Submission by Michael McGrath TD on behalf of Fianna Fáil in respect of Consultation Paper 88: “Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act”

General Comments

The credit union sector has a proud tradition in communities throughout the country. With expert local knowledge and strong personal relationships, credit unions are able to make sound judgments about lending to individual customers, small businesses, the self-employed and farmers.

While they have close to 3 million members overall, the reality is that the sector is effectively stagnant with the amount of its funds out on loan declining year after year. The sector can only make money if it is able to issue new loans. In too many instances, the ability of credit unions to do just that is being unnecessarily constrained.

Credit unions currently have €4bn out in loans to members which is about 30% of their available funds. On paper, the sector has about €6bn available to lend with the potential for a massive shot in the arm for the economy. However, 56% of credit unions are currently subject to restrictions on their lending activity imposed by the Registrar of Credit Unions. These include both restrictions on the size of individual loans as well overall levels of lending.

Credit unions have massively improved their regulatory framework in recent years with professionally qualified people amongst its employed and voluntary staff. The sector has improved its overall reserve ratio without resorting to the type of tactics employed by commercial banks who raised interest rates and charges at the expense of their existing customers. Credit unions are co-operating in shared service arrangements and implementing new regulatory and risk management systems. This needs to be reflected in removing some of the overly strict limits being placed on their lending activity. This will allow the sector to thrive and provide real competition to the banks. In so doing it can provide a major boost to local economies throughout the country.

The Credit Union and Co-Operation with Overseas Regulators Act 2012, put in place the basis for a viable business model for the sector. However the sector cannot stand still and there is a need for the regulatory framework to evolve to take account of the ever changing financial landscape. We have a concern that the provisions, collectively, threaten the viability of credit unions as they very much allude to maintaining an “as is” format which undermines the ability of the sector to innovate and expand.

Reserves

Credit unions are currently required to maintain a minimum Regulatory Reserve Ratio of at least 10% continually. The draft reserves regulations also require newly registered credit unions to maintain initial reserves sufficient to support the credit union’s anticipated growth and take account of expected operating losses

Most credit unions have reserves well above 10% so there is an extremely high level of capital already in the sector. The current regulatory reserve requirement is acceptable and should remain in place.

The initial reserve requirements for a newly registered credit union should be applied in a manner that does not prevent the emergence of a new credit union for example in an area that had previously been served by a credit union which has now closed.

The limit of counterparty to 100% of the regulatory reserve held by a Credit Union is perhaps too inflexible. A 200% limit would be more appropriate

Liquidity

The revised definition of liquid assets to include some investment with more than 3 months to maturity but with a guarantee than the funds are accessible within 3 months is welcome and would certainly helpful to those credit unions which hold investments of that nature

Savings

Many credit union members have built up their savings with their credit union over an extended period of time. In some instances members will come in to possession of large sums of money through pension lump sums and inheritances or through regular savings. While the vast majority of credit union customers have less than €100,000 in savings we feel that consumers should have choice with regard to preferred savings institutions. By limiting credit union customers to having a maximum of €100,000 in share or on deposit the choice of customers is being uneccessarily limited. It also may inadvertently send out the signal that credit unions are less safe than competitor financial institutions.

Lending

The introduction of new categories of loans including personal loans, commercial loans, community loans, house loans and loans to other credit unions is a welcome development.

The revised rule in respect of the maximum exposure limit to a borrower or group of connected borrowers is likely to prove problematic for some credit unions and is overly restrictive.

What is most concerning about the new lending restrictions is not the individual measures but how they will impact together in a way that may produce a sub-optimal outcome. As noted already they credit union sector is under lent. This is impacting on the ability of credit unions to earn enough income to pay a competitive dividend. The proposed measures will do little to assist the many credit unions who are struggling to win new business and in so doing ensure their future viability.

Given the significant strides made by the sector to improve compliance and regulatory structures a greater degree of leeway should be available to credit unions to make lending decisions which will both benefit individual members, the credit union sector generally and the wider economy.