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5335 WISCONSIN AVENUE, N.W., SUITE 400 ■ WASHINGTON, D.C. 20015 ■ 202.274.2000 T ■ 202.362.2902 F ■ WWW.LUSELAW.COM

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The Mutual Savings Bank Alternative for Growth-Oriented Credit Unions

Since 1995 approximately 21 credit unions have converted, or are in the process of converting, to the mutual savings bank charter. These converted credit unions have had average post-conversion annual growth rates of approximately 30%. This kind of growth is no coincidence because the mutual savings bank charter offers several key advantages that should be considered by any credit union seeking to grow.

Mutual savings banks are the federally insured depository institutions most similar in structure to credit unions, because like credit unions, mutual savings banks are owned by their depositor members, rather than shareholders. Further, like credit unions, mutual savings banks can have one vote per member, which ensures that all members have an equal voice. Given these similarities, as well as the opportunities for growth discussed below, the mutual savings bank charter should be carefully considered by all growth-oriented credit union managers.

The Mutual Savings Bank Charter

According to the managers of several converted credit unions, the mutual savings bank charter offers credit unions the following growth-enhancing advantages:

- *Unlimited Field of Membership* – Any person may become a member of a mutual savings bank; there are no field-of-membership restrictions. A mutual savings bank may quickly direct its marketing efforts to the fastest-growing areas of its community without amending its charter and without the administrative burden of ensuring member compliance with field-of-membership restrictions.

- *Expanded Lending Powers* – Increasingly, credit union members desire a full range of lending products, including real estate mortgage loans and member business loans. While credit unions are limited in originating significant volumes of residential real estate loans and business loans, mutual savings banks may originate residential real estate loans without limitation and commercial business loans with substantially fewer limitations. Many state-chartered savings banks have *no* limitations on commercial real estate or business lending. Federal mutual savings banks may make commercial and small business loans up to 20% of their assets, and may make commercial real estate loans up to 400% of their capital. Moreover, banking regulators understand and encourage this kind of lending by mutual savings banks.

- *FDIC Deposit Insurance* – Deposits of mutual savings banks are insured by the FDIC. In contrast to the required 1% NCUSIF deposit, mutual savings banks do not maintain deposits with the FDIC for insurance. Further, deposit growth may be enhanced by the better-known FDIC insurance program.

- *Lower Capital Requirements* – A mutual savings bank requires less capital than a credit union to be considered "well-capitalized." The lower capital requirement permits mutual savings banks to generate more growth with the same amount of capital as a credit union.

- *Capital Raising* – A credit union may only generate capital from retained earnings. By contrast, a mutual savings bank may raise additional capital by forming a mutual holding company and issuing common or preferred stock to members, employees and management.

Capital-Raising Options

Of the credit unions that have converted to mutual savings banks, seven eventually have issued common stock to their members, employees and management, and to the public. The capital raised in these offerings has significantly increased growth at these institutions. The offerings also have enabled members, employees and management to become true equity owners and to participate in the growth and success of their savings bank.

Moreover, several of these institutions have chosen to raise capital through a *mutual holding company*, which is a unique structure that offers the following benefits:

- *Continued ownership and control by members and management.* Members retain their mutual ownership interest through the mutual holding company, which by law must always own a majority of the subsidiary savings bank. Management and the board of directors, therefore, retain absolute control through the mutual holding company, even if common stock is sold to depositors and the public. A mutual holding company cannot be sold to stock banks or stock companies.

- *Ability to control the amount of capital raised.* A mutual holding company allows management to sell as little or as much common stock as necessary to meet the capital needs of its subsidiary savings bank. This ensures growth without the prospect of overcapitalization.

- *Ability to acquire other financial institutions.* A mutual holding company may acquire other stock or mutual financial institutions and hold them as separate subsidiaries under the holding company umbrella. This gives management the flexibility to acquire other banks or savings banks and retain them as separate entities.

Getting Started

The current NCUA rules governing conversions of federally-insured credit unions to mutual savings banks are fair and reasonable. The rules require that the charter conversion be approved by a majority of the members that vote on the proposal. Even if you do not have any plans to convert to a mutual savings bank charter, we encourage you to become familiar with the conversion process and the advantages of the mutual savings bank charter.

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Luse Gorman Pomerenk & Schick, P.C. is one of the leading law firms nationally in the representation of financial institutions, including representing credit unions converting to the mutual savings bank charter. Our law firm represented the first federal credit union to convert to a mutual savings bank under current NCUA conversion rules. Luse Gorman Pomerenk & Schick also is the leading law firm nationally in mutual holding company formations. If you have any questions about this option, or if you would like to be included in future distributions on this or related topics of interest, please contact any of the following partners of the firm:

Bob Pomerenk:
202-274-2011 ▪ rpomerenk@luselaw.com

Eric Luse:
202-274-2002 ▪ eluse@luselaw.com

John Gorman:
202-274-2001 ▪ jgorman@luselaw.com