# DÁIL ÉIREANN

## AN COMHCHOISTE UM THITHÍOCHT, PLEANÁIL, POBAL AGUS RIALTAS ÁITIÚIL

## JOINT COMMITTEE ON HOUSING, PLANNING, COMMUNITY AND LOCAL GOVERNMENT

*Dé Céadaoin, 5 Iúil 2017*

*Wednesday, 5 July 2017*

Tháinig an Comhchoiste le chéile ag 9.30 a.m.

The Joint Committee met at 9.30 a.m.

Comhaltaí a bhí i láthair / Members present:

| Teachtaí Dála / Deputies | Seanadóirí / Senators |
|---|---|
| Pat Casey, | Victor Boyhan, |
| Mattie McGrath, | Jennifer Murnane O'Connor, |
| Fergus O'Dowd, | Grace O'Sullivan. |
| Eoin Ó Broin. | |

I láthair / In attendance: Deputy Dessie Ellis.

Teachta / Deputy Maria Bailey sa Chathaoir / in the Chair.

## Business of Joint Committee

**Chairman:** At the request of the broadcasting and recording services, members are asked to ensure their mobile phones are turned off or switched to airplane or flight mode, depending on the device used, for the duration of the meeting. It is not sufficient to leave them in silent mode, as it will maintain a level of interference with the broadcasting and recording systems.

Apologies have been received from Senator Paudie Coffey. I propose that we go into private session to deal with a number of housekeeping matters. Is that agreed? Agreed.

*The joint committee went into private session at 9.35 a.m. and resumed in public session at 10.45 a.m.*

## Finance for Social Housing: Irish League of Credit Unions (Resumed)

**Chairman:** At today's meeting we are resuming the consideration of credit union financing for social housing. Today's meeting will consist of two sessions. I welcome to this session from the Department of Finance, Mr. Des Carville, Mr. Brian Corr and Ms Deirdre Aherne.

I draw the attention of witnesses to the fact that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the committee. However, if they are directed by the committee to cease giving evidence on a particular matter and they continue to so do, they are entitled thereafter only to a qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the House or an official either by name or in such a way as to make him or her identifiable.

I invite Mr. Carville to make his opening statement.

**Mr. Des Carville:** I thank the committee for inviting the Department to this meeting to discuss credit union investment in social housing. I am head of the shareholding financial advisory division within the Department of Finance and I am accompanied here today by Mr. Brian Corr, a principal officer equivalent in my division and Ms Deirdre Aherne, an assistant principal officer. Both work within the credit union policy section.

As the committee is aware, the Department's role is to provide high quality information, advice and analysis on credit union policy matters to the Minister for Finance and to oversee and implement policy and legislation relevant to the credit union sector. The credit union policy team within my division is well resourced reflecting the importance the Minister and the Department attach to the sector. It is headed up by Brian Corr. Along with Mr. Corr and

Ms Aherne, the team also has a higher executive officer, Tom Byrne, and an executive officer, Joan Finnerty. In addition, the credit union team can freely draw on the resources and expertise within my division and indeed the wider Department.

In order to assist our work we have ongoing communication with credit union representative bodies, the Central Bank and other credit union stakeholders on a wide range of matters both formally and informally and we regularly attend sectoral events. The matter of credit unions investing in social housing is one area around which we have had good engagement with the credit union representative bodies, the Central Bank and our colleagues in the Department of Housing, Planning, Community and Local Government.

Credit unions are currently looking to diversify into other areas. This, in part, reflects the changing business environment in which they operate and therefore such diversification should be welcomed. Social housing is one area where, for several years, both representative bodies, the Irish League of Credit Unions, ILCU and the Credit Union Development Association, CUDA, have indicated a willingness on the part of their members to invest some of their investment portfolio. This is a new departure for credit unions. Discussions have taken place in a variety of fora to try to progress these interests and, although our role is limited, the Department of Finance has been engaged in some of those discussions. While the concept of credit unions providing funding for social housing would appear on the surface to be straightforward, it is not without challenges.

There are two main potential avenues to provide such funding, lending and investment. From a lending perspective, credit unions are restricted in that they can only lend to their members. This is set out in section 35 of the Credit Union Act 1997. A member, effectively a customer, must belong to the credit union's common bond. The common bond is based on a pre-existing social connection, such as belonging to a particular community, industrial or geographic group. This is an integral part of a credit union's ethos.

The Credit Union Advisory Committee, CUAC, is a statutory body established by the Minister under section 180 of the Credit Union Act 1997, primarily to advise the Minister on credit union matters. In July 2016 CUAC published its Review of Implementation of the Recommendations in the Commission on Credit Unions Report. The Department is actively working with CUAC on implementation of those recommendations in a number of areas, including that of the common bond where CUAC recommended that a policy paper be prepared by September 2017. I do not wish to prejudge the outcome of this policy paper other than to note that there are currently no proposals to make any change to the common bond and any such change, if proposed and agreed, would require primary legislation.

Second, credit unions are restricted by regulations introduced by the Central Bank as to the type of investments they can make, counter-party exposure and maturity limits. A consultation paper, CP109, was published by the Central Bank on 11 May 2017 on the credit union investment framework with a closing date for receipt of submissions of 28 June 2017. We have seen ILCU's detailed submission to this consultation paper. The consultation paper proposes that credit unions be allowed to invest in tier 3 approved housing bodies which currently borrow primarily from the Housing Finance Agency, HFA, assisted by the European Investment Bank, EIB, at a low cost. An investment in social housing would bring differing risks to those risks inherent in credit unions' loan books and current investment portfolios. These risks - primarily, low, fixed-yield in nature for a long maturity and with limited liquidity - would need to be appropriately managed to ensure the protection of credit union members' savings. This is a matter for the credit union sector and the Central Bank, as regulator.

