Submission from

Dubco Credit Union Limited

in response to

The Central Bank of Ireland's Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act

CP 88

27th February 2015

INTRODUCTION

Dubco Credit Union Limited ('Dubco') welcomes the opportunity to provide feedback on 'Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act – Consultation Paper CP 88' ('CP 88').

This feedback is being provided within the context of shrinking loan books, plummeting investment returns, declining Credit Union profitability and significant regulatory requirements that have been placed on a Credit Union sector that was deemed to be operating satisfactorily, although perhaps not perfectly, for 40+ years until the banking sector imploded. Many regulatory requirements are sensible and welcome, but some fail to recognise the very nature and potential of the Credit Union sector.

GENERAL FEEDBACK

Restrictive nature of limits generally

Some of the existing and proposed limits on Credit Unions give the impression of a Regulator limiting the Credit Union Sector, rather than a Regulator seeking to facilitate its development and lending capability in a strategic fashion. In this context, we note that the Regulator's statutory mandate is to regulate and supervise Credit Unions with a view to ensuring:

- the protection of members' savings and
- the financial stability and well-being of Credit Unions generally

Our view is that the Regulator may be inadvertently not giving sufficient attention to the second part of that mandate, which is to ensure the financial stability and well being of Credit Unions generally. We suggest that well-being includes the growth, development and profitability of the sector if that is at all feasible and reasonable.

Importance of lending

The Credit Union model is very different to the banking model, in that the Credit Union is owned by its members, who share in the earnings of the Credit Union via dividends and competitive interest rates. The Credit Union model is tried and tested. The banking crisis saw significant funds withdrawn from banks, whereas even though 58% of Credit Unions are currently under restriction, and the % was in all probability even higher in the past, there has been no significant withdrawal of funds from the Credit Union sector.

The regulatory model that is applied to Credit Unions in Ireland would not appear to recognise this business context for Credit Unions. Rather than the regulatory model being one that encourages the optimisation of lending when savings are available to be lent, allowing for minimum liquidity requirements, it actually drives down lending opportunities for Credit Unions in that the limits are related to the current loan book, and not to the net funds available for lending.

We therefore ask the Regulator to reconsider the lending maturity limits and concentration limits that are imposed on Credit Unions given their potential detrimental effect on the sector. In essence they have the potential to drive down Credit Union income and therefore to weaken the sector relative to where it could and should be at.

Proportionality

We suggest that, where appropriate, limits should be proportional to the size and strength of the Credit Union. This applies in particular to savings limits.

Regulatory Impact Analysis

We note that the Regulatory Impact Analysis states over and over again that the impact of various changes 'should not be significant' for Credit Unions or their members. We suggest that many of these changes are being implemented from a very low base, and would ask that proposed changes are also considered in the context of a vibrant Credit Union sector, which is not the case today. We believe that the statement 'should not be significant' does not mean that they are not significant for some Credit Unions, or that they may not be significant in the future, and suggest that this should not influence any decisions being made.

We are disappointed that CP88 does not consider the possibility of a thriving Credit Union sector. We envisage that what is proposed will prevent the sector from ever returning to its former strength, not to mention the possibility of it being even more formidable than it was several years ago. With little positive strategic foresight in CP88 we fear that the sector is doomed to medium term failure, relative to its true potential.

Opportunities outside of CP88

Given the current weak state of the Credit Union sector, and the importance we attach to it becoming a thriving sector again in the short to medium term, we suggest that consideration be given, in the short term, to common sense based proposals from Credit Unions and initiatives identified by the Regulator itself, that will clearly protect and grow the sector into the future, and that will enhance the financial stability and well-being of Credit Unions generally, as well as protecting members' savings. Such an approach would provide a positive balance to those elements of CP88 that are particularly restrictive.

We also note the importance currently being attached to the Credit Union sector in the UK by the regulatory authorities there, who appear to be determined to see it develop and expand.

SPECIFIC FEEDBACK

<u>CP88 : Section 2 : Background</u>

Dubco observation:

We note that CP 88 states that 'the regulations have been developed to take account of the Central Bank's statutory mandate to regulate and supervise Credit Unions with a view to ensuring the protections of members' savings and the financial stability and well being of Credit Unions generally and have been informed by the following *(among others)*:

- the business model currently being undertaken by Credit Unions …
- supervisory information and feedback arising from on and off site engagement with Credit Unions …
- the existing regulatory framework that applies to Credit Unions …
- feedback received on CP 76

We note that the business model currently being operated by Credit Unions is in fact largely limited by regulatory constraints, and that the context informing CP88 is therefore a heavily regulated one, and not a business orientated model as we would expect. We regard this as a very significant weakness of CP88.

