Chapter XIII Credit Unions

CP76
Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions

IRELAND
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Submission from Chapter 13
Limerick Clare and Tipperary Town Credit Unions

1.Athea Credit Union
2.Bruff Credit Union
3.Caherdavin & District Credit Union
4.Castleconnell / Ahane Credit Union
5.C.I.E Credit Union
6.Cois Sionna Credit Union
7.Derg Credit Union
8.Ennistymon & District Credit Union
9.Estuary Credit Union
10.Fergus Credit Union
11.Kilmallock Credit Union
12.Kilrush Credit Union
13.Mayorstone Credit Union
14.Monaleen Parish Credit Union
15.MPCC Credit Union
16.Plassey Credit Union
17.Queen Of Peace Credit Union
18.Rathkeale & District Credit Union
19.St. Ailbes Credit Union
20.St Bernadette's Credit Union
21.St Francis Credit Union
22.St Johns Credit Union
23.St Lelias Credit Union
24.St. Mary's Parish Credit Union
25.St. Patrick's Parish Credit Union
26.St. Peter & Paul Credit Union
27.Sarsfield Credit Union
28.Shannon Credit Union
29.Sixmilebridge Credit Union
30.South Hill Credit Union
31.Tipperary Credit Union

Chapter 13 Members
Athea, Bruff, Caherdavin, Castleconnell/Ahane, C.I.E., Cois Sionna, Derg, Ennistymon, Estuary, Fergus, Kilmallock, Kilrush, Mayorstone, Monaleen, M.P.C.C., Plassey, Queen of Peace, Rathkeale, St. Ailbe's, St. Bernadette's, St. Francis, St. John's, St. Lelia's, St. Mary's, St. Patrick's, SS Peter & Pauls, Sarsfield, SFADCO, Shannon, Sixmilebridge, Southill, Tipperary.

Chapter 13 Credit Unions

Submission from Chapter 13. Limerick Clare and Tipperary Town

Introduction of a Tiered Regulatory Approach for Credit Unions

Question (i) Do you agree with the proposed tiered regulatory approach for credit unions? If you have other suggestions please provide them along with the supporting rationale.

The Review Commission recommended 3 Tiers. In our submission on this proposal we recommend that there should be more (4 to 5 tiers). Now the Central Bank is proposing an even smaller number and we feel this is not about tiered regulation but in actual fact micro-management of Credit Unions. We are only aware of two, two tiered systems one in Canada and other in UK and following the introduction of this tiered approach the numbers of Credit Unions have decreased in these areas. Also, in these areas the Credit Union system has a 1% impact in the community whilst in Ireland it has a 70% impact, so fall out from such tiered regulation is far more significant from a social and financial point of view.
Should it go ahead - the two tiers will be divided on a 85:15 ratio and in our view should be closer to 50:50, which a cut-off point of €50m assets would achieve.
Two tiered regulation is likely to have a detrimental impact on smaller credit unions.
Has the social and financial impact been measured in any way?
Also we feel it will have a detrimental effect on social lending. Regulation should always be based on risk.

Question (ii) Do you agree with the proposals for the operation of the two category approach for credit unions set out in sections 5.1 - 5.11? If you have other suggestions, please provide them along with the supporting rationale. It should be noted that tiering is possible where regulation making powers are available to the Central Bank. Where requirements are set out in the 1997 Act they apply to all credit unions and cannot be tiered.

5.1Summary of Proposals for each Category

5.1.1

- Lending - We cannot agree as we do not know the specifics and where specifics are available growth in lending can only be sustained by growth of reserves and this is self-defeating in the long term
- Investments – impact in the reduction of investment vehicles will significantly reduce the income of the vast majority of credit unions. It will force credit unions to invest outside of this State and this will have a detrimental affect on the finances of the State.
- Savings - savings as distinct from shares are more stable and will help us to evade the worst excesses of Basel 3.
- Borrowings – No issue
- Additional Services – No comment as details not provided.
- Governance and F&P – Accepted

- Liquidity – Difficult to evaluate due to lack of details. What is rationale for short term? No fault with existing system.
- Reserves – Category 1 – no impact. Category 2 – No comment as no detail supplied.

5.2

- Lending – No difficulty with term of categories as long IF starting with a clean sheet and existing restrictions are removed. Limits are too low. Restrictions should only be based on risk. The definition of the proposed classes needs to be defined more clearly. Seems to be very vague. Also the definition of personal loans is quite restrictive – credit unions need to be able to support self-employed, sole traders and small business, and all such decisions should be based on risk and robust credit assessment.

5.2.2

- Concentration Limits. - Limits are too low. Commercial and Community Loans cannot be compared as they are entirely different and the proposals seem to be designed to inhibit lending rather than supporting well founded and well balanced initiatives. They are unnecessary and unworkable.

5.2.3

- Maturity Limits – not a big issue

5.2.4

- Restricted Persons Limits - We object strongly to this proposal as it will affect Boards, Staff and their family members.
- Good members should not be penalised.
- We also feel that it would impede the attraction of volunteers.
- The proposals are entirely inequitable and probably unconstitutional.
- Even if this was constitutional the imposition of this €200,000 limit is totally unrealistic as it may mean as little €1k to €2 k loans available to "Restricted" members.

5.25

- Large Exposure Limits – We do not understand the logic of reducing the limits. 1.5% of assets decreasing to 5% of reserves.

