

Summer Recess!

Brigitte Goulard, Vice President, Policy, CUCC

Finally, it's summer recess on Parliament Hill! Committees have shelved their briefing books, Members of Parliament are flying back home (hopefully in economy class) and lobbyists are planning holidays after one of the busiest sessions on record, at least for the financial services sector.

Fortunately, the threat of an election which kept Parliament buzzing last week did not materialize. Action on the Hill will resume on September 14th, a couple weeks before the third report on the Economic Action Plan which will probably result in another round of election speculation. Until then, your Policy team at Canadian Central will keep busy on the various projects that have been undertaken in the past few months.

In addition to the Legislative Bulletin, you will also find attached to this Policy and Advocacy report a table detailing the status of present legislative activities and government consultations. The table has been posted to Canadian Central's website at http://www.cucentral.ca/Leg_Update_23june09 and will be updated regularly.

Readers are encouraged to check the table periodically to identify any current consultations that they would like to comment on. Feedback may be submitted via e-mail to Jan Hopper at hopperj@cucentral.com.

We wish you all a great summer and please stay tune for next issue of the Policy and Advocacy Report to be released in August.

Second Report on Economic Action Plan

Brigitte Goulard, Vice President, Policy, CUCC
Gary Rogers, Vice President, Financial Policy, CUCC

On June 10th, the federal government released the second of its quarterly reports on the implementation of its Economic Action Plan. The document reports on the various programs and initiatives established by the Department of Finance to improve access to financing and strengthen Canada's financial system. The report states that 80% of initiatives within the Plan are in the process of being rolled out.

The following examines the status of the Plan's components that relate to the financial services sector:

The Insured Mortgage Purchase Program

Through the Insured Mortgage Purchase Program, CMHC stands ready to buy up to \$125 billion of insured mortgage pools from Canadian lenders. To date, \$58 billion of term liquidity has been provided to financial institutions in this way.

The credit union system has participated through Central 1, only once, in the amount of \$240 million.

Canadian Secured Credit Facility

Under this newly established facility, Business Development Bank of Canada will be able to purchase up to \$12 billion of newly issued term asset-backed securities backed by loans and leases on vehicles and equipment and inventory financing.

In total, \$11 billion has been allocated under the Canadian Secured Credit Facility to both the Large Enterprise Tranche (\$10 billion) and to the Small

Enterprise Tranche (\$1 billion). The balance of available funds will be made available in a subsequent allocation to take place no later than August 2009.

It is not expected that any credit unions will access this facility because the pricing is expensive and the minimum size required to securitize is too large, even under the Small Enterprise Tranche.

The Business Credit Availability Program (BCAP)

Through the BCAP, Export Development Canada and the Business Development Bank of Canada were granted an additional \$5 billion in funds to provide direct lending and other types of support and facilitation to businesses with viable business models whose access to financing would otherwise be restricted. This program is meant to fill in gaps in market access and lever additional lending by private sector institutions, including credit unions.

EDC and BDC have reported total activity for the Business Credit Availability Program of close to \$700 million, assisting over 800 businesses.

A national webcast was held on May 14th to present BDC's new Operating line of Credit Guarantee Program and an additional webinar will be held on June 25th to present how credit unions can leverage EDC's support for their SME members.

Canadian Central also participates in regular meetings with the Department of Finance regarding the implementation of the BCAP within the system.

Additional information on the BCAP can be found at the following website: www.fin.gc.ca/bcap.

The Canadian Lenders Assurance Facility

Under this program, the Bank of Canada will administer the provision of insurance on the wholesale term borrowing of federally regulated deposit-taking institutions to ensure that they are not put at a competitive disadvantage compared to foreign competitors.

To date no financial institutions have elected to use this facility.

Strengthening Canada's financial system

Although Canada's financial system has fared very well compared to other countries throughout the financial crisis, the government has still moved forward with several initiatives aimed at strengthening an already strong system:

- New rules for government-insured mortgages which includes reducing the maximum amortization period and requiring a down payment.
- New rules to make mortgage insurance more transparent, understandable and affordable by enhancing disclosure to consumers.
- Granting greater powers to the Canada Deposit Insurance Corporation.
- New regulations aimed at the business practices pertaining to credit cards.
- The Bank of Canada has provided extraordinary liquidity to the Canadian financial system since mid-2007. This peaked at over \$40 billion in December 2008 and stood at about \$24 billion on May 28, 2009. Canadian Central, has participated in these Bank of Canada initiatives on behalf of the Centrals in the amount of \$630 million at the end of May 2009.

