Unfair Assessments and Need for Capital will Result in Bank Conversions

Soon, it will become evident the credit union industry is critically undercapitalized. NCUA and independent analysts estimate credit unions are facing losses in the $15 billion to $50 billion range. With only $90 billion in capital and stagnant earnings, recognizing these losses will dramatically limit the ability of the industry to serve its members and the community.

The unfiltered, mathematical reality is that there is not and will not be sufficient self-generated capital to solve the problems caused by the breadth of corporate and natural person credit unions failures without reducing all credit unions to the lowest common denominator. Through mergers and assessments, NCUA continues to require healthy credit unions to absorb the losses of the weaker. For many, this interdependence is both conflicted and unfair.

Moreover, the impact redefines a credit union; inconsistent with the constitution of a cooperative. Nowhere in the cooperative world (mutual savings banks included) can the member owned capital of one cooperative be siphoned off for use by another cooperative without an affirmative membership vote; agriculture cooperatives, consumer cooperatives, housing cooperatives, wholesale buying cooperatives, and utility cooperatives included.

Is waiting for Congress to enact a wish list of new powers to correct the problem a sound strategy? Doubtful, because, even if these elusive new powers are acquired, many years may pass before regulators, investors, and the marketplace embrace them. The delay would be costly to members and career threatening for employees. Justifiably, many credit union managers concerned about long-term viability and maintaining independence are exploring better options while a few exist.

Conversion to the mutual bank charter is one choice. It sidesteps future NCUSIF assessments, which could be as large as 5% of deposits, and preserves member capital and independence. Members will gain other benefits, which remain off limits to credit unions, from the larger, albeit also strained FDIC insurance fund. The expanded powers attendant to the banking charter will also allow institutions to better serve their members and the community as the economy recovers. Most importantly, as we have long advocated, the bank charter carries with it access to outside capital markets. Today, retained earnings alone won't sustain even the most conservative business plans or support the current level of assets and the declared missions of many credit unions.

If the net worth cannot be preserved as a credit union and management believes the organization is truly member/owned, another option, supported by cooperative principles, is simply to return the net worth to members and stop further erosion. Whether a management led buy-out or an outright sale of the assets and liabilities to a bank or a credit union, the windfall capital distribution to members is sure to be more popular than watching the net worth disappear.

In conclusion, a bright future is ahead for those with the courage to act on the knowledge that this recession will change some things forever, as all major recessions do. Gaining the knowledge will involve acquiring a deeper understanding of the capital markets and the bank charter. Acting will involve renouncing the status quo.

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