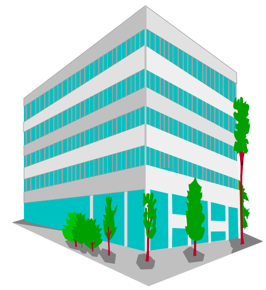
Converting from a Credit Union Update



News for those interested in remaining informed about credit union conversions; Provided by CU Financial Services; Portland, Maine *Strategic Planning and Implementation for Progressive Credit Unions*; Tel: 800-649-2741
Web Site: www.cufinancial.com; Vol. 97 No. 010 / November, 1997

Many waiting for Court Decision

Six CU's Seeking Change

In 1995 & 1996, in what was viewed by some as "maverick" behavior, two credit unions converted to a mutual thrift/bank charter. Both are now enjoying rapid asset growth. (See related chart this page)

Now, as the ramifications of the AT&T field of membership lawsuit are considered and as the challenges of surviving in a financial services market marked by rapid innovation and change are evaluated, many now view these pioneering conversions as forward thinking.

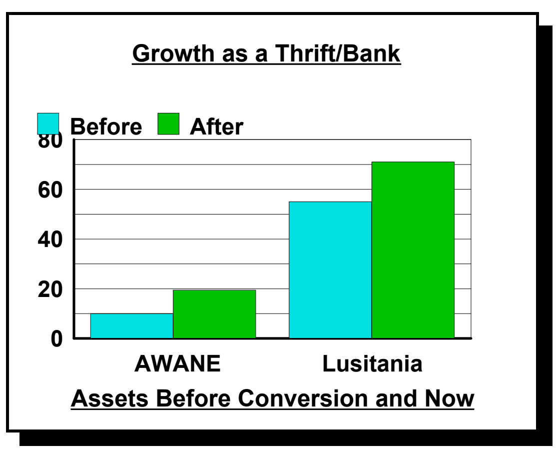
So the trend continues as six credit unions prepare to ask members to switch from a credit union charter. In June 1997, a seventh credit union discontinued its attempt to convert, *(despite the fact that the overwhelming majority of members voting wanted to become a bank)* because it was unable to obtain, by a small margin, the total number of votes required to meet NCUA's demanding voting requirements.

Credit union leaders predict that should CUs "lose" in the Supreme Court and Congress a wave of charter conversions might occur. Unwilling to bet the future of their institution on the courts and Congress many credit unions are converting to State or Community charters, or to Thrift/Mutual institutions.

However, concern about potential litigation and fear of being swamped with applications prompted several state regulators to place moratoriums on federal to state credit union charter switches.

In addition, NCUA has denied some community charter requests. In October a California Bank Trade Association filed a lawsuit against NCUA because of its decision process on one application.

All six credit unions in the mutual bank pipeline opted for a federal mutual charter supervised by the Office of Thrift Supervision (OTS). For the moment, the OTS and FDIC are keeping up with applications, but industry professionals are concerned that a wave of conversions could result in delays.



Coming Soon:

Conversion Resource Guide

Membership Brochure: "<u>The History of Mutual Thrifts/Banks & Credit Unions</u>"

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Next Edition:

* **Proud Heritage of Mutual Thrifts/Banks & CUs**
* **The major obstacle to successful conversion**
* **Mutual Banks: 1 Member, 1 Vote & NCUA's proposed disclosure regulation.**

Strategic Decision

Why Convert ?

Given the profound and dynamic changes occurring in the financial services industry and the blurring of the lines between banks and non-banks, the competitive challenge to remain relevant to members is great. CU directors must be proactive or answer to the most unforgiving taskmaster of all -- the marketplace.

Today's credit union member has high expectations for their financial institutions and they seek out the best value proposition for their business, rather then relying alone on historical relationships.

Credit unions switching charters report the decision was made after consideration of a strategic plan designed to facilitate the longevity of the institution and its relevance to current members, rather than a knee jerk reaction to the field of membership litigation.

In fact, the first two credit unions converting, Lusitania FCU and AWANE CU, cited mainly market driven reasons for their switch.

Lusitania was faced with high demand for residential and commercial real estate loans, and AWANE needed to serve small businesses in multiple states. In both cases a new charter provided flexibility and a regulator experienced with this mix of business.

Before AT&T, demographic and competitive shifts were influencing an accelerating trend toward credit union mergers and expansion of market opportunity.

The typical credit union member was aging and their needs trended away from borrowing toward investment. Therefore every progressive credit union manager was faced with seeking new avenues for making loans.

Mortgage lending, business lending, and the targeting of groups which are more likely to borrow became critical in order to maintain a credit union's lending facility and to properly invest the rapid build up of deposits.

Many credit unions also developed member investment programs to redirect savings from credit union deposits and to capitalize on the member demand for investment services.

Management of credit unions switching charters are convinced the growth opportunities and flexibility outweigh the added costs of taxation. Some believe taxation is inevitable and efforts to resist only result in a distraction from the all important mission to serve members.

NAME	Member Count	Assets	Status
Affiliated FCU	1250	8	Pending NCUA okay
AWANE Bank, FSB	2200	19	Bank 5/1/96
BUCS FCU	12592	58	Pending Vote
Central Bergen FCU	18246	75	Pending Approvals
Citizens Community	15609	84	Withdrawn 6/97
Lusitania Savings Bank, FSB	6517	71	Bank 9/1/95
Midwood	864	7	Pending Approvals
Ohio Central FCU	16337	28	Pending Approvals
Synergy	25332	180	Pending Approvals

Converting from a Credit Union

Update

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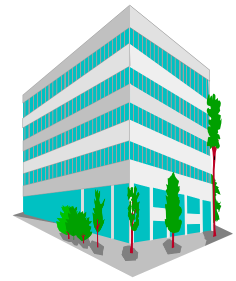
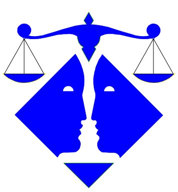


Justices hear more arguments

"Standing issue" delays Supreme Court decision



As anxiety on both sides builds, the Supreme Court has delayed its credit union FOM decision until after hearing arguments on a campaign finance case which also raised the issue of "membership" and "standing". On January 14, 1998, the Supreme Court heard arguments in Federal Election Commission (FEC) v. Akins (SupCt. 96-1590), the first campaign finance case in two years.

The justices spent much of their time during the one-hour oral argument period discussing the standing issue. Several justices also suggested the FEC case go back to the U.S. District Court of Appeals for the District of Columbia Circuit for a ruling on what constitutes "membership" for the purposes of campaign finance law, even though this question was not discussed in the briefs filed with the court.

Since the credit union case, on one count, involves a similar issue of standing, our Washington sources speculate that the justices, in the interest of maintaining consistency on the issue of standing, will delay their ruling until after deliberations on both cases.

This could mean further delays for those anxiously awaiting a court decision. Many credit union contingency plans are on hold pending the Supreme Court decision. However, some are planning to proceed with conversions from credit unions early in the second quarter of 1998, should the ruling delay continue.

Rethinking Strategic Plans

Over 4000 CUs with flat or negative growth!

For the period ending June 30, 1997, over 4,000 credit unions reported flat or negative share growth, and many more failed to achieve their budgeted expectations.

After years of consistent growth, and expectations developed in 1996 for continued growth, this alarming performance is causing many credit unions to revisit strategic plans and to consider contingencies which could involve a transition from a credit union charter.

Inside

Web Access
www.
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NCUA conversion rule comments due February 2, 1998. For a copy of NCUA's request for comments; and tips for comment, please check the CU Financial Web site or call, fax or e-mail.

Member voting started Jan 8

All eyes on BUCS FCU

BUCS FCU in Owings Mills, MD delivered their disclosure statements and ballots to post offices on January 8, 1998. "I have supreme confidence we will bring in the vote on schedule," said Artie Regan, president of Regan and Associates, Inc., a Wall Street vote solicitation firm handling the voting. The meeting of members is set for February 7, 1998.

Less than 30 days to vote

Conversion Obstacle - Time

In June of 1997, a Wisconsin Community Chartered FCU failed to obtain, by a small margin, a sufficient level of voting during the 30 day window required by NCUA. Members voting, however, overwhelmingly approved the conversion from a credit union, but the institution was forced to reverse its conversion plans.

Many are questioning NCUA's demanding time frame for voting, claiming it actually deprives members of sufficient opportunity to consider the proposal. Also, its reasoned that the will of the members can be determined with a much smaller vote.

Typically major credit union corporate governance issues are decided with a required vote of less than 20%. For example, to convert from federal to private insurance or to a state chartered CU, only a majority of a 20% vote is required. To liquidate a FCU, directors need only obtain a majority vote of those voting.

To succeed in any vote solicitation effort, "the early response rate is critical", said Artie Regan, president of Regan and Associates, Inc., a Wall Street vote solicitation firm handling the voting for BUCS FCU and Ohio Central FCU. Regan also explained that by the time members receive the ballots by mail, under NCUA's rules, only approximately 25 days remain to bring in the vote. Regan described as "unusually demanding" several of NCUA's voting rules, including the short time frame for voting and the requirement that a new disclosure statement be mailed with each follow-up mailing of the ballot.

According to Regan, typical corporate voting windows exceed 45 days and permit meeting adjournments. The NCUA rules require careful planning and skillful execution in order to meet the high percentage of vote required and short time frame for voting. This adds additional costs to the process, according to Regan.

Credit unions, like many organizations, must struggle to solicit member participation for any vote. To attract participation at annual meetings, many credit unions offer door prizes, entertainment, and subsidized refreshments or meals to insure member attendance.

Some are questioning whether NCUA correctly followed rulemaking procedures in 1995 when it failed to request comment about the 30 day window for voting. Consequently, some comments to the currently proposed revisions to NCUA's conversion rules note that the voting window is too short. Comments on the conversion rule, which some believe is an attempt by NCUA to increase the conversion obstacles, are due February 2, 1998.

Silver Freedman & Taff, L.L.P.
1700 Wisconsin Avenue, N.W
Washington, DC 20007
202-295-4502 * Fax: 202-337-5502

Contact: Robert Freedman

SFT represents credit unions on a variety of matters, including advising them on charter options.

Okay with OTS

One Member One Vote

Each member of Ohio Central FCU will continue to have one equal vote after converting from a credit union. Although most thrift bylaws authorize one vote for every $100 on deposit up to a maximum of 1,000 votes, the Office of Thrift Supervision (OTS) approved this departure from typical savings institution policy at the request of Ohio Central which other credit unions are anticipated to adopt.

The change gives credit unions added flexibility in structuring their corporate governance. Federal mutual savings institution members may also vote by proxy.

Silver Freedman & Taff, Washington, DC is counsel to Ohio Central FCU and represented AWANE Credit Union in its successful conversion from a state chartered credit union to a Federal mutual savings institution.

More Flexible Structure

Lusitania forms Holding Company

By:
Sam Malizia, Esq., Malizia Spidi Sloan & Fisch; Washington, DC

Lusitania Savings Bank, formerly Lusitania FCU, of Newark, recently completed its Reorganization to a Mutual Savings and Loan Holding Company.

President, Augusto Gomes stated "the transaction provides Lusitania with a stock charter and a parent holding company, and allows a more flexible structure to take advantage of certain investment opportunities, as well as provide the ability to raise additional capital". He emphasized, "Lusitania continues to be owned by depositors and there will be no change in locations or employees".

As part of the reorganization, Lusitania converted from a Federal mutual savings bank to a Federal stock savings bank, which has all of its stock owned by a newly-organized Federal Mutual Holding company, known as Lusitania Financial, MHC (Mutual Holding Company), which is owned by depositors. Lusitania did not offer stock to anyone other than the MHC.

The reorganization is part of Lusitania's plan to take advantage of future acquisition or merger opportunities and possible regulatory changes, while remaining an independent community financial institution.

Lusitania Savings Bank, fsb is a community financial institution which was originally established as a federal credit union in 1980. In September 1995, Lusitania became the first FCU to convert to a federal mutual savings bank. Lusitania's primary business is the solicitation of savings deposits and the origination of real estate and other loans primarily within its local market area.

Malizia Spidi Sloane & Fisch P.C., Washington, D.C. acted as counsel to Lusitania for their conversion and reorganization.

Proud Heritage

Mutual Thrift/Banks & Credit Unions

Although, called St. Mary's "Bank", the first credit union in the United States was started in 1909, and is New Hampshire's largest credit union. *(New Hampshire became home to another credit union first on May 2, 1996 when AWANE Credit Union, a state chartered credit union, converted to a mutual.)* St. Mary's Bank was patterned after a credit union in Canada and credit societies founded during the 1850's & 60's in Germany and Italy. The passage of the

FCU Act in 1934 helped facilitate the rapid increase in the numbers of CUs to a peak of over 17,000 in 1979.

Mutual Banks date back to 1816. The first, The Provident Institution for Savings, was located in Boston, MA., and patterned after institutions in England and Scotland. Its founders dedicated the institution to providing a "means of contributing to the welfare of the working classes". In addition to encouraging savings and thrift among low and middle income persons, some mutuals were organized to help members buy homes. Like CUs, one of the reasons for their popularity was their ease of use -- workers could deposit as little as five cents or a dollar and could withdraw their money as needed.

Chart revised on January 22, 1998

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Affiliated FCU	1250	8	Voting in March
AWANE Bank, FSB	2200	19	Bank 5/1/96
BUCS FCU	12592	58	Voting Now
Central Bergen FCU	18246	75	Pending Approvals
Citizens Community	15609	84	Withdrawn 6/97
I.G.A. Federal Credit Union	25057	165	Preparing to Vote
Lusitania Savings Bank, FSB	6517	71	Bank 9/1/95
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Ohio Central FCU	16337	28	NCUA to vote in Jan
Synergy	25332	180	Voting Soon

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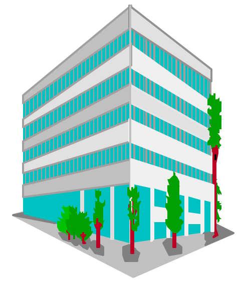
Strategic Planning and Implementation for Progressive Credit Unions

Converting from a Credit Union Update



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Members Prevail on Feb. 7

BUCS gets the Vote

Members voted overwhelming to adopt a mutual thrift charter making BUCS FCU the first FCU to win approval to non-credit union status under NCUA's 1995 conversion rules. Of those voting, 93.5% voted for the change, while 6.5% preferred to remain a CU.

"It was a vote of confidence for the BUCS Board of Directors" said Herbert Moltzan, BUCS FCU president, "it proves the board is correctly representing the interest of the membership."

After completing the formalities of voting and announcing the vote, Moltzan explained that the BUCS mission will not change because of the charter shift, "the BUCS employees are still here, and its these people who carry out our mission of service to members and the community." Under the new charter, the institution will call itself "BUCS Federal".

"Our staff, directors, and management worked very hard to get members involved in voting and I am thankful for their effort and commitment, and for the hard work of our vote solicitor," Moltzan said.

BUCS hired Regan & Associates, Inc. a Wall Street proxy solicitor to oversee the 30 day effort, including the mailing, collecting, and counting of the ballots. "Working with the staff, management, and members was a pleasure," said Artie Regan, President of Regan & Associates, Inc. "Getting the vote required a focused and intense effort since the hurdles are higher, and more costly, than many corporate votes I'm involved with," said Regan, "but the members were friendly and the staff & management really pulled together. We did it!"

The disclosure statements were mailed on January 8, 1998, and during the month one reminder mailing was sent to members who hadn't yet voted, according to Regan.

As a federal mutual savings institution BUCS Federal will continue to meet the financial needs of its members. And while addressing members and guests, Moltzan explained, we "will also be able to offer these services to your friends and neighbors." (***Cont. on Page 2; BUCS FCU***)

41 States Prohibit Conversions

Converting from a State CU

The A T&T issue pertains to the NCUA's interpretation of the federal statute, and a FCU's ability to serve potential members. According to NASCUS, the National Association of Credit Union Supervisors, the issue does not directly affect state credit unions because state statutes and state regulations are significantly dissimilar in the vast majority of states.

Therefore, many FCUs are shifting to state charters in an effort to escape the presumed negative consequences of a Supreme Court Ruling. Some federal occupational credit unions are also converting to community credit unions. NCUA has around 300 pending requests for CU charter changes.

A lawsuit pertaining to NCUA's approval of a federal occupational CU's conversion to a federal community charter was ***(Cont. on page 2; State Charter)***

Inside

Now Available:
"CU Guide to Charter Options"
Over 200 pages of information to help you understand the Why and How of converting from a CU Charter. $49.95, plus $12.50 S & H

(***Cont. from Page 1; State)***
filed in October of 1997; in January 1998, legislation was proposed in Washington State which might have the impact of adding restrictions to state CU expansion; and in Florida attempts by CUs to expand their memberships are being challenged. Therefore, converting to a state CU charter may not provide the perfect solution for the needs of a growing CU.

Next Supreme Court Dates: February 23, 24, 25

The Future of the Credit Union Charter

Monday March 16, 1998
The Tutwiler Hotel
Birmingham, Alabama

With special luncheon guest:
Win Yerby, House Banking Subcommittee on General Oversight & Investigations. Topic: "Financial Modernization and Congressional Oversight of Financial Institution Regulators"
Also, presenting:
Alan D. Theriault, former president of the first bank to convert from a state chartered credit union : "History of CU's & Mutual Banks"
$45 Includes Lunch
Reservations required:
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Louisiana has placed a moratorium on conversion from a FCU charter to a state charter, and Oregon and Virginia have frozen SEG expansions. Only Florida, Georgia, Hawaii, Maine, New Mexico, Vermont, and New York have a path in place for a state chartered CU to convert to a charter other than a CU, and there has never been a conversion in these states. The remaining 41 states do not allow a state CU to convert to other than a FCU.

