



**APPLICATION FOR CHANGES TO THE COMMON BOND OF THE
VANCOUVER FIREFIGHTERS' CREDIT UNION**



Submitted to Financial Institutions Commission

December 1, 2018



APPLICATION FOR CHANGES TO THE COMMON BOND OF THE VANCOUVER FIREFIGHTERS' CREDIT UNION

The Board of Directors and Management are requesting approval by the Financial Institutions Commission ("FICOM") for changes to the common bond of the Vancouver Firefighters' Credit Union ("VFCU") subject to a vote of the Membership of the credit union at an Annual General Meeting.

The Vancouver Firefighters' Credit Union has achieved success within the Vancouver jurisdiction over its more than 75-year history. Because of this success other fire departments and provincial firefighter bodies have expressed a desire and provide their encouragement to expand the scope and reach of the VFCU to a broader membership. The Board of Directors for VFCU have evaluated the risks and the potential benefits of a change to the common bond to allow for professional firefighters' and their families throughout British Columbia to qualify for membership in VFCU.

Concurrently with the request to expand the common bond of the credit union membership, the Vancouver Firefighters' Credit Union requests approval for a change to the credit union name to become simply "Firefighters' Credit Union" to reflect the more inclusive common bond.

This document consists of the outline and rationale for, and the risks associated with the proposed changes to the Common Bond of the Vancouver Firefighters' Credit Union.

HISTORY, GROWTH

In its more than 75 year history, VFCU has been a stable and viable credit union but has never truly grown in terms of membership size. Traditionally we have had a member base that is strong, with over 95% of active duty VFRS (Vancouver Fire and Rescue Service) members belonging to and doing business with our credit union. We have done a good job of capturing 100% of our new Probationary Firefighters at the start of their careers and retaining them as members until their retirement. However, our membership base stays relatively unchanged as the retired members generally eventually close their accounts and are replaced with the new firefighters beginning their careers. We feel that it is time to expand our membership and that staying small is not generally healthy for financial institutions. As an example, when I began my career with VFCU in 1997, there were over 70 credit unions in B.C. now in 2015 there are 47, with more mergers and amalgamations likely in the future.

NEW BANKING SYSTEM

VFCU has recently upgraded to a new banking system to better serve the needs of our members. We have purchased the Universa System by Smart Solution out of Aurora, Ontario. Universa is much more sophisticated than our old, outdated banking system, and will greatly enhance our ability to provide financial products and services. Universa also has an online component and a mobile application which



will give our members the ability to do online banking such as they have come to expect from other financial institutions. This online ability is instrumental to our growth strategy, as we may now offer our financial services to other Fire Departments in the Lower Mainland, and not have to worry about opening branches in those communities in order to serve them. As we have only the one branch located at 2801 Quebec Street in #3 Firehall in Vancouver, traditionally we have only appealed to VFRS members and their families. This new online functionality now changes that and should make membership in our credit union easier and more appealing to members of neighbouring fire departments.

DEPOSIT BASE

In 2013, our auditors, MNP identified a trend that showed that VFCU's deposit base was slowly shrinking in size and brought it to the attention of Management and the Board of Directors for discussion. FICOM has also become aware of this trend and asked for Management's response and plans to address it. Although not critical at the present time, this is a trend that is likely to continue, as most if not all of these big depositors (with assets over \$100,000.00) are our older, retired members past the age of 60. It is generally felt that as these members expire, their deposits will not likely remain in our credit union, but will instead be passed to their children and grandchildren as inheritances. As our younger members are not generally savers like our older generation of members, and with taxes and housing prices taking their toll on people's finances, these deposits when they leave are not generally being replaced. However, VFCU has identified a variety of potential, stable sources of deposits to carry our credit union forward into the future, and changes to our common bond are necessary in order to attract such deposits.

Recently our credit union opened an account for the British Columbia Professional Firefighters' Association (BCPFA) and also the BCPFA Burn Fund. The BCPFA is a related Fire Service account much like our own Union (Local 18 Vancouver Firefighters). These accounts hold deposits for the operations of these trade union organizations and we assist them with financial services for their business activities. We have a number of Fire Service related accounts such as the Firemen's Benefit Association, which is an association that assists members in times of financial hardship, and the 314 Holding Society which operates our Firefighters' Club, our Pub (The Hose and Hydrant), Banquet Hall and Union Offices.

