Response to Consultation Paper CP76, Tiered Regulatory Approach for Credit Unions

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INTRODUCTION

Credit Unions have not been immune from the financial crisis which has beset our country for the past half-decade. Whilst there are small signs of recovery in the economy, repayments on the national debt resulting from the banking bailout and subsequent collapse of the economy, decline in household incomes, increased personal tax burdens and increased unemployment will have a subdued effect on our economic growth for a number of generations.

The Report of the Commission on Credit Unions identified that a strengthened and re-vitalised Credit Union sector can be in a position to play an increasing role in the retail financial landscape which should be permitted under a more sophisticated regulatory regime.

Consultation Paper CP76, which this document is a response to has many significantly important recommendations for the sector. This document does not comment on the positive aspects of the proposals in the consultation paper but rather focuses on areas which we feel require further consideration.

We would like to draw particular attention to limits on lending which we feel are too restrictive and will prevent the development of the Credit Union business model as envisaged by the Commission on Credit Unions.

The Irish Credit Union movement is one of the most successful worldwide, having served our members needs and wants for the past 50 years. The movement is embracing this next stage of its development, which can only be achieved in a strong regulatory environment that supports growth whilst simultaneously protecting our members' savings.

We trust that the recommendations and observations outlined in this document will provide a useful and positive contribution to the development of the new tiered regulatory regime.

On behalf of the
Shankill, Ballybrack
& District Credit Union

Jean O'Hara

On behalf of
Sallynoggin/Glenageary
Credit Union

Martin Whelan

On behalf of
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Date: 21st February 2014

ABBREVIATIONS

CCR	European Communities (Consumer Credit Agreements) Regulations 2010
CUCORA 2012	Credit Union and Cooperation with Overseas Regulators Act 2012
Domestic Banks	Refer to Allied Irish Banks plc (including EBS), Bank of Ireland and Permanent TSB.
DTI	Debt-to-Income Ratio (Percentage of borrowers' household income required to service all household debt)
NPP	National Payments Plan
SRM	Single Resolution Mechanism
The Bank	Central Bank of Ireland
SRM	Single Resolution Mechanism (Single Bank Resolution Fund)
GAAP	Generally Accepted Accounting Principles

5.2 LENDING

5.2.1 – CLASSES OF LENDING

CATEGORY 1 & 2 CREDIT UNIONS

Credit unions espouse inclusivity: we are founded in the philosophy of co-operation and hold central the values of equality, equity and mutual self-help. In this context, the proposed definition of 'community loan' is arbitrary and restrictive and we recommend it be broadened to include loans provided to community or voluntary organisations established for the purpose of furthering the well-being of both individuals and communities within the common bond of the credit union.

The Bank's proposal is in conflict with Credit Union Operating Principles, which commit credit unions to

- actively promote the education of their members, officers and employees, along with the public in general, in the economic, social, democratic and mutual self-help principles of credit unions. The promotion of thrift and the wise use of credit, as well as education on the rights and responsibilities of members are essential to the dual social and economic character of credit unions in serving member needs.

and to

- seek to bring about human and social development. Their vision of social justice extends both to the individual members and to the larger community in which they work and reside. The credit union ideal is to extend service to all who need and can use it. Every person is either a member or a potential member and appropriately part of the credit union sphere of interest and concern. Decisions should be taken with full regard for the interests of the broader community within which the credit union and its members reside. [1]

In proposing a narrow definition of 'community', the Bank's proposal is in conflict with the Credit Union principles and could represent obstacle to continuing lending to economic, social, democratic and mutual self-help initiatives including trades unions, religion and faith, politics, the relief of poverty, civic responsibility, community development, the relief of animal suffering, the sciences, the interests and rights of people with a disability, social integration, cultural development, housing, social finance and micro-finance.

The proposed regulations should specifically affirm credit unions' ability to support, through lending, activities that include education and training e.g. within the meaning of the Charities Act 2009 (Sec 3.1.11) including to school boards, parent councils, management committees, student councils, and for vocational training and professional development opportunities provided in and for the benefit of the community.

5.2.3 – LENDING & MATURITY LIMITS

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1 Principles 8+9, Statement of Credit Union Operating Principles, adopted at the AGM of the Irish League of Credit Unions, 1984

CATEGORY 2 CREDIT UNIONS - 40% > 5 YEARS; 15% > 10 YEARS

The restriction of long term lending to a maximum of 15% of loans with a maturity of greater than 10 years will severely constrain the development of a sustainable business model for Category 2 Credit Unions.

