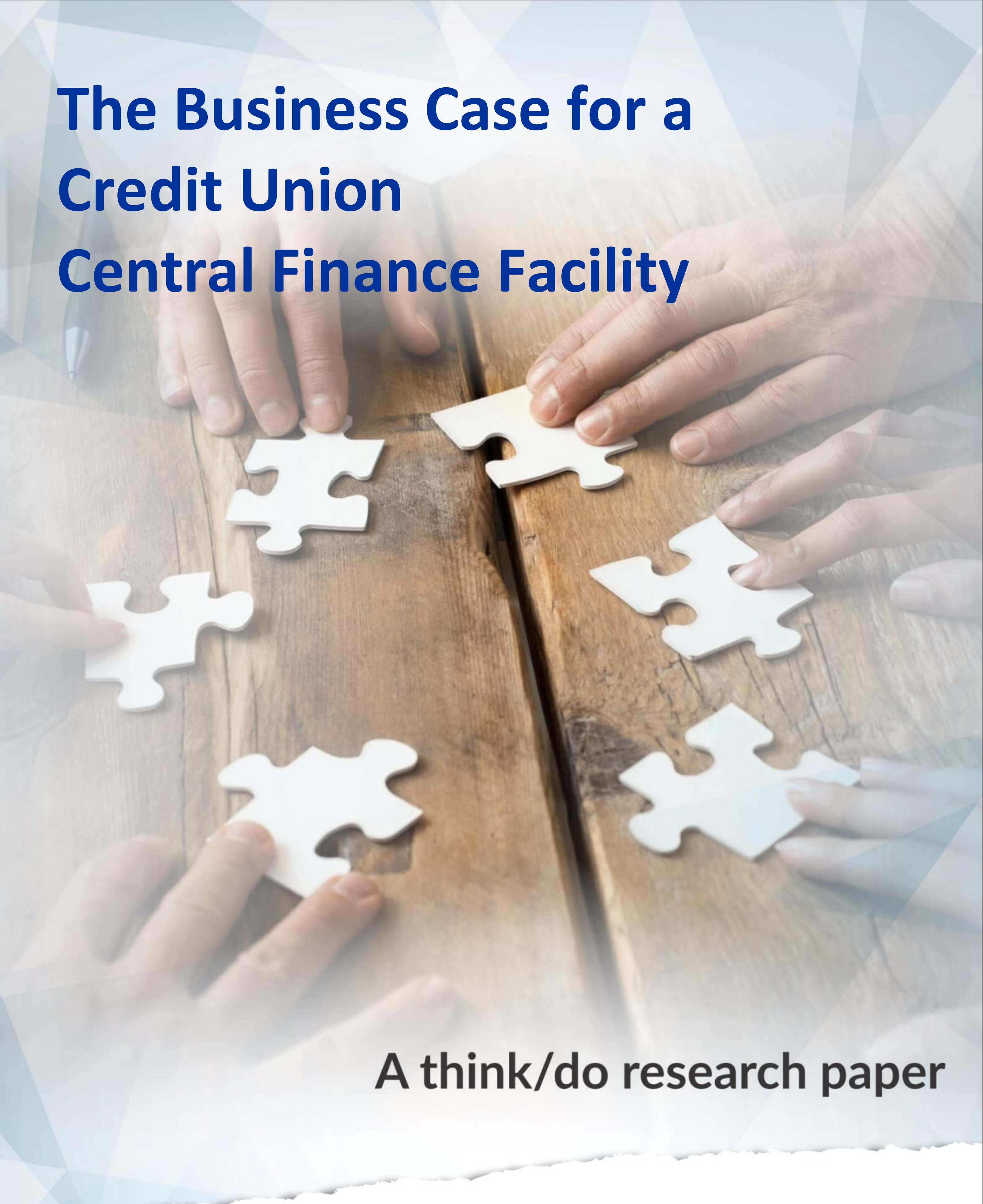
The Business Case for a Credit Union Central Finance Facility



A think/do research paper

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The Business Case for a Credit Union Central Finance Facility

A background briefing paper

By Ralph Swoboda and Jim Jerving

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Ralph Swoboda has served in many roles in the international credit union movement over the past 45 years. Most pertinent to this paper, he was General Counsel and then President/CEO of Credit Union National Association (CUNA) between 1976 and 1994. During that period CUNA was responsible for the management of US Central Credit Union, which was then the central finance facility (CFF) for the US credit union movement. This paper draws on Ralph's personal experience with CFFs in the USA and in other countries.

