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Registry of Credit Unions
Central Bank of Ireland
PO Box 559
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27 February 2015

Re: Consultation Paper CP 88

Dear Sir/Madam,

The board of directors of Clondalkin Credit Union Ltd has reviewed the consultation paper CP88 and wishes to make the following comments on the proposed regulations.

Tiered Regulatory Approach

It is not entirely clear from the Consultation Paper on the precise reasons the Central bank is proposing not to proceed with a tiered regulatory approach to credit unions at this time. While there is a reference to the feedback received on CP76, the board is not convinced that "amount of change the credit union sector is currently undergoing" is a sufficient reason not to proceed with a tiered regulatory approach.

The board supports the recommendation of the Commission on Credit Unions that a strengthened regulatory framework should be introduced which credit unions will be given time to adapt to and that credit unions should not be regulated on a one size fits all basis but rather that a tiered regulatory approach should be adopted.

Section 5 - Draft Reserves Regulations

The credit union accepts the position of the Central Bank that a credit union should maintain adequate reserves relating to the nature, scale, complexity and risk profile of the credit union. While, the board has no difficulty with the draft reserves regulations, it is of the opinion that it would be more appropriate that the reserves of a credit union are related its liabilities rather than to its assets.

Section 6 - Draft Liquidity Regulations

The board understands the rationale for the draft liquidity regulations.

However, the board wishes to state that the definition of "short term liquid funds" to include investments with a maturity of less than 8 days will impact on the credit unions ability to receive any reasonable rate of return on "short term liquid funds". In reality short term funds will have to be kept "on call" as there are no 7 day funds currently available. The difference in rate between an "on call" account and say a 30 day account is currently circa 0.2% per annum with some institutions. The board would like the Bank to consider extending the definition of "short term liquid funds" to include investments with a maturity of one month or less.

Section 7 - Draft Lending Regulations

The board has no concerns relating to proposed regulations 12, 13, 14, 15, 17, 18, 19, 20, 22, and 23.

However, the board has serious concerns relating to proposed regulation 16 surrounding the definition of "house loan". The inclusion of loans to "improve or renovate a house on the property that is already used as their principle residence" in the interpretation of "house loan" will seriously affect the ability of the credit union to grow its loan book. Home improvement loans are the most popular loans with the members of Clondalkin Credit Union. They have also proved to be the category of loan with the lowest delinquency rate.

The requirement to hold the first legal charge on the property before granting a house loan seems draconian. In reality, as the credit union does not grant mortgages for house purchase purposes, mortgage providers will in general hold the first legal charge over property. In these instances the proposed regulations will prohibit the credit union from granting a loan to a member for home improvement purposes.

It is also possible that legal costs could be incurred by a member for a small home improvement loan. The board remains to be convinced by the Bank that this proposed regulation is in the best interest of members.

It should also be noted that during the boom years mortgage providers targeted credit union loans by granting top up mortgages to clear credit union loans and extending the loan repayment periods up to the unexpired period of the original mortgage (sometimes as far out as 25 years). General commentary on this practice would seem to indicate that this was not a prudent practice.

This regulation will serve only to contribute to this practice recurring.

The board is suggesting that the interpretation of "house loan" is amended in the proposed regulations to exclude loans for home improvements not exceeding €39,000 from being interpreted as "house loans".

In relation to proposed regulation 21 (1), the board would like to see the exempted exposures limit of €2,000 increased. The reason for this request is that it could delay a member of the family of a director or member of the management team from being granted a loan for a period of up to one month. The board is of the opinion that loan applications from a "member of the family" with low risk exposure should not be subject to such a restriction.

The board queries whether the interpretation of "related parties" should include the board oversight committee?

Section 8 - Draft Investment Regulations
The board has no issues with the proposed investment regulations.

Section 9 - Draft Savings Regulations
The board has concerns with the proposed regulations regarding the imposition of a fixed savings limit for a member at €100,000. The rationale behind the capping of savings at a fixed sum of €100,000 is not adequately explained in the consultation paper.

It is interesting to note that a credit union may grant a loan to a member up to 10% of the regulatory reserve.

As with the proposed lending regulations, the board would like to see proposed regulation 35 amended to provide for a maximum savings limit related to a percentage of the regulatory reserve.
The board would support a regulation that would provide for a maximum savings limit of the greater of €63,000 or 10% of the regulatory reserve.

The proposed regulation will impose, on a member of a credit union, an obligation to withdraw savings in a credit union that exceeds the limit imposed by the regulation.
This means that the Central Bank is imposing an obligation on such a member to place their savings in a bank or perhaps investing them in some other financial instrument. As some credit unions are located in communities where there are no bank branches this could cause unnecessary hardship for a member regarding the finding of an alternative for the investment of the withdrawn funds.

Members who are obliged to withdraw savings may keep them at home as they have difficulty trusting banks or investment advisers. This has consequential risks of theft of their savings and to their personal safety.

Implementation of the proposed regulation could also undermine the stability of a credit union. As credit unions are locally based mutual organisations, the imposition of a requirement on members pursuant to the proposed regulation will be talked about in the community and members could draw a wrong conclusion regarding the financial stability of a credit union which in turn could lead to a run on funds in the credit union. The board assumes that this is not the intention of the draft regulations.

Section 10 - Draft Borrowing Regulations

The board has no issues with the proposed borrowing regulations.

Yours faithfully,

Kieran Carroll

Kieran Carroll
Chairman