Officials defend recovery plan for troubled PACE Credit Union as financial pressures build

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Executives from PACE Savings and Credit Union and its regulator sought to reassure members that the troubled company is stable and viable after its financial position deteriorated sharply last year.

Pressed on Wednesday for answers by members who said their confidence in the credit union has been shaken by more than two years of upheaval, PACE's leaders tried to turn the page on what they called "legacy issues" at the credit union's annual meeting of members.

They focused on a new strategy to gradually return PACE to profitability, acknowledging for the first time that a merger with another credit union could eventually be an option. But the plan to return PACE to full health will be "a long process," said chief executive officer David Finnie. The CEO of Ontario's financial regulator, Mark White, added: "It's taking longer than I expected."

For more than two years, PACE, based in Vaughan, Ont., has been under administration by the Financial Services Regulatory Authority of Ontario (FSRA), led by Mr. White, and a previous regulator. In the fall of 2018, regulators seized control of PACE and ousted its president and CEO, launching an ongoing lawsuit alleging they engaged in a pattern of fraud and self-dealing over a number of years.

This is the second attempt FSRA has made to turn PACE around. Last November, the credit union's entire board of directors and two top executives, who had been chosen by the regulator less than a year earlier to rebuild PACE, abruptly resigned after clashing with FSRA on issues of control and responsibility for the credit union's problems.

PACE lost $22.7-million in 2020 after earning a $364,000 profit the year before. As a result, PACE breached its minimum capital thresholds earlier this month, prompting FSRA to provide an unusual lifeline. The regulator temporarily lowered PACE's capital thresholds and extended a $500-million credit facility to help bolster the credit union's liquidity. PACE is now under a stabilization plan imposed by the regulator that prevents it from paying dividends or redeeming $12.3-million in investment shares owned by members in most instances.

Income from commercial loans declined by $7.4-million after PACE offloaded $101-million in loan balances in an effort to make its lending portfolio less risky, and the credit union set aside $12.7-million to cover potential losses from defaulting loans. Another $4.8-million of losses is attributed to a pair of problematic subsidiaries that have been thorns in the credit union's recovery plans.

One is Continental Currency Exchange (CCE), a business PACE paid $22.5-million to take over last year after former president Larry Smith acquired a 30-per-cent stake in 2017 through a questionable deal. Most of CCE's 19 brick-and-mortar branches are in malls, and as the pandemic forced each of them to close for parts of 2020, the currency-exchange business swung to a $2.7-million annual loss, compared with a $2.1-million profit in 2019.

The second troubled subsidiary was Pace Securities Corp., an investment dealer that PACE owned and chose to wind up last May, with FSRA's blessing. Pace Securities now faces a lawsuit on behalf of investors – many of them members of the credit union – who lost a combined $49-million on investments in preferred shares that were marketed as low risk. The credit union set aside a $3-million contingency fund to cover losses on preferred shares sold to members directly through PACE branches, which broke the law governing credit unions.

In total, investors are seeking as much as $60-million in compensation, and their claim is in mediation.

At the same time, PACE has been saddled with high costs. Non-interest expenses ballooned by $12.1-million in 2020, compared with the prior year, partly because PACE added about $5-million in costs after buying full control of CCE. The credit union also spent $2.4-million on legal, consulting and other expenses related to its administration by FSRA. More recently, PACE "has cut expenses wherever possible," Mr. Finnie said.

On Wednesday, Mr. Finnie and Mr. White repeatedly declined to discuss specific details of past problems, either because they are subject to confidentiality rules as part of PACE's dual lawsuits, or because Mr. Finnie – who was hired in December – simply had no answer.

But Mr. White was clear that the outcomes of those lawsuits will play a large role in defining PACE's future. He anticipates that PACE will win "significant recoveries" from the lawsuit against former executives and directors, and said "bad actors" involved in the implosion of Pace Securities should be made to "pay their fair share" of any settlement with harmed investors.

Should compensation for investors add up to tens of millions of dollars, PACE on its own "simply doesn't have the financial capital, the equity in the business to write a cheque" to cover it, Mr. White said.