



credit union development association

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

By email only

7th April 2020

Dear Patrick,

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

Now that credit unions have been classified an essential service provider and continuity of service is being achieved, CUDA is working with its members preparing for the challenges ahead.

These are already severe and swift. CSO statistics ⁽¹⁾ report 513,350 people on the live register as unemployment and COVID-19 related applications increase rapidly. Nor are the effects just short-term, the Central Bank⁽²⁾ itself estimates an unemployment rate of up to 25% and GDP contraction of 8.3% in 2020, the OECD more pessimistically forecasting an 15% contraction⁽³⁾. Certain business sectors and persons on low income will unfortunately be impacted greater.

Whist the Central Bank has rightly focused on ensuring continuity and confidence, its own communications now forecast COVID-19's impact will be greater than the global financial crisis of 2008. Additional downside risks exist if the virus is not contained. This can no longer be classed as a purely "commercial" issue when it is clearly a crisis that threatens the viability of many credit unions and the members who rely on them.

CUDA therefore calls on the Central Bank to act now to develop plans for reasonably foreseeable eventualities which will arise in coming months. These include, but are not limited to:

1. Treatment of humanitarian lending;
2. Investment asset qualifying criteria and limits;
3. Liquidity on an individual credit union and sectoral basis;
4. Financial accounting guidance for year-end Sept 2020;
5. Treatment of breaches of compliance requirements;
6. Capital adequacy on an individual credit union and sectoral basis.

NB: Specific questions relating to these areas are detailed in Appendix 1.

By acting now and working together we have the possibility to ascertain the best options including regulatory, legislative and policy responses, when these would be triggered, how they would be implemented and contingencies. Whilst reaching a precise answer may not be possible in all cases, acting now will give credit unions comfort to continue supporting members, which is critical to maintaining confidence in Ireland's financial system as a whole.

This process has begun elsewhere, with both the UK FCA ⁽⁵⁾ and US NCUA ⁽⁶⁾ issuing guidance on regulatory supervision guidelines during COVID-19 and committing to a pragmatic approach.

CUDA understands and respects the Central Bank may not wish to disclose all aspects of its work, but we see no downside in having a well designed and tested approach in advance. This will ensure the best outcome for credit union members, the Exchequer and Irish taxpayers.

In the event measures are not implemented, this work can be applied to evolve credit unions towards a robust long-term business model, as is our shared goal.

CUDA therefore wishes to engage the Central Bank in a confidential and constructive dialogue about reasonably foreseeable eventualities and policy responses in the six areas highlighted above and explained in more detail in Appendix 1 below. We wish to begin as a matter of urgency.

In the meantime, CUDA's member credit unions will continue to support their members and society when it is need most, CUDA itself is working tirelessly to achieve credit union sustainability and implement the Government's action plan. We look forward to hearing from you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kevin Johnson', written over a light blue grid background.

Kevin Johnson
Chief Executive Officer

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

APPENDIX 1 – CUDA’s COVID-19 agenda 2020

On a daily basis CUDA communicates with multiple industry stakeholders and supports 50 member credit unions to achieve sustainability, protect member funds and implement the Government’s action plan. This provides stark insight into the challenges ahead.

Whilst the COVID-19 crisis will hit individual credit unions to different extents, a number of common issues and concerns have been expressed by credit union management and their Boards:

Best Case			Moderate Case					Pessimistic Case >>			
Mar 2020	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 2021	Feb
Service Continuity	Sector Confidence		<u>Liquidity</u>		<u>Financial Accounting</u>	<u>Solvency</u>		Sector Consolidation		Government Sector Support	
Emergency Credit	<u>Humanitarian Lending</u>				<u>Compliance Statements</u>	Cost Cutting					
	CCR										
	Operational Resilience										
	<u>Investment Assets</u>										

1. Humanitarian Lending

Credit unions are granting loan moratoria and emergency lending in line with modus operandi and currently without any government support. Unlike Banks, or lenders in other jurisdictions, the exact form and timing of support for credit unions is currently unclear.

Will the Central Bank ensure credit unions are not disadvantaged (profitability, liquidity, solvency) having acted in good faith?

2. Investment Assets

Whilst some bond yields have risen, other interest rates have fallen. Liquidity and counterparty credit risks have also increased, especially on financial sector securities.

Will the Central Bank review qualifying assets and counterparty limits to protect credit union investment assets?

Will the Central Bank lower the risk weighting applied to Irish government bonds and/or create a de-risked solution in conjunction with the NTMA or other competent authority?

3. Liquidity

Many credit unions are experiencing savings inflows as banks close branches or members re-allocate their life savings across deposit guaranteed institutions. This is distorting credit union Balance Sheets.

Will the Central Bank provide appropriate supports or communications to reflect credit unions play a critical role in maintaining confidence in the overall financial system?

Some credit unions may experience outflows as members utilise savings to cover living costs and income shortfalls.

Will the Central Bank consider a sector liquidity mechanism or guarantee scheme for credit unions facing temporary liquidity squeeze's?

4. Financial Accounting

Loan deferrals, provisions and losses are expected to negatively impact financial statements, leading European policy makers including ESMA ⁽²⁾ to consider forbearance for those who need to delay publication of financial reports.

Can CUDA and the Central Bank work together to provide practical guidance for Auditors in relation to provisioning and accounting?

Will the Central Bank consider temporary waivers, year-end extensions or suchlike measures for the financial year ending Sept 2020 (and potential write backs at a later date)?

5. Compliance Statements

Credit unions are working hard within current legislative, regulatory and governance frameworks but could face 'technical breaches' due to factors outside of their control.

Will the Central Bank adopt a pragmatic approach in the event of non-material breaches and material breaches which occurred due to factors outside the control of the credit union and did not impact the financial health of the credit union or its members?

6. Solvency

Considering current economic forecasts, some credit unions may breach their 10% capital adequacy reserve.

Will the Central Bank provide temporary waivers to credit unions who breach their 10% and 7.5% capital ratios but remain a viable long-term business?

Will the Central Bank work with CUDA to implement a solution which makes sector stabilisation and resolution funds available to credit unions on an affordable basis?

Will the Central Bank allow credit unions to replenish their capital, including seeking permanent capital, diversify into longer-term funding from government or other low-risk sources?

Will the Central Bank allow credit unions to sell or securitise their loan assets to free-up capital?

Note: CUDA has additional questions relating to affordability criteria, regulatory costs, reporting and flexibility but wishes to focus on these key issues first.