The Board of Directors of Clanmaurice Credit Union Ltd. has considered the Consultation Paper CP88 over two meetings and wishes to convey to the Central Bank its concerns in relation to a number of sections within the document. This document is intended to be constructive, helpful and supportive in creating a sustainable environment so credit unions can continue to offer services to vulnerable members; however the document is reflective of the views of the Board, our membership and the wider credit union movement. Consequently it will be of value to the Central Bank to reflect on the issues raised in this document.

Contextualization and Some Preliminary Remarks

The Board is concerned, that the Central bank does not seem to have, and certainly does not provide evidence of an understanding of the rationale for the existence of credit unions and the social & economic role which they have played in Ireland over the past half century.

In particular, the Board has seen no evidence from the Central Bank or indeed from the Commission on Credit Unions that the socio-economic profile of the members of credit unions in Ireland has been recognised, rather there is an emphasis on the movement becoming “mature” in line with other credit union movements such as the credit union movement in the USA. What does “mature” mean? The Board has been unable to access the socio-economic profile of the membership of credit unions in the USA despite using every communication available to it.

Perhaps, the Central Bank has this information and the Board would greatly appreciate receiving it from you. It should be noted that the Commission did not consider such critically important data during its deliberations and this must be regarded as a major omission and flaw. Hence, our Board’s concerns, in regard to the impact of the changes now being implemented through, legislation and various regulatory directives. It is imperative that the foundation for any change is based on full information and is evidenced based. The evidence, so far provided has been related to those credit unions which had poor governance and administrative policies and procedures and under no circumstances should one proceed with universal change based on what may be regarded, respectfully, as the “lowest common denominator”.

Therefore the Board of our credit union appeals to the Central Bank to undertake Regulatory Impact Analyses on the changes which it may propose to the regulatory environment from time to time as in this Consultation Paper.

The Board stresses that it welcomes the regulations which have been implemented in relation to governance, compliance, risk management and internal auditing and the range and detail of the accompanying policies and procedures, roles and terms of reference of personnel etc. in ensuring that we have safe, secure, sound, stable and sustainable credit unions. However in line with the Central Banks stated position it is important that all such critical elements of safety and soundness are proportionate and supportive of ensuring that all the citizens of our country have access to affordable credit. It is imperative that all and particularly the most vulnerable can make the best use of their scarce financial resources and have a reasonable quality of life. Our Board appeals to you the Central Bank to build on the clearly viable and evidenced strong elements of the credit union movement in Ireland and not “to throw the baby out with the bath water”.

The penetration levels of the credit union movement in Ireland compared with the so called “developed” or “mature” movements and the level of trust and confidence of the general population in credit unions in Ireland compared with elsewhere requires analysis and reflection. Please do so before the movement is seriously, if unintentionally, damaged and those who need credit unions most will be further socially and economically marginalised with the associated societal consequences.

Do you have any comments on the draft reserves regulations? If you have suggestions please provide them along with the supporting rationale.

Clanmaurice Credit Union Ltd. has always maintained the required regulatory reserve of 10%, however the Board believe that a risk weighted approach to reserving (which exists in other credit union movements) would be preferable to the blanket application of 10% across all credit unions. Please provide the rationale for the minimum reserve requirement of 10%? On what evidence is such a proposal based?

The proposal in relation to newly formed credits unions (not that new credit unions will be formed) is mind boggling and indicates some form of theoretical modelling rather than practical reality and community focused development.

Do you have any comments on the draft liquidity regulations? If you have suggestions please provide them along with the supporting rationale.

The Central Bank is maintaining the required liquidity ratio of 20% and introducing a short term liquidity ratio of at least 10% of unattached savings where short term liquidity is defined as cash and investments with maturity of less than eight days. The Board welcome the expansion of the assets that qualify for the definition of liquid assets in calculating a credit union’s minimum liquidity ratio. However the Board believes that now is not the time to introduce a short term liquidity ratio. In the current interest rate climate credit unions are struggling to make a decent return on investments and a further restriction is going to have a negative impact on income. The Board believe that the proposed short-term liquidity ratio of 10% will further damage the viability of credit unions. How can the 8 day liquidity ratio be justified?

Do you have any comments on the draft lending regulations? If you have suggestions please provide them along with the supporting rationale.

Clanmaurice Credit Union Ltd. does not have a lending restriction. It is important to note that the proposed additions to the lending framework are informed by the regulatory actions taken by the Central Bank in relation to lending practices in individual credit unions. See page 13 and footnote on page 13 regarding additional lending requirements.

"*These requirements are informed by regulatory actions taken by the Central Bank arising from lending practices in individual credit unions*".

"*There are currently lending restrictions in place in c.58%*[1] *of credit unions. These have been imposed on individual credit unions on a case by case basis arising from specific supervisory concern*s".

However it does not seem appropriate to propose a restrictive lending framework on credit unions that do not have a lending restriction; and have applied prudent and cautious approach to lending. Page 14 of the Consultation Paper seems to allude to the objective of creating a regulatory environment for all credit unions that will ultimately result in CBI having to issue fewer individual Regulatory Directions.