Nevertheless, in 1996, AWANE CU, a New Hampshire state CU was able to convert to a mutual savings institution. *(See next edition for an editorial "Trapped in a State Charter", by Alan D. Theriault, the first president of AWANE Bank.)* The AWANE conversion was accomplished by its successful lobbying of the state legislature for a new law to permit its conversion, however, the NH CU League lobbied to prevent the rule from allowing future conversions.

For state chartered CUs seeking to convert from a CU, it may be necessary to first convert to a FCU *(which was the path followed by Citizen's FCU in Wisconsin);* or, seek state legislation to permit state chartered CU conversions to other charters. The Maine legislature, for example, developed a "universal charter" to provide flexibility for financial institutions to design their charters and corporate governance rules to meet the demands of today's economy.

According to regulatory attorneys, many state banking commissioners are indicating a willingness to support legislation which would permit a state credit union conversion to non-CU status.

(***Cont. from Page 1; BUCS FCU***)

During the next 30 days the board of directors will certify the vote to NCUA and commence operation as a federal mutual thrift. "FDIC insurance becomes effective at the moment BUCS Federal commences operations as a thrift," according to Sam Malizia, partner in the Washington firm of Malizia Spidi Sloane and Fisch, PC. *(In addition to representing BUCS, Malizia was counsel to Lusitania FCU when it converted to a federal mutual thrift in September of 1995, and is counsel to Synergy FCU, which recently received NCUA approval.)*

Soon after notifying NCUA it's operating as a mutual federal savings institution BUCS Federal will receive about a $500,000 refund from NCUSIF representing its former deposit, according to Malizia.

Unlike Citizens Community FCU's experience with the state CU trade association, the Maryland Credit Union League stayed neutral and did not try to affect the member vote, according to Malizia. In June of 1997, the Citizens' vote count fell short of the requirement necessary to pass the conversion measure even though those voting overwhelmingly supported the proposal.

Shortly, four credit unions in New Jersey, Pennsylvania, Ohio, and Texas will be asking members to vote.

(Cont. from Page 4; Support Mechanisms)

Should new vendors be necessary, formal and informal sessions and mutual field trips to corporate facilities help smooth transitions.

Education about the similarities and differences among credit unions, thrifts and non-banks will help employees understand and support the conversion initiative, thus smoothing the transition. Information can be disseminated in formal training sessions at the institution and by sending staff to training programs sponsored by industry groups involved with the new charter. The training will reduce the fear of change, reduce any anxiety about loss of a support mechanism, and provide forums to develop new networks.

America's Community Bankers (ACB) is a national trade association serving over 900 mutual financial institutions. ACB sponsors numerous networking and training opportunities for staff and management which are available to your executives and staff. Affiliated vendors join ACB in completing a nationwide network designed to help your institution and employees compete and prosper.

A strong and vibrant support network exists to support your initiatives before and after you commence operation with a new charter. Should you have any questions or want to learn more please contact Alan Theriault at CU Financial Services, 800-649-2741.

Strategic Decision

Why Convert

Given the profound and dynamic changes occurring in the financial services industry and the blurring of the lines between banks and non-banks, the competitive challenge to remain relevant to members is great. CU directors must be proactive or answer to the most unforgiving taskmaster of all -- the marketplace.

High Member Expectations: Today's credit union member has high expectations for their financial institutions and they seek out the best value proposition for their business, rather then relying alone on historical relationships.

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For more information, please call CU Financial Services or the following professsionals:

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Robert Freedman, Esq.	Patricia McJoynt	Steven M. Begley
The firm represents credit unions on a variety of matters, including advising them on charter options.	Provides investment banking and financial advisory services to financial institutions including credit unions.	Graphic Design * Financial Typesetting * Annual Meeting Materials * Conversion Disclosure Printing & Mailing

Before and after conversion

Support Mechanisms abound

The modern financial institution, whether CU or bank, requires access to multiple information sources. Also, since out-sourcing is so critical to surviving in the telecommunication age, every institution must be aware of what is available to support the structure and growth of a converting institution.

CU executives and staff are part of a networking system that provides both social and educational support to CU operations. CU chapter meetings, annual conventions, seminars, golf outings, and informal industry gatherings help fuel innovation, initiative, and professional growth among staff. The thrift/bank industry offers similar networking opportunities.

However, management needs to be sensitive to the needs of its employees when considering the conversion to a new charter, especially if the move creates anxiety among some members of the historical support group.

Change is hard for many, and employees will adapt at different rates. A commitment to education and training should be made early in the conversion process. Efforts should be made early to identify which vendors will remain with the institution after the conversion and this information should be communicated to staff. Communication will help ease anxiety about the need to relearn systems and processes.

(Cont. on page 2)

NAME	Member Count	Assets	Status
Affiliated FCU	1250	8	Members Voting in March
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Citizens Community	15609	84	Withdrawn 6/97
I.G.A. Federal Credit Union	25057	165	Pending OTS & FDIC
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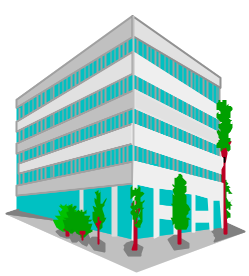

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Vol. 98 No. 013 / March 21, 1998

Despite NJCUL's interference

Synergy FCU members approve conversion to thrift

New Jersey based $180 million asset Synergy FCU, the largest CU to apply, will soon commence operating as a mutual thrift after members voted on March 13 to adopt a federal mutual charter.

Synergy is the second CU to get enough member votes to convert to non-credit union status under NCUA's 1995 conversion rules. BUCS FCU, (MD) which began operations as a federal mutual savings institution on March 2, 1998 was the first.

$130 Million Beacon FCU, (NY) filed for a Federal Mutual Savings Charter on March 13, 1998. ***(See next newsletter for more details)***

Lusitania FCU (NJ) and AWANE CU (NH) converted to thrifts in 1995 & 1996, but with less demanding voting requirements.

$165 Million IGA FCU (PA) and $8 Million Affiliated FCU (TX) are announcing their votes during the first week of April. Their success will bring the count to six conversions. Ohio Central FCU's member meeting is scheduled for the third week of April.

The NJCUL financed an effort to try to undermine the Synergy Board of Director's conversion initiative. The league arranged for signs to be placed in the sponsor companies facilities directing members to a WEB site containing pages of text condemning the thrift conversion. The day after the successful vote the site indicated 146 "hits". Synergy has over 20,000 members eligible to vote.

Generally, CU Leagues in other states are electing to stay out of the internal affairs of credit unions selecting a new charter. However, National CU trade associations oppose conversion to a thrift and the NCUA continues its attempt to complicate the conversion process. (Congress, however, may act to make conversion easier. See story below.)

State Chartered Federally insured CU's face restrictions

Congress: CU's must "Compromise"

A "compromise" proposal in the House Banking Committee places restrictions on all federally insured CUs, and makes it easier for CUs to convert to thrifts.

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Beacon FCU	41084	130	Application 3/13
BUCS Federal	11306	58	Bank 3/1/98
Central Bergen FCU	18246	75	Pending Approvals
Citizens Community	15609	84	Withdrawn 6/97
I.G.A. Federal Credit Union	25057	165	Voting Now
Lusitania Savings Bank, FSB	6517	71	Bank 9/1/95
Midwood	864	7	Pending Approvals
Ohio Central FCU	16337	28	Voting Starts 3/23
Synergy	20100	180	Members Approved 3/13

Many state chartered CUs had hoped to escape the damage done by the Supreme Court ruling, but now they are facing the same limits of their brethren. Although national CU trade association leaders emphatically oppose "compromise" the reality of how things get done in the Nation's Capitol started to materialize for rank and file CU executives last week.

Exuberance after House Speaker Gingrich signed on to HR 1151 during CUNA's Government Affairs Conference in February was diluted the following day by the negative Supreme Court decision.

In the early days of March, CU executives again were lifted after emotional appeals by CU leaders resulted in more HR 1151 sponsors and the hope of support in the Senate. But, the realities of compromise and the realization that the credit union charter may never be the same has many CU executives again struggling with their future.

After waiting months hoping for a positive Supreme Court decision, fear of further delay in Congress is forcing CU executives to evaluate their charter options, and to reevaluate their long range strategic plans.

Clearly credit union legislation, for the moment, is on a fast track as analysts expect House leadership to push for back-to-back votes March 31 on both HR 10 & HR 1151.

Compromise Points: 1.) Grandfather existing members, groups & permit new members from these groups. 2.) Geographic boundaries on adding groups. 3.) Commercial loan exclusions. 4.) Incorporate Treasury Department safety & soundness guidelines. 5.) Provisions to make it easier to convert to mutual thrift.

Philadelphia, Dallas, Charlotte, Seattle

Charter Options Seminars planned in 4 Locations.

America's Community Bankers a national trade association providing advocacy and services for progressive community banks, including over 700 mutual thrift institutions has teamed up with CU Financial Services to establish a support group and resource center for credit union executives exploring the merits of a mutual banking charter. The team is presenting four conferences during May and June designed to provide charter option information.

Alan D. Theriault from CU Financial Services and the first president of a Mutual Bank converted from a State Chartered Credit Union will be available in the area of the conference around the conference dates for private director presentations. For more details, please call 800-649-2741.

CU Financial Services can help evaluate the feasibility of a charter change, including a review of all charter options. Multimedia presentations and interactive financial modeling help educate directors, employees and members about the options and the wisdom of a change. Should you decide to proceed with a charter change the staff of CU Financial can handle the details, allowing management to continue its focus on serving the members.

Contact: Alan D. Theriault: 800-649-2741

For more information, please call CU Financial Services or the following professsionals:

Silver Freedman & Taff	***Keefe, Bruyette & Woods, Inc***	***GS Financial Printing, Inc.***
1700 Wisconsin Avenue, N.W Washington, DC 20007 202-295-4502 * Fax: 202-337-5502 Robert Freedman, Esq. The firm represents credit unions on a variety of matters, including advising them on charter options.	211 Bradenton Avenue Columbus, OH 43017 614-766-8400 * FAX: 614-766-8406 Patricia McJoynt Provides investment banking and financial advisory services to financial institutions including credit unions.	*A Georgeson Shareholder Communications Company* 2300 Computer Ave. Ste I-10 Willow Grove, PA 19090 Tel: 888-805-6300 Steven M. Begley Graphic Design * Financial Typesetting * Annual Meeting Materials * Conversion Disclosure Printing & Mailing

Converting from a Credit Union

FAX Update

News for those interested in remaining informed about credit union conversions; Provided by CU Financial Services, Portland, Maine; *Strategic Planning and Implementation Services for Progressive Credit Unions;*
Tel: 800-649-2741; WEB Site: www.cufinancial.com; Vol. 98 No. 051 / May 5, 1998

Newsletter readers lobby Senate Banking Committee

Senate bill will make conversion to a Mutual Savings Institution easier:

On Thursday the Senate Banking committee supported provisions, introduced at the request of CU Financial Services, which would make conversion to a mutual bank less costly, and which allows converting credit unions to pay directors fees.

Should Congress enact the provisions, CUs would only need a majority vote of members voting rather than the burdensome 50% plus membership vote.

Members of three CUs approve conversion to a mutual savings institution charter. $8 Million Affiliated (TX); $165 Million IGA (PA); and $28 Million Ohio Central (OH); will soon start operations as Mutual Savings Institutions

"Five credit unions have successfully obtained member approval under the March 1995 NCUA mandated 50% plus requirement, but NCUA makes the process expensive and punitive," said Alan D. Theriault, President of CU Financial Services.

"Senate Banking committee members recognized that NCUA's current rules are self-serving, and that the wishes of the membership can be determined with a much smaller vote," Theriault said.

In addition, the Senate bill requires NCUA to adopt conversion regulations substantially similar to rules now used by bank regulators. Restrictions on paying directors fees and ambiguous language in Sec. 401 of HR 1151 related to director compensation were removed. The Senate bill permits payment of director fees, but not director compensation directly related to conversion to a mutual bank.

"We argued that growing financial institutions, in order to attract a wider pool of director candidates, needed the flexibility to pay directors fees," said Palmer C. Hamilton, Esq. Miller, Hamilton, Snider, & Odom, (MHSO) and counsel to CU Financial Services.

MHSO, along with America's Community Bankers, and others helped craft the amendment introduced by Sen. Richard C. Shelby (R-AL). "It was clear to committee members that given the rapid changes in banking, growing credit unions needed the flexibility to select a bank charter," Hamilton explained. Banking charter conversions are controlled by the new regulator.

At least one Democratic Banking committee member sought tougher voting requirements. But, CU Financial Services' newsletter subscribers convinced other banking committee members to vote with Sen. Shelby.

NAME	Members	Assets	Status
Affiliated FCU	1250	8	Members Approved 4/2
AWANE Bank, FSB	2200	19	Bank 5/1/96
Beacon FCU	41084	130	Application 3/13
BUCS Federal	11306	58	Bank 3/1/98
Central Bergen FCU	18246	75	Suspended
Citizens Community	15609	84	Withdrawn 6/97
I.G.A. Federal Credit Union	25057	165	Members Approved 3/27
Lusitania Savings Bank, FSB	6517	71	Bank 9/1/95
Midwood	864	7	Pending Approvals
Ohio Central FCU	16337	28	Members Approved 4/22
Synergy	20100	180	Members Approved 3/13

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CUNA's Dan Mica Warns:

"Expect the banks to continue their assault for a long time to come"

The Senate version of the credit union bill leaves the door open to taxation, places greater restrictions on business lending and requires credit unions maintain higher capital levels than banks.

Bankers remain concerned about the tax disparity and the impact on community banks. The Senate bill calls for a study of the tax issue. According to Mica, the bankers intend to "plant the seeds that will eventually sprout as credit union taxation."

According to ABA President Bill McConnell, "Our victory in the Supreme Court was an event. Our loss in Congress is part of a process. We'll go back to the courts and sue the credit unions every time they get out of line. The Supreme Court decision affirming our right to do this was final. But its different with Congress, where nothing is final. Count on the banking industry to go back again and again until it's fixed *(the tax subsidy)*."

One Member One Vote

Two converting CUs elect to retain voting policy

Under a special waiver from OTS, Ohio Central and Synergy FCU, plan to start operations as mutual savings institutions and retain their credit union voting policy.

Meanwhile, The Office of Thrift Supervision (OTS) is working to revise its rules to allow mutual savings institutions to adopt credit union style voting.

- ✓ Despite taxation, Canadian CU's continue their rapid pace of growth, with total assets increasing almost 10 fold since about 1975.
- ✓ Most cooperative organizations pay taxes & many pay directors. (See story next page.)

For more information, please call CU Financial Services or the following professionals:

Silver Freedman & Taff	Keefe, Bruyette & Woods, Inc	GS Financial Printing, Inc.
1700 Wisconsin Avenue, N.W Washington, DC 20007 202-295-4502 * Fax: 202-337-5502	211 Bradenton Avenue Columbus, OH 43017 614-766-8400 * FAX: 614-766-8406	*A Georgeson Shareholder Communications Company* 2300 Computer Ave. Ste I-10 Willow Grove, PA 19090 Tel: 888-805-6300
Robert Freedman, Esq.	Patricia McJoynt	Steven M. Begley
The firm represents credit unions on a variety of matters, including advising them on charter options.	Provides investment banking and financial advisory services to financial institutions including credit unions.	Graphic Design * Financial Typesetting * Annual Meeting Materials * Conversion Disclosure Printing & Mailing

Consultant to credit unions considering conversion to a mutual savings institution charter.

CUFS handled the conversion of the first state chartered credit union.

Alan D. Theriault, at 800-649-2741; E-Mail: atheriault@cufinancial.com; Web site: www.cufinancial.com

CU Financial Services * P.O. Box 1053 * Portland, Maine 04104 * Telephone: 207-775-2741 * Fax: 207-829-4178

Strategic Planning and Implementation for Progressive Credit Unions

They pay taxes & directors fees; some organize in stock form, yet

Cooperative organizations continue to grow and help members build wealth.

Cooperatives are organized to accomplish many different purposes. Independent electric cooperatives, for example, provide electricity to over 30 million users in 47 states. Land of Lakes, Sunkist, Ocean Spray, and the Green Bay Packers are commonly known companies organized as cooperatives.

Mutual Savings Institutions and Credit Unions are among those companies organized in cooperative form. The name of an institution doesn't always reveal its corporate structure. For example, since 1909 St. Mary's Bank (NH), although calling itself a "bank", is reported to be the first "Credit Union" in the US, and currently is the largest State chartered CU in NH.

Most cooperatives are organized to serve primarily members, and have established programs to reward members based on their patronage. Some cooperatives charge market rates for their products and based upon usage, periodically pass profits on to members (as dividends).

Should it be necessary for the coop to increase capital, its directors may allocate dividends to members, but retain the dividends until the member stops patronizing the coop. Taxes on these dividends are either paid by the member or by the coop. The retained dividends become an asset and capital account of the member. Withdrawal is often allowed after the member discontinues using the coop or upon death.

In addition, many cooperatives raise capital for growth and expansion by offering common or preferred stock, some of which may include preferential voting rights. Directors are often a Coop's biggest customers, and in addition to getting board fees, they may own substantial amounts of stock and control significant amounts of equity, and therefore these directors have a vested interest in the ongoing success of the coop.

