CP88 Consultation on Regulations

Drogheda Credit Union welcomes the opportunity to participate in the Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act ("CP88").
The purpose of this submission is to comment on the sections relevant to:
Reserves
Liquidity
Lending
Investments
Savings.

1. **Reserves**.
   Drogheda Credit Union have no issues with the Reguatory Reserve Requirement continuing at 10% of the Assets of the Credit Union.

2. **Liquidity.**
   Drogheda Credit Union do not have any issues with the Minimum Liquidity Ratio of 20% being maintained. In fact our Board apply a higher level internally at 25% of Assets. However, we have concerns with regard to implementing an additional short term liquidity requirement at this point in time in light of minimal returns available on demand products.

3. **Lending**.
   Generally we are in agreement with the Categories and Concentration limits proposed except "requirements for House Loans".
   Under the draft lending regulations you state the credit Union must hold a First Legal Charge for any house loan – if Home Improvement Loans are included in this category then this will restrict us greatly whereby we presently approve small loans as Home Improvements that may just involve decoration or very small renovations at modest levels ie undwer €20k.

4. **Investments**.
   Generally we agree with the Classes of Investments but feel that Corporate Bonds with a minimum rating of "A" should be considered for inclusion with a concentration limit of 15% of total portfolio applying to Corporate Bonds. A minimum issue size we feel should also apply.
   Their inclusion would provide important diversification benefits as credit unions would have an opportunity to allocate a portion of investment portfolios to non-financial counterparties whose performance is not correlated to that of the broader financial sector.

5. **Savings**.
   Currently the maximum claim a member can have on a Credit Union in terms of Shares and Deposits is €200k or 1% of total assets, whichever is the greater – in the case of Drogheda this could amount to €1.53m. The draft savings propose limit is now being reduced to a total of only €100k.

Presently Drogheda Credit Union has the following number of members who have in excess of €100k in total; savings:

(a) 31 Members – Total Savings €3.750m greater than €100k
(b) 26 Members – Total Savings €2.286m greater than €90k

By imposing a restriction of €100k we will need to reduce the savings of 31 members by a minimum of €650k – while the overall average total amount of €650k appears small in relation to our overall structure it will impact on some members more than others dependant on the amounts they have in excess of €100k. Would members continue to remain as members if we request them to reduce the levels of savings???.
The reputational damage of having to request 31 members to reduce their savings or refuse, in some cases very small additional savings from 26 other members would cause us huge concern.

While your analysis refers, to the impact and the limit is considered appropriate to ensure a diversification of members funds and to protect members funds, – we feel we are already doing this on behalf of our members through the diverse structure of our investment portfolio and the level of capital guarantees that are in place within that portfolio.

We would also consider the imposition of such low limits as being uncompetitive with other institutions.

Consideration should be given to retaining the present status quo in relation to Savings ie €200k or 1% of Total Assets, whichever is the greater. This will accommodate all present and future ordinary members while excluding "rate chasers"

Drogheda Credit Union welcomes the consultation process by the Central Bank in relation to regulations for credit unions on commencement of the remaining sections of the 2012 Act. We believe that it is important that the regulations on investments and savings strike the right balance between risk management and viability.

Whilst we believe that the proposed limits outlined in CP88 strike a more appropriate balance in relation to Reserves, Liquidity, Lending and Investments than the original proposals, we have huge reservations around the reduced level of Savings proposed.

The exceptional economic environment that we are presently working in would suggest that maybe a mechanism could be created for a formal review of the proposed regulations especially relating to investments, liquidity and especially savings on an ongoing basis.