Appendix 1 includes a projection of the loan book of a €100 million Credit Union. It starts from the current Loan/Asset ratio of 31.44%[2] and demonstrates that increasing the long term element of the loan book to 15%, and also developing a commercial lending loan portfolio, would only increase the loan book to €46 million. Given this low level of lending, the Credit Union is not sustainable in the long term. As Total Assets in the Credit Union increase through retained surpluses and increased members savings, the Loan/Asset ratio will continue at sub-optimum levels.

Appendix 2 shows the projected loan book development of a €100 million Credit Union, using a sample of Canadian Credit Unions (outlined in Appendix 3) as a reference. In this model the long term element of the loan portfolio would breach the proposed limits in Year 5; by Year 10, long term lending would be 53% of the loan book. This model does not include commercial mortgages, which is large element of the Canadian Credit Union model.

The income generating potential from the loan book as outlined in Appendix 2 is €1.8 million greater than that outlined in Appendix 1. Assuming an average return of 150 basis points on assets invested instead of being utilised for loans, the additional Net Income generated under the Appendix 2 model would be €1.3 million per annum. These additional revenues will allow Credit Unions to continue to build reserves, invest in their business model and provide returns to members.

As household debt to disposable income remains above 200%[3] and has done so since 2006 a very low growth rate in personal lending has been factored into the calculations.

Paragraph 2.3.5 of the Interim Report of the Commission on Credit Unions published September 2011 states:

> *"Ireland is also classified in the transition stage although it has an extremely high penetration level (67%). That Ireland is not identified as a mature movement is due to many factors including limited product development, a failure to evolve the regulatory and prudential frameworks, the failure to leverage appropriate ICT infrastructure for the delivery of services and limited service support systems."*

This voices the importance of the evolution of the regulatory and prudential frameworks - to support the development of the Credit Union sector, restrictions on long term lending should be removed. Long term lending should be determined at an individual Credit Union level through their Asset/Liability management policy and Risk Management systems.

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2 Based on September 2013 PEARLS ratios issued by the Irish League of Credit Unions
3 Central Bank of Ireland Macro-Financial Review 2013-II

Section 11 of CUCORA 2012 replaces Section 35 of the 1997 Act and Section 35(7) (as amended) allows the Bank to prescribe limits. Retaining the lending and maturity limits as set out in the 1997 Act will not advance the development of the Credit Union movement, nor will it advance the regulatory framework as envisaged by the Commission on Credit Unions. The retention of the limits is likely to keep the Irish Credit Union movement in the transition stage and will undermine its restructuring.

5.2.3 – CLASS OF HOME LOAN – CATEGORY 2 CU

> This class would relate to a home loan made to a member to purchase their principle private residence where:
>
> - the credit union holds the first legal charge on the property;
> - the amount of the loan does not exceed 80% of the value of the property when the loan is made; and
> - the maximum maturity is 25 years.

The limits as proposed are to be welcomed. They are prudent in nature and will protect both the member and the Credit Union from financial crisis. In addition to the above, consideration should be given to including an upper limit on the Debit-to-Income ratio (DTI) in the region of 35% - 40%.

The Bank should apply these prudent rules to all credit institutions, not just credit unions to protect the future stability of the financial sector. The Bank's research technical paper 'A Model of Mortgage Credit'[4] notes a growing consensus that overvaluation in international property markets was a function of over exuberant lending, particularly to prospective mortgage holders in the residential property sector. With arrears at 19.9%[5] the over exuberant lending practices referred to have been exposed. In contrast the Canadian mortgage market, which has been regulated prudently, has mortgage arrears of just 0.31%[6]

4 A Model of Mortgage Credit, Diarmaid Addison-Smyth, Kieran McQuinn and Gerard O'Reilly, Central Bank of Ireland, August 2009, http://www.centralbank.ie/publications/documents/6RT09.pdf

5 Central Bank of Ireland Macro-Financial Review 2013-II

6 Canadian Bankers Association, DB50 Public, Number of Residential Mortgages in Arrears

5.2.4 – RESTRICTED PERSONS LIMITS

The introduction of restricted person's limit may be considered necessary to protect Credit Unions from over-exposure to a class of member that might exercise considerable control over the assets of the Credit Union.

CUCORA 2012 introduces robust risk, compliance, governance and prudential systems to ensure the protection of members' savings. The introduction of restricted person's limits presupposes the failure of these systems.

