



Owned and Operated  
by it's Members  
for it's Members

# Slane Credit Union Ltd.

Main Street, Slane, Co. Meath.

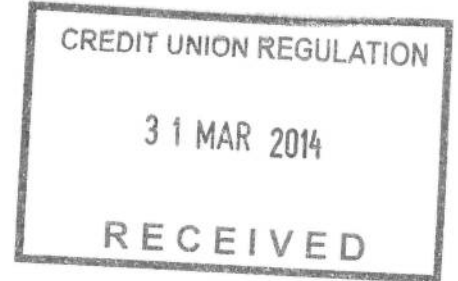
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Registry of Credit Unions,  
Central Bank of Ireland,  
P.O. Box 559,  
Dame Street,  
**DUBLIN, 2**



28<sup>th</sup> March, 2014

Dear Sir,

Please find enclosed submission from Slane Credit Union on the "Introduction of a Tiered Regulatory Approach for Credit Unions".

Yours Sincerely,

Barbara Markey

Manager

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

**Submission from Slane Credit Union Ltd.**

4.8 The Central Bank is seeking views on the following:

(i) 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.

Submission

The 2 category system for C.U.s is acceptable however the ceiling applicable for movement from category 1 to category 2 should be based on the Unions ability to provide the services and its willingness to adhere to extra regulatory oversight rather than a fiscal ceiling. However the proposed two tier system as envisaged in this document shows that category 1 regulation will not adhere to the simple model as suggested by the Commission.

5.12 The Central Bank is seeking views on the following:

(i) 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.

Submission:

In an overview sense certain elements of section 5 are obnoxious and an exercise in micro-management they fly in the face of common sense and decency. We believe they are an effort to minimise the investment returns of Credit Unions and thereby bring about the demise of the movement. The section dealing with restricted persons is in the main an insult to volunteers and staff for it creates an apartheid system making second class members of a large cohort of our membership. We view the introduction of a tiered regulatory approach, in the presented proposed format, as a method of implementing further restrictions on the credit union movement.

- a) Investment opportunities; It is extremely difficult for credit unions to generate investment income in the current low interest rate environment so to limit investment spans and increase reserves and liquidity will so limit the earning capacity of surplus funds to make the effort to prudently invest a joke. Credit unions ability to invest in collective investment schemes seems to have been removed thus restricting the ability to obtain a higher return by block investment. Counterparty limits are likely to reduce counterparty exposure to well below the current limit of 25% of the investment portfolio. C.U.s would have to reallocate funds to other counterparties in order to meet the proposed counterparty limit of 100% regulatory reserves. This is likely to include counterparties who are offering much lower cash deposit rates (e.g. Danske Bank, BNP) and who may be outside the jurisdiction of the State. Such a flight of capital would be detrimental to the Banks and State alike. At worst the status quo under the Trustee (Authorised Investments) Order 1998, and the C.B. guidelines of 2006 should be maintained. Investment limits are also contained Section 35(2) of the Credit Union Act 1997 so are the proposals in this area necessary? See Appendix 1.
- b) External review of Boards of Category 2 Unions will be detrimental for it will make the recruitment of Directors harder – who hires and conducts the reviews? – Only institutions of very large bodies are obliged to adhere to his policy so why is the threshold lowered for C.U.s – we believe this should not be introduced.
- c) Borrowing; this element plays little or no part in C.U. activities.
- d) We believe that lending to all categories of borrower be restricted only by due diligence, provision of security (if deemed necessary) and the ability to repay. See Appendix 2.
- e) Reserves be put on par with the banks requirements. Smaller Credit Union with lower than average reserves will have a significantly lower limit on loans which will hasten their demise. In

rural C.U.s the issue of loans to farmers and self-employed, classified as commercial lending, is the life blood of the community and restrictions based on regulatory reserves will restrict community development.

- f) Savings- A saver can maintain an account with any bank in excess of the threshold indicated in this document - the amount saved should be at the discretion of the saver and therefore not restricted. We ask why a similar restriction is not imposed on the banks and if it is not it must be seen as anticompetitive
- g) Liquidity: Credit unions will need to divert funds from collective investment schemes call accounts or alternative liquid investments- Liquidity should be positively stated allowing transparency.

### 5.2.3

(ii) Are there any areas where credit unions could provide new additional 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.

#### Submission:

- Allow all C.U.s to supply credit and debit card services and mobile banking. CUSOP will allow continuing control of this function.

6.3 The Central Bank is seeking views on the following:

(i) 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.

#### Submission:

It appears that the Central bank is intent on imposing the roll rate mechanism on Credit Unions whereby any loan 25 weeks + weeks in arrears would be 100% provided. The movement is well provided for at the moment and has an appropriate system, approved by the Central bank, in place – we propose that the current situation be retained.

7.2 The Central Bank is seeking views on the following:

(i) 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.

#### Submission:

The movement has moved rapidly to adhere to new legislative and governmental regulations and now needs time to bed-down these changes. The time frame should start in 2017 and thereafter be completed by Q3 2018.

