MULLINGAR CREDIT UNION

Response to Consultation Paper CP88

Consultation on the Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act

February 2015

This document contains the views of the Board and Management of Mullingar Credit Union on the proposals contained within Consultation Paper CP88

RESERVES

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

It is believed that the current reserve requirement of 10% of total assets is more than sufficient, given the nature of credit union assets and the level of loan book provisions.

Mullingar Credit Union has some reservations in relation to the proposed "operational risk" reserve. There is no definitive minimum or maximum amount set out in the proposed regulations and there are concerns that such a reserve could become restrictive and stifle the potential growth of the credit union. It could also lead to inequitable treatment of credit unions with so much scope for setting different operational risk reserve targets.

Suggestions

Retain the reserve requirement as it currently stands.

If the proposed operational risk reserve is to be introduced, set a maximum percentage of assets for such proposed operational risk reserve with a clear and definitive basis for why a credit union requires the additional operational risk reserve.

LIQUIDITY

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

It is believed that the current regulatory requirements in relation to liquidity have served credit unions well since their introduction, during what has been an exceptionally difficult and challenging time for most credit unions in the Republic of Ireland.

The introduction of a new additional requirement of 10% of unattached savings to be available within eight days seems excessive and unnecessary. It would require credit unions to hold significant funds in bank accounts earning minimal returns.

LENDING

(iii) Do you have any comments in relation to the draft lending regulations? If you do have suggestions please provide them along with the supporting rationale.

Mullingar Credit Union has concerns in relation to two of the proposals under the draft lending regulations.

- House loans
  The draft regulations include within the definition of a house loan, "improve or renovate a house on the property that is already used as their principal private residence". As a first legal charge is required for any house loan under the regulations, this would appear to imply that a loan for home improvements of any kind requires a first legal charge. Such a requirement

would be excessive and unworkable, and would significantly curtail this important area of credit union lending. In many cases it will not be possible to secure a first legal charge as there may be a mortgage outstanding on the property. In conclusion, Mullingar Credit Union believes that home improvement / house renovation type loans should be included within the "personal loans" category.

- Related party lending

  The draft lending regulations on related party lending are restrictive, possibly discriminatory, and would result in a significant administrative burden in processing such loans.

  The proposal in relation to introducing special provisions and ongoing monitoring in relation to lending to a certain class of persons within the credit union is unnecessary, unreasonable, inequitable and entirely unworkable.

  The operation of such requirements could possibly be unlawful from a data protection perspective and would leave the credit union open to allegations of discrimination.

  The introduction of these requirements (or any variation of same) would create additional barriers to the process of recruiting unpaid volunteers to positions of governance in the credit union.

  All loans, including related party loans, should be solely assessed on the basis of "ability to repay" and relationships with credit union officers should play no part in the assessment process.

  The current provisions that apply in relation to loans to credit union officers only (special committee; disclosure in financial statements) are adequate.

INVESTMENTS

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

The option to maintain a limited investment in equities should be maintained. It gives a valuable alternative to bonds and bank deposits; gives potential for growth at a time of very low returns elsewhere; and provides a means of diversifying the credit union investment portfolio.

The maximum duration of investments (current and proposed) of ten years is restrictive. For example, the Irish government is currently issuing bonds of thirty years duration.

The maximum duration of ten years will also be a barrier to becoming involved in any kind of centralised lending mechanism to provide mortgages to members.

CP76 introduced the possibility of larger credit unions being allowed to invest in corporate bonds, which would have been welcomed by Mullingar Credit Union. This provision should be reconsidered for the new regulations. It seems inequitable that credit unions are restricted, in the main, to investing only in competitor financial institutions. These same institutions sustained substantial losses during the financial crisis and in some cases, caused credit unions to incur significant losses on their investments with those institutions.

SAVINGS

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

Mullingar Credit Union fundamentally disagrees with the proposed introduction of a savings cap of €100,000. This restriction is unnecessary and discriminatory, as it does not apply in any other financial institutions.

Under the current legislation, a member can deposit up to 1% of total assets of the credit union, which for a credit union with €150m of assets, is €1.5m. A reduction of €1.4m or 93% seems disproportionate and unnecessary in the extreme.

€100,000 is not considered to be a significant amount of savings in modern Ireland, when one considers situations such as retirement / redundancy lump sums, sale of property and individual savings patterns.

The Regulatory Impact Analysis states that the introduction of this provision will impact 55% of credit unions, so the negative implications of communicating this new requirement to members will be far reaching. It sends out a negative message as to the security of members' funds in credit unions. Credit unions are fundamentally savings institutions and to place such a low cap on credit union savings is a retrograde step.

BORROWING

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

The reduction in the borrowing capacity of credit unions from 50% of total savings to 25% of total savings will not have much immediate impact on credit unions. However, this provision could pose a problem going forward, given the changes currently underway in the structure of the credit union movement.

SYSTEMS, CONTROLS AND REPORTING ARRANGEMENTS

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

No comments.

SERVICES EXEMPT FROM ADDITIONAL SERVICES REQUIREMENTS

(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.

It is noted that the provision of debit cards on credit union member accounts is not specifically mentioned within the scope of the additional services listed within CP88. The provision of a proprietary debit card on a member's own account is seen as a basic necessity in order for credit unions to remain relevant in the provision of financial services.

In general, as new financial products become available, credit unions should be able to provide these to their members, without extensive additional regulatory involvement.

PROPOSED NEXT STEPS AND TIMELINES FOR THE INTRODUCTION OF THE DRAFT REGULATIONS

(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.

It is felt that the transition period may be too short, given the significant additional changes and requirements being proposed within the new regulations. Nine months to one year may be more appropriate given the level of work still underway in implementing the requirements brought about by the commencement of the initial provisions of the 2012 Act.