We note that relatively large Credit Unions (for Ireland) already exist and have existed for some time, and that these appear to be unable to develop strategically profitable businesses that mark them out within the sector, certainly given current declining loan books and plummeting investment returns. We suggest that a major constraint on these Credit Unions is regulation itself. We see very little in CP88 that is going to change the current environment positively for Credit Unions.

In the context of larger Credit Unions being unable to move ahead in the sector, we caution that a 'mergers only' policy approach to developing the Credit Union sector is not assured of success.

CP88 : Section 5 : Reserves

Initial Reserve Requirement

Dubco observation:

We regret this point. It would appear to prevent bona fide Credit Unions from ever being formed again. If such a regulation existed since the formation of the first Credit Union, the majority of Credit Unions would in all probability have never been formed.

CP88 : Section 6 : Liquidity

… "liquid assets" means … investments with a maturity of greater than 3 months … where a written guarantee exists to the effect that funds are available to the Credit Union in less than 3 months…

Dubco observation:

We hold Government Bonds that could satisfy this requirement. We value these at cost as they are held to maturity in the financial statements. If we also take the view that such assets are liquid for short term liquidity purposes, it would appear to give rise to a conflict. We require further guidance on this point.

… "short term liquid assets" means … investments with a maturity of greater than 8 days … where a written guarantee exists to the effect that funds are available to the Credit Union in less than 8 days …

Dubco observation:

As above

Liquidity Requirements - … short term liquidity ratio of its unattached savings … 10%

Dubco observation 1:

The Credit Union sector is facing into a very difficult period in the short term, given the state of its loan book and the impending decimation of investment returns. We suggest that the Central Bank should itself hold (say) 2% of monies in a short term liquid fund, deposited by each Credit Union based on prior year financial statements data and to be only drawn down by any Credit Union that cannot meet its day to day liquidity requirements.

In order to focus the minds of Credit Unions on avoiding such a scenario, the Central Bank could consider a penal interest rate of (say) 8% on funds up to the 2% held that needs to be drawn down by a Credit Union, and (say) 12% on any funds drawn down in excess of the 2%. This 2% deposited with the Central Bank for liquidity purposes would count towards the minimum 5% that Credit Unions would be expected to hold in short term liquid form, as noted above.

Such a Liquidity Fund would give macro assurance with regard to short term liquidity for the sector as a whole, would provide short term finance to Credit Unions where such was needed, would enable Credit Unions to optimise their investment returns on non short term liquid investments, and would be a way for the Central Bank to minimise the risk of any public difficulties with the liquidity of any Credit Union.

This would appear to us to be positive for the Credit Union sector as a whole, and would be a practical way of managing liquidity and optimising investment returns, within the parameters set by the Regulator.

Dubco observation 2:

CP88 states that the introduction of the short term liquidity ratio will have a minimal impact. This begs the question, why change something that is working well.

Dubco observation 3:

We would like clarity around what the consequences are for any Credit Union whose short term liquidity falls below 10%. If the consequences are serious, we suggest a lower minimum liquidity requirement of 5% with a recommended level of 10%, If the consequences are that the Credit Union must simply build up its liquidity again as quickly as possible, then perhaps that should be stated and the 10% limit might suffice.

CP88 : Section 7 : Lending

Concentration Limits:

Dubco observation:

The Regulator has insisted that new lending procedures are implemented, which we agree with. The Ability to Repay principle now underpins lending decisions, and introduces some common sense and fact checking to every loan application.

However, even though Credit Unions have to surmount the hurdle of 'Ability to Repay' requirements, CP88 adds in further restrictions under the 'concentration limits' heading. We believe that such low limits are inappropriate.

Lending to other Credit Unions

Dubco observation:

We note that there is a counterparty limit of 25% on our investment portfolio, which equates to c€18m for our Credit Union, yet we are prohibited from lending more than c€4m (25% of reserves) to all other Credit Unions, combined. We regard this as a clear vote of no confidence in the sector.

