

## **ISU CREDIT UNION FACES THE GREAT CONTRACTION OF 2008-2009**

**Robert Tokle, Ph.D., Idaho State University**  
**Joanne Tokle, Ph.D., Idaho State University**

### **SYNOPSIS**

Idaho State University (ISU) Credit Union went into 2008 strongly capitalized and financially sound. Retail credit unions such as ISU Credit Union are typically conservatively managed financial institutions that rarely take on excessive risk, and as such, were believed to be largely immune from the financial shocks hitting other depository institutions in 2008. However, the corporate credit union in which it invested, Western Corporate Federal Credit Union (WesCorp), had put a large share of its portfolio in mortgage backed securities; it had assured its retail credit union investors that it too was financially sound, almost up to the day it was put into conservatorship. Consequently, ISU Credit Union and other retail credit unions had to pay to restore the National Credit Union Share Insurance Fund. For ISU Credit Union, this amounted to \$643,576. In addition, ISU Credit Union had to write off \$503,356 in WesCorp shares. Consequently, its net-worth ratio fell to just under 7%, a large drop from the 10% ratio it had just 18 months earlier. ISU Credit Union's challenge was to increase its net-worth ratio in the midst of the Great Recession.

### **LEARNING OBJECTIVES**

The objectives of this case are to:

1. Understand the basic operations of retail credit unions and their relationship to corporate credit unions, and examine how the corporate credit unions got into financial trouble and what effect this had on retail credit unions.
2. Analyze the financial challenges that ISU Credit Union faced at a time when many players in the economy were taken by surprise.
3. Understand the strategic decisions ISU Credit Union used to increase its net-worth ratio while facing recession, and analyze data to further understand why these strategies ultimately worked.

### **APPLICATION**

This is a descriptive case that may be used in a junior/senior level finance, management, or economics course. In particular, it could be useful for a depository institution management, money and banking or managerial economics course.

**KEY WORDS** financial crisis, corporate credit unions, retail credit unions, interest rates, net-worth ratio

**CONTACT** Dr. Robert Tokle, PhD, Department of Economics, 921 South 8<sup>th</sup> Avenue, Stop 8053, Idaho State University, Pocatello, ID 83209-8053. (208) 282-3835. [toklrobe@isu.edu](mailto:toklrobe@isu.edu)