AMERICA'S MUTUAL BANKS

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Mutual Alert

Credit Unions Couple ESG Initiatives and Subordinated Debt to Attract Investors

Subordinated debt tied to ESG initiatives may be a new pathway for capital growth. Earlier this year, GreenState Credit Union completed the first transaction of subordinated notes tied to social bond principles in the private market. The $100 million placement of fixed-to-floating rate subordinated notes was constructed within the GreenState Social Financing Framework and will benefit the credit union's minority homeownership initiative.

The deal indicates that more subordinated debt offerings could be on the horizon. As interest in environmental, social and governance (ESG) investing grows, companies are seeking opportunities where their values and their investments align. Community oriented financial institutions are the ideal choice, as they allow investors to support organizations with missions that intersect with ESG principles while gaining a competitive return on their investment.

The ability to use subordinated debt as a source of equity has been reserved for low-income designated credit unions (LICUs) since 1996. In 2017 however, larger credit unions began using subordinate debt as a growth driver and as an option to finance acquisitions. With that being said, the GreenState offering may set a precedent that non-LICUs and other financial institutions should also be able to use debt as equity, especially when it's being used for good purposes.

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