

# CU



*An Insider's Insight  
of the American Credit Union Movement  
in the Year 2020*

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 **DOLLAR  
ASSOCIATES, LLC**

Let's Look at  
Where  
America's Credit  
Unions  
Should Be  
in the Year  
2020...



Both the Good and the Bad...

the Pretty and the  
Not So Pretty!!

What Vision it will  
Take to Accomplish  
the  
Good Things...



# And the Caution Signs on the Road to 2020



# One Insider's Crystal Ball

INSIGHTS

for the

YEAR 2020

in America's Credit Unions



"The most pathetic person in the world is someone who has sight, but has no vision."

Helen Keller

# Credit Unions Will Be The Dominant Community Based Financial Institutions in Most Communities





# Credit Unions Will Be The Dominant Community Financial Institutions

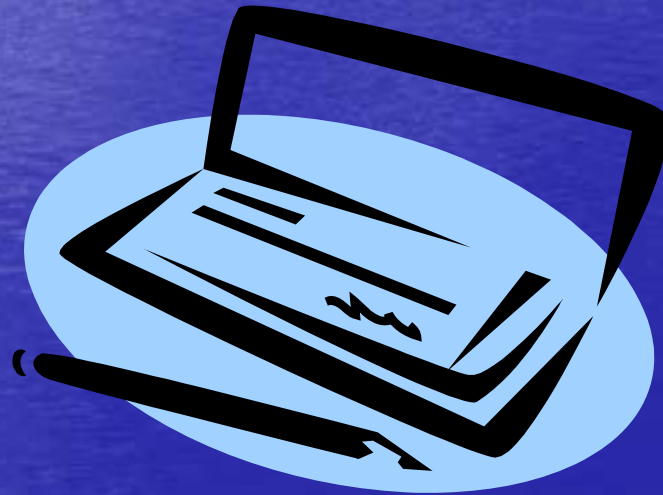
- Merger mania in banking industry
- While many convenience seekers move to nationwide Mega-Banks, many personal touch seekers move to community based institutions
- *DeNovo* community banks become viewed as merely chartered to merge
- Credit Unions, particularly with geographically based FOMs, will fill gaps & meet those community needs

A blue sky with light clouds over a blue ocean with a sun reflection.

'It's easy to see,  
hard to foresee.'

Benjamin Franklin

# Share Draft Accounts Will Emerge As A Credit Union Driving Account



# Checking Accounts Will Emerge As A Driving Credit Union Account

- Most important account to persons of modest means
- More earnings come from checking accounts
- Credit Unions become a more community based PFI – MegaBanks vulnerable on personal accounts
- Credit Unions will return to their members by paying CD-type rates on free checking accounts with no minimum balance, no cost ATMs as a great “differentiator” program

"I skate to where the puck is  
going to be,  
not where it is going."

Wayne Gretzky

# Risk Based Capital Structure is Implemented for Credit Unions



# 15% Capital - Risk Based System

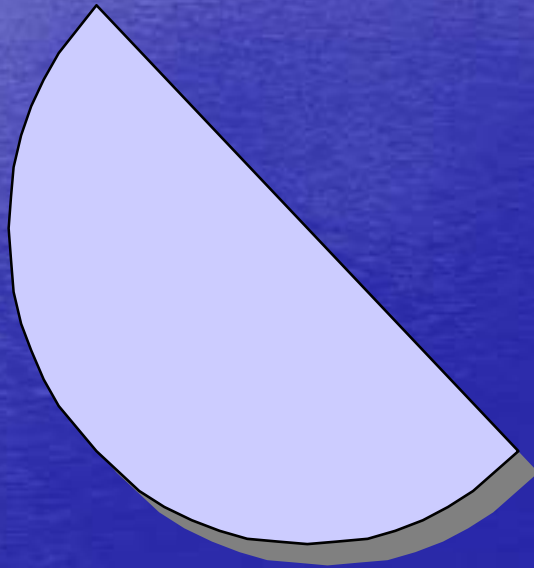
- Risk Based Capital System implemented to bring CUs into regulatory mainstream
- Risk weighted ratio settles around 15% net worth/capital ratio
- Under Risk Based System, CUs are recognized as extremely well, if not over capitalized
- With Capital Risk Based, pressure on ROA is diminished somewhat as CUs invest more in services/products/access points in their communities

"If you go as far as you can see,  
you will then see enough  
to go even farther."

John Wooden



Return On Assets  
Will Be Strong but More Realistic  
for Well-Capitalized Credit Unions



# RETURN ON ASSETS AVERAGES .50 - .60% ON ANNUAL BASIS

- Need to build excessive capital is diminished under Risk Based System
- Pressures mount to invest more back into communities and members, particularly those of modest means
- Regulatory pressures become more realistic for ROA expectation with 15% risk based net worth

“Obstacles are those frightful things you see when you take your eyes off your goal.”

