



Local credit union to become a bank?

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The 56-year-old, Bel Air-based Har-co Federal Credit Union is considering converting to a mutual savings bank.

The credit union, which has more than 26,500 member-owners and three branches, announced Friday it is taking comments from its members about the possibility of converting the organization's charter to that of a federally-chartered, member-owned savings bank.

As a mutual savings bank, Har-co would pay taxes for the first time and move from being insured by the National Credit Union Administration (NCUA) to being insured by the Federal Deposit Insurance Corporation (FDIC).

The credit union will accept comments until March 12, and the Har-co board of directors plans to review them and vote on a conversion plan on March 16.

The credit union's website has information posted for members about the potential change to a savings bank.

Har-co President and CEO James Meehan said in a press release he is confident a charter change will have a positive impact on its members and the community as a whole.

"The board of directors believes that Har-co will be able to grow to achieve the economies of scale it requires to remain competitive and to support the product selection and level of service that its members deserve and have come to expect," he said in the release.

"Today, Har-co remains well capitalized, with a solid loan portfolio," he said. "We believe we are at another point in our history where thoughtful action is required to secure a bright future for our organization."

Meehan declined to elaborate on his prepared statements when contacted Monday.

Alan Theriault, president of the consulting firm CU Financial Services, based in Portland, Maine, said more credit unions are expressing interest in converting, largely because of the cost of NCUA insurance and the restrictions connected with being a credit union.

Theriault said FDIC is telling banking institutions to budget from 5 to 9 basis points for assessments to shore up the bank deposit insurance fund, while NCUA tells credit unions to budget for 25 to 35 basis points to shore up their fund which is paying back a loan from the U.S. Treasury.

"It's almost four times more costly to stay in the credit union fund," he said Monday.

Theriault also explained that "credit unions face much more restrictive limits on what they can do and how they can serve their [membership] community. Many credit unions today are trying to expand to serving their community rather than just certain individuals tied to a company."

Theriault said converting allows credit unions to expand their reach to customers such as municipal governments, nonprofit organizations, immigrant groups and small businesses, many which shun using credit unions.

"I wouldn't be surprised if we see more of these [conversions] around the country," he said.

The consulting firm's website says it specializes helping credit unions convert to banks. The website also points out that one of the advantages to conversion is a bank can diversify its loan portfolio by making

business and real estate loans, something credit unions are not permitted to do by regulation. Those loans generally carry higher interest rate margins, hence profits, for the lender.

The website also notes some credit unions are considering bank conversions because with interest rate margins so low on many of their chief financial products, they have difficulty meeting their expenses.

Another incentive to convert is to expand investment opportunities for unused cash. Banks have much more latitude in how they can invest their cash.

Credit unions operate as not-for-profit, member-owned financial cooperatives and thus are free from paying corporate income and other taxes on their earnings.

Though Har-co's tax situation would change if it converts to a mutual savings bank, Friday's press release states: "The tax exemption benefits of being a credit union, however, have come with corresponding regulatory restrictions and requirements."

"The board of directors believes these restrictions and requirements are impeding the ability of Har-co to continue to grow in a way that allows it to best serve all its members, and far outweigh any tax burden," CEO Meehan stated in the release.

Har-co was founded in 1955 by the leader of what was then the county's public school teachers union.

In its early days, Har-co provided basic financial services to teachers and their families. Like many credit unions, it expanded its membership community in the 1970s and 1980s, as well as its services and products.

According to its website, products Har-co offers its members include home mortgages, personal loans, car loans, student loans and Visa credit cards, savings and checking accounts, CDs and money market accounts and IRAs.

Har-co has about \$186.5 million in assets. In addition to its headquarters on Hickory Avenue in Bel Air, the credit union has branches in Abingdon and Aberdeen.