St. Mary's Parish Credit Union Ltd
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Submission to the Central Bank of Ireland on Consultation Paper CP 88 – Consultation on Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act.

Submission made to rcuconsultation@centralbank.ie on 27th February 2015

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1. Introduction:

1.1. In view of the importance of the issues dealt with in CP88 on the prospects of Credit Unions in Ireland surviving and thriving, St. Mary's Parish Credit Union Ltd welcomes the opportunity to present our views on the Regulations for Credit Unions on commencement of the remaining sections of the 2012 Act.

1.2. The general content of this submission was agreed by the Directors of St. Mary's Parish Credit Union Ltd at a Board Meeting held on 19th February 2015 and the final document was agreed by them via email prior to submission.

1.3. The contents of this submission therefore should be regarded as representing the view of the Credit Union as a whole and not those of any one individual or group of individuals within the Credit Union.

1.4. This Credit Union believes that the basis of good regulation is that it should be appropriate and fair and, in considering this consultation paper, we have tried to measure the proposed approach against this benchmark.

1.5. The purpose of this submission is to focus on the concerns we have in relation to this proposed approach and, where appropriate, to suggest alternative approaches which, in our opinion, would have the effect of making the regulatory approach for Credit Unions more appropriate and fairer.

2. General Comments:

2.1 It is the considered opinion of the Board of Directors of St. Mary's Parish Credit Union that the overall effect of the proposed regulations as set out in Consultation Paper CP88 will have a detrimental effect on the ability of Credit Unions in Ireland to survive and thrive as it does not provide for an appropriate and fair approach to the regulation of Credit Unions.

2.2 We believe that some of the proposed regulations may be anti-competitive and could be open to challenge to the Competition and Consumer Protection Commission (CCPC) or the European Commission.

2.3 In our opinion, the Regulatory Impact Analysis does not provide the level of detail we would expect. For example, no figures are provided on the actual amount of savings members would be obliged to withdraw from Credit Unions if the limit proposed in Section 9.2.2 was applied and absolutely no consideration appears to have been given to the reputational damage that may result.

2.4 We have serious concerns that the proposed regulations are based on the assumption that what is or is not being done in credit unions at present should determine what they will have the ability to do in the future. There appears to be a lack of thought given to how credit unions operations and activities will evolve over the coming years and how legislation and regulation should be enabling this process rather than preventing it from occurring.

2.5. A further issue of serious concern is the lack of any clear provision for a review of the proposed regulations within a defined period and we believe that a provision to this effect should be included.

3. Specific Comments:

3.1 Section 5.3.2 – Regulatory Reserve Ratio. A rationale of why the reserve requirement for credit unions is 10% should be provided. Consideration should be given to developing a reserve ratio requirement based on a risk rated approach and a full Regulatory Impact Analysis of the two options should be carried out.

3.2 Section 6.2.2 – Short Term Liquidity Ratio. Given the fluid nature of short-term funds it is hard to be accurate on the level of funds that would presently come under this heading, but using the figure of €9.9 billion in credit union investments provided in Section 2 of the Regulatory Impact Analysis means that the movement as a whole would have to hold €990 million (10%) in short term liquidity at any one time. Present rate of return for funds of this nature are around 0.01%, whereas the return on maintaining these funds as liquid under the present definition should average 0.6%. Even allowing for this change resulting in a reduction in return of approximately 0.5% has potential to cost the movement €4.95 million per annum in lost income. No meaningful rationale for the introduction of this Short Term Liquidity Ratio is given and the Regulatory Impact Analysis does not consider the potential lost income of the proposed change or give any statistics in relation to liquidity issues that may exist within the credit union movement.

3.3 Section 7.1 – Explanatory Comments. Regarding the retaining of Section 35, the present limits on lending for period over 5 and 10 years should be reviewed to ensure that, if and when, credit unions engage in longer term lending, such as mortgages, they are not unduly restricted in their ability to do so.

3.4 Section 7.2.1 – Categories of Lending. House Loans – the definition of a House Loan to include “Improve or renovate a house on the property that is already used as their principal residence;” combined with the proposed requirement for credit unions to “hold the first legal charge secured on a property for any house loans made following commencement of the regulations” will have the effect of denying credit unions access to one of the main markets for personal lending. This will also deny citizens of the state, who have a mortgage on their property, the opportunity to improve or renovate their home using funds borrowed form an institution of their choice. There is no assessment made of the impact of the cost associated with the taking of a first charge in relation to these loans, who is to bear these costs or whether this would be economically viable given the possible size of loan involved. In addition, no detail is provided on the volume of lending that loans of this nature represent for credit unions, the average size of such loans and the potential loss of income as a result of not being able to issue these loans on commencement of the regulations. This particular regulation, in our opinion,

could be considered to be anti-competitive as we are unaware that similar requirements are being imposed on other financial institutions.

3.5 Section 7.2.1 – Categories of Lending. Loans to other credit unions – this is listed as a category but no definition is provided.

3.6. Section 7.2.3 – Large Exposure Limit. It is our opinion that the rationale provided for changing the measure of this ratio from a % of total assets to a % of the Regulatory Reserve is, in fact, a rationale for changing the ratio to a % of Total Realised Reserves. We accept that this would be a fair basis on which to set this limit as it would allow those credit unions who have been prudent in building reserves above the regulatory requirement a higher limit than those credit unions who only maintain the regulatory reserve requirement.

