Submission from Chapter 13 Limerick Clare Credit Unions on Consultation Paper 88.

Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act.

Section 5: Reserves

The reserves in a Credit Union should be commensurate with risk and should be risk assessed for each Credit Union based on the nature scale and complexity of the business, any reserves should be sufficient to meet risk exposure

We do not agree with Section 45(5). It is difficult to understand why a new Credit Union should have this additional reserve (Initial Reserve Requirement) and indeed it could be interpreted as an unnecessary barrier to forming a new Credit Union. The rationale for same needs to be explained further.

Section 6: Liquidity

We believe that the existing high percentage rate has stood the credit unions well in these great times of change and austerity and we consequently wonder why we would need immediate access to funds. We feel that this is not the time to introduce a short term liquidity ratio

In the event that such a need was established then it could and should be met through inter Credit Unions loans as it is very unlikely that a “cash run” would hit all credit unions as the same time and indeed 10% liquidity would be of very little use in that scenario.

It would appear that the only purpose that such a proposal would serve is to provide the banking sector with free funds as these amounts would have to be kept in a current account and a further restriction on making a decent return on Investments.

Section 7: Lending

While the necessity for prudent lending is appreciated by all it is also important to remember that the first rule of lending is to assess the capacity of the borrower to repay.
Once again the one size fits all policy is not appropriate in relation to the restrictive lending framework that CBI is employing in making Regulations for all Credit Unions.
We also feel that there should be a statutory appeal mechanism when CBI makes general Regulations.

House loans
It would appear that imposing an obligation to provide a first charge on a house implies that the loan is a mortgage loan rather than a small home improvement loan. Also it is not realistic that a new house would be paid for within 25 years when it appears that the first option of existing mortgage lenders is extending the period of the loan for distressed borrowers.

The obligation to hold a first charge means that you cannot give even a small home improvement loan to a mortgage holder – this is hardly fair or equitable.
We would also like clarification on the facility of providing home renovation and or improvement loans without First Charge implications for our members?

We also feel that Loans to Other Credit Unions should be clarified.

Commercial and Community Lending

The terms of commercial and community lending, we believe, that these terms are overly prescriptive and leave no discretion for assessing a loan based on the merits of the project or the business plan that supports it. We believe that credit union boards and management are best placed to examine these projects and to make a prudent decision based on their local knowledge of the needs and business opportunities in their local area.

Related party lending

We have concerns on related parties' loans.
Related parties loans may or may not be a significant risk and the most appropriate test for such lending is the independence of the source of income rather that the relationships that exist.
The following is a list of our concerns:

- It is an unjust imposition on the family member of a Volunteer as they may be entirely financially independent.
- It could lead to confidentiality issues because how would one explain a refusal or reduction on a loan amount on the grounds that the limit for related parties has already been reached.
- It would most likely over time lead to a loss of volunteers and possibly senior staff.
- It is probably not constitutional and could lead to legal and financial exposure if it only applies to an individual credit institution.
- It is also contrary to the voluntary and community ethos of the Credit Union.

Maturity of lending
Finally we feel that the 25 year maximum on loans but a 10 year maximum on investments is a contradiction As Credit Unions have a very cohesive asset liability management system.

Section 8: Investments

Investments; in the current financial climate and the culture of prevailing low interest rates, it is very difficult for a Credit Union to make a return on investments to meet its own costs and to provide a dividend to members who save.

Any further restrictions would be counter productive at this time. This proposal would also restrict the opportunity to participate in any form of social lending which is a significant need at this time.

The limit of 10 years for even a small proportion of the investments seems to fly in the face of the social policy in this Country where funding for socially desirable projects is expected to be co-funded from private sources such as credit Unions

Section 9: Savings

While it is acknowledged that the traditional credit union business model was build on small savings and small loans, in reality, times have changed and many of our older members have increased their savings in their credit unions based on the belief that it was a safe home for their money and that it would be used for local domestic and community purposes.

Any attempt to return these savings to older members could have a serious social impact for the individuals and indeed could result in a significant loss of confidence in the credit union sector, if it was only allowed to maintain savings that attracted a full State Guarantee.

It would also likely lead to an unintended consequence of discouraging credit unions investing in centralised national projects.

Section 9: Savings

If this restriction is imposed exclusively on one financial institution, would this not give rise to issues for the competition authority in terms of equal treatment for all institutions in competition for savings?

Section 10: Borrowing

As Borrowing is not a particularly strong feature of credit union activities we would wonder why the Central Bank of Ireland would decrease the % allowed. This proposal requires further clarification. However if commenced we would suggest that this section should be reviewed within a specified time period.

Section 11: Systems, Controls and Reporting Arrangements

We would like further clarification on the reporting and disclosures in the Annual Accounts i.e. What form would these disclosures take, what depth of information is required for the performance of the loan book and indeed why thus the CBI require this information to be circulated.

Section 12: Services exempt from Additional Services Requirements

Debit Cards **-** These are not mentioned in the additional services and we feel that Debit Cards should be exempt additional service

Section 13: Proposed Timelines

Savings: We have very strong reservation on the time lime of 6 months for the withdrawal of shares over the €100,000 cap. Most of the members who will be over the proposed limit are of an older generation and it will be most difficult for credit unions to force them to withdraw the excess. Where will they go (under the mattress?)

Chair Chapter 13.
February 26th 2015.