We can invest significantly in counterparties that have cost the state close €64bn, and yet cannot lend to other Credit Unions who have been proven to be hugely safer than our banks. We regard this point as being important from a strategic perspective. It is not relevant today, but if a 'leader' in the sector ever emerges then that 'leader' is likely to be a fully lent leader, meaning that it may have an appetite for borrowing funds from other Credit Unions because it will have the capability of lending such funds on more profitably. We suggest a counterparty limit of a maximum of the lower of 50% of the reserves of the borrowing and of lending Credit Unions, *per Credit Union*, with an overall counterparty limit of 50% of the investment portfolio for all the Credit Unions in which a Credit Union has invested, which is double the current counterparty limit for a single counterparty but which spread across many Credit Unions would in fact be much less.

We were informed at a CP88 presentation that the reason for the 12.5% of reserves limit was to avoid ‘contagion’. We suggest that the 25% per counterparty that is currently allowed is much more significant. We also suggest that the 12.5% of reserves limit makes no sense at a time when Credit Unions are encouraged to merge with each other. It could be argued that merging in fact carries a much greater risk. It could well be a requirement for any lending to other Credit Unions over a certain limit that an initial loan book review be completed by, or an existing loan book review not more than 6 months old be made available to, the Credit Union that is doing the lending. We also note the heavy levels of control that already exist on Credit Unions (internal & external audits, loan book reviews & PRISM visits, compliance and risk functions).

Commercial Lending / Community Lending / Other lending

Dubco observation:

We do not agree with the prohibition on a Credit Union from making a well vetted lending decision where that loan brings total lending above a certain level, particularly where the existing level is very low. Many of the points already made apply here.

We would agree with lending restrictions on the level of each loan, but not on an overall limit. Overall limits are already included in every Credit Union’s lending policy. If a Credit Union has the funds to lend, then it should be allowed to lend responsibly.

The negative consequences of proposed lending restrictions

Dubco observation:

CP88 states that the Regulator’s statutory mandate includes ensuring the financial stability and well-being of Credit Unions generally. **Exhibits A and B** that follow demonstrate that whilst existing and proposed restrictions may be well intentioned, they may potentially negatively impact on the profitability of any Credit Union that has reached its lending limit under any of the various headings.

If we assume in **Exhibits A and B** that a Credit Union has the capacity to lend in excess of the limit set by the Regulator for a particular category, then it cannot, because of the lending limits in place. We do not agree with a restriction that has such a potentially negative consequence for our Credit Union. The restrictions in question fall under two headings:

1. Concentration limits and
2. Maturity level limits

We fundamentally question the rationale for the various restriction levels. Their primary impact is to restrict Credit Union profitability. By this we mean that the funds that Credit Unions use to lend are members’ funds, and that members expect a return. However, the return Credit Unions can earn is restricted by the Regulator, based on concentration and maturity level limits, which in turn means that the potential return members can earn is reduced.

We also question the fact that at a time of declining loan books and declining profitability that a Credit Union’s ability to lend is regulated down to a lower level, even though that Credit Union has more funds available to lend and would increase its income if it could lend more.

Lending limit in excess of 10 years – 10% of loan book

Dubco observation:

We also question the lending limit in excess of 10 years placed on Credit Unions from a practical perspective. The entire loan book in the sector is €4.1bn. The 10% limit means that €410m in total can be lent in this category. If we assume that a typical mortgage equates to €200,000, and that Credit Unions wish to lend such amounts to well vetted members, then the sector, in its entirety, can issue 2050 mortgages, ever. This is in the context of 40,000+ property sales in 2014.

If, for illustrative purposes, we assume that Credit Unions do lend fully within the 10% limit, and that the average mortgage is 20 years, then on average 205 (2050 mortgages / (20-10) years) mortgages will fall below the 10 year limit every year. This equates to, on average, every Credit Union being able to make one mortgage loan every 2 years, with smaller Credit Unions being able to issue even less mortgages and larger Credit Unions being able to issue slightly more than this. If the average mortgage was 25 years the above statistic would be even more depressing from the perspective of Credit Unions.

Based on a capacity to issue mortgages of 205 per annum across the entire Credit Union sector, the financing provided by the Credit Union sector will equate to less than 0.5% (205 mortgages /40,000 property transactions) of all property transactions that can be financed by the Credit Union sector.

