



Resilience Amidst Turbulence: Lessons Learned from Decades of Crisis Response to BC Credit Unions

Prepared by: Chris Dobrzanski, Mariam Grigoryan

Stabilization Central
— CREDIT UNION —

Table of Contents

Introduction..... 3

1. B.C.'s Great Recession (1981–1986)..... 3

2. NAFTA (1991–1995)..... 6

3. Great Financial Crisis – GFC (2008–2011)..... 7

4. COVID-19 Pandemic (2020–2022)..... 7

Resilience Amidst Turbulence 9

References10

Introduction

Since Stabilization Central CU's inception almost 60 years ago, BC credit unions have retained and supported it as an “*emergency response*” entity owned and governed by BC credit unions. Simultaneously, Stabilization Central CU is incorporated under the BC credit union Act and is regulated and engaged by BCFSa and CUDIC. These three entities share the common objective of ensuring the soundness and safety of BC credit unions.

In the current environment of increased uncertainty about the welfare of BC communities, their credit unions, and their members, Stabilization Central CU must remain resilient in order to engage with credit union boards of directors as well as CUDIC and BCFSa to find least-cost solutions that ensure BC credit unions stay solvent. To assist their communities in areas such as affordable housing (BC Builds/CMHC), climate change (fire/flood risks), commodity tariffs (energy/lumber exports), and job losses, BC credit unions enable a path of credit forbearance rather than banking foreclosure.

The underpinning for the BC CU system owned and governed by Stabilization Central CU reflects the reality of recurring deep financial and economic crises (1929, 1972, 1981, 2008, 2020). Regulated deposit-taking financial institutions are inevitably exposed to volatile conditions whose impact exceeds deposit-taking financial institution prudential capital levels and often exceeds government and central bank policy levers. This operating reality has required the creation of self-regulatory agencies to assist the supervised and patient rehabilitation and recapitalization of community banks and credit unions.

The Bank for International Settlements' (BIS) current annual report observes that the global economy is at a crossroads, with policy challenges (fiscal/monetary) in a “shifting

world.” Long-established trade relationships are fraying and are likely to impact BC credit unions and their communities — directly or indirectly. The persistently weak fiscal positions of both federal and provincial levels of government may lead to volatile long-term interest rates that affect BC CU member mortgage payments and CU delinquency rates. Rapid and disruptive technological changes continue to pose significant challenges to regulated deposit-taking financial institutions, including BC CUs (BIS, AER, 2025, p. 1).

In the face of this risk-based reality, BC credit unions are likely to face more uncertainty in the current geopolitical disorder and economic volatility. This paper reviews the response to major events from 1981 to 2022, their impact on BC credit unions, and the responses by Stabilization Central CU. Furthermore, The study emphasizes Stabilization Central CU's current role and resilience in today's financial/economic conditions and the operating climate facing credit unions.



(Stabilization Central logos from 1989 to 2025)

1. B.C.'s Great Recession (1981–1986)

BC credit unions faced historic losses both in financial margins and from loan defaults as real GDP fell 6.1% in 1981 in BC. Stabilization Central CU's predecessor (CURB) provided grants-in-aid to recapitalize BC CUs and ensure safety/soundness.

In British Columbia, as in the rest of Canada and most other advanced economies, the recession of the early 1980s constituted the most significant economic downturn since the

Great Depression of the 1930s. Unemployment increased from 6.7% in 1981 to 14.7% in 1984; 1981 levels of gross provincial product and employment were not reached again until 1986; and, in the critical goods-producing industries, a zero growth rate in 1981 was followed by a disastrous 13.1% decline in 1982. In fact, even within the Canadian context, the recession in British Columbia was particularly severe (T. Barnes, p. 1).

If the recessionary conditions facing British Columbia in the early 1980s reflected cyclical concerns, notably a sharp reduction in demand for forest products, it became evident that longer-term processes of “economic restructuring” — profound changes in the organization, location, and methods of production — were very much implicated in the recession (T. Barnes, p.1).

