To: Central Bank of Ireland

From: Tipperary Credit Union Limited

Date: 24th February 2015

Re: Submission on Consultation Paper CP88

Introduction

There is much in the CP88 document 'Consultation on Regulation' that is welcomed by Tipperary Credit Union (TCU). However, we do have a number of areas of concern, particularly in relation to the proposed lending limits, and these will be explored later. Tipperary Credit Union accepts that certain sections of the 2012 Act have not yet commenced, specifically those in relation to the Regulation making powers of the Central Bank in respect of Reserves, Investments, Liquidity, Borrowings, Loans and Savings and welcomes this consultation process in relation to these key areas of Credit Union Business. TCU accepts that key prudential limits must be in place. However, TCU also believes that it is crucial that new regulations introduced are proportionate and fair and to not stifle a credit unions growth potential.

The 'Consultation Protocol for Credit Unions', issued on 27 November 2012, states that a regulatory impact analysis ("RIA"), which will contain an examination of the impacts of new regulations and consideration of alternative options, will be carried out by the Central Bank, where practicable, when consulting on new regulations.
The Central Bank sought the views of a sample of 31 credit unions to provide, on a voluntary basis, certain information required to conduct the RIA. There are currently 385 credit unions registered in the Republic of Ireland with total members reported to be in the region of 3.1 million. Thus, the 31 credit unions chosen by the Central Bank for the RIA, represents, in number terms, only 8% of Total Credit Unions, which would appear low and not a representative sample of the wider movement. The proposed regulations and limits have far reaching implications for the Credit Union movement going forward and Tipperary Credit Union is of the view that a larger number of Credit Unions should have been involved in the RIA in order to ensure that differing views, stages of development, products and services offered, member demographics, were taken into account when drafting the proposed regulations. Whereas Tipperary Credit Union agrees with many of the proposals, it has serious concerns on the existing and proposed lending proposals, lending limits and future restrictions on Credit Union Loan Growth. TCU is of the view that more work needs to be done to see what the effect the proposed regulations in relation to loans will have on Credit Unions going forward

Reserves

TCU agrees with a Minimum Regulatory Reserve of 10% of Gross Assets. However, it recommends that the required regulatory reserve of a Credit Union should be calculated on a **Risk Weighting of Assets approach** (similar to Banks), with a Minimum Regulatory Reserve Requirement of 10%

TCU sees no need for the introduction of an 'Operational Reserve' for new Credit Unions.

Liquidity

TCU agrees with a Minimum Liquidity Rate of 20% on unattached Savings (or 30% in respect of S35 approved Central Bank Extension limits in respect of 40% lending over 5 years)

TCU does not agree with the proposed new Short Term (Less 7 Days) Liquidity requirement of 10% of unattached or unpledged Savings. We believe this 10% requirement is too high as

1. It will result in a Credit Union losing further Investment Income, and a Credit Union could end up paying a Bank to hold its short term funds
2. It is contrary to the principles of a Credit Union to 'protect member savings', when it could cost members money to hold funds short term
3. Having funds available short term in Bank Current Accounts does not mean a Credit Union can 'physically' gain access to these funds on demand, should the need arises. TCU, with €80 million in unpledged Savings, is required to hold liquidity of €24 million Short Terms (3 months or less), which will include, under the new proposals, €8 million (or 10%) for 7 days or less. There is no way that the local retail banks would have access to €8 million cash on demand, should our members require same. TCU would have to order cash of this magnitude from the Banks, and this can take time. Credit Unions can sometimes have severe difficulty getting cash from Banks, especially around Christmas time. Members, of course, can be transferred funds immediately by EFT, but many still prefer cash. Thus Tipperary Credit Union believes that the Short Terms Liquidity Requirement of 10% should be **reduced to 5% of unpledged savings.**
4. TCU welcomes the changes in the definition of 'Liquidity', to include Bank Current Accounts. However, where funds are held long term, Banks can be very reluctant to confirm, in writing, that a certain portion of funds can be available on demand, if required.
5. TCU strongly believes that **Irish Government Gilts should be included in the definition of Liquid Assets**, as these are very tradable instruments and can be sold quickly. TCU accepts that these Gilts will then have to be accounted for or a 'mark-to-market' basis. The Draft Regulations are silent on this issue and TCU would like clarification from the Central Bank in respect of the proposed treatment of Government gilts.

Lending

1. TCU agrees with the proposal to reduce the loan large exposure limit to 10% of its Regulatory Reserve. Clarification is needed to confirm whether this 10% of the Regulatory Reserve relates to the 10% Minimum Regulatory Reserve Requirement or the actual Regulator Reserve held by a Credit Union, which could be say, 15%?
2. TCU is strongly of the view that the Current Limits on Lending (30% or 40% over 5 Years, 10% or 15% over 10 years) are too restrictive, very damaging to a Credit Union's loan Growth

potential, and will have serious financial consequences for Credit Unions in the medium to long term. TCU does not also agree with the proposed Concentration Limits for categories of loans.

A Credit Union which currently has a low Loan to Asset Ratio (Say 25%, or less) will find it very difficult to grow its loan book up to say 50% of its Assets, even with the current lending limits in place. It will find it harder again if the proposed new limits are introduced.

For example: Credit Union A, with €100 million in gross Assets, if 25% lent out, will currently have a loan book of €25 million. Credit Union B, with a €100 million in gross Assets, if 50% lent out, will currently have a loan book of €50 million.

