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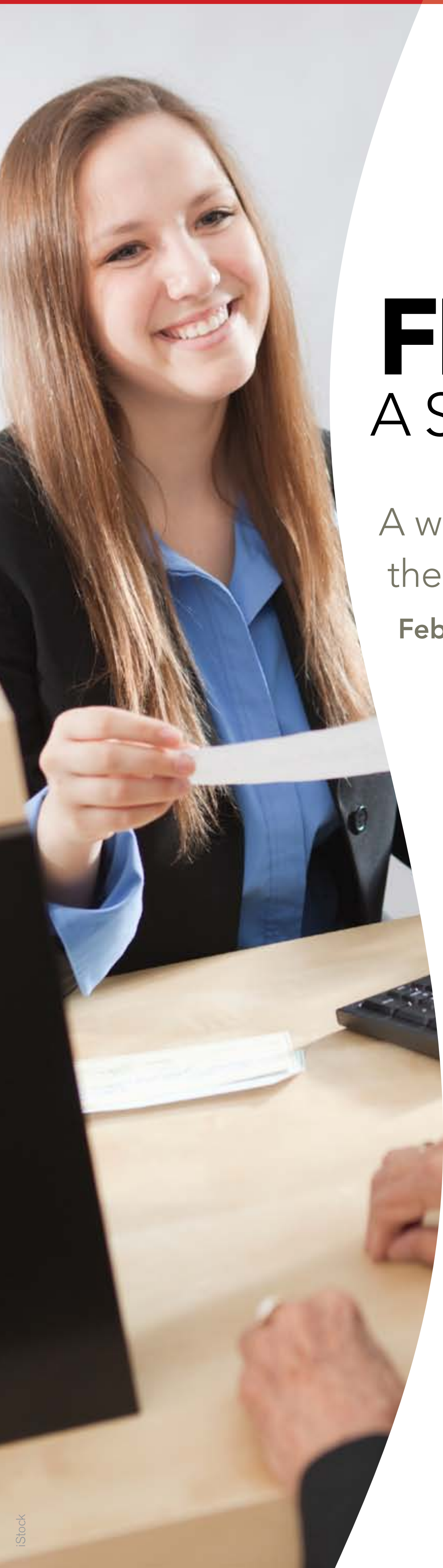
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FIVE TO THRIVE
A Strategic Guide for Small CUs

A white paper sponsored by
the CUNA Small Credit Union Committee

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Contents

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Background

Smaller credit unions indicate ongoing operational challenges exist despite a recovering economy. Meanwhile larger credit unions seemingly move forward more readily with the advantages of economies of scale, diversity of services offered, and a gain in new memberships.

CUNA recently posed a question to representatives of small credit unions, state leagues, and industry experts: “What are the top five things to be done to foster small credit union sustainability?”

Their answers reveal there are no silver bullets. No magic formulas. No “right” way.

Indeed, definitive answers are elusive given the independent variables for each credit union and the specific needs of members they serve. But hard work, willingness to change, and awareness and adherence to general business “best practices” will help keep the small credit unions vital and relevant in a competitive financial services marketplace.

Discussion with our small credit union experts revealed “five to thrive” broader tenets to apply in your strategic planning efforts:

1. **Differentiate**;
2. **Strive** to be consultative;
3. **Price** appropriately;
4. **Make** lending a priority; and
5. **Use** available resources.

This paper will cover each of these prevalent issues in-depth, suggesting best business practices and providing anecdotal evidence and case studies of small credit unions that have implemented these strategies with success.

This isn’t an exhaustive list, and the suggestions are in no particular order. You might discover additional techniques or alternate avenues to connect with your audience. But these basic yet highly effective strategies will likely prove beneficial to not only small credit unions, but institutions of any size.

“What are the top five things to be done to foster small credit union sustainability?”

1 Differentiate

'When positioning a brand, aggressively avoid becoming a "me too" by assertively being a "who else?"' —Crystal Black Davis, author and entrepreneur

How does an organization achieve competitive advantage? According to Harvard Business School Prof. Michael Porter, leverage two strengths: cost advantage and differentiation.

Further, he identifies three "generic strategies" for business entities to consider as these strengths are applied in a broad or narrow fashion:

1. **Cost** leadership;
2. **Differentiation**; and
3. **Focus**, as QuickMBA (*QuickMBA.com*) describes in "Porter's Generic Strategies."

Which of these three advantages might your credit union best use?

- **Cost differentiation** requires a company to be "the low-cost producer in an industry for a given level of quality." Here, a business realizes market share through competitive pricing strategies.
- **Differentiation strategy** requires products and services have "unique attributes that customers value." End users will find these products superior. The value-add for such products "may allow the firm to charge a premium price for it."
- **Focus strategy** requires concentration by the provider on a niche market. The idea is that a group's needs are best met with dedicated attentiveness. "A firm using a focus strategy often enjoys a high degree of customer loyalty, and this entrenched loyalty discourages other firms from competing directly." Here, providers tailor offerings to a cohort they know very well.

These strategies aren't necessarily compatible, and any organizations attempting all three won't necessarily find advantages. For instance, you might sacrifice very high quality products should a company aspire to offering lowest cost.

Therefore, "Michael Porter argued that to be successful over the long-term, a firm must select one of these three generic strategies."

What are specific strategies for differentiation?

One key to success, according to our panel, is to prevent yourself from becoming a commodity in the financial services arena.

"Be a consultant, not a commodity," echoes a recent article in *Rough Notes*. When you continue operations in the same old way, you can expect traditional results. How to distinguish yourself from the competition:

- **Value-added services** need to exceed consumer expectations. Describe how your offerings give you the edge.
- **Consider your unique "selling position"** and identify the few basic things you do exceedingly well all the time. These are your "critical success factors."
- **Establish yourself as a "point of comparison"** by setting a standard of excellence. Create a side-by-side comparison of your credit union and the competition and

share it with potential members. Choosing a financial service provider isn't easy, but you can make it easier by illuminating your advantages.

- **Exclusivity** is "a major selling point." How are you exclusive? You don't merely offer a financial product, you offer "a unique process."

Another suggestion from our group: Focus on your mission. Don't be an order taker; be a problem solver. To do this, you'll need to know your members' problems to strategize ways you can help.

Another consideration as you strive to differentiate is to hear the "voice of the customer."

This has become a prevalent initiative in the financial industry. The "Voice of Customer is Driving Transformation in Banking," says *The Financial Brand*. The article cites a KPMG survey of 100 U.S. senior banking executives, which says, "47% of banks cited changing customer expectations as the top driver of business transformation," and, consequently, revenue drivers and "key segments that organizations will focus on are changing as a result."

The pool is significant: FDIC data show 8.2% of American households—the equivalent of 10 million households, or 17 million adults—are unbanked.

The smaller financial provider should concentrate on engagement and cross-sales to "leverage an established customer base" and give possibility for growth in various services, "and even underserved markets," the article says.

Indeed, "…organic growth is the primary focus for the near term."

Large providers will tend to concentrate on asset management and wealth services, as high income consumers represent large growth potential. But this could prove an inefficient strategy as competition for such a niche will be high, and costs to acquire this cohort also high.

In addition, KPMG research shows "banks are also recognizing the potential revenue opportunity of the unbanked and underbanked segments." Recognition of this cohort as a possible growth opportunity "has more than doubled in survey responses from 2013."

The pool is significant: FDIC data show 8.2% of American households—the equivalent of 10 million households, or 17 million adults—are unbanked. And, 20.1% (24 million households, 51 million adults) are underbanked.

In addition to growth potential presented by the large group of these consumers in need of financial services, further appeal is that they "spend more money on fees than other customer segments, including fees for check-cashing services, overdrafts and non-home-bank ATMs."

Might this consumer group be one that would benefit from your unique understanding of their needs? This would lessen their financial risk from competing entities such as check-cashing providers, while potentially adding to your bottom line. What are consumers "saying" through their interaction with other providers that you need to "hear"?