In addition, interest rates were raised significantly in this period to stop the inflationary chaos that had been left to build into “inflationary expectations” since the two OPEC cartel oil price increases in the 1970s. The Bank of Canada’s prime rate was 9.5% in 1978, rose to 15.25% in 1980, and peaked at 20.0% in 1981. This “bone-crushing monetary tightening” created a significant stream of commercial real estate defaults in BC, where residential property prices fell 30%.

Chemainus – Transition to Eco-Tourism & Forestry

A case study that graphically illustrates the trends towards (employment) flexibility is provided by the rebuilding of MacMillan Bloedel’s lumber mill at Chemainus, and the associated employment changes. In 1982, the mill was closed, and its 654 workers were laid off, with severance pay awarded on the basis of seniority. Just over two years later, the firm built a completely new mill with state-of-the-art technology and hired 145 workers, including about a third from the old mill, while instituting completely different labour practices. The desire to achieve production flexibility dominated the concept of this new mill (T. Barnes, p.19).

Through the efforts of the mayor in the Municipality of Chemainus–North Cowichan, and a limited grant from the provincial government for economic revitalization, Chemainus reinvented itself by decorating the town’s downtown buildings with colour murals featuring its history of loggers, fishers, farmers, and foreigners. This transformation diversified the population and employment of Chemainus, enabling a regional economic revival.

BC credit unions – Impact

Vancouver Island communities dependent on forestry faced many bankruptcies, foreclosures, and loan defaults as mill closures and permanent layoffs worked their way through both the real economy and financial intermediaries. With government programs, CURB participated to ensure local credit unions remained adequately capitalized, as their credit union members often declared bankruptcy during this period of structural change through to the Great Recession of 1981–86.

More specifically, at year end 1985, credit unions were required to have equity of 3% of assets, while data reveal:

- Lake Cowichan CU, total assets of \$9.6MM with negative equity of (\$0.9MM)
- Ladysmith CU, total assets of \$16.0MM with equity of under \$0.1MM
- Chemainus CU, total assets of \$12.9MM with equity of under \$0.3MM

The Lake Cowichan and North Cowichan area of Vancouver Island was greatly affected by the closures of mills such as Comox Logging Co. and Macmillan–Bloedel in the region.

Stabilization Central CU’s Response

Stabilization Central CU’s predecessor (CURB) provided grants-in-aid to ensure regulatory compliance and to keep vital community cooperative financial intermediaries open in a safe and sound manner. Many credit unions repaid these grants, as BC CUs started to issue “equity investment shares,” enabled from 1986.

(Ladysmith CU members invested \$100,000 in equity shares).

Commercial Real Estate Losses & Mergers

In addition to rehabilitating credit unions through the Great Recession, CURB was empowered under its authority, when a credit union was placed under supervision, to seek a voluntary merger. This often entailed a direct payout from the BC CU owned and funded Credit Union Deposit Guarantee Fund. The payout was a least-cost alternative to forced liquidation; the merging credit unions were deemed viable as the business cycle and interest rates returned to normality.

Two significant credit unions in terms of size and loss come to mind, again with data as of 1985:

- Van-Isle CU with total assets of \$54.1MM, negative equity of (\$1.5MM), and NOI loss (\$1.7MM)
- West Coast Savings CU with total assets of \$410.5MM, only \$5.3MM of equity, and NOI loss of (\$1.6MM)

Both credit unions went on to merge and then restore their financial capacity, becoming the first federal credit union in Canada from BC (known as Coast Capital CU).

As interest rates rose quickly through 1980 (prime rate 15.25%) and peaked in 1981 (prime rate 20.00%), only to fall back in 1982 to 15.25%, some large credit unions pursued weaker credit applications to capture “B” lending loan spreads. Often, these commercial real estate construction loans — with weak covenants and limited collateral other than land — went into bankruptcy, creating requirements for large loan loss provisions. As the financial margin was already squeezed from the interest rate mismatch, net operating income was

negative. BC CU consolidated results showed losses in 1984 (\$20MM drop in equity on \$6 billion of assets) and again in 1985 (\$7MM drop in equity on \$6.2 billion of assets).

