Castlerea and District Credit Union Limited

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25th March, 2014

Registry of Credit Unions
Central Bank of Ireland
PO Box 559
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Dublin 2

RE: Introduction of a Tiered Regulatory Approach for Credit Unions.

Consultation Paper CP 76.

A Chairde,

We refer to the above document and welcome the opportunity of making a submission on same.

We would like to comment as follows:

General

- We would be of the view that referring to the proposed regulatory approach as "Tiered" is bordering on misleading. Using (close to) €100m assets as a cut-off point between Categories 1 and 2 means that the vast majority of Credit Unions will fall into Category 1. Thus, a Credit Union with assets of, say, €8m will have the same regulatory approach criteria applied to it as a Credit Union more than 10 times its size. It is difficult to see how this makes sense from the perspective of the individual Credit Union or indeed the Regulator.

- The overall tone of the Consultation Paper is prescriptive and restrictive to a large degree. The Central Bank seems to want to control everything of significance, leaving little or no discretion to individual boards or management. It's almost a case of the Central Bank micro-managing Credit Unions.

- Many of the proposals will unfairly impact on Credit Unions ability to maximize income streams. This, at a time of unprecedented regulatory and compliance costs, makes the rational for some proposals hard to fathom.

Investments for Category 1 Credit Unions

The proposed maximum investment term of 5 years is unduly harsh and will deprive Category 1 Credit Unions of the scope to obtain better investment returns.
For example, 10 year Irish Government Stock is currently yielding approximately 3% whereas 5 year stock is yielding approximately half of that.

The proposal will adversely impact profitability and consequently dividend levels and reserves. This can hardly be in the best interest of either the Credit Union or the Regulator.

Similarly, the proposal to limit investment beyond 3 years to a maximum of 50% of a Credit Union's investment portfolio will adversely impact profitability.

Category 1 Credit Unions who can demonstrate that they have the expertise to invest in Band Bonds, Corporate Bonds, Equities and Collective Investment Schemes should be permitted to do so. Where appropriate, in-house skills could be supplemented by bought-in expertise in the form of independent advice from suitably qualified and regulated entities.

Linking the amount a Credit Union can invest with any one Counterparty to 100% of Regulatory Reserves will in most cases require Credit Unions to increase the number of counterparties. While on the one hand this sounds reasonable in the context of spreading risk etc it will inevitably mean that much more of a Credit Union's Investment Portfolio will now be invested outside of Ireland. The question arises as to whether this is consistent with broader Central Bank / Government Policy.

Requirement for an Operational Reserve

We believe that a Credit Union's existing level of Regulatory Reserves should be taken into consideration when determining the level of Operational Reserve to apply to that Credit Union. For example if one Credit Union has Regulatory Reserves of 14% and another 10% the question arises as to why both should have to carry the same percentage of Operational Reserves.

Commercial Lending – Concentration Limits

In the case of Commercial Lending CP 76 proposes that it be restricted to 25% of Regulatory Reserves in the case of Category 1 Credit Unions whereas the relevant percentage for Category 2 Credit Unions is 100%. If this approach is to be adopted we believe that the percentage for Category 1 Credit Unions should be closer to 50% of Regulatory Reserves.

This is particularly an issue for rural based Credit Unions who play an important role in the provision of loan finance to the agricultural sector.

We would also add that the proposal is going to prove difficult to implement and monitor given all the tracking involved as, in all probability, the percentage figure for commercial lending will change not just from day to day but from minute to minute.

Restricted Person Limits

We accept that deciding on loans to officers requires more diligence than loans to 'ordinary' members. However the proposals as framed are hugely onerous by incorporating a "member of the family" of a director into the category of "Restricted Person". The definition of "member of the family" in the legislation is *extremely* wide.

This proposal:

- Will make it more difficult to attract quality members to serve on Boards.
- Is unfair to family members of a director.
- Could involve breaches of data protection and confidentiality where for example a member in good standing has to be informed that his / her loan application cannot be considered on the basis that he / she is a family member of a director of the Credit Union and the aggregate of lending to restricted persons has already been reached.
- Is biased against *married* couples. This is because the *in-laws* of a married person are captured within the definition of family member whereas this does not appear to be an issue for unmarried couples.
- Is unworkable in practice given the tracking that would be necessary in view of such a wide definition of the term "member of the family". Furthermore what Credit Officer or Credit Committee, when looking at a loan application from a member, will always have the knowledge that a family member relationship may exist between the applicant and a director?

Liquidity Requirements for Category 1 Credit Unions

CP 76 talks about a Liquidity Requirement (LR) of 20% and "in addition" will require:

A. At least10% of unattached shares to be available within 7days and
B. Up to 15% of unattached shares to be available within one month.

What is not clear is whether:

- A & B can be counted towards satisfying the aforementioned 20% LR
- Whether A can be counted towards satisfying B

A worst case interpretation would indicate a total liquidity requirement (i.e. < 90 days) of 45% which would be quite excessive and adversely affect Credit Unions by:

a) Restricting them to lower yielding short term investments with consequent impact on profitability, dividend and reserves.

b) Restricting the amount they could lend – with similar implications as for (a).

Thank you for allowing us the opportunity of making this submission.

Yours Faithfully,

SEAMUS RONANE
Chairman

MARTIN LONERGAN
Manager