Fianna Fáil submission on Community Banking

Introduction

Fianna Fáil believes that the Credit Unions have perfect potential to provide public community banking to Irish citizens as they are already present across the country. It makes sense for the credit union movement to be considered rather than introducing a new additional Public Bank model. We believe this would be prudent.

As a Party we have been brought forward many new suggestions about how access to funding could be improved for businesses and unfortunately there has been very slow progress.

The Community banking Model or the German Sparkassen model is an interesting concept. The intention is to fill a gap between the Credit Union movement and the Commercial Banking Sector in order to provide credit to the local economy and the local SME sector. We would not be satisfied with any model that would squeeze out or jeopardise the credit union movement.

The suggested Local Public Banks would not have profit maximisation as one of their goals. Instead any modest "profit" obtained from the operations would not be distributed in terms of dividends but would instead be diverted to the local economy for social purposes.

The Local Public Banks would have specific local area that it would be responsible for and would not loan or invest in another jurisdiction. The local focus of this model is very appealing especially given the closure of commercial bank branches throughout the country, Ulster Bank being the latest with the closure of 22 branches.

Fianna Fáil is deeply concerned that the Local Public Bank will not only fill the gap but wedge the gap and push the Credit Unions out of communities.

Credit Unions are currently spread throughout the country in local communities both rural and urban. Credit Unions need regulatory changes to be introduced allow them to become far more active in business and mortgage loans. We have been requesting this for years.

As a Party we want the Credit Union movement to be enhanced not destroyed and confined to the history books.

Common Bond – Credit Unions

Credit Unions currently operate a Common Bond that is defined in law. This Common Bond defines the ownership of the Credit Union. A Credit Union that is community based and is owned by the members that are in a common geographic location or a common profession. Credit Unions are democratic in nature as each member has one vote. This means that the common good is served through democratic means by the members of local community.

Fianna Fáil believes that the Common Bond system used by the Credit Unions is ideal for serving the local community. Credit Unions are in perfect position to provide the Public banking model as they are not entirely profit focussed. They are designed to provide local banking services to the local community.

From a legal and regulatory point of view there is little space for a Community Banking Model without pushing out the Credit Union.

Local Emphasis – Credit Unions

The vast majority of Credit Unions have are community based and as a result have a focus on the local community. They are looked upon by and large as pillars of the town or village, alongside the post offices and the newsagent.

The owners/members are from the local community and so have the interests of the local community in mind. This translates through to the management of the Credit Union. From the point of view of the local community Fianna Fáil believes that the Credit Union is uniquely placed to fill this requirement.

Credit Unions are able to make commercial loans to SME's and community loans to local initiatives including:

a) sport and recreation;

b) culture and heritage;

c) the arts (within the meaning of the Arts Act 2003);

d) health of the community;

e) youth, welfare and amenities; and

f) natural environment;

Shared Services – Credit Unions

The Credit Union movement also has a unique shared service model. Currently for smaller Credit Unions throughout the country, they can avail of the Irish League of Credit Unions. The ILCU provides services from audit functions to risk analysis. This is very useful for a small Credit Union that does not have the expertise on certain areas.

Also larger Credit Unions have the expertise themselves and do not require these services to be shared. Again, from this point of view there does not seem to be a space to be filled.

Reform required for Credit Unions

Fianna Fáil believes the Credit Union movement is uniquely positioned to provide banking and credit to the local community and local SME's. However, there are clear issues with the Credit Union regulations that threaten its existence if not addressed.

If the Community Banking Model is introduced now before this reform happens it will only seek to accelerate this process and we will potentially lose the Credit Union movement entirely.

The key areas of concern facing Credit Unions at the moment are what they can invest in and how much they can lend out and for what length of time. If Credit Unions are to survive then these regulations need to be reformed radically. We would support this being done rather than a new and added public banking model being put in place.

Credit Unions are losing money because they are heavily restricted in terms of larger and longer term loans. Unfortunately Credit Unions are prevented from entering the mortgage market in a meaningful way. This means that they have a large amount of cash and have nowhere to lend and earn a return.

