

A FIELD GUIDE TO New-Breed Credit Unions



Mountain America Federal Credit Union
West Jordan, UT
Assets: \$2.1 Billion



Spotting New-Breed Credit Unions



Spotting New-Breed Credit Unions

Once rarely seen, new-breed credit unions are a lot more common today. All credit unions are tax exempt and are meant to serve people of modest means. **But the new breed of credit unions is different.** The characteristics that made traditional credit unions special are often ignored. With the freedom to seek new markets almost without restriction and to offer a full range of banking and financial products, many aggressive credit unions have leveraged their tax advantage to grow rapidly.

Use this guide to spot these new-breed credit unions. Look carefully, as these institutions often try to hide among the flock of traditional credit unions. Increasingly, though, the resemblance is with tax-paying banks — in fact, the only real difference between banks and these new-breed credit unions is that the credit unions don't pay taxes.

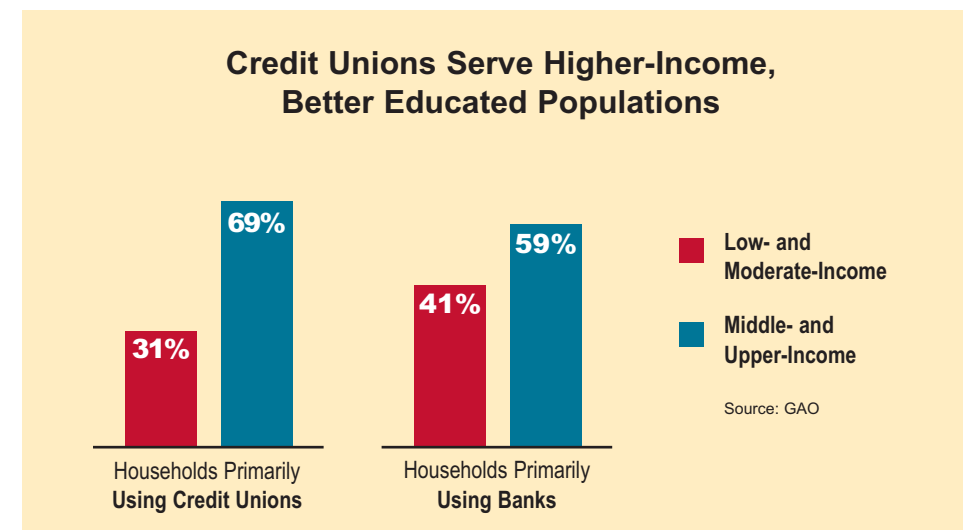
Characteristics of New-Breed Credit Unions

- ✓ Ignore their traditional mission
- ✓ Grow rapidly in membership and territory
- ✓ Spend big on showy office buildings
- ✓ Lend aggressively to businesses and the rich
- ✓ Drive out traditional credit unions

Ignoring Their Traditional Mission

Credit unions have a mandate to serve people of “modest means.” Their tax exemption exists for this purpose, as documented in the November 3, 2005 hearing before the House Committee on Ways and Means. However, new-breed credit unions serve only those segments of the community they *choose* to serve. As a practical matter, they are free to define and extend their membership as they please, allowing them to “cherry pick” the areas and individuals they will include as customers. In effect, this is a license to seek out the wealthiest areas for branching, and this comes at the expense of service to the people who need them the most, those of modest means.

In fact, the evidence shows that banks do a better job than credit unions in serving the underserved.



	Credit Union Member	Non-Member
Household Income	\$49,460	\$33,150
College Graduate	32%	24%
Home Ownership	72%	58%
Employed Full-time	64%	48%

Source: CUNA

“[The] NCRC study finds that banks make a higher portion of their home loans, with fewer loan denials, than credit unions, to traditionally underserved populations.”

Testimony of John Taylor, President and CEO, National Community Reinvestment Coalition, House Committee on Ways and Means, November 3, 2005.

Growing in Membership ...

New-breed credit unions are tenacious competitors in their markets. They do not confine themselves to the close-knit groups or communities served by traditional credit unions. Rather, they serve groups that have no relationship to each other. They also tend to be much larger and accept virtually anyone as a member. Sometimes these credit unions resort to gimmicks to evade existing membership restrictions.

