



SUBMISSION FROM

THE CREDIT UNION DEVELOPMENT ASSOCIATION

IN RESPONSE TO

**Central Bank of Ireland
Central Credit Register Consultation Paper
CP93**

12th June 2015

Introduction

CUDA (Credit Union Development Association) welcomes the opportunity to provide commentary in response to the Central Bank of Ireland's Consultation Paper on the implementation of the Central Credit Register.

CUDA is a progressive representative & development association that was formed in 2003 by Ireland's most progressive and leading Credit Unions, in recognition of the real need for progressive credit union leadership and development in an increasingly complex financial environment.

CUDA has a growing membership with 11 owner members and 20 Affinity members. CUDA is the only legally incorporated representative association for Credit Unions in the Republic of Ireland. Its credit union membership has over 250,000 members.

We have consulted with many Credit Unions in formulating a response to the Paper and hosted a workshop with representatives from credit union management teams to discuss the questions posed in the Consultation Paper.

Issues that arose which impacted on the completeness of responses to the questions were:

1. no indication or estimates in the Paper as to time frames for implementation. Commentary on phased implementation may have been more comprehensive if credit unions were aware of Central Bank intentions in this regard.
2. no reference to the ICB with regard to continuation and quality of information therein over the coming years. The continued availability of the ICB will impact views on the provision of historic data etc. We are aware that the Central Bank has no involvement in the ICB however, due to concern for access to credible and reliable information this is an issue that should be addressed.

We would be happy to elaborate further on any points made in this submission. Please do not hesitate to contact us in this regard. Contact details are listed at the end of this submission.

RESPONSES TO QUESTIONS SET OUT IN CP93

5.1. Reporting of CISs to the CCR

1. Credit unions that consulted with CUDA on the reporting of CISs are not in favour of a phased approach to the implementation. In order to ensure effective operation of the CCR as early as possible and the usefulness of the CCR for credit worthiness decisions, we would propose that all categories of CISs are grouped in one phase.
2. We are informed by credit unions that they would not have sufficient information on individuals where lending has taken place to groups of individuals, in particular, clubs and associations. The concern would be compounded if such information was required by way of historic data.

However, that said, credit unions noted the need for the effectiveness of the CCR as early as possible. In this regard it is suggested that an extension should apply, as opposed to excluding this information or deferring it to another phase. It is proposed the extension is merely until such time as the systems are updated to capture this level of information going forward.

3. As the majority of credit union members fall within phase one, should all categories be grouped in one phase, impact would be minimal. As set out above CUDA member credit unions would favour a group implementation.
4. a. Where lending to groups of individuals takes place, we are informed that difficulty would arise in capturing the liability of individuals. However, this type of lending is not significant in credit unions; in industrial credit unions such lending would be minimal.

Some credit unions reported that this information is captured as a group. Personal information captured is as required for AML purposes.

b. If the transaction in question results in an individual having a liability then it would seem prudent that the CIP could see this type of information. This would be important, for example, where one source of income is financing multiple loans, i.e. lending to a partnerships or other groups of individuals as well as a personal loan to the associated individual.

c. To ensure usefulness of the CCR all legal liabilities of an individual should be recorded.

d. We agree that there are technical issues to achieving the most preferred option i.e. that all legal liabilities of an individual are recorded.

Reporting of groups of individuals would be an immediate solution; however, if such reporting does not link to the individual we are uncertain as to its real value.

5.2. Reporting by CIPs to the CCR

1. Credit unions inform us that they do not favour a phased approach to the implementation. In order to ensure effective operation of the CCR as early as possible, it is proposed that all categories of CIPs are grouped in one phase. Many credit unions that currently do not access a credit bureau will be obliged to do so following Phase One; we believe this should also be the case for licensed moneylenders and local authorities.
2. We acknowledge in some instances CIPs may not be in a position to report. This may be due to their ICT infrastructure. We would recommend that whilst all CIPs are grouped in one phase, special concession is given where a CIP can demonstrate that due to its size and its participation in low value loans it would be unable to meet the reporting requirements. The concession would allow an extension of time to comply with the reporting requirements.
3. Whilst we acknowledge the view taken by the Inter-Agency Working Group, at that time the Report was completed¹, we do not agree that all licensed moneylenders should be exempt from early reporting. There are currently 372 credit unions in the Republic of Ireland with asset sizes ranging from €1 million to €300 million and with varying degree of ICT infrastructures. Some membership is in the region of 10,000. The Inter-Agency Working Group reports that licensed moneylenders have approximately 300,000 members, with the largest moneylender having over 80,000 customers². We would argue that the technical capacity of such licensed moneylenders would exceed that of many credit unions and as a result these moneylenders should be obliged to report.

