# St Francis Credit Union Limited

**Response on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act.**

## Consultation Paper CP88 Submission

Summary

St Francis Credit Union Limited Welcomes the opportunity to participate in the consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act. Further to our submission on CP76 we see some positive signs in this paper but also note that the opportunity to make lasting changes in some areas has been missed.

We are disappointed that CP88 reverting to type that one size fits all approach for regulation is very poorly misplaced and will have a lasting damaging effect on the Credit Union movement into the future.

We find some of the content anti-competitive. There are no review clauses, no rights of appeal and the proposed regulations are a reaction to economic conditions in the current environment and do not make any provision for positive change in the future. We estimate that there will be flight of capital of over half a billion euro from the sector. We believe that the resultant knock on effects will undermine the sectors reputation amongst members and in the public domain.

Appropriate, proportionate tiered regulation would provide a regulatory framework that would support strategies of well managed credit unions.

## 1. Lending

### Categories of lending

We note the categories intended including creation of house loan category and the requirement to that CU must hold first legal charge on property. *Can we get clarity that CU can still make loans for home improvement and renovations and make these loans under personal loans.*

The retention of Section 35 restrictions on lending whilst creating a House loan category. *These two issues are pulling in opposite directions and it will not be possible for CU's to offer significant house loans whilst complying with Section 35.*

Please define "loans to other Credit Unions" category

### Concentration Limits

Introduction of concentration limits on commercial, community and loans to other CU's related to Regulatory Reserves is not unreasonable but our only point *is that credit union board and management are best placed to make decisions on concentration limits and given that there is no review clause or rights of appeal may make this very restrictive.*

### Large Exposure Limit

The move for large exposure limit from > of €39,000 or 1.5% total assets to > of €39,000 or 10% of Statutory reserve. *IT is unclear if the new limit is 10% of required Statutory Reserve or 10% of actual Statutory Reserve. Secondly we are unsure why there is a need to change from the current calculation. The variation for our credit union between old and proposed would be €15,000,000 versus €1,800,000. We have been involved in that level of risk but again given that there is no review clause or rights of appeal on this matter we consider that this should not be altered.*

**Maturity of Lending**

Making provisions for the issuing of house loans akin to mortgages is a good thing but having a maximum maturity of 25 years makes it almost impossible for credit unions to be competitive. *If a credit union is in the market to provide hose loans then the maximum loan terms should be extended so that we can compete on an even footing with banks.*

**Related Party Transactions**

It is our opinion that the provisions as set out *will have a negative impact in attracting volunteers in the future.*

## 2. Liquidity

It is the opinion of St Francis Credit Union that impact of the 8 day liquidity requirement will have serious consequences on the movement. By the very nature of our current liquidity the availability of funds changes day by day. The reason that the movement currently has such high levels of liquidity is more to do with the state of the investment market than any other reason.

The difference between an 8 day return and 2/3 month return in normal market conditions would be in the range of 1.10%. We would normally hold 35% of our liquidity requirement in 8 day funds and the remainder in 3 month funds. If we extrapolate on 10% of our investment portfolio it will cost our credit union in the range of €80,000 per year. We are of the opinion that this measure is way out of proportion to requirements.

If we are to leave 10% of our liquid funds with a local bank on 7 day notice the likelihood in the current climate that it will cost the credit union money to have funds on such a deposit. This cannot be in the best interest of our members and cannot be considered the best way in which to protect member's funds.

## 3. Investments

### Classes of Investment

It is the opinion of St Francis Credit Union that equities continue to be authorised under proposed legislation. For credit unions with proper risk mechanisms should be allowed allocate 5% of their portfolio in equities. This will provide for greater diversification and provide opportunities for investment growth in weak markets should the credit union so wish.

## 4. Savings

The application of a limit of member's savings to €100k does not make any sense to us. We consider it to be anti-competitive given that to the best of our knowledge this restriction has not been placed on any banks. If the RCU has any concerns regarding capital in a credit union it has the ability to introduce arbitrary savings restrictions on the credit union.

*This proposed regulation does not take into account the capital base of the credit union, its track record and the strength of its balance sheet. It does not take into account future growth or amalgamations of credit unions and such a blunt instrument will stunt growth opportunities for credit unions into the future.*

*We fail to understand the rationale for implementing this savings restriction given the higher levels of reserves that credit unions can demonstrate than most banks. We anticipate that the returning of savings in excess of €100k to those members affected could signal that there are problems in the credit union.*