Simply put, new-breed credit unions exploit their tax-exempt status to go after any and all customers.

\$10 Buys Into Membership

GTE FCU advertises that: "You can join GTE FCU even if you are not eligible for membership through your employer or a family member ... [J]oining CUSavers for a one-time non-refundable ten dollar membership fee qualifies you for credit union membership."

www.gtefcu.org



GTE FCU
Tampa, FL
Assets: \$2.1 Billion



Desert Schools FCU
Phoenix, AZ
Assets: \$2.9 Billion

... and in Geographic Area

New-breed credit unions can grow to become major competitors serving entire geographic regions. And federal and various state regulators have approved expansions that include some of the largest cities in the country, multiple Metropolitan Statistical Areas (MSAs), multiple counties across state lines, and even entire states as part of a credit union's field of membership. The result is that the average size of a community charter jumped almost three-fold from a population of 134,000 people in 1999 to 357,000 in 2003.¹

NCUA approved a community charter application for LA Financial CU to serve the 10 million plus residents of Los Angeles County — a geographic area equivalent in size to the states of Rhode Island and Delaware combined.

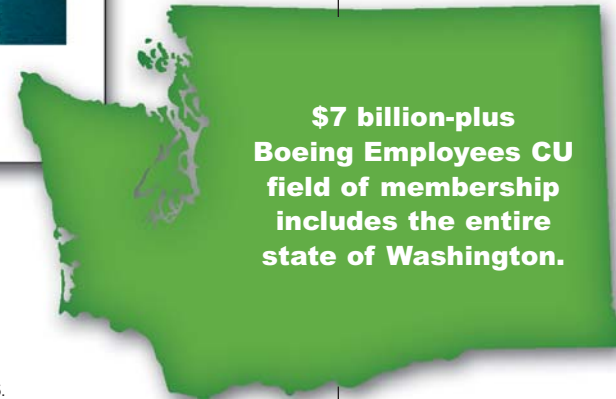
Chartway FCU, a \$1.2 billion credit union headquartered in Virginia Beach, provides services in Florida, Georgia, New Jersey, North Carolina, Ohio, Rhode Island, Texas and Virginia.



Langley Credit Union
Newport News, VA
Assets: \$1.2 Billion

"I find it somewhat amazing that a credit union can be chartered to have as a local community the county of Los Angeles, which has a population greater than 42 states in the country."

Rep. Bill Thomas, Former Chairman (R-CA), House Committee on Ways and Means, November 3, 2005, referring to the NCUA's approval of a community charter for LA Financial CU.



\$7 billion-plus Boeing Employees CU field of membership includes the entire state of Washington.

Q: Can I Join?

A: Are You Breathing?

If you live, work, worship or go to school in Riverside County, we invite you to become a member.

Riverside County's Credit Union
Where People Come First

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9 Locations in Riverside County including:
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Rancho Mirage • San Jacinto

¹ Credit Unions: Financial Condition Has Improved, but Opportunities Exist to Enhance Oversight and Share Insurance Management. General Accounting Office, October 2003 (GAO-04-91), p 35.

Showy Buildings ...

Evidence of the growth of new-breed credit unions can be found by observing many of the lavish headquarters they've built and the advertising dollars they are spending. **New-breed credit unions are building elaborate corporate headquarters like The Golden 1 Credit Union's new 200,000 square-foot nest in Rosemont, California, costing more than \$30 million, and GTE Federal Credit Union's new 125,000 square-foot building located on a 12.5 acre campus in Tampa, Florida at a cost of about \$22 million.**



Vystar Credit Union
Jacksonville, FL
Assets: \$3.2 Billion



Truliant Credit Union
Winston Salem, NC
Assets: \$1.1 Billion



Allegacy FCU
Winston Salem, NC
Assets: \$1.1 Billion

... Spending Big to Attract Attention

To help ensure their growth, new-breed credit unions spend big to attract attention. For example, Arizona FCU is running advertisements featuring actor Leslie Nielsen for home equity loans, online banking and check cards on television.

Digital FCU paid \$5.2 million for the naming rights of an arena/convention center in Worcester, Massachusetts. This squanders the member resources the credit union relies on. Is this what the tax-exemption is for?



