

Credit Union Watch

Michigan Bankers Association Bank Management & Directors Conference

December 1, 2011

Keith Leggett

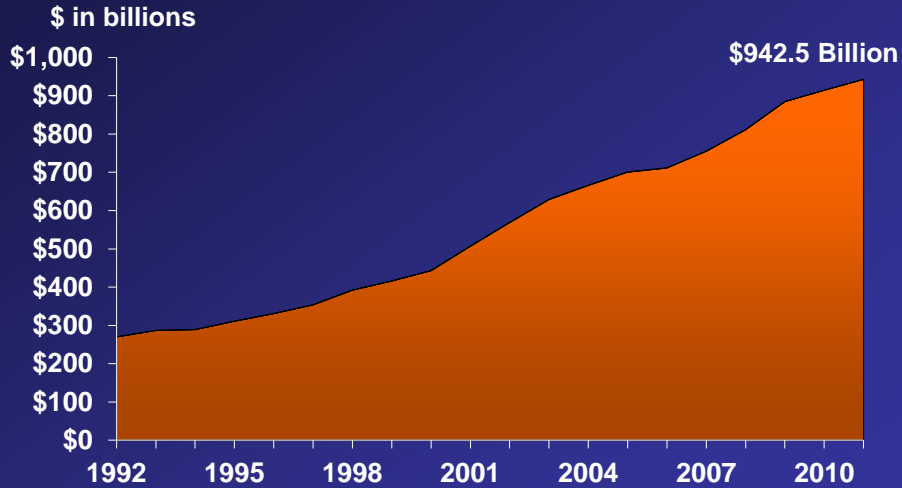
ABA Vice President & Senior Economist

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State of the Credit Union Industry

Credit Unions: Approaching A Trillion Dollar Industry

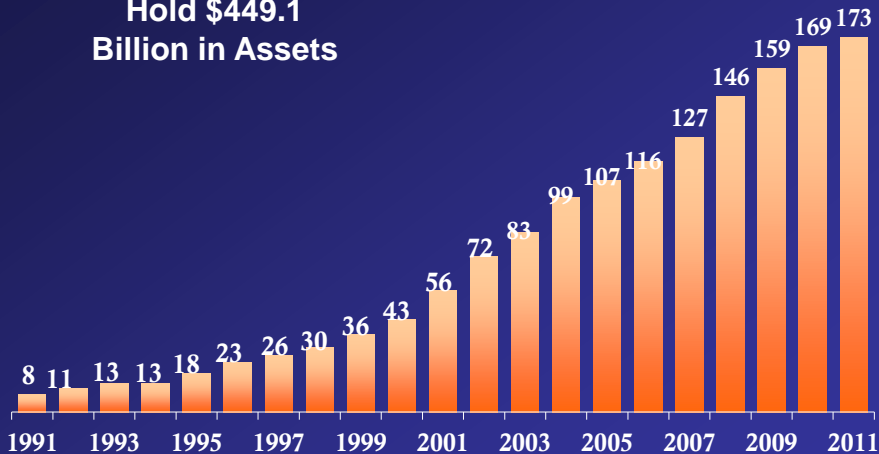


Source: NCUA and CUNA

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Number of Billion Dollar Credit Unions

