

Friday, 28 March 2014

Ballyphehane Credit Union
Lower Friars Walk
Cork

Submission on behalf of Ballyphehane Credit Union Limited in relation to the consultation process on the "Introduction of a Tiered Regulatory Approach for Credit Unions"

Do you agree with the proposed tiered regulatory approach for credit unions? If you have other suggestions please provide them along with the supporting rationale?

We agree with the concept of a tiered regulatory approach. However, we feel that the approach recommended in the *Final report of the Commission on Credit Unions (CCU)* report should be followed.

The Central Bank (CB) proposal introduces significant restrictions on credit unions which were not envisaged in the CCU report.

The CCU report suggested that credit unions would be placed within the relevant category by asset size. The CB's approach places every Credit Union in Cat 1 and Credit Union must apply to become a cat 2 credit union. This is a significant deviation from the CCU's report. We are of the opinion that there should be a minimum of 3 Categories and that credit unions should automatically be classified as per asset size. We agree with the principle that credit unions should be able to apply to move categories.

Are there any areas where credit unions could provide new additional products or services to their members? Should these be available to category 1 and category 2 credit unions or only category 2 credit unions? If you have suggestions please provide them along with the supporting rationale and the associated additional requirements.

It has to be acknowledged that credit unions will have to look at new opportunities to grow its business. Credit unions are presently primarily dealing with unsecured loans. (Other than loans secured by savings). The majority of lending by Credit unions in North America is in Secured lending by way of Mortgage or Finance. Any new regulatory approach should be pro-actively supportive and enabling to allow credit unions provide finance in these markets.

It is important that credit unions be facilitated in allowing their members have a revolving credit limit, similar to an overdraft. The cost of processing a loan is becoming quite expensive and time consuming. A revolving credit limit will alleviate this.

All of the above is predicated on the acceptance that credit unions will have to ensure that they have the necessary staffing competencies to process these new products.

Do you agree that a provisioning framework should be developed for credit unions as proposed in section 6.2? If you have additional proposals please provide them along with the supporting rationale.

Without actual detail of how the various proposals as outlined in section 6.2 are to be formulated it is not possible to agree with the proposal. There has been widespread discontent among credit unions in the lack of clarity emanating from the cb on how calculations are derived in determining the adequacies of provisioning.

Do you agree that the tiered regulatory approach should be introduced at this time? If you consider that alternative timing is more appropriate, please provide suggestions, along with the supporting rationale.

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 set out in section 7.1, in particular the transitional period proposed between the publication and commencement of the regulations?

We believe that the timeframe for the proposed introduction of a tiered regulatory approach needs very careful consideration. An impact analysis should be conducted within the sector to determine how credit unions will be affected by the published proposals.

If you have other suggestions please provide them, along with the supporting rationale.

5.2 Lending

We have serious reservations in relation to a number of the areas outlined in this section.

Whilst we accept that the CB doesn't want to Micro Manage credit unions the list of restrictions creates the opposite view.

Credit unions have responded very positively to the new governance requirements. If a Credit Union has in place the proper structures and proper risk management they should be allowed do their business without significant restrictions imposed by the central bank.

5.2.2 Concentration Limits

It should be up to each Credit Union to determine what type of lending it wishes to provide and the risk and tolerance levels it is prepared to accept within the various categories of lending. The Credit Union must ensure that they have the necessary staffing resources in place to properly manage their loan book taking into consideration prudent Asset / Liability management of the balance sheet.

5.2.3 Maturity Limits

The proposed time restrictions on lending will dramatically impact on the ability of credit unions to enter the mortgage market. Credit unions must be allowed compete in the various markets. The proposed restrictions are not reasonable.

5.2.4 Restricted Person Limits

We have concerns that the application of this section could greatly inhibit credit unions to attract volunteers.

5.3.1 Investment Classes and Limits

The proposal in relation to the Concentration and counterparty limits being related to reserves will mean that possibly up to 50% of investments may have to be moved out of the Irish Sector. This will have significant impact on returns.

The proposed maximum maturity limits is also too restrictive.

5.4 Savings

Limited to €100k. This limit is completely unreasonable and anti-competitive. Is it the intention to impose a similar limit on all other financial institutions?

5.6 Additional Services.

Specific reference is made to the provision of Mortgages. A mortgage is effectively a loan category that is secured by way of property. Why is it necessary to seek approval to give loans within this category?

Having a tied arrangement is different to issuing a loan.

5.9.1 Reserve Requirements

Consideration will be given to a risk weighted asset approach for category 2 credit unions following restructuring of the credit union sector. The CB need circulate to credit unions as to what they envisage under this proposal before constructive comments can be made.

5.9.2 Operational Risk Reserve

What is the purpose of this reserve? If it is established how can it be availed of?

We look forward to further engagement with the Central Bank on this process.

On behalf of Ballyphehane Credit Union Ltd.

Patrick Sweeney

Chairman

George Cantwell

CEO.