The Department of Finance recognises that the credit union sector could play an important role in the funding of social housing. The establishment of a vehicle to pool resources and expertise would appear to be a sensible approach, provided that the underlying economics work for all stakeholders. We understand that the Department of Housing, Planning, Community and Local Government recently announced funding to support a sector-led financial vehicle, involving investors which could potentially include credit unions. We would encourage the credit union sector to continue to investigate becoming involved in such a vehicle but recognise that the sector is free to pursue alternative avenues.

As a Department, we are actively focused on implementing the recommendations in the CUAC's report which cover seven topics, the most relevant of which today is the recommendation for a full review of the Central Bank section 35 lending regulations. An implementation group, chaired by Mr. Corr, meets monthly to progress these recommendations. To date, the implementation group has spent by far the largest proportion of time on issues related to credit union lending regulations.

We recognise that the loan-to-asset ratio in the credit union sector is currently too low, placing a burden on investment income in a very challenging low-yield environment. However, in the year to 31 March 2017, credit unions increased their gross lending by circa 6%, which is a positive development. We are hopeful that further lending growth can occur and that a review of the lending restrictions in due course would assist prudent loan book growth, which could be complemented by income from a diversified investment portfolio, which in turn could include an element of social housing.

**Chairman:** I thank Mr. Carville. Our first question is from Deputy Ó Broin.

**Deputy Eoin Ó Broin:** I thank Mr. Carville for his presentation. By way of context, we are in the middle of the worst housing crisis in recent history. The ability of the State to invest in social housing to meet growing housing need is limited because of the financial constraints. Capital investment from central government in social housing remains at historic lows, even with the increases in the past two budgets. The capacity of local authorities to deliver units is constrained by the 23% loss of staff since 2008. Government policy indicates that there is a desire for approved housing bodies to play a more active role. This has been Government policy for some years. Two years ago, the ILCU put on the tables of the Central Bank and the Departments of Finance and Housing, Planning, Community and Local Government proposals which, at that stage, would have allowed, potentially, for the quadrupling of the investment in social housing by approved housing bodies. In 2015, the approved housing bodies were borrowing approximately €124 million. Last year, the figure was €260 million. That delivered, at least in starts, in the region of 1,700 homes. The approved housing bodies sector could potentially be delivering up to 4,000 homes a year. Certainly, that is the position they were in back in 2006 and 2007, when the funding climate was more favourable.

I know these things are not simple and that there are huge risks involved. I am a member of a credit union and I want to ensure that my limited savings in life are adequately protected. However, what many of us just do not understand is how in God's name it takes two years even to get to a consultation on whether it is a viable proposal to release desperately needed funds for housing. Every time we have raised this matter - at the Dáil Committee on Housing and Homelessness and at this committee - with the Department of Housing, Planning, Community and Local Government, the officials have said it is really not up to them and that it is a matter for the Department of Finance. When representatives from the Department of Finance came before the committee, we raised the matter with them and they said it is really nothing to do with them and that it is the responsibility of the Central Bank and the Registrar of Credit Unions. I know that, ultimately, statutory responsibility lies with the Central Bank, but when all these people get into a room privately and try to work out the right thing for the State to do, the witnesses' Department and their line Minister have huge influence.

I have two straight questions to which I would very much like answers. First, is it the view of the Department of Finance that it would be a good idea, with all the appropriate checks and balances in place, for credit unions to be able to invest in the approved housing bodies sector, increase the overall amount of loan capacity and diversify from the existing sources of private sector and approved housing body finance? Does the Department believe this is a good idea or a bad idea? The very last sentence of Mr. Carville's presentation had many "coulds" and caveats, but surely his Department has a view on this. Second, why has it taken so long? I know everyone is busy and that we have been in the middle of a whole series of crises, but given that it has taken two years to get to a stage at which we are now considering the matter, someone needs to explain to us and, more importantly, the public how it has taken so long. If one considers the three options the ILCU has outlined in its submission to the Central Bank, the second funding stream - the model we supported in our submission to the Central Bank - would allow for a doubling of the borrowing capacity of the approved housing bodies and a doubling of their output up to the 4,000 units they could be producing. The public has a right to know why it has taken so long for us to reach this point.

**Deputy Pat Casey:** I will be very brief because I think Deputy Ó Broin has covered nearly everything we need to say about this issue. We are hugely frustrated regarding why it has taken so long to get this money into the market. As a State, we have clearly said that we are moving more towards approved housing bodies to deliver the social housing stock, yet there is capacity to give them more funds and we are not availing of it. Deputy Ó Broin has asked the questions that need to be asked: what is delaying this, when will it be sorted out and when will the money be available for approved housing bodies or other associations to deliver housing? The final paragraph of Mr. Carville's presentation states that the credit unions have increased their gross lending by 6%, and perhaps this will continue. Is he telling us he is looking at this in a negative way and that the credit unions coming out of the situation they were in are now beginning to see a positive sign of their investment coming back? In light of that, he might be looking at a smaller parcel of their portfolio being made available in this market.

**Senator Grace O'Sullivan:** I have a few questions. I am sorry I was late. I hope these questions are appropriate. I share the concerns of my colleagues. I, too, would like to know why there has been a delay and what exactly the problem is. In addition, why is the proposed financing of social housing by the credit unions limited to tier 3 approved housing bodies? I had thought it would be prudent to start at tier 1 as a smaller cohort and then test the system and move up the ranks. What will be the criteria to invest in social housing? Will there be a uniform level of oversight when credit unions are selected to the scheme? What issues or difficulties does the Central Bank foresee with the provision by credit unions of finance for social housing? What strategy will be deployed to let credit union customers know that their branches are investing in social housing?