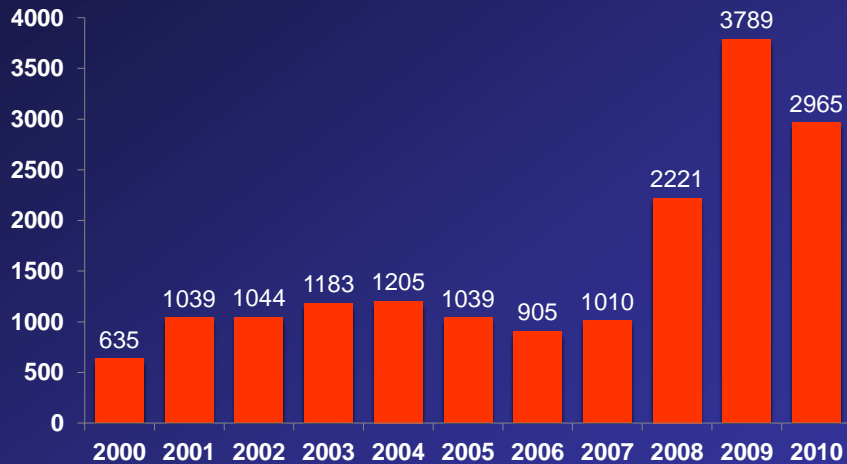
Hold \$449.1 Billion in Assets



Source: NCUA

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Number of Credit Unions Reporting Losses by Year



Source: NCUA

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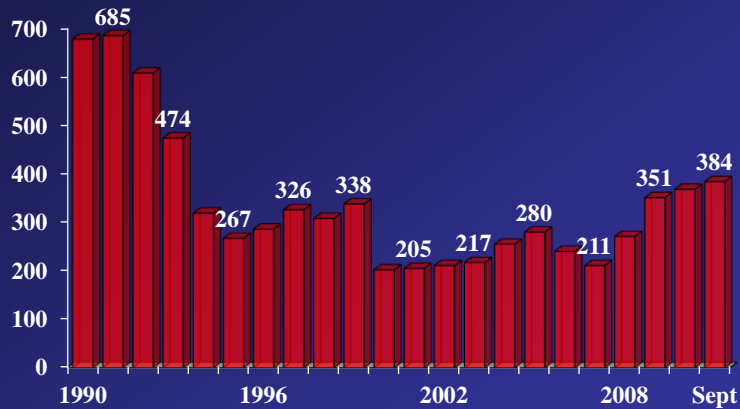
Supervisory Actions in 2010

Preliminary Letters of Warning	28
Letters of Understanding and Agreement (unpublished)	330
Letters of Understanding and Agreement (published)	3
Cease and Desist Orders	28
Conservatorships	4

NCUA 2010 Annual Report

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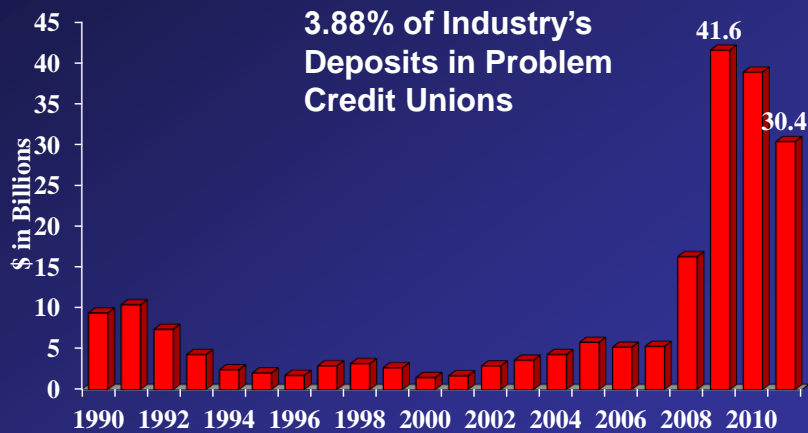
Number of Problem Credit Unions (CAMEL 4 & 5)



