Submission from

C.U.M.A.

The Credit Union Managers Association

In Response To

The Central Bank of Ireland's Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act (CP88)

27th February 2015

Introduction

The Credit Union Managers Association (CUMA) is the professional representative association for managers of credit unions in Ireland. CUMA provides professional development training and assistance to its members and engages with a wide range of stakeholders and industry bodies in its pursuit of excellence in professional standards in credit union management.

CUMA welcomes the opportunity to provide feedback in response to the Central Bank's paper on the proposed introductions of Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act (CP 88).

CUMA believes CP 88 fails to cater for the future development of the credit union sector. The proposed regulations ignore the need for the business model to evolve and progress. The development of new products and services and the essence of improving business is effectively prohibited.

Credit unions have already experienced substantial change. Standards and expertise have improved significantly over the past few years. The Credit Union & Cooperation with Overseas Regulators Act 2012 (CUCORA 2012) and Central Bank engagements through PRISM visits have been influential in establishing the achievement of these standards. The 'one size fits all' approach to regulation being proposed fails to recognise the work of Credit Unions and of the Registry of Credit Union's in this area. CUMA proposed a three tier business model when responding to CP 76. This was also originally envisaged by the Commission in that it would encourage growth and sustainability.

Herein, CUMA sets out responses to the areas and proposals of concern with regard to the draft regulations. Our responses are categorised under each of prudential areas as outlined in the questions presented by the Central Bank of Ireland.

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

SECTION 5 – RESERVES

CUMA queries what the rationale is for a minimum reserve requirement of 10% and note that the risk-weighting of assets for credit unions continues to be ignored by the Central Bank, despite the Commission recommendations in this area.

The proposed regulation gives no cognisance to the varying size of credit unions. Nor does it recognise the limited asset types of credit unions. Many credit union loans are secured by shares thereby reducing the net risk. The majority of investments are now short term deposits in banks, thus, posing minimal risk.

CUMA recommends a risk weighted approach to reserving, which exists in other international credit union movements. This would be preferable to a blanket application of 10% across all credit unions, based upon no discernible, quantified reasoning.

CUMA disagrees with the requirement that newly formed credit unions should be required to hold an Initial Reserve Requirement on top of a Regulatory Reserve Requirement plus any Operational Reserve the Central Bank of Ireland may require.

The Central Bank is simply imposing a restriction on the formation of new credit unions. We believe that this is beyond the regulatory remit of the Central Bank.

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

SECTION 6 - LIQUIDITY

CUMA has concerns with regard to implementing an additional liquidity requirement at this time. We note the Regulatory Impact Analysis ("RIA") which states that 20% of the sector's total investments have a maturity of less than eight days, whilst 17% are held on demand. Credit unions continue to achieve low returns on investments and this does not look likely to change any times soon. A restriction, such as proposed, is going to make improved returns harder to achieve.

Further, the short term liquidity ratio does not take account of Rule 31 of the Standard Rules for Credit Unions (Republic of Ireland) which CUMA believes caters for appropriate control and management of short-term share demand.

Rule 31 - Restrictions on withdrawal of shares and deposits

> *(1) Notwithstanding anything in these rules or in any contract, the credit union may require not less than sixty days' notice from a member of his intention to withdraw a share in the credit union and a member may not withdraw any shares at a time when a claim due on account of deposits is unsatisfied.*

CUMA recommends that the liquidity regulations be reviewed on an ongoing basis given the significant external matters impacting the credit union sector such as Bank's Implementation of Basel III Liquidity Ratios.

CUMA believes that the one year transitional period proposed for liquidity requirements should be reviewed and extended in light of the extraordinary investment environment in addition to the multiple challenges being faced by the sector.

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

<u>SECTION 7 - LENDING</u>

Creation of categories of credit union loans

CUMA notes:

- the proposed creation of a House Loan category (Category 4); and
- the requirement that a credit union must hold a first legal charge on property to make a House Loan; and
- the retention of existing Section 35 restrictions on lending and
- the proposed introduction of a 25 year maximum term on any loan

CUMA believes that the Central Bank is acting outside of its' remit and that it is behaving in anti-competitive, anti-commercial activity by placing restrictions on credit unions that it does not place on banks.

The consultation paper defines "Personal Loans" *as "use is for purposes unrelated to the person's trade, business or profession, or the purchase of property*"

The consultation paper defines "House Loans" as loans made to a member secured by property to:

a) Have a house constructed…
b) Improve or renovate a property that is already their principal residence…
c) Buy a house….
d) Refinance a loan previously provided for one of the purposes specified in (a),(b) or (c) for the same purpose

A vast amount of credit union lending is for loans that are described in Credit Policies as "Home Improvement Loans" These loan types include for example:

- New Windows
- Converted Attics
- New Kitchens, etc.

These loans types currently fall under the "Personal Lending" category for credit unions.

This type of loan using the Central Banks definition will move from the type" Personal Loans" to "House Loans" and will fall under section (b) above i.e. "*Improve or renovate a property that is already used as their principal private residence*"

The Central Bank requires that credit unions must hold the first legal charge secured on the property for such loans. This is at best unworkable. In most cases members applying for these types of loans already have a first legal charge registered with their mortgage provider. If this regulation is imposed, Home Improvement loans will simply become inaccessible to members.

Banks will, as mortgage providers, have a huge competitive advantage over credit unions as they will be able to offer mortgage extensions to their customers for home improvements.

