

# **St. Brigid's Credit Union Ltd - Response to CP88**

*In reference to the Central Bank of Ireland Consultation*

*Paper 88 on Regulations for Credit Unions, below is a*

*submission on behalf of St. Brigid's Credit Union Ltd*

## **Introduction**

St. Brigid's Credit Union welcomes the opportunity to respond to CP88 and put forward their views as outlined below.

St. Brigid's Credit Union, Head Office in Clara, Co. Offaly & Branch Office in Moate Co. Westmeath with a membership of 9,000 – Assets of €52M.

We are in existence since 1963.

## **Summary Analysis**

We feel that the CP88 in its draft form is extremely restrictive and will seriously hinder the future development of our Credit Union and the Credit Union Movement in general in our efforts to give a quality and enhanced service to our Members. It gives no regard or recognition to the experience and expertise of volunteers acquired over the years.

Indeed the principals and ethos the Credit Union Movement seem to be disregarded.

## **Response to Individual Proposals**

### **1. Reserves:**

We feel that the current minimum regulatory reserve of 10% is excessive and that 8% would be adequate in line with internationally accepted practice – e.g. F.S.A. 8% for Northern Ireland.

Should the regulatory reserve be reduced to 8% then an additional 2% risk based component could be considered (based on nature scale and complexity of individual credit unions).

Please explain the CB rationale for 10%.

## **2. Liquidity:**

The CP 88 proposal for a new short-term liquidity ratio of at least 10% of unattached savings is excessive and unnecessary. Such a measure will consign CUs to a zero return on 10% of their savings which will further hinder their ability to build income.

Having come through what was effectively a worst case scenario (financial crash) the experience of CUs over the last five years has proven that the current requirement of 20% of unattached savings within three months is more than sufficient for any foreseeable shock. In this regard St. Brigid's would firstly like to challenge the assumption that in normal trading circumstances that a 20% liquidity requirement should be accepted as necessary. While again CP88 is silent on this matter St. Brigid's would like to know on what basis is the figure of 20% chosen by CB? St. Brigid's suspects this figure like some others may be arbitrarily chosen and we feel it is already too high and as such undermines CU income.

The CB must realise that CU viability is already hindered and introducing proposals like this which we feel are excessive will cause additional pressures on CU income for no apparent advantage. Requiring CUs to hold 10% of funds "on call" within 8 days will to say the least be detrimental to their profitability, particularly in the current situation where some investment houses are now actually charging CUs to hold these funds [Including the CB]

Additionally we wish to make the following specific points:

- There are significant issues around the requirement to have written guarantees so St. Brigid's feel there should be NO Requirement for written guarantees.
- Investments realisable at short notice should be recognised within the 20% / 10%
- CUs who have Government Bonds with say 20 year terms should have such investments included in the definition of what is liquid, i.e. if it is marketable it can effectively be cashed at any time so it should definitely be included within the definition of what is liquid.
- Including members' deposits in the categorisation of "unattached savings" is not at all logical or necessary. Deposit accounts are time bound savings instruments and are not available "on call" in a similar manner to shares. Treating deposits as exactly the same as shares is so ridiculous a policy that we again fail to see where this proposal is coming from.
- On a general note we feel that similar to many countries worldwide the role of CU deposits should be expanded rather than limited as they hold much potential in the overall management of CU assets.

***In summary the liquidity proposal in CP88 seems mis-guided if not downright wrong.***

### 3. Lending:

CP 88 proposes lending categories and associated monetary limits for each category within a CUs loan portfolio. From an overall perspective we feel that introducing such a series of limitations is a very blunt and imprecise approach which can only militate against efficient and effective lending practices at individual CU level. The role of the Board of Directors of a CU is to set down appropriate lending policies for each individual CU (taking into account its own unique characteristics and profile) which ensure the loan portfolio is managed in the most prudent and efficient manner for the benefit of its members. In our opinion boards of directors are better placed to decide high-level policy on how best to apportion and manage their lending portfolios. However, the thrust of CP88 is to *micro-manage CU loan portfolios* through regulation rather than by allowing those closest to the coal-face to apportion and manage different lending categories, - as happens with other regulated entities. This is unfair and unwarranted regulation.

In specific terms St. Brigid's would like to make the following comments re this proposal;

#### Lack of clarity re categories.

- The main problem with the categorisations is that no clear definition of categories is provided so how can we assess the true implications of this proposal without clarity?

