MALAHIDE
CREDIT UNION

Registry of Credit Unions,
Central Bank of Ireland,
P.O. Box 559,
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Dublin 2.

27th February 2015

**Consultation on Regulations for Credit Unions on the commencement of the remaining sections of the 2012 Act (CP88)**

Dear Sirs,

We note the publication by the Central Bank of Ireland (CBI) of Consultation Paper 88 (CP88) in November 2014, we acknowledge the opportunity given to Malahide and District Credit Union (MDCU), and the Credit Union movement in general, to consider the proposals in the Circular and we appreciate the process of consultation being undertaken by the CBI.
We wish to provide some feedback on CP88 from the perspective of our Credit Union and its members. In line with the suggestions in CP88 we will set out our response using the relevant headings of the circular.

Reserves

We note the current requirement to hold a minimum Regulatory Reserve Ratio of at least 10% and that the proposed regulations include the possibility of a reserve ratio in excess of this being prescribed by the CBI. We believe the regulations for any such increase should include a reasonable period of time for a credit union to meet a new requirement and would suggest a period of 3 years as being a reasonable period.
While not directly relevant to MDCU, we believe the reserve requirements set out in the regulations for a newly registered credit union are not achievable and would prevent the creation of a new credit union. We would suggest that a tiered reserve requirement set out over a 5 year period would be preferable and would allow a newly registered credit union to grow in its early years to a point where it has generated sufficient surpluses to fund its reserve requirements.

Liquidity

The level of 3 month liquidity retained by credit unions exceeds those set out in the proposed regulations but this should not be an issue for the majority of credit unions. We welcome the extension of the definition of liquid assets.
We believe the new regulation regarding short term liquid assets is excessive and that funds available within 8 days do not need to be set at 10% of unattached savings. Liquidity requirements should be proportionate to the Credit Unions typical cash-flow patterns with an allowance for some adverse fluctuation beyond that level. We would suggest that a short term liquidity level, being funds available within 3 working days, that equals 2 weeks average outgoings plus an allowance for an extra week would be a more tailored and effective level.

Lending

We broadly welcome the extension of lending and proposed categories in the proposed regulations. We believe that the credit union movement can assist the Irish economy to recover and grow by appropriate lending its members, commercial and community enterprises.

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We have concerns regarding some aspects of the regulations and some suggestions on others as follows:

1. House Loans: The paper describes a house loan in a manner that includes home improvements, without reference to value, and requires a first legal charge to be secured on all such loans. Loans for home improvements can vary in purpose and value and in most cases would not be of sufficient value or risk to require a first legal charge. We would suggest that this type of loan is separated from House Loans and be subject to similar controls as personal loans.
2. House Loans: We believe it is a positive step to introduce this category of loans to credit unions. However, we believe that this category of loan carries with it a set of special issues that warrant a separate set of regulations beyond those covered in CP88. In particular aspects regarding the overall value of a house loan, loan to value ratios, security and the asset as a family home are all complex matters that warrant careful consideration by both the Credit Union movement and the CBI.
3. Commercial Loans: We believe the concentration limit of 50% of Regulatory Reserve as set out in the proposed regulations may be too low for some credit unions and that a limit set by each credit union, taking into account its own demographic profile and risk appetite would be more appropriate.
4. Community Loans: We believe the concentration limit of 25% of Regulatory Reserve as set out in the proposed regulations is too low and that a limit set by each credit union, taking into account its own demographic profile and risk appetite would be more appropriate.
5. Loan to Another Credit Unions: We believe the concentration limit of 12.5% of Regulatory Reserve as set out in the proposed regulations is too low but note that this is not a feature of current practice across the credit union movement. Any such loan should be made within limits set by the credit union to reflect its own risk appetite.
6. Large Exposure Limit: We disagree with the change from 1.5% of assets to 10% of regulatory reserves. We believe the limit for an individual loan should be set at 1.5% of total assets without any other monetary value being used i.e. remove the reference to €39,000. Using a regulatory reserve of 10% of assets means this equates to 15% of RR compared to the 10% proposed. We agree that it is prudent for a credit union to set a limit to the total value of large exposures and we agree with the definition of a large exposure being a net loan that is greater than 5% of RR. We believe that the level of loans that represent large exposures should be measured and carefully managed but suggest that the value of such loans as a proportion of total loans should be managed by each credit union in line with its membership demographic and risk appetite.

<u>Investments</u>

We note the proposals on concentration limits and agree with the principle that risk can be reduced by ensuring an adequate diversity of investments.

While we do not have funds invested in Equities we disagree with the removal of this as an investment option for CU's. There are many funds and investment opportunities that may include some element of Equity investment that may have a risk profile that is lower than those allowed in the proposed list and we would suggest that some element of an investment portfolio could be justified, subject to the individual CU's risk appetite, investment portfolio and income requirements.

We would suggest that the list of allowable investments should be extended to include possible investment in state supported schemes such as education or social housing, possibly through a collective investment scheme.

We also suggest that the list includes the option of an investment that has received approval by the CBI to allow for opportunities that may arise in the future

Finally, we would suggest that setting a 10 year limit to any investment is inappropriate and could rule out potential low risk investment opportunities. We believe that the Credit Union movement could play an important part of the economic recovery in Ireland and that involvement in some collective investment opportunities could allow investment in important national projects. Such investments will likely require a term in excess of 10 years.

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## Savings

We fully support the current limitation on statutory savings of 1% of total assets but do not believe that any monetary limit need be set for Credit Unions. While we operate with a limit of savings we believe such a monetary limit should be set by each Credit Union to reflect its own size, membership and financial requirements.

To set such a limit would place Credit Unions in an unfair competitive position compared to other financial institutions. The use of a limit of €100,000, being the same as the national savings guarantee, could also create a negative impression of the financial stability of Credit Unions.

## Borrowing

We have no issue with this change and do not believe it is an important element in Credit Union balance sheets.

## Systems, Controls and Reporting Arrangements

We have no issue with the need to adequately and fairly report on the operations of the Credit Union and are supportive of systems and controls that give assurance to our members. We would suggest that the CBI might set out an example of their reporting requirements as an Appendix to any regulation. In particular we would welcome clarification on the intended disclosure requirements for performance of a loan book.

## Timelines

We believe the regulations could be introduced within the indicated timelines but would suggest that some elements, as previously set out, may need a longer transition period.

We also believe that any regulation should include a review period and we would suggest that a 3 year term is a reasonable period to pass at which stage the regulations should be reviewed.

## Public-private partnership

As mentioned under Investments we believe there should be scope for an additional category of investment or lending which would be to lend to or invest in public-private partnership arrangements. The definition of lending or investment would be dependent on structure and term. It is our belief that funds available within the credit union movements could be utilised to support a range of community based initiatives such as community housing, school building, primary care centres etc where a state body facilitates the building and operation using funds lent or invested by a pool of credit unions.

We believe in and support the concept of a regulated credit union sector. This gives each credit union and its members added assurance regarding their savings and investments. We believe that regulation should be effective, efficient and economical and, as such, needs to be tailored to the risk and complexity of the sector. We welcome the consultation paper and the opportunity to express our opinion of the future regulation of our sector.

Yours faithfully,

Donal Murphy
Chairman