TERMONFECKIN CREDIT UNION

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To whom it may concern.

The Board of directors of Termonfeckin Credit Union Ltd would like to make a submission on The Consultation Paper CP109 " Consultation on potential changes to the investment framework for credit unions "

The Investment Framework under the 2016 Regulations is already restrictive and the board believe the proposals in this CP will further exacerbate the downward pressure on investment income.

Bank Bonds

The Central Bank is proposing an amendment to the existing definition of bank bonds but you haven't asked for the credit union views on this. We would urge the central bank to engage with the credit union movement before any amendments are finalised.

Under CP109 credit unions are not permitted to invest in debt issued by a holding company. It is our view that credit unions should be permitted to invest in bonds issued from holding companies which is the structure that was announced by Bank of Ireland and AIB, who are in the process of setting up such companies to help them meet regulatory requirements designed to facilitate future bank resolutions.

The Central Bank is seeking views on the following:

1. Do you have any comments on the current level of diversification in credit union investment portfolios? Are there any barriers to the use of existing diversification options within the current investment framework? If so, please provide details and any suggestions to address these.

The restricted investment classes set out in the 2016 Regulations have resulted in it being a challenge to our investment strategy.

2. Do you have any comments on the potential introduction of additional investment classes for credit unions and the appropriateness of the classes being considered by the Central Bank?

We welcome the introduction of additional investment classes for credit unions which will increase the current level of investment diversification.

3. Taking account of the appropriate risk profile for credit union investments, are there any additional investment classes that the Central Bank should consider?
We believe that other classes that should be considered are Centralised SME Lending, Centralised Mortgages, State Sponsored Projects & Equities.

4. Do you have any comments on the potential to include supranational bonds in the list of authorised classes of investments set out in credit union investment regulations with a minimum credit rating requirement and maturity limit?
We are perplexed as to why CB are seeking a minimum rating of no less than A from 2 recognised rating agencies based on the bonds issued by supranational issuers who are entities formed by 2 or more central governments with the purpose of promoting economic development for the member countries e.g. EIB and EBRD.

5. Do you have any comments on the suggested concentration limit for credit union investments in supranational bonds? If you have suggestions, please provide them along with supporting rationale.
The concentration limit is too low as it is based on the regulatory reserve. Can Central Bank give a rationale as to why the regulatory reserve is being used?

6. Do you have any comments on the potential to include corporate bonds in the list of authorised classes of investments set out in credit union investment regulations with a minimum credit rating requirement and maturity limit?
The yield on proposed A Rating for Corporate bonds if very low and to help credit unions in this very low interest rate environment, CB should consider a credit rating of investment Grade be applied, overseen by an experienced investment manager.

7. Do you have any comments on the suggested concentration limit for credit union investments in corporate bonds? If you have suggestions, please provide them along with supporting rationale.

The concentration limit is too low as it is based on the regulatory reserve and is even lower than the limit proposed for Supranational Bonds. Can Central Bank give a rationale as to why the regulatory reserve is being used?

8. Do you think it is appropriate for credit unions to undertake investments in AHBs? If so, please provide a rationale.
One of the operating principles is social responsibility. We believe that it is appropriate for CU's to undertake investments in AHBs as it complements this ethos.

9. What would the most appropriate structure for investments in AHBs be e.g. investment vehicle?
A special purpose vehicle ("SPV") would be the most appropriate structure for investments in AHBs. Utilisation of an SPV would be in line with the Government's Social Housing Strategy 2020 and the Action Plan on Housing.

10. What do you consider to be the risks associated with this type of investment and what mitigants do you feel are available to manage these risks?

The key risk for the SPV/Investment will be the ability of the AHBs' to repay the money borrowed. This risk can be managed and does not present undue risk to credit union member's funds due to following:

- Up to 30% of the initial project cost is funded by the Department of the Environment, Community and Local Government.
- The remaining portion of the project, typically 70%, is secured by private debt. This is the element of finance that the credit union movement would be looking to provide. The private lender has a first charge on the property.
- The primary source of income for the AHB to fund repayment of this loan is the rent it receives for the provision of social housing. There are two rental payments, the principal one being from the Local Authority (i.e. the State). This is the core source of funds to repay the AHB loan. There is a second rental income stream from the social housing tenant.
- Under the agreement the Local Authority agrees to pay the AHB for the provision of social housing which is generally 92% of market rent and is indexed linked.
- The rental income stream from the social housing tenant, which is means tested, is utilised by the AHB to cover running costs.
- There is also a safeguard for the lender to the AHB in the event of default. In this case, the Local Authority "steps in" and continues the payments, and actively assists the lender in finding an alternative AHB. This is built on the principle that in the unlikely event of a collapse of an AHB, the State, acting through the Local Authority, has an interest in ensuring continuity of the provision of social housing.

11.How can the ALM issues associated with such investments be addressed by credit unions?

As this investment would be managed centrally the mix of projects that would be considered would ensure a balanced approach in the investment portfolio in terms of maturity & liquidity etc.

13. Do you have any comments on the proposal to include investments in Tier 3 AHBs in the list of authorised classes of investments set out in credit union investment regulations with a 25 year maturity limit?

We are in agreement with the 25 year maturity limit.

14. Do you have any comments on the proposal to amend the existing counterparty limit for credit union investments? If you have suggestions, please provide them along with supporting rationale.

Credit Unions are currently finding it a challenge to identify suitable counterparties who can provide a reasonable investment yield. We have just recently seen Rabobank exit this market and the proposed reduction in the country party limit would place additional strain on our investment portfolios. The current 25% limited should be retained.

15. Do you have any comments on the proposed transitional arrangement to reduce the counterparty limit to 20% of total investments?

See point 14 and should the 20% cap be introduced the proposed transitional period of 12 months is not sufficient.

16. Do you have any comments on the use of collective investment schemes for credit union investments?
We currently have no such investments as such schemes are very restrictive as per the 2016 Regulations.

17. Are there any barriers to credit unions using collective investment schemes in the existing investment regulatory framework?
Key barrier to us using such schemes is the low yield.

18. Do you agree with the proposed timelines for the introduction of potential changes to the investment framework set out in this consultation paper? If you have other suggestions please provide them, along with the supporting rationale.
We don't wish to comment on proposed timelines as we feel the central bank needs to review all submission and meet with our representative body (ILCU) prior to any potential change to the investment frame work.

Yours sincerely

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Pat Mc Quillan
Secretary