INTRODUCTION OF A TIERED REGULATORY APPROACH FOR CREDIT UNIONS
OLDCASTLE CREDIT UNION SUBMISSION TO THE CENTRAL BANK

Introduction

Oldcastle Credit Union is a small to medium sized credit union that is independently financially viable. It is based in a rural community and has an active membership base amongst individuals, small businesses, associations and Community based organisations. At a time when the main banking institutions are consolidating and retracting from rural communities, it is an integral part of the financial stability and development of the local community.

Oldcastle Credit Union recognises the need to regulate the industry and welcomes improvements that will benefit the industry as a whole.

In relation to the introduction of a tiered regulatory approach for Credit Unions, Oldcastle Credit Union would like to present its viewpoints on the Consultation Paper CP76 as outlined below.

Section 4: Do you agree with the proposed tiered regulatory approach for credit unions? If you have other suggestions please provide them along with supporting rationale

Yes we agree with the concept of a proposed tiered regulatory approach; however we feel that the regulatory regime applicable should be commensurate with the potential risk/complexity of the relevant credit union. We believe that the number of categories proposed is limited and should be increased.

<u>Section 5: 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?</u>

Oldcastle Credit Union has concerns about the application of the tiered regulatory approach as outlined in section 5.1 -5.11. Firstly, as mentioned above, the adoption of only two categories is limiting. Secondly the implementation of the rules themselves gives rise to concerns in a number of areas, some of which are outlined below.

<u>Section 5</u>

Lending – Connected borrowers: To apply such a broad definition to the meaning of "connected borrowers" is restrictive and discriminates against credit unions based in rural communities as opposed to larger cities and urban areas. Families can have many connections in the same common bond and so this can leave them very restricted in regard to the amount of money they can borrow. It also raises the logistical question as to how do you control such a situation where some family members don't communicate with one another? How can we from an Operations perspective know which members are first cousins etc. when they look for a loan? Who has to declare relationships? Overall we believe this proposal to be unworkable in its entirety.

Lending – Community: We don't agree with the proposal to link the maximum amount of community lending to 25% of our Regulatory Reserves. This is too restrictive and can result in the credit union not being in a position to support local initiatives. Oldcastle Credit Union has always taken pride in its ability to support the local sporting and community organisations. These organisations are the fabric of the community which form the membership of the credit union. Without them the economic and cultural development of Oldcastle would greatly suffer. These organisations need access to a cost effective source of finance into the future through Oldcastle Credit Union. Placing a restriction on this category of lending is not only punitive on the Credit Union but on the community as a whole.

Lending – **Commercial:** We feel that the definition of commercial lending is too broad and needs further work. Many of our members are small self-employed individuals and the imposition of this limit could result in the credit union being unable to assist such members. Some Category 1 credit unions possess the skills to offer a commercial lending facility in excess of the proposed limits. We feel the consultation paper fails to recognise these skills which may well have the result of inhibiting innovation and stifling growth.

Lending – **Restricted Persons Limits**: We don't agree with the proposals governing the amounts & the description of restricted persons. We believe that the limit of 5% of Regulatory reserves is overly restrictive and may directly impact on the credit union being able to seek suitable candidates as future Directors. It could be viewed as being anti-competitive as Board members in Banks are not restricted. Furthermore, we feel that the definition of a restricted person is far too broad and would make its implementation practically impossible as well as being a deterrent for future volunteers.

Investments - We don't agree with the proposed limitations as outlined in the paper. By restricting category 1 credit unions to limitations of five years and restricting the option of investing in bank bonds, this could have the effect of negatively impacting on the credit union's income at a time when margins are already under significant pressure. Further, the requirement to have half of the investment portfolio restricted to a maximum term of 3 years will again potentially impact the return available. The restriction linking our counterparty exposure to 100% of our Regulatory Reserve will result in the credit union seeking further counterparties, probably abroad, therefore potentially increasing our risk and reducing our return.

Savings – We believe that the imposition of a savings limit of €100K per member is too restrictive and could possibly be viewed as being anti-competitive, no such limit exists for customers of the banks. We feel that the rationale behind this proposal has not been made clear.

Reserves- The addition of a new reserve "Operational Risk" we believe is unnecessary as we feel that the current level of reserves held by credit unions is sufficient, given that average overall reserves is well in excess of the required Regulatory Reserve.

Liquidity – The proposal to introduce a requirement to hold 10% of our unattached savings in funds available within seven days and 15% within a month will result in a substantial portion of the investment portfolio being subject to low returns. This does not make economic sense at time when the investment returns of the credit unions are already being squeezed by decreasing interest rates.

Are there any areas where credit unions could provide new additional services to their members.

We have no suggestions to make here at this point in time.

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 supporting rationale.

We believe that in the event of any changes to the provisioning framework, the credit union sector should be involved at the development stage. Provisioning to date has been conservative and adequate.

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 supporting rationale.

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 as set out in section 7.1, in particular the transitional period proposed between publication and commencement of regulations?

Timelines – We believe that given the enormity of the changes currently being undertaken by credit unions in support of best practice, the willingness of and the pressure placed on us as we strive to be compliant with all the new requirements of CUCORA 2012, we believe that the addition of further regulatory changes within the next 12-18 months are placing unfair demands on our resources, whilst also accepting that the need for balanced regulation is necessary. Oldcastle Credit Union accepts and embraces the need for change.