The limit of €200,000 or 5% of regulatory reserves is too low and unfairly discriminates against officers of the Credit Union. The definition proposed is also unworkable, both for credit unions and for individual officers.

A restricted person's limit should not be introduced, however if it is introduced the limit on lending should be as follows:

> The mean of the aggregate lending to restricted persons shall not exceed the mean of the aggregate lending to all borrowing members by more than 5%.

The exclusion of home loans is essential for both Category 1 and Category 2 Credit Unions as both may issue home loans, the former being restricted to a maximum duration of 15 years.

5.2.6 – LENDING PRACTICES AND POLICIES

> The lending practices for rescheduled loans contained in the Section 35 Regulatory Requirements for Credit Unions (October 2013) continue to apply to all credit unions.

Section 35 lending practices for rescheduled loans will need considerable modification in the future if Credit Unions are to be allowed to develop a sustainable business model. For Category 2 Credit Unions who may provide home loans the restrictive nature of Section 35 would make it extremely difficult to meet the requirements of the Bank's Code of Conduct of Mortgage Arrears.

> - additional systems and controls required if category 2 credit unions are permitted to provide a specific class of home loan.

Prudence is the most important aspect of lending. In terms of a specific class of home loans the proposed regulations outlined in Section 5.2.3 of CP76 set out the prudential requirements which will themselves form very strong controls and ensure prudence in this loan class.

As outlined earlier in this document over exuberant lending by the banking system significantly contributed to the property bubble which led to the recapitalisation of the domestic banks. Whilst arrears are very high within the Credit Union movement, the movement itself has continued to generate sufficient surpluses

each year to allow it increase reserves and pay dividends. This is the strongest evidence in the market which affirms the robustness of Credit Unions' loan application processes.

The development and improvement of existing Credit Union systems and controls is vital to ensure the future strength of Credit Union loan books. The temptation to import a 'quick fix' from the failed banking system must be avoided. Improvements to systems and controls should be based on best international practice.

A key additional requirement to the soundness of the home loan class is the prudential framework for all financial institutions, not just Credit Unions. As stated, the prudential requirements proposed must be applied to all credit institutions to prevent overzealous credit provision in the future, which may again artificially inflate house prices, and to ensure that banks do not have an unfair competitive advantage over Credit Unions by being allowed to engage in high risk lending without sufficient capital reserves.

5.3 – INVESTMENTS

An important outcome of the tiered regulatory framework should be the support of Credit Unions in their primary function, the provision of credit at fair and reasonable rates. Investments constitute the largest asset class in Credit Union balance sheets and represent a potentially catastrophic risk item. In a business model where the loan book is in the region of 70% - 80% of assets, investments held by a Credit Union could be held in short term liquid funds which would significantly reduce risk exposure.

The recently published EU Commission proposals7 to form a Single Resolution Mechanism (SRM) are to be welcomed on a macro level; however, they represent a significant risk to Credit Unions. With 'Bail-In', a key instrument in the resolution directive which would sequentially allocate losses and write down the claims of shareholders, subordinated creditors, and senior creditors, Credit Union deposit and bond investments are at considerable risk. It appears that recent compromises may allow national governments to exclude particular investor classes from the regulations, however until such time as regulations are put in place and an exemption is granted for Credit Unions, investments should continue to be treated as the largest risk element in the Credit Union balance sheet.

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http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2013:0520:FIN:EN:PDF

5.3.2 CATEGORY 1 & CATEGORY 2

- investments in a single counterparty other than a credit union (i.e. bank or EEA state) can be up to 100% of a category 1 credit union's Regulatory Reserves; and

A risk impact analysis should be undertaken on holding up to 100% of Regulatory Reserves in a single counterparty.

Typical investment portfolios of Irish Credit Unions are heavily weighted to the domestic banks. Should a further re-capitalisation of one of the domestic banks be required and performed in a manner proposed under the SRM the impact to the sector would be extremely damaging if not catastrophic.

Diversification is an essential aspect of portfolio risk management. Whilst each Credit Union can set its own level of diversification, the prudential regulations should ensure a minimum level.

A maximum of 50% of Regulatory Reserves would support a more diversified investment portfolio.

5.4 SAVINGS

5.4.1 & 5.4.2 – CATEGORY 1 & 2 SAVINGS LIMITS

The maximum limit for deposits of 75% of aggregate shares issued may potentially impact a Credit Union's ability to reduce the impact of maturity mismatch. As Category 2 Credit Unions develop longer term lending, they will also need to develop longer terms deposit products for members. This will see the transfer of existing shares into deposit products as well as an inflow of new funds into deposits.

