Submission from: Trim Credit Union

Central Bank of Ireland Consultation (CP88)

Trim 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). Notwithstanding positive developments as the economy emerges from a very economic crisis, the financial and operational environment for credit unions continues to pose challenges in 2015. Loan book contractions and falling interest incomes are a significant cause for concern. It is therefore important that regulation continues to strengthen the governance and internal controls of credit unions to support boards and management in discharging their duties and responsibilities to protect credit union members.

We have carefully considered CP88 proposals and their potential impact on credit union business and our members and outline below a number of concerns and suggestions that are aimed at enhancing and protecting the credit union business framework:

Section 5: Reserves

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

Initial reserve requirement for newly registered credit unions: Trim Credit Union is in favour of safeguarding the interests of members in all credit unions. Credit unions play a vital role in the provision of financial services. Enabling credit unions to strengthen and better serve their members will help with the delivery of a diverse, healthy and successful sector which is able to offer a broad range of services to an increased number of members. For this reason, we have concerns regarding the introduction of initial reserve requirements for newly registered credit unions. The new section 45 proposes that in addition to the need for a regulatory reserve ratio of 10% of assets, the Central Bank can make regulations in relation to newly registered credit unions and prescribe the initial reserves that they must hold. This may impact negatively on the growth of the credit union movement.

Suggestion:

Trim Credit Union is satisfied that the strength of current legislation, compliance standards in relation to regulatory reserve ratios and fitness and probity regimes can safeguard the development of newly registered credit unions. We would welcome similar regulation to that operationalized in Northern Ireland by the Prudential Regulation Authority who prescribe an initial reserve of €10,000 for newly registered credit unions to allow a new credit union to build up reserves and conduct viable and sustainable business within the standards and regulation set out by the financial regulation authority.

Section 6: Liquidity

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

Expanded definition of liquid assets expanded: Trim Credit Union welcomes the proposal in this consultation paper to expand the definition of liquid assets to include any investments with more than 3 months to maturity, where there is a written guarantee that the assets can be liquidated, without penalties on interest or income, within 3 months.

The introduction of a short-term liquidity ratio of 10%: Trim Credit Union questions the necessity to introduce a short-term liquidity ratio of 10%. The 'Regulatory Impact Analysis' states that 20% of the sector's total investments have a maturity of less than 8 days and 17% are held on demand. Further clarification would be needed as to whether this is purely a timing issue or a percentage that is reflected over a 12 month period.

Introducing a short-term liquidity requirement of 10% may also impact on the Credit Union investment income. For example, a credit union with unattached savings of €10m, would require €1m to be held in investment products with maturities of less than 8 days and an investment return of close to zero. This could impact negatively on the average return on a credit unions' investment portfolio.

Suggestion:

The Central Bank must clarify the rationale for introducing a short-term liquidity ratio of 10%.

Suggestion:

Implementation of a mechanism that recognises the need for the Central Bank to revisit the impact analysis every 12 months to satisfy two external conditions:

1. The current investment environment offers no incentive for medium to long term investments, however, if interest rates increased and significant differences in interest rates emerge between short and long-term investment options the impact of a short-term liquidity ratio will be quite severe on credit union investments.
2. Banks are currently in the process of implementing Basel III liquidity ratios as per CRD IV. The Liquidity Coverage Ratio is now in place and the Net Stable Funding Ratio is being implemented in certain banking sectors, this has negative consequences for credit union investment portfolios,

however, the extent and severity of this impact will not be realised until it is fully transposed. Once the liquidity ratios have been fully implemented any constraints imposed by the short-term liquidity ratio should be addressed in the context of the range of investment and deposit options available to credit unions.

Section 7: Lending

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

1. The existing requirements and guidance on lending impose a large exposure limit – greater of €39,000 or 1.5% of total assets. The new requirements in the draft regulations propose – greater of €39,000 or 10% of the regulatory reserve.

Suggestion:

The Central Bank must clarify the rationale of tying limits on loans to reserves as this will impact negatively on many credit unions.

2. Section 35 of the draft lending regulations propose that credit unions will be permitted to continue to lend up to 30% of their loan book over 5 years and up to 10% of their loan book over 10 years, subject to a maximum maturity of 25 years. Credit unions can apply for an extension to their longer term lending limits (up to 40% of their loan book over 5 years and up to 15% of their loan book over 10 years) by approval and conditions will be set by the Central Bank.

Suggestion:

Lending conditions are currently difficult for credit unions and the draft lending regulations have the potential to further restrict credit unions from lending, in terms of the maximum maturity limit of 25 years. Trim Credit Union would suggest that this proposal be removed from the new regulation.

3. Requirement for House Loans: The consultation paper proposes that where a credit union grants a house loan, it must ensure that the credit union holds the first legal charge on the property for each house loan.

Suggestion:

The Central Bank must clarify what the meaning of a house loan is.

4. Concentration Limits: Lending to other credit unions – 12.5% of regulatory reserves.

Suggestion:

Restricting inter credit union lending is unnecessary and regressive for the future potential of credit union growth. Trim Credit Union would suggest removing this proposal from the draft lending regulations.

Section 9: Savings

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

This consultation paper proposes to reduce the statutory savings maximum (shares plus deposits) from €200,000 or 1% of total assets to €100,000.00. This means that credit unions would be obliged to tell their members to move their surplus savings to other financial institutions. While this requirement seeks to ensure that credit union funding is diversified and members' savings are secure, it would impose a restriction that does not exist in other financial sectors. We feel that it is important that regulation on saving limits does not disproportionately benefit the wider financial industry at the expense of the credit union movement.

Suggestion:

Maintain existing saving limits in credit unions.

Section 10: Borrowing

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

The draft regulation proposes that the maximum borrowing permitted by a credit union should be reduced from 50% to 25% of aggregate savings. Feedback on the previous consultation paper CP76 acknowledged that it is uncommon for credit unions to use borrowing as a source of funding.

Suggestion:

Having regard for the extent of changes that have taken place over the last number of years, it is not reasonable to expect credit unions to operate in static conditions that allows no scope for change and which may impact negatively on their operations in the future. We would suggest that the maximum borrowing limit should not be reduced.

Conclusion:

Trim Credit Union welcomes the opportunity to take part in the consultation process by the Central Bank in relation to regulations for credit unions on commencement of the remaining sections of the 2012 Act. As outlined in our submission it is important that the core purpose of regulation strengthens the credit union framework and protects the interests of our members. Whilst we believe that CP88 broadly strikes a more appropriate balance than original proposals, we have made a number of suggestions to prevent these proposals from hindering credit union growth without compromising the roles and responsibilities of the board and management and the protection of credit union members.

From: Maria Cummins
Board of Directors
Credit Union: Trim Credit Union
Date: 27th February 2015.

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