



CREDIT WHERE CREDIT IS DUE

Supporting Growth in Ontario's Credit Union Industry

About the Ontario Chamber of Commerce

The Ontario Chamber of Commerce (OCC) is an independent, non-partisan business network. Our mission is to support economic growth in Ontario by advocating for pro-business policies and defending business priorities at Queen's Park.

For more than a century, the OCC has been providing our members with practical supports, advantageous network opportunities, and access to innovative insight and analysis.

We represent local chambers of commerce and boards of trade from communities across Ontario. Through this network we are the voice of 60,000 members that range from small businesses to major corporations and industry associations. Together, our members employ approximately two million people and produce nearly 17 percent of Ontario's GDP.

The OCC is Ontario's business advocate.

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Laura Albanese
Parliamentary Assistant to the Minister of Finance
c/o Budget Secretariat
Frost Building North, 3rd Floor
95 Grosvenor Street
Toronto ON M7A 1Z1

February 5, 2015

Dear Ms. Albanese,

The Ontario Chamber of Commerce (OCC) and its network of 60,000 businesses welcome the opportunity to present our recommendations as your government undertakes a review of the Credit Unions and Caisses Populaires Act, 1994.

On January 28, 2015, we released Emerging Stronger 2015, the OCC's guiding policy document. Written in consultation Ontario's business and civic leaders, the report identifies a set of recommendations we believe is crucial to Ontario's economic recovery. Emerging Stronger 2015 calls on the province to ensure that credit unions are able to fully contribute to this recovery.

Credit unions are a safe, well-regulated, and growing source of capital in Ontario. They support SME growth, provide access to capital to businesses in rural and smaller communities, and provide financing to many businesses who would not be able to access it otherwise.

This submission highlights the important economic and social roles that credit unions play in our province. It also outlines three key steps that the Province can take to further growth of credit unions.

Thank you for considering our recommendations.



Allan O'Dette
President and CEO
Ontario Chamber of Commerce

cc: *Hon. Charles Sousa, Minister of Finance*
Vic Fedeli, Finance Critic, PC Party of Ontario
Catherine Fife, Finance Critic, Ontario New Democrats



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CREDIT UNIONS ARE A CRITICAL PART OF ONTARIO'S STRONG FINANCIAL SERVICES INDUSTRY

Ontario's credit unions provide financial services to almost 1.6 million Ontarians, hold over \$40 billion in assets, and employ approximately 6,000 people, 86 percent of whom are outside the GTA. The sector has close to \$35 billion in loans outstanding, including \$3 billion in personal loans, \$20 billion in residential mortgage loans, \$10 billion in commercial and institutional loans, and \$1.5 billion in agricultural loans.

- **Credit unions have played a critical role in Ontario's economic recovery.** The recent recession and subsequent economic recovery have solidified credit unions' status as a key lender in the province. At the end of 2008, credit union commercial loans were valued at \$4.8 billion. Today, that number is \$8.4 billion. Also during that time, agricultural loans grew from \$816 million to \$1.3 billion while residential mortgages grew from \$9.1 billion to \$17.8 billion.
- **Credit unions provide access to capital for businesses in smaller communities.** Many businesses in Ontario are unable to access traditional sources of capital as a result of their location. Credit unions play an important role in providing access to capital for businesses in smaller communities, in part because credit unions have an extensive presence in the province. Credit unions serve 190 communities in Ontario, and in 25 of those communities, they are the sole financial institutions.
- **Credit unions provide access to capital to many of those who can't access traditional bank financing.** As a result of their patient lending practices, credit unions will lend in areas where traditional bank financing is not available. The positive social impact of credit unions should not be underestimated.
- **Credit unions deepen our understanding of Ontario's regional economies.** For the last two years, the OCC and Central 1 Credit Union (the central financial facility for credit unions in Ontario) have produced economic outlooks for each of Ontario's Statistics Canada economic regions, which included labour force, employment, and housing statistics and projections from 2011-2015, among other data. This kind of analysis provides government with an unparalleled glimpse into business behaviour and confidence, and provides government with data they would not be able to collect on their own.

CREDIT UNIONS ARE COMMUNITY BUILDERS

At the core of the credit union industry's mandate is a commitment to community-building. Here are some of the ways that Ontario credit unions are making a difference:

ALTERNA SAVINGS: For the last 15 years, Alterna Savings has been supporting small and developing businesses through its community based micro-lending program. Many microloan recipients are marginalized individuals who would otherwise not have access to this type of capital. Alterna has funded over 700 impact loans, ranging from \$5,000 to \$15,000, through this program. An independent study found that 66 percent of marginalized recipients who started a business with a microloan were able to reduce or eliminate their reliance on social assistance programs, while 70 percent lived in better homes and 33 percent were eating healthier.

