

EUROPEAN NETWORK OF CREDIT UNIONS

Mr. Jean-Yves Muylle,
Head of Unit, Retail issues, consumer policy and payment systems
DG Internal Market, European Commission
Avenue de Cortenbergh 107
B-1000 Brussels, Belgium

February 23, 2009

RE: Comments on the European Commission's study on the role and regulation of non-credit institutions in EU mortgage markets

Dear Mr. Muylle,

We are writing to you from the *European Network of Credit Unions*, which consists of the Association of British Credit Unions, Central Federation of Romanian Credit Unions, FULM Savings House of Macedonia, Irish League of Credit Unions, and the National Association of Cooperative Savings and Credit Unions (Poland). The European Network of Credit Unions represents more than 1,000 credit unions in EU member states serving more than 5 million EU citizens.

We have read with great interest the recently published study on the role and regulation of non-credit institutions in EU mortgage markets. While the study already describes Polish credit unions as "other mortgage lenders", i.e., non-credit institutions providing mortgage lending, we would like to complement this study with information on credit unions' mortgage lending activities in other EU Member States. In addition, with a view to Commissioner McCreevy's comments at the publication of the study, we particularly want to stress that credit unions, as deposit takers, are well regulated and prudentially supervised at national levels. A European Commission intervention would represent an unnecessary and burdensome overregulation of credit unions.

Definition and Regulation of Credit Unions

Credit unions in the Commission's study are defined as "*other mortgage lenders*" identifying them as non-credit institutions. We agree with this definition as credit unions differ substantially from commercial banks. However, unlike banks, credit unions are democratically controlled cooperative financial institutions which operate on a non-for-profit basis, i.e., profits are distributed to members by way of low interest rates or other means. Credit unions provide services to their members on a national basis only. Members are linked by a common bond which can be geographical, associational or based on another common interest. In addition, credit unions are controlled by their members with governance responsibilities discharged by a voluntary elected board of directors.

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As recognition of these differences, credit unions in the EU are exempt from the Capital Requirements Directive under Article 2.4. Credit unions are regulated at the national level and are subject to specific acts applicable to their activities. For example, the Credit Union Act 1979¹ (UK) and the Credit Union Act 1997² (Republic of Ireland) outline the characteristics and restrictions of a credit union as well as the regulation applicable for the provision of services. The Acts also outline the supervisory structure for credit unions. In the UK, credit unions are supervised by the Financial Services Authority (FSA) and in the Republic of Ireland they are supervised by The Financial Regulator. In Poland credit unions are address in a specific Credit Union Act. Credit unions in Poland operate under a delegated supervisory system.

Credit Unions as Mortgage Lenders in EU Member States

At a national-level credit unions in the EU do provide mortgage lending services to their members. This occurs within strict loan policies which encompasses rules for the assessment of a borrowers' credit worthiness, loan portfolio diversification, maximum loan sizes per product type, etc. While these restrictions limit a credit union's ability to provide mortgages, they also ensure safe lending practices.

Examples of these restrictions as laid down in national legislation follows:

In the **UK**, only "version 2" credit unions, i.e., credit unions with an 8% or greater capital-assets ratio, are permitted to offer secured loans for a repayment period of 24 years (the total amount of a loan cannot exceed the shares of a member + £15,000 or 1.5% of total shares in a credit union in excess of members' shareholding, whichever is the greater). Smaller credit unions (version 1 institutions) can only offer secured loans for a repayment period of a maximum ten years. This restricts their ability to enter the mortgage market.

In terms of supervision, credit unions require prior approval by the FSA to provide mortgage lending and are consequently supervised by the FSA when entering this market. Currently, there are only five version 2 credit unions that provide mortgage lending services in Great Britain.

In the **Republic of Ireland** credit unions are required to lend in accordance with section 35 of the Credit Union Act. According to this Act, no loan exceeding a five years shall be made if the amount of the loan exceeds 40% of the credit union's total loan amount outstanding.³ In addition, no loan shall be made to a member where the member's outstanding liability to the credit union exceeds 1.5% of the total assets of the credit union and 39,000. The Financial Regulator of the Republic of Ireland supervises credit unions for adherence to this law.

