilities for enforcing and ensuring compliance with the credit union lending regulations; and
- Section 7 provides detail on the publication of the RIA and related consultation paper.

2. Context

At 30 June 2024, there were 187 active credit unions, with total reported membership of approximately 3.65 million. Based on 30 June 2024 Prudential Return data total assets in the sector are €21.4 billion comprising total loans of €6.9 billion and total investments of €13.7 billion. Total sector member savings are €17.9 billion.

Total realised reserves are €3.4 billion at 30 June 2024. The average realised reserves ratio has remained broadly unchanged over the period 30 September 2019 to 30 June 2024, with average sector realised reserves of 16.4% reported by credit unions at 30 June 2024. At 30 June 2024, 182 credit unions (97% of active credit unions) reported total realised reserves of at least 12.5% of total assets.

A detailed analysis of the current profile of sector lending, along with trends in lending since 2017, is set out in *Appendix 1* of the Review Report with some key highlights included in Section 2.1[1] below covering sector lending activity, loan maturity profile, loan category profile and the capacity for house and business lending.

2.1. Current Sector Lending

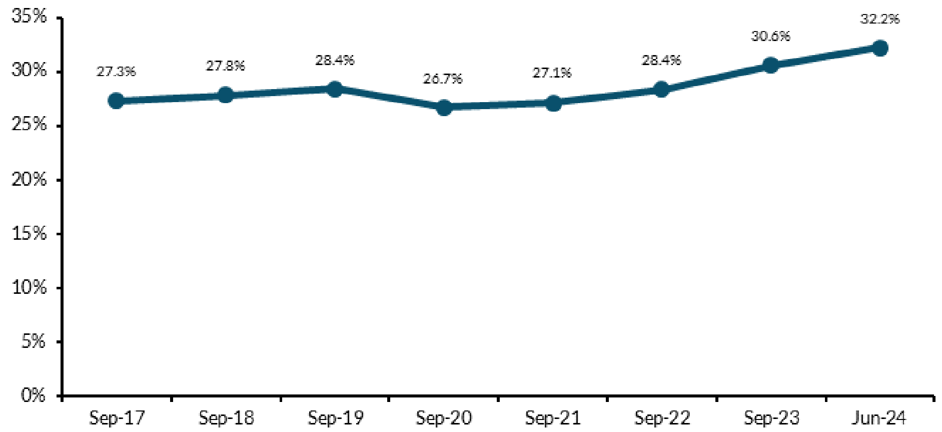
2.1.1. Sector Lending Activity

Total assets have increased by 17% between 30 September 2019 and 30 June 2024. Total gross loans outstanding have increased from €4.5 billion at September 2017 to €5.1 billion at September 2019 and

[1] Unless otherwise stated data references in this section are based on Prudential Return data as at 30 September of the relevant year and also include Prudential Return data as at 30 June 2024 (this section refers to data available on 22 August 2024).

to €6.9 billion at June 2024. The average sector loan to asset (LTA) ratio has also grown over the same period from 28.4% at September 2019 to 32.2% at June 2024.

Chart 1 | Sector Average LTA Ratio

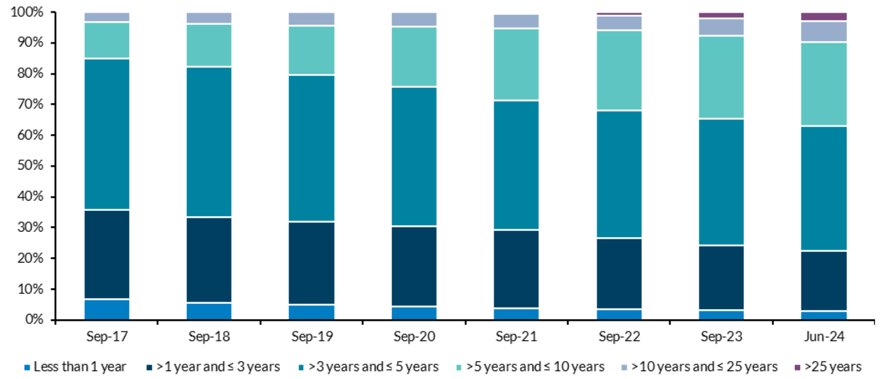


Source: Credit Union Prudential Return data

2.1.2. Loan Maturity Profile

There has been a significant change in the maturity profile of total sector gross loans outstanding between September 2017 and June 2024. In the year-end immediately prior to the introduction of the changes to the 2016 Regulations in 2020, at September 2019, 79% of gross loans outstanding had a maturity of up to and including 5 years, 16% had a maturity of between 5 and 10 years, and 4% had a maturity of greater than 10 years. Following the removal of the 5 and 10 year loan maturity limits from the 2016 Regulations in 2020, which had limited the amount of loans a credit union could have outstanding for periods of greater than 5 and 10 years, there has been a steady increase in the proportion of total sector gross loans outstanding in the 5 to 10 year and greater than 10-year loan maturity buckets from 2020 to 2024. At June 2024, 63% of gross loans outstanding in the sector had a maturity of up to and including 5 years, 27% had a maturity of between 5 and 10 years, and 10% had a maturity of longer than 10 years.