Counterparty Limits

Dubco observation 1

We note that counterparty limits are based on the funds a Credit Union has invested. Therefore, 'Credit Union A' with €120m of assets and with €80m to invest may invest €20m (€80mx25%) in any counterparty. 'Credit Union B' with the same assets but with only €8m to invest may only invest €2m (€8mx25%) in the same counterparty.

We therefore question the rationale for setting these limits, and suggest, for example, the current limit of 25% of investments be changed to 'the higher of 25% of investments and 100% of reserves', whichever is the higher. We suggest such a change would introduce proportionality in respect of limits across the sector to Credit Unions with similar asset sizes but different sized investment portfolios.

Dubco observation 2

We also suggest that short term liquid assets should continue to be regarded as monies available for investment, but be excluded from being included in the counterparty calculation. Therefore, for example, if a Credit Union has €50m available to invest and has €10m in short term liquid assets with 'Counterparty A', that the Credit Union should be able to invest €50m x 25% = €12.5m of its investments with 'Counterparty A', plus having the short term liquid funds of €10m on deposit with 'Counterparty A'. Our rationale is that short term liquid assets are exceedingly close to being cash equivalent investments, and should therefore be regarded as cash equivalents and not investment equivalents.

Exhibit A

Review of concentration limits

					CU Sector	Dubco today	Dubco tomorrow - Negative 1	Dubco tomorrow Negative 2	Dubco tomorrow Positive 1	Dubco tomorrow Positive 2	Dubco tomorrow Positive 3	Dubco tomorrow Positive 4	Dubco tomorrow Positive 5	Dubco tomorrow Positive 6
					€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Investments			€m	A	9,900	74	84	94	56	37	400	300	150	76
Loans to Members			€m	B	4,100	35	25	15	53	72	72	172	322	396
Other Assets			€m	C	100	2	2	2	2	2	2	2	2	2
Total Assets			€m	D	14,100	111	111	111	111	111	474	474	474	474
Members Savings														
Attached - *estimate % of loans*	40%		€m	E	1,640	14	10	6	21	29	29	69	129	158
Unattached - *estimate % of loans*	60%		€m	F	10,659	81	85	89	74	66	384	344	284	255
Reserves			€m	G	1,800	15	15	15	15	15	60	60	60	60
Other Liabilities			€m	H	1	1	1	1	1	1	1	1	1	1
			€m	I	14,100	111	111	111	111	111	474	474	474	474
Maximum Available for Lending														
Investments				A	9,900	74	84	94	56	37	400	300	150	76
Less: Minimum Liquidity	30%			J=F*30%	(3,198)	(24)	(26)	(27)	(22)	(20)	(115)	(103)	(85)	(76)
				K=A-J	6,702	50	59	67	34	17	285	197	65	0
		Maximum allowed												
Commercial Loans	50%	regulatory reserves	€m	L=G*50%	900	8	8	8	8	8	30	30	30	
Available for lending but not allowed to lend			€m	M=K-L	5,802	42	51	60	26	9	255	167	35	
% of potential total loan book not lent				N=M/(M+B)	59%	55%	67%	80%	33%	11%	78%	49%	10%	
		Maximum allowed												
Community Loans	25%	regulatory reserves	€m	O=G*25%	450	4	4	4	4	4	15	15	15	
Available for lending but not allowed to lend			€m	P=K-O	6,252	46	55	64	30	13	270	182	50	
% of potential total loan book not lent				Q=P/(P+B)	79%	77%	85%	91%	59%	31%	90%	73%	28%	
		Maximum allowed												
Other Credit Union Loans	12.5%	regulatory reserves	€m	R=G*12.5%	225	2	2	2	2	2	8	8	8	
Available for lending but not allowed to lend			€m	S=K-R	6,477	48	57	65	32	15	277	189	57	
% of potential total loan book not lent				T=S/(S+B)	80%	77%	85%	92%	60%	34%	91%	73%	31%	

