

Submission on behalf of Cathedral Credit Union Ltd
to the Central Bank of Ireland
on Consultation Paper CP88 on the commencement of the
remaining sections of the Credit Union Act 2012

27th January 2015.

We enclose our submission on the Consultation Paper CP88 on the commencement of the remaining sections of the 2012 Act.

Liquidity

We wish to make some observations and suggestions regarding the following proposed change :

While the existing minimum liquidity requirement of 20% of unattached shares will continue, it is proposed that credit unions would maintain a minimum short term liquidity ratio (i.e. with a maturity of less than 8 days) of 10% of unattached shares.

We would suggest that the minimum short term liquidity ratio of 10% of unattached shares is not necessary for the following reasons :

- the traditionally high liquidity ratios in credit unions would consistently be well in excess of the minimum requirement of 20% of unattached shares
- the historically prudent approach to liquidity by the vast majority of credit unions
- the predictable nature of a credit union's annual cash flow requirements
- the stability of the retention levels of Members Savings
- the high levels of Member confidence and loyalty enjoyed by credit unions reduce the risk of a run on savings
- the loss of income for credit unions in maintaining the suggested short term liquidity ratio, bearing in mind the substantial difference in bank deposit rates between funds held for a period of less than 8 days when compared to a period of less than 3 months.
- The additional administrative burden and associated cost on credit unions in managing the maintenance of the short term liquidity ratio

We would, therefore, suggest that the status quo of "a minimum liquidity requirement of 20% of unattached shares" is more than an adequate liquidity requirement for credit unions and that the proposed short term liquidity ratio should not be introduced.

Lending

We wish to make some observations and suggestions regarding the following proposed change :

Related Party Lending (i.e. credit union Directors & the management team and their families)

The Credit Union Act 2012 (Part 1-Preliminary & General) outlines that a "member of the family", in relation to any person, means that person's father, mother, grandfather, grandmother, father-in-law, mother-in-law, spouse or civil partner, cohabitant, son, daughter, grandson, granddaughter, brother, sister, half-brother, halfsister, uncle, aunt, nephew, niece, first cousin, step-son, step-daughter, step-brother, step-sister, son-in-law, daughter-in-law, brother-in-law or sister-in-law;"

Management team' has the following meaning given by section 55(1)(i) of the Act;
" identifying, in consultation with the manager, other officer positions within the credit union that—

**(i) are essential to the proper management of the credit union,
(ii) are likely to enable the person holding the position to exercise significant influence on the conduct of the affairs of the credit union, and which, together with the manager and risk management officer of the credit union are referred to in this Act as the ‘management team’;**”

We are requesting that the proposed changes to related party loans would be reviewed by the Central Bank and that a more balanced and measured approach would be adopted instead.

We believe that the proposed regulatory changes would :

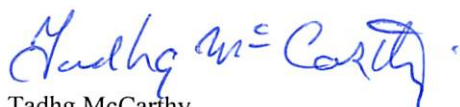
- create a scenario where families of directors and members of the management team are being treated on less favourable terms when applying for a loan compared to other Members of the credit union. It is, therefore, creating the very situation it is seeking to eliminate, i.e. the practice of more favourable loan terms to a particular group of members.
- create an unnecessary additional administrative burden and associated costs on credit unions
- discourage families of directors and members of the management team from borrowing from the credit union given the clear time delays and unfavourable treatment involved
- discourage Members from putting themselves forward for election to our board of directors
- be contrary to the credit union principals of equality and community
- have a negative effect on our loan book, particularly at a time of already reducing loan demand

We would suggest that the term “families” would be excluded from this proposed new regulation and the term “related parties” be restricted to directors and members of the management team. This would facilitate a more measured and practical solution to this issue and increase the likelihood of credit unions retaining the benefit, within the local community, of lending to families of directors and members of the management team.

We would argue that robust lending policies, a prudent approach to loan assessment and strict enforcement of the Code of Ethics/Conflicts of Interest Policy can alleviate and manage any concern regarding the extent of lending to families of Directors and the Management Team. Such an approach, allied to a deep rooted culture of compliance to policies and procedures, has worked successfully in our credit union over the past twenty years.

“A prudently and soundly managed credit union providing a quality service to our Members” is our mission statement. Credit unions’ income is already under pressure from falling loan demand and a reducing return from our investments, while legislative and regulatory changes in the past two years have increased our expenditure. We are concerned that some of the proposed changes outlined in the Consultation Paper will have a negative impact on our income and increase our administrative overheads. This may undermine our capacity to prioritise the protection of our Members savings and adversely affect our plans to maintain our credit union as a financially strong and well managed organisation at the heart of our local community.

We hope that the Central Bank will take on board the suggestions and proposals which we have outlined in this submission. If you require additional information or clarification, please contact our Manager, Eoin Newman.



Tadhg McCarthy
Chairman