Ballyjamesduff Credit Union Limited

Central Bank of Ireland Consultation (CP88)

Ballyjamesduff Credit Union Limited welcomes the opportunity to participate in the Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act (CP88). Credit Unions continue to face many challenges as the country gradually emerges from the economic recession. Falling interest on investments coupled with a declining loan book are two of the major causes of concern. Our submission focuses on those areas of CP88 which we feel have the most impact on our members and on our Credit Union and outline below a number of concerns and suggestions in relation to the proposed changes.

Section 5: Reserves

Do you have any comments on the draft reserves regulations? If you have suggestions please provide them along with the supporting rationale.

We feel that all credit unions play an important role in the community and have strong concerns that newly formed credit unions would be required to hold an Initial Reserve Requirement on top of a Regulatory Reserve Requirement of 10% plus any Operational Reserve the Central Bank of Ireland may require them to hold. This may have a negative impact on the growth of the credit union movement.

Suggestion:

Ballyjamesduff Credit Union is satisfied that the strength of the current legislation, compliance standards in relation to regulatory reserve ratios and fitness and probity regimes can safeguard the development of newly formed credit unions.

Section 6: Liquidity

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

Expansion of the definition of liquid assets: Ballyjamesduff Credit Union welcomes the Central Bank proposal to expand the definition of assets that qualify as liquid to include any investments with more than three months to maturity where the credit union has an explicit written guarantee that the funds can be accessed by the credit union in less than three months, excluding penalties or interest on income.

The introduction of a short-term liquidity ratio of 10%: Ballyjamesduff Credit Union would feel that this is not the time to introduce a short term liquidity ratio of 10%. Credit unions have struggled for the past few years to make a satisfactory return on investments and this continues to be their greatest challenge. A credit union with unattached savings of €10m would require €1m to be held in investment products with maturities of less than 8 days and investment return of almost nothing. A further restriction (such as is proposed) will impact negatively on the investment portfolio return of a credit union.

Suggestion:

It would be helpful to understand the reason for the proposed introduction of a short-term liquidity ratio of 10%. However irrespective of whether this short term liquidity constraint is implemented or not, we recommend that a mechanism is put in place that formally recognises the need for the Central bank to revisit the impact analysis every 12 months for the forthcoming years for the following reasons:

- We are in the midst of an exceptional low interest rate environment with flat yield curves, therefore credit unions may be holding surplus funds on demand or short term as there is little incentive to place investments out longer term. When interest rates normalise and medium and longer term rates may be significantly higher than shorter term rates, the impact of the short term liquidity ratio is likely to be more severe and may have a punitive impact on the investment returns being generated from credit union portfolios.
- Banks are currently in the process of implementing Basel III liquidity ratios as per CRD IV; the Liquidity Coverage Ratio is now in place and the Net Stable Funding Ratio is being implemented in certain banking sectors which is having further negative implications for credit union investment income. The full impact of the implementation of these ratios on credit union portfolios can only be determined when the measures have been transposed in their entirety. Once the liquidity ratios have been fully implemented and banks have expanded their deposit offerings, any potential short term liquidity should be revisited to ensure that the percentage of unattached savings and eight day time constraint is appropriate in the range of deposits and liquid investments available to credit unions.

Section 7: Lending

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

Section 35 of the draft lending regulations propose that credit unions will be permitted to continue to lend up to 30% of their loan book over 5 years and up to 10% of their loan book over 10 years, subject to a maximum maturity of 25 years. Credit unions can apply for an extension to their longer term lending limits (up to 40% of their loan book over 5 years and up to 15% of their loan book over 10 years) by approval and conditions will be set by the Central Bank.

Suggestion:

Lending conditions are currently difficult for credit unions and draft lending regulations have the potential to further restrict credit unions from lending in terms of the maximum maturity limit of 25 years. Ballyjamesduff Credit Union proposes that this proposal be removed from the new regulation.

Ballyjamesduff Credit Union note:

a. The proposed creation of a House Loan category (Category 4)
b. The requirement that a credit union must hold a first legal charge on property to make a House Loan
c. The retention of existing Section 35 restrictions on lending (percentages) and
d. The proposed introduction of a 25 year maximum on any loan

Suggestion:

Bearing in mind the above points, we feel that the issue of credit unions providing this type of lending to members is deserving of a focused and thorough consideration with a view to making a House Loan specific Regulation at the end of the process. The creation of a House Loans Working Group to include representatives from the movement would be beneficial in expediting this work.

We feel the Central Bank should clarify that credit unions will still be able to make loans for home renovations and improvements (without having a first charge on property) under the Personal Loan category (Category 1).

Section 9: Savings

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

The consultation paper proposes to reduce the statutory savings maximum (shares plus deposits) to €100,000. This means that credit unions would be obliged to tell their members to move their surplus savings to other financial institutions. Recognising that this requirement seeks to ensure that credit union funding is diversified and members savings are secure it would impose a restriction that does not exist in other financial sections.

Suggestion:

We suggest that the existing savings limits in credit unions are maintained.

Section 13: Timelines

Do you have any comments on the draft timelines regulations? If you have suggestions please provide them along with the supporting rationale.

The timeline in relation to implementation of the Savings regulations is within six months of commencement. It may not be possible to force a member to withdraw savings (within 6 months or any other timeframe). This may be beyond the control of the credit union thereby placing a credit union in breach of the new regulations through no fault of their own.

Suggestion:

If a savings account is above the proposed amount at the date of implementation of the legislation, a member should be permitted to retain that amount without further additions.

Conclusion:

Overall we feel that CP88 broadly strikes a more appropriate balance than original proposals. We have made a number of suggestions which are aimed at ensuring that the regulations do not hinder credit union growth without compromising the regulatory responsibilities of the Board and Management and the protection of credit union members.

Ballyjamesduff Credit Union Limited
27th February 2015