Exhibit B

Review of maturity limits

				CU Sector	Dubco today	Dubco tomorrow - Negative 1	Dubco tomorrow Negative 2	Dubco tomorrow Positive 1	Dubco tomorrow Positive 3	Dubco tomorrow Positive 4	Dubco tomorrow Positive 6
				€m	€m	€m	€m	€m	€m	€m	€m
Investments		€m	A	9,900	74	84	94	56	400	300	76
Loans to Members		€m	B	4,100	35	25	15	53	72	172	396
Other Assets		€m	C	100	2	2	2	2	2	2	2
Total Assets		€m	D	14,100	111	111	111	111	474	474	474
Members Savings											
Attached - *estimate % of loans*	40%	€m	E	1,640	14	10	6	21	29	69	158
Unattached - *estimate % of loans*	60%	€m	F	10,659	81	85	89	74	384	344	255
Reserves		€m	G	1,800	15	15	15	15	60	60	60
Other Liabilities		€m	H	1	1	1	1	1	1	1	1
		€m	I	14,100	111	111	111	111	474	474	474
Loans > 10 years - as a % of lending		%		2.00%							
Loans > 10 years - €m		€m		82							
Maximum Available for Lending											
Investments			A	9,900	74	84	94	56	400	300	76
Less: Minimum Liquidity	30%		J=F*30%	(3,198)	(24)	(26)	(27)	(22)	(115)	(103)	(76)
			K=A-J	6,702	50	59	67	34	285	197	0
Loans > 5 years											
Loans to Members				4,100	35	25	15	53	72	172	396
Maximum allowed > 5 years	30%			1,230	11	8	5	16	22	52	119
Additional loans available if maximum currently lent at > 5 years				0	0	0	0	0	0	0	0
Available for lending that cannot be lent due to this restriction				6,702	50	59	67	34	285	197	0
Loans > 10 years											
Loans to Members				4,100	35	25	15	53	72	172	396
Maximum allowed > 10 years	10%			410	4	3	2	5	7	17	40
Additional loans available if maximum currently lent at > 10 years				0	0	0	0	0	0	0	0
Available for lending that cannot be lent due to this restriction				6,702	50	59	67	34	285	197	0
Loans > 10 years - maximum available for mortgage lending											
Maximum allowed > 10 years		€m		410							
Current lending > 10 years		€m		82							
Currently available for lending > 10 years		€m		328							
If average mortgage lent by a CU =		€m		0.20							
Maximum number of additional mortgages that can be issued by the sector				1,640							

A top level review of differing loan levels in a Credit Union with an unchanging asset size – we suggest that the current restriction levels make Credit Unions less stable

The fundamental business concept underlying the Credit Union sector is savings and loans, but the current model is focused on restricted savings per member, and restricted lending both by maturity and by concentration category.

Exhibit C sets out how the current restrictions impact on a Credit Union. It will be noted that the more the Credit Union lends, then the more it can lend, from a maturity perspective. There is no movement allowed at all in lending from a concentration level perspective.

In **Exhibit C** Scenario 1 a Credit Union is lending €40m. In **Exhibit C** Scenario 6 lending is €134m. The 'Scenario 1' Credit Union has a far greater need to lend, given that it has the same assets as the 'Scenario 6' Credit Union, yet if the Scenario 1 Credit Union has reached capacity in any of the categories, it cannot lend more, even though it has very significant funds available for lending in comparison to the Scenario 6 Credit Union.

The consequence of this for the **Exhibit C** Credit Union is that it impacts negatively on the income of the Credit Union, in that the Credit Union must effectively reject income it could have otherwise earned. The more a Credit Union earns, the more attractive it is to its members, which by deduction means the less it lends, or can lend, the less attractive it is to its members. Current restrictions therefore make Credit Unions less attractive to members where restrictions impact on the lending a Credit Union wishes to undertake.

Exhibit C

Declining loan book				Year 1	Year 3	Year 4	Year 6
				€m	€m	€m	€m
Investments		€m	A	40	70	85	115
Loans to Members		€m	B	120	90	75	45
Other Assets		€m	C	0	0	0	0
Total Assets		€m	D	160	160	160	160
Members Savings							
Attached - *estimate % of loans*	40%	€m	E	48	36	30	18
Unattached - *estimate % of loans*	60%	€m	F	92	104	110	122
Reserves		€m	G	20	20	20	20
Other Liabilities		€m	H	0	0	0	0
		€m	I	160	160	160	160
Maximum Available for Lending							
Investments			A	40	70	85	115
Less: Minimum Liquidity	30%		J=F*30%	(28)	(31)	(33)	(37)
			K=A-J	12	39	52	78
Loans > 5 years							
Loans to Members				120	90	75	45
Maximum allowed > 5 years	30%			36	27	23	14
Additional loans available if maximum currently lent at > 5 years				0	0	0	0
Available for lending that cannot be lent due to this restriction				12	39	52	78
Loans > 10 years							
Loans to Members				120	90	75	45
Maximum allowed > 10 years	10%			12	9	8	5
Additional loans available if maximum currently lent at > 10 years				0	0	0	0
Available for lending that cannot be lent due to this restriction				12	39	52	78

