

DEPOSIT GUARANTEE SCHEME EXTENSION & CREDIT RATING

September 2009

Retail Deposit Guarantee Scheme Extension

On 25 August 2009 the Government announced that the current retail deposit guarantee scheme would be continued beyond its current expiry, but in an amended form.

The current scheme ends on 12 October 2010. The new scheme will commence on 13 October 2010 and expire on 31 December 2011.

Only institutions with a credit rating of at least BB and which are already in the current scheme will be eligible to apply for a Crown guarantee under the new scheme. Accordingly, unless a Credit Union that is currently in the guarantee scheme secures a BB rating before 12 October 2010, it will not be able to apply to be covered under the new guarantee scheme.

Applications for the new scheme must be made before 12 October 2010.

Credit Unions who may be eligible to apply for cover under the new guarantee should also note the revised fees. It seems that these will apply to all deposits and not just to increases in deposits as is the case under the current scheme. Under the new scheme a participating Credit Union would have to pay a fee of up to 0.6% per annum of all deposits covered by the guarantee, depending on the credit rating.

Credit Unions should ensure that statements in their prospectus and investment statement correctly reflect that Credit Union's particular position in relation to any Crown guarantee.

Credit Rating Requirement and Exemption

From 10 March 2010 the Reserve Bank of New Zealand Act 1989 will generally require every Credit Union to have a current rating of its creditworthiness given by an approved rating agency.

A Credit Union will not, however, be required to obtain a credit rating if it is able to come within the exemption contained the Deposit Takers (Credit Ratings Minimum Threshold) Exemption Notice 2009. This Exemption Notice exempts qualifying credit unions from the rating requirement.

Credit Unions qualifying under the Exemption Notice are those having liabilities of less than \$20 million and where it would be unduly onerous and burdensome for the Credit Union to comply with the requirements to have a credit rating.

The Exemption is conditional on a Credit Union providing to the Reserve Bank an annual statement from Board that the Credit Union meets the requirements of the Exemption and that it will be operating on the basis of the Exemption for that forthcoming year. Figures supporting the Board's statement must be attached.

The Credit Union must also prominently state in its prospectus, investment statement and advertisements that its creditworthiness is not rated, and include details of the exemption in the risks section of the investment statement.

The information contained in this article is of a general nature and is not intended as a substitute for professional advice. It should be used as a guide only. Care has been taken in the preparation of this article but no liability is accepted for any errors.

Contact Us

The information in this newsletter is necessarily general.

Please feel free to contact us for more information about any of the matters raised in this newsletter or about any other matter relating to your credit union or the Deposit Guarantee Scheme.

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