The next quarterly report is scheduled to be issued on September 28th.

Legislation

Canadian Agricultural Loans Act Passed

Robert Martin, Director, Research, CUCC

In May the Federal Government introduced legislation - An Act to increase the availability of agricultural loans and to repeal the Farm Improvement Loans Act - (Bill C-29) intended to help farmers by guaranteeing up to an estimated \$1 billion in loans over the next five years to Canadian farm families and cooperatives. On June 18th the Bill received Royal Assent and came into force.

Among other things, Bill 29 includes changes to the old *Farm Improvement and Marketing Cooperative Loans Act (FIMCLA)*. The changes will modify current legislation so that:

- Farmers would be eligible for new loan guarantee limits of up to \$500,000;
- New farmers would be eligible for loans under the Canadian Agricultural Loans Act (CALA). Currently they are not eligible under the FIMCLA;
- Agricultural co-operatives with a majority farmer membership (50% + 1 farmer members) would be eligible for loans of up to \$3 million for the processing, marketing or distribution of farm products. Loans are currently limited to co-operatives owned 100% by farm members;
- Loans of up to \$500,000 would be available to help inter-generational farmers taking over their family farm. These loans are currently not available under the FIMCLA;
- The name of FIMCLA would be changed to CALA to reflect its new focus;
- To ensure the new program remains responsive to producers' needs, a full review of the program will be done in five years.

The proposed changes reflect many recommendations for amending FIMCLA made by Canadian Central's Agricultural Sub-Committee of the Legislative Affairs Committee to the Government in 2005 and 2006. See CUCC's submission at: http://www.cucentral.ca/2005Agric_nov07. Canadian Central expressed its support for the new legislation in a letter to the House of Commons Agricultural and Agri-food Committee dated May 13, 2009. See http://www.cucentral.ca/Farm_23june09.

A copy of the Bill can be found here: http://www2.parl.gc.ca/content/hoc/Bills/402/Government/C-29/C-29_1/C-29_1.PDF

Consultations

Department of Finance Leasing Consultation

Robert Martin, Director, Research, CUCC

In May the federal Department of Finance released a public consultation paper seeking input on whether the Federal Government should allow banks and other federally regulated financial institutions to offer financial leasing for vehicles and household property. This consultation is targeted a federally regulated institutions, however, the creation of such powers for the banks may have competitive implications for credit unions already engaged in leasing activities.

Some members of Canadian Central's National Lender's Committee met with Finance Canada officials on May 8th to provide input into the consultation. Committee members emphasized that the Federal Government should keep in close contact provincial governments as it develops policy in this area so that provincial governments have the opportunity to develop similar leasing legislation for credit unions in those jurisdictions currently without developed leasing powers.

The Department has recently indicated that it is still considering how to proceed on the file and is not yet in a position to make a recommendation to the Minister. Department officials have confirmed that there have been discussions concerning the matter with some provincial authorities but more formal discussions will take place if and when the federal Minister decides to proceed with developing legislation in this area.

If the Minister decides to advance to legislation it could take some time to develop. First of all, there will likely be consultations on the shape the legislation would take, draft legislation to develop and circulate for comment, approvals by the Minister and a Committee of Cabinet and then, finally, a Parliamentary process to finalize the legislation.

A copy of the consultation document can be obtained at <http://www.fin.gc.ca/activty/consult/leasing-eng.asp>.

RESP Advisory Group

Jan Hopper, Senior Policy Advisor, Consumer Affairs, CUCC

Canadian Central staff attended a meeting of the RESP Advisory Group on June 17, 2009. The meeting was convened by Human Resources and Skills Development Canada (HRSDC) to inform the Group about the results of recent bi-lateral consultations with group members. This consultation is the means by which the Government is trying to meet its objective of fostering improved sales of RESPs to Canadians, thereby increasing the number of eligible recipients for funding under the Canada Educational Savings Grant program. The consultations have taken place to determine how each stakeholder could assist the government in meeting this objective and those set out below. These objectives are based on recommendations contained within the August 2008 report, *Review of RESP Industry Practices*.

