

MEMBER HIGHLIGHT



Proof of

Australian Credit Unions and CUNA Mutual



Concept

Cultivate Market for Cooperative Securities

By Mike Celichowski

One of the loudest arguments credit unions mount when defending attempts at demutualization is that, as member-owned financial cooperatives, they're unable to raise sufficient capital to expand services in the face of fierce competition. Thanks to the efforts of 21 Australian credit unions, aided by financial support and technical expertise from CUNA Mutual Group, that myth has been exploded, at least when the right technical and regulatory conditions have been met.

What began as a novel concept proved conclusively that a capital market exists for Tier 1 and Tier 2 securities offered by not-for-profit cooperatives, and a healthy market at that. The ability of a combined group of forward-thinking institutions to raise A\$100 million (at the time US\$75 million) was proof of concept that capital investors would be willing to purchase credit union securities under arrangements designed in a manner that protects mutuality and membership interests.

The sale of securities was also critical in a country whose credit union movement growth potential had been hobbled since its institutions became fully taxed in the 1990s. Tax demands put a strain on capital growth which, in turn, affected the credit unions' continued abilities to serve members. Executives Mark Genovese, CEO of Maritime Workers of Australia Credit Union, and Dave Taylor, manager director of FI Consulting Services, had been considering options to address the situation, which threatened the future of some Australian credit unions. The pair then visited the 2004 CUNA Mutual Discovery Conference in San Diego, where they heard a presentation on raising alternative capital for low-income credit unions in the U.S. That experience set the wheels in motion and helped establish the team that ultimately produced a successful offering.

Lack of Precedent

One of the biggest hurdles was a real lack of precedent among credit unions anywhere in raising secondary capital. With no playbook to follow, we found it challenging to determine proper processes and subsequent steps. Working with CUNA Mutual's International Division, a team of combined Australian and U.S. executives aided by Greg Hammond, a partner with the Australian law firm of Mallesons Stephan Jaques, began developing plans to facilitate the process. Feasibility studies, conducted throughout 2005, provided more definitive direction.

Some of the most important steps took place within the credit unions themselves. The 21 participants were required to change the constitution, or bylaws, of their institutions to allow the sale of securities. This required a member vote, with care taken not to compromise the members' ownership status. Credit union board approval also was required.

The institutions also needed support from local regulators, support eventually granted by the Australian Prudential Regulation Authority (APRA) which allowed participating credit unions to include securities as part of their regulatory capital. Banking giant ABN AMRO was brought in to help manage and facilitate sale of the securities to institutional investors.

Finding a market for those securities proved to be the biggest challenge, but only in the time it took to get market players comfortable viewing credit unions as securities issuers. Once securities were issued, however, that market quickly warmed to the idea and the goal was met by the time the offering closed in June 2006. The response was so strong, in fact, that ABN AMRO, with cooperation from CUNA Mutual, is currently spearheading another offering designed to raise as much as A\$125 million in the sale of credit union securities.

From an economic perspective, the securities sale helped bolster the financial strength of credit unions wishing to move into new service areas. More importantly, perhaps, the success of the sale removed a primary excuse offered by Australian credit unions seeking to demutualize as a means to support continued growth. Market noise around demutualizations has quieted a great deal since the successful issuance was completed.

The securities offering was truly an economic as well as a philosophical victory for Australian credit unions.

Lessons Learned

- Check local regulations. Before spending time or money developing a project, first consider whether your local regulatory structure allows credit unions to issue capital securities. In the United States, issuance of similar securities would be limited to a small subset of credit unions. Without a regulatory basis to proceed, other efforts would be moot.
- Be patient. Even with precedents set by a successful offering in Australia, the concept of credit unions or any cooperative organization issuing securities into the market is novel. It's vitally important to recognize that successful offerings at appropriate rates from cooperatives will take more time than those from traditional listed entities. Start any processes well before capital is required; it will take longer to raise the money than you may expect.
- Allocate the proper resources. Such projects require dedication and focus for those who spend the bulk of their time pulling the pieces together. Our project proved that investment banking experience was not a prerequisite, but having a team of business-savvy, creative individuals with a strong commitment to project success is an absolute necessity.
- Expect roadblocks. Even with intense preparation, there inevitably will be complications that arise and threaten to sink any offering. When these occur, don't lose sight of the ultimate goal nor the faith that success is attainable. When people realize the depth of your team's dedication to making the project successful, you'll be surprised how helpful they can be.
- Utilize the experts. The best decision we made during the project was to engage Mallesons Stephen Jaques as our legal advisors for the offering. The entire Mallesons team brought indispensable experience and detailed process knowledge to the table. The rest of the project team had the chance to learn as we went, thanks to the guiding hand of Mallesons to help us navigate the legal landscape. Spend the money necessary to bring in the best legal advice possible, and many other matters will take care of themselves. ■

Australia



Mike Celichowski is a director within CUNA Mutual Group's International Division and was a key facilitator of the Australian offering.