Credit Unions will need to be cognisant of the impact these flows will have on the net interest margin and manage that risk accordingly.

We have set out below a new Pensions Savings Account (cf. page 10) which could be effective in managing maturity mismatch in the balance sheet. The proposed limits would need to be altered to accommodate this potential new product.

No other deposit taking financial institution is restricted to the amount a person can save. The implementation of a restriction on Credit Union shares is anti-competitive and must be avoided.

5.6 ADDITIONAL SERVICES

As non-profit financial institutions, Credit Unions are in a unique position to develop a range of ethical financial products for our members. The restructuring which a number of Credit Unions will undergo in the coming 24 months will give Credit Unions the scale to develop systems to allow for future product development.

LOANS AND SAVINGS

As core services, the main focus of the Credit Union should always remain on these products. As discussed earlier the proposed limits set out in CP76 are too restrictive to allow the proper development of Credit Union core services. Continuous engagement with the sector should be embedded into new regulation development to allow for a safe and prudent regulatory environment which supports sustainable growth in the sector.

The Commission on Credit Unions recommended that credit unions take a more prominent role in developing and maintaining social inclusion lending schemes, backed up with support mechanisms to facilitate them becoming more actively involved in social lending. This Credit Union is interested in pursuing social lending mechanisms and opportunities including, where appropriate, in partnership with others.

PAYMENT SERVICES – BASIC PAYMENT ACCOUNT / CURRENT ACCOUNT

A key objective of the National Payments Plan[8] (NPP) is to deliver a significant increase in the use of secure and efficient electronic payment methods leading to a reduction in the reliance on cash and paper-based payment instruments. Another objective is to identify measures to address the payments aspects of financial exclusion.

The NPP present both an opportunity and a threat for Credit Unions. Credit Unions are well placed as a trusted source of social financial services to enable the NPP steering committee achieve the objectives as set out in the Terms of Reference.

PAYMENT SERVICES – DEBIT CARD / CONTACTLESS PAYMENTS

Electronic payments are an essential method of interaction with financial service providers. The growth in smart phone use for electronic payments offers more ways than ever to pay for goods and services and applications such as Google Wallet, PayPal and RealexFire are leading the way in developing new and innovative product delivery channels.

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8 https://www.centralbank.ie/paycurr/paysys/Documents/National%20Payments%20Plan%20-%20Final%20Version.pdf

As Credit Unions roll out electronic services, allowing members have their income paid directly to their Credit Union accounts, we have an obligation to provide members with 24/7 access to their money.

PENSIONS SAVINGS ACCOUNT

Taking a 10-year view of the sector, the majority of Credit Union lending should consist of long term lending – this will bring with it liquidity risks and challenges. It is widely acknowledged that the present Irish pension system needs reform with many people facing the prospect of inadequate pensions. From an exchequer viewpoint, the future funding costs will place considerable strain on public finances with the sustainability of current levels of statutory pensions in doubt.

The pension's savings account we are proposing would bear some resemblance to the hugely successful SSIA's savings scheme. Members could open the account themselves or through an employer where payments could be deducted at source. Interest could be applied to the account on a quarterly basis, making it very simple for members to understand how much their pension savings are worth at any time.

There are a number of possible ways to deal with tax relief on pension deductions, a simple credit could be applied on a € for € basis, thereby ensuring that low paid persons are incentivised to plan for their retirement9. The Green Paper outlines a number of scenarios.

If introduced, this product would have to be available for Category 1 & 2 Credit Unions in addition to other financial institutions.

INSURANCE AND ASSURANCE PRODUCTS

As non-profit mutual financial services providers Credit Unions are well place to develop and directly sell a range of member focused insurance and assurance products. As the development stage of the sector moves from transition to mature, the Bank must engage with Credit Unions that have the nature, scale and complexity to deliver such a range of products.

RAISING THE INTEREST RATE CAP TO FACILIATE SOCIAL FINANCE LENDING

An important aspect of risk management is to correctly price risk on each product or product class. Currently, interest is capped at 1% per calendar month which restricts a Credit Union's ability to correctly price its risk.

