

CUMA Submission

Joint Committee on Business, Enterprise and Innovation

“The Cost of Doing Business”

Tuesday, 30th January 2018

I wish to begin by thanking you, Madam Chairperson and the Committee members for this opportunity to address the Joint Committee on Business, Enterprise and Innovation.

Credit Unions are in the business of lending, and the good news is, drawn from the Central Bank's recent report "Financial Conditions of Credit Unions 2012-2017", "New loans advanced have increased by 43 per cent with €1.7 billion of loans advanced in 2012 and €2.4 billion of loans advanced in 2017." Credit Unions are actively lending. Demand for our loans is growing. The same Central Bank Report shows that we have retained our 34% share of the personal lending market.

Commercial lending is a small part of our overall business, accounting for 1.3% of overall credit union loans. Thus, there is significant capacity for expansion of this portfolio, given the right circumstances. A number of credit unions are currently engaged in micro-lending and small-business lending on a local basis. Some have engaged with local enterprise boards in the past.

In a credit union context, commercial lending is not as simplified as personal lending. Funds are usually advanced as a personal loan, not as a loan to a limited company. Statutory Instrument 1 of 2016 limits the overall total of commercial loans to 50% of a credit unions regulatory reserve. This would amount to approximately 5% to 6% of a Credit Union's Assets. The Instrument also specifies "A credit union shall only grant a commercial loan.....where a comprehensive business plan and detailed financial projections (supported by evidence based assumptions), appropriate for the scale and complexity of the loan, are provided and in place before granting the relevant loan."

Thus, it can be seen, that commercial lending is possible, within a very clearly-defined framework.

All credit unions acknowledge the complexity of lending to start-ups and SMEs.

A very specialist skills set is required for commercial lending. We, as ethical lenders, have a responsibility to lend responsibly, to ensure that our lending will deliver benefit rather than load an unsustainable burden on the borrower. Many credit unions acknowledge that expertise in this specialist field is expensive, scarce and needs to be developed within our sector. Whereas this expertise might be unaffordable individually, a combined approach to underwriting might be a solution. The evolution of C.U.S.O.s (Credit Union Service Organisations) in the Republic of Ireland gives cause for optimism in this area. Co-operative collaborations between credit unions, where specialist skills are required, such as in mortgage underwriting, have evolved and are evolving. Another example of a collective approach is provided by the "CULTIVATE" initiative involving credit unions in Ballinasloe, Gort, Tuam and Loughrea offering farming loans.

Some credit unions also advance the opinion that SME lenders want more than just credit, and are seeking current account, overdraft and other facilities that are now only beginning to emerge in credit unions.

Aside from the considerations outlined already, it should be noted that credit unions have been excluded from state and European initiatives, such as the European Progress Microfinance Facility (Progress Microfinance), launched in 2010.

In conclusion, Credit unions are engaged in relatively small-scaled commercial lending. If, however, the considerable funds of credit unions are to be made more readily available for commercial borrowing purposes, the issue of lending to limited companies would have to be addressed, credit unions will have to evolve more sophisticated underwriting systems, possibly on a collaborative basis, and incentive and facilitation schemes, hitherto restricted to banks, will have to be extended to credit unions.

CUMA



Credit Union Managers Association