Swinford & District Credit Union Limited

Main Street

Swinford

Co Mayo

Consultation Feedback to the Central Bank on CP88

Savings

Swinford & District Credit Union is of the opinion that the enforcement of the €100,000 savings limit will be very difficult for the credit union. It will be very difficult to get a member to reduce their savings on request, and could damage our reputation if we have to tell members to reduce their savings below €100,000, "It might be assumed that the credit union must be bust".

The Board also believe that the imposition of a limit of €100,000 could be a breach of competition law. Why is the credit union being sanctioned in such a manner when other financial institutions are not? If the limit is imposed it should not be applied retrospectively, i.e. any member with savings above €100,000 should be allowed to retain them in their credit union.

In practice it is very easy for the credit union to breach for €100,000 limit when, for example a member comes into a lump sum from a redundancy payment or retirement and they wish to deposit this with the credit union. The credit union would give a very negative message to the public if they were refusing to take members money. Many members have closed their accounts with other financial institutions and do all their business through the credit union.

Lending

The Board feel that the limit of loans over 5 and 10 years is a problem for many credit unions and will be a problem for more credit unions as loan demand picks up, particularly those credit unions issuing home loans.

The limits on loans over 25 years will also potentially be a problem for some credit unions.

The new limit on loans tied to reserves will impact low capital credit unions, for example credit unions that may have reasonable reserves but have value in use issues regarding their premises. It may mean that it could be difficult for these credit unions to trade out of difficulty.

The rules on related party lending are vague and should be clarified. Many families have a number of members living within the common bond, most are good members that borrow and save with the credit union and should not be restricted in any way by what other family members are doing. This should apply only to officer's loans.

Large Exposure limit is totally unworkable and the total exposure limit of €39,000 is not realistic in today's market. Like related party lending there are many families living within the common bond of the credit union and all would be strong members of the credit union operating within the rules. The credit union could not justify the reason for refusing a loan to a longstanding member because it puts the credit union over the large exposure limit.

It is important that limits round commercial lending are reasonable, banks are not lending to SMEs at present and this presents an opportunity to the credit union.

Liquidity.

The minimum liquidity ratio is acceptable at 20% and the board do not have a problem with this. The short term liquidity ratio of 10% is too restrictive and leaves the board with problems getting a decent return on investments as rates in the market place are very poor.

The 8 day liquidity ratio is too excessive and makes it very difficult to get a return on investments.

Management.

Boards of directors have managed credit unions in a manner that protected the member's shares over the decades. Prudent management have produced credit union's that have strong liquidity, loyal members and it is felt that the CP88 is an attempt by the Central Bank to micro-manage the credit union movement.

We are making this submission because it is felt that it is time for the credit union to look to future proof the regulations, to limit the interference in the workings of boards and management.

The additional lending rules if imposed on top of lending restrictions (press statement recently stated 58% of credit unions have a lending restriction) would be totally unreasonable and another example of extreme micro management.

Why can credit unions only make investments of up to 10 years when many are in a position to put investments over a longer period (thus getting a higher return) and yet give loans for up to 25 years in some cases?

Home Loans

The definition of home loans is unclear in the paper. Many of our members borrow to make improvements to their existing home. The onus on credit unions to put a first charge on member's homes is unreasonable as in most cases, the mortgage provider will have first charge on the property.

Investments

The counterparty limit – investments in a single institution limit of 25% - challenges the credit union to find institutions where they can put their funds. We have three major players in the market and the removal of equities seems unfair when the credit union is so limited.

Equities should remain an investment option for credit unions as this spreads the risk for the credit union, and long term returns are good.

The short term liquidity ratio/requirements could badly impact investment returns.

Additional Services

There are other concerns under additional services making the credit union believe that it is the objective of the Central Bank to limit credit union's ability to develop new services and grow, leaving them with the options of savings and loans when this may not necessarily meet the future requirements of members.

Reporting Arrangements

The board of Swinford credit union would be totally against any expanded reference to bad debts appearing in our annual returns other than what is already there. We believe that providing a figure like Resolution 49 on annual reports would be detrimental, as the general member might not understand the format and the possibility of misinterpretation could be high.