Listening to consumers and responding with helpful financial choices empowers them. And your customized products and services along with personalized marketing and "servicing" strategies will be imperative in engaging specific target markets you identify as you discern needs and help problem-solve.

In agreement with KPMG survey findings, our experts, too, suggest you pay attention to consumers that aren't well-served by other institutions. It's important to consider the opportunities they pose for not only your ongoing relevance but vitality in the marketplace as you differentiate by listening and reacting.

Given that 47% of KPMG survey participants believed "changing consumer demands, behaviors, and channel use would be the primary driver of transformation" in banking relationships during the next three to five years, it seems prudent to really "hear" what consumers have to say.

Per Porter, you'll differentiate and foster loyalty when you're in tune with specific member needs.

SUCCESS STORY: DIFFERENTIATION IN DETROIT

Hank Hubbard, CEO, Communicating Arts CU, Detroit

Hank Hubbard, CEO of Communicating Arts Credit Union in Detroit, Mich., has implemented many of these suggested strategies to differentiate the credit union.

Communicating Arts is a community development credit union, and as such, strives to improve the financial health and well-being of community members as a strategic priority in addition to providing financial services.

Hubbard told *Credit Union Magazine* that he's had an experience in which listening and responding to a member concern led to a loan product to benefit many.

Hubbard worked with a member who had an existing $23,000 auto dealer loan with a 24.95% rate of interest over a six year period. Communicating Arts responded by cutting the loan rate in half, and in half again after helping the member improve his credit score; to a rate of 5% over five years.

This was the beginning of the credit union's progressive Auto Bailout Loan program, which has helped more than 250 members cut loan rates by an average 7%, or the equivalent of about $100 per month.

In addition, the credit union has opened branches in poor communities and knows the needs of consumers there, who have previously fallen prey to predatory lenders.

"The people in our field of membership don't have the resources to research other choices and they get taken advantage of if we're not there to help them," said Hubbard.

Branches in these communities reflect the culture of Communicating Arts as they concentrate on serving low- to middle-income populations there, and adhere to the strategic focus of the credit union. "Rather than looking for the greatest potential asset growth when selecting the branch location, we looked for the greatest need and then worry about making it work financially, which it does."

A branch opened in the middle of 2008 in the "severely distressed Highland Park area of Detroit" heralded the first financial provider for the location in 20 years. In that first year, the branch signed up in excess of 1,700 new members, $1.4 million in loans, and $1.1 million in deposits, all while protecting the assets of consumers who would have otherwise resorted to payday lenders.

"We started with the premise that these were the people we wanted to serve. We know they didn't have high balances, and 80% of our borrowers are subprime. If you want to serve them, you need to structure products for them and charge in a way that's fair and is a value for them."

With these efforts, Communicating Arts has exemplified differentiation strategy, and is in accord with three differentiation marketing tenets as presented at strategic marketing blog BrandUniq: the product and service brand innovates and is the first to claim an idea, has an organization behind it that is "able and willing to deliver on that competitive advantage over a long period of time," and, has differentiated in a way that culminates into a "meaningful benefit for the consumer."

Differentiation can breed ongoing success. In the words of business consultant and sustainability expert Jim Collins, "A great company will have many once-in-a-lifetime opportunities."

"Don't try to be all things to all people… Just try to be something to someone. Find your sweet spot."

Another tip is to recognize that your credit union and your employees are a fundamental differentiator, say our small credit union experts. And, that's important to incorporate in annual strategic planning exercises.

These two components of culture and strategic planning correlate in promoting differentiation and experiencing successful business outcomes.

"Culture Can Make or Break Strategy," says INSEAD Knowledge in an article written by a business and brand strategist. Corporate culture is an amalgamation of employee beliefs and opinions. Understanding culture is vital to your strategic planning so you can ensure the organization remains true to the vision and mission that unites employees.

And, it's vital for creating positive change.

Successful organizations will use culture as an "enabler" in creating change by understanding differences in "global cultures," which we might define as appreciating diversity in membership; understanding what culture means to various entities within the organization; and setting up initiatives for change within existing corporate culture.

Be attentive to the balance between culture and strategic initiatives, and know how your culture is a differentiator.

Share this cultural difference with consumers, and be adept at "Telling Your Story," says an article in *Collector.*

"By identifying your business' story, you set yourself apart from your competition and appeal to potential clients' emotions—which will get your foot in the door," advises the article. Five ways to tell your unique story are:

1. Give consumers a reason to believe. Be honest and direct in telling a "surprising yet believable" story about your business.

2. Keep it simple. Tell your tale succinctly and allow it to easily demonstrate what you do.

3. Speak to emotions. Although your story is factual, it should have emotional appeal.

4. Keep it interesting. Avoid generalities in marketing outreach. Be unique.

5. "Create a big zig." As the competition zigs, know how you zag. Identify what makes you special.

A final important message in this article is to know "your business is a reflection of who you are and what you're passionate about." Be aware of your strengths and leverage them to your advantage.

"Don't try to be all things to all people…Just try to be something to someone. Find your sweet spot," advises a brand expert quoted in the article.

2 Strive to Be Consultative

'An investment in knowledge pays the best interest.' –Benjamin Franklin

What keeps the American consumer up at night? And what might you do to facilitate a good night's sleep?

According to a recent *GoBankingRates.com* survey, as reported at *MarketWatch*, "One in three Americans worry about money all the time."

The recession has taken its toll in the aftermath of a crashed housing market, high unemployment, and other trying aspects of the economy. Many more consumers found themselves living paycheck-to-paycheck, and difficult economic times have left a lasting impression.

"Money is such an integral part of your everyday lives," notes Christina Lavingia, a *GoBankingRates* editor. "People are understandably less secure that they are safe."

One specific financial worry, as reported in a recent CBS News Poll, is that 64% of Americans are "anxious about the amount of retirement savings they already have" and face difficulty in managing to simultaneously pay the bills *and* set funds aside.

But that's not all. Indeed, the survey results indicate retirement savings concerns rank second, after paying bills and "keeping up with expenses" as additional financial concerns.

Paying off debt is a worry for 18%, while paying for education is bothersome for 16%. And, medical expense repayment is a burden for 8%.

Further revealed: lower income consumers are less confident than those with higher salaries, as two-thirds of workers earning $50,000 or less annually are anxious about retirement saving; but even the more affluent are worried as only 24% of those earning about $100,000 annually feel "confident" about their retirement savings.

Also of note: the National Foundation for Credit Counseling found in its 2014 Consumer Financial Literacy Survey that 61% of U.S. adults do not have a budget, 34% carry credit card debt every month, and 16% "have insufficient 'rainy day' savings for an emergency."

Further, 41% of American adults grade themselves a "C, D, or F on their knowledge of personal finance" and 73% "agree that they could benefit from financial advice from a professional."

Results of CUNA's 2014-2015 National Member & Nonmember Survey show credit union members, too, have concerns about their finances. Retirement preparedness is the biggest concern, as 57% of members are either "very" or "somewhat" concerned about retirement savings. Shortfalls in "rainy day" funds concern 52%, and almost "40% of members are "very" or "somewhat" concerned about an adult in their household losing his or her job."

Given that research data indicates a need for financial literacy and that consumers feel they would benefit from assistance with budgeting and attaining financial goals, your credit union will find advantages in adopting a consultative approach to meeting these member needs.

Our experts say it's imperative to focus on what's best for the member: It's an effective way to earn trust, and taking the time and opportunity to educate members and put them on the path to financial independence will yield incredible results.

The experience of our focus group is that people don't know what questions to ask, or are afraid to do so. Anticipating member needs will solidify your relationship.

One way to nurture a "relationship banking" situation in which your institution is top of mind for the consumer and one that your credit union might find growth opportunity can be accomplished by stressing cross-selling in your culture, say our panelists.

Research findings agree.

