Article first appeared
August 11, 2003

Credit Unions Converting to Banks are a Target of New NCUA Conversion Regulations Planned

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During a Las Vegas speech on Thursday August 7, 2003, at a credit union directors' conference attended by over 1,500 people, NCUA Chairman Dennis Dollar said that before year end NCUA would issue proposed regulations targeting credit unions planning to convert to bank charters. Observers say the proposed regulations would attempt to impose costly disclosure requirements and generate commentary which would later be used by credit union trade associations in an effort to pass laws designed to prevent defections to the bank charter, and perhaps, private insurance.

The proposed regulation would be the second attempt by NCUA to use rulemaking to prevent credit unions from converting to banks. In 1995, NCUA passed rules which included burdensome disclosure and voting requirements that made a bank conversion by larger credit unions virtually impossible. However, in 1998, despite objections from credit union trade association employees, Congress, as part of HR-1151, streamlined the conversion rules opening the window of opportunity for a record number of credit unions, large and small, to convert to a bank. To date, 27 credit unions have converted to a bank charter, merged with a bank, or have announced plans to convert; more are considering the move. Six have taken the next step to issue stock in a member approved initial public offering (IPO) which requires another member vote and disclosure documents approved by the Securities and Exchange Commission (SEC). Congress reasoned that the streamlined rules were needed to provide an "escape route" by credit unions that determined the restrictions imposed by HR-1151 were too burdensome.

In recent months, the threat of credit union taxation has increased, a fact acknowledged by Dollar during his Las Vegas speech. Some believe that taxation would lead to a flood of bank conversions and along with the increasing number of credit unions converting to private insurance put the NCUSIF at risk. NCUA rulemaking might delay the conversion process since FDIC may hesitate to act on applications with new rules pending. The rulemaking process would buy NCUA and the credit union trades time to take their case to limit conversions to a new Congress, and impose a moratorium on the process until the impact on the NCUSIF is evaluated. In the 1990's Congress stopped S&Ls from leaving the Savings Association Insurance Fund (SAIF) until the impact was evaluated and the SAIF's under-capitalization was addressed. Today the NCUSIF has a lower capital ratio than the FDIC funds.

The impact of being trapped in a credit union charter, and taxed, could have a demoralizing and costly impact on progressive credit union management faced with the realities of managing growth and service offerings while margins are rapidly contracting. Market share and scale could be quickly eroded since lower deposit yields make it more difficult to differentiate from banks based on price and since mergers among healthy credit unions are restricted.

Should a bank charter be part of your credit union's strategic thinking, accelerating a plan of conversion should be considered before the window of opportunity closes. All converting credit unions must pass through the FDIC door and a flood of conversions is sure to delay the process. Also, getting a bank charter requires expert execution since FDIC has high standards for conversion candidates. New banks dilute the FDIC fund and in a weakening economic environment a new regulator is both reluctant to accept the risk of a new institution absent a solid conversion plan and professional application; and it is also likely preoccupied with addressing the weakening performance among its current charges.

The CU Financial Services "Conversion Network" has advised the majority of credit unions making the move and perfected a process which reduces the conversion burden for credit union managers. Experienced execution helps prevent missteps and additional costs and puts the conversion requirements, like the business plan, CRA plan, Public Relations Plan, and Eligibility Exam Briefing Manuals in the hands of management, thus reducing the stress of making the charter switch. Coordinated access to your peers who have made the move will help credit union management deal with the issues that come up during the conversion process. A tested program for introducing credit union management to the banking support network also yields many benefits.

For more information about a bank charter and assistance with the feasibility and application process call Alan Theriault at (800) 649-2741. www.cufinancial.com:

You can learn more about conversions and raising capital at the following events:

Date - Event - Location	Speaker
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Sep 25, 2003 - KBW's Annual CU Conference for Strategic Financial Growth - New York	Hans Ganz, President, Pacific Trust BankPatricia McJoynt, EVP, KBWRobert Freedman, Esq, Silver Freedman & TaffAlan Theriault, President, CU Financial ServicesCall: 800-649-2741
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7	Glad to see information relative to the conversions of CUs to mutual banks/pros & cons/ etc. Would be interested in seeing a list of those CUs planning to convert.	8/12/2003
6	A very good article for those interested in learning about CU's that might lead to a nuew career	8/12/2003

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