Jim Jerving is the author or co-author of a number of books and publications on financial subjects, including a standard text on Credit Union Central Finance Facilities that he wrote for the World Council of Credit Unions. Jim has a Master of Arts in Journalism from the University of Wisconsin-Madison and was an instructor of journalism at that school. He also served as editor, writer and manager of book publishing at the World Council of Credit Unions and at CUNA. He is currently owner of a writing and publishing firm in Madison, Wisconsin, USA.

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1. Introduction and summary

For a number of reasons – seasonal variability in loan demand, national economic conditions, local unemployment from a company closure, and so on – credit unions can face an imbalance of funds. They may have more demand for loans than their members' savings can support. Or they may have an excess of savings, on which they find it hard to earn an adequate return. A financial emergency can require them to draw down costly bank credit lines to pay savings withdrawals.

What they need is, in effect, a **credit union for credit unions**.

Generally referred to as 'central finance facilities' (CFFs), these specialized institutions have been essential for credit union movements internationally, for them to be competitive, to thrive and to reach their potential.[1] In the USA, Canada and Australia, they were key to the transition of credit unions from offering simple savings and loans to becoming full-service consumer financial providers.

Without a CFF, credit unions are dependent on commercial banks, their major competitors, for liquidity borrowing when money is tight and as safe places to invest when savings are abundant. However, individual credit unions are rarely seen as important clients by their bankers. Whilst the movement as a whole may represent billions in business, individual credit unions usually lack the negotiating power to get anything better than the 'retail' rates banks offer to any small business.

As national movements reach maturity, they aspire to meet member needs for more sophisticated financial products, such as current accounts, term savings accounts, home mortgages, credit cards, and business loans. To be safely and profitably offered throughout the economic cycle, these products require the robust liquidity management capabilities that only a national CFF can provide.

This paper is intended as a high-level introduction to what is required for the establishment and operation of a CFF. The authors' goal is to prompt and inform discussion on how this critical infrastructure might be created for credit unions in Ireland and Britain, where it does not yet exist.

2. A necessity for developed credit union movements

In the USA, Canada and Australia, central finance facilities were set up early on in the transition by credit unions to becoming full-service financial providers. Initially, the CFFs were founded by national, provincial and state credit union leagues, either as 'central' (or 'corporate') credit unions or as credit union-owned banks.

The basic CFF business model was to use the aggregate scale and buying power of

[1] Jerving, Jim (1987) The Central Finance Facility: A Guide to Development and Operations, Madison, Wisconsin, USA, Ch. 1.

the movement as a whole to obtain the best rates safely possible on investments, to assure credit unions of dependable access to liquidity at wholesale borrowing rates, and to employ the professional expertise to do so safely and profitably.

With billions to invest even early on, these CFFs could fund their own operations by taking only a very small spread between what they earned on pooled investments and what they paid back to their credit union owners. Over time, that intermediation was profitable enough for these CFFs to finance and staff the development of additional back-office services their movements needed. Those included payment system access, term funding from the wholesale money markets, international funds transfers, asset/liability advisory services, pooled mortgage finance and so on.

Background on the CFFs in North America and Australia can be found in the case studies at the end. The main body of this paper is focused on exploring, at a high level, the business and financial principles that support the basic CFF business model. It will conclude by suggesting a possible way forward in Ireland and Britain.

3. Assured liquidity secured by safe investments

The core purpose of a CFF is provide professional, centralised treasury management of the movement's excess funds – to safely maximize the returns credit unions earn on member savings they can't lend out while assuring them of continuous, reliable liquidity to fund new loans and member withdrawals. By pooling their excess liquidity through a CFF they own, credit unions can take advantage of their collective size to maximize earnings while maintaining daily liquidity in the safest ways possible.

The basic economics behind a CFF are actually the same as those that underpin the business model of any credit union: Just as individuals pool their savings at the credit union to get higher earnings while providing each other with a source of affordable loans, credit unions get exactly those same advantages from their CFF.