"If you're looking for organic growth, this strategy (cross-selling) has definite advantages," says Fiserv in its report, Driving Organic Growth: 5 Steps to Profitable Cross-selling. Cross-selling is cost-effective, and fosters retention.

"The key to successful cross-selling is knowing where your best opportunities are—throughout your entire franchise," says Fiserv. And, cross-selling "is relatively quick and straightforward. It doesn't require heavy investments in complex technology. And it relies primarily on data you already have in your customer files…"

In sum, cross-selling efforts require you be proactive; do not wait for members to ask questions.

The five steps to effective cross-selling are summarized as follows:

1. Know your audience. "Customer segmentation" will help identify opportunities to cross-sell. Know buying habits. Know demographics. Know households.

2. Measure previous purchases. Determine how many accounts you have sold to determine penetration levels. Take assessment a step further by finding out average balances held in each account.

3. Find your best targets for cross-sales. Determine which consumer groups use which products, and approach similar groups with products and services that appeal.

4. Make realistic sales goals. Diversity in branches will reveal gaps in cross-sale results. "The goal is to lift underperforming branches at least to the penetration average for the franchise."

5. "Go for the gold" by setting dollar amount goals and setting "clear targets for your branches to meet."

In sum, cross-selling efforts require you be proactive; do not wait for members to ask questions. Use segmentation to market services in an easy-to-understand manner to facilitate easy communications. It's important to use various communication channels and take advantage of multiple points of contact in your outreach.

Finally, the report suggests encouragement of referrals and to consider the importance of creativity—incentives and other rewards for cross-sales can prove helpful.

"A growing number of credit unions are integrating a sales culture where members achieve their financial goals in lockstep with the credit union philosophy," says a recent CUNA *News Now* article. The article cites the CUNA Operations, Sales & Services Council's white paper, "Recipes for a Sales Culture: How Credit Unions Blend Sales and Service."

SUCCESS STORY: CAPITALIZING ON CONSULTATION

Anabela Pereira Grenier, CEO, Pioneer Valley CU, Springfield, Mass.

Small credit unions have found success in forming consultative financial relationships with members, and provide examples of good strategies to use in helping members "get a good night's sleep" as targeted products and services keep financial worries at bay.

One credit union that has developed successful consultative relationships with membership is Pioneer Valley Credit Union in Springfield, Mass.

President/CEO Anabela Pereira Grenier has worked at Pioneer Valley for 30 years. She started as teller, has worked in all departments, and "has done everything from handling cash to underwriting loans," according to a *Credit Union Magazine* article.

During Pereira Grenier's tenure, the credit union has grown from $2 million to $52 million in assets, and grown membership from 900 to 7,500. It's safe to say the consultative nature of Pioneer Valley's business has been instrumental in creating this growth.

"We're the oldest operating postal credit union in the nation," notes Pereira Grenier in a *BusinessWest.com* article. "It took a while, but once membership grew, we really took off."

Credit union management decided around the time of the financial collapse in 2008 to reach out to larger employer groups in the area "in an attempt to stabilize business through a turbulent period," and that action has helped the credit union sustain its success.

As businesses joined the credit union, Pioneer Valley added staff to meet demand. Pereira Grenier sets the tone in which member satisfaction directs the course of business. "Her staff understands the constraints of a challenging economy and strives to make it as easy as possible for members to navigate their finances," notes *BusinessWest*. Consequently, the credit union developed several innovative products to meet specific member needs.

Pioneer Valley has invested in a training system for loan officers to become "certified financial life coaches." This designation allows staff to help members understand the complexities of their finances in one-on-one sessions, "tailored toward the member's individual needs."

For larger audiences, Pioneer Valley conducts financial literacy courses and visits employer groups to make such presentations.

Other efforts tailored to meet needs of the credit union's membership base include 0% loans through partnership with the Mass Save Heat Loan Program to help members become more energy efficient, an investor-rewards checking program, participation in various community outreach projects and local charities (offering members opportunity to participate as well), express banking options, and a variety of other projects.

Pereira Grenier believes financial literacy is a priority and reaches out to membership accordingly; "I understand that just creating a product isn't enough, so I've started to shift the credit union to a consultative culture," she says. "We have to make education a priority and provide the necessary tools to our members to empower them to make sound financial decisions. This will start to shift the paradigm from reactive to proactive, and that's the only way our members will get ahead."

Pereira Grenier's people-helping-people philosophy is pervasive at the credit union, and staff happily work together to achieve goals of member satisfaction. "In the three years I've been here, the morale is at an all-time high," says an HR coordinator quoted at *BusinessWest.com*, Jennie McPherson. "We've gone from a transaction culture to a consultative culture, and everyone is excited about what we're doing for our members. We all work well together as a team, and it's a very inclusive environment. When we do off-site team-building exercises, staff members are happy to attend."

Pioneer Valley Credit Union demonstrates in its consultative business culture that every staff member's participation contributes to organizational success. Understanding member needs drives the creation of innovative products and services that yield not only credit union growth, but happy employees and loyal membership.

It's a win-win-win environment, and Pioneer Valley exemplifies the words of Susan B. Anthony as they invest in staff and create targeted, innovative services to help members learn about and achieve control of their finances: "Independence is happiness."

The paper provides three suggestions to achieve an effective sales culture:

1. Maintain commitment to extraordinary service as you develop a sales culture.

2. Determine member needs to drive sales. Consider desired outcomes and interactions. "It's about understanding what member's need…"

3. Everyone participates. Establishing an effective sales culture requires involvement from all areas and departments, from the back office to the front lines.

Indeed, achieving a successful sales culture begins within the organization, per tips and considerations provided at *Inc.com* in "6 Keys to Building a Service Culture." Companies need to understand they're "in the service business." The elimination of "dumb policies, procedures, and systems" will help consumers interact with you.

Further, empower employees to make immediate decisions. Good hiring is key, and staff needs consistent training on how to provide good service—new ideas will "refresh your team's skills."

Finally, you must measure results of your efforts to know where and how you make impact.

Understanding member needs and determining how to accommodate them will help develop and nurture effective banking relationships, fostering loyalty as you go.

Understanding member needs and determining how to accommodate them will help develop and nurture effective banking relationships, fostering loyalty as you go.

3 Price for Your Market

'Price is what you pay. Value is what you get.' —Warren Buffet

Do you "follow the herd" when determining pricing strategies, or allow regulators or directors—who are perhaps not as cognizant of member needs as those working at the credit union—to make such choices? Are you committed to offering the "best price" for all members, perhaps to your detriment?

Our experts say such pricing plans aren't advantageous.

Rather, choose to institute risk-based pricing, they suggest, not just risk-based lending. And don't fall prey to charging everyone the same rate as some will have excellent credit while others owe everyone in town.

The ultimate objective is to minimize your marginal cost of funding within the context of your balance sheet (and member relations) constraints, says our panel. Again, knowing the member is important to achieve this goal.

An examination of general business practice in setting pricing strategy is a good place to start in considering how to reach this final objective. Purdue University provides basic marketing context in "Marketing's Four P's: First Steps for New Entrepreneurs."

"Marketing your business is about how you position it to satisfy your market's needs," and four elements are critical:

1. **A targeted** product;
2. **An appropriate** price;
3. **Positioning** this product in a way that will appeal; and
4. **Promoting** the product.

In more specific focus on pricing strategy, Purdue says, "Determining your product's price can be tricky. Many feel they must absolutely have the lowest price around." Yet, this strategy can be ineffective as it may indicate low quality to the consumer.

Rather, when pricing, providers "should reflect the appropriate positioning of your product in the market and result in a price that covers your cost per item and includes a profit margin. The result should neither be greedy nor timid. The former will price you out of the market. Pricing too low will make it impossible to grow."

Strategies to achieve accurate pricing must encompass all elements of product, consumer demand, the competition, and other products in your suite of offerings.