3.7. Section 7.2.2 – Concentration limits and requirements for certain types of lending. We believe that any lending ratios should be measured against the Total Realised Reserves of a credit union rather than the Regulatory Reserve. Our rationale for this is that credit unions who have been prudent in building up their total reserves have a greater ability to absorb any losses that may arise from credit risk than credit unions who have just maintained the regulatory reserve requirement.

3.8. Section 7.2.4 – Maturity of Lending. The imposition of a 25 year maximum term for a loan of any category is unduly restrictive and does not take account of possible future developments in the nature of lending credit unions could engage in. In our opinion, this regulation could be anti-competitive as credit unions offering mortgages to members would be subject to restrictions which, to the best of our knowledge, do not apply to other financial institutions.

3.9. Section 7.2.5 – Related Party Lending. We agree that loans to related parties should not be provided on more favourable terms than loans to non-related parties, although we would argue that this should be included in primary legislation and applied to all financial institutions rather than be a regulation for credit unions. We have very strong objections however, to the definition provided of a related party. The inclusion of the members of an officers' family as related parties is an unfair imposition on members who have no direct involvement or influence on the decision in relation to the granting of loans. Given the local nature of many credit unions this regulation could have serious implications for the recruitment of future Directors/Management. Also, it will have implications for the volume of reporting of loans at Board meeting and the approval of loans in advance by the Board. In our credit union alone this could result in an additional 70 to 90 related parties, depending on whether or not these relatives are members. This proposal has the potential to further undermine efforts to recruit and retain volunteers as it is unduly intrusive and draconian in nature. We also note that no distinction is made in respect of loans fully covered by shares and how they should be treated.

3.10. Section 8.2.1 – Classes of Investment. In order to allow for the possible involvement of credit unions in areas they are not engaged in at present the following classes of investment should be added:

- Centralised lending
- Social housing
- State guaranteed projects
- As otherwise may be approved by the Bank.

3.11. Section 8.2.4 – Maturity Limits. We believe that credit unions should have the option of investment in State Securities for a period of longer than 10 years, as it is generally the case that the shorter the time to maturity the lower the yield. Also, if credit unions are lending for periods longer than 10 years then good asset liability management would suggest that they should be able to invest for longer than 10 years also.

3.12. Section 9.2.2 – Maximum Savings. We strongly oppose the proposed regulation in this regard for a number of reasons:

(1) Potential for flight of capital. We presently have 17 members who have more than €100,000 in their savings, amounting to €2.228m of which €528k would have to be withdrawn. Assuming that these members did not withdraw their full savings but only the amount above €100,000, this would result in a loss of €10,000 income for us based on our average return on investment of 1.9%. If these members lost faith in the credit union, as is a possibility on being told that the Central Bank won't allow savings with credit unions above the amount of the Government Deposit Guarantee, and moved all their saving this credit union would have a loss of income of over €42,000 per annum. Using the figure provided in Section 2 of the Regulatory Impact Analysis for movement savings of €11.8 billion, and the 1.2% of savings over €100,000 from Section 4.2.2.5 of the Regulatory Impact Analysis gives an amount of €141.6m which would have to be transferred out of credit unions. This would result in a loss, taking a conservative movement wide return of 1.5% on investments, of €2.124m per annum. We are extremely disappointed that the Regulatory Impact Analysis makes no mention of these potential losses to the movement if this proposed regulation proceeds.

(2) Reputational Damage. The restriction of savings to the amount of the Government Deposit Guarantee is likely to trigger serious reputational damage as is the withdrawal of an amount of €141.6m from credit unions within a short space of time. No account has been taken of this in the Regulatory Impact Analysis.

(3) Government Deposit Guarantee Scheme Participants. If this limit is "considered appropriate to ensure a diversification of members' funds and to protect members' savings", then the logic is that it should be applied to all financial institutions who are members of the Government Deposit Guarantee Scheme.

(4) Anti-competitive. We believe this proposed regulation to be anti-competitive on the basis that it unfairly discriminates against credit unions and their members.

3.13. Section 9.2.2 – Maximum Savings. Deposits – we agree that there should be no separate limit to the amount of deposits that a member holds as part of their overall shareholding, subject to the overall deposits to shares ratio as set out.

4. Conclusion:

4.1. We are disappointed that the regulations proposed in this consultation paper appear to be intended to restrict credit unions rather than to facilitate the development of a viable credit union model for the future.

4.2. We believe that each Credit Union should be regulated as an individual entity based on the applicable legislation and that attempting to regulate all credit unions by the imposition of restrictive, one size fits all, regulations is not consistent with good governance by fit and proper persons, as it effectively micro manages all credit unions and means that the role of directors is akin to that of compliance officers.

4.3. We do not believe that the fact that certain limits and other regulatory restrictions proposed in this paper will not have an immediate impact on most credit unions is a valid reason to apply them. Consideration has to be given to the possible future operation of credit unions and this appears to us to be sadly lacking in this document.

4.4. We do not believe that the Regulatory Impact Analysis carried out is sufficient in scale or measures of likely impacts to be the basis on which the impact of these proposed regulations can be judged. We believe that a Regulatory Impact Analysis which helps to identify and quantify any possible direct or indirect effects and any possible direct or indirect costs or loss of income to credit unions resulting from these proposed regulations should be carried out, and a further period of consultation allowed as a result of this, prior to the publication of any final regulations.

John Hennessy,
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For, and on behalf of,
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