

CP88 Submission

CP88 SUBMISSION FROM SLANE CREDIT UNION LTD

SLANE CREDIT UNION LTD., MAIN STREET, SLANE, CO. MEATH

Submission of Slane Credit Union on CP88

5.4 The Central Bank is seeking views on the following:

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

Submission:

1. "A credit union shall establish and maintain a minimum regulatory reserve requirement of at least 10 per cent of the assets of the credit union." This statement is a blunt instrument for it does not take Risk into consideration. The assessment of any regulatory reserve should be risk based and reflect the true needs of the Unions. In N.I. the RR is 8%
2. Initial reserve requirement for newly registered credit unions are so designed that it will be impossible for new Credit Unions to be established.

6.4 The Central Bank is seeking views on the following:

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

The inclusion of a 10% short term liquidity requirement means that that element will attract no interest for interest on 8 day investments do not exist.

Taking the following extracts into consideration we believe the liquidity regulations should mirror the 1997 Act.

32.—(1) Notwithstanding anything in the rules of a credit union or in any contract, a credit union may require not less than 60 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.

(2) Notwithstanding anything in the rules of a credit Union or in any contract, a credit Union may require not less than 21 days' notice from a member of his intention to withdraw a deposit.

7.4 The Central Bank is seeking views on the following:

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

SUBMISSION:

7.2.1. Categories of lending

As set out in the Feedback Statement on CP76 and in line with its new regulation making powers, the Central Bank is defining categories of lending for credit unions. Currently the majority of credit union lending is personal lending¹⁰. Under the draft lending regulations a credit union may make loans in the following categories¹¹:

In this section the Central Bank lists the issue of **HOUSE LOANS**. It then defines a **house** loan a loan made to a member secured by property for the purpose of enabling the member to:

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

Under the draft lending regulations, **credit unions must hold the first legal charge secured on the property for any house loans** made following commencement of the regulations.

The enactment of this element will effectively exclude Credit Unions from a large part of its natural and existing market. It narrows the effectiveness of Credit Unions in assisting our members and society at large. We submit that

1. Sections (b) to (d) inclusive be excluded from any regulations
2. That any reference to house or mortgage loans be excluded from CP88 and given a dedicated CP in its own right.
3. Section 35 of the Acts should be revisited to allow longer term lending

7.2.1 Does not include Job Creation, central lending, Social Housing, State Guaranteed projects and/or as approved by the Central Bank. **We believe they should be included.** The inclusion of these categories will allow Credit Unions expand their lending base with minimum risk.

7.2..2 States “any commercial loan granted to a borrower or group of borrowers that are connected, that is less than €25,000 would not be included in the calculation of the limit.” **This limit should be increased to €40,000 as the purchase of small machinery or a vehicle for SME would come within this limit.**

7.2.2 States “may also make loans to other Credit Unions up to a maximum of 12.5% of its regulatory reserve”. When the recovery occurs there may be a need for C.U.s to source funds to lend to its members the most logical avenue would be other Credit Unions. This will be given at a premium rate and be of advantage to both Unions and their members. **We suggest a limit of 40% would be more appropriate.**

7.2.3. Draft regulations

Related parties

20(1) – “the following are subject to individual approval in writing by the board of Directors or a subcommittee of the board of directors established specifically to deal with related party lending”

This implies that:

The board engage in operational matters (admittedly in a limited sense)

That the section 56A of the Act is now amended to include a committee for related party lending and a provisioning Policy.

We believe that:

The transfer of obligation to the board, in this matter, undermines the authority of the manager and **therefore should not be enacted.**

The need for a further committee will put extra strain on the volunteer base of the Union and/or the activities of the Board. The **activity should be consigned to the Credit Committee and/or the Board if deemed necessary.**

The policing of related party loans in such an onerous manner indicates that present policies/procedures are faulty or that internal audit and/or managerial control is lacking. **We believe this is an unnecessary imposition and should not be enacted.**

4) When referring to RR is the Bank indicating that lending be restricted to the statutory RR or that amount actually held by the Union? Clarification is need here.

7.2.3 Refers to Large exposure limits the gauging of a loan to RRR reduces the amount a Union can lend however it seems to allow “in an exceptional case” for the exposure to be exceeded but it does not outline the procedure whereby the limit can be exceeded. In the next paragraph it states that the Union “must hold the amount of the exposure that is in excess of the limit in a realised reserve” surely if the loan can only be granted “in an exceptional case” (probably with Central Bank approval) due diligence has taken place and ability to repay proven. We submit that the need to hold **a further reserve will be burdensome on the Union and therefore *should not be imposed.***

Where an existing loan exceeds the large exposure limit forcing the Union to set aside the amount whereby this is exceeded – the Union has already done due diligence on the borrower and deems the loan will be repaid within the contract – the imposition of a provision is a penalty on retrospective actions and *should therefore not be enacted.*

9.4 The Central Bank is seeking views on the following:

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

Submission:

Presently many credit Unions restrict the level of shares and/or deposits held by members, this of its self proves that C.U.s are in the main prudent. The statutory imposition of €100,000 on all C.U.s would be detrimental to the

reputation of and confidence in all Credit Unions and could be the genesis of a run on funds. If nothing else it will force funds into the banks, entities not trusted by the fund holders. Inflation will in time undermine/erode the proposed limit. There is no review mechanism within the system.

The present limits should be maintained and the Unions allowed to self-regulate within said limits.

10.4 The Central Bank is seeking views on the following:

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

Submission:

Is the Central Bank now adding another statutory policy? Where a Union is forced to avail of the statutory stabilisation fund, which is a borrowing mechanism, is this deemed as borrowing for the purpose of this paragraph? By imposing a new limit on Credit Union borrowing this section blocks an avenue of cheap(er) borrowing for Unions if/when the economy improves.

Apart from the above no problem.

11.4 The Central Bank is seeking views on the following:

- (i) 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.

Submission:

No problem

12.3 The Central Bank is seeking views on the following:

(i) 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.

The list of services we envisage for our C.U. is

1. Telephone, internet and fax access to the credit union by the member
2. Third Party Payments,
3. Automated teller machine services (ATMs),
4. Insurance services,
5. Group health insurance schemes,
6. Discount for goods and services,
7. Budget account scheme,
8. Bill payment services,
9. Euro drafts and bureau de change
10. Money Transfers
11. Money Advice and Budgeting Service
12. Service Centres
13. Draws
14. Standing Orders
15. Direct Debits
16. Financial Counselling
17. Will making
18. Gift cheques
19. Electricity budget meter cards or tokens
20. Savings Stamps

21. PRSAs

13.1 The Central Bank is seeking views on the following:

- (i) 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.

Submission:

The time line should be extended by at least 6 months in each area.

14. Regulatory impact analysis

We believe that it is disingenuous to analysis impact prior to the enactment of the regulations – it can only be guesswork until we actually see the **outcome**.

General View:

We believe that the questions asked restrict any scope for Credit Unions to truly engage with the Central Bank. The questions only guide the Unions to the end game envisioned by the Central Bank and allow no freedom or sense of partnership. Nano management will become the norm if/when these regulations become law. Without a review/amending mechanism the regulations, if enacted, will strait-jacket Credit Unions into the narrow niche deemed appropriate by the Central Bank. This niche is contrary to Government vision and policy.

