

# ICBA's Mutual Bank Council's Fall Meeting

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## Charter Options and Strategies for Success for Mutuals

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# Banking Industry Update - Banks and Credit Unions

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	Number	Assets	Deposits
Total Banks	6,730	\$14.9T	\$9.9T
Commercial	5,809	\$13.8T	\$9.1T
Savings	921	\$1.0T	\$802B
Total CUs	6,419	\$1.1T	\$910B
Total Banks / CUs	13,149	\$16.0T	\$10.8T

Based on 3/31/14 data

# Banking Industry Update – Mutuals by the Numbers

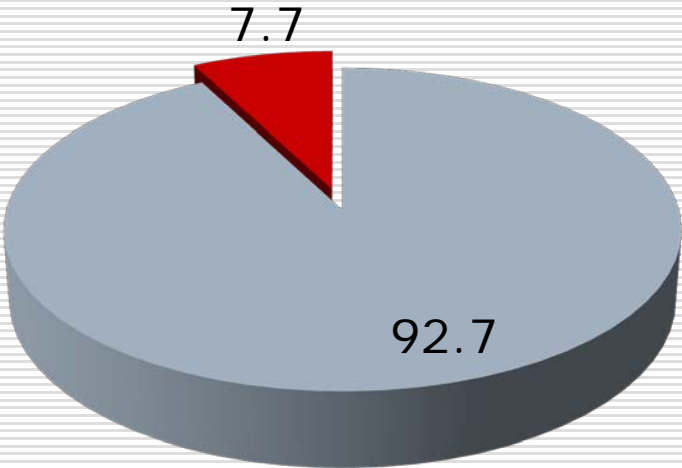
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- 537 mutual banks in US (traditional and private MHCs)
- 7.7% of all FDIC-insured banks are mutual (by number)
- 1.4% of all FDIC insured deposits held by mutual banks
- 127 private MHCs
- 34 public MHCs

# Banking Industry Update – Mutuals by the Numbers

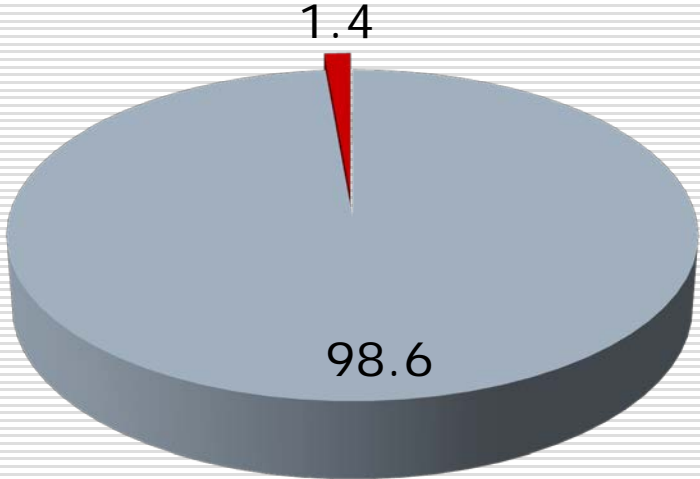
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Number



■ Stock Banks ■ Mutual Banks

Deposits



■ Stock Banks ■ Mutual Banks

# Post Dodd-Frank Federal Bank Regulatory Structure

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## Bank Level:

OCC: Federal banks (commercial and savings)

FDIC: State commercial banks, savings banks, trust companies, state S&Ls

FRB: State chartered institutions that elect FRB as primary federal regulator

## Holding Company Level:

FRB: All holding companies, including MHCs

# Dodd-Frank Effect on all Community Banks

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- Higher capital requirements
- Additional consumer disclosure and compliance procedures
- Increased pressure on banks to grow (improve scale)
- Increased pressure on smaller banks to consolidate (lack of scale)
- Bar raised on regulatory applications (more scrutinization, longer processing, more regulatory coordination)
- Growth opportunities only available to those with “excess” capital
- Overall effect – more costly to operate, more capital needed, more emphasis on scale