**Deputy Mattie McGrath:** My questions are very similar to those of Deputy Ó Broin and Senator Grace O'Sullivan. The delay is inexplicable and it seems to be the same across the board. As with everything in this little system of ours, it is just a matter of pushing paper backwards and forwards. I have been presented with more options from different groups and different organisations, and credit unions are willing. Any time we questioned the former Minister, Deputy Noonan, on this, he said "No" and that it was taboo. Even the credit unions were demonised as a whole because of the activities of one or two. We all know that if it were not for the credit unions, the country would not have survived through the recession, so why is there such resistance within the Central Bank and the Department? Perhaps the witnesses cannot answer for the Central Bank, but there seems to be a total taboo about this, that it just will not happen, it cannot happen and it is not a vehicle that could be used. This was the impression I got from the former Minister all through his tenure and, for that matter, from his predecessor.

When will it happen? Why is it so difficult to get clear, honest and straight answers to what the problem is? Credit unions will say they have the money - and not to throw around. The vast majority of them that I know are very prudent. I am a credit union member, like Deputy Ó Broin, and have some limited savings in them. People in the social housing organisations and voluntary organisations are looking to them. The vehicles are there, and it just seems we cannot crack this or the banks do not want the credit unions operating in their space. There is something more to the real truth than is coming forward as far as I am concerned. That is a personal opinion. We cannot seem to get at it. I would like to see whether we might get some answers in respect of this matter.

**Mr. Des Carville:** I thank members for their questions which showed some clear commonalities. Deputy Ó Broin asked a nicely phrased question as to whether it was a good idea for credit unions to invest in approved housing bodies. I will spend a couple of minutes addressing this issue. If I may, I will take this back up to 60,000 ft. because the role of the Department of Finance in this is to consider the issue from the credit union perspective as a different Department and line Minister are directly responsible for housing.

The credit union sector faces many challenges. The low or negative interest rate environment puts significant pressure on the incomes of individual credit unions and the credit union sector in aggregate. What this means is that the income of individual credit unions falls and they are constrained in terms of what they can invest in. As members will be aware, on 11 May the Central Bank of Ireland published a consultation paper, CP108. The issue is, therefore, being actively considered.

Credit unions also face other challenges in terms of pretty muted loan demand by its members. Their membership also has an ageing demographic profile rather than a younger profile. There are, therefore, plenty of challenges facing the sector and it is aware of them. Based on the interaction the Department has had with the representative bodies and individual credit unions, the sector is up to meeting these challenges.

If we consider one of these topics, namely, investment income, which is very important to the viability of the sector, if structured correctly and if the economics make sense, investment in approved housing bodies is definitely a good idea. The sector has €16 billion in aggregate in assets and slightly more than €4 billion in aggregate in loans. The loan to asset ratio is not viable in the medium to long term. For this reason, credit unions must generate income some other way. I certainly see approved housing bodies being part of a solution, although they will not be the entire solution because, as the credit union sector would acknowledge, it would not make sense to put all of its surplus cash into one investment class.

The various papers produced by the credit unions, which are very good, detailed and well thought out, refer to a potential investment of between 10% and 20% of their assets in social housing. This is where the figure of €2 billion referred to yesterday comes from. This figure is at the upper end of the spectrum because it assumes that every single credit union will invest the maximum amount. For this reason, I would be cautious about that number. Nevertheless, it is still a sizeable amount which could make a material difference from the sector's point of view.

As to whether the Department believes investing in approved housing bodies is a good idea, from the credit union viability perspective, we believe absolutely that it is a good idea and we are very keen to work with the representative bodies and other stakeholders, including the Central Bank, to try to progress it in a constructive manner.

Another issue that arose yesterday ties in partly with the timing and frustration about what has been happening in the past couple of years and I will ask my colleague, Mr. Corr, to discuss that matter in a moment. There is an issue with the vehicle used to execute the idea of investing in approved housing bodies. While we all agree that the idea makes a great deal of sense from everyone's perspective given the need for social housing and the needs on the credit unions' side, the question is how we bring these needs together and execute the idea. As members will be aware - I hope they will also empathise in this regard - we have constraints around state aid rules, the directorate general for competition and having a vehicle on balance sheet when we are trying to reduce, as a matter of policy, the debt to GDP ratio in a downward rather than upward trajectory. That is only one potential avenue in terms of establishing a vehicle, however. The credit union sector itself could establish a vehicle, as could the private sector. We saw also in May that the Irish Council for Social Housing has funding to explore the establishment of such a vehicle. There are, therefore, several opportunities or ways to skin the cat. We would like to have a parallel process on the vehicle at the same time as the Central Bank's consultation on the investment regulations in order that the regulations will, we hope, be changed by the autumn or as soon as possible. That is, however, a matter for the Central Bank as the regulator which is independent of the Department. We can also work with the industry to try to figure out whether there is a mechanism to create a vehicle which we can use to execute the idea.

Mr. Corr will comment on the frustrations that have arisen regarding the time it is taking to make progress in this matter. A considerable amount of work has been taking place behind the scenes in the past couple of years.

**Mr. Brian Corr:** As a general point, since 2011, there has been a fundamental change in the regulatory position of credit unions and the role of the Central Bank. A large number of new regulations, legislation, etc., have been introduced and a large number of issues that have affected the credit union sector have been managed by the Department and Central Bank over that period. There has, therefore, been a great deal happening.