Some pricing methodologies Purdue mentions are:

- **Cost-plus.** This tactic incorporates "a standard percentage of profit" above cost. It's imperative to know all costs in this method.
- **Value-based.** Consider your buyer's impressions rather than a focus on your cost. What is perceived quality and "healthfulness" of the product, and value to the consumer?
- **Competitive.** Your pricing is "based on prices charged by competing firms for competing products…" You'll need to monitor the competition and respond accordingly.

- **Loss-leader.** In this strategy, providers sell at a cost below production in hopes to invite sales of other products.

Additional factors come into play in pricing issues after a strategy is determined, says Purdue, and will also impact your bottom line. Consider:

- **Payment periods**;
- **Product bundling**;
- **Discounts**;
- **Price flexibility** (staff is able to modify price);
- **Price differentials** among target groups; and,
- **Credit terms**.

These variables will all impact your bottom line. Time spent considering such issues will be well spent, according to Purdue, "The research needed to understand the pricing along the distribution path will be more than worth the time it takes."

Further, "whatever your price may be, ultimately it must cover your costs, contribute to your image by communicating the perceived value…counter the competition's offer, and avoid deadly price wars."

For small credit unions, interest income accounts for roughly 80% of gross income.

In narrowing this examination of pricing strategies with regard to financial services, and in consideration of consumer interests of this pricing method, the literature indicates credit scoring and risk-based pricing is advantageous for many reasons. The U.S. Chamber of Commerce describes "4 Ways Credit Scores and Risk-Based Pricing Benefit Consumers."

According to the group, risk-based pricing and credit scoring will "lower the cost of consumer credit for most borrowers and expand credit access." Extension of credit to low- and high-risk groups is beneficial because:

1. Fairness is extended when "objective data of an individual's financial situation and payment history" is considered and lenders will enjoy "increased consistency" in loan decision making. Further, "good credit behavior" will be rewarded to the consumer in the form of improved score.

2. Financial inclusion results when lenders have ability to personalize pricing. Lenders are able to make more loans, and consumers have greater access to credit.

3. Innovation allows lenders to find "tools and incentives they need to say 'yes' to loan applications" from a variety of borrowers. Risk-based pricing will "provide a competitive edge" as lenders strive to accommodate consumer need.

4. Economic growth will result as credit markets provide loans.

Even closer examination of the impact of pricing strategy to the credit union itself indicates it is an important consideration in growth and viability of the institution.

For small credit unions, interest income accounts for roughly 80% of gross income. In a credit union with $25 million in total assets, a change of just 10 basis points (i.e., 0.10%) in interest income represents approximately $25,000 in revenue. In the current environment, for some, this could mean the difference between operating in the red and operating in the black.

Others within the financial services industry, too, realize the significance of appropriate loan and deposit pricing strategy.

"Since small, seemingly insignificant pricing variations can affect a bank's bottom line…pricing discipline must be part of every bank's DNA," says bank president Jim Smitherman in an article at the Independent Bankers Association of Texas at *ibat.org*. "The fact remains, many banks are still being driven by winds of competitive pressures, the product of the day, or the informal whims of the CEO or the board."

Smitherman advises that an effective pricing approach consists of deliberation "with constant fine tuning and consistent looks back" and that establishing a pricing model is the key to success.

He provides some insight on the topic:

- **Simple models** are better; a "poor model" better than none at all.
- **Set minimum** returns; don't "give away the farm."
- **Avoid pricing** at the minimum.
- **Provide multiple** options such that the borrower feels empowered.
- **In volatile interest-rate** environments, off-the-cuff pricing can be an "earnings killer" because of increased risk.
- **Providers** must be good negotiators.
- **Specific** to small businesses, "rate does not rank in the top 5 of their major concerns but will still be a topic of some interest." Would you also apply such considerations to an individual borrower?

Another approach for pricing success is outlined in a recent *Credit Union Magazine* article. "Data Analysis Improves Relationship Pricing Programs," is the message, and intelligence information facilitates personalization of products.

"Analytics are key to making member relationships more profitable" and when you have awareness of membership behavior and need, you can provide relationship-pricing programs to not only drive member satisfaction but "critical incremental revenue" for your credit union.

Consider the importance of data analytics as a component in your pricing plan.

With regard to deposit pricing, our focus group indicates you need to create pricing benchmarks for deposits, and let your wholesale option and a servicing cost adjustment provide your benchmark.

Further perspective on how to build a profitable deposit business is provided by "PwC's Banking Views: When Cash Isn't King." Four immediate steps to enhance deposit profitability:

1. Better understand duration. Understand member behavior to accurately anticipate "the true core cash component of deposit accounts for specific customer segments and markets."

2. Be smart about pricing. Use "elasticity-based pricing models" to uncover variances in rate sensitivity in a competitive market. Differences will be uncovered "across customer segments, markets, product-use profiles and balance levels."

3. Obtain stable deposits. Tailor products to consumer "rate sensitivity and deposit stickiness." Is there opportunity to cross-sell?

4. Grow deposit capability with investments in staff, technology, and resources. Centralized governance, too, will prove beneficial.

Finally, our panel suggests you avoid relying exclusively on policy in making pricing decisions. Listen to your members and hear their stories. Be open to making exceptions to the rules, and don't be afraid to talk with members who have been refused by other institutions. You will likely discover they're your sweet spot.

SUCCESS STORY: PERSONALIZED PRICING

Teri Robinson, CEO,
Pacific Northwest Ironworkers FCU, Portland, Ore.

An example of a small credit union finding success with this member-centric approach is Pacific Northwest Ironworkers Federal Credit Union of Portland, Ore.

CEO Teri Robinson led "a stunning turnaround of Pacific Ironworkers FCU," says *Credit Union Magazine*, and to do so, she "placed her faith in a variety of tools designed to serve underserved consumers and those with marginal credit histories."

Pacific Ironworkers was dealt a blow during the recession and fell into the net worth restoration program. Areas of interest for examiners included risky borrowers, higher-than-peer income, higher-than-peer loan yield, and higher-than-peer operating expenses.

Robinson responded with an act of due diligence to discover 80% of charge-offs in 2011 and 60% in 2010 could be attributed to borrowers with A+ to B credit.

"I wasn't losing it on the riskier members—I was losing it on the members who could chase rates," she noted.

The CEO turned her attention to the most loyal members of Pacific Ironworkers, those at-risk. Predatory lenders had been filling a need, charging members 29% APR compared with 16% at the credit union for the average D-rated borrower. A few such members qualified for C ratings and 8.75% APR loan rates.

This data examination allowed Robinson to make interesting discoveries of her membership, and consequently led the credit union to cater specifically to a targeted group.

She obtained a Community Development Financial Institution designation, which provided regulatory flexibility along with secondary capital, increasing net worth from 6.61% in January 2012 to 8.2% in August 2013.

Loans grew 35% in 2013, reaching $10.5 million. In that year, 47% of loans were given to C-, D-, and E-rated borrowers. Loan yield was 8%; portfolio increased by $5.7 million. Delinquency rate was 1%.

"I look at how we can do things instead of how we can't," Robinson says. "We're relevant and needed more now than ever. You have to believe this as a CEO or leader in your organization or give up your spot to someone else who does."

Observes Blake Myers of the National Federal of Community Development Credit Unions, "She's created a fair product that also works out very well for the credit union."

This example of Pacific Ironworkers Federal shows that understanding member needs and incorporating appropriate pricing strategies along with an innovative approach to reinventing an existing business model not only preserves an organization but nurtures its growth.

And, it sets a model for others.

Brady Howe, president/CEO of Cutting Edge Federal Credit Union in Portland, Ore., says, "Her credit union is thriving now and others are taking note of what she's done—implementing her ideas and positive attitude to help their own credit unions perform better."

Determine how you can add value when you understand the financial endeavors of members, and balance this with consideration of your operating expenses. With this knowledge you can preserve or enhance your bottom line via appropriate pricing strategies and appealing, creative products that resonate.