Stabilization Central CU's Response

Prior to the formation of Stabilization Central CU, BC credit unions had created an ex-ante pre-funded Credit Union Deposit Guarantee Fund. Built primarily by issuing debt debentures to the credit unions, the fund comprised 1–1.2% of total credit union shares and deposits. It helped the credit union system persist through the external conditions BC CUs faced between 1981 and 1986, ensuring safety and soundness as they served their BC communities.

During the 1981–1986 Great Recession, CURB paid out \$21MM in aid (three basis points of total credit union deposits in 1982), as part of its \$32MM pay-out over the five-year period. Peak drawdown of the fund was 33% in 1982. This translates to a credit union rehabilitation fund of 33 basis points.

Ocean Falls Credit Union Liquidation

It is worth noting that there was an actual liquidation of a credit union in BC, prior to the enabling of legislation that allowed for mergers outside of common bonds. In 1973, in Ocean Falls, BC, US-based Crown Zellerbach closed its kraft paper mill. The town of Ocean Falls had a population of 3,000 people, and many were members of Ocean Falls Credit Union (OFCU). BC's NDP government tried to revive the mill (1975). By 1980, the mill was closed for good, and most of the people had left.

Stabilization Central Annual Report, 1989

The Mission Statement of the Stabilization Central Credit Union of British Columbia is to enhance the stability and credibility of British Columbia's credit unions.

The Mission will be accomplished through working in partnership with B. C. Central Credit Union and the Financial Institutions Commission to effectively monitor credit unions to facilitate early action to correct problems within the credit union system.

CURB completed a successful payout to OFCU members from the Credit Union Deposit Guarantee Fund. This was done without any contribution from the provincial government, and it demonstrated the strategic value of a BC CU system-owned entity that had flexible tools to deal with disintermediation risks and the protection of member deposits while being committed to the safety and soundness of credit unions.

2. NAFTA (1991–1995)

Unlike major job losses in Eastern Canada, BC credit unions faced a financial margin squeeze alongside a mild recession.

Stabilization Central CU provided specific loan loss guarantees to facilitate credit union mergers in BC.

In 1991, Canada signed the North American Free Trade Agreement, extending the 1989 US–Canada FTA to now include Mexico to create a “free trade zone from Alaska (almost) to Equator.” The free trade deal eroded safeguards for many manufacturing sectors in Canada. Job loss due to NAFTA exceeded 500,000 over four years in Canada, and Canadian job losses per capita were four times greater than US job losses per capita. “What brings financial value to the shareholders [of American corporations] is the only criterion [for international trade], even if jobs are destroyed and whole communities devastated” (E.G. Brown, p.65).

In BC — a small, open economy heavily influenced by external commodity prices in an increasingly interconnected global economy — regional employment actually grew in this 1991–1995 period. Stable commodity prices and increased foreign investment in real estate in BC urban centres provided modest growth in BC’s labour force.

There was a mild economic recession in BC as the interest rate cycle went from a prime rate of 8.50% (1991) to a trough of 6.0% (1993), then back to a range of 8.50–8.75% (1995–1999). BC experienced a gradual drop in real GDP,

and fiscal restraint (spending cuts) were required to adjust to the post-NAFTA reality of lower employment levels nationally and lower tax revenues regionally.

BC Credit Unions’ Impact & Stabilization Central CU Response

For BC credit unions, consolidated loan delinquency rose from 0.76% of assets in 1993 to a peak of 1.94% in 1999, as short-term interest rates rose above long-term rates, creating cashflow problems for debt holders. Recessionary real estate conditions such as a buyer’s market and speculative construction led to more defaults and foreclosures. Consolidated BC CU results revealed that in all regions, the credit risk appetite was commensurate with the regional economic resilience and with the regional earnings capacity of BC CUs. However, unlike in the Great Recession (1981–1985), in this mild recession, BC credit unions’ net operating earnings were sufficient in aggregate.

Stabilization Central CU was only called upon a few times to offer financial assistance from the fund, in an aggregate amount of \$1.6MM (1989–1999). Two examples were:

- Evergreen Savings CU and Sointula CU received a \$290K loan guarantee to facilitate their merger (1999).
- Evergreen Savings CU and Alert Bay CU received a \$750K loan guarantee to facilitate their merger (1999).