In terms of the investment regulations, if one considers the second route of investment being the easiest way to invest in social housing, the key in this regard are the investment regulations. As my colleagues or representatives from the Central Bank will confirm, these regulations were introduced on 1 January 2016 following an industry consultation process in 2015. More than 100 submissions were made as part of that consultation process, which was concerned with a wide range of issues, including investment regulations, and was, therefore, a substantial process. The investment regulations have been in place since 1 January 2016 and are being reviewed 18 months on as a part of a consultation. This time, however, they are being reviewed on their own. The investment in approved housing bodies is not the only issue in this consultation, which also addresses a range of other issues that are of great importance to credit unions and material for the Central Bank. The Central Bank will confirm that the consultation process will conclude this year and we expect some positive outcomes from it.

**Mr. Des Carville:** I will respond to some of the other questions. The figure of 6% to which

Deputy Casey referred is, I believe, only a start. I am trying to be somewhat positive and look for glass-half-full messages. We are coming off a low base and this figure is by no means the end. I apologise if the statement was not clear in that regard.

Senator Grace O'Sullivan asked a question on the limitation to tier 3 approved housing bodies. Perhaps the conversation should start with tier 1 approved housing bodies. I am sorry that I am ducking the question but it is one for the Central Bank rather than the Department because it is a Central Bank consultation paper. I understand representatives of the Central Bank will appear later so I will leave it to them to comment on that issue if that is okay.

Deputy Mattie McGrath asked about the delay and I believe Mr. Corr covered that issue. He also referred to credit unions being demonised. With respect, I do not agree with that comment. The previous and current Ministers have great time for the credit union sector and the Department intends to continue its efforts to support the sector.

**Deputy Pat Casey:** I would like to get a better understanding in respect of on and off-balance sheet funding. My understanding is that where approved housing bodies obtain a loan, these are considered off-balance sheet and are not considered State debt. In cases where the funding is from a local authority, however, the loan is considered a State debt and on balance sheet. Mr. Carville referred to the creation of a vehicle. Is a determination made as to whether the investment in the vehicle is on or off-balance sheet or does the determination relate to the money the vehicle provides to the approved housing bodies or other bodies? My interpretation of what Mr. Carville said is that the vehicle *per se* could be considered on or off-balance sheet as opposed to the loans it provides.

**Senator Grace O'Sullivan:** Mr. Corr provided a chronology of events since 2011. In terms of the timeline, it is a little frustrating that he expects to be able to deliver something by the end of the year. Can he be more specific?

**Deputy Eoin Ó Broin:** Mr. Carville provided probably the most positive read of where we are at that I have heard in a long time. That is good news and gives me much more hope that we may see progress on this issue. While I acknowledge that the Central Bank is independent and makes the decisions in this matter, the statement from the Department is very positive.

My question follows on from Deputy Casey's. There is a CSO-EUROSTAT review of the status of the approved housing body sector here and whether it should be considered on or off-balance sheet. That is set against the backdrop of the designating of the approved housing bodies in Britain as on-balance sheet. My question is if there were a decision by the CSO or EUROSTAT to reclassify approved housing bodies as on-balance sheet, one consequence is that it would have an impact on the Government debt so any existing and future borrowing would go on the Government debt. My question is on the expenditure benchmark. Would it also have an impact on the expenditure benchmark in terms of it being a borrowing that is then spent by a body that would be deemed, essentially, an arm of the State? Have any discussions taken place at the Department of Finance or the Department of Public Expenditure and Reform on the possible consequences of it because it would obviously be a very big issue?

**Mr. Des Carville:** I thank the Deputies for their questions. I will address Deputy Casey's question on the proposed structure first. The ILCU prepared a paper, The Social Housing Funding Proposal, over a year ago in which there were two proposed structures. One was a direct model. It is a pity I cannot show it to the committee because it shows it succinctly in a graph. We will send it on to the committee if it does not have it. There was a direct model and also an indirect model. The difficulty with the direct model is that it involved a State-owned financial vehicle within the chain. That causes potential difficulties for us but also timing issues with trying to clear such a vehicle through DG Comp and the state aid rules. It is also on-balance sheet. That was one potential proposal. I wrote to the ILCU in 2016 to make it very clear it was not our preferred approach and we would much prefer the indirect model approach which keeps the vehicle off-balance sheet. My understanding is that the sector generally has been pursuing that approach rather than the former for a period of time. The indirect model, for lots of reasons, strikes us as the one with a greater degree of executability right across the various criteria. It is the approach everyone is looking at. In terms of the conversation between EUROSTAT and the CSO and the expenditure benchmark, while we talk to them in the Department of Finance, it is not within our purview to talk to them about social housing and approved housing bodies. It is a matter for the Department of Housing, Planning, Community and Local Government. There is a direct interplay between them. It is not fair for me to comment on that because I am not directly involved in it.

**Deputy Eoin Ó Broin:** To be clear about the question, I am not asking Mr. Carville to comment on the discussions in respect of the possible redesignations. He should park that. Perhaps if I phrase the question differently, I will get the answer I am seeking. If, for example, a local authority was today to borrow money from the credit unions or the Housing Finance Agency, because a local authority is on-balance sheet, that borrowing will go to the Government debt. Would it also have an impact on the expenditure benchmark and the expenditure ceilings? It is the same question. It is an important thing for us to establish.