Henry Ford

There Will Be Approximately 5000  
Credit Unions Nationwide



# THE PERFORMING 5000

- Mergers will continue dramatically through 2010
- Mergers may slow somewhat as assimilation takes place
- Management agreement structures will be more widely used
- Many smaller credit unions will be saved by growth allowed through Risk Based capital and alternative capital
- 98% of Credit Unions stay credit unions, forgoing the "conversion to bank" option, as CU charter enhances and CU commitment strengthens
- Credit Unions that remaining will be larger with more assets and resources (Small Credit Union definition around \$100M)
- Although fewer CUs, financially much stronger

# Caution Signs on the Road to 2020



- Excessive regulatory restrictions on voluntary mergers could eliminate viable option for many credit unions
- Cannot wait until Credit Unions are on their death bed before allowing needed and voluntary mergers
- Failure to implement Risk Based Capital, FOM growth options, necessary merger approvals and management agreements to save struggling CUs
- Restrictions by Congress or the regulators on the opportunity to grow, diversify and succeed under the Credit Union charter, thus creating more conversions to Mutual Savings Banks and, ultimately, de-mutualization into stockholder owned Banks
- Bank-like CRA, if passed, will dramatically increase the number of mergers through burdensome regulation

“My interest is in the future;  
as I’m going to be spending  
the rest of my life there.”

Charles Kettering

Field of Membership Rules Still  
Exist – But Will Be Safety and  
Soundness Driven





# FOM LIVES, BUT MORE FLEXIBLE

- Congress and States will still require an approved FOM for each Credit Union
- Credit Union must define its own FOM  
With regulatory agency approval
- Can be defined as Occupational, Associational or Community
- Size will not determine FOM approval, ability to serve safely and soundly will be determining factor

*“Where there is no vision,  
the people perish.”*

Proverbs 29:18

# Directors Will Face Enhanced Fiduciary Responsibilities



# FIDUCIARY RESPONSIBILITIES

- Credit Unions will be larger, more dollars involved...more responsibility
- Boards will be required continuing education
- Boards may be held to rigid accounting and oversight responsibilities as per Sarbanes-Oxley
- Board involvement in industry associations will grow and become more recognized
- Boards will continue to be a crucially strong political arm of the Credit Union movement

“The only limit to our realization  
of tomorrow will be our  
doubts of today.”

Franklin D. Roosevelt

# Directors Will Receive Cost Reimbursement Program For Their Increased Fiduciary Responsibilities



# REIMBURSEMENT FOR DIRECTORS TIME CONTRIBUTIONS

- With Enhanced Responsibilities as Fiduciaries, Some Type of Director Compensation Will Be Authorized (Per Diem, Leave or Compensatory Time Reimbursement, or Other CU Defined Comp within Parameters)
- Compensated Directors Are Not Unprecedented in Not-For-Profit Sector
- Some States Allow This Today, One Board Member Allowed Compensation Under Fed Rules
- Deemed as Necessary to Retain and Recruit Directors as Fiduciaries of Larger Institutions
- Greater Recognition of Board Importance

“Throughout the centuries there were men who took first steps, down new road, armed with nothing but their own vision.”

Ayn Rand



# Credit Unions Will Retain Federal Tax Exemption



# TAX EXEMPTION REMAINS

- Credit Union political involvement, structural argument and documentation of service will prevail on tax exemption for Credit Union earnings from Credit Union services
- Unrelated Business Income Taxation remains in ongoing litigation over interpretation but remains a threat for both state and federal charters

# IMPACT OF TAX EXEMPTION REMAINING THROUGH 2020

- Credit Union charter viability protected
- Détente on Bank v Credit Union battles with fewer community banks driving the battle
- CUs and Banks will work together on much legislation and many regulatory issues
- IRS Rulings will keep related-unrelated business income (UBIT) issues as a battleground

# Caution Signs on the Road to 2020

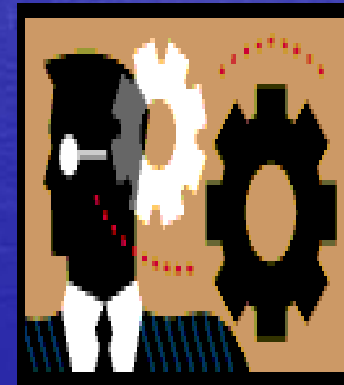
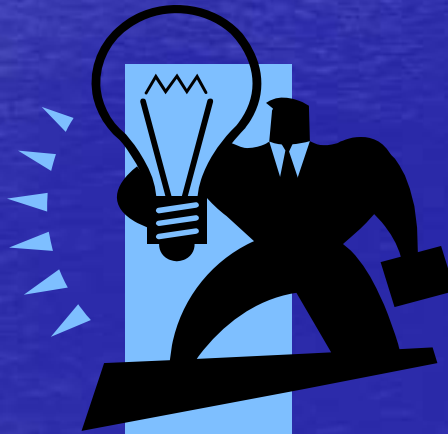


- Letting down the guard of political activism
- Allowing the competitors to define CUs
- Failure to know the issues and how to defend CU Tax Exemption (It Ain't The Cookies!!!)
- Unwillingness to buttress structural argument with documentation on the three S's: Safety, Soundness and Service

"It's not what you look at that  
matters,  
it's what you see."

