SUBMISSION FROM

ST MARY'S NAVAN CREDIT UNION

IN RESPONSE TO

The Central Bank of Ireland's

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

Consultation paper CP88

Introduction

St Mary's Navan Credit Union welcomes the opportunity of submitting a response to the Central Bank of Ireland's Consultation paper CP88. SMNCU endorses the consultation process which it believes will significantly strengthen the regulatory framework and provide clear and concise direction to those statutorily responsible for the supervision, administration and direction of the credit unions and the ultimate safeguarding of members' savings.

In making our submission we have itemised a number of issues which we believe are relevant amendments to the proposed regulations. In addition to this we endorse the Credit Union Development Association submission. We acknowledge the submission by Davy on the investment regulations.

(i) Do you have any comments on the draft reserves regulations?

Draft Regulation 4.

While SMNCU acknowledges the RIA comment that the impact of reserve requirements should be minimal as they are in line with the Regulatory Reserve Ratio for Credit Unions (August 2009) the adaption of a broad brush percentage i.e. 10%, deviates from the Risk Based Approach option proposed in the 2009 Guidance.

Draft Regulation 5.

While the Initial Reserve Requirement exemption for amalgamating credit unions is welcomed the RIA does not indicate if the appetite for registering new credit unions will be curtailed following the introduction of this regulation. While it is acknowledged that new registering credit unions need to be adequately capitalised a reserve lead-in period would be more conducive in a setting up scenario.

(ii) Do you have any comments on the draft liquidity regulations?

Draft Regulation 9.

(2) SMNCU believes that the imposition of a 10% unattached share minimum short term liquidity ratio is restrictive, is only reflective of the current market and will curb potential growth when markets improve. Due to the current investment climate there are no adverse liquidity risks for credit unions, as borne out by the RIA.

(iii) Do you have any comments on the draft lending regulations?

Draft Regulation 12

(1) Categories

Although it is acknowledged that for reporting reasons lending categories need to be defined it is arguable that the discretion for identifying and populating categories should rest with the credit union, based upon strategic initiatives.

There is some ambiguity in the practical application of commercial lending category to sole trader members who are in business with a primary purpose to earn a living rather than the definition of "commercial loan" (means a loan, the primary objective of which is to fund an activity whose purpose is to make a profit).

(2) Commercial loans < €25,000.

It is considered that the imposition of an exemption limit from Regulation 17 may, in fact, encourage a multiplicity of commercial loans just marginally short of the imposed limit. SMNCU would suggest reclassifying lending to SME's / Sole-traders on ability to repay, credit rating, balance sheet analysis and other underwriting measures.

Draft Regulations 13/14/15 – Limits

SMNCU believes that the Concentration, Large Exposure and Maturity limits may, when taken together, curtail strategic growth, product and service development.

The preference here would be to underwrite loans on a prudent and researched basis, employing robust lending policies and procedures in line with Regulation 18 (3) "A credit union shall ensure that its credit assessment process is based on coherent and clearly defined criteria and that the process of approving loans and amending loans is clearly established and documented in its credit policy" rather than imposing blanket limits which could have the effect of funnelling lending into remaining availability.

SMNCU is concerned that future opportunities in the housing loan market will be quickly absorbed due to the maturity limits proposed. Credit unions will be unable to recoup the resource investment due to the volume constraints and will effectively be restricted from entering this market, a market which is open to credit unions in other jurisdictions.

(iv) Do you have any comments on the draft investments regulations?

Draft Regulation 25

Classes of Investments – *A credit union may only invest in euro denominated investments*.

Section 43 (3) suggests that "...the Bank may prescribe investments in which a credit union may invest its funds.....including any of the following ...(e) the currency of a class of investments (f) limits for investment, whether by reference to maturity, currency, counterparty, sector, instrument or otherwise". It would seem that investment in currency other than €uro is possible under the legislation. Investment in currency other than €uro within EEA, given appropriate foreign currency hedging (e.g. guaranteed forward contracts) would allow credit unions portfolio diversification and access to greater investment opportunities.

In the current economic climate of low borrowing appetite, conservative savings/spending patterns and low deposit rates the credit unions are finding it difficult to make healthy investment returns. To aid sustainability in the short run it would seem more appropriate to widen the authorised investment classes, to facilitate a closer alignment with a credit union's strategy. In this regard SMNCU would reference the submissions from CUDA and Davy.

Draft Regulation 26

Counterparty Limits - *A credit union shall not make an investment with a counterparty which, were that investment to be made, would cause the investments with that counterparty to exceed 25 per cent of the credit union's total value of investments*.

SMNCU would propose that the regulations contain a clarification whereby a credit union is permitted a degree of flexibility to exceed the 25% ceiling by virtue of a maturity from a counterparty affecting another counterparty limit. A transitional period could be agreed to re-align the counterparty limits.

Example:

INSTITUTION		%	MATURITY	NEW PF	NEW %
BANK A	1,000,000	25	200,000	800,000	21.1
BANK B	1,000,000	25		1,000,000	26.3
BANK C	1,000,000	25		1,000,000	26.3
BANK D	1,000,000	25		1,000,000	26.3
PORTFOLIO	4,000,000	100		3,800,000	100

(v) Do you have any comments on the draft savings regulations?

Draft Regulation 35 – *A credit union shall ensure that no member shall have savings which exceed €100,000*

SMNCU believes that there is no justification or rationale at this juncture to curtail the level of an individual member's savings. This proposed regulation is anti-competitive and denies the credit union member the option of exercising his/her savings preference.

The reputational damage will be far-reaching and detrimental to the individual member, individual credit unions and the credit union movement. Clearly the trust in the credit unions by the Irish population is epitomised by the high level of savings therein. To remove that freedom of choice, albeit affecting a small number of individuals, will cause unnecessary confusion and send out an incorrect signal to members, be they members with savings in excess of €100,000 or not. Further, a conflicting scenario will result unless all other deposit takers have a similar cap on savings.

Aligning the proposed cap with the limit under the Deposit Guarantee Scheme undermines the confidence that members have in the credit unions, especially when a similar imposition is not made on the banking sector.

(vi) Do you have any comments on the draft borrowing regulations?

Draft Regulation 38 – *A credit union may borrow money, on security or otherwise, so long as the total amount outstanding in respect of monies so borrowed does not at any time exceed 25 per cent of the savings of the credit union. A credit union shall ensure that no member shall have savings which exceed €100,000*

While the RIA indicates that a small percentage of credit unions have borrowing requirements and that the borrowing is currently at a low level there is no rationale proffered to suggest that a reduction in the borrowing to 25% of savings is an appropriate level or why it is being introduced now. In this regard SMNCU concurs with the CUDA view that this regulation be aligned to the limits currently contained in Section 33.

(vii) Do you have any comments on the draft Systems, Controls and Reporting Arrangements regulations?

Draft Regulation 43 (2) – *A credit union shall ensure that the board of directors of the credit union review and approve the risk register, at least annually, to ensure that all risks that the credit union is, or may be, exposed to are contained on the risk register and that the systems and controls are appropriate to manage and mitigate those risks.*

SMNCU would like to see this regulation broadened to ensure that all significant risks, as identified by the risk management officer, are brought to the board of director's attention as they arise. This would ensure that the board members are conversant with all significant risks on an ongoing basis.