Cooperative businesses were formed as a tool to deal with the depressed economic and social conditions related to industrialization, and thrived as Western Civilization's middle class grew. Clearly their purpose was to generate benefits and wealth for individual members. Members of some early coops expected that someday their coop would be liquidated and excess capital returned.

Member ownership, independence, service to members & community, and member participation are the operational themes running through most coops.

Credit Unions and Mutual Savings Institutions are very similar in many ways and grew from the same philosophical seed. Although their investment, lending, and deposit taking powers may be different, regulations permit them to operate with identical missions. Credit unions and mutual savings institutions may be at different stages of their growth and many have differing member needs, but they are more alike than different on philosophical issues.

Currently cooperatives, including CUs and Mutual Savings Institutions, are struggling to get greater levels of member participation in their organizations. By rethinking how dividends are returned to members and by focusing on programs to provide incentives to increase member patronage, including, perhaps, the building of equity accounts, financial institution coops may hit the element of self interest which will motivate their members to become more involved, and less concerned about chasing the highest rate or the lowest loan cost.

Charter Options

Seminars:

- ✓ History of Coops & similarities between thrifts and CUs
- ✓ Converting a CU to a Mutual Savings Institution Charter
- ✓ Charter differences and business opportunities
- ✓ Learn from regulators and those who have converted.

9 AM to 2:30 PM

May 19, 1998 * Dallas, Texas
5605 North MacArthur Blvd.
9th Floor, Irving, TX 75038

June 2, 1998 * Charlotte, NC
Charlotte Tower Club
201 South College Street; 27th Floor

June 4, 1998 * Albany, NY
CBANY's Board Room
90 South Swan St.

June 11, 1998 * Seattle, WA
Washington Athletic Club
1325 Sixth Avenue, Seattle

Space Limited
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Call: 800-649-2741 to Register

From Stephen R. Covey's
"First Things First"

"Let go of paradigms that are popular and pleasing, but based on illusion."

"Let go of extrinsic sources of security"

Converting from a Credit Union

FAX Update

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Tel: 800-649-2741; WEB Site: www.cufinancial.com; Vol. 98 No. 071 / July 7, 1998

Credit Unions Seeking Information

Charter Options Meetings Successful

The questions and concerns shared by credit union management and directors attending the recent Charter Options Seminars helped make the one day Seattle, WA, Charlotte, NC & Albany, NY seminars a success, according to Alan Theriault, of CU Financial Services. Theriault presented a session which outlined the similar history and philosophy of credit unions and mutual savings institutions.

In June, three credit unions started operations as Federal Mutual Savings Institutions, bringing the total number of conversions to seven. The mutual charter options allows anybody to become a member and permits greater loan and investment flexibility.

The roundtable sessions allowed for frequent exchanges between speakers and participants. Several attending said they were surprised to learn about the strikingly similar heritage and philosophy of credit unions and mutual savings institutions. For some the sessions offered hope and encouragement about their mission of service to members and the ability to continue this mission to an unlimited membership.

The seminar speakers helped illustrate how a credit union electing to convert to a thrift charter can indeed retain its character and philosophy while gaining the right to allow anybody to join, plus loan & investment flexibility. Examples of mutual savings institutions serving their communities were shared along with the additional examples provided in the 200+ page "Credit Union Guide to Charter Options" which each attendee received.

At the Seattle conference, Herb Moltzan, president of BUCS Federal, which converted from a credit union to a Mutual Savings Institution in March explained how BUCS is continuing to add employees from companies which, in the past, preferred not to register as a SEG. Also, the president of a local long established Mutual Savings Bank spoke about how his institution is serving the community and how it has enjoyed astounding growth over the years because of the innovations possible as a mutual savings institution.

NAME	Members	Assets	Status
Affiliated (TX)	1250	8	Bank 6/1/98
AWANE Bank, FSB (NH)	2200	19	Bank 5/1/96
Beacon FCU (NY)	30000	145	Application 3/13
BUCS Federal (MD)	11306	58	Bank 3/1/98
Central Bergen FCU (NJ)	18246	75	Suspended
Citizens Community (WI)	15609	84	Withdrawn 6/97
I.G.A. (PA)	25057	165	Bank 6/1/98
Lusitania SB (NJ)	6517	71	Bank 9/1/95
Midwood (NY)	864	7	Pending Approvals
Ohio Central (OH)	16337	28	Bank 6/1/98
Synergy (NJ)	20100	180	Bank 5/1/98

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Speakers explained how tax concerns, CRA issues, and employee concerns are handled during and after the conversion process. Getting the vote continues to be the major concern for larger credit unions. Obtaining the NCUA mandated 50%, plus voting requirement within a 30 day window, it was explained, requires a well organized solicitation program managed by a professional. Clearly, members are overwhelmingly supporting the conversion initiative, but getting members to return ballots in a timely fashion requires a well organized plan.

The seminars were arranged by America's Community Bankers, a National Trade Association, based in Washington, DC and serving over 700 Mutual Savings institutions with assets around $150 Billion. The seminars, like the "Credit Union Guide to Charter Options" are provided because of demand from credit union executives for answers about whether conversion to a mutual thrift charter is an appropriate response to the changing financial services market and the pending credit union legislation.

Visit our booth #822 at the NAFCU 31st Annual Conference and Exhibition July 15 - 18, 1998

Seven CU's Got the Vote

Its Expensive, but Possible:

Members from seven credit unions have overwhelmingly approved the conversion to a mutual savings institution. Approval rates exceeded 90%. Clearly, members believe they can be well served by the Mutual Savings Institution Charter. Members understand that they retain ownership rights as a thrift depositor, and in the case of two converted institutions, members retained the one member one vote rules.

Many professionals, however, question the high cost of getting the vote and claim the wishes of membership can be determined by a much smaller quorum. The costs for repeat mailing of ballots and telephone reminders asking members to return ballots can reach into the six figures for large credit unions. Some members of Congress apparently agree that the NCUA requirements are too tough. The Senate Banking Committee tacked a provision to HR 1151 which would lower the voting requirement for members seeking to switch to a Mutual Savings Institution Charter. (The lower voting requirements also permit a less costly escape route should operating under HR 1151 restrictions and NCUA rules prove to be too burdensome.)

Survey firms routinely report the wishes of consumers with a high degree of accuracy while only obtaining fractional response rates. Clearly the voting requirement and the 30 day mandatory window is an attempt by NCUA to discourage conversions. Credit union trade associations also have their hand in attempting to discourage conversions. Some have blocked attempts to educate their members about the merits of a new charter and supported restrictive amendments in the House version of HR 1151. Other financial regulators take a more reasonable position with the new regulator governing conversion. Bank and thrift trade associations promote charter choice.

Making it happen

The Conversion Team

Converting to a thrift requires a strong commitment from the executive staff and outside professionals. The proper organization and timing of the process is critical in order to manage both the direct and indirect costs. The selection of a team of internal staff and outside professionals to implement the strategy will permit the smooth flow of the process and minimize any distractions which might otherwise hinder your executive staff from serving your members during the process. The inside and outside effort must be well coordinated.

Alan D. Theriault, at 800-649-2741; E-Mail: atheriault@cufinancial.com; Web site: www.cufinancial.com

CU Financial Services * P.O. Box 1053 * Portland, Maine 04104 * Telephone: 207-775-2741 * Fax: 207-829-4178

In addition to maintaining its current work load, internal staff will be required to work on issues related to business planning, marketing, education, legal, and accounting. The directors must clearly communicate the objectives and need for the conversion and expect the full cooperation of staff. Understandably, after years of credit union indoctrination and participation in credit union support activities, some staff will have a difficult time with the concept of converting. Some will fear the loss of the credit union support network and the learning curve as a result of the change. Local credit union organizations might also attempt to influence staff attitudes and the outcome of a member vote.

Unless an effort is made to help staff and directors understand the similarities between mutual banks and credit unions, and the market driven reasons for converting, some staff, and perhaps a director, for philosophical reasons, may choose to part company. The staff is the front-line to the membership, and influencing the message passed through this channel is critical. However, with a well coordinated conversion plan that educates and communicates the need for a change, the concerns of directors, staff, members, and the community can be addressed.

The decision to convert must be part of a long range strategic plan, rather than a knee jerk reaction to litigation, legislation, or NCUA rulemaking. The conversion must fit the strategic plan of the institution or the plan must be modified. The best long term interests of the credit union members, survival of the institution, positioning the institution to serve future generations, and remaining relevant to today's members are important considerations.

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- ✓ Charter differences and business opportunities
- ✓ Learn from regulators and those who have converted.

9 AM to 2:30 PM

Sep. 21, 98: Jamesburg, NJ
Oct. 5, 98: Orlando, FL
Nov. 5, 98: Chicago, Ill
Nov. 10, 98: San Fran., CA
Nov. 16, 98: San Diego, CA

Space Limited; Locations to be announced later.

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HR-1151: Choice of Insurance of Accounts

Switch to FDIC Simplified

Washington, DC - August 4, 1998 - A little noticed HR-1151 provision provides the ultimate negotiating tool for credit union executives when discussing regulations or handling disputes with NCUA. The provision permits credit union members to switch to FDIC insurance of accounts, without NCUA approval. Of course, credit union members would need approval of FDIC and the new state or federal financial institutions regulator. Some state chartered credit unions may need their state regulator to approve or state laws changed in order to make the switch.

New Conversion Law:

- ✓ **90-60-30 days Notice to Members Required**
- ✓ **Majority of members voting must approve**
- ✓ **FDIC insurance of accounts required**
- ✓ **Director compensation permitted**

Federally insured credit union members in a few states are now able to move to private insurance of accounts after following detailed NCUA rules and getting NCUA Board Approval.

Should NCUA make unacceptable demands after a routine or special examination, should the some 24 new regulations which might result from HR-1151 be too burdensome, should business or real estate lending limits be too restrictive, or should additional capital be necessary, the credit union membership is now free to explore life with FDIC insurance. The change can be especially beneficial for credit unions with a large number of members or expansive geographic markets, although this provision should not go unnoticed by smaller credit unions trapped by the regulations or in disputes with NCUA and feeling helpless.

The US Senate recognized that HR-1151 would be ushering in a new era for credit unions, forcing them to become more regulated and to operate under greater scrutiny. Additionally, Congress is demanding NCUA act more like a traditional banking regulator, rather than a champion of the industry. This could mean greater scrutiny of credit union operations and strict policing of compliance with field of membership rules. *(One credit union board was told that NCUA was now training special examiners to police membership rules, and removing directors might be among the penalties for violations.)* Therefore, in its wisdom, the US Senate provided the ability for credit union members to more readily change insurers. *(cont. on page 2; Switch Simplified)*

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Ohio Central (OH)	16337	28	Bank 6/1/98
Synergy (NJ)	20100	180	Bank 5/1/98

2

Business Lending Restrictions

... may have a *Silver Lining*

Keeps Growth focused on the benefits of the secondary market, fee income ...

Although the new business lending regulations have a negligible impact on most credit unions, the rules are forcing some credit unions to study the benefits of selling loans in the secondary market. Like mortgage loans and auto loans, investors are gaining an appetite for purchasing business loans and non-banks are working overtime to supply the product. Borrowers too are becoming shoppers, and many are finding that non-banks are offering better terms and rates than traditional lenders can.

The competition puts pressure on both credit union & bank margins accelerating the trend toward more dependence on fee income for meeting operational expenses. Credit unions, however, faced with a ceiling on business loans many ultimately gain an edge over banks because of the experience they gain by being forced to sell or participate loans to meet demand. Complacent traditional lenders may be the loser as a result of this rapidly changing paradigm.

CU Financial Services specializes in helping credit unions establish or expand business lending programs, focusing on implementing systems to facilitate secondary market activity. For more information about business lending, SBA, USDA, and private conduit programs, please call Alan D. Theriault @ 800-649-2741.

(cont. from page 1, Switch Simplified)

The challenges of attracting volunteer directors today are great because of the personal risks, the significant time commitment, and because of the complexity of financial institutions. The ability of credit union members to draw from a wider pool of director candidates may help preserve the safety and soundness of the US financial system. Therefore, the FDIC allows financial institution directors to receive compensation.

Seven credit unions recently switched to FDIC insurance of accounts under agency rulemaking which was widely believed to be designed to prevent conversion or make the process punitive. The appeals to NCUA, from CU Financial Services, to make the conversion regulations easier were rebuffed, so relief had to come from Congress.

Some credit union trade associations are opposed to members switching to FDIC insurance; and, they are blocking educational initiatives which expose this option to their members; and, they are working behind the scenes in Congress to reverse the flexibility provided by the provision. Transparent in their actions is their concern about the potential loss of membership dues.

For more information, please call CU Financial Services or the following professionals:

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The firm represents credit unions on a variety of matters, including advising them on charter options.	Provides investment banking and financial advisory services to financial institutions including credit unions.	Graphic Design * Financial Typesetting * Annual Meeting Materials * Conversion Disclosure Printing & Mailing

Today, the rapidly changing financial services marketplace demands that all institutions focus first on their mission of service to members. Trade associations in the new millennium will organize around providing services to help institutions achieve their desired mission and not on keeping their members trapped in a charter which requires their constant advocacy in Congress or with a regulator.

Grass roots lobbying for flexibility worked!

Newsletter Readers help preserve provisions facilitating move to FDIC

Credit union executives responded swiftly to a call by CU Financial Services for letters supporting the Senate version of HR-1151. Opponents of the provision in the House wisely resisted the urge to send HR-1151 back to the Senate stripped of the flexibility offered by the conversion provision. Many believed this action could significantly delay passage, and possibly result in killing the bill, because Senators were committed to providing choice to credit unions in their district.

Even credit union executives who would never entertain the concept of switching to FDIC insurance of accounts wrote their Senator in favor of the flexibility provision because they recognized how this would greatly improve negotiating leverage during the rulemaking process and in general when confronted with NCUA demands. The freedom to chose a charter which can best serve membership is to many as important as providing all US consumers with a choice of financial institutions.

Since some credit union trade associations openly oppose credit unions switching to FDIC coverage, champions of this flexibility are as yet relatively unorganized. Bank trade associations are not opposed to the conversion language, but should not be expected to champion the position. Therefore, CU Financial Services encourages your credit union to become the parents of this important credit union law. Some day your institution could find itself needing the leverage provided by the flexibility now offered. Please send us copies of letters, addressed to your Senator, supporting the flexibility to switch insurance of accounts as outlined in HR-1151. Should you want to do more to organize ongoing support of this flexibility please call Alan D. Theriault at 800-649-2741.

Good Loan Demand, Low Capital?

Boost Regulatory Capital by Issuing Capital Subordinated Notes

Simultaneous with a switch to FDIC insurance, your institution may be able to significantly increase its regulatory capital by issuing Capital Subordinated Notes. Credit unions with high loan demand and low capital ratios may find this to be a powerful tool for expanding their services to members. The temporary extra capital may help you seize the benefits of current market conditions hence allowing faster growth of retained earnings while maintaining advantageous rates for members.

Capital Subordinated Notes (CSN) are generally issued for seven to ten years, and one regulator requires amortization be delayed until after the second year and limits annual amortization to 20% a year thereafter. As the notes reach maturity their ability to qualify as capital declines. Generally covenants are negotiable but might include the ability to call the notes should the institution want to return the capital prior to maturity. Purchasers of these privately placed notes include foundations, insurance companies, and pension funds.

For more information about CSNs, please call Alan D. Theriault, CU Financial Services, at (800) 649-2741. With over 18 years as a securities broker, and with credit union experience since 1984, Mr. Theriault brings many unique qualities and a progressive approach to credit union engagements.

Window of Opportunity

IMPORTANT: Get your FDIC insurance of accounts application on file

Has the field of membership lawsuit stifled your credit union goals? Are you tired of fighting the battle? Are you concerned that the over 24 rules which must be proposed and adopted by NCUA will delay relief for your institution for another year? Will lawsuits over the regulations keep your institution frozen in a perpetual "wait and see" mode? Will the thousands of credit unions seeking administrative changes clog the pipeline? What then? You can take action now to preserve your options for unrestricted growth by getting on file with an application to switch to FDIC insurance of accounts. HR-1151 allows a switch to FDIC coverage without the approval of NCUA. The new regulator must approve your transaction, however, so acting fast to get on the list may help preserve your options during this busy time for all regulatory agencies, and professionals involved in the process.

4

CU Financial is available to assist your management and members to explore the merits of FDIC insurance of accounts. We help review and modify strategic plans and manage the implementation, and other incidental matters. CU Financial helps prepare the business plan to meet the requirements of a new regulator, organize application documents for submission to legal counsel, and generally coordinate the process. During the transition, CUFS will provide education to directors, management, staff, and members about conversion, operational issues, and introduces management to the new support networks. Included in the flat rate engagement fee, as needed, and for a period of one year after the date of conversion, CU Financial acts as a resource on transitional issues and matters pertaining to deposit taking, lending, administration, and strategic planning.

To help with your information gathering process CU Financial offerers a very popular multimedia presentation which explains in layman's terms the risks and rewards of changing insurance of accounts. The program also reviews the similar heritage of credit unions, mutual savings institutions, and cooperative financial institutions, and demonstrates that your institution can continue its mission despite a change of insurance of accounts. Management and directors claim the presentation provides a succinct overview of the process and quickly brings all participants up to speed with the possibilities.

Charter Options

Seminars:

- ✓ History of Coops & similarities between thrifts and CUs
- ✓ Converting a CU to a Mutual Savings Institution Charter
- ✓ Charter differences and business opportunities
- ✓ Learn from regulators and those who have converted.

