Muintir Clanna Caoilte Credit Union Ltd

Submission in relation to:-
Consultation Paper CP76 on the Introduction of the Tiered Regulatory Approach for Credit Unions.

Having reviewed the consultation paper we would like to make the following observations.

5.2.1 Classes of Lending

The definition for a commercial loan in the document is to fund an activity whose purpose is to make a profit and the definition for a personal loan is for personal, family or household use, once that use is for the purposes unrelated to the person's trade, business or profession.

What would you do in the situation of a farmer looking for a loan to buy a jeep, this would be needed for the business in the case of transporting animals to a mart or a factory, but it would also be the main transport for the household for their everyday life.

Another example would be that of a doctor, GP, he needs a car for both business and personal use.

The definitions are confusing and should be amended or loans below a certain limit would not be considered commercial lending, e.g. under €25,000.

5.2.4 Restricted Persons Limits

Under the Credit Union Act of 1997 a family member is described as anyone of the following:

Father, mother, grandfather, grandmother, father & mother in law, spouse/civil partner, cohabitant, son, daughter, grandson or daughter, brother, sister, half-brother or sister, uncle, aunt, nephew, niece, first cousin, and steps in a family, son or daughter in law, brother or sister in law.

Anybody applying for a loan will be assessed on their ability to repay, past history and whatever other underwriting criteria a credit union might have.

A member of the Board or management team or a member of their family will be put at a disadvantage when applying for a loan if this system is brought in as they will be assessed by what other family members have out on loan to see if they are within the limits before anything else can be done.

The definition of a family member is too broad, for example some members might not even know their first cousins, or even if they do there might not be any relationship with them.

Why then should a good member or a whole family of good members, not be eligible for a loan if the combined amounts outstanding to the family are affecting the application.

We would strongly recommend that this area of the consultation paper be looked at again as it discriminates against these members.

5.3.1 & 2 Investment Classes & Limits Category 1

Under the current Guidance Note on Investments by Credit Unions, we are allowed to invest in Irish & EMU State Securities, Accounts in Authorised Credit Institutions, Bank Bonds, Equities and Collective investment schemes.

Under these new proposals we cannot invest in bank bonds, equities or collective investment schemes but no explanation was given as to why these were no longer acceptable as investment categories.

As you are well aware deposit rates are dropping in every institution and the more options that are available the better.

The collective investment scheme has been very beneficial to credit unions down through the years, providing a good rate of interest for money on demand, why now is it no longer an option?

Bank bonds should also be allowed for credit unions to invest in or can the Government operate a bond specifically for credit unions to invest in with a fixed rate of return which might be of benefit to the state as well.

The change in the ratio from 25% per institution to 100% of the credit union's regulatory reserve will see an enormous amount of money leave the Irish banking system and end up in banks outside the state. As the collective investment scheme as proposed in the consultation paper will be gone as well this could have been an option for the lodgement of these funds.

All of these changes will have a severe impact on every credit union and the return on investments they can receive. It will mean placing funds in Banks that have a reduced interest rate for short term deposits therefore this will have an impact on the surplus that the Credit Union can generate.

5.10.1 Liquidity Requirements

At present our Credit Union would have a liquidity ratio of above 30% based on the existing guidelines of anything less than three months.

The changes proposed the in consultation paper of 10% available within 7 days and 15% available within one month will impact on the return that a credit union can receive as already mentioned in a previous paragraph.

Why is the change required? Is the existing system causing a difficulty?