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CREDIT UNION REGULATION
18 FEB 2015
RECEIVED

February 16, 2015

Dear Sirs,

Re: Consultation Paper CP88 (Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act)

In response to the Central Bank's invitation to comment on the Consultation Paper CP88, the Board of Directors and Management Team of the Credit Union would like to make the following observations and recommendations:

Draft Liquidity Regulations

- The concept of basing liquidity requirements on '**maturity mismatches**' is not clearly defined. How does the Central Bank define 'maturity mismatches' exactly?

  Recommendation: Define the term 'maturity mismatch' and describe how it relates to liquidity requirements in the credit union environment.

- The importance of liquidity stress testing is accepted but Central Bank have not provided any examples of the 'scenarios'/'terms' that it wishes the stress testing to be based on.

  Recommendation: Provide examples of the type of stress testing that the Central Bank would expect of credit unions. If more stringent stress tests are required for larger credit unions, make this clear.

- The proposed '**Short Term Liquidity Ratio**' of 10% will be a significant operational challenge, given that funds on 8 Day Notice will essentially be non-interest earning. In the current low-deposit rate environment, the cost may not be significant. However, in *future* economic cycles when the deposit rate improves, this may represent a significant opportunity cost for credit unions.

The Central Bank's proposed Short Term Liquidity Ratio is far more onerous than the UK regulatory equivalent – which provides for a 5% liquid asset ratio, with the proviso that credit unions must ensure that on no two consecutive quarter ends does the liquid asset ratio dip below 10%. The UK model facilitates 5% to be held on 8 Day Notice, with the other 5% on 6 Month Notice, which is significantly more competitive than the proposed Central Bank flat figure of 10% at any one time.

Recommendation: Amend the Short Term Liquidity Ratio to 5% and, if deemed necessary, include a requirement to have a 10% Short Term Liquidity Ratio at least every 6 months.

Draft Lending Regulations

- Central Bank states that 'ability to repay must be the primary consideration in the underwriting process of the credit union'. **CP88 does not define 'ability to repay'**.

  Recommendation: Define 'ability to repay' and describe the Central Bank's expectations of the weighting of the various elements of 'ability to repay', i.e. *capacity* to repay, credit union repayment history, credit history, etc.

- The CP88 proposed 'Categories of Lending' do not include a **'revolving credit' category.**

  Recommendation: Under specified circumstances, consider permitting credit unions to provide a 'revolving credit' service for members. If regulated explicitly, this could address some of the Regulator's concerns regarding 'top-up' loans.

- The CP88 proposed 'Maturity Limits" reflect to a large degree existing limits. A maximum maturity limit of 25 years is introduced. This proposal should not be an inhibitor to business. However, we believe that the Percentages of the Credit Unions loan book, for periods greater than 10 years, will stifle the Credit Unions ability to service the mortgage sector. We are suggesting that the existing 30% limitation on loans greater than 5 years be retained but we believe there is no need to further restrict lending by capping the amount greater than 10 years. This provision should be removed.

  Recommendation: Under Maturity Limits, remove Section 15 1 (b).

- The proposed **'Related Party Lending'** system is overly complex with respect to loans to *"a member of the family of a member of the board of directors or management team of a credit union"*, especially in light of an absolute threshold of €2,000. It will prove very difficult from an administrative perspective and we may have data protection concerns also.

  Recommendation: Introduce a threshold value which is related to the credit union's assets or loan book instead of an absolute value of €2,000. In addition, consider defining the 'member of the family' more tightly, e.g. immediate family only – spouse/children.

Draft Investment Regulations

- The proposed **removal of 'equities'** as a permitted investment option **will restrict** the investment portfolio management tools available to credit unions. In an economic environment where bond and deposit rates are low, equity investments may be a useful diversification option. The Central Bank are not allowing scope for larger credit unions to manage their investment risk at a more professional level – i.e. the proposed ban on equities and continuing ban on foreign exchange risk.

  Recommendation: Permit equity investments for larger credit unions, albeit at a restricted percentage of the total investment portfolio. In addition, consider permitting a defined level of foreign exchange risk to enable large credit unions scope to invest in (say) British Government Bonds.

Draft Savings Regulations

- The proposed **'Maximum Member Savings'** limit of €100,000 is entirely unacceptable on a number of levels. Imposing a Cap on savings as proposed is both anti-competitive and un-necessary. Credit unions are being singled out as no other financial institution has been advised to cap savings from their depositors. A cap on savings has no place in a modern credit union environment where, due to mergers/amalgamations, the larger credit unions will continue to grow in the foreseeable future. The reputational damage resulting from a cap on savings is immeasurable – for example, how can large credit unions successfully market themselves as mortgage providers if the Central Bank is seen not to 'trust' the credit unions to handle a member's savings in excess of €100,000? The future of Irish credit unions depends on their members using the credit union as their 'primary financial service provider', which is not possible if there are savings 'limits'.

  The UK regulatory model does not have any 'absolute' cap on savings, rather a Member's shares is capped at 1.5% of total shares. This is entirely more reasonable and 'business friendly' than an absolute cap. The proposed cap of €100,000 is a serious impediment for large credit unions and is not in keeping with recent regulatory sentiment regarding mergers/amalgamations.

  Recommendation: **Remove the Maximum Member Savings Requirement of €100,000**. If a maximum is necessary, revert to % of Total Assets or Shares instead.

Draft Systems, Controls and Reporting Arrangements Regulations

- Additional disclosures in the annual accounts will add to the audit costs, particularly comments on the 'performance of the loan book'.

  Recommendation: Describe the proposed additional disclosures in more detail and consider the enhanced audit costs.

In summary, we are positive about changes in the regulatory environment that enhance the long term viability and relevance of credit unions. We note that the Central Bank has moved away from the concept of 'tiered' credit unions. On review of CP88, it appears that the move away from 'tiers' will unfairly impact on larger credit unions – i.e. the proposed ban on equities, 10% short term liquidity ratio and cap on savings are regulatory measures more in keeping with small credit unions. We would urge the Central Bank to reconsider these measures in the context of larger credit unions. The regulatory environment is encouraging credit unions to merge/amalgamate in order to produce a viable business model for the future. We would hope that the Central Bank does not force unworkable restrictions on large credit unions that will hamper their future prospects.

Yours sincerely,

George Cantwell
C.E.O.

Finbarr O'Sullivan
Chair