The Burn Fund is a charitable fund that does work for the VGH Burn unit and other charities on behalf of British Columbia Firefighters. They also operate the Bright Lights Fundraiser in Stanley Park each Christmas season which brings in around \$400,000.00 in donations each year. These are new deposits to our credit union this year. The Vancouver Firefighters' Charitable Society is another account that we administer. A large percentage of active duty firefighters contribute to this account by payroll deduction each payday. The members get a tax receipt for their contributions, the credit union gets the deposits to lend out and the fund uses its excess capital to do charitable works throughout Vancouver on behalf of Vancouver Firefighters. The Charitable Society began only a few years ago and has grown in size to over \$400,000.00 just from payroll deductions. Most other Lower Mainland fire departments have their own charitable societies, with varying amounts of money. Notably, Surrey Firefighters' Charitable Society has



about \$5 million dollars in it. Other financial institutions are providing services to this charitable society and others like it, VFCU would like to compete for that business.

Below is an analysis of the deposit base at VFCU showing that demand deposits have seen growth with relatively flat volumes for the term deposit base. This would suggest that the growth in demand deposits has not cannibalized the term deposit base to any extent. With the continued strengthening of the relationship with the BCPFA and the BCPFA Burn Fund, the deposits would continue to show positive growth to support expansion of the bond and the credit union.

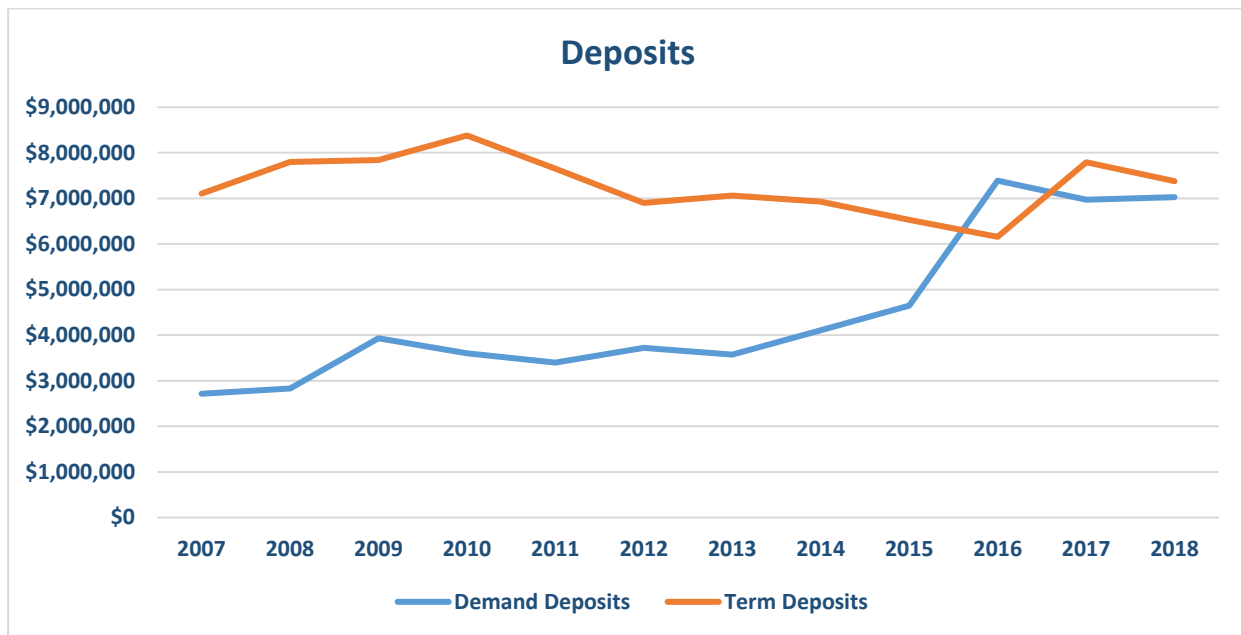


Figure 1: Total Deposits as at December 31st of each Year.



BRANDING, METRO FIRE DEPARTMENTS AND THE NEED FOR SPEED

Although there is a great deal of competition in the marketplace for financial services, there is only one Firefighters' Credit Union in all of British Columbia. We believe that we have built a great brand that will appeal to firefighters throughout the Lower Mainland. We feel it is time to drop the Vancouver from our name and simply become Firefighters' Credit Union in order to appeal to the rest of the members of these neighbouring departments.

Time is truly of the essence for a couple of reasons. First, in discussions with the previous Fire Chief of Vancouver, John McKearney, he advised us that there is a serious push at the Provincial level for amalgamation of the Lower Mainland Fire Departments for the simple reasons of cost efficiency of delivery of services to the citizens. He feels that this will be an inevitable outcome for much of the Lower Mainland, mirroring what has already occurred in the Greater Toronto area with the creation of a Metro Fire Department which merged many surrounding Fire Departments into one. For this reason, it will be important to stay ahead of this trend and be ready to take on these new credit union members in anticipation of this inevitable outcome.

