The corporate credit union crisis: Does it call for reform or re-engineering?

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Abstract

Corporate credit unions were the focus of regulatory restructuring in the years before the financial crisis. Despite the attention from both congress and the regulators, and despite the regulator receiving monthly reports, the four largest corporate credit unions in the United States failed in the aftermath of the financial crisis, including the industry-founded central credit union. Corporate credit unions, that serviced retail credit unions, saw their net assets drop from a high of over US$111 billion in September 2007 to under $22 billion in June 2013. Most of that drop in assets represents credit unions leaving the system that they built. The regulatory topography of a new wholesale credit union system is still unclear.

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This figure comes from the annual report for the DZ Bank, http://www.annualreport.dzbank.com/2011/gb/en/.

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This analysis is based on a comparison of the aggregate balance sheets for natural person credit union *vis-à-vis* the aggregate balance sheets for corporate credit unions. Both aggregations come from their respective NCUA call reports.

The current Examiner's Guide puts this percentage at 7 per cent. To avoid problems, credit unions must maintain a net worth ratio of 7 per cent or more. See *NCUA Examiner's Guide*, June 2002, pp. 17/1-1, 1-3, 1-8. The capital ratio is lower for corporate credit unions. The lowest allowable capital ratio for them is 4 per cent. See NCUA Corporate Credit Union Examiner's Guide, May 2008, pp. 204–207.

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For more information on RMBS, as well as verification of all information on RMBS in this section, the reader is referred to Material Loss Review of Western Corporate Federal Credit Union; National Credit Union Administration, Office of Inspector General, 16 October 2010; OIG-10-19, pp. 4–9.

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For those corporate credit unions that failed, almost all of their mortgage-related securities were rated as AAA or AA when purchased. See the Material Loss Review of: Western Corporate Federal Credit Union (OIG-10-19, p. 35), US Central Federal Credit Union (OIG-10-17, p. 13-16), Members United Federal Credit Union (OIG-11-01, p. 16), Constitution Corporate Federal Credit Union (OIG-11-09, pp. 15–17), Southwest Corporate Federal Credit Union (OIG-11-10, p. 19).

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Measured by balance sheet assets using data from the December Call Report for the end of 2008 – before the crisis.

This proportion was calculated by the author using data from the December Call Report for the end of 2008 – before the crisis.

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Stabilization Fund, OIG-12-07, 22 June 2012, p. 6.

The figures cited in the body of the article come from the NCUA website. Updated figures can be found at: http://www.ncua.gov/Resources/Corps/RCost/Pages/default.aspx.

It is clear from the tone of congressional reports such as National Credit Union Administration: Earlier Actions Are Needed to Better Address Troubled Credit Unions, GAO-12-247. In particular see headings such as that on p. 20.

Corporate assets were net of assets invested in US Central, so as not to double count assets in US Central through October 2012, when the conserved version of US Central ceased to exist. Note that these figures do not agree with the size of the industry as reported in GAO-12-247, p. 12. The GAO is not as careful about not double counting.

Although the Canadian system was founded as a natural monopoly from the beginning.

See GAO-04-977, p. 25.

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Additional information

This article presents a brief history of corporate credit unions in the United States, comparing it with the systems that have developed in two antecedent countries (Germany and Canada). Then it presents a concise history of corporate credit union crises (starting with the last crisis), to provide a basis of the regulation used before the recent crisis. The effects of the crisis on the corporate credit union industry are then recounted. The costs to the retail credit unions are then described, and some options for moving forward are briefly outlined.

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