**Mr. Des Carville:** I am very conscious of the limit of my knowledge and expertise and expenditure benchmarks are way outside my area of competence so I will not pretend to answer the question. I will take the question away-----

**Deputy Eoin Ó Broin:** Perfect.

**Mr. Des Carville:** -----talk to colleagues and, if it is okay with the Chairman, get back to the committee in writing. I understand the question but it is outside my area of expertise.

**Chairman:** Does Deputy Casey wish to clarify something?

**Deputy Pat Casey:** It is an important point. In most European countries, social housing stock is off-balance sheet and there are various different ways of achieving that. Most of ours is on-balance sheet because the local authorities carry the debt. I am going back to the indirect vehicle we are talking about. What I am trying to understand is that it is the approved housing body that receives the money, which makes it off-balance sheet, whereas the local authority is on-balance sheet. However, in this case we are looking at the vehicle as being on or off-balance sheet so the formation of the vehicle is critical, not where the money goes to. Is that the point Mr. Carville is making?

**Mr. Des Carville:** Yes, exactly. If the vehicle is set up by the State and the shareholding in the vehicle is the State, it is on-balance sheet. However, if the private sector sets up the vehicle or if the credit union sector sets it up, it is off-balance sheet because it is their vehicle. Our strong preference is for that approach. Ultimately, it is a means to an end because the funds will still flow the same. The outcome at the bottom of the flowchart is exactly the same; the question is how we get from A to C and what B is.

**Chairman:** Are there any further questions?

**Mr. Brian Corr:** On the timing point, the consultation paper, CP109, issued by the Central Bank envisaged a consultation close date of 28 June which has passed and it has received all those consultation submissions. Its representatives can talk to the committee when they come in. The consultation paper also proposes they would publish their feedback statement and final regulations in quarter four this year and that the regulations will also commence in quarter 4. That is what is out there publicly so they might be able to confirm whether those dates still apply. That is where those dates are coming from.

**Chairman:** I have no further questions for the witnesses. I thank Ms Aherne, Mr. Corr and Mr. Carville for coming in this morning. We did not start on time so I thank them for their patience. I thank them for engaging with the committee. We will suspend for a few moments to let our next set of witnesses come into the committee.

*Sitting suspended at 11.16 a.m. and resumed at 11.21 a.m.*

**Chairman:** I welcome the following witnesses from the Central Bank of Ireland to the second part of this morning's meeting: Mr. Ed Sibley, director of credit institutions supervision and acting registrar of credit unions, Ms Elaine Byrne, deputy registrar of credit unions and Ms Anna Marie Finnegan, registry of credit unions.

By virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of the evidence they are to give to the joint committee. If, however, they are directed by it to cease giving evidence on a particular matter and continue to so do, they are entitled thereafter only to qualified privilege in respect of their evidence. They are directed that only evidence connected with the subject matter of these proceedings is to be given and they are asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any persons or entity by name or in such a way as to make him, her or it identifiable. Members are reminded of a long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the House, or any official by name in such a way as to make him or her identifiable.

I call on Mr. Sibley to make his opening statement.

**Mr. Ed Sibley:** I thank the committee for the invitation to appear today to discuss credit union finance for social housing. I am joined by Ms Elaine Byrne, deputy registrar of credit unions and Ms Anna Marie Finnegan, head of policy, registry of credit unions.

I will start by acknowledging the important role credit unions play in Irish society and in the financial system. I also acknowledge the strong voluntary and community ethos of the sector. Both the role and ethos reflect the primary objectives and purpose of credit unions to promote thrift among their members by the accumulation of their savings and the creation of sources of credit for the mutual benefit of members at fair and reasonable interest rates.

Our statutory mandate is to ensure each credit union protects the funds of its members and to maintain the financial stability and well-being of credit unions generally. This informs our approach to all aspects of the regulatory framework for credit unions, including the investment and lending frameworks that are the focus of our engagement today.

My opening statement will provide some background information on the current position of the sector. It will also focus on the potential for credit unions to provide funding for social housing. Specifically, I will focus on three main areas: the current position of and main challenges facing the credit union sector, which is important in contextualising our approach, regulatory requirements and current standards and the potential for credit unions to provide finance for social housing through lending or investment.

In terms of the current position, over the past decade or so credit unions have dealt with the effects of the financial crisis, increased competition, major business model challenges, significant restructuring and increased regulation. Co-ordinated efforts have delivered an unprecedented level of restructuring, resulting in 116 mergers, which have reduced the number of weaker credit unions and reduced risks across the sector as a whole.

Notwithstanding this progress, significant challenges clearly remain. Return on assets for the sector as a whole continues to shrink and the cost to income is high. While loan books are starting to recover, they are growing at a significantly slower rate than the level of growth in unsecured lending across Ireland. Further work is required to fully embed mergers and deliver the cost savings and efficiencies anticipated in the business cases proposed for the mergers. This is critical in putting these credit unions in the best position to deal with structural challenges and to leverage increased scale to provide a broader range of products and services to meet the needs and expectations of members.

Investment income has helped offset declining loan income for a number of years but is falling. Between 2012 and 2016, annual aggregate investment income has fallen from around €300 million to €174 million. This happened at a time when total sector investments have increased from €8 billion to €11.4 billion. Our analysis highlights that if current loan, investment income and cost trends continue, an increasing number of credit unions could face serious viability issues in the future, thus highlighting the urgent need to now address the business model challenges the sector faces. In recognition of this, we established a new unit in 2016 with a mandate to engage with credit unions on business model changes in order to progress well-developed proposals supported by credible risk-focused plans.

