



Monaghan Credit Union

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Registry of Credit Unions
Central Bank of Ireland
PO Box 559
Dame Street
Dublin 2

28th March 2014

RE: Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions (CP 76)

Dear Sir/Madam

On behalf of the Board of Monaghan Credit Union Limited, I wish to document the views expressed following consideration of the content of CP 76. This submission is made in the knowledge that a further consultation paper including a Regulatory Impact Analysis will issue following consideration of the views expressed in this initial consultation.

The Board welcomes the statement that the Central Bank is seeking to develop a tiered regulatory approach that supports the continued operation of financially sound and well governed Credit Unions and facilitates the prudent development of the sector. In addition it notes positively the intention to take account of the Commission on Credit Union's recommendations and proposals including the importance of regulatory requirements being proportionate to the nature, scale and complexity of a Credit Union.

The Board is in broad agreement with the proposed tiered regulatory approach in terms of classifying Credit Unions as a Category 1 or Category 2 Credit Union. However while it is accepted asset size will determine the option to apply to become a category 2 Credit Union, Credit Unions with an asset size of €100m or greater are in the minority. Hence for many Credit Unions the option to apply to become a category 2 Credit Union will not be achievable in the absence of restructuring. It is also the view of the Board that transitional arrangements will be necessary prior to the commencement of the tiered regulatory approach and welcomes that consideration within the document.

Lending

Concentration Limits

While the Board has no desire to engage in anything other than prudent lending and appreciates the rationale for specifying concentration limits, it is concerned that the limits proposed for Category 1 Credit Unions in respect of community and commercial lending have the potential to become restrictive as economic recovery progresses

Restricted Person Limits

The Board is gravely concerned at the proposal regarding restricted persons in terms of the definition and limits proposed. The Board considers it unfair to extend lending procedures applying to a member of the Board or a member of the management team to family members as defined in Section 2(1) of the 1997 Act. In addition the limit proposed is restrictive and will result in good quality loans normally taken from the Credit Union being taken from other financial institutions instead. Confirmation is also required from your office that any limit applying will be to the net loan balance.

Lending Practices and Policies

The Board does not consider that credible business plans and robust projections will be available in respect of all commercial and community loans and suggests the requirement should be appropriate to the amount and purpose of the loan.

Investments

Investment Income comprises a significant proportion of overall income and subsequent ability to make the necessary allocations to reserves and returns to members. The proposal excluding the ability to invest in Senior Unsecured Bonds issued by credit institutions authorised by the Central Bank of Ireland, in addition to the limits in respect of maximum maturity and the linkage between investments in a single counterparty and a Credit Union's Regulatory Reserves will have a significant and negative overall impact on the performance and future viability of a Credit Union. For the same reasons the proposed limitation under Category 2 that total investments in bank bonds can be up to 50% of a Credit Union's Regulatory Reserves is a cause for grave concern.

Savings

In consideration of the strengthened regulatory framework within which Credit Unions are operating, the Board holds the view that the proposed maximum limits in respect of the amount of savings which may be held for either Category 1 or Category 2 Credit Unions are restrictive, unnecessary, send a negative message to members, and militate against continued development of the sector.

Governance

It is reasonable that additional governance requirements will apply to Category 2 Credit Unions given the additional complexity of the activities and services they will be permitted to undertake.

Provisioning Framework

At a high level the Board views the proposal to develop a provisioning framework for all Credit Unions as a positive development. It welcomes the intention of the Central Bank to set out guidance

on assessing appropriate loan loss provisions for each of the steps contained within the proposed provisioning framework requirements. Further detail however is required in respect of proposals to provide in full for a loan that has been delinquent for a specified period before comment can be made.

Timelines

In consideration of the facts as stated in the document itself, i.e. that Credit Unions are currently undergoing significant change in implementing a new regulatory framework and, additionally that restructuring of the sector is underway, it is the view of the Board that the proposed date for the Regulations to come into force should be deferred for a twelve month period.

The consequence of the change already underway is stronger, better governed Credit Unions, which are better placed to develop further as the economy recovers. The sector should be given the opportunity to do this. It is our view that the content of the Regulatory Impact Analysis to be issued as part of the second consultation paper will be of critical importance. We look forward to its receipt and trust its detailed consideration will impact significantly on the final regulations.

Yours sincerely



Pat Quinn
Chairperson