

Introduction of a Tiered Regulatory Approach for Credit Unions: Consultation Paper CP 76

Trim Credit Union Ltd – Submission
March 2014

Submissions should be made in writing, preferably electronically as a word document or a pdf document on email by 31st March 2014. The Central Bank intends to make all submissions available on the Central Bank website. Submissions should be marked “Introduction of a Tiered Regulatory Approach for Credit Unions” and emailed to rcuconsultation@centralbank.ie or Registry of Credit Unions, Central Bank of Ireland, PO Box 559, Dame Street, Dublin 2.

Submission re CP 76 from Trim
Credit Union

Q1. 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.

The consultation paper puts forward a change to the tiered regulatory approach suggested by the Commission on Credit Unions. A two category approach will allow smaller credit unions to operate a more limited model and permit others to make a decision as to where they wish to be placed. This in effect will force Credit Unions to consider amalgamations to acquire an asset base of €100 million euro and hasten the progress of the movement from a transition to maturity stage. We agree in principle with a tiered regulatory approach but take issue with the proposals for the operation of same.

Q2. 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 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.

Note: 5.11-5.11 essentially documents the proposals for each Category – please refer to Table 1 and 2 in the Appendices.

The operation of the two category approach causes our Credit Union most concern as it will impact on our ability to generate income and could prove detrimental to our Credit Union. This is evidenced in the attached analysis Appendix 1 - conducted on our behalf on the impact of CP76 on the Investment Portfolio. In addition we take umbrage with the proposals on classes of lending and concentration of limits together with the restricted person limit as demonstrated in Appendix 2 – Impact of CP76 on the Lending Limits and urge you to review or remove these restrictions. With regard to Liquidity the proposal that a credit union holds at least 10% of unattached saving available up to seven days and up to 15% of unattached savings available up to one month will also prove expensive in lost income to the Credit Union. It would be our view that the proposed two category approach is too broad and restrictive, i.e. Credit Unions at the top of each band would be disproportionately affected by the new framework. The Credit Union proposes a narrowing of the limits used to reduce the negative impact of any loss in income.

Q3. 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.

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Note: Both Category 1 and 2 will be able to provide the additional services currently available under the Exemption from Additional Service Requirements Regulations which include:

- Account access by phone
- Account access by internet
- Third party payments (including EFT)
- ATM services
- Bureau de change
- Certain insurance services on an agency basis
- Group health insurance
- Bill payment
- Money transfers
- Standing orders
- Direct debits
- Financial counselling and PRSAs on an introduction basis.
- Some credit unions have been approved under Section 48 of the 1997 Act to provide other services including mortgages on a tied agency basis and some additional insurance services on a referral basis.

Additional Services	Category 1?	Category 2?	Comment
Insert Response			

Q4. Do you agree that a provisioning framework should be developed for credit union as proposed in Section 6.2? If you have additional proposals please provide them along with the supporting rationale.

A provisioning framework should be developed for credit unions but a response necessitates that the Central Bank provide a more detailed explanation of the preferred method they seek to impose.

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Q5. 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.

Credit Unions are undergoing massive changes at present implementing the new regulatory framework. An appropriate period should be allowed to embed these requirements. Many Credit Unions are considering restructuring at this time, a complex process requiring careful management.

Q6. 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.

31 March 2014	Consultation closes
March / April 2014	Review feedback received
May 2014	Issue feedback statement Issue second consultation paper, including Regulatory Impact Analysis, on the details of the tiered regulatory approach including regulations to implement the tiered regulatory approach.
July 2014	Second consultation closes
August / September 2014	Review feedback statement Publish regulations and updated Credit Union Handbook Conduct Information Seminars
October 2014 – March 2015	Transitional period including applications to become Category 2
April 2015	Regulations come into force

[Insert response]

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Appendix 1: Impact of CP76 on the Investment Portfolio

		Description	Current Allocation	% Portfolio	
Investments which are not authorised under proposals		Government Bonds (>5yrs)	1,016,675	3%	
		Bank Bonds	1,003,400	3%	
		Collective Investment Schemes	2,746,974	8%	
		Structured Investments (Bank Bonds)	626,849	2%	
		Total	€5.4m would need to be allocated to alternative investments/classes	16%	
		Direct Exposure (no look-through on CTT) € exposure < 100%RR	% RR	Total Exposure (inc. look-through on CTT) € exposure < 100%RR	% RR
Breaches of proposed counterparty limit of 100% regulatory reserves (€7m which is c. 21% of the investment portfolio)	AIB	224,040	103%	883,314	113%
	BOI	n/a		208,841	103%
	PTSB	n/a		606,730	109%
Total to be allocated to alternative counterparties		€224k	1% of the portfolio	€1.7m	5% of the portfolio
		% Portfolio	Proposed Limit	OK/Breach?	
Maturity Limit: no more than 50% of the portfolio may mature after 3 years		18%	50%	OK	
		% Unattached Shares	Proposed Minimum	OK/Breach?	
Proposed short term liquidity constraints		33%	10%	OK	
		33%	15%	OK	

Source: Davy with reference to the Central Bank consultation paper

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Appendix 2: Impact of CP76 on the Lending Limits

Total Assets		42,981,926							
Regulatory Reserves		7,023,833	16.34%						
Loans to Members		11,346,721							

Maturity Limits	Existing limits under Section 35 (2) of the 1997 continue to apply. Longer term limits will apply to Category 2.	Term	Category 1		Category 2	
			% Loan Book	€ limit	% Loan Book	€ limit
			More than 5 years	30%	€3,404,016	40%
More than 10 years	10%	€1,134,672	15%	€1,702,008		

Classes of Lending and Concentration Limits	Classes of Lending	Definition	Maximum Loan Term	Category 1			Category 2		
				Permitted?	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		
Commercial Loan	A loan, the primary objective of which is to fund an activity whose purpose is to make a profit	15 years	Yes	25%	€1,755,958	Yes	100%	€7,023,833	
Community Loan	A loan provided to a community or voluntary organisation which is established for the express purpose of furthering the social, economic or environmental well-being of individuals.	15 years	Yes	25%	€1,755,958	Yes	25%	€1,755,958	
Lending to other credit unions		15 years	Yes	12.50%	€877,979	Yes	12.50%	€877,979	
Home Loans	A home loan made to a member to purchase their principal 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.	25 years	No	n/a	n/a	Yes	15.00%	€1,702,008	

Note the definition used for personal loans, a significant proportion of loans may now fall under commercial rather than personal (e.g. sole traders)

Restricted Person's Limits	Definition	Category 1 and 2		
		Limit is the greater of ...	5% Regulatory Reserves	Limit of Aggregate lending to RP's
	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	€200,000	€351,192	€351,192

Note that this proposal limits total aggregate lending to restricted persons, it is not a limit per loan

Large Exposure Limits	Definition	Category 1 and 2				
		Large exposure is one which exceeds:	Total large exposures can be up to 500% Regulatory Reserves	Limit of exposure to a borrower or a group of connected borrowers		
		5% Regulatory Reserves	Limit	Limit is the greater of	Limit	
	A large exposure is an exposure (including contingent liabilities) that exceeds 5% of a credit union's Regulatory Reserves	€351,192	€35,119,165	€39,000	€702,383	€702,383
				Currently, limit is the greater of 1.5% total assets	Current Limit	
				€39,000	€644,729	€644,729