MOST CREDIT UNIONS AREN'T SUBJECT TO THE SAME ISSUES THAT DERAILED REGIONAL BANKS

Brian Turner, President & Chief Economist - Meridian Economics LLC

Credit union officials and their members should fully understand their institution - and the industry in which it serves - is safe and sound

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(15 March 2023) .... In response to recent developments in the banking world, the credit union industry, as a whole, is not subject to most of the same variables that caused the recent problems with SVB, Signature Bank, First Republic or even Credit Suisse:

- The problems that existed with the above-referenced regional banks, were a result of their commercial exposure and concentrated customer base that was tied to high-tech, crypto-, tech start-ups and other fringe market sectors and high balance depositors. This created a very narrow customer base.
- The regional banks' capital was in the form of common stock and thus subject to market volatility.
- Higher costs created higher demand on depositor funds to meet normal operating requirements - more than what the banks had cash to cover. This forced them to sell fixed income securities at a significant loss - a result from the rising rate environment since January 2022.
- This led to a stock sell-off by concerned investors which in turn enticed depositors to pull their funds. This created a vicious cycle of greater outflows, more security sales, more stock sell-off (what I call the "Great Circular Firing Squad") until the banks had to suspend operations.

Credit unions generally do not have the same issues that would lead them to suffer the same consequence:

Credit union capital is not stock based: Credit union capital is not in the form of common or preferred stock, therefore, is not subject to market volatility. Moreover, 95% of credit unions are well-capitalized institution whose net worth position exceeds its minimum requirement by 35%.

Focus on vigorous risk management assessment: Credit unions place significant emphasis on risk management principles that help it focus on the elements that failed the regional banks. Meridian Economics conducts a comprehensive risk management protocol that evaluates its overall enterprise risk exposure - each month - to protect liquidity, earnings, credit mitigation and member's capital through various economic and interest rate environments.

Strong liquidity profile: The industry retains a very strong liquidity profile as noted by its liquidity and short-term funding ratios of 5% and 10% of total assets, respectively - each being within the minimum requirement for sound business practice.

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Investments have limited loss exposure: Although some credit unions elected to invest their 2020-2022 surplus liquidity, even to fixed-income securities, most of the investments were in short-term securities - limiting market loss exposure. By contrast, our counsel - since 2018 - showed that the total return profile of remaining in surplus cash would be greater than the few basis points generated by investing the funds. This approach was not only sound investment strategy but resulted in a higher rate of return without subjecting the credit union to market loss exposure.

Credit unions do not have the same commercial or large balance account exposure: Unlike the exposure experienced at those regional banks, credit unions' commercial loans account for only 9% of total loans and large balance, uninsured shares account for only 9% of total shares. Moreover, commercial deposits account for less than 4% of total shares and deposits.

More funds are guaranteed at credit unions: Ninety-one percent (91%) of all shares and deposits held by credit unions remain fully insured by NCUSIF up to $250,000. Many credit unions carry additional deposit insurance that carries that guarantee up to $500,000 per account - greater than the FDIC guarantee at commercial banks.

So while Credit Unions certainly have had to face some members' fears that sprang from the banking sector, there is no question that members' funds are well-protected and far less exposed to the risk elements that proved fatal to a few regional banks - and to a couple of larger banking entities that fund them.

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