

Registry of Credit Unions
Central Bank of Ireland
PO Box 559
Dame Street
Dublin 2

19th February 2015

Re: Submission on consultation paper CP 88

Dear Sir/Madam

We have reviewed Consultation Paper CP 88 and have included our views on each section below:

Section 5: Reserves

Lucan District Credit Union (LDCU) has no issue with maintaining the statutory reserve requirement at 10% minimum of total assets.

We would question whether there is a need to hold a separate operational risk reserve on the balance sheet. The statutory reserve is currently there to protect member's funds from any eventualities which would include operational risk. LDCU feel it is sufficient that each credit union determines the level of reserve they should maintain above the minimum taking into account their nature, scale, complexity and risk profile.

Section 6: Liquidity

LDCU agrees with the proposed regulation in this section.

Section 7: Lending

Generally speaking the lending restrictions are in keeping with current regulation.

However, where the proposed new regulations will allow a proportion of lending over 25 years for home purchase, which is a mortgage, the percentage of the overall loan book allowed to be lent out for this purpose is miniscule and would make mortgage lending unfeasible for most credit unions. We cannot say to members, only the first 10 eligible members to apply will get a mortgage.

Given that these loans would only be extended where the credit union will have first charge over the property, the regulations could have more flexibility built in to allow a credit union to manage this type of lending while maintaining liquidity levels per section 6.

Each credit union may decide their own lending policy for mortgages e.g. only where there is an LTV of 70% will a mortgage be given. Credit unions would also have to comply with the new mortgage rules.

Section 8: Investments

The proposed regulations in this section are fundamentally unchanged from previous regulation apart from the removal of investments in equities. LDCU is generally satisfied with the proposals.

LDCU would suggest that further consideration should be given to allowing some longer term investments. Given that there is a movement towards some lending over a 25 year period then perhaps a small proportion of longer term investments could be made. This could be limited to government bonds, for example, the Irish government has now issued 30 year bonds.

The case for this is that government bonds can be liquidated quickly on the open market should funds be required urgently. In addition, FRS 102 will change how bonds are accounted for as held-to-maturity will be gone and losses will be booked on a monthly basis. Bonds could technically be classed as liquid, even longer term bonds.

Section 9: Savings

LDCU is unhappy with the proposed regulation in this area. Limiting the maximum savings for individual members to €100,000 would, in our view, amount to a restrictive practice. A similar limit has not been imposed on banks.

The Central Bank acknowledges that only a tiny percentage of credit union members would hold savings in excess of this amount. Therefore, why impose a limit at all? Each credit union still has to comply with the liquidity and all other regulations. Credit unions boards should be allowed to set limits for their credit union through the savings policy as they see fit.

Giving a transition period of 6 months to comply with this restriction is not just unfair on credit unions, it would be unfair to the small number of members who hold savings in excess of €100,000. Generally speaking the members who would have funds at this level would be long-standing, older members, who may have sold their home. To ask them to reduce their savings is not something LDCU would like to do where they may have saved with us for years. Presumably they would have to remove surplus funds and place them with a bank. This is good for the banks but not a good, or commercially sound move for a credit union.

The reasons for introducing this restriction are, at best, weak. Where credit unions have demonstrated that they can manage their business well and have a good governance, compliance and risk management structure, then LDCU proposes that no regulatory restriction on savings is imposed and that credit unions should be allowed to decide on a limit themselves taking into account their nature, scale, complexity and risk profile.

Section 10: Borrowing

LDCU does not borrow and therefore has no comment on the proposed regulation in this section.

Section 11: Systems, Controls and Reporting Arrangements

LDCU has no comment to make on this section we are generally happy with the additional disclosures in the annual accounts as this will be in keeping with FRS 102 requirements.

Section 12: Services exempt from additional services requirements

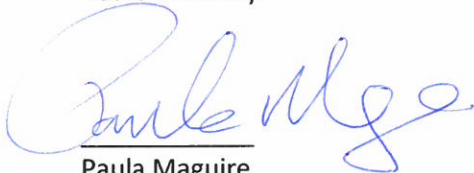
LDCU has nothing to add to this section. As the status quo will be maintained.

The Central Bank has clearly indicated that they will be supportive of any requests for additional services in the future where a robust business case is proposed. It is likely that credit union services will continue to evolve towards the full banking model.

Section 13: Proposed next steps and timelines for the introduction of the draft regulations.

LDCU is unhappy with the proposed restriction on savings and on the timeline for the transitional arrangements should the €100,000 restriction be imposed, see comments above on section 9. This restriction makes no commercial sense and the proposed transitional arrangement timeline is unworkable. LDCU feels that this proposed regulation could damage the credit union movement to the detriment of our members. We fail to see where similar business restrictions are being placed on other financial institutions.

Yours faithfully



Paula Maguire
CEO