Credit union plan angers members

Officials propose switching to savings thrift

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by Kevin J. Shay
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A plan for a Kensington credit union — one of the oldest in the nation — to convert to a mutual savings thrift has some members up in arms. It also has raised questions from two members of Congress.

Lafayette Federal Credit Union, which formed in 1935 soon after the Federal Credit Union Act was adopted, filed for the conversion in June with the Office of Thrift Supervision. A decision is due Nov. 5, according to the agency.

Top Lafayette officers are not giving members full disclosure about the plan, some members said. The credit union has 16,369 members, many from federal agencies such as the U.S. Agency for International Development.

‘‘Information hasn’t been transmitted to the membership properly,” said Dick Levine, a USAID employee and Silver Spring resident.

‘‘We need better transparency,” added Cecil H. Uyehara, also of Silver Spring and a retired USAID employee.

The plan by Lafayette board members is a business decision fueled by factors such as growth and the credit union regulatory environment, said Michael Hearne, president and CEO of Lafayette.

‘‘There has been a lot of misinformation and misunderstanding about this,” Hearne said.

Materials explaining the plan and ballots will be mailed to members Saturday, Hearne said. Members can vote by mail or wait until a meeting on Dec. 9 to vote on the potential conversion, he said.

The materials being sent were recently approved by the National Credit Union Administration, Hearne said. The federal agency oversees and insures deposits in federal credit unions.

Lafayette officials waited to publicly speak about the plan until such approval to make sure any public statements were consistent with what they submitted to the federal credit union agency, Hearne said.

Last month, Reps. Christopher Van Hollen Jr. (D-Dist. 8) of Kensington and Eleanor Holmes Norton (D) of Washington, D.C., wrote to Hearne, asking for more time and information for members.

‘‘Based on the experience of other credit union-to-bank conversions, we are very concerned about the potential for unjust insider enrichment in the conversion of Lafayette FCU to a bank,” they wrote.

Citing a study by the Credit Union National Association, a District trade organization, previous conversions have netted boards of directors an average of $742,000 and CEOs and other top officials an average of $1.2 million, Van Hollen and Norton said.

Hearne said top officials are not trying to enrich themselves. If members OK the conversion plan, they will become members of the thrift and retain voting rights, he said. Board members will remain volunteers and do not plan to have a stock-based compensation program, although officials may pursue an employee stock ownership plan in which all members have the opportunity to invest, he said.

‘‘If the board later decides to propose a stock offering, that will have to be put to the members for a vote,” Hearne said. ‘‘And if that offering was to pass, the board and senior managers will only be able to purchase stock under the same guidelines as any other member.”

The plan will detract from the credit union’s mission and make it more difficult to get loans, said Levine, a 12-year member of Lafayette.

‘‘I’ve always gotten pretty good rates,” he said. ‘‘Credit unions generally have less stringent requirements to obtain loans. It will be harder for us to get loans if it changes to a bank.”

The change would not be in line with the idea of credit unions being nonprofit and fully accountable to members, said Uyehara, a Lafayette member for more than three decades. ‘‘We have enough banks,” he said.

Like credit unions, mutual savings thrifts concentrate on personal, rather than commercial, accounts. Unlike credit unions, however, they are for-profit institutions.

The board seeks the conversion partly to increase lending capacity for members, Hearne said.

‘‘We basically outgrew our regulatory environment,” he said. ‘‘Our board decided to fix the roof while the sun is still shining.”

Lafayette, which has seven offices in Kensington, Potomac and the District, had $332.2 million in assets as of June, according to the federal credit union agency. Assets grew by 3 percent in the previous year. Net income declined by 25 percent in 2005 from 2004 to $3 million, according to Lafayette’s annual report.

In recent years, more than 20 credit unions have converted to thrifts, Hearne said. Some of those went on to become stock-owned institutions.

Two others that recently filed to convert are Marcy (N.Y.) Federal Credit Union and Sunshine State Credit Union of Tallahassee, Fla.