Chart 2 | Volume of Gross Loans Outstanding by Maturity

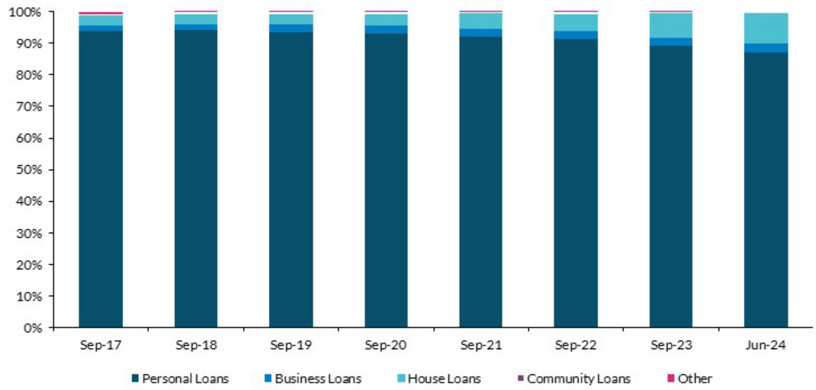


Source: Credit Union Prudential Return data

2.1.3. Loan Category Profile

At September 2019, the year-end immediately preceding the 2020 changes to the 2016 Regulations, the proportion of gross loans outstanding in personal loans was 93.7%. While personal loans remain the predominant category of lending by credit unions, there has been a slight reduction in the proportion of gross loans outstanding in this category, with personal loans accounting for 87.3% of all gross loans outstanding at 30 June 2024. Related to this reduction in personal loans outstanding, house loans outstanding have grown in recent years and now stand at 9.8% of sector outstanding gross loans at 30 June 2024 representing the second largest category of loans outstanding. Business lending as a proportion of sector gross loans outstanding has grown from 2.2% in 2019 to 2.6% of overall loans outstanding at June 2024.

Chart 3 | Volume of Gross Loans Outstanding by Category



Source: Credit Union Prudential Return data

2.1.4. Capacity for House and Business Lending

The changes introduced to the lending framework in 2020 included the introduction of combined concentration limits on a tiered basis for house and business lending. These apply as follows:

- A concentration limit of 7.5% of total assets[2] for house and business lending is available to all credit unions.
- A concentration limit of 10% of total assets[2] for house and business lending is available to all credit unions with total assets of at least €50 million, subject to advance notification to the Central Bank and the credit union holding regulatory reserves of at least 12.5% of total assets.
- A concentration limit of 15% of total assets for house and business lending is available to credit unions with total assets of at least €100 million, subject to a Central Bank application and approval process.

To date, the number of notifications and applications for utilisation of the increased concentration limits received by the Central Bank is low

[2] Within this concentration limit, no more than 5% of total assets may be outstanding for business loans.

(25 credit unions[3] and 24 credit unions[4] respectively), relative to the number of credit unions eligible to avail of the increased concentration limits (55 credit unions and 70 credit unions respectively[5]).

Table 1 outlines the capacity available to cohorts (by asset size) of credit unions, based on total assets at 30 June 2024, for house and business lending. Total capacity illustrated in this table assumes all credit unions with assets of between €50 million and €100 million are eligible to notify the Central Bank to avail of the 10% limit, and do so, and that all credit unions with assets of at least €100 million are approved to utilise the increased 15% concentration limit. Table 1 also outlines the amount of gross loans outstanding for house and business lending at 30 June 2024 and the resultant capacity utilisation rate.

Table 1 | Utilisation of Capacity for House and Business Lending | data as at 30 June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
Total Capacity for House and Business Loans	€93.13M	€451.27M	€2,322.25M	€2,866.65M
Total House and Business Loans Outstanding	€10.99M	€103.59M	€738.45M	€853.03M
% Capacity Used	11.8%	23.0%	31.8%	29.8%

Source: Credit Union Prudential Return data

[3] As at 30 November 2024, the Central Bank had received 25 notifications from credit unions (24 credit unions) notifying the Central Bank of their intention to avail of the 10% combined concentration limit for house and business loans. Ten notifications had lapsed on the basis that the credit union no longer meets one or both of the qualifying criteria to avail of the 10% limit or the credit union has been approved for the 15% combined concentration limit for house and business loans. As at 30 November 2024, 14 notifications were active and one notification was not yet active.

[4] As at 30 November 2024, the Central Bank had received 24 applications from credit unions (22 credit unions) seeking Central Bank approval to avail of the 15% combined concentration limit for house and business loans. As at 30 November 2024, the Central Bank has approved 18 applications, 3 applications were under consideration and 3 applications have been withdrawn.

[5] Based on those credit unions meeting the asset size criteria to avail of the increased limits per Prudential Return data at 30 September 2024 (note: credit union asset size information here refers to data available on 3 December 2024).

At June 2024, as illustrated in Table 2, 60% of credit unions reported concentration limit usage for house and business lending of between zero and 2.5% of total assets, 20% of credit unions reported usage between 2.5% and 5% and 20% of credit unions reported concentration limit usage of greater than 5%.

Table 2 | Breakdown of the number of credit unions by combined house and business loans as a % of total assets | data as at 30 June 2024

		Asset Bucket			Total Sector
		< €40M	€40M - €100M	≥ €100M	
Combined House / Business Loans as a % Total Assets	0%	17	13	0	30
	>0, <2.5%	27	32	24	83
	≥2.5%, <5%	5	14	18	37
	≥5%, <7.5%	0	9	18	27
	≥7.5%, <10%	0	1	5	6
	≥10%, <12.5%	0	0	3	3
	≥12.5%, <15%	0	0	1	1

Source: Credit Union Prudential Return data

3. Proposed Changes to the Credit Union Lending Regulations

Arising from the Review, and having regard to several factors and considerations as set out in CP159, it is the Central Bank's view that changes to the credit union lending regulations, set out in Part 4 of the 2016 Regulations, are warranted. More specifically, the Central Bank is proposing a number of targeted material changes to the lending regulations in the following areas:

1. Concentration limits for house and business lending; and
2. Lending practices for specific categories of lending.

The proposed changes seek to ensure that the credit union lending regulations remain appropriate for the sector, with guardrails, while providing flexibility to those credit unions who wish to undertake increased house lending and business lending, taking account of the broader legislative requirements. The composition of the lending portfolio in each credit union, including exposure to different loan categories and different maturity profiles, is a matter for decision by each credit union.

