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By Richard Craver | Journal Reporter
Published: February 17, 2009

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Delinquencies and loan write-offs are squeezing more than the bottom lines of banks these days.

Four of the five major credit unions serving the Triad reported a quarterly loss in 2008, primarily because each needed to significantly raise its provision for loan losses in the sour economy.

Financial institutions typically set aside money in a loan-loss provision in case current or projected delinquent loans need to be written off.

Although the costliest delinquent loans typically are for foreclosed homes, they also include commercial real-estate mortgages, home equity, automobile, credit cards, and unsecured credit loans.

Allegacy Federal Credit Union took the biggest blow of the five credit unions, posting a \$12.1 million loss that came on top of a \$7.4 million loss in 2007, according to data from the National Credit Union Association.

Allegacy was among at least 14 credit unions nationwide with a loss of more than \$10 million last year, according to *Credit Union Journal*. Only three of those credit unions were not based in housing markets that went from red hot to ice cold in the past two years.

Members, Piedmont Aviation and Truliant Federal credit unions also reported a negative quarter while posting an overall profit for the full year.

Analysts and credit-union officials stressed that members do not have to worry about their accounts because each credit union is federally insured.

"Credit unions have not been posting losses to the extent that the banks have been," said Karen Dorway, the president of Bauer Financial Inc., a financial-ratings company based in Coral Gables, Fla.

That is because credit unions traditionally tend to be more conservative with their loan policies than their banking rivals, according to analysts. That allows them to typically earn a modest annual profit compared with their asset size.

"But most everybody is raising their loan-loss provision, primarily because of the poor economy and rising unemployment," Dorway said.

For example, Allegacy raised its loan-loss provision by 52 percent in 2008 to \$21.1 million. That included getting special permission from its regulator to increase the provision by more than \$12 million in the third quarter.

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W.K. "Ike" Keener Jr., the chief executive of Allegacy, said that the credit union remains "well capitalized" despite the consecutive annual losses.

Keener said that about \$15 million of the provision was related to home-equity loans in delinquency and default, mostly to members outside of the Triad.

According to National Credit Union Association data, Allegacy listed \$16.2 million in loans that were delinquent two or more months on Dec. 31 compared with \$10.6 million on Dec. 31, 2007, and \$23.1 million on Sept. 30.

"We sought the special exception for the provision in the third quarter because we wanted to take a long-term solution to the loans," Keener said.

"Many of these were good, prime loans when they were written, taken out by members with better than 700 FICO scores. Many of these members have come across hard times recently, including losing their jobs. We're modifying our services to assist people who are struggling to keep their home."

Although Keener acknowledged that requesting the special provision was like taking a dose of castor oil, he says he believes that the decision will be beneficial to Allegacy.

"We had adequate money reserved," he said. "If we were still bleeding, we would not have been able to show a \$1.2 million profit in the fourth quarter."

How they're rated

Dorway said that it appears Allegacy made a prudent choice in requesting the special provision.

However, Bauer rates Allegacy with three stars in its five-star system.

By comparison, Members and Truliant are rated five stars and Piedmont Aviation four stars.

"Having losses in three out of its last five quarters should be something of a concern to Allegacy's management," she said.

Marcus Schaefer, the president and chief executive of Truliant, said that an increase in delinquent automobile, home and home-equity loans led the credit union to take a \$2.8 million provision in the fourth quarter -- which contributed significantly to a \$366,682 loss.

Truliant finished 2008 with a \$1.1 million profit compared with \$4.2 million in 2007. That is despite having \$18.1 million in loans considered as delinquent at least two months on Dec. 31 compared with \$6.4 million on Dec. 31, 2007.

"We're obviously not immune since we predominantly serve working-class members in our markets that have been strained by the recession," Schaefer said. "We saw an increase in bankruptcy filings among members beginning in mid-2008."

"We use sound lending metrics, didn't finance people into homes they couldn't afford."

"We'd make most of those same loans again, although some potential borrowers may not be as creditworthy now as they were when the loans were made," Schaefer said.

Delinquent automobile and unsecured credit loans were the main factors in Members raising its loan-loss provision by 55 percent to \$1.2 million in 2008. Members posted a profit of nearly \$1.2 million last year compared with nearly \$1.3 million in 2007.

"We were impacted by members dealing with job cuts, and their subsequent decisions between trying to pay for food or for a car or an unsecured loan," said Jack Braswell, the chief executive of Members. "For example, November was a big month for having to repossess cars."

Piedmont Aviation recovered from a \$205,000 loss in the second quarter to post a \$366,636 profit for the full year. The main delinquent factor with its loan portfolio was unsecured credit loans.

"The larger credit unions, particularly if they are in competitive banking markets, tend to mimic banks in products and services that can be vulnerable to an economic downturn," Dorway said.

Many banking officials have protested the ability of credit unions to offer broader services, such as wealth management, trust and estate-planning.

They say that allowing credit unions to offer those products gives them a competitive advantage against both large and small banks.

"They are offering a fuller range of services without having to pay taxes and not being subject to state and federal regulations that are burdensome to banks," said Ed Aycock, a senior vice president for the N.C. Bankers Association. "It's not fair competition. Banks just want everyone to play by the same rules."

Schaefer said that credit unions do not pay federal income taxes on profit because a credit union does not make profit. Its income goes back to its membership. He said that Truliant pays property, payroll and most sales taxes, and members pay taxes on dividends.

Looking ahead

Keener said that Allegacy anticipates having a profitable 2009. He said that it has about \$53 million in mortgages in its pipeline, about 70 percent refinancing and 30 percent originations.

Allegacy also expects to gain more operational efficiencies from a \$4 million upgrading of its computer system last year -- a project that it had been planning for

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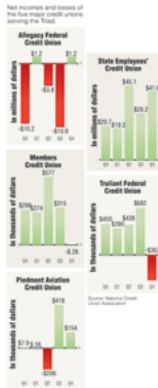
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several years.

"No one can predict the economy," Keener said. "What we can do is apply what we've learned, which is a diversified strategy for risk and being ahead of any negative economic trends as best we can.

"And whatever we do, don't do anything that will impair our capital."

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1

Posted by (theyellowjacket) on 02/17/2009 at 05:47 am.

well, this confirms it. the binge spending is over. but the retail carnage isn't. I guess the new depression era loke will be, "Hey, do you have 4.75 for a cup of starbucks?"that's a far cry from 2 bits or a quarter.

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