I shall now discuss regulatory standards. At the registry we have prioritised regulation and supervisory changes that improve credit union safety and better position the sector for the future. Strong governance standards are a fundamental requirement to support strong, viable credit unions and are a prerequisite for credit unions seeking to expand their existing business models. Regrettably, standards of regulatory compliance are still well below those required to consistently safeguard the funds of members and to position credit unions to tackle business model development. We are still seeing an unacceptable number of credit unions failing to display strategic understanding and good governance. In too many cases we have encountered limited financial skill sets and weak management, poor systems of control, weak risk, compliance and internal audit functioning and weaknesses in lending practices. Significant further improvement is therefore required.

I shall now discuss finance for social housing. There has been much discussion on the potential for credit unions to provide finance for social housing with attention focusing on the sector's low loan-to-asset ratio and the resulting level of surplus funds, the majority of which is currently held in accounts in authorised credit institutions and bank bonds. The Central Bank is supportive of credit unions increasing their investment options, including through potentially playing a role in the provision of funding for social housing. Recently we have consulted on proposals to facilitate this and are analysing the feedback we have received. Nonetheless, it is important that there is realism on the proportion of the sector's surplus funds that could appropriately be allocated to social housing. This must be informed by the specific characteristics of funding for social housing and appropriate levels of risk for members' savings. Additionally, the sector's surplus funds are held across 277 credit unions. Each individual credit union would have to make an independent decision on whether to provide funding for social housing. The manner in which credit unions may fund social housing will also be driven by the existing legislative and regulatory framework that applies to credit unions. The Credit Union Act 1997 - the 1997 Act - and the Credit Union Act 1997 (Regulatory Requirements) Regulations 2016 set out the services that a credit union may provide to its members. These include savings and loans and a number of additional services.

Common bond restrictions in the Credit Union Act 1997 limit the potential for credit unions to provide funding for social housing via lending, as credit unions may only provide services to their membership that is characterised by a common bond. The common bond is based on a pre-existing social connection such as belonging to a particular community, industrial or geographic group. Therefore, for a credit union to lend to an approved housing body, AHB, the body would have to fall within the credit union's common bond. The potential impact of the common bond on business model development was a matter raised as part of the review by the CUAC of the implementation of the recommendations of the Commission on Credit Unions. CUAC has recommended that further consideration be given to the common bond. As a result of common bond restrictions, sector-wide approaches to lending for social housing have not come to pass and consequently, focus has turned to investment-based proposals.

While the primary purpose of a credit union is the provision of loans to its members, the regulatory framework also provides for credit unions to invest surplus funds. Under existing regulations, credit unions are permitted to invest in a range of specified investment classes, which includes government securities, bank deposits, bank bonds and collective investment schemes made up of these instruments. The Central Bank's ability to make regulations on investments in projects of a public nature is specifically referenced in the regulation-making powers provided for under section 43 of the 1997 Act. Therefore, such investments can be facilitated by regulations, where appropriate.

Additionally, the 2016 regulations make reference to the fact that the Central Bank may prescribe, in accordance with section 43 of the 1997 Act, further classes of investments for credit unions that may include investments in projects of a public nature. The regulations state that investments in projects of a public nature include, but are not limited to, investments in social housing projects.

In order to ensure that the investment regulations remain appropriate for the credit union sector, the Central Bank undertook to review the investment regulations this year to consider whether it is appropriate and prudent at this stage to facilitate investment by credit unions in other classes of investments, including investments in social housing. The Central Bank published a consultation paper on 11 May setting out the following potential additional investment classes for credit unions: bonds issued by supranational entities, corporate bonds and investments in tier 3 approved housing bodies.

As for investments in approved housing bodies, the consultation paper identifies potential risks and risk mitigants for such investments and asks for feedback on the appropriateness of credit unions undertaking such investment and the level of such investment that could be undertaken. An important issue highlighted in the consultation paper is the need for credit unions to take account of maturity considerations and the balance sheet impact of undertaking investments in approved housing bodies which, by their nature, are likely to be illiquid and significantly longer term than existing investments and could result in an increase in the existing maturity mismatch on the credit union's balance sheet. Consideration will also need to be given to the interplay between a possible move to longer-term lending and longer maturity investments, which could also exacerbate this issue. If credit unions wish to significantly shift the maturity profile of their assets, they will need to consider how they can extend their funding profile, particularly if it requires the longer-term tie-up of funds belonging to ageing members.

The consultation period closed on 28 June and we have received more than 70 submissions from a broad range of respondents. The majority of submissions are from individual credit unions with additional submissions received from representative bodies, AHBs, investment firms and Deputies. We welcome this feedback, which is an important input into the policy development process. We are in the process of examining the submissions. The majority of respondents have commented on the potential for credit unions to invest in approved housing bodies and broadly welcome the potential for credit unions to do so. The submissions, however, also demonstrate some divergence in views on the level of risk associated with such investments and appropriate levels of exposure for credit unions. The Central Bank will consider the entirety of the submissions received prior to finalising changes to the investment framework for credit unions and will publish a statutory instrument amending the investment regulations for credit unions.

Finally, on longer-term lending, it is important to note that under the 2016 regulations, credit unions are already permitted to lend up to 30% of their loan book over five years and up to 10% of their loan book over ten years - subject to a maximum maturity limit of 25 years. In addition, credit unions can apply to the Central Bank for an extension to their longer-term lending limits of up to 40% over five years and up to 15% over ten years. Currently for the sector overall, total gross loans over ten years amount to approximately 3% of overall loan books.

In conclusion, by way of background I have set out the current position of the credit union sector and identified a number of challenges the sector faces. This is important in the context of this discussion. I have also provided some background on the regulatory framework for credit union lending and investment, the consultation process on investment in social housing and our intention to amend the investment regulations later this year.

