

Business

Comeback for credit unions may come soon

Payments to insurance fund ballooned first-quarter losses for most in state

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All federally insured credit unions with headquarters in Tucson lost money in the first quarter of this year.

But a hefty portion of those losses can be attributed to money they had to pour into an industry stabilization fund after regulators seized two corporate credit unions, officials said.

The corporate credit unions, Western Corporate Federal Credit Union (WesCorp) in San Dimas, Calif., and U.S. Central Federal Credit Union in Lenexa, Kan., had investments in riskier mortgage-backed securities, which plummeted in value when the housing market tanked.

To ensure the liquidity of the corporate credit unions — which don't serve consumers, instead providing products and services to the credit-union system — the National Credit Union Administration placed them under conservatorship and ordered federally insured credit unions to pay into a fund that would preserve their shared insurance.

Nationwide, it cost credit unions about \$3.1 billion — a substantial majority of their \$3.2 billion in first-quarter losses.

"It was still a rough quarter in terms of profitability," said Karen Dorway, president of Florida-based BauerFinancial Inc., which analyzes banks and credit unions. "But the vast majority was due to the stabilization process."

Tucson-based Vantage West Credit Union, which has slightly more than 100,000 members, showed a loss of \$530,906 before the stabilization expense, according to its March filing with the NCUA. That loss ballooned to \$8,254,206 after the expense, the report shows.

"Our loss in the first quarter can be attributed almost entirely to this corporate bailout," said President and CEO Robert D. Ramirez.

The industry bailed itself out instead of turning to taxpayers, Ramirez said. But credit unions have been hit hard by the real estate downturn and the weak job market.

"There's been a challenge in terms of our members being able to pay their credit obligations," Ramirez said.

While credit unions didn't get involved in the subprime mortgages that toppled banks last year, they are feeling the residual impacts of the recession, said Scott Earl, president and chief executive of the Arizona Credit League.

But after congressional action last month, the credit unions will be able to spread the stabilization expense over seven years, which could mean first-quarter earnings get restated more favorably, Earl said.

"Our credit unions are still very well-capitalized, and they're still making loans to individuals," he said.

And Ramirez said he's started to see signs of improvement as Vantage West's unpaid-loan percentage has begun to decrease.

"Our delinquent loans are starting to decrease — that's a good sign," he said. "People are starting to make payments."

Vantage West's net income for May was \$680,000, he said.

"So that's a positive — we're back in the black," Ramirez said.

Smaller Tucson-based Pyramid Credit Union — with 7,317 members — would have seen a net income of \$6,211 before the stabilization expense. But with the expense it reported a loss of \$481,417.

The credit union, which has fewer assets than the state's large cooperative financial institutions, feels a tighter pinch when even just one of its mortgage loans goes delinquent, said President and Chief Executive Ray Lancaster.

Pyramid reported \$500,000 in delinquent loans from three mortgages, Lancaster said, nearly half the total \$1.1 million in delinquencies. As such, the financial situation for smaller credit unions should start improving when home foreclosures start decreasing, Lancaster said.

Still, Pyramid works to modify loan payments so people can keep their homes or cars, Lancaster said. And the company is continuing to make new loans.

Recently, Phoenix-based Arizona Federal Credit Union closed its Tucson branches to reduce costs. Arizona Federal, with roughly 220,000 members, showed a significant loss — \$34.6 million — even before the stabilization expense. Its total loss for the first quarter was \$48 million.

When Arizona Federal moved out of Tucson, President and CEO Ronald Westad said members struggled with credit-card and auto-loan payments in 2008, but he foresaw a profit for the second quarter of 2009 as delinquencies decreased.

And industry officials said their members' money is safe, as credit-union deposits are guaranteed up to \$250,000 per account by a federal insurance fund.

Dorway, of BauerFinancial, said the stabilization expense does have an impact on those credit unions' capital ratio, which is the percentage of capital to risk-weighted assets, and that means fewer credit unions are likely to get Bauer's highest rating of five stars.

But even with the first-quarter losses, "overall, I don't see a global downgrade of the industry," she said.

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