DUCA FINANCIAL SERVICES CREDIT UNION LTD: At the end of 2014, DUCA adopted a living wage policy that now sees its employees earn a minimum of \$16.60 an hour (including benefits), a wage that is 50 percent higher than the provincial minimum wage. DUCA believes that this policy strengthens local economies and ensures its employees and their families are able to maintain a fair standard of living and participate fully as members of their communities.

FIRSTONTARIO CREDIT UNION: Over the last two years, FirstOntario Credit Union has donated \$500,000 to help support student nutrition programs in Halton, Hamilton, Niagara, and Oxford counties. FirstOntario employee volunteers lend their time and labour to help run breakfast programs in their communities.

MERIDIAN CREDIT UNION: Through its Commitment To Communities initiative, Meridian invests its money and time to contribute to the communities in which it operates. Meridian has an ongoing commitment to invest 4 percent of its pre-tax earnings into their member communities – targeting a \$1.8 million community investment budget in 2014. They have identified five key priority areas where they will dedicate their resources: improving financial literacy, with a special focus on local entrepreneurs; investing in local organizations, businesses and activities that make communities strong; ensuring that their employees lead healthy, safe, and balanced lives; creating a healthier environment by improving its environmental impact in the community; and supporting a stronger cooperative sector.

HOW THE GOVERNMENT CAN HELP SUPPORT A STRONG AND VIABLE CREDIT UNION SECTOR

The following three actions will help support credit union industry growth and broader economic growth by levelling the playing field for credit unions.

1. Follow the lead of BC and Quebec and enhance subsidiary ownership powers.

Credit unions generate profits from the difference between deposit and loan interest rates. Credit union profits are then used to facilitate further loans. Persistently low interest rates have bit into profits. While other financial institutions have faced similar challenges, they have the ability to raise funds in capital markets. Credit unions do not.

Therefore, credit unions require new income sources in order to raise the capital they need to lend within their communities and contribute to economic growth. Accordingly, we support credit unions having expanded powers to invest in at least the same array of permitted entities that banks may invest in, as such additional powers will help credit unions diversify their operations in order to best meet the needs of their Members. By contrast, provinces such as British Columbia and Quebec provide their credit unions with greater powers than Ontario credit unions have to make subsidiary investments.

2. Remove the arbitrary barriers that prevent credit union growth.

There are several legislative inconsistencies that put credit unions at a disadvantage and prevent them from accessing municipal services or competing for broader public sector contracts.

For example, to purchase a tax sale property from a city, town, or municipality, the purchaser must put a 20 percent deposit on that property. The deposit must be certified by a financial institution. While the relevant legislation categorizes credit unions as financial institutions, the regulations stipulate that the down payment cheque must be certified by a bank or trust company. This means that credit union members must go to a bank to get a cheque certified to purchase properties that cities, towns, and municipalities are trying to sell.

Additional barriers include the requirement of many broader public sector institutions to contract solely with those financial service institutions that carry a bond rating. Since credit unions do not issue bonds on public markets, they are not rated.

3. Maintain Ontario's Small-Business Tax Exemption for credit unions.

In its 2013 budget, the federal government removed a 41-year-old tax benefit from credit unions. The small business tax exemption was put in place when the federal government began charging income tax on credit unions in the early 1970s. The exemption recognized that credit unions could not access capital markets as federal banks can. Credit unions need a lower tax treatment to ensure they would build capital reserves to be able to protect members' investments.

While the difference in tax rates between general and small business has narrowed, credit unions still cannot access capital markets. The increase in federal taxes will be paid out of credit unions' retained earnings. This means less money will be available for home loans, small- and medium-sized business loans, and farm loans.

In Ontario, the small business exemption reduces the provincial small business tax rate from 11.5 percent to 4.5 percent. If this exemption was removed, credit union taxes would increase provincially by 240 percent. In combination, the federal and provincial tax increases would result in a tax rate of 26.5 percent – higher than what other financial institutions currently pay.

CONCLUSION

This submission highlights the economic and social impact that credit unions have in their communities. It also identifies the barriers to credit union growth, as well as ways to overcome those barriers. We believe that a stronger credit union industry will support SME growth, provide greater access to capital for businesses in rural and smaller communities, and strengthen Ontario's economy.