As our case study and research findings suggest, it will require some time and effort on your part to conduct this due diligence, but it will be a good investment.

As American entrepreneur Jim Rohn points out, "We get paid for bringing value to the marketplace."

4 Make Lending Your Top Priority

'There are one hundred men seeking security to one able man who is willing to risk his fortune.' –J. Paul Getty, American Industrialist

Do you listen to member stories in making loan decisions—or shut the door? How might lending in underserved markets contribute to credit union prosperity?

Our experts say a focus on lending is critical, but that it's important to be sensible about it. Learn how to say "no," but try to find reasonable counteroffers and always leave the door open for a member; an attitude change can make a big difference.

Also, consider various lending products and strategies that can bolster the service at your credit union. Loan participations, mortgages, secured credit cards, subprime lending, and making use of current technologies are a few ways to capture consumers and explore growth opportunities at your credit union. Remember younger borrowers are your main lending demographic.

Carefully weigh the risk of opportunity, and be creative in your approach. Investing in niche lending markets can serve their unique needs and yield benefits for the credit union.

Indeed, according to a recent *Credit Union Magazine* article, "The viability of small credit unions depends on how well they exploit niches and meet members' needs."

When smaller credit unions plan to offer all kinds of products and services to compete with all other financial institutions, it's a set-up for failure, says the article. But "carefully and thoughtfully exploiting a niche by offering much-needed products and services to specific membership segments is a strategy not easily duplicated."

Should the small credit union choose to reach out to such markets, "the future is more than bright, it's downright dazzling."

This is because small credit unions have a unique advantage in risk-taking with lending that their larger counterparts do not. They know their members well, and can adjust accordingly.

"Financial services for underserved consumers in the U.S. constitute a diverse and continually growing marketplace," says the Center for Financial Services Innovation in its report, 2013 Financially Underserved Market Size. Highlights regarding growth potential include:

- **The underserved** cohort generated about $103 billion in fee and interest income in 2013, based on their use of $1.3 trillion in financial products and services.
- **The revenue** of $103 billion is up from $96 billion from 2012-2013; an increase of 7.1%.
- **Market revenue** with this group is on a steady trajectory upward; up 26% from 2009-2013.
- **Growth projections** are 4.6% from 2013-2014, culminating in total revenue of $107 billion.

The underserved consumer is challenged by lower household income and/or income volatility. Assisting in the financial health of these individuals will allow them to manage daily financial happenings and "increases the likelihood of long-term financial resilience and opportunity." And, providing products to help these consumers achieve such goals "represents a vast market opportunity."

The report reveals various key trends in serving the underserved, as follows:

- **Demand for subprime auto** and revolving subprime credit runs high in the wake of the recession. Subprime auto loans and leases drove 10.7% growth in long-term credit in 2013. Subprime card solicitations and approvals are up, and secured cards "saw a sharp jump in revenue driven by a 30% increase in average fees from 2012 to 2013," although such fee growth is expected to plateau.
- **Revenue for single-payment credit** is sluggish as short-term credit provided less revenue in 2013 "for the first time"; regulatory changes are partly responsible. The trend is expected to continue.
- **Macroeconomic influence** is impactful as products in accord with economic recovery represent greater growth than those designed to offset problems posed by the recession.
- **"Prepaid growth hints** at coming maturity," although potential exists to up usage volume and tenure of ownership on cards.
- **Electronic distribution channels** surpass storefront venues as underbanked consumers tend to have high smartphone usage: 34% used mobile banking in 2013, and 19% made mobile payments.

Equifax echoes that "new credit growth for bank- and retail-issued cards is strongest among subprime borrowers," in a November 2014 press release. Here revealed, for subprime borrowers, bank card limits are up 43.5%, and numbers of bank-issued cards are up 42.9%.

Write-off rate as a percent of total balances outstanding in September 2014 stood at 3.48%, down 15.9% from the previous year.

Consumers are poised to not only rebuild credit, but grow it. "New credit card accounts for those consumers with a subprime credit score have shown more than a 40% increase to date this year over the same time last year," notes Amy Crews Cutts, senior vice president and chief economist at Equifax.

Clearly, a growth potential exists in serving this market for those willing to explore it.

Research findings provide specific "how-to" guidelines and tips that expand upon the suggestions provided by our panelists, both in terms of general best business practice and strategies outlined specifically for credit unions.

Loan participations

Loan participations can help credit unions manage liquidity and interest rate risk as the participated loan is owned proportionately by all participants, notes *Credit Union Magazine*, and they "divide the cash flow in proportion to their ownership share."

It's important with such lending arrangements that a good policy be your guide, and in addition to adherence of NCUA requirements, good policies will:

- **Establish underwriting standards** that at minimum match those used when the credit union would originate a similar loan;
- **Define risk tolerance:** What level of risk is the credit union willing to take?
- **Define responsibilities of management**;

- **Enumerate due diligence responsibilities** for staff, both before and after purchase; and,
- **Determine board delegations** with regard to expectations and timeliness of performance reports.

In addition, "A well-drafted loan participation agreement, which contains the contractual terms that govern the actual process, is essential," notes the article. Contracts need to identify participants, their functions, and interests. Further, topics of underwriting standards; collections, trustee responsibilities, servicing rules, administrative activities, and representations and warranties all need to be addressed.

And, "an agreement that provides some flexibility about the various parties' roles has some merit."

Credit unions that sell loans in such agreements do so to "move the assets off its books," as the purchaser seeks to add it to theirs. Such agreements can be "effective tools," observes the article, but in effort to meet compliance requirements as well as engage in good business practices, parties must be prepared to handle many details.

Sixty percent of millennials intend to purchase a home, and 75% "believe ownership is an important long-term goal."

An evolving mortgage marketplace

Are you making mortgages? Mortgages are another product with potential to reap benefits in your suite of loan offerings.

Indeed, Rasmussen Reports survey results say 53% believe buying a home is a family's best investment, and the Demand Institute says millennials will be a force to be reckoned with on the mortgage front. That's because within the next five years, 8.3 million new millennial households will form as the economic recovery continues.

Sixty percent of millennials intend to purchase a home, and 75% "believe ownership is an important long-term goal."

Some of the challenges standing in the way of first-time buyers are unfounded obstacles, according to Reuters in "Wells Fargo Finds Mortgage Myths Hamper Home Purchases." Almost two-thirds of consumers believe "very good credit was necessary to buy a home" and in excess of 40% believed a down payment of 20% or more was a requirement.

Perhaps your targeted outreach would be helpful as such notions might be keeping prospective buyers out of the market—and off your loan portfolio—despite consumer ambitions of homeownership.

To up your odds of reaping mortgage market share, know these three mortgage marketing trends expected to persist through 2024, according to *Mortgage Banking*:

1. The information age requires change in consumer interactions as the public will perceive providers via channels like social media reviews. Extraordinary service provided by top-notch staff will be required. "A company's people will be its chief asset."

2. Personalization of marketing and lending is imperative as consumers demand flexibility. One version of a product won't suffice; personal needs (such as unusual year amortization terms to accommodate a retirement strategy) must be considered. Know consumer preferences at the outset.

3. Seamless interactions will be the expectation for consumers as they gain awareness through their own internet research. You must provide “a single and fast personal interaction” to stay on the radar.

“The generalist will have a hard time surviving,” notes the article.

Subprime lending

“Many credit-challenged consumers lack reliable transportation,” says the National Credit Union Foundation, and they’re working on a Non-Prime Auto Lending program to help.

Background data for the incubator project conducted in conjunction with the Filene Research Institute reveals that “most credit unions aren’t making auto loans” to members with impaired credit, and many of them resort to subprime lenders charging exorbitant interest rates. Subprime lenders account for 60% of market share of nonprime auto loans, and banks have 30% of the market, while credit unions claim 5% of nonprime auto loans.

