

This printer-friendly page is sponsored by:

Members Reap Benefits from Conversion to a Stock Bank or a Stock Cooperative

In an economy where growth means survival for both cooperatives and for-profit businesses, seven former credit unions in recent years have launched member approved Initial Public Offerings (IPOs). The IPO, which results in a substantial increase in regulatory capital and fuels growth, is tightly regulated and supervised by the Securities and Exchange Commission (SEC), the FDIC, state bank regulators and / or the Office of Thrift Supervision (OTS). In the last couple of decades, business cooperatives, mutual insurance companies, and hospitals are among the hundreds of institutions making similar moves, called demutualization.



[Alan D. Theriault](#), President, CU Financial Services

9/8/2003

Read Count:1744

Avg. ★★★★★ from 7 Rating(s) - Comments (4)

Tags: [Financial Performance](#)

In an economy where growth means survival for both cooperatives and for-profit businesses, seven former credit unions in recent years have launched member approved Initial Public Offerings (IPOs). The IPO, which results in a substantial increase in regulatory capital and fuels growth, is tightly regulated and supervised by the Securities and Exchange Commission (SEC), the FDIC, state bank regulators and / or the Office of Thrift Supervision (OTS). In the last couple of decades, business cooperatives, mutual insurance companies, and hospitals are among the hundreds of institutions making similar moves, called demutualization.

Also, the demutualization trend is influenced by changing member needs. Like mutual savings associations and business cooperatives, credit unions were formed by individuals seeking to improve their standard of living and the community. Over the 8 decades since credit unions started in the United States members have prospered and now have access to multiple banking and investing sources, and they enjoy the highest standard of living in the world. Today, the vast majority of members view themselves as credit union "customers" rather than as credit union "owners".

A few argue that demutualization removes a member's name from credit union net worth earned over decades of patronage. In fact, 60% of credit union net worth was contributed by members in just the last 10 years primarily because of strategies executed by professional managers. It is these members that have voted in favor of the transition to a stock institution. These members recognize that their name ("ownership") only gets attached to the net worth two ways; as part of a liquidation or as part of a mutual bank IPO subscription offering

In liquidation, members will divide the net worth on a pro rata basis based on deposits. The result is about 15% of the members would divide about 85% of the net worth. However, high net worth credit unions are seldom liquidated, but most

would agree getting a liquidation vote for a 10% (or less) windfall would be easy. Likewise, an IPO gets a positive reception from all members because it leads to expanded product offerings and added convenience by expansion of the branch network; and it allows for growth that results in more cost effective services. Those who would benefit from a liquidation, who contributed the most to the accumulation of capital, and who typically care enough to vote on credit union matters also vote in favor of an IPO. Even members who do not buy stock in the IPO continue to own a share of a "liquidation account" and, like credit union members, their intangible ownership continues as long as they maintain their deposit relationship.

The new capital raised allows growth far beyond what would be possible by retaining earnings and transfers the cost and risk of funding future growth to stockholders; and the growth provides huge benefits to the community served for which older members can be proud. As part of the IPO process some form a charitable foundation designed to provide additional community benefits.

In conclusion, since much of credit union net worth was accumulated in recent years, the members most responsible for the accumulation, many of which are older members, immediately benefit from an IPO by gaining tangible ownership. Otherwise, new (perhaps unrelated) members will "inherit" the net worth. These new members, especially in the case of credit unions converting to a community charter, may not hold the same values or share the same common bond as those formerly patronizing the credit union and contributing to its success.

Although demutualization has a few critics, it does help to reward those that have been most responsible for the accumulation of capital and the abundant fresh regulatory capital helps support the community infrastructure. Although it is not an option for the majority of credit unions, it is yet another strategic planning option for some credit union executives to consider. For more information about the mutual thrift option, the mutual holding company option, and for information about capital raising options, contact [Alan Theriault](#) at 800-649-2741.

Source: CreditUnions.com: <http://www.CreditUnions.com> © 2010 Callahan & Associates, Inc. Phone: 1-800-446-7453