21st February 2015

Registry of Credit Unions

Central Bank of Ireland

PO Box 559

Dame Street

Dublin 2

Re: CP88 Consultation on Regulations for Credit Unions

Dear Sir/Madam,

The Board of Youghal Credit Union would like to make the following submission in relation to Consultation Paper CP88 issued in November 2014.

5.4 (i) Reserves –We agree with the proposed regulations. However, the additional requirements for new credit unions may make it very difficult for new credit unions to be set up.

6.4 (i) Liquidity –We agree with the proposed regulations. However, given the ongoing changes in the investment environment, we request that the Central Bank establish a formal mechanism to review these regulations on a regular basis.

7.4 (i) Lending –We have a number of comments on the proposed regulations:

- Exposure Limits: We assume that the exposure limit (regulation 14 and Section 11 (1) (a) of the Act) relates to the nett difference between any loans and savings. It would be useful to have this stated in the proposed regulations.
- House Loans: In relation to house loans, regulation 16 states the credit union should hold the first legal charge on the property for each house loan issued. We agree with this in relation to a mortgage or a significant loan for a house extension. However section 7.2.1 includes loans to improve or renovate a house in the definition of a house loan. Therefore a relatively small loan, for say attic insulation or window replacement, would be defined as a house loan and require the credit union to have the first legal charge on the property. As many properties will have mortgages with banks, who will already have the first legal charge on the property, this type of loan will be restricted to members who don't have a mortgage on their property. Even if the member's property doesn't have a mortgage, they are unlikely to be willing to incur the cost or inconvenience of getting a legal charge on their property in order to get a loan for say attic insulation. Youghal Credit Union currently has over 700 home improvement loans with a total value of €9,545,209 to our members. This represents 33% of our loan book and would be significantly impacted by the proposed requirement to obtain the first legal charge on properties, prior to issuing a home improvement loan. We recommend that this requirement be removed in the case of home improvement loans. Alternatively, home improvement loans should be included in the personal loans category.
- Related Parties: We agree that loans to a related party should on no more favourable terms than loans to a non-related party (regulation 21). However, the proposed lending and reporting procedures (regulation 20) for related party loans are onerous, difficult to implement and will be a disincentive to members becoming directors. The proposed regulation would appear to be discriminatory and there may be data protection issues with the proposed regulation. As related party loans will have to be approved by the board of directors or a sub-committee of the board, they will take longer to process than normal loans, thereby putting the related party at a disadvantage. It will also mean that directors will be aware of any loans made by parties related to them. Parents and adult children, who are financially independent of the director in question, may object to their child/parent knowing that they are applying for a loan. In the case of a separated, but not divorced, couple, would the spouse of the director still be viewed as a related party. If so, there could be very understandable objections to the requirements of this proposed regulation. Incoming directors and management will have to find out if their related parties are members of the credit union and notify their details to the credit union so that these accounts can be monitored under these proposed regulations. Again there are likely to be understandable objection to this process by the related parties.

We view regulation 21 to be of little use as the credit union still has to monitor these loans to ensure that they don't go over the proposed limit of €2,000.00, which in itself seems is so low as to be pointless.

8.4 (i) Investments –We have no objection to these proposed regulations. However, given the ongoing changes in the investment environment, we request that the Central Bank establish a formal mechanism to review these regulations on a regular basis.

9.4 (i) Savings –We have a number of comments on the proposed regulations:

- We object to proposed regulation 35, limiting a members' savings to €100,000. The reasons given in 9.2.2, for this proposed limit, are to ensure that credit unions' funding is sufficiently diversified while protecting members' savings. However, as Youghal Credit Union has assets in excess of €83,000,000, a €100,000 limit on members' savings is unreasonably low. As the central banks' RIA has established that less than 0.11% of members and 1.18% of members' savings exceed the proposed new limit, it is clear that the proposed change will have little or no affect on credit unions diversity of funding. In terms of protecting members' savings, the other incoming regulations should ensure that there is minimal risk to members' savings. As other credit institutions do not have this proposed limit, we would view this proposal to be anti-competitive. It will also send a very negative message to members and the general public i.e. that you can't trust credit unions to have more than the limit of the government's savings guarantee. While only 1.18% of savings exceed the proposed limit, the total value of these members' savings is 3.9% of total savings or €417million. It is likely that some members will withdraw all their savings if this limit is introduced. This will have a negative impact on credit unions, but more importantly on their status with their members. We view the previous limit of the greater of €200,000 or 1% or assets to be reasonable. For larger credit unions (assets greater than €50million), the limit could be reduced to 0.5% of assets.
- We view the transitional arrangement (regulation 36), at six months to be too short. This should be at least a year.

10.4 (i) Borrowing –We have no objection to these proposed regulations.

11.4 (i) Systems, Controls and Reporting Arrangements –We have no objection to these proposed regulations. However, we would like more clarity on what level of detail will be required in relation to regulation 45 (Reporting and Disclosure in the Annual Accounts).

12.3 (i) Services Exempt from Additional Services Requirements –We have no objection to these proposed regulations.

13.1 (i) Proposed timeline –We view the proposed six month transition period to be too short and recommend that it be extended to eighteen months.

We trust that above is helpful and we would request the above, limited number but very serious concerns be taken into account when developing the final regulations. If you would like clarification of any of the above points, please do not hesitate to contact us.

Yours faithfully,

Elaine Martin, Chair,

Youghal Credit Union.