RAISING THE CAP: SUPPORTING B.C. BUSINESS WITH CREDIT UNION CAPITAL

Opening Statement

Across the province, credit unions are being forced to turn away loans to small and medium-sized[1] businesses because they are subject to an onerous regulatory penalty, unique to British Columbia. This regulatory penalty – the "*commercial cap*" – is problematic for two reasons:

(1) B.C. businesses have fewer options to obtain financing, must pay higher rates, or risk being turned away by non-B.C.-based lenders who may not understand the local business environment; and,
(2) Credit unions, who provide thousands of quality, head-office jobs in the financial industry across B.C., are not able to effectively compete with banks, who are not subject to this penalty.

Businesses such as wineries, childcare centres, clean-tech, and small-scale housing developers are the lifeblood of the B.C. economy and challenges in efficiently accessing capital results in reduced economic output, ultimately impacting everyday citizens. This *commercial cap* forces credit unions to hold significantly more capital for a business loan over a certain limit[2], which makes it uneconomical for them to extend loans to their local businesses.

Background

Putting the cap in place

In the 1980s, when the current *Financial Institutions Act* (the "Act") was under development, credit unions were less sophisticated financial institutions, and other governments were reeling from the failures of Canadian Commercial (federal) and Northlands Banks (Alberta). The *commercial cap* was put in place at that time, limiting a B.C. credit union to lend only up to 30% of their overall loan portfolio. Credit unions have since grown to be prudently regulated institutions that work together, all while retaining their local roots. Indeed, no credit union member has lost a single dollar of deposits[3] since the Reserve Board (now the Credit Unions Deposit Insurance Corporation) was created in 1958, even in regions that would traditionally be considered economically dependent on a single industry or resource (e.g. a pulp mill, a fishery).

Modern policy direction

Commercial caps have been replaced by sophisticated risk management practices, and are no longer in place in any other jurisdiction in Canada. In 2015, the Ministry of Finance launched a public consultation on the review of the Act. In 2017, the newly-elected NDP government made a minor change to the *commercial cap*, reducing the penalty slightly on the portion of the credit union's loan portfolio between 30%-35% of overall loans[4]. This amounted to taking a speeding ticket down to $5,000 from $10,000; the

[1] For most credit unions, loans are made to "micro-businesses" – those that employ less than 10 persons.
[2] Even if the loan in question entails the same amount of risk.
[3] McPherson, Ian. *Cooperation, Conflict and Consensus. BC Central Credit Union*, 1995. Annual Reports, Credit Union Deposit Insurance Corporation of B.C. and the Credit Union Central of BC (now Central 1).
[4] The penalty was reduced so that instead of holding 2 times the amount of capital, a credit union was required to hold 1.5 times the amount of capital between 30-35% of the overall loan portfolio.

penalty still being so onerous that credit unions were unable to make any changes to their lending practices.

In 2018, the Ministry endorsed the recommendation to remove the commercial capital penalty entirely in the release of their Policy Proposals[5]. However, due to resource constraints, making further changes has taken a backseat to other government priorities. As such, credit unions have recommended a temporary increase of the cap to 35% while the entire rewrite of the *Act* is delayed. This will allow credit unions to safely increase their lending while wholesale changes are made to the regulatory framework.

Benefits

By raising the cap to 35%, B.C. businesses will have more options to obtain financing at no cost to government. This enhanced competition could lead to lower rates on loans as banks face increased competition. Additionally, because there are many communities in B.C. where a credit union is the only bricks-and mortar financial institution, businesses will have the opportunity to work with a financial institution that has a stronger understanding of local economic conditions, and may provide higher quality advice.

All British Columbians will ultimately benefit from the economic multiplier effect generated by this increased lending. In North Vancouver, the local credit union estimates that by increasing their commercial lending to 35%, they could lend to an additional 271 businesses. If each of these businesses employed 3 people, this could create 813 jobs in the credit union's trading area – which spans from Pemberton to Kerrisdale. These jobs will create more opportunities for individuals to fully participate in B.C's economy.

THE CHAMBER RECOMMENDS

It is recommended that the Provincial Government raise the lending cap from 30% to 35%[6] in order for credit unions to participate prudently and equitably in business lending. This is a no-cost solution to the government solution that will generate increased options for businesses seeking loans, build communities with limited access to capital, and generate regional economic growth.

Submitted by the North Vancouver Chamber

Supported by: Kelowna Chamber of Commerce, Vernon Chamber of Commerce, Squamish Chamber of Commerce, Whistler Chamber, Pemberton Chamber, West Vancouver Chamber

[5] Ministry of Finance. *Policy Proposals*, 2018. Page 20.
[6] Repeal Section 15(3)(a) of the Capital Requirements Regulation of the *Financial Institutions Act* which currently reads "an additional weighting factor of 0.5 shall be applied on the proportion of value exceeding 30% but not exceeding 35%".