

## **Civil Service Credit Union (CSCU)**

Submission from Civil Service Credit Union on CP88

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

Section 15: Summary of areas where the Central Bank is seeking views

The Central Bank is seeking views on the following:

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

**Existing Regulation**

- Minimum Regulatory Reserve - 10% of total assets
- Notifications to Central Bank

Comment

The CSCU sees no difficulties with the existing regulations.

**New Regulation**

- Initial reserve requirement for newly registered credit unions

Comment

The CSCU feels that the new requirements for a newly registered credit union should not be so onerous that it would not be practicable to form a new credit union. This is accentuated by the new restrictions on inter credit union borrowing and investing.

The CSCU feels that there should be a method whereby new credit unions could be formed with support from the movement and other bodies such as trade unions and employers.

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

**Existing Regulation**

- Minimum liquidity ratio of 20%

***Comment***

The CSCU sees no difficulties with this regulation.

**New Regulation**

- Short term liquidity ratio of 10%
- Short term liquidity is defined as cash and investments with maturity of less than eight days.

***Comment***

The CSCU feels that the existing liquidity requirements are adequate and does not see any great benefit in introducing a new liquidity requirement.

This new regulation is likely to reduce the return on investments available to credit unions.

**Change of Regulation**

- Definition of liquid assets expanded
- This expanded definition includes the amount of any investment 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 on interest or income.

***Comment***

The CSCU sees no difficulties with the expanded definition of liquid assets.

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

**Existing Regulation**

- Large exposure limit– greater of €39,000 or 1.5% of total assets
- Limit on lending over 5 years – 30% of loan book (40% subject to Central Bank approval)
- Limit on lending over 10 years – 10% of loan book (15% subject to Central Bank approval)
- Central Bank approval for additional longer term lending

**Change of Regulation**

- Large exposure limit– greater of €39,000 or 10% of Regulatory Reserve

**Comment**

The CSCU sees no difficulties with the new reduced limit.

**New Regulation**

- Maximum maturity limit - 25 years

**Comment**

The CSCU feels that the new limit of 25 years is too restrictive.

This new limit would limit the future development of house loans by credit unions.

There is no limit at present.

No limits apply to other lenders, putting the credit unions at a disadvantage.

**New Regulation**

- Categories of loans
  - Personal loans
  - Commercial loans (greater than €25,000)
  - Community loans (to a community or voluntary organisation)
    - sport and recreation;
    - culture and heritage;
    - the arts (within the meaning of the Arts Act 2003);
    - health of the community;
    - youth, welfare and amenities; and
    - natural environment.
  - House loans (first legal charge required)
  - Loans to other credit unions

**Proposed Regulation (CP87)**

- Loan to Value
- Loan to Income

**Comment**

The CSCU presumes that loans for home improvements will not be considered House loans.

The CSCU notes that mortgages are not provided for.

Otherwise, the CSCU has no difficulties with these categories.

### **New Regulation**

- Concentration limits
  - Commercial lending – 50% of Regulatory Reserve
  - Community lending – 25% of Regulatory Reserve
  - Lending to other credit unions - 12.5% of Regulatory Reserve

### ***Comment***

The CSCU does not see the need to introduce a new limit on loans to credit unions.

This will have the effect of increasing the dependency of credit unions on banks.

Otherwise, the CSCU sees no difficulties with these limits.

### **New Regulation**

- Related party lending requirements - management and monitoring (€2,000+)

### ***Comment***

This might be somewhat intrusive, particularly in the case of volunteers.

Otherwise, the CSCU sees no difficulties with this requirement.

**(iv) Do you have any comments on the draft investments regulations? If you have suggestions please provide them along with the supporting rationale.**

**Change of Regulation**

- Classes of investments
  - Equities Removed

**Comment**

The CSCU feels that equities should be retained as an investment class that credit unions should be permitted to invest in, subject to the existing limit.

In the long run, research suggests that equities provide the best return on investment.

**New Regulation**

- Investments in other credit unions - 12.5% of Regulatory Reserve
- Investments in societies – 12.5% of Regulatory Reserve

**Comment**

The CSCU does not see the need for these new limits.

The CSCU feels that these new requirements may cause difficulties for cooperation among cooperatives.

**Change of Regulation**

Maturity limits (AACI = Accounts in Authorised Credit Institutions)

Old limits

- Maximum maturity 10 years
- AACIs maturing after 5 years – 50% of this class of investment
- AACIs maturing after 7 years – 20% of this class of investment
- Irish and EMU State Securities maturing after 7 years – 30% of this class of investment
- Bank bonds maturing after 7 years – 30%

New limits

- Maximum maturity 10 years
- Investment maturing after 5 years – 50% of investment portfolio
- Investments maturing after 7 years – 30% of investment portfolio
- Irish and EEA State Securities

**Comment**

The CSCU sees no difficulties with these new limits.

The 10 year limit on investments may have to be reviewed at later date, depending on developments in the market.

The CSCU notes that certain EEA State Securities may be perceived as having a higher risk than others, e.g. Greece, Iceland.

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

### **Change of Regulation**

#### **Old Limits**

- Maximum member savings (shares and deposits)– greater of
  - €200,000 or
  - 1% of total assets
- Maximum member deposit –
  - €100,000

#### **New Limits**

- Maximum member savings (shares and deposits) –
  - €100,000
- Credit unions will be given 6 months from the date the regulations come into force to bring savings into compliance.

#### **Comment**

This new proposed limit will seriously limit the ability of credit unions to service the needs of members who wish to lodge more than €100,000 in their accounts.

This will become more acute as credit unions merge into larger entities.

Presumably the €100,000 limit is related to the €100,000 deposit guarantee.

This limit does not apply to other deposit taking institutions thereby putting credit unions at a disadvantage.

**(vi) Do you have any comments on the draft borrowing regulations? If you have suggestions please provide them along with the supporting rationale.**

### **Change of Regulation**

Existing Limit

- Maximum borrowing – 50% of aggregate savings

New Limit

- Maximum borrowing – 25% of aggregate savings

### ***Comment***

The CSCU does not see any difficulty with the proposed regulation.

However, while credit unions do not use this facility as a source of finance, it is possible that at a future date it could be used, and this would increase credit unions dependency on banks.



**(vii) Do you have any comments on the draft regulations on systems, controls and reporting arrangements? If you have suggestions please provide them along with the supporting rationale.**

**Change of Regulation**

- Certain disclosure requirements in relation to the annual accounts

***Comment***

The CSCU see no difficulties with the draft regulations on systems, controls, and reporting arrangements.

**(viii) Do you have any suggestions on additions, amendments or deletions to the services and related conditions that are included in the draft regulations? If you have suggestions please provide them along with the supporting rationale. It should be noted that any further services proposed to be included in the regulations must not involve undue risk to members' savings, the financial stability of the credit union or the operational capability of the credit union.**

#### **Existing Regulation**

This regulation simply continues such services which were already authorised will continue to be authorised.

Additional services may be proposed.

#### ***Comment***

The CSCU does not see any difficulties with the additional services allowed.

Further additional services should be considered:

- Debit cards;
- Payments by mobile phone.

**(ix) Do you agree with the proposed timelines for the introduction of the draft regulations set out in this consultation paper, in particular the transition period proposed between the publication and commencement of the regulations? If you have other suggestions please provide them, along with the supporting rationale.**

*Comment*

The CSCU does not see any difficulties with the proposed timelines, assuming that flexibility will be available when required.