5.2.6

- Lending Practices and Policies - Lack of specifics to comment

5.3

- Investment - EEA and Euro Zone are different, CP76 says your can invest in EU/EEA states but also refers to EURO currency only. No logic seen here. This proposal will lead to a reduction in income for credit union, reduction of capital for the Irish State. A worked example which demonstrates a significant loss of income for a credit union with €25m investments. The proposed would involve a loss of income in excess of €600,000 per annum.

Investment Impact	Duration	Average Rates	Income PA		Change
25,000,000	< 3yr	1.50%	375,000		
25,000,000	> 3yr < 5yr	2.38%	595,825		
25,000,000	7/10 yr	4.00%	1,000,000		-€404,175

Liquidity Impact					
Sum	Duration	Average Rates	Income PA		
25,000,000	< 3yr	1.50%	375,000		
25,000,000	> 3yr < 5yr	2.3833%	595,825		- €220,825

5.5

- Borrowing – as a whole credit unions do not borrow.

5.6

- Additional Services – Budget Plan which is not mentioned in CP76 would be of most value to our members.

5.7

- Governance – There will be a significant additional cost to credit unions if they have to employ~~ee~~ dedicated persons for specific functions and this will inhibit credit unions moving from Category 1 to Category 2.
- This added compliance cost seems exorbitant in light of the additional services gained.

5.8

- Fitness & Probity – No issues

5.9

- Reserves - Is this only for re-structured credit unions? We are of the view that all reserves should be risk rated.
- Is this a new Capital policy?
- This seems to suggest the possibility of the 10% MRR rate becoming 12%.

5.10

- Liquidity – already referred to.

Question (iii) Are there any areas where credit unions could provide new additional products or services to their members? Should these be available to category 1 and Category 2 credit unions or only category 2 credit unions? If you have suggestions please provide them along with the supporting rationale and the associated additional requirements.

Basic requirements should be in both Categories.

Question (iv) Do you agree that a provisioning framework should be developed for credit unions as proposed in section 6.2? If you have additional proposals please provide them along with the supporting rationale.

CP 76 needs to be more specific. A critical assessment should be carried out each year. We should be allowed to increase or decrease provisions as required. Is the Central Bank going to overrule Resolution 49? Provisioning policy should be based on identified risk and reviewed on an annual basis.

Question (v) Do you agree that the tiered regulatory approach should be introduced at this time? If you consider that alternative timing is more appropriate, please provide suggestions, along with the supporting rationale.

We do not agreed that the proposed tiered regulatory approach as set out in CP76 should be introduced at this time. Far too much re-structuring and changes are occurring at the present time. If it is accepted the credit union movement needs to be restructured, then the proposed model should be for the post a re-structured credit union movement.

Question (vi) If it is considered that the tiered regulatory approach should be introduced at this time, do you agree with the proposed timelines for the introduction of the tiered regulatory approach set out in section 7.1, in particular the transitional period proposed between the publication and commencement of the regulations? If you have other suggestions please provide them, along with the supporting rationale.

Refer to answer to Question (v)

General Comments from Chapter 13 on CP76

- Chapter 13 represents a wide range of types and sizes of credit unions. 31 credit unions in all. Close to 200,000 members, rural, urban and suburban across three Counties.
- We have debated this document at length over a number of meetings and what is acknowledged is that there is a need for a robust Regulatory framework.
- There is also a very strong view that the Regulatory framework should encourage expansion, growth, prudent management and should not be coercive in nature.
- The Regulatory framework should take into account the economic outlook in the country. The specific and traditional role that credit unions have provided in their communities-for many generations of members. Credit Unions should be acknowledged for the access to the necessary credit they have provided to individuals and families at some stage in their life. This should be available without undue bureaucracy.
- Any Regulatory requirements should take account of the risk involved and the style of lending undertaken. This should be a basic principle and be reflected in all our dealings.
- As access to credit is of such primary importance to people on low to middle income (financial inclusion) , the services that credit unions provide-are fundamental to the community they operate in. It needs to be nurtured and maintained especially in these straightened financial times.
- Credit unions rather than looking for special treatment are merely seeking to be treated no less equally that other financial institutions.
- The concept that bigger is better seems to be supported in this document and we would wonder how decreasing credit union numbers and increasing capital values and moving credit unions further from members could be in any way be equated to managing or mitigating risk.
- It may fit an administrative model but does not necessary suit the ethos or needs of credit union members, or indeed the broad obligations of the State to provide for its citizens equally.
- In terms of the document itself, it seems pre-occupied with restrictive proposals rather than enabling or encouraging the movement to work more collaboratively and effectively to broaden the range of services available to its members.
- The Document as presented is cumbersome, lacking in detail, fragmented, repetitive and prescriptive. It seems to require the respondents to specify the logic or rationale for their replies but does not offer any logic or rationale for the Bank's proposals.
- While we acknowledge the role of the Central Bank as one of oversight it is never the less disappointing that there is no mention of the needs of the credit union member in the entire document.
- The Regulatory Impact-Analysis (RIA) will need to be published and widely distributed and it is important that when this document is published that there is sufficient time for proper evaluation and response.

The overriding concern is that the very prescriptive approach promulgated in CP76 coupled with the imposed compliance costs and the inevitable reduction in investment income will make some credit unions unnecessarily non-viable and there is obvious concern that this may be the motive behind such restrictive prescriptive proposals.
If so, this is a matter of such importance both socially and politically that it should have the imprimatur of the Parliament of the State.

Signed

Tim Ryan – Chairperson Chapter 13