Similarly, best practice for CFF investing is the same as for an individual credit union: Safety is the highest priority, followed by liquidity, and yield comes last. But because of their size, CFFs can achieve the first two goals far more efficiently and thus pay higher yields than a credit union could safely earn elsewhere.

For example, a longer term investment ordinarily earns at a higher rate, all other risk factors being equal. But it does so with the danger that an increase in market interest rates can result in a loss if the investment has to be sold before it matures. An individual credit union is therefore limited in the amount of money it can safely put out longer term.

Instead, a credit union can place funds in a term deposit in its CFF, which matches it off by acquiring a term investment (e.g. a government bond) with the same maturity. If the credit union needs funds sooner for liquidity, it can borrow against that deposit at the CFF without the risk of cashing it in for a loss.

Hence, a pre-approved line of credit is a major benefit of participation in the CFF. As a given, each credit union can borrow back the funds it has deposited with the CFF to meet immediate cash needs. If it is well run and well-capitalised, the credit union can qualify for a larger line of credit. But unlike banks, CFFs typically don't charge fees just for keeping a credit line in place, and, if an advance on the line is taken down, the interest rate charged by the CFF should be only a percent or two (or less) above its cost of funds.

Aggregation also allows a CFF to invest proportionately more in longer term instruments while maintaining enough in short term funds to meet the net daily liquidity needs of its overall membership. It can safely do so because, day-to-day, those individual liquidity flows (some in, some out) will net out across the CFF's membership to a highly predictable degree.

In those rare cases when the system as a whole needs unanticipated liquidity, the CFF has the scale to obtain wholesale funding from the external money markets at advantageous rates.

Another example: Investment securities, like most things, are cheapest when bought in large amounts, and a lower price means a higher effective yield. At its peak, US Central Credit Union (the national CFF in America) could purchase securities in lots of $50 million or more directly from primary dealers, achieving yields otherwise available to only that country's largest banks. It could pass those higher rates through to its members, earning them up to ½ percent more than they could get by purchasing those exact same securities themselves.[2]

And another: Prudent risk management requires diversification. It's hard for an individual credit union to diversify its credit risk without making too many small investments at correspondingly reduced yields. When a CFF invests movement funds in the aggregate, it can achieve broad diversification while still investing large enough amounts in individual investments to safely maximize returns.

The key word here is 'safely.' CFFs must be run on a risk averse basis because of their critical importance to the movement's overall well-being. Nevertheless, simply because of the scale they bring to the investment of movement liquidity, they can achieve better returns without taking on more risk.

4. Liquidity management for the movement

Well-managed central finance facilities enable credit unions to effectively handle the whole gamut of liquidity challenges they may confront:

Business cycle liquidity is needed to deal with changing macro-economic conditions. During recessionary periods, members tend to borrow less and save more, which can

[2] Credit unions buy investment securities through dealers who make their profit, not with explicit fees, but by selling each security to the credit union at a higher price than they paid for it. Even when dealing with the same brokers, CFFs can get much better 'wholesale' pricing because they are buying in far larger quantities.

cause an excess of liquid funds. During times of higher consumer confidence, members will likely borrow more and save less, potentially leaving their credit union tight on funds to meet withdrawals. Without a CFF to help them manage those swings, credit unions are forced to hold too much of their money in cash or near-cash investments that yield low rates of return.

Seasonal liquidity is needed to manage adverse funding flows that occur at relatively predictable times each year. For example, at some credit unions, loan demand always outpaces savings growth in the months before the winter holidays. Credit unions that serve agricultural populations experience seasonality in the demand for loans to purchase seeds and supplies. The availability of short-term liquidity loans from the CFF can enable those credit unions to fund seasonal increases in loan demand without the need to cash in higher yielding investments.

Daily clearing liquidity. Current accounts and other payment services require that credit unions maintain daily clearing liquidity to settle member transactions. By serving as the settlement agent for the whole movement, a CFF can net off the daily swings in either direction as amongst individual credit unions. This reduces the total amount of movement money that needs to be held in lower-yielding overnight investments for net settlement each day.

Statutory liquidity. Regulations typically require that credit unions maintain a certain percentage of their assets in cash or low-yielding liquid reserves. A credit union should be able to meet at least some of those liquidity requirements at much lower net cost by substituting a guaranteed line of credit, available on demand at any time and secured by its longer term deposits in the CFF.