3.1. Changes to the concentration limits for house and business lending

Regulations 12 and 12A of the 2016 Regulations prescribe the concentration limits for house and business lending, with increased concentration limits available to some credit unions on the basis that certain conditions are met. The combined concentration limits for house and business lending are currently calibrated as a percentage of total assets of the credit union with the following features:

- Combined concentration limit for house and business loans of 7.5% of total assets available to all credit unions. Where this limit applies:
    - The entire limit may be utilised by the credit union for house lending or a combination of house and business lending.
    - Up to a maximum of 5% of total assets may be utilised by the credit union for business lending.
- Combined concentration limit for house and business loans of 10% of total assets, subject to the credit union satisfying objective qualifying criteria relating to asset size and reserves (total assets of at least €50 million and regulatory reserves of at least 12.5% of total assets). Credit unions seeking to avail of this limit must provide advance notification to the Central Bank. Where this limit applies:
    - The entire limit may be utilised by the credit union for house lending or a combination of house and business lending.
    - Up to a maximum of 5% of total assets may be may be utilised by the credit union for business lending.
- Combined concentration limit for house and business loans of 15% of total assets, available to credit unions with total assets of at least €100 million, subject to a Central Bank application and approval process. Where this limit applies the full 15% of total assets limit may be utilised for house lending, business lending or a combination of house and business lending.

The Central Bank is proposing changes to the current combined concentration limits for house and business lending as follows:

- decouple the limits to prescribe new separate concentration limits for house lending and business lending;

- remove tiering whereby all credit unions regardless of asset size may avail of the same concentration limits; and
- adjust the lending capacity available to all credit unions for house and business lending, within the new concentration limits, as follows:
  - House lending – 30% of total assets,
  - Business lending – 10% of total assets.

The Central Bank would caution however that all lending should be prudently undertaken, well-managed and in line with the credit union's strategy, capabilities and risk appetite. Credit unions should be aware of the risks and related considerations for all categories of lending they undertake, including categories of lending that entail increased longer term lending.

3.2. Changes to lending practices for specific categories of lending

Regulation 16 of the 2016 Regulations outlines lending practices for specific categories of lending. Specifically, Regulation 16(1) requires that a credit union shall only grant a business loan, a community loan or a 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 it grants the relevant loan. In addition Regulation 16(2) states that a credit union shall report on the performance of loans, in writing, to the board of directors of a credit union on a monthly basis, and such report shall include details on the performance of business loans, community loans, house loans and loans to other credit unions. Further, Regulation 16(3) clarifies that Regulation 16(1) and 16(2) do not apply to a business loan granted by a credit union where the total amount of business loans granted to a borrower, or group of borrowers who are connected, is less than €25,000.

The Central Bank is proposing to remove Regulation 16 of the 2016 Regulations. It is proposed that new guidance on reporting to the board on the performance of loans will be developed and included in the Credit Union Handbook.

4. Analysis of Costs, Benefits and Impacts for each Proposed Change

The potential costs and benefits for credit unions and the credit union sector as a whole have been considered for each of the proposed changes to the credit union lending regulations outlined in Section 3 of this RIA. The potential impact of each of the proposed changes has been assessed on an individual and collective basis to understand the proposed impact on individual credit unions and on the sector overall.

The Central Bank highlights the challenges and limitations associated with undertaking a RIA on the proposed changes to the lending regulations. The analysis on the potential impact of the proposed changes has been undertaken subject to certain assumptions which are specified throughout this section. No specific analysis has been performed on the potential impact of the proposals on the income of credit unions, as this is a matter for each credit union reflecting the composition of their loan book and pricing strategy.

It is a matter for individual credit unions to set their own risk appetite for lending within the parameters set out in the credit union lending regulations and the broader regulatory framework including the Central Bank's macro-prudential Mortgage Measures. Credit unions considering any change in the profile of their loan books must give careful consideration to the consequential impacts. Moving beyond – or further beyond, as the case may be - traditional short term personal lending may represent a significant change for some credit unions. Balance sheet transformation towards a higher proportion of longer term lending requires identification of the associated risks, including liquidity and ALM considerations, and how to mitigate these risks. When considering balance sheet transformation credit unions also need to consider the combined impact of longer term investments and longer term lending on ALM.

4.1. Information Sources

Data provided to the Central Bank through the quarterly Prudential Returns has informed the analysis of the potential impact of the proposed changes and associated limits. Where financial data analysis has been performed this is by reference to the 30 June 2024 Prudential Returns submitted by 187 individual credit unions.

Credit unions may wish to provide additional information or data analysis they may have on the potential impact of the proposed changes to the lending regulations through any responses they provide to CP159.

4.2. Costs

If the proposed changes contained in CP159 are made to the lending regulations set out in Part 4 of the 2016 Regulations, this will provide increased scope for credit unions to engage in house and business lending. The portfolio composition of credit union loan books, including the proportion of loans held in specific loan categories (as well as the proportion of loans held over longer maturities), is a matter for credit unions to determine in accordance with their strategy and risk appetite. The Central Bank expects credit unions to continue to undertake, as part of their business strategy, a thorough assessment of the costs associated with increased lending in specific loan products and lending categories.

Strategic decisions by credit unions to focus more heavily on specific categories of lending may increase costs to the credit union as additional investment may be required relating to, for example, the risk management framework of the credit union, the acquisition of specific skillsets to facilitate such lending, staff training and increased marketing, compliance and legal costs. IT system changes to facilitate enhanced management information and reporting requirements for house and business lending may also be required. For some credit unions these associated costs may have been incurred already where credit unions have made a strategic decision and are currently engaging in these categories of lending[6].

Credit unions should also be aware of the potential impact on their future financial position, due to potential increased costs associated with changing the composition of their loan book, such as possible increased levels of provisioning and the potential changing profile of arrears.

CUSOs have been established to support collaboration in the sector, a small number of which have been established in relation to the provision of house and business lending by credit unions. Costs are borne by individual credit unions who choose to invest in and utilise the services of any CUSO to pursue increased house and / or business lending.

On house lending, given that these are loans that are generally longer term, this carries specific financial risks. If forecasted revenues fail to materialise to the extent anticipated, and / or the associated costs

[6] As outlined in Data Table 14 as set out in *Appendix 1* of the Review Report - 111 credit unions reported at least one house loan outstanding at 30 June 2024 and 64 credit unions reported at least 20 house loans outstanding. As outlined in Data Table 18 as set out in *Appendix 1* of the Review Report- 136 credit unions reported at least one business loan outstanding at 30 June 2024 and 82 credit unions reported at least 20 business loans outstanding.

are higher than anticipated, it may result in a deterioration of the overall financial position of the credit union. Revenue and cost models used by credit unions should be comprehensive and realistic at the outset before the lending profile of the credit union evolves further with a clear understanding of the likely impact of a changing lending profile on the financial position of the credit union. Credit unions may find the Longer Term Lending Guidance for Credit Unions published by the Central Bank in December 2017 useful in informing these considerations.

