CREDIT UNIONS
Six Strategic Steps
Towards 2016

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INTRODUCTION

Credit unions are a voluntary, visionary movement. We are neighbours and work colleagues, in communities and organisations, across the country who pool our resources to help each other. Our savings, the shares we hold in our own credit unions, are the basis for the credit we provide in loans. Members needs vary from meeting an unforeseen emergency, to getting a family through Christmas, to investing in the better lives we all aspire to. A car loan, home repairs, education, small and micro business are all usual reasons for the loans, our savings fund, for each other.

Members own and run credit unions. Being a grass roots, not-for-profit, organisation founded and run for a social purpose, we are a unique financial institution. Democratically run, volunteer led and based on helping members, not profiting from customers, our ethos sets us apart.

The economic crash has put enormous pressure on families, and credit unions have been there for them. Now we want to do more. Economic recovery, if it can be sustained, is paralleled with a thorough reorganisation of financial services regulation. Boom cannot be allowed turn to bust again. Lending to members who have little or no other source of credit gives the movement a unique insight. Our aim is to share our experience and offer leadership. The clear, focused policy steps we advocate, will strengthen credit unions, ensure that prudent lending is available to those who cannot access it elsewhere and make a major contribution to key national objectives including social housing and small business.

We are an all-island movement. In the Republic of Ireland we have 2.87 million members, in 361 credit unions, with €3.62 billion of loans based on €10.66 billion in savings. An average credit union loan is €6,000. Collectively we hold €12.75 billion in assets.

This is our policy programme. It is a plan to better serve our members, to invest our resources to meet the needs of society, to ensure better regulation and deliver on the social objectives we were founded to serve, for the future.

C *redit for the most vulnerable*

Remove red-tape on small loans of € 1,000 or less

Providing loans at affordable interest rates for those who cannot access credit elsewhere is the reason credit unions were established. Even in good times, people depended on the credit unions for small sums, sometimes only a few hundred euro, to get them through hard times. Christmas, First Communions, a wedding were all reasons help was needed. Now in much more difficult times, that need is greater and we are very concerned that credit unions are not enabled to meet it. The circular issued by the Central Bank in February 2013 regarding prudent lending properly seeks to ensure responsible lending. It also, however, takes away the discretion that credit unions, exercised in dealing sensitively with those in difficult circumstances, seeking very small loans. The circular applies equally to all loans regardless of size, and is an example of one-size-fits-all approach to regulation that is not serving credit union members well.

The requirement to seek extensive documentation such as payslips, bank statements, credit card details and mortgage statements is excessive. Because discretion on micro lending is no longer possible, vulnerable people are turning to moneylenders, and paying exorbitant interest rates.

Discretion in lending small amounts needs to be restored to credit unions. We were founded to be an alternative to banks who will not cater for this pressing social need, and moneylenders who will exploit it.

R *egulation*

Ensure transparency by greater Oireachtas engagement with Registry of Credit Unions

Better regulation of all financial services is a key learning of the economic crash. Credit unions recognise that this is in their interests as well as of the economy generally. The regulation of credit unions has moved from a relatively fixed legislative basis, Credit Union Act 1997 (as amended) to a more flexible but also in practice more powerful regulatory foundation, within the Central Bank, by the Registry of Credit Unions. This is the regulatory architecture for credit unions into the future.

Legislation provides for the Governor of the Central Bank, and Heads of Function within it to be called before an Oireachtas Committee to discuss the Bank's performance statement after it is published. This is a post-hoc examination. In practice the Central Bank also appears before committees more frequently to discuss matters of importance, and these are generally pressing macro-economic matters. Credit unions, however, are a distinct and important sector for which regulation should be fully transparent. To date there has been no systematic Oireachtas engagement with the Registry of Credit Unions.

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To enhance transparency and ensure effective ongoing dialogue between Oireachtas members and the Registry of Credit Unions, we are asking the Joint Committee on Finance, Public Expenditure and Reform to request the Registry of Credit Unions meet with them regularly. This is a matter the Committee should consider in its proposed review of credit union legislation in 2015 and would ensure that issues of importance to credit unions are discussed openly in the appropriate forum.

Easing lending restrictions

Refocus on member's ability to repay as essential criteria for decision making on loans

Credit unions exist to lend the funds of members, to others who need credit. Our viability depends on ability to lend. We understand that lending, to be sustainable, must be prudent. Credit unions know that it is members' savings that are lent to other members who borrow. Protecting those savings is our priority.

Working through the consequences of the economic crash has properly seen a renewed focus on regulation. There is a tipping point, however, between appropriate regulation and preventing prudent lending. Currently over half of credit unions are subject to lending restrictions. These often include restrictions on individual loan size, commercial lending activity, and in some cases a limit on the total lending permitted each month by a credit union.

