



By Bucky Sebastian,
CEO, GTE Federal
Credit Union

A New Kind of Charter

A Proposal to the New Administration, the Congress and the American People

The harbingers have been around for years, and in plain sight: We have chafed under our definition of capital; we have chafed under our restrictions on business lending and mortgage lending; some credit unions have converted out of the cooperative credit union charter; and increasingly, our tax-exempt status is questioned, as is our freedom from the Community Reinvestment Act.

When credit unions begin to feel constrained in their charter, when some opt out of that charter, and when critics find willing ears, it's a good time to think seriously about institutional change.

I am proposing such a change. I am proposing a new kind of financial services cooperative charter that might better suit some credit unions. I don't mean tinkering with what we have, not tweaking at the margins, but rather a new departure.

I call entities under this new kind of charter Federal Financial Services Cooperatives. They would make a new model for the 21st century, one that meets head-on the defects and weaknesses which have eroded the present credit union charters over the past several decades of financial change. Now, with financial cataclysms blowing in our faces, this new charter is more timely than ever.

Powers of an FFSC

The table on pg. 4 summarizes most of the characteristics of an FFSC. Like current credit unions, an FFSC would select its own field of membership. It would be a not-for-profit cooperative and be guided by a volunteer board of directors elected by the membership.

But it could attract and hold alternative forms of capital, registered as such for regulatory purposes. This would be at-risk capital. It would come after the members but before general creditors. It might be boosted by a one-time member-joining fee of say, \$10, which would remain with the credit union even if a member surrenders his or her membership.

In an FFSC, any income in excess of operating expenses, dividends, and reserves would be subject to taxation at the corporate rate. But an FFSC would not be restricted in business, mortgage or consumer lending. It would be subject to CRA reporting. The CEO's compensation would be capped at 20 times the average em-

ployee compensation, thus protecting members' capital while also providing an incentive for CEOs to see that their employees are paid well rather than ill.

If a credit union wished to convert from this new kind of charter to a commercial bank charter, it could do so only after it distributed its existing reserves to its members pro-rata. But there would be no cost for converting from a credit union to an FFSC charter.

Advantages

All sorts of advantages tend to the creation of FFSCs:

- Just launching a discussion of them presents to a wide audience – the American people – what a cooperative model is. Americans will see there is more than merely the for-profit, self-interest model that has led us into such calamitous financial difficulties.
- FFSCs shed the term “credit union,” increasingly seen as detrimental to the cooperative movement. Persons south of the Mason-Dixon line distrust the term “union,” and those north of the line are suspicious of the word “credit.”
- Establishing an FFSC charter sidesteps the legislative struggle for CURIA, which is really a kind of incrementalism and will bring out the lobbyists against us. The groups pressing for CURIA are looking at the problem on the tree level, not the forest level; we need a charter for the 21st century.
- An FFSC option will disintegrate the arguments of credit union leaders who say they feel compelled to convert their credit unions to banks.
- And an FFSC option shows Americans there is an organizational strategy not married to absent stockholders pressuring for ever higher profits. Rather, there is a model based on the pursuit of cooperative benefit to customer/members.

Time does not permit us to stand still. We need a new kind of charter to meet new financial, economic, technological and social times. A Federal Financial Services Cooperative is that kind of charter. ○

“An FFSC could attract and hold alternative forms of capital.”

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Proposed Federal Financial Services Cooperative (FSC)
Not For Profit Cooperative
Volunteer Board of Directors
Direct Election of Boards by Member/Owners
Chooses Its Own Market (No FOM)
CEO Compensation Capped at 20 Times Average Employee Total Compensation
CEO and Senior Management Salaries Reported In Annual Report
FSC CEO Will Be Treasurer of Board
Unlimited Authority To Lend By Type... i.e. Business Lending, Mortgage Lending, Consumer Lending
Alternate/Supplemental Capital Allowed
Risk Based Capital Formula
Subject to Taxation At The Corporate Tax Rate For Earnings In Excess of Expenses For: <ul style="list-style-type: none">• Operating Expenses• Dividends• Reserves Beyond 12% of Total Assets
Subject To Community Reinvestment Act Reporting
Membership Capital Shares Allowed, Dollar Amount Set By Each FSC
Conversion From This Type of Charter To Any Other, Only After All Existing Reserves Are Paid Out To Current Member/Owners
No Cost To Convert From CU To FSC
NCUA Is The Chartering, Regulatory and Insuring Agency
Insurance on Deposit Accounts Identical To FDIC/NCUSIF

BUSINESS



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Wendell "Bucky" Sebastian, CEO of GTE Federal Credit Union in Tampa, is spearheading an effort that would dramatically enhance the mission of credit unions in the country. "We could be lending more. We could be following the needs some of the people have right now," he says of credit unions.

A maverick on a mission

Wendell "Bucky" Sebastian

Title: President/CEO of GTE Federal Credit Union in Tampa

Age: 64

Education: Earned a degree in advanced scholastic philosophy and a doctorate of jurisprudence from Loyola University of Chicago.

Job history: attorney; general counsel and Chicago administrator of the Illinois Department of Financial Institutions; executive assistant to Illinois Secretary of State Michael J. Howlett; executive director and general counsel of the National Credit Union Administration (NCUA); co-founder of credit union consulting firm Callahan and Associates; joined GTE Federal Credit Union in 1989.

