Consultations on Regulations for Credit Unions on the commencement of the remaining sections of the 2012 Act.

Mallow Credit Union Limited,

135, Bank Place,

Mallow,

Co Cork.

26/02/2015

Dear Sir/Madam,

On behalf of Mallow Credit Union Limited I would like to make the following submission in relation to the above.

Section 9. Savings Limit.

We are opposed to the implementation of the €100,000 limit for the following reasons;

- If this rule does not apply to the other financial institutions then it is anti-competitive and places credit unions at a dis-advantage.
- It restricts credit unions ability to raise funds.
- It will affect the reputation of the credit union movement as the impression will be given that the Central Bank does not view credit unions as being financially secure.
- Credit Unions will have to write to members requesting that they reduce their savings. This could have a destabilising effect upon credit unions as it could be perceived that something is wrong at the credit union, thereby causing a run on its savings. In the case of Mallow Credit Union this would mean an immediate reduction of €3.2 million of member's savings.
- Credit Union members have been loyal over the course of the recession, forsaking better rates elsewhere. That loyalty should be rewarded by allowing members to save whatever they wish.

We would suggest that this proposed limit be removed as,

- The Central Bank through the Prudential Returns has sufficient means at its disposal to determine how each credit union is performing.
- Can extend the amount of information required to include a breakdown of the specific type of savings held in each individual credit union. It should be noted that credit unions have different member profiles.

- Based on this information the Central Bank can on a case by case basis engage with each credit union in relation to their reserve and liquidity requirements.

Section 7. Lending Limits Section 35

We are opposed to the implementation of these proposals on the following grounds;

- These limits and restrictions are anti-competitive and place the credit union at a financial disadvantage against its competitors.
- We are seeing signs of an improvement in our economy. Members are looking to borrow to improve their homes rather than move because of the new legislation regarding mortgages.
- With these proposals in place, it will prevent members from borrowing from their credit unions.
- Loan income is one of the most important financial streams that a credit union has. It has control over this income as opposed to income from investments. To reduce that ability further will stagnate growth and threaten the viability of credit unions to trade successfully.
- Credit Unions have liquidity and money to lend and are ideally positioned to kick start their local economies.
- Credit Unions have Reserves, Liquidity, Policies and Procedures, are members of the ICB and are well regulated. As such they should be allowed the freedom to lend.
- By lending locally they are stimulating the locally economy and this will have a positive knock on effect on SME's regarding their ability to trade and employ staff.
- The proposed definition of House Loans should be revised.
- Home Improvement Loans should be in a separate category. As already stated there appears to be evidence in our credit union that members are looking to borrow to extend or renovate their homes rather than sell. As a result they already have existing mortgages and therefore if this type of loan is included in the House Loan category, then credit unions will be prevented from lending. This will threaten our viability as Home Improvement Loans are one of the largest loan types that credit unions issue.
- Credit Union members will have to go back to their mortgage lenders for credit which may result in re-mortgaging thereby further extending the length of their debt.
- Reasonable limits should be allowed in relation to Commercial Lending in order to allow SME's the opportunity to grow their business and start to employ again. Local credit unions are well placed and have the local knowledge in relation to businesses that have survived the recession and are viable.
- With regard to related parties we feel that this should be dropped or restricted to Credit Union Officers only. Confidentiality has been the corner stone of the success of the credit union movement. It will be unworkable and in breach of data protection legislation to inform members that they cannot borrow due to related party borrowings. It could leave the credit union open to litigation and will be impossible to implement.

As with the proposed limits on savings the Central Bank can through the Prudential Return,

- Monitor the loan books of each individual credit union.
- Can quantify the loan book, type of loan, duration, performance, and quality of each loan.
- With the regulations requiring four internal audit inspections per year, loan book reviews can be part of this and reportable to the Central Bank and acted upon.
- Accordingly the Central Bank can interact on a case by case basis with each credit union regarding its own individual issues.
- This will make it easier and fairer to implement and on a timely basis.

Section 6. Liquidity/Terms

We believe that the proposed limits in these areas are unworkable unless they are tied in and relate to each other;

- If a credit union can give out loans over longer periods then it should be allowed the facility to attract more savings in long term from its members. The €100,000 limit could restrict that ability.
- Restricting investments to 10 years will also affect that ability as the credit union could get better rates for longer term investments and can then offer its member's better deposit rates and lock that money in to match the longer term lending on a like for like basis.
- Given the current short term interest rates that are available from other financial institutions, the imposition of the new liquidity limits would have a serious adverse effect on income earned by a credit union.
- We would view these limits as being anti-competitive and would question if these limits apply to other financial institutions.
- Since the beginning of the recession there is little evidence that there have been significant demands by credit union members to withdraw their saving. If anything savings have increased and this new limit is excessive.
- In the current low interest rate environment and with quantitative easing having now begun, no other financial institution is offering attractive interest rates that would suggest that members may move their savings.
- If this limit is imposed and coupled with the other proposed restrictions, credit unions would be operating with very limited income streams. This would bring into question the future viability of credit unions. In Mallow's case it would mean that we would have to have €8 million in cash deposits on short term (8 days maturity) currently earning less than 0.10%.
- If the Central Bank are insistent on imposing this liquidity limit and restricting the time span for investments them we would suggest that they should also allow credit unions with the relevant expertise to invest in equities and certain foreign currencies in order to maximise their investment returns.

Additional Services

We are of the opinion that the Central Bank together with the Credit Union movement should agree upon a list of services that are at the core and vital to the current and future growth of the credit union movement in Ireland. These services should be ring fenced and available to all credit unions, once they can demonstrate that they have the proper structures in place to deliver.

Any new services outside of those agreed would then have to go through an agreed process of application which would be transparent and time bound.

Credit Unions in Ireland are of varying assets sizes, resources and abilities to deliver services to its members. With such a large percentage of our population credit union members we are ideally placed to be able to deliver a financial service that can cater for most of their financial needs into the future. It has to be recognised that while some credit unions have put in place CEO's, Financial Controllers, Management Teams, Risk and Compliance structures and Internal Audit systems, some credit unions are a way off in delivering this.

If these new proposals are delivered as suggested then it will be a blanket approach to a situation that clearly does not warrant it and will stifle those credit unions who have expended significant resources to ensure that they have the reserves and the professional expertise to operate successfully into the future.

In addition the Central Bank through the successful introduction of the Prudential Return and the elements of the amended Credit Union Act 2012 relating to Risk, Compliance and Internal Audit have the ideal tools to monitor and deal with credit unions on a case by case basis, which is required in this instance. These structures can be tailored to deliver better information in a faster way to the Central Bank.

Now that the first signs of confidence are starting to appear among our population and with our economy starting to grow we are earnestly of the opinion that credit unions given the liquidity they have, can assist and play its part, by lending to the local economy in a responsible way.

However with these new proposals we will not be allowed to do so, which may have a detrimental effect on our country. We would respectfully request that our viewpoints be considered as we feel that they reflect the feelings of the credit union movement and how we can contribute to our economy going forward.

Yours Sincerely,

Tom Cronin

President

Mallow Credit Union Limited