Letter to the Editor
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NCUA's Contain and Collect Strategy

An April 26 Credit Union Times opinion piece by the CEO of the Michigan Credit Union League, among other things opines "bankers will fail in their quest to contain and convert."

In reality, the strategy of "containing" credit unions has already succeeded. Furthermore, the constraints will multiply in the months ahead, aided by economic conditions, the courts, and legislative actions / inactions, both state and federal.

Nevertheless, credit union lobbyists and NCUA still promote the illusion that increased business lending authority, lower capital requirements, and access to secondary capital are forthcoming. In reality, these folks have to know it's *not* going to happen. And so, like the bankers, they are executing a similar "contain and collect" strategy.

Over eight years ago, H.R. 1151 "contained" credit unions by requiring they carry at least 40% more capital than banks. This is history, and it yields the indisputable mathematical result that a mutual savings bank (MSB) can hold more assets, accept more deposits, and make more loans than a credit union with an equal amount of net worth.

In addition, Congress prohibited all but a few credit unions from accessing secondary capital in any form. Meanwhile, MSBs and mutual holding companies have numerous ways to increase regulatory capital, while members retain ownership and control. The combination of lower capital requirements and access to third-party capital means members can be better served by a healthier, larger and more diverse institution. Growth is funded by new capital rather than out of the pockets of existing members, which is what occurs at every growing credit union as retained earnings underpin future growth.

Whether these advantages, and others available through a charter conversion, will deliver more benefits to members is up to the management team's skills. Some will succeed. Some may not.

The CEO of a $3.5 billion credit union who has done his homework on conversion made these points clearly in a March 1, 2006 CU Times letter to the editor. He said that if his Utah credit union was forced to convert, lower bank capital requirements and access to secondary capital would mitigate for many years any need for a change in pricing strategies as a result of taxation. Hence, his members would still be well served.

In 2003, faced with the looming reality that credit unions have been permanently "contained," NCUA Chairman Dennis Dollar and the credit union trades launched a campaign to stop conversions. Their "contain and collect" strategy was the only way these threatened industry organizations could be sure of remaining relevant in the face of market-driven business decisions by credit unions to change charter. They had to find a way to close the door Congress had opened. If credit unions were "contained" within the credit union charter, then NCUA and the

CU trades would continue to "collect." Who says the bankers and credit unions can't be on the same strategic page?

Back to the future.

Desperate to maintain the status quo, the MCUL's CEO tells credit union executives to remain *uninformed* about the conversion option. He insists, "credit union leaders should stop inviting these people [conversion advisors] into their board rooms." He also uses his league's considerable resources to intimidate and berate those who are bold enough to disagree; and moreover, he applauds the efforts of a dissident minority in stopping the full membership from exercising their democratic rights to vote for *or* against a conversion.

Despite temporary conversion setbacks and the repeated attempts by conversion opponents to re-frame a business decision into a "good" versus "evil" context, the MSB will continue to provide forward-thinking credit unions with the best escape from being "contained" – either by the bank trade associations, or more evidently by the credit union trade associations and NCUA.

After the withdrawal of DFCU's application, conversion opponents may think they now have the upper hand. No doubt they believe they have staunched the bleeding, found a way to fight back, and can intimidate others from trying to run this gauntlet again. I think their optimism should be guarded.

Winston Churchill famously said, after the Allies first meaningful victory in WWII at El Alamein: "This is not the end. This is not even the beginning of the end. But it is the end of the beginning." Time will tell if DFCU is the beginning of the end of conversions, or the end of the beginning, when NCUA can wield power beyond its Congressional mandate and blatantly impede conversions with brinksmanship, capricious rule-making, and pandering to dissidents.

It will be interesting to see what happens in Congress in the months ahead. Soon, I expect the MSB and its complementary hybrid, the mutual holding company, will become universally accepted business solutions for progressive credit unions. The evolution will continue.

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