Secondly, Vancouver Police Credit Union (VPCU) has lately been on a membership drive and we have genuine concerns that they may preemptively offer membership in their credit union to firefighters in the Lower Mainland. They have recently offered membership in VPCU to the Transit Police, RCMP members in the Lower Mainland and Abbotsford Police Officers. At a recent Peer Group 6 Meeting one of their Board Members openly mused about the prospect of the offering membership to firefighters. We strongly believe that the changes to our common bond must be made in order to counter such an eventuality as we feel that those uniformed firefighters should naturally be our credit union members simply due to the close nature of our shared trade union ties.

KNOW YOUR CLIENT

Since all civic firefighters are city employees, they are all contractually paid according to the pay scales defined in their most recent collective agreements. We have copies of all of those agreements through our Union Local 18 as all of the locals share information with each other. Simply put we know the income levels of our entire active duty membership as they are clearly defined in the contract as they (we) are all paid according to our ranks. (Probationary Firefighter, Firefighter First Class, Lieutenant, Captain, Battalion Chief etc.) This would be very similar at all departments throughout the Lower Mainland. Furthermore, most if not all cities run their payroll through the SAP system. This is the system that The City of Vancouver uses to process its payroll. Our credit union is familiar with this system and it operates relatively seamlessly and is instrumental in our loans being paid on time, every 2 weeks (there are 26 pay periods per year), as all of our loans are paid on the same day that our members receive their pay. Consequently, very few of our loans are ever defaulted on due to this structure.

In terms of mortgage lending and how that relates to local knowledge, we currently have firefighters with the VFRS who live in literally every municipality of the Lower Mainland. Many of them have



mortgages with our credit union and we have the requisite knowledge to make loans to these members as we are familiar with the property values in these municipalities.

Appendix “A” contains a listing of all professional firefighter union locals with membership as at October 31, 2018. As is shown in the attached schedule, Vancouver Firefighters is the largest union local, that is already served by VFCU. Moving strategically and slowly to offer financial services to the other jurisdictions within the Lower Mainland will not be onerous for the credit union with a ‘managed’ approach – inviting single local unions individually before including other municipalities.

Our plan is to grow slowly and bring on the smaller departments first such as Port Moody and North Vancouver City with a membership of 44 and 62 respectively in the first years as these will not be big numbers of new members to provide services to. This many members would be equal to the amount of new members that we absorb each year when we offer membership to the new Probationary Firefighters that join Vancouver Fire and Rescue. We would slowly increase the growth in members over a 5-7 year period until we felt we could absorb the bigger departments such as Surrey with almost 400 members. Appendix “B” shows the same listing as Appendix “A” only colour coded to portray how the proposed rollout of membership would occur in the coming years.



RISKS

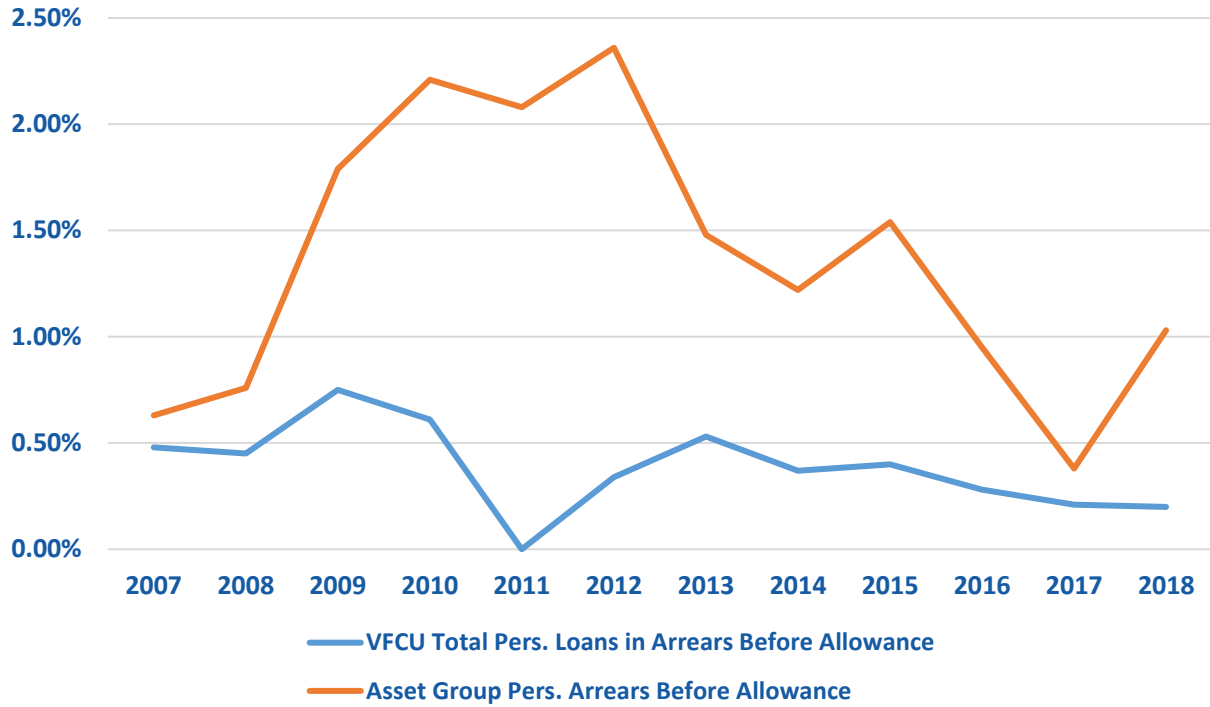
The biggest risk presented by the proposed changes to our common bond is that we will no longer have the intimate knowledge of our members that we now have. Currently, our members are our work mates with whom we fight fires and respond to incidents. VFCU still lends to a large extent on the basis of “Character Lending”, albeit with the requisite safeguards in place. The growth that we propose and anticipate would create a larger membership base and we would not know these newer members like the ones who belong to the VFRS. We believe that this risk can be mitigated by existing policies and procedures such as; FINTRAC procedures for new members, regular credit checks, TDS and GDS calculations, and graduated borrowing based on a member’s tenure with their department. We would also propose to be proactive and put away more money into our “allowance for Doubtful Loans” account which currently sits at \$40,000.00, subject to IFRS 9 Rules. In our opinion, these risks are ones that exist to all lenders and may be effectively mitigated by the aforementioned policies and procedures.

