Consultation on Regulations for Credit Unions on the commencement of the remaining sections of the 2012 Act

FEBRUARY 2015

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Introduction

Castlebar Credit Union is a community based credit union serving approximately €22k members with assets in excess of €140m. The following is our submission to the Central Bank of Ireland in response to the publication of the Consultation on Regulations for Credit Unions on the commencement of the remaining sections of the 2012 Act (CP88).

We are in general agreement with some areas of the draft regulations and we set out below our views on the particular sections as contained in the consultation document.

Draft Reserve Regulations

Castlebar Credit Union is in general agreement with the draft reserve regulations.

Draft Liquidity Regulations

Castlebar Credit Union is in general agreement with the draft liquidity regulations however we have some concerns in relation to the "Short Term Liquidity" requirement outlined in section 6.2.2.

We believe that this regulation could mean foregoing over €130k in income annually based on a conservative yield of 1.1% if we assume converting longer term income generating investments into on demand access accounts.

We also feel that given the current trust and ongoing share retention profile enjoyed by the sector generally the case for the imposition of additional short term liquidity requirements at sector level has not been sufficiently established. We feel that if undue risk is identified in a particular Credit Union then targeted specific liquidity requirements can be imposed using the banks existing regulatory powers on a case by case basis.

Draft Lending Regulations

Castlebar Credit Union is in general agreement with most sections of the draft lending regulations however we have significant concerns regarding the "House Loans" section.

We believe the definition of "improve or renovate" needs to be clarified since if it is to be a condition of house loans to secure a "first legal charge" in all cases this could preclude Credit Unions from lending to individuals who are improving or renovating their existing property where a mortgage (first legal charge) is already in place.

For example, let's assume a "house renovation" loan to build on a conservatory or extension cost €30k and the member has €5k in shares. The net exposure here would be €25k. Assuming ability to repay has been established and security is provided in the form of existing shares then to compel a first legal charge could be unduly expensive relative to the net exposure and may not be possible in the first instance if a member has an existing mortgage on the property.

We must also consider that another member may have the same net exposure for, say, a car loan which by virtue of the fact that it falls into the category of "Personal Loan" would not require any such legal charge.

We would suggest that this one size fits all approach in relation to first legal charges should be reconsidered and a tiered approach adopted based on the net exposure / amount at risk in the context of house loans.

Draft Investments Regulations

We believe that the proposals outlined under CP88 undermine the October 2006 Guidance Note on Investments in that there is no provision to allow *"those Credit Unions that can demonstrate to the Registrar of Credit Unions that they possess the skills and systems necessary to manage a more complex investment portfolio"* to do so.

We believe this is again reflective of the limitations of a one size fits all approach which will have a negative impact on our ability to extract maximum value from our investment portfolio. We feel that this could be appropriately addressed within a tiered regulatory framework as proposed by the Commission on Credit Unions 2012.

We would now suggest that an expert group be established to address, as a separate issue, investment regulations for the sector.

Draft Savings Regulations

Castlebar Credit Union has significant concerns regarding the proposed limitation of savings to €100,000 per member. We believe that this proposal is short sighted and while a cap on savings may make sense at local level at a particular point in time as the Credit Union business model evolves and loan demand changes it may have negative consequences in the future in terms of an adequate funding source.

This regulation could also be misinterpreted to suggest that there is inherent risk sector wide in Credit Unions when compared with the main stream banking sector where no such savings restriction exists despite that sectors recent problems. Credit Unions enjoy the significant trust of their members which is borne out in the share retention figures and this regulation would amount to an erosion of that trust.

Also, CBI already has the regulatory power to restrict individual credit unions lending/saving levels where they believe undue risk exists and we believe that this is the most appropriate remedy where there are regulatory concerns with regard to savings levels.

We would suggest this regulation be reconsidered and any limit applied on a case by case basis.

We have two further major concerns with this proposal as follows:

Potential for flight of capital

We feel that the proposal poses unacceptable reputational risk to Credit Unions generally. As community based financial co-operatives our members have close ties with their Credit Union. If we are to simply contact the members who would be affected by this, albeit a relatively small number, and force them to reduce their savings to the limit then we run the real risk that they and other members, as word spreads, could (wrongly) see this as indicative of a larger scale problem and it could cause a flight of capital among the general membership.

Income Loss

If those members who are affected by this are asked to reduce their shareholding to the limit it is likely that they could withdraw all of their monies and not just the amount in excess of the limit. In the case of Castlebar Credit Union this could amount to a potential outflow of approximately €9m. If we assume market investment rates then this amounts to a loss of income to the Credit Union in the region of €100k annually. Add to this the fact that some of these members have borrowings which generate loan interest income for the Credit Union and at our current share secured rate of 6.5% this would result in further lost income over the life of the loan.

Draft Borrowing Regulations

Castlebar Credit Union is in general agreement with the draft borrowing regulations.

Draft Regulations on Systems, Controls & Reporting arrangements

Castlebar Credit Union is in general agreement with the draft regulations on systems, controls and reporting arrangements however we would suggest that that the draft regulations state that accounting disclosures must be aligned to existing GAAP / FRS102 disclosure requirements.

Any additional information required by CBI can be sought through the existing prudential framework.

Timelines

We believe that the timelines suggested are appropriate save for the 6 month transition period suggested under the draft savings regulations which, notwithstanding the fact that we do not agree with the introduction of the regulation, we believe the timeline is too short to implement such a major proposal.

Conclusion

In summary we would welcome the tiered regulatory approach as recommended by the Commission on Credit Union (2012) which we believe is a more appropriate regulatory model and could significantly reduce the problems associated with the one size fits all model of regulation proposed under CP88.

End of Submission