Research data further reveals a lost job, inability to pay for auto repair, and problems making ends meet are the top three “causes of default among loan financing programs with a loan component” but preventive measures can be taken to help borrowers.

Some of these proactive steps are credit disability/credit life protections, guaranteed asset protection (GAP) loan deficiency/residual value insurance, breakdown insurance and extended warranties, and debt cancellation to help in events such as job loss, divorce, or injury.

When determining whether to extend a subprime auto loan, underwriters should consider affordability with analysis of the individual’s debt-to-income ratios, anticipated car maintenance costs, credit score, and employment status. Document reasons for approving or denying subprime loans, and remember “it’s important to interview [borrowers] to gain an understanding of their situations. The FICO score is a great tool, but that’s all it is.”

A *Credit Union Magazine* article—“Driven to Serve”—provides “Seven Steps to Subprime Success” in subprime auto lending:

1. **Rely** on direct lending;

2. **Conduct** loan interviews to “build a performing loan”—one to be at an appropriate level of affordability;

3. **Be** accurate in underwriting;

4. **Don’t** focus on the car itself—rather, the borrower’s ability to repay;

5. **Price** the loan high enough;

6. **Determine** credit union ability to collect on the loan; and

7. **“Properly reserve** for nonprime loans” by setting “prudent portfolio and/or net worth limits.”

Don’t forget technology’s impact in your strategic planning for lending products. “Online Lending is the New Normal,” says *Credit Union Magazine*. In accord with other lending advantages credit unions enjoy, the article indicates credit unions are uniquely positioned to assist consumers with online lending due to deep connections with members and the community; credit union ability to offer lower loan rates due to lesser costs of funds; and a willingness to collaborate and form beneficial loan participation networks.

Meanwhile, consumer education is an important part of the process for credit unions.

Online lenders must do three things right:

1. Provide a superior experience and a "complete solution" for the consumer.

2. Enable more than one product. A variety of loans should be available.

3. Leverage data for success. The successful loan provider will personalize products.

Story loans

A final exploration of loan personalization is that of "story loans." As discussed, it's important to know the member and understand what circumstances led to financial difficulty. With this knowledge, you're able to base your credit decision on member character rather than merely credit score. It might be that a specific incident, such as a job loss now resolved, led to past problems.

But you must be vigilant, suggest our experts, and know sometimes you'll have to say "no," or offer alternatives.

SUCCESS STORY: LEADING WITH LENDING

Jeff Green, retired CEO, GROhio Community CU, Mansfield, Ohio

Understanding the circumstances of the individual and responding accordingly can be a path to success, as illustrated by GROhio Community Credit Union in Mansfield, Ohio, under the direction of recently retired CEO Jeff Green.

GROhio, $9 million in assets, "has built a reputation in its community as a place where people with not-so-great credit can turn to for help getting back on their financial feet," notes a recent CUNA *News Now* article.

Almost half of GROhio's members have D and E credit scores. But Green has made blue-collar workers in his community the focus.

"They're our best members," says Green. "They know that if they make their payments on time, they can get other loans here." The philosophy benefits the credit union, too, as it boasts a yield rate of 9.8%, and has doubled asset size over the past 15 years during Green's tenure.

"Credit unions have an opportunity to attract members from the banks who aren't serving them," says Green, and GROhio's popularity has area car dealerships and banks referring customers they cannot help.

"In the past 15 years, I've helped a lot of people with loans they couldn't get elsewhere," Green says, "I hope members remember me as the one who helped them."

Green demonstrates that good management and understanding members can mitigate the risk of extending a loan; members, too, benefit from what they learn. It's good to think outside the box.

Notes consultant Gary Ryan Blair, "Creative risk taking is essential in any goal where the stakes are high. Thoughtless risks are destructive, of course, but perhaps even more wasteful is thoughtless caution which prompts inaction and promotes failure to seize opportunity."

5 Use Available Resources

'Unity is strength…where there is teamwork and collaboration, wonderful things can be achieved.' —Mattie Stepanek, American Poet

Are you looking outside your organization for help, or do you maintain an internal focus as you attempt to meet member needs?

Engagement and interaction with related financial organizations is another way small credit unions can find ways to prosper, according to our panel.

CUNA, state credit union associations, chapters, the National Credit Union Administration's Office of Small Credit Union Initiatives (NCUA OSCUI), the National Federation of Community Development Credit Unions, and credit union service organizations are some of the resources available for assistance and information sharing. Participating with them by attending meetings, joining listservs, and other interactions is the best way to get to know others, keep abreast of trends in the financial industry, and forge connections to assist with your credit union operations in a hands-on way.

Collaborations you might explore run the gamut from credit union service organization (CUSO) partnerships to mergers to innovative connections formed with other cooperatives.

In this section, you'll find an investigation of challenges some face in building networks and ways to overcome them; a glimpse into designations you can obtain to nurture growth by associating with government agencies; and specific examples and suggestions for small credit unions who want collaborations to work.

Typical barriers to collaborations, and how to remove them

"Cooperation and collaboration will be the competitive advantages that sustain this industry," says a *Credit Union Magazine* article, "Eliminate Three Barriers to Cooperation." A collaboration can be challenging, and not necessarily readily adopted by potential participants. Three common obstacles and their solutions are:

1. Fear of acquisition. Small credit unions may be afraid a partner intends to take them over. The solution is to realize member needs come first, and member interests may require collaborations to effect decisions and options to their benefit.

2. Loss of barriers to competition. Fields of membership may overlap, resulting in an increasingly competitive environment that can hamper collaborations. To resolve this, refocus on an end goal to win market share from banks, not from "the limited market share other credit unions hold."

3. Cooperation takes work. It's harder to work together at times, but options like multi-owned CUSOs illuminate the value of collaborations.

"Are You Unknowingly Fighting Collaboration?" asks *Chief Learning Officer*. Here, "one of the keys to an organization's success and level of intelligence is the ability to look and act holistically and include all levels in the process of performing the organization's mission."

The "shared fate" of a collaboration will be powerful as a result of this "common cause," and some benefits of cooperation include progress, promotion of quality, employees who are considered a "respected resource," and the defined sense of purpose and "value add" gleaned through cooperation.

Additional challenges to collaborations:

- **Opposition** in processes and procedure will require resolution;
- **Potential** for "toxic environment" should "organizational toxicity" in the form of addiction, harassment, or other unpleasantness exist;
- **"Bonding vs. bridging,"** as with collaboration, bridges are formed, whereas bonding "creates moats for silos"; and,
- **Blocks both mental and emotional** as some may not see benefits of cooperating and encourage difficulty.

The author observes that organizations with capacity to change internal cultures and beliefs will be able to change and successfully navigate challenges.

Those at credit unions, too, experience some of the same inhibitions previously mentioned. *Collaboration in Practice: 11 Credit Union Studies,* a research paper by the Filene Research Institute, concurs that challenges for collaborators are described as fearing loss of control, risk aversion, lack of cultural acceptance within the business, and the reality that collaborations can be "born of necessity," but in good times, there may be reluctance to innovate.

Remember that most credit unions dont have a hidden agenda to "take you over."