(ii) 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 above.

## Appendix 1

### Slane Credit Union Ltd.

The Impact on Slane Credit Union's Investment Portfolio:

The tables below are brief snapshots of the main implications for Slane Credit Union's investment portfolio if the proposals on investments are implemented. This analysis is based on the regulatory reserves figure at 30<sup>th</sup> September 2013 (€1.8m) and the current investment portfolio (€10.2m).

Table 1: Analysis of Slane Credit Union's Investment Portfolio with Proposed Limits

		Description	Current Allocation		% Portfolio	
Investments which are not authorised under proposals		Bank Bonds	506		0%	
		Collective Investment Schemes	1,114,729		11%	
		Structured Investments (Bank Bonds)	200,000		2%	
		<b>Total</b>	<b>€1.3m would need to be allocated to alternative investments/classes</b>		<b>13%</b>	
		Direct Exposure (no look-through on CTT)		Total Exposure (inc. look-through on CTT)		
		€ exposure < 100%RR	% RR	€ exposure < 100%RR	% RR	
Breaches of proposed counterparty limit of 100% regulatory reserves (€1.8m which is c. 18.4% of the investment portfolio)	AIB	415,538	122%	666,017	135%	
	BOI	419,640	122%	697,653	137%	
	PTSB	488,538	126%	761,646	140%	
<i>Total to be allocated to alternative counterparties</i>		<b>€1.3m</b>	<b>13% of the portfolio</b>	<b>€2.1m</b>	<b>21% of the portfolio</b>	
	% Portfolio	Proposed Limit		OK/Breach?		
Maturity Limit: no more than 50% of the portfolio may mature after 3 years	0%	50%		OK		
	% Unattached Shares	Proposed Minimum		OK/Breach?		
Proposed short term liquidity constraints	32%	10%		OK		
	32%	15%		OK		

We anticipate that the proposed limits are very likely to translate into lower investment income.

**Appendix 2**

**Slane Credit Union Ltd**

**The Impact on Slane Credit Union's Loan Portfolio**

Total Assets  
Regulatory Reserves  
Loans to Members

Total Assets	13,678,445
Regulatory Reserves	1,882,462
Loans to Members	3,317,352

13.76%

Maturity Limits	Term	Category 1		Category 2	
		% Loan Book	€ limit	% Loan Book	€ limit
Existing limits under Section 35 (2) of the 1997 continue to apply. Longer term limits will apply to Category 2.	More than 5 years More than 10 years	30%	€395,206	40%	€1,326,941
		10%	€331,735	15%	€497,603

Classes of Lending and Concentration Limits	Definition	Maximum Loan Term	Permitted?	Category 1		Category 2		
				Proposed Limit	€ limit of total loans	Permitted?	Proposed Limit	€ limit of total loans
Personal Loan	A loan provided to an individual for personal, family or household use, once that use is for purposes unrelated to the person's trade, business or profession	15 years	Yes			Yes		
		15 years	Yes	25%	€470,616	Yes	100%	€1,882,462
Commercial Loan	A loan, the primary objective of which is to fund an activity whose purpose to make a profit	15 years	Yes	25%	€470,616	Yes	25%	€470,616
		15 years	Yes	12.50%	€235,308	Yes	12.50%	€235,308
Community Loan Lending to other credit unions	A loan provided to a community or voluntary organisation which is established for the express purpose of further the social, economic or environmental well-being of individuals.	15 years	Yes	25%	€470,616	Yes	25%	€470,616
		15 years	Yes	12.50%	€235,308	Yes	12.50%	€235,308
Home Loans	A home loan made to a member to purchase their principle private residence where the credit unions holds the first legal charge on the property & the amt of the loan does not exceed 80% of the value of the property when the loan is made.	25 years	No	n/a	n/a	Yes	15.00%	€497,603

Restricted Person's Limits	Definition	Category 1 and 2	
		Limit of Aggregate Lending to RP's	Limit of exposure to connected borrowers
A restricted person is i) a member of the board of directors or the management team of a credit union ii) a member of the family of a member of the board of directors or the management team of a credit union or iii) a business in which a member of the board of directors or the management team of a credit union has a significant shareholding		Limit is the greater of ... 5% Regulatory Reserves €94,123	Limit of exposure to connected borrowers €94,123

Large Exposure Limits	Definition	Category 1 and 2	
		Large exposure is one which exceeds: 5% Regulatory Reserves €94,123	Total large exposures can be up to 500% Regulatory Reserves Limit €9,412,310
A large exposure is an exposure (including contingent liabilities) that exceeds 5% of a credit union's Regulatory Reserves		Limit of exposure to a borrower or a group of connected borrowers Limit is the greater of 10% Regulatory Reserves €188,246	Limit €188,246
		Currently, limit is the greater of 1.5% total assets €39,000	Current Limit €205,177

We anticipate that the proposed limits will restrict our growth and subsequently have an adverse effect on projected income