The Government objectives are to:

- more actively promote the use of RESPs, through publicity about the plans and available government grants;
- improve the disclosure of the specific features of plans and their outcomes;
- establish minimum standards regarding the governance structures of RESP providers and;
- engage in consultation with all partners in the RESP industry to introduce measures that ensure RESPs operate in accordance with the Government's education saving policy objectives.

At the meeting, it was apparent that banking, credit union and investment industry participants have similar concerns in regard the promotion of RESPs. Firstly, the product is complex and thereby difficult to promote; secondly, there is little incentive to promote the product as it is seen as a loss leader that does not attract business; and finally that the product is administratively burdensome. In response to these concerns, the Government is in the process of revamping its training program for promoters of

RESPs; will work with marketers in the development of innovative marketing strategies; and has committed to exploring ways to alleviate some of the product's administrative burden.

During the meeting, HRSDC also suggested that it would like to explore opportunities to expand its community outreach activities with the credit union system. Since credit unions have strong ties with their individual communities, the system is seen as a potentially effective vehicle to increase sales of RESPs. An important aspect of the promotion of RESPs is stated to be financial literacy. Since credit unions are the only financial institutions in 380 communities across Canada, they are considered to play a very important role in educating their members on such matters.

A follow-up meeting of the HRSDC and credit union system representatives is tentatively planned for the end of June.

Canada Small Business Financing Program (CSBFP) Review

Robert Martin, Director, Research, CUCC

In January 2009, Industry Canada established a Steering Committee of stakeholders to participate in the mandated comprehensive review of the CSBFP. Canadian Central is participating in the work of the Steering Committee on behalf of the credit union system. Other participants include the Canadian Bankers Association, Desjardins and the Canadian Federation of Independent Business.

The scope of the program review is broad and will consider basic questions such as whether the initial rationale for establishing the CSBFP still exists. Industry Canada will also review basic program parameters (e.g. maximum loan size and maximum loan terms) to determine whether they remain valid. Finally, the review will also consider ways in which program can be rationalized from a legislative and administrative standpoint.

Industry Canada aims to table a report to Parliament in spring 2010 outlining the findings of the CSBFP review along with possible recommendations for Program reform.

On June 17th a Steering Committee Meeting was held to discuss some preliminary work carried out by KPMG to evaluate the Program (i.e. does the Program serve a useful purpose, are borrowers aware of the Program, what do financial institutions think of the Program).

The preliminary findings indicate the CSBFP has a continuing role to play supporting the growth of small business in Canada as it reduces lender risk. The findings reveal that lenders use the program largely for young, small firms that lack collateral. Borrowers are relatively unaware that the Program exists and therefore must rely on the lender to bring it to their attention. Finally, the study noted that lenders often do not use the Program because it is not profitable to them, there is a heavy administrative burden associated with the Program and, at times, claims are made but not accepted by the government. These findings are as expected and accord with views expressed by Canadian Central to the government in current and previous discussions about the Program.

As the Review progresses, the CSPFP is also examining how the program could be reformed to make it more useful to borrowers and attractive for lenders. The government aims to have proposals for reform ready for review by stakeholders in the Fall.

Department of Finance Mortgage Insurance Consultation

Robert Martin, Director, Research, CUCC

In May 2009 the federal Department of Finance provided Canadian Central with draft regulations regarding mortgage insurance disclosure. The proposed new regulations aim to make the relationship between financial institutions and companies providing mortgage insurance more transparent. The proposed regulations will eventually entail revisions to the federal Cooperative Credit Associations Act, the Bank Act, the

Trust and Loans Companies Act and the Insurance Companies Act.

Canadian Central circulated the draft regulations to the Legislative Affairs Committee and the National Lender's Committee for review and feedback. Subsequent discussion with the Department of Finance indicates that, to date, feedback from stakeholders has, for the most part, focused on relatively minor issues associated with the working of the regulations not their substance. Canadian Central has advised the Department that we wish to be kept informed of further developments on this file and may provide feedback to the Department at a later date if required.