As shown in one scenario below is the event whereby the credit union experiences reputational damage and deposits are withdrawn from the credit union. This risk is mitigated by the fact there are other professional firefighters’ locals that are asking to do business with VFCU. Furthermore, the slower growth strategy planned below will allow sufficient time and effort to achieve the results projected. There is also strong loyalty among the professional firefighters’ and commitment through direct payroll deposit for all firefighters.

As shown in the graph below, VFCU has consistently experienced total delinquency considerably lower than the results of the Asset Group over the past 10 years. This provides evidence of the conservative lending practices and close connection with the Members in providing personal loans and mortgages. Expanding the bond to include other professional firefighters would maintain that Member connection and loyalty with the profession.



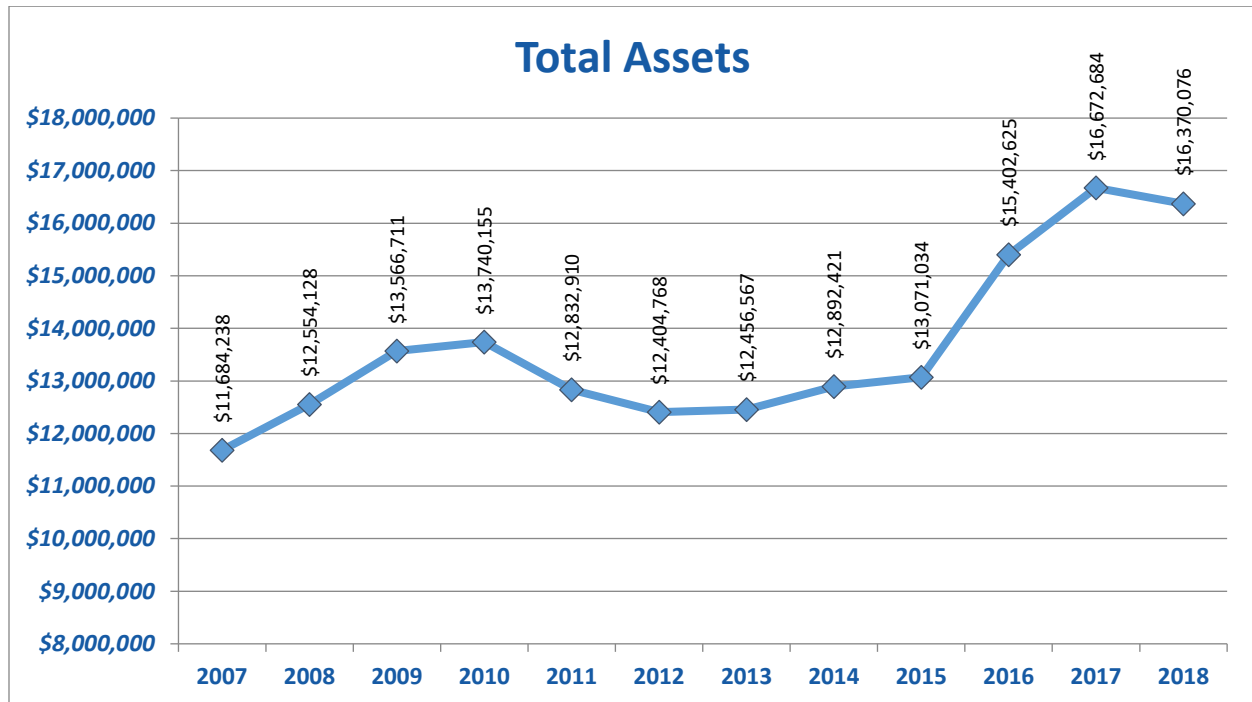
Total Personal Loans in Arrears Before Allowance