4.3. Benefits

The proposals for change to the credit union lending regulations outlined in CP159, including the decoupling of the concentration limits for house and business lending, will provide increased flexibility for credit union lending. The decoupling of the concentration limits for house and business lending will provide additional scope to credit unions to increase diversification within their loan books, both in terms of loan category and maturity profile. Utilisation by a credit union of capacity for lending in one of the categories would no longer impact the capacity available for lending in the other category. The changes proposed in CP159 will provide credit unions with increased flexibility to manage their loan books within their own individual risk appetite against the backdrop of a regulatory framework that facilitates credit unions' development through a balanced loan portfolio.

The proposed changes to the credit union lending regulations and the increased flexibility which these changes will afford to credit unions also presents credit unions with an opportunity to increase their lending overall. While there has been some uplift in the average sector LTA ratio since the introduction of the 2020 changes to the 2016 Regulations (as illustrated in Chart 1 of this RIA), the changes proposed in CP159 may facilitate credit unions in increasing LTA ratios, while maintaining a balanced loan portfolio and potentially positively impacting the overall return on assets. The removal of the Regulation 16 requirement may also result in increased applications for business loans from credit union members who, subject to a credit union's underwriting approach, may not necessarily be required to provide a comprehensive business plan or detailed financial projections to the credit union.

The changes proposed in CP159, in particular the removal of Regulation 16, will result in less prescription with respect to lending practices for specific categories of lending.

The proposals outlined in CP159 would result in the removal of the notification and application processes for availing of higher loan concentration limits for house and business lending. Notwithstanding the Central Bank's expectation for lending by credit unions to be prudently undertaken, well-managed, and in line with a credit union's strategy, capabilities and risk management, the simplification of the lending framework in relation to house and business lending may allow credit unions to focus their resources in other areas.

The proposals outlined in CP159 will also remove the requirement for a credit union with assets of at least €50 million to maintain a regulatory reserve of at least 12.5% to avail of a higher combined concentration limit for house and business loans of 10% per cent of total assets.

In addition, the proposals, which are targeted at ensuring an appropriate lending framework for credit unions over the longer term, will provide credit unions with clarity on the longer term scope for house and business lending to facilitate their future strategic direction and business planning. The proposed changes may also support the sector in addressing the recommendation for credit unions from the Retail Banking Review which stated that the credit union sector and its leadership should develop a strategic plan[7] that enables the sector to safely and sustainably provide a universal product and service offering, which is community based, and which is offered to all credit union members, directly or on a referral basis.

The changes proposed in CP159 would enable credit unions to enhance member services, through increasing the overall capacity available for credit unions to engage in house and business loans, aligned with *Objective 4* (improving member services)[8] of the Department of Finance's Review of the Policy Framework for Credit Unions which concluded in 2022.

4.4. Impacts

4.4.1. Changes to the combined concentration limits for house and business lending

The potential impact of the changes to credit union concentration limits for house and business lending has been assessed to identify the effect on credit union lending capacity for these categories of lending. Calculations have been performed to assess the potential overall sector impact and the impact on cohorts (by assets size) of

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7 The report states that such a strategic plan should demonstrate how credit unions can:
- Scale their business model in a viable manner in key product areas such as mortgages and SME lending;
- Invest in expertise, systems, controls and processes such that the sector can deliver standard products and services across all credit unions, in a manner that manages risks arising and continues to protect members' savings; and
- Provide the option of in-branch services for members of all credit unions.

8 https://www.gov.ie/en/press-release/a2cac-minister-of-state-fleming-publishes-the-credit-union-amendment-bill-2022/.

credit unions[9]. Where assumptions have been made, these are specified within the relevant section.

The impact of the changes has been assessed across the following areas:

- Overall capacity for house and business lending;
- House lending capacity;
- Business lending capacity;
- Headroom available for increased lending under the proposals;
- Maximum, minimum and average capacity available to credit unions for house and business lending; and
- Liquidity impacts.

Overall capacity for house and business lending

As detailed in section 3.1 of this RIA, the 2016 Regulations place a limit on the maximum amount of loans which can be outstanding in house and business lending combined for individual credit unions. The proposed changes to the lending concentration limits, outlined in CP159, provide for increased total capacity at sectoral level and adjust the capacity available for individual credit unions across the sector for house and business lending.

Table 3 provides an overview of the current capacity available at a sectoral level for house and business lending combined, for house lending only and for business lending only. Based on the total sector assets as at 30 June 2024, the total potential capacity for house and business lending at an overall sector level[10] under the 2016 Regulations is c. €2.9 billion. The current calibration of the limits in the regulations allows credit unions to utilise the full capacity for

[9] Unless otherwise stated, data references in this section refer to data available on 18 September 2024.

[10] Assuming all credit unions with assets between €50 million and €100 million are eligible to notify the Central Bank to avail of the 10% of total assets limit, and do so, and all credit unions with assets of at least €100 million are approved to utilise the 15% of total assets limit

house lending, thereby providing the potential for house lending of c. €2.9 billion. Under the current framework credit unions with total assets of less than €100 million are limited to a concentration limit of 5% of total assets for business lending hence the potential capacity for business lending at c. €2.6 billion is less than the capacity available for house lending.

The combined nature of the capacity for house and business lending under the 2016 Regulations was introduced to ensure suitably balanced lending portfolios in the sector as credit unions began engaging in new areas of lending and increasing exposure to longer term lending. Under the current combined concentration limits, a credit union utilising capacity by increasing house loan exposures, decreases the capacity available to the credit union for business lending, and vice versa.