BDC Operating Line of Credit Guarantee

Robert Martin, Director, Research, CUCC

The Business Development Bank of Canada (BDC) has rolled out its new Operating Line of Credit (OLC) Program. The BDC OLC guarantee is designed to assist financial institutions (including credit unions) that seek to maintain or increase an existing line of credit to their client by providing the lender with a partially guarantee for the line of credit. The program targets existing lines of credit between \$400,000 and \$4 million.

Further details about the Program can be found at: http://www.bdc.ca/en/no_navigation/olcg.htm

Back in April 2009, the National Lenders Committee (NLC) reviewed the proposed Program parameters for the new OLC Guarantee. Committee members observed that the Program appears to be fairly narrowly cast in terms of the institutions and clients it will serve. That said, the Committee recommended that Canadian Central undertake a Webinar to advise interested credit union members about the new Program.

On May 14th Canadian Central sponsored an hour long Webinar with the BDC to advise of the system about the Program. Approximately 70 credit union representatives participated in the Webinar. The

existence of the Program was also communicated through the CBOS Committee and the NLC.

Throughout this process Canadian Central has been engaged in discussions with the BDC in regard to how Master Agreements facilitating participation in the Program should be handled. The BDC has indicated a strong preference for dealing with credit union Central organizations instead of a potentially significant number of credit unions wishing to participate. Subsequent discussions have seen the BDC agree to negotiate and sign contracts with at least 10 credit unions in Canada.

Your Policy Team at Work

CUCC at Parliamentary Agriculture Committee

Robert Martin, Director, Research, CUCC

Early in 2009 the House of Commons Agriculture and Agri-food Committee began a study on the competitiveness of agriculture that has heard from a large number of producer groups on developments in their sector and potential policy responses to assist agriculture.

On June 9th, representatives of Farm Credit Canada (FCC), the Canadian Bankers Association and Credit Union Central of Canada appeared before the Committee to provide a financial sector perspective on building a competitive agricultural economy in Canada.

Canadian Central was represented by Pam Skotnitsky Vice President of Government Affairs at SaskCentral and Frank Kennes, Vice President at Libro Financial. Both are members of Canadian Central's Agricultural Sub-Committee of the Legislative Affairs Committee.

Canadian Central's remarks before the Committee indicated the need for the Department of Agriculture and Agri-food Canada to more closely consult with the financial sector as it develops agricultural policy that in some way involves the financial sector (e.g. AgrilInvest). Canadian Central also raised concerns about the growing presence of the FCC in agricultural

lending markets arguing that the FCC enjoys an unfair competitive advantage owing to its status as a Crown financial corporation.

Canadian Central's remarks are available on our website at: http://www.cucentral.ca/Ag_11june09
A transcript of the Committee proceeding can be found here:
<http://www2.parl.gc.ca/HousePublications/Publication.aspx?DocId=3972317&Language=E&Mode=1&Parl=40&Ses=2>

Western Producer subscribers will find coverage of Canadian Central's appearance at:
<http://www.producer.com/free/editorial/news.php?iss=2009-06-18&sec=news&sto=0031> and
<http://www.producer.com/free/editorial/news.php?iss=2009-06-18&sec=news&sto=0032>

CUCC at Parliamentary Finance and Industry Joint Committee

Brigitte Goulard, Vice President, Policy, CUCC

The issue of credit card interchange fees and the debit payment system is still receiving a lot of attention on Parliament Hill. Following a series of hearings by the Senate Banking Committee in March of this year, a joint Committee of the and the House of Commons Standing Committee on Finance and the House of Commons Standing Committee on Industry, Science and Technology also held hearings in May and June to examine "Credit Card Interchange Fees and the Debit Payment System in Canada". Brigitte Goulard, Vice President, Policy and Doug Whalen, Director, Payments Policy of Canadian Central appeared before the Joint Committee on Canadian Central on May 28 and outlined for the Members of the Committees the structure of the Canadian credit union system and the manner in which card services are provided to members.