9 AM to 2:30 PM

Sep. 21, 98: Jamesburg, NJ
Oct. 5, 98: Orlando, FL
Nov. 5, 98: Chicago, Ill
Nov. 10, 98: San Fran., CA Nov. 16, 98: San Diego, CA

Space Limited; Locations TBA.

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NAFCU Members offer

Reasons to convert to FDIC Insurance

Credit union directors from around the country offered the following benefits during and after the concurrent Education Session: “Changing Charters” at NAFCU’s 31st Annual Conference and Exhibition in Nashville July 16, 1998.

- ✓ No field of membership restrictions
- ✓ Fewer regulations
- ✓ More services
- ✓ Ability to pay the board of directors
- ✓ Greater lending and investment authority
- ✓ More merger and growth opportunities
- ✓ Greater member recognition of FDIC insurance
- ✓ Increased credibility in the community
- ✓ Use of 1% NCUSIF deposit
- ✓ A regulator which understands real estate and business lending
- ✓ No delays cause by HR-1151 rulemaking
- ✓ Avoids banker litigation regarding growth initiatives
- ✓ Options to increase capital

From Stephen R. Covey’s
“First Things First”

“Let go of paradigms that are popular and pleasing, but based on illusion.”

“Let go of extrinsic sources of security”

Converting from a Credit Union

FAX Update

News for those interested in remaining informed about credit union conversions;

Provided by CU Financial Services, Portland, Maine; *Strategic Planning and Implementation Services for Progressive Credit Unions;* Tel: 800-649-2741; WEB Site: www.cufinancial.com; Vol. 98 No. 101 / **October 22, 1998**

NAFCU's & CUNA's

Punitive conversion measure fails

Washington, DC - The 105th Congress, which adjourned on Wednesday, failed to pass a measure which would restrict compensation to credit union officials in connection with credit union conversions to savings institution charters. The measure was floated by NAFCU, and strongly supported by CUNA, as the President signed legislation which streamlines and reduces the cost of a credit union conversion to a mutual savings institution.

Newsletter readers opposing the restrictions pointed out that thrift regulators and the FDIC already have compensation rules in place, and that credit union officials should receive equal treatment under current rules. Many cooperative and nonprofit organizations compensate directors. In addition, since members are required to vote on conversion, the NAFCU measure, like the earlier onerous NCUA conversion rules, violates the self governing rights of members. Others claimed that the measure exposes a "democratic deficit" among cooperatives by inferring that a CU's elected representatives can't be trusted.

Fearing the loss of dues revenue, NAFCU & CUNA are not happy with the new conversion law. Some credit union leaders are speculating that NAFCU will attempt, during the next Congress, to reintroduce legislation designed to prevent conversions. *(See Related Story, page 2)*

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Midwood (NY)	864	7	Withdrawn
Ohio Central (OH)	16337	28	Bank 6/1/98
Synergy (NJ)	20100	180	Bank 5/1/98

First to File since New Conversion Law

SC Credit Union files for thrift charter

The Sacred Heart of Charleston FCU was started over 37 years ago in the back of a local department store owned by the founder, and was operated for many years by a father/daughter team. In what is viewed as an evolutionary transition, the credit union plans to start operating as a federal mutual savings institution during the first quarter of 1999.

In deciding to switch to a thrift, the directors concluded that broadening membership would be easier as a savings institution. The move is a bid to attract more members, increase real estate lending, and become more active in meeting the needs of the community. Sacred Heart is the first credit union to file under federal laws which streamline the process. CU Financial Services was instrumental in preparing the application.

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Evolutionary conversion trend starts in Canada

Canadian Credit Union announces move to Bank Charter

Ontario's oldest and largest credit union marked the institution's 90th anniversary with a prediction that Civil Service Co-op would soon become a bank, the Ottawa Citizen reported. As proposed, the credit union turned bank would operate like a US mutual savings institution, retaining such credit-union features as ownership by voting members and a responsibility to the local community. CS Co-op serves 142,000 members through 17 branches and has over $900 million in assets.

Large credit unions in Canada have paid taxes for many years. Credit union taxation in Australia was instituted in 1997.

WINDOW OF OPPORTUNITY

Expect assault on Conversion Rules

The urgency to pass HR-1151 and the need to adjourn the 105th Congress so incumbents would have time to campaign, helped facilitate and preserve the passage of more reasonable conversion rules. For now, CUs of any size are allowed to convert to a mutual thrift charter & FDIC insurance at reasonable cost. The new law requires three notices to members and a majority of members voting must approve the transaction.

During CUNA’s October annual meeting in Orlando, President Dan Mica made it clear, according to CU Times, “we're not going to stand back and just wait for another banker attack, we're going to form our own attack." Some speculate the attack might include a credit union tax bill and/or a bill which results in allocating credit union capital for “social purposes”. The “attack” might also include rules “handcuffing” credit unions to their charter and to NCUA. *(See related story, page 4.)*

Credit unions wanting to switch charters are advised to get on file with an application before NAFCU or CUNA floats another punitive measure in the 106th Congress. “The window of opportunity is short since a fair amount of work goes into preparing to file”, according to Alan D. Theriault, President of CU Financial Services and a consultant experienced in the conversion process. A rush to convert because of the taxation threat or punitive conversion rules could result in expensive delays.

During the debate on HR-1151, which proceeded the streamlined conversion rules, CU executives wrote their Senators in favor of conversion flexibility because they recognized how this would greatly improve negotiating leverage during the rulemaking process and in general when confronted with NCUA demands. “The freedom to choose a charter which can best serve membership is to many as important as providing all US consumers with a choice of financial institutions”, Theriault said.

Since many CU trade associations oppose credit unions switching to a mutual, champions of this flexibility are as yet relatively unorganized. Bank trade

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Silver Freedman & Taff
1700 Wisconsin Avenue, N.W
Washington, DC 20007
202-295-4502 * Fax: 202-337-5502

Robert Freedman, Esq.

The firm represents credit unions on a variety of matters, including advising them on charter options.

Keefe, Bruyette & Woods, Inc
211 Bradenton Avenue
Columbus, OH 43017
614-766-8400 * FAX: 614-766-8406

Patricia McJoynt

Provides investment banking and financial advisory services to financial institutions including credit unions.

GS Financial Printing, Inc.
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2300 Computer Ave. Ste I-10
Willow Grove, PA 19090
Tel: 888-805-6300

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associations support conversions, but should not be expected to champion the cause. “They have other issues demanding their resources,” stated Theriault.

CU Financial is available to assist your management and members to explore the merits of FDIC insurance of accounts and the mutual charter. We help review and modify strategic plans and manage the conversion process. During the transition, we provide education to directors, management, staff, and members about conversion and life afterwards. Included in a flat rate engagement fee, for a period of one year after conversion, CU Financial acts as a resource on transitional issues and matters pertaining to deposit taking, lending, administration, and strategic planning.

To help with your information gathering, CU Financial offers a very popular multimedia presentation which explains in layman's terms the risks and rewards of converting. The program also reviews the similar heritage of credit unions, mutual savings institutions, and business cooperatives, and demonstrates that your institution can continue its mission as a FDIC insured institution. Management and directors claim the presentation provides a succinct overview of the process and quickly brings all participants up to speed with the possibilities.

HR-1151 “The CU Merger Act”

Merging a credit union with a Mutual Savings Association

Many believe HR-1151 will cause CU mergers to increase. Already CU numbers have fallen 40% during the last decade or so. Many are merging to gain operational efficiencies or because the board has just given up on handling the management issues ranging from Y2K to the member cry for new services.

Since HR-1151, CUs can merge with mutuals under simplified rules. If your CU is interested in merging, why not consider a merger with a mutual? Merging with a mutual may enhance the flexibility to serve existing members with new products and services and it will give members new ownership rights.

Merging a CU with a mutual may be easier from a regulatory application basis than merging two credit unions; and the CU may have more flexibility when negotiating future staff and management issues. Since it is widely known that CU staff is well schooled in providing quality service, mutual associations may look favorably on a merger because of the talent acquired.

CU Financial Services is in contact with both mutuals and CUs around the country which are seeking merger candidates. Before being led to the merger table by your trade association, or a CU association influenced law / accounting firm, consider all your options. Please call Alan D. Theriault at 1-800-649-2741 to discuss how you can get the best merger deal for your members.

CU leaders seek to redefine CU Mission

Social Mission or Member Mission?

Credit unions, like mutual savings institutions and many business cooperatives, were started by individuals seeking to raise their standard of living by working together to meet their personal credit needs. Members shared benefits and responsibility in the organization, and owned part of the capital. As members matured, many achieved their financial goals; consumers gained access to multiple sources of loans and deposits making the credit union one among many alternatives for financial services.

Unlike many business cooperatives, however, a member’s “equity” in a CU remains elusive. Business cooperatives often provide the opportunity for members to withdraw their ownership interest or pass it on to their children. Mutual savings institutions may issue rights to members which allow their “equity” to be converted to stock which then can be sold or transferred to the next generation.

Now, in a bid to avoid taxation, credit unions which used to say they were not in business for charity, are frequently being admonished by credit union trade association leaders and NCUA to adopt a “social mission” rather than a “member mission”.

According to CU Times reports, NCUA Chairman D’Amours in his continuing crusade to refocus CU efforts toward allocating capital for social purposes, recently warned that CUs must live up to their “social mission” or risk another banker assault. CUNA’s vice chairman, Nancy Pierce recently admonished executives of military CUs to join her in mounting a higher, vigorous “social mission” to help the cause of the undeserved.

However, this “social mission” may be at odds with the wishes of the average member who has supported the CU and helped to build its capital. This member's first priority may indeed be to secure his share of CU capital for his family's financial benefit. CU capital is either owned by the members, or it is not. If members own it, they should have the right to vote to convert it to their personal use. As a CU director and fiduciary, one should study the current rhetoric about supporting a "social mission" and determine whether these efforts undermine the "member mission."

CUNA November Strategy Meeting

Mica wants to "bury the hatchet"

Fearing another banker assault, CUNA's Dan Mica said he wanted to ask the ABA to "bury the hatchet", reported CU Times. Riding high from their HR-1151 victory, both CUNA and NAFCU are sobered as they anticipate taxation legislation in the upcoming 106th Congress and legal attacks surrounding NCUA rulemaking. According to CU Times, Mica said he was "not going to wait for them to drop another bomb on us." The pragmatic Mica recognizes that CUs leaned heavily on Congress and CU members to lobby HR-1151; gaining their sympathies to fight taxation might be more difficult.

Some speculate that in order to "bury the hatchet", Mica may seek ABA support for a CU sponsored tax bill, which could likely include provisions preventing CUs from converting to a mutual charter. Taxation for larger CUs is reported to be the only concession which would result in peace with the ABA. A proactive move by CUs to offer a tax bill has been suggested by CU leaders over the last few years. It is widely believed that by being first to offer tax legislation, the industry will remain in better control of the process thus leading to a more favorable law.

Some tough choices face CUNA management when they convene their November "planning session" in Arizona. Taxation of large CUs takes the heat off 85% of CUNA's smaller CU members, and protects the group that depends most significantly on a tax subsidy for their growth. However, the speculation is taxation might result in mass conversions to FDIC insurance, and dampen further the hopes of a NAFCU / CUNA merger.

Also, CUNA management must face the prospects of providing services to mutual associations which converted from CUs or lose their business to others.

Charter Options

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Nov. 16, 98: San Diego, CA

Nov. 20, 98: Orlando, FL

Space Limited; Fee: $95.

Call: 800-649-2741 to Register

Credit unions wanting to switch to a mutual charter are advised to get on file with an application before January 5, 1999.

CU Financial Services can help evaluate the feasibility of a charter change, including a review of all charter options. Multimedia presentations and interactive financial modeling help educate directors, employees and members about the options and the wisdom of a change. Should you decide to proceed with a charter change the staff of CU Financial can handle the details, allowing management to continue its focus on serving the members.

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Converting from a Credit Union

FAX Update

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Provided by CU Financial Services, Portland, Maine; *Strategic Planning and Implementation Services for Progressive Credit Unions;* Tel: 800-649-2741; WEB Site: www.cufinancial.com; Vol. 98 No. 121 / **December 7, 1998**

LaFalce rips into NCUA manual

Congressman's action may put the brakes on CU Growth

In an unprecedented comment letter that sided with the bank trade associations, CU ally Rep. John LaFalce (D-N.Y.), ranking Democrat on the House Banking Committee and major architect of chartering compromises which allowed the CU Membership Access Act, H.R. 1151, to pass committee and floor muster, said NCUA's chartering manual gave credit unions far too much leeway for growth. The letter issued a stern warning to NCUA that it needed to make significant revisions designed to restrict certain CU expansion plans. Reading like the text for a future legal judgment, LaFalce said NCUA's action was "arbitrary and capricious" and contrary to the intent of Congress. Observers predicted that NCUA would be back in court within weeks should it approve the chartering manual without heeding LaFalce's advice. Court action would put credit union expansion plans in limbo. Since both credit union champions, Rep. Gingrich and Sen. D'Amato were sidelined in the aftermath of the November elections, further help from Congress is unlikely.

For a copy of Rep. LaFalce's comment letter please contact CU Financial Services at 800-649-2741.

OTS Charter

The Charter of Choice for Non-Banks

The Office of Thrift Supervision (OTS) charter is the charter of choice for a record number of non-bank companies and bank investors. In addition to credit unions selecting the charter, Allstate Insurance and State Farm Mutual Insurance are just two of the many non-bank companies listed. The list also includes Wall Street firms, trade groups, cooperative groups, manufacturing firms, and a supermarket company.

The ability to branch nationwide, state law preemption, holding company flexibility, and the ability to operate a nationwide trust company are among the attractions of the OTS charter. Seven credit unions are now operating under the OTS charter, two CU applications are on file, and several are in preparation. Since OTS is an experienced regulator of mutually owned institutions, they understand the mutual ownership structure and mission of credit unions. Also, the charter permits the credit union to retain a "one member one vote" provision.

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UPDATES
Also:
Check our
Vendor Listings

Currently over 800 mutual savings institutions are operating in the US ranging in size from $3 million to almost $10 billion in assets. Total mutual thrift assets exceed $150 billion compared to total credit union assets at about $375 billion. The thrift charter is considered to be modern and progressive. Also, investors from around the country are selecting the OTS charter for new community institutions and for Internet Bank startups.

Credit unions wanting to switch to a mutual charter are advised to get on file with an application ASAP. (see October 22, 1998 newsletter.)

For more information about switching to an OTS charter and the benefits it brings to your credit union members, please contact Alan D. Theriault at (800) 649-2741. CU Financial Services can help your credit union evaluate its charter options and provide turnkey conversion services including feasibility studies, application preparation, business planning, policy & procedure modification, and transition assistance.

"Our Mission remains the same. Only our charter changed. We have more flexibility now. Our growth is now uninhibited", director of a mutual which converted from a credit union.

Judge rules against CUs

Utah State CUs Stopped at County Line; Taxes Proposed

A judge in Utah ruled that, according to state law, state chartered community credit unions may serve only one county. The ruling forces several larger credit unions to stop taking on new members in certain parts of the state. The state credit union league is collecting petitions in hopes of introducing legislation to change the law.

Meanwhile, a Utah taxpayer group is seeking to make credit unions pay state taxes. Since much of the tax revenues would go toward the education of Utah's school children, some observers expect CU taxation will get support from families & the education lobby. Large credit unions in Utah will be forced to defend their subsidy over the needs of school children.

Consider all your merger Options

Merging a CU with a Mutual Association

CUs can now merge with mutuals under simplified rules. If your CU is interested in merging, why not consider a merger with a mutual? It will enhance your flexibility to serve existing members with new

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Silver Freedman & Taff	**Keefe, Bruyette & Woods, Inc**	**GS Financial Printing, Inc.**
1700 Wisconsin Avenue, N.W Washington, DC 20007 202-295-4502 * Fax: 202-337-5502 Robert Freedman, Esq. The firm represents credit unions on a variety of matters, including advising them on charter options.	211 Bradenton Avenue Columbus, OH 43017 614-766-8400 * FAX: 614-766-8406 Patricia McJoynt Provides investment banking and financial advisory services to financial institutions including credit unions.	*A Georgeson Shareholder Communications Company* 2300 Computer Ave. Ste I-10 Willow Grove, PA 19090 Tel: 888-805-6300 Steven M. Begley Graphic Design * Financial Typesetting * Annual Meeting Materials * Conversion Disclosure Printing & Mailing

products and services and it will give members new ownership rights.

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Making it happen

The Conversion Team

Converting to a thrift requires commitment from the executive staff and outside professionals. The organization and timing of the process is critical in order to control both the direct and indirect costs. The selection of a team of internal staff and outside professionals to implement the strategy will permit the smooth flow of the process and minimize any distractions which might otherwise hinder your executive staff from serving your members during the process.

Directors should clearly communicate the objectives and need for the conversion and expect the full cooperation of staff. Understandably, after years of CU indoctrination and participation in CU support activities, some staff will have a difficult time with converting. Some will fear the loss of the CU support network and the learning curve as a result of the change. Local CU organizations might also attempt to influence staff attitudes and the outcome of a member vote.

Unless an effort is made to help staff and directors understand the similarities between mutuals and CUs, and the market driven reasons for converting, some may choose to part company. The staff is the front-line to the membership, and influencing the message passed through this channel is critical. However, with a well coordinated conversion plan that educates and communicates the need for a change, the concerns of directors, staff, members, and the community can be addressed.