Emergency liquidity. In many countries there is no 'lender of last resort' for credit unions, or if there is it may be some kind of stabilization fund operated by the national movement or it may be the central bank. However, these emergency lenders often impose restrictions on access or charge above-market rates. By having a credit union-owned CFF as a committed source of standby liquidity, credit unions can assure themselves of immediate funds, on an affordable basis, when needed.

5. Basic operating principles

It is critical to understand that a CFF is not a charity for propping up poorly run credit unions. Instead, it must be run on a business-like basis with effective governance, comprehensive written policies and procedures, strong internal controls, and robust risk management, in each case appropriate to its relatively large size and specialized business model. A CFF performs too important a role for it to assume any unmitigated risks to its members' funds or to its business continuity as an absolutely reliable source of liquidity.

Hence, it is essential that a CFF starts out with and thereafter maintains sufficient capital to support its operations and as a cushion against loss to its members. Depending on the legal form of the CFF, there are various ways for this to be accomplished, as discussed in Section 7.

This first priority of absolute safety also means that CFF boards and management teams need to foster an environment that is risk-averse and a culture that favours caution over expediency. Given the large sums they manage and the comparatively small size of the expert staff team needed to run them, CFFs can, with very little appetite for risk, easily earn enough to cover their operational costs and provide their member credit unions with good rates of return.

Further, it is accepted best practice that CFFs minimize market risk by investing on a basis that matches their sources and uses of funds to a high degree. For example, a CFF should not offer a fixed-rate, two year certificate of deposit to a member credit union unless it has matched those funds with a fixed-rate investment having the same remaining maturity.

Operating safely as described above means that CFFs have no choice but to incur the cost of hiring the best available professional management and staff. Investing funds and handling transactions of the size managed by CFFs requires seasoned talent with the necessary specialist skills and experience. Typically, that will require hiring individuals with proven experience in investment banking, funds management and commercial lending.

At the same time, the CFF must operate efficiently and earn an sufficient spread to pay for its operations and to maintain a strong capital position. Accordingly, the interest rates it charges its credit union members should reflect market rates and their individual credit worthiness.[3]

It bears repeating that a CFF is not a charity for subsidising poorly run credit unions. It needs a board of directors strong enough to resist any pressures to operate otherwise.

The foregoing principles are embodied in the laws and regulations that regulate CFFs in the USA, Canada, and Australia. It is essential that the credit union regulator have the expertise, skills and political independence to properly oversee the CFF and the power to take immediate steps to halt unsafe activities if they occur.[4]

6. Benefits to credit unions

In summary, the potential benefits to a credit union movement of having a well-run central finance facility are manifold:

1. **Better investment yields and economies of scale**. By pooling funds, the CFF can

[3] In a number of developing countries, CFF loan rates were kept artificially low with foreign aid grants. While the motivation may be altruistic, the effect can be disastrous once the grant money dries up, if credit unions cannot adjust to higher market rates. Jerving, Jim (1987) The Central Finance Facility: A Guide to Development and Operations, Madison, Wisconsin, USA, Ch. 1.

[4] The failure of the US credit union regulator in this regard resulted in the bankruptcy of several US corporate credit unions during the financial crisis of 2006-08. See the US case study below.

offer better investment yields than individual credit unions can obtain on the open market without taking on additional risk. If only 10 percent of Irish credit union investments were held in a CFF, its investment portfolio would be over €1 billion and more than enough to provide significant advantages of scale.[5]