If allowed to lend 30% over 5 years, then Credit Union A can have Loans Outstanding to a maximum of €7.5 million over 5 years, and Credit Union B can have loans outstanding over 5 years to a maximum of €15 million. (If allowed to lend 40% over 5 years, Credit Union A can lend a maximum of €10 million, and Credit Union B, €20 million). The only way Credit Union A can grow its loan book up to Credit Union B's level is to lend quality business over 5 years for Commercial / Business loans; Home Loans; Secured loans, or other long term structured products. It is not going to grow its loan book significantly if it has to rely on small ticket, personal loans, less than 5 years in duration. The Proposed Lending Regulations say that a Credit Union can only lend 50% of its Regulatory Reserve for Commercial Loans. In the example above, the €100 million credit union will have a Minimum Regulatory Reserve of €10 million (10%), of which its maximum exposure to Commercial Loans is €5 million (50% of Regulatory Reserve). So even if Credit Union A above lends an additional €5 million in Commercial Loan business, it will not come close to what Credit Union B has currently lent out. Credit Union B can lend €15 million over 5 years, but again will be restricted to a maximum commercial loan book of €5 million, which it probably has currently exceeded, so its potential for growth in this area is zero.

The situation becomes more critical for lending over 10 years. Currently, only 30% is allowed over 5 years, of which 10% is allowed in loans over 10 years (if 40% over 5 years, then 15% over 10 years). Thus in the example above, Credit Union A can have loans outstanding above of only €2.5 million, and Credit Union B, €5 million. If 40% extension allowed, then Credit Union A is allowed 15% over 10 years, i.e., €3.75 million, and Credit Union B, €7.5 million. As most loans over 10 years are for Commercial Mortgages, or Home loans, then the capacity to lend into this market is very restricted under current and proposed new regulations. Credit Union A, which is currently under lent, can only lend a maximum of €2.5 million in Commercial or Home Loan Mortgage business. Again, it will not get close to what Credit Union B is even currently achieving in its lending over 10 years. Credit Union B is allowed to lend €5 million over 10 years. It is more than likely close to this figure at present, so its scope for future growth is limited, and in effect, 'capped'

Tipperary Credit Union currently holds the Central Bank 40% lending extension over 5 years, and 15% over 10 years. With a current loan book of €35 million (35% loan/Asset Ratio), its lending over 5 years is €9.1 million (26% of Loan Book), of which €4.2 million (12% of loan Book) is over 10 years. The vast majority of loans over 10 years are secured loans and all performing.

Tipperary Credit Union is allowed a maximum loan book of 15% over 10 years, i.e., €5.2 million, so as it stands, has only the capacity to lend a further €1 million over 10 years. This equates to about 10 Home loans of €100,000 each. Once we achieve this, we must stop lending in this area. TCU's Regulatory Reserve is circa € 11 million. Under the proposed regulations, the maximum it can have out on loan to Businesses / Commercial is 50% of its Regulatory Reserve, i.e., €5.5 million. TCU currently has about €3 million lent out in this area, so again, its growth potential going forward is limited.

To give Credit Unions scope to expand their business, <u>Tipperary Credit Union recommends</u>

- Lending over 5 years should be calculated as a % of a Credit Unions Regulatory Reserve. **TCU recommends that lending over 5 years should be 200% of a Credit Unions Regulatory Reserve**. Thus, a Credit Union with Assets of €100 million will have a Minimum Regulatory Reserve of €10 million and thus could lend €20 million over 5 years (200% of its Regulatory Reserve). If the Credit Union above is currently 35% lent out, i.e. €35 million, with loans over 5 years of 40% (€14 million), it has the scope under our proposal to increase its lending up to €20 million over 5 years.
- **Lending over 10 years should be 100% of a Credit Unions Regulator Reserve**. In the example above, a credit Union with €10 million in Regulatory Reserve, could lend €20 million over 5 years, of which €10 million would be allowed over 10 years.
- TCU recommends that the Concentration limits for Categories of loans should be calculated as a % of a Credit Unions Regulatory Reserve. **TCU recommends Commercial Loans should be 75% of Regulatory Reserve; Community Loans 25% and Loans to other credit unions 15%**

<u>Investments</u>

Tipperary Credit Union has no issue with the proposed Investment regulations and limits.

<u>Savings</u>

Tipperary Credit Union does not agree to entering 'absolute' figures into Credit Union Legislation, such as the proposed €100,000 restriction on what a member can save. The value of this €100,000 would get eroded over time, due to inflation.

Tipperary Credit Union believes the figure of €100,000 per member is too low. It is not unusual for some members to save this amount, and over. Also, businesses can lodge this amount to Credit Unions on a regular basis and then transfer funds (by EFT) to suppliers or banks at a later date

TCU does believe that there should be a limit on an individual members savings, and as all other proposals / limits in CP88 are based on % of Regulatory Reserves, it believes that the limit on savings should be calculated as a % of a Credit Unions Regulatory Reserve.

TCU recommends that the maximum a member can save in a Credit Union should be €200,000 or 5% of the Minimum Regulatory Reserve, whichever is <u>higher.</u>

<u>Borrowing</u>

Tipperary Credit Union has no issue with the draft proposals in this area

<u>Systems, Controls.</u>

Tipperary Credit Union has no issue with the draft proposals in this area

<u>Proposed Timelines</u>

Tipperary Credit Union has no issue with the proposed timelines

Thank you.

Patrick Shanahan

Chief Executive Officer

Tipperary Credit Union

For and on Behalf of the Board of Directors of Tipperary Credit Union Limited