Newest role: Appointed to board of directors of the Federal Reserve Bank of Atlanta's Jacksonville Branch in 2007.

Quote: "My friends call me a maniac on a mission."

Amid the nation's financial crisis, a longtime credit union executive in Tampa wants to rewrite the rules for his industry. Again.

JEFF HARRINGTON
Times Staff Writer

Wendell "Bucky" Sebastian has always been a bit of a maverick within the sedate universe of credit unions.

Before he took charge at the GTE Federal Credit Union in Tampa, he helped trigger the biggest overhaul of America's credit union system since the Great Depression. As general counsel of the National Credit Union Administration in the 1980s, he wrote the legal opinion (which eventually became law) that allowed credit unions to vastly expand and merge with other unrelated unions.

Now, at the age of 64, Sebastian is at it again.

He's floating a proposal that could dramatically reshape and expand the mission of credit unions. Sebastian thinks he has a window to make his pitch, given that reform of the financial ser-

vices industry is a front-burner issue in Washington, D.C., as the Obama administration takes over.

"I'm absolutely confident we can get this done," he said, adding with a laugh: "It'll either be impossible or not that hard. ... My friends call me a maniac on a mission."

His wants to create a new type of charter for credit unions. In fact, organizations that opt in wouldn't even be called federal credit unions any more, but "federal financial service cooperatives."

Like credit unions, the co-ops would be not-for-profits that pay dividends to members, choose their own membership fields or markets and be run by a volunteer board elected by the members/owners.

Unlike credit unions, the new co-ops would have unlimited authority for business lending, mortgage lending and commercial lending. And they would have access to capital markets to raise money for lending.

Had such a charter been in place, credit unions would have access to the multibillion dollar federal rescue plan now priming the pump at banks across the country. The federal bailout funds are intended in part to ease the credit crunch and help financial institutions make more loans.

"We don't have access to any of that money," Sebastian said. "We could be lending more. We could be following the needs some of the people have right now. ... But we're less capable to solve this situation because of that inhibition."

In late October, Sebastian shared his plan in a Washington, D.C., meeting with 40 CEOs of the 100 biggest credit unions in the country.

Though not as hard-hit as some regional banks, the country's 8,000 credit unions haven't been immune to the downturn, particularly those in Florida that are heavily reliant on real estate loans. The GTE credit union last month reported a \$2.7-million loss in its third quarter, contributing to a \$21.9-million loss for the past nine months. And Suncoast Schools Federal Credit Union in Tampa, the largest credit union in Florida, notched a quarterly loss of \$25.7-million as it set aside nearly \$24-million in reserves to cover bad mortgage loans.

Tom Dorety, president and CEO of the \$6-billion Suncoast Schools credit union, welcomed Sebastian's initiative as a way to broaden services and funnel more loans to hard-pressed members.

"Conceptually, I think it's a great idea," he said. "We're at a disadvantage that we can't even raise capital (to lend). We're not getting any infusion of capital from the government."

Despite the economic downturn, Suncoast is not closing any branches. Its membership is still growing at a 7 percent clip. "But some type of capital reform would allow us to do an even better job," Dorety said.

John J. McKechnie, director of public and Congressional affairs for the National Credit Union Administration, the governmental agency that oversees the industry, is aware of Sebastian's plan. But whether it will be part of the group's legislative agenda hasn't been determined.

"The chairman and the board are still assessing various proposals" of credit union members, McKechnie said. "No decisions have been made."

When Sebastian arrived in the spring of 1989, GTE Federal Credit Union was a \$160-million operation with nine branches and 40,000 members — all with ties to the old General Telephone (now part of Verizon).

Today, it's a \$2-billion institution with 205,000 members. Thanks to the upgraded charter rules that Sebastian helped push when at the National Credit Union Administration, GTE's footprint stretches from Port Charlotte to the Georgia state line. It even has branches in Louisiana.

From his perch inside the credit union's 13-acre headquarters on the outskirts of downtown Tampa, Sebastian last week lamented how the fiscal crisis has widened to affect all lenders and why he believes "our system of a cooperative is the answer."

What he calls "the gospel according to Bucky" is that credit unions have different DNA than banks. Without the pressures that publicly traded banks feel, he says, credit unions don't have to manage quarter to quarter to keep profits up. As he sees it, banks try to get as much money out of customers through fees to raise their bottom line. For credit unions, because the customer is the owner, their interest is making money for their customers, not for the not-for-profit institution itself.

Historically, banks have objected to any widening of credit union mandates. They've cried foul that credit unions aren't on the same playing field because they're exempt from being taxed. As a concession, Sebastian's plan calls for taxing the converted financial services cooperatives at a corporate rate, but only after the co-op covers all operating expenses, pays dividends to members and sets aside reserves of 6 percent to 12 percent.

To blunt another common criticism of credit unions, he also suggests the cooperatives be subject to disclosing their lending patterns to minorities as banks do under the Community Reinvestment Act provisions.

But whether or not the bankers get on board — or his fellow credit unions, for that matter — Sebastian is undaunted about pushing his cause. "I'm not asking for anyone's permission. I'm not immune to suggestions to improve it ... but I'm not soliciting support," he said. "I just know we could be solving some of the needs of our people right now."