# CB Consultation Paper 76 - FSCU response (2)

Forfás Staff Credit Union is a small successful Credit Union which provides limited share/savings and loan services to our members. The Interest rate on our standard loan is below the national average and the approved dividend achieved has been higher than the average dividends. Because all share and loan payments are funded via salary deduction we have negligible defaults on loan repayment commitments. The Credit Union operates on an entirely voluntary basis with a strong professional Board and Board Oversight Committee.

Forfás Staff Credit Union supports the broad thrust of the Central Bank proposed tiered regulatory efforts to ensure stability in the Credit Union sector and agree that loan terms should be restricted to a 5-year limit. On investments we also agree with the general principle of restricting investments to Bank Deposits (in Central Bank approved institutions). However, in the current low interest environment and the impact of Basel 3 treatment of Credit Union saving investments, the term restriction of one year would result in negligible returns. We do support the proposal that Investments in term deposits of up to 5 years should be possible with appropriate restriction of the Investment percentage, particularly for a 3–year term deposit or above. Impartial Central Bank Guidance should be made available to Investment Committees via the Bank’s website.

The proposed borrowing limit of 4 times shares/savings for Category 1 credit unions is quite restrictive and takes no account of the ability to repay. A general limit of say up to 7 times share/savings should be considered with % limitations for loans over 5 times shares would be more appropriate. However, Credit Unions should be encouraged /mandated to set a maximum loan amount to reflect the degree of risk that the Board and Manager have agreed. If these credit unions are restricted to 4 times shares there is a risk that members will seek funding elsewhere and possibly from money lenders (regulated or otherwise).

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## Appendix 1 (Extract of relevant sections from the Central Bank Consultation Paper 76)

### 4.2.1 Category 1 Credit Unions

Under the proposed approach, category 1 credit unions can offer services comparable to those currently being offered by credit unions. Given that requirements of the strengthened regulatory framework take account of nature, scale and complexity, where a credit union operates a more limited business model (e.g. the business model proposed for Type 1 credit unions in the report of the Commission on Credit Unions), these requirements will automatically apply in a proportionate manner.

<table>
<tr><th>Central Bank - 2 Category Approach</th><th>Commission on Credit Unions - 3 Type Illustrative Approach</th></tr>
<tr><td rowspan="2">Category 1 – All credit unions able to offer a range of activities and services comparable to those that they currently offer.<br>Further additional services may be appropriate depending on the complexity of the service.<br><br>Where credit unions operate a more limited business model, governance arrangements and prudential requirements that take account of nature, scale and complexity apply proportionate to the business undertaken within the strengthened regulatory framework.</td><td>Type 1 – Business model limited to basic lending, investments and savings within specified limits (e.g. max loan term five years / investments restricted to bank deposits with max maturity of one year).<br>Minimum governance and Fitness & Probity requirements.</td></tr>
<tr><td>Type 2 – As for Type 1. In addition, limited business lending / ability to invest in longer maturities and in government bonds / ability to offer certain additional services.</td></tr>
<tr><td>Category 2 – Credit unions that wish to undertake a wider range of lending and investment activities and certain additional services are permitted to apply to be categorised as category 2 credit unions. Subject to additional requirements including a minimum operational risk reserve requirement.</td><td>Type 3 – Less restricted business lending / wider range of assets for investments with longer maturities / additional products and services subject to meeting requirements with introduction of an operational risk reserve and additional governance requirements.</td></tr>
</table>

4.8 The Central Bank is seeking views on the following:

(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.

### 5.1.1 Category 1 Credit Unions

**Lending**

Category 1 credit unions will be able to offer personal lending as well as a degree of community lending, commercial lending and lending to other credit unions. Lending limits will apply. These will include the current section 35 maturity limits and a maximum loan maturity of 15 years.

**Investments**

Category 1 credit unions will be able to invest in bank deposits, Irish and EEA State Securities and the shares and deposits of other credit unions with a maximum duration of five years. Concentration and counterparty limits will apply to investments.

**Savings**

Category 1 credit unions will be able to offer savings up to the lower of €100,000 or 1% of the credit union's assets.

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**Borrowings**

Category 1 credit unions will be able to borrow an amount up to 25% of the total savings of the credit union.

**Additional services**

Category 1 credit unions will be able to provide any additional services to their members that are currently available under the exemption from additional services regulations which include third party payments (incorporating EFT), ATM services and certain insurance services on an agency basis. See section 5.1.3 for details on further additional services.

**Governance and Fitness and Probity**

The existing governance requirements and Fitness and Probity regime for credit unions will apply.

**Liquidity**

The existing liquidity requirements will apply and category 1 credit unions will have some additional short term liquidity requirements.

**Reserves**

The current reserve requirement will apply and category 1 credit unions will be required to hold any additional reserves it has assessed are required for operational risk.