The decision to convert must be part of a long range strategic plan, rather than a knee jerk reaction to litigation, legislation, or NCUA rulemaking. The conversion must fit the strategic plan of the institution or the plan must be modified. The best long term interests of the credit union members, survival of the institution, positioning the institution to serve future generations, and remaining relevant to today's members are important considerations.

Contact Alan Theriault at (800) 649-2741 to learn how CU Financial Services can handle the details of the conversion.

Charter Options

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A lawsuit may be imminent

Will restraining orders follow?

A lawsuit to freeze the implementation of NCUA's regulations contained in the "Credit Union Chartering & Field of Membership Manual" (Manual) may be imminent, according to a credit union trade paper. Many speculate that the Plaintiff will ask a judge to prevent the Manual from becoming effective until after the court decides whether the rules are consistent with the intent of Congress.

Given the Manual's strong negative reactions from several influential Members of the US House Banking Committee, a court may be sympathetic to a Plaintiff's request for a restraining order or injunction. The case is strong that the Manual fails to reflect Congressional intent, since Rep. Marge Roukema, R-N.J, chairwoman of the financial institutions subcommittee of the House Banking Committee, said she is "deeply concerned" over the new NCUA rules. "These rules ignore the intent of Congress and the carefully crafted compromises reached during debate on the Credit Union Membership (Access) Act," Roukema stated in the press release.

Likewise, in an unprecedented comment letter that sided with the bank trade associations, CU ally Rep. John LaFalce (D-N.Y.), ranking Democrat on the House Banking Committee and, like Roukema, a major architect of chartering compromises which allowed the CU Membership Access Act, H.R. 1151, to pass committee and floor muster, said NCUA's chartering manual gave credit unions far too much leeway for growth. The letter issued a stern warning to NCUA that it needed to make significant revisions designed to restrict certain CU expansion plans. Reading like the text for a future legal judgment, LaFalce said NCUA's action was "arbitrary and capricious" and contrary to the intent of Congress. *(continued on page 3)*

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Trend continues; Now a 6 - 8 month process

Two California CUs File for Thrift Charter

December 31, 1998: Two California FCUs with combined assets over $400 million filed to convert to a federal mutual thrift charter. The credit unions are the second and third to file since HR-1151 streamlined the process. In October a credit union from Charleston, SC filed to convert. All three are clients of CU Financial Services. A fourth conversion applicant, a New York based federal credit union which filed in March, is awaiting a member

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vote. Seven credit unions are now operating as mutual savings institutions.

Interest in the mutual savings association charter is increasing because of concern about 1) legal challenges to NCUA's "Chartering and Field of Membership Manual", 2) the inefficiency of growth by adding small SEGs, 3) the competition for (and lack of) large SEGs, 4) geographic limitations on the size of community charters, 5) limitations on adding and serving SEGs outside of the community, and 6) a sponsor down sizing or merger. Also, some are concerned about NCUA's policing of member additions, and the enforcement action which might ensue as a result of noncompliance.

A smaller number of credit unions are investigating a move because of product limitations caused by NCUA or state regulations, like the prohibition of prepayment penalties, business lending portfolio restrictions, investment limitations, and loan maturity limitations. Some believe future credit union restrictions and ultimately taxation are inevitable. These proactive credit union leaders reason that in today's financial environment, maintaining good service to existing members may require a conversion to the mutual charter. They are convinced the benefits outweigh the negative impact of taxation.

A parallel trend is developing as many credit unions review their merger options. HR-1151 streamlines the process of merging a credit union with a mutual thrift. Since the philosophy and mission of many mutuals mirror those of credit unions, forward thinking credit union boards are demanding that a merger with a mutual be considered before jumping into the arms of another credit union. Mutual thrifts are allowed to have advisory boards which provide the opportunity for the former credit union's directors to remain involved after a merger, yet without the legal liability of the corporate board. Among other benefits, the advisory board may continue to be involved with strategic planning retreats and attend thrift industry sponsored functions.

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Consultant to credit unions considering conversion to a mutual savings institution charter.
CUFS handled the conversion of the first state chartered credit union.

(Continued from page 1) In a press release which followed NCUA's Manual approval, LaFalce said "I am deeply troubled that the NCUA Board would vote to finalize these controversial regulations without any significant revision, and do so over the strong objections of the NCUA Chairman, key members of Congress, and even state credit union trade associations." LaFalce said NCUA's new policy "will likely result in new legal challenges and give credibility to Judge Thomas Jackson's rebuke of the NCUA Board as a 'rogue regulator.' I guarantee it will also result in the closest future scrutiny of the NCUA."

Giving credibility to the "big credit union versus small credit union" debates, LaFalce said the goal of the CU Membership Access Act (H.R. 1151) was to "encourage membership growth in ways that preserve the unity and spirit of the credit union movement ... If the current NCUA Board is so beholden to the largest credit unions as to openly ignore its regulatory responsibilities and invite antagonism from Congress, then it is time to consider fundamental changes in NCUA's current structure." Some believe this rhetoric could rekindle discussions about merging of the NCUSIF with the FDIC and placing NCUA's duties with the Office of the Comptroller of the Currency (OCC) or the Office of Thrift Supervision (OTS).

Court action could delay for months the relief that was thought to be forthcoming as a result of the Manual. Some credit unions remain unconvinced that HR-1151 will solve many ongoing concerns about the credit union charter and are planning to convert to a mutual thrift charter. (See related story.)

Concerned about the impact of sponsor down sizing, fierce competition for the remaining SEGs, and restricted product offerings; credit union managers are renewing their interest in the thrift charter. These executives argue that the trade off of taxation for the opportunity of an unrestricted field of membership & greater product flexibility is better than the uncertainty of litigation and opportunity cost from restrictions on expansion.

CU Management Takeover?

Mutual Thrift Charter offers protection

Credit unions are more vulnerable to being taken over by a dissident group than a mutual. Also, a credit union supervisory committee has broad powers, that if skillfully used, could result in trouble for directors and management. Mutuals do not have such committees. Recently, a Pennsylvania credit union has been sued because of issues related to director elections; and, occasionally one hears of a supervisory committee coming to life.

Growth of a credit union's capital and an increasing profile in the community makes it a good target for an opportunistic group. Whether its a trade union representing credit union members, an organized group of employees from a SEG, or a fired manager, a credit union board is susceptible to infiltration. With one member - one vote, an organized effort by a minority group to concentrate electing a single director at a time ("bullet the ballot") can result in the complete replacement of the board over a fairly short period of time. Existing management may be prevented, because of its fiduciary responsibilities, from spending the institutions money to fight a cleverly orchestrated board takeover. Personal liability for the directors may result should legal or fiduciary breaches occur.

Mutuals, however, have many safeguards designed to maintain consistent control of the institution by current management. For example, members of mutuals, unlike credit union members, can vote by proxy. The mutual's board of directors can hold "running proxies" from many members which permit them to control the votes on numerous issues, on an ongoing basis. Mutual bylaws can also be structured to allow more votes for active members, thereby

Back issues of "Converting from a Credit Union" make a good hand out for directors and staff. For copies please call (800) 649-2741. A nominal charge for reproduction and mailing applies.

increasing the level of involvement by those with a vested interest in the future of the institution.

In addition, under the federal mutual rules, a member has no authority to obtain information on other members, and all mailings to members are under the control of the board. Strict rules apply, and in many instances, regulatory approval is needed before a dissident group could solicit proxies from the membership. Follow-up on mailings would be difficult since the dissidents would not have access to the member list.

In some states, mutuals may be organized much like nonprofit corporations, with a "board of trustees", or "board of incorporators". The existing trustees elect the new trustees. *For more information about mutual thrifts contact, Alan D. Theriault at (800) 649-2741, check our web site, or obtain a copy of "The Credit Union Guide to Charter Options."*

Getting Started

Investigating the Mutual Association Charter

Although credit union trade associations provide a wealth of information and support on many issues, their information about the benefits of the mutual thrift charter is understandably brief. Likewise, CU attorneys and credit union consultants which depend only on credit union business may fear reprisals should they seriously offer the mutual thrift association charter as a viable alternative.

Consequently, wise credit union executives have turned to CU Financial Services (CUFS) and the vendors profiled in the newsletter "Converting from a Credit Union". The complementary web site located at www.cufinancial.com helps keep CU executives informed about this emerging trend and the pioneering credit unions involved. The "Credit Union Guide to Charter Options", available since early 1998 provides over 200 pages of information about the mutual thrift charter. "The Mutual Thrift Option" conferences held in key cities around the country provide face to face opportunities for credit union executives to meet key people and gain valuable information about the mutual thrift charter.

CUFS's "Director Presentations", bring to the credit union location the knowledge of how to convert a credit union to a mutual thrift and an understanding of the thought process & obstacles handled by those credit unions which have made the switch. Should the credit union elect to proceed, CUFS handles the details from crafting a business plan to staff orientation. The wealth of knowledge available by working with CUFS results in savings of direct cost and management time. For more information, call Alan D. Theriault @ (800) 649-2741.

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Another Pioneering Trend:

Merging a CU with a Mutual Association

CUs can now merge with mutuals under simplified rules. If your CU is interested in merging, why not consider a merger with a mutual? It will enhance your flexibility to serve existing members with new products and services and it will give members new ownership rights.

Merging a CU with a mutual may be easier from a regulatory application basis than merging two credit unions; and the CU may have more flexibility when negotiating future staff and management issues. Since it is widely known that CU staff is well schooled in providing quality service, mutual associations look favorably on a CU merger because of the talent acquired.

CU Financial Services is in contact with both mutuals and CUs around the country which are seeking merger candidates. Before being led to the merger table by your trade association, or a CU association influenced law / accounting firm, consider all your options.

Converting from a Credit Union

FAX Update

News for those interested in remaining informed about credit union conversions;

Provided by CU Financial Services, Portland, Maine; *Strategic Planning and Implementation Services for Progressive Credit Unions;* Tel: 800-649-2741; WEB Site: www.cufinancial.com; Vol. 99 No. 2 / **February 7, 1999**

Illegal members; director expenses

Expect NCUA & IRS Scrutiny; indirect lending programs in jeopardy

Credit union directors are being warned about the potential of civil money penalties and director removal for membership eligibility violations. Also, in the future, expect director expenses to be scrutinized, and if excessive or unjustified, the credit union may be forced to report to IRS the expenses as income to the director. Each illegal member provides NCUA a reason to evoke its enforcement authority and prove to Congress it's a tough regulator, rather than an industry cheerleader, some attorneys speculate. Also, member eligibility violations and unjustified director expenses may jeopardize a credit union's tax exempt status and could trigger IRS penalties.

NAME	Members	Assets	Status
Affiliated (TX)	1250	8	Bank 6/1/98
AWANE Bank, FSB (NH)	2200	19	Bank 5/1/96
Beacon FCU (NY)	30000	145	Pending Vote
BUCS Federal (MD)	11306	58	Bank 3/1/98
Carolina Federal (SC)	2650	16	Pending
Central Bergen FCU (NJ)	18246	75	Withdrawn
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Kaiser Perman. FCU (CA)	34254	180	Pending
Lusitania SB (NJ)	6517	71	Bank 9/1/95
Midwood (NY)	864	7	Withdrawn
Ohio Central (OH)	16337	28	Bank 6/1/98
Pacific Trust FCU (CA)	31223	240	Pending
Synergy (NJ)	20100	180	Bank 5/1/98

Especially hard hit by tougher member scrutiny will be the large credit unions operating lucrative indirect auto lending programs. This issue was brought to the attention of Congress during the February 3, 1999 oversight hearings. Many smaller credit unions are impacted by the competition for auto loans lost to large credit union indirect auto lenders, and some may register complaints. Many credit union indirect lenders ask car dealers to have the borrower "self-certify" membership eligibility, a practice unlikely to withstand future NCUA scrutiny. Some expect membership officers will be forced to verify and document member eligibility.

"Extensive personal liability" may affect supply of volunteer directors

NAFCU testimony raises issue of unpaid directors

Paid staff of credit union trade associations and paid staff of many credit unions, often justify a credit union's nonprofit tax exempt status by noting their directors are unpaid, while directors of banks are handsomely rewarded. According to NAFCU's recent Congressional testimony, *"(the) prohibition on compensation and fees for credit union directors and committee members remains in place, despite the fact that credit union directors and committee members are subject to the same extensive personal liability as their counterparts in the commercial banking industry, who, according to a study conducted by Korn/Ferry International and cited in the December 9, 1996 edition of the*

San Jose and Silicon Valley Business Journal places "the average compensation for U.S. bank directors at $31,716 for approximately four weeks of work a year.""

Some state chartered credit unions, however, are allowed to pay their directors. Charitable foundations, public & private nonprofit corporations, and many cooperatives, in an effort to seek out the best talent for their board and diversify the board membership, will compensate directors. Given the personal time commitment and personal liability facing directors serving on the boards of complex credit unions, many credit union executives are frustrated by prohibitions on compensating board members. Convincing qualified individuals to join the board and accept the personal liability and scrutiny is sometimes a challenge, they report. Although the argument sounds reasonable when discussing a credit union's tax subsidy, in the real world, the flexibility to pay directors ultimately benefits the membership.

Congressional oversight of NCUA and the threat of future lawsuits could have a chilling effect on attracting unpaid credit union directors. In particular, credit unions with complex investments, diversified loan products, and intricate technology infrastructures will tax the time and energies of even boards staffed with retirees. One observer commented that even a free dinner and annual Las Vegas junket can't repay the anxiety caused by being served with a court summons, or the time required to review piles of credit union related documents. Faced with the threat of civil money penalties or director removal for something as simple as membership violations, larger credit unions, that clearly have the resources, will increasingly be under pressure to pay directors to accept this risk and liability.

"Our Mission remains the same. Only our charter changed. We have more flexibility now. Our growth is now uninhibited", director of a mutual which converted from a credit union.

NCUA on the Hot Seat

Some claim Congressional scrutiny means short fuses at NCUA

Congress is watching the NCUA and the credit union industry closely. The recent HR-1151 oversight hearings, the banker's January 1999 lawsuit, the Karl Hoyle civil rights lawsuit, the CapCorp lawsuit, and the big CU versus small CU controversy among the NCUA

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Robert Freedman, Esq.	Patricia McJoynt	Steven M. Begley
The firm represents credit unions on a variety of matters, including advising them on charter options.	Provides investment banking and financial advisory services to financial institutions including credit unions.	Graphic Design * Financial Typesetting * Annual Meeting Materials * Conversion Disclosure Printing & Mailing

Consultant to credit unions considering conversion to a mutual savings institution charter.
CUFS handled the conversion of the first state chartered credit union.
Alan D. Theriault, at 800-649-2741; E-Mail: atheriault@cufinancial.com; Web site: www.cufinancial.com
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Strategic Planning and Implementation for Progressive Credit Unions

3

board members are issues that keep Congress wondering about the effectiveness of this credit union regulator.

Some accuse NCUA of being quick to hit the panic button when Congress is watching. For example, according to Credit Union Times, 60 plaintiff credit unions in their multi-million dollar tort claim against NCUA said CapCorp was "sacrificed" so that NCUA would make an impression on Capital Hill that (NCUA) appeared to take strong and swift action against perceived financial threats in the credit union community.

Some observers are wondering whether any credit unions violating membership eligibility rules, business lending rules, or director compensation rules will be "sacrificed". The credit union act allows NCUA to access civil money penalties and to remove directors for various acts including violation of membership eligibility rules. Which credit union will be the next "sacrifice" when rates turn up causing losses in a credit union's mortgage portfolio, business loan portfolio, or investment portfolio? Will NCUA offer a "sacrifice" when a credit union is caught signing up ineligible members?

Let your Mission determine your Future ... Not Your Charter

Credit Union charter choices are abundant, but only one choice gives you an unlimited field of membership and maximum product flexibility. By making this choice, your institution may continue to maintain its philosophy & "social mission" and increase the ownership rights of the membership.

The mutual savings association charter is this choice. HR-1151 streamlined conversion, making it possible and less costly. The law also increases your merger choices. As a mutual, your institution will be subject to taxation. Many, however, consider paying taxes part of their social responsibility; and converting institutions reason the incremental revenue earned by removing the CU charter impediments offset the negatives posed by taxation or other issues.

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Charter Options
Seminars:

- ✓ History of Coops & similarities between thrifts and CUs
- ✓ Converting to or Merging with a Mutual Savings Institution
- ✓ Charter differences and business opportunities
- ✓ Learn from those who have handled the process.

9 AM to 2:30 PM

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Mar 3 * Washington, DC
Apr 12 * Los Angeles, CA
Apr 14 * Seattle, WA
May 4 * Chicago, Ill
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California CU League Study:

Bank's Federal Benefits Worth More Than CU's Tax Exemption

A new study applauded by (and partly funded by) the California Credit Union League confirms that converting a credit union to a mutual savings institution, and paying taxes, results in federal benefits greater than the loss of the tax-exemption. "This study confirms what the League has maintained all along -- that banks receive a wide range of benefits worth far more then the tax exemption credit unions receive", said David L. Chatfield, League president and CEO.

The study provides directors with a helpful piece of "due diligence" when investigating the merits of converting to a mutual. A major question which comes up among credit union directors when considering the conversion is: "Do the benefits of an unlimited field of membership and product flexibility outweigh the costs of paying taxes?". "For the seven credit unions which are now operating as mutuals, and the four in the pipeline", according to conversion consultant & CU Financial Services president, Alan D. Theriault, "the answer is yes! ... this CU sponsored study helps confirm this fact."

