**Consultation Paper 88**

**Regulations for Credit Unions**

<u>Introduction:</u>

ASTI Credit Union welcomes the opportunity to respond to the Central Banks invitation to submit opinion on the commencement of the remaining sections of the 2012 Act.

ASTI credit union is an industrial credit union serving the financial needs of Secondary School Teachers and their families. ASTI credit union has been defined as a low-impact credit union under PRISM.

**Section 5.4: Reserves**

*Do you have any additional comments on the draft reserves regulations?*

The Central Bank proposes that a credit union shall maintain reserves, in addition to the regulatory reserve requirement that it has assessed are required in respect of operational risk having regard to the nature, scale, complexity and risk profile of its business. The Central Bank may prescribe the level of additional reserves to be maintained by credit unions generally or by a category of credit unions.

Further clarity is required as to how the Central Bank intends to ascertain levels of reserves for operational risk. Credit Unions in general are well reserved and it would appear that a further reserve requirement will place additional strain on credit union balance sheets.

The Central Bank has provided no detailed analysis as to how operational risk is to be assessed either generally or for a category of credit unions or how the requirement of an additional reserve will impact on credit union balance sheets.

***We propose that the Central Bank engage further with credit unions on the concept of 'Operational Risk Reserves'.***

<u>**Section 7.4: Lending**</u>

*Do you have any comments on the draft lending regulations?*

<u>Categories:</u>

The consultation paper defines "Personal Loans" *as "use is for purposes unrelated to the person's trade, business or profession, or the purchase of property*"

The consultation paper defines "House Loans" as loans made to a member secured by property to:

a) Have a house constructed…
b) Improve or renovate a property that is already their principal residence…
c) Buy a house….
d) Refinance a loan previously provided for one of the purposes specified in (a),(b) or (c) for the same purpose

A vast amount of credit union lending is for loans that are described in Credit Policies as "Home Improvement Loans" These loan types include for example:

- New Windows
- Converted Attics
- New Kitchens, etc.

These loans types currently fall under the "Personal Lending" category for credit unions.

This type of loan using the Central Banks definition will move from the type" Personal Loans" to "House Loans" and will fall under section (b) above i.e. "*Improve or renovate a property that is already used as their principal private residence*"

The Central Bank requires that credit unions must hold the first legal charge secured on the property for such loans.

This is at best unworkable. In most cases members applying for these types of loans already have a first legal charge registered with their mortgage provider. If this regulation is imposed Home Improvement loans will simply become inaccessible to members.

Banks will as mortgage providers have a huge competitive advantage over credit unions as they will be able to offer mortgage extensions to their customers for home improvements.

The impact of this regulation will effectively mean that the Central Bank will be endorsing a practise of increasing mortgage debt for lifestyle lending, a practise that has contributed to the financial crises over the past number of years.

Home Improvement loans should not be tied into mortgage debt.

***We propose that the Central Bank revise the definitions of lending categories and that "House Loans" do not include section (b) as described.***

<u>Draft Lending Regulations – General Comment</u>

We note that the Central Bank justifies its position in relation to the draft regulations on lending by referencing "*regulatory actions taken by the Central Bank arising from lending practises in individual credit unions*", we further note that the Central Bank refers to the fact that there are lending restrictions in place in c. 58% of credit unions.

This means that 42% of credit unions do not have lending restrictions. With the new proposed lending regulations these credit unions will be subject to increased lending restrictions despite the fact that they presumably currently have prudent lending practises.

The Central Bank has the regulatory power (as is evidenced by the current lending restrictions) to impose sanctions on those credit unions who do not lend prudently, ***we would contend therefore that further global lending regulation is unnecessary and unfair***.

**Section 9.2.2 Maximum Savings**

*Do you have any comments on the draft savings regulations?*

The new proposed regulation requires that all credit unions can have *"individual member's savings of up to €100,000"*.

We acknowledge that credit unions do not currently wish to attract in additional savings because of the low interest rate environment and the decrease in lending we contend however that that such a regulatory restriction is anti-competitive. It is up to each credit union to decide on its lending limits.

Irish banks have required capitalisation from the tax payer in recent years due to poor management poor credit and poor provisioning practices. The logic of limiting the choice where the Irish consumer can place their deposits and effectively forcing them to use banks instead of credit unions is unfair and anti-competitive.

The fact is that regardless of the institution (bank or credit union) the guarantee of €100,000 deposit protection is the same. Why then should the limit be different?

Placing such a limit on credit unions would suggest that the Central Bank has less confidence in credit unions as financial institutions then it has in Irish Banks. Recent historical evidence would question this judgement.

***The Central Bank should not in regulation send an erroneous message to the consumer regarding the safety or otherwise of deposits and decide in an arbitrary manner what is in the best interests of the Irish consumer.***

**9.2.3**

**Transitional Arrangements:**

The Central Bank proposes that transitional arrangements are made whereby credit unions will be provided with a period of six months to bring any savings that do not comply with the draft regulations into compliance with the new regulations.

We suggest that forcing credit unions to notify current savers who have in excess of €100,000 in their credit union accounts that they must withdraw that money is unfair and potentially damaging.

Credit union members in receipt of such notifications may well ask why the Central Bank has imposed this limit, and whether or not the credit union is a safe place to indeed hold any savings.

It is ironic that the credit union member will be required to withdraw their savings at the behest of the Central Bank to place them with banks capitalised by the tax payer, and that such savings will hold exactly the same guarantee.

***We recommend that the proposed limit on savings is withdrawn.***