Digital FCU [Named this arena]
Marlborough, MA
Assets: \$3.5 Billion



Eastman Credit Union
Kingsport, TN
Assets: \$1.8 Billion

San Diego County Credit Union with \$3.7 billion in assets bought the naming rights to the Poinsettia Bowl.



University FCU paid \$13 million to buy the naming rights to the baseball stadium at the University of Texas in Austin.

Aggressive Business Lenders ...

The focus of new-breed credit unions is often on commercial business — providing tax-advantaged financial services to those firms with many choices of financing.



Travis Credit Union
Vacaville, CA
Assets: \$1.6 Billion

In California, Travis Credit Union offers **loans up to \$2 million** to start-up companies, financing **up to \$30 million** for commercial real estate projects, and is a certified Small Business Administration approved lender.²

Texans CU's service organization, Texans Commercial Capital, LLC, has approximately \$630 million in business loans on its books and financed Prism Hotel's acquisition and construction of the 280-room Radisson Memphis Hotel in Tennessee.³

Eastern Florida Financial Credit Union provided \$30 million in financing for a condo project in West Palm Beach (FL).

Take 2 for Business Pain

Business Express Line of Credit

Mountain America Credit Union announces 2 perfect prescriptions for small business loans with 1 application:

- 1 7-year SBA Business Express revolving line of credit
- 2 Business Visa Platinum Card

Alleviate the pain associated with overhead, cash flow, equipment and supply expenses, travel expenses and other small business obstacles with 2 great loans and 1 express application.

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*12 month introductory rate. Regulated rate thereafter based upon index rate. 2.9% APR loan rate for the first 60 days unless otherwise specified. The opening of your account. The offer is 12.9% variable. Variable rate other than introductory APR is equal to the Prime Rate + 4.5%. Final rate subject to APR. See store for all details. *10% limit on all balances. Equal Opportunity Lender Member NCUA.

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... Serving the Rich

Ed Gallaghy, CEO of Florida Central Credit Union, says, “There’s no question that subconsciously — and even consciously — some credit unions are trying to run-off unprofitable members. I hate to use the term ‘run-off’ but that’s what’s happening.”⁵ Big toys and jumbo loans are the trend even though the affluent have many choices for financial services. This isn’t what the tax-exemption for credit unions was designed to support.

Some credit unions, like Forum Credit Union, go after small businesses, offering trust services.



Forum Credit Union
Indianapolis, IN
Assets: \$985 Million

Premium Money Market

5.00% APY

Rate locked 'til September 20, 2008

Available on balances of \$100,000 or more!

*.30% APY if balance is below \$100,000.

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Alaska USA Federal Credit Union's trust company manages over \$6 billion in assets.

Coastal Federal Credit Union (NC), with \$1.6 billion in assets, has ventured into complex commercial real estate transactions where the average size loan exceeds \$4 million.⁴

² “Spurred by Regulators, Credit Unions Move into Small Business Sector,” East Bay Business Times, May 23, 2005.

³ “Texans CU’s Business CUSO Taking Off; Loans Range from Multi-Million to Just Thousands,” Credit Union Times, February 2, 2005, pp. 1, 36.

⁴ Credit Union Times, March 30, 2005, p. 23.

⁵ “Are Members Really Leaving Credit Unions? CEOs Offer Their Take,” Credit Union Times, April 14, 2004, p. 42.

“The disappearance of small credit unions is expected to continue.”

Right now, there are fewer than 10,000 credit unions. I suspect that, in less than 10 years, there will be about 6,000 surviving credit unions.”

Deborah Matz,
National Credit Union
Administration board
member, 2003.

Driving Out Traditional Credit Unions ...

Traditional credit unions are being squeezed out by the invasive tactics of the new-breed credit union. “The big local credit unions are getting bigger, and the smaller ones, well, they’re getting smaller. For the minor operations, that’s not a good sign.”⁶

A recent Federal Reserve study concluded that small credit unions “likely will face continuing pressures to be acquired or otherwise exit the industry.” The study found that the share of assets for small credit unions (assets less than \$100 million) plummeted from roughly 70 percent to about 20 percent over the past 25 years.⁸ Relaxed regulatory restraints are stimulating further consolidation.

According to NCUA, since the beginning of 2001, nearly 1,900 small credit unions have vanished and the number is growing. Many of these small credit unions are being absorbed into larger credit unions — fueling the growth of new-breed credit unions. For example, Credit Union One has acquired 31 credit unions since 1982 and The Golden 1 Credit Union has acquired 20 credit unions since the mid-1980s.