Although there are no definite figures on mortgage lending by credit unions in Ireland, the Irish League of Credit Unions estimates that residential loans do not exceed 5% of the total loan portfolio of credit unions in the Republic of Ireland.

The Commission's report discusses **Polish** credit union's ability to offer mortgages. Further to this description, Polish credit unions, long term lending is between 10 and 25 years and includes mortgages. Only the strongest credit unions are allowed to offer this product, such loans may not exceed 35% of an individual credit union's loan portfolio and the maximum loan to value ratio for such loans is 70%. As of December 2008, long-term loans represented 13% of the total loan portfolio for SKOK credit union system in Poland.

In **Romania** and **Macedonia** credit unions are not currently active in the provision of mortgages.

Credit Unions as Mortgage Lenders Outside the EU

If one looks to markets outside of the EU, they would see that credit unions are much larger players in the mortgage market because of greater parity of rules between credit unions and commercial banks. For example, credit unions in Canada hold 10% of the mortgage market in and this represents 50% of the loan portfolio of credit unions. In the United States, 53% of the loan portfolio's of credit unions (US\$300 billion) are in mortgages. This segment has been growing at 15-20% during the crisis as commercial banks have pulled back. In Australia, credit unions hold 3.3% of the mortgage market and have seen a 13.4% increase in mortgage loans in the 3rd quarter of 2008.

During the recent financial turmoil credit unions in these other markets have been able to step forward and fill the gap left by commercial banks that have been re-trenching. A more accommodating mortgage framework in for credit unions in the EU would help provide for such a counter-balancing system.

Conclusion

In light of limited mortgage lending activities by credit unions on a national level and the strict regulatory and prudential supervision of their operations, we strongly believe that there is no regulatory gap regarding credit unions' mortgage lending activities. If the Commission decides to take action on non-credit institution mortgage lending activity, it must recognize the variety of actors in the market and should exempt any institutions that are already prudentially supervised at a national level.

Finally, in the Commission's study on non-credit institution mortgage lending, it indicated that the financial turmoil was caused by the sub-prime mortgage lending. We would like to emphasize with great vehemence that EU credit unions have not been active in sub-prime mortgage lending and have not been at the root of the current crisis. Credit unions mobilize members' savings to provide loans, including mortgage loans. While the crisis has spurred some commercial banks to reduce the amount of loans provided to customers, credit unions' sustainable model has enabled them to continue lending to their members.

Sincerely,



Dave Grace
Vice President

¹ UK Credit Union Act 1979

http://www.opsi.gov.uk/RevisedStatutes/Acts/ukpga/1979/cukpga_19790034_en_1

² Irish Credit Union Act 1997

<http://www.irishstatutebook.ie/1997/en/act/pub/0015/index.html>

³ Section 35 of the Irish Credit Union Act 1997 (as amended):

"(2) A credit union shall not make a loan to a member—

(a) for a period exceeding five years if, were the loan to be made, the total amount outstanding in respect of all loans made by the credit union for periods exceeding five years would then exceed 40 per cent. of the total amount outstanding at that time in respect of all loans made by the credit union; or

(b) for a period exceeding ten years if, were the loan to be made, the total amount outstanding in respect of all loans made by the credit union for periods exceeding ten years would then exceed 15 per cent. of the total amount outstanding at that time in respect of all loans made by the credit union; or

(c) in the circumstances specified in subsection (3);

and, for the purposes of this subsection, the period of a loan shall be measured from the date on which the loan or, as the case may be, the first installment of it is paid.

(3) The circumstances referred to in subsection (2)(c) are those where, were a loan to be made to a member, the amount of the member's outstanding liability (including a contingent liability) to the credit union, whether as borrower, guarantor or otherwise, would exceed whichever is the greater of—

(a) 39,000, and

(b) 1.5 per cent. of the total assets of the credit union."