There was one “outlier” claim on the fund in 2001. To facilitate a merger between the insolvent credit union KCP and its viable acquirer Valley First CU, Stabilization Central CU provided an indemnity and loan guarantee of \$4.8MM to Valley First CU. The loan portfolio of KCP CU was heavily weighted to personal unsecured lending with lower credit scores. It was expedient to offer a blanket indemnity rather than assess each member loan at KCP CU.

Stabilization Central CU, nevertheless, was active in helping rehabilitate credit unions placed under supervision by FICOM (at least 24 such supervision assignments). The decade

of 1991–2001 proved to be a relatively stable period for managing risk-weighted capital ratios and core liquidity levels in credit unions and for maintaining credit union depositor confidence.

3. Great Financial Crisis – GFC (2008–2011)

The GFC created a liquidity crisis for BC credit unions, centred on ABCP securities in default in August 2007.

Stabilization Central CU with Central C1, under the umbrella of CUDIC, CMHC, and BoC, ensured adequate resources to BC CUs.

In 2008, the near collapse of the world financial system triggered among depositors a lack of confidence in many financial institutions. There was a lack of liquidity in many wholesale investments, especially in those related to mortgage securities. Regulatory regimes immediately required a near doubling of risk-weighted capital (from 8% to 13–15%) and a return to retail deposits for core liquidity compliance. Market conduct and depositor protection both required a regulatory framework.

In the BC economy, however, the labour force lost 5% of its jobs, primarily outside of the Vancouver metropolitan region. For example, Thompson–Okanagan labour force employment was 254K in 2008 and fell to 244K by 2016. For this region, credit union membership peaked in 2008 at 132K members and slid to 120K members by 2016. A common factor in these non-metro regions was a decline in forestry jobs between 2007 and 2010. Total employment in forestry declined by 35,000 in BC, as the US had a deep recession in housing as a result of subprime mortgage lending pre-GFC (Tyee, 2024.10.30).

BC CU Impact

As central banks lowered interest rates to near zero (bank rate of 0.5% in Canada in 2009), financial assets and real estate appreciated significantly. This price appreciation enabled

BC CUs to offer a higher level of forbearance to those credit union members who may have had large debts and had an inadequate cash flow to service their debts during the GFC. BC credit unions had lower loan delinquency rates and lower bad loan losses in 2008–9, expressed as a percentage of total loans, than in the recessions during the 1990s.

Stabilization Central CU Response

The supervision assignments at Stabilization Central CU during this period focused on improving governance, operational, and strategic decision-making and on nurturing a strong board-led risk framework. ERM focus was on taking precautionary steps and testing for unknown events in advance rather than responding to and fixing losses once they occurred. The stabilization framework for BC CUs became based more on before-the-fact loss prevention rather than after-the-fact loss mitigation.

Mergers remained the least-cost method to protect credit union depositors. Financial assistance between 2007 and 2011 was limited to two small payments of \$10K and \$60K in 2007 to Vantage One CU (head office Vernon) to absorb Arrow CU (Arrow Lakes, Kootenays).

Stabilization Central Annual Report, 2010

History has shown the necessity of having adequate warning systems to identify problems, of having early intervention systems to address concerns and of having the ability to respond in a swift and flexible manner. Stabilization Central plays an important role in these functions.

4. COVID-19 Pandemic (2020–2022)

The COVID-19 lockdown led to a deep recession in 2020, with a quick bounce-back in 2021.

Stabilization Central CU and Central C1 aligned to regulatory forbearance, coordinated with BIS, OSFI, and BCFSFA.