Lending limits such as €25,000 mean that credit unions cannot service all of their members' borrowing needs. A limit of €10,000 implies that only basic lending requirements can be met. These limits are a crude and inflexible instrument. Lending limits impact negatively on credit unions viability, members' capacity to access credit and ultimately, on the overall economy. In part, it is also fuelling recourse to moneylenders.

The arbitrary imposition of lending limits is another example of the 'one size fits all' approach that fails to regulate appropriately. Instead, blanket restrictions undermine confidence in credit unions when the opposite is the supposed motivation.

Developing Small Business

Establish a credit union supported, state backed fund for SME's

Providing credit to small and micro businesses is something credit unions already do, and is a key contribution our movement can make to a recovering economy. SME's can be members of credit unions either as individuals or firms and can similarly borrow from them.

Our aim is to create a central fund, backed by a state guaranteed bond in which individual credit unions could invest. Expertly supported and effectively regulated, pooling the resources participating credit unions hold individually, will ensure availability of credit more widely throughout the economy. This would match available credit union capacity with small enterprise that needs credit to survive and develop.

In establishing a state backed central fund, key objectives would be met. The limits on loan amounts, for individual credit unions including restrictions on commercial lending, would not be the determining factor in deciding eligibility for specific enterprises. Lending restrictions on credit unions usually include a maximum loan of between €10,000 and €30,000 which is too little to support even small businesses.

Credit union loans would be available to small business nationwide, even if the local credit union were very small. A national, appropriately regulated scheme would ensure that decision making on applications was fully supported by skilled expertise in business lending. Credit union resources would get a better rate of return, thus strengthening the financial basis of individual credit unions. By credit union resources being deployed to support lending to small business, employment would grow and the economy would benefit. This proposal meets a need that clearly is not being adequately met by other lending agencies, and it is in keeping with the social, community based, objective of our movement.

Investing in Credit Unions

Support credit unions develop electronic financial services including current accounts

Credit unions have the potential to fill the gap caused by wholesale closure of bank branches across Ireland, especially in rural areas. We are not just a pillar of the community, we are physically there, locally present, locally led. By offering full current account facilities, accessible local financial services and credit unions can be strengthened together.

We are also well placed to progress Government's Financial Inclusion Agenda. Through our Credit Union Services Organisation for Payments (CUSOP), we are currently rolling out electronic payments facilities in credit unions. With some financial assistance to cover start-up costs, credit unions will be able to widen their services and bring real benefits to members and communities.

A Credit Union Fund of €250 million was created using exchequer money and set aside for the purposes of resolving credit unions where it was necessary. It is unlikely that all of this funding will be required by credit unions who are overwhelmingly stable, prudent institutions. We believe that some of the unused funding should be used to develop the credit union movement, for the wider social benefit of society.

The Housing Crisis

Establish a credit union supported, state backed fund for Social Housing and a movement owned central facility for home loans

Serving a broader social agenda, is part of what credit unions were set up to do. We believe we can do so by using funds on deposit with credit unions more effectively. At present credit unions hold in excess of €8 billion of surplus funds on behalf of members in deposits and investments. Under current regulations, there are limited options for the management and placement of these investments. We believe these surplus funds could be better used to deliver social goals, while also protecting them.

The Government Commission on Credit Unions recommended that methods for credit unions to invest in state projects be devised and this was reflected in the Credit Union and Co-operation with overseas Regulators Act 2012 (which amended the Credit Union Act, 1997). Section 43 (3) of the Credit Union Act 1997 states that the Central Bank may prescribe investments,... classes of investments, including where appropriate, any investment project of a public nature the credit union may invest in.

If the Registry of Credit Unions Guidance Note were to be amended to facilitate investments by credit unions, credit union deposits currently held with banks, could contribute for example to a State guaranteed fund to assist in the provision of social and affordable housing on a basis that assures both the protection of the fund and gives a modest return. This would be in line with the principle of existing legislation and the social ethos of credit unions.

Delivering social housing is an urgent social imperative. Credit unions have funds that could be used to assist, and our objective is to engage with the Central Bank, the Department of Finance and the Department of Environment, Community and Local Government to do so.

Furthermore in the area of provision of mortgages to members the ILCU Board has established a Home Loan Working Group (HLWG) to scope out how home loans might be made available by the credit union movement. The purpose of this is to provide an avenue to credit unions that wish to do so, to enter the home loan market in a more consistent manner. Similar to the initiative on social housing outlined above an amendment to the Registry of Credit Unions Guidance Note on investments is required so that credit unions could invest funds in a centralised entity (which itself would need regulatory approval) which would then be in a position to offer mortgages to credit union members.