The CCR requires credit providers to assess a borrower's credit worthiness. Despite the fact that money lenders are also subject to these regulations10 it is clear from the Banks report on licenced money lenders

9 Government Green Paper on Pensions, 2007. http://www.welfare.ie/en/downloads/greenpaper.pdf

10 Central Bank of Ireland, Report on Licenced Money Lenders, Page 3

published in November 2013 that the business of licenced money lending has been thriving for the past number of years with an increase in customer numbers from 300,000 in 2005 to 360,000 in 2013, this at a time when Credit Unions have more money than ever to lend but are failing to do so. We would recommend the following:

1. Similar to the UK, increase the exemption of the Consumer Credit Regulations from the current lower limit of €200 to a higher limit of €1,000[11]

2. Increase the cap on monthly interest from 1% to calendar month to 3%

This would allow credit unions absorb the higher risk associated with this class of loan and exempt Credit Unions and domestic banks from the requirement to assess credit worthiness of individuals who are likely to turn to moneylenders, both licensed and unlicensed.

The recent Central Bank report cites approximately €200 million in loans outstanding to licenced money lenders; no figure is available for unlicensed money lenders. Potential total interest savings if borrowers accessed these loans from Credit Unions would be approximately €178 million per annum – this would have a dramatic and direct impact on the lives of these individuals and their families.

5.7 GOVERNANCE

5.7.2 – A DEDICATED RISK OFFICER AND A DEDICATED COMPLIANCE OFFICER

The nature, scale and complexity of the business model must dictate resource allocation across all areas of the business. Compliance is a subset of risk. Rather than adding people to the senior management team, a risk & compliance function, properly resourced, headed by a Senior Risk & Compliance manger would be more functional and more accountable to the CEO and Board.

In this instance, staffing requirements should be dictated by business requirements rather than regulation.

5.7.2 – A DEDICATED INTERNAL AUDIT FUNCTION

A dedicated internal audit function is appropriate for Category 2 Credit Unions in so far as the responsible person should not perform another function in the Credit Union. The resource requirements allocated to the function should be determined by the nature, scale and complexity of the Credit Union. This resource requirement may be part-time, full-time or outsourced.

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11 HM Treasury, Raising the maximum interest rate cap. Link: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/206091/raising_the_maximum_interest_rate_cap_response_to_consultation_110613.pdf

5.9 RESERVES

Comparison of domestic banks reserves and credit union reserves

	Bank of Ireland 30-Jun-13 €Bn	Allied Irish Bank 30-Jun-13 €Bn	PTSB 30-Jun-13 €Bn	Total Domestic Banks 30-Jun-13 €Bn	ILCU affiliated Credit Unions 30-Sep-13 €Bn	Variance
Total Assets **[a]**	134	120.6	38.1	292.7	12	
Equity / Reserves **[b]**	8	10.6	2.5	21.1	1.91	
Captial Ratio **([b]/[a])**	6.0%	8.8%	6.6%	7.2%	15.9%	**2.2 Times**

[1] *Figures for BOI, AIB & PTSB are taken from their respective published six month interim results for the six months to the end of 30th June 2013.*

[2] *Figures for ILCU affiliated Credit Unions are taken from the September 2013 Financial Performance and PEARLS ratio report issued by the Irish League of Credit Unions.*

[3] *The variance highlights the strong capital position of the Irish Credit Union movement with a capital ratio of 2.2 times that of the domestic banks.*

Capital reserves of Credit Unions greatly exceed those of domestic banks, as outlined in the adjoining table, placing Credit Unions in a strong position to continue to attract members' savings. Using the basic indicator approach outlined in the Basel II Accord, adapted for Credit Unions, would provide a more meaningful comparative across all financial sectors.

A key challenge for Credit Unions which must be catered for in determining capital requirements is the timeframe required for a Credit Union to keep pace with future growth in total assets. Unlike other financial institutions that can raise capital by issuing equity, a Credit Union's only source of capital is its retained earnings.

Credit Unions form a relatively small part of the domestic financial market; should there be meaningful restructuring of the Credit Union movement, significant asset growth could be achieved which would in turn make it difficult for Credit Unions to increase their reserves at a similar pace due to the restriction of not being able to issue equity.

5.10 LIQUIDITY REQUIREMENTS

5.10.2 ADDITIONAL LIQUIDITY REQUIREMENTS FOR CATEGORY 2

The performance of stress tests on liquidity must become an embedded part of Credit Unions risk management systems.

When considering the requirements for monitoring and management of maturity mismatches, the role which maturity transformation plays within savings and loans institutions globally must be factored into any proposed reporting system.