We also note that if in Year 1 of the above scenario the Credit Union had lent to the maximum of loans > 10 years, being €12m, that in all probability by the time Year 6 had arrived the Loans > 10 years would not have fallen to the maximum €5m allowed, thereby creating another regulatory problem for the particular Credit Union. We suggest that this scenario should also be dealt with within the Regulations, in other words, what happens where a Credit Union lends and at the time of lending is within existing limits, but simply as a result of the passage of time it ceases to be complaint with Regulations, without having taken any action for this to occur. This point also supports earlier points we make about how we believe lending limits should not be related to the loan book.

<u>CP88 : Section 8 : Investments</u>

Concentration Limits:

Dubco observation:

Based on **Exhibit D**, Credit Unions may currently invest €6,930m in banks, but only €225m in other Credit Unions. In other words, Credit Unions may invest 31 times more in banks than in fellow Credit Unions. While investment in other Credit Unions is currently unlikely, we believe the Regulator should be allowing for a time when such investment may be possible and attractive to Credit Unions. We consider the €225m limit to be significantly too low, and have made a similar point in our feedback relating to 'lending'.

Maturity Limits:

Dubco observation:

We suggest that Credit Unions should be allowed to make some level of investment with maturity dates in excess of 10 years, and less perhaps than 15 years. We make this point because there have been and may be in the future investments with terms in excess of 10 years where the investment return that could be earned may well give the Credit Union a return that underpins its overall investment returns and is necessary for the financial stability of that Credit Union.

If the Regulator chooses not to change the 10 year limit, we suggest that the regulations be amended to include the opportunity for Credit Unions to apply on a case by case basis to invest more than the Regulator is currently allowing in the regulations. Such applications could be supported by financial projections and a rationale for so investing. However, the downside of such a scenario is that the Regulator is effectively taking on a micro management role within the sector, which may not be appropriate, but which is nevertheless better than having Credit Unions prohibited from investing in instruments of a duration in excess of 10 years.

Classes of investments:

Dubco observation:

Given plummeting investment returns, we believe that a Credit Union should be allowed to invest up to 10% of its investments in property, or property denominated funds, where the fund is underpinned by existing rental returns rather than by capital appreciation.

We suggest that in such situations Credit Unions might have to transfer to a reserve (say) 20% of the annual rental income, until such time as the reserve equalled 20% of the capital value of the investment. We are currently in the process of selling a former property we operated out of that, had we retained it as an investment, it could have generated a return of 10%. Instead the funds generated will shortly languish in a bank account earning less than 1%.

We also agree with some of the suggestions made by 'Davy' in this regard as being sensible.

Exhibit D

Investments				CU Sector	Dubco today
				€m	€m
Investments			€m	9,900	74
Loans to Members			€m	4,100	35
Other Assets			€m	100	2
Total Assets			€m	14,100	111
Members Savings					
Attached - *estimate % of loans*	40%		€m	1,640	14
Unattached - *estimate % of loans*	60%		€m	10,659	81
Reserves			€m	1,800	15
Other Liabilities			€m	1	1
Total Liabilities			€m	14,100	111
Concentration limits					
Investments in Irish and EEA State Securities					
Total Investments			€m	9,900	74
Maximum which may be invested	70%		€m	6,930	52
Investments in Bank Bonds					
Total Investments			€m	9,900	74
Maximum which may be invested	70%		€m	6,930	52
Investments in other Credit Unions					
Regulatory Reserves			€m	1,800	74
Maximum which may be invested	12.5%		€m	225	9
Investments in a society registered under the Industrial and Provident Societs A					
Regulatory Reserves			€m	1,800	15
Maximum which may be invested	12.5%		€m	225	2
Comparison of investing in banks to investing in credit unions					
Maximum investment in bank bonds - A			€m	6,930	52
Maximum investment in other credit unions - B			€m	225	2
A divided by B				31	28
Maturity Limits					
> 10 years					
Total Investments			€m	9,900	74
Maximum which may be invested	0%		€m	0	0
> 7 years					
Total Investments			€m	9,900	74
Maximum which may be invested	30%		€m	2,970	22
> 5 years					
Total Investments			€m	9,900	74
Maximum which may be invested	50%		€m	4,950	37
> 5 years and assuming > 7 years fully used up					
Total Investments			€m	9,900	74
Maximum which may be invested	20%	*(50% - 30%)*	€m	1,980	15