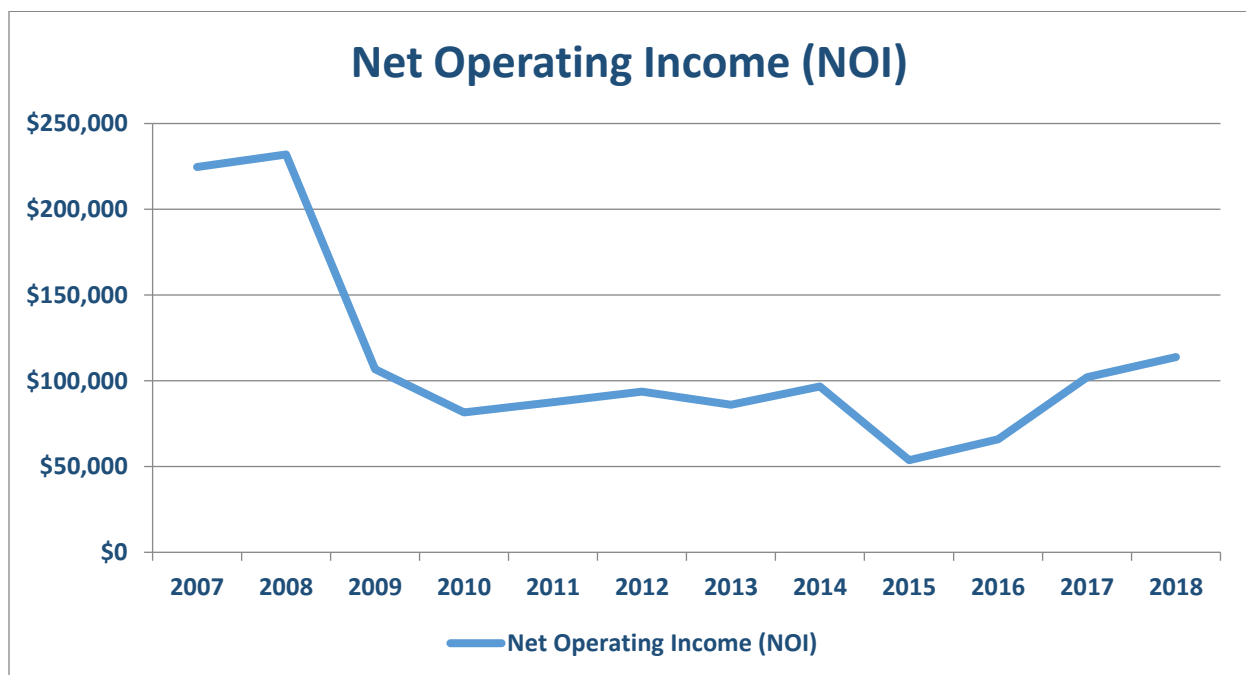


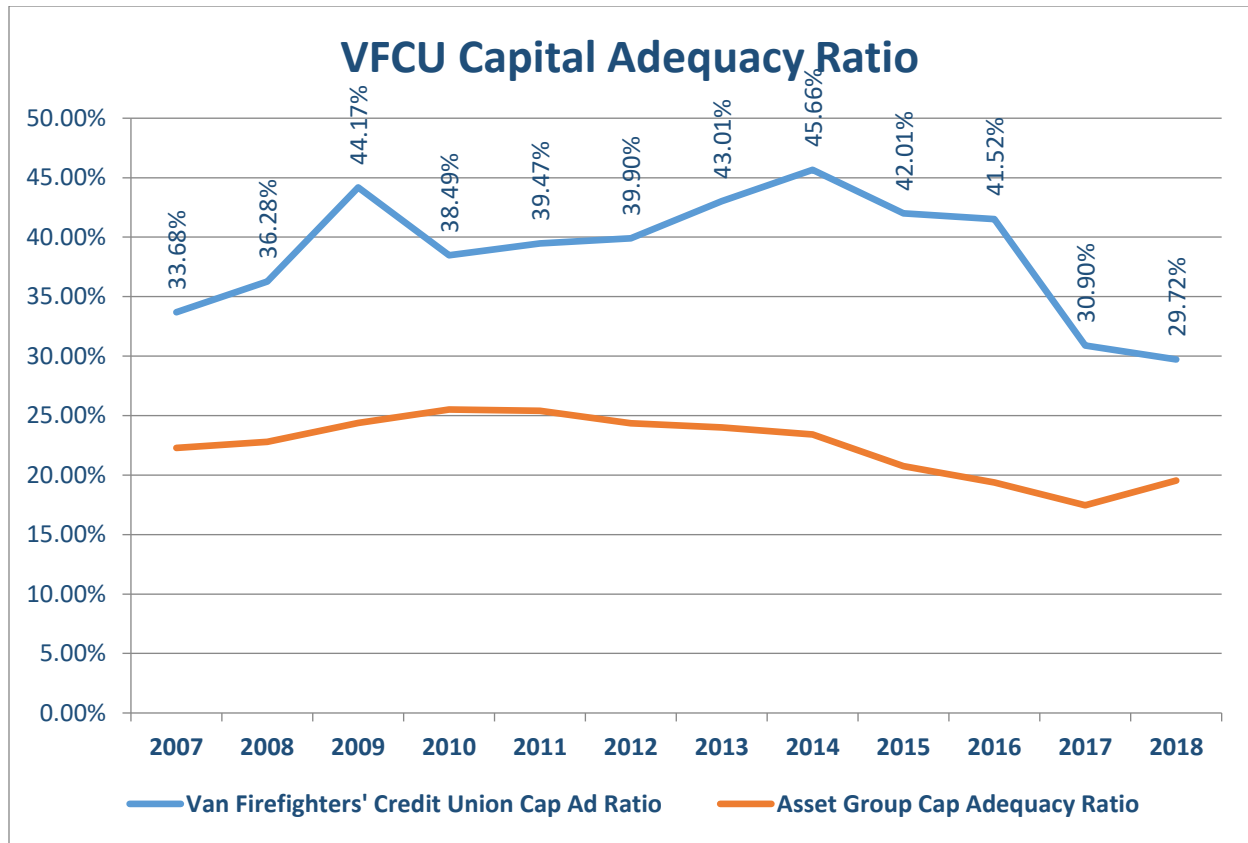
FINANCIAL ANALYSIS

VFCU has seen measured growth in total assets over the past 10 years as shown below:



Net Operating Income continues to be stable and expenses are well-managed.





Vancouver Firefighters’ Credit Union is well-capitalized with a capital adequacy ratio considerably above the Asset Group consistently over the past 10 years. In addition, the capital adequacy ratio has been above 30%, except for the results for July 31, 2018 where the ratio was 29.72%. It is acknowledged that, with expanding the common bond, there is the anticipated continued increase in residential mortgages to the professional firefighters and their families. With this managed growth, it is reasonable to anticipate other deposit products and services would continue to support a strong capital position going forward as was mentioned earlier.

It should also be noted that VFCU does not engage in any commercial lending at this time; nor is there any plans to pursue commercial lending, which is outside of the scope and expertise of the current credit union management and board oversight.



FINANCIAL ANALYSIS AND SCENARIO STRESS-TEST

The growth opportunity for VFCU has several variables that impact the credit union structure and profitability. Following are several scenarios with various assumptions on both deposit and loan growth.

Scenario – Moderate Growth

The scenario of moderate growth assumes an expansion of the common bond and a strategic growth strategy marketing to progressive fire department locals; initially in the Fraser Valley and throughout the Metro Vancouver jurisdictions. Following are the assumptions in this scenario:

Assumptions:

- Annual growth rate of residential mortgages: 10%
- Annual growth rate of deposits: 10%
- Annual growth rate of operating expenses: 5%
- Interest Income as a percentage of Average Assets: 3.76%
 - This was drawn from the July, 2018 Comparative Analysis Report (CAR) for VFCU.
- Interest Expense as a percentage of Average Assets: 0.74%
 - This was drawn from the July, 2018 CAR for VFCU.

Observations:

Based upon the above assumptions, our projections indicate that the credit union continues to be well-capitalized with a low of 16.84% Capital Adequacy Ratio. Liquidity shows a decline from the increased lending activities in the nearby jurisdictions to the fire and rescue personnel. Liquidity shrinks to a low of 10.40%; assuming no other funding sources are exploited.

By deploying the excess liquidity and capital of the credit union, profitability remains positive and growing concurrently with the growth in loans and deposits.



