

## **RE: CP88 - Submission**

Having reviewed Consultation Paper CP88, the Board of Faughart Credit Union would like to make a submission against the regulations proposed. We are a small Community based Credit Union, with an Asset size of €9.6M, and a Membership base of 2,300.

We feel the following areas would adversely affect our Credit Union:

### 1) Section 6 Liquidity - subsection 6.2.2

The proposal to implement a new short term liquidity ratio of 10% of unattached shares in an account < 8 days maturity. Obviously the funds in this account would be held in a current account, which offers no return. In the current climate, with the rate of return on Investments dropping month on month, our Credit Unions has struggled for the past few years to make a decent return on Investments, to implement this new Short Term Liquidity requirement would just reduce the Income we receive on Investments even further.

### 2) Section 9 - Savings

Whilst the proposals to reduce the statutory savings maximum from €200K to €100K, may not directly affect the Members of Faughart Credit Union, we must support our fellow Credit Union Members, in the larger Credit Unions. There are currently 200 (55%) of Credit Unions which would be affected by this reduction. The Board of our Credit Union and indeed, all Credit Unions are normally tasked with setting the Maximum Share Holding. Therefore we feel strongly that the Central Bank are eroding the decision making powers of Credit Union Boards. It has to be said that the Board of each Credit Union know their Members and know their Credit Union. It begs the question as to where are Members going to place these excess funds which they will be forced to withdraw from the safety of their Credit Union. The only option open to them will be to place the funds into Banks - Why have Banks not been forced to place a Cap on Savings ?

### 3) Section 7 Lending

#### i. **At Page 13** in relation to the proposed new lending framework:

*“These requirements are informed by regulatory actions taken by the Central Bank arising from lending practices in individual credit unions”.*

**And**

i. **At Footnote 9 (page 13) that:**

*“There are currently lending restrictions in place in c.58%<sup>1</sup>[1] of credit unions. These have been imposed on individual credit unions on a case by case basis arising from specific supervisory concerns”.*

**And**

i. **At Page 14:**

*“Where credit unions can demonstrate improvements in their credit risk management practices in line with the strengthened regulatory framework, it is anticipated that the use of credit union specific restrictions as a regulatory tool will reduce over time.”*

**Some crucial points:**

1. We are concerned that – taking the above extracts together – CP88 evidences an intention to create a regulatory environment for all credit unions that will ultimately result in CBI having to issue fewer individual Regulatory Directions.
  2. It is not appropriate to propose to create a restrictive lending framework for all credit unions when, as appears from the above extracts, CBI’s basis for that restrictive framework is its experience in credit unions where it has found reason to take supervisory action.
  3. To reign in the business/ability of all credit unions to earn income on the basis of CBI’s concern around some, is not the correct approach for CBI to employ in making Regulations for all credit unions.
  4. Does CBI consider that this is a “*proportionate*” approach to Regulation making (as required by Section 84A2<sup>2</sup>[2] of the Act)?
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5. CBI has made extensive use of its statutory power to impose Regulatory Directions on individual credit unions in recent years.
6. There is an IFSAT appeal against CBI's decision to impose a Regulatory Direction on an individual credit union which is a vital component of natural justice.
7. There is no statutory appeal against CBI when it makes general Regulations (such as those contained, in draft form, in CP88).
8. In the interests of natural justice, the existing system of individual Regulatory Direction and statutory appeal must be maintained and protected and not abandoned in favour of CBI using general Regulations to create an overly restrictive lending environment for *all* credit unions.

#### 4) Section 7.2.5 Loans to Related Parties

We, along with most other Credit Unions are currently struggling to seek Volunteers in our Communities to serve on the Board of Directors. We feel the proposed requirements will impede our search for future Directors even more. As we are based in a small community, all of our Directors are spread over the various areas of our Common Bond, and all of their extended families are Members of our Credit Union. It would be a huge imposition if all such loans to related parties had to be assessed and approved in the same manner as currently stands, for Credit Union Officers. It would certainly also lead to some or all of their families transferring to neighbouring Credit Unions where they may find it less hassle when applying for a Loan.

These are just some of the main concerns that we have in relation to this Consultation Paper.

Regards,

Brigene Litchfield

MANAGER

Faughart Credit Union Ltd