

CASTLEREA AND DISTRICT CREDIT UNION LIMITED

Response to Consultation Paper CP88

**“Consultation on Regulations for Credit Unions on commencement of
the remaining sections of the 2012 Act”**

February 2015

Lending - Section 7 (Loans to Related Parties)

If this proceeds as envisaged it will mean that the following persons, through no fault of their own, will be singled out for a more onerous loan application regime than applies to other members:

- A spouse / civil partner of a board member or of a member of the management team.
- A cohabitant of a board member or of a member of the management team.
- The father / mother of a board member or of a member of the management team.
- A son / daughter of a board member or of a member of the management team.
- A brother / sister of a board member or of a member of the management team.

1. This is going to make it more difficult to retain / obtain volunteers.
2. It is ironic that if a person is good enough to put himself / herself forward to act as a director that he / she is then “rewarded” by additional imposition on members of his / her family when it comes to those members applying for loans from the Credit Union.
3. We agree that a related party should not get a loan on more favourable terms than a non-related party. This however can be achieved without singling out a related party for a more onerous application regime.
4. Surely some, at least, of those related party categories have a right to have their loan applications considered without even the knowledge of their son/daughter/ brother/sister/ father / mother?
5. Do / will the same rules apply to other regulated financial institutions?
6. Are staff expected to know *all* of the related parties of board members or of a member of the management team? Consider, for example, a credit officer’s difficult position in the proposed new regime. He or she might well approve a loan for a member unaware that that person may in fact be a member of the family of a director or of the management team.
7. It is quite possible that a related party could be unaware that he has a family member on the board of directors. That same related party, by satisfying normal underwriting criteria, may have been obtaining loans down through the years from the Credit Union. Now, however, it is proposed that this member will be subject to a more onerous application regime than heretofore because, for example, his brother has been kind enough to act as a director of the Credit Union for the greater good of the community.

Savings - Section 9

It is proposed that all credit unions can have individual member's savings of up to €100,000.

1. There appears to be linkage here between the proposed new limit and the Deposit Guarantee Scheme's (DGS) €100,000. Is the same limit therefore going to be imposed on all other regulated financial institutions that come within the scope of the DGS?
2. By imposing a limit of €100,000 it amounts to the Central Bank giving little or no credence to the considerable amount of realised reserves built up in Credit Unions.
3. This proposed regulation has the potential to negatively impact on Credit Unions. The word *could* go out that Credit Unions may be in trouble if requiring members to reduce their savings.

Systems, Controls and Reporting Arrangements – Section 11

The draft regulations propose that the “*performance of the loan book*” be reported upon and disclosed in the Annual Accounts.

- CP88 however is silent on the detail of what is required in this respect. How can one meaningfully comment in the absence of such detail ?
- Why does the Central Bank want this information in circulation.?
- Given the likely commercial sensitivity of such information it is likely to prove useful and interesting to our competitors such as the local bank branches. Will the banks also be required to analyse the performance of their loan books on a branch by branch basis and thus allow for a level playing field?

Liquidity - Section 6

Imposing an 8 days liquidity ratio will make it more difficult to maximize return on investment.

Regulatory Impact Assessment (RIA)

There does not appear to have been a genuine attempt to identify possible side effects or hidden costs associated with the proposed new regulations nor an attempt to quantify the likely cost of compliance with such regulations on Credit Unions. There are lots of general statements contained within the RIA such as for example:

- “...the impact should be minimal”
- “...should not impact on Credit Unions or their members”
- “... will not have any significant impact”

A number of regulations that might appear to have minimal impact individually may collectively be considered as having a significant impact. Has this angle been considered by the Central Bank (CBI) ?

This approach to a RIA would appear to be at odds with the recommendations contained in the Final Report of the Commission on Credit Unions which recommends that the CBI, when setting out new regulations, should undertake a RIA in line with existing requirements and international best practice. We would ask that in future, in the interest of decisions being made with full information, the CBI provides a RIA consistent with the wording and spirit of the recommendations of the Commission on Credit Unions.

End./