Source: NCUA

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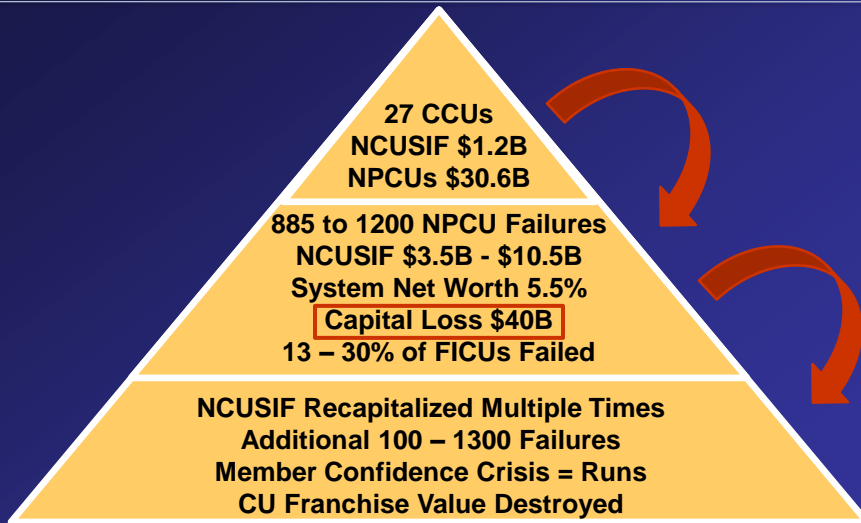
Deposits (Shares) in Problem Credit Unions



Source: NCUA

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Cascading Losses If NCUA Had Not Acted to Stabilize Corporate CU System



Source: NCUA

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Corporate CU Stabilization

Losses at Corporate CUs	\$10.8 Bil. to \$15.1 Bil.
Depleted Capital in Failed Corporate CUs	\$5.6 Billion
Assessments in 2009 and 2010	\$1.3 Million
Assessment in 2011	\$2.0 Billion
Future Assessment	\$1.9 Billion to \$6.2 Billion

Source: NCUA

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Three CU Pressure Points

- Common Bond
- Business Lending
 - 12.25 Percent of Assets Cap
- Capital
 - Retained Earnings

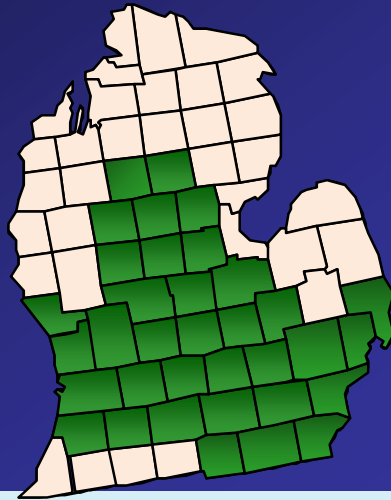
ABA's Strategy

- **Contain Credit Union Expansionism**
 - Field of Membership
 - Business Lending Expansion
 - Alternative Capital
- **Charter Choice**
 - New Breed CUs Switch to MSB

New Breed Credit Union



Membership is open to anyone who lives, works, attends school, or worships within any of the highlighted counties.



Source: Lake Trust

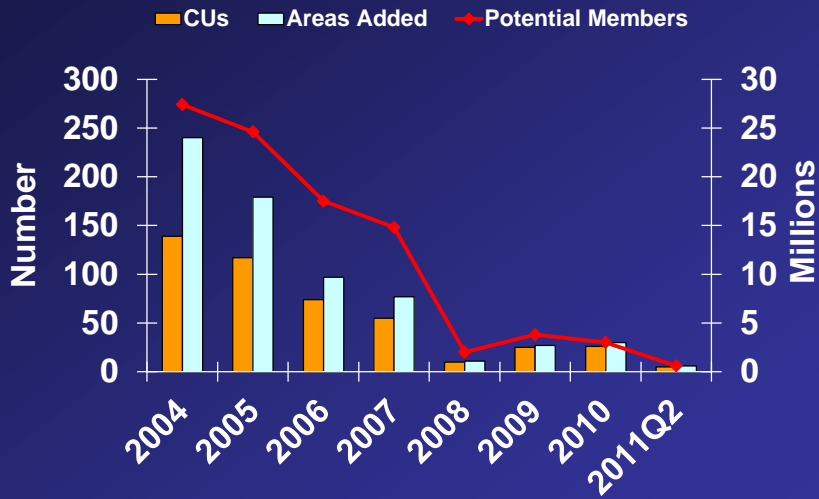
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Common Bond

