DONEGAL TOWN CREDIT UNION
CP88 SUBMISSION

<u>Liquidity</u> (Section 6 of CP88)

1. This is not the time to introduce a short term liquidity ratio
2. Credit unions have struggled for years to make a decent return on investments and are continuing to do so. A further restriction (such as this) is going to make that harder.

Other Lending Related Issues (for all credit unions irrespective of whether or not subject to a lending restriction)

1. Creation of categories of credit union loans.

1. We note:
   a. the proposed creation of a *House Loan* category (Category 4); and
   b. the requirement that a credit union must hold a first legal charge on property to make a *House Loan*; and
   c. the retention of existing Section 35 restrictions on lending (percentages); We believe that it is very tough on the member because it means that that we are closing off access to future loans should the members circumstances change.
   d. the proposed introduction of a 25 year maximum on any loan. We believe that this is too short, especially considering current increases in housing prices and the duration of home loans in other financial institutions.
2. We are fully in favour in Credit Unions having the ability to offer home loans. We want to be able to give the opportunity to our members to purchase affordable loans for homes, giving them the opportunity to get on the property ladder. This is the core ethos of the credit union "helping our members to thrive"
3. In order to achieve that, we call for the creation of a ***House Loans Working Group*** (to include movement stakeholders) to expedite this work.
4. We wish you to clarify if credit unions will still be able to make loans for home renovations and improvements (without having a first charge on property).

2. Retention of the existing Section 35 limits (>5 and 10 year percentages).

1. The draft Regulations propose to retain the existing Section 35 limits which are too restrictive.

2. Some credit unions have already reached their limits (which prevents them generating income through lending to "good borrowers") and we expect that more will encounter similar difficulties as loan demand increases alongside the national recovery.

3. We currently have to hold 30% liquidity before we can lend over 5 – 10 years. This is putting pressure on our investment income. We request that the new regulations revise the percentage upward. With 30% liquidity we should be able to issue 25% of our loans over 5 years and 15% over 10 years.

3. **Maximum maturity limit on loans of 25 years.**

1. We fully support the development of a House Loan Working Group.

2. Given the need for cohesive asset liability management by credit unions, why propose a 25 year maximum on loans but a 10 year maximum on investments? If investments were longer term we would be able to increase our interest return.

4. **Lending Concentration Limits**

1. The proposed limits are:

➢ Commercial Lending	Up to 50% of Regulatory Reserve
➢ Community Lending	Up to 25% of Regulatory Reserve
➢ Other Credit Unions	Up to 12.5% of Regulatory Reserve

We feel that credit union boards and management are best placed to consider and agree on concentration limits within their own credit unions.

5. **Loans to Related Parties**

This is discriminatory against small town and communities . All loans are assessed on their own individual merits. Please provide clarity as to what additional governance arrangements would be put in place.

<u>Investments</u> (Section 8 of CP88)

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1. **Restriction of Authorised Classes of Investment.**

   We fully support initial discussions around credit unions playing a significant role in various social and economic initiatives in the State .In the interests of credit unions playing a valuable role in this area, additions must be made to the proposed list of authorised classes of investments (at draft Regulation 25). In this regard, we suggest the following:

   g. centralised lending *[e.g. SMEs];*

   h. social housing;

   i. State guaranteed projects;

6. **Proposed maturity limits for investments.**

1. Given the need for cohesive asset liability management by credit unions, why propose a 25 year maximum on loans but a 10 year maximum on investments?
2. The proposed 10 year maximum for investments is unlikely to be sufficient for all required investment activities e.g. centralised lending and social housing.

<u>Savings</u> (Section 9 of CP88)

7. Proposed reduction of the statutory savings limit.

1. This should be left at the discretion of the Board. The time limit for bringing the members who exceed the regulation limits should be greater than one year. Even telling members that they must reduce their number of share in the CU to €100,000 may cause reputational damage.
2. What other financial institutions/participants in the Deposit Guarantee Scheme are subject to a similar limit.
3. This is a very short term view. If credit unions are to become a recognised providers of home loan, the €100,000 limit could be overly restrictive.

<u>Systems, Controls and Reporting Arrangements</u> (Section 11 of CP88)

Performance of the loan book and other disclosures.

1. What form would these disclosures take? Will this become a mandatory requirement on an annual basis? Will these reports have to be verified independently? What are the cost implications?

2. In particular, what would disclosure of the performance of the loan book look like?

3. Why does the Central Bank want that information in circulation?