The impact of this regulation will effectively mean that the Central Bank will be endorsing a practise of increasing mortgage debt for lifestyle lending, a practise that has contributed to the financial crises over the past number of years.

Home Improvement loans should not be tied into mortgage debt.

CUMA proposes that the Central Bank of Ireland revise the definitions of lending categories and that “House Loans” do not include section (b) as described.

CUMA notes that the draft Regulations propose to retain the existing Section 35 limits which are too restrictive. Some credit unions have already reached their limits (which prevents them generating income through lending to good members. We expect that more will encounter similar difficulties as loan demand increases alongside the economy exiting the recession. CUMA would ask that the new Regulations revise the percentages upwards.

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

SECTION 8 - INVESTMENTS

Unlike the banks, credit unions do not have the opportunity to create vehicles for investment products to generate income. Credit unions are victims of the disastrous investment market returns and there is little scope to obtain decent investment returns for members. CUMA considers an additional percentage should be allowed over and above the direct investments as specified in 25 (a), (b) and (c) to provide more flexibility in investment products. The level of leniency should be linked to category of the credit union.

CUMA agrees with the application of maturity limits to the Investment Portfolio rather than Individual Investment Classes. CUMA further supports Irish and EMU State Securities expanded to Irish and EEA State Securities.

Proposed maturity limits for investments.

CUMA acknowledges the need for cohesive asset liability management by credit unions. CUMA believes the proposed 10 year maximum for investments is unlikely to be adequate for all required investment activities e.g. social housing, centralised lending, etc.

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

<u>SECTION 9 - SAVINGS</u>

With the small number of members identified by Central Bank of Ireland that would be affected by the proposed regulation, CUMA are surprised at the proposal to amend the current position as we consider the proposal too restrictive in its nature.

The RIA provides no justification for the proposed limit. CUMA believes this is discriminatory in nature as similar restrictions are not imposed to Irish Banks. The limit suggests that savings are better protected elsewhere. Imposing such a restriction will have a highly negative impact across the credit union movement as it will be seen as a vote of no-confidence by the Registrar of Credit Unions in credit unions. Therefore, CUMA rejects this proposal. It is anti-competitive as members are being forced to save with banks and the proposed liquidity requirements will assist in the protection of member savings in any event.

<u>Transitional Arrangements</u>

The Central Bank proposes that transitional arrangements are made whereby credit unions will be provided with a period of six months to bring any savings that do not comply with the draft regulations into compliance with the new regulations.

We suggest that forcing credit unions to notify current savers who have in excess of €100,000 in their credit union accounts that they must withdraw that money is unfair and potentially damaging. Credit union members in receipt of such notifications may well ask why the Central Bank has imposed this limit, and whether or not the credit union is a safe place to indeed hold any savings. It is ironic that the credit union member will be required to withdraw their savings at the behest of the Central Bank to place them with banks capitalised by the tax payer, and that such savings will hold exactly the same guarantee.

CUMA seeks clarification on the rationale for retaining the provision that a credit union's total deposits cannot exceed total shares and would request the Central Bank of Ireland to revisit the issue having regard to the primary necessity for consistent asset liability management by credit unions.

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

CUMA considers the proposed regulation is appropriate to current market conditions and allows for the controlled and managed development of credit unions. CUMA would suggest a review within a designated period after commencement.

(vii) Do you have any comments on the draft regulations on systems, controls and reporting arrangements? If you have suggestions please provide them along with the supporting rationale.

SECTION 11 – SYSTEMS, CONTROLS AND REPORTING ARRANGEMENTS

CUMA concurs with the Central Banks' view on increasing transparency for members. However, CUMA believes a risk-weighted approach to assets should be an option for credit unions therefore 45 (1) (a) should be amended to specify which approach is being used and the appropriate percentage attaching. Any additional 'buffer' reserve should also be specified.

(viii) Do you have any suggestions on additions, amendments or deletions to the services and related conditions that are included in the draft regulations? If you have suggestions please provide them along with the supporting rationale. It should be noted that any further services proposed to be included in the regulations must not involve undue risk to members' savings, the financial stability of the credit union or the operational capability of the credit union.

CUMA requests that the range of services set-out in Schedule 2 be extended with regard to ongoing innovation in the insurance sector and the wider range of insurance products available to the public. Insurance Services categories should be extended by the addition of different offerings. E.g. Payment Protection Insurance, Disability Insurance, Critical Illness Insurance

CUMA recommends that supplementary guidance be provided by the Central Bank on the process for applying to the Central Bank for approval for services not listed as exempt.

ix) Do you agree with the proposed timelines for the introduction of the draft regulations set out in this consultation paper, in particular the transition period proposed between the publication and commencement of the regulations? If you have other suggestions please provide them, along with the supporting rationale.

CUMA are concerned that the six month period which the Central Bank of Ireland is proposing to allow credit unions to make any necessary changes to systems, policies, procedures etc. is not adequate. The Regulatory Impact Analysis provided as part of CP88 has not been helpful in assisting in understanding what the possible side effects, the costs (either hidden or obvious) and the actual impact of the proposed new Regulations will be.

CUMA notes the following extract from the Final Report of the Commission on Credit Unions:

> "*When setting out new Regulations, the Commission recommends that the Central Bank undertakes a Regulatory Impact Analysis (RIA) in line with existing requirements and having regard to international best practice".*

CUMA are disappointed that the Central Bank has not complied with the Commission's clear recommendation around RIAs.

We continue to support the introduction of a strengthened regulatory framework and welcome all consultation opportunities in considering the appropriate mechanisms of achieving this.

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