5.12.1 – PROPOSED TWO TIER SYSTEM

In general terms we agree with the proposals for a two tier system. The system, in conjunction with the PRISM framework, should support small Credit Unions to develop without the need for onerous and restrictive regulatory intervention. As the scale and complexity of these Credit Union increases this should be matched with increased prudential supervision.

6 - PROVISIONING

Analysing and comparing the Financial Statements of individual Credit Unions shows up disparities in their provisioning practices, which casts doubt on the usefulness and accuracy of the Financial Statements. A provisioning framework which is in-line with accounting standards should be developed and adopted to ensure their consistency.

Financial Reporting Standard 12: Provisions, Contingent Liabilities and Contingent Assets (FRS12) requires that all the following conditions be fulfilled before a provision can be recognised:

- the entity currently has a liability as a result of a past event;
- an outflow of resources is likely to be needed to settle the liability; and
- the amount of the obligation can be estimated reliably.

This is often referred to as the incurred loss model which was introduced to prevent the use of 'big-bath' general provisions that distorted the accurate reporting of financial statements. However, during the financial crisis the incurred loss model was criticised for delaying the recognition of losses and for not reflecting accurately credit losses that were expected to occur.

In March 2013, the International Accounting Standards Board published revised proposals for loan-loss provisioning[12] which is designed to recognise loan losses on a timelier basis. Under these proposals expected credit losses are recognised on all financial instruments within the scope of the proposals from when they are originated; this is often referred to as the 'expected loss model'.

A methodology which is currently being widely used in the Credit Union sector is referred to as the 'rolling rate' methodology. This methodology appears to excessively front-load credit losses contrary to the rules set out in FRS12. In addition, rolling rate methodology applies a blanket provision to each arrears band -

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12 Exposure Draft ED/2013/3 Financial Instruments: Expected Credit Losses

for example, a 100% provision is applied to all loans greater than 26 weeks in arrears despite the historic experience of the loan book – and is also contrary to the new proposed standard.

The proposed new expected loss model requires measurements of expected credit losses to be based on relevant information about past events, including historical credit loss events for similar loans, current conditions and reasonable and supportable forecasts.

Excessive front-loading of credit losses also results in the double counting of expected credit losses that are priced into a loan. The margin on a loan is sufficient to cover initial expected credit losses.

PROVISIONS VERSUS RESERVES

Large impairments of loan books, which occur as a result of events such as the current economic depression, are an operational risk and should be catered for through the operational risk reserve introduced by Section 45(5)(a) of the 1997 Act as amended.

The benefits of this approach, combined with a provisioning framework, would include:

- Improved financial reporting arising from comparable financial statements;
- Better transparency for members and regulators with understandable financial statements
- More accountable Boards and CEO's as provision accounting could not be used to hide weaknesses in the financial statements
- Strengthened Credit Unions with stronger reserve positions.

OPERATIONAL RISK RESERVE

The operational risk reserve should contain a reserve for Credit Losses in the region of 2.5% - 4% of total assets, however double counting should not be allowed where excessive provisions are held in addition to an operational risk reserve. Excessive provisions, which may be deemed prudent must be accounted for through the operational risk reserve. Provisions for impairments should meet the strict definition as set out in Generally Accepted Accounting Principles (GAAP). The use of large general provisions should not be allowed due to the potential to undermine the accuracy of financial statements.

On a sectoral basis, Reserves for Credit Losses would amount to circa €350 million, in addition to sectoral provisions loan losses under a new revised framework should be circa €414 million giving overall protection of €764 million (17%) on a total loan book of €4.6 billion.

None of this would prevent individual Credit Unions from setting higher limits for their operational risk reserves, which should be encouraged.

7.2 TIMELINES FOR INTRODUCTION OF TIERED REGULATORY APPROACH

7.2(i) TIMING OF INTRODUCTION OF TIERED REGULATORY APPROACH

The tiered regulatory approach is a key requirement to ensure the continued success of the movement. The significant change which the movement is currently undergoing is placing a significant burden on Credit Union resources. However, providing that the new regulatory approach is implemented in a pragmatic fashion, nothing will prevent it from being implemented in the time frame as proposed.

7.2(ii) TRANSITIONAL PERIOD

The transitional period should be extended by 6 months to end in September 2015 to allow Credit Unions to prepare fully for the implementation of the proposed regulations.