#### Housing Loans:

- The term House Loan is problematic because it is not defined clearly enough.
- CP88 definition of "housing loans" indicates that all loans to improve a house will require a first legal charge to secure a property. This is impractical and unworkable.
- Loans to improve or renovate a house should not be in this category and should not require a legal charge.
- Such a charge should be at the discretion of the Board of Directors.
- We ultimately believe that loans of this type should be included under personal loans and should NOT of necessity be included as Housing Loans.
- The maximum lending term of 25 yrs will in some circumstances be too short for genuine housing needs so to insert such a prescriptive limit into Regulations for CUs is excessive and misguided use of regulatory power. It is a blunt instrument which will unnecessarily limit CUs ability to make otherwise prudent long-term lending decisions. It will also restrict loyal CU members from borrowing for housing purposes and force them into the hands of the profit-led sector. Once loans are based on prudent principles loans terms above and beyond 25 years should of course be permissible.

### Concentration Limits:

- The proposed 5yr and 10 yr limits at 30% (was 40%) and 10% (was 20%) are respectively too low and very restrictive. – This is particularly the case in relation to House loans. These proposals need to be increased to more realistic levels.
- In reality the previous 40% and 20% were available only to a limited number of CUs that could fulfill certain conditions.
- To repeat a point made throughout this submission we believe in general terms that CU Boards are best placed to assess concentration limits rather than having it defined by regulation. We believe this is again too blunt of an instrument and we strongly believe there are other better ways to monitor and supervise CU performance.

### Commercial Lending

- The proposal to limit commercial lending to 50% of Regulatory Reserve is far too low particularly when loans to farmers and the self employed are concerned. These two sub-categories account for a large segment of the portfolio of rural CUs so the proposal in CP88 does not appear to us to have any merit or effect any positive change and it particularly discriminates against rural CUs.

### Loans to “Related Parties”

- CP88 introduces a discriminatory approach to the relatives of CU personnel and as a consequence discriminates against Credit Union personnel themselves.
- It is unnecessary and unworkable that spouses / brothers / sisters / fathers / mothers etc of Boards of Directors and Management teams should be treated less favourably simply because of their family relationship.
- Insisting that loan applications from such members must be passed by special committee and reported to the board each month is simply unjust.
- This proposal is unworkable and should be completely withdrawn because it inadvertently creates a “second class” member.
- The definition is so wide that it can not be effectively implemented as CU’s will find it almost impossible to be continually aware of relevant relationships which might contravene the regulation.
- If this proposal is imposed it will create yet another serious impediment to the recruitment of CU volunteers.

We suggest that the requirement to report to the Board on a monthly basis should only refer to non-performing loans linked to related parties.

In short “the ability to repay” should continue to be the prime consideration when assessing loan applications and St. Brigid’s rejects the proposals in CP88 which it sees as over-zealous and over prescriptive regulation which has the potential to undermine rather than support good underwriting practices in CUs.

#### 4. Investments

- The option to retain Equities is a useful option and should not be removed.

We feel the limits/restrictions currently in place with regard to investments and equities are sufficiently adequate.

- There is no rationale offered by CB for the removal of this investment option.
- The 10 year maximum for investments is far too limiting.

This proposal is a real barrier to CUs becoming involved in any kind of central lending mechanism through which they could provide mortgages or for social lending.

#### 5. Savings

St. Brigid's disagree fundamentally with the proposal to reduce the maximum individual savings level to €100,000 which we feel is totally inadequate. CUs are extremely concerned about this reduction and they view it as *anti-competitive* as no such restriction exists for other financial institutions. It should be evident that there will be occasions when genuine credit union members will wish to save sums of this nature and larger (e.g. retirement lump-sums [e.g. Public Service Workers] land or house sales, compensation payments/trust accounts). It is simply wrong to propose that CUs be denied the right to give their loyal members the service they require at times like this. CUs will strongly contest this new proposal and below we cite additional reasons to reject this proposal as follows;

- In modern Ireland €100,000 is not considered a large amount so how can the CB estimate that this as an adequate personal savings limit?
- The proposed limit aligns with the DGS which potentially sends out a message that CUs are somehow *not to be trusted* with any larger amounts. If a savings limit of €100K is imposed on CUs it will have negative connotations and this is unfair and could inflict reputational damage on Credit Unions. It is therefore *discriminatory*.
- Applying a fixed amount limit to all CU's irrespective of asset size lacks refinement and is inappropriate considering the differences in size and complexity of CU's
- Any proposed limit should be related to asset size.
- St. Brigid's actually believes the limit prior to the 2012 Act was appropriate for CUs in Ireland so we fail to see any rationale whatsoever for now moving in 2015 to such a restricted and prescriptive limit of €100K.
- For our €50 M asset CU this will mean a change from a savings limit of €500k to the proposed €100K.

- Credit Union ethos involves an aspiration to endeavour to serve members “from the cradle to the grave”. This proposal will make our aspiration legally unattainable as CUs will no longer be able to deliver full services so this proposal is undermining the whole credit union ethos.
- This will compel good members to open bank accounts even though they do not wish to, as they are happy to deal with the credit union as their financial service provider.
- This proposal is in fact so discriminatory that it removes the choice of an individual CU member and effectively forces them to choose another financial institution for their savings. *Should not all financial institutions be treated equally?*
- This seriously limits a CUs options in terms of asset liability management. It removes any previous flexibility in terms of for example using term deposits to help address mis-matching of funds. In most countries worldwide term deposits are a common feature of the credit union landscape and we fail to see the CB’s rationale for reducing / removing such options from Irish CUs.

