

28th March 2014

Re: CP76

Dear Sir,

I wish to put on record our objection to the proposed implementation of the tiered approach to credit union regulation. Firstly it is our opinion that the timing of this implementation is not opportune given the large work schedule already on credit unions through the implementation of the Fitness & Probity Programme, new Risk Management Systems and the Internal Audit Function. Notwithstanding these matters CP76 will have a profound effect on our Investment Portfolio. The new requirements in terms of liquidity coupled with the proposed alternative counterparty designations will seriously impede our ability to generate income.

We have had consultations with our Investment Advisors, Davy Stockbrokers, who have formulated the specific impact in terms of (1) Investments and (2) Lending limits which I attach in Appendix (1) and Appendix (2) for your attention.

In summary we would contend that the tiered regulatory approach should not be considered at this time and should be deferred pending a detailed impact analysis for credit unions as a whole.

Yours sincerely,

Richard Craven
Secretary – Middleton Credit Union

Appendix 1: Impact of CP76 on the Investment Portfolio

	Description	Current Allocation €	% Portfolio
	Bank Bonds	3,036,038	6.34%
Investments which are not authorised under proposals	Collective Investment Schemes (not authorised)	5,722,592	11.95%
	Structured Investments (bank bonds)	3,763,080	7.28%
	Total to be allocated to alternative investments/classes	12,247,179	25.6%
	Counterparty	€ Exposure >100% RR	Exposure % RR
Breaches of proposed counterparty limit of 100% regulatory reserves (€7.2m which is c.14.9% of the investment portfolio)	AIB	3,837,405	154%
	BOI	3,664,612	151%
	PTSB	4,972,156	170%
	Total to be allocated to alternative counterparties	€12,474,173	26% investment portfolio
<i>The above figure of €12.4m is likely to be higher due to the requirement to invest funds from the CTT with direct counterparties</i>			

Source: Davy with reference to the Central Bank consultation paper

Appendix 2: Impact of CP76 on the Lending Limits

Total Assets		68,540,992								
Regulatory Reserves		7,152,939	10.44%							
Loans to Members		21,411,610								
Maturity Limits	Existing limits under Section 35 (2) of the 1997 continue to apply. Longer term limits will apply to Category 2.	Term	Category 1		Category 2					
			% Loan Book	€ limit	% Loan Book	€ limit				
			More than 5 years	30%	€6,423,483	40%	€8,564,644			
		More than 10 years	10%	€2,141,161	15%	€3,211,742				
Classes of Lending and Concentration Limits	Classes of Lending	Definition	Maximum Loan Term	Category 1			Category 2			
				Permitted?	Proposed Limit	€ limit of total loans	Permitted?	Proposed Limit	€ limit of total loans	
		Note the definition used for personal loans, a significant proportion of loans may now fall under commercial rather than personal (e.g. sole traders)								
		Personal Loan	A loan provided to an individual for personal, family or household use, once that use is for purposes unrelated to the person's trade, business or profession	15 years	Yes			Yes		
		Commercial Loan	A loan, the primary objective of which is to fund an activity whose purpose to make a profit	15 years	Yes	25%	€1,788,235	Yes	100%	€7,152,939
		Community Loan	A loan provided to a community or voluntary organisation which is established for the express purpose of further the social, economic or environmental well-being of individuals.	15 years	Yes	25%	€1,788,235	Yes	25%	€1,788,235
		Lending to other credit unions		15 years	Yes	12.50%	€894,117	Yes	12.50%	€894,117
		Home Loans	A home loan made to a member to purchase their principle private residence where the credit unions holds the first legal charge on the property & the amt of the loan does not exceed 80% of the value of the property when the loan is made.	25 years	No	n/a	n/a	Yes	15.00%	€3,211,742
Restricted Person's Limits	Definition		Category 1 and 2			Category 1 and 2				
	A restricted person is i) a member of the board of directors or the management team of a credit union ii) a member of the family of a member of the board of directors or the management team of a credit union or iii) a business in which a member of the board of directors or the management team of a credit union has a significant shareholding		Limit is the greater of ...	Limit of Aggregate lending to RP's						
			5% Regulatory Reserves							
			€200,000	€357,647	€357,647					
Large Exposure Limits	Definition		Category 1 and 2			Category 1 and 2				
	A large exposure is an exposure (including contingent liabilities) that exceeds 5% of a credit union's Regulatory Reserves	Large exposure is one which exceeds:	Total large exposures can be up to 500% Regulatory Reserves	Limit of exposure to a borrower or a group of connected borrowers						
		5% Regulatory Reserves	Limit	Limit is the greater of	Limit					
				10% Regulatory Reserves						
		€357,647	€35,764,695	€39,000	€715,294	€715,294				
				Currently, limit is the greater of 1.5% total assets	Current Limit					
				€39,000	€1,028,115	€1,028,115				