Steps you can take to overcome obstacles include:

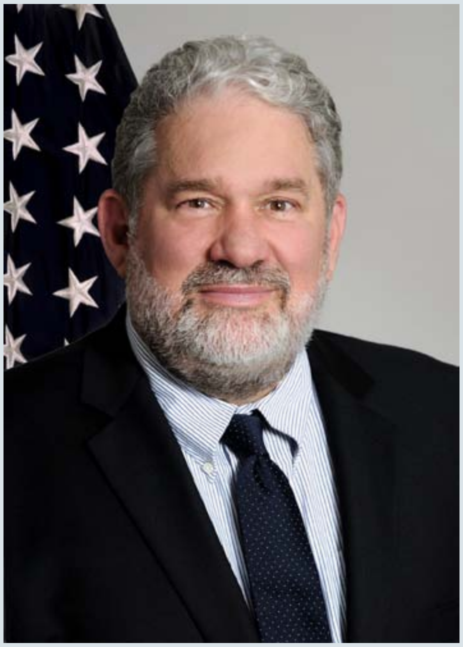
- **Think broadly.** Know that collaborations will benefit believers, skeptics, and entrepreneurs; each cohort will ultimately contribute to overall success with their respective viewpoints. Further know "credit unions face greater challenges than each other" as competitors, and accept that collaborations will not always produce equal cost savings for participants.
- **Choose wisely** when selecting a partner. Identify a common problem, look to generation of revenue and member satisfaction rather than merely cost cutting measures as objectives, and take time to know and understand each other for successful cooperation.
- **Require involvement** and "work together to set the required level of participation."
- **Involve people** who will work hard for successful outcomes.

Finally, Filene says commitment to the project is a requirement. To keep things moving, planners need to involve the CEO, respect varying opinions, commit to the work required, and exercise flexibility.

Our experts suggest credit unions ask their peers for help, and not rely on examiners to problem solve or provide growth strategies—although there are exceptions, examiners are more inclined to place limitations than provide options.

Remember that most credit unions don't have a hidden agenda to "take you over," as it's simply too much of a hassle, says our panel.

CUSOs provide opportunity to work together with great results. Credit unions might share staff, various operating costs, and vendor contracts, for example.



Bill Myers, OSCUI Director, NCUA

How to Survive and Thrive

In this column, OSCUI Director Bill Myers offers insight to small, low-income, new, and minority credit unions based on his role as director and past experience in the credit union field.

Recently, the CUNA Small Credit Union Committee sent me a question, "What are the top five for small credit unions to survive and thrive?" Cathy Morrison, a field examiner on assignment from Region I, sat down with me to compare notes.

Here's what we agreed were the top five actions for small credit unions:

1. Grow. The shortest cure for what ails a small credit union is membership growth. Perhaps your credit union's field of membership is stale or the credit union is not attracting young members. Maybe its products are out-of-date, or they aren't marketed well. Whatever the case, scale (i.e., growth) cures small.

2. Watch. Credit unions are transparent organizations. Their financial statements are published quarterly. Each board and management member should know and monitor her/his credit union's performance in at least a half a dozen of these reported areas (such as earnings, capital adequacy, asset quality and growth).

3. Lend. Credit unions with a loan-to-share ratio of less than 60% are rarely sustainable. Those with a ratio over 80% are hard to stop. If your credit union's lending has stalled, look beyond "A" paper as a possible strategy to increase lending.

4. Train. A knowledgeable board and staff keep the credit union on track. The movement is full of training opportunities, many are inexpensive and some are free. The Training Events and Announcements columns of this e-newsletter are good resources for such opportunities.

5. Engage. This is a tough one. We find small credit unions that don't succeed are frequently unfocused, not networked, and not interested. Contact fellow credit unions in your area and local non-profit organizations to explore ways to work together.

There are more issues we could cite and catchy phrases we could write. But, we think this Top 5 is enough to move most small credit unions toward survive and then to thrive.

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"What are the top five actions for small credit unions to survive and thrive?"

Credit union service organizations

“What’s truly exciting about CUSOs is that they provide opportunities to create opportunities,” says Guy Messick, general counsel for the National Association of Credit Union Service Organizations, in *Credit Union Magazine*. “Once you’re in a collaborative, cooperative relationship such as this, other opportunities come to you that would not have but for the relationship.”

CUSOs have evolved from entities originally designed to provide investment services to those that dive into operations to enable cost savings and achieve higher levels of service. Now, CUSOs offer mortgages, business loans, mobile banking, plastic cards, home banking, and shared branching as collaborating credit unions provide a wide array of products and services that they couldn’t working independently.

Further benefits of togetherness are that CUSOs can be incubators for innovation as they compete against other providers, and credit unions can keep dollars spent within the movement. And, there’s agreement on goals as all owners have a vested interest for the CUSO to do the right thing.

“Investing in a CUSO isn’t just for larger credit unions,” says the article. “Even a small investment gives a credit union a stake in the action,” which translates into advantages for the entire industry.

Explore the benefits of low-income and Community Development Financial Institution (CDFI) designations, says our focus group, as another resource for growth opportunities through government agencies.

Low income designation (LID) and CDFI programs

Low income designations are assigned by NCUA for certain credit unions meeting specific membership requirements. Such credit unions are able to take advantage of legislated benefits. LID is possible for federal credit unions when a majority of members (50% plus one) qualify as “low income.”

Benefits incurred as a result of this designation are not available to other credit unions and are provided with the understanding that membership has difficulty obtaining mainstream financial services.

As a result of the designation, credit unions can accept non-member deposits, are exempt from member business loan limits, can apply for grants and low-rate loans from NCUA, and can have access to secondary capital. Further, LID credit unions can take advantage of consulting services provided by NCUA’s Office of Small Credit Union Initiatives (OSCUI) and other resources.

Attain a low-income designation as a result of your regular examination—NCUA will notify you if you qualify—or request consultation with NCUA’s Office of Consumer Protection to determine eligibility.

Further, OSCUI “supports the success of small credit unions through training, consulting, grants and loans, and partnership opportunities,” and is “committed to helping these credit unions not only survive, but thrive.”

U.S. Department of the Treasury's CDFI Fund grants CDFI certification. A CDFI "is a specialized financial institution that works in market niches that are underserved by traditional financial institutions," says the CDFI Fund, and such institutions were identified to "use federal resources to invest in CDFIs and to build their capacity to serve low-income people and communities that lack access to affordable financial products and services."

According to "CDFI Certification: A Building Block for Credit Union Growth"—a 2014 CUNA white paper, "CDFI certification offers fresh access to resources…in diverse, low-income and underserved markets." In addition, CDFIs:

- **Flourish** in challenging markets by offering products and services targeted to specific needs; financial growth and performance of such credit unions "meets or exceeds that of their mainstream peers."
- **Maximize leverage** of outside resources. From 2009-2013, 61 credit unions obtained $102.7 million in CDFI Financial Assistance Grants.
- **Innovate** and lead the way with technology outreach in member services.
- **Demonstrate a viable business model** in community development finance.
- **Can equate to thousands of credit unions**, as such credit unions "are defined by what they do, not where they live." Those that decide and act to serve the underserved can become eligible for this certification.

If a merger is an option for you, our panelists say don't overlook partnerships with other small to midsize credit unions.

Mergers

If a merger is an option for you, our panelists say don't overlook partnerships with other small to midsize credit unions. Benefits can include a better cultural fit, more opportunities for members to serve in a governance/volunteer capacity, and preservation of the "high-touch" approach typical of smaller organizations.

NCUA OSCUI recently published a resource to assist: "Truth in Mergers: A Guide for Merging Credit Unions." It helps credit unions identify exactly when a merger is in their best interest and provides tips on negotiation of merger contracts.

Best practices include:

- **Identify partners** via existing professional networks.
- **Carefully consider which credit union is the best fit** by evaluation of various partners, considering aspects such as culture, mission statement, membership base, product offerings, financial health, and willingness of the partner to negotiate.
- **Consider regulatory waivers** as waivers for the merging credit union won't transfer.
- **Think about merger impact** as part of the strategic planning process.
- **Negotiate critical issues** like maintenance of special services, community commitments, how to handle employee issues, and the credit union's name.
- **Enforcement of the agreement.** NCUA "suggests that a merging credit union name in the contract the third-party beneficiaries with standing to enforce the contract."

Clearly, opportunities abound for those that choose to participate in collaborations that facilitate growth, innovation and cost savings.

SUCCESS STORY: CREATING COLLABORATIONS


Nick Kessenich, CEO,
Members First CU, Madison, Wis.