The remaining cash that is not loaned out must be invested. Regulation needs to be changed to allow Credit Unions to do this as it is too restrictive at present.

As a result of the restrictions in place, Credit Unions find it very difficult to earn a return and survive. A form of tiered regulation is required whereby bigger Credit Unions can extend greater longer term loans while smaller ones will be restricted to smaller loans.

With reform a group of smaller Credit Unions would be able to pool their resources and lend or invest in the local community and local SME's to a greater extent.

Perhaps once reform has been implemented in the Credit Union sector allowing Credit Unions to evolve and survive, then the concept of Community Banking may be revisited if the need presents itself.

Currently, we believe in Fianna Fáil, if Community Banking is introduced now, it will only succeed in accelerating the demise of the Credit Union movement.

We do not believe this will be good for the country and for local communities around the country. The focus right now should be on reforming the Credit Union sector so that it can survive and continue to serve the local community, economy and business.

Appendix – regulations on Investment and Lending for Credit Unions

INVESTMENT RESTRICTIONS

Classes of Investments

25. (1) A credit union may only invest in euro denominated investments in the following:

a) Irish and EEA State Securities;

b) accounts in credit institutions;

c) bank bonds;

d) collective investment schemes;

e) shares of and deposits with other credit unions;

f) shares of a society registered under the Industrial and Provident Societies Act 1893 to 1978.

(2) The Bank may prescribe from time to time, in accordance with section 43 of the Act, further classes of investments in which a credit union may invest its funds which may include investments in projects of a public nature. Investments in projects of a public nature include, but are not limited to, investments in social housing projects.

LENDING RESTRICTIONS

Concentration Limits

12. A credit union shall not make:

(a) a commercial loan, where such a loan would cause the total amount of outstanding commercial loans of the credit union to exceed 50 per cent of the credit union's regulatory reserve,

(b) a community loan, where such a loan would cause the total amount of outstanding community loans to exceed 25 per cent of the credit union's regulatory reserve, or

(c) a loan to another credit union, where such a loan would cause the total amount of outstanding loans to other credit unions to exceed 12.5 per cent of the credit union's regulatory reserve.

Large Exposure Limit

13. (1) A credit union shall not make a loan to a borrower or a group of borrowers who are connected which would cause the credit union to have a total exposure to the borrower or group of borrowers who are connected of greater than €39,000 or 10 per cent of the regulatory reserve of the credit union.

(2) Where an exposure to a borrower or group of borrowers who are connected exceeds the limit set out in paragraph (1), the credit union must hold the amount of the exposure that is in excess of the limit in a realised reserve, separate from the regulatory reserve of the credit union.

(3) The requirement specified in paragraph (2) shall not apply, to exposures existing at the time of commencement of these Regulations, for a period of 2 years from the commencement of these Regulations.

Maturity Limits

14. (1) A credit union shall not make a loan to a member:–

(a) for a period exceeding 5 years if, were the loan to be made, the total gross amount outstanding in relation to all loans with more than 5 years to the final repayment date would exceed –

(i) 30 per cent of the total gross loan book balance outstanding at that time in relation to all loans made by the credit union, or

(ii) if the Bank so approves in writing, 40 per cent of the total gross loan book balance outstanding at that time in relation to all loans made by the credit union, or

(b) for a period exceeding 10 years if, were the loan to be made, the total gross amount outstanding in relation to all loans with more than 10 years to the final repayment date would exceed –

(i) 10 per cent of the total gross loan book balance outstanding at that time in relation to all loans made by the credit union, or

(ii) if the Bank so approves in writing, 15 per cent of the total gross loan book balance outstanding at that time in relation to all loans made by the credit union.

(2) The Bank may impose on approval, for the purposes of subparagraph (a)(ii) or (b)(ii) of this Regulation, any condition that the Bank considers appropriate.

(3) A credit union shall not make a loan to a member for a period exceeding 25 years.