Furthermore, whilst the Paper reports on loans of licensed moneylenders being low in value, such information is none the less important to a credit union in assessing a person's suitability for loan approval. There is also a fear that CISs will withhold information in the knowledge that it is unreported.

Finally with respect to local authorities the Paper reports that loans are of low volumes and low amounts and therefore local authorities should also be excluded from Phase One. We do not agree with this argument. We would have concerns that local authorities (and moneylenders) operate in

¹ The Report is dated the 30th June 2011.

² Information provided on Page 52 of the Report together with original source.

the same market as credit unions. As a result credit unions would benefit from having access to information pertaining to existing loans as early as possible.

5.3. Collection of Credit Application Data

1. Many credit unions we consulted with agree that there would be merit in seeing credit application data. The second technical option was preferred i.e. CIP provides personal and some credit information (examples would include verification details of CIS, institution, amount, and status i.e. deferred, live application, etc.). However, it is acknowledged that this process would require considerable management which may overshadow the benefits. Questions arose with regard to access to the status of an application, the updating of the information pertaining to the credit application, the removal of data depending on whether the loan application proceeded, and the timeframe around such removal. There is concern as to how this would be monitored and managed both at CIP and CCR level.
2. It is agreed that should credit application data be available to access, the information pertaining thereto should be relevant, and therefore the information should be provided on real time basis. This will provide a clearer picture for the CIP.

5.4. First Point of Reporting of Credit Agreements to the CCR

1. CUDA advocates that the first point of reporting of the credit agreement is draw down. Prior to this, information will be captured at credit application status. It will be necessary for the reporting to capture both the total amount of credit as set out in the credit agreement and the draw down amount. CIPs will require knowledge of existing and potential liability.
2. It is not necessary to report to the CCR at any point before draw down if the CIP is already obliged to report credit application data. Should it be decided not to capture credit application data reporting before draw down would be relevant to avoid multiple credit applications simultaneously. However, we are uncertain as to how often this is likely to happen.
3. Undrawn credit facilities should be disclosed as undrawn.

5.5. Extent of Historic Data to be collected

1. It is difficult to comment on this question as the Paper does not address the likely continuation of the ICB. Should the ICB continue to be operational and functional for the foreseeable future (i.e 1 to 2 years into the CCR coming into being), there is less concern in capturing historic data. CIP will continue to have a credible data base whilst the CCR is growing in usefulness. The ability to access the ICB would alleviate the effort and concern re completeness of historic data. Obviously we are aware that this is not a matter that the Central Bank can provide a definite opinion on, however it is a matter that should be addressed, due to the seriousness of a lapse in the operation of an effective credit bureau.

Should it be necessary to access both ICB and CCR, until such time as the CCR becomes wholly effective, this will have to be reflected in the cost to access CCR.

2. Credit unions inform us that this is a matter for their IT providers and credit unions have not received confirmation as of yet. We suggest the Central Bank continue to liaise with credit union IT providers on this issue. There is still uncertainty as to what information IT providers can actually provide.

Having said that, we would advocate the position as set out in b. (i.e. *collect data prospectively from a set date in advance of the CCR becoming operational*). This permits credit unions prepare for the necessary collection of information as opposed to the provision of historic information as proposed under Question 3.

3. The difficulty with collecting data from the previous 3 years is that, unless it is already available to the IT provider to retrieve, credit unions will be unable to retrospectively obtain such information. Whilst some of the personal information may be contained on hard files, to manually retrieve such information would leave the credit union with huge resource implications. Where personal information is sought from members there is no certainty that it will be provided (eg PPSNs or place of birth) or can be obtained.

