



Credit unions fare better in banking downturn

By [Péralte C. Paul](#)
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A couple years back, C. Lin Hodges, president of Associated Credit Union, was deflecting questions about credit unions' relevance.

His traditional banking peers raked in huge profits, betting big on construction loans and ever-rising home values.

Fewer people raise the relevancy issue now. The real estate collapse that created the worst banking crisis since the Great Depression resulted in regulators closing 165 insolvent commercial banks -- including 30 Georgia-based lenders -- in 2008 and 2009.

Credit unions, which differ from traditional banks in that they're non-profits owned by depositor-members, haven't been as hard-hit. In the same two-year-period, regulators shuttered 30 credit unions nationwide, none in Georgia.

So far in 2010, the trend is holding. Federal regulators this year have closed 68 commercial banks nationwide -- including seven in the Peach State -- but only seven credit unions nationwide have been closed.

Credit union executives say the industry wasn't saddled with bad loans because institutions stayed out of speculative construction financing and supprime home mortgage loans.

"We never got into the exotic mortgages, the liar loans and no-doc loans," Hodges said of his Norcross-based institution, which holds more than \$1.2 billion in total assets. "We were fortunate not to be in that space."

Because they don't have shareholders like publicly traded banking companies, credit unions didn't have the pressures of underwriting risky loans to satisfy Wall Street.

"Our structure is very different; we're a not-for-profit cooperative," said Todd Marksberry, chief operating officer of Delta Community Credit Union, which has \$3.5 billion in total assets, making it Georgia's biggest. "We're not having to make changes strategically or tactically to our business plan based on a quarterly earnings report."

Deposits at commercial banks in Georgia climbed an anemic 0.1 percent in 2009, according to the Federal Deposit Insurance Corp. Lending volume fell 11 percent.

Georgia's 160 credit unions, however, posted a 16.6 percent gain in deposits last year, up from 6.1 percent growth in 2007, said Michael Mercer, chief executive of Georgia Credit Union Affiliates, a trade group.

They've also ramped up marketing, touting lower-than-average fees and higher-than-average deposit interest rates.

Hodges said Associated's new deposit accounts rose 20 percent last year, and the number is up 15 percent so far this year.

Growth in lending by Georgia credit unions has slowed with demand, but lending still rose 6.7 percent last year, Mercer said.

Through the first quarter, loan volume rose 1.5 percent, while deposit balances increased 2.2 percent at Georgia credit unions. Similar figures for Georgia commercial banks are not yet available.

Nationally, mortgage originations through credit unions continue to rise, hitting \$94 billion last year, up from \$70 billion in 2008. Federal regulators don't break out mortgage originations for commercial banks so it's difficult to compare results.

Still, credit unions haven't been immune from the sour economy.

"Earnings have been weak at credit unions through 2009 and now through 2010," Mercer said. "Delinquencies are up, too, but not as high as (at) banks."

At Delta Community, net-charge offs, or loans written off as bad debt, last year rose to 1.20 percent of total outstanding loans, from 0.98 the year before.

The charge-off ratio for traditional Georgia lenders for the same period rose to 2.83 percent from 1.31 percent. Nationally, charge-off ratios at traditional banks rose to 2.49 percent from 1.49 percent.

But traditional bankers note while community commercial banks were especially hard-hit in this crisis because of their concentration in construction and development lending, credit unions could experience problems too if conditions remain troublesome.

"Certainly, the banking industry has been affected by the significant stresses in the residential real estate market," said David Oliver, a spokesman with the Georgia Bankers Association.

Unemployment has risen, he said, which could create more delinquencies in credit unions' more consumer focused loan portfolios if that trend remains sustained. "As unemployment continues, they may be subject to different economic stresses at different points," Oliver said.

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