Credit unions converting to mutual savings institutions are faced with managing federal and state tax liabilities. "Clearly paying taxes is for many an unpleasant task, but in free societies, its part of everyone's "social responsibility", said Theriault. Credit union directors studying this issue discover that a member's ownership interest in a mutual savings institution is substantially identical to their ownership interest in the credit union. Evaluating whether the switch will generate sufficient benefits to outweigh paying taxes becomes a consideration. Credit union members, like members of mutual savings institutions, have liquidation rights in the equity of the association.

The continued success of Canadian credit unions after becoming taxed acknowledges that taxation is a manageable business expense. Other non-profits are dropping their tax free status to increase flexibility and to expand. (See related story page 4)

The study is available by downloading from www.consumer-action.org. Or contact Alan Theriault, CU Financial Services at (800) 649-2741, for more information about the benefits of the mutual savings institution charter.

Charter Options

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Pay CUNA & dividends ... not IRS

Hidden Cost of the Tax-exempt Agenda

In an effort to raise the profile of credit unions as "non-profits", and different from banks, CUNA held a well publicized joint press conference with the Consumer Federation of America (CFA). The team encouraged current members to move their deposits into higher yielding CDs and consumers to shift deposits to credit unions.

2 Costly. In this day of narrowing spreads and high liquidity, a rapid flow of new deposits and a wholesale shifting of deposits by members into higher yielding alternatives, leads immediately to a smaller bottom line, bringing home the real concept of what it means for a business to be “nonprofit”.

Most credit unions need solid performing loans, not higher cost deposits. Already faced with insufficient loan demand, many credit unions would just reinvest deposit increases into bank CD’s and government securities. Yields would have to drop for existing members. Fierce loan competition from credit card companies, auto manufacturing lenders, and mortgage companies means narrowing spreads and slow loan demand. Demographics reveal: it will get worse before it gets better. In the early years of credit unions, the challenge was to bring in deposits ... not so today. Although the message hasn’t completely penetrated the board room or the trade associations, the future is in finding good loans, or making severe cuts in operating costs ... like association dues.

Compared to banks, especially community banks, the loan to share ratio of credit unions is much less. Constrained by field of membership issues, many credit unions lack sound opportunities to leverage their capital by increasing loan production. Smaller credit unions may be particularly challenged, and increasing their cost of funds may just speed their merger. In contrast, converting to a mutual savings institution opens up unlimited opportunities for lending, thus increasing the opportunities to maintain margins. The trends which cause shrinking margins work faster than the actions (loan production & cost cuts) which can be taken to halt or reverse declining margins. Acting now could be imperative. Pioneering credit union managers converting to the mutual savings institution charter are merely taking sound action to preserve margins and the rate of return for current members and future generations of members.

CUNA’s message to credit unions is to pay more dues or face taxation. In addition, publicity to highlight credit union differences lead to hidden costs for credit unions, as discussed above. Added to the opportunity costs resulting from credit union legislation and regulation, the cost of retaining a credit union charter, for some credit unions, may quickly exceed any income tax savings. A mutual savings association charter allows members to retain their mission while removing the impediments of the credit union charter. Let your mission determine your future, not your charter.

Is your State Next?

State Credit Union growth checked by New Utah Law

No longer can Utah state chartered credit unions choose the entire state for their field of membership. Recently, the Utah legislature passed a law which restricts state credit union growth and limits business lending. In the text of the bill, the legislature also gave notice to the state credit union regulator that the new

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law should be narrowly and strictly interpreted, and noted any exceptions are intended only as a one time accommodation for the few credit unions affected by a recent state court ruling.

The new law puts the brakes on the expansion plans of a few credit unions, and it's unlikely a conversion to a federal credit union charter, to escape the restrictions, is possible. Some observers said the Utah legislature stopped short of inserting language which would require credit unions reaching a certain size to convert to a mutual savings institution.

The Utah Credit Union League through aggressive television advertising and a petition drive attempted to generate public support to maintain the credit union tax subsidy plus the unrestricted field of membership. Many Utah taxpayers believed that credit unions should be allowed to have unrestricted growth, but felt they should pay taxes. In Utah, taxing credit unions would result in more revenues for public education. When the CU league's initiative failed to gain committee support, the credit union negotiators opted for growth restrictions rather than taxation.

Turning CU's into Charities:

Is a "Social Mission" consistent with your fiduciary responsibility as a director?

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As social organizations start to eye credit union capital and directors are told they must support a "social mission" or lose their tax exemption, credit union directors are faced with some complex questions. Do the members own the capital, or does the public? How does a director reconcile turning over credit union capital to others who have not been active in building the credit union? Should directors be forced to incur costs serving inactive members, the "under served", or for starting other credit unions? Or, should directors strive to increase the net worth of their faithful members, many of whom are reaching retirement age and seeking investment opportunities.

Directors also face the so called "80/20" rule question, which states that (for many CUs) a small percentage of active members generate the net revenues; the majority generate costs. Some credit unions claim as many as 30% of the members are inactive and create, in some cases, millions of dollars in expense to carry their accounts; and some NCUA examiners have "written-up" credit unions for not serving all members and potential members. Unlike circumstances during the infancy of credit unions, today numerous financial options exist for managing banking, borrowing, and investing activities, and for charitable work.

Early cooperatives, including credit unions, were started with the objective of increasing the standard of living of the active participants. Some cooperatives even contemplated future liquidation, with net capital distributions following. Although all members may claim to be "owners" of a credit union, in a liquidation, any net capital is divided based on deposits.

In the weeks ahead, the credit union trade associations will attempt to communicate the uniqueness of credit unions. In doing so, they will highlight the points which make the best case for retaining a credit union tax exemption, perhaps playing down some points that helped create success. For example, credit union member/owners are primarily motivated to patronize a credit union by the prospect of an increase in their personal standard of living, not to provide charity. Although many of the active and founding members may support charitable causes, (including helping other needy groups form and operate credit unions) when given a choice, many will prefer to have their institution develop into a business consistent with historical goals, in particular, helping to increase the active member's standard of living.

The emerging financial cooperatives around the world that enjoy success and improve the standard of living of member/owners are the ones which have a high level of member participation. The desire to participate comes from an individual's personal profit motive. Why should that change as the institution grows? As a credit union director and fiduciary, your instinct to help the institution evolve into one which continues to increase the net worth of the active member owners should not be ignored. Rather than being pushed into becoming a charitable organization, just to preserve a tax exemption, an investigation of the benefits of the mutual savings institution charter should be considered.

TIAA-CREF: former nonprofit pension manager pays taxes to open new markets

Why not your credit union?

In the summer of 1997, Congress stripped the nonprofit, TIAA-CREF, of its tax exempt status. The action allows the provider of pensions and insurance to the men and women who work for America's colleges and universities to move into new markets. Recent moves include offering mutual funds, launching a trust company, and offering financial planning services.

Chartered to protect retired professors from penury, the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), in the last 20 years alone has helped turn some 20,000 of them into millionaires. Although no longer tax exempt, the $248 Billion TIAA-CREF intends to continue to run like a nonprofit by returning net revenues to participants in the form of higher dividend rates on annuities.

Like Canadian credit unions, which have paid taxes for many years, and the Australian credit unions taxed in 1997, TIAA-CREF recognizes that standing on ceremony and tradition, when confronted by an increasingly competitive world of financial services, is not in the best interest of their member/owners. The giant pension manager is now free to serve a broader customer base and develop new products and services to address the changing financial services landscape.

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Affiliated (TX)	1250	11	Bank 6/1/98
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BUCS Federal (MD)	11306	67	Bank 3/1/98
Carolina Federal (SC)	2650	17	FDIC Ok;
Central Bergen FCU (NJ)	18246	75	Withdrawn
Citizens Community (WI)	15609	84	Withdrawn 6/97
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Ohio Central (OH)	16337	30	Bank 6/1/98
Pacific Trust FCU (CA)	31223	228	Pending
Synergy (NJ)	20100	204	Bank 5/1/98

From "Grow to be Great"
by Dwight L. Gertz & Joao P.A. Baptista:

"Everyone would rather work in an environment where possibilities are more tangible than are limits - where hope matters more than fear. ... Working for a non-growth company is simply not fun"

Does HR-1151 offer more possibilities than limits? Isn't the Mutual Charter work the look? ed.

CU Financial Services can help evaluate the feasibility of a charter change, including a review of all charter options. Multimedia presentations and interactive financial modeling help educate directors, employees and members about the options and the wisdom of a change. Should you decide to proceed with a charter change the staff of CU Financial can handle the details, allowing management to continue its focus on serving the members.

Contact: Alan D. Theriault: 800-649-2741

Converting from a Credit Union

FAX Update

News for those interested in remaining informed about credit union conversions;

Provided by CU Financial Services, Portland, Maine; *Strategic Planning and Implementation Services for Progressive Credit Unions;* **Tel: 800-649-2741**; WEB Site: www.cufinancial.com; Vol. 99 No. 4 / **June 1, 1999**

Members reap benefits

Converting to a Stock Cooperative

Credit unions provided financial solutions for individuals impacted by the move from the farm to the city. Like mutual savings associations and business cooperatives, they were formed by individuals seeking to improve their personal standard of living. The concept worked. Over the 8 decades since credit unions started in the United States, members have prospered and now have access to multiple banking and investment sources, and they enjoy the highest standard of living in the world.

Member needs, however, change. In their younger years these members supported the credit union in order to gain access to sound loan and deposit programs. Their support led to record levels of credit union capital growth. Now members, young and old, are keenly aware of the benefits to be gained by investing in stocks, and would quickly appreciate how converting their credit union to stock ownership could lead to further improvement in their personal net worth.

"When converting a former credit union to a stock financial cooperative," according to Alan Theriault, CEO, CU Financial Services, an investment banker and credit union conversion consultant, "members continue to own the institution. Today, most of the stock is acquired by members, thus the stock institution remains member owned and patronized ... much like a business cooperative".

Described by renowned investor "Peter Lynch" of Fidelity Magellan fame, the mutual to stock conversion investment is "the can't lose proposition (almost)..." Former credit union members are given the first opportunity to buy stock. "The interesting thing about this is that every dollar that's raised in the offering, minus underwriting fees, ends up back in the bank, unlike when other kinds of companies go public." (continued on Page 3)

Newspapers to Publish CU CEO Salaries

State chartered credit union executives may soon see their names and salaries disclosed in the local newspaper. Effective June 8, 1999, a new IRS regulation requires state chartered credit unions to release executive compensation information to the press. The news media may also seek the release of compensation information from Federal Credit Unions.

Enabled by Technology

Employers seeking multiple relationships

Although permitted by HR-1151, adding new employee groups which can be profitably and efficiently serviced is not always easy. Many of the profitable employer groups are already represented by credit unions. Some employers now hesitate at giving credit unions exclusive access to their employees, and some employers want to be paid.

CU executives proud of offering broad member services and high technology innovations, complain that many desirable employee groups are already represented by less progressive credit unions, which for one reason or another offer inferior services. Therefore, employees of these companies lack many of the benefits possible by credit union membership. However, converting to a mutual savings association allows superior institutions to service these employees, without regard to field of membership.

Recently, a large Florida based employer decided to discontinue an exclusive relationship with their credit union and invited community banks to participate in offering services to members. Other employers are working with non-bank firms to offer 401k, payroll deduction, and loan programs. Companies that provide payroll services are also becoming credit union competitors, offering 401k plans and payroll deduction, and compensating employers by reducing the cost of payroll services based on level of employee participation in complementary programs.

In other developments, over two dozen credit unions representing almost $2 billion in assets may be impacted as their primary sponsor group capitalize banks that may ultimately compete for employee support. The trends discussed above are indicative of the rapidly changing economics of credit unions, and highlight the importance of investigating the flexibility of the mutual savings institution charter.

Former Credit Union: IGA Federal Savings announced today it was filing an application to convert to a stock institution. IGA is the first former credit union to convert to a stock cooperative.

Two Conversions almost complete

Beacon & Sacred Heart in final stages of Conversion to Thrift

Beacon FCU and Sacred Heart of Charleston FCU are expected to complete their conversion during the summer. Beacon's members recently voted overwhelmingly to convert to a mutual thrift. Sacred Heart members are voting now.

Sacred Heart was the first credit union to file under the streamlined HR-1151 conversion law. Beacon filed in April of 1998 under the former NCUA conversion rules, but in the Spring of 1999 proceeded based on the simplified HR-1151 rules.

California based Kaiser-Permanente FCU has received OTS and FDIC approval of their conversion application. Their members are now voting on the proposal. The proposed name of the new institution is Kaiser Federal. Sacred Heart is changing its name to Carolina Federal Savings.

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Robert Freedman, Esq.	Patricia McJoynt	Steven M. Begley
The firm represents credit unions on a variety of matters, including advising them on charter options.	Provides investment banking and financial advisory services to financial institutions including credit unions.	Graphic Design * Financial Typesetting * Annual Meeting Materials * Conversion Disclosure Printing & Mailing

(continued from Page 1: Converting to a Stock Cooperative)

The transaction results in converting an intangible ownership right to the net worth of the former credit union into a tangible & marketable investment in the stock cooperative, according to Theriault. The members who fail to buy stock, continue to own a share of a "liquidation" account, and their intangible "ownership" continues as long as they maintain their deposit relationship. In consideration for the investment of "at risk" capital the members buying stock get the voting rights.

Some former credit unions could use extra capital to fund growth and expansion. In a full conversion, the capital level of the institution jumps significantly. The excess capital can be used for meeting regulatory capital requirements, growth, for acquiring deposits & loans or other institutions, and for other corporate purposes. For those needing less capital, a partial conversion, which leaves control vested in the mutual structure may be a better option.

Improved member participation in the affairs of the stock cooperative is another benefit. According to Theriault, "tangible stock ownership encourages intensive usage and participation in the affairs of the institution. Credit unions are cooperatives, but because they lack economic incentives to encourage member involvement, they experience a very low level of member participation in corporate governance." **However a former credit union converting to stock, like a business cooperative, is capitalized by its membership & users. The firm, therefore, can continue to operate with the mission and philosophy of a business cooperative.**

The tangible ownership interest helps increase member interest and provides economic incentive for intensive patronage of the institution, Theriault says. Business cooperatives are capitalized by members and often pay dividends in the form of stock or by adding to patronage accounts. Hence, they enjoy a higher level of member participation both in corporate governance and usage. Also, directors are often large shareholders, and are compensated for their work on the board.

The members of a stock financial cooperative gain the benefit of a more transparent management. Owners / members of stock cooperatives are able to obtain more information about the institution's performance and management business plans. Often management will be required to run the organization more efficiently and encouraged to achieve reasonable rates of return on invested capital. This often translates into product expansion and competitive & accountable services.

Management compensation levels at credit unions are rapidly increasing, and director perks are being liberalized. A member, however, is often in the dark about what his CEO is paid and how directors benefit from their positions. **Director and officer compensation at credit unions is frequently debated, and historical practices are cited as the source of safety and soundness concern at growing credit unions.**

Unlike credit union compensation plans, some stock cooperative employee compensation plans must be voted on by shareholders, and compensation of senior management is disclosed. *(Mutuals may keep compensation confidential.)* Directors and officers, as shareholders, sit on the same side of the table as other shareholders, and are appropriately motivated to perform. Flexibility in compensation enables the firm to attract competent staff. In theory, prior to a stock conversion, management could always vote salary and benefits that duplicate any benefits received in a mutual to stock conversion without conferring any benefit to members.

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AVAILABLE NOW
"CU Guide
to Charter Options"
Over 200 pages of information to help you understand the Why and How of converting from a CU Charter.
$50.00, plus $12.50 S&H

4

Driven by Growth & PCA

CUs to add capital by converting to a thrift charter

Tougher capital standards for credit unions, along with growth opportunities, may lead to more mutual savings institution (Mutual) conversions. Mutuals, while preserving member ownership, are allowed to raise regulatory capital from members, corporations, pension funds, non-profits, and others. Mutuals are also classified as "well-capitalized" at lower net capital levels than credit unions. Also, bank regulators are more accustomed to seeing greater balance sheet leverage and are better equipped to evaluate more complex investment risk and lending risk, like real estate loans and business loans.

"Several options for raising regulatory capital exist for former credit unions," according to Alan D. Theriault, CEO, CU Financial Services, an investment banker and credit union conversion consultant, "and all the options allow for retention of a cooperative mission." Theriault says, "The most basic capital option involves obtaining a pledged deposit from a sponsor group, like a trade association, union, nonprofit corporation, or from wealthy members". The deposit is uninsured and withdrawal is restricted. Generally the deposit earns a higher rate of return compared to traditional deposit products, compensating the investor for lack of liquidity and absence of deposit insurance.

"Capital Subordinated Notes" (CSNs) provide another mechanism for increasing regulatory capital. CSNs mature over a seven to ten year period and pay interest at rates tied to treasury securities or LIBOR. The institution's business plan generally includes strategies for growing or replacing the capital prior to maturity.

Other innovative programs, which involve issuing stock, can also be utilized to raise regulatory capital. One program involves moving loans or investments into a subsidiary of the institution and selling preferred stock in the subsidiary to investors, according to a financial institutions attorney with Silver Freedman & Taff LLP, Washington DC. "The proceeds of the preferred stock offering are transferred to the balance sheet of the converted credit union, and counted as regulatory capital."

A fourth option involves the partial conversion to a stock cooperative and offering up to a minority 49% stock interest to members. The capital raised counts as regulatory capital and mutual owners continue to vote the controlling interest. Lastly, the maximum amount of capital may be raised by executing a full stock offering to the membership, thereby becoming a completely stock based cooperative. Credit union members are given the first preference for puchasing the shares which, after the offering, may be listed on a national quotation system for public trading. The members that decide not to purchase shares retain a "liquidation interest" in the institution which is similar to their previous "ownership interest" in the credit union or mutual. However, in consideration for adding "at risk" capital, voting control is transferred to members that buy stock.