... And Often Bigger than Community Banks

In more and more communities, it is the credit union that is many times larger than the local banks. For example, in North Carolina, State Employees Credit Union, with nearly \$14 billion in assets, is almost 50 times larger than the average-sized community bank in its market. Furthermore, the Credit Union of Texas, with \$1.3 billion in assets, competes against small community banks. The nineteen community banks in Credit Union of Texas’ market have an average asset size of about \$315 million. And the General Accountability Office in its 2003 study concluded these new-breed credit unions offer the full range of products and services just like banks. As Tony Plath, professor of finance at UNC-Charlotte noted, “I see very little difference between a regional bank and a large credit union.”⁹

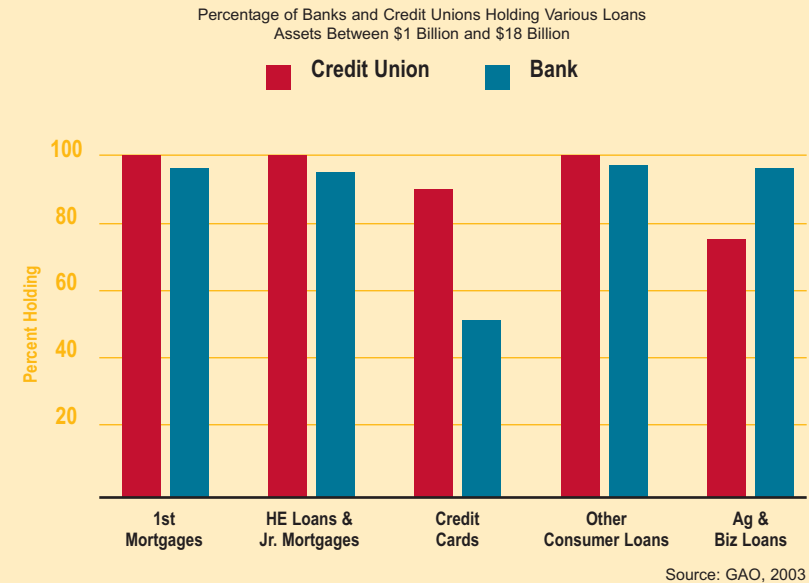
⁶ “Diverging Trends in Credit Unions,” by Mark Anderson, Sacramento Business Journal, March 11, 2005.

⁷ “Friendly Foes: Once Allies, Credit Unions Now Compete for Customers,” by Barbara Marquand, Sacramento Business Journal, May 24, 1999.

⁸ “Economies of Scale and Continuing Consolidation of Credit Unions,” Federal Reserve Board of San Francisco, Economic Letter, Number 2005-29, November 4, 2005.

⁹ “Truliant Eyes Trust Services in For-Profit Push,” The Business Journal of the Greater Triad Area, July 14, 2003.

GAO Study Finds Product Offerings Nearly Identical



“We’re losing members to larger credit unions. We’re having a harder and harder time competing.”⁷

Lorraine Raton
Capital City Federal
Credit Union
Sacramento, CA

The New-Breed And the Questions it Raises

Many credit unions continue to serve an important purpose in our financial system. But the new-breed of credit unions is different. The traditional mission of serving people of modest means is often ignored. Showy buildings misdirect the tax benefit, sapping resources from that mission. Energies are diverted to favoring the wealthy and businesses, both of which have many options for financing. The common bond where people know one another is forsaken for rapid growth in members.

Once rarely seen, this new-breed is more easily spotted and important policy questions — **listed on the back page — need to be answered.**

The Evolution of Credit Unions Raises Important Policy Questions:

- Are new-breed credit unions fulfilling their mandate to serve people of “modest means?”
- Should these non-traditional credit unions qualify for special treatment despite the fact that virtually anyone can join?
- Is it fair that new-breed credit unions compete directly with tax-paying banks — for the same customers?
- If credit unions are not meeting the responsibilities of their charter, why should Congress give them more authority to expand business lending and other activities through the proposed Credit Union Regulatory Improvement Act?
- At what point do some credit unions cease to be the type of institution deserving of preferential treatment?



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