



26 March 2020

Mr. Gabriel Makhlouf, Governor
Central Bank of Ireland
New Wapping Street
North Wall Quay
Dublin 1
D01 F7X3

Implications of Covid19 for credit unions

Dear Governor Makhlouf,

The Irish League of Credit Unions ("ILCU") would firstly and most importantly, like to wish yourself, your staff and your families safe health in these unprecedented times. In addition, we welcome your press release of 19th March and your opinion published in the Sunday Independent of 22nd March. Your commitments around capital and operational reliefs, forbearance / moratoria measures and practical measures regarding the Central Credit Register are very re-assuring.

Secondly, we want to acknowledge the engagement to date with Patrick Casey and his team at the Registry of Credit Unions in respect of the implications of COVID-19 for credit unions. Our affiliated credit unions will continue to be to the fore in supporting their members who are encountering financial hardship as a result of this crisis. Their dedicated staff are very focused on maintenance of vital services to their members.

At this juncture, we felt it would be timely to set out some key pragmatic regulatory relief measures which we are asking to be implemented to support credit unions as they in turn support their members.

Provisioning Guidelines & Additional Credit

The ILCU understands that the Central Bank is developing an FAQ to consider various loan impairment scenarios arising as a result of COVID-19. We hope that this guidance will reflect a tolerant regulatory approach to the treatment of credit unions both now and when the crisis is over. If it does not, it is probable that many credit unions will be reluctant to provide reliefs to borrowers due to a fear of severe regulatory repercussions. The ILCU would welcome the opportunity to work collaboratively with the Central Bank in developing these FAQs so that practical guidance can be issued as soon possible to credit unions. We would be happy to elaborate on our thoughts if that would be of assistance but in summary, our view is that in most cases, the period of an agreed forbearance should be ignored in decisions on whether or not a provision is required on a loan.

With regard to providing additional credit to members affected by COVID-19, it is likely that the assessment criteria currently applied by credit unions (and other lenders) will have to be relaxed, at least for relatively small loans. We would expect that in all such cases, credit unions would document their rationale for granting additional credit and would be cognisant of the aggregate credit risk impact on their Balance Sheets. Again we urge the Central Bank to adopt a pragmatic regulatory approach in this instance when performing subsequent regulatory inspections.

Levies

Our affiliated credit unions currently have substantial annual levy payments as noted in the table below:

Levy	Current Annual Levy
Deposit Guarantee Scheme	€13.4m
Credit Institutions Resolution Fund Levy	€4.4m
Stabilisation Scheme Levy	€2.7m
Industry Funding Levy	€1.5m
Total	€22.0m

The Central Bank is planning, and has ministerial approval to increase the Industry Funding Levy in stages up to 50% (of Industry Funding costs) by 2022. This levy currently costs our affiliated credit unions approximately €1.5 million per annum, and the increase proposed would increase the cost to approximately €7.8 million by the end of the cycle, in 2022.

Credit unions will incur significant additional costs in the national interest to maintain services and to provide flexible finance arrangements to members in the course of this crisis. These additional costs will be a significant challenge for credit unions. Consequently, the ILCU asks for regulatory cost relief measures to be implemented, including the suspension of all levy charges imposed on credit unions, for the next 12 months combined with a commitment for a subsequent review of the levies framework after 12 months.

Regulatory Reserve Requirements

The capital regulatory reserve requirement for Republic of Ireland (“ROI”) credit unions is currently 10% of Total Assets, which is substantially higher than the requirement for credit unions in Northern Ireland, UK and the USA. For example, the corresponding capital reserve requirement in the USA is equivalent to circa 6% of Total Assets. In addition, ROI credit unions are also required to maintain an operational risk reserve, on top of the regulatory reserve requirement, for the predicted impact of risk events that may have a material impact on the credit union’s business.

Credit unions building on the government’s call for solidarity and community spirit are engaging with their members in difficulty providing forbearance measures such as repayment holidays, reducing payments, enabling individuals to avail of interest-only payments and extending loans. However, it is essential that the regulatory capital requirements do not stifle credit unions assisting their members in their time of need.

In this context, the ILCU urges the Central Bank to review the quantum of the existing regulatory reserve requirements. The Central Bank, on 18 March 2020, agreed to reduce the capital buffers for banks by 1% which has freed up in excess of €1 billion of bank capital. The European Central Bank has also relaxed Pillar 2 guidance and the Capital Conservation Buffer.

Credit unions are currently very well capitalised, average capital is 16% as at December 2019, and also ILCU affiliated credit unions have the added protection of the Savings Protection Scheme Fund, net assets of €95 million as at December 2019. However, the impact of additional costs for credit unions that may arise during this crisis while operating in the national interest including potential impairments, increased operational costs and accelerated savings may significantly challenge their capital reserves. Consequently, we are proposing that the regulatory reserve requirement should be reduced by 2% to 8%. This would be equivalent to the previous measure of regulatory reserve which was maintained by credit unions prior to the current framework which was 10% of prior year savings and equated to circa 8% of total assets.

The Registry of Credit Unions publication from August 2009 “Regulatory Reserve Ratio for Credit Unions” set out the basis for the current 10% regulatory reserve as being to provide protection against the risk of future unforeseen losses and would enable credit unions to act flexibly in adverse economic conditions. This countercyclical element of the reserve which we consider to be 2% may now be needed by credit unions to support their financial position during and in the aftermath of this crisis. As you may be aware, the ILCU has long advocated for the implementation of risk weighted regulatory reserve methodology and we would ask that in conjunction with the proposed 2% decrease in the regulatory reserve that a review of the regulatory reserve framework is undertaken in the next 12 months.

Investment Regulations

The 2018 Investment Regulations include a minimum credit rating for corporate bonds and government bonds. We ask the Central Bank to consider suspending this minimum rating requirement at this time so that credit unions would not be required to dispose of investments which may temporarily fall below the minimum credit rating requirement.

A number of our affiliated credit unions have expressed concern as to the treatment for liquidity purposes of excess funds included in the Minimum Reserve Deposit Account. This concern is particularly acute at this time. The Central Bank Credit Union Newsletter earlier this month noted that the current definition of liquid assets was being reviewed by the Central Bank. We would now ask the Central Bank to accelerate the update of the liquid asset definition so that excess funds in the minimum reserve deposit account are now included.

The counterparty limit for credit union investments has, from 1 March, decreased from 25% to 20%. We ask the Central Bank to implement a transitional measure whereby the counterparty limit is restored to 25% for the next 12 months and reviewed thereafter. This will provide some relief to credit unions as they focus their primary attentions on meeting members’ needs during this crisis.

Central Credit Register (“CCR”)

We welcome the communication today, from the CCR and we are currently reviewing the implications of this including the operational effects on our credit unions.

Proposed Next Steps

The ILCU firmly believes that that regulatory relief measures proposed above are vital to support credit unions as they in turn support their members comprising over 600,000 borrowers in ROI. We would appreciate the opportunity to discuss these proposed measures with you at your earliest convenience.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Ed Farrell', written in a cursive style.

Ed Farrell
CEO

cc Mr. Patrick Casey, Registrar of Credit Unions

cc Mr. Paschal Donohoe TD, Minister for Finance and Public Expenditure & Reform

cc Mr. Brian Corr, Head of Credit Union Policy Department of Finance