Table 3 | Capacity for house and business lending under the existing combined concentration limits for house and business lending in the 2016 Regulations | Data as at 30 June 2024

Capacity	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
House Lending Capacity Only (entire limit may be utilised by credit unions for house lending at all concentration limits)	€93.13M	€451.27M	€2,322.25M	**€2,866.65M**
Business Lending Capacity Only (Up to a maximum of 5% of total assets may be utilised for business loans by those credit unions at the 7.5% and 10% limit)	€62.09M	€232.84M	€2,322.25M	**€2,617.18M**
Combined House & Business Lending Capacity	**€93.13M**	**€451.27M**	**€2,322.25M**	**€2,866.65M**

Source: Credit Union Prudential Return data

Table 4 sets out the utilisation of the maximum potential capacity available for house and business lending, based on gross loans outstanding for both house and business lending at 30 June 2024. At a sectoral level the value of total sector house and business lending accounted for approximately 30% of the maximum potential capacity for house and business lending available in the sector; however, there is significant variation in this utilisation rate at the asset cohort level.

Table 4 | Utilisation of existing combined concentration limits for house and business lending in the 2016 Regulations | Data as at 30 June 2024

	Asset Bucket			Total Sector
	< €40M	€40M - €100M	≥ €100M	
House Lending utilised	€3.75M	€55.00M	€615.20M	**€673.95M**
Business Lending utilised	€7.22M	€48.59M	€123.24M	**€179.06M**
Combined House & Business Lending utilised	€10.98M	€103.59M	€738.45M	**€853.01M**
House Lending % of capacity utilised	4.0%	12.2%	26.5%	23.5%
Business Lending % of capacity utilised	11.6%	20.9%	5.3%	6.8%
Combined House & Business Lending utilised %	**11.8%**	**23.0%**	**31.8%**	**29.8%**

Source: Credit Union Prudential Return data

The proposals for change to the concentration limits, outlined in CP159, would result in the following adjustments to capacity for house and business lending:

- A house lending concentration limit of 30% of total assets would apply to all credit unions representing an adjustment to the current available concentration limits for house lending of 7.5%, 10% and 15% of total assets (which are dependent on the total asset size of the credit union).
- A business lending concentration limit of 10% of total assets would apply to all credit unions representing an adjustment to the current concentration limits for business lending of 5% and 15% of total assets (which are dependent on the total asset size of the credit union).
- At an individual credit union level, utilisation of house lending capacity would not reduce business lending capacity and vice versa. Each specific limit may be utilised by the credit union for lending in that category.

Analysis has been undertaken to assess the potential impact of the proposed decoupled concentration limits for house and business lending. Using 30 June 2024 data, Table 5 illustrates the capacity for house and business lending under the proposed decoupled concentration limits of 30% of total assets for all credit unions for house loans and the proposed concentration limit of 10% of total assets for all credit unions for business loans.

Using data submitted by credit unions as at 30 June 2024, under the proposed decoupled limits for house and business lending, the capacity available for house and business lending in the sector would be c. €8.6 billion – c. €6.4 billion for house lending (30% of total sector assets as at 30 June 2024) and c. €2.1 billion for business lending (10% of total sector assets as at 30 June 2024). Under the proposed decoupled concentration limits, utilising capacity by increasing house loan exposures would no longer decrease the capacity available to a credit union for business lending, and vice versa.

Table 5 | Capacity for house and business lending under the proposed decoupled house and business lending concentration limits | Data as at 30 June 2024

	Asset Bucket			
	< €40M	**€40M - €100M**	**≥ €100M**	**Total Sector**
House Lending at 30%	€372.53M	€1,397.05M	€4,644.50M	**€6,414.07M**
Business Lending at 10%	€124.18M	€465.68M	€1,548.17M	**€2,138.02M**
Total Capacity for House & Business Lending	€496.70M	€1,862.73M	€6,192.66M	**€8,552.09M**

Source: Credit Union Prudential Return data

Table 6 outlines the difference in the capacity for house and business lending in the sector under the existing combined concentration limits set out in the 2016 Regulations and the decoupled concentration limits for house and business lending proposed in CP159.

Table 6 | Difference in capacity under the existing and proposed concentration limits | Data as at 30 June 2024

		House Lending			Business Lending		
		Existing Capacity*	Proposed Capacity	Difference	Existing Capacity**	Proposed Capacity	Difference
Asset Bucket	< €40M	€93.13M	€372.53M	€279.39M	€62.09M	€124.18M	€62.09M
	€40M - €100M	€451.27M	€1,397.05M	€945.78M	€232.84M	€465.68M	€232.84M
	≥ €100M	€2,322.25M	€4,644.50M	€2,322.25M	€2,322.25M	€1,548.17M	-€774.08M
Total Sector		**€2,866.65M**	**€6,414.07M**	**€3,547.42M**	**€2,617.18M**	**€2,138.02M**	**-€479.15M**

Source: Credit Union Prudential Return data.

**Note that Existing Capacity for house lending in this table represents a scenario where all credit unions would utilise their total available capacity under the combined limit for house lending. Under the existing combined limits, business loans outstanding in a credit union will reduce the capacity for house loans available to that credit union.*

*** Note that Existing Capacity for business lending in this table represents a scenario where all credit unions would utilise the total available capacity under the combined limit for business lending. Under the existing combined limits, house loans outstanding in a credit union may reduce the capacity for business loans available to that credit union.*

**** Note that the Existing Capacity amounts for house and business lending displayed in Table 6 are mutually exclusive.*

The proposed decoupled limits for house and business lending would introduce c. €5.7 billion additional capacity for house and business lending in the sector (i.e. in addition to the current capacity of €2.9 billion) bringing total available capacity for house and business lending to €8.6 billion.

House Lending

As illustrated on Table 6, under the proposals all credit unions would be provided with increased scope to undertake house lending up to 30% of total assets with the overall capacity available for this category of lending increasing to c. €6.4 billion under the proposal (from c. €2.9 billion, calculated based on a scenario where all credit unions would utilise their total available capacity under the combined limits for house lending but noting that this does not reflect the true sector position at 30 June 2024 – as outlined in Table 4 above, credit unions have utilised some capacity through both house and business loans outstanding).

Business Lending

As illustrated on Table 6, under the proposals, credit unions with total assets of less than €100 million would see an increase in the capacity available to undertake business lending increasing to c. €0.59 billion (from c. €0.29 billion, calculated based on a scenario where all those credit unions would utilise their total available capacity under the combined limit for business lending but noting that this does not reflect the true sector position at 30 June 2024 – as outlined in Table 4 above, credit unions have utilised some capacity through both house and business loans outstanding).

