

KINGSCOURT CREDIT UNION LIMITED

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Central Bank of Ireland,
Dame Street,
Dublin 2.

18th March 2014

Dear Sirs,

Please find below the areas we would like considered under the Consultation on the Introduction of a Tiered Approach for Credit Unions.

Q1. 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.

We can understand the need for a tiered approach with the larger credit unions being governed by tighter restrictions, however, we feel that the restrictions imposed on Category One and Category credit unions are quite similar. Both are governed by a very complex regulatory approach and there seems to be little distinction between the two. We would be more in favour of having certain level of requirements in place for certain levels of services or credit union size. These requirements would be documented already by the Central Bank so every Credit Union would be aware of the requirements they would need to have in place before they would be eligible to offer a particular service.

Q2. 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 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

Under section 5.2.2 Concentration Limits

Category 1 Credit Unions can undertake commercial lending up to a total amount outstanding of 25% of Regulatory Reserves: we would be in favour of this recommendation as the Commission on

Credit Unions suggested only the higher tier credit unions being in a position to offer commercial lending. It means we could assist with small start up loans. These loan applications would be viewed on a case-by-case basis and would have to supply business plans and projections before any loan application would be considered.

Section 5.2.4 Restricted Person Limits

We would view the current loan arrangements in relation to loans to an officer as adequate. We feel the introduction of loan limits for restricted persons especially “a member of the family of a member of the board of directors or the management team of a credit union” being limited to the greater of €200,000 or 5% of the Regulatory Reserves of the credit union as being far too restrictive. It isolates members of the Boards family and management team from applying for loans. It means we cannot take into account their ability to repay, or their previous credit history with the credit union. It discriminates these members for no other reason than family connection. In the case of our credit union 5% of our Regulatory Reserves amounts to €251,533, we currently have €340,206 loaned out to family members of our Board and staff of the credit union.

Section 5.3.2 Category 1

Investment Classes and Limits

This is extremely restrictive on credit unions. It restricts us from investing in bank bonds and corporate bonds by limiting us to investing in bank deposits in an authorised credit institution, Irish and EEA state Securities. Only 50% of the total value of a category 1 credit union’s investment portfolio can be made in investments maturing after three years, based on the current market rates at the moment this limits category 1 credit unions from making any adequate returns on their investments. We keep our liquidity currently at 25% of unattached shares. In order to maximise the return on our Investments we invest up to a maximum term of 5 years. We have found this to be a good strategy as our Investment returns have assisted us in providing a surplus at the year-end. To limit us to 50% of our Investment portfolio to over 3 years would hinder the investment return we would receive and therefore the surplus we have at the end of the year.

Section 5.4.1 this restricts members to have a maximum saving of either €100,000 or 1% of the total assets of the credit union, whichever is the lower. In this regard it would be maximum savings of €100,000. Currently we have 22 members with savings over €100,000. It could be claimed that this is a small number and would have no great effect on the credit union. This is true, however, it is the perception that we are turning away our members from saving anything over this amount that we do not hold favour with. To our members it would appear that we do not want them to save with us, we are only to happy for them to borrow from us but restrict them when it comes to saving. Our members have been made aware that the Government only protects savings up to €100,000, the fact that they continue to save above that level with us indicates that they feel their credit union is safe and secure.

Under Section 5.10.1 Liquidity Requirements it is proposed that the assets of a credit union to be held in liquid form to be at least 10% of unattached savings available up to seven days and up to 15% of unattached savings available up to one month. This comes back to the Investment returns that are being offered at the moment. The rates on offer for these terms are non-existent and restrictive for a credit union like ourselves who have an investment portfolio of €32 million and a loan book of 9 million to make an adequate surplus at year-end. We operate by a conservative investment policy and only invest in capital guaranteed products within the guidelines set by the Central Bank. To limit our liquidity even further would severely impact on our year-end surplus.

Appendix 1: Impact of CP76 on the Investment Portfolio

	Description	Current Allocation €	% Portfolio
Investments which are not authorised under proposals	Bank Bonds	823,089	2.37%
	Collective Investment Schemes (not authorised)	2,805,841	8.06%
	Structured Investments (bank bonds)	1,123,699	3.23%
	Total to be allocated to alternative investments/classes	4,752,629	13.66%
	Counterparty	€ Exposure >100% RR	Exposure % RR
Breaches of proposed counterparty limit of 100% regulatory reserves (€5.03m which is c.14.4% of the investment portfolio)	AIB	3,343,762	166%
	PTSB	3,289,175	165%
	Ulster Bank	469,337	109%
	Total to be allocated to alternative counterparties	€7,102,274	20% investment portfolio
<i>The above figure of €4.3m is likely to be higher due to the requirement to invest funds from the CTT with direct counterparties</i>			

Q3. Are there any areas where credit unions could provide new additional 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.

Note: Both Category 1 and 2 will be able to provide the additional services currently available under the Exemption from Additional Service Requirements Regulations which include:

- Account access by phone
- Account access by internet

- Third party payments (including EFT)
- ATM services
- Bureau de change
- Certain insurance services on an agency basis
- Group health insurance
- Bill payment
- Money transfers
- Standing orders
- Direct debits
- Financial counselling and
- PRSAs on an introduction basis.
- Some credit unions have been approved under Section 48 of the 1997 Act to provide other services including mortgages on a tied agency basis and some additional insurance services on a referral basis.

Based on the above we are happy with the current level of services we provide as they are covered under a Category One credit union. However, this is not to say that in the future we may look for additional services which we then find fall outside this remit; and due to the introduction of the new Tiered Approach we are unable to offer them to our members. This is why we feel that certain level of services should have a list of requirements that a credit union needs to have in place before they can offer this service. These requirements should be clearly documented in advanced by the Central Bank. That way if a Credit Union does not meet the requirements they need not apply for the additional service.

Q4. Do you agree that a provisioning framework should be developed for credit union as proposed in Section 6.2? If you have additional proposals please provide them along with the supporting rationale.

We find that the provisioning in Section 6.2 are similar to those currently meet by our Credit Union and follows what most Credit Unions should have in place at the moment. We would like clarity in relation to any increase in provisioning of loan arrears. It has been mentioned that the Central Bank may impose a 100% provision for all loans in excess of 25 weeks. To answer this question further we would need to know if this is correct due to the impact it would have on credit unions reserves.

Q5. 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.

The notion of a tiered regulatory approach has been spoken about since the Commission's report on Credit Unions. I feel the Central Bank has viewed the tiering approach with a tighter regulatory approach for the smaller credit unions than the Commission recommended. We are not opposed to tiering but I do feel that the level of regulatory restrictions or supervision is as tight for a Category One credit union as it is for a Category Two credit union.

Q6. 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.

31 March 2014	Consultation closes
March / April 2014	Review feedback received
May 2014	Issue feedback statement
	Issue second consultation paper, including Regulatory Impact Analysis, on the details of the tiered regulatory approach including regulations to implement the tiered regulatory approach.
July 2014	Second consultation closes
August / September 2014	Review feedback statement
	Publish regulations and updated Credit Union Handbook
	Conduct Information Seminars
October 2014 – March 2015	Transitional period including applications to become Category 2
April 2015	Regulations come into force

The proposed time-lines we feel will put undue pressure on credit unions that are already coming to terms with the implications from of the CUCORA 2012. We feel the deadline should be extended to 30th September 2015

Trusting you will take our recommendations into account.

Yours sincerely,

Frank Corbally
Chairman