

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

Consultation Paper CP 88

Submission by St Michael's Credit Union Ltd

To the Registry of Credit Unions

Central Bank of Ireland

February 2015

## **Consultation Paper CP 88**

The Board of St Michael's Credit Union welcomes the opportunity to share its views on the Consultation Paper CP 88: Consultation of Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act.

### **Section 5 - Reserves**

*(1) Do you have any comments on the draft reserves regulations? If you have suggestions please provide them along with supporting rational.*

St Michael's supports the maintaining of the 10% Regulatory Reserve Ratio. One would expect that the monitoring of the Prudential returns on a quarterly basis by the CBI would provide an early warning system in that trends should be clear from this report which would alert the CBI of any deterioration in the RRR which was likely to result in a breach of the 10% minimum and allow discussions to take place before that would happen.

In regard to dividends where a credit union has complied with its reserve requirement, but has recorded a deficit in its annual accounts and is proposing to pay a dividend and/or interest rebate. We believe that the requirement to inform the CBI 3 weeks before it gives notice to its AGM should be changed, to give notice of its intention to do so as part of the accounts submitted for approval.

The requirement for newly registered credit unions to have adequate initial reserves that are sufficient is good practice however the consultation paper is not clear on the level of "viable performance level" and we believe that guidance should be given on what this means.

## **Section 6 - Liquidity**

*(2) Do you have any comments on the draft liquidity regulations? If you have suggestions please provide them along with supporting rationale*

The expanded definition of liquid assets is sensible and very much welcomed, but the introduction of a short term liquidity ratio of at least 10% of unattached savings where short term liquidity is defined as cash and investments with maturity of less than eight days is of concern to us. Currently based on our unattached savings this figure would be €3.5m. The current % interest rate on funds at this level of access is close to zero which would give rise to an unnecessarily high level of opportunity loss of investment income. If there is such a stipulation included we suggest it should be no more than 5%.

The transitional period of one year is too short and we would recommend a period of 18 months following commencement to comply with the short term liquidity ratio.

Rationale - due to falling loan portfolios the need to secure a return on a range of investment options will be of critical importance to income generation.

## **Section 7 - Lending**

*(3) Do you have any comments on the draft lending regulations? If you have suggestions please provide them along with supporting rationale*

The change in the large exposure limit now greater of €39,000 or 1.5% of total assets - changing to reserves (not assets) "so that lending takes account of the CU's ability to absorb any losses that may arise from credit risk" in our view provides sufficient flexibility to credit unions.

The concentration limits, commercial, community, other credit unions, supported by business plans and financial projections are welcomed.

The requirement for credit unions to have a 1<sup>st</sup> legal charges from the date of the new regulation (which will in most cases be held by the financial institution giving the original mortgage) will at a practical level mean that home improvements/ extension etc. will be out of the remit of the credit union due to this condition. We strongly believe this should be changed, as such loans are an important part of credit union activity. A suggestion would be to permit such loans where there is sufficient positive unencumbered equity in the property.

The provisions re lending to related parties requirements is supported by St Michael's Credit Union.

## **Section 9 - Savings**

*(5) Do you have any comments on the draft savings regulations? If you have suggestions please provide them along with supporting rationale*

The Board of St Michael's Credit Union are concerned with the limit imposed of €100k. This sends out the wrong message to members that there is a risk to their funds above this amount. St Michael's has experienced the difficulty of an imposed "cap" under the Regulatory Direction issued. In writing to members who were above the "cap" informing them we can no longer take deposits because of the limit and members below the "cap" informing them of the limit imposed our experience is that this gives rise to unnecessary anxiety for the member.

Certain members of credit union do not have bank accounts and their preferred financial institution is their local credit union. SMCU would hope to be able to satisfy all their financial requirements including exceptional windfalls such as inheritance, redundancy payments, pension gratuities, and any such lump sum. Credit Union should not be limited to any cap in their receipt of savings and should be treated the same as other financial institutions.

## Section 13 – Proposed next steps and timelines for the introduction of the draft regulations

*(9) Do you agree with the proposed timelines for the introduction of the draft regulations set out in this consultation paper, in particular the transition period proposed between the publication and commencement of the regulations? If you have suggestions please provide them along with supporting rationale*

The Board of St Michael's Credit Union would suggest an amendment to the proposed next steps and timelines, this will involve feedback on the implementation of the regulations and any implementation difficulties encountered by credit unions.

<b>Date</b>	<b>Step</b>
27 November/ 10 December 2014:	Conduct Information Seminars
27 February 2015:	Consultation period closes
June 2015:	Publish feedback statement and Final Regulations
July - December 2015:	Transition period before final regulations are commenced
31 December 2015:	Commencement of remaining sections of the 2012 Act and final regulations.
<b>March 2016:</b>	<b>Regional Forum meeting with Central Bank officials</b> On-going <b>quarterly or half yearly</b> engagement and consultation with the credit union sector on the development of the regulatory framework <b>and feedback on how it is working in practice.</b>

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