Seven credit unions are now operating as mutual savings institutions, and two are expected to start operating as mutuals in the next 90 days. HR-1151 simplified the conversion process allowing credit unions to better respond to the changing competitive marketplace.

From "Grow to be Great"
by Dwight L. Gertz & Joao P.A. Baptista:

"Everyone would rather work in an environment where possibilities are more tangible than are limits - where hope matters more than fear. ... Working for a non-growth company is simply not fun"

Does HR-1151 offer more possibilities than limits? Isn't the Mutual Charter work the look? ed.

CU Financial Services can help evaluate the feasibility of a charter change, including a review of all charter options. Multimedia presentations and interactive financial modeling help educate directors, employees and members about the options and the wisdom of a change. Should you decide to proceed with a charter change the staff of CU Financial can handle the details, allowing management to continue its focus on serving the members.

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Converting from a Credit Union

FAX Update

News for those interested in remaining informed about credit union conversions;

Provided by CU Financial Services, Portland, Maine; *Strategic Planning and Implementation Services for Progressive Credit Unions;* **Tel: 800-649-2741**; WEB Site: www.cufinancial.com; Vol. 99 No. 5 / **July 6, 1999**

Enabled by Technology

Employers seeking multiple relationships

Although permitted by HR-1151, adding new employee groups which can be profitably and efficiently serviced is not always easy. Many of the profitable employer groups are already represented by credit unions. Some employers now hesitate at giving credit unions exclusive access to their employees, and some employers want to be paid.

CU executives proud of offering broad member services and high technology innovations, complain that many desirable employee groups are already represented by less progressive credit unions, which for one reason or another offer inferior services. Therefore, employees of these companies lack many of the benefits possible by credit union membership. However, converting to a mutual savings association allows superior institutions to service these employees, without regard to field of membership, or the need to obtain a community charter.

Recently, a large Florida based employer decided to discontinue an exclusive relationship with their credit union and invited community banks to participate in offering services to members. Other employers are working with non-bank firms to offer 401k, payroll deduction, and loan programs. Companies that provide payroll services are also becoming credit union competitors, offering 401k plans and payroll deduction, and compensating employers by reducing the cost of payroll services based on level of employee participation in complementary programs.

In other developments, over two dozen credit unions representing almost $2 billion in assets may be impacted as their primary sponsor group capitalize banks that may ultimately compete for employee support. The trends discussed above are indicative of the rapidly changing economics of credit unions, and highlight the importance of investigating the flexibility of the mutual savings institution charter.

Newspapers to Publish CU CEO Salaries

State chartered credit union executives may soon see their names and salaries disclosed in the local newspaper. Effective June 8, 1999, a new IRS regulation requires state chartered credit unions to release executive compensation information to the press. The news media may also seek the release of compensation information from Federal Credit Unions.

Conversion Update

Sacred Heart in final stages of Conversion to Thrift

Beacon FCU (NY) and Sacred Heart of Charleston FCU (SC) are expected to complete their conversion during the summer. Both Beacon’s & Sacred Heart’s members voted overwhelmingly to convert to a mutual thrift.

Sacred Heart was the first credit union to file under the streamlined HR-1151 conversion law. Sacred Heart is changing its name to Carolina Federal Savings Bank and will start operation as a thrift on August 2, 1999. Beacon filed in April of 1998 under the former NCUA conversion rules, but in the Spring of 1999 proceeded based on the simplified HR-1151 rules. Beacon started operation as a thrift on July 1, 1999.

Kaiser-Permanente FCU (CA) has received OTS and FDIC approval of their conversion application. Their members are now voting on the proposal.

2 Driven by Growth & PCA

CUs to add capital by converting to a thrift charter

Tougher capital standards for credit unions, along with growth opportunities, may lead to more mutual savings institution (Mutual) conversions. Mutual thrifts, while preserving member ownership, are allowed to raise regulatory capital from members, corporations, pension funds, non-profits, and others. Mutuals are also classified as "well-capitalized" at lower net capital levels than credit unions. Also, bank regulators are more accustomed to seeing greater balance sheet leverage and are better equipped to evaluate more complex investment risk and lending risk, like real estate loans and business loans.

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"Capital Subordinated Notes" (CSNs) provide another mechanism for increasing regulatory capital. CSNs mature over a seven to ten year period and pay interest at rates tied to treasury securities or LIBOR. The institution's business plan generally includes strategies for growing or replacing the capital prior to maturity. A Mutual Holding Company (MHC) may also be organized to invest regulatory capital into the thrift subsidiary. The MHC (or a mid-tier subsidiary) borrows money from a commercial bank or non-bank lender and down streams the loan proceeds. Dividends on the investment retire the loan.

Other innovative programs, which involve issuing stock, can also be utilized to raise regulatory capital. One program involves moving loans or investments into a subsidiary of the institution and selling preferred stock in the subsidiary to investors, according to a financial institutions attorney with Silver Freedman & Taff LLP, Washington DC. "The proceeds of the preferred stock offering are transferred to the balance sheet of the converted credit union, and counted as regulatory capital."

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1700 Wisconsin Avenue, N.W Washington, DC 20007 202-295-4502 * Fax: 202-337-5502 Robert Freedman, Esq. The firm represents credit unions on a variety of matters, including advising them on charter options.	211 Bradenton Avenue Columbus, OH 43017 614-766-8400 * FAX: 614-766-8406 Patricia McJoynt Provides investment banking and financial advisory services to financial institutions including credit unions.	*A Georgeson Shareholder Communications Company* 2300 Computer Ave. Ste I-10 Willow Grove, PA 19090 Tel: 888-805-6300 Steven M. Begley Graphic Design * Financial Typesetting * Annual Meeting Materials * Conversion Disclosure Printing & Mailing

Consultant to credit unions considering conversion to a mutual savings institution charter.
CU Financial crafted the first state chartered credit union conversion, and is consultant to 4 subsequent applicants.
Alan D. Theriault, at 800-649-2741; E-Mail: atheriault@cufinancial.com; Web site: www.cufinancial.com

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Web Access
www.cufinancial.com
Check this site for conversion **UPDATES**
Also: Check our Vendor Listings

Watch for the Fall 1999
"The Mutual Thrift Charter Options Conferences"
Chicago * Dallas * Los Angeles * Washington, DC

Growth Despite Taxes

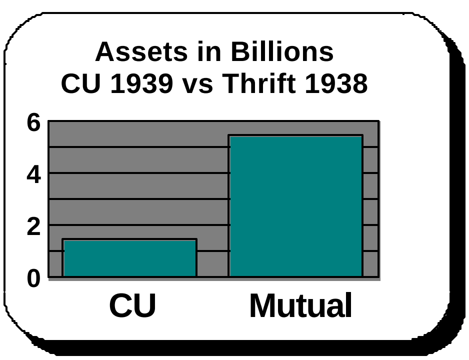
Taxes: A Social Responsibility?

Despite paying taxes, a former credit union can enjoy outstanding growth, once freed from the shackles of the credit union charter. Some directors view taxation like any other business expense, weighing the cost against the benefits, and accepting taxes and CRA as part of an institution's social responsibility.

The following chart compares the growth of one of the nation's largest mutuals to that of a credit union enjoying a multi-county charter in a fast growing market. Started in 1938 & 1939 respectively, the mutual has grown to over $5.5 billion, the credit union to around $1.5 billion.

CU Financial helps credit union management evaluate the impact of taxation, the Community Reinvestment Act (CRA), and a shift in an institution's support network. Call Alan D. Theriault at 800-649-2741, for more information.

NAME	Members	Assets	Status
Affiliated (TX)	1250	11	Bank 6/1/98
AWANE Bank, FSB (NH)	2200	22	Bank 5/1/96
Beacon FCU (NY)	30000	154	Bank 7/1/99
BUCS Federal (MD)	11306	67	Bank 3/1/98
Carolina Federal (SC)	2650	17	Bank 8/1/99
Central Bergen FCU (NJ)	18246	75	Withdrawn
Citizens Community (WI)	15609	84	Withdrawn
CS Co-op (Ontario, CN)	142000	900	Pending
I.G.A. (PA)	25057	171	Bank 7/1/98
Kaiser Perman. FCU (CA)	34254	190	FDIC; OTS ok
Lusitania SB (NJ)	6517	89	Bank 9/1/95
Midwood (NY)	864	7	Withdrawn
Ohio Central (OH)	16337	30	Bank 6/1/98
Pacific Trust FCU (CA)	31223	228	Pending
Synergy (NJ)	20100	204	Bank 5/1/98



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CU Community Charters

CU's vow to attack CU charter expansion

Despite a costly and time consuming application process three NY federal credit unions lost their bid for a four county CU community charter expansion. Over 10 credit unions promised to file a lawsuit to challenge the expansion if the NCUA board had approved it. NY State chartered credit unions are limited to one county, eliminating the state charter route as an option.

Community charter expansions are expected to become more contentious as some credit unions join community banks to seek limits on CU community charter expansion. Credit unions are finding the application process costly and fraught with uncertainty. The CU press reports community charter conversion consultants are charging $25,000 to $60,000 to prepare applications. Add to that the costs of preparing supplemental materials like surveys, demographic data, member communications, management time, and the opportunity costs by being unable to grow ... and a denied application can lead to a significant hit to earnings, and a waste of member resources.

Some expect community groups will start to object to credit union community charter conversions unless the credit union pledges resources toward serving low and moderate income individuals and census tracts. These objections and continued opposition to expansion by other credit unions and community banks diminishes the value of the credit union charter. One director exclaimed that the hours and hours of work that goes into justifying a credit union tax exemption and "jumping through field of membership hoops" is unproductive and a distraction to the mission of serving members.

Meanwhile, the cost to convert to a mutual savings institution charter is dropping as the law firm of Silver Freedman & Taff, Washington, D.C. and CU advisor, CU Financial Services, perfect the process. The simplified conversion process mandated by HR-1151, also helps to reduce the costs and the risk of failure. "By August 2, 1999, nine credit unions will have converted to the mutual thrift charter," said Alan D. Theriault, president of CU Financial Services. "The unlimited field of membership, mutual charter retention, product and market flexibility, the ability to focus on real estate lending, and the increasing certainty of gaining regulatory approval is fueling this emerging and evolutionary trend," Theriault continued. Two additional credit unions should start operation as mutual savings institutions this year, and several new applications are in the works. Numerous credit unions are exploring this option during fall strategic planning sessions. Clearly the mutual charter is quickly becoming worthy of consideration.

Fall Conferences

The Mutual Thrift Charter Option

- Correct misinformation about the mutual charter option
- Get the details on one- member one-vote
- Learn about converting to ... or merging with a mutual
- Learn from those who have handled the process

9:30 AM to 3 PM

Sept 8 * Charleston, SC

Sept 27 * Washington, DC

Sept 29 * Chicago

Oct 18 * Dallas

Oct 20 * Los Angeles

Social action groups observe

NCUA proposes "Credit Union CRA"

In anticipation of a demand by Congress, and "social action groups", that credit unions serve low and moderate income individuals and communities, NCUA is preparing a regulation ... the effect of which will reallocate member capital for "social purposes". The regulation, which is expected to be proposed in September, is expected to result in the requirement that a credit union prove it is serving low and moderate income members. Failure to meet examiner expectations would result in regulatory sanctions, and growth restrictions.

Already examiners are criticizing some credit unions for making real estate loans, reasoning lower balance unsecured consumer loans (despite the high bankruptcy costs) and auto loans result in more members being served. Credit Union trade associations, in an effort to justify the tax subsidy, are making claims that credit unions are active serving low and moderate income groups and census tracts. The publicity raises the awareness of credit union capital levels and tax subsidy and ultimately credit unions, like other non-profits, will face demands from social agencies for support and proof of their "social mission".

For example, in another, perhaps related, development, Rep. Marcy Kaptur, D-Ohio, recently offered an amendment that directs NCUA and the Department of Housing & Urban Development (HUD) to "submit a feasibility study of providing credit union services to residents of public housing." The Congresswoman said the House Appropriations Subcommittee on Veterans Administration-HUD & Independent Agencies "is concerned that residents of public housing are not being adequately provided with on-site financial services." The feasibility study could help lead to legislation or a regulation which would require a credit union, because of its non profit subsidy, to allocate services to certain areas of the community.

A conflict?
Charitable Organization or Cooperative

The much discussed credit union "social mission", some argue, is in conflict with the original intention of credit unions and some cooperatives. Originally, an individual joined a credit union or cooperative to improve his standard of living. By active participation, the net worth of the individual and the cooperative increased. Although each member may have one-vote, upon liquidation capital is not distributed equally, but rather based upon deposits, as specified by credit union rules.

Raising the profile of a credit union "social mission" may lead to regulator demands to reallocate member capital, at the expense of members, for use by those who do not contribute to the health of the institution. Early cooperatives, and many business cooperatives, operate to preserve capital for distribution or allocation to active members. The "social mission" rhetoric could threaten the ultimate value of "member ownership".

One member One Vote
3% Democracy

Recently an executive from a $200 million asset South Carolina credit union stated that after 15 years of voting by ballot, less than 3% of the members vote. The return is typical of most credit unions, yet a few credit union leaders still claim one-member one-vote is critical to the success of credit unions. The tiny response proves members are more concerned about quality and price of services than corporate governance. Therefore, members are likely to be more "faithful" to institutions which provide good service than an institution they "own".

Although federal mutual savings institutions allow the allocation of a single vote per member, most elect to allocate votes based upon deposits, with a maximum of 1,000 votes per depositor. Mutuals, like credit unions, upon liquidation distribute excess retained earnings based upon deposits, so the reasoning goes that the more deposits one has (up to a $100,000 limit) the greater say in the institution.

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3

Depositors, however, are allowed to vote by proxy and the board of directors generally hold the proxy for most members. The proxies allow the board to prevent dissident groups from gaining control of board seats. Consequently, no dissident group has ever succeeded in "taking over" a mutual thrift. Credit union boards without the opportunity to hold member proxies are more susceptible to an organized takeover by dissidents.

NAME	Members	Assets	Status
Affiliated (TX)	1250	11	Bank 6/1/98
AWANE Bank, FSB (NH)	2200	22	Bank 5/1/96
Beacon FCU (NY)	30000	154	Bank 7/1/99
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Kaiser Perman. FCU (CA)	34254	190	FDIC; OTS ok
Lusitania SB (NJ)	6517	89	Bank 9/1/95
Midwood (NY)	864	7	Withdrawn
Ohio Central (OH)	16337	30	Bank 6/1/98
Pacific Trust FCU (CA)	31223	228	Pending
Synergy (NJ)	20100	204	Bank 5/1/98

Highlights of the Thrift Charter

- Unlimited field of membership
- Member "ownership" continues
- FDIC insurance
- Federal preemption
- Nationwide branching authority
- Mortgage & business lending encouraged
- Commercial lending OK (also: real estate development permitted, equity kickers, etc.)
- Prepayment penalties allowed, longer loan terms on second homes, commercial property loans, no requirement to make small consumer loans & unsecured loans, etc.
- Mergers with mutuals & credit unions allowed
- Ability to acquire deposits, banks, subsidiaries, etc.
- Business & commercial loans to directors and officers OK
- Permits one-member one-vote, or voting based on deposits (maximum: 1,000 votes)
- Members may vote by proxy running to BOD
- Greater ability to attract qualified staff and directors
- Increased credibility in the marketplace
- Federal Home Loan Bank membership automatic
- SBA & USDA licensing automatic
- Use of 1% NCUSIF Deposit
- No FDIC Premiums for most institutions
- Signals maturity of the organization
- Capital raising options
- Regulators experienced with mortgages, business loans, technology, and leading edge financial services.

~ Ralph Waldo Emerson~
(1803-1882, American Poet, Essayist)

Do not be too timid and squeamish about your actions. All life is an experiment. The more experiments you make the better. What if they are a little course, and you may get your coat soiled or torn? What if you do fail, and get fairly rolled in the dirt once or twice. Up again, you shall never be so afraid of a tumble.

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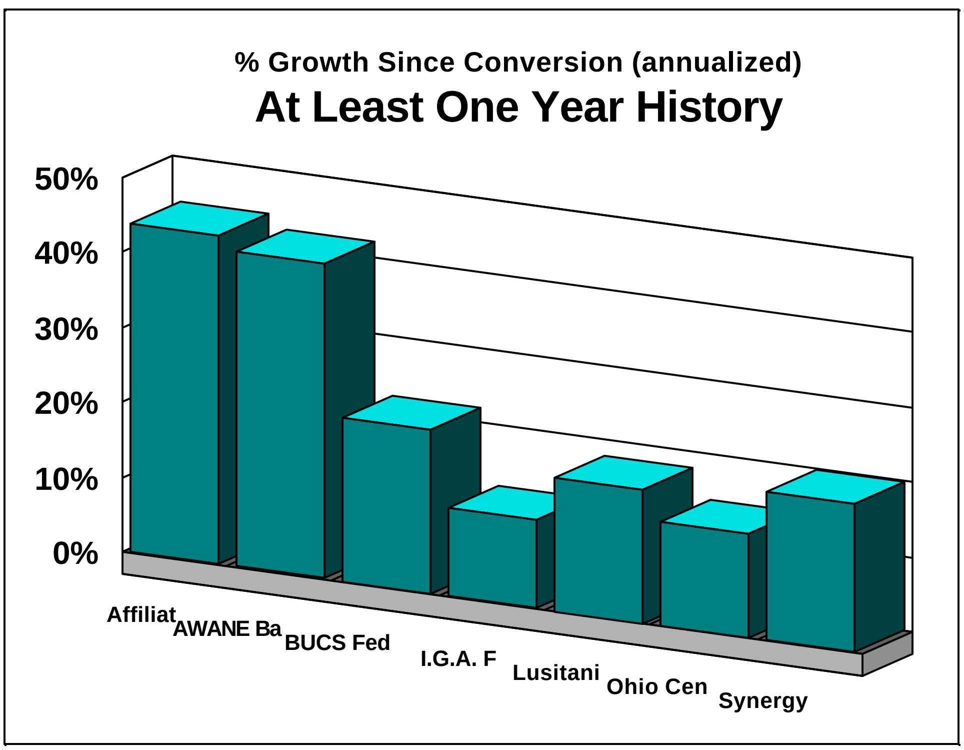
32% Average Rate

Converted CUs Enjoy Rapid Growth

The annualized asset growth rate of the seven former credit unions with at least a one year history operating as a mutual registers in at about 32%. (See chart.) Buoyed by the opportunity to serve their communities, plus new and former employee groups, these seven former credit unions are the pioneers of this innovative emerging trend. Two additional credit unions started operation during the third quarter of 1999, and two are expected to start operation by the end of the year upping the total conversion count to eleven.