**Deputy Eoin Ó Broin:** I thank Mr. Sibley for his presentation. I have a general comment and a couple of short questions. It is always funny when one repeats to the second set of witnesses the same general context as given to the previous delegation. There is huge frustration for those of us in the Oireachtas who are dealing with the housing policy agenda. This frustration is borne out of a number of considerations that form part of the context even though they do not have a direct bearing on the Central Bank of Ireland's deliberations on the consultation. We have possibly the worst housing crisis experienced in recent times. The ability of the State to invest in the social housing that people need is incredibly limited, even with the capital investment increases over the last two budgets. The capacity of the approved housing bodies sector is greater than what it is currently delivering. By most estimates, the approved housing body sector could be delivering up to 4,000 additional social homes annually. It might take them a year or two to get up to that level but that is their potential. Last year, approved housing bodies got approximately €260 million in loans from the Housing Finance Agency, which allowed them to deliver approximately 1,700 units. In the year before, the number was half that. From the housing policy point of view it makes eminent sense to allow approved housing bodies to do the work they do by increasing the overall lending capacity to the sector and to diversify the sources of lending. The frustration arises because none of us is asking the Central Bank to jeopardise in any way or to put at risk credit union members' savings. We are all members of credit unions and we all have savings there. We want those savings, as well as the institutions, to be protected. Credit unions made detailed proposals to the various bodies, as far back as

2014, and we are only now at a stage where there is a consultation. While I very much welcome the consultation, in the context of the housing crisis, the difficulties of direct State investment in social housing and the potential availability of a valuable source of funding for approved housing bodies, most members of this committee and of last year's Committee on Housing and Homelessness do not understand why it has taken so long from proposals being made to a public consultation. My first question is the same one we asked the Department of Finance; how has it taken so long to get to this point?

I will now turn to the second issue. I made a submission to the Central Bank, from a housing policy perspective, stating clearly that our preference is for the investment model for all the reasons I believe are self-evident. The proposals from ILCU included three funding options or streams and our preference was for the middle option because we believed it was the most prudent in not putting the risk too high at the start and in seeing how that level of investment could go. It could then be assessed and if it was proving more difficult lending capacity could be reduced. If it was proving more successful then lending capacity could be increased. The Central Bank of Ireland's timeline is to complete consideration of the submissions, publish its response and potentially change the regulations by the end of 2017. Is Mr. Sibley confident the Central Bank will meet those deadlines?

The answer to a lot of these questions depends on the specific funding model and vehicle and the interaction between what the Department of Housing, Planning, Community and Local Government offers in terms of supporting finance and availability agreements and what funding vehicle is in place in respect of the Irish Council for Social Housing and the credit unions. In the Central Bank's consideration of these aspects, is it engaging with these other bodies separate to the submissions? If we get the model, the fund structure and the supports from the Department right, then the level of risk will reduce considerably. I hope those conversations are happening, irrespective of submissions. Even if the Central Bank's recommendation or decision at the end of the process is to change the regulations to allow for this new class of investment funding, there is a lot of work to be done to make sure that the funding vehicle is designed in the best possible way to ensure the funds, if and when they are invested, are invested wisely. This is from the point of view of those of us who are members of credit unions - and it is our money - and from the perspective of the approved housing bodies and the individual credit unions.

**Senator Jennifer Murnane O'Connor:** I agree. We have a housing crisis and it is sad that we are nearly one year on from the launch of Rebuilding Ireland but we still need to build houses. The credit unions are there and we always associate credit unions with being part of our community. I do not think there is anybody in the country who does not use the credit union. I was a little bit taken aback when Mr. Sibley said "we have encountered limited financial skill sets and weak management, poor systems of control, weak risk, compliance and internal audit functioning and weaknesses in lending practices". I believe this is the way to go in the future because we are in a housing crisis and it is crucial that money and funding come through the programmes. Yesterday the committee met housing bodies such as Clúid, Respond! and other co-operative housing groups. Everybody is either trying to buy or build houses and timing is crucial. As Mr. Sibley noted, the Central Bank of Ireland has received 70 submissions. I understand that Mr. Sibley has outlined the three areas of concern, namely, the current position of and main challenges facing credit unions, regulations and potential for credit unions to provide finance for social housing. Overall, however, the bigger picture is that funding is there and people are crying out for houses. Everything must be regulated, and rightly so as that is how it should be, but this is a way to help people who are in need of housing. Working with the credit unions and working together is a way to solve a problem that needs to be solved. It is, again, about timing. Can we have the timing for this? I have concerns about some of the report from Mr. Sibley. It was my first time to read it and I have concerns about what he said. Perhaps Mr. Sibley could give us more information on these concerns. There is also the issue of timing. What exactly is the timescale from 28 June with regard to the 70 submissions? Who exactly will the witnesses meet? When do they think a decision will be made? Timing is everything.

**Senator Grace O'Sullivan:** I would also like to see a timeline because we have a crisis here. I too am a member of the credit union and I think that this is a fantastic opportunity for the movement to get involved in an area that would support the community, which is part of the credit union ethos.

The Central Bank published a consultation paper on 11 May where it set out potential additional investment classes for the credit union. One such class was investment in tier 3 approved housing bodies. What is Mr. Sibley's opinion on that? Given the credit union's ethos of supporting communities from the bottom up, why would it not consider tiers 1, 2 and 3? My own view is that the credit union could use tier 1 as the low-hanging fruit on which to test the model, before moving up the ranks from there.