2. **Borrowing for liquidity.** The CFF lends low cost funds to its members for them to manage business cycle, seasonal, settlement, regulatory and emergency liquidity. The CFF's size and operational sophistication give it access to wholesale money market funding at the best rates possible, if the sector as a whole needs liquidity.
3. **Financial management expertise and support.** A CFF requires staff with skills in investments and financial management, and that expertise can be shared with member credit unions. Advising credit unions on asset/liability management, investments, and liquidity management is an ancillary but important function of a CFF. This support can assist with pricing, budgeting, policy formulation, economic forecasting, training and staff development.
4. **Access to national and international payment systems.** It is challenging for individual credit unions to obtain efficient access to national and international payment systems due to their relatively small size. Providing that access has been a key characteristic of CFFs in North America and Australia. For purposes of settlements with the payment system, credit unions can maintain their funds in interest-paying accounts with their CFF instead of at commercial banks where they would receive minimal or no interest on their daily settlement funds.
5. **Keeping credit union funds within the movement.** Without a CFF, credit union liquidity effectively becomes a source of cheap funding for their main competitors, the commercial banks. The CFF enables credit unions to recycle liquidity within the credit union movement to the maximum extent possible. Only to the extent the sector as a whole needs on-demand liquidity does it become necessary for the CFF to place money at commercial banks. But when it does so it should be able to earn returns at the highest rates available to the largest depositors.
6. **Institutional sponsorship and funding for credit union collaboration.** The net earnings available to a well-run CFF provide a source of funding for new product development and other back-office collaborative efforts amongst credit unions. As an institutional facilitator for these initiatives, the CFF has the capacity to provide the expert staffing and administrative resources that may be needed.
7. **Financial self-sufficiency.** A well-managed CFF pays for its operations from the income it earns from loans to its members and the spreads it retains for investing their funds. It should become a financially self-sufficient institution that serves as a model and a credible national presence for credit unions.

Of course, these benefits will not all flow immediately upon the creation of CFFs in Britain and Ireland. In North America and Australia, CFFs matured over a number of years before fulfilling their potential. But from the beginning they enabled credit

[5] Central Bank of Ireland (2017), Financial Conditions of Credit Unions: 2012-2017.

unions to obtain better returns on their excess funds while at the same time assuring them access to liquidity at more favourable rates than available anywhere else.

7. Organisational structure of a CFF

In the USA, credit unions didn't need to obtain changes in primary legislation in order to create central credit unions. The Federal Credit Union Act and state credit union laws specifically authorised credit unions to receive funds from other credit unions in the form of shares, and to provide them with loans.

Over the years, however, a number of amendments were required to credit union laws and regulations to assure corporate credit unions of having the authority to conduct the full range of functions their business model evolved to include. The same was true in Canada. Australian credit unions needed special approval to create and own their CFF in the form of an "authorised deposit taker" (i.e. a bank).

The CFFs in those three countries were set up as credit union-owned entities under credit union-specific legislation. However, there are other potential legal structures, two of which were employed in the USA:

- In 1978, legislation was enacted by Congress to create a Central Liquidity Facility (CLF), administered by the Federal credit union regulator. The CLF was not an investment vehicle, but it could borrow from the US Treasury to fund liquidity lending to credit unions. However, it was created at a time when credit unions had excess liquidity and the corporate credit union network was already well-developed. Hence, the CLF never played a significant role.[6]
- The Federal Home Loan Bank System was originally established in 1932 to provide specialized finance to the savings and loan associations, which (like British and Irish building societies) primarily served as a source of home mortgages. In 1989 Federal law was amended to permit credit unions to access the system (now referred to as the FHLBanks) to obtain financing support for their mortgage lending. Nearly 1,500 credit unions have done so.[7]

In addition to the foregoing models, the following might be feasible legal structures for central finance facilities in Ireland and Britain:

- Amendments to primary credit union legislation could provide for creating a corporate credit union, with the specialized legal authorizations and governance structure needed for it to effectively function as a CFF.
- A commercial bank chartered specifically to provide CFF-type services to credit unions could presumably be created under existing banking law. The question is

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[6] Thompson P., ibid. Chapter 3.

[7] Federal Home Loan Banks, Combined Financial Report for 2017.

whether and to what extent primary legislation and regulations would need to be changed to permit credit unions to own shares in such a banking company and to provide its start-up capital.[8]

- Alternatively, such an entity might be set up as a trustee savings bank, assuming the relevant legislation provides ample scope for it to perform CFF functions. Under this type of structure, credit unions would not be actual owners of the CFF, but it could perhaps be structured so that they elect its board of directors.
- Special primary legislation might be enacted to specifically authorise and provide for the one-off creation of a credit union CFF.

The question of what legal structure and changes in primary legislation would be optimal for creating a credit union-owned CFF is beyond the scope of this paper. The foregoing is suggested only as a starting point for further discussion and study. [9]

8. A way forward to a central finance facility

The purpose of this paper has been to introduce the concept of a central finance facility as an idea that deserves attention from credit unions and their stakeholders in Ireland and Great Britain.