APPENDICES

APPENDIX 1 – LOAN BOOK PROJECTION – MAX LENDING GREATER THAN 10 YEARS = 15%

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Closing Balance	%
Loan Book												
Personal Loans	31,440,000	32,364,000	32,918,400	33,251,040	33,450,624	33,570,374	33,642,225	33,685,335	33,711,201	33,726,721	33,736,032	73%
Mortgages	-	145,572	429,438	844,683	1,384,738	2,043,363	2,814,629	3,692,903	4,672,837	5,749,345	6,917,601	15%
Non - personal Loans	-	202,500	549,643	1,000,102	1,524,359	2,101,328	2,715,948	3,357,463	4,018,188	4,692,634	5,376,882	12%
Commercial mortgages	-	-	-	-	-	-	-	-	-	-	-	0%
Other	-	-	-	-	-	-	-	-	-	-	-	0%
Total Loans	31,440,000	32,712,072	33,897,481	35,095,825	36,359,721	37,715,065	39,172,801	40,735,701	42,402,225	44,168,700	46,030,515	100%
Loans Advanced												
Personal Loans	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000		
Mortgages	145,572	291,145	436,717	582,289	727,862	873,434	1,019,006	1,164,578	1,310,151	1,455,723		
Non - personal Loans	202,500	405,000	607,500	810,000	1,012,500	1,215,000	1,417,500	1,620,000	1,822,500	2,025,000		
Commercial mortgages	-	-	-	-	-	-	-	-	-	-		
Other	-	-	-	-	-	-	-	-	-	-		
Total Advanced	13,848,072	14,196,145	14,544,217	14,892,289	15,240,362	15,588,434	15,936,506	16,284,578	16,632,651	16,980,723		
Loans Repaid/Other												
Personal Loans	12,576,000	12,945,600	13,167,360	13,300,416	13,380,250	13,428,150	13,456,890	13,474,134	13,484,480	13,490,688		
Mortgages		7,279	21,472	42,234	69,237	102,168	140,731	184,645	233,642	287,467		
Non - personal Loans		57,857	157,041	285,743	435,531	600,379	775,985	959,275	1,148,054	1,340,753		
Commercial mortgages	-	-	-	-	-	-	-	-	-	-		
Other	-	-	-	-	-	-	-	-	-	-		
Total Repaid	12,576,000	13,010,736	13,345,873	13,628,394	13,885,018	14,130,697	14,373,607	14,618,054	14,866,176	15,118,908		
% Average Age Profile of Loan Book												
Less than 10 years	100%	100%	99%	98%	96%	95%	93%	91%	89%	87%	85%	
Greater than 10 years	0%	0%	1%	2%	4%	5%	7%	9%	11%	13%	15%	
Loan Interest income												
Personal Loans		3,094,494	3,166,196	3,209,218	3,235,031	3,250,518	3,259,811	3,265,387	3,268,732	3,270,739	3,271,944	
Mortgages		4,003	15,813	35,038	61,309	94,273	133,595	178,957	230,058	286,610	348,341	
Non - personal Loans		9,619	35,727	73,613	119,912	172,220	228,821	288,487	350,343	413,764	478,302	
Commercial mortgages		-	-	-	-	-	-	-	-	-	-	
Other		-	-	-	-	-	-	-	-	-	-	
		3,108,116	3,217,736	3,317,869	3,416,252	3,517,011	3,622,226	3,732,831	3,849,133	3,971,113	4,098,587	

