Is a Bank Charter in Your Future?

GAO Study may lead to Conversion Moratorium

By Alan D. Theriault, President, CU Financial Services

In September the Senate Banking Committee Chairman Paul Sarbanes, D-Md, ordered the Government Accounting Office (GAO) to conduct a study of credit unions. Some believe the study could be a first step toward a Senate bill to re-characterize large credit unions in order to gain tax revenues and appease bankers. In contrast to the tax discussions during the budget surplus year of 1998, when HR-1151 was debated, the next Congress faces deficits. Congress and many state legislatures are likely to be turning over every stone in search of tax dollars.

According to political observers, a proposal resulting in taxes affecting just 10% of the credit unions is likely to surface. Although numbering only 1,000, these credit unions are the most profitable and fastest growing. Controlling about 75% of credit union assets, their profile deviates from the median credit union. Many are capturing market share from the smaller 9,000 credit unions, alienating that group. Without the support of the 9,000; and, facing banking groups efforts to "limit competition"; this small group of fast growing credit unions *(likely re-characterized as "credit associations")* may end up getting squeezed into a box resulting in taxation and only modest new powers. Mutual savings banks had to wait over 20 years after being taxed before gaining any significant new powers.

In addition, because the group provides substantial support for NCUA and the NCUSIF, the legislation may include prohibitions on leaving the NCUSIF, in order to preserve the safety and soundness of the fund. *(The precedent: savings banks were prevented from leaving the Savings Association Insurance Fund (SAIF).)* Already NCUA is expressing significant concern about $2.8 billion Patelco Credit Union's (CA) shift to private insurance. Consequently, the many credit union executives that threaten to convert to a bank, if taxed, may find themselves **trapped** in a less desirable *"credit union like"* charter. Who will argue their case for conversion to a bank? Credit union trade associations and the NCUA will be content with the status quo. Smaller credit unions, with the pressure for taxation gone, will have no incentive to defend the larger. Bank trade associations are **unlikely** to lobby for the right of the 1,000 to convert to a bank; it would seem self serving, and may be opposed by bankers that resent helping former credit unions. Arguing on your own behalf will be met with accusations of "Enron" like greed and the belief that the few new powers bargained for are sufficient for now.

Since HR-1151 streamlined the process of converting to a bank charter, members have overwhelmingly supported the move, regulatory approvals have been swift, and the pioneering institutions have prospered. *(The voting process is simpler* *than converting to private insurance since only a majority of members voting need to approve of the move; and the NCUA board's approval is not required.)* Congress, during the HR-1151 debates, recognized that significant restrictions were being placed on credit union growth by the bill; so a streamlined escape route was crafted for those institutions seeking to shed credit union restrictions. Critics, however, recognizing the legislation *"opened the barn door"* want to make the process more difficult. Should legislation be introduced during 2003, critics are likely to attach amendments to make conversion to a bank charter more difficult. Unfortunately for those planning a conversion someday, such a bill could result in a bank conversion moratorium, since bank regulators are reluctant to act on new applications if pending legislation might change the application process. It appears the window of opportunity may be closing. Advice: file an application **before** the Bill is introduced.

In addition to complacency, the desire to amass more tax free capital keeps some from taking the conversion step. However, $300 million Pacific Trust Bank, a former credit union, just completed an IPO raising over $60 million in regulatory capital, tripling its net worth. The capital boost, and FDIC's lower capital requirements, allows the institution to leap to another level of community service and grow to over $1.5 billion in assets. As a credit union it would take over a dozen years of retained earnings to match the potential of Pacific Trust.

Advice from Stephen R Covey's book: ***"First Things First"*** may apply for some facing the bank conversion decision: (1.) "Let go of paradigms that are popular and pleasing, but based on illusion". (2.) "Let go of extrinsic sources of security".

For more information about the mutual bank charter, the stock bank charter, raising regulatory capital, bank holding companies, and other progressive growth strategies contact the authors, Alan D. Theriault, President, CU Financial Services, at 800-649-2741; or Robert Freedman, Esq., Silver, Freedman, & Taff, at 202-295-4502.

Please rate this article, 7 is our top rating, we'd also love to hear your comments!

Not Interesting **1** **2** **3** **4** **5** **6** **7** Interesting

Comment:

Submit

Readers Comments

1: **This comment was posted on 10/18/2002 with a rating of 6**
Thanks for the information.

2: **This comment was posted on 10/18/2002 with a rating of 6**
The future of the credit union as it exists today is certainly a topic of interest to us all. I suspect the credit union movement is not on top of the probable impending changes in more ways than just charter!

3: **This comment was posted on 10/17/2002 with a rating of 7**
Awesome insight!

4: **This comment was posted on 10/17/2002 with a rating of 7**
The Treasury Department is not making this study.

5: **This comment was posted on 10/15/2002 with a rating of 7**
Very well written article. The author has obviously done his homework.

6: **This comment was posted on 10/15/2002 with a rating of 6**
I knew it would happen, but just not this soon.

Callahan's reserves the right to approve all submissions

This Week's Articles

- **Creating a CMO Cash Flow Model that Pays**
- **Solutions to the Increase in Deposits**
- **Interest in Online Applications Continues to Grow**
- **How Often is Too Often?**
- **Credit Unions Keep themselves, and their Members, Financially Afloat**
- **Trendwatch Call Highlights Key Competitive Factors For Credit Unions in Low Interest Rate Environment**

1001 Connecticut Avenue, NW, 10th Floor, Washington, D.C. 20036
Phone: 1-800-446-7453, 202-223-3920
About Callahan & Associates | Employment Opportunities | Press Releases | Advertising
Article Archive | Privacy Statement | View Shopping Cart | Contact Us