- **Judicial Strategy to Limit Abusive FOMs**
- **Victories on Community Charters**
 - **Pennsylvania and Utah**
- **Changed NCUA's Underserved Rule**

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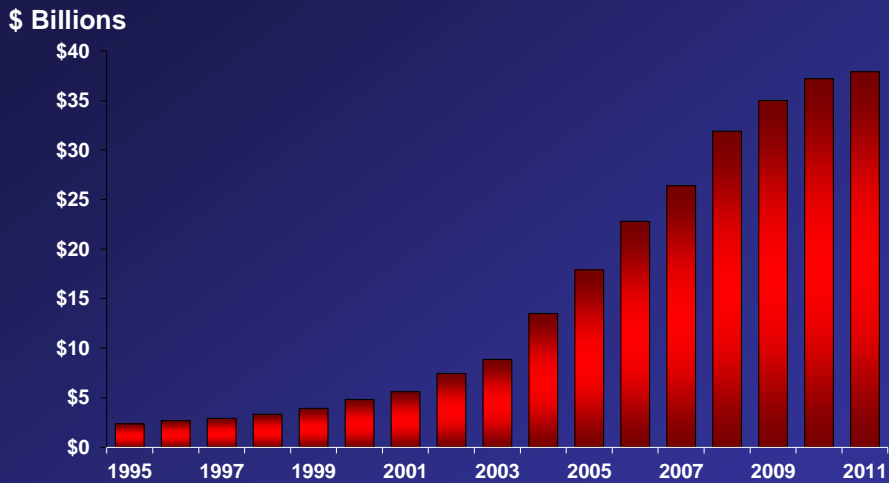
2005 Lawsuit Closed NCUA's Abuse of Underserved Area



Source: NCUA

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Credit Union Business Lending Grows



Source: NCUA

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Business Lending

- **Identical Bills (HR 1418 and S 509)**
- **Raises the Cap to 27.5 Percent of Assets for Qualified CUs**
- **Language Supported by Administration**

Michigan Co-Sponsors

- **H.R. 1418**
 - **Representatives Hansen Clarke, John Conyers, Dale Kildee, Sander Levin, Thaddeus McCotter, Candace Miller, Gary Peters, and Fred Upton**
- **S. 509**
 - **Senators Carl Levin and Debbie Stabenow**

Business Lending (cont.)

- **ABA's Message**
 - ✓ **Benefits a Few Aggressive CUs**
 - ✓ **Takes CUs from Mission of Serving Consumers, Especially Those of Modest Means.**
 - ✓ **Ample Authority to Serve Small Business Under Current Law**
 - ✓ **Safety & Soundness Concern**
 - ✓ **Alternative Become a Mutual Savings Bank**

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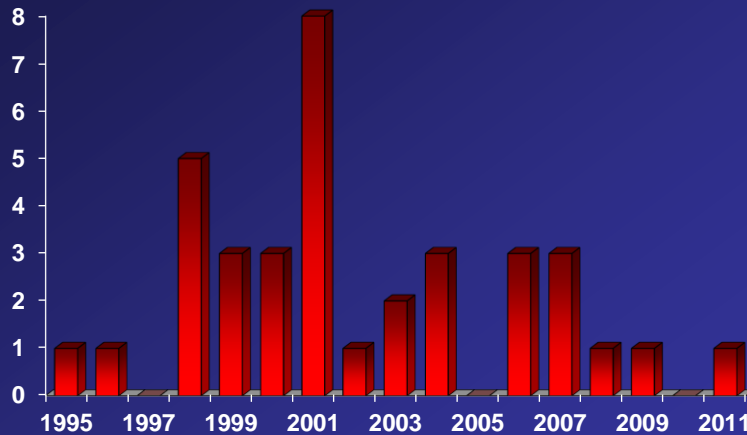
Capital

- **Capital Standards Written into Law**
- **Rapid Growth Is Triggering PCA**
- **Some CUs Want Alternative Capital**
 - **Subordinated Debt**
 - **Uninsured CDs**
 - **Member Paid-in Capital**

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Credit Unions Switching to a Bank Charter Remain Rare

per Year



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Why Would a Credit Union Convert?