APPENDIX 2 – LOAN BOOK PROJECTION –LENDING GREATER THAN 10 YEARS BASED ON CANADIAN MODEL

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Closing Balance	
Loan Book												
Personal Loans	31,440,000	32,364,000	32,918,400	33,251,040	33,450,624	33,570,374	33,642,225	33,685,335	33,711,201	33,726,721	33,736,032	41%
Mortgages	-	675,000	1,991,250	3,916,688	6,420,853	9,474,810	13,726,070	19,114,766	26,259,028	35,071,077	44,117,523	53%
Non - personal Loans	-	202,500	549,643	1,000,102	1,524,359	2,101,328	2,715,948	3,357,463	4,018,188	4,692,634	5,376,882	6%
Commercial mortgages	-	-	-	-	-	-	-	-	-	-	-	0%
Other	-	-	-	-	-	-	-	-	-	-	-	0%
Total Loans	31,440,000	33,241,500	35,459,293	38,167,830	41,395,836	45,146,512	50,084,243	56,157,564	63,988,417	73,490,431	83,230,437	100%
Loans Advanced												
Personal Loans	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000		
Mortgages	675,000	1,350,000	2,025,000	2,700,000	3,375,000	4,725,000	6,075,000	8,100,000	10,125,000	10,800,000		
Non - personal Loans	202,500	405,000	607,500	810,000	1,012,500	1,215,000	1,417,500	1,620,000	1,822,500	2,025,000		
Commercial mortgages	-	-	-	-	-	-	-	-	-	-		
Other	-	-	-	-	-	-	-	-	-	-		
Total Advanced	14,377,500	15,255,000	16,132,500	17,010,000	17,887,500	19,440,000	20,992,500	23,220,000	25,447,500	26,325,000		
Loans Repaid/Other												
Personal Loans	12,576,000	12,945,600	13,167,360	13,300,416	13,380,250	13,428,150	13,456,890	13,474,134	13,484,480	13,490,688		
Mortgages		33,750	99,563	195,834	321,043	473,741	686,303	955,738	1,312,951	1,753,554		
Non - personal Loans		57,857	157,041	285,743	435,531	600,379	775,985	959,275	1,148,054	1,340,753		
Commercial mortgages	-	-	-	-	-	-	-	-	-	-		
Other	-	-	-	-	-	-	-	-	-	-		
Total Repaid	12,576,000	13,037,207	13,423,963	13,781,994	14,136,823	14,502,270	14,919,179	15,389,147	15,945,485	16,584,995		
% Average Age Profile of Loan Book												
Less than 10 years	100%	98%	94%	90%	84%	79%	73%	66%	59%	52%	47%	
Greater than 10 years	0%	2%	6%	10%	16%	21%	27%	34%	41%	48%	53%	
Loan Interest income												
Personal Loans		3,094,494	3,166,196	3,209,218	3,235,031	3,250,518	3,259,811	3,265,387	3,268,732	3,270,739	3,271,944	
Mortgages		18,563	73,322	162,468	284,282	437,131	638,024	903,123	1,247,779	1,686,578	2,177,686	
Non - personal Loans		9,619	35,727	73,613	119,912	172,220	228,821	288,487	350,343	413,764	478,302	
Commercial mortgages		-	-	-	-	-	-	-	-	-	-	
Other		-	-	-	-	-	-	-	-	-	-	
		3,122,675	3,275,245	3,445,299	3,639,225	3,859,869	4,126,656	4,456,997	4,866,855	5,371,081	5,927,932	

APPENDIX 3 – SAMPLE OF CANADIAN CREDIT UNION LOAN BOOKS

2012 Financial Statements	Total Sample ('000)		Vancity ('000)		Servus ('000)		Kawartha ('000)		First Ontario ('000)		Cambrian ('000)		Coast Capital ('000)	
Total Assets	47,649,172		17,055,828		12,185,257		965,929		2,078,427		2,764,226		12,599,505	
Total Loans	40,741,450	85.5%	14,372,009	84.3%	10,677,621	87.6%	858,506	88.9%	1,882,284	90.6%	2,186,970	79.1%	10,764,060	85.4%
Personal Loans	4,709,199	11.6%	2,931,077	20.4%	1,054,477	9.9%	140,135	16.3%	148,700	7.9%	158,925	7.3%	275,885	2.6%
Mortgages	24,350,039	59.8%	7,426,860	51.7%	6,120,850	57.3%	490,316	57.1%	1,089,842	57.9%	1,206,272	55.2%	8,015,899	74.5%
Non - personal Loans	2,784,737	6.8%	1,884,112	13.1%		0.0%	233,436	27.2%	643,741	34.2%	23,448	1.1%		0.0%
Commercial mortgages	8,432,291	20.7%	2,182,612	15.2%	3,153,519	29.5%		0.0%		0.0%	623,884	28.5%	2,472,276	23.0%
Agricultural	311,409	0.8%		0.0%	311,409	2.9%		0.0%		0.0%		0.0%		0.0%
Lines of Credit/Overdrafts	173,057	0.4%		0.0%		0.0%		0.0%		0.0%	173,057	7.9%		0.0%
Other	- 19,283	0.0%	- 52,652	-0.4%	37,366	0.3%	- 5,381	-0.6%		0.0%	1,384	0.1%		0.0%
	40,741,450	100.0%	14,372,009	100.0%	10,677,621	100.0%	858,506	100.0%	1,882,284	100.0%	2,186,970	100.0%	10,764,060	100.0%