Scenario – Moderate Growth

	2018	2019	2020	2021	2022	2023
Cash & Liquidity Investments	\$ 2,151,323	\$ 2,194,712	\$ 2,242,440	\$ 2,294,941	\$ 2,352,692	\$ 2,416,218
Total Net Personal Loans	13,994,269	15,393,696	16,933,065	18,626,372	20,489,009	22,537,910
Total Deposits	14,428,161	15,870,977	17,458,075	19,203,882	21,124,271	23,236,698
Total Assets	16,370,076	17,812,892	19,399,990	21,145,797	23,066,186	25,178,613
Average Assets	16,521,380	17,091,484	18,606,441	20,272,894	22,105,991	24,122,399
Total Liabilities	14,477,119	15,919,935	17,507,033	19,252,840	21,173,229	23,285,656
Primary Capital	1,892,957	2,015,962	1,892,957	1,892,957	1,892,957	1,892,957
Total Eligible Capital	123,949	123,949	123,949	123,949	123,949	123,949
Less: Deductions from Cap.	185,804	185,804	185,804	185,804	185,804	185,804
Capital Base	1,831,102	1,954,107	1,831,102	1,831,102	1,831,102	1,831,102
Risk Weighted Assets	6,750,518	7,425,570	8,168,127	8,984,940	9,883,433	10,871,777
Capital Adequacy Ratio	27.13%	26.32%	22.42%	20.38%	18.53%	16.84%
Liquidity Ratio	14.91%	13.83%	12.84%	11.95%	11.14%	10.40%
Interest Income	627,199	552,494	607,743	668,517	735,369	808,906
Interest Expense	123,499	112,107	123,317	135,649	149,214	164,136
Net Interest Income	503,700	440,387	484,426	532,868	586,155	644,771
NII	4,063	4,469	4,916	5,408	5,948	6,543
Operating Expenses	312,691	328,325	344,742	361,979	380,078	399,082
NOI	195,072	116,531	144,600	176,297	212,026	252,232
Patronage & Taxes	72,067	75,670	79,454	83,426	87,598	91,978
Total Comprehensive Income	123,005	40,860	65,146	92,871	124,428	160,255
ROAA	0.74%	0.24%	0.35%	0.46%	0.56%	0.66%



Scenario – Slow Growth

The scenario of slow growth also assumes an expansion of the common bond and a strategic growth strategy marketing to progressive fire department locals; but at a more moderate volume to select fire departments within a close proximity to the main office of the VFCU. Following are the assumptions in this scenario:

Assumptions:

- Annual growth rate of residential mortgages: 5%
- Annual growth rate of deposits: 5%
- Annual growth rate of operating expenses: 4%
- Interest Income as a percentage of Average Assets: 3.76%
 - This was drawn from the July, 2018 Comparative Analysis Report (CAR) for VFCU.
- Interest Expense as a percentage of Average Assets: 0.74%
 - This was drawn from the July, 2018 CAR for VFCU.

Observations:

Based upon the above assumptions, our projections indicate that the credit union remains well-capitalized with a low of 21.25% Capital Adequacy Ratio. Liquidity shows a slight decline from the increased lending activities in the nearby jurisdictions to the fire and rescue personnel. Liquidity shrinks to a low of 12.33%; assuming no other funding sources are exploited.



Scenario – Slow Growth

	2018	2019	2020	2021	2022	2023
Cash & Liquidity Investments	\$ 2,151,323	\$ 2,173,018	\$ 2,195,797	\$ 2,219,715	\$ 2,244,829	\$ 2,271,199
Total Net Personal Loans	13,994,269	14,693,982	15,428,682	16,200,116	17,010,121	17,860,628
Total Deposits	14,428,161	15,149,569	15,907,048	16,702,400	17,537,520	18,414,396
Total Assets	16,370,076	17,091,484	17,848,963	18,644,315	19,479,435	20,356,311
Average Assets	16,521,380	16,730,780	17,470,223	18,246,639	19,061,875	19,917,873
Total Liabilities	14,477,119	15,198,527	15,956,006	16,751,358	17,586,478	18,463,354
Primary Capital	1,892,957	2,015,962	1,892,957	1,892,957	1,892,957	1,892,957
Total Eligible Capital	123,949	123,949	123,949	123,949	123,949	123,949
Less: Deductions from Cap.	185,804	185,804	185,804	185,804	185,804	185,804
Capital Base	1,831,102	1,954,107	1,831,102	1,831,102	1,831,102	1,831,102
Risk Weighted Assets	6,750,518	7,088,044	7,442,446	7,814,568	8,205,297	8,615,562
Capital Adequacy Ratio	27.13%	27.57%	24.60%	23.43%	22.32%	21.25%
Liquidity Ratio	14.91%	14.34%	13.80%	13.29%	12.80%	12.33%
Interest Income	627,199	539,339	566,306	594,621	624,352	655,570
Interest Expense	123,499	109,438	114,909	120,655	126,688	133,022
Net Interest Income	503,700	429,902	451,397	473,966	497,665	522,548
NII	4,063	4,266	4,479	4,703	4,938	5,185
Operating Expenses	312,691	325,198	338,206	351,735	365,804	380,436
NOI	195,072	108,969	117,669	126,935	136,799	147,297
Patronage & Taxes	72,067	74,950	77,948	81,065	84,308	87,680
Total Comprehensive Income	123,005	34,020	39,722	45,870	52,491	59,617
ROAA	0.74%	0.20%	0.23%	0.25%	0.28%	0.30%



