

When Financial Institutions Go "Splat"

By Ken Payne, CEO of Freedom CU in Provo, Utah

Not too long ago, my nine year old son Mark was helping me clean the kitchen. In the process, we found an extremely ripe tomato that should have been eaten weeks earlier. It was still red and mostly round, but was giving off a peculiar odor and seemed to be leaking. I handed it to Mark and asked him to throw it away. He wrinkled his nose and took it gently by the stem. Before he could get to the garbage however, the stem gave way, and the tomato fell to the ground. You can guess what happened – the tomato that used to be mostly round was now spread across several cupboards, half the kitchen floor, and both of our legs.

Who was to blame for this mess? In part, I was for handing the tomato to Mark instead of carrying it to the trash myself. My son was too for taking the over-ripe fruit by the stem. You could also assign blame to my daughter for not eating the tomato sooner. It was an accident, and sometimes these things happen. The simple fact was that we had a mess to clean up, and assigning blame wasn't going to clean my kitchen.

What about Corporate Credit Unions? They recently went splat, making a big mess over our previously tidy balance sheets. (Okay, so our balance sheets had a few problems too. Humor me.) There is plenty of blame to go around. NCUA, Corporate Boards and management teams, and us – the natural person credit unions that sought the best rates and lowest fees.

The simple fact remains: there is a mess that needs to be cleaned up, and we all need the services that we used to receive from the Corporates. We can choose to recapitalize the Corporate system, go directly to the Fed, or purchase these services from for-profit institutions. But we must continue to provide these services.

My anger and frustration at the current mess is tempered by the fact that these problems are not limited to credit unions. Housing, for-profit banking, even entire nations were blindsided by this and are dealing with the mess. In hindsight, of course we should have seen it coming. But we didn't. Everyone, myself included, made what we felt at the time were good decisions based on available information.

After the "great tomato splat," I still love tomatoes fresh from my garden. I still love my son. I still don't like cleaning the kitchen, but I do it. And I've learned to be more careful with suspicious tomatoes. While I'm not sure I "love" my Corporate, I believe they are the best alternative for our credit union. So we'll wrinkle our noses and clean up the mess, and choose to recapitalize when the time comes. I am optimistic that there are enough people who feel the same to keep the cooperative system viable.

Now where can I find a good tomato?