**Mr. Ed Sibley:** I thank the members for their questions and comments. I understand the level of frustration and I have sympathy with the points raised about housing difficulties today. I will first address the question of timing. The ability of the Central Bank to make regulations in this area came into force in early 2016. That is the earliest that we could have taken action on this matter. We committed to undertake the consultation and review in 2017 and that is what we are doing. Without getting into a he-said-she-said discussion, high level proposals or aspirations about one side of the balance sheet or the collective availability of funds do not necessarily make for a detailed and well-thought through proposal that we can work on. In the discussions on this, including some of the discussions that we ourselves have had in the Central Bank, there has been some iteration around the best way to use those funds. Direct funding to Government was potentially an option, as was lending. The investment suggestion came from us. There has been a degree of iteration in the discussion around how to get this working.

In my opening remarks I made a point about the standards, controls and risks in the credit union sector. It is important to bear these in mind when it comes to the safeguarding of members' funds. An enormous amount of effort has been made in the sector both to restructure and to improve standards to better safeguard members' funds. There is still work to be done, however, and we can see through our ongoing supervisory work and our engagement in the credit unions themselves that standards still need to be improved. There are in fact significant risks associated with this kind of investment. The typical investment profile of credit unions is that they have relatively short-dated and liquid instruments. They can get in and out of them as required. If there is a change in their liquidity requirements, if they need to repay members' funds, for example, they have the ability to do so quickly. What we are talking about here, however, is an investment that would last for 25 years at a fixed rate of return and set at a period with very low interest rates. This is a very long-term commitment that will have a very significant impact on credit union balance sheets.

This is also taking place at a time when those balance sheets are changing anyway and there is discussion around longer-term lending. I referred to this in my opening remarks. This is not a straightforward investment and there are very significant risks involved for the credits unions. There needs to be a degree of sophistication and risk management within the credit unions in order for them to make these decisions.

Having said that, we have consulted on potential changes and we are very open-minded, both about these changes and about the potential to open up an avenue for credit union investment into social housing. From the start of last year up to our issuing of the consultation paper, we engaged extensively with the credit unions themselves, with their representative bodies and with the approved housing bodies to make sure we have a really good grasp of the issues and risks involved here and of the potential for making this work. Ms Finnegan will come in at this point to discuss our engagement.

**Ms Anna Marie Finnegan:** A lot of work went into preparing the consultation paper. As Mr. Sibley has mentioned, this involved a lot of engagement with a number of different parties. He has mentioned the representative bodies and the individual credit unions. We also spoke to the Housing Finance Agency and to the relevant regulator. It was important for us to get a detailed understanding of how funding for the AHB sector could be provided by the credit unions. This certainly informed the proposals that we have set out in consultation paper CP109.

Reference was also made to the structure or vehicle that might be used here and this is an important point. In the consultation paper we specifically asked for views as to what might be the most appropriate structure. We are certainly interested in the responses we got on this and these will ultimately form how we might frame a regulation. It is very important that the regulation be drafted in such a way as to facilitate the options that are on the table. What we have seen discussed to date has been very much based on some form of collective investment scheme that would provide an opportunity for credit unions to pool funds and provide them to AHBs. We have engaged with the relevant bodies and will continue to do so as this informs the framing of any change to the regulation that we may make.

**Mr. Ed Sibley:** There were two further points made. With regard to the timescale for the decision, we are absolutely prioritising the review of the responses to the consultation paper. We have in fact already started this process and are committed to getting through it and taking it to the next stage within the next quarter. On the issue of the decision on tier 3 AHBs, these are currently subject to a voluntary code but that is now moving to a firmer regulatory environment. From the perspective of safety and prudence, it would seem appropriate for us to focus on the credit unions that are investing at the upper end of AHBs in terms of quality and capability. That is the rationale for that.

**Ms Anna Marie Finnegan:** The tier 1 AHBs tend not to be in the funding space. These are classified as AHBs with between zero and 50 units and that do not have plans in a development space. This very much curbs their appetite for additional funding.

**Senator Grace O'Sullivan:** I understand that the demographic using credit unions tends to be an older one. When it comes to timing, I would really like to see this measure proceed as quickly as possible because the signal it sends out to the public is a very positive one. This idea of the credit union offering investment funding to the AHBs would appeal to the younger demographic because these are the very people who would probably benefit the most from it.

**Mr. Ed Sibley:** We are giving priority to listening and responding to the feedback we have received.

**Senator Jennifer Murnane O'Connor:** I am not sure if this is in the Central Bank's remit but I think that it is also crucial that the entire country be represented. I know that I am always saying this, but Dublin, Cork and Limerick are always mentioned. If this scheme does go ahead there needs to be some regulation to ensure that the whole country is affected. That will be crucial for rural Ireland. For me, that is vital. I am not saying it will be in Mr. Sibley's remit, but regulations are regulations and it is important that everything is spread out and everyone gets some kind of funding. I know this is probably not in Mr. Sibley's remit.

**Mr. Ed Sibley:** It is not but it will be associated with the construct of whatever vehicles-----

**Senator Jennifer Murnane O'Connor:** I hope so.

**Chairman:** I thank the witnesses for having attended the committee meeting. I am sorry to have delayed them coming in at 11 o'clock. I propose that we send copies of the transcript of the meeting on to them so that they have them to look back over-----

**Deputy Eoin Ó Broin:** As a memento of the occasion.

**Chairman:** Yes, as a souvenir. The witnesses' views and observations will be taken into account.

The joint committee adjourned at 11.50 a.m. until 9.30 a.m. on Thursday, 13 July 2017.