Much of the growth is in real estate loans. Competition from auto finance companies and credit card companies are putting pressure on credit unions to expand into making real estate and business loans. Unfortunately as the real estate portfolio of a credit union increases so does the scrutiny of the NCUA. Credit unions seeking to expand real estate lending and business lending are starting to look at charters that better support their mission. The mutual thrift charter encourages real estate lending and the Office of Thrift Supervision (OTS) is a regulator employing examiners familiar with the mortgage business.

Although taxes add to the expenses of running a former credit union, the opportunity to generate incremental growth mitigates the impact. These forward looking converted institutions manage taxes like any other business expense. By expanding product offerings and by skillful management of secondary market resources a mutual can continue to offer competitive rates to members. Also, some directors believe that paying taxes is part of their "social mission".

CU Survey raises the question ...

Own a Bank or Be a Bank?

A recent survey of large credit unions revealed that credit union members need the services of a bank. The survey floated by a California credit union indicated that members would use a bank in a number of ways, including for trust services, for real estate & business loans, and to leverage growth. If bank powers are important, some credit union directors ask, why not just convert to a bank?

Over 11 credit union boards have voted to convert and the members overwhelmingly agreed. The member acceptance and growth following conversion confirms the concept is worthy of a careful review. Despite paying taxes, community start-up bank competitors are sprouting up around the country and enjoying rapid growth by taking advantage of regional growth opportunities. Credit unions converting to thrifts have an edge over start up banks because a CU's capital base and back office operation is already in place. They have an edge over other credit unions because they can serve both the community and select employee groups

(SEGs), including SEGs currently served by other credit unions.

Banks have the added credibility of FDIC insurance coverage, and generally a wider acceptance in the community as an economic entity. The additional powers and investment flexibility combined with an experienced regulatory agency generate a formula for success beyond what is possible as a credit union. A former credit union also gains the flexibility to increase regulatory capital in a number of ways, and also has the tools to attract and keep qualified managers and directors.

A joint venture to capitalize a bank would result in a dilution of control and growth opportunities for individual credit unions. Historically, similar credit union or league sponsored initiatives have proven slow to materialize and generate dubious returns. In contrast, the conversion process, now well tested, can be completed in 6 to 8 months, and the results after conversion are positive. The thrift conversion cost compares to what some institutions are spending when applying for a credit union community charter. By these community charter applicants lack the assurance of success and some the confidence that the change will serve the future needs of the members.

A few critics of the conversion process claim that a bank charter fails to recognize a member's ownership interest in the institution. However, the members of a mutual savings institution have virtually identical ownership rights, called "liquidation rights", (the right to share in the net worth of the institution upon liquidation) as a credit union. "Liquidation rights" follow members even if an institution later converts to stock. Also, during the federal mutual charter conversion process, members may vote to retain identical voting rights as a credit union, which allows one vote per member, or they may be offered voting based upon deposits, up to a maximum of 1,000 votes, resulting in a greater say to more active members.

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9:30 AM to 3 PM

Oct 5 * San Diego, CA

Oct 20 * Los Angeles, CA

Oct 22 * Dallas

NCUA Fires a Warning Shot

PCA will Impact CU Mortgage Lenders

In August, NCUA released a "Letter to Credit Unions" that fires a warning shot at credit unions making mortgage loans. Some observers anticipate that after Y2K mania subsides NCUA will focus on reviewing real estate lending practices at credit unions. The fear is that the recent increase in first mortgage lending by credit unions will result in a wave of panic by NCUA examiners, and be complicated by the upcoming PCA rules. Lower CAMEL ratings and other demands could affect many credit unions now driven to make real estate loans by both members and the communities they serve.

The credit union charter historically was designed for institutions making unsecured loans and car loans. In the last decade, however, the car dealer's finance manager and national credit card lenders have become formidable competitors. Credit unions are now turning to mortgage lending. Although permitted by regulation, any financial institution's activity, is limited by the skills and areas of competence mastered by their insurer and regulator.

For more information, please call CU Financial Services or the following professionals:

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1700 Wisconsin Avenue, N.W Washington, DC 20007 202-295-4502 * Fax: 202-337-5502 Robert Freedman, Esq. The firm represents credit unions on a variety of matters, including advising them on charter options.	211 Bradenton Avenue Columbus, OH 43017 614-766-8400 * FAX: 614-766-8406 Patricia McJoynt Provides investment banking and financial advisory services to financial institutions including credit unions.	*A Georgeson Shareholder Communications Company* 2300 Computer Ave. Ste I-10 Willow Grove, PA 19090 Tel: 888-805-6300 Steven M. Begley Graphic Design * Financial Typesetting * Annual Meeting Materials * Conversion Disclosure Printing & Mailing

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Should your mission be shifting toward member real estate or business lending, the mutual thrift charter may be worthy of your consideration. Thrifts are encouraged to make real estate loans and the regulators are experienced with institutions holding high concentrations. Rather than squeezing your institution's mission into an outdated credit union charter, and facing regulators operating in uncertain territory, your charter can follow your mission. The federal thrift charter is now the charter of choice for cutting edge non-bank competitors of both banks and credit unions.

The fall season is the time for strategic thinking and many credit union managers are now reasoning that good member service is best supported by a charter that is both flexible and broad. Many are moving to the state credit union charter only to discover that their products, services, and market growth continue to be hampered by NCUA business lending rules, real estate maturity limitations, capital growth restrictions, and marketplace recognition. Converting to a thrift charter allows your institution to retain its philosophical roots and gain the many benefits of FDIC coverage and the thrift charter.

From Stephen R. Covey's
"First Things First"

"Let go of paradigms that are popular and pleasing, but based on illusion."

"Let go of extrinsic sources of security"

Highlights of the Thrift Charter

- Unlimited field of membership
- Member "ownership" continues
- FDIC insurance
- Federal preemption
- Nationwide branching authority
- Mortgage & business lending encouraged
- Commercial lending OK (also: real estate development permitted, equity kickers, etc.)
- Prepayment penalties allowed, longer loan terms on second homes, commercial property loans, no requirement to make small consumer loans & unsecured loans, etc.
- Mergers with mutuals & credit unions allowed
- Ability to acquire deposits, banks, subsidiaries, etc.
- Business & commercial loans to directors and officers OK
- Permits one-member one-vote, or voting based on deposits (maximum: 1,000 votes)
- Members may vote by proxy running to BOD
- Greater ability to attract qualified staff and directors
- Increased credibility in the marketplace
- Federal Home Loan Bank membership automatic
- SBA & USDA licensing automatic
- Use of 1% NCUSIF Deposit
- No FDIC Premiums for most institutions
- Signals maturity of the organization
- Capital raising options
- Regulators experienced with mortgages, business loans, technology, and leading edge financial services.

CU Name	Assets (e) Before	Assets (e) Now	Assets (e) % Growth	Members	Status Sep 23, 1999
Affiliated Federal (TX)	9	13	44.44%	1250	Bank 6/1/98
AWANE Bank (NH)	11	25	127.27%	2200	Bank 5/1/96
Beacon FCU (NY)	165	165	0.00%	34000	Bank 7/1/99
BUCS Federal (MD)	58	71	22.41%	11306	Bank 3/1/98
Carolina Federal (SC)	16	18	12.50%	2756	Bank 8/2/99
I.G.A. Federal (PA)	160	179	11.88%	25000	Bank 7/1/98
Kaiser Permanente FCU (CA)	190	190	0.00%	34254	All Approvals Ok
Lusitania SB, FSB (NJ)	55	94	70.91%	6517	Bank 9/1/95
Ohio Central Federal (OH)	29	33	13.79%	16337	Bank 6/1/98
Pacific Trust FCU (CA)	228	228	0.00%	31223	Voting
Synergy Federal (NJ)	180	216	20.00%	20100	Bank 5/1/98
Totals	1101	1232		21350	

Converting from a Credit Union

FAX Update

News for those interested in remaining informed about credit union conversions;

Provided by CU Financial Services, Portland, Maine; *Strategic Planning and Implementation Services for Progressive Credit Unions;* **Tel: 800-649-2741**; WEB Site: www.cufinancial.com; Vol. 99 No. 8 / **December 10, 1999**

CUs Beware

Trapped in a State Charter

Some state chartered credit unions are trapped. Should business opportunities as a credit union become further restricted, a statutory conversion path to a federal thrift charter may be lacking. For example, a few California based federal credit unions are converting to the state charter, but along with giving up interstate banking opportunities, these credit unions lose the streamlined conversion path made possible by HR-1151. State credit unions in New Hampshire must seek legislative approval. Other states require an affirmative vote as high as two-thirds. Many states, though, allow conversion directly or by parity provisions.

Last year the US Congress provided an "escape route" for federal credit unions should the charter restrictions imposed by HR-1151 prove too burdensome. Federal credit unions can convert without NCUA approval by giving three notices to members and obtaining a majority vote of those members returning a ballot. These streamlined HR-1151 conversion rules keeps conversion expenses at a workable level and, depending on the circumstances, comparable to the costs to convert to a CU community charter. NCUA, however, is unlikely to permit a state credit union to use its charter as a stepping stone to the thrift charter, so this "escape route" may not work for all credit unions.

The pitfalls of being trapped in a state charter should be evaluated. The state CU "community charter" continues to be the subject of state and federal politics. In Utah, for example, community credit unions are struggling with branching and business lending obstacles imposed by the courts and legislature. Taxation is likely to become a topic in Congress for credit unions departing from their traditional role to serve highly populated geographies. Should management be disappointed about the future prospects of their state CU charter, they may find themselves trapped. Congress is also watching the aggressive expansion of California's "community credit unions" and challenges to expansion should be anticipated. To protect their turf, credit union leagues are expected to lobby against laws making conversions easier, like they did in New Hampshire in 1995 and in D.C. in 1998.

$7 billion & growing

Largest US mutual seeking partners

Started by a husband and wife team in 1936, Third Federal Savings Bank (TFS) has grown to a $7 billion institution while maintaining non-stock member ownership. The federal thrift is an aggressive mortgage lender in Ohio and has recently opened offices in Florida to serve the needs of its depositors and others living in the warmer climate.

Operating with a "credit union" philosophy, and by using the tools available to federal thrifts, TFS continues to generate excess capital, despite taxation. This excess capital is available for progressive credit unions converting to the thrift charter. In addition, TFS's "Mutual Partnership Program" (MPP) provides a newly converted credit union with the tools to continue growth, including advanced mortgage lending technology, preferred access to federal mortgage agencies & other mortgage conduits, marketing programs and support, and the latest in management & board of director compensation programs (including the "phantom stock plan").

The MPP program allows the former credit union to continue its business plan and management structure while tapping other opportunities that may surface as a result. Credit unions affected by "Prompt

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Corrective Action" (PCA) rules should be advised of this MPP option. The combination of a source of "mutual" regulatory capital and the ability to operate at lower capital levels (see charts on page 3) makes the mutual thrift charter option and the MPP a powerful tool for consideration by progressive credit union managers. Meet the management of TFS and learn about life at the largest non-stock thrift in the US during the CU Financial Services Spring Charter Options Conferences. For more information, contact Alan D. Theriault at 800-649-2741.

Financial modernization

Credit Unions denied opportunities

The recently passed "Financial Modernization" bill will fuel new opportunities for banks and thrifts. Although credit unions are expected to benefit by gaining some depositors displaced by bank mergers, the real benefits will be realized by banks able to engage in a variety of financial activities many of which are unlikely to be sanctioned by NCUA.

For example, thrifts and banks are allowed to purchase branches, deposits, and loans spun off during mergers *(and most accounts will be transferred this way);* and they can participate in mergers among banks and thrifts, and in the case of non-stock banks ... with credit unions. The results can lead to rapid growth for well positioned institutions. Banks and thrifts can organize holding companies and subsidiaries designed to engage in businesses and provide management compensation and incentives foreign to NCUA. Investment structures are also likely to fluctuate rapidly during the next decade further leaving credit unions at a yield and risk management disadvantage.

Clearly the business of banking is changing and competitive and marketplace realities will continue to pressure for changes to the corporate and capital structures of credit unions. The one thing banking experts agree on today is that in five years banking and banking institutions will look very different. Credit union managers must outline a corporate mission around the needs of their members & stakeholders and let their charter follow their mission. For many it could mean adopting the mutual thrift charter.

Prohibited by definition

CU leagues want loophole so CUs can raise capital

Just one year ago credit union lobbyists told Congress and the media that credit unions were different because, unlike a bank, a credit union could only increase capital from retained earnings. Today the story is changing and these lobbyists are looking for loopholes in order to keep credit unions in business that are affected by NCUA's "Prompt Corrective Action" (PCA) rule. The California CU League and CUNA are asking NCUA to allow a credit union to offer securities *(eg. capital shares (stock) or notes)* to boost regulatory capital. Member owned mutual thrifts already have this flexibility. By definition, however, capital required to meet PCA is only retained earnings. Some reason the

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benefits of a tax subsidy are wasted because of the PCA capital disadvantage.

Thinner margins caused by tough competition, a flat yield curve, and technological efficiencies are forcing both credit unions and banks to operate with lower capital levels. The pressures are expected to accelerate in the new millennium as more members modify their shopping and buying habits to utilize cost saving technologies.

Credit unions, by law, are required to carry more capital than banks. *(See charts this page.)* In practice, credit unions engaging in activities unfamiliar to NCUA may also carry an additional buffer of capital for "good measure". The result is inefficiency, lower assets, and smaller earnings. Management also suffers since base compensation plans *(already as much as 40% lower than at banks)* are usually tied to asset size. The higher the required capital level the smaller the assets size ... hence ... a smaller paycheck.

For example, $5 million in capital buys about $70 million in assets at a credit union, while it buys $100 million at a thrift. Assuming an eighty basis points (80 bp) after tax ROA, *(typical of both thrifts & CUs)* the thrift earns $800,000 compared to the credit union which earns $560,000. The records show that the product and marketing advantages of a thrift allow it to operate more efficiently than a credit union while generating comparable after tax ROA.

Former Credit Unions - Converted

NAME	Members	Assets	Status
Affiliated (TX)	1250	13	Bank 6/1/98
AWANE Bank, FSB (NH)	2200	25	Bank 5/1/96
Beacon Federal (NY)	30000	165	Bank 7/1/99
BUCS Federal (MD)	11306	71	Bank 3/1/98
Carolina Federal (SC)	2650	20	Bank 8/1/99
I.G.A. (PA)	25057	179	Bank 7/1/98
Kaiser Federal (CA)	34254	190	Bank 11/1/99
Lusitania SB (NJ)	6517	94	Bank 9/1/95
Ohio Central (OH)	16337	33	Bank 6/1/98
Pacific Trust (CA)	31223	228	Bank 1/1/00
Synergy (NJ)	20100	216	Bank 5/1/98

From Stephen R. Covey's
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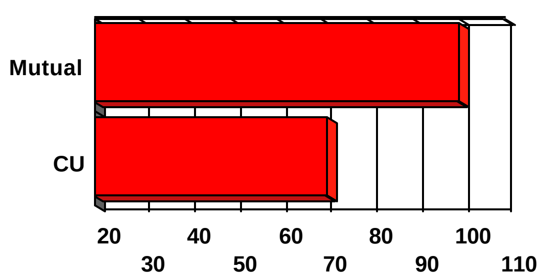
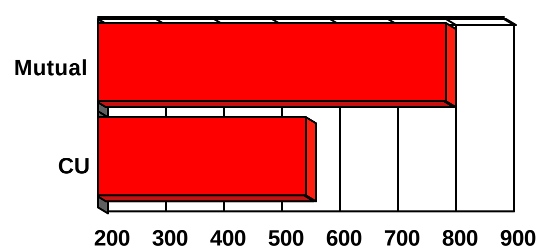
Leverage Offsets Taxes

What $5 million in Capital Buys in Assets
Thrift vs. CU



Credit Unions must hold more capital than a thrift.
The capital disadvantage means less assets.

What $5 million in Capital Buys in Earnings
80 bp after tax Thrift vs. CU



Lower leverage converts into softer earnings for a CU.
A flat yield curve & competition pressures earnings.
Taxes can be managed by using leverage.

For More information, or to receive a free subscription to "Converting from a Credit Union", please contact:
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