NCUA Rules - Economy to Unleash a Flood of Credit Union Mergers

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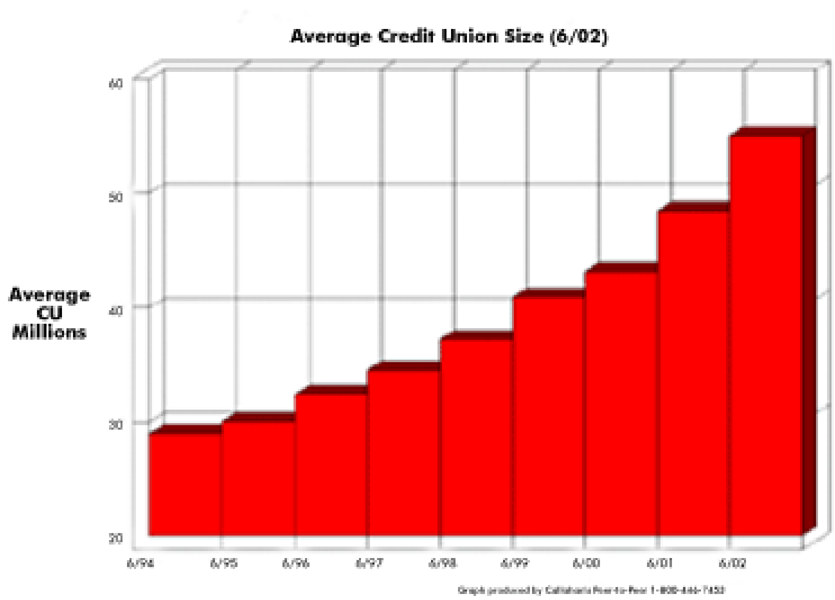
Proposed NCUA FOM rules and economic conditions will accelerate the flood of credit union mergers. Therefore, consideration should be given to merging with a mutual bank or even a stock bank as a way of remaining relevant and to transfer value to members, before this decision escapes your control.

The elimination of overlap protection and NCUA's recent sweeping territorial and associational expansion proposal and current practice fuels the rapid shift of member accounts from the smaller credit union to the larger. In addition, the 2002 plunge in investment yields and the small CU's inability to offer competitive loan products leads to falling earnings and, ultimately, regulatory scrutiny. Statistics show large credit unions growing at a much faster rate than the smaller. About 1,000 credit unions now control over 75% of deposits. In order to manage these realities, legislation is being sought to reverse merger restrictions among healthy federal credit unions and regulation is likely to drastically increase NCUA's ability to eliminate small credit unions.



Some large credit unions dismiss the concept of merging with small credit unions because of the frustration faced in dealing with the social issues. Instead, members of small credit unions are acquired with competitive product offerings, leaving the smaller credit union in an increasingly desperate earnings situation. Consequently, merger contingencies need to be added to the strategic planning of nearly every credit union. To maximize options, credit union managers should investigate the benefits of merging with a mutual or stock bank before willingly, or because of regulatory pressure, handing over capital and membership to another credit union.

Credit union numbers have been declining for almost three decades and in 2002 the total fell below 10,000, after some 300 mergers were completed.

Advisors predict several thousand credit unions will be merged or liquidated in the short term. Lacking the lending and technology resources of the large credit unions, the multitude of small credit unions that depended on investment income to pay bills are likely to raise regulatory safety and soundness concerns and continue to drain NCUA's examination resources which are already being scrutinized by the large credit unions and their trade associations. A merger is often the only solution to avoid punitive enforcement action and to remain relevant to members. Recently, NCUA's efforts to raise the "small credit union" designation threshold from $1 million to $10 million (CUNA wants a $50 million level) sets the stage for special handling by NCUA of a much larger group of credit unions and, some believe, with the unpublicized result leading to rules that would accelerate mergers to preserve NCUA resources.

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