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Submission to Central Bank of Ireland re Consultation Paper CP88

The Board of Marino Credit Union would like to make a submission to the Central Bank of Ireland in relation to the proposals outlined in CP88, their consultation paper on further regulations for Credit Unions. It is the opinion of this credit union that the implementation of the proposed regulations would have a negative impact on our business practices and would have the effect of diverting business from credit unions to the banking sector. It is the responsibility of the Registrar of Credit Unions to ensure good business practices and the viability of the sector. We feel the proposed regulations go beyond this remit, in an attempt to micro-manage the business of credit unions

In particular, we would like to raise the following points:

Section 5 Reserves

Initial Reserve Requirement: Historically, when establishing a new credit union, the business practice was that they would build up a fund and slowly release this money as loans to members. Under the new regulations, the requirement that they would have sufficient funds to meet future growth and expected operating losses would mean that the business would have to grow dramatically before it would be in a position to issue loans. This is contrary to the ethos and business practices of credit unions. As long as a new credit union operates in a prudent manner, there is no reason why the existing practice cannot continue. We feel that this is an unnecessary restriction to the expansion of the credit union movement.

Section 7 Lending

Categories of Lending: We have two concerns with this proposal. One is the requirement that there should be one interest rate within a category. Credit unions traditionally offer different types of personal loans at different interest rates. For example, we offer a standard loan, a car loan and a reduced-rate one-year loan. These are part of our marketing and commercial strategies. If we cannot offer different rates, it will have an adverse impact on our ability to grow our business.

The other concern is in relation to the requirement to have a first legal charge on the property in the category of house loans. The reference, in the proposal, to “improve or renovate a house” seems to imply that it is applicable to home improvements loans, which are a leading type of loan for credit unions. It would not be possible for us to obtain a first charge on a property if it was already subject to a mortgage. The only members who would be able to apply for a home improvement loan would be those who have no mortgage, such as older members. This would be another restriction to normal credit union business practices.

<u>Concentration Limits</u>: The restriction on the spread of loans issued by the credit union should be the responsibility of credit unions themselves. There is the possibility of groups of credit unions, perhaps through the auspices of the Irish League of Credit Unions, joining together to issue commercial loans, such as mortgages or loans to businesses. Credit Unions should be allowed to manage these themselves, as they are best placed to do so. The proposal is a restriction on business practices.

<u>Related Parties</u>: The proposal that individual written approval by the Board is required before any loan can be approved for a related party is excessively bureaucratic. It is hard enough getting people involved as volunteers with credit unions without also making it more difficult for their extended families or business colleagues to obtain a loan. This is also irrelevant to the risk of the loan, as it applies to all loans over €2000.

<u>Section 9 Savings</u>

<u>Maximum Savings</u>: There is no commercial reason why the maximum amount of savings allowed by an individual member should be set at €100,000. Although we do not have any member with savings of that size, we would be concerned that if a member did reach that limit in the future, we would have to tell the member that they would have to withdraw their savings above the limit and deposit it somewhere else, presumably a bank. We assume that the €100,000 limit was set because that it is the maximum amount guaranteed under the Deposit Guarantee Scheme. However, applying this maximum to credit unions only and not to banks as well, is a restriction on normal commercial practices within the financial sector, and would give a competitive advantage to the banks.

Also, asking a member to withdraw money over the limit would give the adverse impression that the credit union could be in difficulty. We would also have to micro-manage this account to ensure the upper limit was not being continuously being breached.

<u>Summary</u>

We would be obliged if you could take our submission under consideration, and make the appropriate modifications to your proposals.