CP88 : Section 9 : Savings

Savings Requirements:

Dubco observation:

This regulation appears to be a significant vote of no confidence in the Credit Union sector. We believe that the Regulator should allow the €200,000 limit to remain in place. We also believe that the Regulator should give Credit Unions the discretion to increase the limit to (say) 4% of reserves per saver, provided an appropriate business case can be made. For example, if we had fully exhausted our lending capability we might well want to attract in further savings from members so that such savings could be further lent.

We regard the €200,000 limit in the current environment as being sufficient, particularly given that for every €1,000,000 of savings received reserves must be increased by the regulatory reserve of 10%, being €100,000 (€1,000,000 x 10%). We do note that Credit Unions have the discretion to voluntarily reduce their savings limit, and suggest that this should be sufficient in current circumstances.

We note that the Credit Union Act 1997 in its original form had deposit and lending limits of £20,000 (for deposits) and the higher of £50,000 or 1% of total assets (for shares). If these limits applied today then Dubco could hold in excess of €1m between shares and deposits for each member. We observe that in real terms this limit will have been reduced by over 90% if the €100,000 limit is introduced.

We also note the proportionality of what was included in the 1997 Act, and the absence of proportionality from the proposed figure. It is absolute. Therefore a Credit Union with assets of (say) €3m and reserves of €300k may accept a deposit of €100,000, while another Credit Union with assets of (say) €300m and reserves of €30m may also only accept a deposit of €100,000. We consider these to be a weakness of any absolute limit. Under the 1997 Act the limits were c€100k for the smaller Credit Union and c€3m for the larger Credit Union.

CP88 : Section 10 : Borrowings

Borrowings

Dubco observation:

While this is currently not an issue for most Credit Unions, we suggest that the proposed limit of 25% is too low. We believe it should be 100%, with any borrowing in excess of 25% of savings being underpinned by cashflow projections that demonstrate a match between repayment of borrowings by the Credit Union and the ability to generate sufficient funds to repay the borrowings. Such projections should have realistic stress testing scenarios.

We also suggest that any such borrowing should not have a condition that forces the entire repayment of the sum borrowed under any circumstances. We suggest that the repayment requirements should instead be clearly set out in the borrowing documentation, and include a statement that repayments in excess of the agreed amounts may not be demanded by the lender under any circumstances.

We also believe consideration should be given to insisting that any borrowings in excess of (say) 50% of savings should be at a fixed interest rate, unless the reserves of the Credit Union are in excess of a certain % (e.g. 12.5%). This would minimise interest risk for the Credit Union in the event of any unexpected significant interest rate increases.

CONCLUSION

From a review of the proposed Regulations the Central Bank does not appear to acknowledge the important role that Credit Unions have made, and can make, in relation to economic recovery and in relation to ***promoting financial inclusion***.

We also suggest that the regulations proposed will have the likely consequence of weakening Credit Unions at a time when Credit Unions should in fact be encouraged to strengthen and develop. Profitability of Credit Unions is a critical requirement of protecting the sector and members interests, and while many of the proposals are considered to protect members interests, we believe that many of the proposals will in fact have the opposite consequence for members.

Furthermore, we fear that rather than aiding and strengthening the financial sector that the proposed regulations serve to distort the market. By limiting Credit Unions' ability to lend there are limited lending options available, with the potential consequence that banks are being given an unfair advantage in the lending market over Credit Unions.

We suggest that the proposed regulations need to be reconsidered so as to ensure they do not result in the further demise of the Credit Union sector. We would like all Regulations to facilitate the development of the Credit Union Sector in a responsible and compliant way.