

On The Policy Front

Bank of Canada and CMHC Liquidity Announcements

Gary Rogers, Vice-President, Financial Policy, CUCC

The recent unprecedented turmoil in financial markets has triggered aggressive responses to restore liquidity and stability, from governments around the world. The credit union system has been weathering these storms well. The foundation of our business is a strong and loyal deposit base from our members that is reinvested in loans in our communities. As Vancity succinctly stated in a recent banner ad in the National Post: *Our members fund our members. So, your money is across the street, not across the border.*

Nevertheless, credit unions, too, feel the effects of these market disruptions through increased cost of funds, changing margins, less predictable loan demand, and fewer options to access liquidity. As a result, credit unions welcome the flurry of recent government announcements that increase access to liquidity for the credit union system, along with the chartered banks.

The following are of greatest importance to credit unions:

Purchase and Resale Agreements (PRA): To ensure liquidity, a prudent amount of funds is maintained at all times in credit union system provincial and national liquidity pools, which are invested in high-grade, easily marketable securities. However, when markets for some of these normally liquid assets evaporated recently, financial institutions (FI) of all types quickly sought alternate mechanisms to restore liquidity. In response, the Canadian government, through the Bank of Canada, greatly expanded a facility for PRA auctions.

With a PRA auction, the Bank of Canada agrees to purchase eligible securities for a term, usually between

28 and 90 days. At the end of the term, the assets are sold back to the financial institution. During the term, the FI has cash and is liquid.

Canadian Central made representations to the Bank that expanded, for the first time, PRA auction eligibility to Canadian Central, as an LVTS participant, effective October 21. Provincial Centrals, if needed, can liquidate their portfolios of securities by first selling them to Canadian Central, then through a mirror transaction to the Bank. This process is coordinated by Central 1.

As an element of contingency planning, this new facility is of great importance to the credit union system in ensuring access to liquidity.

CMHC purchase of insured mortgage pools: For some time, credit unions have participated in CMHC's Canada Mortgage Bond (CMB) program. Under the CMB, pools of NHA-insured mortgages are sold to a trust and funded by investors.

Effective October 16, CMHC will purchase insured mortgage pools through a competitive auction process. This contrasts with the CMB because these mortgages will stay on the CMHC books and will be funded by CMHC.

This is a very helpful supplement to the CMB program. As mortgages are a large proportion of credit union assets, and as opportunities for mortgage securitizations are limited in the current market conditions, this has the potential to provide vast amounts of liquidity to the credit union system, if required. The initial program is \$25 billion, but it is expected to increase if conditions persist.

Canadian Lenders Assurance Facility (CLAF): On October 23, the federal government announced a new guarantee facility to be administered by the Bank of Canada. Federally regulated FIs that issue debt, including commercial paper, bearer notes and

unsecured bonds, may have the principal and interest guaranteed by the Canadian government. A formula sets a limit on eligible debt.

The FI does not have to be rated by a credit rating agency to qualify. But a guarantee fee is required to be paid that varies with the quality of rating, or its absence.

In the credit union system, all Centrals except New Brunswick, Prince Edward Island and Newfoundland & Labrador qualify, as does Concentra Financial and credit union owned banks such as Citizens Bank and Alterna Bank. Credit unions do not qualify directly for this federal program, as they are provincially regulated.

Canadian Central made vigorous representations to government to ensure this program could be accessed on an equivalent basis by the credit union system, as by banks.

Initially, it is not expected that any credit union entity will use the new facility, in light of the cost of the guarantee fee and availability of other liquidity facilities. This would be a last resort for entities that encounter difficulty issuing debt instruments and cannot access liquidity by other means.

Your Policy Team At Work

In August, Credit Union Central of Canada learned that the Canada Border Services Agency (CBSA) was not accepting customs bonds issued by credit unions. The CBSA stated that they refused credit union issued customs bonds because credit unions were not considered to be approved financial institutions by the Treasury Board of Canada and because acceptable issuers must be members of the Canadian Payments Association. Canadian Central reviewed the issue and, in particular, the CBSA Memorandum D1-7-1 on *Posting Security for Transacting Bonded Operations* governing such matters and determined that the prohibition was the result of a misinterpretation of the Memorandum by operational personnel at the CBSA. This opinion with supporting analysis was relayed to the CBSA through discussions with officials. In October the CBSA agreed to accept customs bonds issued by credit unions. For more information on this issue see http://www.cucentral.ca/Customs_29oct08.

Happening on the Hill

Federal Ministry Appointments: Ontario Gains Key Economic Portfolios

On Thursday, October 30th Prime Minister Stephen Harper appointed a new federal Cabinet. In response to the troubling economic times the Prime Minister signaled an economic focus through his cabinet appointments by placing most key economic portfolios in the hands of cabinet veterans. Most interestingly, almost all of the key economic portfolios reside in the hands of Ministers from southern Ontario. For example:

- Jim Flaherty (Whitby-Oshawa) will remain Minister of Finance;
- Tony Clement (Parry Sound-Muskoka) has been named Industry Minister;
- John Baird (Ottawa-West Nepean) has been named Minister of Transport, Infrastructure and Communities
- Lisa Raitt (Halton) has been named Minister of Natural Resources and
- Diane Finley (Haldimand—Norfolk) has been named Minister of Human Resources and Skills Development.

