SUBMISSION ON BEHALF OF THE LOUGH CREDIT UNION LIMITED
TO THE CENTRAL BANK OF IRELAND
ON CONSULTATION PAPER CP76

PROPOSED TIERED APPROACH

Q 1. **DO YOU AGREE WITH THE PROPOSED TIERED REGULATORY APPROACH FOR CREDIT UNIONS? IF YOU HAVE OTHER SUGGESTIONS PLEASE PROVIDE THEM ALONG WITH SUPPORTING RATIONALE**

No we do not agree with the proposed tiered approach. We feel that the current regulations are in situ for too short a time to ascertain if they are working or not and we would be of the opinion that they are working.
We feel that there is a lack of clarity in the proposals and that the Central Bank is trying to micro manage Credit Unions and this is not acceptable to us.

Q 2. **DO YOU AGREE WITH THE APPROACH SET OUT IN 5.2 – 5.11?**

We have serious issues with most of the proposed changes in these sections, we set out below our main issues with these:

LENDING:

Restricted Persons Limit:

We need clarification on who the Central Bank considers “family”; is it Director/Management team member spouse, or spouse and children or is it the wider definition given in the Credit Union Act. If the definition goes further than spouse/partner then it would be very restrictive on the credit union official. This would have a detrimental effect on recruiting Volunteers and Directors

The Consultation Paper refers to loans, not money at risk, so will the provisions impact on secured lending in a case where the overall limit has been reached?

If total limit has been reached and a restricted person applies for a loan, are they automatically disqualified?

Concentration Limits:

We would not have an issue with imposing restrictions on the percentages allowed for categories of lending. However, we feel that the restrictions should be determined by each individual board of directors

The term “commercial lending” needs to be defined and explained as the term “commercial” is too wide.

The lending restrictions are connected to regulatory reserves only; other reserves are not being taken into account.

INVESTMENTS:

In the new proposals the types of investments will be limited to bank deposits and state securities, we feel this is very restrictive.

The maximum term for investments will be 5 years – We currently hold investments in excess of five years. We suggest that credit unions should be able to hold any investment to maturity even if they are outside any new guidelines that might be introduced. Also we would be unable to buy state securities outside 5 years if the proposals are introduced. We also find the single counterparty restriction of 100% of Regulatory Reserves to be restrictive. We feel these two provisions will force credit unions to invest funds outside the Irish State and diminish the credit unions can make to the economic recovery of the country.

We feel that the current restrictions will impact negatively on our ability to generate income in a time when there is already immense pressure on incomes due to falling incomes from both loans and investments and increasing costs to meet the increased legislative and regulatory requirements. This is particularly pertinent in credit unions in our situation where investments constitute the vast majority of our assets.

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SAVINGS:

We see a need for clarification on whether the cap on savings of €100,000 would be retrospective as this would cause problems with us having to
Contact members who have over this amount and get them to move the excess monies to another financial institution. We suggest that members should not have to withdraw any saving above €100,000 if the proposals on savings come into effect.

RESERVES:

Each credit union will have to maintain an additional reserve that it has assessed is required for operational risk having regard to the nature, scale and complexity of the credit union.
What are the criteria for the assessment of this additional reserve? We need clarification on this.

LIQUIDITY:

It is proposed that the assets of a credit union be held in liquid form will be at least 10% of unattached savings available up to 7 days and up to 15% of unattached savings available up to one month.
This would mean that the credit union will effectively have to hold the value of 15% of unattached savings in call accounts which will have a further serious detrimental impact on the generation of investment income.

Q 3 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.**

We believe that any additional services being made available should be made available to credit unions in both categories and that there should be a level playing field with credit union members being able to receive the same service and products from any credit union.

Q 4 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.**

We need clarification on the proposal regarding provisioning for loans not performing for a length of time. What length of time?

Q 5 **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.**

We disagree with this. We do not understand why the current situation is being changed at this time. As we stated previously, we feel that the 3 tier approach has not been given enough time to work.

Q 6 **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? IF YOU HAVE ANY OTHER SUGGESTIONS PLEASE PROVIDE THEM, ALONG WITH THE SUPPORTING RATIONALE.**

We need clarification on this, particularly on the transitional period proposed.

If all the new proposals have to be met within a limited transition period and especially given the proposed short transitional period, it will impact significantly on the credit union, with members having to withdraw savings and the investment portfolio having to be restructured.

Conclusion:

In summation, the provisions contained in CP 76 have potentially serious consequences for the future of our credit union. The proposals will potentially impact negatively on our ability to generate income, particularly because of our large investment holdings.

It will seriously impact on our plans for the future and prevent us from maintaining our position as a financially strong and well managed credit union.

We look forward to you being able to address our concerns