In response to the COVID-19 pandemic, BIS in March 2020 coordinated a response by central banks and governments to have central banks provide lender of last resort facilities and government bank supervisors provide regulatory forbearance:

- BIS also reasoned that the lockdowns due to the pandemic would create massive economic dislocations (job loss, loan default) that could threaten the financial system again. Rather than have a health crisis trigger another big banking crisis, some liquidity and capital rules were temporarily suspended.
- BIS postponed the implementation of Basel III to 2023 and offered to release systemically important financial institution liquidity buffers and capital cushions, as well as any capital required for loan default during the pandemic. This enabled the banks — with lender of last resort facility access from their central banks — to operate with added capital capacity and more flexible liquidity, without adverse accounting from any market disruption.

These extraordinary monetary, accounting, and macro prudential measures in 2020 were the complete opposite to those demanded of the banks in the early stages of the GFC a decade earlier. At that time, US commercial banks had been incentivized to quickly foreclose on the houses of families who experienced job loss — as the US FRB increased interest rates from a low of 1% to a peak of 5% in a two-year period, bursting the housing bubble, exposing subprime lending, and spreading contagion to the whole US and world banking system.

Stabilization Central CU Response

In 2020, Stabilization Central CU and Central C1, under the umbrella of CUDIC, BCFSA, Bank of Canada, and CMHC, aligned to ensure adequate resources of liquidity and capital were available to BC credit unions during the two-year pandemic period. Financial agencies and the federal government in Canada provided financial support to business and

labour via forgiveness of debt rather than foreclosures, as had occurred in the GFC.

Regulatory forbearance by OSFI and BCFSA during the pandemic was very significant. OSFI's view was that the most important impact of the move to lower capital requirements was to signal clearly to banks and credit unions alike that “a measured decline in capital levels would be an appropriate and prudent response to the deteriorating economy” (OSFI, Nov. 23, 2020).

This regulatory forbearance during COVID-19 in BC was “a textbook case of how [a] capital regime should work during a downturn, where [the] banking system absorbs shocks to help society” (OSFI, Nov. 23, 2020). The downturn trifecta from the regulatory and stabilization perspective was:

- credit union loan growth rose (supporting local economies with credit access)
- credit union loan loss provisions went up (driven by unemployment rates)
- credit union members remained confident and unconcerned by the decline in capital

Stabilization Central Annual Report, 2020

During a time of uncertainty for all, what is clear is that B.C. credit unions have remained a beacon of safety and security for their members. This was evidenced by the increase in member deposits throughout the pandemic, and the support provided through government programs such as CEBA and loan deferrals. For Stabilization Central, the pandemic has reinforced our mandate to provide strength and stability to B.C. credit unions

Resilience Amidst Turbulence

BC credit unions and the credit union system-owned Stabilization Central Credit Union are probably entering a decade of heightened disruption in most dimensions of community-based financial services. Ageing member demographics and stagnant property markets will greatly affect the capacity to build savings and access credit in many credit unions. Geopolitical tensions and tariff-related disruptions will likely impede industries and regional employment. Environmental risk could also affect most of BC (whether fire, drought, or flood).

BC's provincial government has historically supported a regional framework for credit unions, with both harmonized legislation and depositor protection. Government is likely to continue to endorse a vibrant regional financial service network whose governance rests with local populations, such as credit unions that remain safe and sound under the guidance of both BCFSA-CUDIC and Stabilization Central Credit Union.

BC credit unions can count on continued strategic support from Stabilization Central Credit Union. Today, systemically important financial credit unions hold significant capital and liquidity buffers (along with significant member deposits). These buffers serve to reduce the likelihood of a claim on CUDIC. Given this unique asset concentration and prudential profile of BC credit unions, Stabilization Central CU may pivot away from being a provider of "unlimited deposit insurance," instead moving into strategic support for ongoing transformation and the disciplined resolution of any operating issues to ensure credit unions retain solvency and soundness for their members in their regional communities.

Stabilization Central Credit Union has a proven historical record, enhanced by BC credit union governance, of remaining resilient in the midst of an uncertain and multi-dimensional risk environment. Stabilization Central Credit Union has the strategic capacity to assist BC credit unions in their execution of member-led

transformation and retain safety and soundness.

Stabilization Central Annual Report, 2024

Stabilization Central facilitated open and transparent discussion on the future of the credit union system. The message was clear: credit unions must collaborate to deal with the issues in front of us and find opportunities for the future.

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