Given the proposed limit for business lending is calibrated below the existing 15% of total assets combined concentration limit that's is available to credit unions with assets of at least €100 million, the capacity for business lending for this cohort of credit unions would decrease to €1.5 billion (from €2.3 billion, calculated based on a scenario where all those credit unions would utilise the total available capacity under the combined limit for business lending but noting that this does not reflect the true sector position at 30 June 2024 – as outlined in Table 4 above, credit unions have utilised some capacity through both house and business loans outstanding).

Overall, at a sectoral level the capacity available for business lending would reduce by c. €0.48 billion (with existing capacity calculated based on a scenario where all credit unions would utilise the total available capacity under the combined limit for business lending but noting that this does not reflect the true sector position at 30 June 2024 – as outlined in Table 4 above, credit unions have utilised some capacity through both house and business loans outstanding). It is important to highlight however that at the individual credit union level, utilisation of house lending capacity would not reduce business lending capacity under the proposals outlined in CP159.

While the overall capacity for business lending will be reduced under the proposals presented, it is not considered that this will materially impact on any credit unions. As outlined in Table 7, at 30 June 2024 only one credit union has reported business loans greater than 5% of their total assets. 90% of credit unions reported business lending up to 2.5% of assets, significantly below the 10% concentration limit proposed for business loans. All credit unions have reported business loans outstanding of less than 10% of assets at 30 June 2024. There is headroom available for all credit unions to increase business lending under the business lending concentration limit proposed in CP159.

Table 7 | Business Loans Outstanding as a proportion of Total Assets | Data as at 30 June 2024

		Asset Bucket			Total Sector
		< €40M	€40M - €100M	≥ €100M	
Average business loans outstanding to total assets (based on Credit Unions reporting business loans)		0.93%	1.42%	1.00%	1.13%
Breakdown of credit unions by the business loans outstanding to total assets	*0%*	*20*	*21*	*10*	*51*
	>0%, ≤2.5%	*26*	*39*	*53*	*118*
	>2.5%, ≤5%	*3*	*9*	*5*	*17*
	>5%, ≤7.5%	*0*	*0*	*0*	*0*
	>7.5%, ≤10%	*0*	*0*	*1*	*1*
	>10%, ≤12.5%	*0*	*0*	*0*	*0*
	>12.5%, ≤15%	*0*	*0*	*0*	*0*
	>15%	*0*	*0*	*0*	*0*

Source: Credit Union Prudential Return data

Headroom available for increased house and business lending under the proposals

Table 8 illustrates the value of house and business loans outstanding at 30 June 2024 relative to the capacity available to credit unions under the proposed decoupled concentration limits outlined in CP159.

- The value of house loans outstanding at 30 June 2024 represents utilisation of 10.5% of the capacity for house lending that would be available under the decoupled house lending concentration limit proposed in CP159, compared to 23.5%

utilisation of the capacity available under the existing limit set out in the 2016 Regulations (as outlined in Table 4 above).

- The value of business loans outstanding at 30 June 2024 represents utilisation of 8.4% of the capacity for business lending that would be available under the decoupled business lending concentration limit proposed in CP159, compared to 6.8% utilisation of the capacity available under the existing limit set out in the 2016 Regulations (as outlined in Table 4 above).

Under the proposals for change to the concentration limits credit unions would be provided with significant increased capacity to engage in house and business lending.

Table 8 | Proportion of proposed limits utilised | Data as at 30 June 2024

		House Lending			Business Lending		
		Gross Loans Outstanding Jun-24	Proposed Capacity	% Utilised	Gross Loans Outstanding Jun-24	Proposed Capacity	% Utilised
Asset Bucket	< €40M	€3.75M	€372.53M	1.0%	€7.22M	€124.18M	5.8%
	€40M - €100M	€55.00M	€1,397.05 M	3.9%	€48.59M	€465.68M	10.4%
	≥ €100M	€615.20M	€4,644.50 M	13.2%	€123.24M	€1,548.17 M	8.0%
Total Sector		**€673.95M**	**€6,414.07 M**	**10.5%**	**€179.06M**	**€2,138.02 M**	**8.4%**

Source: Credit Union Prudential Return data

Maximum, minimum and average capacity available to credit unions for house and business lending

Table 9 outlines the maximum, minimum (reflective of the largest and smallest credit union by asset size in each cohort) and average capacity available for credit unions in each of the asset cohorts under the existing lending regulations[11] and under the decoupled concentration limits proposed in CP159, using data as at 30 June

[11] Assuming all credit unions with assets of between €50 million and €100 million are eligible to notify for the 10% of total assets concentration limit and do so, and assuming all credit unions with assets of at least €100 million are approved for the 15% of total assets concentration limit by the Central Bank.

2024. Given that the capacity is a function of asset size, it is those credit unions with higher total assets that will have higher capacity for house and business lending.

Table 9 | House and business lending capacity – by asset size | Data as at 30 June 2024

	Capacity	Asset Bucket		
		< €40M	€40M - €100M	≥ €100M
Existing Combined Limits				
House Lending	Minimum	€0.37M	€3.10M	€15.13M
	Maximum	€2.84M	€9.99M	€87.98M
	Average	€1.90M	€6.54M	€33.66M
Business Lending	Minimum	€0.24M	€2.07M	€15.13M
	Maximum	€1.89M	€5.00M	€87.98M
	Average	€1.27M	€3.37M	€33.66M
Proposed Decoupled Limits				
House Lending	Minimum	€1.47M	€12.39M	€30.26M
	Maximum	€11.36M	€29.97M	€175.96M
	Average	€7.60M	€20.25M	€67.31M
Business Lending	Minimum	€0.49M	€4.13M	€10.09M
	Maximum	€3.79M	€9.99M	€58.65M
	Average	€2.53M	€6.75M	€22.44M

Source: Credit Union Prudential Return data

Liquidity Impact of Proposals[12]

The proposals for change to the lending concentration limits contained in CP159 have been considered taking account of the potential impact on the current liquidity position of credit unions and the composition of relevant liquid assets across the sector. CP159 does not propose increased or additional liquidity requirements for credit unions.