"*Where credit unions can demonstrate improvements in their credit risk management practices in line with the strengthened regulatory framework, it is anticipated that the use of credit union specific restrictions as a regulatory tool will reduce over time.*"

The Board do not believe that this is a proportionate response to Regulation making as it appears that the basis for the Central Bank's proposed restrictive guidelines is as a result of its experience in a certain number of credit unions where it was forced to take supervisory action and that this "blanket" approach to regulation is not in the best interest of the credit union movement and its members. In the interests of natural justice, the existing system of individual Regulatory Direction and statutory appeal must be maintained and protected and not abandoned in favour of the Central Bank using general Regulations to create an overly restrictive lending environment for all credit unions. Where is the evidence to support that this approach is justified?

Please, please do not impose a restrictive lending framework for all credit unions as it will wittingly or unwittingly, contribute to reputational damage and lack of confidence in credit unions. Above all this it will inhibit the ability of credit unions to meet the legitimate expectations of "tried & trusted" members to obtain necessary credit from their preferred financial provider. In addition it will further limit the potential income for credit unions and exacerbate their current very constricted operating cash flow.

<u>House Loans</u>

The Board of Directors of Clanmaurice Credit Union Ltd. notes the proposed creation of a *House Loan* category (Category 4) and the proposal that the credit union must hold a first legal charge on the property to make a house loan. What are the implications of a "House Loan" category? The Board believe that the ability of credit unions to provide this type of loan to members should involve a more focused and thorough consideration and recommend the creation of a *House Loans Working Group* (to include movement stakeholders) to develop this proposal.

We would also ask the Central Bank to clarify if the credit union is allowed to advance credit to members for home improvements under the Personal Loan category without holding a first legal charge on the property. The Board strongly recommend that such a proposal does not impinge on the status quo, whereby loans for home improvements/renovations may be made under the "Personal Loan" category.

Loans to Other Credit Unions

The Board would also ask that the Central Bank clarify the *Loans to Other Credit Unions* category.

Section 35

The retention of the existing Section 35 percentage limits do not make sense to the Board; perhaps the Central Bank could provide a transparent and evidence explanation for such retention.

Maximum Loan Amount

The Board would ask why the Central Bank is proposing to move from the current system (% of total assets) that credit unions have used for decades. The Board believes that the current system (% of total assets) should be retained? What is the rationale for changing from the current percentage of total assets? Please do not insert a monetary value which will have consequences going forward. It is the opinion of the Board that the Boards and management of credit unions are in the best position to consider and agree on concentration limits within their credit union.

Loans to Related Party

The definition of a related party is a member of the board or management team or a member of their family or a business in which they have a significant shareholding and that a *Member of the Family* is a person's father, mother, spouse or civil partner, cohabitant, son, daughter, brother or sister. The credit union movement has gained in strength and numbers through the years as a result of its community base and its volunteer ethos. Draft Regulation 19 states that a credit union shall ensure that a loan to a related party shall be subject to individual approval in writing by the board of directors or a subcommittee of the board of directors. It is our opinion that the new governance framework of risk management, internal audit and compliance functions should address any concerns the Central Bank may have in relation to lending and that the introduction and application of this requirement would be intrusive to credit union members. We are not aware of any other financial institution that is obliged to undertake this action.

What evidence justifies this proposed restrictive imposition and has the Central Bank considered in any manner the impact of such restriction? This proposal has the potential to create serious problems in attracting and retaining volunteers and will ultimately have a negative impact on the local community and democratic strength of the credit unions.

Do you have any comments on the draft investments regulations? If you have suggestions please provide them along with the supporting rationale.

The Board requests the Central Bank to establish a working group with strong credit union representation and to explore together how the optimum investments framework may be devised which will maximize returns while guaranteeing the security of the capital investment. The current proposals in CP88 are well off what is required and no further action should be contemplated in this matter until the working group reports.

Do you have any comments with the draft savings regulations? If you have suggestions please provide them along with the supporting rationale.

Where did this proposal emanate from? There are so many negatives to it for the member and the credit union in addition to the potential reputational damage and erosion of confidence in credit unions which it will most likely generate.

We would query the decision to set the cap on savings at the same limit as the Deposit Guarantee Scheme. In our view if we are obliged to tell our members that we can only accept deposits up to €100,000 they will form the perception that credit unions are unsafe. We are ultimately advising members that they will have to take any amounts over €100,000 to another financial institution, and we would ask what other financial institution in the Deposit Guarantee Scheme is subject to such a restriction? The negative impact of this decision on the credit union movement cannot be understated.

We are also concerned about the application of this regulation retroactively. The credit union would be put in a position where we would have to inform some of our members, the majority of whom have a strong and lengthy connection to their credit union, they would have to withdraw any excess amounts from their accounts.

Do you have any comments with the draft systems, controls & reporting regulations? If you have suggestions please provide them along with the supporting rationale.

The Board is concerned as to the format of such disclosures and why does the Central Bank want this information in circulation. What is the rationale?