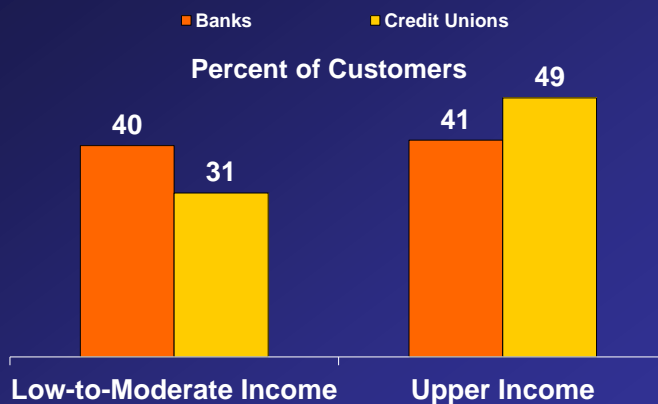
- Large Future Assessments Associated with Resolving Failed Corporate CUs
- Capital, Capital, Capital
- More Business Lending Authority
- No Limitations on Who You Can Serve

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Tax Exemption

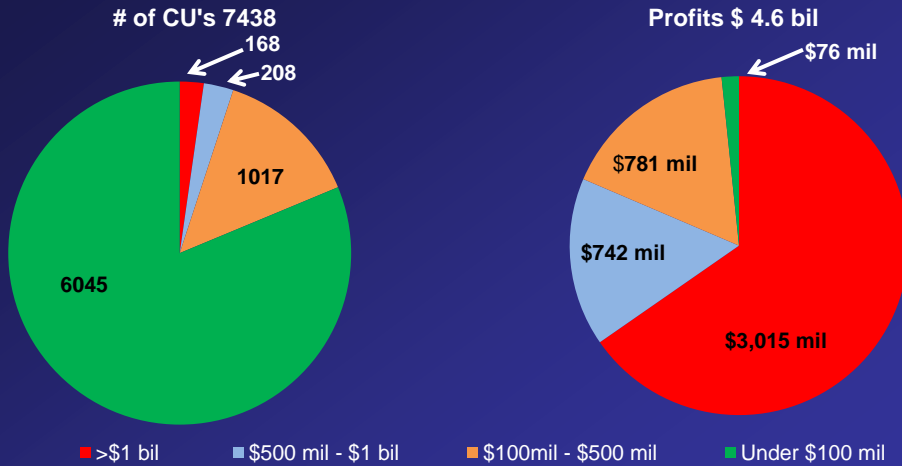
- **13th Largest Corporate Tax Expenditure**
- **Cost \$7.92 Billion over Next 5 FYs, according to OMB and ABA estimates approximately \$20.8 Billion over 10 Years.**

Credit Union Primarily Serve Upper Income Customers



Tax Expenditures Reside at Largest Credit Unions

98% of Industry Profits Held by 19% of Credit Unions



Source: Highline FI

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CU Tax Exemption Attracts Attention of Policymakers

"Unlike other financial institutions like banks and thrifts, credit unions do not pay corporate taxes on their income. This puts them at a competitive advantage relative to other financial institutions for tax reasons. Eliminating this exemption would raise revenue and level the playing field, but would clearly raise taxes on credit unions."

Source: Presidents Economic Recovery Advisory Board, 2010

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Mark Your Calendar

- **ABA Government Relations Summit**
 - March 19 – 21, 2012
- **Why Do You Need to Be There?**
 - **CUNA's Government Affairs Conference Is Happening at the Same Time with About 4,000 Credit Union Officials in Attendance.**

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Keith Leggett's Credit Union Watch
Keeping an eye on the credit union scene.
<http://creditunionwatch.blogspot.com/>



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