

MULLINGAR CREDIT UNION

Response to Consultation Paper CP76

Consultation on the Introduction of a Tiered Regulatory
Approach for Credit Unions

March 2014

This document contains the views of the Board and Management of Mullingar Credit Union on the proposals contained within Consultation Paper CP76.

1. 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.

Mullingar Credit Union does not agree with the proposed tiered regulatory approach for credit unions, for the following reasons:

- It is not consistent with the approach agreed by the Commission for Credit Unions in March 2012.
- It is not proportionate relating to the profile of credit unions in Ireland – almost all credit unions would be included within Category 1.
- The necessity of the Tiered Regulatory Approach is questionable, given that such an approach has only been implemented in two other international jurisdictions, and credit unions are operating in 101 countries internationally.
- The PRISM framework already in place for the supervision of Credit Unions in Ireland is, in effect, a tiered regulatory approach. To introduce further categories for regulation of credit unions seems unnecessary at this time.

Suggestions

Use and build upon the PRISM framework to set out the different categories/tiers of credit unions based on their size, nature and complexity.

2. **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.**

Response: MCU response is based on the proposals for Category 2 credit unions, as MCU assets are over €100m.

In general, the proposals as set out in 5.1 – 5.11 appear to be too far reaching and will have the effect of severely limiting credit unions' capacity to do business and generate a sustainable level of income. The limits and restrictions being proposed, when taken all together, have the potential to seriously undermine the viability of the credit union movement.

5.2.1 Classes of Lending & 5.2.6 Lending Practices and Policies

Commercial Loans: the proposals state that this category of lending will require credible business plans and robust financial projections. This is an excessive requirement in relation to small businesses, tradespeople, farmers or other professionals seeking loans in the normal course of their business.

Credit Unions should be able to give small loans to members for commercial purposes up to a suggested maximum of €25,000, on the basis of normal lending assessment criteria (i.e. repayment capacity, current financial position, track record) without the need for sophisticated business plans, projections etc.

5.2.2 Concentration Limits

The concentration limits set out here in relation to lending are based on percentages of the Regulatory Reserves. These limits should be as a percentage of the total loan book.

In particular, the limit proposed for commercial lending is too low.

5.2.3 Maturity Limits

The proposed maximum maturity limit of 15 years is too low and restricts the credit union's potential to grow the loan book, particularly in relation to larger home improvement, commercial or community loans. It is also relevant in the case of members who experience difficulty in meeting loan repayments where loans have to be rescheduled.

5.2.4 Restricted Persons Limits

The proposal in relation to restricting lending to a certain class of persons within the credit union is unnecessary, unreasonable, inequitable and entirely unworkable.

The operation of such a restriction could possibly be unlawful from a data protection perspective and would leave the credit union open to allegations of discrimination.

The current provisions that apply in relation to loans to credit union officers (special committee; disclosure in financial statements) are adequate.

5.2.5 Large Exposure Limits

The proposed limits for large exposures are too high and contradict the earlier proposals in relation to concentration, maturity and restricted persons. Any proposed limits for large exposures should be based on total assets and should reflect the nature of credit union lending.

5.3 Investments

The existing 2006 Guidance Note on Investments (as amended) is satisfactory and is, in general, working well.

Specifically, in relation to the proposed changes, the following points are made:

Investment Classes:

- Bank deposits in authorised credit institutions:
 - Maximum maturity should remain at 10 years.
- Bonds issued by credit institutions:
 - Maximum maturity should remain at 10 years;
 - This category should not be limited to senior unsecured bonds;
 - Maximum holding should be based on the total investment portfolio, not the Regulatory Reserve.
- Corporate bonds:
 - Maximum maturity should be 10 years;
 - Maximum holding should be based on the total investment portfolio, not the Regulatory Reserve.
- Investments in Equities:
 - This category of investments should remain as per the 2006 Guidance Note on Investments.
- Collective Investment Schemes:
 - This category of investments should remain as per the 2006 Guidance Note on Investments.

Counterparty exposure

This should remain at the current 25% of total investment portfolio, and should not be based on any proportion of Regulatory Reserves. The current proposals would require credit unions to spread their investments over a larger number of counterparties. This would probably involve moving funds out of Ireland; would lead to an increased administrative burden; would reduce the likely available investment return; and would introduce more risk into the management of the investment portfolio.

5.4 Savings

The proposed limit of €100,000 on individual member savings is unreasonably low. Many credit union members have trusted in credit unions to look after their life savings, and despite the turbulence of recent years, have maintained that trust and kept their savings with the credit union. To introduce such a low cap on savings, at this point in time, would send a damaging message to those members and to the community at large.

Under the current legislation, a member can deposit up to 1% of total assets of the credit union, which for a credit union with €150m of assets, is €1.5m. A reduction of €1.4m or 93% seems disproportionate and unnecessary in the extreme.

5.6 Additional Services

It would be helpful if debit cards were specifically included in the listing of the services which are currently available under the Exemption from Additional Service Requirements Regulations.

In general, as new financial products become available, credit unions should be able to provide these to their members, without extensive additional regulatory involvement.

5.7 Governance

5.7.2 Additional Governance Requirements

The requirement to have **dedicated in-house** resources for all of the functions as described is excessive and will impose an additional expense on credit unions. These functions, while essential to good governance, do not require such extensive resources.

The requirement to have an external evaluation of the performance of the board of directors is also excessive and unnecessary, and demonstrates a lack of confidence in the new governance framework that has been introduced through CUCORA 2012 and the CBRA 2010.

5.9 Reserves

5.9.2 Operational Risk Reserve

The current minimum reserve ratio of 10%, based on total assets – at a time when a large proportion of those assets are in government bonds and bank deposits – is more than adequate.

The proposed operational risk reserve is not required.

The most risky asset on a credit union's balance sheet is the loan book, and there are already sufficient reserves in place in the form of the bad debt provision.

5.10 Liquidity

5.10.1 Liquidity Requirements

The current liquidity requirement of 20% of unattached savings is adequate.

The proposal of having 15% of unattached savings available within 1 month will impose unnecessary restrictions on a credit union's ability to manage their investments in a manner that will generate a reasonable return.

3. 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.

- See response to 5.6 above.

4. 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.

It would be very useful to have a provisioning system that is acceptable to and agreed by all stakeholders. In this regard, any new system that is proposed should be devised in conjunction with credit unions and the representative bodies, in order to achieve consensus and understanding.

The current methodology of provisioning, which is based on amortisation tables and weeks in arrears, is used internationally. It is a transparent and objective manner of provisioning which could be further developed.

5. 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 tiered regulatory approach should not be introduced at this time.

In the current environment, with all of the changes that were introduced in October 2013 and March 2014, credit unions are in a transitional phase in terms of implementation of all of the new requirements.

The necessary restructuring of the credit union movement, which is being guided by ReBo, is also consuming a significant amount of time and resources for many credit unions.

Therefore the introduction of the tiered regulatory approach (if necessary) should be delayed for at least two years.

6. 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.

See (5) above.