There is also concern as to the totality of the personal information available. For example, credit unions would not currently have access to PPSNs for all members or place of birth. We would suggest that historic data is collected to replicate information currently uploaded to ICB. With a higher complexity of personal information going forward.

5.6. Single Borrower View – Accurately identifying CISs

1. The following points were raised as a concern with regard to the scope of personal information to be collected:

- a. Fear that credit unions will encounter considerable difficulty in seeking and obtaining personal information, such as mother's birth surname, from members.
 - b. Credit unions inform us that they do not require PPSN to accurately identify CISs. In this regard we do not agree with the collection of PPSNs for the purposes of verification of identity.
 - c. Fear that the requirement to seek PPSNs will result in a reputational issue for credit unions. It will be necessary for the Central Bank to publically address this issue and alleviate concerns should PPSNs be required.
 - d. Concern that previous addresses may not be available. In some cases, credit unions may only be able to verify current address i.e. address at date of credit application. The Paper gives no indication as to how far back with regard to previous addresses it deems appropriate.
2. We have no difficulty with the use of the personal fields as suggested in Appendix 1 (with the exception of mother's birth surname and PPSNs). However, these requirements are too detailed for historic data. Credit unions would find it difficult, if not impossible, to comply with such a request.

Where the information is not currently stored and accessible in the appropriate form by the IT provider, the information cannot be sought. There is no obligation on members to retrospectively provide information. Some information may prove controversial such as PPSNs. As stated above credit unions run the risk of reputational damage if it is necessary to seek such information.

3. As stated above, credit unions inform us that they do not agree with the collection and reporting of PPSNs. Where credit unions currently hold PPSNs they were obtained in good faith for a very specific purpose.
4. We have no difficulty in principle with the use of existing AML procedures as a basis for CIS verification. Further clarification is required by the Central Bank in this regard.

5.7. Collection of Foreign Credit Data

1. We are of the view that if the information is not reliable the effort and undertaking to collect such information far outweighs the benefits. Indeed,

false or misleading information could be more damaging than no information.

However, it is a shame that such information is unreliable as it would be useful especially with the trend of holiday home purchases abroad. But to be useful it must be reliable.

We are surprised that with the use of a system based in many European countries that legislation could not permit agreements to be reached for reporting of foreign credit debt on the central credit registers of participating countries.

5.8. Collection of Guarantor Data

1. Credit unions inform us that this information should not be collected at this time. In some cases the guarantor is not a member of the credit union and the credit union would not have the appropriate personal information profile required by the CCR. The collection of information for guarantors will be time consuming and of limited usefulness.

Whilst there are benefits in capturing guarantor data, i.e. help access a suitable guarantor's credit worthiness, we propose that this is something that could be included at a later date.

5.9. Levies and Fees

1. Credit unions operate to limited business models. The average loan size of a credit union is just above €6,000³. In a recent analysis of our own member credit unions we found that in reality credit unions are issuing a considerable volume of loans for amounts of less than €4,000. Such lending, often emergency loans are a valuable and crucial service provided by credit unions to members in their communities. Credit unions are not-for profit and we would ask the Central Bank, when setting levies and charges, to consider the co-operative nature of credit unions and the value credit unions play in their role of promoting financial inclusion.

We would also ask the Central Bank to also consider:

- I. The disproportionate impact on a credit union that levies and fees may impose;

³ Information obtained from Minister of Finance included in Written Answers: No 277, 26th May 2015 Oireachtas Debates.

- II. whether credit unions will also be obliged to access the ICB along with the CCR in order to demonstrate a credible credit worthiness check has been completed;
 - III. that no fee is applied for small loans up to the value of €4,000 and a fee is applied thereafter on a scale basis depending on the value of the loan;
 - IV. that all fees are deferred until such time as the CCR can demonstrate effectiveness and value for money.
2. Financing the CCR costs solely by access fees is not equitable unless a scale basis is introduced. We would propose a levy is applied depending on the size of the CIP. We would ask the Central Bank to consider the Points made at 1 above when addressing the imposition of a levy.

We again thank the Central Bank of Ireland for the opportunity to part-take in the consultation process and are happy to elaborate on any matters raised in our Response. As always, we are happy to meet with the Central Bank to communicate further on any issues contained herein.



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