As set out in Part 3 of the 2016 Regulations, credit unions are required to hold at least 20% of their unattached savings in relevant liquid assets, with additional requirements for credit unions that increase lending over 5 years above 20% of total gross loans outstanding.

[12] Data references in this sub-section refer to data available on 10 October 2024.

Regulation 8(2) of the 2016 Regulations requires that a credit union shall establish and maintain a liquidity ratio of –

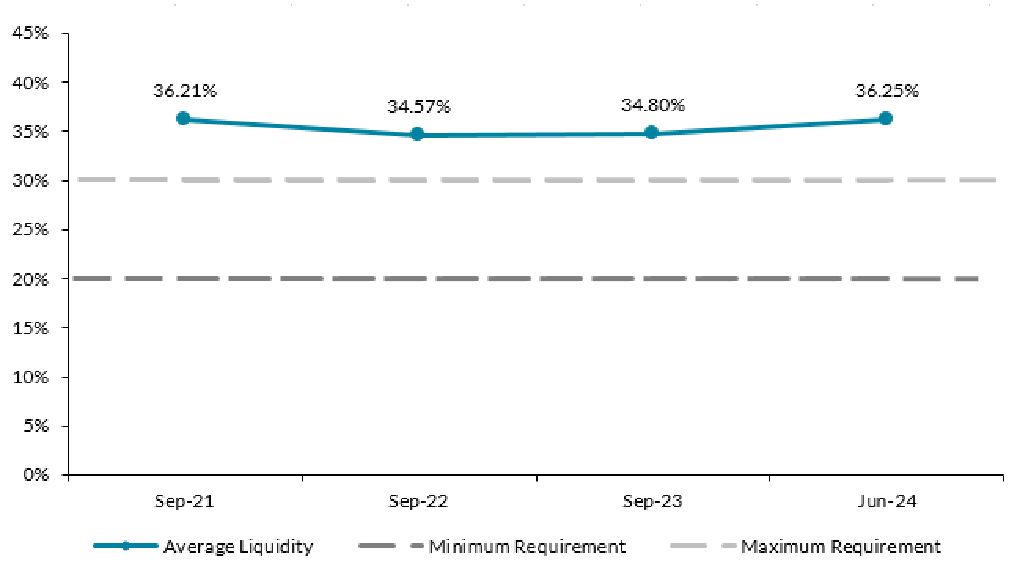
- at least 25 per cent, where the total gross loan amount outstanding to that credit union with more than 5 years to the final repayment date exceeds 20 per cent but is less than 25 per cent of the total gross amount outstanding in relation to all loans,
- greater than 25 per cent, where the total gross loan amount outstanding to that credit union with more than 5 years to the final repayment date is equal to or exceeds 25 per cent but is less than 29 per cent of the total gross amount outstanding in relation to all loans,

  or
- at least 30 per cent, where the total gross loan amount outstanding to that credit union with more than 5 years to the final repayment date is equal to or exceeds 29 per cent of the total gross amount outstanding in relation to all loans.

Current Liquidity Position

At 30 June 2024, the average liquidity ratio at a sectoral level based on data reported by credit unions in their Prudential Returns was c.36% with all credit unions holding liquidity in excess of the applicable minimum liquidity requirement. This average sector liquidity ratio is aligned with recent observed liquidity trends across the sector as is illustrated on Chart 4 - it is evident that generally credit unions tend to hold liquidity buffers above their minimum liquidity requirement.

Chart 4 | Average Sector Liquidity



Source: Credit Union Prudential Return data

Table 10 illustrates the number of credit unions that fall within the various minimum liquidity requirement buckets (which, as outlined above, is linked to the maturity profile of their loan book) and the average liquidity ratio for these cohorts of credit union at 30 June 2024.

Table 10 | Breakdown of liquidity requirements at June 2024 and the average liquidity ratio by requirement bucket | Data as at 30 June 2024

		Jun-24	
		No. of Credit Unions	**Average Liquidity Ratio**
Gross loans outstanding with maturity > 5 years: ≤ 20%	*Liquidity requirement: ≥ 20%*	26	32%
Gross loans outstanding with maturity > 5 years: > 20% and < 25%	*Liquidity requirement: ≥ 25%*	20	37%
Gross loans outstanding with maturity > 5 years: ≥ 25% and < 29%	*Liquidity requirement: > 25%*	24	36%
Gross loans outstanding with maturity > 5 years: ≥ 29%	*Liquidity requirement: ≥ 30%*	117	37%

Source: Credit Union Prudential Return data

As Table 10 illustrates, at 30 June 2024, in line with the liquidity requirements contained in the 2016 Regulations, 117 credit unions (63% of all credit unions) are required to maintain the maximum liquidity ratio of at least 30% - this is as a direct result of the lending decisions they have taken and the resultant impact on the maturity profile of their loan books. The average LTA ratio of these 117 credit unions was broadly in line with the sector average at 30 June 2024 of 33.7%.

Under the current liquidity framework the maximum liquidity ratio which a credit union could be required to maintain is 30%. A credit union's minimum liquidity requirement will only increase to this level if the credit union engages in lending which results in at least 29% of its loan book having a maturity of greater than 5 years. As illustrated in Table 10 above, and based on data at 30 June 2024, there are potentially up to a further 70 credit unions that could be required to hold a higher minimum liquidity ratio of 30% (above their existing minimum liquidity requirement), if they were to engage in lending that increases the maturity profile of their loan book and that lending results in at least 29% of their gross loans outstanding having a maturity of greater than 5 years.

Analysis has been undertaken to assess the liquidity profile of these 70 credit unions. As outlined in Table 11 below, 16 of these credit unions currently hold liquidity of less than 30% at 30 June 2024. This suggests that the majority of these 70 credit unions, even if they were to increase their gross loans outstanding for more than 5 years above 29% of total loans by availing of the opportunities provided under the proposed changes to the concentration limits, would not be required to increase the level of liquid assets above that which they currently hold. It is expected that any increase in lending which could result in the remaining 16 credit unions being subject to an increased minimum liquidity requirement will be undertaken on a gradual basis. This provides the relevant credit union with time to understand, assess and plan for the liquidity impacts of any changes to the maturity profile of their loan books and ensure their compliance with the relevant liquidity requirements contained in Part 3 of the 2016 Regulations.