**Credit Union
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Statistical Report

National Affiliated System Results – Q1

Sandra Brizland, Research Analyst, CUCC

National affiliated system results for the 1st quarter of 2009 were recently released by Canadian Central. Despite the economic downturn, the Canadian credit union system's balance sheet remained strong at the end of the first three months of 2009. System assets, savings/deposits and loans all recorded solid gains; however, growth in both assets and loans is down in comparison to recent years. Savings/deposits, on the other hand, have returned to the double-digit growth reported a year ago. Some key findings in the Q1 system results are:

- System assets are currently \$114.2 billion, compared with \$113.89 billion at the end of 2008;
- Loan growth has slowed to a 6.7% annual pace; loan volume stands at \$95.1 billion at the end of Q1; loans as a percentage of total deposits are currently 92.1%, down from 95.2% reported twelve months ago – a reflection of stronger growth in deposits over loans in recent months;
- Deposits/savings annualized growth was somewhat stronger than the last few quarters with an annualized increase of 10.3%; total deposits/savings with credit unions increased to \$103.3 billion at Q1;
- The impact of the recession is evident in the decline of credit union earnings. Combined earnings for the system in the first three months of the year were recorded at \$106.47 million, a decline of 32.4% from the \$157.44 million reported a year ago.

At the end of Q1, the number of credit unions stood at 434 (down from 440 at the end of Q4 2008), the number of locations was 1,736 (down from 1,734 in Q4 2008), and the number of members was 5,067,696 (an increase from 5,052,972 at the end of Q4 2008).

To see the full report:

http://www.cucentral.com/FirstQresults_12june09



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Statistics Canada - Farm Debt Outstanding Agriculture Economic Statistics

Sandra Brizland, Research Analyst, CUCC

In May, Statistics Canada released their annual Agriculture Economic Statistics report on Farm Debt Outstanding for 2008. A summary of the results are as follows:

- Overall, farm debt outstanding in Canada at year-end 2008 rose 5.2% to almost \$58 billion;
- Credit unions/caisses populaires combined held 17.1% of the farm debt in Canada in 2008; banks held 38.7%;
- Excluding Quebec data, farm debt outstanding amounted to \$47.3 billion in 2008;
- Credit unions/caisses populaires affiliated with Canadian Central controlled 10.9% of this farm debt last year. In 1994 the affiliated system held 5.4% of the farm debt outside of Quebec;
- The credit union system's share has steadily increased over the last 15 years, as farm debt outstanding grew at an annual rate of 8.1%. The 5 year average is down however, with an average growth rate of 5.3%;
- While banks have experienced an average annual growth rate of 5.9%, outside of Quebec, over the last 15 years, growth has subsided significantly during the last five years with an average annual growth rate of 1.8%. In fact, debt load held at banks, outside of Quebec, in 2008 was 40% of the total farm debt outstanding, down from the reported high of 48.5% in 2000;
- Nationally (excluding QB), federal government agencies held 28.2% of the farm debt outstanding market in 2008. This number has consistently grown over the years. The average annual growth rate over the last 15 years is 10.9% and 10.8% over the last 5 years. In 1994, these agencies held only 9.5% of the national market;
- Regionally, the Manitoba and Saskatchewan credit union systems were major holders of farm debt outstanding in their provinces in 2008, controlling 25.7% and 22.8%, respectively. The remaining provinces held

- less than 6% of their regional market share in farm debt outstanding;
- The Manitoba credit union system has steadily reported remarkable growth over the last 15 years, with an average annual growth rate of 9.8%. Similarly, the average annual growth rate over the last five years was 9.5%.

To see the full report: <http://www.statcan.gc.ca/pub/21-014-x/21-014-x2009001-eng.pdf>

Co-operative Development Initiative

John Anderson, Director, Government, Public Policy and Public Affairs, CCA

On May 21, 2009 Jean-Pierre Blackburn, Minister of National Revenue and Minister of State (Agriculture) and responsible for non-financial co-operatives announced the renewal of the federal Co-operative Development Initiative. The major parts of the CDI (\$4 million per year) will be jointly managed by the Canadian Co-operative Association and the Conseil canadien de la coopération et de la mutualité. This is a 4 year \$19.1 million program that assists the development of new and emerging co-ops as well as having a component called Innovative Co-operative Projects (ICP) which gives contributions for co-op initiatives in certain key policy areas. Groups interested in making an application to the ICP should go for more information to the CCA website at www.coopscanada.coop or contact John.Anderson@coopscanada.coop. The first intake deadline is July 31, 2009.

The *Policy and Advocacy Report* is published by Credit Union Central of Canada. For editorial or general inquiries please contact:

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