Harold's Cross Credit Union

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CONSULTATION ON REGULATIONS FOR CREDIT UNIONS ON COMMENCEMENT OF THE REMAINING SECTIONS OF THE 2012 ACT

HAROLD'S CROSS CREDIT UNION - 26/2/2015

INTRODUCTION

The following comments and suggestions seek to respond constructively to the proposed CP88 consultation draft regulations. Section one comprises comments and concerns in regard to the overall thrust and likely impacts of the CP88 regulations on credit unions at this time. Section two elaborates on specific concerns in regard to the CP88 Lending, Investment and Savings and other draft regulations against a backdrop of difficult trading conditions and the continuance and reinforcement of regulatory constraints on credit unions. This document has been drafted by Joseph Glynn, Board member, on behalf of the Board.

Section 1

1.1 The proposed CP88 regulations are extensive and take effect upon commencement of sections of the 2012 Act. The resulting combined administrative burden and constraints will have a negative impact, especially on smaller credit unions.

As the proposed tiered regulatory structure will not now be applied members of the board of Harold's Cross Credit Union are concerned that the forthcoming regulations are a disproportionate burden on smaller credit unions still addressing legacy issues derived from the crisis and failure of the Irish financial system.

[These issues include greatly reduced loan demand, increased loan arrears and bad debts, unemployment/recession, exceptionally low returns on investments together with rising compliance and other costs and substantial state and regulatory supports for their competitors.]

1.2 We are concerned that the Central Bank of Ireland and Registrar for Credit Unions are seeking to reduce the number of credit unions and eliminate many smaller credit unions and that this policy may be pursued without due regard to the value of these trusted local institutions or for their hard-working staff or for the vital, socially inclusive and accountable financial services they uniquely provide.

1.3 We are concerned that the proposed CP88 regulations further reinforces and perpetuates constraints on credit unions and on their business models and will weaken credit unions individually and collectively and exacerbate the challenges and difficulties imposed upon them by their competitors. Rather than invigorate the sector this may stifle the necessary appropriate innovation.

1.4 The regulatory policy/framework must strike a fair balance in its treatment of successful and failed institutions, between the market concentration of large centralised entities and smaller local institutions, and between profit-maximising private firms and dedicated public service providers. Non-profit-maximising banks and financial institutions have outperformed their private counterparts and lend balance and stability to the system yet state and regulatory policy reinforces the market concentration and privileged regulatory status of the largest firms.
The regulatory framework and ***CP88 Investments*** regulations limit the autonomy of credit unions and the investment opportunities available to them. They are required to invest deposits in competitors contrary to their ethos and to the best interests of their members/owners and of the communities. Credit Unions and their 3 million members are trebly supportive of the designated pillar banks; as depositors, as taxpayers and as non-competitors.

1.5 While Harold's Cross Credit Union welcomes this consultation we regret that the extensive CP88 literature was not obtainable in print form which would more readily facilitate due consideration.

1.7 The Commission on Credit Unions acknowledged the competitive disadvantage of credit unions (Section 2.6.9) and said “It is important to ensure that the conditions for balanced competition prevail following the restructuring of the Irish financial services system.” The Commission also stated; “An objective of the Commission is to seek solutions to evolving and developing the credit union movement in line with its ethos and guiding principles”. However, few solutions have emerged and the necessary conditions for balanced competition have not prevailed and do not prevail. The regulations restrict credit unions, stifling innovation and denying them the opportunity to secure reasonable returns from prudent, apt and beneficial investments, collective investment schemes or loans consistent with their ethos and objectives. It can be argued they perpetuate and exacerbate an imbalance, concentration and monoculture in banking which has proven hazardous.

SECTION 2

CP88 SECTION 5: RESERVES

The requirement for an additional operational reserve will impact negatively on credit union balance sheets and increase costs.

CP88 SECTION 6: LIQUIDITY

The requirement for credit unions to maintain a short-term liquidity ratio of 10% may increase costs for credit unions.

CP88 SECTION 7: LENDING

The new lending regulations afford significant new powers to the regulator. They perpetuate and significantly extend constraints on the freedom of credit unions to grow their loan book in response to member's needs, and in response to exceptional needs (eg; funeral costs) and in accordance with the credit unions broader remit and objective of serving the lending needs of the local community. (For example via lending and loan partnering for needed housing supply, nursing homes, community, social and small enterprise etc.).

The opportunity to lend and earn interest on loans is further restricted by these requirements and the additional administrative burden will also add to costs and the impact on financial performance.

CP88 SECTION 8: INVESTMENTS

These regulations are restrictive and arguably oppressive as they narrowly prescribe the investment portfolio composition, policies and practices of credit unions while placing the onerous responsibility thereof upon credit unions. The rationale and the assessment of the impact on credit unions, or on their liquidity and financial positions have not been provided.

The new regulations afford little scope or autonomy to credit unions seeking to diversify their investments to secure meaningful returns in the current environment or for the foreseeable future.

The guiding principles of credit unions include addressing the financial and economic needs of members and their local communities and society (ILCU,1987 & Commission, 2012). The requirement to invest in deposits in their competitors is a member-relations and public relations liability for credit unions and inconsistent with their ethos. It is arguably anti-competitive, shaping the structure of the banking sector so that the dominance of private entities with a keen interest in harmful speculative credit creation is exacerbated at the expense of smaller local institutions.

We recommend that the investment regulations be revised to afford credit unions and their representative organisations scope for collective investment schemes in a diversity of higher yielding investment assets in closer accord with their ethos and objectives.
Harold's Cross CU serves a community in which 50% of residents are tenants subject to escalating private rental costs which, throughout Dublin provide generous and secure returns attracting overseas investors. Voluntary and social housing organisations have delivered 27,000 homes and will play a key role in addressing Ireland's housing needs. Collective Investment Schemes in social housing, voluntary nursing homes etc could yield better returns for CUs while addressing the economic needs of members and local communities.

CP88 SECTION 9: SAVINGS

The new legislation grants the Central Bank/regulator power to prescribe requirements and limits for credit union savings. The draft regulations Section 9.2.2 require that 'A credit union shall ensure that no member shall have savings which exceed €100,000'. The stated objective is; 'to ensure that credit unions funding is sufficiently diversified'. With 3 million members overall and several thousand members in even the smaller credit unions it is difficult to see the necessity for this regulation which will impact negatively on credit unions. It will sanction credit unions and some 3,000 of their most valued and loyal customers and will impact on deposits and shares of up to €120 million. The impact of any single unexpected substantial withdrawal can be addressed by credit unions individually or collectively. The impact of the substantial withdrawals likely would be detrimental to the sector.
The limiting of total deposits to a maximum of 100% of total shares is reinstated.

CONCLUSIONS AND RECOMMENDATIONS

This commentary has sought to highlight a range of concerns in regard to the draft regulations, their implications and the likely impacts on credit union development and financial performance. We commend this consultation process and recommend continued close consultation between the Central Bank and credit unions and their representative

bodies to address the current concerns, challenges and opportunities for credit unions.
We have argued for less restrictive lending and investment regulations and that credit unions be afforded greater scope to diversify lending and select investments as proposed herein and/or by Ian Mitchell of Davy. Whilst we broadly endorse and commend the Davy submission we have felt the need to also air our concerns which we hope the Central Bank and Registrar will duly consider and welcome any response.

JG/pp HXCU Feb 2015

End.