The above analysis suggests that the current liquidity requirements would not present an impediment to credit unions increasing their lending, including increasing the maturity profile of their loan books, in line with the opportunities that the proposals for change to the concentration limits would provide.

Table 11 |Credit unions reporting a liquidity ratio of less than 30% by requirement bucket | Data as at 30 June 2024

		Jun-24	
		No. of Credit Unions	**Number Reporting Liquidity Less than 30%**
Gross loans outstanding with maturity > 5 years: ≤ 20%	*Liquidity requirement: ≥ 20%*	26	11
Gross loans outstanding with maturity > 5 years: > 20% and < 25%	*Liquidity requirement: ≥ 25%*	20	4
Gross loans outstanding with maturity > 5 years: ≥ 25% and < 29%	*Liquidity requirement: > 25%*	24	1

Source: Credit Union Prudential Return data

Structural Balance Sheet Considerations

The composition of credit union balance sheets also indicate that there is sufficient scope for credit unions to increase their lending, both generally and in longer term loan categories, taking account of the liquidity requirements contained in Part 3 of the 2016 Regulations. Based on the 30 June 2024 Prudential Returns submitted by 187 credit unions, the sector had total unattached savings of €16.5 billion. Assuming that the maximum liquidity requirement of 30% of unattached savings applied to all credit unions this would result in a liquidity requirement of approximately €5 billion. At 30 June 2024, total sector assets stood at €21.4 billion, including total investments of €13.7 billion across the sector, and approximately €5.9 billion of relevant liquid assets (as defined in the 2016 Regulations). Total loans reported were €6.9 billion. The Central Bank recognises that, at an individual credit union level, the allocation of assets between loans and investments may vary significantly compared to the allocation at a sectoral level. In this regard, it is a matter for individual credit unions to assess the allocation of their assets between investments and lending, cognisant of a number of factors including their own strategic plan and risk appetite.

As articulated in CP159, any individual credit union that wishes to increase lending, including increasing lending with longer maturities, needs to consider the impacts of this change from both a liquidity and an ALM perspective. In particular, consideration needs to be given to the potential combined impact that changes to the maturity profile of credit union loan books and investments may have on the structure of credit union balance sheets. Credit unions who are seeking to change the maturity profile of their loan books should review their approach to ALM taking account of a number of factors, including their funding base and current profile/maturity of their loan and investment portfolios. Credit unions may need to take certain actions to ensure appropriate ALM which may include changes to investment strategy, reallocation of assets from investments to lending, raising of additional funding and / or transformation of the existing funding base (for example by a shift from predominately on demand funding to increased levels of term deposit funding). The extent of change needed to a credit union's ALM approach will vary reflective of their current approach and sophistication to ALM and the composition of their balance sheet.

4.4.2. Changes to lending practices for specific categories of loan[13]

As outlined in Section 3.2 above, the 2016 Regulations outline lending practices for specific categories of lending where a comprehensive business plan and detailed financial projections are provided to the credit union before granting the loan. CP159 proposes to remove this requirement.

Table 12 illustrates that the proportion of the total number of new business loans advanced where the amount of the new loan granted was €25,000 or more has increased from 20% of new business loans advanced in the year to 30 September 2019 to 31% of new business loans advanced for the year to 30 September 2023. 36% of business loans issued in the 9 months to 30 June 2024 had a value of at least €25,000.

Table 12 | Number New Business Loans Advanced

	Sep-19		Sep-23		Jun-24*	
	No. of Loans	% of Business Loans	No. of Loans	% of Business Loans	No. of Loans	% of Business Loans
Business Loans issued for less than €25,000	2,502	80%	1,929	69%	1,392	64%
Business Loans issued for €25,000 or greater	613	20%	853	31%	775	36%
Total Business Loans	**3,115**		**2,782**		**2,167**	

Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

While analysis indicates that the proportion of the total number of new business loans advanced where the amount of the new loan granted was €25,000 or more has increased since introduction of the changes to the lending framework in 2020, we consider this level of business lending falling within this requirement is not significant in the context of the level of overall credit union lending. As illustrated in Table 13, the number of business loans (where the amount of the

[13] Unless otherwise stated, data references in this section refer to data available on 18 September 2024.

new loan granted was €25,000 or more) and community loans advanced, falling within the Regulation 16 requirement represented less than 1% of overall new loans advanced by the sector (for the 9 months to 30 June 2024). Therefore while the removal of the Regulation 16 requirement may be welcome from certain sector stakeholders, we do not consider that it will materially impact on credit union lending activity.

Table 13 | Number of loans advanced by category

	Sep-19		**Sep-23**		**Jun-24***	
	Number of New Loans	**% of Total New Loans**	**Number of New Loans**	**% of Total New Loans**	**Number of New Loans**	**% of Total New Loans**
Business Loans issued for €25,000 or greater	613	0.1%	853	0.2%	775	0.2%
Community Loans	280	0.0%	217	0.0%	120	0.0%
Loans to Other Credit Unions	-	0.0%	-	0.0%	-	0.0%

Source: Credit Union Prudential Return data

** New Loans advanced are reported year-to-date in the Prudential Return. June 2024 figures refer to new loans advanced for the 9 months 1 October 2023 to 30 June 2024*

5. Consultation

As outlined in the Consultation Protocol for Credit Unions, the Central Bank has committed to consult on proposed new regulations which, in the Central Bank's view, will have a significant impact on the business of credit unions.

Consultation on potential changes to the credit union lending regulations is contained within CP159. This RIA is included as an Appendix to the consultation paper.

6. Enforcement and Compliance

The responsibility for enforcing compliance with the lending regulations for credit unions will rest with the Central Bank.

7. Publication

The RIA will be published as part of CP159, which is available on the Central Bank website.

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