

Press Release

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Credit unions urged to recapitalize using collective resources

Washington, D.C. – During the financial crisis, credit unions have risen to the top as the industry’s most resilient sector. Their robust loan programs have contributed mightily to the nation’s nascent recovery. But at a time when the Obama administration’s economic priority is making more credit available, credit unions could do more ... if policymakers were to provide access to the resources that would allow them to grow, not shrink.

In a keynote address to the CUES Directors’ Conference, Chip Filson, President of Callahan and Associates, drove home that message. He said credit unions were “first responders,” picking up the pieces for many, many consumers as the largest banks were beginning to come apart. “Credit unions kept on lending in the midst of the worsening economy, helping members stay in their homes and pay for short-term needs such as education.”

Those remarks rang true for many conference attendees.

“We’re dealing with a cyclical issue,” said Nader Moghaddam, President/CEO of Financial Partners Credit Union in Downey, California. “During this severe down cycle, the industry needs all of the industry leaders to look at the whole credit union ecosystem, and consider its impact on the wellbeing of our nation and communities.”

However, he said, it is difficult to focus on the big picture if we are immersed in the immediate.

“Regulatory authorities can provide prudent and flexible ways,” Moghaddam said. “That would avoid unfortunate balance-sheet shrinkage. Especially in the worst hit areas of the country, we can be part of the bigger solution. Credit unions can play an even larger role in the economic recovery by being an active player in provision of credit to our country.”

Filson observed that the National Credit Union Share Insurance Fund has the ability to capitalize every troubled credit union in the country at the 7 percent well-capitalized level if the industry were to use it as intended. The fund was restructured in the wake of major economic problems in the early 1980s, and according to Filson, was designed expressly for use during systemic crises. But it hasn’t been used that way in recent times.

“There has become a tendency to view share insurance like auto insurance. You have an accident, you replace the car and pay the deductible,” he said. “But a systemic financial collapse isn’t the same as a single car accident. Used in that way, “insurance” only works in normal times or at the margins in crises. We can’t just expense problems away. All institutions, including credit unions, must earn their way out of problems. Capital assistance allows that to happen.”

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According to Filson, credit unions’ ability to keep on serving members in today’s climate is testament to their strength and durability, especially in comparison with other financial sectors. He noted comments in FDIC’s recently released *Quarterly Banking Profile* for the third quarter.

- “Banks’ annualized net charge-off rate is at the highest level of any quarter since insured institutions began reporting quarterly income and expenses in 1984.”
- “The net charge-off rate has reached a new high for the third time in the past four quarters.”
- Reserves continue to erode, with key ratios dropping for the 14th consecutive quarter.

In contrast, Filson noted, credit unions can continue to lend in a downturn because their cooperative model allows them to take the long view. “Credit unions can have patience with perseverance,” he said. “They’re a powerful force, but not just because of their assets and financial performance. Volunteers are building something they believe in. And that something is faith in Americans. They take care of each other in difficult and good times.”

That statement resonated with what one credit union director called the clear truth behind the message. “It’s spot on,” said Vince Papish Jr., a Director with DHCU Community Credit Union in Moline, Ill. “Chip captured my thoughts and feelings with facts in showing how and why the credit union model works and succeeds.”

Despite economic challenges, credit unions’ ability to make loans, accept funds and serve members remains at the heart of their mutual self-help purpose. “They collaboratively serve as a middle ground between marketplace outcomes or government mandates,” Filson said. “They are market-facing and must compete, but credit unions aren’t subject to shareholder-return expectations. Their tax exemption recognizes this counter-cyclical public policy role.”

As a result, Filson says credit unions have emerged as the most resilient financial system operating in America today. One CUSO, Credit Union Student Choice, illustrates the point. “As we were approaching the height of the financial crisis in May 2008, credit unions started this CUSO that has now granted \$100 million in student loans. And it has done so at rates that the students will save *in excess of* \$100 million in interest charges.”

The resources exist, Filson says, to open up even more lending opportunities to consumers. But it will take a change of policy to bring that about.

Callahan & Associates has been at the forefront of credit union issues for more than two decades. The Washington, D.C.-based firm provides timely insights, fresh data, and supporting tools to help credit unions provide their members benefits that cannot be found elsewhere. For more information, visit www.callahan.com or call 800-446-7453.

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