It is submitted that credit unions should explore how a CFF could best be set up and to work together to obtain any changes necessary in laws and regulations for that to happen.

Government could take the lead in this by creating a state-sponsored company whose charge is to research and develop the CFF concept, to draft appropriate enabling legislation, and to create a detailed plan for its authorization and implementation.

The model for such a company is the Irish Credit Union Restructuring Board (ReBo), which was set up under special legislation for a limited term with the specific mission of movement rationalization. A similar limited-term special entity, founded and funded by the State, could be the platform for staffing and administering a development programme with the specific goal of designing and creating a stand-alone central finance facility dedicated to credit unions.

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[8] In the 1970s this model was adopted by credit unions in the U.S. states of Kansas and Texas, where credit unions had the authority under state law to own shares in a commercial bank. The credit union-owned banks that were created that way were ultimately sold, however, since the corporate credit union structure proved to be more advantageous for tax and other regulatory reasons.

[9] The authors understand that for a brief period ending about 2006 there was a central credit union operating in Ireland, but that its activities were severely constrained since it was limited by law to making loans no larger than any other credit union. It was ultimately closed down by the regulator. No written record of its existence has been located, and the authors would be most grateful if anyone with knowledge of this Irish central credit union might contact them with more information.

Case Study: Canadian Central System

There are 272 credit unions in the English-speaking provinces of Canada, with total assets of C$216.3 billion, serving 5.6 million members.[10] At the beginning, Canadian credit unions, like those in the USA and Australia, operated under credit union laws very similar to those in Ireland and Britain. Today, however they provide households with a full range of consumer financial services, and they compete directly and effectively with the commercial banking sector.[11]

A key enabler of their doing so has been a system of central credit unions that dates back to the 1930's, when every Canadian province had a central of its own. The centrals were chartered under provincial legislation, and they served as both trade bodies and central finance facilities for their respective provinces. At the dominion level, the provincial centrals were the owner-members of the national apex organisation, originally known as Credit Union Central of Canada (CUCC).

The system has evolved over the years since, and today the function of a national CFF is largely performed by Central1, which resulted from the merger of the two largest provincial centrals, in Ontario and British Columbia. Central1 has 112 credit union members, and it provides them with financial, digital banking and payment services as well as government relations and marketing.

There are also five independent centrals serving other Canadian provinces, and at the national level, the Credit Union Association of Canada provides traditional trade association services, including governmental relations, training and research.

By virtue of their membership in the centrals, credit unions have enjoyed access to the Canadian Payment System, which is owned by the six major banks. In addition, other credit union-owned companies, whose creation was facilitated by the centrals, provide back-office services to credit unions in areas such as agricultural finance, insurance, and personal investments.

The Canadian centrals have always followed a conservative investment strategy that carefully matched sources and uses of funds. As a result, they completely avoided the problems that befell some of the American corporate credit unions when

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[10] Canadian Credit Union Association Annual Report 2017. The section is based on a telephone interview conducted on 8 March 2018 by Jim Jerving with Brian Downey, who served as CEO of the Credit Union Central of Canada from 1986 to 1995. As is typical of CFF executives, Downey's professional background was as a commercial banker.

[11] In Canada, there are actually two credit union sectors. In French-speaking Quebec, the Caisse Desjardins is a highly-centralised, top-down system in which the local credit unions (caisses) are essentially run as branches of the central body, which also serves as their regulator. It is much like the large co-operative banking systems in Continental Europe, which typically have a CFF in the form of a bank as their apex level organisation.

financial markets there collapsed during the last decade, as described in the next section.

Case Study: American Corporate Credit Union Network

The corporate credit union network in the United States illustrates the extraordinary benefits that well-run CFFs can provide to a credit union movement. But its history is also a cautionary tale of the harm that can result if failures in CFF governance and inadequate regulatory oversight allow them to take excessive risks.[12]

By 1970, there were 55 central credit unions in the USA. Many had been incorporated under state laws to serve groups too small to form their own credit unions. Some had already evolved into 'corporate' credit unions, whose primary business was to provide CFF services to regular CUs. Others had been chartered at the state and regional level specifically as corporate credit unions.[13]

Forty-two of these corporates became the membership of US Central Credit Union, which was established in 1970 under the laws of the State of Kansas as the national level CFF for the US credit union movement.[14]

At its height, US Central had more than US$30 billion in assets, holding over 10 percent of the total assets of all US credit unions. It provided services on a pass-through basis to credit unions via their corporates. Funds invested at individual corporates were reinvested by them at US Central, which put them into safe US government securities, debt obligations of 'too big to fail' money center banks, and fully secured 'reverse repurchase' agreements with the largest investment banks.