Other ministerial appoints of potential interest to the credit union system include the reappointment of Gerry Ritz as Minister of Agriculture and Agri-Food and Minister for the Canadian Wheat Board and Diane Ablonczy as Minister of State (Small Business and Tourism). Finally, Stockwell Day was appointed Minister of International Trade and Minister for the Asia-Pacific Gateway.

Parliament is scheduled to return on November 18, 2008.

For a listing of the Canadian Ministry (in order of precedence), please visit site www.pm.gc.ca

Statistical Report

Slump Emerging in Canadian Housing Sector

Sandra Brizland, Research Analyst, CUCC

Changes in the level of housing construction and in the price of houses can have significant implications for the economy. This is particularly true in the context of negative financial market developments seen over the past several weeks. While the housing market was considered a bright light in the Canadian economy as recent as a year ago, all recent evidence points to a steady downturn in Canadian housing. A combination of declining housing starts, excess inventory and weaker resale market activity suggests fewer mortgage approvals for credit union lenders in the future.

To illustrate, according to the Canada Mortgage and Housing Corporation (CMHC) October 2008 *Preliminary Housing Start Data Report*¹, the seasonally adjusted annual rate (SAAR) of urban housing starts was 184,400 units at third quarter 2008, down 4.8% from the 193,700 units reported at second quarter and a drop of 11% from the 207,300 units reported in the same period a year ago. The annual rate of urban starts was down in every region except Ontario. The Prairie urban starts slumped 38% over third quarter 2007, while declines in BC and the Atlantic regions were smaller at 8.2% and 3.2%, respectively. Somewhat surprisingly, Ontario's urban starts grew 7.3% over the one year period.

Further CMHC analysis indicates the stock of unabsorbed completed units in August was up sharply from a year ago. Newly completed and unabsorbed units rose 16.3% over the same period in 2007. The concern is not in multiple units, of which unabsorbed stock was up only 3% from a year ago, but rather with new single-family and semi-detached new houses which rose a whopping 37.4%.

Similarly, according to the Canadian Real Estate Association (CREA), MLS[®] sales in Canada's major markets decreased 3.4% to 24,887 units in August 2008 compared to 25,774 units in the previous month. Regionally, with the exception of Edmonton, all major markets across the country reported a decline in MLS[®] sales over the same period in the previous year.

¹ The October 2008 *Preliminary Housing Start Data Report* is based on preliminary data available to up to September 2008.

To see the full report: <https://www03.cmhc-schl.gc.ca/b2c/b2c/init.do?language=en&shop=Z01EN&arealD=00000058&productID=000000058000000001>



Credit Union
Central of Canada

New on the CUCC website

Tax Free Savings Account Information including reference materials, communiqués and updates can be found in the Member Resources section of Canadian Central's website.

Information on the International Financial Reporting Standards (IFRS) Credit Unions Readiness initiative can also be found in the Member Resource section of Canadian Central's website.

Presentations from the National Lending Conference and the National Treasury and Finance Forum can be found at: <http://www.cucentral.ca/eventsconf>

Provincial News

We invite all Canadian Central members to contribute to this portion of the Report by submitting information on policy developments in their respective provinces. Submit comments to Brigitte Goulard, Vice President, Policy at goulardb@cucentral.com. Thank you in advance for your participation.

British Columbia

The Trade, Investment and Labour Mobility Agreement (TLMA) between Alberta and British Columbia is not expected to be ready by April 1, 2009 as had been intended by the two provinces. Although British Columbia is ready from a legislative point of view, it is awaiting a definitive position from Alberta's Government on the constitutionality of extra-provincial operation of credit unions. One thorny problem was however resolved when British Columbia announced on October 22nd that deposits with credit unions would now benefit from unlimited deposit insurance protection on deposits, effective immediately

Central1 is still working with elected and appointed officials to address statutory irritants in the cost of **consumer credit disclosure** requirements, including prohibition on provision of e-statements, even at member's request.

New Brunswick

New Brunswick has also changed its **deposit insurance** protection. As of October 31, 2008, the New Brunswick Credit Union Deposit Insurance Corporation will guarantee the repayment of eligible deposits with New Brunswick credit unions, including accrued interest, up to \$250,000.

Ontario

The government finally seems intent on moving with the long awaited regulations to the Credit Unions and Caisses Populaires Act. Ontario credit unions hope to see the draft regulations sometime in the next few weeks.

Saskatchewan

SaskCentral has engaged with the Saskatchewan Justice Ministry in a **review of The Credit Union Act, 1998**. The Review provides the opportunity to clarify the roles of the Credit Union Deposit Guarantee Corporation and the role of the Registrar of Credit Unions, considering the presence of the Saskatchewan Financial Services Commission. In addition to pursuing clarity and the opportunity to realize regulatory efficiency, the legislative review is required to ensure the regulatory framework meets credit union business needs now and into the future.

Ken Anderson, CEO of SaskCentral, has recently been appointed to the Financial Sector team of **Enterprise Saskatchewan**, a new economic development program that will see the establishment of Enterprise Regions across Saskatchewan. Enterprise Saskatchewan brings together representatives of all sectors of the economy to formulate strategies and prescribe actions to provide growth and prosperity in the province.

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

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