

## Conversion Is A Legit Biz Decision, Not Evil

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By Alan D. Theriault

The Oct. 18, 2010 publisher's column questioning [the motivation of "conversion consultants"](#) reminds me of an old law school adage with a journalistic twist: "When the facts are against you, argue the law. When the law is against you, argue the facts. When both the facts and law are against you, argue louder."

The journalistic twist, of course, is to bully the readers by insulting the professionals who have the facts and the law on their side. The intimidation is comparable to the preaching from a few credit union industry characters who tearfully and loudly argue that conversion is a "moral" decision, even a "sin," rather than a "business decision."

Now more than ever, the facts support the conversion decision for many, and by a wider margin compared to historical models. It is an indisputable mathematical fact that compared to a credit union with an equal amount of net worth a mutual can make more loans, accept more deposits, open more branches, and hence, by these measures better serve members and the community.

This imbalance will not easily be corrected. For example, for more than 12 years Congress has ignored appeals to expand business lending and authorize risk-based capital. Now, credit union promoters want us to believe Congress will embrace an even more controversial "alternative capital" law. Moreover, even if Congress authorizes this latest appeal, a yet untested form of uninsured debt, serious doubt remains whether investors will buy it.

The fact is for credit unions with growth potential and a capable management team, access to capital, product and market flexibility, better consumer awareness, and corporate governance alternatives offer overwhelming reasons to change charter.

Cheaper and premium based FDIC deposit insurance is also a material benefit. Plus, unlike the NCUSIF, nobody is questioning whether FDIC will be around in 10 years. Regulatory forbearance and lack of transparency are leading the NCUSIF into the same costly black-hole the savings and loans tumbled into decades ago under the similar Federal Home Loan Bank Board regulator/insurer scheme.

Federal law also supports conversions. In 1998, Congress imposed capital and business lending restrictions on credit unions. However, it also provided a legal path for credit unions to access capital and shed business lending impediments by conversion to a mutual savings bank.

Notwithstanding that both the facts and the law supports a conversion decision, I can understand why some credit unions decide against converting, which as reported by the Publisher, is the case with Pentagon FCU. I have always said that not every credit union should convert to a bank. So, if your credit union has \$14-billion in assets, sports an ultra-low expense ratio, is plugged into the military and government money hydrant spewing defense and stimulus money, and can afford to freeze growth, perhaps conversion should be off the table. But, for hundreds of others, contrary to the publisher's assertions, conversion to a mutual may very well be the best route to preserving member capital and remaining relevant in these tumultuous times.

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