

Mr. Patrick Casey,
Registrar for Credit Unions,
Central Bank of Ireland,
Dublin 1.

Updated request for immediate development of policy responses to support credit unions respond to COVID-19 challenges

Dear Patrick,

I am conscious that we have not spoken for some time and hope you are keeping well.

Much has happened since we communicated by email to you on 7th April '20 where we set out our request for immediate development of policy responses to support credit unions respond to COVID-19 challenges. We are disappointed that you have not replied.

We also emailed on 6th May '20 with regard to privacy of correspondence and are disappointed that you have not acknowledged or responded to that communication either.

Our, now weekly, conference calls with your Deputy Registrars and Head of Policy continue to focus on operational resilience of credit unions and continue to be constructive at that level. A wider ranging, more strategic dialogue is required however.

In our communication of 7th April '20 we set out CUDA's interpretation of how common issues and concerns will arise as time elapses. Since then CUDA has developed three scenarios for COVID-19 based on credit union feedback, government data and third-party sources including investment banks, rating agencies and accountants.

Our analysis considers four interlinked macro factors - scientific, economic, societal and financial markets - and five key impact areas for credit unions - member behaviour, operational, profitability, liquidity and solvency. Unfortunately, as we now inevitably face the 'moderate' scenario impacts are intensifying.

BEST: 3-4mths	MODERATE: 5-12mths	PESSIMISTIC: 13- 18mths
<p><u>Members</u> Rapid switch to digital. Emergency loan requests. Loan forbearance and restructuring.</p> <p><u>Operational</u> Service continuity focus. Staff protection focus.</p> <p><u>Profitability</u> Drop in new lending plus exceptional costs offset increase in investment income.</p> <p><u>Liquidity</u> Greater savings inflow and loan repayments than envisaged.</p> <p><u>Solvency</u> No issue.</p>	<p><u>Members</u> Utilise digital channel, less demand for branch. Reduced income impacts credit quality and savings.</p> <p><u>Operational</u> Cost cutting focus. Financial reporting focus. Compliance focus.</p> <p><u>Profitability</u> High cost base plus reduced income creates operating losses. Loan provisions impact.</p> <p><u>Liquidity</u> Savings outflows, impact on weaker CUs</p> <p><u>Solvency</u> Reserves impact for all, capital base adequate even after revaluation of assets</p>	<p><u>Members</u> Utilise digital channel, less demand for branch. Reduced income impacts credit quality and savings.</p> <p><u>Operational</u> CUSO effort. Digitalisation effort.</p> <p><u>Profitability</u> Material drop in lending income. High operating costs take time to reduce. Loan provisions and losses impact.</p> <p><u>Liquidity</u> Savings outflows, impact on all CUs, potential for spillovers from other parts of financial system</p> <p><u>Solvency</u> Strong CUs remain well capitalised, weaker CUs may face restructuring or TOE dilemma.</p>

Over the course of the almost seven weeks that have passed since our correspondence we have all had the opportunity to gain insights to the financial impacts of COVID-19. While the six classifications we identified for policy planning remain valid, let me be more specific on our evolved requests:

- Please confirm and reassure credit unions that the Central Bank will adopt a pragmatic and sympathetic approach to any credit union, that, having acted in good faith, experiences decline in prudential measures that in normal times may trigger regulatory interventions;
- Please confirm and reassure credit unions that the Central Bank will adopt a pragmatic and sympathetic approach to any credit union, that, having acted in good faith, requires assistance and support, i.e. cases-by-case assisted approach, with roadmap to regain Capital Adequacy;
- Please confirm that the Central Bank will ensure equality of CCR treatment for all borrowers;
- Please confirm that the Central Bank will implement lower capital requirement for specific investment asset;
- Please confirm that the Central Bank will design & implement a Sector Liquidity Mechanism;
- Please confirm that the Central Bank will work with CUDA to design Financial Accounting support for year-end;
- Please confirm that the Central Bank will adopt a pragmatic approach to Compliance Statements for 2020;
- Please confirm that the Central Bank will work with CUDA to identify supports for further restructuring.
- Please confirm that the Central Bank will lead a review of the regulatory reserve requirements.

You will appreciate some of the work will become urgent as we enter the final third of the financial year 2020 where many issues will crystallise and CUDA member credit union Boards and CEOs seek clarity. Other aspects will be ongoing and will evolve further over the coming months.

CUDA still believes that by acting now and working together we have the possibility to ascertain the best options and outcomes for credit unions and their members. We reiterate our request to engage with the Central Bank in a confidential and constructive dialogue about reasonably foreseeable eventualities and appropriate policy responses.

By email only

This will contribute to ensuring short-term stability for credit unions and the financial system as a whole, and provide the basis for recovering from any financial impact suffered. Furthermore, it will also prioritise actions to be taken by stakeholders that will enable credit unions play a vital role in the rebuilding of Ireland's local and National economies.

We are happy to further explain any of the points we raise in this, our previous, correspondence, indeed you might like to consider rearranging our postponed quarterly meeting as we have all familiarised ourselves with digital platforms, e.g. we are using Microsoft Teams for our Management Committee and National Council meetings. Please let me know if this is suitable and we can issue the necessary invitations for a date and time that is suitable for you.

We look forward to hearing from you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kevin Johnson', is placed over a light blue rectangular background.

Kevin Johnson
Chief Executive Officer

22nd May 2020

cc Elaine Byrne, Frank Brosnan, David Kielty, Anna Marie Finnegan