Section 8: Summary of Areas where the Central

Bank is Seeking Views

Kiltimagh Credit Union, Co Mayo

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.*

No, we do not agree with the proposed approach. The cooperative aspect of the Credit Union movement is being ignored in the proposal laid out in this document. The advantages of a Credit Union in comparison to other financial institutions is that it operated strictly within its own community with a distinct local knowledge of the needs of its members and with the closure of local Bank branches and the treat of the closure of local Post Offices these needs are changing on a daily basis. The complexity of a Credit Union can be based not only on its asset and membership size but also on its geographical location and the demographics of the area in which it is located. For example, a small asset size credit union in a city location can pose a larger risk than a medium asset size credit union in a rural location or visa versa and regulation both credit unions in the same fashion, because they fall into a specific 'category', will protect the members in one and stifle the growth of the other.

(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.

No. for a tiered regulation system to work there would have to be numerous categories based on several different scenarios as outline above. Linking lending, investments and liquidity back to reserves is the easy option and where regulation and restrictions are needed a blanket approach is not the best way of doing this. Individual Credit Unions might be regulated on their overall performance under a series of headings as applied under the PRISM. This standards approach would create quality and equality within the movement. For example, a large asset size credit union with governance issues would suffer the restrictions and sanctions outlined in a breach of that standard while a small asset size credit union that was adherent and proactive could be allowed to thrive and serve its members without interference or restriction. This would require a change in reporting practices and onsite inspections but the same standards and processes would apply to all.

(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*.

The major difference between voluntary boards and the stakeholders of a commercial business is that the decisions made by volunteers are based on what is best for the members and the organisation as a whole rather than the effect on the balance sheet or the need to compete. For the last 50 years, the vast majority of voluntary boards in credit unions have decided on the services they might provide to members in this fashion and we believe that they should be trusted into the future based on that record. As outlined in question one, the local environment in many communities is changing on a daily basis and credit unions should be allowed to 'serve their members' when no one else will. In our own situation, AIB closed its office in the town in 2012 and the nearest branch is now 7 miles away while BOI reduced its staff from seven to three people at the same time and is cashless three day per week. There is a realistic treat to our local Post Office and while online Banking is the way forward, it does not suit everyone. Our transactions have increased by 1000 per month is the last year and the demand from our members for more services in continuous. Restricting our members from badly needed financial services because of our size while allowing another Credit Union with €100+ million in assets access to those services when it might have three other financial institutions within a few yards of it premises is the easy option and not in the best interest of the member. Yes, criteria needs to be met and policies and procedures put in place but should a credit union feel that there is a need for a service in their community their size or category should not be an issue

(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.

What exactly is the Central Bank trying to fix with this proposal?. Resolution 49 was agreed as a standard for the Credit Union movement some years ago and Credit Union is general are providing an average of 50% above this standard (the average in Mayo is 174%). Focus should be put on assisting Credit Unions deal with delinquent debt on the ground rather than managing it on the balance sheet, for example an addition to Section 35 to allow for the 'Parking' or Warehousing' of a portion of a members loan would be a welcome approach.

(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.

No, we understand that the Credit Union model, of volunteers deciding on how a financial institution should operate, is not in any business manual and for that reason may be considered a high risk practice but for that reason alone 'getting it right' from the start is more important than meeting timelines.

(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.*

1. The definition of liquid assets will be extended to include investments with more than three months to maturity that have an **explicit written guarantee that the funds** can be accessed by the credit union in less than three months, excluding penalties on interest or income. Where a portion of an investment carries such a guarantee, only this portion will be considered to be in liquid form.

   OPINION: How many financial institutions will give you a written guarantee that you can withdraw money early without penalties at a decent return? You might find that the commercial Banks such as AIB and BOI will be issuing special products at a lower interest level than the standard Deposit return to accommodate the requirement.

2. Investments in a single counterparty other than a credit union (i.e. bank or EEA state) can be up to 100% of a category 1 credit union's Regulatory Reserves;

   OPINION: This is a bigger issue than one might think…Irish Nationwide, PTSB, EBS ect are all part of the two commercial Banks so finding homes for our investments will become a nightmare under this restriction. The fact that our current accounts may be seen as exposure to one financial institution may limit our options even further.

3. Up to 50% of the total value of a category 1 credit union's investment portfolio can be in investments maturing after three years;

   OPINION: If you look at investment options on a daily basis many of them are 1 to 5 years or greater. There is a limited amount on a 3-year maturity level and the accruing interest offered is usually a few points less than a five-year one.

4. As recommended by the report of the Commission on Credit Unions**, lending limits will be related to reserves**. The new lending framework will also include details on the lending policies and practices that credit unions will need to put in place.
   The following provides an outline of the proposed lending framework.

   OPINION: There is no description as to how these limits to reserves system will work…if a credit union get into difficulty for any reason and their reserves drop as a result then they will not have the ability to 'trade out of difficulty' as in the past because their lending will be restricted. This is an automatic 'sanction' making difficult situations even more difficult.

5. Each credit union will have to maintain an additional reserve that it has assessed is required for operational risk having regard to the nature, scale and complexity of the credit union.

   OPINION:. In the current environment members are happy just to have their savings secure and maybe receive a small dividend but a time will return when people begin to look for a return on their investment and it does not look like they will be able to get it in a credit union if our entire surplus are put in to reserves.

6. Review their total loan portfolios on a quarterly basis to verify the adequacy of the provision for bad and doubtful debts and to ensure that any resulting adjustments are incorporated into the monthly management accounts submitted to the board of directors, and the Prudential Returns submitted to the Central Bank.

   OPINION: This is being done by many Managers already but is that adequate or will this have to be carried out by an independent auditor such as the provider of the Internal Audit function and if so is it in the price quoted to credit unions or will it come as an added expense. Need clarification on this.

7. The aggregate of lending to restricted persons can be up to the greater of €200,000 or 5% of the Regulatory Reserves of the credit union.

   OPINION: This condition might be acceptable for Management and Staff but could be regarded as discrimination against volunteers. Recruitment will be difficult enough under Fitness and Probity but adding this to the mix increases the difficulty. Dose all there restriction apply across the Board in all Financial Institutions.