One small credit union that has found great success in various collaborations is Members First Credit Union of Madison, Wis. CEO Nick Kessenich describes these experiences in a YouTube video.

Some credit unions are afraid to partner with others, says Kessenich, which he believes is a mistake.

Some time ago, Members First found itself "hand posting," a very time-consuming process. Management of Members First approached the CEO of another credit union in town with this problem. A partnership evolved, and for five years, the other credit union did all of the data processing for Members First.

"It worked great," notes Kessenich. "It absolutely worked great."

Another time, during a conversation Kessenich was having with a former CEO of another credit union in Madison, Kessenich mentioned he had an interest in offering share draft accounts with debit cards, but found it was cost prohibitive.

As conversation progressed, together they devised a collaboration in which Members First was able to offer a share draft account with debit cards through a piggy-back arrangement with the other credit union.

"It worked fantastic," says Kessenich. "It enabled Members First to build a base and this credit union could afford to do it."

Kessenich also indicated Members First was collaborating with two other credit unions. All three used the same data processor, and they were working out an agreement in which they would share employees in the event of a crisis that might leave any of them short-staffed—such as an influenza outbreak.

"We will share employees and help each other get through it. And that's what credit unions are all about. It's helping people, and helping each other get through things."

SUCCESS STORY: NETWORKING PAYS OFF


Debie Keesee, CEO,
Spokane (Wash.) Media FCU

Debie Keesee, president and CEO of Spokane Media Federal Credit Union in Washington, shared an experience in which networking with peers led to cash in many coffers.

The Northwest Credit Union Association (NWCUA) hosted a small credit union networking conference during which Keesee mentioned she had filed for the Tax Exempt Small Employer Health Insurance Premium refund.

Keesee indicated federally insured credit unions don't traditionally file a 990 form and at first glance, it seemed complicated. But investigation proved "credit unions only have to do a few parts of the 990T and fill out Form 8941. Neither form is complex and it only takes a little time," she says. "We received $1,100 back from the IRS for less than 45 minutes of time to fill out the forms. Everyone would consider that well worth the time investment."

A number of attendees at that networking event took advantage of the tax-refund opportunity after Keesee's comments, and the Northwest Credit Union Association ran an article about her experience that prompted calls from credit unions as far away as New York, says Keesee.

"Small credit unions have lots of opportunities to share the ideas that work for their credit unions and I would encourage folks to take advantage of those opportunities. Our history of collaboration as cooperatives is something that reinforces credit union uniqueness in the financial services industry," she says.

The examples of collaboration at Members First as well as the story of the power of networking initiated by Spoken Media FCU both succinctly illustrate J.C Penney's comment, "Growth is never by mere chance; it's the result of forces working together."

The Bottom Line

'The pessimist complains about the wind; the optimist expects it to change; the realist adjusts the sails.' –William Arthur Ward, American Writer

"It's tough to fight economies of scale," notes a recent article in *Credit Union Magazine*. "…Small credit unions face enormous challenges in the current marketplace and economic environment. Some of the more pessimistic observers go so far as to say the challenges are insurmountable. But others see a brighter future."

Ultimately, "The bottom line is the bottom line," say our small credit union experts.

There are three fundamental keys to success: Make money, stay solvent, and grow. A healthy capital buffer is critical. The credit union that loses money will cease to exist. Growth equals relevance.

Our panel discussion concluded with some basic tips for small credit unions:

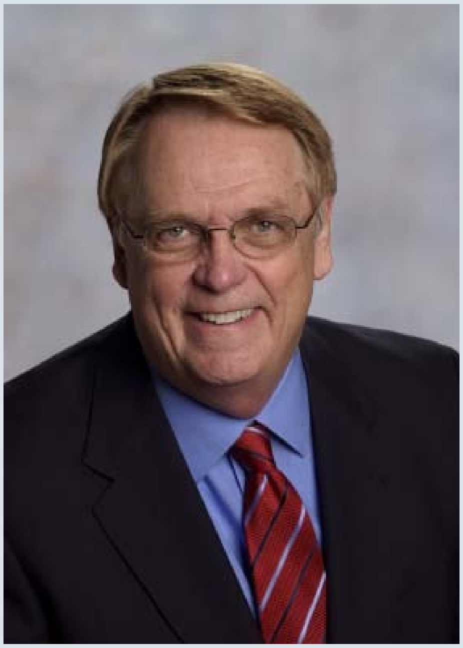
- **Tight budgeting** is essential, so seek efficiencies.
- **Ask about subsidies** from your sponsor. Take advantage of space, staff, equipment, and advertising.
- **Reduce charge-offs and losses** by fostering intense loyalty among your members.

You may encounter stormy seas in the financial services marketplace as technology is ever-changing, consumer expectations grow, operating efficiencies are critical, and the competition looms large for smaller institutions.

However, you'll chart a course for a bright future when you properly adjust the sails.

Navigate the journey to relevancy and growth. Know the needs of your members and commit to the due diligence and effort required to find success—and keep in mind these five tenets: Differentiate, be consultative, price appropriately, focus on lending, and collaborate.

There are three fundamental keys to success: Make money, stay solvent, and grow.



Bob Hoel, the Filene Research Instititute's liaison to the CUNA Small CU Committee

'Twelve to Thrive'

Bob Hoel, the Filene Research Institute's liaison to the CUNA Small Credit Union Committee, shares 12 ways small credit unions can survive and thrive:

1. Be local. Unlike your competitors, you're locally owned and governed. Being local can be a valuable marketplace differentiator in the minds of current and potential members. Your branches, website, newsletters, ads, business cards, drive-up areas, and all other potential communications should include this message.

But do it creatively. Contemporary photos and super graphics can convey the local message well. (Use nostalgic images sparingly—they may suggest to younger members and potential members that your credit union is out of date. Forget seascapes and generic posters—instead show photos of the cool antique car and hot motor cycle you just financed—of course, include the image of the local member-borrower too.)

2. Tell everyone that you can meet their financial service needs wherever they are in the world. The tools are shared branching, internet banking, phones, credit and debit cards, etc. Your credit union may appear to some as small and local, but it's services are global, and soon intergalactic.

3. Feature one or more unique products. My favorites are short and medium-term first and second mortgages that the credit union holds in its own portfolio—because they mature in 15-years or less, the credit union can manipulate closing costs and tailor term and payment schedules to meet the unique borrowing needs of individual members.

4. Tell everyone that you're the "best lender in [Larimer] County." Research shows that the most successful credit unions now are and will be in future great lenders. Tell the world that you are the best. (By the way, it's not illegal to say you are the best lender even if you are a close second or third.)

5. Embrace electronic delivery of service. Members love home and mobile banking, and the per-transaction cost to your credit union is low. Technology is the friend of the small credit union, not its enemy.

6. Spend more time outside the office promoting your credit union and its services. This should be a top priority, and some current CEO duties should be delegated or ruthlessly dropped.

7. Feature starter savings accounts and credit-builder accounts. A growing number of people want to improve their financial lives, and they need your encouragement and assistance.

8. Serve cookies every Friday, and great donuts every Saturday. Nothing says we're a fabulous local neighbor more than the taste and smell of cookies and donuts. And your members will tell their friends. Be sure to have your best staff person at a desk near the goodies—it's amazing how much business can be created by chatting in this member-friendly setting.

9. Ask your members, "Do you have five minutes today to see if together we can improve your finances?" Be a problem solver and opportunity finder, not a passive lender or crass huckster.

10. Always sell the benefits of doing business with your credit union. Good marketers know that people don't buy products, they buy benefits. A great golf club salesman doesn't sell you clubs—he/she sells you a better golf score.

11. Be super honest. Sadly, a reputation for honesty is a competitive edge in the financial services world. Surveys show that bankers are no longer rated among the most trustworthy leaders in America.

12. Have more fun! You're in an exciting business that can improve the lives of your members and community. By creating a fun work atmosphere, you and your staff will improve sales, service, staff morale, and your bottom line.