Rather than imposing such inappropriate savings restrictions we would respectfully ask why the CB does not encourage CU’s to plan strategically and consider all financial planning options within their overall Strategic Plans.

## **6. Reporting Requirements**

St. Brigid’ is of the opinion that this proposal is unnecessary and excessive in its application. Examining the detail of the proposed reporting requirements we are of the opinion that;

- The proposals are discriminatory in their focus.
- The proposals arguably infringe the rights of families of the Board and management.
- Disclosure requirements in relation to Credit Union officers within the existing legislation is sufficient.
- These proposals may cause some individuals to question their constitutionality.
- These proposals will create a further obstacle to the recruitment of able volunteers.
- Such disclosures in relation to the “performance of the loan book” are inappropriate from a business perspective. Such information could be commercially sensitive so disclosing it could be hugely damaging to CUs.
- The existing reporting requirements are adequate for transparency.

Finally we would say that while this proposal is clearly connected to the “Related Parties” issue we would recommend that the “related parties” regulation should be removed in the first case.

## **7. Additional Services**

St. Brigid's feel that the operation of debit cards for inward and outward payments should be an exempt additional service under the additional services regulations.

## **8. Time Lines**

It is our opinion that there should be a further period of consultation [of at least 6 months] following the publishing of the feedback statement in June and final regulations to follow that consultation.

## **Conclusion**

The CB has framed CP88 and linked its origins to the Commission on Credit Unions. The same commission however also outlined that any regulations made should be *necessary*, *effective* and *proportionate* and clearly outlined that they should follow *full and meaningful consultation*. We in St. Brigid's Credit Union are not aware of any adequate consultations in advance of CP88. In addition one clear outcome of the commission was a commitment from CB to undertake a meaningful Regulatory Impact Analysis before issuing any new proposals but again St. Brigid's has seen no evidence of any serious commitment from CB and we see no record of CB engaging in any meaningful way with credit union personnel.

St. Brigid's notes that while the CB recently decided not to proceed with CP76 the contents of CP88 means many of the same regulatory measures are still being pursued despite the opposition of many stakeholders. Allied to this the apparently arbitrary nature of many of the proposals and the absence of rationale undoubtedly feeds into CU dissatisfaction with the whole regulatory approach. Rightly or wrongly CUs feel that instead of focussing on the future stability of credit unions and their ability to provide financial services there appears to be a determination to restrict CUs of all sizes.

From the entirety of the CP88 proposals we find that the level of direction and restriction therein will inhibit the development of credit unions into the future. Certainly inserting absolute percentages into law or regulation is a bad idea and we see a complete absence of any strategic developmental thinking within the document. Unnecessarily inhibiting CU business activities through unnecessary regulatory imposition is wrong and is not something regulators should do. We can not believe that restricting a CUs ability to deliver co-operative financial services is something the CB are setting out to achieve because it is in nobody's interest except perhaps our competitors. However, St. Brigid's

sees no similar efforts to inhibit other financial institutions from running their businesses or from making huge profits in their banking activities.

We can also not forget that CB is currently enforcing ongoing directions and restrictions in many CUs across our area which makes some CP88 proposals sound a little academic in that CB are already enforcing lending caps, liquidity requirements, savings restrictions and others. We would like an explanation around this seeming inconsistency.

The development of the CU Movement in the past 50+ years has been a magnificent achievement in the delivery of financial services to the previously unbanked. Any fair-minded observer will admit that the recent banking crisis has had little impact on credit unions, - thereby indicating their resilience which is linked to their roots in local communities. With all the experience the CB has gained of other institutions crashing we respectfully say that now is the time to regulate for the future development of Irish credit unions and not seek to constrain their potential, particularly in respect of savings and loans.

In summary St. Brigid' believes that in the round CP88 seeks to restrain the development of the credit union movement. To state the obvious there seems to be a massive divergence of priority between what the CB wishes to impose on CUs and the real business interests of these same CUs. Imposing the CP88 proposals may very well strengthen the regulatory framework but if taken en-mass they will just as surely undermine the very foundations upon which CUs are built - their core business of savings and lending. CUs are already on the ropes due to restrictions so rather than tighten the noose any further we would ask the CB to allow CUs to run their businesses without impediment while by all means challenging them, - but in a supportive manner. As CUs committed to serving our communities on a not-for-profit basis which is the essence of good citizenship, we fear we are about to be killed off by over-zealous regulation - unless you change your approach.