Henry David Thoreau

# The Number of CUSOs Will Exceed the Number of Credit Unions



# Tremendous Growth of CUSOs

- CUSOs will grow dramatically for offering products and services
- Economies of scale and sharing of risk will drive
- UBIT could drive some credit union service offerings to CUSOs for wider markets
- CUSOs will exceed the number of Credit Unions by 2020 – likely years before

"If I have seen farther than others, it is because I was standing on the shoulders of giants."

Isaac Newton



# Credit Unions Will Face Greater Regulatory Pressures



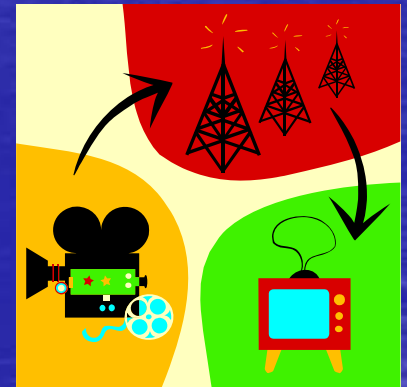
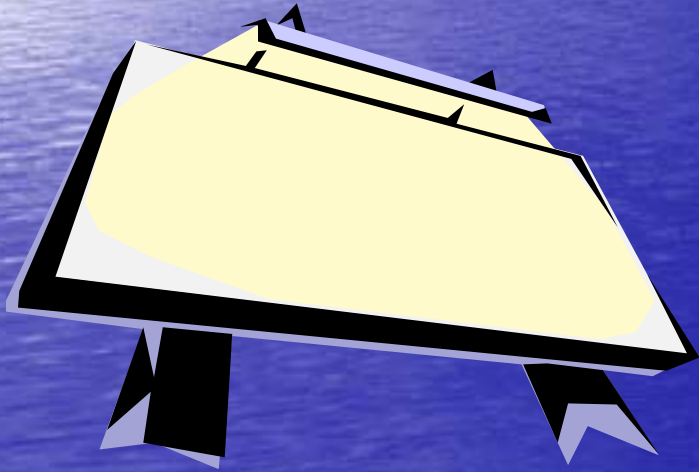
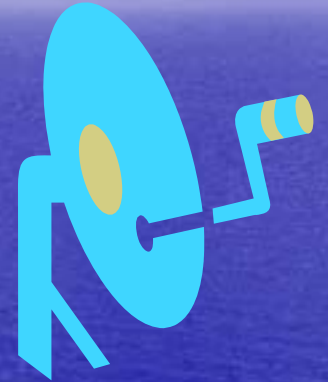
# MORE, NOT LESS, REGULATION

- Bank Secrecy Act, Anti-Money Laundering, Privacy, Security...no let-up
- Opt-In or Opt-Out to become great debate on consumer legislation
- More documentation will be required, either by law, regulation or politically, on service to persons of "modest means"
- Will drive mergers...unfortunately, over-regulation will be THE leading small Credit Union killer

*"We go where our vision is."*

Joseph Edward Murphy

# Credit Unions Will Cooperatively Market Nationwide



# COOPERATIVE ADVERTISING

- Branding Credit Unions will be recognized as more important than branding individual Credit Unions
- Emphasizing local member-ownership but nationwide brand recognition, i.e. ACE Hardware model
- Canada's Desjardin model
- Requires major advertising dollars and selfless cooperation

“Leaders must invoke an alchemy of great vision.”

Henry Kissinger

# Shared Branching Will Be A Key Credit Union Differentiator



# SHARED BRANCHING

- Will become nationwide with virtually all CUs participating
- Will complement nationwide CU ATMs
- Visible contrast with Mega Banks who will never cooperate to branching level
- Reinforces the national branding campaign
- Will have loan, as well as depository, abilities



*"Know your limits...  
but never stop trying to exceed  
them."*

Ronald Reagan

# WRONG CHOICES TODAY COULD CREATE A DIFFERENT 2020

- FOM, Capital and MBL restraints could lead to frustration with CU charter and higher MSB conversions than projected
- Taxation would lead to wholesale MSB conversions
- Lack of cooperation within movement could lead to cannibalization, missed opportunities in branding & shared branching of Credit Unions
- Lack of community involvement and emphasis could sacrifice differentiation points with Mega Banks in community

# WRONG CHOICES TODAY COULD CREATE A DIFFERENT 2020

- Lack of active, sustained & effective advocacy could result in taxation, costly CRA putting smaller CUs out of business, more restrictions and NCUA as an arm of Treasury Department
- Lack of commitment to the Credit Union charter could spell the end of it
- Failure to maintain an effective Dual Chartering System would damage choices
- Assuming member loyalty without working to keep building it could be fatal

Where America's Credit Unions  
find themselves in 2020  
will be determined by  
their **VISION** in 2008

...and the **DECISIONS**  
that accompany the vision!

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