Health Services Staffs Credit Union

CP88 – Consultation on Regulations for Credit Unions on Commencement of the remaining sections of the 2012 Act

Introduction:

Heath Services Staffs Credit Union Limited is a Dublin based credit union with a nationwide mixed industrial/community common bond. We now serve 32,000 active members accounts through three offices and have member assets of € 197m. The credit union manages a loan book of €107M and holds member savings of € 154M, and member deposits of € 12.4M. Health Services Staffs Credit union appreciates the opportunity to make a submission on CP88.

HSSCU has always supported appropriate and proportionate credit union regulation. We believe that the commission recommendations on tiered regulation, which was proportionate to the scale, nature and complexity of a credit unions business model was the most suitable model. However the Central Bank of Ireland proposals in CP76 did not propose such a proportionate approach but sought to create two classes of credit union while also attempting to restrict and micro manage the business of credit unions. We believe that the proposals contained in CP88 are no different. The regulations as proposed would reduce income across the sector, cause reputational damage and a possible flight of funds, and attempts to restrict competent, strong, progressive credit unions from offering our members appropriate services.

Summary of Issues:

CP 88

- Provides no rationale for any of the proposed changes
- Proposes regulations which are clearly in breach of competition law.
- Threatens an immediate flight of capital from the sector
- Will lead to a direct decline in income to the sector
- Will damage the sector's reputation amongst members and in the public

- Gives other financial institutions a competitive advantage over credit unions
- Does not support credit unions like HSSCU that have the capability of managing a more sophisticated business model.

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

SECTION 5 - RESERVES

HSSCU notes that the risk-weighting of assets for credit unions continues to be ignored in favour of a 10% figure across the movement. This we believe does not recognize the varying size of credit unions, nor the non-complex business model of credit unions.

HSSCU recommends a risk weighted approach to reserving, which exists in other international credit union movements would be preferable to the blanket application of 10% across all credit unions.

HSSCU would disagree with the requirement that newly formed credit unions should be required to hold an Initial Reserve Requirement on top of a Regulatory Reserve Requirement plus any Operational Reserve the Central Bank of Ireland may require.

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

SECTION 6 – LIQUIDITY

HSSCU believes the introduction of a short term liquidity ratio would be inappropriate and would negatively affect investment income at a time when credit unions are earning low returns on investment. We believe that many credit unions operate a minimum liquidity above the proposed 20% and would therefore question the rationale behind an eight day liquidity requirement.

HSSCU sees no rationale to change the current liquidity requirements. It is our view that Credit Unions always hold liquid cash on their balance sheet and have ample access to funds should the need arise.

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

SECTION 7 - LENDING

Creation of categories of credit union loans

HSSCU notes that the Central Bank proposes the following,

- the proposed creation of a House Loan category (Category 4); and
- the requirement that a credit union must hold a first legal charge on property to make a House Loan; and
- the retention of existing Section 35 restrictions on lending and
- the proposed introduction of a 25 year maximum term on any loan

House Loans

HSSCU feels that the whole issue of home loans needs further consideration and would be concerned that poorly thought out regulations introduced at this stage will limit the ability of credit unions to lend in the future. We would instance the Section 35 regulations which have restricted credit unions both in lending and in assisting members in financial difficulty. We would also point to the fact that no such restrictions are placed on any other lending institutions in the state.

HSSCU currently manages a loan portfolio of € 107.5M and has € 6.5M of our loan book between 5-10 years and € 1.13M over 10 years. Under the current section 35 regime HSSCU can grant loans of € 10.75 M over 10 years. This would allow HSSCU grant 48 loans of € 200,000 on secured mortgages. HSSCU currently has over 12,000 borrowing members

The requirement to hold a first legal charge on any home loan we believe will limit consumer choice and could lead to predatory lending practices. HSSCU accepts that any property loan needs to be matched against equity in the secured property, however we understand that no such requirement applies to any other lending institutions and would therefore give them competitive advantage as they would be allowed lend on a second charge against the freed up equity in a borrowers home.

HSSCU would also request that the Central Bank are clear that home improvement loans can still be issued under the personal loan category and do not require a charge on the property.

Retention of the existing Section 35 limits (>5 and 10 year percentages).

HSSCU notes that the draft Regulations propose to retain the existing Section 35 limits which we feel are for too restrictive. Some credit unions have already reached their limits, and as outlined above it would not be too difficult for HSSCU to reach these limits. This prevents all credit unions from generating income through lending to good members. We expect that more will credit unions will encounter similar difficulties as loan demand increases alongside the economy exiting the recession. HSSCU would ask that the new Regulations revise the percentages upwards.

Maximum maturity limit on loans of 25 years

HSSCU acknowledges the need for consistent asset liability management by credit unions. However although a 25 year maximum guideline term on loans is prudent we would be strongly opposed to this maximum being written into regulation as it then affords the credit union no flexibility.

Lending Concentration Limits

HSSCU note the proposed limits as follows:-

- Commercial Lending Up to 50% of Regulatory Reserve
- Community Lending Up to 25% of Regulatory Reserve
- Other Credit Unions Up to 12.5% of Regulatory Reserve

HSSCU would be of the opinion that concentration levels would differ from credit union to credit union and that credit union boards and management are best placed to consider and agree on concentration limits within their own credit unions. It is our understanding that concentration levels are not regulated in other lending institutions.

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

HSSCU has consulted with our investment advisors Davy on CP88. We understand that following consultation Davy have made a submission to the Central Bank. We would like to fully support the proposals in the Davy Submission.

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

SECTION 9 - SAVINGS

HSSCU cannot see any rationale behind the proposed cap on savings. We believe that current limits are appropriate, as it allows for saving to increase along with the natural growth of the credit union while also taking account of mergers and amalgamations. HSSCU has 44 members with savings in excess of €100,000 totaling € 5.5M.

Imposing such a restriction has the potential for a highly negative on the reputation of the credit union movement, and gives the impression that the Central Bank is of the view that there are safer financial institutions for member savings. We therefore reject totally this proposal.

HSSCU would ask the Bank to clarify the rationale for retaining the provision that a credit union's total deposits cannot exceed total shares.

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

HSSCU would recommend that a future review timeframe of the borrowing regulations be agreed.

(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.

SECTION 11 – SYSTEMS, CONTROLS AND REPORTING ARRANGEMETNS

HSSCU agrees with the Banks' view on increasing transparency for members.

(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.

HSSCU believes that the regulations should clearly provide for the provision of money transmission services through the use of a debit card linked to a payments/current account in the credit union. We believe, and have legal opinion that this is an exempted service. However sections of the Bank have made spurious arguments against the provision of a debit card service based on the type of account the card is linked to, or indeed whether the card is prepaid or not. The provision of a debit card services is in line with the Government and the CENTRAL Bank's National Payments Strategy.

Conclusion

HSSCU supports the idea of a strong regulatory framework that will underpin the future growth of our sector. We believe however that CP88 seeks to limit and constrain credit unions. RCU has for the past number of years persistently called on progressive credit unions to show leadership in our movement. The proposals in this consultation paper would preclude credit unions like HSSCU from progressing and displaying such leadership.

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