Scenario – Positive Loan Growth / Negative Deposit Growth

Below is a worst-case scenario where there is positive loan growth, while experiencing negative deposit growth. This scenario assumes the expansion of the common bond, but with a weakening of the deposit base. This may occur if some of the firefighter unions do not also support the credit union or if there is some event causing reputational damage to the credit union for some reason.

Following are the assumptions in this scenario:

Assumptions:

- Annual growth rate of residential mortgages: 10%
- Annual growth rate of deposits: (5%)
- Annual growth rate of operating expenses: 5%
- Interest Income as a percentage of Average Assets: 3.76%
 - This was drawn from the July, 2018 Comparative Analysis Report (CAR) for VFCU.
- Interest Expense as a percentage of Average Assets: 0.74%
 - This was drawn from the July, 2018 CAR for VFCU.



	2018	2019	2020	2021	2022	2023
Cash & Liquidity Investments	2,151,323	30,488	(2,194,219)	(4,538,597)	(7,019,751)	(9,656,243)
Total Net Personal Loans	13,994,269	15,393,696	16,933,065	18,626,372	20,489,009	22,537,910
Total Deposits	14,428,161	13,706,753	13,021,415	12,370,345	11,751,827	11,164,236
Total Assets	16,370,076	15,648,668	14,963,330	14,312,260	13,693,742	13,106,151
Average Assets	16,521,380	16,009,372	15,305,999	14,637,795	14,003,001	13,399,947
Total Liabilities	14,477,119	13,755,711	13,070,373	12,419,303	11,800,785	11,213,194
Primary Capital	1,892,957	2,015,962	1,892,957	1,892,957	1,892,957	1,892,957
Total Eligible Capital	123,949	123,949	123,949	123,949	123,949	123,949
Less: Deductions from Cap.	185,804	185,804	185,804	185,804	185,804	185,804
Capital Base	1,831,102	1,954,107	1,831,102	1,831,102	1,831,102	1,831,102
Risk Weighted Assets	6,750,518	7,425,570	8,168,127	8,984,940	9,883,433	10,871,777
Capital Adequacy Ratio	27.13%	26.32%	22.42%	20.38%	18.53%	16.84%
Liquidity Ratio	14.91%	0.22%	-16.85%	-36.69%	-59.73%	-86.49%
Interest Income	627,199	552,494	607,743	668,517	735,369	808,906
Interest Expense	123,499	104,099	98,894	93,950	89,252	84,789
Net Interest Income	503,700	448,395	508,849	574,568	646,117	724,117
NII	4,063	3,860	3,667	3,483	3,309	3,144
Operating Expenses	312,691	328,325	344,742	361,979	380,078	399,082
NOI	195,072	123,929	167,774	216,073	269,349	328,179
Patronage & Taxes	72,067	75,670	79,454	83,426	87,598	91,978
Total Comprehensive Income	123,005	48,259	88,320	132,646	181,751	236,201
ROAA	0.74%	0.30%	0.58%	0.91%	1.30%	1.76%



PROPOSED NEW COMMON BOND

The VFCU Board of Directors has resolved and are requesting a change to the bond for the credit union to the following:

“In order to be eligible for membership in the credit union, a person must be an active or retired career employee of a Lower Mainland fire department of B.C. or a relative of an active, retired or deceased member of a career employee of a lower mainland fire department of B.C.”

D. Meers
General Manager

Dean Ganchar
Assistant Manager



Appendix "A"

FIREFIGHTERS' UNION LOCAL AND MEMBERSHIP	18-Oct
18 Vancouver	785
256 New Westminster	92
296 N.Vancouver City	62
323 Burnaby	280
1183 N Vancouver Dist.	130
1271 Surrey	393
1286 Richmond	210
1525 West Vancouver	103
1763 Delta	170
1782 Coquitlam	167
1941 Port Coquitlam	76
2399 Port Moody	44
2407 White Rock	22
2826 Chilliwack	36
2864 Abbotsford	90
2874 Squamish	8
3253 Langley	21
3944 Whistler	23
4449 Maple Ridge	54
4550 Township of Langley	90
4768 Mission	13
4810 Pitt Meadows	3
TOTAL	2872