# Charter Options for Mutuals

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- State savings bank
- Federal savings bank
- Universal bank charter. Available in some states (e.g., Maine) for mutual and stock institutions. May exercise all the powers of commercial banks and can call themselves “banks”.
- State or Federal MHC
- No mutual national bank charter

# Advantages of a Commercial Bank Charter vs. Savings Bank Charter

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- No QTL Test
- No loan restrictions as a % of assets
- Better name recognition/goodwill/prestige?



# Advantages of Savings Bank Charter vs. Commercial Bank Charter

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- None?

# Advantages of Bank Holding Company vs. Savings and Loan Holding Company

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- Under FRB policy, BHCs with assets less than \$500 million do not have holding company capital requirements. SLHCs do.
- No need to obtain FRB approval to dividend cash from bank to holding company.

# Advantages of Savings and Loan Holding Company vs. Bank Holding Company

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- Grandfathered SLHCs may engage in certain holding company activities (e.g., non-bank activities, real estate development) not eligible for BHCs

# Mutual National Bank Charter

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- Comptroller Curry wants to expand federal savings bank powers but has not endorsed a mutual national bank charter
  - He considers cost of charter conversion excessive
  - Instead, he would give federal savings bank same powers as national banks – increased commercial lending authority
  - Relax QTL test
  - All require legislation
- Why not just authorize a mutual national bank charter?
  - Simpler fix but also requires legislation
  - Charter conversions are not that expensive

# Strategies for Success for Mutuals

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- To preserve or enhance the mutual charter, mutual savings banks/associations need to understand:
  - (i) their role or mission as community banks; (ii) their competition and customers; and (iii) the options, opportunities and challenges they have in maintaining or growing their presence as a viable alternative to stock-based institutions.
- Some difficult questions that should be considered when discussing ways to enhance the mutual charter.

# Strategies for Success for Mutuals

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## Questions to Consider

- Why do we have a mutual charter option?
  - Serve underserved customers or communities?
  - Promote locally “owned” community banks?
- What is the mission of mutuals and how do we or should we distinguish ourselves from stock banks?
  - Who are our customers?
  - Is the community served equally well by stock banks or savings banks?
  - What about credit union competition?

# Strategies for Success for Mutuals

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## Questions to Consider

- Can mutuals survive with dwindling numbers if there are no new charters?
  - Impact of credit unions
  - Impact of MHCs
  - Impact of industry consolidation – opportunities for mutuals?
- Do mutuals have to perform and grow like stock companies to be relevant players in their markets?
  - Are earnings and growth essential to a positive community bank culture?
  - Is growth and profitability necessary to attract qualified and incentivized employees?
  - Is perceived safety and stability enough to attract talent?

# Strategies for Success for Mutuals

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## Observations Regarding the Future of Mutuals

- The impact of credit union charter conversions
  - Are credit union conversions a good thing for mutuals?
  - If so, shouldn't bank regulators be more active in facilitating such conversions?
  - The role of NCUA in deterring charter conversions
- The impact of the MHC charter
  - Are MHCs critical to the growth and success of mutuals?
  - Is the MHC charter a key advantage to credit unions thinking about a charter conversion?



# Strategies for Success for Mutuals

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- The impact of capital and higher capital requirements
  - Can mutuals increase GAAP or regulatory capital other than through retained earnings?
  - Can mutuals use the MHC structure to raise capital and preserve their mutuality?
- Regulatory impact
  - Is there a regulatory bias against mutuals by federal bank regulators?
  - Will “best practices” for stock banks (and costs associated with such practices) eventually trickle down to mutuals?

## Strategies for Success for Mutuals

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- How can mutuals be a more effective political force in Washington, D.C.?

# Strategies for Success for Mutuals

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Questions?

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