Because it maintained a conservative, 'matched book' investment strategy, US Central enjoyed AAA long term and A1/P1 short term debt ratings, the highest possible. Thus, it had the capacity to borrow at wholesale rates and provide liquidity to the movement on the most favorable terms available in the US market.

By taking less than a 0.05 percent spread between what it earned on investments and what it paid out to its members on their matched deposits, US Central could entirely fund its own operations, which included a staff of about 80. Its capital base consisted of 'permanent capital shares' from its member corporates, as permitted under Kansas law.

Because it managed almost all of the sector's short-term liquidity, US Central served

[12] For a thorough history of the U.S. corporate credit union network, see Thompson P., (2013), Development of the Modern U.S. Credit Union Movement 1970-2010, Madison, WI USA. This section is also based on the experiences of Ralph Swoboda during the period 1976 to 1994 when he served as General Counsel and later Chief Executive of Credit Union National Association (CUNA).

[13] As the result of 1978 Congressional action, all the central credit unions were forced to choose between continuing to serve individual consumers or instead focus solely on wholesale services to their credit union members. The latter was the unanimous choice of US Central's membership. The other centrals mostly stayed as natural person central credit unions and grew through mergers and by expanding their common bonds.

[14] The Kansas Credit Union Act specifically authorised the creation of both corporate and regular, 'natural person' credit unions.

as the focal point for the movement's daily net settlements with the US Federal Reserve and the rest of the American payment system. As much as US$8 billion a day flowed through US Central in settlement for nearly all credit union member cheques, networked ATM deposits and withdrawals, and VISA/MasterCard debit and credit card transactions for the whole the country. Instead of using non-interest bank accounts, credit unions could earn a daily return by keeping their funds at their corporates, which in turn held 100 percent of their daily settlement funds at US Central.

During the early years, most corporates also invested all or nearly all of their longer term money through US Central. In time, however, and particularly during periods of declining interest rates in the 1980's and 90's, credit unions in some states pressed hard on their corporates to invest directly in the money markets and to take on greater risk to earn higher yields.

Notwithstanding warnings from US Central, CUNA and CUNA Mutual, as well as the objections of other corporates, a few started taking large, unmatched positions in 'derivative' securities, such as collateralized mortgage obligations (CMOs). They successfully convinced the National Credit Union Administration (NCUA), the credit union regulator, to let them do so.

For a while, that strategy seemed to work well, and some of the corporates could pay rates that were higher than US Central's. Then, in the late 90's, following a change in management at US Central and CUNA and a restructuring of its board of directors, US Central finally succumbed to temptation and began to invest substantially in CMOs and other exotic securities as well.

All of this came to a sad ending in 2006-08 when the market collapsed for CMOs in the US, triggering the failure of large American investment banks and then the meltdown of financial markets in most of the rest of the world. Large investment losses at US Central and four of its corporate members resulted in their being placed into conservatorship by NCUA and then liquidated.

Fortunately, this occurred at a time when credit unions overall were very well capitalized. Although initially estimated as being as much as US$11.4 billion, the losses at US Central and the other four corporates were ultimately 'only' US$1.4 billion.[15] In the first instance, the losses were absorbed by the share protection fund operated by NCUA, but they were then passed along on a pro rata basis to America's individual credit unions.

