

RECREATE A MIRACLE

By Richard M. Johnson

Forty years ago, credit unions (CU) began to create something that became a miracle -- the Corporate Credit Union System.

Of course, they didn't know it would be a miracle when they started, but that is what it became. They created something out of nothing ever seen before in the financial history of our country, a wholesale financial entity created for service not for profit. It was the CU Leagues and Credit Union National Association (CUNA) that were the prime movers of this initial effort. Without them, it might never have happened. But it did.

In the early '70s, virtually every CU in the nation had a bank account. The banks gave good service and earned significant profits from this arrangement. When CUs needed to borrow, they borrowed from a bank or Savings and Loan (S&L). When they had money to invest, most often they invested with a bank or S&L, which accrued significant profits on these arrangements as credit unions grew and prospered.

But there was one financial flaw for those credit unions. Banks dealt with other banks as a financial institution giving them special rates for doing business with them. But they treated CUs like they would treat any merchant, like the local shoe store or grocery store.

They did offer "free" checking to CUs as long as the CUs kept their non-earning balances with the bank. Of course, the banks earned far more on those balances than the costs of offering the free checking. That's how business is done when profit is the target.

As corporate credit unions came into being to provide services to credit unions, the corporate staff began to educate themselves and they began to educate the CU staffs. They suggested CUs ask for a monthly Bank Analysis of their account. Many banks resisted; they didn't want CUs to know about their significant profits from credit union business.

But it didn't take long for CUs to realize they were enriching the stockholders of the banks and S&Ls that were their own competitors.

Perhaps, more than any other factor, the realization of the scope of bank earnings propelled the growth of the soon to be massive miracle we call the Corporate Credit Union System.

As CUs began to shift their daily balances to their local Corporate and get paid for them, the Corporate System began to grow in assets and added services. This allowed the CUs to earn higher rates from their Corporate and to borrow at lesser rates.

As a side note, one very large bank told CUs they would no longer serve them - gave them a short time to close their accounts.

As the years passed, most Corporates were offering virtually every service offered by a bank or any other financial organization. The Corporates worked hard to hire great expertise to assist their member CUs as the sophistication and complexity of their needs changed and grew.

After all, that was the reason they were created: to serve their member credit unions. Nowhere else in this world were there organizations whose people started each workday asking the question: "How can we make things better for our CU members today?"

Daily, billions of dollars moved through the Corporates in a safe, secure and mutually profitable system, which in turn allowed CUs to offer higher investment returns and lower borrowing rates to THEIR members, rather than to bank stockholders.

It truly was a miracle they created.

However, the very efficiency of the system created one problem that would come to hunt us: it functioned so well that CUs became complacent. They didn't have to think about it, and in fact, many board members never understood why this system, this miracle, had come into being or what drove its success. How many people really reflect on something that does not cause a concern like the air we breathe or the light that comes on with a flick of a switch? This complacency resulted in a problem.

When the national economy began its meltdown a few years ago, who could have predicted it? President Bush in his book "Decision Points" wrote he was caught by complete surprise. The Federal Reserve, the Treasury, AIG, Lehman Brothers, Wall Street, private investors, the rating agencies, NCUA and nearly everyone else had no idea what was coming or how severe this economic turn down would turn out to be.

Can anybody reasonably conclude that the staff at U. S. Central or the Corporates should have been more prescient than were our nation's leaders or the most respected financial professionals in our nation?

All recriminations aside, what happened, happened. The real question is "Where do we go from here?"

Some CU boards, not aware of the miracle of Corporate development by CUs, are in a state of mind after losing so much capital, that they are absolutely opposed to supporting any new Corporate. Their mindset is that of the person involved in a devastating car wreck who declares, "I'll never get in another car!"

The NCUA acknowledges they were caught unprepared just like everyone else. They also realize they did not (and do not) have the expertise to oversee the huge, highly technical, complex CUs called Corporates . Furthermore, their budgets don't allow them to hire the needed expertise. That's no fault of theirs.

But after meticulous and extensive study to create new guidelines, new processes, new oversight procedures, the NCUA has finally approved some formally conserved Corporates to start again if their CU members support them, as the Chairperson of NCUA has said.

It is vital that we do so. We need to recreate this system to provide the crucial credit-union focused services that CUs need and do it in a way that absorbs the lessons of the past few years.

Despite the difficulties we are weathering, the eternal questions of yesteryear are just as valid today: "Why should CUs pass on any profits to bank shareholders when it should be given to their own members?" "Why would we want to give our business to any entity that hopes we fail?"

Of course, without the support (and volumes) of the larger CUs, the costs to the small CUs will be severe. But my bet is that even the large CUs know we are in this together, and I am optimistic that forward-thinking, large CUs will support a credit-union-based solution.

It is time to recreate our miracle.