CP76 - Consultation on the Introduction of a Tiered Regulatory Approach for Credit Unions

Athlone Credit Union (ACU) welcomes the opportunity to present a submission in regard to the Introduction of a Tiered Regulatory Approach for Credit Unions.

The credit union movement in Ireland is undergoing major change and restructuring at present and it is only appropriate that the views of credit unions representing over 2 million members should be taken into account when considering regulatory changes that will completely change the environment in which credit unions operate.

ACU would welcome appropriate regulation that will enable it to serve the community by providing an alternative to members caught between the failed banking structure and the exorbitant rates charges by money lenders.

ACU would like to make the following submissions

4.8 (i) Do you agree with the proposed tiered regulatory approach for credit unions?

ACU welcomes a tiered regulatory approach as recommended by the Commission on Credit Union but note that their recommendation calls is that the regulatory requirements should be proportionate to the nature, scale and complexity of the credit union. The approach taken by the consultation paper is for one framework for all with additional requirements for the top 20 credit unions.

This is not a tiered regulatory approach proportionate to the nature, scale and complexity of the credit union and does not in our view, take account the recommendation of the Commission on Credit Unions.

The proposal to initially designate all credit unions at Category 1 and then require them to apply for Category 2 status is flawed. Credit unions already providing additional services would be required to suspend these services while the application was being considered. This would result in loss of business continuity and confusion in the market place and damage the reputation of the both the credit union concerned and the movement in general.

5.12 (i) Do you agree with the proposals for the operation of the two category approach for credit unions set out in sections 5.1 – 5.11?

5.2 Lending

The proposed lending concentration limits are an attempt to micromanage the affairs of credit unions. Limits should not be linked to the Regulatory Reserve which in itself is an arbitrary figure and not risk based.

<u>5.2.2 Concentration limits</u>

Most credit unions are community based institutions and are in the community to benefit the community. Restricting community lending based on a Regulatory Reserve is detrimental to this.

Decisions on lending should be risk based and take into account the profile of the credit union, its asset base and member mix.

5.2.3 Maturity limits
Again maturity limits should be based on a risk based approach and not a one size fits all approach. If credit unions in category 2 are permitted to provide home loans, these products must be available on the same terms as the competing financial institutions.

5.2.4 Restricted Person Limits
The definition of a restricted person is a member of the board of directors or the management team and a member of the family of such a person including that person's parent, grandfather, grandmother, father-in-law, mother-in-law, husband, wife, son, daughter, grandson, granddaughter, brother, sister, half-brother, half-sister, uncle, aunt, nephew, niece, first cousin, son-in-law, daughter-in-law, brother-in-law or sister-in-law.

In a credit union with 11 board members, 3 board oversight members and 2 members of the management team this restricted persons could affect several hundred people with the overall aggregate of lending limited to the greater of €200,000 or €375,000 in the case of a credit union with assets of €75m or €250,000 in the case of a credit union with assets of €50m. The average loan therefore available to a Restricted Person in a €75m credit union would be €1,850 and €1,250 in a €50m credit union.

This is blatant discrimination against people that are willing to give of the time to assist the community and may even be unconstitutional. The procedures on officers loans is a system that has worked well in the past and should be the basis of regulation going forward.

5.2.6 Lending Practices and Policies
The additional requirements in relation to lending practices of a creditable business plan and robust financial projections in respect of commercial, community and loans to other credit unions is prudent and should be including in any proposal for funding.

ACU have already commented on the restricted persons above.

5.3 Investments
The impact of the proposed limitations on investment classed and limits will result in a dramatic fall in the return available to credit unions into the future and will force credit union s to invest up to 50% of their portfolio in foreign products with a resulting lower yield and increased risk. This is due to the proposed counterparty limits and the limited banking sector in Ireland. As the state is a major shareholder in all Irish banks, could this be extended to infer that there is only one counterparty in Ireland resulting in even more funds going abroad.

In our case approximately €3.2m of funds presently invested with AIB and Bank of Ireland would immediately have to transfer abroad. This could result in potentially €1.5bn to 2.5bn of credit union funds leaving the Irish banking sector.

These proposals will force credit unions into deposit type structured products that contain extremely high fee structures relative to deposits and senior unsecured bonds. It is common that structured products while protecting the initial investment amount rely on highly speculative and inappropriate investment to generate the return element of the structured deposit relative to the needs of a credit union and its members. Credit unions will be required to spend vast sums on sub-optimal deposit type investments that disadvantage the members relative to a direct investment in bank bonds.

Credit unions were founded to use members' savings to provide loans, and would prefer not to depend on investment income to fund operations. However the present economic climate limits the credit unions' ability to generate funds in this manner. It is not prudent therefore to prevent credit unions from generating prudent investment income to ensure sustainability and to look for CU's to replace investment income with interest income in a short space of time.

5.4 Savings
The Registrar of Credit Unions has in the past expressed concern in regard to the level of unattached savings in credit unions.

It would appear the proposed limitations on deposits would disregards this concern and attempts to limit the credit unions ability to lock savings into a defined duration which will result in an increased liquidity requirement.

It would be prudent to attempt to match the maturity of savings and investments.

Further comments regarding liquidity are contained in section 5.10

5.7 Governance
ACU is in favour of well documented governance arrangements with clear and transparent reporting lines. However the proposed additional external evaluation of the performance of the board is a duplication of effort and cost as the board is already subject to review by the Board Oversight Committee or is the proposal that this committee would be replaces with and external oversight?

5.9 Reserves
As mentioned earlier, reserve requirement for credit unions should be a Risk Weighted Asset (RWA) approach for all credit unions. Basel III requires banks to base their capital requirements on RWA.

5.10 Liquidity
The proposed requirements in addition to the existing minimum liquidity ratio of 20%, of 7 day maturity up to 10% and 1 month maturity of 15% will result in an additional approximately €12.5m in the case of a €50m asset size credit union being required to be held in low return liquid assets which taken in conjunction with 5.4 above could mean a return of 0.1% on 35% of the investment portfolio resulting in a loss in income of €1.m per annum.

The proposal does not contain any rational in support of this additional liquidity requirement and cannot be justified in the present climate.

5.11 Other Prudential Requirements
Prudent auditing would require an interim audit which is reported on and responded to by the board of directors and should be included in any audit plan.

6.3 (i) Do you agree that a provisioning framework should be developed for credit unions as proposed in section 6.2?

While the proposals are unclear in the consultation document, ACU has already undertaken loan book reviews including collective assessment of the loan book, individual assessment of significant exposures and incurred but not reported exposures and considers this approach prudent.

7.2 (i) Do you agree that the tiered regulatory approach should be introduced at this time?

(ii) If it is considered that the tiered regulatory approach should be introduced at this time, do you agree with the proposed timelines for the introduction of the tiered regulatory approach as set out in section 7.1, in particular the transitional period proposed between the publication and commencement of the regulations?

The rate of change in the credit union movement is immense at present with the introduction parts of the CUOOR Act 2012 on October 2013, March 2014 and August 2014, interaction with ReBo and additional Fitness & Probity requirements resulting in additional training for board members and volunteers. This coupled with the reduced board sizes is putting pressure on boards of credit unions to fulfil their obligations.

It is unreasonable to place additional regulatory requirements at the pace envisioned in the consolation paper. This will result in board members resigning and credit union being unable to fulfil their obligations. Any target must be achievable.

Athlone Credit Union thanks for the opportunity to express its views in this matter and trust that these will be considered in the preparation of the second consultation process.