Even with the corporate debacle, total losses to US credit unions from the global financial crises caused average credit union capital ratios to drop from 11.6 percent

[15] National Credit Union Administration (2010), "Material Loss Review of U.S. Central Federal Credit Union," Washington, DC.

in 2006 to a still strong 9.9 percent in 2009. They have since grown to 10.9 percent.[16]

As the result of subsequent mergers among the surviving corporates, there are now 11 of them in operation, providing investment, liquidity, and payments services much as before, but, of course, once again following conservative investment and operational policies.[17]

Altogether, there are 5,644 credit unions in the USA with US$1.4 trillion in assets, serving 115 million members. While US Central no longer exists, more than 95 percent of US credit unions are members of one or more corporates.[18]

Case Study: CUSCAL in Australia

In 1990, 424 credit unions operated in Australia, and there were credit union leagues and central finance facilities in seven Australian states and territories. Altogether, 36 credit union-owned organisations at the state and territory level provided trade body, back office, treasury, payment transactions and other services to credit unions on a collaborative basis.[19]

There was no credit union regulation by the national government. Instead, credit unions were supervised at the state level with a 'light touch' by the same understaffed regulators who oversaw mutual building societies (of which there were 40 in 1990). Although the credit union sector was largely self-regulated, no member had ever lost money due to a credit union failure, and indeed that record of no credit union losses still holds true today.

Nevertheless, in 1990 events outside of the credit union movement produced dramatic changes in public opinion and public policy. As a matter of survival, those changes demanded equally radical changes in how credit unions were organised and regulated.

That year, high interest rates and serious mismanagement contributed to major losses at three large building societies. A public panic ensued with a run on their deposits, and their subsequent collapse caused cumulative losses of nearly A$600 million to their depositors.

The State Government of Victoria suffered further losses of about A$900 million, and

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16 Credit Union National Association (2018), "Frequently Requested Credit Union and Bank Comparisons," Madison, WI, USA.

17 Had US Central gone into the global financial crisis with the same investments and portfolio structure it maintained in the early 90's, it would not have suffered any losses at all.

18 National Credit Union Administration (2017), "Corporate Credit Unions Final Rule," U.S. Federal Register, Vol. 82, No. 224.

19 The section is based on an interview Ralph Swoboda conducted on 12 March 2018 with Dave Taylor, who is now the CEO of G&C Mutual Bank, one of Australia's largest credit unions and mutual banks. During the time covered by this section, Dave was initially an economics advisor to the Australian Department of Treasury responsible for liaison with credit unions, and subsequently, in 1990, he was engaged by the credit union movement to implement the Project Renewal objectives. He then became a senior executive at the newly-formed CUSCAL. (In Australia, credit unions are legally permitted to use the name 'mutual bank' if they so choose.)

the episode created a major political scandal. Overnight, credit unions (along with the remaining building societies) found themselves under intense public scrutiny, as it became widely perceived that they lacked effective prudential supervision.

The credit union movement's response was a two-year collaborative process of self-examination, known as Project Renewal. It led to a shared recognition that the co-operative ethos and values of credit unions were no excuse for them to operate under safety standards any less rigorous than those that apply to the for-profit banks.

The result of Project Renewal was the transition of credit unions in 1992 to a uniform and national State-based regulatory framework with a new national supervisory body known as AFIC (the Australian Financial Institutions Commission).

Subsequently, in 1997, this State-based regulatory regime for credit unions was absorbed within the newly-created Australian Prudential Regulation Authority (APRA), which then became the single regulator for what became known as Authorised Deposit-taking Institutions (ADIs), embracing all credit unions, building societies and the for-profit banks.

The other big outcome from the above regulatory changes was the creation in 1992 of Credit Union Services Corporation (Australia) Ltd as a national CFF. Now officially known by its acronym, CUSCAL is itself an ADI owned by its shareholder credit unions.

Today CUSCAL provides Australia's 72 credit unions with a full range of payment processing, credit/debit cards, ATM networking and other payment system services. Its treasury services include mortgage securitisation, liquidity management and settlement services, financing products such as standby letters of credit and guarantees, and other risk management and portfolio management services.

The public perception of CUSCAL as a solid, well-managed and sophisticated capstone to the sector contributes substantially to the trust in which Australian credit unions and other mutuals are now held by their 4 million members. Altogether, Australian credit unions, mutual banks and building societies have A$111 billion in assets.[20]

The Australian experience is another example of how well-run CFFs can provide substantial support, as well as public credibility, for a credit union movement. But it is also an example of how it sometimes takes a catastrophe for co-operative movements to do what they need to do – in the Australian case to re-invent itself for a modern society.

It should not require a catastrophe for that to happen.

[20] Customer Owned Banking Association (April 2018), Fact Sheet, Sydney NSW.

Membership of the Centre for Community Finance Europe

Founding Members provided the initial funding required to launch CFCFE in 2017.

Credit Unions

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